kotak Institutional Equities

INDIA DAILY

November 9, 2011

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- The Finance ministry is all set to abandon its fiscal deficit target as a slowing economy makes it increasingly harder for the govt. to boost revenues or slash spending. The ministry may revise the budgeted target of 4.6% of GDP by several percentage points, but will keep it below the psychological mark of 5% when it presents the mid-year economic review in the winter session of Parliament beginning later this month. (ECNT)
- Macro signs go south, stoke slowdown fears. Trade deficit balloons to a four-year high of USD 19.6 bn in Oct., tax collection crawl. (BSTD)
- The govt. plans to allow cos. with outstanding secured loans to be converted into limited liability partnerships, a more flexible corporate structure introduced two years ago to boost business. (ECNT)
- Banks have started to fall in line on waiving the prepayment penalty on floating rate loans. (BSTD)

Source: ECNT= Economic Times, BSTD = Business Standard, FNLE = Financial Express, THBL = Business Line.

EQUITY MARKETS

		Change %		
India	**8-Nov**	**1-day**	**1-mo**	**3-mo**
Sensex	17,570	0.0	8.2	1.5
Nifty	5,289	0.1	8.2	1.5
Global/Regional indices				
Dow Jones	12,170	0.8	9.6	12.6
Nasdaq Composite	2,727	1.2	10.0	15.7
FTSE	5,567	1.0	5.0	9.8
Nikkie	8,743	1.0	1.6	(2.3)
Hang Seng	20,146	2.4	13.8	4.2
KOSPI	1,919	0.8	9.0	6.5
Value traded – India				
Cash (NSE+BSE)	101		124	133
Derivatives (NSE)	821		1,001	1,689
Deri. open interest	1,250		1,094	1,292

Forex/money market				
		Change, basis points		
	8-Nov	**1-day**	**1-mo**	**3-mo**
Rs/US$	49.5	4	50	427
10yr govt bond, %	8.9	6	26	58
Net investment (US$mn)				
	4-Nov		**MTD**	**CYTD**
FIIs	44		46	405
MFs	30		(90)	(282)

Top movers -3mo basis				
		Change, %		
Best performers	**8-Nov**	**1-day**	**1-mo**	**3-mo**
JPA IN Equity	78.4	(1.1)	7.5	27.9
ACEM IN Equity	162.9	1.1	12.2	27.3
ACC IN Equity	1218.6	(0.4)	9.4	22.4
MSEZ IN Equity	161.6	(2.1)	3.3	21.1
DLFU IN Equity	242.8	(2.0)	11.3	21.0
Worst performers				
ADE IN Equity	462.3	0.0	0.1	(22.6)
WLCO IN Equity	105.6	0.5	(4.0)	(21.5)
UNBK IN Equity	230.0	1.2	(0.2)	(17.3)
HPCL IN Equity	332.4	(2.1)	(9.7)	(16.1)
RCAPT IN Equity	375.8	0.5	16.9	(16.0)

INDIA

NOVEMBER 08, 2011

NEW RELEASE

BSE-30: 17,570

FCCBs – few opportunities in the middle of difficulty.

FCCBs – few opportunities in the middle of difficulty. We highlight the recent activity in the Indian FCCB space on the back of redemption concerns magnified by the recent Rupee depreciation. While high yields reflect the plausible threat of defaults and restructuring for weaker issuers, we draw attention to some mispricing opportunities within the FCCB space which are offering high yields along with lower risk due to relatively sound financials.

Current scenario – weakness in the Rupee coincides with rising FCCB yields.

Amidst global concerns on European sovereign debt, the INR's depreciation against the USD has coincided with FCCB yields rising 5-7% since August. The extravagant issuance of foreign convertibles in the 2006-08 period has become a cause for concern as more than ~70 FCCBs are expected to mature in the next 12 months. Many of the issuers have seen frantic activity in terms of board approvals for restructuring and refinancing of current outstanding obligations. Considering that Indian stalwarts like ICICI, SBI and Reliance have seen CDS spreads shoot up ~200 bps since August, the possibility of raising cheap funds for the lower strata of corporate India seems bleak.

India's FCCB landscape – FCCBs worth US$6 bn maturing by April 2013

Indian corporate houses have raised debt of US$13.6 bn through the FCCB route since January 2006 with more than half of the issuance coming between January 2007 and January 2008 (US$7.5 bn). While companies in Materials and Industrials have issued the largest amount of FCCBs, it is interesting to observe that smaller Information Technology companies raised ~US$1.8 bn in the same period. Going forward, outstanding FCCBs will stand at US$9.8 bn. Considering the redemption premiums offered by most of these zero-coupon convertibles, the redemption value is estimated to be around US$12.2 bn. With only 13 out of the 119 securities trading above their conversion price and RBI regulatory prohibitions against reduction of conversion price, the situation is definitely grim.

Scouring the FCCB space for opportunities

As the FCCB redemption worries take center stage, FCCBs for some of the prominent companies are yielding 20-25% after diverging almost 10-15% from their year-to-date average. Solvency of the universe of FCCB issuers is analyzed using quantitative screens including Altman z-scores, leverage and interest coverage ratios. Using a generalized convertible bond (CB) valuation methodology, the liquid securities in the FCCB space have been valued in order to identify the magnitude of mispricing as well as the implied credit risk premium for some of the issuers. Within our coverage universe, RCOM, JPA and Suzlon are yielding more than ~20%. Although highly leveraged, debt-servicing capability for RCOM and JPA remains reasonable considering their EBITDA-to-Interest paid ratio. As for those companies not covered by us currently, we would like to highlight Everest Kanto Cylinders, Rolta India, Firstsource Solutions and Videocon Industries as non-coverage companies with high yields and a relatively stronger ability to pay their liabilities.

QUICK NUMBERS

- FCCBs for coverage companies like RCOM and JPA yielding in excess of ~20%
- FCCBs for Everest Kanto, Rolta Ltd, Firstsource Solutions and Videocon Industries have a favorable risk-reward balance

kotak Institutional Equities

Reliance Power (RPWR)

Utilities

SELL

NOVEMBER 08, 2011

RESULT

Coverage view: Cautious

Price (Rs): 103

Target price (Rs): 87

BSE-30: 17,570

Maintenance shutdown mars operational performance. Reliance Power (RPWR) reported a tepid operational performance, with PLF of the operating power plant dropping to 77% due to annual maintenance shutdown, though a change in accounting policy boosted other income by Rs770 mn. We continue to maintain our negative stance as execution delays and uncertainty over availability of fuel continue to pose significant earnings risk. Maintain SELL with price target of Rs87/share.

Company data and valuation summary

Reliance Power

Stock data			
52-week range (Rs) (high,low)			193-75
Market Cap. (Rs bn)			288.8
Shareholding pattern (%)			
Promoters			80.4
FIIs			4.8
MFs			0.2
Price performance (%)	1M	3M	12M
Absolute	26.8	6.7	(40.2)
Rel. to BSE-30	17.1	5.1	(28.5)

Forecasts/Valuations	2011	2012E	2013E
EPS (Rs)	2.7	2.7	3.2
EPS growth (%)	(0.2)	(1.9)	18.6
P/E (X)	38.0	38.7	32.6
Sales (Rs bn)	10.5	20.9	44.9
Net profits (Rs bn)	7.6	7.5	8.9
EBITDA (Rs bn)	2.3	6.4	18.1
EV/EBITDA (X)	149.7	56.5	25.5
ROE (%)	4.9	4.3	4.9
Div. Yield (%)	0.0	0.0	0.0

Higher overheads offset by other income (due to change in accounting policy)

RPWR reported revenues of Rs4.9 bn (-10% qoq, 189% yoy), operating profit of Rs1.2 bn (-35% qoq, 326% yoy) and net income of Rs2.4 bn (20% qoq, flat yoy) against our estimates of Rs4.9 bn, Rs1.6 bn and Rs1.9 bn, respectively. Operating profits miss of 23% was primarily on account of higher-than-estimated overhead expenses (Rs0.7/kwh against our estimate of Rs0.4/kwh). However, higher-than-estimated other income (Rs2.6 bn against estimated Rs1.9 bn) and lower tax rate led to net income beat. We note that a change in accounting policy for recognizing income from mutual funds led to other income being higher by Rs771 mn during the quarter. We discuss the key operational and financial highlight of 2QFY12 result in subsequent section.

Bleak prospects of securing gas in near term, value-accretive Chitrangi still some time away

Continued uncertainty over availability of gas prompts us to further delay earning contribution to FY2014E (versus FY2013E previously), even though we continue to remain circumspect on long-term availability of gas for the Samalkot project.

RPWR's most value-accretive project, Chitrangi (3,960 MW) still remains slow on execution with construction activity at plant site yet to commence. We note that Chitrangi is yet to achieve financial closure with RPWR having so far incurred only 5% of the total project cost, delaying commissioning of the project to FY2016E. Further, the decision by the Indonesian Government to impose a minimum obligatory pricing for all coal export contract has put RPWR's Krishnapatnam UMPP on a standstill, while execution progress on the Tilaiya UMPP continues to remain tepid.

Retain SELL with target price of Rs87/share

We reiterate our SELL with a revised target price of Rs87/share (previously Rs88). We maintain our cautious stance on RPWR given the limited visibility on near-term earnings growth and high degree of execution and fuel risk embedded in the portfolio. We have revised our EPS estimates for FY2012E to Rs2.7/share (previously Rs2.9/share) and for FY2013E to Rs3.2/share (previously Rs2.9/share) as we account for (1) delays in commissioning of projects, (2) higher fuel cost for operational coal-based project and (3) higher other income.

Exhibit 1: Higher other income, lower depreciation and taxes boost reported income
Interim results for RPWR, March fiscal year-ends (Rs mn)

					(% Chg.)					
	2QFY12	2QFY12E	2QFY11	1QFY12	2QFY12E	2QFY11	1QFY12	FY2011	FY2012E	(% Chg.)
Net sales	**4,875**	**4,926**	**1,687**	**5,418**	**(1)**	**189**	**(10)**	**10,548**	**20,928**	**98**
Operating costs										
Cost of fuel	(2,894)	(2,899)	(997)	(3,070)				(5,596)	(11,988)	114
Cost of goods sold	(16)	(12)	—	(12)				(788)	-	
Personnel costs	(224)	(172)	(153)	(172)				(1,200)	(1,200)	-
Other expenses	(541)	(274)	(254)	(315)				(417)	(1,343)	222
EBITDA	**1,200**	**1,569**	**282**	**1,849**	**(23)**	**326**	**(35)**	**2,547**	**6,396**	**151**
EBITDA margin (%)	25	32	17	34				24	31	
Other income	2,631	1,929	3,437	1,474				8,377	8,038	
Interest & finance charges	(753)	(771)	(499)	(761)				(2,195)	(3,463)	
Depreciation	(293)	(296)	(375)	(286)				(1,009)	(1,171)	
PBT	**2,786**	**2,431**	**2,845**	**2,277**	**15**	**(2)**	**22**	**7,720**	**9,800**	**27**
Provision for tax (net)	(431)	(486)	(497)	(316)				(116)	(2,336)	
Minority Interest	—	—	(0)	—				—	—	
Net profit	**2,355**	**1,944**	**2,348**	**1,961**	**21**	**0**	**20**	**7,604**	**7,463**	**(2)**
Extraordinary	—	—	—	—				—	—	
EBITDA margin (%)	25	32	17	34				24	31	
Tax rate (%)	15	20	17	14				1	24	
Key operating parameters										
Units generated (MU)	1,030	1,115	545	1,190				2,878	4,903	
PLF (%)	77	87	42	93				56	95	
Average realization (Rs/kwh)	4.9	4.7	3.3	4.7				3.7	4.5	
Cost of fuel (Rs/unit)	2.8	2.6	1.8	2.6				1.9	2.4	
O&M (Rs/unit)	0.7	0.4	0.7	0.4				0.6	0.5	

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: SOTP-based value of RPWR

		Capacity	Cost		Equity			Implied P/B	Value	CoE
Project	Type	(MW)	(Rs bn)	(Rs mn / MW)	(%)	Invested	Requirement	(X)	(Rs bn)	(%)
Rosa I	Thermal	600	30	50	20	6	—	2.3	14	12
Rosa II	Thermal	600	30	51	20	4	2	2.3	12	12
Butibori	Thermal	600	36	61	20	4	3	1.9	11	12
Sasan	Thermal	3,960	185	47	25	9	37	0.9	6	12
Chitrangi	Thermal	3,960	175	44	30	4	48	3.2	120	15
Samalkot	Thermal	2,262	100	44	20	4	16	1.1	7	15
Total		**11,982**	**556**	**46**	**25**	**31**	**107**	**2.0**	**169**	
Cash									**74**	
Post money value									**243**	
No. of Shares									2.8	
Value per share									**87**	

Source: Company, Kotak Institutional Equities estimates

Operational and financial highlights of 2QFY12

We discuss below some key operational and financial highlights

- Generation – RPWR's gross generation registered a seasonal decline of 13% sequentially at 1,030 MU implying a PLF of 77% in 2QFY12.
- Fuel cost – average fuel cost increased to Rs2.8/kwh (54% yoy, 9% qoq) indicating the increased usage of imported coal and open market purchases (now at 40%). Correspondingly, estimated average realizations increased to Rs4.9/kwh.
- Other income – RPWR changed its accounting policy for recognition of income from mutual funds having fixed maturity plan. Consequently, other income for the quarter was higher by Rs772 mn.
- Tax – effective tax rate was 15% during the quarter.

Key highlights of Annual Report 2011

- Capex – RPWR incurred an estimated capex of Rs73 bn in FY2011 bulk of which was on Sasan, Butibori and Rosa II. We note that CWIP of Rs126 bn includes an estimated Rs32 bn of capex incurred on Samalkot (Rs8 bn) and Krishnapatnam UMPP (Rs24 bn). We note that capex run rate has picked up significantly in 1HFY12 with an estimated capex of Rs68 bn in 1HFY12.

- Consequent to the merger with Reliance Natural Resources Ltd (RNRL), RPWR took on its books US$300 mn of 4.928% FCCB. These FCCBs were redeemed on their due date October 17, 2011 thus yielding no dilution.

- Standalone investments include Rs2.2 bn of investment in Rajasthan Sun Technique Energy Private Ltd (RSTEPL), RPWR's subsidiary that is developing 100 MW solar-power plant in Rajasthan. We highlight that against the investment of Rs2.2 bn made by RPWR in RSTEPL, RPWR received Rs2.15 bn as Inter Corporate Deposit (ICD) from RSTEPL.

- Standalone loans and advances of Rs75 bn include Rs24.8 bn of ICDs with subsidiaries and Rs37 bn of share application money pending allotment. This includes Rs11 bn to Rosa (RSPCL), Rs4.7 bn to Butibori (VIPL), Rs9 bn to Krishnapatnam (CAPL), Rs12/4 bn to Chitrangi (CPPL) and Rs8.2 bn to Samalkot (SMPL). Further, loans and advances include Rs10.1 bn of external ICDs.

- We highlight that out of Rs19 bn of consolidated cash, Rs2.5 bn has been classified as remittances in transit and/or cheques in hand (the corresponding figure as of March 2010 was Rs16.7 mn).

- Sundry debtors as days of sales were high at 120 days as of March 2011. We, however, highlight that debtors reduced to 89 days of sales as of September 2011.

Exhibit 3: RPWR has extended Rs62 bn as loans and advances to subsidiaries
Details of investment, preference shares and loans and advances to subsidiaries (Rs mn)

	Investments		Preference shares		Loans and advances		Total	
	2010	2011	2010	2011	2010	2011	2010	2011
Sasan (SPL)	12,501	16,263	0	16,263	6,710	0	19,210	32,527
Rosa (RPSCL)	4,169	4,169	719	1,553	5,870	11,105	10,759	16,827
Butibori (VIPL)	1	1	—	—	3,370	4,742	3,371	4,743
Chitrangi (CPPL)	—	—	—	538	12,951	12,417	12,951	12,955
Krishnapatnam (CAPL)	1	153	5,216	5,778	726	8,997	5,942	14,927
Samalkot (SMPL)	—	—	—	—	—	8,222	—	8,222
Rajasthan Sun Technique Energy Private Ltd.	—	2,200	—	—	—	—	—	2,200
Jharkhan Integrated Power Ltd (JIPL)	1	1	—	1,778	10	8,910	10	10,689
Sasan Power Infrastructure Ltd (SPIL)	1	1	—	—	12,973	2,733	12,974	2,733
Sasan Power Infraventures Pvt. Ltd.	—	—	—	—	11,511	—	11,511	—
Others	7	66	—	12,848	12,301	4,879	12,308	17,793
Total	**16,679**	**22,853**	**5,935**	**38,758**	**66,421**	**62,006**	**89,035**	**123,617**

Note:
(1) Others in preference shares include Rs12.3 bn of RNRL (Singapore) Ltd.

Source: Company, Kotak Institutional Equities

Status of power projects and associated captive coal blocks

- Rosa II (600 MW) – the project has achieved all necessary milestone and construction is in progress (boiler hydro test has been completed). The project has linkage from CCL (E grade coal). Management has guided for commissioning by March 2012. The plant will sell entire 600 MW to UPPCL at regulated rates.

- Butibori (600 MW) – the project has achieved all necessary milestone and construction is in progress (boiler drum lifting as been completed). The project has linkage from WCL (D grade coal). Management has guided for commissioning by July 2012.

- Sasan UMPP (3,960 MW) – all necessary clearances and approvals in place and construction has commenced. Management has indicated that production from Sasan coal block is likely to commence by 2012. Peak production is likely to be 25 mtpa. A part of the coal will be used for Chitrangi project. Management has guided for commissioning of first unit by January 2013 and commissioning of entire project by June 2014.

- Krishnapatnam UMPP (3,960 MW) – all necessary clearances and approvals in place. RPWR has acquired 3 coal mines in Indonesia for the project. Management has indicated that production from Indonesian mines will commence by mid-2013. Management has indicated that they are currently in process of evaluating the development with regards to Indonesian regulation and are not committing any capex until further clarity emerges on the same.

- Tilaiya UMPP (3,960 MW) – the project is yet to achieve financial closure. Management has indicated that production from Tilaiya coal block will likely commence by 2013. Peak production from the project will be 40 mtpa, part of which will be used to fuel expansion at Tilaiya. Mining plan for the coal block has been approved.

- Chitrangi (3,960 MW) – the project is yet to achieve financial closure and acquire the entire land for the plant. Project will use excess coal from captive coal blocks allocated for Sasan UMPP. Management has guided for commissioning of first unit by June 2014 and full commissioning by September 2015.

Exhibit 4: Progress on UMPPs have been sedate with both Sasan and Krishnapatnam missing original commissioning guidance
Execution status of near-term projects of RPWR

Project	Capacity (MW)	Cost (Rs bn)	Land	Fuel	Enviroment clearance	Financial Closure	EPC award	Capex as of March 2011 (Rs bn)	Capex as of March 2011 (%)	COD guidance
Rosa II	600	30	✔	✔	✔	✔	✔	21	70.0	Mar-12
Butibori	600	36	✔	✔	✔	✔	✔	14	39.0	Jul-12
Sasan	3,960	185	WIP	✔	✔	✔	✔	36	19.3	Jan 2013 - June 2014
Krishnapatnam	4,000	213	WIP	✔	✔	✔	✔	24	11.2	June 2013 - Feb 2015
Samalkot	2,262	100	✔	✕	✔	✕	✔	8	8.4	March 2012- Dec 2012
Chitrangi	3,960	175	WIP	✔	✔	WIP	✔	13	7.5	June 2014 - Sep 2015
Tilaya	4,000	273	WIP	✔	✔	✕	✔	12	4.4	May 2015 - May 2017
Total	**19,382**	**1,013**						**129**	**12.7**	

Note:
(a) Capex as of March 2011 are estimated numbers

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: RPWR incurred an estimated capex of Rs68 bn in 1HFY12
Balance sheet of RPWR as of September 2011 (Rs mn)

	Sep-10	Mar-11	Sep-11
Net block	108,506	162,595	230,107
Investments	62,733	56,790	46,183
Cash & bank balances	9,160	19,161	26,766
Accounts receivable	1,676	3,471	5,083
Inventories	419	537	1,194
Loans & advances	2,810	15,287	26,605
Others	80	1,072	1,571
Current liabilities	8,366	17,231	61,648
Net current assets	(3,380)	3,136	(27,195)
Utilization of funds	**177,019**	**241,683**	**275,861**
Total debt	27,981	73,348	102,839
Paid-up common stock	23,968	28,051	28,051
Reserves and surplus	125,070	140,283	144,652
Shareholders' funds	**149,038**	**168,334**	**172,703**
Def. tax liability	0	0	304
Minority Interest	0	0	15
Source of funds	**177,019**	**241,683**	**275,861**

Source: Company, Kotak Institutional Equities

Exhibit 6: Profit model, balance sheet, cash model of RPWR, March fiscal year-ends, 2009-2014E (Rs mn)

	2009	2010	2011	2012E	2013E	2014E
Profit model						
Net revenues	—	207	10,548	20,928	44,924	95,686
EBITDA	**(1,031)**	**(1,073)**	**2,291**	**6,396**	**18,074**	**40,835**
Other income	3,604	8,227	8,633	8,038	6,336	5,067
Interest (expense)/income	—	(70)	(2,195)	(3,463)	(7,050)	(18,566)
Depreciation	(2)	(57)	(1,009)	(1,171)	(3,113)	(9,030)
Pretax profits	**2,570**	**7,026**	**7,720**	**9,800**	**14,247**	**18,306**
Tax	(125)	(187)	(347)	(1,620)	(2,941)	(3,782)
Deferred taxation	—	(327)	231	(716)	(2,451)	(5,038)
Minority interest	—	—	—	—	—	—
Net income	**2,445**	**6,512**	**7,604**	**7,463**	**8,855**	**9,486**
Extraordinary items	—	—	—	—	—	—
Reported profit	2,445	6,512	7,604	7,463	8,855	9,486
Earnings per share (Rs)	**1.1**	**2.7**	**2.9**	**2.7**	**3.2**	**3.4**
Balance sheet						
Paid-up common stock	23,968	23,968	28,051	28,051	28,051	28,051
Total shareholders' equity	137,791	144,630	168,334	175,798	184,652	194,138
Deferred taxation liability	—	—	—	716	3,167	8,205
Minority interest	—	—	—	—	—	—
Total borrowings	13,325	22,406	73,348	146,054	226,934	316,149
Total liabilities and equity	**151,116**	**167,037**	**241,683**	**322,567**	**414,753**	**518,492**
Net fixed assets	2,879	23,408	36,368	52,397	97,789	281,259
Capital work-in progress	46,780	68,029	126,227	193,196	255,481	185,892
Investments	103,172	79,152	56,790	—	—	—
Cash	216	1,338	19,161	73,537	54,295	36,327
Net current assets (excl. cash)	(1,931)	(4,890)	3,136	3,437	7,188	15,013
Total assets	**151,116**	**167,037**	**241,683**	**322,567**	**414,753**	**518,492**
Free cash flow						
Operating cash flow, excl. working capital	2,447	6,896	8,382	9,351	14,418	23,554
Working capital changes	(4,065)	2,959	(8,026)	(301)	(3,751)	(7,825)
Capital expenditure	(38,602)	(44,820)	(73,281)	(84,169)	(110,790)	(122,912)
Free cash flow	**(40,220)**	**(34,965)**	**(72,925)**	**(75,119)**	**(100,122)**	**(107,183)**
Ratios						
Net debt/equity (%)	10	15	32	41	93	144
Return on equity (%)	1.8	4.6	4.9	4.3	4.9	5.0
Book value per share (Rs)	57.5	60.3	60.0	62.9	67.0	72.1
ROCE (%)	**1.8**	**4.2**	**3.9**	**3.2**	**3.2**	**2.8**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Bank of India (BOI)

Banks/Financial Institutions

BUY

NOVEMBER 08, 2011

RESULT

Coverage view: Attractive

Price (Rs): 328

Target price (Rs): 450

BSE-30: 17,570

Focus shifts to recoveries. We expect recovery trends at BoI to improve after nearly 5% slippages in 2QFY12. Results were disappointing as margin improvement and healthy growth in non-interest income were largely offset by substantially higher provisions, especially write-offs for some of the new slippages. Revise earnings downwards; current valuations (1X FY2012E book) are inexpensive, maintain BUY with TP of ₹450 (₹470 earlier). Stability in slippages would, however, be key sensitivity for stock performance.

Company data and valuation summary

Bank of India

Stock data			
52-week range (Rs) (high,low)			530-289
Market Cap. (Rs bn)			179.4
Shareholding pattern (%)			
Promoters			65.9
FIIs			15.0
MFs			1.0
Price performance (%)	**1M**	**3M**	**12M**
Absolute	4.9	(7.8)	(35.2)
Rel. to BSE-30	(3.1)	(9.2)	(22.5)

Forecasts/Valuations	2011	2012E	2013E
EPS (Rs)	45.5	45.2	63.3
EPS growth (%)	37.4	(0.7)	40.2
P/E (X)	7.2	7.3	5.2
NII (Rs bn)	78.1	78.4	93.1
Net profits (Rs bn)	24.9	24.7	34.6
BVPS	291.9	327.6	377.7
P/B (X)	1.1	1.0	0.9
ROE (%)	17.3	14.6	18.0
Div. Yield (%)	2.5	2.5	3.4

QUICK NUMBERS

- NIMs improve 25 bps qoq. NII grew 7% yoy
- Slippages at 5.3% and write-offs of 3% for the quarter
- Maintain BUY with ₹450 (₹470 earlier)

Volatility continues with higher provisions but we see select positives from the results

BoI performance continues to show volatility—20% yoy decline in profits in 2QFY11 led by higher provisions despite an impressive 16% yoy growth in revenues. Key positives that we see in the current quarter which should slowly offset the higher slippages, viz.

(1) NIMs improved 25 bps qoq despite higher slippages that resulted in income de-recognition equivalent to about 15 bps.

(2) Recovery trends are showing improvement – contributing to higher non-interest income as well as reducing gross NPLs.

(3) Most of the slippages in the current quarter appear to have been written off. New provisions can be used to improve coverage ratios.

We revise our estimates by 10-16% factoring higher loan-loss provisions and lower loan growth for FY2012-13E. Valuations are undemanding at 1.0X book and 8X FY2012E EPS for RoEs in the range of 18% levels and 18% earnings CAGR for FY2011-13E. Retain BUY with TP of ₹450 (₹470 earlier). Weakness in corporate loan portfolio continues to remain a key risk to our earnings.

Slippage rises to 5% of loans: system transition and restructured loans key drivers

Gross NPLs increased by 13% qoq as the bank wrote off loans very aggressively, resulting in a lower increase in gross NPLs qoq despite such a large slippage. After about 1% write-offs, gross NPLs were at ₹65 bn as of September 2011 (3% of loans) as compared to ₹58 bn (2.7% of loans) as of June 2011. Net NPLs increased by 58% qoq to ₹42 bn (2% of loans).

Slippages for the quarter were at 5.3%, mainly migration-led and from restructured loans. Nearly 60% of the loans slipped for the quarter were below ₹1 mn. About 20% of the total slippages were from restructured loans. Outstanding break-up of NPLs, however, does not suggest a sharp rise in all the above-mentioned slippage indicating a higher share of write-offs (largely technical) from this portfolio (management is targeting 65% recovery from this portfolio).

As the bank has already made substantial provisions in this portfolio, we expect new loan-loss provisions to improve coverage ratios over the next few quarters. Provision coverage, including technical write-off, has come off to 59% from 67% in June 2011.

Sharp improvement in NIM led by re-pricing of domestic loans

NIMs for the quarter improved 25 bps qoq to 2.4% led by an impressive 34 bps improvement in domestic business to 2.8% while the international business reported flat margins at 1.2%. The sharp improvement in domestic margins has been led by loan re-pricing which reported an impressive 85 bps improvement qoq despite the bank reporting large slippages in the current quarter (15 bps impact). Domestic cost of funds increased by about 20 bps qoq.

We believe that higher recoveries (as against the current trend of higher slippages) can results in further improvement in NIM over the next couple of quarters. The bank has adequate cushion as the domestic CD ratio is currently at 65%, one of the lowest on the Street. However, BoI's NIM performance has been volatile and we continue to keep a fairly conservative NIMs estimate (flat NIMs in 2HFY12 and 35 bps decline in FY2012E). However, the management is focusing on improving NIMs by another 15 bps in 2HFY12E.

Muted business performance; CASA ratio improves 90 bps qoq to 31%

Loan book as of September 2011 grew 18% yoy to ₹2.2 tn (1% YTD) skewed towards international loans—domestic loans grew by 9% yoy and international loans grew by 49% yoy. Domestic loans have witnessed sharper growth in the corporate segment (partly due to reclassification of agriculture and SME loans). Deposits grew 24% yoy to ₹3.0 tn (2% qoq) and overall CASA growth was slower at 13% yoy at ₹767 bn. CASA ratio improved 340 bps yoy to 31%.

Other operational highlights for the quarter

- BoI non-interest income increased by 44% yoy to ₹8.4 bn in 2QFY12 on the back of higher income from treasury and recoveries. Income from treasuries was fairly strong at ₹1.5 bn while recoveries tripled yoy. However, core fee income growth was weak at 11% yoy while forex income grew 34% yoy. We continue to maintain a relatively slower fee income growth compared to loan growth at 10% CAGR for FY2012-13E for the bank.

- The bank is reasonably well-capitalized with tier-1 capital at 8.3% (excluding 1HFY12 profits) and overall capital adequacy at 12.0%. Qoq improvement in tier-1 despite balance sheet growth is due to reduction in risk weights of investments.

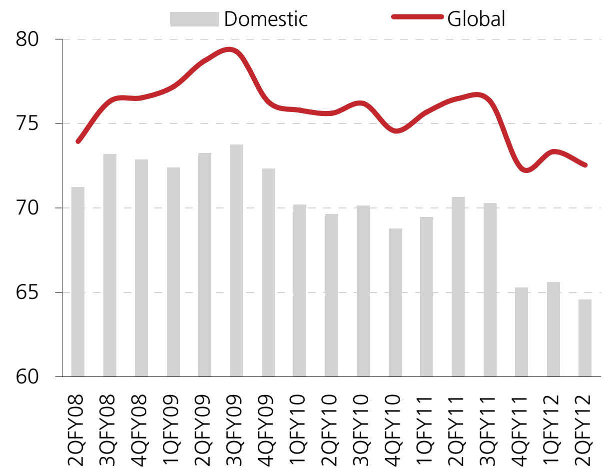
- The bank has taken an MAT benefit (awaiting clarifications) along with the benefit arising from higher provisions for reducing the overall tax rate for 1HFY12.

Bank of India quarterly results
March fiscal year-ends, 2QFY11-2QFY12 (` mn)

	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	% chg	2QFY12	Actual Vs KS
Interest Income	51,553	54,675	63,069	66,336	68,864	34	66,921	3
- Loans	36,598	40,234	43,252	45,959	48,865	34	47,866	2
- Investments	13,072	12,750	14,120	16,407	18,431	41	16,674	11
- others	1,884	1,692	5,698	3,970	1,568	(17)	2,382	(34)
Interest expense	33,795	34,806	39,996	47,926	49,825	47	47,906	4
-interest on deposits	29,160	29,879	35,249	43,837	45,055	55		
-interest on borrowings	2,065	2,473	2,340	1,517	2,099	131		
-interest on subordinated	2,570	2,454	2,408	2,470	2,671	4		
NII	17,758	19,869	23,073	18,410	19,039	7	19,015	0
Other income	5,845	6,482	8,231	6,601	8,418	44	6,839	23
- treasury	360	592	1,266	1,097	1,544	329	1,119	38
- core fees	4,074	3,961	4,712	3,721	4,515	11	3,913	15
- forex income	1,110	1,271	1,334	1,471	1,483	34	1,443	3
- recoveries	301	658	919	312	876	191	364	141
- other income	1,069	1,124	1,244	984	1,257	18	1,090	15
Total income	23,603	26,351	31,304	25,011	27,457	16	25,854	6
Operating expenses	9,810	12,464	19,251	11,051	11,942	22	11,703	2
- staff	6,031	8,369	14,616	7,000	7,275	21	7,358	(1)
- others	3,779	4,094	4,635	4,052	4,667	23	4,346	7
Operating profit	13,794	13,888	12,053	13,959	15,515	12	14,151	10
Provisions	5,274	4,979	4,776	5,672	11,544	119	5,177	123
NPLs	2,863	1,236	3,367	4,090	8,240	188	3,865	113
Invst depreciation	628	658	78	902	1,570		812	93
Other provisions	1,783	3,085	1,331	680	1,734	(3)	500	-
PBT	8,520	8,908	7,277	8,287	3,972	(53)	8,974	(56)
Tax	2,355	2,377	2,340	3,112	(940)	(140)	2,584	(136)
Net profit	**6,166**	**6,532**	**4,936**	**5,175**	**4,911**	**(20)**	**6,389**	**(23)**
Tax rate	27.6	26.7	32.2	37.6	(23.7)			
Advances (Rs bn)								
Global	1,844	1,928	2,162	2,149	2,170	18		
India	1,447	1,509	1,651	1,611	1,579	9		
Foreign	397	419	510	538	591	49		
Agriculture	193	205	227	222	196	2		
SME	273	279	356	339	252	(7)		
Retail	153	156	166	163	164	7		
Residential mortgage	74	76	75	78	79	7		
Business mortgage	16	15	—	—	—	(100)		
Deposits (Rs bn)								
Global	2,411	2,525	2,989	2,931	2,991	24		
India	2,048	2,147	2,530	2,456	2,445	19		
Foreign	362	378	459	475	545	50		
Saving deposits	542	557	587	588	635	17		
Current deposits	139	136	144	153	131	(6)		
CASA ratio on global deposits(%)	28.2	27.4	24.5	25.3	25.6			
CASA ratio on Indian deposits(%)	33.2	32.3	28.9	30.2	31.3			
Investments (Rs bn)								
Global	674	717	866	887	912	35		
India	634	673	825	846	880	39		
Foreign	39	45	41	41	33	(17)		
SLR investments	577	606	679	657	681	18		
Gsec	573	603	675	654	678	19		
Other approved securities	4	3	3	3	3	(17)		

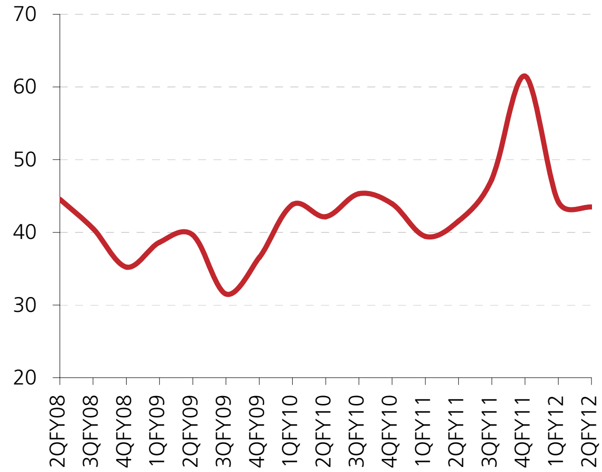
Source: Company, Kotak Institutional Equities estimates

Credit to deposit ratio has been fairly stable
March fiscal year-ends, (%)



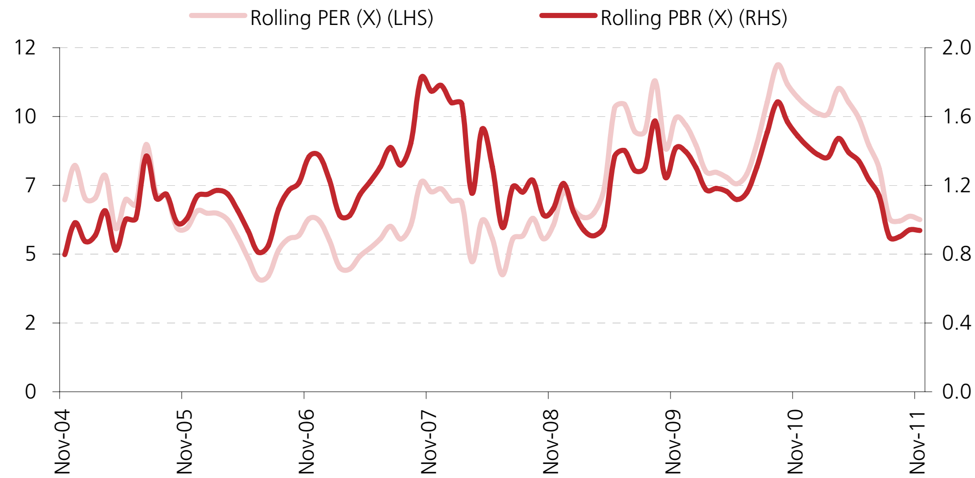
Source: Kotak Institutional Equities, Company

Cost-income ratio for the bank has been stable
March fiscal year-ends, (%)



Source: Kotak Institutional Equities, Company

Bank of India: Rolling PER and PBR (X)
November 2000-November 2011



Source: Kotak Institutional Equities, Company

Bank of India key analytical parameters
March fiscal year-ends, 2QFY11-2QFY12

	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
Asset quality					
Gross NPLs (Rs bn)	48.7	45.4	48.1	57.9	65.5
Gross NPLs (%)	2.6	2.4	2.2	2.7	3.0
Net NPLs (Rs bn)	20.7	16.6	19.4	26.9	42.4
Net NPLs (%)	1.1	0.9	0.9	1.3	2.0
Yield management measures (%)					
Cost of deposits	5.0	5.0	5.3	6.0	6.1
India	5.7	5.6	6.1	6.9	7.1
Foreign	1.3	1.3	1.2	1.2	1.2
Cost of funds	4.8	4.7	4.9	5.5	5.6
India	5.3	5.3	5.5	6.3	6.5
Foreign	2.0	1.9	2.0	2.0	2.0
Yield on advances	8.5	8.8	8.8	8.9	9.4
India	10.0	10.4	10.7	10.8	11.7
Foreign	3.1	3.1	2.8	2.8	2.9
Yield on investments	7.3	7.7	8.0	7.4	7.8
India	7.5	7.9	8.3	7.5	8.0
Foreign	4.2	4.7	4.7	4.7	4.7
Yield on funds	7.3	7.4	7.8	7.6	8.1
India	8.1	8.3	8.7	8.6	9.2
Foreign	3.4	3.3	3.2	3.2	3.2
Spread	2.5	2.7	2.8	2.1	2.5
India	2.7	3.0	3.2	2.3	2.7
Foreign	1.4	1.4	1.3	1.2	1.2
Margins	2.8	3.1	2.9	2.2	2.4
Domestic	3.2	3.5	3.4	2.4	2.8
Foreign	1.4	1.5	1.2	1.2	1.2
CAR	13.0	12.4	12.2	11.6	12.0
- Tier I	8.4	8.0	8.3	8.0	8.3
- Tier II	4.7	4.4	3.8	3.6	3.7

Source: Company

Break-up of NPLs (gross)
March fiscal year-ends, 1QFY11-1QFY12 (₹ bn)

	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
Agriculture	5	5	7	7	10	12
Industry	16	16	16	16	19	24
Services	17	16	12	14	16	16
Personal loans	6	7	6	7	8	6
Domestic	44	44	41	44	53	58
Foreign	4	4	4	5	5	7
Total	**48**	**49**	**45**	**48**	**58**	**65**

Source: Company, Kotak Institutional Equities

Transition exercise has led to higher NPLs in the current quarter

Movement in gross NPLs, March fiscal year-ends, 2QFY09-2QFY12 (₹ bn)

	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
Gross NPL (beginning)	20.2	19.8	22.1	24.7	27.9	39.2	41.9	48.8	47.9	48.7	45.4	48.1	57.9
Recovery	2.0	1.6	(0.4)	1.1	1.7	2.4	1.6	2.4	1.9	2.1	2.6	2.3	3.0
Upgradation	0.8	0.7	(0.7)	0.6	0.4	0.6	1.0	2.1	1.1	6.1	1.0	1.3	1.5
Write-off	0.9	1.0	1.5	1.1	0.7	0.9	4.7	2.4	3.7	(0.4)	3.1	1.5	16.0
Slippages	5.2	5.6	2.9	5.9	13.8	6.8	14.5	6.2	8.2	4.8	10.0	16.8	28.2
Closing gross NPLs	21.6	22.2	24.6	27.9	38.9	42.2	49.1	48.1	49.5	45.6	48.7	59.9	65.7
Slippages	1.7	1.7	0.9	1.6	3.7	1.8	3.7	1.4	1.9	1.0	2.1	3.1	5.3
Loan loss provisions	0.2	0.6	0.5	0.5	1.3	1.1	1.5	0.7	0.6	0.3	0.6	0.8	1.5

Source: Company

We reduce our estimates for BoI

March fiscal year-ends, 2012-2013E (₹ mn)

	New estimates			Old estimates			% change		
	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E
Net interest income	78,428	93,098	109,143	80,814	99,767	119,777	(3.0)	(6.7)	(8.9)
Loan growth (%)	14.4	16.9	17.8	18.4	18.4	19.2			
NIM (%)	2.2	2.4	2.4	2.2	2.4	2.5			
Loan loss provisions	21,700	21,151	24,826	15,128	16,538	19,656	43.4	27.9	26.3
Other income	32,842	35,601	38,731	29,791	32,228	35,132	10.2	10.5	10.2
Treasury income	5,500	5,300	5,500	3,500	3,500	3,500	57.1	51.4	57.1
Others	27,342	30,301	33,231	26,291	28,728	31,632	4.0	5.5	5.1
Operating expenses	49,885	57,734	64,792	51,232	59,349	66,609	(2.6)	(2.7)	(2.7)
Employee expenses	31,920	37,444	42,040	33,854	39,713	44,588	(5.7)	(5.7)	(5.7)
Investment depreciation	5,000	500	-	2,000	1,200	800			
PBT	31,684	48,113	57,056	41,045	53,708	66,644	(22.8)	(10.4)	(14.4)
Net profit	**24,714**	**34,642**	**41,080**	**29,553**	**38,670**	**47,984**	**(16.4)**	**(10.4)**	**(14.4)**
PBT-treasury	**26,184**	**42,813**	**51,556**	**37,545**	**50,208**	**63,144**	**(30.3)**	**(14.7)**	**(18.4)**
PBT-treasury + LLP	**47,885**	**63,965**	**76,382**	**52,673**	**66,746**	**82,799**	**(9.1)**	**(4.2)**	**(7.8)**

Source: Company, Kotak Institutional Equities estimates

Bank of India's growth rates and key ratios
March fiscal year-ends, 2009-2014E (%)

	2009	2010	2011	2012E	2013E	2014E
Growth rates (%)						
Net loan	25.9	17.9	26.5	14.4	16.9	17.8
Customer assets	25.7	17.1	26.5	14.1	16.7	17.5
Investments excld. CPs and debentures growth	25.8	30.2	15.0	12.1	17.8	18.8
Net fixed and leased assets	4.4	(7.1)	5.5	34.6	1.3	1.1
Cash and bank balance	22.8	43.5	19.5	(20.6)	5.2	5.5
Total Asset	26.1	21.9	27.7	9.9	15.6	16.5
Deposits	26.5	21.1	30.1	10.4	16.7	17.6
Current	0.9	26.3	6.2	5.3	11.6	11.4
Savings	14.2	25.9	22.9	3.1	9.1	9.0
Fixed	33.5	19.3	34.5	12.8	18.9	19.9
Net interest income	30.0	4.7	35.7	0.4	18.7	17.2
Loan loss provisions	(2.6)	112.5	(23.7)	59.3	(2.5)	17.4
Total other income	44.2	(14.3)	1.0	24.3	8.4	8.8
Net fee income	39.4	0.4	7.7	7.7	7.7	7.7
Net capital gains	103.7	(20.4)	(45.8)	70.9	(3.6)	3.8
Net exchange gains	103.4	(40.4)	35.1	18.0	15.0	15.0
Operating expenses	17.0	18.5	38.2	(1.6)	15.7	12.2
Employee expenses	16.9	18.5	51.4	(8.2)	17.3	12.3
Key ratios (%)						
Yield on average earning assets	8.4	7.4	7.2	8.1	8.0	7.8
Yield on average loans	9.8	8.4	8.1	8.7	8.5	8.3
Yield on average investments	7.2	7.6	6.9	8.2	8.2	8.0
Average cost of funds	5.9	5.3	4.8	6.0	5.8	5.6
Interest on deposits	5.8	5.2	4.6	5.5	5.3	5.1
Difference	**2.5**	**2.1**	**2.4**	**2.0**	**2.2**	**2.3**
Net interest income/earning assets	2.8	2.4	2.6	2.2	2.4	2.4
Spreads on lending business	3.9	3.1	3.3	2.7	2.7	2.7
Spreads on lending business (incl. Fees)	4.8	3.8	3.9	3.2	3.2	3.2
New provisions/average net loans	0.7	1.1	0.7	1.0	0.8	0.8
Total provisions/gross loans	1.3	1.6	1.4	2.1	2.5	2.8
Interest income/total income	64.3	68.7	74.7	70.5	72.3	73.8
Other income / total income	35.7	31.3	25.3	29.5	27.7	26.2
Fee income to total income	12.8	13.1	11.3	11.4	10.6	10.0
Fee income to advances	0.9	0.7	0.6	0.6	0.5	0.5
Fees income to PBT	26.2	44.0	33.8	40.1	28.5	25.9
Net trading income to PBT	6.5	14.0	5.3	1.6	10.0	9.6
Exchange income to PBT	15.0	14.9	14.4	18.7	14.2	13.7
Operating expenses/total income	36.2	43.8	48.5	44.8	44.9	43.8
Operating expenses/assets	1.5	1.5	1.6	1.4	1.4	1.3
Operating profit /AWF	1.8	0.8	1.1	0.7	1.1	1.1
Tax rate	27.8	30.2	28.8	22.0	28.0	28.0
Dividend payout ratio	14.0	21.1	17.9	17.9	17.9	17.9
Share of deposits						
Current	7.9	8.1	6.7	6.7	6.7	6.7
Fixed	68.2	67.5	70.0	70.5	71.0	71.5
Savings	23.9	24.5	23.4	22.9	22.4	21.9
Loans-to-deposit ratio	75.3	73.3	71.3	73.9	74.0	74.1
Equity/assets (EoY)	6.0	5.2	4.9	5.0	4.9	4.8
Dupont analysis (%)						
Net interest income	2.7	2.3	2.5	2.1	2.2	2.3
Loan loss provisions	0.4	0.7	0.4	0.6	0.5	0.5
Net other income	1.5	1.1	0.8	0.9	0.9	0.8
Operating expenses	1.5	1.5	1.8	1.4	1.4	1.4
Invt. depreciation	0.2	0.1	0.0	0.1	0.0	—
(1- tax rate)	72.2	69.8	71.2	78.0	72.0	72.0
ROA	1.5	0.7	0.8	0.7	0.8	0.9
Average assets/average equity	19.4	20.2	21.7	21.7	21.5	21.6
ROE	29.2	14.2	17.3	14.6	18.0	18.4

Source: Company, Kotak Institutional Equities estimates

Bank of India's P&L and balance sheet
March fiscal year-ends, 2009-2014E (₹ mn)

	2009	2010	2011	2012E	2013E	2014E
Income statement						
Total interest income	163,474	178,780	217,517	283,197	316,119	358,120
Loans	125,392	131,032	155,002	199,224	225,341	256,260
Investments	33,703	44,643	51,717	72,924	81,657	92,253
Cash and deposits	4,378	3,105	10,798	11,048	9,121	9,608
Total interest expense	108,485	121,220	139,410	204,769	223,021	248,978
Deposits from customers	97,765	108,122	121,786	174,481	190,010	212,746
Net interest income	54,989	57,559	78,107	78,428	93,098	109,143
Loan loss provisions	8,403	17,855	13,619	21,700	21,151	24,826
Net interest income (after prov.)	46,586	39,704	64,488	56,727	71,947	84,316
Other income	30,519	26,166	26,418	32,842	35,601	38,731
Net fee income	10,916	10,965	11,811	12,721	13,701	14,757
Net capital gains	7,461	5,936	3,218	5,500	5,300	5,500
Net exchange gains	6,235	3,718	5,025	5,929	6,819	7,841
Operating expenses	30,940	36,678	50,682	49,885	57,734	64,792
Employee expenses	19,374	22,961	34,754	31,920	37,444	42,040
Depreciation on investments	4,741	2,435	1,369	5,000	500	-
Other Provisions	(220)	1,820	3,901	3,000	1,200	1,200
Pretax income	41,644	24,938	34,954	31,684	48,113	57,056
Tax provisions	11,571	7,528	10,067	6,971	13,472	15,976
Net Profit	30,073	17,411	24,887	24,714	34,642	41,080
% growth	49.7	(42.1)	42.9	(0.7)	40.2	18.6
PBT - Treasury + Provisions	47,107	41,112	50,624	55,885	65,665	77,582
% growth	41.3	(12.7)	23.1	10.4	17.5	18.1
Balance sheet						
Cash and bank balance	217,613	312,301	373,100	296,186	311,589	328,603
Cash	4,580	6,507	7,674	7,674	7,674	7,674
Balance with RBI	84,573	149,519	210,151	133,237	148,640	165,654
Balance with banks	26,101	78,795	60,108	60,108	60,108	60,108
Net value of investments	526,072	670,802	858,724	944,106	1,087,152	1,266,238
Govt. and other securities	425,310	568,693	673,433	763,946	908,719	1,089,283
Shares	3,800	7,925	8,497	9,262	10,027	10,792
Debentures and bonds	28,462	21,362	27,687	24,918	22,426	20,184
Net loans and advances	1,429,094	1,684,907	2,130,962	2,437,536	2,850,326	3,356,271
Fixed assets	25,319	23,518	24,807	33,382	33,827	34,213
Net leased assets	—	—	—	—	—	—
Net Owned assets	25,319	23,518	24,807	33,382	33,827	34,213
Other assets	56,920	58,136	124,132	148,959	178,750	214,501
Total assets	**2,255,018**	**2,749,665**	**3,511,725**	**3,860,169**	**4,461,645**	**5,199,826**
Deposits	1,897,085	2,297,619	2,988,858	3,300,390	3,852,650	4,530,962
Borrowings and bills payable	167,097	235,715	231,465	249,219	271,413	299,155
Other liabilities	55,887	74,030	118,496	118,496	118,496	118,496
Total liabilities	**2,120,068**	**2,607,365**	**3,338,819**	**3,668,106**	**4,242,559**	**4,948,613**
Paid-up capital	5,259	5,259	5,472	5,472	5,472	5,472
Reserves & surplus	129,690	137,041	167,435	186,591	213,613	245,741
Revaluation reserves	17,103	14,286	13,195	12,799	12,415	12,042
Total shareholders' equity	**134,949**	**142,300**	**172,907**	**192,063**	**219,086**	**251,213**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

ABB (ABB)

Industrials

SELL

NOVEMBER 08, 2011

RESULT

Coverage view: Cautious

Price (Rs): 710

Target price (Rs): 575

BSE-30: 17,570

Broad-based revenue growth; broad-based margin disappointment. ABB reported strong sales growth (supported by acquisitions, broad-based growth) leading to 9% beat. Margin, however, disappointed (2.9% versus 7.5% estimate) across segments (products, projects). Strong ordering growth (25%) was also led by two large awards. ABB expects price recovery only in 2HCY12E as it focuses to improve margin through operational excellence. Lower margin assumption (TP: Rs575 versus Rs660 earlier).

Company data and valuation summary

ABB

Stock data			
52-week range (Rs) (high,low)			913-595
Market Cap. (Rs bn)			150.5
Shareholding pattern (%)			
Promoters			75.0
FIIs			3.2
MFs			1.0
Price performance (%)	**1M**	**3M**	**12M**
Absolute	6.7	(12.0)	(18.3)
Rel. to BSE-30	(1.4)	(13.3)	(2.3)

Forecasts/Valuations	2011	2012E	2013E
EPS (Rs)	3.0	11.7	22.7
EPS growth (%)	(82.2)	291.5	94.5
P/E (X)	238.0	60.8	31.3
Sales (Rs bn)	62.9	77.0	91.8
Net profits (Rs bn)	0.6	2.5	4.8
EBITDA (Rs bn)	0.8	3.7	7.3
EV/EBITDA (X)	172.5	40.3	20.3
ROE (%)	2.6	9.9	17.3
Div. Yield (%)	0.3	0.5	0.5

Results: Strong revenue growth (includes acquisitions); margin significantly below estimates

ABB reported strong sales outperformance (Rs17.4 bn versus Rs15.8 bn estimate, up 29% yoy) supported by broad-based growth across segments. The sales include the recently acquired ABB Global Industries and Service Limited (expects Rs2.5 bn of annualized sales). EBITDA margin at 2.9% disappointed versus estimate of 7.5%. Margin decline (9MCY11 versus 9MCY09) across product and projects segments is reflective of broad-based market-related pressure rather than just few bad projects. Net PAT at Rs222 mn was sharply lower than our estimate of Rs764 mn.

Order inflows supported by two large orders; cement and metal sector orders seeing delays

ABB reported significantly higher 3QCY11 order inflows of Rs25 bn (up 23% on a yoy basis) versus average quarterly run rate of Rs18.5 bn for last 10 quarters. These include two large orders of (1) Rs8.2 bn substation project order from UP state utility and (2) Rs3.3 bn Bhillai Steel plant order. ABB also highlighted traction in its base orders in (1) Power (Rs177 bn PGCIL projects to be bid) and (2) industry (renewables, pharma, textile). It expects delays in cement (overcapacity) and metal & minerals sectors in near-term. Total backlog at end-Sep-11 was Rs92 bn (Rs310 RE orders).

Expects price recovery only by middle of next year; banking on operational excellence till then

The company believes that pricing may not increase significantly from current levels with visible improvement happening only by middle of next year. This is despite its view of reduction in Korean/Chinese competition due to (1) need for serviceability, (2) ramp-up in domestic capacities and (3) implementation of qualifying criteria (domestic production). The management although expects to benefit from (1) operational excellence (competitive indigenized products, lower cost R&D) and (2) hiring of new talent.

Revise estimates on lower margin assumption; maintain SELL on expensive valuations

We revise our estimates to Rs11.7 and Rs22.7 from Rs17.1 and Rs26.4 for CY2011E and CY2012E on lower margin assumption (140-240 bps revision). We value ABB at 24 times average of CY2012E and CY2013E (TP: Rs575 from Rs660 earlier). Retain SELL on (1) expensive valuations (31XCY2012E), (2) competitive intensity may sustain, affecting pricing and (3) weak capex cycle.

QUICK NUMBERS

- 29% sales growth
- 2.9% EBITDA margin versus 7.5% estimate
- 25% yoy growth in ordering

ABB results: Below expectations on margins across segments

ABB reported sales of Rs17.2 bn, up 29% on a yoy basis and 9.4% ahead of our estimate of Rs15.7 bn. Revenue growth was broad-based with each of the segment growing in excess of 20% on a yoy basis. We highlight that the sales and expenses for the quarter include contribution of the ABB Global Industries and Service Limited (internal transfer from ABB Global).

EBITDA margin remained way below expectations (2.9% versus 7.5% estimate). In 9MCY11, raw material expenses had gone up by 270 bps versus 9MCY09 (CY2010 also had very low margins partially led by one off losses) and employee and other operating expenses have gone up by 220 bps.

ABB -3QCY11 - key numbers (Rs mn)

					% change					
	3QCY11	3QCY11E	3QCY10	2QCY11	vs est.	yoy	qoq	9MCY11	9MCY10	% change
Sales	**17,263**	**15,783**	**13,340**	**16,930**	**9.4**	**29.4**	**2.0**	**52,006**	**42,365**	**22.8**
Expenses	(16,769)	(14,600)	(13,145)	(16,270)	14.9	27.6	3.1	(49,982)	(41,640)	20.0
RM	(12,643)		(10,540)	(13,107)		19.9	(3.5)	(39,480)	(31,720)	24.5
Employee	(1,601)		(1,229)	(1,467)		30.3	9.1	(4,322)	(3,632)	19.0
Other Exp	(2,615)		(1,811)	(2,484)		44.4	5.3	(7,228)	(6,722)	7.5
EBITDA	**494**	**1,184**	**195**	**660**	**(58.3)**	**153.1**	**(25.1)**	**2,024**	**725**	**179.3**
Other income	210	283	184	260	(25.7)	14.5	(19.2)	662	616	7.5
Interest	(71)	(62)	(45)	(67)		57.8	6.7	(177)	(125)	41.5
Depreciation	(263)	(264)	(126)	(264)	(0.7)	108.6	(0.7)	(671)	(368)	82.2
PBT	**371**	**1,140**	**208**	**589**	**(67.5)**	**78.3**	**(37.1)**	**1,837**	**847**	**117.0**
Tax	(149)	(376)	(93)	(202)	(60.4)	60.5	(26.2)	(633)	(282)	124.6
Net profit	**222**	**764**	**115**	**387**	**(71.0)**	**92.7**	**(42.7)**	**1,204**	**565**	**113.2**
Key ratios (%)										
RM / Sales	72.7		75.8	72.8				73.9	73.8	
Empl / Sales	9.3		9.2	8.7				8.3	8.6	
OE / Sales	15.1		13.6	14.7				13.9	15.9	
EBITDA margin	**2.9**	**7.5**	**1.5**	**3.9**				**3.9**	**1.7**	
PBT Margin	2.1	7.2	1.6	3.5				3.5	2.0	
Tax rate	40.2	33.0	44.7	34.3				34.5	33.3	
PAT Margin	1.3	4.8	0.9	2.3				2.3	1.3	
Order details										
Order booking	24,926		20,310	17,916		22.7	39.1	59,793	49,554	20.7
Order backlog	91,513		91,781	84,150		(0.3)	8.7	91,513	91,781	(0.3)

Source: Company, Kotak Institutional Equities estimates

Below-normal margin across segments reflective of broad-based pressure

EBIT margins have been low across segments (Power products-3.3%, Power system-0.4%, Process automation-2.3% and Low voltage-2.1%) reflective of broad-based market related pressure rather than just few bad projects. Only Discrete automation and motion segment reported 10.6% EBIT margins and that too is much lower than 14% in 3QCY10.

ABB 3QCY11 segmental results - key numbers (Rs mn)

	3QCY11	3QCY10	2QCY11	% change yoy	% change qoq	9MCY11	9MCY10	% change
Revenues								
Power Products	4,975	3,992	4,688	24.6	6.1	14,063	12,751	10.3
Power Systems	5,462	3,919	5,077	39.4	7.6	16,261	11,917	36.5
Discrete Automation & Motion	4,344	3,445	4,211	26.1	3.1	12,729	11,054	15.2
Process Automation	2,781	2,180	2,938	27.5	(5.4)	9,016	7,305	23.4
Low voltage products	1,391	1,039	1,275	33.8	9.1	3,963	3,046	30.1
Total	**18,952**	**14,575**	**18,188**	**30.0**	**4.2**	**56,032**	**46,073**	**21.6**
Less Intersegmentt	(1,579)	(1,158)	(1,124)			(3,713)	(3,419)	
Net Sales	**17,435**	**13,490**	**17,125**	**29.2**	**1.8**	**52,520**	**42,873**	**22.5**
EBIT								
Power Products	164	(28)	220	(677.4)	(25)	599	615	(2.5)
Power Systems	23	(28)	(35)	NA	NA	5	(724)	(101)
Discrete Automation & Motion	459	484	320	(5.2)	43.2	1,288	1,050	22.6
Process Automation	64	(41)	150	(258.2)	(57)	431	470	(8.4)
Low voltage products	29	40	125	NA	NA	259	30	NA
Total	**740**	**427**	**781**	**73.0**	**(5.3)**	**2,582**	**1,441**	**79.1**
(Add)/ Less - Interest	(71)	(45)	(67)			(177)	(126)	
Other unallocated exp.	(298)	(175)	(125)			(567)	(469)	
Total Profit Before Tax	**371**	**208**	**589**	**78.2**	**(37.1)**	**1,837**	**846**	**117.0**
EBIT margin (%)								
Power Products	3.3	(0.7)	4.7	(4.0)		4.3	4.8	
Power Systems	0.4	(0.7)	(0.7)	(1.1)		0.0	(6.1)	
Discrete Automation & Motion	10.6	14.0	7.6	3.5		10.1	9.5	
Process Automation	2.3	(1.9)	5.1	(4.2)		4.8	6.4	
Low voltage	2.1	3.9	9.8	1.8		6.5	1.0	

Source: Company, Kotak Institutional Equities

Order inflows surprise positively; supported by two large order win

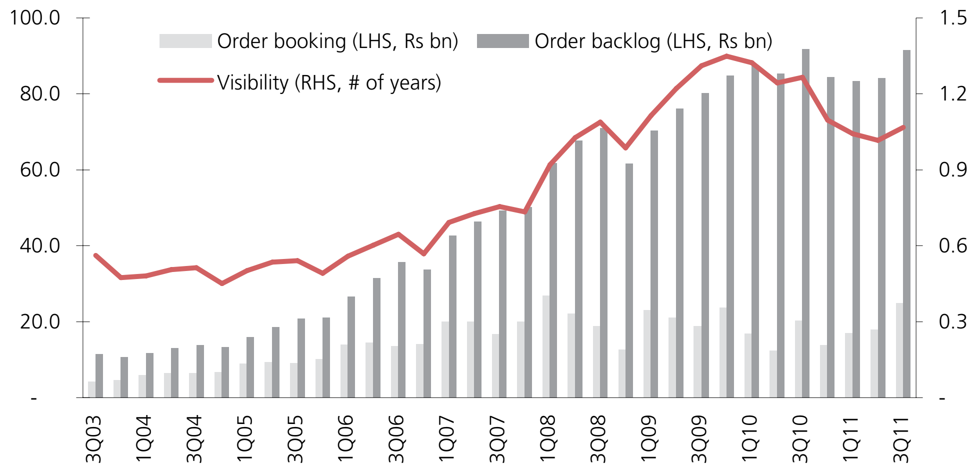
ABB reported 3QCY11 order inflows at Rs25 bn (up 23% on a yoy basis) versus average quarterly run rate of Rs18.5 bn for last 10 quarters. The inflows included two large order Majority of the quarter's inflows come from two large orders

- **Rs8.2 bn transmission project order from UP state utility**. ABB won Rs8.2 bn BOOT order in the transmission segment with Isolux for UP state utility. The company would deliver turnkey substation of 765 KV and 400 KV (GIS) rating
- **Rs3.3 bn Bhillai Steel plant order**. The company also cited another Rs3.3 bn order for modernizing Bhillai Steel plant.

ABB also highlighted traction in its base orders which double digit growth achieved across segments.

Order backlog at Rs92 bn implies about 1 year of visibility on 1-year forward revenues. ABB has not included the HVDC order which is in the final stages of achieving financial closure.

ABB - order booking, Order backlog & visibility trend



Source: Company, Kotak Institutional Equities

Cites traction across power, industry; delays in cement, metal projects in short-term

ABB cited strong traction across most sub-segments within power and industry sectors. Within power, the company expects strong ordering in domestic T&D (PGCIL and SEBs) as well as the infra space (airports and metros at tier-2 cities). ABB is also seeing continued strength in discrete automation led by (1) renewables (solar- favorable policies), hybrid automation (food and beverage, pharma and textile), and (3) process (water)

The company did highlight of delays in ordering in the cement and metal projects in the near-term though it believes the same to be a growth area for ABB in the medium term.

Expects price recovery in 2HCY12; banking on operational excellence till then

ABB does not believe the pricing to improve significantly from current levels although it does not expect the pricing to deteriorate further. Improvement in pricing would also time (management expects visible improvement only by middle of next year).

ABB management believes to have benefitted from increased levels of operational excellence in the current quarter. Its material cost as a percentage of sales reduced by 310 bps on a yoy basis to 72.7% which it attributed to (1) low R&D cost (localizing facilities) (2) increased indigenization and (3) optimizing product manufacturing facility. It is also in the process of hiring new talent (experts) to further improve on cost and performance.

Capacity ramp-up, domestic qualifying criteria and serviceability to reduce foreign competition

The company believes that Korean/Chinese competition should reduce going forward based in (1) domestic capacities having grown to match demand (2) qualifying criteria (domestic manufacturing) and (3) low potential to satisfy customers (serviceability) over long-term. Korean/Chinese competitors also tend to focus on certain sectors (800 KV, 765 KV) and therefore competition from them is less broad-based.

Other concall takeaways

- **Lower discrete automation margin on strategic booking of low margin projects**: Discrete automation margin (10.6% in this quarter versus 14% in 3QCY10) was negatively impacted due to strategic booking of low margin projects. The company expects strong performance from the segment going forward

- **Lower forex gain versus last year.** The company reported Rs85 mn of forex gain in 3QCY11 versus Rs480 mn of forex gain in same quarter last year

- **Exit from rural electrification business by 2HCY12.** The company reported Rs310 mn of remaining RE backlog and now expects to fully exit the business in 2HCY12 (versus earlier expectation of 1QCY12)

Balance sheet and income statement of ABB, December calendar year-ends, 2008-13E (Rs mn)

	2008	2009	2010	2011E	2012E	2013E
Income statement						
Net revenues	**68,370**	**62,372**	**62,871**	**76,992**	**89,859**	**101,192**
Total operating expenses	(60,673)	(57,098)	(62,033)	(71,643)	(81,388)	(90,688)
RM	(49,504)	(45,179)	(48,291)	(56,449)	(64,750)	(71,642)
Employee	(4,030)	(3,892)	(4,901)	(5,561)	(6,743)	(7,903)
Other Exp	(7,139)	(8,027)	(9,111)	(9,633)	(9,895)	(11,143)
EBITDA	**7,698**	**5,274**	**838**	**5,349**	**8,471**	**10,504**
Other income	1,304	726	855	1,017	1,010	1,050
Interest	(303)	(241)	(174)	(231)	(270)	(304)
Depreciation	(367)	(485)	(517)	(709)	(828)	(844)
PBT	8,332	5,274	1,002	5,426	8,383	10,406
Tax	(2,858)	(1,728)	(370)	(1,801)	(2,783)	(3,455)
Net profit	**5,474**	**3,546**	**632**	**3,625**	**5,600**	**6,951**
EPS (Rs)	**25.8**	**16.7**	**3.0**	**17.1**	**26.4**	**32.8**
Balance sheet						
Shareholders funds	**21,047**	**24,097**	**24,051**	**26,903**	**31,683**	**37,815**
Equity capital	424	424	424	424	424	424
Reserves and surplus	20,623	23,673	23,627	26,479	31,260	37,392
Reval reserves	143	140	140	140	140	140
Loan funds	—	—	—	—	—	—
Total sources of funds	**21,190**	**24,237**	**24,191**	**27,043**	**31,823**	**37,955**
Total fixed assets	**6,833**	**7,895**	**8,238**	**9,529**	**9,701**	**9,857**
Net block	5,458	6,731		8,952	9,124	9,280
Capital WIP	1,375	1,163		577	577	577
Investments	611	169	168	168	168	168
Cash and bank balance	3,482	5,241	5,871	1,330	4,037	8,324
Net working capital	10,301	10,931	9,914	11,970	13,871	15,561
Total application of funds	**21,190**	**24,237**	**24,191**	**27,043**	**31,823**	**37,955**

Source: Company, Kotak Institutional Equities estimates

Revise estimates on lower margin; maintain SELL on expensive valuations

We revise our estimates to Rs11.7 and Rs22.7 from Rs17.1 and Rs26.4 for CY2011 and CY2012 on lower margin assumption (140-240 bps revision). We value ABB at 24X average of CY2012E and CY2013E (TP: Rs575 from Rs660 earlier). Retain SELL on (1) expensive valuations (31XCY2012E), (2) competitive intensity may sustain, affecting pricing and (3) weak capex cycle.

Change in estimates for ABB, December calendar year-ends, 2010E-11E (Rs mn)

	New estimates			Old estimates			Revision (%)		
	CY2011E	CY2012E	CY2013E	CY2011E	CY2012E	CY2013E	CY2011E	CY2012E	CY2013E
Revenues	76,992	91,832	99,743	76,992	89,859	101,192	-	2.2	(1.4)
EBITDA	3,725	7,316	8,016	5,349	8,471	10,504	(30.4)	(13.6)	(23.7)
EBITDA margin (%)	4.8	8.0	8.0	6.9	9.4	10.4			
PAT	2,476	4,816	5,284	3,625	5,600	6,951	(31.7)	(14.0)	(24.0)
EPS (Rs)	**11.7**	**22.7**	**24.9**	**17.1**	**26.4**	**32.8**	**(31.7)**	**(14.0)**	**(24.0)**
Growth (%)									
Revenues	22.5	19.3	8.6	22.5	16.7	12.6			
EBITDA	344.7	96.4	9.6	538.6	58.4	24.0			
PAT	291.5	94.5	9.7	473.2	54.5	24.1			

Source: Company, Kotak Institutional Equities estimates

Strong margin expansion required for meeting reduced estimates

We highlight that ABB needs to improve 4QCY11E EBITDA margin to 6.8% to meet our full year estimate of 4.8%. It also needs Rs25 bn of execution in 4Q (22% implied yoy growth) which we believe can be attained on the basis of its strong Rs92 bn backlog (end-Sep-11).

ABB -4QCY11E - implied key numbers (Rs mn)

	9MCY11	9MCY10	% change	4QCY11E-imp.	4QCY10	% change	CY2011E	CY2010	% change
Sales	**52,006**	**42,365**	**22.8**	**24,985**	**20,506**	**21.8**	**76,992**	**62,871**	**22.5**
Expenses	(49,982)	(41,640)	20.0	(23,285)	(20,393)	14.2	(73,267)	(62,033)	18.1
EBITDA	**2,024**	**725**	**179.3**	**1,701**	**113**	**1,403.7**	**3,725**	**838**	**344.7**
Other income	662	616	7.5	355	240	48.2	1,017	855	18.9
Interest	(177)	(125)	41.5	(54)	(48)	10.6	(231)	(174)	32.9
Depreciation	(671)	(368)	82.2	(134)	(148)	(10.1)	(804)	(517)	55.7
PBT	**1,837**	**847**	**117.0**	**1,869**	**156**	**1,099.3**	**3,706**	**1,002**	**269.7**
Tax	(633)	(282)	124.6	(597)	(88)	577.7	(1,230)	(370)	232.5
Net profit	**1,204**	**565**	**113.2**	**1,271**	**68**	**1,778.9**	**2,476**	**632**	**291.5**
Key ratios (%)									
EBITDA margin	**3.9**	**1.7**		**6.8**	**0.6**		**4.8**	**1.3**	
PBT margin	3.5	2.0		7.5	0.8		4.8	1.6	
PAT margin	34.5	33.3		32.0	56.6		33.2	36.9	
Tax rate	2.3	1.3		5.1	0.3		3.2	1.0	
Order details									
Order booking	59,793	49,554	20.7	-	13,942	(100.0)	83,001	63,496	30.7

Source: Company, Kotak Institutional Equities estimates

Balance sheet and income statement of ABB, December calendar year-ends, 2008-13E (Rs mn)

	2008	2009	2010	2011E	2012E	2013E
Income statement						
Net revenues	**68,370**	**62,372**	**62,871**	**76,992**	**91,832**	**99,743**
Total operating expenses	(60,673)	(57,098)	(62,033)	(73,267)	(84,516)	(91,727)
RM	(49,504)	(45,179)	(48,291)	(56,932)	(66,173)	(71,243)
Employee	(4,030)	(3,892)	(4,901)	(5,932)	(7,273)	(8,460)
Other Exp	(7,139)	(8,027)	(9,111)	(10,403)	(11,070)	(12,023)
EBITDA	**7,698**	**5,274**	**838**	**3,725**	**7,316**	**8,016**
Other income	1,304	726	855	1,017	1,010	1,050
Interest	(303)	(241)	(174)	(231)	(275)	(299)
Depreciation	(367)	(485)	(517)	(804)	(841)	(856)
PBT	8,332	5,274	1,002	3,706	7,209	7,910
Tax	(2,858)	(1,728)	(370)	(1,230)	(2,393)	(2,626)
Net profit	**5,474**	**3,546**	**632**	**2,476**	**4,816**	**5,284**
EPS (Rs)	**25.8**	**16.7**	**3.0**	**11.7**	**22.7**	**24.9**
Balance sheet						
Shareholders funds	**21,047**	**24,097**	**24,051**	**25,754**	**29,750**	**34,216**
Equity capital	424	424	424	424	424	424
Reserves and surplus	20,623	23,673	23,627	25,330	29,327	33,792
Reval reserves	143	140	140	140	140	140
Loan funds	—	—	—	—	—	—
Total sources of funds	**21,190**	**24,237**	**24,191**	**25,894**	**29,890**	**34,356**
Total fixed assets	**6,833**	**7,895**	**8,238**	**9,433**	**9,592**	**9,736**
Net block	5,458	6,731		8,856	9,015	9,159
Capital WIP	1,375	1,163		577	577	577
Investments	611	169	168	168	168	168
Cash and bank balance	3,482	5,241	5,871	145	1,812	4,893
Net working capital	10,301	10,931	9,914	12,102	14,272	15,513
Total application of funds	**21,190**	**24,237**	**24,191**	**25,894**	**29,890**	**34,356**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Reliance Infrastructure (RELI)

Utilities

BUY

NOVEMBER 9, 2011

RESULT

Coverage view: Cautious

Price (Rs): 476

Target price (Rs): 920

BSE-30: 17,570

Step-up in execution by construction division. Reliance Infrastructure (RELI) carried on the momentum of strong execution with the EPC division reporting 3X growth in revenues—likely aided by a pick-up in implementation of Sasan UMPP and Samalkot power projects of Reliance Power. We are also encouraged by the improved pace of execution across the various infrastructure assets and reduction of exposure to the contentious inter-corporate deposits, though note that concerns on the group's role in the telecom spectrum auctions will likely continue to weigh on stock performance.

Company data and valuation summary

Reliance Infrastructure

Stock data			
52-week range (Rs) (high,low)			1,075-365
Market Cap. (Rs bn)			126.1
Shareholding pattern (%)			
Promoters			48.1
FIIs			16.5
MFs			2.9
Price performance (%)	**1M**	**3M**	**12M**
Absolute	21.8	3.5	(54.6)
Rel. to BSE-30	12.5	1.9	(45.7)

Forecasts/Valuations	2011	2012E	2013E
EPS (Rs)	58.0	57.2	76.8
EPS growth (%)	(6.5)	(1.4)	34.2
P/E (X)	8.2	8.3	6.2
Sales (Rs bn)	151.4	205.3	211.5
Net profits (Rs bn)	15.5	15.2	20.4
EBITDA (Rs bn)	18.4	30.1	29.1
EV/EBITDA (X)	9.1	6.0	5.5
ROE (%)	6.8	10.3	9.0
Div. Yield (%)	1.5	2.2	2.4

Robust EPC revenues and margins drive outperformance

RELI reported standalone revenues of Rs37.7 bn (60% yoy, 12% qoq), operating profit of Rs5.3 bn (55% yoy, 31% qoq) and net income of Rs4.9 bn (191% yoy, 15% qoq) against our estimates of Rs28.6 bn, Rs2.6 bn and Rs2.5 bn, respectively. Strong operational outperformance was driven by significantly higher-than-estimated EPC revenues of Rs24.3 bn (against our estimate of Rs14.5 bn) along with gross margins of 23% against our estimate of 19%. Reported net income was further boosted by higher-than-estimated other income of Rs2.9 bn against our estimate of Rs2.3 bn. We discuss key highlights of the result in detail in a subsequent section.

Step-up in infrastructure capex encouraging

RELI reported consolidated net revenues of Rs55.5 bn (37% yoy, 13% qoq), EBITDA of Rs5.2 bn (-1% yoy, 4% qoq) and PAT of Rs3.6 bn (-11% qoq). We note that incremental earnings on a consolidated basis were contributed by the Delhi distribution business, four operational road projects and Delhi Metro project. We are encouraged by a significant step-up in infrastructure capex which increased from Rs8 bn in FY2010 to Rs63 bn in FY2011 signaling a likely uptick in execution. Management has guided for commencement of revenue contribution from six additional road projects, WRSS transmission project and Mumbai Metro I by end-FY2012E.

Maintain rating with a target price of Rs920/share

We maintain our BUY rating and revised target price of Rs920/share (previously Rs920/share). Our SOTP-based target price comprises—(1) Rs183/share from the existing generation, transmission and distribution businesses, (2) Rs125/share for the EPC business, (3) Rs280/share for 38% stake in Reliance Power, (4) Rs55/share as the equity-value of the BOT road projects under-construction, (5) Rs52/share for equity investment made in the various infrastructure projects and (5) cash and investible surplus in books of Rs228/share.

Exhibit 1: Robust EPC revenues and margins drive outperformance
Interim results for Reliance Infrastructure (Standalone) , March fiscal year-ends (Rs mn)

					(% chg.)					
	2QFY12	**2QFY12E**	**2QFY11**	**1QFY12**	**2QFY12E**	**2QFY11**	**1QFY12**	**FY2011**	**FY2012E**	**(% chg.)**
Net sales from Electrical Energy	13,404	14,113	15,572	14,860	(5)	(14)	(10)	58,062	61,444	6
Income from EPC and Contracts	24,309	14,479	8,072	18,849	68	201	29	36,086	56,595	57
Net sales	**37,713**	**28,592**	**23,643**	**33,709**	**32**	**60**	**12**	**94,148**	**118,039**	**25**
Cost of electrical energy purchased	(5,854)		(6,293)	(6,703)				(27,243)	(24,287)	
Cost of fuel	(3,685)		(3,199)	(4,033)				(13,011)	(13,051)	
Tax on electricity	-		(339)	-				(1,344)	(1,646)	
Cost of matl. & other direct exp.(EPC & Contracts)	(18,730)		(6,857)	(15,026)				(28,372)	(48,077)	
Personnel costs	(2,028)		(1,915)	(2,111)				(5,808)	(9,222)	
Other expenses and provisions	(2,112)		(1,625)	(1,773)				(6,777)	(8,256)	
Total expense	(32,409)	(25,951)	(20,229)	(29,646)				(82,554)	(104,539)	
EBITDA	**5,304**	**2,641**	**3,415**	**4,063**	**101**	**55**	**31**	**11,594**	**13,500**	**16**
Depreciation	(638)	(700)	(825)	(689)				(3,134)	(3,623)	
EBIT	4,665	1,941	2,589	3,374				8,459	9,877	
Other income	2,919	2,250	240	3,991				8,517	8,954	
Net interest	(833)	(604)	(600)	(570)				(2,425)	(1,531)	
PBT	**6,752**	**3,587**	**2,229**	**6,795**	**88**	**203**	**(1)**	**14,551**	**17,301**	**19**
Tax	(1,051)	(1,076)	(524)	(1,200)				(541)	(4,811)	
Deferred tax	(743)		-	(1,290)				—	—	
Net profit	**4,957**	**2,511**	**1,705**	**4,305**	**97**	**191**	**15**	**14,010**	**12,490**	**(11)**
Extraordinary income	—	—	—	—				—	—	
Ratios (%)										
EBITDA margin (%)	14.1		14.4	12.1						
Effective tax rate (%)	26.6		23.5	36.6						
Segment revenues										
Electrical energy	15,185		16,067	17,719						
EPC & Contracts	24,320		8,324	18,888						
Profit/ loss before tax & int										
Electrical energy	2,795		2,760	3,826						
EPC & Contracts	4,128		648	2,558						
EBIT Margin (%)										
Electrical energy	18.4		17.2	21.6						
EPC & Contracts	17.0		7.8	13.5						

Source: Company, Kotak Institutional Equities estimates

Highlights of 2QFY12 results

We summarize below some key highlights of 2QFY12 results

- **Sharp jump in EPC revenues.** Standalone EPC revenues jumped 201% yoy, 29% qoq while EBIT margin in EPC business jumped to 17% in 2QFY12 (from 13.5% in 1QFY12). We note that sharp uptick in EPC revenues could likely be on account of pick-up in execution for Reliance Power's projects. RELI's order book stood at Rs243 bn as of September 2011 and includes six power projects (9,900 MW), one transmission project (1,500 km) and six road projects (570 km). We note that as of March 2011, RELI had advances from customer aggregating ~Rs64 bn (Rs24 bn as of March 2010), bulk of which was from associate companies like Reliance Power.

- **Mumbai distribution performance.** RELI reported revenues of Rs10.6 bn (-23% yoy, -11% qoq) on sales of 1,628 MU (-16% yoy, -10% qoq) for the Mumbai distribution business. RELI purchased 858 MU at an average price of Rs6.8/kwh. 16% yoy decline in unit sale of power is likely on account of customer migration to TPWR network.

- **Delhi distribution.** Aggregate sale of power was 4,369 MU (8% yoy) with revenues of Rs21.8 bn (20% yoy) implying an average realization of Rs5/kwh. We note that post the DERC tariff order for approval of 22% tariff hike and introduction of quarterly fuel adjustment surcharge, cash flow situation of RELI's Delhi discoms are likely to improve.

Exhibit 2: RELI purchased 858 MU at an average price of Rs6.8/kwh for Mumbai distribution
Operational and financial details of RELI's Mumbai distribution business

	2QFY12	2QFY11	1QFY12	Change (%) (yoy)	Change (%) (qoq)
Mumbai distribution					
Sales (Rs mn)	10,600	13,750	11,860	(23)	(11)
Sales (MU)	1,628	1,943	1,815	(16)	(10)
Sales (Rs/kwh)	**6.5**	**7.1**	**6.5**	**(8)**	**(0)**
Purchase (Rs mn)	5,854	6,293	6,703	(7)	(13)
Purchase (MU)	858	1,055	1,023	(19)	(16)
Purchase (Rs/kwh)	**6.8**	**6.0**	**6.6**	**14**	**4**
Delhi Distribution					
Sales (Rs mn)	21,800		18,140		20
Sales (MU)	4,369		4,032		8
Sales (Rs/kwh)	**5.0**		**4.5**		**11**

Source: Company, Kotak Institutional Equities

- **Infrastructure.** RELI's infrastructure revenue decline sequentially to Rs772 mn in 2QFY12 from Rs1.1 bn in 1QFY12. Sharp yoy jump was likely on account of commencement of operations of Delhi Metro and 2 road projects. We note that infrastructure business yielded a negative EBIT of Rs75 mn in 2QFY12 as against Rs402 mn in 1QFY12.

Key highlights from Annual Report 2011

- **Visibility on cash deployment improves.** Deployment of cash and cash equivalents has been a cause of concern with a substantial portion of overall cash parked as Inter Corporate Deposits (Rs28 bn) and cumulative preference shares (Rs35 bn) as of March 2010. We note that exposure to ICDs and preference shares have gone down to Rs8 bn and Rs27 bn respectively while bulk of the cash has been deployed in liquid mutual funds (Rs44.5 bn). We further note that overall cash and cash equivalents declined from Rs103 bn to Rs87 bn on account of increased investment in infrastructure projects as discussed subsequently. Exhibit 3 highlights the composition of RELI's cash and cash equivalents.

Exhibit 3: 60% of the cash and cash equivalents deployed as liquid MFs and bank deposits
Cash and cash equivalents of RELI, March fiscal year-ends, 2009-10 (Rs mn)

	Standalone			Consolidated		
	2009	2010	2011	2009	2010	2011
Cash and cash equivalents						
Tax-free bonds	1,359	1,285	1,280	1,147	1,143	1,138
Yield management certificates	-	-	-	-	-	-
Mutual Funds	51,603	9,941	36,690	54,593	11,263	44,548
Cash	2,510	3,018	3,711	4,583	4,494	6,358
Sub total (liquid)	**55,471**	**14,244**	**41,680**	**60,324**	**16,901**	**52,044**
0% redeemable cum. pref. Shares	886	886	-	886	886	-
2% redeemable cum. pref. Shares	-	-	-	-	-	
10% non-convertible redeemable pref. shares			5,600	10,950	10,950	10,950
8% cumulative non-convertible redeemable pref. Shares	29,494	23,307	16,054	29,494	23,307	16,054
Certificate of deposits (banks) and CPs	-	23,501	-	-	23,501	-
ICDs	16,194	27,647	17,921	15,830	27,696	7,975
Sub total (others)	**46,574**	**75,341**	**39,576**	**57,160**	**86,340**	**34,980**
Total cash and cash equivalents	**102,045**	**89,585**	**81,256**	**117,484**	**103,241**	**87,023**
Other investments						
Investment in subsidaries, JVs and associates	35,582	36,560	46,625			
Subordinated debt to subsidiaries	2,548	4,716	19,556			
Loans and advances to subsidiaries	26,884	10,449	4,988			
TotalInvestment in subsidaries, JVs and associates	**65,014**	**51,725**	**71,169**			
Total investments and cash	**167,059**	**141,310**	**152,425**			

Source: Company, Kotak Institutional Equities

- **Infrastructure capex steps up.** RELI's consolidated capex increased from Rs27 bn in FY2010 to Rs81 bn in FY2011 primarily on account of step-up in infrastructure capex which increased from Rs8 bn in FY2010 to Rs63 bn in FY2011. Increase in capex was visible across all the three key segments of roads, metro and transmission (see Exhibit 4). RELI commenced commercial operations of its Delhi Metro from February 2012 making it the fifth operational infrastructure projects. Our earnings model currently factor earnings from 401 km of road projects (of which two projects aggregating 97 km are already operational) being developed by the company in Tamil Nadu for which we ascribe a value of Rs12.6 bn (Rs55/share). We value RELI's balance infrastructure projects at Rs52/share which includes book value of equity investments (1X P/B) made in (1) Mumbai Metro (Rs1.72 bn), (2) CBD Tower (Rs1.63 bn), (3) transmission projects (Rs3.4 bn) and (4) Delhi Metro (Rs7 bn).

Exhibit 4: Step-up in capex run rate encouraging
RELI's portfolio of infrastructure projects

Project	Length (kms)	Cost (Rs bn)	Concession period (Years)	Capex (as of March 2011) (Rs bn)	Capex (as of March 2011) (%)	Status
Roads						
Namakkal Karur (NK)	44	3.5	20	3.5	100.0	Operational since 2QFY10
Dindigul Samyanallore (DS)	53	4.2	20	4.2	100.0	Operational since 2QFY10
Trichy Karur (TK)	80	7.3	30	4.6	63.6	COD by 1QFY12 (management guidance). Delayed
Trichy Dindigul (TD)	88	5.4	30	5.0	92.4	COD by 1QFY12 (management guidance). Delayed
Salem Ulenderpet (SU)	136	10.6	25	6.7	62.8	COD by 1QFY12 (management guidance). Delayed
Gurgaon Faridabad (GF)	66	7.8	17	4.1	52.2	COD by 2QFY12 (management guidance). We expect delays
Jaipur Reengus (JR)	52	5.3	18	—	—	COD by 4QFY12. Project financially closed.
Pune Satara (PS)	140	20	24	—	—	Tolling started for existing 4 laning road from Oct 2010. Project financially closed
Kandla Mundra (KM)	71	15.4	25	4.7	30.6	COD by 4QFY13. Project financially closed
Hosur Krishnagiri (HK)	60	10.1	24	4.3	42.5	Tolling started for existing 4 laning in 1QFY12
Agra Delhi (AD)	180	30.7	24	0.0	0.0	Concession agreement signed in July 2010
Total	**970**	**120**		**37.1**	**30.8**	
Trasnmission						
Western Region Strengthening System (WRSS)		13.8	BOO	10.9	78.9	Management guidance for full COD by 2QFY12. One out of nine lines commissioned
Parbati Koldam		10.7	BOO	1.1	10.4	Debt sanction received. COD by 1QFY13. Construction commenced
Mumbai Strengthening System		18	BOO	4.4	24.2	Full commissioning by FY2013
North Karanpura (UMTP)		15.5	22.5	0.2	1.4	Acquisition process completed
Talcher - II (UMTP)		8.2	23.5	0.2	2.5	Acquisition process completed
Total		**66**		**16.8**	**25.3**	
Metro						
Mumbai Metro Line 1	11	24.5	35	7.0	28.7	Expected to be operational in 4QFY12 (management guidance)
Delhi Airport Express Link	23	25.0	30	10.3	41.3	Operational
Mumbai Metro Line 2	32	110.0	35	—	—	Engineering&Design work commenced
	66	**160**		**17.3**	**10.9**	
Sea Link						
Western Freeway Sealink	11.5	51.0	40			Management guidance of revenues in FY2012E

Source: Company, Kotak Institutional Equities estimates

- **Regulatory relief for Mumbai distribution business.** Orders by Maharashtra Electricity Regulatory Commission (MERC) allowing (1) recovery of Rs23bn of regulatory assets accumulated on account of revenue gaps in previous years (FY2007-11) from not just the existing RELI consumers but all those consumers who have migrated to Tata Power supply and (2) levy of cross subsidy surcharge on all consumers who have migrated to Tata Power supply but still on RELI's wires lends better visibility to the distribution business and also reduces to an extant the tariff gap between RELI and Tata Power. RELI accrued Rs4.6 bn of unbilled revenues taking its regulatory assets for Mumbai distribution business to Rs20.6 bn as of March 2011 (from Rs16 bn as of March 2010) though we expect the regulatory assets to go down post the MERC approval.

Exhibit 5: Sales drop in FY2011 but no impact on profitability
Key operational and financial metrics of RELI's Mumbai distribution, March fiscal year-ends, 2009-11

	2009	2010	2011
Revenue (Rs bn)	65.4	56.9	50.91
Sales (MU)	8,270	8,659	7,449
AT&C losses		11%	
System demand (MW)	1,509	1,516	1,671
Energy purchased (MU)	5,283	5,250	4,295
Cost of energy (Rs/kwh)	8.04	6.32	6.34
Sale breakup (MU)			
Industrial	888	930	606
Commercial	2,928	3,076	2,380
Residential	4,454	4,653	4,463
Total	**8,270**	**8,659**	**7,449**
Cutomer breakup (mn)			
Industrial	0.02	0.02	0.02
Commercial	0.38	0.40	0.41
Residential	2.29	2.34	2.37
Total	**2.69**	**2.76**	**2.80**

Source: Company, Kotak Institutional Equities

- Cash crunch for Delhi distribution to improve. RELI's Delhi distribution JVs BRPL and BYPL accrued Rs10.2 bn and Rs6.5 bn of unbilled revenues in FY2011 (RELI's share in JV) taking the total regulatory assets from Rs11.5 bn to Rs26.3 bn as of March 2011. We note that sharp jump in regulatory assets was primarily on account of absence of tariff revisions which led to acute cash crunch for all the discoms in Delhi. We however note that tariff hikes carried out from October 2011 and talks of further hike (as per media reports) will likely enable these utilities to improve upon their cash flow situation. On the operational front, AT&C losses declined from 19% to 16.8% for BRPL and from 23.1% to 19.9% for BYPL. We note that the corresponding MYT target was 17% and 22% respectively for BRPL and BYPL thus allowing for a performance incentive of Rs2.9 bn (cumulative till FY2011). Total capex for Delhi distribution was Rs4.71 bn during FY2011 primarily for upgradation, strengthening and modernization of existing network.

Exhibit 6: Delhi distribution and three road projects add to consolidated earnings
Interim results for Reliance Infrastructure (Consolidated) , March fiscal year-ends (Rs mn)

				Change (%)	
	2QFY12	**2QFY11**	**1QFY12**	**(yoy)**	**(qoq)**
Net sales from Electrical Energy	32,601	32,556	30,400		
Income from EPC and Contracts	22,113	6,865	17,500		
Other oeprating income	772	124	1,117		
Net sales	**55,487**	**39,544**	**49,016**	**40**	**13**
Cost of electrical energy purchased	22,098	20,174	19,057		
Cost of fuel	3,686	3,200	4,479		
Tax on electricity	-	736	-		
Cost of matl. & other direct exp.(EPC & Contracts)	18,475	5,636	14,939		
Personnel costs	2,675	2,431	2,759		
Other expenses and provisions	3,332	2,076	2,767		
Total expense	50,266	34,253	44,002		
EBITDA	**5,221**	**5,291**	**5,015**	**(1)**	**4**
Depreciation	1,009	1,257	1,024		
Other income	3,067	621	4,179		
Net interest	2,507	1,520	2,166		
PBT	**4,771**	**3,136**	**6,003**	**52**	**(21)**
Tax	1,938	615	2,713		
Net profit before minority interest	**2,833**	**2,521**	**3,290**	**12**	**(14)**
Share of profit in Associates	684	1,081	777		
Minority interest	7	0	13		
PAT	**3,616**	**3,602**	**4,054**	**0**	**(11)**
Extraordinary income	106	-			

Source: Company, Kotak Institutional Equities

Exhibit 7: Reliance Infrastructure, Sum-of-the-parts valuation

	Methodology	Key assumptions	Per share value (Rs)
BSES (Mumbai distribution, Dahanu)	**DCF-equity** CoE: 12% Terminal year growth: 2%	The business enjoys a stable regulated regieme and very high predictability of cash flows. We have not built in any incremental generation capacity in Mumbai.	135
Other generating assets BAPL, RSPCL, BSES Kerala Power, Windmills	**DCF-equity** CoE: 12% Terminal year growth: Nil	We assign a value of 1.8X Price to Book as FCFe for these projects is likely to be ~16-18%. Gas power stations are liable to get returns based on availability, irrespective of lower PLF caused by unavailability of natural gas.	30
Delhi distribution 49% equity stake	**DCF-equity** CoE: 12% Terminal year growth: 4%	Distcoms earn 16% RoE on achieving the specified A,T&C loss reduction. The distcoms earn higher returns in the event of bettering the benchmarks. Our valuation takes a hit due to past capex of Rs5.35 bn disallowed by the regulator.	25
EPC business	**EV/EBITDA** 6X FY2012E EBITDA	FY2011 / FY2012E: Revenues (Rs mn) 36,086 / 57,750; EBITDA (Rs mn) 5,524 / 4,331; EBITDA % 15.3 / 7.5	103
Road projects 5 BOT projects under construction	**DCF-equity** CoE:15%	RELI has spent ~Rs18 bn till March 2010 out of the total projected capex of Rs31 bn (for 5 projects). Our DCF-equity valuation implies a weighted average P/B of 1.7X for these five projects.	55
Reliance Power Limited 45% stake	**DCF-equity** CoE: 12.5% - 15%	We use a 20% discount to our target price of Rs110/share for RPWR.	283
Cash and investible surplus on books	**Book value**	Marketable securities & cash on books (Rs mn): 88,185; Less unallocable debt (Rs mn) (24,768); Net cash and investible surplus (Rs mn) 63,417	237
Infrastructure projects	**Book value**	Metro projects in Delhi and Mumbai; Real estate project in Hyderabad and SEZ in Navi Mumbai	52
Total			**920**

Source: Company, Kotak Institutional Equities estimates

Exhibit 8: Profit model, balance sheet, cash model for Reliance Infrastructure (Consolidated), March fiscal year-ends 2009-14E (Rs mn)

	2009	2010	2011E	2012E	2013E	2014E
Profit model (Rs mn)						
Net sales	125,781	146,286	151,394	178,871	185,013	195,139
EBITDA	**8,213**	**12,263**	**15,097**	**24,311**	**26,540**	**27,060**
Other income	14,238	11,188	9,635	7,512	9,556	9,988
Interest	(4,394)	(5,251)	(6,350)	(6,853)	(7,626)	(6,985)
Depreciation	(3,304)	(4,724)	(4,825)	(5,814)	(6,518)	(6,384)
Pretax profits	14,753	13,476	13,558	19,155	21,952	23,678
Tax	(1,504)	(1,498)	(1,268)	(4,906)	(5,866)	(6,265)
Minority interest / share of associates	941	3,216	3,226	3,109	3,095	2,635
Net profits	**14,190**	**15,194**	**15,516**	**17,358**	**19,180**	**20,048**
Extraordinary items	(658)	—	—	—	—	—
Earnings per share (Rs)	**62.7**	**62.0**	**58.0**	**65.4**	**72.3**	**75.6**
Balance sheet (Rs mn)						
Total equity	168,976	207,041	236,076	261,409	278,692	295,744
Deferred taxation liability	2,113	1,569	988	2,299	3,462	4,297
Total borrowings	101,054	85,839	123,052	105,494	103,083	93,812
Currrent liabilities	72,077	85,580	145,857	139,724	142,596	143,659
Service line deposits from customers	—	—	—	—	—	—
Minority interest	1,116	1,147	1,876	1,876	1,876	1,876
Total liabilities and equity	**345,336**	**381,176**	**507,849**	**510,802**	**529,710**	**539,388**
Cash	4,583	4,494	6,358	16,437	29,899	41,992
Current assets	91,113	127,905	175,792	139,804	142,559	143,858
Total fixed assets	90,277	112,185	187,761	216,622	219,314	215,599
Investments	159,364	136,591	137,939	137,939	137,939	137,939
Total assets	**345,336**	**381,176**	**507,850**	**510,802**	**529,711**	**539,388**
Free cash flow (Rs mn)						
Operating cash flow, excl. working capital	16,272	10,283	19,759	24,483	26,862	27,267
Working capital	38,711	(25,126)	12,390	29,855	118	(237)
Capital expenditure	(47,537)	(27,212)	(81,039)	(34,676)	(9,210)	(2,669)
Investments	(37,486)	24,080	(1,348)	—	0	0
Free cash flow	**(30,041)**	**(17,976)**	**(50,238)**	**19,662**	**17,771**	**24,361**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

United Spirits (UNSP)

Consumer products

ADD

NOVEMBER 08, 2011

RESULT

Coverage view: Neutral

Price (Rs): 874

Target price (Rs): 1,000

BSE-30: 17,570

Good quarter, marginally disappointing volumes. UNSP's 2QFY12 numbers were ahead of expectations, (1) like-to-like sales growth of 19% yoy with overall volume growth of 8% yoy driven by strong 17% growth in premium brands, (2) higher material costs (spirits, glass) impacted gross margins, however, EBITDA margin decline curtailed through savings in promotional spends. The company expects adspends to increase in 2HFY12E as it invests in Signature Premier whisky and Vladivar vodka. ADD.

Company data and valuation summary

United Spirits

Stock data			
52-week range (Rs) (high,low)			1,640-740
Market Cap. (Rs bn)			109.8
Shareholding pattern (%)			
Promoters			28.0
FIIs			52.0
MFs			2.8
Price performance (%)	**1M**	**3M**	**12M**
Absolute	5.0	(5.1)	(41.9)
Rel. to BSE-30	(3.0)	(6.5)	(30.6)

Forecasts/Valuations	2011	2012E	2013E
EPS (Rs)	35.3	37.5	47.0
EPS growth (%)	29.5	6.2	25.3
P/E (X)	24.7	23.3	18.6
Sales (Rs bn)	73.8	83.2	92.5
Net profits (Rs bn)	4.4	4.7	5.9
EBITDA (Rs bn)	13.1	15.5	18.2
EV/EBITDA (X)	13.0	11.3	9.9
ROE (%)	11.2	10.7	12.1
Div. Yield (%)	0.3	0.3	0.4

Good sales growth; margins under pressure

UNSP reported net sales of Rs17.9 bn (+32%, KIE Rs16.1 bn), EBITDA of Rs2.6 bn (+17%, KIE Rs2.4 bn) and PAT of Rs861 mn (+4%, KIE Rs767 mn).

- 2QFY12 includes the impact of the merger of Balaji Distilleries; hence the reported financials are not comparable on a yoy basis and with our estimates.
- Adjusting for the impact of Balaji Distilleries and the introduction of first point VAT in Maharashtra effective this fiscal, the company reported sales growth of 19%. Overall volume growth during the quarter was 8% with premium brands reporting strong 17% yoy growth. The IMFL segment consisting of whisky and brandy likely largely contributed to the growth.
- Price hikes (managed through a mix of retail price increase and reduction in promotional spends) and mix improvement helped curtail EBITDA margin decline to 188 bps to 14.3% despite significant gross margin pressure (decline of 504 bps) due to inflationary spirits (+11% yoy), glass and paper price. Partial withdrawal of promotional spends led to decline in advertising spends to 9.4% of sales. Average adspends in FY2011 was 10.5% of sales.
- The company guides for higher adpro spends in the subsequent quarters to support its new launches – Signature Premier, Vladivar Vodka and White Mischief Vodka. We model adspends at 10.8% for FY2012E.
- Extraordinary item includes (1) an income of Rs657 mn towards write-back of provision no longer required further to the settlement of a legal matter in the company's favor, (2) an expense of Rs109 mn towards provision made for excise liability relating to prior years.

- Standalone net debt position as of September 30, 2011 was Rs40 bn versus Rs37 bn as of September 30, 2010. In July 2011, the company announced GBP370 mn refinance of the debt taken for acquiring W&M. The total hedged cost of the new debt is 45 bps lower than the earlier debt. The new loan has a seven-year repayment period.

Outlook for FY2012E

- Sales growth will likely be led primarily through price hikes.

- Margin management is the key. Glass (forms about 30% of input cost) has been inflationary. While there may be some respite due to lower ENA cost, (~35% of distillation constitutes primary distillation versus 10% earlier which will likely result in a benefit of Rs3-4/litre), the company will likely focus on managing margins by passing off any pressure on input costs with commensurate price hikes. Further increasing production at Pioneer Distilleries and Sovereign Distilleries and the growing focus on using grain will likely help reduce the impact of ENA cost on overall profitability. As guided by management, adspends will likely remain at elevated levels over the next few quarters.

- Excise hike in state budgets does not portend well. In addition to input cost inflation, hike in excise duty on liquor products in key state budgets such as Maharashtra, Punjab, Karnataka does not portend well.

- Net debt position will likely move in line with capex requirements over the next couple of years. The company has guided for capex of Rs11 bn for the period FY2010-13E.

Retain ADD

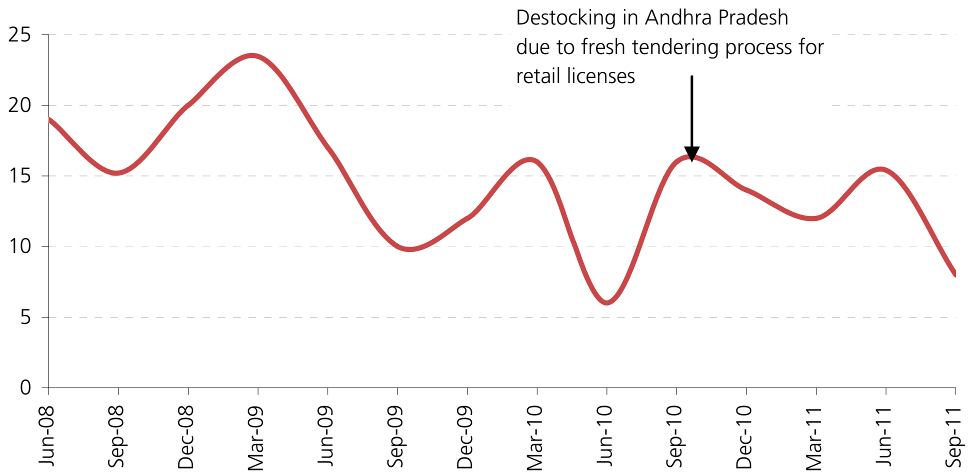
We retain ADD with a revised target price of Rs1,000 (valued at 11X FY2013E EBITDA for India business and 8X EBITDA for W&M). We have reduced our earnings estimates for FY2012E and FY2013E by 4% and 7% as we model lower EBITDA (higher material cost and adspends). Our EPS estimates for FY2012E and FY2013E are Rs 37.5 and Rs47. Few worries remain (1) higher-than-expected input costs, (2) potential impact of higher interest rates, (3) higher net debt position as of 1QFY12.

Interim results of United Spirits, March fiscal year-ends (Rs mn)

					(% chg)		
	2QFY12	2QFY12E	2QFY11	1QFY12	2QFY12E	2QFY11	1QFY12
Net sales	**17,906**	**16,088**	**13,542**	**19,354**	**11**	**32**	**(7)**
Total expenditure	(15,346)	(13,659)	(11,351)	(16,051)			
Material cost	(10,442)	(9,594)	(7,215)	(11,551)			
Staff cost	(1,046)	(931)	(822)	(965)			
Advertising and promotion	(1,686)	(1,301)	(1,558)	(1,503)			
Other expenditure	(2,172)	(1,833)	(1,757)	(2,032)			
EBITDA	**2,560**	**2,429**	**2,191**	**3,303**	**5**	**17**	**(22)**
OPM (%)	**14.3**	**15.1**	**16.2**	**17.1**			
Other income	100	205	113	91			
Interest	(1,241)	(1,349)	(983)	(1,227)			
Depreciation	(152)	(151)	(104)	(127)			
Pretax profits	**1,267**	**1,134**	**1,217**	**2,039**	**12**	**4**	**(38)**
Tax	(405)	(367)	(387)	(671)			
Net income	**861**	**767**	**830**	**1,369**	**12**	**4**	**(37)**
Extraordinary	619	-	(84)	8			
Reported net income	**1,480**	**767**	**746**	**1,377**			**7**
Income tax rate (%)	32.0	32.4	31.8	32.9			
Cost as a % of sales							
Material cost	58.3	59.6	53.3	59.7			
Staff cost	5.8	5.8	6.1	5.0			
Advertising and promotion	9.4	8.1	11.5	7.8			
Other expenditure	12.1	11.4	13.0	10.5			

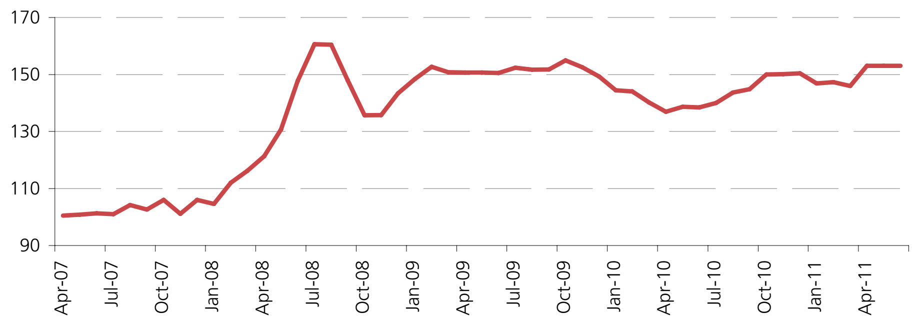
Source: Company, Kotak Institutional Equities estimates

Good volume growth on a high base
Quarterly volume growth (%)



Source: Company, Kotak Institutional Equities

ENA prices were higher by 11% yoy
ENA cost per case (Rs)



Source: Company, Kotak Institutional Equities

Debt profile as of June 30, 2011 (Rs mn)

Break up of debt	Jun-11	Mar-11	Mar-10	Dec-10
Capex loan	5,885	5,259	1,070	5,319
Term loan	15,335	15,455	17,900	15,892
Working capital	13,628	9,148	7,850	10,716
Total secured loan	**34,849**	**29,862**	**26,820**	**31,927**
Unsecured loan	12,479	10947.6	6,360	7,971
W&M acqusition loan w/o recourse	20,538	23,001	21,890	22,427
Total debt	**67,865**	**63,811**	**55,070**	**62,325**
Less cash	2,950	6,370	7,690	5,693
Total net debt	**64,915**	**57,441**	**47,380**	**56,632**

Source: Company, Kotak Institutional Equities

Profit model, balance sheet, cash model of United Spirits, March fiscal year-ends, 2008-2014E

	2008	2009	2010	2011	2012E	2013E	2014E
Profit model							
Net revenues	46,275	54,681	63,623	73,762	83,185	92,481	103,345
EBITDA	**9,642**	**9,853**	**11,123**	**10,647**	**13,129**	**15,479**	**17,943**
Other income	1,496	1,240	967	3,041	2,800	3,106	2,726
Interest expense	(5,881)	(7,377)	(6,187)	(5,575)	(6,970)	(7,555)	(7,874)
Depreciation	(741)	(926)	(950)	(1,023)	(1,429)	(1,591)	(1,794)
Pretax profits	**4,516**	**2,790**	**4,952**	**7,090**	**7,531**	**9,438**	**11,002**
Tax	(2,661)	(916)	(1,932)	(2,652)	(2,817)	(3,531)	(4,116)
Net income	**1,855**	**1,875**	**3,021**	**4,437**	**4,713**	**5,907**	**6,886**
Earnings per share (Rs)	21.5	18.2	27.3	35.3	37.5	47.0	54.8
Balance sheet							
Total shareholder's equity	19,806	23,123	37,287	41,339	45,693	51,083	57,284
Total borrowings	66,041	78,036	58,504	67,759	72,990	76,040	78,073
Deferred tax liability	18	(918)	(715)	(652)	(647)	(632)	(628)
Minority interest	1,992	63	85	175	212	221	232
Total liabilities and equity	**87,858**	**100,304**	**95,162**	**108,620**	**118,248**	**126,711**	**134,960**
Net fixed assets	11,163	16,558	18,194	20,690	22,488	24,124	27,237
Goodwill	53,260	44,738	42,444	44,320	44,320	44,320	44,320
Investments	2,119	9,501	1,265	1,544	1,544	1,544	1,544
Cash	5,438	4,490	7,686	6,370	7,119	5,852	4,389
Net current assets	15,878	25,016	25,572	41,741	42,777	50,871	57,470
Total assets	**87,858**	**100,304**	**95,162**	**114,665**	**118,248**	**126,711**	**134,960**
Free cash flow							
Operating cash flow, excl. working capital	2,596	1,864	4,175	5,850	5,821	7,513	8,684
Working capital changes	(9,990)	(3,540)	(4,741)	(11,211)	(7,406)	(8,095)	(6,599)
Capital expenditure	(6,713)	(6,321)	(2,586)	(3,519)	(3,227)	(3,227)	(4,907)
Free cash flow	**(14,108)**	**(7,997)**	**(3,153)**	**(8,881)**	**(4,812)**	**(3,809)**	**(2,822)**
Ratios							
Revenue Growth (%)	58.2	18.2	16.4	15.9	12.8	11.2	11.7
EBITDA Margin(%)	20.8	18.0	17.5	14.4	15.8	16.7	17.4
EPS Growth (%)	(39.9)	(15.5)	49.9	29.5	6.2	25.3	16.6

Source: Kotak Institutional Equities estimates

kotak Institutional Equities

Apollo Hospitals (APHS)

Pharmaceuticals

ADD

NOVEMBER 08, 2011

RESULT

Coverage view: Cautious

Price (Rs): 577

Target price (Rs): 650

BSE-30: 17,570

Growth intact. PAT ex-forex was 3% below our estimate due to lower sales growth on account of slower growth in the Chennai cluster, which picked up sequentially but still lower than our expectation. However, operating margin was higher than our estimate by 50 bps. We leave our FY2012-13E consolidated estimates largely unchanged and expect FY2012E sales growth at 20% (21% in 1HFY12) and EBITDA margin at 16.7% (16.6% in 1HFY12). Maintain ADD; PT Rs650 (unchanged), 14X FY2013E EBITDA.

Company data and valuation summary

Apollo Hospitals

Stock data			
52-week range (Rs) (high,low)			588-432
Market Cap. (Rs bn)			80.1
Shareholding pattern (%)			
Promoters			33.2
FIIs			32.2
MFs			0.4
Price performance (%)	1M	3M	12M
Absolute	13.3	9.8	10.1
Rel. to BSE-30	4.7	8.2	31.6

Forecasts/Valuations	2011	2012E	2013E
EPS (Rs)	13.2	17.1	21.2
EPS growth (%)	21.0	29.3	24.0
P/E (X)	43.5	33.7	27.2
Sales (Rs bn)	26.1	31.2	37.4
Net profits (Rs bn)	1.8	2.4	2.9
EBITDA (Rs bn)	4.2	5.2	6.4
EV/EBITDA (X)	19.8	14.7	12.7
ROE (%)	9.8	10.3	10.5
Div. Yield (%)	0.0	0.0	0.0

QUICK NUMBERS

- PAT ex-forex was 3% below our estimate
- EBITDA margin in 2QFY12 at 17%, flat yoy, 50 bps higher than our estimate

2QFY12 total income at Rs7 bn, 5% below our estimate

Total income grew 19% yoy to Rs7 bn in 2QFY12, 5% below our estimate due to lower growth in both hospitals and pharmacies—(1) retail pharmacies reported sales of 25%, lowest in the past several quarters due to the management's focus on bottom line growth which led to calibrated expansion in new stores and closure of 55 underperforming stores, and (2) healthcare services reported sales of 17%, same as in 1QFY12, lower than our estimate of 22%, due to poor revenue growth in Chennai which reported sales growth of only 9%. 2QFY12 witnessed strong performance from Hyderabad and JV/other standalone hospitals—(1) Hyderabad reported sales growth of 27.5% led by strong volume of 30% and ARPOB growth of 12.5%, (2) JVs and other standalone hospitals reported sales growth of 19-24%. Sales growth was driven mainly by increasing ARPOB with occupancy rates largely flat, although on expanded operational beds of 175 and 166 across JV and other standalone clusters, respectively.

EBITDA margin in 2QFY12 at 17%, flat yoy, 50 bps higher than our estimate

Despite lower sales growth than estimated, EBITDA margin beat our estimate at 17%, flat yoy, up from 16.5% in 1QFY12, despite muted growth in the Chennai cluster which is an established high-margin cluster. This was led mainly by improving ARPOB across all clusters by around 12-17% across al four clusters led by (1) improving case mix towards high-margin ailments, (2) tariff increase of around 6% yoy. Retail pharmacies showed qoq improvement in EBIT margin of 60 bps at 0.8% led by (a) 60 bps EBITDA margin improvement in stores up to 2007 to 6% and (b) closure of 55 underperforming stores. All cost items were in line with our estimate, however, selling costs doubled yoy due to higher advertising spend and reclassification of expenses of Rs30 mn.

Maintain ADD with PT at Rs650 (unchanged)

Despite addition of around 500 operational beds in the past 18 months and slowing sales growth to 21% in 1HFY12 from 28% in FY2011, Apollo has reported EBITDA margin at 16.6% in 1HFY12, up from 16% in FY2011. Although there will be no significant bed additions in the next 12 months, we expect PAT growth of over 20% to sustain led by (1) maturity of new hospitals and (2) improving profitability in SAP and JV/subsidiary hospitals.

Interim results—Apollo, March fiscal year-ends (Rs mn)

					% change		
	2QFY12	2QFY12E	2QFY11	1QFY12	2QFY12E	2QFY11	1QFY12
Total op. income	**6,998**	**7,374**	**5,864**	**6,410**	**(5)**	**19**	**9**
Materials	3,616	3,908	3,043	3,381	(7)	19	7
Staff cost	1,095	1,100	909	962	(0)	20	14
Others	145	147	134	155	(2)	8	(7)
G&A	790	885	700	752	(11)	13	5
Selling	154	111	82	101	39	88	53
EBITDA	**1,198**	**1,223**	**996**	**1,059**	**(2)**	**20**	**13**
EBITDA, %	17.1	16.6	17.0	16.5	0.5	0.1	0.6
Interest	210	170	139	149	24	51	41
Depreciation	228	190	178	198	20	28	15
Other income	70	25	68	47	178	2	49
PBT	**829**	**888**	**747**	**759**	**(7)**	**11**	**9**
Tax	271	293	252	246	(7)	8	10
PAT	**558**	**595**	**496**	**513**	**(6)**	**13**	**9**
Healthcare	4,915	5,129	4,204	4,514	(4)	17	9
Pharmacy	2,085	2,245	1,663	1,898	(7)	25	10
Total	**6,999**	**7,374**	**5,867**	**6,412**	**(5)**	**19**	**9**

Source: Kotak Institutional Equities estimates, Company

Key takeaways from conference call

- Apollo expects to take its owned bed count capacity to over 8,500 beds from the current 5,888 beds with addition of 2,300 beds over FY2012-15E, with majority coming on stream in FY2014E.

- Interest cost ex-forex increased yoy despite decline in gross debt levels to Rs6.4 bn as of Sep 2011 from Rs7.4 bn as of March 2011 due to increase in interest cost by 200 bps.

- Other income excluding forex increased to Rs70 mn in 2QFY12 from Rs45 mn in 2QFY11 due to interest income on funds collected through QIP.

- Out of the total capex of Rs16 bn over FY2012-15E, Apollo has spent Rs1.6 bn YTD. Out of the balance—(1) Rs5.3 bn will be the equity portion as Rs3.3 bn has been collected through the recent QIP and Rs2 bn will come from the two tranches of outstanding warrants, (2) Rs4 bn will come through internal accruals and (3) the balance through debt. Cash as of Sep 2011 was Rs4 bn comprising funds collected through QIP. No further dilution is planned and Apollo is comfortable taking debt/equity up to 1X from 0.3 X currently to fund its expansion program. Further, Apollo could also generate funds from unlocking value from investments in retail pharmacies and the Apollo Health Street.

- Apollo aims to increase EBITDA margin from an average of 23% across its hospitals to 25-26% over the next 3-4 years.

Apollo—abridged profit model, balance sheet, March fiscal year-ends, 2008-2014E (Rs mn)

	2008	2009	2010	2011	2012E	2013E	2014E
Profit model							
Net sales	**12,164**	**16,142**	**20,265**	**26,054**	**31,221**	**37,372**	**46,870**
EBITDA	**1,836**	**2,267**	**3,006**	**4,189**	**5,220**	**6,412**	**8,099**
EBITDA margin (%)	15.1	14.0	14.8	16.1	16.7	17.2	17.3
Other income	253	208	322	187	216	210	110
Depreciation	(517)	(632)	(750)	(948)	(1,264)	(1,600)	(1,948)
Financial charges	(382)	(459)	(602)	(814)	(736)	(750)	(650)
PBT	**1,190**	**1,384**	**1,976**	**2,613**	**3,436**	**4,272**	**5,610**
Tax	(374)	(505)	(676)	(873)	(1,168)	(1,453)	(1,907)
PAT	**816**	**879**	**1,300**	**1,740**	**2,268**	**2,820**	**3,703**
Exceptionals (net) loss/(profit)	—	26	—	—	—	—	—
MI, share in profit of associate	(44)	171	75	99	110	130	155
Reported net profit	**772**	**1,025**	**1,376**	**1,839**	**2,378**	**2,950**	**3,858**
Balance sheet							
Total equity	13,332	14,954	16,776	19,238	25,309	28,794	31,367
Total debt	5,322	6,706	9,132	9,585	6,700	9,216	7,170
Total liabiilities and equity	**18,653**	**21,660**	**25,908**	**28,823**	**32,008**	**38,009**	**38,537**
Net fixed assets incl CWIP	9,778	12,884	16,257	18,905	17,619	24,636	25,688
Investments	6,242	5,914	4,166	5,020	5,020	5,020	5,020
Net current assets	1,818	2,432	2,905	3,962	5,271	6,198	7,674
Cash	1,283	876	3,117	1,781	4,943	3,000	1,000
Net deferred tax asset	(467)	(446)	(536)	(845)	(845)	(845)	(845)
Total assets	**18,653**	**21,660**	**25,908**	**28,822**	**32,008**	**38,009**	**38,537**
Ratios							
Diluted EPS (excl excep.) (Rs)	6.6	8.5	10.9	13.2	17.1	21.2	27.8
ROE (%)	7.9	6.4	8.3	9.8	10.3	10.5	12.4
Debt/equity (%)	39.9	44.8	54.4	49.8	26.5	32.0	22.9

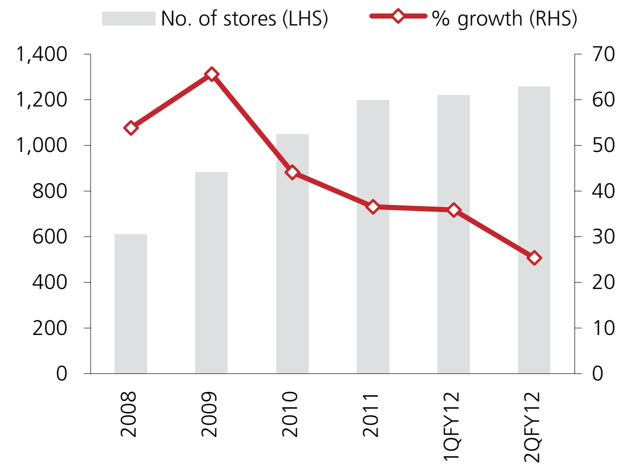
Source: Kotak Institutional Equities, Kotak Institutional Equities estimates, Company

Hospital performance, FY2010-11

	ALOS (days)		ARBOP (Rs/day)		OCR (%)	
	1HFY11	**1HFY12**	**1HFY11**	**1HFY12**	**1HFY11**	**1HFY12**
Chennai	4.7	4.6	23,473	26,362	79	77
Hyderabad	4.8	4.8	14,816	16,672	64	64
Others (standalone)	5.6	5.5	8,914	10,421	77	70
Significant JV/Sub hospitals	4.7	4.7	19,414	21,535	74	74

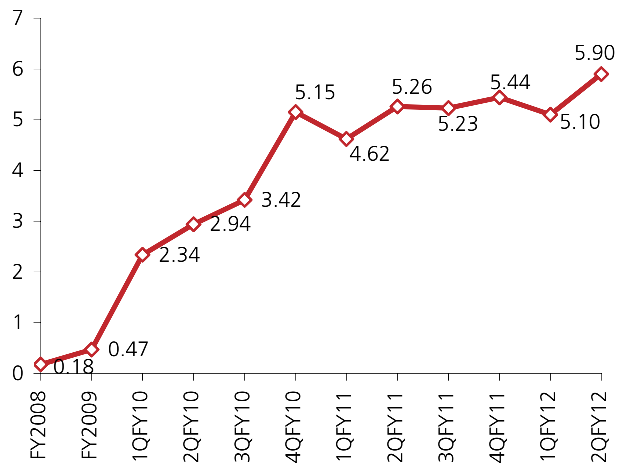
Source: Kotak Institutional Equities estimates, Company

Standalone pharmacies—revenue profile



Source: Kotak Institutional Equities estimates, Company

Standalone pharmacies (up to 2007 batch)—EBITDA margin



Source: Kotak Institutional Equities estimates, Company

kotak Institutional Equities

India Infoline (IIFL)

Banks/Financial Institutions

SELL

NOVEMBER 08, 2011

RESULT

Coverage view: Attractive

Price (Rs): 71

Target price (Rs): 70

BSE-30: 17,570

Business outlook remains weak, retain SELL. We believe that subdued equity market volumes will continue to put pressure on India Infoline's earnings over the next few quarters. Near-term profitability in the NBFC business will remain subdued due to pressure on margins and higher expenses (including investments in the gold-loan business). The insurance business continues to demonstrate stable earnings defying macro industry trends. We cut estimates; retain SELL with price target of Rs70.

Company data and valuation summary

India Infoline

Stock data			
52-week range (Rs) (high,low)			123-61
Market Cap. (Rs bn)			23.2
Shareholding pattern (%)			
Promoters			31.7
FIIs			35.7
MFs			3.6
Price performance (%)	**1M**	**3M**	**12M**
Absolute	(2.5)	(4.8)	(41.9)
Rel. to BSE-30	(9.9)	(6.2)	(30.5)

Forecasts/Valuations	2011	2012E	2013E
EPS (Rs)	7.4	3.5	5.0
EPS growth (%)	(9.3)	(52.3)	41.1
P/E (X)	9.6	20.2	14.3
Sales (Rs bn)	14.7	15.3	18.9
Net profits (Rs bn)	2.1	1.1	1.6
EBITDA (Rs bn)	6.1	6.2	7.9
EV/EBITDA (X)	6.7	8.1	6.9
ROE (%)	12.9	6.4	8.1
Div. Yield (%)	4.3	1.0	1.5

QUICK NUMBERS

- PAT was down 59% yoy to Rs220 mn
- Market share in broking business at 3.5% (down from 4% in 1QFY12)
- Average loan book up 100% yoy

Challenging times for broking business, qoq performance stable

India Infoline (IIFL) reported broking and related income of Rs1.3 bn (stable qoq). Equity broking income (as per our estimates) declined marginally qoq even as the traction in the commodities broking improved qoq. While IIFL's broking volumes were stable qoq, commission yield was likely lower.

We expect IIFL to report 23% yoy decline in broking commission income in FY2012E on the back of about 24% decline in broking volumes in the cash equities segment. Higher- or lower-than-expected movement in stock markets and volumes can significantly impact earnings from this segment.

Overall volumes in cash markets have declined by 22% yoy in 1QFY12 and 28% in 2QFY12. The cash market volumes seem to have stabilized at Rs135-140 bn/day as compared to mom improvement reported in 2QFY12.

Multiple risks to business, retain SELL

We find multiple challenges for IIFL's earnings.

- **Equity broking business subdued.** Equity market volumes have been subdued for the past couple of months and will likely remain weak (as discussed above).

- **Overhang of regulatory impact.** The impact of regulatory changes in the insurance sector is not yet reflected in the income from insurance distribution. IIFL has demonstrated stable revenues from distribution business for the past 6-7 quarters even as premium collections have been volatile; in 2QFY12 premium collections increased 25% qoq. We are modeling stable income for next two quarters as well even as the traction in the business typically picks up in the 2H.

- **Lower RoE in NBFC business**. The NBFC business is growing rapidly but continues to operate below optimal leverage levels. Operating expenses will likely remain high due to expansion of the gold-loan business; IIFL has set up about 500 branches in the past two quarters, taking the total branch network to about 900. The company reported about 6% RoE in FY2011; we expect RoEs at suboptimal levels over the next two years. The management has guided for slower pace of expansion in the gold-loan business over the next two quarters.

Revision in estimates, retain SELL

We are revising down our estimates to factor lower income from broking and finance business (see Exhibit for details on estimate changes). We are modeling cost-to-income ratio of 58-60% from 59-61% reported in the past two years. Consequently, our EPS for FY2012E and FY2013E declines to Rs3.5 and Rs5.0.

Our price target of Rs70 factors (1) NBFC business at 1X PBR FY2013E and (2) other businesses at 10X PER FY2013E. On a consolidated basis, the stock will trade at 1.1X PBR FY2013E for RoE of 10-11%.

Finance business—loan growth on track, expenses high

IIFL reported loan book of Rs50 bn in September 2011, up from Rs39 bn in June 2011. Average loan book for the quarter was up 100% yoy while net interest income increased by 40% yoy. Gold loans were the largest contributor to growth (70% of qoq growth in loan book) followed by mortgages. The company is now focusing on gold loans (in addition to other business) and has set up over 900 branches for the same; the business will likely support yields over the medium term but operating cost will remain high in the initial phase. The management has guided for better revenue traction from the finance business over the next few quarters as NIMs improve due to reduction in bulk borrowings rates and investments in the gold-loan business moderates. Going forward, we are modeling loan book of Rs60 bn and Rs70 bn in FY2012E and FY2013E.

Key highlights of the 2QFY12 results

- PAT was down 59% yoy to Rs220 mn, 4% above estimates.
- Income was up 21% yoy, largely on the back of growth in interest income.
- Net interest income was up 40% yoy.
- Operating expenses ratio was stable at 61% qoq, down from 64% in 2QFY11.

Exhibit 1: Equity market volumes in the cash market have been weak
Average daily volumes (Rs bn)

	Volumes in cash market								
	BSE	NSE	Total	MoM	YoY	F&O- NSE	MoM	Total vol.	MoM
Period	(Rs bn)	(Rs bn)	(Rs bn)	(%)	(%)	(Rs bn)	(%)	(Rs bn)	(%)
Aug-10	51	142	193	**15**	(16)	934	11	1,127	12
Sep-10	52	157	209	**8**	(15)	1018	9	1,227	9
Oct-10	56	171	227	**9**	(5)	1345	32	1,572	28
Nov-10	50	173	223	(2)	16	1412	5	1,635	4
Dec-10	37	135	172	(23)	(7)	1092	(23)	1,264	(23)
Jan-11	35	134	169	(2)	(30)	1421	30	1,590	26
Feb-11	34	133	167	(1)	1	1465	3	1,632	3
Mar-11	33	113	146	(13)	(21)	1249	(15)	1,395	(15)
Apr-11	32	127	159	9	(14)	1306	5	1,465	5
May-11	27	106	133	(16)	(25)	1184	(9)	1,317	(10)
Jun-11	27	98	124	(7)	(28)	1046	(12)	1,170	(11)
Jul-11	28	110	138	**11**	(18)	1221	17	1,359	16
Aug-11	25	112	137	**(0)**	(29)	1411	16	1,549	14
Sep-11	26	112	138	**0**	(34)	1350	(4)	1,488	(4)

Source: NSE and BSE

Exhibit 2: India Infoline: Change in estimates
March fiscal years-ends, 2012-2013E (Rs mn)

	New estimates		Old estimates		New vs Old (%)	
	2012E	2013E	2012E	2013E	2012E	2013E
Equity brokerage volume (Rs bn)	354,179	407,306	358,631	412,425	—	—
Average daily volume (Rs bn)	1,417	1,629	1,435	1,650	—	—
IIFL - volume (Rs bn)	12,190	13,530	12,987	14,546	—	—
Total income	**15,337**	**18,896**	**15,504**	**19,907**	**(1)**	**(5)**
Broking, commission and interest income	13,356	16,937	13,842	18,397	(4)	(8)
Insurance, media, MF and loan disbribution	1,832	1,859	1,511	1,409	21	32
Other income (incl. investment banking)	150	100	150	100	—	—
Operating expenses	**13,622**	**16,476**	**13,148**	**16,755**	**4**	**(2)**
Direct brokerage expenses	2,197	2,327	2,090	2,698	5	(14)
Employee expenses	4,492	5,543	4,428	5,453	1	2
Others expenses	6,933	8,606	6,630	8,604	5	—
PBT	**1,715**	**2,420**	**2,356**	**3,152**	**(27)**	**(23)**
Exceptional item	—	—	—	—	—	—
Tax	566	799	777	1,040	(27)	(23)
PAT	**1,149**	**1,621**	**1,578**	**2,112**	**(27)**	**(23)**
Minority interest	—	—	—	—	—	—
PAT (after minority interest)	**1,149**	**1,621**	**1,578**	**2,112**	**(27)**	**(23)**
EPS (Rs/ share)	**3.5**	**5.0**	**4.8**	**6.5**	**(27)**	**(23)**

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: India Infoline - SOTP-based valuation (2012E)
Price/share (Rs)

	EPS (Rs/share)	Multiple (X)	Value (Rs mn)	Value per share (Rs)
Brokerage and distribution business	2.7	10	8,756	31
	BVPS (Rs/share)			
Finance business @ 10% holding company discount	47	1	13,828	42
Total fair value (Rs mn) / target price (Rs)			**22,584**	**73**

Source: Kotak Institutional Equities

Exhibit 4: India Infoline
Quarterly data, 1QFY11-2QFY12 (Rs mn)

	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	YoY (%)	2Q12E	Actual vs KS (%)
Quarterly financials (Rs mn)									
Total income	**3,059**	**3,398**	**4,596**	**3,683**	**3,593**	**4,109**	**21**	**3,689**	**11**
Equity brokerage	1,403	1,514	1,550	1,529	1,189	1,179	(22)	1,109	6
Distribution of MFs	50	50	50	50	50	50	—	50	—
Commodities brokerage	70	70	70	70	100	160	129	120	33
Distribution (insurance etc)	417	507	471	448	418	421	(17)	400	5
Life insurance distribution	417	507	471	448	218	221	(56)	400	(45)
Financing income	1,097	1,253	2,253	1,577	1,827	2,285	82	2,000	14
Other income	2	4	2	10	9	14	242	10	38
Operating expenses	**1,970**	**2,041**	**2,397**	**2,263**	**2,202**	**2,499**	**22**	**2,300**	**9**
Direct expenses	477	445	696	535	549	580	30	550	5
Employees expenses	920	987	1,041	977	960	1,079	9	950	14
Administration expneses	573	610	660	751	693	840	38	800	5
EBDITA	**1,089**	**1,356**	**2,199**	**1,420**	**1,392**	**1,610**	**19**	**1,389**	**16**
Depreciation	154	155	151	122	151	189	22	160	18
EBITA	935	1,201	2,049	1,298	1,241	1,421	18	1,229	16
Interest	282	385	1,042	648	818	1,069	177	900	19
PBT	**653**	**816**	**1,006**	**651**	**423**	**352**	**(57)**	**329**	**7**
Exceptional item	—	—	—	—	—	—	—	—	—
PBT (after exceptional item)	**653**	**816**	**1,006**	**651**	**423**	**352**	**(57)**	**329**	**7**
Taxation	212	267	323	178	141	128	(52)	109	18
PAT bef. minority interest	**441**	**548**	**684**	**473**	**282**	**224**	**(104)**	**220**	**(51)**
Minority interest	9	8	13	6	10	5	(44)	10	(55)
PAT	**432**	**540**	**671**	**467**	**272**	**220**	**(59)**	**210**	**4**
EPS - fully diluted (Rs/ share)									
Other details									
IIL ave. daily vol. (Rs bn)	44	46	63	60	52	52			
Market share (reported)	4.0	3.9	4.2	3.9	4.0	3.5			
Overall margins (bps)	5.1	5.1	3.9	4.2	3.8	3.6			
APE (Rs mn)	642	660	666	785	595	750			
Distribution income (Rs mn)	417	507	471	448	418	421			
Segmental results									
PBT	**769**	**946**	**1,185**	**783**	**584**	**553**			
Broking and related income	486	567	571	471	250	265			
Finance	271	307	538	313	334	294			
Distribution and marketing	12	72	77	(1)	0	(6)			

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: India Infoline: Key ratios
March fiscal year-ends, 2007-2013E (%)

	2007	2008	2009	2010	2011	2012E	2013E
Key parameters							
IIFL's equity market volumes (Rs bn)	2,158	6,256	5,345	8,470	13,515	12,190	13,530
Per day (Rs bn)	9	25	22	34	54	49	54
Margin assumptions							
Equity broking gross margins (bps)	10.7	9.4	10.0	7.3	4.5	3.9	3.8
Total operating costs/ Total income (%)	66.8	60.2	67.7	60.0	57.7	57.6	55.6
EBITA margins (%)	33.2	39.8	31.3	38.9	41.2	40.6	42.1
Income statement growth (%)							
Total revenues	95	140	(6)	17	31	4	23
Brokerage commission	62	155	(10)	15	(2)	(22)	11
Life insurance distribution	175	80	(55)	11	64	(22)	3
Interest income	500	588	37	10	112	33	36
Operating costs	118	117	6	3	26	4	19
Net profit	55	117	(4)	49	(8)	(46)	41
EPS	38	86	(9)	59	(9)	(52)	41
Contribution to total revenues(%)							
Commission on equity broking	54.3	57.6	55.4	54.7	40.8	30.6	27.5
Brokerage in commodities	2.8	1.6	2.3	2.2	1.9	2.9	2.8
Fees earned on distribution (MF)	3.5	1.9	1.9	3.0	1.3	1.5	1.5
Life insurance commissions	13.9	10.4	5.0	4.8	6.0	4.5	3.7
Other mortgage and loan distribution	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Interest earned on margin trading/ finance income	6.6	18.9	27.6	26.0	41.9	53.6	59.3
Merchant banking income	0.7	1.6	0.2	3.5	1.4	0.7	0.3
Media and other income	17.4	8.0	7.6	5.9	6.7	6.2	4.9
Dupont analysis (% of average assets)							
Net brokerage revenue	22.7	21.4	13.4	13.8	7.6	4.2	4.1
Income from distribution	10.5	6.2	2.2	2.3	2.0	1.3	1.2
mutual funds	2.0	0.9	0.6	0.9	0.4	0.3	0.3
life insurance	8.1	5.3	1.6	1.4	1.6	1.0	0.8
Other income	14.3	14.4	11.2	10.5	13.5	13.2	14.6
Operating costs (unallotted)	31.9	30.2	19.3	16.9	17.0	15.8	16.4
Business promotion and marketing	2.0	1.9	1.6	1.3	0.8	0.7	0.7
Staff expenses	14.5	12.0	9.0	8.4	7.2	6.4	6.6
Other expenses	15.4	16.3	8.6	7.2	9.0	8.8	9.0
(1-tax rate)	66.0	68.7	71.7	66.0	68.7	67.0	67.0
RoA (%)	**10.3**	**8.1**	**5.4**	**6.4**	**4.2**	**1.9**	**2.3**
Average assets/ average equity (X)	2.8	2.2	2.0	2.4	3.3	3.9	4.2
RoE (%)	**29.1**	**18.1**	**10.8**	**15.3**	**13.9**	**7.4**	**9.6**

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: India Infoline: Income statement and balance sheet
March fiscal year-ends, 2007-2013E (Rs mn)

	2007	2008	2009	2010	2011	2012E	2012E
Consolidated income statement							
Total revenues	**4,257**	**10,235**	**9,629**	**11,236**	**14,739**	**15,337**	**18,896**
Commission on equity broking	2,314	5,897	5,333	6,148	6,017	4,697	5,204
Brokerage in commodities	120	166	218	248	285	440	528
Fees earned on distribution (MF)	150	191	183	332	195	234	281
Life insurance commissions	593	1,065	482	536	879	689	707
Interest income	282	1,937	2,654	2,918	6,180	8,219	11,205
Media income	645	783	712	659	964	908	871
Merchant banking income	28	161	23	388	200	100	50
Other income	96	35	24	8	19	50	50
Operating costs	**2,845**	**6,163**	**6,522**	**6,747**	**8,500**	**8,841**	**10,502**
Brokerage	772	1,737	1,481	1,182	2,152	2,197	2,327
Business promotion and marketing	146	382	494	494	442	492	614
Staff expenses	1,063	2,426	2,736	3,179	3,925	4,492	5,543
Administrative expenses	864	1,615	1,811	1,892	1,981	1,660	2,018
EBITDA	**1,412**	**4,072**	**3,014**	**4,371**	**6,068**	**6,233**	**7,947**
Depreciation/Amortization	149	282	396	535	582	534	534
EBIT	1,263	3,790	2,618	3,836	5,486	5,699	7,414
Interest and finance charges	117	964	424	291	2,359	3,984	4,994
Profit before tax	1,146	2,826	2,194	3,545	3,128	1,715	2,420
Taxation	390	748	621	1,207	980	566	799
Net profit for appropriation	**756**	**1,598**	**1,448**	**2,319**	**2,112**	**1,149**	**1,621**
Dividend	150	343	794	725	1,007	238	347
Dividend distribution tax	21	58	135	152	206	40	59
Adjusted number of shares	251	286	283	285	286	327	327
EPS (Rs)	**3.0**	**5.6**	**5.1**	**8.1**	**7.4**	**3.5**	**5.0**
Consoidated balance sheet							
Gross owned assets	911	2,688	3,580	5,635	4,523	4,448	4,448
Depreciation	294	496	729	1,263	1,845	2,379	2,912
Net owned assets	617	2,192	2,852	4,372	4,418	2,069	1,535
Investments	264	9,922	4,487	4,820	3,422	3,422	3,422
Current Assets	7,209	20,235	21,148	38,133	53,564	73,832	82,790
Gross debtors	1,837	3,837	1,142	3,202	5,144	4,936	5,514
Loans and advances	4,090	12,727	13,618	23,822	40,042	59,759	67,226
Deferred tax assets	**9**	**89**	**120**	**—**	**—**	**—**	**—**
Total assets	**8,092**	**32,349**	**28,488**	**47,326**	**61,736**	**79,322**	**87,747**
Borrowings	1,817	6,650	518	15,176	29,285	40,000	45,000
Current liabilities & prov.	3,025	7,934	9,398	15,919	15,497	19,675	21,884
Provisions	**681**	**1,920**	**1,968**	**3,037**	**27**	**33**	**37**
Total liabilities	**4,842**	**14,584**	**9,916**	**31,095**	**44,782**	**59,675**	**66,884**
Shareholders equity	**3,251**	**14,892**	**15,447**	**16,049**	**16,644**	**19,337**	**20,553**
Paid-up capital	502	571	567	570	573	654	654
Reserves and surplus	2,705	13,723	14,767	15,479	16,071	18,683	19,899
Minority interest		2,933	3,125	182	310	310	310

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Punj Lloyd (PUNJ)

Construction

REDUCE

NOVEMBER 08, 2011

RESULT

Coverage view: Attractive

Price (Rs): 59

Target price (Rs): 60

BSE-30: 17,570

Higher debt and uncertain claims strain balance sheet. Net debt deteriorated (Rs43 bn versus Rs33 bn at end-March 2011) on higher working capital (180 days of sales). Balance sheet is further strained due to (1) significant ONGC claims (Rs13 bn versus arbitration amount of Rs2.4 bn) and (2) Libya assets (Rs13 bn at realizable value). Consolidated results (20% sales growth, 80 bps margin decline) were in line although standalone margin (5.3%) halved yoy. Retain REDUCE (TP: Rs60 from Rs65 earlier).

Company data and valuation summary

Punj Lloyd

Stock data			
52-week range (Rs) (high,low)			135-52
Market Cap. (Rs bn)			20.0
Shareholding pattern (%)			
Promoters			37.2
FIIs			10.7
MFs			6.1
Price performance (%)	**1M**	**3M**	**12M**
Absolute	8.9	(4.3)	(54.6)
Rel. to BSE-30	0.6	(5.7)	(45.7)

Forecasts/Valuations	2011	2012E	2013E
EPS (Rs)	(1.5)	3.4	6.5
EPS growth (%)	(56.6)	(328.7)	90.7
P/E (X)	(39.7)	17.4	9.1
Sales (Rs bn)	78.5	101.8	124.6
Net profits (Rs bn)	(0.5)	1.2	2.2
EBITDA (Rs bn)	4.1	8.9	11.2
EV/EBITDA (X)	13.0	7.1	6.0
ROE (%)	(1.7)	3.8	6.9
Div. Yield (%)	(0.1)	0.5	1.0

QUICK NUMBERS

- Net debt increases to Rs43 bn from Rs33 bn at end-FY2011
- Higher other income (Rs677 mn) leads to Rs247 mn PAT
- Rs13 bn actual ONGC-related claims

Debt increases further to fund working capital; delays in government projects continue

Punj Lloyd's net debt increased sharply to Rs43 bn (end-Sep 2011) from Rs33 bn at end-Mar 2011. The sharp deterioration in debt levels was utilized to fund rising working capital requirements (Rs49 bn /180 days of sales versus Rs44.6 bn /165 days of sales at end-Mar 2011). The company attributed increase in working capital to delays in ongoing government projects (refinery, infra projects). It expects the working capital to normalize over the next 1-2 quarters.

Significant ONGC claims (Rs13 bn) and Libya assets (Rs13 bn) further strain balance sheet

The company cited that actual ONGC claims at Rs13 bn are far in excess of Rs2.4 bn arbitration amount. It expects the ONGC arbitration case take about 2-3 years to get resolved as it prepares to send a rejoinder to Bombay HC's latest ruling (favoring ONGC). Punj Lloyd also has significant fixed assets worth Rs13 bn in Libya recorded at realizable value. Despite, stoppage of work and demobilization of resources, the company expects to gets its share of revenues/profits based on undertaking by National Transitional Council with UN to honor all contracts.

Consolidated results: In-line consol sales and margin; PAT beat on higher other income

Punj Lloyd reported in-line sales (Rs24 bn, 20% up yoy), and margin (8.4%, 80 bps yoy decline). Higher-than expected other income of Rs677 mn (Rs40 mn estimate) offset increase in interest expense (Rs1.3 bn) leading to PAT (before associate income, minority interest) of Rs297 mn 34% ahead of our estimate of Rs221 mn.

Standalone sales at Rs11.5 bn grew modestly by 9.4% although EBITDA margin halved to 5.7% on higher raw material (390 bps), employee (80 bps) and other expenses (100 bps).

Revise estimates on higher debt, backlog-led higher sales and lower margin assumptions

We revise our earning estimates to Rs3.4, Rs6.5 from Rs5.5, Rs7.4 for FY2012E, FY2013E on (1) higher debt, (2) stronger backlog and (3) lower margin (20-50 bps). We value the stock at 9XFY2013E (TP: Rs60 versus Rs65 earlier). Retain REDUCE on (1) significant delays in Libyan projects, (2) repeated one-offs in subsidiaries (4) significant claims (ONGC) pending arbitration.

Consolidated results: In-line sales and margin; PAT beat on higher other income

Punj Lloyd reported sales of Rs23.9 bn, up 20% yoy and in-line with our estimate of Rs24.4 bn. EBITDA margin at 8.4% implies a yoy decline of 70 bps and was also in line with our expectation of 8.5%. The yoy decline was due to higher material cost (150 bps negative impact) buffered by lower staff cost (70 bps positive impact). EBITDA at Rs2 bn was broadly in line with our estimate.

Higher-than expected other income of Rs677 mn (Rs40 mn estimate, Rs32 mn in 2QFY11) more than offset increase in interest expense (Rs1.3 bn versus Rs1.2 bn estimate) leading to PAT (before associate income, minority interest) of Rs297 mn 34% ahead of our estimate of Rs221 mn. Loss in associates reduced PAT to Rs247 mn.

Punj Lloyd (consolidated) - 2QFY12 - key numbers (Rs mn)

					% change					
	2QFY12	**2QFY12E**	**2QFY11**	**1QFY12**	**vs est.**	**yoy**	**qoq**	**1HFY12**	**1HFY11**	**% change**
Net Sales	**23,917**	**24,470**	**19,876**	**22,634**	**(2.3)**	**20.3**	**5.7**	**46,550**	**37,214**	**25.1**
Expenditure	**(21,902)**	**(22,390)**	**(18,043)**	**(20,825)**	**(2.2)**	**21.4**	**5.2**	**(42,726)**	**(34,041)**	**25.5**
Material	(13,734)		(11,118)	(13,097)		23.5	4.9	(26,830)	(20,123)	33.3
Staff cost	(3,351)		(2,917)	(2,809)		14.9	19.3	(6,159)	(5,793)	6.3
Other expenditure	(4,817)		(4,008)	(4,919)		20.2	(2.1)	(9,736)	(8,125)	19.8
EBITDA	**2,015**	**2,080**	**1,832**	**1,809**	**(3.1)**	**NA**	**11.4**	**3,824**	**3,174**	**20.5**
Other Income	677	40	32	30	1,592.8	2,009.3	2,134.7	707	73	873.0
Interest	(1,299)	(1,179)	(924)	(1,133)	10.1	40.6	14.6	(2,432)	(1,734)	40.3
Depreciation	(781)	(624)	(679)	(617)	25.0	15.0	26.6	(1,397)	(1,319)	5.9
Profit before Tax	**613**	**316**	**262**	**89**	**93.7**	**133.8**	**NA**	**702**	**193**	**NA**
Tax	(316)	(95)	(47)	(216)	232.9	566.7	NA	(532)	(283)	88.1
Profit after Tax	**297**	**221**	**215**	**(127)**	**34.1**	**38.2**	**NA**	**170**	**(89)**	**NA**
MI & exceptional	(50)	—	—	4				(45)	(2)	
Net Profit	**247**	**221**	**215**	**(123)**	**11.7**	**15.2**	**NA**	**125**	**(91)**	**NA**
Key ratios (%)										
Material costs/ Sales	57.4		55.9	57.9				57.6	54.1	
Staff cost/ Sales	14.0		14.7	12.4				13.2	15.6	
Other expense/ Sales	20.1		20.2	21.7				20.9	21.8	
EBITDA margin	**8.4**	**8.5**	**9.2**	**8.0**				**8.2**	**8.5**	
PBT margin	2.6	1.3	1.3	0.4				1.5	0.5	
PAT margin	1.2	0.9	1.1	(0.6)				0.4	(0.2)	
Effective tax rate	51.6	30.0	18.1	241.6				75.8	NA	
Order details										
Order backlog	266,900		251,702	239,370		6.0	11.5	266,900	251,702	6.0
Order booking	46,590		10,290	56,270		352.8	(17.2)	102,860	43,130	138.5

Source: Company, Kotak Institutional Equities estimates

Standalone results: Modest sales growth although margin halves

Sales at Rs11.5 bn implied a modest growth of 9.4% over Rs10.5 bn reported in 2QFY11. EBITDA margin halved to 5.7% in 2Q versus 11.3% in same quarter last year. Margin was primarily hit on higher material cost (390 bps impact) with higher employee cost and other expenses (as percent of sales) diminishing margins.

Punj Lloyd (standalone) - 2QFY12 - key numbers (Rs mn)

	2QFY12	2QFY11	1QFY12	% change yoy	% change qoq	1HFY12	1HFY11	% change
Net Sales	**11,510**	**10,525**	**13,502**	**9.4**	**(14.8)**	**25,012**	**21,680**	**15.4**
Expenditure	**(10,857)**	**(9,333)**	**(11,962)**	**16.3**	**(9.2)**	**(22,819)**	**(19,594)**	**16.5**
Material+contractor	(5,942)	(5,023)	(7,578)	18.3	(21.6)	(13,519)	(10,968)	23.3
Staff cost	(1,675)	(1,450)	(1,544)	15.5	8.5	(3,220)	(3,084)	4.4
Other expenditure	(3,240)	(2,859)	(2,840)	13.3	14.1	(6,081)	(5,542)	9.7
EBITDA	**653**	**1,193**	**1,540**	**(45.3)**	**(57.6)**	**2,193**	**2,086**	**5.1**
Other Income	1,118	27	29	3,979	3,727	1,147	74	1,458.2
Interest	(1,132)	(786)	(1,004)	44.0	12.7	(2,136)	(1,489)	43.5
Depreciation	(439)	(392)	(426)	11.9	3.0	(865)	(769)	12.5
Profit before Tax	**199**	**42**	**139**	**380.5**	**43.8**	**338**	**(97)**	**(447.1)**
Tax	(33)	(29)	(85)	13.4	(61.1)	(117)	(75)	56.5
Profit after Tax	**167**	**13**	**54**	**1,232**	**207.2**	**221**	**(172)**	**(228.0)**
Exceptional items	-	-	-			-	-	
Net Profit	**167**	**13**	**54**			**221**	**(172)**	**(228.0)**
Key ratios (%)								
Material/ Sales	51.6	47.7	56.1			54.1	50.6	
Staff cost/ Sales	14.6	13.8	11.4			12.9	14.2	
Other expense/Sales	28.2	27.2	21.0			24.3	25.6	
EBITDA margin	**5.7**	**11.3**	**11.4**			**8.8**	**9.6**	
PBT margin	1.7	0.4	1.0			1.4	(0.4)	
PAT margin	1.4	0.1	0.4			0.9	(0.8)	
Effective tax rate	16.5	69.9	60.9			34.7	(77.0)	

Source: Company, Kotak Institutional Equities

Subsidiary sales rose 33% on a yoy basis to Rs12.4 bn. EBITDA margin also improved sharply to 11% from 6.8% in 2QFY11.

Sharp increase in debt to fund working capital requirements

Debt at end-Sep-11 increased significantly to Rs51.5 bn from Rs47 bn at end-Jun-11 and Rs45.4 bn at end-Mar-11. Cash also reduced to Rs8.6 bn from Rs12.5 bn at end-Mar-11. The sharp deterioration in debt levels was utilized to fund rising working capital requirements (Rs49 bn /180 days of sales versus Rs44.6 bn /165 days of sales at end-Mar-11). The company attributed increase in working capital requirement to delays in ongoing government projects (refinery). It expects the working capital to normalize over the next 1-2 quarters.

Consolidated financials for Punj Lloyd (Rs mn), March fiscal year-ends

	Sep-10	Mar-11	Sep-11
Balance sheet			
SHAREHOLDERS' FUNDS	**30,920**	**30,531**	**31,342**
Share Capital	664	664	664
Reserves & Surplus	29,582	29,124	29,912
Minority Interest	674	744	766
LOAN FUNDS	44,469	45,425	51,503
Deferred Tax Liability, Net	1,859	1,516	1,580
Total souce of funds	**77,248**	**77,472**	**84,424**
Fized assets and Capital WIP	23,763	24,650	27,399
Investments	3,730	3,837	3,600
Cash & Bank Balances	11,849	12,150	8,581
Current assets (ex cash)	**80,150**	**81,519**	**94,306**
Inventories	46,356	48,425	54,619
Sundry Debtors	20,205	22,038	26,069
Other Current Assets	1,262	924	762
Loans & Advances	12,327	10,131	12,856
Current liabilities and provisi	**(42,245)**	**(44,684)**	**(49,461)**
Current Liabilities	(40,933)	(42,905)	(47,482)
Provisions	(1,311)	(1,779)	(1,979)
Net current assets ex cash	**37,906**	**36,835**	**44,845**
Total application of funds	**77,248**	**77,472**	**84,424**
Days if sales			
Current assets (ex cash)	**348**	**364**	**378**
Inventories	201	216	219
Sundry Debtors	88	99	105
Cash & Bank Balances	51	54	34
Loans & Advances	53	45	52
Current liabilities and provisi	**(183)**	**(200)**	**(198)**
Current Liabilities	(178)	(192)	(190)
Provisions	(6)	(8)	(8)
Net current assets ex cash	**164**	**165**	**180**

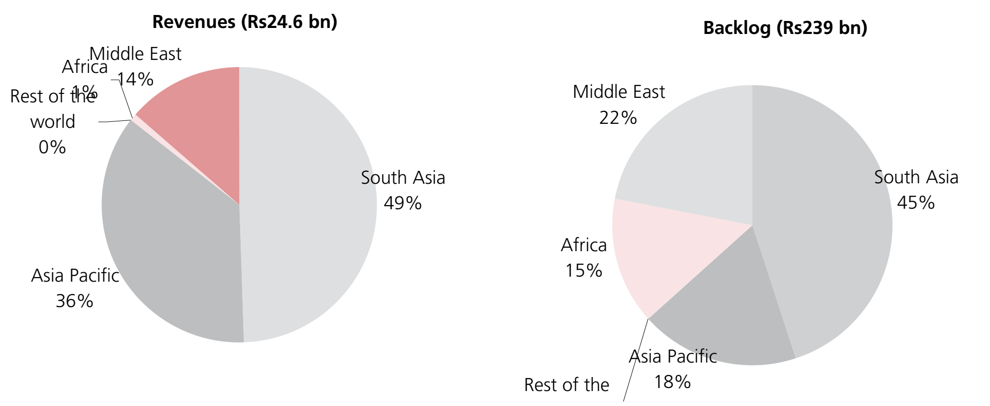
Source: Company, Kotak Institutional Equities

Africa continues to show slow execution relative to share in backlog

Africa has contributed to a mere Rs370 mn of sales in 1H or less than 1% of sales versus share in backlog of 14%. Share of middle-east projects in backlog increased to 37% at end-2Q. Among segments, Infrastructure continued to dominate backlog with a 33% share closely followed by process (30% share)

The company's backlog improved to Rs267 bn from Rs 239 bn at end-Jun-11. It won orders worth Rs103 bn in 1H, implying about Rs47 bn of inflows in 2Q

2QFY12 revenue and order book break-up for Punj Lloyd (Rs mn), March fiscal year-ends



Source: Company, Kotak Institutional Equities

ONGC case to take 2-3 years; actual claims more than arbitration amount

Punj Lloyd expects the ONGC arbitration case take about 2-3 years to get resolved as the company prepares to send a rejoinder to Bombay HC's latest ruling in favor of ONGC. The claim essentially involves cost (due to design changes, change in scope) suffered by Punj Lloyd. ONGC contended that Punj Lloyd did not qualify for the pricing advantage to domestic bidders since it outsourced more than 50% of the work to foreign companies and agents. Punj Lloyd does have the option of approaching Supreme Court with its plea.

The company believes to have claims worth Rs13 bn (claims, receivables, unbilled WIP, delay). Its arbitration claim of Rs2.4 bn forms just a part of the total claims. Post the case going to arbitration, ONGC has stopped all payments to Punj Lloyd. The fall in (ONGC related) debtor levels of Rs620 mn was also due to expiry of advance payment bank guarantee rather than actual payment.

Significant asset base in Libya at stake; currently accounted at realizable value

Punj Lloyd's Libya branch has aggregate assets of Rs10.7 bn and Rs13.2 bn. respectively at company and group level at end-Sep-11 and customer advances of `Rs5.5 bn. Due to civil and political disturbances and unrest in Libya, the work on all the projects has stopped, the resources have been demobilized and necessary intimation has been given to the customers. Pending the outcome of the uncertainty, these assets are being carried forward as realizable.

Death of Muammar Gaddafi stabilizes situation; UN undertaking provides comfort

Post-Sep-11 (death of Muammar Gaddafi), the civil and political disturbances and unrest are under stabilization and considering the present environment and economic conditions in Libya, the management is confident of realization of amounts.

Punj Lloyd also highlighted undertaking given by National Transitional Council of Libya to the United Nations to honor all contracts. The company is therefore confident of getting revenues and profits on work done in the country.

2H implied numbers imply strong revenue growth and margin expansion

We estimate full year consolidated sales of Rs102 bn. This implies an execution of Rs55 bn in the second half supported by the strong backlog of Rs267 bn at end-Sep-11. Full year margin of 8.8% implies 2H margin of 9.2%.

Punj Lloyd -2HFY12E - implied key numbers (Rs mn)

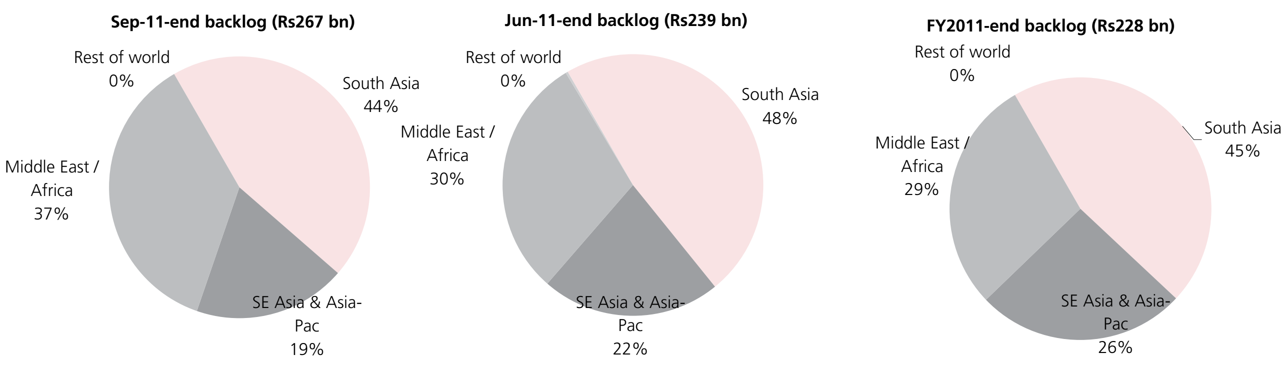
	1HFY12	1HFY11	% change	2HFY12E-imp.	2HFY11	% change	FY2012E	FY2011	% change
Net Sales	**46,550**	**37,214**	**25.1**	**55,260**	**44,448**	**24.3**	**101,810**	**81,663**	**24.7**
Expenditure	**(42,726)**	**(34,041)**	**25.5**	**(50,176)**	**(41,410)**	**21.2**	**(92,902)**	**(75,451)**	**23.1**
EBITDA	**3,824**	**3,174**	**20.5**	**5,084**	**3,038**	**67.3**	**8,908**	**6,212**	**43.4**
Other Income	707	73	873.0	199	135	47.3	906	208	336.6
PBDIT	**4,532**	**3,246**	**39.6**	**5,283**	**3,173**	**66.5**	**9,814**	**6,419**	**52.9**
Interest	(2,432)	(1,734)	40.3	(2,843)	(1,835)	55.0	(5,275)	(3,568)	47.8
Gross Profit	2,099	1,512	38.8	2,440	1,339	82.3	4,539	2,851	59.2
Depreciation	(1,397)	(1,319)	5.9	(1,495)	(1,373)	8.9	(2,892)	(2,692)	7.4
Profit before Tax	**702**	**193**	**262.9**	**945**	**(34)**	**NA**	**1,647**	**159**	**NA**
Tax	(532)	(283)		38	(380)		(494)	(663)	
Current	(188)	(280)		188	(385)		-	(665)	
Deferred	(28)	(3)		28	5		-	2	
Fringe benefit tax	—	-		-	-		-	-	
Profit after Tax	**170**	**(89)**		**983**	**(415)**		**1,153**	**(504)**	
MI & exceptional	(45)	(2)		45	(6)		-	(7)	
Net Profit	**125**	**(91)**		**1,028**	**(420)**		**1,153**	**(511)**	
Key ratios (%)									
	—	0.0		0.0	0.0		0.0	0.0	
Material costs/ Sales	57.6	54.1		57.4	59.7		57.5	57.1	
Staff cost/ Sales	13.2	15.6		11.4	12.3		12.3	13.8	
Other expense/ Sales	20.9	21.8		22.0	21.1		21.5	21.5	
EBITDA margin	**8.2**	**8.5**		**9.2**	**6.8**		**8.8**	**7.6**	
PBT margin	1.5	0.5		1.7	(0.1)		1.6	0.2	
PAT margin	0.4	(0.2)		1.8	(0.9)		1.1	(0.6)	
Effective tax rate	75.8	146.1		(4.0)	(1,105.8)		30.0	416.8	

Source: Company, Kotak Institutional Equities estimates

Order Backlog: Increasing share of Middle East/Africa at expense of Asia

Share of Middle East /Africa operations in the backlog increased to 37% at end-Sep-11 versus 30% share at end-Mar-11. Middle East/Africa business gained share at the expense of lower ordering from Asia as well as lower execution of Africa (Libya) backlog.

Geographical mix of order backlog of Punj Lloyd group, March fiscal year-ends



Source: Company, Kotak Institutional Equities

Other concall takeaways

- **Bihar solar project on track.** The Company expects to complete 170-200 sites by end-FY2012 out of the Bihar solar order for 850 sites. It expects no const over-runs on the order and is on track to complete the projects within time

- **No one-off item in tax.** The company reported normal 28% tax rate for the standalone entity although it reported a 52% tax rate for the consolidated entity and attributed the same to inability to offset subsidiary losses for tax computation

- **Parent to invest in equity of PL infra projects through SPV route.** The management cited that the subsidiary, PL Infra is presently working on its roads (annuity) project along side the 5 MW Rajasthan solar plant. The parent would invest equity in the projects through the SPV route.

Revise estimates on higher debt, backlog led higher sales and lower margin assumptions

We revise our earning estimates to Rs3.4 and Rs6.5 from Rs5.5 and Rs7.4 for FY2012 and FY2013 respectively. Key changes to our estimates include (1) increase in debt levels (Rs50 bn in FY2012 versus Rs45 bn earlier) leading to higher interest cost, (2) stronger backlog (14-16% revision) led increase in revenue (12% in FY2013) and (3) reduction in margin (20-50 bps). We value the stock at 9XFY2013E leading to revised target price of Rs60 versus Rs65 earlier.

We retain our REDUCE rating on the stock (1) significant delays in Libyan projects, (2) concentration of infrastructure orders in the backlog, (3) repeated one-offs in subsidiaries related to contract-specific issues (4) significant claims (ONGC) pending arbitration.

Change in consolidated earnings estimates of Punj Lloyd, March fiscal year-ends, 2012-13E (Rs mn)

	New estimates		Old estimates		% revision	
	2012E	2013E	2012E	2013E	2012E	2013E
Order backlog	**284,943**	**316,652**	**249,378**	**273,066**	**14.3**	**16.0**
Debt	**49,556**	**52,056**	**44,556**	**49,556**	**11.2**	**5.0**
Revenues	101,810	124,576	99,877	110,968	1.9	12.3
EBITDA	8,908	11,212	8,989	10,542	(0.9)	6.4
EBITDA margin (%)	8.8	9.0	9.0	9.5		
Interest expense	5,275	5,616	4,718	5,034	11.8	11.6
Profit before tax	1,647	3,142	2,650	3,575	(37.8)	(12.1)
Profit after tax	1,153	2,199	1,855	2,502	(37.8)	(12.1)
EPS (Rs)	**3.4**	**6.5**	**5.5**	**7.4**	**(37.8)**	**(12.1)**
Growth (%)						
Revenue growth (%)	29.7	22.4	15.8	11.1		
EBITDA growth (%)	116.7	25.9	30.3	17.3		
EPS growth (%)	(339.6)	90.7	328.6	34.9		
Order book (%)						
Order booking	**157,204**	**154,784**	**120,905**	**134,356**	**30.0**	**15.2**
Order booking growth (%)	387.8	(1.5)	275.2	11.1		
Bill-to-Book ratio (%)	32.7	34.0	34.5	35.0		

Source: Company, Kotak Institutional Equities estimates

Key orders won by Punj Lloyd since FY2011 (Rs mn)

Date	Segment	Client	Value (Rs mn)	Description
Oct-11	Oil & Gas	Emirates National Oil Company	6,230	EPC for jetfuel pipeline by 2013
Oct-11	Process	Qatar Solar Technologies	18,890	EPC contract for polysilicon plant
Sep-11	Process	Haldia Energy Ltd	11,950	BoP order for thermal power project (2X 300 MW)
1QFY12	Oil and Gas	Undisclosed	21,140	EPC order for laying of oil & gas pipelines
1QFY12	Process	Indian Strategic Petroleum Reserves Ltd	3,300	Process facilities and utilities at an upcoming oil storage cavern
1QFY12	Power	P.T. Citra Kusuma Perdana	3,070	Balance of plant for 3X18 MW thermal power plant, Indonesia
Jul-11	Infrastructure	Kolkata West international City (KWIC)	990	Construction of 194 villas
Jul-11	Infrastructure	NTPC Ltd	2,100	Balance offloaded work for the power plant in Bongaigaon
Jun-11	Oil and Gas	Gujarat State Petroleum Corporation	8,260	Lumpsum turnkey contract for submarine pipeline project
Jun-11	Infrastructure	NPCIL	6,780	EPC nuclear power project for critical piping work
Jun-11	Oil and Gas	Abu Dhabi Company	8,900	Engineering, Procurement and Construction for Tie-in Works
Apr-11	Infrastructure	UPRVUNL	1,140	Construction of railway sidings
Total orders announced in FY2012E so far			**92,750**	
Feb-11	Infrastructure	NHAI	7,350	Khagaria-Purnea 2-laning project - on BOT annuity basis
Jan-11	Oil and Gas	Petroleum Co. Occidental Mukhaizna, Oman	3,226	Water treatment plant at oil production fields in Oman
Jan-11	Oil and Gas	Pertamina, Indonesia	2,710	Well head platform and pipeline project
Jan-11	Oil and Gas	GAIL (India) Ltd	510	112 km pipeline from Vijaipur (MP) to Boreri (Rajasthan)
Dec-10	Infrastructure	HIRCO Group	2,411	Construction of two commercial buildings
Dec-10	Oil and Gas	Indian Oil Corporation Ltd	1,690	Fluid catalytic cracker, propylene recovery unit at Paradip refinery
Dec-10	Oil and Gas	PTT Public Company Ltd	12,992	Onshore gas pipeline in Thailand
Nov-10	Infrastructure	Govt. of West Bengal	1,836	Construction of 3 Medical Colleges including ancillary requirements
Nov-10	Oil and Gas	Harouge Oil Operations	2,876	Oil storage complex at at Ras Lanuf Export Terminal, Libya
Nov-10	Oil and Gas	Indian Oil Corporation Ltd	11,232	Lumpsum turnkey package B for Paradip refinery project
Oct-10	Oil and Gas	GAIL	5,390	Laying of 820 km pipeline from Dabhol to Bidadi
Oct-10	Infrastructure	PUB, National Water agency of Singapore	6,140	Construction of new 60 mn galllons of water waterworks
Sep-10	Oil and Gas	Saudi Aramco	4,508	EPC for offsite pipelines for Yanbu export refinery project
Jun-10	Infrastructure	Sentosa Pte Ltd, Singapore	13,944	Hotel, Spa, Beach Villas, Oceanarium and Water Theme Park
Jun-10	Infrastructure	Rajiv Gandhi Institute of Petroleum Tech.	1,798	Construct a technical institute at Rae Bareli, UP
Jun-10	Process	Hyundai Engineering & Construction Co. Ltd	960	5 Utilities & Offsites Project
May-10	Process	Abu Dhabi Gas Development Company Ltd	20,560	Gas gathering package for Shah Gas Development project
Apr-10	Infrastructure	Ministry of Health & Family Welfare	1,152	Medical College and Hostel Complex at AIIMS, Raipur
Apr-10	Process	Nagarjuna Oil Corporation Ltd	3,200	Installation of ISBL units and Pipe Rack at Cuddalore Refinery
Total orders announced in FY2011			**104,485**	

Source: Company, Kotak Institutional Equities

Consolidated balance sheet, profit model and cash flow statement of Punj Lloyd, March fiscal year-ends, 2008-13E (Rs mn)

	2008	2009	2010	2011	2012E	2013E
Balance sheet						
Shareholders' funds	**27,433**	**24,845**	**30,283**	**29,788**	**30,806**	**32,748**
Loan Funds	16,072	35,592	44,554	45,425	49,556	52,056
Deffered Tax liability	915	1,482	1,804	1,560	1,560	1,560
Minority Interest	222	420	415	744	744	744
Total sources of funds	**44,642**	**62,339**	**77,057**	**77,516**	**82,666**	**87,107**
Net block	16,169	21,653	23,382	24,650	24,625	27,293
Investments	5,458	6,609	3,818	3,837	3,848	3,848
Cash and bank balances	6,898	8,122	6,110	12,150	6,548	4,345
Net current assets (excl cash)	16,053	25,880	43,747	36,835	47,645	51,621
Total	**44,642**	**62,339**	**77,057**	**77,516**	**82,666**	**87,107**
Profit model						
Operating Income	**77,529**	**119,120**	**104,478**	**78,496**	**101,810**	**124,576**
Expenditure	(70,608)	(114,716)	(100,833)	(74,384)	(92,902)	(113,364)
EBITDA	**6,922**	**4,404**	**3,645**	**4,112**	**8,908**	**11,212**
Other Income	811	899	4,269	3,374	906	878
PBDIT	7,732	5,303	7,915	7,485	9,814	12,089
Finance charges	1,806	3,519	5,435	4,635	5,275	5,616
Depreciation	1,462	1,771	2,270	2,692	2,892	3,332
Profit Before Tax	4,447	(55)	305	182	1,647	3,142
Tax	1,235	2,260	1,372	663	494	942
PAT	**3,212**	**(2,315)**	**(1,067)**	**(481)**	**1,153**	**2,199**
Extraordinary items (net of taxes)	371	—	—	—	—	—
Reported PAT	3,583	(2,315)	(1,067)	(481)	1,153	2,199
Cash flow statement						
Operating cashflow before working capital changes	7,052	3,610	6,960	6,600	9,320	11,147
Change in working capital	(10,907)	(9,828)	(17,867)	6,912	(10,809)	(3,976)
Cashflow from operating activites	**(3,855)**	**(6,218)**	**(10,907)**	**13,512**	**(1,489)**	**7,171**
Fixed Assets	(4,535)	(7,244)	(4,073)	(3,960)	(2,867)	(6,000)
Investments	(3,759)	(1,151)	2,792	(19)	(11)	—
Cash (used) / realised in investing activities	**(8,294)**	**(8,396)**	**(1,281)**	**(3,979)**	**(2,878)**	**(6,000)**
Issue of share capital	11,203	(166)	6,564	(43)	(0)	—
Borrowings	(920)	19,520	8,962	870	4,132	2,500
Dividend and Dividend Tax paid	(142)	(107)	(58)	28	(135)	(257)
Interest charges	(1,806)	(3,519)	(5,435)	(4,635)	(5,275)	(5,616)
Cash (used) /realised in financing activities	**8,334**	**15,729**	**10,033**	**(3,779)**	**(1,278)**	**(3,373)**
Cash generated /utilised	(3,461)	1,047	(2,060)	5,777	(5,602)	(2,203)
Cash at beginning of year	10,027	6,898	8,122	6,110	12,150	6,548
Cash at end of year	**6,566**	**7,945**	**6,062**	**11,887**	**6,548**	**4,345**
Key ratios (%)						
Net current assets (excl cash) as days of sales	76	79	153	171	171	151
EBITDA margin	8.9	3.7	3.5	5.2	8.8	9.0
PAT margin	4.1	(1.9)	(1.0)	(0.6)	1.1	1.8
RoE	16.0	(8.9)	(3.9)	(1.6)	3.8	6.9
RoCE	9.7	(3.2)	0.5	1.6	4.9	(0.8)
EPS (Rs)	**10.3**	**(7.4)**	**(3.1)**	**(1.4)**	**3.4**	**6.5**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Aban Offshore (Aban)

Energy

BUY

NOVEMBER 08, 2011

RESULT

Coverage view: Attractive

Price (Rs): 436

Target price (Rs): 635

BSE-30: 17,570

Weak results. Aban reported 2QFY12 EBITDA (consolidated) at ₹4.6 bn (+1.2% qoq), 6.6% lower than our estimate of ₹4.9 bn led by likely lower utilization levels; revenues were at ₹7.6 bn (+4.3% qoq), 6.8% below our estimate of ₹8.2 bn. Net income at ₹793 mn (-10.5% qoq) was further impacted by higher-than-expected interest cost and depreciation. We maintain our BUY rating with a revised DCF-based target price of ₹635 (₹670 previously) given inexpensive valuations.

Company data and valuation summary

Aban Offshore

Stock data			
52-week range (Rs) (high,low)			868-332
Market Cap. (Rs bn)			19.0
Shareholding pattern (%)			
Promoters			53.8
FIIs			7.1
MFs			0.1
Price performance (%)	1M	3M	12M
Absolute	25.9	3.1	(48.2)
Rel. to BSE-30	16.3	1.6	(38.1)

Forecasts/Valuations	2011	2012E	2013E
EPS (Rs)	134.2	96.5	115.8
EPS growth (%)	25.9	(28.1)	19.9
P/E (X)	3.2	4.5	3.8
Sales (Rs bn)	33.5	32.0	35.0
Net profits (Rs bn)	6.1	4.3	5.1
EBITDA (Rs bn)	21.9	19.8	20.6
EV/EBITDA (X)	6.6	7.2	6.5
ROE (%)	33.3	24.4	22.7
Div. Yield (%)	0.8	0.9	1.0

Net income declines 10.5% qoq despite increase in revenues

Aban reported 2QFY12 EBITDA (consolidated) at ₹4.6 bn versus ₹4.5 bn in 1QFY12 and ₹5.6 bn in 2QFY11; our estimate was ₹4.9 bn. Reported net income declined by 10.5% qoq to ₹793 mn despite 4.3% qoq improvement in revenues to ₹7.6 bn. The sharp qoq decline in net income reflects (1) lower operating margins at 60.2% versus 62% in 1QFY12 due to higher staff cost and insurance charges, (2) higher interest cost at ₹2.3 bn (+6.1% qoq) and (3) higher depreciation at ₹1.3 bn (+8.5% qoq).

Likely recovery in jackup rates given higher utilization levels and expected improvement in demand

As per ODS-Petrodata, contracted utilization of jackups has improved in the recent months to 79.3% in October 2011 as compared to average utilization of 70-75% since mid-2009. We highlight that jackup utilization for marketed fleet has increased to 92.1% in the recent month. We expect Aban Offshore to benefit from likely improvement in demand for jackups over the next 12 months in Southeast Asia, particularly in India, Indonesia, Malaysia and Thailand.

Retain BUY on attractive valuations

We maintain our BUY rating on Aban Offshore given a potential upside of 46% to our revised DCF-based target price of ₹635 (₹670 previously). We note that the stock is currently trading at 7.2X FY2012E EBITDA and 6.5X FY2013E EBITDA; the EV/EBITDA of the company continues to be high despite the sharp correction in the stock price given the large debt in its capital structure. However, we expect the multiple to turn favorable as the company repays the debt using its cash flow generated over the next few years. We highlight that Aban's net debt/EBITDA ratio stands at 6.3X and 5.6X in FY2012E and FY2013E and EBITDA to interest coverage ratio is at 2.1X and 2.4X in FY2012E and FY2013E.

Earnings revision to reflect weaker Rupee

We have revised our FY2012-14E EPS to ₹97 (-2.6%), ₹116 (+12.8%) and ₹128 (+10%) to reflect (1) 2QFY12 results, (2) revised exchange rate assumptions and (3) other minor changes. We have revised our exchange rate assumption for FY2012E, FY2013E and FY2014E to ₹47.3/US$, ₹49.75/US$ and ₹48.5/US$ versus ₹46.3/US$, ₹45.6/US$ and ₹45/US$ previously.

QUICK NUMBERS

- 1HFY12 EBITDA at ₹9.1 bn (-15.3% yoy)
- Potential upside of 46% to our target price from current levels
- EBITDA to interest coverage ratio at 2.4X for FY2013E

Key details of 2QFY12 results

Exhibit 1 gives details of Aban's 2QFY12 results and compares it with 1QFY12 and 2QFY11 results.

Interim results of Aban Offshore (consolidated), March fiscal year-ends (₹ mn)

					(% chg.)				yoy	
	2QFY12	2QFY12E	2QFY11	1QFY12	*2QFY12E*	*2QFY11*	*1QFY12*	1HFY12	1HFY11	*(%chg.)*
Net sales	**7,626**	**8,183**	**8,281**	**7,313**	***(6.8)***	***(7.9)***	***4.3***	**14,939**	**16,705**	***(10.6)***
Total expenditure	**(3,037)**	**(3,271)**	**(2,718)**	**(2,780)**	***(7.1)***	***11.8***	***9.3***	**(5,817)**	**(5,940)**	***(2.1)***
Consumption of stores and spares	(251)	—	(276)	(279)				(530)	(609)	*(13.0)*
Staff cost	(863)	—	(870)	(759)				(1,622)	(1,754)	*(7.5)*
Machinery rental	(87)	—	(121)	(132)				(220)	(251)	*(12.4)*
Repairs to machinery	(40)	—	(171)	(105)				(145)	(274)	*(47.1)*
Insurance	(360)	—	(142)	(298)				(658)	(268)	*145.5*
Other expenses	(1,436)	—	(1,137)	(1,207)				(2,643)	(2,785)	*(5.1)*
EBITDA	**4,588**	**4,913**	**5,563**	**4,533**	***(6.6)***	***(17.5)***	***1.2***	**9,122**	**10,765**	***(15.3)***
OPM (%)	**60.2**	**60.0**	**67.2**	**62.0**				**61.1**	**64.4**	
Other income	126	49	24	58				184	167	*10.3*
Interest	(2,299)	(2,147)	(2,406)	(2,166)	*7.1*	*(4.4)*	*6.1*	(4,466)	(4,678)	*(4.5)*
Depreciation	(1,337)	(1,240)	(1,230)	(1,231)	*7.8*	*8.6*	*8.5*	(2,568)	(2,521)	*1.9*
Pretax profits	**1,079**	**1,575**	**1,950**	**1,193**	***(31.5)***	***(44.7)***	***(9.6)***	**2,272**	**3,733**	***(39.1)***
Extraordinaries	—	—	(139)	—				—	(3,635)	
Reported PBT	**1,079**	**1,575**	**1,811**	**1,193**	***(31.5)***	***(40.4)***	***(9.6)***	**2,272**	**98**	***2,217.6***
Tax	(329)	(416)	(795)	(318)				(647)	(1,508)	
Deferred taxation	43	—	38	10				53	72	
Net income	**793**	**1,159**	**1,054**	**886**	***(31.6)***	***(24.8)***	***(10.5)***	**1,679**	**(1,337)**	***(225.5)***
Share in joint venture	—	—	(302)	—				—	650	*(100.0)*
Reported PAT	**793**	**1,159**	**752**	**886**	***(31.6)***	***5.4***	***(10.5)***	**1,679**	**(687)**	***(344.2)***
Adjusted PAT	**793**	**1,159**	**891**	**886**	***(31.6)***	***(11.0)***	***(10.5)***	**1,679**	**2,948**	***(43.1)***
Effective tax rate (%)	26.5	26.4	38.8	25.8				26.1	38.5	

Source: Company, Kotak Institutional Equities

- **Revenues increase modestly qoq.** Aban reported 2QFY12 revenues at ₹7.63 bn (+4.3% qoq and -7.9% yoy), lower than our estimate of ₹8.18 bn. The negative variance reflects (1) lower operating days for FPU Tahara and (2) lower-than-expected effective dayrates for Aban Abraham.

- **Adjusted EBITDA margins decline qoq.** 2QFY12 EBITDA of ₹4.6 bn (+1.2% qoq and -17.5% yoy) was lower than our estimate of ₹4.9 bn. Adjusted EBITDA margin for 2QFY12 at 60.2% was lower than 62.7% in 1QFY12; our estimate was 60%. The qoq decline in EBITDA margins reflects (1) higher staff costs (+13.7% qoq), (2) higher insurance expenses (+20.8% qoq) and (3) higher other expenses (+18.9% qoq).

- **Insurance cost rises sharply qoq.** Aban's insurance cost increased 20.8% qoq and 154% yoy to ₹360 mn due to increase in insurance premiums.

Earnings revision

We have revised our earnings estimates for Aban to ₹97, ₹116 and ₹128 for FY2012-14E versus ₹99, ₹103 and ₹116 previously. We note that the revision in earnings reflect (1) 2QFY12 results, (2) revised exchange rate assumptions and (3) other minor changes. We have revised our exchange rate assumption for FY2012E, FY2013E and FY2014E to ₹47.3/US$, ₹49.75/US$ and ₹48.5/US$ versus ₹46.3/US$, ₹45.6/US$ and ₹45/US$ previously.

Our DCF-based valuation for Aban is ₹635 per share

Aban Offshore, DCF-based valuation, March fiscal year-ends (₹ mn)

	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	Terminal value
EBITDA	19,781	20,580	20,117	20,183	21,436	21,761	22,172	22,408	22,945	22,969	22,969	22,969	
Tax expense	(3,025)	(3,470)	(3,178)	(2,965)	(3,045)	(3,025)	(3,151)	(3,319)	(3,341)	(3,395)			
Changes in working capital	4,287	50	170	(240)	(472)	(86)	(141)	(76)	(252)	(33)			
Cash flow from operations	**21,043**	**17,160**	**17,110**	**16,978**	**17,919**	**18,650**	**18,879**	**19,012**	**19,351**	**19,540**			
Capital expenditure	(732)	(672)	(813)	(767)	(758)	(799)	(816)	(845)	(774)	(778)			
Free cash flow to the firm	**20,311**	**16,488**	**16,297**	**16,212**	**17,161**	**17,850**	**18,064**	**18,168**	**18,578**	**18,762**	**18,762**	**18,762**	**150,100**
Discounted cash flow-now	19,395	13,995	12,296	10,873	10,230	9,459	8,509	7,607	6,914	6,207			
Discounted cash flow-1 year forward		15,745	13,833	12,232	11,509	10,641	9,572	8,557	7,778	6,983	6,207		
Discounted cash flow-2 year forward			15,562	13,761	12,947	11,972	10,769	9,627	8,751	7,856	6,983	6,207	

Discount rate	12.5%
Growth from FY2021E to perpetuity	0.0%

Fiscal Year end	March-12	March-13	March-14	March-15	March-16	March-17	March-18	March-19	March-20	March-21
Today	Nov-11	Nov-11	Nov-11	Nov-11	Nov-11	Nov-11	Nov-11	Nov-11	Nov-11	Nov-11
Days left	143	508	873	1,238	1,603	1,968	2,333	2,698	3,063	3,428
Years left	0.4	1.4	2.4	3.4	4.4	5.4	6.4	7.4	8.4	9.4
Discount factor at WACC	**0.95**	**0.85**	**0.75**	**0.67**	**0.60**	**0.53**	**0.47**	**0.42**	**0.37**	**0.33**

	Now	+ 1-year	+ 2-years
Total PV of free cash flow (a)	**105,484**	**103,057**	**104,433**
PV of terminal value (b)	49,655	49,655	49,655
EV (a) + (b)	**155,139**	**152,712**	**154,089**
Net debt	127,787	125,039	115,615
Equity value	**27,352**	**27,673**	**38,474**
No. of shares (# mn)	43.5	43.5	43.5
Implied share price (Rs)	**629**	**636**	**884**
Exit EV/EBITDA multiple (X)	6.5		
Exit FCF multiple (X)	8.0		

Sensitivity of share price to WACC and growth rate (Rs)

		WACC (%)				
		11.5%	**12.0%**	**12.5%**	**13.0%**	**13.5%**
Growth rate (%)	**-1.5%**	759	624	498	382	273
	-1.0%	812	671	541	420	308
	-0.5%	870	723	587	461	344
	0.0%	933	778	**636**	505	384
	0.5%	1,001	838	690	553	426
	1.0%	1,076	904	748	604	472
	1.5%	1,158	976	811	660	522

Source: Kotak Institutional Equities estimates

Profit model, balance sheet, cash model (consolidated) for Aban Offshore, March fiscal year-ends, 2008-2014E (₹ mn)

	2008	2009	2010	2011	2012E	2013E	2014E
Profit model							
Total income	20,211	30,501	33,587	33,472	32,018	35,028	34,898
EBITDA	**12,691**	**17,638**	**21,004**	**21,869**	**19,781**	**20,580**	**20,117**
Interest expense	(6,533)	(8,725)	(9,768)	(9,238)	(9,305)	(8,556)	(7,698)
Depreciation	(2,549)	(4,414)	(4,616)	(4,907)	(4,960)	(4,974)	(4,807)
Other income	733	224	218	260	297	322	347
Pretax profits	**4,342**	**4,722**	**6,838**	**7,984**	**5,813**	**7,373**	**7,960**
Extra ordinary items	(2,536)	2,080	(2,408)	(4,669)	—	—	—
Reported PBT	**1,807**	**6,802**	**4,430**	**3,315**	**5,813**	**7,373**	**7,960**
Tax	(1,514)	(2,646)	(2,651)	(2,675)	(1,509)	(2,268)	(2,406)
Deferred taxation	84	138	80	144	—	—	—
Profit after tax	**377**	**4,294**	**1,860**	**784**	**4,304**	**5,105**	**5,553**
Joint venture/ minority	853	1,113	1,250	665	—	—	—
Reported consolidated net profit	**1,230**	**5,407**	**3,110**	**1,449**	**4,304**	**5,105**	**5,553**
Adjusted net profit	**2,954**	**3,951**	**4,613**	**6,118**	**4,304**	**5,105**	**5,553**
Diluted earnings per share (Rs)	**71**	**97**	**100**	**134**	**97**	**116**	**128**
Balance sheet							
Total equity	5,063	14,188	18,547	18,078	17,368	22,181	27,821
Preference capital	3,060	3,260	3,260	3,260	1,250	800	—
Deferred taxation liability	654	516	436	292	292	292	292
Total borrowings	130,434	166,355	141,641	130,478	124,977	116,006	106,250
Current liabilities	7,517	14,090	9,342	8,605	9,663	10,856	10,924
Total liabilities and equity	**146,727**	**198,408**	**173,225**	**160,713**	**153,550**	**150,135**	**145,287**
Cash	6,453	5,948	2,360	5,951	1,189	1,192	1,217
Other current assets	7,637	11,106	12,269	15,375	12,334	13,493	13,443
Goodwill	44,289	55,991	49,555	49,224	54,092	53,816	52,988
Tangible fixed assets	81,958	119,612	104,090	90,010	85,782	81,480	77,486
Investments	6,391	5,751	4,951	153	153	153	153
Total assets	**146,727**	**198,408**	**173,225**	**160,713**	**153,550**	**150,135**	**145,287**
Free cash flow							
Operating cash flow, excl. working capital	3,146	10,306	7,862	11,021	8,966	9,756	10,013
Working capital changes	(1,654)	2,313	2,131	(4,709)	4,287	50	170
Capital expenditure	(32,638)	(50,742)	(3,935)	5,026	(732)	(672)	(813)
Investment changes	(386)	2,314	8,097	4,355	—	—	—
Other income	458	245	48	59	297	322	347
Free cash flow	**(31,074)**	**(35,564)**	**14,204**	**15,752**	**12,820**	**9,457**	**9,718**
Ratios (%)							
EBITDA margin	62.8	57.8	62.5	65.3	61.8	58.8	57.6
Debt/equity	2,335	1,154	763	728	715	520	378
Net debt/equity	2,222	1,113	751	696	708	514	374
RoAE	51.7	26.9	24.3	33.3	24.4	22.7	19.8
RoACE	**3.4**	**5.9**	**6.2**	**7.9**	**7.6**	**7.8**	**8.0**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Nagarjuna Construction Co. (NJCC)

Construction

BUY

NOVEMBER 08, 2011

RESULT

Coverage view: Attractive

Price (Rs): 55

Target price (Rs): 85

BSE-30: 17,570

Results disappoint across the board. NCC reported weak results with 9% yoy decline in revenues, 75% decline in PAT (to Rs114 mn). Aggressive FY2012E guidance of Rs56 bn standalone revenues implies strong asking rate (24% growth) for 2H. Stake sale in BOT assets may help (lower debt burden, indicate value for assets); but NCC has made an additional Rs2 bn investment in its power project. Retain BUY on likely peaking of interest cost, attractive valuations (3X FY2013E EPS, Rs17 bn investments + advances to subs).

Company data and valuation summary

Nagarjuna Construction Co.

Stock data			
52-week range (Rs) (high,low)			159-50
Market Cap. (Rs bn)			14.0
Shareholding pattern (%)			
Promoters			19.6
FIIs			42.3
MFs			11.9
Price performance (%)	1M	3M	12M
Absolute	(5.3)	(16.4)	(64.6)
Rel. to BSE-30	(12.5)	(17.7)	(57.7)

Forecasts/Valuations	2011	2012E	2013E
EPS (Rs)	6.4	4.1	5.5
EPS growth (%)	(29.7)	(35.5)	32.7
P/E (X)	8.6	13.3	10.0
Sales (Rs bn)	50.7	53.2	60.5
Net profits (Rs bn)	1.6	1.1	1.4
EBITDA (Rs bn)	4.9	5.1	5.7
EV/EBITDA (X)	7.7	8.0	7.2
ROE (%)	7.1	4.4	5.7
Div. Yield (%)	1.9	3.7	3.7

Results disappoint across the board; sharp yoy decline on increased interest cost

NCC reported 2QFY12 revenues of Rs10.9 bn, down 9% yoy versus our estimate of flat yoy. EBITDA margin declined by 75 bps yoy to 9.5%, about 30 bps lower than our estimate of 9.8%. High interest cost (on higher debt levels and interest rate) marred net PAT results; NCC reported a net PAT of Rs114 mn, significantly down (by 75%) versus 1QFY11 PAT of Rs460 mn.

NCC reported consolidated revenues of Rs14.7 bn, up 14.6% yoy and EBITDA margin of 14.3% (up 200 bps yoy). The revenue growth and margin expansion were likely led by higher revenue contribution from BOT projects. High interest and depreciation expenses led to a 40% decline in net PAT to Rs329 mn, versus Rs648 mn in 2QFY11.

Aggressive revenue and inflows guidance implies strong asking rate in 2HFY12E

NCC has guided for strong revenues of Rs56 bn (our estimate Rs53 bn) at the standalone and Rs72 bn at the consolidated level for FY2012E. This implies a strong revenue growth of about 24% yoy in 2HFY12E at the standalone level. Expects order inflows of about Rs90 bn (our estimate Rs68 bn) in FY2012E excluding in-house power project order (likely size of about Rs50 bn). Reported 1HFY12 inflows of Rs31 bn, down 11% yoy, were below par.

Asset sales (PE) may help; but NCC adds to power project investment and is on lookout for BOTs

We believe that progress on sale of assets/ stake in BOT projects will help the company in terms of (1) reducing debt burden on the parent (thereby reducing interest obligations) and (2) providing some basis for potential value generation from the assets. However, instead NCC has made an additional equity investment of Rs2 bn in the power project (already invested Rs1.5 bn) in Oct '11 as stipulated by the lenders (has tied up Rs53 bn of debt requirement). This adds to the strain on the standalone balance sheet as the equity needs to be financed from the standalone entity.

Revise estimates and target price to Rs85/share; reiterate BUY

We revise our estimates to Rs4.1 and Rs5.5 from Rs5.7 and Rs7.7 for FY2012E and FY2013E and TP to Rs85 (from Rs100). Retain BUY on (1) likely peaking of interest cost, (2) attractive valuations (3X FY2013E EPS, Rs17 bn investments + advances to subs), and (3) well-diversified backlog.

Results disappoint across the board; sharp yoy decline on increased interest cost

NCC reported 2QFY12 revenues of Rs10.9 bn, recording a 9% decline on a yoy basis versus our relatively flat yoy revenues. The lower-than-expected revenues were attributed to delay in certain orders (road project in UP, mining and irrigation projects in AP) led by external factors (no funding issues) which impacted the revenues by about 5-6%.

EBITDA margin declined by about 75 bps yoy to 9.5% on higher other expenses as a percentage of sales, about 30 bps lower than our estimate of 9.8%. High interest cost (on higher debt levels and interest rate) marred net PAT results; NCC reported a net PAT of Rs114 mn, significantly down (by 75%) versus 1QFY11 PAT of Rs460 mn.

For the half year-ending September 30, 2011, NCC reported revenues of Rs22.3 bn, a 2.5% decline on a yoy basis. EBITDA margin declined marginally by about 20 bps yoy to 9.8%. However, higher interest cost (more than double 1HFY11 levels) led to a sharp decline at the net PAT level to Rs347 mn in 1HFY12, from Rs874 mn in 1HFY11.

Nagarjuna Construction - 2QFY12 - standalone key numbers (Rs mn)

					% change					
	2QFY12	2QFY12E	2QFY11	1QFY12	vs est.	yoy	qoq	1HFY12	1HFY11	% change
Net sales	**10,902**	**11,827**	**12,013**	**11,415**	**(7.8)**	**(9.2)**	**(4.5)**	**22,317**	**22,878**	**(2.5)**
Operating costs	**(9,871)**	**(10,667)**	**(10,780)**	**(10,250)**	**(7.5)**	**(8.4)**	**(3.7)**	**(20,121)**	**(20,587)**	**(2.3)**
Construction costs	(8,888)		(9,817)	(9,303)		(9.5)	(4.5)	(18,191)	(18,776)	
Staff cost	(586)		(661)	(552)		(11.4)	6.2	(1,138)	(1,255)	
Other expenditure	(396)		(302)	(396)		31.4	0.2	(792)	(556)	
Operating profit	**1,031**	**1,160**	**1,234**	**1,165**	**(11.1)**	**(16.4)**	**(11.5)**	**2,196**	**2,291**	**(4.1)**
Other income	23	22	54	21	1.8	(57.9)	10.0	44	67	(34.8)
Interest cost	(709)	(663)	(375)	(640)	7.0	89.4	10.9	(1,349)	(668)	102.0
Depreciation	(202)	(204)	(168)	(197)	(1.0)	19.8	2.3	(399)	(325)	22.9
Profit before tax	**143**	**316**	**745**	**349**	**(54.8)**	**(80.8)**	**(59.0)**	**492**	**1,366**	**(64.0)**
Tax	(29)	(104)	(285)	(116)	(72.3)	(89.9)	(75.1)	(145)	(492)	(70.5)
Profit after tax	**114**	**212**	**460**	**233**	**(46.2)**	**(75.2)**	**(51.0)**	**347**	**874**	**(60.3)**
Key ratios (%)										
Construction costs/sales	81.5		81.7	81.5						
Staff cost/sales	5.4		5.5	4.8						
Other exp./sales	3.6		2.5	3.5						
EBITDA margin	**9.5**	**9.8**	**10.3**	**10.2**				**9.8**	**10.0**	
PBT margin	1.3	2.7	6.2	3.1				2.2	6.0	
PAT margin	1.0	1.8	3.8	2.0				1.6	3.8	
Effective tax rate	20.2	33.0	38.3	33.3				29.5	36.0	
Order details										
Order booking	17,360		14,720	13,590		17.9	27.7	30,950	34,950	(11.4)
Order backlog	165,700		160,750	161,890		3.1	2.4	165,700	160,750	3.1

Source: Company, Kotak Institutional Equities estimates

Strong consolidated revenues and EBITDA on completion of BOT projects; but higher depreciation and interest cost causes PAT de-growth

NCC reported consolidated revenues of Rs14.7 bn, registering a 14.6% growth yoy. EBITDA margin expanded significantly to 14.3% in 2QFY12 from 12.3% in 2QFY11. The sharp increase in EBITDA margin was likely led by higher revenue contribution from BOT projects. High interest and depreciation expenses (on commercialization of BOT road projects) led to a 40% decline in net PAT. NCC reported a 2QFY12 consolidated net PAT of Rs329 mn, versus Rs648 mn in 2QFY11.

The subsidiary revenues were contributed by (1) Rs605 mn from Nagarjuna Contracting Co. LLC in Dubai, (2) Rs2.1 bn from NCCL International LLC in Muscat, (3) Rs628 mn revenues from NCC Urban Infrastructure Ltd, and (4) about Rs420 mn from operational BOT projects.

Nagarjuna Construction - 2QFY12 - consolidated key numbers (Rs mn)

	2QFY12	2QFY11	1QFY12	% change yoy	% change qoq	1HFY12	1HFY11	% change
Net sales	**14,722**	**15,030**	**16,034**	**14.6**	**(7.5)**	**30,755**	**29,025**	**6.0**
Operating costs	(12,621)	(13,176)	(12,586)	1.3	(18.1)	(25,207)	(25,600)	(1.5)
Construction costs	(11,205)	(11,718)	(10,988)	(0.7)	(21.4)	(22,194)	(22,779)	(2.6)
(Incr.)/Decr. in stock	(1)	902	880	(9.1)	(1,026)	879	1,871	(53.0)
Raw materials	(5,206)	(5,514)	(5,137)	18.0	(10.1)	(10,343)	(9,869)	4.8
Other constrn exp.	(4,376)	(5,684)	(5,038)	(20.7)	(22.0)	(9,414)	(12,038)	(21.8)
Labour	(1,622)	(1,422)	(1,693)	28.2	(1.2)	(3,316)	(2,743)	20.9
Staff cost	(890)	(1,044)	(890)	1.5	7.4	(1,780)	(1,921)	(7.3)
Other expenditure	(526)	(414)	(708)	45.6	27.7	(1,234)	(901)	37.0
Operating profit	**2,101**	**1,853**	**3,447**	**119.4**	**75.0**	**5,548**	**3,424**	**62.0**
Other income	79	92	86	62.3	302.0	165	145	13.6
Interest cost	(1,252)	(668)	(1,888)	233.2	113.8	(3,140)	(1,235)	154.3
Depreciation	(548)	(337)	(1,186)	276.0	230.6	(1,734)	(652)	165.9
Profit before tax	**379**	**940**	**460**	**(38.1)**	**(38.7)**	**839**	**1,682**	**(50.1)**
Tax	(51)	(292)	(141)	(33.4)	(40.0)	(192)	(504)	(61.9)
Profit after tax	**329**	**648**	**318**	**(40.0)**	**(38.1)**	**647**	**1,178**	**(45.1)**
Key ratios (%)								
Constrn exp./Sales	76.1	78.0	68.5			72.2	78.5	
Staff cost/Sales	6.0	6.9	5.5			5.8	6.6	
Other exp./Sales	3.6	2.8	4.4			4.0	3.1	
EBITDA margin	**14.3**	**12.3**	**21.5**			**18.0**	**11.8**	
PBT margin	2.6	6.3	2.9			2.7	5.8	
PAT margin	2.2	4.3	2.0			2.1	4.1	
Effective tax rate	13.3	31.0	30.8			22.9	30.0	

Source: Company, Kotak Institutional Equities

Aggressive guidance implies strong asking rate in 2HFY12E

The management has guided for strong revenues of Rs56 bn at the standalone level and Rs72 bn at the consolidated level for FY2012E. This implies a very strong revenue growth requirement of about 21-24% yoy in the remaining six months of FY2012E (2HFY12E) at the standalone and consolidated level. The management cited that 2QFY12 revenues were broadly in line with the company's internal target to achieve the full-year numbers (revenues were about only 5-6% below the company's internal budget; expect to compensate for the then same in 2HFY12E).

The management has also guided for very strong order inflows of about Rs90 bn in FY2012E excluding the in-house power project order (likely size of about Rs50 bn). This is versus order inflows of about Rs65 bn in FY2011. The management expects almost all business segments to participate in the FY2012 inflows citing (1) increased road segment ordering activity, (2) increased traction in buildings segments, and (3) irrigation opportunities in other states (apart from AP) such as Bihar, Gujarat etc.

We build in a standalone revenue growth of about 5% yoy in FY2012E to Rs53 bn with relatively flat EBITDA margin. Our estimates imply a revenue growth requirement of about 11% in 2HFY12E. Full-year PAT estimate of Rs1.1 bn (decline of 33% yoy) implies a PAT requirement of Rs707 mn in 2HFY12E, a 7% yoy decline versus 2HFY11 PAT of Rs761 mn.

Nagarjuna Construction - 2HFY12E - implied standalone key numbers (Rs mn)

	1HFY12	1HFY11	% change	Rem. 2HFY12E	2HFY11	% change	FY2012E	FY2011	% change
Net sales	**22,317**	**22,878**	**(2.5)**	**30,918**	**27,859**	**11.0**	**53,235**	**50,737**	**4.9**
Operating costs	(20,121)	(20,587)	(2.3)	(28,043)	(25,274)	11.0	(48,164)	(45,861)	5.0
Operating profit	**2,196**	**2,291**	**(4.1)**	**2,874**	**2,585**	**11.2**	**5,071**	**4,876**	**4.0**
Other income	44	67	(34.8)	24	79	(70.1)	67	146	(54.0)
Interest cost	(1,349)	(668)	102.0	(1,407)	(1,014)	38.8	(2,757)	(1,682)	63.9
Depreciation	(399)	(325)	22.9	(409)	(361)	13.5	(808)	(685)	18.0
Profit before tax	**492**	**1,366**	**(64.0)**	**1,081**	**1,290**	**(16.2)**	**1,573**	**2,656**	**(40.8)**
Tax	(145)	(492)	(70.5)	(374)	(529)	(29.3)	(519)	(1,021)	(49.2)
Profit after tax	**347**	**874**	**(60.3)**	**707**	**761**	**(7.1)**	**1,054**	**1,635**	**(35.5)**
Key ratios (%)									
EBITDA margin	**9.8**	**10.0**		**9.3**	**9.3**		**9.5**	**9.6**	
PBT margin	2.2	6.0		3.5	4.6		3.0	5.2	
PAT margin	1.6	3.8		2.3	2.7		2.0	3.2	
Effective tax rate	29.5	36.0		34.6	41.0		33.0	38.5	
Order details									
Order booking	30,950	34,950	(11.4)	37,409	31,024	20.6	68,359	65,974	3.6

Source: Company, Kotak Institutional Equities estimates

Invested about Rs2 bn equity in upcoming power project

The company has already tied up Rs53 bn of debt requirement for the 2X660 MW Krishnapatnam power plant and is close to declaring financial closure for the same. The lenders have stipulated equity investment up to 35% as a precondition to the financial closure. For this purpose, the NCC made an additional equity investment of about Rs2 bn in the project (already invested Rs1.5 bn towards the project) in October 2011. The management cited that the project is not likely to require further equity for the next 12-18 months, i.e. till about 35% of the debt is drawn.

The company has already completed land acquisition and has obtained environmental clearance and coal linkage for the project. The project would require a total equity investment of Rs9.7 bn (NCC's share) spread over the next 3-4 years (total project cost of Rs70 bn). Our assumptions currently do not build in inflows for the EPC portion of the power project.

Not much equity investment requirement for remaining BOT projects

Existing road and other BOT projects in the portfolio of the company are close to completion and are unlikely to require any further equity investments. Only Himachal Sorang power project may require a small equity investment to the tune of about Rs200-300 mn in FY2012E.

Aims for potential dilution in BOT projects via PE investment

The company is looking at stake dilution in its BOT projects (via private equity placement) in order to fund the equity requirement of the power project and any further BOT project wins. The management cited that they target for NCC Infrastructure (holding company of BOT projects) to stand on its own feet and do not wish to strain the parent's balance sheet for the same.

Status of various BOT projects of Nagarjuna

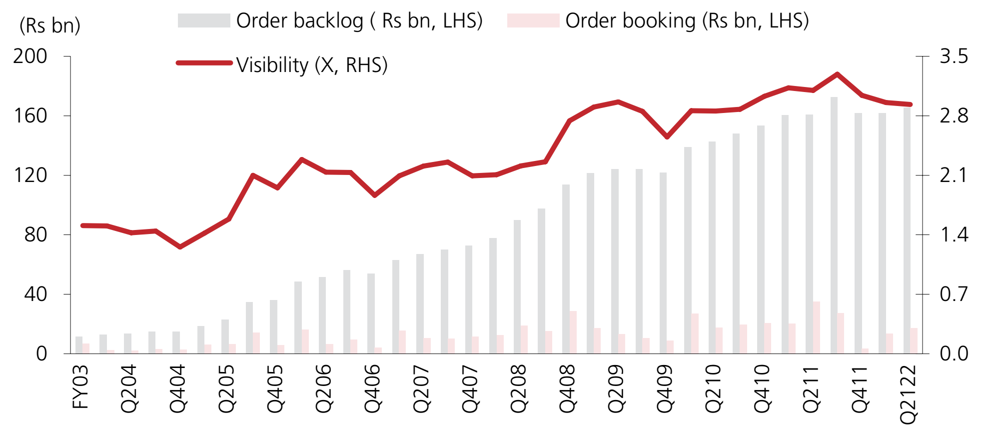
Project	Revenue model	Partners	Cost (Rs mn)	NCC Equity (Rs mn)	Equity invested (Rs mn)	COD	Status
Roads							
Brindavan Infrastructure	Annuity	Maytas, KMC	2,475	150	150	Jun-06	Project operational, revenue generation for last 4 years
Bangalore Elevated Tollway	Toll	Maytas, Soma	9,884	1,610	1,349	Apr-10	Project operational, toll collection started
OB Infra	Annuity	KMC	6,750	940	940	May-11	Project operational; received Rs1.46 bn annuity payment from NHAI
Western UP Tollway	Toll	Maytas, Gayatri	7,398	800	796	Apr-11	Toll collection started; avg. of Rs2 mn/day
Pondicherry – Tindivanam	Toll	Maytas	3,426	405	383	Sep-11	COD expected by end-Nov 2011
Total roads			**29,933**	**3,905**	**3,618**		
Power							
Himachal Sorang	Merchant	Maytas	7,560	1,200	1,133	Mar-12	72% complete
NCC Power	PPA/ Merchant	Gayatri	70,470	9,690	1,485	Oct-14	Obtained land, environmental clearance & coal linkage; likely to declare financial closure by end-Nov 2011
Himalayan Green	PPA/ Merchant	SMEC Intl	19,600	3,626	315	Dec-15	DPR Prepared, MoEF clearance received for Geological and hydrological investigation
Total power			**97,630**	**14,516**	**2,933**		
Total			**127,563**	**18,421**	**6,551**		

Source: Company, Kotak Institutional Equities

Inflows below par versus full-year target; buildings segment leads inflows

NCC reported 2QFY12 order inflows of Rs17.4 bn, up 18% yoy; implies 1HFY12 order inflows of Rs31 bn, down 11% yoy versus full-year target of Rs90 bn. The inflows were primarily led by the buildings segment with almost nil contribution from power, roads and international segments. The order backlog stood at Rs165 bn at end-1HFY12, relatively flat on a sequential as well as yoy basis. The order backlog provides a revenue visibility of about 2.8 years based on forward four quarter revenues.

Nagarjuna Construction has visibility of 2.8 years based on forward four quarter revenues
Order backlog, order booking and visibility (X) of Nagarjuna Construction



Source: Company, Kotak Institutional Equities estimates

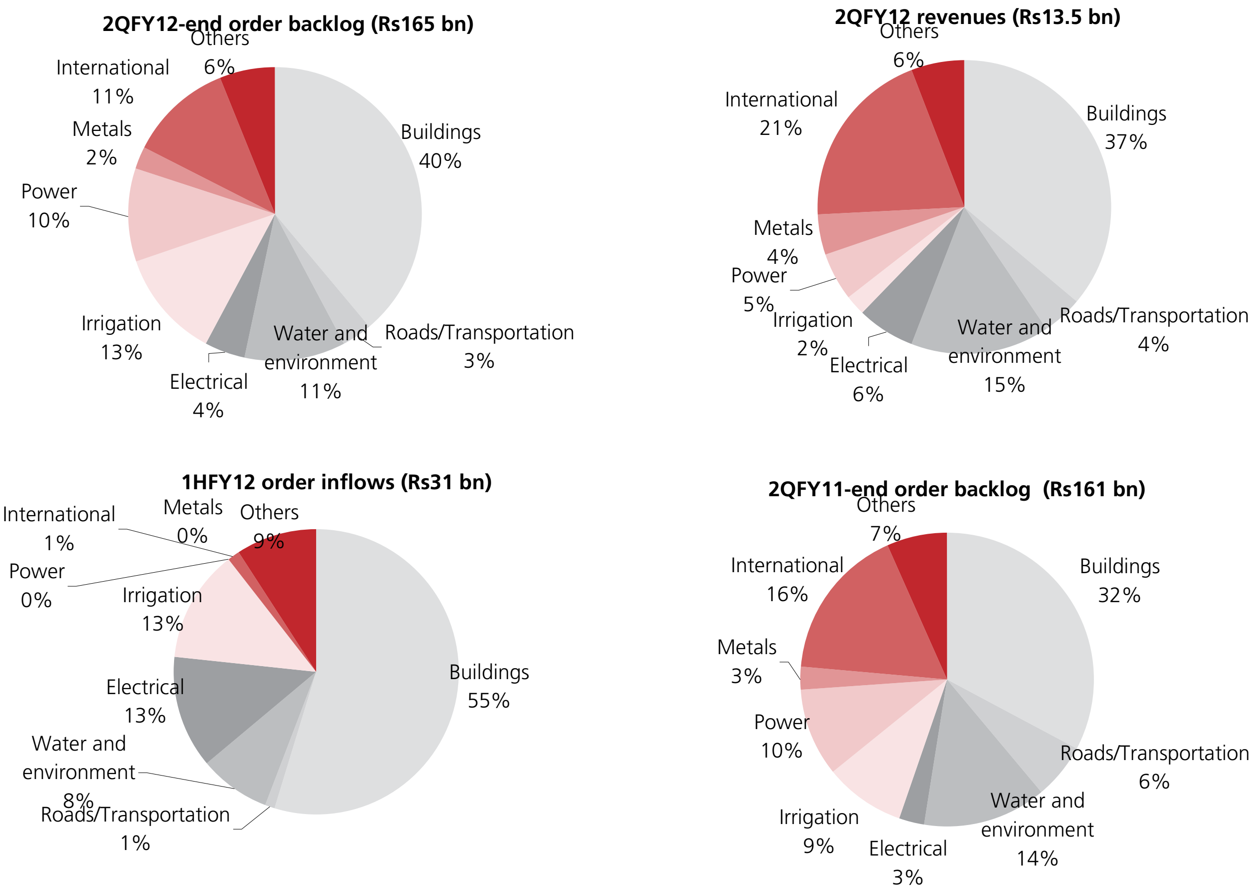
Buildings segment increasing contribution versus decline in international segment

The order backlog is well-diversified among several sectors with maximum contribution from the buildings segment at 40% of the total backlog. The remaining backlog is well diversified between international, water & environment, irrigation, power and other segments. Although the order backlog of the company remains strong, we highlight slowdown in contribution for international segment.

Comparison with order backlog of 1HFY11-end suggests that share of buildings has increased to 40% in Sep-11 versus about 32% a year ago, whereas the share of international segment has decreased to 11% from 16% in Sep-10. Buildings segment led the 1HFY12 order inflows (atRs17 bn) contributing to about 55% of the 1H inflows. The company reported only Rs300 mn of order inflows from the international segment in 1HFY12 citing slowdown in ordering activity in Dubai. The company is exploring other Middle East geographies such as Qatar, Kuwait, Saudi Arabia for international opportunities.

Execution in the irrigation segment continues to remain slow reflected in only 2% contribution to the quarter's revenues versus a 13% contribution to the backlog.

Nagarjuna Construction - segmental order book, inflows and revenues for 2QFY12



Source: Company, Kotak Institutional Equities

Revise earnings estimates; reiterate BUY with a target price of Rs85/share

We have revised our earnings estimates to Rs4.1 and Rs5.5 from Rs5.7 and Rs7.7 for FY2012E and FY2013E, respectively. Our revision in estimates is based on lower standalone revenue estimate and higher interest expenses for FY2012E-13E. We have presently not included order inflows for the EPC portion of the 1,320 MW power project. EBITDA margins are expected to remain relatively flat at about 9. 5%.

Change in standalone earnings estimates of Nagarjuna, March fiscal year-ends, 2012-13E (Rs mn)

		New estimates		Old estimates		% revision	
	FY2011	FY2012E	FY2013E	FY2012E	FY2013E	FY2012E	FY2013E
Key numbers							
Revenues	50,737	53,235	60,538	56,319	64,355	(5.5)	(5.9)
EBITDA	4,877	5,071	5,734	5,224	6,096	(2.9)	(5.9)
EBITDA margin (%)	9.6	9.5	9.5	9.3	9.5	2.7	—
Profit before tax	2,657	1,573	2,087	2,186	2,944	(28.0)	(29.1)
Profit after tax	1,635	1,054	1,398	1,465	1,972	(28.0)	(29.1)
EPS (Rs)	**6.4**	**4.1**	**5.5**	**5.7**	**7.7**	**(28.0)**	**(29.1)**
Growth (%)							
Revenue growth (%)	5.2	4.9	13.7	11.0	14.3		
EBITDA growth (%)	2.3	4.0	13.1	7.1	16.7		
EPS growth (%)	(41.4)	(35.5)	32.7	(10.4)	34.7		
EMP order book							
Order booking	64,760	68,359	73,144	69,853	75,750	(2.1)	(3.4)
Order booking growth (%)	136,240	5.6	7.0	7.9	8.4		

Source: Company, Kotak Institutional Equities estimates

We have revised our SOTP-based target price to Rs85/share (from Rs100/share) based on (1) revision to standalone earnings estimates, (2) lower valuation multiple for international construction business (to 5X FY2013E earnings from 8X earlier) on likely lower growth in the business, and (3) lower valuation multiple for BOT assets (0.75X book value versus 1X earlier).

The target price of Rs85/share is comprised of (1) standalone construction business valuation of Rs44/share based on target P/E multiple of 8X Mar-13E earnings, (2) Rs6.5/share from the international construction subsidiaries based on 5X Mar-13E earnings, (3) Rs22/share contribution from book value of BOT projects, and (4) Rs9/share from book value of real estate investments.

Derivation of SOTP-based target price for NCCL

Project/Business	Equity inv. (Rs mn)	Valuation (Rs mn)	Rs/share	Valuation methodology
Standalone construction business		**11,187**	**44**	**8X Mar-13E earnings**
International subsidiary		1,663	6	5X Mar-13E earnings
Investments in real estate	4,479	2,240	9	0.5X book
Investments in BOT assets	7,529	5,646	22	0.75X book
Total			**81**	

Source: Company, Kotak Institutional Equities estimates

We retain BUY rating based on (1) relatively attractive valuations – about 3X FY2013E P/E for standalone construction business (adjusted for value from BOT and other subsidiaries; has invested about Rs17 bn in equity investments and loans & advances to subsidiaries, (2) likely peaking of interest rate squeeze on earnings in the near term and (3) reasonably well-diversified order backlog and visibility.

Profit model and balance sheet of NCC, March fiscal year-ends, 2005-13E (Rs mn)

	2005	2006	2007	2008	2009	2010	2011	2012E	2013E
Income statement									
Operating Income	**11,885**	**18,404**	**28,711**	**34,729**	**41,514**	**47,778**	**50,737**	**53,235**	**60,538**
Operating Expenses	(10,978)	(16,764)	(26,036)	(31,132)	(37,777)	(42,944)	(45,860)	(48,164)	(54,803)
EBITDA	**907**	**1,641**	**2,698**	**3,599**	**3,737**	**4,834**	**4,877**	**5,071**	**5,734**
Other Income	49	86	428	56	42	544	146	67	74
Interest & Finance charges	(147)	(283)	(640)	(719)	(964)	(1,322)	(1,682)	(2,757)	(2,792)
Depreciation	(109)	(182)	(299)	(482)	(533)	(525)	(685)	(808)	(930)
Profit Before Tax	**700**	**1,262**	**1,824**	**2,431**	**2,282**	**3,530**	**2,657**	**1,573**	**2,087**
Tax expense	(127)	(214)	(667)	(811)	(743)	(1,204)	(1,021)	(519)	(689)
PAT	**573**	**1,048**	**1,519**	**1,642**	**1,539**	**2,326**	**1,635**	**1,054**	**1,398**
EPS (Rs)	**3.6**	**5.1**	**7.3**	**7.2**	**6.7**	**9.1**	**6.4**	**4.1**	**5.5**
Balance sheet									
Total share holders funds	**3,255**	**9,461**	**10,391**	**15,724**	**16,856**	**22,457**	**23,787**	**24,264**	**25,085**
Share Capital	159	207	418	458	458	513	513	513	513
Reserves & Surplus	3,096	9,254	9,973	15,266	16,398	21,943	23,274	23,750	24,572
Loan Funds	**648**	**1,779**	**6,370**	**8,938**	**12,439**	**15,302**	**24,841**	**26,841**	**27,841**
Working Capital Loan	383	1,203	2,398	5,613	6,739	6,969	9,503	9,503	9,503
Long term	265	576	3,971	3,325	5,699	8,333	15,337	17,337	18,337
Total Sources of Funds	**3,970**	**11,306**	**16,876**	**24,829**	**29,482**	**38,013**	**48,935**	**51,412**	**53,233**
Net fixed assets	**1,098**	**1,916**	**4,229**	**5,340**	**4,873**	**5,972**	**7,215**	**7,437**	**8,007**
Net block	1,089	1,850	4,043	5,197	4,592	5,538	6,745	7,437	8,007
Capital WIP	9	67	186	143	281	434	469	—	—
Investments	462	877	4,768	5,648	7,402	9,412	12,008	14,627	14,627
Net Current Assets (excl Cash)	**1,003**	**5,673**	**5,435**	**11,512**	**15,861**	**20,633**	**28,315**	**29,036**	**29,976**
Cash and Bank Balances	1,372	2,818	2,434	2,330	1,345	1,997	1,397	312	623
Total	**3,970**	**11,306**	**16,875**	**24,829**	**29,482**	**38,013**	**48,935**	**51,412**	**53,233**
Free cash flow									
Net cashflow from operating activites	**393**	**(2,730)**	**1,609**	**(4,098)**	**(1,294)**	**(498)**	**(3,628)**	**3,899**	**4,179**
Net PBT	700	1,262	1,824	2,431	2,282	3,530	2,657	1,573	2,087
Add: Depreciation	109	182	299	482	533	525	685	808	930
Add: Financial Charges	126	217	640	719	964	1,322	1,682	2,757	2,792
Tax paid	(278)	(437)	(603)	(759)	(722)	(1,105)	(969)	(519)	(689)
Change in wcap.	(302)	(4,049)	(562)	(6,981)	(4,350)	(4,771)	(7,683)	(721)	(940)
Cash flow from investing activities	**(502)**	**(1,936)**	**(6,447)**	**(2,451)**	**(1,505)**	**(3,490)**	**(4,301)**	**(3,650)**	**(1,500)**
Free cash flow	**(109)**	**(4,666)**	**(4,838)**	**(6,549)**	**(2,799)**	**(3,989)**	**(7,929)**	**249**	**2,679**
Key ratios									
EBITDA margin (%)	7.6	8.9	9.4	10.4	9.0	10.1	9.6	9.5	9.5
PAT margin (%)	4.8	5.7	5.3	4.7	3.7	4.9	3.2	2.0	2.3
Debt/ equity (X)	0.2	0.2	0.6	0.6	0.7	0.7	1.0	1.1	1.1
Net debt/ equity (X)	(0.2)	(0.1)	0.4	0.4	0.7	0.6	1.0	1.1	1.1
ROAE (%)	25.9	19.0	23.8	27.0	21.8	31.1	22.4	21.1	31.5
ROACE (%)	20.0	18.2	18.5	15.3	12.2	14.9	10.0	9.3	10.2

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

IDFC (IDFC)

Banks/Financial Institutions

ADD

NOVEMBER 08, 2011

RESULT, CHANGE IN RECO.

Coverage view: Attractive

Price (Rs): 126

Target price (Rs): 150

BSE-30: 17,570

Core performance in line. IDFC reported PAT of Rs5.2 bn, up 55% yoy. Large capital gains (Rs2.6 bn, i.e. 38% of PBT) buoyed earnings; core income was down 3% yoy and 1% above estimates. Key highlights of the business: Moderate loan growth (up 5% qoq), stable NIM, fees up 17% yoy driven by lending-related fees, provisions up 58% yoy even as NPLs were stable. We tweak estimates, retain price target of Rs150. Revise rating to ADD from BUY given the moderate upside to our TP after the recent rally.

Company data and valuation summary

IDFC

Stock data			
52-week range (Rs) (high,low)			218-103
Market Cap. (Rs bn)			189.5
Shareholding pattern (%)			
Promoters			0.0
FIIs			46.8
MFs			4.5
Price performance (%)	1M	3M	12M
Absolute	7.9	2.8	(41.6)
Rel. to BSE-30	(0.3)	1.3	(30.2)

Forecasts/Valuations	2011	2012E	2013E
EPS (Rs)	8.8	10.3	12.1
EPS growth (%)	4.6	17.1	18.2
P/E (X)	14.3	12.2	10.3
NII (Rs bn)	16.9	21.0	24.9
Net profits (Rs bn)	12.8	15.5	18.3
BVPS	69.0	82.4	91.7
P/B (X)	1.8	1.5	1.4
ROE (%)	14.7	13.6	13.9
Div. Yield (%)	1.7	1.6	1.9

QUICK NUMBERS

- PAT up 55% yoy
- Core earnings, down 3% yoy and 1% above estimates
- Loan book up 5% qoq

Loan book traction picks up, albeit moderately

IDFC reported loan book of Rs396 bn up 15% yoy and 5% qoq. Gross disbursements were down 68% yoy to Rs36 bn. Energy remained the largest contributory to growth driving 44% of the increase in outstanding disbursements.

Repayment rate (repayments/ opening loan book) declined qoq to 4.6% from 7.4% in 1QFY12 and 19.7% in 2QFY11. We note that the competitive scenario has been favorable over the last few quarters (post the base rate hike by SBI and other public banks); we hence expect most repayments to be in normal course.

IDFC has guided for moderate loan growth (15% yoy) in 2012E on the back of challenges in the macro environment. YTD growth is 6%; we believe that it may not be challenging for IDFC to deliver balance about 10% growth over the next two quarters in light of lower repayment rates even if disbursements remain weak. We expect IDFC to deliver 17% yoy growth in FY2012E and 21% growth in FY2013E; changes in the operating environment can provide significant sensitivity to growth and earnings.

Margins stable qoq

IDFC reported NIM (as per KS estimates) of 4.3% over the last two quarters, somewhat higher than 3.9% in 2QFY11. The company has successfully passed on rise in lending rates to its customers. IDFC has increased dependence on bank loans and foreign currency loans during the quarter. IDFC booked loan-related fees of about Rs480 mn as compared to Rs310 mn in 1QFY12. Asset management fees were almost stable at Rs650 mn while income from investment banking and broking remains low at Rs180 mn.

Tweaking estimates, retain price target of Rs150

After the results, we are tweaking our estimates up by 2% for FY2012E. Our SOTP-based target price of Rs150 (unchanged) provides 16% upside from the current levels. We therefore revise our rating to ADD from BUY. We believe that improvement in the macro environment remains a key catalyst for IDFC's growth traction and stock price performance.

Large capital gains in2Q, asset quality performance stable

IDFC reported capital gains of Rs2.6 bn in 2QFY12 which included capital gains of Rs2.4 bn and carry income of Rs0.16 bn. This is in line with management's guidance to divesting its non-strategic investments. As on March 2011, IDFC had listed equity investments of about Rs3 bn and unlisted investments of Rs3 bn. The unlisted investments include stake in ARCIL and NSE.

IDFC's NPLs were stable during the quarter- gross NPL ratio was 0.1%. The company made overall provisions of Rs631 mn as compared to Rs399 mn in 1QFY12. Notably, IDFC's provisioning policy is linked to disbursements. Despite weak disbursements, provisions for the quarter were high- we would seek clarity on the same from the management.

Adjusted cost to income ratio declines

IDFC's cost to income ratio declined to 15% from 17% qoq.

IDFC - Quarterly results
March fiscal year-ends, 1QFY11-2QFY12 (Rs mn)

	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	YoY (%)	2Q12E	Actual vs KS (%)
Consolidated financials									
Total Income	10,972	12,191	13,100	13,066	13,580	17,149	41		
Interest and other charges	4,852	5,688	6,500	6,835	7,539	8,259	45		
Net operating income	6,120	6,503	6,600	6,231	6,040	8,997	38	6,100	47
Net operating inc excl cap gains	4,920	6,383	6,020	5,941	6,060	6,410	0	6,100	5
Net interest income on infra	3,040	3,590	4,130	4,250	4,280	4,390	22	4,500	(2)
Treasury (incl secu and others)	330	150	470	490	550	590	293	500	18
Fees and advisory	1,590	2,710	1,370	1,170	1,120	1,310	(52)	1,100	19
Asset management	650	750	630	880	620	650	(13)	600	8
IDFC SSKI / Investment banking	360	740	80	280	80	60	(92)	100	(40)
Institutional brokerage	140	150	140	100	110	120	(20)	100	20
Advisory and other fees	440	1,070	520	(90)	310	480	(55)	300	60
Profit on sale of equity	1,200	120	580	290	(20)	2,590	2,058	-	-
Total expenditure	1,580	1,650	2,018	2,016	1,436	1,948	18	1,450	34
Staff expenses	590	645	874	841	649	771	20	650	19
Other expenses	544	490	657	230	387	546	11	400	37
Provisions and contingencies	445	515	487	945	399	631	22	400	58
PBDT	4,540	4,853	4,582	4,215	4,605	7,049	45	4,650	52
Depreciation	97	103	103	99	95	97	(6)	100	(4)
Profit before Tax	4,443	4,750	4,480	4,117	4,510	6,953	46	4,550	53
Provision for Tax	1,098	1,375	1,272	1,252	1,378	1,712	25	1,365	25
Profit after tax	3,346	3,375	3,207	2,865	3,132	5,241	55	3,185	65
Share of profit in associates / minority intere	(0)	(9)	(8)	-	(6)	(1)	-	-	-
PAT (incl minorities share/ after minority share)	3,346	3,384	3,215	2,865	3,138	5,242	55	3,185	65
PBT bef treasury and provisions and extra ordinary items	3,412	4,869	4,110	4,495	4,653	4,717	(3)	4,673	1
Tax rate	25	29	28	30	31	25	-	30	-
Balance sheet (Rs mn)									
Shareholders funds	73,210	111,168	113,900	112,480	115,510	120,730	9		
Loan funds	312,840	352,996	366,330	363,040	386,690	395,760	12		
Total	386,120	464,221	480,300	475,540	502,200	516,490	11		
Fixed assets	4,450	4,469	4,500	4,470	-	-	(100)		
Investments	289,010	343,987	350,210	375,520	375,270	393,130	14	375,270	-
Equity	17,410	20,920	22,160	21,190	19,430	30,900	48		
Treasury	60,590	65,447	88,220	61,840	86,650	71,110	9		
Infrastructure loans	289,010	343,987	350,210	375,520	375,270	393,130	14		
Deferred Tax	1,990	2,095	2,240	2,500	-	-	-		
Net current assets	1,070	15,705	1,380	(16,100)	9,220	21,360	36		
Total	386,120	464,220	480,310	461,060	502,210	516,500	11		

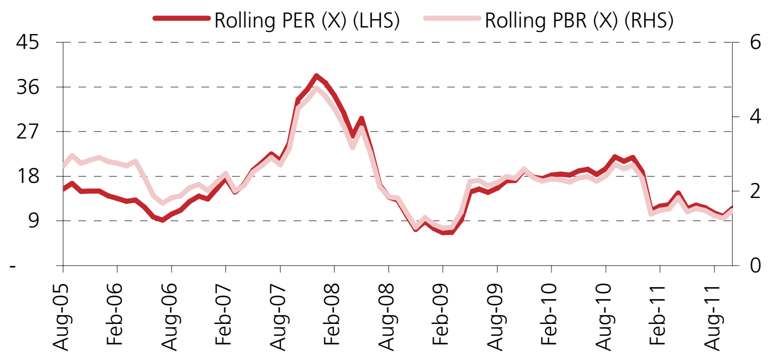
Source: Company, Kotak Institutional Equities estimates

IDFC - Quarterly results
March fiscal year-ends, 1QFY11-2QFY12

	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	YoY (%)
Other details							
Gross approvals (Rs bn)	130	198	37	62	58	81	(59)
Gross disbursements (Rs bn)	62	112	50	43	30	36	(68)
Loan book (Rs bn)	289	344	350	375	377	396	15
Repayment (% of opening loan book)	9	20	13	5	7	5	79
Outstanding disbursements (Rs bn)							
Loans	291	346	353	378	377	396	14
Project loans	146	190	206	223	223	237	25
Corporate loans	129	149	140	149	144	143	(4)
Loans against shares	15	8	7	7	9	15	100
Mezzanine products	3	4	4	3	3	3	(17)
Equity/ pref shares	18	21	23	20	21	20	(5)
Non-funded	9	14	17	16	24	24	74
Total	322	385	396	417	425	443	15
Sectorwise break ups							
Total exposure (Rs bn)	**510**	**621**	**576**	**582**	**616**	**627**	**1**
Energy	222	264	270	267	267	269	2
Transportation	106	174	159	167	162	151	(13)
Telecom	113	121	86	92	129	135	12
Others	69	64	62	56	57	71	11
O/s disbursements	321	386	396	416	423	442	48
Energy	127	153	167	174	187	195	27
Telecom	82	98	85	90	89	91	(7)
Transportation	57	84	93	105	100	102	21
Others	55	51	51	47	47	54	6
Breakup of outstanding borrowings (% of total)							
Short term	17	15	14	5	10	10	
LT Rupee loans	14	15	18	18	18	25	
LT bonds	61	62	63	67	63	53	
Foreign currency loans	7	6	4	8	8	10	
Sub debt	2	2	2	2	2	2	
ROA analysis (%)							
Net interest income	3.7	3.6	3.8	3.8	3.9		
Infrastructure	3.3	3.4	3.5	3.5	3.5		
Treasury	0.3	0.3	0.3	0.3	0.4		
Non Interest income	3.0	2.9	2.5	2.0	1.6		
Fees, syndication and advisory	1.6	1.5	1.4	1.2	1.0		
Capital gains & dividend	0.9	1.0	0.5	0.4	0.1		
Mis. Fees	0.5	0.4	0.6	0.5	0.1		
Operating income	6.8	6.6	6.4	5.9	5.5		
Operating expenses	1.7	1.6	1.6	1.2	1.1		
Pre- provisioning profits	5.1	5.0	4.8	4.7	4.4		
Provisions and losses	0.5	0.6	0.5	0.5	0.5		
PBT	**4.5**	**4.4**	**4.3**	**3.1**	**3.9**		
Tax	1.1	1.2	1.1	1.2	1.1		
Associate co profit	-	-	-	-	-		
Net Income (PAT)	**3.4**	**3.3**	**3.1**	**3.0**	**2.8**		
NIMs (KS calc- %)	4.1	3.9	4.3	4.3	4.3	4.3	

Source: Company

IDFC- 1 year fwd rolling PER and PBR (X)
August 2005-October 2011



Source: Bloomberg, Kotak Institutional Equities estimates

IDFC : Sum-of-the parts based valuation

	Valuation (Rs mn)	Value per share (Rs)	Comments
IDFC (core)	171,419	114	Based on residual growth model- implies 1.8X core PBR for medium term RoE of 16-17%
IDFC (Private equity)	6,862	5	10% of FY2013E AUM - US$1.8 bn
IDFC (Project equity)	7,500	5	10% of FY2013E AUM - US$1.4 bn
IDFC MF	10,143	7	3.5% of FY2013E AUMs
IDFC Capital	5,345	4	10X FY2013E PAT
IDFC's investment in NSE	10,200	7	12X FY2013E PER
Value of market investments	14,437	10	At book value
Total	**212,181**	**150**	

Source: Kotak Institutional Equities estimates

IDFC - old and new estimates
March fiscal year-ends, 2012-2013E (Rs mn)

	Old estimates		New estimates		Old vs New (%)	
	2012E	2013E	2012E	2013E	2012E	2013E
Net interest income	**21,089**	**25,054**	**21,025**	**24,878**	**(0)**	**(1)**
NIM (%)	4.0	4.1	4.0	4.1	-	-
Treasury and bank bal.	82,811	90,117	82,811	90,117	-	-
Cash and bank	28,174	30,964	28,174	30,964	-	-
Treasury book	54,637	59,153	54,637	59,153	-	-
Infrastructure loans	449,291	535,745	441,141	534,309	(2)	(0)
Loan loss provisions	2,890	2,463	2,453	2,439	(15)	(1)
Other income	8,588	10,221	8,117	9,695	(5)	(5)
Fee income	6,173	7,217	5,433	6,692	(12)	(7)
Capital gains	2,415	3,003	2,684	3,003	11	-
Operating expenses	6,422	7,700	6,000	7,557	(7)	(2)
Employee expenses	3,591	4,602	3,418	4,458	(5)	(3)
PBT	**20,779**	**25,526**	**21,104**	**24,992**	**2**	**(2)**
Tax	5,598	6,814	5,607	6,672	0	(2)
Net profit	**15,182**	**18,712**	**15,497**	**18,320**	**2**	**(2)**
PBT-treasury	**18,364**	**22,523**	**18,420**	**21,989**	**0**	**(2)**

Source: Company, Kotak Institutional Equities estimates

IDFC (consolidated), key ratios
March fiscal year-ends, 2007-2013E (%)

	2007	2008	2009	2010	2011E	2012E	2013E
Income Statement growth rate (%)							
Operating income	64	70	38	4	31	29	21
Net fund based income	51	63	35	26	45	24	18
Fee income	160	64	8	16	31	(16)	23
On AUM	84	5	287	(8)	25	(5)	23
Other operating income	7	29	(15)	81	(30)	15	12
Operating expenses	43	228	55	9	46	0	26
Net profit	**60**	**21**	**1**	**44**	**17**	**21**	**18**
Core operating profit (PBT-treasury+provisions)	84	42	16	26	36	20	18
Balance Sheet growth rate (%)							
Assets							
Investments	52	174	40	(24)	40	(1)	8
Infrastructure loans	37	43	3	22	50	17	21
Total assets	**44**	**61**	**7**	**13**	**42**	**15**	**18**
Liabilities							
Loan funds	57	57	7	13	41	14	21
Total liabilities	**52**	**55**	**6**	**12**	**41**	**14**	**20**
Shareholders equity	**14**	**90**	**10**	**14**	**48**	**19**	**11**
Key ratios (%)							
Yield on							
Earning assets exld treasury assets	9.1	10.2	11.3	10.7	10.7	10.8	11.1
Earning assets incl treasury income and assets	9.7	10.5	11.1	10.9	10.6	10.8	11.1
Infrastructure loans	9.3	10.2	11.8	11.3	11.0	11.3	11.6
Interest on bank deposits	8.4	16.0	10.0	15.4	19.9	14.7	16.5
Average cost of funds	7.2	8.1	9.1	7.8	7.5	8.0	8.4
Capital gains to eqty investments	21.3	20.6	10.1	14.1	9.1	10.3	11.5
NIM (excl capital gains)	**2.8**	**3.0**	**3.2**	**3.6**	**4.1**	**4.0**	**4.1**
Employee .exp to income	0.5	1.1	1.3	1.3	1.4	11.7	12.9
Operating expnses/ income	9.0	18.9	24.8	20.7	23.3	20.6	21.9
Du Pont (%age of average assets)							
Net interest income	2.8	3.0	3.1	3.6	4.0	4.0	4.0
Loan loss provisions	0.1	0.3	0.5	0.4	0.6	0.5	0.4
Other operating income	2.7	2.7	2.1	2.6	2.2	1.6	1.6
Operating expenses	0.5	1.1	1.3	1.3	1.4	1.1	1.2
ROA	**4.1**	**3.2**	**2.6**	**3.4**	**3.1**	**2.9**	**3.0**
Average assets/average equity	5.5	5.5	5.0	4.9	4.8	4.6	4.7
ROE	**22.6**	**17.6**	**12.9**	**16.6**	**14.7**	**13.6**	**13.9**

Source: Company, Kotak Institutional Equities estimates

IDFC (consolidated) : Income statement and balance sheet
March fiscal year-ends, 2007-2013E (Rs mn)

	2007	2008	2009	2010	2011E	2012E	2013E
Total income	16,917	27,928	36,338	39,446	50,015	61,301	74,037
Operating income	12,778	21,700	30,032	31,132	40,762	52,770	63,927
Dividend	91	62	542	1,321	819	818	817
Other charges	136	101	-	15	15	15	15
Net fund based income	**4,223**	**6,866**	**9,237**	**11,630**	**16,897**	**21,025**	**24,878**
Less: provisions for NPLs	174	688	1,495	1,304	2,349	2,453	2,439
Net fund based income post provisions	4,049	6,178	7,742	10,326	14,548	18,572	22,440
Fee income	2,406	3,944	4,253	4,951	6,498	5,433	6,692
SSKI		1,873	1,070	1,793	1,818	1,253	1,616
On guarantees/commissions- standalone	656	1,515	1,032	1,184	2,212	1,840	2,195
Fees on AMC	528	556	2,150	1,975	2,468	2,340	2,881
Net operating income	8,137	12,288	13,835	18,608	23,386	26,689	32,135
Operating expenses	745	2,447	3,795	4,121	5,997	6,000	7,557
Profit before tax	7,444	9,959	10,254	14,519	17,804	21,104	24,992
Tax	1,235	2,463	2,697	3,611	4,991	5,607	6,672
Net profit	**6,209**	**7,496**	**7,557**	**10,908**	**12,813**	**15,497**	**18,320**
% growth	60	21	1	44	17	21	18
Net profit post minority interest	**6,209**	**7,353**	**7,495**	**10,908**	**12,813**	**15,497**	**18,320**
PBT - treasury	5,710	7,675	8,200	11,157	15,049	18,005	21,575
% chg	112	34	7	36	35	20	20
PBT - treasury + provisions	5,884	8,363	9,695	12,190	16,598	19,958	23,514
No. of shares	1,126	1,294	1,295	1,301	1,461	1,509	1,509
Balance Sheet							
Assets							
Mutual Funds	3,477	7,148	100	1,378	23	14	14
Equity Shares	6,147	12,606	19,652	20,910	21,973	20,875	21,918
Venture Capital Units	954	1,273	2,983	3,784	4,541	4,531	5,061
Infrastructure loans	139,155	199,024	205,918	250,270	376,523	441,141	534,309
Current assets	18,287	28,674	17,950	30,358	26,556	35,274	39,003
Fixed assets	486	3,812	4,438	4,131	3,907	4,038	4,222
Other assets	854	953	1,393	1,743	2,449	2,571	2,700
Total assets	**178,506**	**286,600**	**305,583**	**344,291**	**490,519**	**563,067**	**666,367**
Liabilities							
Subordinated debt (unsecured)	6,500	6,500	6,500	6,500	6,500	6,500	6,500
Loan funds	137,136	214,784	228,791	257,401	363,640	415,088	503,492
Current liabilities and provisions	5,561	9,484	8,622	10,290	16,295	17,138	18,029
Total liabilities	**149,197**	**230,767**	**243,913**	**274,191**	**386,435**	**438,726**	**528,020**
Paid-up capital	11,259	12,943	12,953	13,006	14,609	15,087	15,087
Reserves and surplus	18,049	42,889	48,717	57,094	89,474	109,254	123,259
Shareholders equity	**29,308**	**55,832**	**61,670**	**70,100**	**104,084**	**124,341**	**138,346**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

MTNL (MTNL)

Telecom

SELL

NOVEMBER 08, 2011

UPDATE

Coverage view: Neutral

Price (Rs): 31

Target price (Rs): 30

BSE-30: 17,570

Net worth erosion continues. MTNL reported another quarter of substantial EBITDA loss, its eight consecutive quarter in the red at the operational level. Revenue growth of 2.1% qoq was actually decent for a seasonally weak quarter. However, MTNL's real issue is not revenue traction but the mismatch between its revenue base and large and largely fixed cost structure. Large net debt post 3G/BWA spectrum payouts and interest payments have also started to hurt meaningfully. Reiterate SELL. Cut TP to Rs30/share.

Company data and valuation summary

MTNL

Stock data			
52-week range (Rs) (high,low)			69-29
Market Cap. (Rs bn)			19.6
Shareholding pattern (%)			
Promoters			56.3
FIIs			11.3
MFs			0.1
Price performance (%)	1M	3M	12M
Absolute	2.5	(24.5)	(53.2)
Rel. to BSE-30	(5.3)	(25.6)	(44.1)

Forecasts/Valuations	2011		
EPS (Rs)	(10.4)		
EPS growth (%)	(33.7)		
P/E (X)	(3.0)		
Sales (Rs bn)	37.6		
Net profits (Rs bn)	(6.5)	(Under review)	
EBITDA (Rs bn)	(7.0)		
EV/EBITDA (X)	1.0		
ROE (%)	(6.1)		
Div. Yield (%)	0.0		

2QFY12 – some improvement qoq but the operational strife continues

MTNL reported a decent quarter of revenue growth and decline in absolute EBITDA loss. Revenue for the quarter at Rs8.6 bn was up 2.1% qoq, a robust showing in a seasonally weak quarter. Decline in employee expenses at the absolute level continued (led by lower retiral provisions), driving a reduction in EBITDA loss qoq to Rs3.2 bn from a loss of Rs3.3 bn in the previous quarter. Nonetheless, EBITDA loss run-rate of over Rs3 bn a quarter and interest expenses running over Rs2 bn a quarter are leading to a fast-expanding net debt on the balance sheet and corresponding erosion in net worth. Net worth has come down to Rs49 bn (Rs78/share) versus Rs82.3 bn (Rs131/share) at end-Sep 2010.

Earnings-based or DCF-based valuation meaningless; reiterate SELL

A massive 3G/BWA payout, stagnant revenue base, a cost structure which is out of control, weak competitive positioning, and subscale operations (presence in only two circles) continue to dent the earnings power of MTNL. Lack of earnings visibility even in the medium term renders earnings or DCF-based valuation for MTNL meaningless, in our view. In addition, potential spectrum-related payouts (one-time for excess and recurring on renewals) will strain the balance sheet further.

The stock will likely continue to trade at asset-based valuation (real estate assets, 2G/3G/BWA spectrum in Mumbai/Delhi, and other telecom infrastructure). Our earnings model is under review. We retain our SELL rating on the company with a target price of Rs30/share (Rs35 earlier).

Exhibit 1: MTNL, interim results for 2QFY12, March fiscal year-ends (Rs mn)

				Change (%)	
	2QFY11	1QFY12	2QFY12	qoq	yoy
Revenues	**10,536**	**8,430**	**8,606**	**2.1**	**(18.3)**
Interconnection charges	(1,108)	(1,073)	(1,290)	20.3	16.4
License fee	(896)	(594)	(722)	21.6	(19.4)
Staff cost	(7,833)	(8,479)	(8,012)	(5.5)	2.3
Admin/operative	(2,295)	(1,611)	(1,769)	9.8	(22.9)
Total operating expenditure	**(12,133)**	**(11,756)**	**(11,793)**	**0.3**	**(2.8)**
EBITDA	**(1,596)**	**(3,326)**	**(3,187)**	**(4.2)**	**99.6**
EBITDA margin	-15.2%	-39.5%	-37.0%		
Interest and other income	416	249	484		
Interest expense	(1,438)	(1,859)	(2,350)		
Depreciation	(3,429)	(3,564)	(3,587)	0.6	4.6
PBT	**(6,047)**	**(8,500)**	**(8,639)**	**1.6**	**42.9**
Provision for taxes	(0)	(0)	(0)		
Extraordinaries/prior period	—	(0)	—		
Reported net profit	**(6,048)**	**(8,500)**	**(8,640)**	**1.6**	**42.9**
Adjusted net profit	**(6,048)**	**(8,500)**	**(8,640)**	**1.6**	**42.9**
Effective Tax rate (%)	0.0	0.0	0.0		

Source: Company, Kotak Institutional Equities

NEUTRAL

NOVEMBER 08, 2011

UPDATE

BSE-30: 17,570

Vodafone India 2Q/1HFY12 results – key takeaways. Key takeaways from Vodafone India's 2Q/1HFY12 earnings report – (1) 2.7% qoq revenue growth in 2QFY12, stronger than both Bharti as well as Idea, (2) steady hoh EBITDA margin at a shade over 25% for 1HFY12, (3) 2%+ qoq uptick in RPM, (4) flat network traffic qoq versus a decline reported by both Bharti and Idea, (5) sustained strong non-SMS non-voice revenue growth – at odds with Bharti, and (6) 27.5 mn data users versus 31 mn for Bharti.

Vodafone India 2Q/1HFY12 financials – key takeaways

- Vodafone reported 2.7% qoq and 20.1% growth in its India revenues (including Indus contribution) to Rs78 bn. Sequential growth rate for the quarter was higher than both Bharti (which reported a decline in its India wireless revenues) as well as Idea.

- Revenue growth was led by a 2.6% qoq uptick in RPM. Network traffic remained flat qoq – this is again better than the 2% qoq decline in minutes reported by both Bharti and Idea.

- Vodafone indicated that gross revenues got a kicker from 3G ICR revenues **as well as introduction of termination charges for SMS**. We note that SMS termination charge was not indicated as a revenue growth factor by either Bharti or Vodafone. Vodafone's disclosures suggest that it contributed meaningfully – we compute around 180-200 bps kicker to revenue growth as well as RPM uptick on this count. Adjusted for SMS termination and ICR revenues, RPM was likely flat to up marginally on a sequential basis.

- **Interestingly, Vodafone indicated that nearly 15% of its subscriber base is on recently revised higher base tariffs as of end-Sep 2011. This has not translated into RPM uptick during the quarter – we believe that a bulk of these 15% subs moved to higher base levels only towards the end of the quarter and hence, 3QFY12E would see the real flow-through impact of higher base tariffs.**

- Vodafone's non-voice revenues (SMS + VAS + data) increased a strong 17.3% qoq. Bulk of this increase was driven by a strong 44.7% qoq growth in SMS revenues, driven by SMS termination revenues. Nonetheless, unlike Bharti, which reported a sharp 12.2% qoq decline in non-SMS non-voice revenues for the quarter, Vodafone reported a 3.4% increase. We had highlighted Vodafone's surprising leadership on non-SMS non-voice revenues versus Bharti in our Bharti 2Q earnings review. The gap has only increased in the Sep 2011 quarter.

- **Vodafone indicated 27.5 mn mobile data users (19% of subs, +142% yoy) versus 31 mn for Bharti. Bharti's 28% lower non-SMS non-voice revenues versus Vodafone despite almost 13% higher mobile internet user base clearly suggests substantially higher data usage among Vodafone's subs versus Bharti's – this has definitely surprised us.**

- EBITDA margin for 1HFY12 was 25.3%, a 20 bps uptick hoh from 2HFY11 levels.

- ARPU for the quarter was Rs168, down a marginal 0.6% qoq.

- In line with Bharti and Idea, Vodafone reported a sharp increase in churn as well. Blended monthly churn went up to 5.3% from 4.7%. This has been another metric that has been a tad disappointing and at odds with the thesis of reducing competitive intensity in the market.

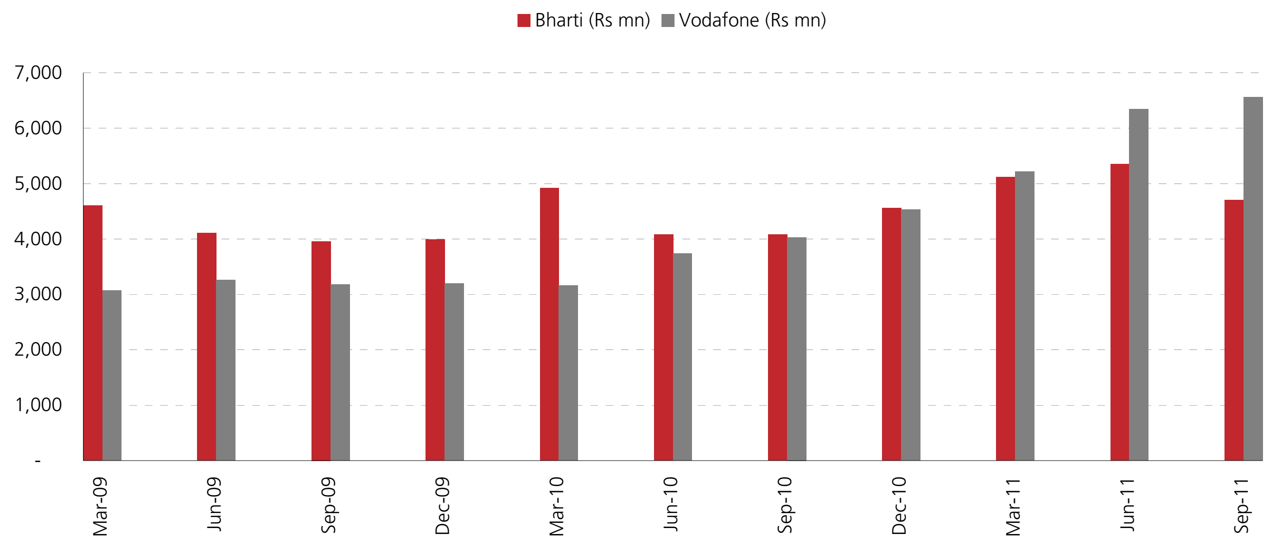
Vodafone India financials and key operating metrics

(In Rs mn)	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
Average exchange rate	71.48	75.66	79.43	76.18	71.70	68.02	72.01	70.81	72.48	72.89	73.67
Voice revenue	46,891	47,817	47,102	47,993	49,616	52,716	52,135	53,886	56,607	59,260	59,525
Messaging revenue	1,716	1,665	1,827	2,133	2,510	2,653	2,880	3,328	3,262	3,207	4,641
Data revenue	3,074	3,253	3,177	3,200	3,155	3,741	4,033	4,532	5,219	6,341	6,557
Fixed line revenue	-	-	79	-	72	136	72	142	145	219	221
Other service revenue	4,861	4,388	3,733	5,104	5,091	5,646	5,617	6,302	6,378	6,706	6,851
Total Service revenue	**56,541**	**57,123**	**55,919**	**58,430**	**60,443**	**64,891**	**64,737**	**68,190**	**71,610**	**75,733**	**77,796**
(In £ mn)											
Voice revenue	656	632	593	630	692	775	724	761	781	813	808
Messaging revenue	24	22	23	28	35	39	40	47	45	44	63
Data revenue	43	43	40	42	44	55	56	64	72	87	89
Fixed line revenue	-	-	1	-	1	2	1	2	2	3	3
Other service revenue	68	58	47	67	71	83	78	89	88	92	93
Total Service revenue	**791**	**755**	**704**	**767**	**843**	**954**	**899**	**963**	**988**	**1,039**	**1,056**
India as % of global revenues	**8.0**	**7.5**	**6.7**	**7.2**	**7.8**	**8.7**	**7.8**	**8.1**	**8.7**	**8.9**	**8.9**
Non-voice as % of total (ex-Indu	**9.3**	**9.3**	**9.6**	**10.0**	**10.2**	**10.8**	**11.7**	**12.7**	**13.0**	**13.9**	**15.8**
Of which, data	**64.2**	**66.2**	**63.5**	**60.0**	**55.7**	**58.5**	**58.3**	**57.7**	**61.5**	**66.4**	**58.6**
Operational metrics											
Customers ('000)	68,769	76,450	82,846	91,402	100,858	109,061	115,553	124,255	134,570	141,519	144,992
Minutes of usage (mn min) (c)	**65,276**	**71,775**	**76,135**	**83,172**	**93,735**	**103,209**	**104,878**	**110,623**	**119,295**	**127,626**	**127,776**
Growth qoq (%)	**6.0**	**10.0**	**6.1**	**9.2**	**12.7**	**10.1**	**1.6**	**5.5**	**7.8**	**7.0**	**0.1**
ARPU (Rs/sub/month)											
Total	274	247	222	209	197	191	177	176	171	169	168
Postpaid	815	807	796	785	765	778	760	756	728	749	742
Prepaid	229	204	181	170	161	157	145	145	142	141	140
MOU (min/sub/month)	**427**	**419**	**408**	**402**	**412**	**411**	**388**	**385**	**385**	**385**	**373**
RPM (Rs/min) (d)	0.64	0.59	0.54	0.52	0.48	0.47	0.46	0.46	0.44	0.44	0.45
RPM (HY) (Rs/min)	0.63		0.57		0.50		0.46		0.45		0.44
EBITDA per min (Rs/min)	0.16		0.14		0.14		0.12		0.11		0.11
Cost per min (Rs/min)	0.48		0.41		0.34		0.34		0.33		0.34
Wireless EBITDA margin	**26.1**		**24.5**		**28.0**		**26.3**		**25.5**		**25.5**
Gross revenue market share	20.3	20.8	20.4	20.8	21.0	21.4	21.2	21.3	21.5	21.8	
Churn (Annualized - %)											
Total	25.2	26.3	33.3	38.1	38.8	38.8	41.4	46.7	50.9	57.1	63.2
Postpaid	27.2	25.3	24.5	26.0	25.9	24.8	23.2	21.1	28.0	21.9	22.4
Prepaid	25.0	26.4	33.9	38.9	39.6	39.6	42.4	48.1	52.1	58.8	65.2

Note:
(a) Financials in INR are computed using average GBP-INR exchange rate for the period
(b) Vodafone EPM and CPM are half-yearly estimates based on half-yearly financials reported in GBP and using average exchange rates for the period.
(c) Vodafone counts an on-net minute as only 1 as opposed to industry practice of counting the same as 2; hence, minutes reported are roughly lower by 20-30% on a relative basis.
(d) RPM computed by adjusting minutes for the discrepancy mentioned in note (c) above. Computed RPM comparable to other listed players.

Source: Company, Kotak Institutional Equities estimates

Non-SMS non-voice revenues for Bharti and Vodafone



Note:
a) Data was not available for Jun 2010 for Bharti. The presented number is our estimate.

Source: Companies, Kotak Institutional Equities estimates

September 2011: Results calendar

Mon	Tue	Wed	Thu	Fri	Sat	Sun
7-Nov	**8-Nov**	**9-Nov**	**10-Nov**	**11-Nov**	**12-Nov**	**13-Nov**
	Aban Offshore	Ansal Properties & Infra	AIA Engineering	Adani Power	Bharati Shipyard	Career Point Systems
	ABB	Apollo Tyres	Cadila Healthcare	Anant Raj Industries	Coal India	Sun Pharma
	Aurobindo Pharma	Bharat Forge	CEAT	Dishman Pharma	DB Realty	
	Bank of India	Bhushan Steel	Cummins	Educomp Solutions	IVRCL	
	Bosch	CESC	DLF	Eros International	National Aluminium Co.	
	Firstsource Solutions	Glenmark Pharmaceuticals	GVK Power & Infra	Gammon Infra	REC	
	Godrej Industries	GMR Infra	Hindalco Industries	GE Shipping	Religare Enterprises	
	IDFC	IOCL	Hindustan Copper	Hathway Cable	S Kumar Nationwide	
	Reliance Infrastructure	JSW Energy	IRB Infrastructure	HDIL	Shipping Corp of India	
	Reliance Power	Jyothy Laboratories	JSW Ispat Steel	Jet Airways		
		Keynote Corporate Services	Pantaloon Retail	Jindal Saw		
		Lupin	Ramky Infra	JK Cement		
		Moser Baer	Shree Cements	Lanco Infratech		
		Omaxe	Tata Steel	MOIL		
		Power Finance Corp	Tecpro Systems	Mundra Port & SEZ		
		PTC India	VA Tech Wabag	Nitesh Estates		
		Radico Khaitan		Puravankara Projects		
		Ranbaxy Laboratories		REI Agro		
		Shriram Transport		Reliance Capital		
		State Bank of India		Shree Renuka Sugar		
		Tata Communications		Tata Chemicals		
		Voltas				
14-Nov	**15-Nov**					
Adani Enterprises						
Ashoka Buildcon						
Aventis Pharma						
Balrampur Chini Mills						
BGR Energy Systems						
GSPL						
India Cements						
JSW Steel						
Kingfisher Airlines						
LIC Housing Finance						
Mahindra & Mahindra						
Money Matters Financial Services						
Oil India						
Phoenix Mills						
Tata Motors						
Tata Power						

Source: BSE, NSE, Kotak Institutional Equities

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	8-Nov-11 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2011E	EPS (Rs) 2012E	EPS (Rs) 2013E	EPS growth (%) 2011E	EPS growth (%) 2012E	EPS growth (%) 2013E	PER (X) 2011E	PER (X) 2012E	PER (X) 2013E	EV/EBITDA (X) 2011E	EV/EBITDA (X) 2012E	EV/EBITDA (X) 2013E	Price/BV (X) 2011E	Price/BV (X) 2012E	Price/BV (X) 2013E	Dividend yield (%) 2011E	Dividend yield (%) 2012E	Dividend yield (%) 2013E	RoE (%) 2011E	RoE (%) 2012E	RoE (%) 2013E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Automobiles																													
Apollo Tyres	60	BUY	30,170	610	504	8.7	7.5	9.7	(26.1)	(13.7)	28.5	6.8	7.9	6.2	5.4	4.8	4.1	1.1	1.0	0.9	0.8	0.7	0.9	20.1	14.7	16.3	85	42.0	3.4
Ashok Leyland	27	SELL	72,903	1,473	2,661	2.4	2.0	2.4	68.1	(14.0)	18.0	11.5	13.4	11.4	7.9	8.3	7.4	1.6	1.6	1.5	3.6	3.6	3.6	21.8	17.0	18.6	26	(5.1)	3.3
Bajaj Auto	1,724	SELL	498,926	10,083	289	90.4	109.2	119.0	43.9	20.8	9.0	19.1	15.8	14.5	14.5	12.3	11.2	10.1	7.4	5.6	2.3	2.3	2.3	84.9	54.1	44.2	1,665	(3.4)	16.5
Bharat Forge	290	ADD	68,900	1,392	237	12.5	16.0	20.2	1,402.1	27.9	25.8	23.2	18.1	14.4	10.8	8.9	7.4	3.1	2.6	2.2	1.2	—	—	8.2	14.0	15.1	320	10.2	1.9
Exide Industries	124	SELL	105,188	2,126	850	7.5	4.5	6.1	18.0	(39.5)	35.6	16.6	27.4	20.2	12.0	18.4	13.9	3.8	3.5	3.1	1.2	1.0	1.0	25.5	13.4	16.3	100	(19.2)	6.9
Hero Motocorp	2,120	SELL	423,304	8,555	200	99.3	120.5	135.4	(11.1)	21.3	12.4	21.3	17.6	15.7	14.2	12.8	10.8	9.1	7.8	6.5	5.0	3.3	3.3	56.5	67.0	60.0	1,900	(10.4)	25.3
Mahindra & Mahindra	836	ADD	513,089	10,370	614	41.7	46.9	52.2	22.7	12.5	11.2	20.0	17.8	16.0	15.3	13.0	11.5	4.8	4.0	3.3	1.4	1.1	1.1	27.3	24.5	22.6	900	7.7	33.4
Maruti Suzuki	1,124	ADD	324,767	6,564	289	79.2	60.3	90.5	(8.4)	(23.9)	50.1	14.2	18.6	12.4	8.7	11.8	7.0	2.3	2.1	1.8	0.7	0.7	0.7	17.6	11.8	15.7	1,240	10.3	16.4
Tata Motors	190	ADD	630,753	12,748	3,325	27.2	23.1	23.9	737.9	(15.0)	3.6	7.0	8.2	7.9	5.0	5.7	5.4	3.2	2.4	1.9	2.0	1.5	1.5	66.1	34.2	27.3	180	(5.1)	63.2
Automobiles		**Cautious**	**2,667,998**	**53,921**					**82.8**	**(4.6)**	**12.7**	**13.0**	**13.6**	**12.1**	**8.6**	**8.9**	**7.8**	**4.0**	**3.3**	**2.8**	**2.2**	**1.8**	**1.8**	**31.1**	**24.5**	**22.9**			
Banks/Financial Institutions																													
Andhra Bank	117	BUY	65,499	1,324	560	22.6	24.0	25.1	5.0	6.0	4.5	5.2	4.9	4.7	—	—	—	1.0	0.9	0.8	4.7	5.0	5.2	23.2	19.3	17.6	170	45.2	1.6
Axis Bank	1,140	BUY	483,883	9,779	424	82.5	96.1	111.8	33.0	16.4	16.3	13.8	11.9	10.2	—	—	—	2.5	2.2	1.9	1.2	1.4	1.7	19.3	19.8	19.6	1,500	31.5	55.4
Bajaj Finserv	535	ADD	77,418	1,565	145	78.2	62.7	61.4	102.3	(19.8)	(2.1)	6.8	8.5	8.7	—	—	—	2.2	1.6	1.3	2.3	2.3	2.3	37.2	21.8	16.4	650	21.5	2.8
Bank of Baroda	819	BUY	321,611	6,500	393	108.0	110.1	127.0	29.1	1.9	15.4	7.6	7.4	6.4	—	—	—	1.7	1.4	1.2	2.3	2.4	2.8	25.9	20.5	20.2	1,100	34.4	7.9
Bank of India	328	BUY	179,379	3,625	547	45.5	54.0	70.7	37.4	18.7	30.9	7.2	6.1	4.6	—	—	—	1.1	1.0	0.8	2.5	2.9	3.8	17.3	17.2	19.5	470	43.4	4.8
Canara Bank	482	BUY	213,570	4,316	443	90.9	80.9	101.5	23.3	(10.9)	25.4	5.3	6.0	4.7	—	—	—	1.2	1.0	0.9	2.3	2.5	2.5	23.2	16.7	18.1	550	14.1	6.8
Corporation Bank	428	BUY	63,467	1,283	148	95.4	95.9	109.2	16.3	0.6	13.9	4.5	4.5	3.9	—	—	—	0.9	0.8	0.7	4.7	4.7	5.3	21.9	18.5	18.3	600	40.0	0.6
Federal Bank	413	BUY	70,608	1,427	171	34.3	43.1	55.1	26.3	25.7	27.7	12.0	9.6	7.5	—	—	—	1.4	1.3	1.1	2.1	2.6	3.3	12.0	13.7	15.8	500	21.1	2.9
HDFC	680	REDUCE	997,272	20,155	1,467	24.1	27.8	31.6	22.4	15.4	13.7	28.2	24.5	21.5	—	—	—	5.8	5.1	3.9	1.3	1.5	1.8	21.7	22.1	21.3	725	6.6	38.2
HDFC Bank	484	ADD	1,126,428	22,765	2,326	16.9	22.0	28.1	31.0	30.2	27.8	28.7	22.0	17.2	—	—	—	4.4	3.8	3.3	0.7	0.9	1.1	16.7	18.7	20.5	560	15.6	37.8
ICICI Bank	881	BUY	1,015,099	20,515	1,152	44.7	56.9	60.0	23.9	27.2	5.4	19.7	15.5	14.7	—	—	—	1.8	1.7	1.6	1.6	1.9	2.0	9.7	11.5	11.2	1,100	24.8	82.3
IDFC	126	BUY	189,490	3,830	1,509	8.8	9.9	12.0	4.6	12.8	21.6	14.3	12.7	10.4	—	—	—	1.8	1.5	1.4	1.7	1.6	1.9	14.7	13.1	13.9	150	19.4	17.2
India Infoline	71	SELL	23,177	468	327	7.4	3.5	5.0	(9.3)	(52.3)	41.1	9.6	20.2	14.3	—	—	—	1.4	1.2	1.1	4.3	1.0	1.5	12.9	6.4	8.1	70	(1.3)	0.9
Indian Bank	217	BUY	93,067	1,881	430	38.8	40.9	48.3	10.5	5.5	18.1	5.6	5.3	4.5	—	—	—	1.2	1.0	0.9	3.5	3.6	4.2	22.3	19.9	20.1	300	38.5	1.3
Indian Overseas Bank	104	BUY	64,195	1,297	619	17.3	20.1	29.1	33.6	15.8	45.1	6.0	5.2	3.6	—	—	—	0.8	0.7	0.6	4.8	4.1	4.5	12.7	12.7	16.3	160	54.2	1.4
IndusInd Bank	276	BUY	128,723	2,602	466	12.4	15.6	18.2	45.2	26.1	16.6	22.3	17.7	15.2	—	—	—	3.5	3.1	2.7	0.7	0.9	1.1	20.8	18.1	17.8	325	17.6	3.6
J&K Bank	814	ADD	39,473	798	48	126.9	149.9	160.5	20.1	18.1	7.1	6.4	5.4	5.1	—	—	—	1.1	1.0	0.9	3.2	3.8	4.0	19.0	19.4	18.0	950	16.7	0.5
LIC Housing Finance	235	ADD	111,708	2,258	475	20.5	22.9	27.5	47.2	11.4	20.4	11.5	10.3	8.5	—	—	—	2.8	2.4	2.0	1.9	2.1	2.5	25.8	23.7	23.9	260	10.5	17.6
Mahindra & Mahindra Financial	676	BUY	69,247	1,400	102	45.2	55.7	70.7	26.1	23.2	26.9	14.9	12.1	9.6	—	—	—	2.8	2.5	2.1	1.5	1.8	2.3	22.0	21.1	22.8	825	22.1	1.2
Muthoot Finance	188	BUY	69,900	1,413	371	15.7	21.6	26.7	108.4	37.1	23.7	11.9	8.7	7.0	—	—	—	5.2	2.3	1.7	—	—	—	51.5	36.7	28.1	230	22.2	—
Oriental Bank of Commerce	298	BUY	86,886	1,756	292	51.5	48.0	59.5	13.7	(6.9)	23.9	5.8	6.2	5.0	—	—	—	0.9	0.8	0.7	3.5	3.3	4.0	15.5	12.1	13.6	430	44.4	3.5
PFC	170	BUY	224,851	4,544	1,320	22.8	23.4	28.3	11.1	2.4	21.3	7.5	7.3	6.0	—	—	—	1.5	1.1	1.0	2.3	2.7	3.3	18.4	17.0	16.7	225	32.1	10.1
Punjab National Bank	978	BUY	309,922	6,264	317	140.0	157.0	181.8	13.0	12.2	15.8	7.0	6.2	5.4	—	—	—	1.5	1.3	1.1	2.2	3.3	3.8	24.4	22.7	22.1	1,350	38.0	8.5
Reliance Capital	376	REDUCE	92,495	1,869	246	9.3	16.5	24.8	(25.3)	77.0	50.4	40.4	22.8	15.2	—	—	—	1.3	1.3	1.2	1.0	1.8	2.6	3.3	5.7	8.3	470	25.1	30.3
Rural Electrification Corp.	203	BUY	199,996	4,042	987	26.0	29.0	32.5	28.1	11.5	12.3	7.8	7.0	6.2	—	—	—	1.6	1.4	1.2	3.7	4.1	4.6	21.5	20.8	20.4	240	18.5	8.8
Shriram Transport	588	REDUCE	131,184	2,651	223	55.1	65.6	75.3	40.8	19.0	14.8	10.7	9.0	7.8	—	—	—	2.7	2.3	1.9	1.1	2.2	2.6	28.1	26.8	25.2	700	19.1	6.2
SKS Microfinance	193	RS	14,197	287	74	15.7	(89.1)	(27.5)	(41.8)	(667.7)	(69.1)	12.3	(2.2)	(7.0)	—	—	—	0.8	1.2	1.4	—	—	—	8.3	(44.7)	(19.3)	—	—	2.2
State Bank of India	1,997	BUY	1,268,284	25,632	635	130.2	195.6	256.1	(9.9)	50.3	30.9	15.3	10.2	7.8	—	—	—	2.0	1.7	1.4	1.7	1.8	1.9	12.6	17.8	20.0	2,750	37.7	138.9
Union Bank	230	BUY	120,570	2,437	524	39.5	43.0	56.1	(3.9)	9.0	30.3	5.8	5.3	4.1	—	—	—	1.1	0.9	0.8	3.5	3.8	4.9	20.9	19.0	21.2	340	47.9	5.2
Yes Bank	309	BUY	107,390	2,170	347	20.9	26.2	31.9	39.6	25.3	21.5	14.8	11.8	9.7	—	—	—	2.8	2.3	1.9	0.8	1.0	1.2	21.1	21.8	21.9	420	35.8	17.6
Banks/Financial Institutions		**Attractive**	**7,958,988**	**160,853**					**20.0**	**17.5**	**22.0**	**13.0**	**11.1**	**9.1**	—	—	—	**2.1**	**1.8**	**1.6**	**1.7**	**1.9**	**2.2**	**16.0**	**16.3**	**17.1**			
Cement																													
ACC	1,219	SELL	228,951	4,627	188	55.6	57.3	69.0	(33.2)	3.1	20.4	21.9	21.3	17.7	13.6	12.2	9.5	3.4	3.0	2.7	2.9	1.9	1.9	17.5	16.5	17.4	980	(19.6)	7.4
Ambuja Cements	163	SELL	247,995	5,012	1,522	7.9	7.9	9.8	(1.5)	(0.2)	24.8	20.7	20.7	16.6	12.7	11.6	9.1	3.2	2.9	2.6	1.3	1.4	1.5	16.6	14.8	16.8	135	(17.1)	7.4
Grasim Industries	2,520	BUY	231,125	4,671	92	232.0	254.4	271.5	(22.9)	9.7	6.7	10.9	9.9	9.3	6.6	5.2	4.5	1.6	1.4	1.2	0.8	1.4	1.4	15.7	15.0	14.1	2,900	15.1	3.6
India Cements	80	ADD	24,574	497	307	1.9	8.3	9.2	(81.2)	339.0	10.4	42.3	9.6	8.7	14.9	6.0	5.4	0.6	0.5	0.5	2.0	4.0	4.0	1.4	6.2	6.5	82	2.5	1.8
Shree Cement	1,995	REDUCE	69,492	1,404	35	57.2	83.1	132.9	(72.5)	45.5	59.8	34.9	24.0	15.0	7.8	7.3	5.1	3.6	3.4	2.9	0.5	0.5	0.5	10.7	14.5	20.7	1,730	(13.3)	0.7
UltraTech Cement	1,158	ADD	317,325	6,413	274	44.9	75.7	89.7	(49.2)	68.7	18.5	25.8	15.3	12.9	12.6	8.2	6.7	2.6	2.2	1.9	0.4	0.5	0.5	16.7	17.8	17.9	1,220	5.4	3.7
Cement		**Neutral**	**1,119,461**	**22,625**					**(23.7)**	**23.3**	**17.4**	**19.1**	**15.5**	**13.2**	**10.1**	**7.8**	**6.4**	**2.3**	**2.1**	**1.9**	**1.2**	**1.2**	**1.3**	**12.2**	**13.5**	**14.0**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

	8-Nov-11		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US$ mn)	(mn)	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	(Rs)	(%)	(US$ mn)
Consumer products																													
Asian Paints	3,160	SELL	303,126	6,126	96	80.8	97.0	111.8	13.0	20.1	15.2	39.1	32.6	28.3	26.1	22.3	17.6	14.8	11.3	9.1	1.0	0.9	1.1	43.9	40.8	36.6	2,900	(8.2)	4.0
Colgate-Palmolive (India)	1,068	SELL	145,261	2,936	136	29.6	32.5	39.1	(4.9)	9.9	20.3	36.1	32.8	27.3	31.5	28.2	22.8	37.8	38.5	30.7	2.1	2.6	2.6	113.4	116.1	124.9	900	(15.7)	1.7
Dabur India	100	SELL	173,515	3,507	1,740	3.3	3.7	4.4	12.8	12.7	20.6	30.5	27.1	22.5	24.7	20.4	17.1	13.2	10.3	8.1	1.2	1.3	1.6	51.2	43.3	40.8	110	10.3	2.8
GlaxoSmithkline Consumer (a)	2,558	ADD	107,580	2,174	42	71.3	86.6	104.1	28.8	21.5	20.1	35.9	29.5	24.6	26.0	22.8	19.1	11.5	9.7	8.2	2.0	1.5	1.8	32.2	34.8	35.2	2,900	13.4	1.4
Godrej Consumer Products	416	ADD	134,500	2,718	324	14.9	17.6	22.5	31.3	18.6	27.6	27.9	23.6	18.5	23.8	18.1	13.7	7.8	5.7	4.6	1.2	0.8	0.8	35.9	28.6	29.1	510	22.7	2.2
Hindustan Unilever	381	ADD	822,098	16,615	2,159	9.9	11.8	14.2	4.8	19.7	19.7	38.5	32.2	26.9	33.0	26.4	21.0	31.2	26.9	23.0	2.0	2.6	3.1	66.3	89.8	92.4	420	10.3	23.0
ITC	211	ADD	1,619,086	32,722	7,681	6.4	7.9	9.0	20.7	22.5	14.1	32.9	26.8	23.5	21.8	18.3	15.8	9.7	8.3	7.3	2.1	1.8	2.1	33.2	34.9	34.3	230	9.1	33.1
Jubilant Foodworks	804	SELL	52,733	1,066	66	11.2	16.1	23.6	99.6	43.8	46.5	71.8	49.9	34.1	43.9	27.5	19.0	27.5	17.7	11.7	—	—	—	46.6	43.2	41.3	750	(6.7)	31.3
Jyothy Laboratories	135	ADD	10,857	219	81	10.5	9.4	11.8	(5.0)	(10.1)	25.2	12.8	14.3	11.4	10.0	8.7	7.1	1.6	1.5	1.4	4.3	3.5	4.3	12.3	11.1	12.9	220	63.4	0.4
Marico	149	ADD	91,418	1,848	615	3.9	5.0	6.5	(12.8)	28.1	30.2	38.3	29.9	23.0	23.6	21.1	16.2	9.8	7.7	6.0	0.4	0.5	0.6	30.3	29.2	29.7	175	17.8	1.2
Nestle India (a)	4,365	SELL	420,840	8,505	96	86.8	106.6	125.0	16.7	22.8	17.3	50.3	40.9	34.9	33.5	27.1	22.6	49.2	34.9	26.0	1.1	1.4	1.6	116.5	99.7	85.4	3,600	(17.5)	2.0
Tata Global Beverages	91	ADD	56,120	1,134	618	4.0	5.6	6.6	(34.6)	42.6	16.8	22.9	16.1	13.8	8.9	9.1	7.2	1.1	1.1	1.1	2.2	3.1	3.7	6.5	8.9	10.0	110	21.2	3.2
Titan Industries	222	ADD	197,000	3,981	888	4.8	6.8	8.3	69.1	40.4	22.0	45.8	32.6	26.8	33.5	22.7	18.1	18.1	13.4	10.3	0.6	1.0	1.4	47.1	47.2	43.5	240	8.2	17.1
United Spirits	874	ADD	109,807	2,219	126	29.5	39.2	50.6	8.3	32.8	29.0	29.6	22.3	17.3	15.5	11.9	10.2	2.5	2.3	2.0	0.4	0.3	0.4	9.1	10.7	12.5	1,100	25.8	5.6
Consumer products		**Attractive**	**4,243,940**	**85,771**					**15.6**	**21.4**	**18.2**	**35.5**	**29.3**	**24.8**	**24.8**	**20.4**	**16.9**	**10.9**	**9.3**	**8.0**	**1.7**	**1.7**	**2.0**	**30.7**	**31.9**	**32.4**			
Constructions																													
IVRCL	40	BUY	10,694	216	267	5.9	5.7	6.6	(25.2)	(4.1)	15.6	6.8	7.1	6.1	5.9	5.6	5.5	0.5	0.5	0.5	1.0	1.0	1.0	8.2	7.3	7.9	75	87.3	5.1
Nagarjuna Construction Co.	55	BUY	14,048	284	257	6.4	4.1	5.5	(29.7)	(35.5)	32.7	8.6	13.3	10.0	7.7	8.0	7.2	0.6	0.6	0.6	1.9	3.7	3.7	7.1	4.4	5.7	85	55.3	1.3
Punj Lloyd	59	REDUCE	20,019	405	340	(1.5)	3.4	6.5	(56.6)	(328.7)	90.7	(39.7)	17.4	9.1	13.0	7.1	6.0	0.7	0.6	0.6	(0.1)	0.5	1.0	(1.7)	3.8	6.9	60	1.8	5.0
Sadbhav Engineering	136	BUY	20,346	411	150	7.8	10.8	11.9	51.0	38.9	10.6	17.5	12.6	11.4	10.4	8.3	7.6	3.2	2.6	2.1	0.4	0.4	0.4	18.1	20.4	18.6	180	32.6	0.3
Construction		**Attractive**	**65,106**	**1,316**					**(1.1)**	**37.8**	**33.7**	**16.8**	**12.2**	**9.1**	**8.8**	**7.1**	**6.4**	**0.8**	**0.8**	**0.7**	**0.7**	**1.2**	**1.4**	**4.8**	**6.3**	**7.9**			
Energy																													
Aban Offshore	436	BUY	18,969	383	44	134.2	99.1	102.6	25.9	(26.1)	3.5	3.2	4.4	4.2	6.6	6.9	6.5	0.9	0.9	0.7	0.8	0.9	1.0	33.3	21.9	17.9	670	53.7	7.4
Bharat Petroleum	603	ADD	218,171	4,409	362	38.9	33.0	49.5	(32.5)	(15.2)	49.9	15.5	18.3	12.2	10.2	9.8	7.8	1.4	1.4	1.3	2.3	1.8	2.7	9.2	7.3	10.4	720	19.3	5.6
Cairn india	322	REDUCE	611,466	12,358	1,902	33.3	40.4	49.3	501.1	21.2	22.2	9.7	8.0	6.5	7.1	5.0	4.2	1.5	1.3	1.2	—	1.6	4.7	16.9	17.7	19.5	295	(8.2)	12.0
Castrol India (a)	474	SELL	117,174	2,368	247	19.8	19.7	21.6	28.5	(0.6)	9.9	23.9	24.1	21.9	15.3	16.4	14.6	22.7	21.1	19.7	3.2	3.3	3.6	100.2	91.0	93.0	410	(13.5)	0.8
GAIL (India)	422	BUY	534,791	10,808	1,268	28.2	31.8	33.8	13.8	12.8	6.5	15.0	13.3	12.5	9.5	9.5	8.5	2.6	2.2	1.9	1.8	2.0	2.3	17.5	17.1	15.8	535	26.9	8.8
GSPL	102	SELL	57,271	1,157	563	8.9	8.5	8.4	21.7	(4.0)	(1.2)	11.4	11.9	12.1	7.2	7.0	6.8	2.5	2.1	1.9	1.0	1.7	2.5	25.2	19.3	16.4	92	(9.6)	3.1
Hindustan Petroleum	332	ADD	112,670	2,277	339	40.8	14.0	28.7	(20.8)	(65.8)	105.7	8.1	23.8	11.6	3.7	5.3	3.9	0.7	0.7	0.7	4.2	1.3	2.7	9.0	2.8	5.6	385	15.8	6.4
Indian Oil Corporation	299	BUY	726,685	14,686	2,428	32.4	28.4	32.1	(34.0)	(12.5)	12.9	9.2	10.5	9.3	8.7	7.6	6.6	1.2	1.2	1.1	3.2	2.9	3.3	13.3	10.8	11.3	385	28.6	3.8
Oil India	1,305	BUY	313,751	6,341	240	120.0	171.7	190.1	4.2	43.1	10.7	10.9	7.6	6.9	5.5	3.0	2.5	1.9	1.6	1.4	2.9	4.2	4.6	16.2	20.1	19.4	1,750	34.1	1.8
Oil & Natural Gas Corporation	278	BUY	2,376,723	48,034	8,556	24.7	34.4	37.9	7.4	39.5	10.2	11.3	8.1	7.3	4.3	3.5	2.8	1.6	1.4	1.2	3.1	4.0	4.3	14.3	17.6	17.1	355	27.8	24.9
Petronet LNG	172	SELL	128,925	2,606	750	8.1	13.3	12.8	50.3	64.1	(3.5)	21.2	12.9	13.4	12.2	8.8	9.1	4.3	3.4	2.8	1.2	1.7	1.7	20.9	28.1	21.9	135	(21.5)	9.4
Reliance Industries	884	ADD	2,634,310	53,240	2,981	62.0	70.3	71.1	24.8	13.5	1.1	14.3	12.6	12.4	7.7	6.5	6.2	1.6	1.4	1.3	0.9	1.0	1.1	13.0	13.3	12.0	1,000	13.2	89.3
Energy		**Attractive**	**7,850,907**	**158,668**					**11.6**	**20.1**	**7.8**	**11.7**	**9.7**	**9.0**	**6.5**	**5.4**	**4.7**	**1.6**	**1.4**	**1.3**	**2.0**	**2.4**	**2.9**	**13.8**	**14.8**	**14.3**			
Industrials																													
ABB	710	SELL	150,519	3,042	212	3.0	17.1	26.4	(82.2)	473.2	54.5	238.0	41.5	26.9	172.5	27.9	17.3	6.2	5.6	4.7	0.3	0.5	0.5	2.6	14.1	19.0	660	(7.1)	1.9
BGR Energy Systems	337	REDUCE	24,302	491	72	44.8	40.4	39.0	60.0	(9.7)	(3.5)	7.5	8.3	8.6	5.1	4.6	4.3	2.6	2.1	1.7	3.0	2.4	2.3	39.0	27.4	21.9	400	18.8	4.8
Bharat Electronics	1,581	ADD	126,476	2,556	80	107.3	127.2	134.5	11.6	18.6	5.7	14.7	12.4	11.8	6.8	6.3	4.9	2.5	2.1	1.9	1.4	1.6	1.6	18.2	18.3	16.9	1,850	17.0	0.8
Bharat Heavy Electricals	335	REDUCE	820,191	16,576	2,448	24.6	25.3	27.5	39.7	3.0	8.5	13.6	13.2	12.2	9.1	8.4	7.6	4.1	3.3	2.7	1.9	1.6	1.8	33.3	27.6	24.6	360	7.4	24.0
Crompton Greaves	147	ADD	93,980	1,899	642	14.3	9.3	11.2	11.5	(34.8)	20.1	10.2	15.7	13.1	6.6	9.5	7.6	2.9	2.5	2.1	1.6	1.0	1.1	31.7	17.0	17.7	160	9.2	8.2
Larsen & Toubro	1,393	REDUCE	847,885	17,136	609	67.7	78.3	87.5	18.1	15.6	11.8	20.6	17.8	15.9	14.8	11.5	10.5	3.2	2.7	2.3	1.0	1.0	1.0	17.0	16.3	15.5	1,425	2.3	70.8
Maharashtra Seamless	335	BUY	23,638	478	71	46.1	41.6	46.7	19.3	(9.7)	12.3	7.3	8.1	7.2	3.7	3.8	3.0	0.9	0.9	0.8	2.5	2.5	2.8	13.3	11.1	11.5	460	37.3	0.4
Siemens	851	SELL	286,839	5,797	337	22.4	28.9	32.5	39.5	28.8	12.3	37.9	29.4	26.2	22.4	18.8	16.4	8.8	7.2	5.9	0.6	0.7	0.8	25.2	26.9	24.8	830	(2.4)	2.6
Suzlon Energy	37	REDUCE	64,847	1,311	1,746	(6.0)	1.9	3.8	(4.6)	(132.4)	96.6	(6.2)	19.1	9.7	19.7	7.2	6.0	0.9	0.9	0.9	—	0.5	0.5	(15.8)	4.9	9.2	40	7.7	14.5
Tecpro Systems	219	ADD	11,031	223	50	27.0	29.4	32.7	24.2	8.9	11.4	8.1	7.4	6.7	5.2	5.4	4.7	1.7	1.4	1.2	—	—	—	26.8	20.5	19.6	300	37.3	0.1
Thermax	491	ADD	58,532	1,183	119	31.6	33.9	33.7	44.3	7.2	(0.7)	15.5	14.5	14.6	10.3	9.6	9.2	4.5	3.7	3.1	1.8	1.9	1.9	31.5	27.8	23.2	515	4.8	1.3
Voltas	108	BUY	35,654	721	331	9.8	8.8	9.5	(14.3)	(9.9)	7.5	11.0	12.2	11.4	6.5	6.9	5.8	2.6	2.3	1.9	1.9	2.5	(0.0)	26.1	19.8	18.3	135	25.2	3.1
Industrials		**Cautious**	**2,543,893**	**51,413**					**25.5**	**19.1**	**12.6**	**19.3**	**16.2**	**14.4**	**12.3**	**10.2**	**9.1**	**3.4**	**2.9**	**2.5**	**1.3**	**1.2**	**1.2**	**17.7**	**17.8**	**17.3**			
Infrastructure																													
Container Corporation	969	ADD	126,009	2,547	130	67.6	71.7	77.9	11.7	6.1	8.7	14.3	13.5	12.4	10.3	9.0	7.9	2.5	2.2	2.0	1.6	1.7	1.9	18.9	17.5	16.8	1,150	18.6	1.1
GMR Infrastructure	26	RS	97,003	1,960	3,667	(0.0)	(0.4)	0.5	(102.0)	3,980.8	(243.5)	(3,051.5)	(74.8)	52.1	12.5	10.8	8.7	0.9	0.9	0.9	—	—	—	(0.0)	(2.0)	2.8	—	—	2.7
Gujarat Pipavav Port	69	REDUCE	29,204	590	424	(1.2)	1.2	2.6	(65.8)	(195.8)	129.7	(57.4)	59.9	26.1	29.3	19.5	12.9	4.0	3.7	3.3	—	—	—	(9.1)	8.9	13.7	75	8.8	0.5
GVK Power & Infrastructure	14	RS	21,477	434	1,579	1.0	1.0	0.3	(0.6)	1.6	(73.4)	13.9	13.6	51.3	17.0	15.7	18.6	0.6	0.6	0.6	—	2.2	2.6	4.7	4.6	1.2	—	—	3.5
IRB Infrastructure	170	BUY	56,519	1,142	332	13.6	12.1	15.7	30.4	(10.7)	29.1	12.5	14.0	10.8	8.2	8.4	6.4	2.2	1.6	1.3	0.9	—	—	19.3	13.4	13.4	200	17.6	6.7
Mundra Port and SEZ	162	ADD	325,919	6,587	2,017	4.6	6.8	10.5	36.3	50.3	53.2	35.5	23.6	15.4	28.4	19.2	13.6	7.5	5.9	4.6	—	—	—	23.2	28.0	33.5	175	8.3	4.7
Infrastructure		**Cautious**	**656,131**	**13,261**					**16.9**	**18.8**	**42.9**	**27.9**	**23.5**	**16.4**	**15.7**	**12.9**	**10.3**	**2.4**	**2.2**	**2.0**	**0.4**	**0.4**	**0.4**	**8.7**	**9.4**	**12.1**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	8-Nov-11 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2011E	EPS (Rs) 2012E	EPS (Rs) 2013E	EPS growth (%) 2011E	EPS growth (%) 2012E	EPS growth (%) 2013E	PER (X) 2011E	PER (X) 2012E	PER (X) 2013E	EV/EBITDA (X) 2011E	EV/EBITDA (X) 2012E	EV/EBITDA (X) 2013E	Price/BV (X) 2011E	Price/BV (X) 2012E	Price/BV (X) 2013E	Dividend yield (%) 2011E	Dividend yield (%) 2012E	Dividend yield (%) 2013E	RoE (%) 2011E	RoE (%) 2012E	RoE (%) 2013E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Media																													
DB Corp	218	BUY	40,010	809	183	14.1	11.6	14.2	32.7	(18.0)	22.9	15.5	18.9	15.4	10.0	11.1	9.1	4.8	4.4	4.0	1.8	2.7	3.7	35.0	24.4	27.2	320	46.6	0.7
DishTV	75	ADD	79,923	1,615	1,062	(1.7)	0.3	1.2	(32.4)	(119.5)	282.3	(45.1)	231.8	60.6	37.3	16.5	11.8	35.8	31.0	20.5	—	—	—	(56.9)	14.3	40.8	95	26.2	5.8
Eros International	268	ADD	25,994	525	97	11.8	15.8	19.9	19.0	34.0	25.9	22.7	17.0	13.5	16.0	12.0	8.8	3.8	3.1	2.5	—	—	—	24.9	20.2	20.5	270	0.7	2.6
Hindustan Media Ventures	136	BUY	10,014	202	73	7.3	10.1	12.2	198.0	39.0	20.6	18.7	13.4	11.1	9.0	7.7	5.7	2.6	2.2	1.9	0.7	0.7	1.5	23.3	17.9	18.4	220	61.2	0.1
HT Media	138	ADD	32,465	656	235	7.6	8.5	10.4	24.8	11.7	22.2	18.1	16.2	13.3	8.4	7.2	5.6	2.3	2.2	2.1	1.4	2.9	4.3	14.9	13.8	15.9	190	37.5	0.2
Jagran Prakashan	110	BUY	34,788	703	316	6.8	6.7	8.0	16.7	(1.4)	18.7	16.1	16.4	13.8	9.6	9.4	7.9	5.0	4.4	4.1	3.2	3.2	4.5	32.8	28.5	30.8	160	45.5	0.2
Sun TV Network	290	BUY	114,244	2,309	394	19.5	20.0	23.8	48.1	2.5	18.9	14.8	14.5	12.2	8.9	8.5	7.2	4.7	4.2	3.7	3.0	3.4	4.8	36.5	32.1	33.8	400	38.0	6.1
Zee Entertainment Enterprises	121	BUY	118,138	2,388	978	5.8	6.2	7.7	10.0	6.4	23.3	20.7	19.4	15.7	13.8	12.7	10.1	2.8	2.7	2.6	1.1	1.1	1.3	14.2	14.3	16.9	160	32.5	3.7
Media		**Neutral**	**455,576**	**9,207**					**51.8**	**15.1**	**25.2**	**22.9**	**19.9**	**15.9**	**12.4**	**10.8**	**8.7**	**4.2**	**3.8**	**3.5**	**1.6**	**1.9**	**2.6**	**18.3**	**19.2**	**21.9**			
Metals & Mining																													
Coal India	327	ADD	2,067,346	41,781	6,316	17.3	24.1	29.3	13.6	39.1	21.9	18.9	13.6	11.2	11.0	7.9	6.5	5.9	4.6	3.7	1.2	2.2	2.7	35.1	38.2	36.7	454	38.7	36.0
Hindalco Industries	140	ADD	267,799	5,412	1,915	12.8	18.3	17.6	(36.0)	43.3	(4.0)	10.9	7.6	8.0	6.0	5.8	6.2	0.9	0.8	0.8	1.1	1.1	1.1	9.7	11.4	10.0	175	25.1	28.8
Hindustan Zinc	122	ADD	516,295	10,434	4,225	11.6	12.6	13.8	21.8	8.0	9.4	10.5	9.7	8.9	6.7	5.7	4.3	2.3	1.9	1.7	0.8	2.0	2.0	24.3	21.7	20.2	140	14.6	2.5
Jindal Steel and Power	573	REDUCE	535,774	10,828	934	40.2	41.5	47.9	5.1	3.3	15.5	14.3	13.8	12.0	10.5	9.7	8.8	3.8	3.0	2.4	0.3	0.3	0.3	30.9	24.5	22.6	565	(1.5)	25.2
JSW Steel	703	SELL	158,968	3,213	226	78.6	43.9	92.2	(2.2)	(44.2)	110.1	8.9	16.0	7.6	6.6	7.5	6.3	1.0	0.9	0.8	1.7	1.4	1.4	13.6	8.9	11.5	560	(20.4)	33.6
National Aluminium Co.	63	SELL	163,139	3,297	2,577	4.1	5.0	4.8	36.3	20.5	(4.1)	15.3	12.7	13.2	7.1	5.6	5.3	1.5	1.4	1.3	2.4	2.4	2.4	9.9	11.1	10.0	65	2.7	0.4
Sesa Goa	212	REDUCE	190,079	3,842	895	47.0	39.3	39.4	59.8	(16.4)	0.2	4.5	5.4	5.4	3.7	4.4	3.6	1.5	1.2	1.0	1.9	1.9	1.9	36.8	19.5	17.6	215	1.2	15.8
Sterlite Industries	124	BUY	416,285	8,413	3,361	15.2	12.9	13.9	26.2	(14.6)	7.6	8.2	9.6	8.9	5.1	4.4	3.6	1.0	0.9	0.8	0.9	1.0	1.0	13.0	10.0	9.9	165	33.2	18.4
Tata Steel	467	BUY	454,037	9,176	971	75.3	68.7	76.9	(2,258.1)	(8.8)	12.0	6.2	6.8	6.1	5.9	6.1	5.2	1.3	1.0	0.9	2.5	1.7	1.7	24.7	15.5	15.7	625	33.7	51.4
Metals & Mining		**Cautious**	**4,769,722**	**96,397**					**39.1**	**9.4**	**13.0**	**11.5**	**10.5**	**9.3**	**7.3**	**6.6**	**5.7**	**2.2**	**1.9**	**1.6**	**1.2**	**1.7**	**1.9**	**19.0**	**17.7**	**17.2**			
Pharmaceutical																													
Apollo Hospitals	577	ADD	80,087	1,619	139	13.2	17.1	21.2	21.0	29.3	24.0	43.5	33.7	27.2	19.8	14.7	12.7	4.2	3.2	2.8	—	—	—	9.8	10.3	10.5	650	12.7	1.6
Biocon	346	BUY	69,260	1,400	200	18.4	19.4	21.4	23.9	5.6	10.3	18.8	17.8	16.2	10.8	10.3	9.2	3.3	3.0	2.7	—	—	—	19.4	17.9	17.4	445	28.5	1.8
Cipla	291	REDUCE	233,570	4,720	803	12.3	15.0	16.5	(10.0)	21.8	9.8	23.6	19.4	17.7	20.4	14.1	12.0	3.5	3.1	2.7	1.0	1.0	1.2	15.4	16.6	16.4	310	6.6	8.0
Cadila Healthcare	767	REDUCE	157,001	3,173	205	34.7	38.2	45.1	40.6	9.9	18.2	22.1	20.1	17.0	19.1	16.4	12.9	7.2	5.7	4.5	0.8	1.0	1.2	37.5	31.7	29.6	900	17.4	1.5
Dishman Pharma & chemicals	49	REDUCE	3,993	81	81	9.8	8.0	8.7	(31.8)	(18.3)	8.0	5.0	6.1	5.7	7.5	5.7	5.2	0.5	0.4	0.4	—	—	—	9.6	7.2	7.3	70	42.6	0.1
Divi's Laboratories	765	ADD	101,498	2,051	133	32.4	36.5	45.3	25.7	12.9	23.9	23.6	20.9	16.9	19.5	15.3	12.1	5.6	4.8	4.1	—	—	—	25.9	24.9	26.4	845	10.5	2.0
Dr Reddy's Laboratories	1,623	REDUCE	275,871	5,575	170	64.9	82.8	98.9	932.5	27.5	19.4	25.0	19.6	16.4	17.6	13.2	10.9	6.0	4.8	3.8	0.7	0.8	0.9	24.8	27.1	25.8	1,660	2.3	10.2
GlaxoSmithkline Pharmaceuticals (a)	2,045	SELL	173,239	3,501	85	68.3	75.5	83.3	15.5	10.6	10.3	30.0	27.1	24.6	19.8	19.0	16.5	8.9	9.1	8.5	2.0	2.4	2.8	30.9	33.2	35.7	1,930	(5.6)	1.4
Glenmark Pharmaceuticals	322	ADD	87,088	1,760	270	17.0	26.2	23.5	33.6	54.5	(10.3)	19.0	12.3	13.7	21.0	14.1	12.0	4.3	3.2	2.6	—	—	—	20.6	29.8	21.2	395	22.7	3.3
Jubilant Life Sciences	210	REDUCE	33,501	677	159	14.4	19.3	26.4	(45.6)	34.0	36.8	14.6	10.9	8.0	11.4	7.6	7.3	1.5	1.4	1.2	0.9	1.0	1.4	12.3	17.7	16.0	210	(0.1)	0.8
Lupin	481	ADD	215,424	4,354	448	19.2	22.3	26.3	25.6	15.9	18.0	25.0	21.5	18.3	20.9	18.0	13.3	6.5	5.1	4.2	0.6	0.7	0.9	29.5	27.5	25.7	530	10.3	8.4
Ranbaxy Laboratories	497	SELL	210,202	4,248	423	40.6	16.9	20.8	475.0	(58.3)	22.7	12.2	29.3	23.9	15.0	25.4	19.8	3.7	3.2	2.9	—	—	—	34.5	11.9	12.8	435	(12.4)	6.5
Sun Pharmaceuticals	499	ADD	517,179	10,452	1,036	17.5	20.1	24.3	34.4	14.8	20.8	28.5	24.8	20.5	24.3	19.5	15.8	5.0	4.2	3.6	0.7	0.8	1.0	21.0	20.2	20.7	560	12.1	10.7
Pharmaceuticals		**Neutral**	**2,157,911**	**43,612**					**43.1**	**8.2**	**15.7**	**22.6**	**20.9**	**18.1**	**18.2**	**14.9**	**12.2**	**3.6**	**3.1**	**2.7**	**0.7**	**0.8**	**1.0**	**16.0**	**14.8**	**14.8**			
Property																													
DLF	243	BUY	416,212	8,412	1,715	9.1	11.9	15.7	(14.5)	31.3	31.8	26.7	20.4	15.5	17.1	13.5	10.3	1.6	1.5	1.4	0.8	1.0	1.2	5.4	7.5	9.2	270	11.2	33.6
Housing Development & Infrastructure	100	BUY	44,500	899	445	19.8	28.7	34.3	24.0	44.8	19.7	5.1	3.5	2.9	5.2	3.6	3.1	0.5	0.4	0.3	—	1.0	1.5	10.0	12.3	12.7	150	50.0	19.1
Indiabulls Real Estate	75	RS	30,007	606	402	4.0	8.5	15.4	(1,095.5)	114.1	81.5	18.8	8.8	4.8	13.3	10.7	4.6	0.3	0.2	0.2	—	0.7	0.9	1.4	2.9	5.0	—	—	7.8
Mahindra Life Space Developer	308	BUY	12,561	254	41	24.9	30.8	37.5	30.2	23.7	21.6	12.3	10.0	8.2	9.4	6.7	5.0	1.2	1.1	1.0	1.6	1.5	1.6	10.4	11.6	12.7	450	46.2	0.1
Oberoi Realty	229	BUY	75,380	1,523	330	15.7	17.2	27.4	14.8	9.7	59.3	14.6	13.3	8.3	10.6	9.2	5.0	2.3	2.0	1.6	0.4	0.7	1.1	19.9	15.8	21.4	310	35.6	0.3
Phoenix Mills	202	BUY	29,194	590	145	6.3	7.4	10.7	53.0	17.2	44.1	31.9	27.2	18.9	23.5	19.7	14.7	1.8	1.7	1.6	0.9	1.0	1.0	5.8	6.6	8.9	300	48.8	0.1
Puravankara Projects	77	ADD	16,519	334	213	5.5	9.0	10.9	(18.9)	62.8	21.5	14.0	8.6	7.1	18.7	10.3	8.6	1.1	1.0	0.9	1.3	1.9	2.6	8.0	12.0	13.1	80	3.4	0.0
Sobha Developers	240	BUY	23,530	476	98	18.8	20.6	27.2	33.8	9.2	32.2	12.7	11.7	8.8	11.3	10.2	7.2	1.2	1.2	1.0	1.3	1.5	1.7	10.2	10.3	12.4	370	54.2	0.6
Unitech	29	RS	75,742	1,531	2,616	2.3	2.6	2.7	(23.4)	12.8	4.9	12.5	11.1	10.5	14.0	11.4	9.3	0.7	0.6	0.5	—	0.7	1.0	5.4	5.7	5.4	—	—	14.3
Property		**Cautious**	**761,437**	**15,389**					**5.3**	**42.1**	**31.3**	**17.8**	**12.5**	**9.5**	**13.9**	**10.1**	**7.5**	**1.1**	**1.0**	**0.9**	**0.7**	**1.0**	**1.3**	**6.1**	**8.0**	**9.5**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

	8-Nov-11		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US$ mn)	(mn)	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	(Rs)	(%)	(US$ mn)
Sugar																													
Bajaj Hindustan	34	REDUCE	7,697	156	228	1.9	3.7	1.6	(28.7)	90.5	(57.3)	17.5	9.2	21.5	16.6	5.5	5.2	0.3	0.2	0.2	1.7	1.7	1.7	1.7	2.7	1.1	60	78.0	2.1
Balrampur Chini Mills	53	BUY	13,051	264	247	6.7	4.0	7.7	111.0	(40.5)	94.0	7.9	13.3	6.8	11.1	8.8	5.9	0.9	0.9	0.8	1.5	1.4	1.4	11.6	6.5	11.9	80	51.4	1.7
Shree Renuka Sugars	57	BUY	38,212	772	670	10.5	6.4	5.0	214.7	(39.4)	(21.0)	5.4	9.0	11.3	8.3	6.5	5.4	1.5	1.3	1.2	1.8	1.8	1.8	34.4	16.1	11.4	75	31.6	7.5
Sugar		**Cautious**	**58,960**	**1,192**					**122.4**	**(24.7)**	**(7.4)**	**7.3**	**9.7**	**10.5**	**10.5**	**6.4**	**5.4**	**0.8**	**0.8**	**0.7**	**1.7**	**1.7**	**1.7**	**11.6**	**8.1**	**7.0**			
Technology																													
HCL Technologies	428	REDUCE	302,057	6,105	705	22.9	33.0	38.7	30.4	44.2	17.3	18.7	13.0	11.1	11.4	7.9	6.7	3.6	2.8	2.3	1.7	1.9	1.9	21.0	23.2	22.8	450	5.0	11.5
Hexaware Technologies	89	ADD	25,773	521	290	3.0	8.4	8.8	(36.8)	186.0	3.8	30.0	10.5	10.1	22.9	8.8	6.9	2.7	2.3	2.1	1.7	3.4	3.7	9.3	23.7	21.6	100	12.7	2.9
Infosys Technologies	2,842	BUY	1,631,365	32,970	574	119.7	145.6	175.0	10.5	21.6	20.2	23.7	19.5	16.2	16.3	13.2	10.5	6.3	5.2	4.3	2.1	1.6	2.0	28.0	29.2	29.2	3,300	16.1	90.6
Mahindra Satyam	73	SELL	85,436	1,727	1,176	4.2	6.7	7.0	68.9	58.4	4.7	17.3	10.9	10.4	12.8	6.5	5.1	5.0	3.4	2.6	—	—	—	27.6	37.1	28.2	70	(3.6)	8.2
Mindtree	394	ADD	16,205	328	41	24.7	42.0	45.4	(52.7)	70.2	8.1	15.9	9.4	8.7	8.9	6.2	4.8	2.1	1.7	1.5	0.6	1.1	3.5	14.4	20.3	18.9	460	16.8	0.7
Mphasis BFL	339	SELL	71,488	1,445	211	51.8	38.6	30.0	18.8	(25.5)	(22.2)	6.6	8.8	11.3	5.5	6.6	7.1	2.2	1.8	1.6	1.2	1.3	1.5	38.6	22.3	14.8	300	(11.6)	3.1
Patni Computer Systems	361	ADD	48,092	972	133	42.6	30.3	34.3	16.5	(29.0)	13.5	8.5	11.9	10.5	5.1	4.8	3.4	1.5	1.4	1.2	18.3	1.7	1.9	18.4	9.6	12.3	400	10.8	2.5
Polaris Software Lab	139	REDUCE	13,868	280	100	19.3	20.3	20.8	25.7	5.0	2.8	7.2	6.9	6.7	4.1	3.0	2.5	1.3	1.1	1.0	2.7	2.8	2.9	20.2	18.0	16.0	145	4.2	2.1
TCS	1,105	BUY	2,163,195	43,719	1,957	44.5	54.5	66.6	26.8	22.4	22.1	24.8	20.3	16.6	18.8	14.4	11.6	8.6	7.0	5.7	1.6	2.0	2.4	37.8	38.0	37.9	1,260	14.0	47.9
Tech Mahindra	616	SELL	77,585	1,568	126	48.8	72.1	75.5	(25.2)	47.8	4.7	12.6	8.5	8.2	8.7	8.7	7.6	2.3	2.0	1.8	0.6	0.6	1.6	20.5	26.0	23.8	600	(2.6)	3.2
Wipro	369	ADD	906,262	18,316	2,454	21.6	22.6	26.4	14.5	4.7	16.9	17.1	16.3	14.0	12.6	10.9	9.2	3.8	3.2	2.7	1.2	1.3	1.6	24.3	21.2	21.0	410	11.0	12.0
Technology		**Attractive**	**5,341,327**	**107,949**					**17.1**	**18.6**	**17.7**	**20.8**	**17.5**	**14.9**	**15.0**	**12.1**	**9.9**	**5.5**	**4.5**	**3.8**	**1.8**	**1.7**	**2.0**	**26.2**	**25.7**	**25.3**			
Telecom																													
Bharti Airtel	397	ADD	1,508,217	30,481	3,798	15.9	15.6	26.3	(32.6)	(1.8)	68.3	24.9	25.4	15.1	10.6	8.5	6.4	3.1	2.8	2.3	—	—	—	13.3	11.5	16.7	445	12.0	39.8
IDEA	96	ADD	318,603	6,439	3,303	2.7	2.3	5.0	(0.5)	(16.9)	120.0	35.4	42.6	19.4	11.3	8.7	6.5	2.6	2.4	2.2	—	—	—	7.6	5.9	11.9	115	19.2	13.1
MTNL	31	SELL	19,562	395	630	(10.4)	(9.1)	(8.4)	(33.7)	(11.9)	(8.1)	(3.0)	(3.4)	(3.7)	0.9	1.2	1.6	0.2	0.2	0.2	—	—	—	(6.1)	(5.7)	(5.5)	30	(3.4)	0.6
Reliance Communications	87	SELL	185,103	3,741	2,133	6.3	2.6	5.2	(71.1)	(59.4)	103.2	13.8	33.9	16.7	6.2	6.7	5.7	0.5	0.5	0.4	—	—	—	3.2	1.3	2.7	80	(7.8)	17.1
Tata Communications	187	REDUCE	53,238	1,076	285	(24.9)	(28.8)	(34.0)	(13.0)	15.6	18.1	(7.5)	(6.5)	(5.5)	10.6	9.2	9.2	1.5	2.1	3.9	—	—	—	(17.5)	(27.0)	(50.2)	180	(3.6)	0.9
Telecom		**Cautious**	**2,084,722**	**42,133**					**(45.8)**	**(15.6)**	**92.8**	**30.1**	**35.7**	**18.5**	**9.8**	**8.3**	**6.5**	**1.8**	**1.7**	**1.6**	—	—	—	**6.0**	**4.8**	**8.5**			
Utilities																													
Adani Power	86	REDUCE	205,337	4,150	2,393	2.4	11.0	15.0	200.7	368.5	35.8	36.4	7.8	5.7	36.3	7.6	4.9	3.3	2.2	1.6	—	—	—	8.5	33.5	31.8	100	16.6	1.7
CESC	280	BUY	34,982	707	125	37.7	42.5	51.3	9.1	12.7	20.8	7.4	6.6	5.5	5.4	5.8	5.5	0.7	0.7	0.6	1.7	1.9	2.2	10.5	10.7	11.5	440	57.1	0.9
JSW Energy	52	REDUCE	85,854	1,735	1,640	5.1	4.8	4.7	12.9	(6.2)	(1.8)	10.2	10.9	11.1	11.5	7.7	6.0	1.5	1.3	1.2	(1.9)	—	—	16.1	13.0	11.3	60	14.6	1.1
Lanco Infratech	16	BUY	36,124	730	2,223	2.0	3.0	3.4	(5.8)	47.2	16.6	8.1	5.5	4.7	8.4	7.8	7.4	0.9	0.7	0.6	—	—	—	12.2	15.0	14.6	45	176.9	4.4
NHPC	25	ADD	303,213	6,128	12,301	1.3	2.1	2.2	(27.2)	52.4	5.4	18.3	12.0	11.4	12.7	9.6	8.5	1.1	1.1	1.0	2.4	2.3	2.4	6.4	9.2	9.1	29	17.6	1.9
NTPC	178	REDUCE	1,468,929	29,687	8,245	10.9	11.5	12.7	4.2	5.2	10.2	16.3	15.5	14.1	12.3	12.7	11.2	2.1	2.0	1.8	2.1	1.9	2.1	13.6	13.2	13.3	180	1.0	8.8
Reliance Infrastructure	476	BUY	126,139	2,549	265	58.0	64.1	76.3	(6.5)	10.5	19.0	8.2	7.4	6.2	8.1	4.2	3.1	0.5	0.5	0.5	2.0	2.2	2.4	6.4	11.2	12.2	920	93.4	14.6
Reliance Power	103	SELL	288,783	5,836	2,805	2.7	2.9	2.9	(5.0)	7.6	(0.5)	38.0	35.3	35.5	185.9	78.7	16.3	1.8	1.7	1.6	—	—	—	4.9	4.9	4.7	88	(14.5)	7.3
Tata Power	103	BUY	254,486	5,143	2,468	7.6	8.5	9.2	21.5	10.7	8.8	13.5	12.2	11.2	10.7	8.3	8.0	1.7	1.6	1.4	1.4	1.5	1.6	13.8	13.6	13.3	135	30.9	9.8
Utilities		**Cautious**	**2,803,847**	**56,666**					**4.5**	**23.9**	**13.0**	**16.4**	**13.2**	**11.7**	**13.9**	**10.7**	**8.7**	**1.6**	**1.5**	**1.4**	**1.6**	**1.5**	**1.7**	**10.1**	**11.3**	**11.6**			
Others																													
Carborundum Universal	168	ADD	31,397	635	187	9.1	11.3	12.8	67.7	24.1	12.8	18.4	14.8	13.1	13.1	9.2	8.1	3.7	3.0	2.5	1.1	1.4	1.6	20.7	22.3	21.3	180	7.2	0.1
Havells India	417	REDUCE	51,975	1,050	125	24.5	25.8	28.8	334.1	5.1	11.5	17.0	16.1	14.5	11.0	10.2	8.9	7.3	5.2	3.9	0.6	0.7	0.7	53.9	37.6	30.9	370	(11.2)	2.2
Jaiprakash Associates	78	BUY	166,714	3,369	2,126	6.0	6.3	7.2	230.2	3.9	15.6	13.0	12.5	10.8	12.1	10.4	9.9	1.5	1.4	1.3	—	—	—	13.3	11.7	12.3	115	46.7	26.6
Jet Airways	267	BUY	23,089	467	86	(10.1)	(69.1)	7.0	(91.0)	588	(110.1)	(26.6)	(3.9)	38.3	9.8	11.8	7.6	1.4	2.3	2.2	—	—	—	(5.0)	—	—	500	87.0	9.1
SpiceJet	25	BUY	11,012	223	441	2.5	(3.0)	3.3	(1.8)	(220.2)	(210.4)	10.0	(8.3)	7.5	14.8	(18.5)	9.6	3.4	3.5	2.4	—	—	—	(961)	(41.6)	37.7	50	100.4	1.8
Tata Chemicals	330	REDUCE	84,019	1,698	255	26.2	32.9	38.8	(0.7)	25.4	17.9	12.6	10.0	8.5	7.6	5.3	4.5	1.5	1.4	1.2	3.0	3.6	4.5	16.9	18.6	19.5	365	10.7	2.4
United Phosphorus	148	BUY	68,370	1,382	462	12.3	15.8	20.0	3.9	28.3	26.3	12.0	9.3	7.4	7.3	5.0	4.2	1.8	1.6	1.4	1.4	2.0	2.4	18.0	18.3	19.9	220	48.6	3.4
Others			**436,575**	**8,823**					**233.8**	**(4.7)**	**57.3**	**15.4**	**16.1**	**10.3**	**10.5**	**9.2**	**7.9**	**1.9**	**1.7**	**1.5**	**0.9**	**1.2**	**1.4**	**12.1**	**10.5**	**14.5**			
KS universe (b)			**45,976,499**	**929,194**					**18.5**	**15.2**	**16.9**	**15.7**	**13.6**	**11.7**	**10.1**	**8.6**	**7.3**	**2.4**	**2.1**	**1.9**	**1.5**	**1.7**	**1.9**	**15.4**	**15.6**	**16.0**			
KS universe (b) ex-Energy			**38,125,592**	**770,525**					**20.7**	**13.7**	**19.7**	**16.9**	**14.8**	**12.4**	**11.7**	**10.0**	**8.3**	**2.7**	**2.4**	**2.1**	**1.4**	**1.5**	**1.7**	**15.9**	**15.9**	**16.6**			
KS universe (d) ex-Energy & ex-Commodities			**32,236,409**	**651,504**					**19.3**	**14.4**	**21.3**	**18.0**	**15.8**	**13.0**	**13.3**	**11.2**	**9.2**	**2.8**	**2.5**	**2.1**	**1.5**	**1.5**	**1.7**	**15.5**	**15.6**	**16.5**			

Notes:

(a) For banks we have used adjusted book values.

(b) 2010 means calendar year 2009, similarly for 2011 and 2012 for these particular companies.

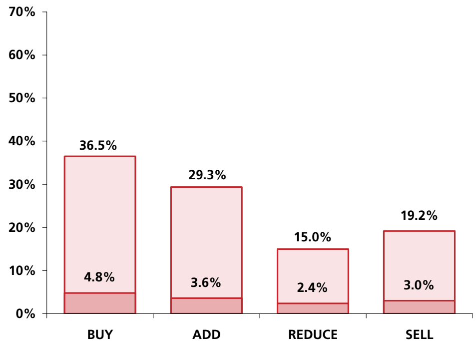
(c) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.

(d) Rupee-US Dollar exchange rate (Rs/US$)= 49.48

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



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

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

* The above categories are defined as follows: Buy = We expect this stock to outperform the BSE Sensex by 17.5% over the next 12 months; Add = We expect this stock to outperform the BSE Sensex by 7.5-17.5% over the next 12 months; Reduce = We expect this stock to underperform the BSE Sensex by 0-7.5% over the next 12 months; Sell = We expect this stock to underperform the BSE Sensex by more than 0% over the next 12 months. Our target prices are also on a 12-month horizon basis. These ratings are used illustratively to comply with applicable regulations. As of 30/09/2011 Kotak Institutional Equities Investment Research had investment ratings on 167 equity securities.

Source: Kotak Institutional Equities | As of September 30, 2011

Ratings and other definitions/identifiers

Definitions of ratings

BUY. We expect this stock to deliver more than 17.5% returns over the next 12 months.

ADD. We expect this stock to deliver 7.5-17.5% returns over the next 12 months.

REDUCE. We expect this stock to deliver 0-7.5% returns over the next 12 months.

SELL. We expect this stock to deliver less than 0% returns over the next 12 months.

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

Other definitions

Coverage view. The coverage view represents each analyst's overall fundamental outlook on the Sector. The coverage view will consist of one of the following designations: **Attractive, Neutral, Cautious.**

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