kotak® Institutional Equities

INDIA DAILY

June 11, 2013

Contents

Daily Alerts

Change in Reco

Voltas: Almost a value case; strong cash-flow characteristics even with low margin; upgrade to BUY

Company

Mahindra & Mahindra: Tractor demand recovery underway

Cairn India: Solid rupee hedge

Sector

Media: TRAI advertising limit regulation: Short-term pain

Telecom: Consolidation benefits for incumbents visible; we expect more

Utilities: Trends from the financial year gone by

EQUITY MARKETS

		Change %		
India	**10-Jun**	**1-day**	**1-mo**	**3-mo**
Sensex	19,441	0.1	(3.2)	(1.0)
Nifty	5,878	(0.1)	(3.6)	(1.1)
Global/Regional indices				
Dow Jones	15,239	(0.1)	0.8	5.5
Nasdaq Composite	3,474	0.1	1.1	6.8
FTSE	6,400	(0.2)	(3.4)	(1.6)
Nikkei	13,488	(0.2)	(7.7)	9.2
Hang Seng	21,619	0.0	(7.3)	(6.4)
KOSPI	1,922	(0.5)	(1.2)	(4.1)
Value traded – India				
Cash (NSE+BSE)	99		124	126
Derivatives (NSE)	1,164		1,200	1,487
Deri. open interest	1,318		1,534	1,339

Forex/money market

	Change, basis points			
	10-Jun	**1-day**	**1-mo**	**3-mo**
Rs/US$	58.3	5	349	394
10yr govt bond, %	7.5	10	(5)	(47)

Net investment (US$mn)

	7-Jun		**MTD**	**CYTD**
FIIs	112		221	15,326
MFs	23		(35)	(2,240)

Top movers

	Change, %			
Best performers	**10-Jun**	**1-day**	**1-mo**	**3-mo**
RCOM IN Equity	111.1	(4.7)	(0.0)	69.5
HUVR IN Equity	592.7	0.3	1.1	35.0
UNSP IN Equity	2495.2	0.8	6.7	28.4
LPC IN Equity	761.3	(0.1)	(0.6)	26.7
DRRD IN Equity	2181.5	(0.4)	4.3	20.3
Worst performers				
EDSL IN Equity	38.5	(4.9)	(47.0)	(53.5)
HDIL IN Equity	39.5	(2.8)	(27.7)	(42.2)
SUEL IN Equity	10.6	(1.9)	(26.2)	(37.6)
DLFU IN Equity	196.0	(1.3)	(17.3)	(31.6)
IVRC IN Equity	17.6	(4.3)	(11.8)	(31.4)

kotak Institutional Equities

Voltas (VOLT)

Industrials

BUY

JUNE 11, 2013

CHANGE IN RECO.

Coverage view: Cautious

Price (Rs): 80

Target price (Rs): 105

BSE-30: 19,441

Almost a value case; strong cash-flow characteristics even with low margin. We upgrade Voltas to BUY (from REDUCE) on (1) strong cash flow even at low margin (~9X FY2014-16E average FCF with nil value for real estate and potential project recoveries), (2) receding importance of international risks and reasonable domestic prospects, (3) sustained consumer business and long-term opportunity and (4) valuations after underperformance (10.3X FY2014E P/E; 7.5 EV/EBITDA; 1.5X P/B - for 15% RoE).

Company data and valuation summary

Voltas

Stock data			
52-week range (Rs) (high,low)			139-73
Market Cap. (Rs bn)			26.4
Shareholding pattern (%)			
Promoters			30.1
FIIs			18.5
MFs			5.2
Price performance (%)	**1M**	**3M**	**12M**
Absolute	(10.1)	(2.4)	(23.5)
Rel. to BSE-30	(7.2)	(1.2)	(34.3)

Forecasts/Valuations	2013	2014E	2015E
EPS (Rs)	5.9	7.8	8.8
EPS growth (%)	(37.6)	31.7	12.9
P/E (X)	13.5	10.3	9.1
Sales (Rs bn)	55.1	51.4	56.3
Net profits (Rs bn)	1.9	2.6	2.9
EBITDA (Rs bn)	2.3	3.2	3.5
EV/EBITDA (X)	9.0	5.9	4.9
ROE (%)	12.5	14.9	15.3
Div. Yield (%)	2.2	2.9	3.3

Strong cash flow even with low margin, driven by very low working capital, capex requirements

On a cash-adjusted market capitalization basis, Voltas trades at about 9X average FY2014-16E FCF even assuming low margins in the UCP (6-7%) and EMP (5%) segments. This does not ascribe value to real estate holdings and recovery of escalation from projects that can be substantial, relative to current market value. Voltas has historically generated strong free cash flow (over 90% of EBITDA over FY2005-10; annual average FCF of Rs2 bn over FY2007-10) on low working capital (average of seven days) and capex requirements (average of Rs350 mn a year) over FY2008-11.

International project risk may be receding; domestic business looking up

Risk perception of the overseas projects business is high, but its importance may be declining with (1) a declining share of projects business (as UCP has grown), (2) lower overseas share of a shrunk backlog (Rs16 bn from Rs23 bn at the end of FY2012) and (3) longer execution cycle than domestic projects (thus revenue mix favors domestic business versus the backlog mix). The EMP business had low margins in FY2013E led by (1) water (municipal project issues), (2) Rohini projects (including Rs1 bn RGGVY order), (3) Sidra execution and (4) slow project progress. As the projects get completed, the company will have fewer issues, potentially leading to improved EMP margins.

Meeting takeaway: Managing rough weather in projects; strengthening brand equity

A recent concall and meeting suggest (1) caution in taking low-margin, onerous projects as fixed overheads are small, (2) strengthening the cooling brand equity with potential product extensions, (3) forex cover for this season; Voltas is attempting to increasing manufacturing from 60-70%, (4) some positive one-offs (logistics, sourcing discounts) helped Voltas to post high margins in UCP in 4QFY13; to normalize IPL ad-spend and EMI subvention.

Upgrade to BUY on reasonable valuations; for a strong cash flow generation track record

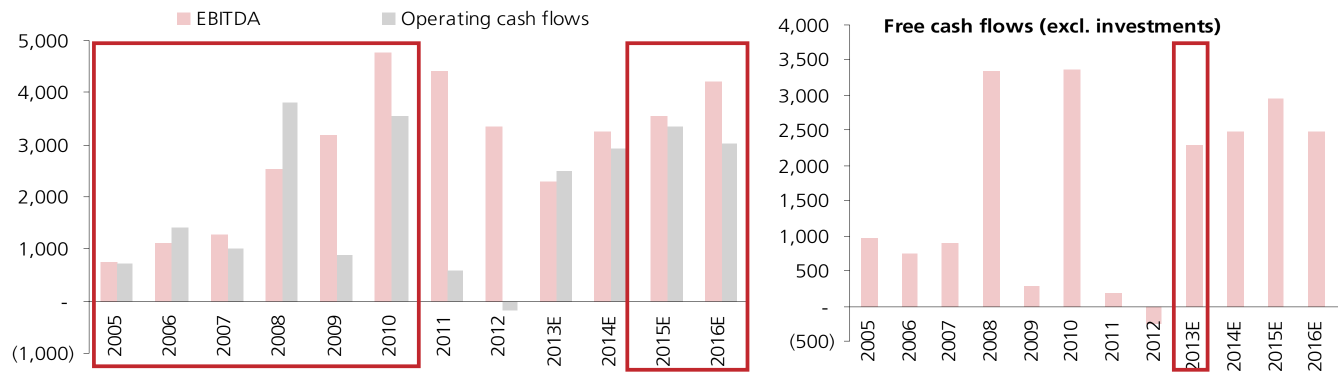
We revise estimates to Rs7.8 and Rs8.8 (from Rs7.5 and Rs8.6) for FY2014 and FY2015 and our target price to Rs105 (from Rs100). We upgrade Voltas to BUY (from REDUCE) as the current price implies reasonable valuations (risk-reward favorable) after its underperformance – trades at 10.3X FY2014E P/E, 7.5 EV/EBITDA and 1.5X P/B (for an RoE of 15%) for a strong cash-flow track record.

Strong cash-flow generation even with low margin

Voltas' business generated adequate operating cash flow over FY2005-10—it generated average operating cash flow of over 90% of EBITDA. The business also generated relatively strong free cash flow – annual average of Rs2 bn over FY2007-10 (the business does not involve any significant capex requirements).

Operating and free cash flows over FY2011-12 were adversely impacted by (1) weak operations (reported EBITDA margin of 6.5% in FY2012 and 4.1% in FY2013 versus 8.4% averaged over FY2008-11) and (2) increase in working capital requirements (increased to 54-57 days of sales over FY2012-13 versus average of seven days over FY2008-11 on declining advances and increasing debtors). FY2013 operating cash flows were better (Rs2.4 bn) on a marginal increase in working capital.

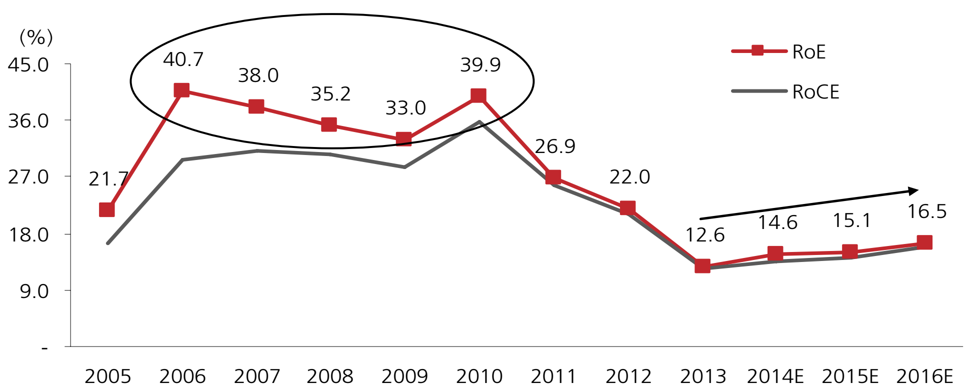
Exhibit 1: Cash flows recovered in FY2013 on stagnant working capital; historically Voltas has generated strong cash flows
Voltas' EBITDA, operating cash flow and free cash flow generation, March fiscal year-ends, 2005-15E (Rs mn)



Source: Company, Kotak Institutional Equities estimates

Note that Voltas' business also historically generated strong returns (30-40% RoE over FY2006-10).

Exhibit 2: Voltas' consolidated return ratios, March fiscal year-ends, 2005-16E (%)



Source: Company, Kotak Institutional Equities estimates

Market cap=net cash+8-9X average FCF + nil value for real estate, recoveries

We note that the current market capitalization of Rs26.4 bn, adjusted for Rs5 bn of net cash and liquid investments, implies that the stock trades and 8-9X average free cash flow over FY2014E-16E. This valuation ascribes nil value to Voltas' real estate investments in Hyderabad, Thane and Mumbai and potential recoveries from projects.

Stock has underperformed sharply versus the BSE-30 index

We note sharp and sustained underperformance by Voltas' stock price; the stock has underperformed the benchmark (Sensex) by about 34% over the past 12 months.

Exhibit 3: Relative and absolute performance of Voltas versus the Sensex (%)

	Absolute				Relative			
	1M	3M	6M	12M	1M	3M	6M	12M
Voltas	(10.1)	(2.4)	(27.6)	(23.5)	(7.2)	(1.2)	(27.7)	(34.3)
Benchmark (SENSEX)	(3.2)	(1.2)	0.2	16.3				

Source: Bloomberg

Current valuations at a sharp discount to historical valuations

We believe current valuations price-in most of the negativity related to the market weakness and may have limited downside. Voltas, presently (Rs80/share), has market capitalization of Rs26.4 bn against which the company has cash and liquid investments of Rs5 bn on the balance sheet (at the end of FY2013). The Rs21 bn of cash-adjusted market capitalization is against Rs2 bn of EBIT reported in FY2013 (at nil project margin).

The present valuation appears reasonable (trades at a sharp discount to historical valuations).

- **P/E.** Voltas trades at 10.2X rolling forward P/E, about 33% lower than the last 10-year trading average of 15X. It trades at a 27% discount to the Sensex versus a 10% premium to the Sensex P/E historically.

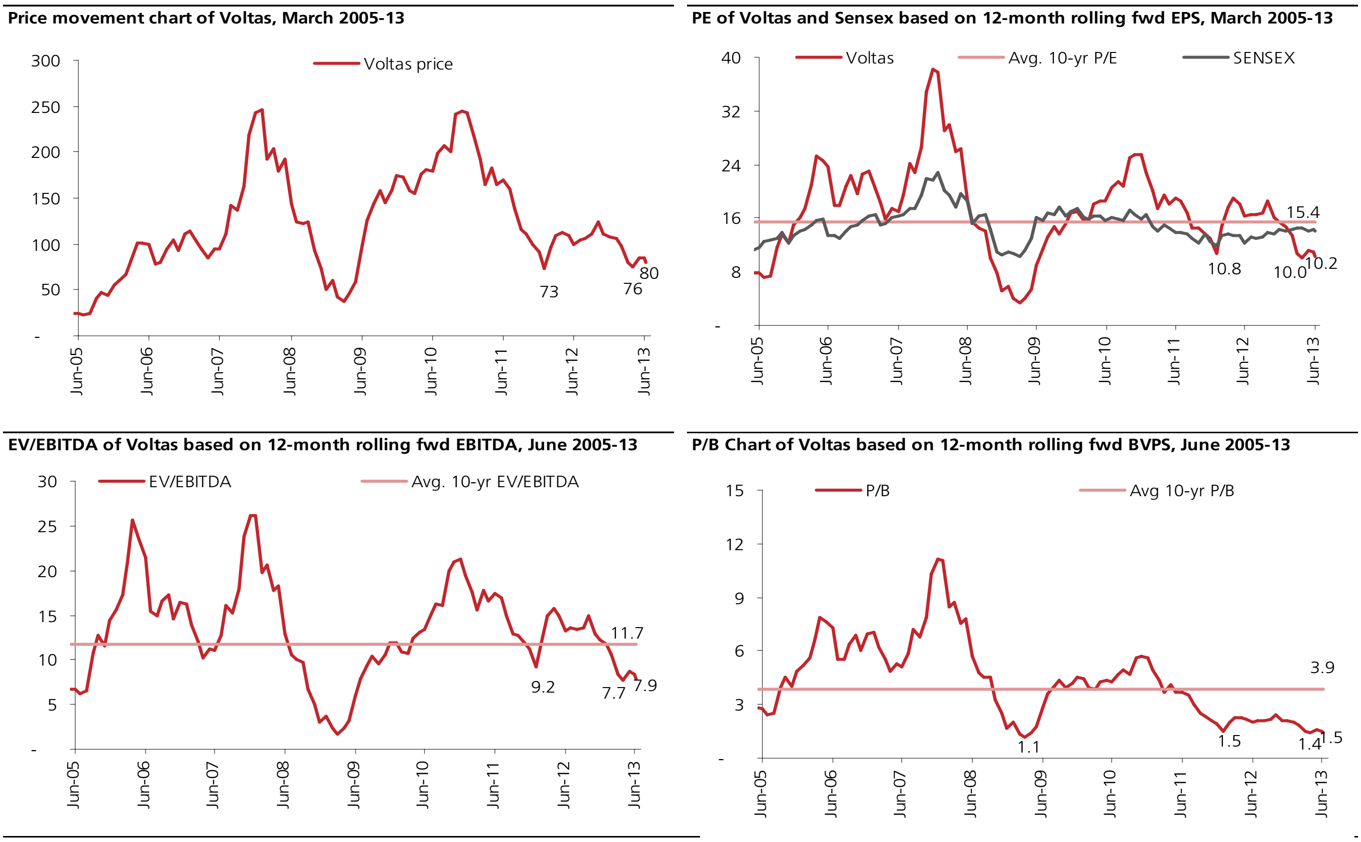
- **EV/EBITDA.** Voltas trades at 7.9X rolling forward EV/EBITDA, about 27% lower than the last 10-year trading average of 11.8X.

- **P/B.** Voltas trades at 1.5X rolling forward P/B (historical average of 3.9X) with potential RoE of 14-15%. We note that the stock rebounded from a similar P/B multiple in November 2011.

We note that while the stock price has been volatile in the past, it now trades at a one-third of its peak in October 2010.

Exhibit 4: Voltas trades significantly below its average historical multiples

Valuation charts of Voltas, June 2005-2013



Source: Company, Kotak Institutional Equities estimates

UCP: Large long-term business opportunity; near-term outlook stays strong

Voltas' Unitary Cooling Products (UCP) segment reported FY2013 sales of Rs18 bn, about a third of consolidated revenue, growing 19% yoy. The company maintained its leadership in the room AC business with about 18.5% share (though the share has dipped from about 20% at the end of 2QFY13). The company is closely followed by LG (market share) and Samsung and Panasonic (all other players have relatively smaller shares of less than 10%).

Strong sector commentary on business growth; margin though may remain weak

We believe revenue growth in FY2014E may remain strong based on strong sector commentary (Blue Star expects 20% market growth in FY2014; seeing stock outs in April). Margins for the UCP business though may face downward pressure in FY2014 on evidence of stiffer competition with several companies such as Daikin, Panasonic and Midea-Carrier slated to have started manufacturing facilities at the end of CY2012.

We note that Voltas' AC business growth in FY2013 (UCP segment revenue growth of 19%) was boosted mainly by price increases (5-7% hike) and market share gains (especially in the windows AC segment on the exit of Samsung). Strong summer demand seen in 1QFY14 may help to sustain business momentum. Note that current strong demand for ACs comes due to a declining market over the past two seasons.

We expect Voltas' UCP segment to grow by a moderate 11% in FY2014 and EBIT margin of 7% (9.4% in FY2013).

Exhibit 5: UCP segment operational details, March fiscal year-ends, 2008-16E (Rs mn)

	2008	2009	2010	2011	2012	2013E	2014E	2015E	2016E
Revenues	**8,195**	**9,223**	**11,871**	**15,608**	**15,388**	**18,356**	**20,347**	**23,228**	**25,958**
Yoy growth (%)	33.8	12.5	28.7	31.5	(1.4)	19.3	10.8	14.2	11.8
EBIT	**540**	**550**	**1,203**	**1,599**	**1,298**	**1,727**	**1,424**	**1,626**	**1,817**
EBIT margin (%)	6.6	6.0	10.1	10.2	8.4	9.4	7.0	7.0	7.0

Build moderation in revenues in FY2014E

Margins to contract another 250 bps on rising competitive pressure

Source: Company, Kotak Institutional Equities estimates

Long-term business opportunity remains strong

We believe the long-term business opportunity for this segment remains strong, based on low penetration of room ACs in India – note annual AC sales of only about 3.5 mn units in FY2013 versus about 2.5 mn of annual car sales in the country.

EMP: Market weak, though business may see some stability on Sidra completion

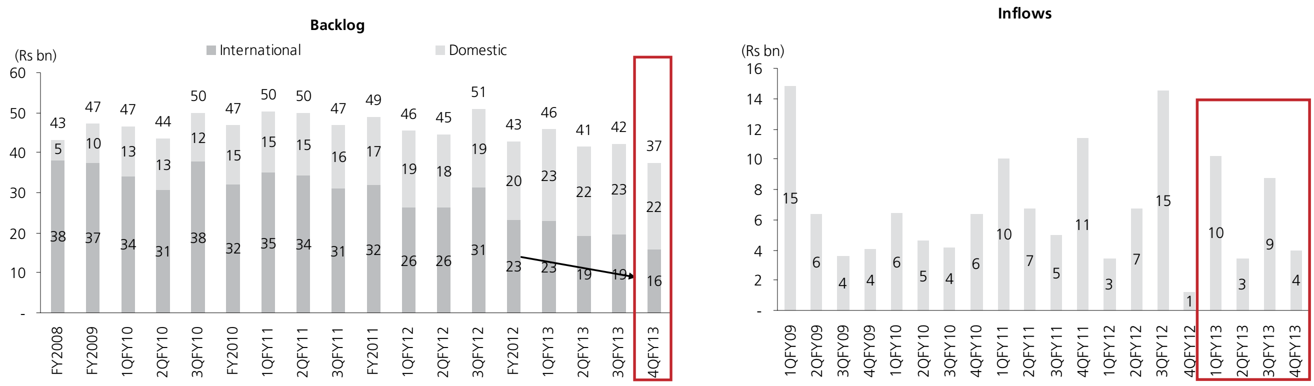
Voltas' Electro-Mechanical Projects (EMP) segment has been under pressure recently due to (1) weak market conditions (continue to be weak with no meaningful opportunity in global geographies) and (2) cost overruns in certain key projects (Sidra Hospital project in Qatar). This segment may see some stability/improvement in FY2014 as the Sidra project gets completed (over 90% complete), low-margin orders from the backlog are completed and incremental orders are won at slightly better margins (bidding at 4-5% margin).

Decline in international backlog; inflows supported mainly by domestic market

The EMP segment's international order backlog declined in 4QFY13 to Rs16 bn, from Rs19 bn at the end of 3QFY13 and from Rs23 bn at the end of FY2012. Note that the international backlog has declined steadily over the past 5-6 quarters. This was because the company won almost no material orders from international markets and almost all the inflow was driven by the domestic business in FY2013 (from industrial, IT/ITES and urban infrastructure sectors). The domestic backlog was relatively steady at about Rs22 bn (from Rs23 bn at the end of 3QFY13 and Rs20 bn at the end of FY2012). Relatively weak order inflows are likely to impact revenue growth in FY2014 (potential for revenue decline).

The Voltas management said the overseas EMP business (particularly in the Middle East) was sedate with few opportunities on the table. There was some traction in Qatar and Dubai but the UAE and Saudi Arabian markets were slow.

Exhibit 6: International backlog declined sharply in FY2013
Voltas' quarterly order backlog trend, March fiscal year-ends, 2008-13



Source: Company, Kotak Institutional Equities estimates

Slightly positive sector commentary from Blue Star; pricing-in higher margins

Blue Star expects the domestic market for EMP orders to have bottomed out. It highlighted certain enquiries moving closer to finalization in (1) metro (Hyderabad and Bangalore), (2) high-end commercial construction (Oberoi, Mumbai and 3C, Noida) and (3) IT (HCL Tech. continuing to expand) and (4) power projects (signed for revival for HVAC business from PGCIL and NTPC). It said however, there was almost no activity on the retail front. A risk to this expectation is an early election (no investment in the 3-4 month period prior to elections in the past).

We build-in some recovery in EMP order inflows going forward (5% in FY2014E, 10% growth in FY2015E). We expect a sharp decline in EMP segment revenues (by about 19%) in FY2014. We build 5% EBIT margin for the EMP business over FY2014E-16E.

Exhibit 7: EMP segment operational details, March fiscal year-ends, 2008-15E (Rs mn)

	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E
Order inflows	35,529	31,848	31,848	31,397	25,872	26,265	27,578	30,336	33,370
Yoy growth (%)	43.8	(10.4)	0.0	(1.4)	(17.6)	10.0	5.0	10.0	10.0
Revenues	**16,529**	**27,668**	**31,134**	**30,411**	**31,832**	**31,995**	**25,999**	**27,508**	**29,724**
Yoy growth (%)	20.6	67.4	12.5	(2.3)	4.7	0.5	(18.7)	5.8	8.1
Order backlog	43,000	47,180	47,894	48,880	42,920	37,190	38,769	41,597	45,243
EBIT	**1,218**	**2,134**	**3,091**	**2,393**	**1,724**	**513**	**1,300**	**1,375**	**1,783**
EBIT margin (%)	7.4	7.7	9.9	7.9	5.4	1.6	5.0	5.0	6.0

Source: Company, Kotak Institutional Equities estimates

Potential cash inflow from Sidra on settlement of cost and time overrun claims

We note that the company has faced large cost and time overruns in the Sidra Hospital project in Qatar. These cost overruns have already been booked in the company's financials. Any settlement of these claims (after completion of a project and arbitration with a client) would lead to a positive cash inflow for the company. We believe Voltas may be well placed to meet some of its claims as (1) the order is a prestigious project, involving the royal family of Qatar, (2) the project was delayed on several occasions due to delayed receipt of medical equipment, which was outside Voltas' control and (3) the project saw several scope and design changes over the execution period, which led to delays and cost overruns.

We revise estimates and target price to Rs105; upgrade to BUY

We revise our estimates to Rs7.8 and Rs8.8 (from Rs7.7 and Rs9.3) for FY2014 and FY2015 and our target price to Rs105 (from Rs100). We upgrade the stock to BUY (from REDUCE) as the current price implies reasonable valuations (risk-reward is favorable) after sustained underperformance – it trades at 10.3X FY2014E P/E, 7.5 EV/EBITDA and 1.5X P/B (for RoE of 15%).

Exhibit 8: Change in consolidated earnings estimates of Voltas, March fiscal year-ends, 2014-16E (Rs mn)

		New estimates			Old estimates			% revision		
	FY2013	FY2014E	FY2015E	FY2016E	FY2014E	FY2015E	FY2016E	FY2014E	FY2015E	FY2015E
Electro-Mechanical Projects										
Revenues	31,995	25,999	27,508	29,724	26,502	28,809	31,522	(1.9)	(4.5)	(5.7)
Yoy growth (%)	0.5	(18.7)	5.8	8.1	(17.2)	8.7	9.4			
EBIT	513	1,300	1,375	1,783	1,325	1,440	1,891	(1.9)	(4.5)	(5.7)
EBIT margin (%)	1.6	5.0	5.0	6.0	5.0	5.0	6.0			
Order inflows	26,265	27,578	30,336	33,370	29,548	32,503	35,753	(6.7)	(6.7)	(6.7)
Yoy growth (%)	10.0	5.0	10.0	10.0	12.5	10.0	10.0			
Unitary Cooling Products										
Revenues	18,356	20,347	23,228	25,958	19,834	22,645	25,307	2.6	2.6	2.6
Yoy growth (%)	19.3	10.8	14.2	11.8	8.0	14.2	11.8			
EBIT	1,727	1,424	1,626	1,817	1,289	1,472	1,772	10.5	10.5	2.6
EBIT margin (%)	9.4	7.0	7.0	7.0	6.5	6.5	7.0			
Engg products and services										
Revenues	4,311	4,499	4,963	5,558	4,499	4,963	5,558	-	-	-
Yoy growth (%)	4.6	4.4	10.3	12.0	4.4	10.3	12.0			
EBIT	838	810	893	1,000	810	893	1,000	-	-	-
EBIT margin (%)	19.4	18.0	18.0	18.0	18.0	18.0	18.0			
Consolidated numbers										
Revenues	**55,141**	**51,385**	**56,278**	**61,863**	**51,374**	**56,996**	**63,010**	**0.0**	**(1.3)**	**(1.8)**
Yoy growth (%)	6.3	(6.8)	9.5	9.9	(6.8)	10.9	10.6			
EBITDA	2,283	3,241	3,545	4,204	3,141	3,476	4,286	3.2	2.0	(1.9)
EBITDA margin (%)	**4.1**	**6.3**	**6.3**	**6.8**	**6.1**	**6.1**	**6.8**			
Profit after tax	1,950	2,569	2,899	3,402	2,495	2,834	3,434	2.9	2.3	(0.9)
EPS (Rs)	**5.9**	**7.8**	**8.8**	**10.3**	**7.5**	**8.6**	**10.4**	**2.9**	**2.3**	**(0.9)**
EPS growth (%)	(37.6)	31.7	12.9	17.4	28.0	13.6	21.2			

Source: Company, Kotak Institutional Equities estimates

While the business environment is challenging, we believe most of this has already been priced-in and the company may see improving cash flow and returns over FY2014-15.

The stock is possibly pricing weaker estimates for EMP (further decline in ordering, 4% EBIT margin) and the unitary cooling segment (6% EBIT margin).

Exhibit 9: Comparison of current and pro forma estimates for Voltas, March fiscal year-ends, 2013-16E (Rs mn)

		Current estimates			Sensitivity case estimates		
	FY2013	FY2014E	FY2015E	FY2016E	FY2014E	FY2015E	FY2016E
Electro-Mechanical Projects							
Revenues	31,995	25,999	27,508	29,724	24,995	24,303	24,567
Yoy growth (%)	0.5	(18.7)	5.8	8.1	(21.9)	(2.8)	1.1
EBIT	513	1,300	1,375	1,783	1,000	972	1,228
EBIT margin (%)	1.6	5.0	5.0	6.0	4.0	4.0	5.0
Order inflows	26,265	27,578	30,336	33,370	23,639	23,639	26,002
Yoy growth (%)	10.0	5.0	10.0	10.0	(10.0)	-	10.0
Unitary Cooling Products							
Revenues	18,356	20,347	23,228	25,958	20,290	21,305	22,508
Yoy growth (%)	19.3	10.8	14.2	11.8	10.5	5.0	5.6
EBIT	1,727	1,424	1,626	1,817	1,217	1,278	1,350
EBIT margin (%)	9.4	7.0	7.0	7.0	6.0	6.0	6.0
Engg products and services							
Revenues	4,311	4,499	4,963	5,558	4,499	4,963	5,558
Yoy growth (%)	4.6	4.4	10.3	12.0	4.4	10.3	12.0
EBIT	838	810	893	1,000	810	893	1,000
EBIT margin (%)	19.4	18.0	18.0	18.0	18.0	18.0	18.0
Consolidated numbers							
Revenues	**55,141**	**51,385**	**56,278**	**61,863**	**50,323**	**51,150**	**53,256**
Yoy growth (%)	6.3	(6.8)	9.5	9.9	(8.7)	1.6	4.1
EBITDA	2,283	3,241	3,545	4,204	2,747	2,832	3,294
EBITDA margin (%)	**4.1**	**6.3**	**6.3**	**6.8**	**5.5**	**5.5**	**6.2**
Profit after tax	1,950	2,569	2,899	3,402	2,239	2,423	2,795
EPS (Rs)	**5.9**	**7.8**	**8.8**	**10.3**	**6.8**	**7.3**	**8.5**
EPS growth (%)	(37.6)	31.7	12.9	17.4	14.8	8.2	15.4
Valuation							
P/E	13.6	10.3	9.1	7.8	11.8	10.9	9.5
EV/EBITDA	11.2	7.5	6.3	5.0	8.8	7.8	6.3

Source: Company, Kotak Institutional Equities estimates

Exhibit 10: Consolidated financials of Voltas, March fiscal year-ends, 2008-15E (Rs mn)

	2008	2009	2010	2011	2012	2013	2014E	2015E
Balance sheet								
Shareholders funds	**5,772**	**7,897**	**10,852**	**13,617**	**14,778**	**16,256**	**17,923**	**19,805**
Minority Interest	5	159	139	218	170	118	118	118
Loan funds	737	1,814	352	1,381	2,252	2,612	2,112	1,612
Total source of funds	**6,515**	**9,871**	**11,342**	**15,216**	**17,200**	**18,987**	**20,154**	**21,535**
Net fixed assets	1,898	2,280	2,262	2,458	2,185	2,110	2,249	2,325
Investments & Goodwill	2,585	2,238	3,103	3,529	4,006	4,962	4,962	4,962
Cash balances	3,002	4,571	4,689	4,980	2,710	3,498	4,338	5,610
Net current assets excluding cash	(1,160)	558	1,085	4,097	8,056	8,195	8,383	8,417
Total application of funds	**6,515**	**9,871**	**11,342**	**15,216**	**17,200**	**18,987**	**20,154**	**21,535**
Profit Model								
Total operating income	**32,029**	**43,617**	**48,236**	**51,768**	**51,857**	**55,141**	**51,385**	**56,278**
Total operating costs	(29,499)	(40,428)	(43,467)	(47,360)	(48,493)	(52,858)	(48,144)	(52,733)
EBITDA	**2,531**	**3,189**	**4,769**	**4,408**	**3,365**	**2,283**	**3,241**	**3,545**
Other income	483	604	789	810	985	1,070	1,157	1,280
Financial charges	(90)	(128)	(98)	(165)	(314)	(398)	(232)	(161)
Depreciation	(167)	(210)	(214)	(210)	(340)	(278)	(320)	(324)
Pre-tax profit	2,757	3,456	5,245	4,843	3,696	2,677	3,845	4,340
Taxation	(997)	(1,172)	(1,472)	(1,608)	(571)	(728)	(1,277)	(1,441)
Adjusted PAT	**1,760**	**2,284**	**3,773**	**3,235**	**3,125**	**1,950**	**2,569**	**2,899**
Extraordinary items, net of tax	316	261	250	281	(1,505)	—	—	—
Reported PAT	**2,076**	**2,545**	**4,023**	**3,572**	**1,621**	**1,950**	**2,569**	**2,899**
Cash flow statement								
Net cashflow from operating activites	3,812	871	3,558	598	(180)	2,487	2,933	3,352
Cash (used)/realized in investing activities	(1,802)	(244)	(1,062)	(832)	(544)	(1,159)	(459)	(400)
Cash (used)/realized in financing activities	(1,008)	683	(2,650)	137	49	(561)	(1,634)	(1,679)
Cash generated /utilised	**1,325**	**1,569**	**97**	**240**	**(2,180)**	**788**	**839**	**1,273**
Cash at beginning of year	1,677	3,002	4,571	4,689	4,980	2,710	3,498	4,338
Cash at end of year	**3,002**	**4,571**	**4,667**	**4,929**	**2,800**	**3,498**	**4,338**	**5,610**
Key ratios (%)								
EBITDA margin	7.9	7.3	9.9	8.5	6.5	4.1	6.3	6.3
PAT margin	5.5	5.2	7.8	6.2	6.0	3.5	5.0	5.2
RoE	35.2	33.0	39.9	26.9	22.0	12.6	15.0	15.4
RoCE	30.6	28.5	35.9	25.6	20.9	12.3	13.9	14.4
EPS (Rs)	**5.3**	**6.9**	**11.4**	**9.8**	**9.4**	**5.9**	**7.8**	**8.8**

Source: Company, Kotak Institutional Equities estimates

Takeaways from the Blue Star analyst meet

EMP/packaged duct systems: Weak guidance accounts for likely provisions

Segment 1 FY2013 top-line of Rs17 bn comprised (1) EMP (Rs7 bn, to be flattish in FY2014E with about 4.5-5.0% margin), (2) packaged duct and service (Rs6.5 bn, expects 10-15% growth at double-digit margins) and (3) central AC/chillers (Rs2.5 bn, to be flattish at single-digit margins). Overall segment top-line is expected to grow between 0-5% with about 6% EBIT margin. Overall margin expectation accounts for some provisions/write-offs for pending payments/claims (unaccounted segment margin expectation of 8.5%).

EMP: Market may not shrink further; margin may depend on potential provisions

- **Near-term opportunities; election risk.** The company said certain enquiries were moving closer to finalization in (1) metro (Hyderabad and Bangalore), (2) high-end commercial construction (Oberoi, Mumbai and 3C, Noida) and (3) IT (HCL Tech continuing to expand) and (4) power projects (signs for revival of the HVAC business from PGCIL and NTPC). It said however, that there was almost no activity on the retail front. It expects the market for EMP orders not to shrink much and expects a flat year, at best, in FY2014. The risk to this expectation is an early election (no investment for the 3-4 month period prior to elections in the past).

- **Margin to depend on potential provisions.** Due to the slow execution in FY2013 (down 15% yoy), the company is still carrying certain old jobs at nil margin in its current backlog (~Rs1 bn). Company said it had 40% contribution from old jobs (0 to 7% site margin or -3 to 4% EBIT margin) in FY2014 turnover estimate with the remaining 60% coming from new jobs (11-12% site margin or 7-8% EBIT margin). While this analysis implies an EBIT margin of ~4.5% or about Rs315 mn (assuming flat FY2014 sales), the actual contribution would depend on provisions made for a delay in claim-related payments in key projects. The company cited two such projects: (1) Mumbai Airport (likely Rs120 mn of exposure) and (2) Delhi Airport metro line (likely Rs350 mn exposure). The sum of potential provisions is thus higher than the likely profitability from the EMP segment in FY2014E.

- **Willing to not participate in market growth to protect margin and capital.** Blue Star reiterated its focus on the profitability (PBT/sales) and capital turns (over five) while bidding for new orders. Therefore, it expects not to be a participant in strong market growth if it is driven by low-margin orders. Company aims to consolidate its EMP business in FY2014 by reducing the number of existing small projects (vacating sub-Rs100 mn jobs and limiting scope of equipment supply) and being selective in bidding for large projects (over Rs250 mn). It will continue to focus on the mid-sized (Rs100-Rs250 mn) orders where it is in a sweet spot.

- **Positive on MEP; neutral on HVAC and electrical business; negative on plumbing.** The company said there was less competition in the combined MEP business, with Voltas, ETA and itself being the key players, although it said there was a dearth of orders in this segment. It is neutral on the HVAC (typically 12 bidders) and electrical businesses (25 bidders). It has a very negative stance on profitability in plumbing jobs (only very large opportunities have attractive margins).

Packaged ACs: High gross margin business with strong growth potential

Company expects the business to grow by more than 10% in FY2014, driven by VRF (20% growth expectation) and ducted business (10% growth expectation). Blue Star's business in this segment comes from shops, showrooms and boutiques. The company has a high 30% market share in this segment on (1) in-house components and (2) dependence on standardized compressors from Emerson (provides a fair playing field versus foreign players). This also helps to generate high gross margins for the segment (VRF: 17-18%, ducted: ~28%). Combined with the services (17.5% margin) and chillers business (offshoot of EMP), this segment contributes about 25-27% of the segment 1 top-line.

Cooling segment: Expected to outstrip market growth on low FY2013 base

Segment 2 FY2013 top-line of Rs9.6 bn comprised (1) room ACs (Rs5.5 bn; expects 30% growth), (2) refrigeration (Rs2.5 bn; expects 25% growth), (3) spare parts (Rs1 bn; has exited the ancillaries business) and (4) services (Rs500 mn). In the key room AC segment, it expects to outstrip the market growth (30% growth versus 20% for the market) due to a low base in FY2013 (April-July). Going forward, it expects to grow with the market.

The company guidance indicates overall 8.5-9% EBIT margin for segment 2.

- **Room ACs inventory planned for lower 20% growth.** The company said it had planned its stocks assuming a lower 20% growth in demand. The inventory exercise was planned for the first six months and thus may lead to stock-outs in coming months.

- **Stricter energy rating change rules.** The energy rating change will be implemented from January 1, 2014 for manufacturers and retailers. This means that unlike previous revisions to energy ratings, even retailers would not be able to sell old inventory after December 31, 2013. This may lead to dealers demanding older inventory (anticipating pre-buying demand) earlier, perhaps in September. This may put pressure on the company's low stock position. We note that revised prices for the same star category of ACs would be higher by 8-10%.

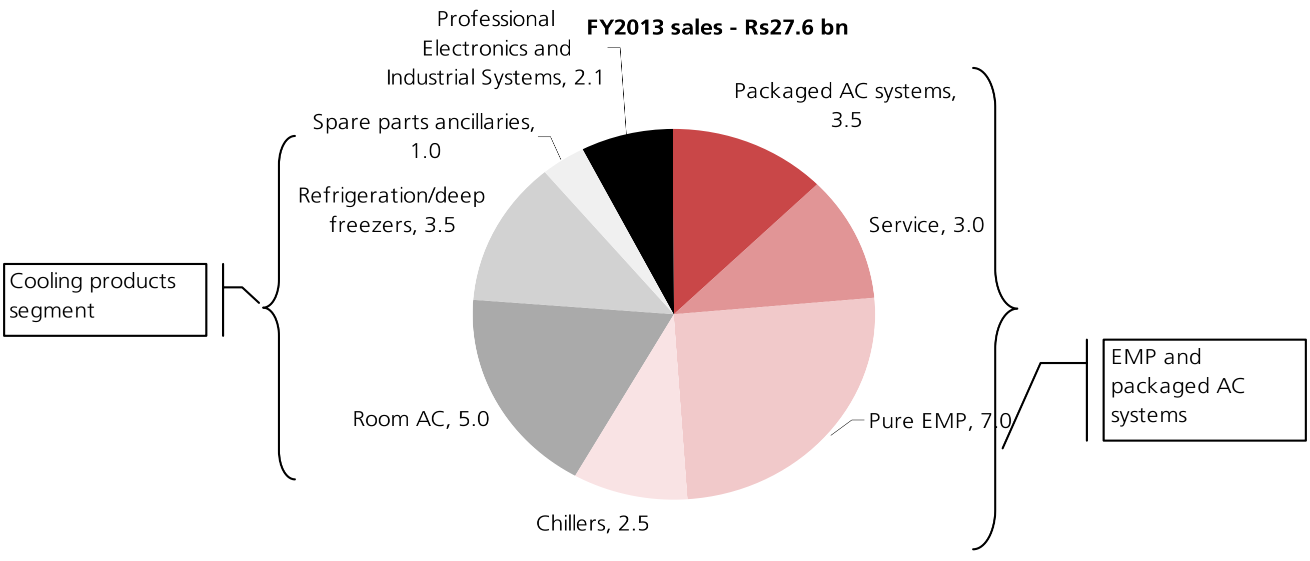
- **Pricing to be revised in July; assumes exchange rate of Rs54.** The company has not taken any price increases over the past two quarters though it is likely to take one in July 2013. Essentially, the company has priced its product considering an exchange rate of Rs54 to the US Dollar against current levels of Rs56.5.

- **High import dependence likely to remain a norm for the sector.** Note that imported products (copper, compressor, indoor plastics) account for 65% of the total cost of a room AC for Blue Star. This share is possibly even higher for Voltas. Import costs for domestic AC manufacturers are likely to remain high in the absence of scale (1 mn breakeven capacity for compressors versus 3.5 mn domestic demand). Blue Star said the current price of imported ACs was lower than the cost of assembling/manufacturing ACs in India.

- **Margin superior to Voltas; intends not sacrifice it for market-share gains.** The company has a 6-7% market share in the room AC market. While it aims to grow this through gains in small towns, it does not anticipate this to grow beyond 9-10%. Essentially the company does not compete on pricing (earns 100 bps higher margin than Voltas) and technology (depends on imported products) but on the Blue Star brand (AC exports) and after-sales service. The company has about 350 sales-and-service dealers, out of which 50% are in tier-3,4 and 5 cities (number is based on the large number of small dealers in such markets).

- **Refrigerators business driven by freezer demand; has exponential growth potential.** The Rs2.5 bn refrigerator business is driven by freezers (Rs1.3 bn), water coolers (Rs900 mn, stagnant 5-6% growth) and water dispensers (Rs300-400 mn). The demand for freezers was driven by small ice-cream units (order size of 750-1,000 freezers) and has strong growth potential (India's per capita ice-cream consumption is about half that of Pakistan and Sri Lanka). While gross margin in the refrigerators business is higher than in the room AC business, operating margin is comparable (on higher direct-selling cost to numerous small units).

Exhibit 11: Segmental break-up of Blue Star's revenues, March fiscal year ends, 2013 (Rs)



Source: Company, Kotak Institutional Equities

Exhibit 12: About half of Blue Star's sales are impacted by mid to high competition
Segmental guidance for Blue Star, March fiscal year ends, 2013

		Sales breakup (%)	FY2014 growth guidance		Competitive	Blue Star
			Sales	Growth drivers	intensity	positioning
EMP and packaged AC systems	Packaged AC systems	12.7	15	Smaller units (which is not constrained byregulatory/long gestation delays)	Low	#1 with 30% market share
	Service	10.9	15	Cumulative base	Low	NA
	Pure EMP	25.4	0	Shrinking order book and limited near-term opportunity	High	NA
	Chillers	9.1	0	Demand outllook similar to EMP business	High	
Cooling products	Room AC	18.1	30	Expects to outgrow 20% sector growth in low FY2013 base (its share had declined to 6% from 6.5% in FY2012)	High	#6 (6% market share
	Refrigeration/deep freezers	12.7	25	Low per capita ice-cream consumption; of Small retail is modernizing	Low	Strong market share
	Spare parts ancillaries	3.6	Nil contribution	Company has stopped this business (mostly imported parts)	NA	NA
Professional Electronics and Industrial Systems	Professional Electronics and Industrial Systems	7.6	20	Company has guided for 20% growth in value addition	Low	NA
Total			**10**			

Source: Company, Kotak Institutional Equities

Professional electronics: expects 20% growth in value addition

- The company expects to grow segment 3 value addition by 20% yoy.

Debt: Room AC stocking needs decline in FY2013; sees sharp fall in FY2014E

Company reported flattish borrowing of Rs4 bn in FY2013, while it expected. a significant decline. This was primarily due to investments in room AC stocks on stronger-than-expected demand. The company expects to reduce this by Rs750 mn by the end of FY2014.

Kotak Institutional Equities

Mahindra & Mahindra (MM)

Automobiles

ADD

JUNE 11, 2013

UPDATE

Coverage view: Neutral

Price (Rs): 976

Target price (Rs): 1,050

BSE-30: 19,441

Tractor demand recovery underway. A sharp spike in tractor demand over the past two months has surprised many investors and sustenance of this robust demand is being questioned. We highlight factors driving tractor demand (rising crop prices, expectations of a good monsoon, low penetration and strong rural income growth) though weak construction demand is a negative factor. We maintain our ADD rating on M&M on strong demand for tractors.

Company data and valuation summary

Mahindra & Mahindra

Stock data			
52-week range (Rs) (high,low)			1,026-674
Market Cap. (Rs bn)			599.5
Shareholding pattern (%)			
Promoters			25.2
FIIs			40.4
MFs			1.3
Price performance (%)	**1M**	**3M**	**12M**
Absolute	0.6	8.0	41.8
Rel. to BSE-30	4.0	9.3	21.9

Forecasts/Valuations	2013	2014E	2015E
EPS (Rs)	53.1	53.3	61.8
EPS growth (%)	17.7	0.3	16.0
P/E (X)	18.4	18.3	15.8
Sales (Rs bn)	404.4	434.4	487.2
Net profits (Rs bn)	32.6	32.7	37.9
EBITDA (Rs bn)	47.1	47.1	54.7
EV/EBITDA (X)	13.1	13.0	11.2
ROE (%)	24.1	20.5	20.8
Div. Yield (%)	1.3	1.6	1.9

Tractor demand recovers in April and is broadbased across India

Domestic tractor volumes rose by 36% yoy in April 2013 driven by expectations of good monsoons and good realizations from the Rabi crop due to a sharp rise in crop prices. Demand is broadbased with most of the states showing good demand. North, Central and West India reported very strong growth while demand in South India was subdued (see *Exhibit 1*). Tractor demand in MP, Rajasthan, UP and Maharashtra (see *Exhibit 2*) grew fastest while Tamil Nadu and Gujarat reported a decline in tractor demand. We expect tractor demand to remain robust as the monsoon is expected to be normal and evenly spread across India. Dealer inventories are normal (at about 30 days).

We expect 8% yoy growth in tractor volumes in FY2014 and a 200 bps improvement in M&M market share (+13% yoy growth for M&M).

M&M gains market share while product mix continues to improve

M&M has increased its market share across regions after a brief decline over the past few months. We believe M&M's market share will improve if demand in West and South India recovers and its share goes up in the mix. M&M has ~48% market share in South and West India, which is 7% higher than its all-India market share. North and Central India (mainly MP) grew 40-95% yoy on a very high base indicating underlying strength of farmer incomes. The share of the 41-50 HP segment increased by 430 bps (versus the FY2013 average) while the over 51 HP segment share remained at 5.7% (see *Exhibit 3*). A rising share of the over 40 HP segment bodes well for improvement in tractor prices.

We maintain our ADD rating on Mahindra and Mahindra due to our positive outlook on tractor demand. We are cautious on the utility vehicle segment as we expect M&M to lose market share due to new launches by the competition but a recovery in tractor demand will offset the weakness in the utility vehicle segment.

Exhibit 1: Domestic tractor volumes grow by ~36% yoy in April 2013
Domestic monthly tractor volumes, March fiscal year-ends, April 2012-April 2013 (units)

Region	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13
North India (U.P, Punjab, Haryana, JK, HP, Uttarakhand, Rajasthan)	**16,037**	**17,910**	**20,987**	**15,086**	**12,747**	**19,149**	**27,298**	**19,486**	**12,857**	**14,298**	**15,086**	**19,924**	**22,481**
yoy chg (%)	6.6	21.7	22.0	14.9	1.6	(3.9)	11.3	22.8	(4.1)	1.1	2.4	6.9	40.2
Market shares (%)													
M&M	34.5	33.8	36.5	33.9	33.6	34.7	37.0	35.9	33.6	33.8	32.9	30.4	35.9
TAFE	25.3	29.4	28.8	30.5	29.7	28.7	28.7	31.4	30.6	30.7	30.4	29.5	27.0
Escorts	17.1	17.1	16.9	16.3	16.8	16.4	14.3	15.3	15.8	15.9	16.0	18.1	16.4
John Deere	6.0	3.1	2.4	3.6	3.2	2.8	4.7	2.0	3.0	3.8	2.8	3.3	4.9
Sonalika	10.3	11.0	10.4	10.2	10.5	11.5	10.8	9.4	11.4	10.7	12.1	12.3	10.4
South India (A.P,Karnataka, Tamil Nadu and Kerala)	**6,128**	**6,113**	**6,360**	**5,662**	**5,215**	**5,385**	**7,824**	**5,196**	**6,047**	**8,058**	**5,752**	**5,925**	**6,670**
yoy chg (%)	(28.7)	(32.2)	(41.0)	(34.7)	(32.9)	(35.5)	(25.7)	(10.0)	(14.3)	(22.7)	(11.9)	(14.7)	8.8
Market shares (%)													
M&M	50.3	49.2	52.8	46.3	48.4	46.8	50.6	50.9	49.1	52.5	42.7	38.8	48.3
TAFE	19.5	24.3	20.7	25.2	25.1	22.6	20.3	21.3	23.5	22.9	27.0	24.7	21.6
Escorts	4.3	4.9	4.9	5.7	5.1	5.1	3.6	3.9	4.2	4.0	4.5	5.1	4.6
John Deere	13.7	9.3	11.1	10.0	6.8	9.5	14.6	8.0	8.4	8.9	9.3	10.7	15.8
Sonalika	4.8	5.4	4.6	5.7	4.8	4.8	4.3	6.1	4.1	3.8	4.9	5.4	4.5
Central India (M.P, Chattisgarh)	**5,841**	**7,468**	**9,329**	**4,605**	**3,870**	**8,830**	**13,751**	**8,401**	**5,029**	**5,830**	**5,836**	**7,822**	**11,369**
yoy chg (%)	11.6	49.3	46.8	26.1	5.9	6.8	31.6	100.7	35.3	42.7	48.2	46.6	94.6
Market shares (%)													
M&M	34.2	41.2	44.2	39.8	37.8	42.3	41.5	40.4	36.0	37.7	31.9	30.8	38.1
TAFE	25.9	26.3	22.3	20.8	26.9	23.0	21.7	24.4	26.1	26.0	29.9	32.2	24.2
Escorts	11.2	12.3	12.9	14.1	13.0	11.0	11.7	12.9	12.1	12.2	12.2	13.6	12.7
John Deere	10.0	4.8	5.5	9.2	5.9	4.8	8.1	4.7	5.9	6.7	5.6	6.3	7.9
Sonalika	11.1	10.1	10.5	10.2	9.4	11.5	9.8	11.5	13.1	11.7	12.4	10.1	11.3
West India (Maharashtra and Gujarat)	**7,557**	**7,959**	**8,914**	**6,773**	**5,094**	**7,209**	**11,634**	**7,055**	**4,835**	**6,492**	**6,751**	**7,311**	**8,948**
yoy chg (%)	(17.3)	(7.7)	1.8	(13.4)	(40.2)	(50.2)	(24.6)	(10.4)	(32.0)	(25.5)	(17.1)	(21.0)	18.4
Market shares (%)													
M&M	44.8	47.7	49.8	46.9	45.6	43.3	49.2	48.8	44.3	45.8	40.3	37.2	45.8
TAFE	20.7	22.7	21.3	21.6	19.5	20.2	13.0	20.3	20.1	20.3	24.6	25.2	19.9
Escorts	4.7	5.5	5.3	4.5	4.8	5.0	6.0	6.2	7.9	6.6	6.4	6.8	5.3
John Deere	8.4	3.8	3.2	5.3	6.4	6.4	11.2	4.2	7.7	8.3	7.1	9.7	9.3
Sonalika	8.1	8.7	9.0	9.7	9.8	7.7	8.5	8.4	8.1	8.0	8.1	8.4	8.4
Eastern India (Bihar, Orrisa, WB, Assam, Manipur, Jharkhand)	**4,901**	**4,740**	**6,397**	**6,047**	**4,201**	**6,723**	**7,884**	**7,395**	**6,000**	**5,083**	**4,585**	**5,086**	**5,695**
yoy chg (%)	(16.7)	2.1	36.0	4.3	(21.8)	67.4	31.0	2.4	(3.2)	(11.3)	(8.5)	5.6	7.2
Market shares (%)													
M&M	44.6	49.5	51.6	49.7	46.1	45.5	47.4	47.2	44.7	47.1	47.3	43.1	47.5
TAFE	19.7	17.8	16.6	16.4	18.4	19.8	19.2	21.3	19.8	18.7	19.5	20.3	19.7
Escorts	11.7	10.0	10.6	11.2	11.1	12.9	11.2	12.1	11.7	10.4	10.1	12.6	8.9
John Deere	6.8	4.1	3.4	5.6	5.0	3.9	8.1	2.7	4.1	6.3	5.3	5.0	7.5
Sonalika	10.7	12.9	12.1	10.1	10.8	10.6	8.1	9.5	12.3	10.7	11.6	12.9	11.1
Total domestic vols	**40,464**	**44,190**	**51,987**	**38,173**	**31,127**	**47,296**	**68,391**	**47,533**	**34,768**	**39,761**	**38,010**	**46,068**	**55,163**
yoy chg (%)	(5.1)	5.1	6.3	(1.2)	(14.8)	(17.1)	0.4	19.1	(6.1)	(6.2)	(0.4)	1.3	36.3
Regional share (%)													
North	39.6	40.5	40.4	39.5	41.0	40.5	39.9	41.0	37.0	36.0	39.7	43.2	40.8
South	15.1	13.8	12.2	14.8	16.8	11.4	11.4	10.9	17.4	20.3	15.1	12.9	12.1
Central	14.4	16.9	17.9	12.1	12.4	18.7	20.1	17.7	14.5	14.7	15.4	17.0	20.6
Eastern	12.1	18.0	17.1	15.8	13.5	14.2	11.5	15.6	17.3	12.8	12.1	11.0	10.3
West	18.8	10.7	12.4	17.7	16.4	15.2	17.0	14.8	13.9	16.3	17.8	15.9	16.2

Source: TMA, Kotak Institutional Equities

Exhibit 2: MP and Rajasthan report strong growth
State-wise domestic tractor volumes (units)

States	Apr-13	Apr-12	Yoy chg (%)	2013	2012	Yoy chg (%)
UP	7,721	5,951	29.7	84,537	82,613	2.3
MP	9,453	4,943	91.2	70,803	50,597	39.9
Rajasthan	6,975	4,260	63.7	63,266	53,175	19.0
Gujarat	3,769	4,175	(9.7)	43,183	56,664	(23.8)
Maharashtra	5,179	3,382	53.1	44,401	57,191	(22.4)
Punjab	3,471	2,556	35.8	28,254	25,987	8.7
AP	3,386	2,549	32.8	30,784	41,958	(26.6)
Haryana	3,485	2,491	39.9	27,871	26,040	7.0
Karnataka	2,354	2,116	11.2	23,745	31,533	(24.7)
Tamil Nadu	871	1,378	(36.8)	18,548	26,298	(29.5)
Chattisgarh	1,916	898	113.4	15,803	13,277	19.0
West Bengal	1,070	812	31.8	12,751	12,187	4.6
Others	5,513	4,953	11.3	63,816	59,366	7.5
Domestic tractor volumes	**55,163**	**40,464**	**36.3**	**527,762**	**536,886**	**(1.7)**
UP, AP, Maharashtra and Gujarat volumes	20,055	16,057	24.9	202,905	238,426	(14.9)
Tractor volumes ex UP, AP, Maharashtra and Gujarat	35,108	24,407	43.8	324,857	298,460	8.8

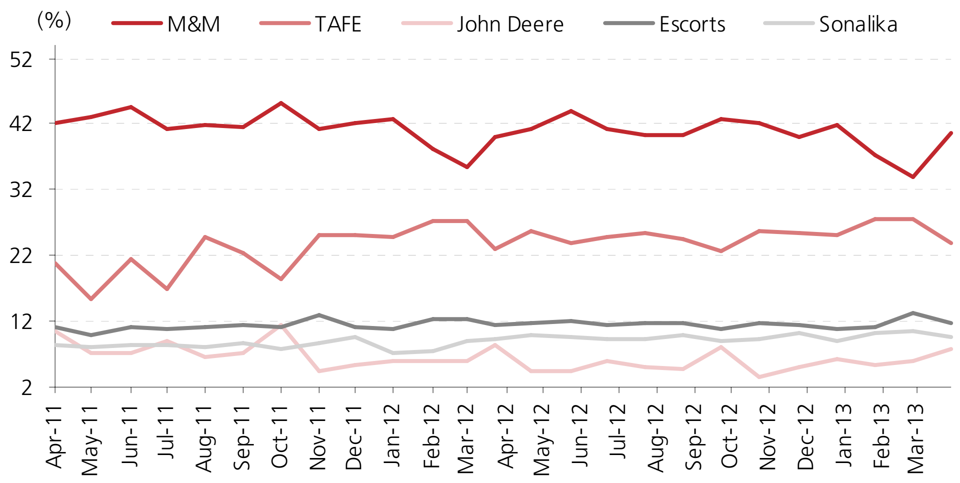
Source: TMA, Kotak Institutional Equities

Exhibit 3: The 31-50 HP segment has grown while the over-51 HP segment is declining
Horsepower-wise domestic tractor volume mix (units)

Horsepower	Apr-13	Apr-12	Yoy chg (%)	2013	2012	YoY chg (%)
Less than 20 HP	1,476	1,403	5.2	18,551	6,949	167.0
21-30 HP	4,170	3,846	8.4	47,898	75,270	(36.4)
31-40 HP	19,019	12,767	49.0	192,622	244,431	(21.2)
41-50 HP	27,376	19,811	38.2	239,415	143,102	67.3
>51 HP	3,122	2,637	18.4	29,276	67,134	(56.4)
Total	**55,163**	**40,464**	**36.3**	**527,762**	**536,886**	**(1.7)**
Mix (%)						
Less than 20 HP	2.7	3.5		3.5	1.3	
21-30 HP	7.6	9.5		9.1	14.0	
31-40 HP	34.5	31.6		36.5	45.5	
41-50 HP	49.6	49.0		45.4	26.7	
>51 HP	5.7	6.5		5.5	12.5	

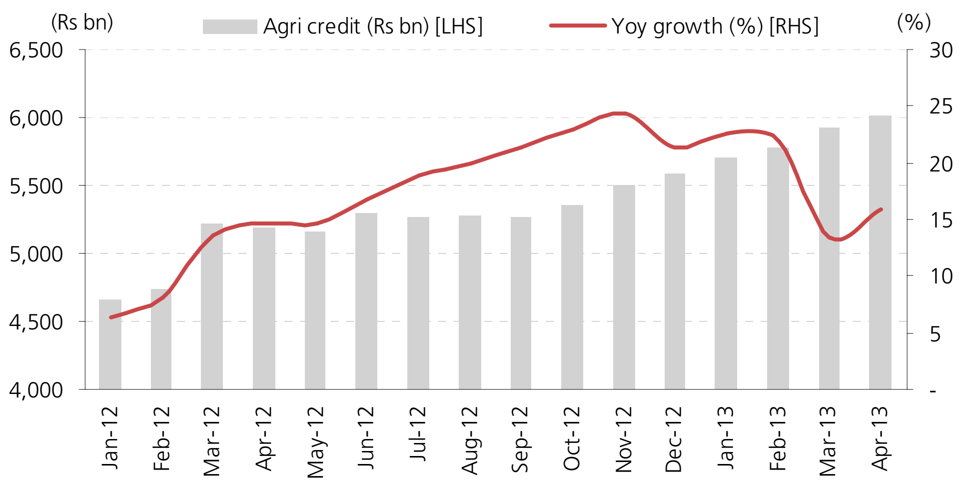
Source: TMA, Kotak Institutional Equities

Exhibit 4: M&M continues to gain market share after inventory correction in February-March
Domestic market share trends, April 2011-April 2013 (%)



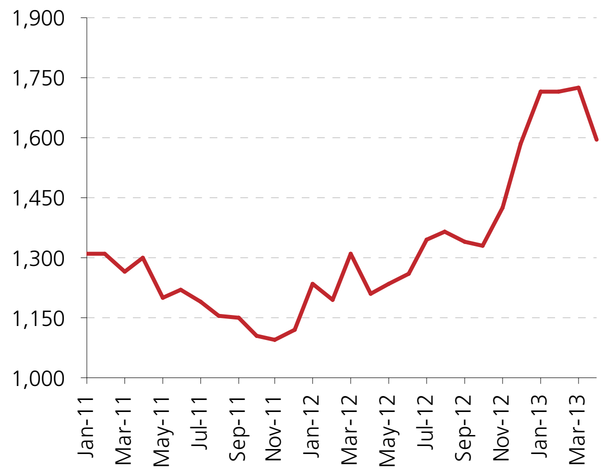
Source: TMA, Kotak Institutional Equities

Exhibit 5: Agriculture credit has grown at a robust pace in recent months
Credit given to the agriculture sector, January 2012-April 2013 (Rs bn, %)



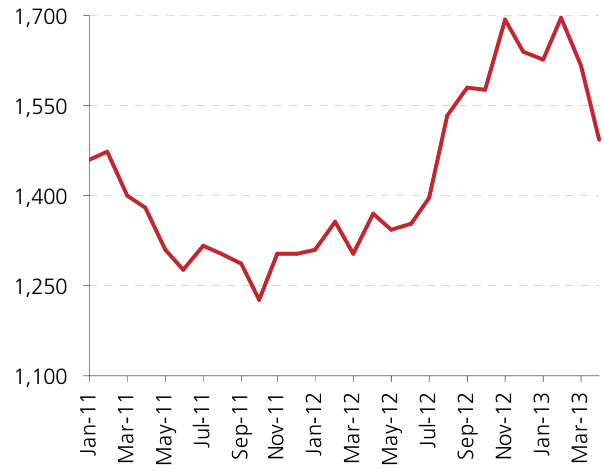
Source: RBI, Kotak Institutional Equities

Exhibit 6: Paddy prices have risen significantly over the past one year
Paddy prices in APMC mandis (Rs/quintal)



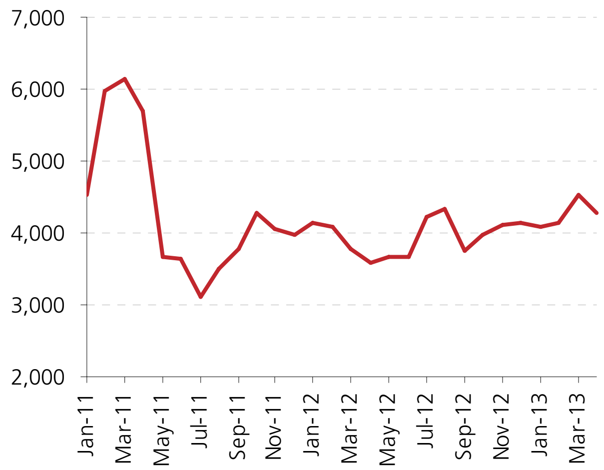
Source: Agmark, Kotak Institutional Equities

Exhibit 7: Wheat prices have risen sharply over the past one year
Wheat prices in APMC mandis (Rs/quintal)



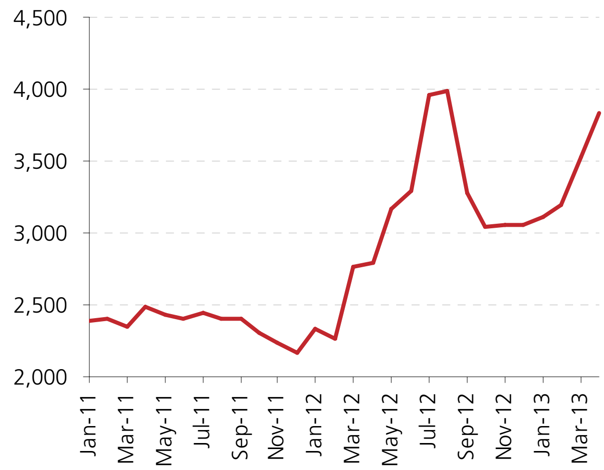
Source: Agmark, Kotak Institutional Equities

Exhibit 8: Cotton prices are picking up
Cotton prices in APMC mandis (Rs/quintal)



Source: Agmark, Kotak Institutional Equities

Exhibit 9: Soyabean prices on a healthy uptrend
Soyabean prices in APMC mandis (Rs/quintal)



Source: Agmark, Kotak Institutional Equities

Exhibit 10: Reservoir levels of rivers in South India are at high deficit compared to a 10-year average

Basin-wise reservoir levels, bn cubic meters (BCM)

As on June 6, 2013	Live capacity at FRL	Current storage	Last year's storage	Last 10-years average	Curent over last year (%)	Reservior surplus/ (deficiency) (%)
Ganga	28.1	9.3	7.0	2.9	33.4	218.2
Indus	14.7	4.5	3.2	3.5	40.4	28.5
Narmada	17.4	2.8	2.2	1.8	28.5	53.1
Tapi	7.4	1.8	1.7	1.5	3.1	18.1
Mahi	4.0	2.1	1.8	1.1	17.1	90.1
Sabarmati	0.7	0.2	0.2	0.1	(14.0)	31.9
Rivers of Kutch	0.9	0.0	0.0	0.0	(73.2)	(72.5)
Godavari	15.1	2.8	1.5	2.0	89.7	43.9
Mahanadi & neighborhood	31.5	3.5	4.2	5.0	(16.6)	(30.3)
Krishna	13.2	2.1	3.0	2.5	(28.1)	(16.3)
Kaveri and neighbourhood	8.2	0.2	2.2	2.2	(90.7)	(90.6)
West flowing rivers of South	13.6	2.3	2.2	2.4	0.1	(5.2)
Total	**154.9**	**31.5**	**29.2**	**25.1**	**8.1**	**25.6**

Source: CWC, Kotak Institutional Equities

Exhibit 11: We value M&M at Rs1,050/share based on the SOTP methodology

M&M sum-of-the-parts valuation methodology

	EPS (Rs/share)	Multiple (X)	Value per share (Rs)	Comment
M&M standalone + MVML	61.3	13.0	797	Based on 13X 12-month forward EPS less dividend income from subs
Subsidiaries			**236**	
Tech Mahindra			83	Based on KIE target price of Rs1,050/share
Mahindra Holidays			22	Based on current price of Rs249/share
M&M Financial Services Ltd			83	Based on KIE target price of Rs220/share
Mahindra Lifespace Developers Ltd			11	Based on current market price of Rs 400/share
Mahindra Forgings			3	Based on current price of Rs43/share
Ssangyong Motors			34	Based on investment made by M&M in the firm of 463 mn dollars
SOTP-based value			**1,033**	
Target price			**1,050**	

Notes:

(a) The subsidiaries have been valued at a holding company discount of 20%.

Source: Company, Kotak Institutional Equities estimates

Exhibit 12: We estimate 11% earnings CAGR over FY2014-16

M&M standalone profit and loss, balance sheet and cash flow statement, March fiscal year-ends, 2010-16E (Rs mn)

	2010	2011	2012	2013	2014E	2015E	2016E
Profit model (Rs mn)							
Net sales	186,021	234,937	319,529	404,412	434,367	487,239	552,880
EBITDA	**29,552**	**34,655**	**37,907**	**47,093**	**47,105**	**54,677**	**64,844**
Other income	1,994	3,095	3,366	4,295	4,583	5,023	5,363
Interest	(278)	503	(536)	(715)	(309)	380	669
Depreciation	(3,708)	(4,139)	(5,761)	(7,108)	(8,335)	(10,157)	(12,182)
Profit before tax	27,560	34,114	34,976	43,564	43,044	49,923	58,693
Current tax	(7,493)	(7,617)	(5,382)	(10,943)	(10,331)	(11,982)	(14,086)
Deferred tax	(97)	(958)	(1,888)	—	—	—	—
Net profit	**20,878**	**26,714**	**28,789**	**33,528**	**32,713**	**37,941**	**44,607**
Adjusted net profit	**20,878**	**25,619**	**27,706**	**32,621**	**32,713**	**37,941**	**44,607**
Adjusted earnings per share (Rs)	**33.9**	**41.7**	**45.1**	**53.1**	**53.3**	**61.8**	**72.6**
Adjusted earnings per share ex subs dividends (Rs)	**32.5**	**39.7**	**42.6**	**49.4**	**49.1**	**57.2**	**67.7**
Balance sheet (Rs mn)							
Equity	80,671	106,678	126,982	154,907	176,461	201,459	230,849
Total Borrowings	28,802	24,053	35,808	36,425	25,687	15,687	15,687
Current liabilities	52,000	67,676	76,330	83,205	88,568	96,114	106,797
Total liabilities	**161,473**	**198,406**	**239,120**	**274,537**	**290,715**	**313,259**	**353,332**
Net fixed assets	37,027	43,719	50,808	58,213	69,878	84,721	97,539
Investments	63,980	93,253	103,105	118,335	120,105	128,105	136,105
Cash	17,432	6,146	11,884	17,814	13,865	3,864	10,759
Other current assets	42,992	55,288	73,323	80,175	86,867	96,570	108,930
Miscellaneous expenditure	41	—	1	—	—	—	—
Total assets	**161,473**	**198,406**	**239,120**	**274,537**	**290,715**	**313,259**	**353,332**
Free cash flow (Rs mn)							
Operating cash flow excl. working capital	23,409	27,724	32,192	37,056	36,774	42,696	50,757
Working capital changes	(45)	2,074	(4,843)	23	(1,330)	(2,157)	(1,677)
Capital expenditure	(9,607)	(12,070)	(13,404)	(14,513)	(20,000)	(25,000)	(25,000)
Free cash flow	**13,758**	**17,728**	**13,945**	**22,566**	**15,445**	**15,539**	**24,080**
Ratios							
EBITDA margin (%)	15.9	14.8	11.9	11.6	10.8	11.2	11.7
PAT margin (%)	11.2	11.4	9.0	8.3	7.5	7.8	8.1
Debt/equity (X)	0.4	0.2	0.3	0.2	0.1	0.1	0.1
Net debt/equity (X)	0.1	0.2	0.2	0.1	0.1	0.1	0.0
Book Value (Rs/share)	131.4	168.0	198.2	242.3	277.4	318.1	366.0
RoAE (%)	30.5	28.2	24.6	24.1	20.5	20.8	21.2
RoACE (%)	**19.2**	**19.6**	**16.9**	**17.5**	**15.4**	**16.5**	**17.5**

Source: Company, Kotak Institutional Equities estimates

Exhibit 13: MVML profit to rise sharply as production at Chakan plant increases
M&M + MVML profit and loss statement, March fiscal year-ends, 2012-16E (Rs mn)

	2012	2013	2014E	2015E	2016E
Volumes	704,874	775,355	837,869	924,020	1,027,467
Avg realization	489,898	555,689	566,803	578,139	593,748
Gross sales	345,317	430,856	474,906	534,212	610,057
Excise duty	31,506	47,290	56,989	64,105	73,207
Net sales	**313,811**	**383,566**	**417,917**	**470,106**	**536,850**
Raw materials	223,947	273,971	300,901	338,476	386,532
Staff costs	17,946	19,977	21,975	24,172	26,589
Other expenses	30,306	36,326	39,959	43,954	48,350
Total expenses	272,199	330,274	362,834	406,603	461,471
EBITDA	**41,613**	**53,292**	**55,084**	**63,503**	**75,379**
Other income	4,735	5,697	6,381	7,146	8,004
Interest expense	2,874	2,964	2,564	2,064	1,564
Depreciation	6,699	8,178	9,405	11,227	13,252
Extraordinary income	1,083	906	—	—	—
Profit before tax	37,858	48,753	49,496	57,358	68,566
Tax expenses	7,887	12,410	12,126	14,053	16,799
Profit after tax	**29,970**	**36,343**	**37,369**	**43,305**	**51,768**
Adj profit before tax	**28,888**	**35,437**	**37,369**	**43,305**	**51,768**
EPS FD	47.0	57.7	60.9	70.5	84.3
EPS FD ex subs dividends	44.5	55.4	56.7	66.0	79.4
Ratios (%)					
EBITDA margin (%)	13.3	13.9	13.2	13.5	14.0
Raw material cost as % of sales	71.4	71.4	72.0	72.0	72.0
Staff cost as % of sales	5.7	5.2	5.3	5.1	5.0
Other expenses as % of sales	9.7	9.5	9.6	9.3	9.0
Excise duty (% of sales)	9.1	11.0	12.0	12.0	12.0
Tax rate (%)	21	25	25	25	25
MVML profit	1,181	2,816	4,656	5,364	7,161
MVML profit/share	1.9	4.6	7.6	8.7	11.7

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Cairn India (CAIR)

Energy

BUY

JUNE 11, 2013

UPDATE

Coverage view: Attractive

Price (Rs): 290

Target price (Rs): 350

BSE-30: 19,441

Solid rupee hedge. We have raised our EPS estimates of Cairn India by +5-9% over FY2014-16 to reflect weaker Rupee forecasts by our economics team. We believe the Cairn stock provides a good entry point as it factors in low production and recoverable reserves from the Rajasthan block. We reiterate our BUY rating on the stock with a revised 12-month forward target price of ₹350 (₹340 previously). Visibility on (1) production ramp-up and (2) higher reserves will be critical for the stock performance over the next 12 months.

Company data and valuation summary

Cairn India

Stock data			
52-week range (Rs) (high,low)			367-268
Market Cap. (Rs bn)			553.1
Shareholding pattern (%)			
Promoters			58.8
FIIs			14.6
MFs			3.1
Price performance (%)	1M	3M	12M
Absolute	(4.5)	(5.3)	(10.5)
Rel. to BSE-30	(1.3)	(4.1)	(23.1)

Forecasts/Valuations	2013	2014E	2015E
EPS (Rs)	63.1	59.7	51.4
EPS growth (%)	51.7	(5.3)	(14.0)
P/E (X)	4.6	4.8	5.6
Sales (Rs bn)	184.6	186.1	176.0
Net profits (Rs bn)	119.2	114.1	98.2
EBITDA (Rs bn)	145.2	146.0	131.6
EV/EBITDA (X)	3.4	3.2	3.5
ROE (%)	25.4	22.6	16.8
Div. Yield (%)	4.0	4.1	4.1

QUICK NUMBERS

- 2.5% increase in earnings from ₹1/US$ depreciation in exchange rate
- Stock discounting 1 bn bbls of gross recoverable reserves
- 21% potential upside from current levels

A weaker Rupee augurs well for the company

We expect Cairn India to benefit from the recent weakening of the Rupee against the US Dollar as it will increase revenues, and in turn, profitability of the company. A ₹1/US$ depreciation of the Indian Rupee will positively impact Cairn's earnings by about 2.5% and result in FY2014E and FY2015E EPS of ₹61.2 and ₹52.7 versus our base-case EPS estimate of ₹59.7 and ₹51.4 (see Exhibit 1). We note that our fair valuation of Cairn India increases by ~₹5/share for every ₹1/US$ depreciation in the exchange rate in the long term (FY2016E onwards).

Stock discounting low recoverable reserves at current crude price and exchange rate

Our reverse-DCF analysis, at current levels of crude price and exchange rate, suggests that Cairn's stock price is factoring in downside risks from lower crude oil production in the medium term and is discounting gross recoverable reserves of 1 bn bbls from the Rajasthan block, which is equivalent to 2P+2C reserves and resources from MBA fields including EOR (see Exhibits 2 and 3). We find the risk-reward balance favorable as the stock does not factor in potential upsides from the Barmer Hill formation, 19 other discoveries and prospective exploration in the Rajasthan block.

Retain BUY with a TP of ₹350; catalysts from production ramp-up and exploration successes

We retain our BUY rating on the Cairn India stock noting 21% potential upside to our 12-month fair value of ₹350 (₹340 previously). We believe ramp-up in crude oil production from the Rajasthan block is essential for stock performance over the next 12 months. Potential exploration successes in the Rajasthan block will augment 2P+2C reserves and provide more confidence in ultimate recoverability. The company indicated exploration plans to test 50% of 3.1 bn bbls of prospective resources in FY2014 itself.

We raise EPS estimates to reflect weaker Rupee assumptions

We have raised our FY2014-16E EPS for Cairn to ₹59.7 (+5%), ₹51.4 (+6.6%) and ₹44.3 (+8.8%) to reflect (1) weaker Rupee forecasts and (2) other minor changes. Our economics team now assumes an exchange rate of ₹56/US$ in FY2014, ₹55.5/US$ in FY2015 and ₹55 from FY2016 onwards versus ₹54/US$, ₹53/US$ and ₹52/US$ earlier.

Exhibit 1: Cairn's earnings are highly leveraged to crude prices
Earnings sensitivity of Cairn to key variables

	2014E			2015E			2016E		
	Downside	**Base case**	**Upside**	**Downside**	**Base case**	**Upside**	**Downside**	**Base case**	**Upside**
Average crude prices									
Crude price (US$/bbl)	103.0	105.0	107.0	98.0	100.0	102.0	93.0	95.0	97.0
Net profits (Rs mn)	110,970	114,130	117,290	95,202	98,151	101,100	81,638	84,645	87,651
Earnings per share (Rs)	58.1	59.7	61.4	49.8	51.4	52.9	42.7	44.3	45.9
% upside/(downside)	**(2.8)**		**2.8**	**(3.0)**		**3.0**	**(3.6)**		**3.6**
Exchange rate									
Rs/US$	55.0	56.0	57.0	54.5	55.5	56.5	54.0	55.0	56.0
Net profits (Rs mn)	111,400	114,130	116,860	95,722	98,151	100,580	82,410	84,645	86,879
Earnings per share (Rs)	58.3	59.7	61.2	50.1	51.4	52.7	43.1	44.3	45.5
% upside/(downside)	**(2.4)**		**2.4**	**(2.5)**		**2.5**	**(2.6)**		**2.6**
Crude oil production									
Rajasthan block ('000 b/d)	174.5	183.7	192.9	190.0	200.0	210.0	209.0	220.0	231.0
Net profits (Rs mn)	108,742	114,130	119,519	93,696	98,151	102,610	80,855	84,645	88,440
Earnings per share (Rs)	56.9	59.7	62.6	49.0	51.4	53.7	42.3	44.3	46.3
% upside/(downside)	**(4.7)**		**4.7**	**(4.5)**		**4.5**	**(4.5)**		**4.5**

Source: Kotak Institutional Equities estimates

Exhibit 2: Fair value of Cairn India at various levels of production, reserves and crude price (₹)

Average production in FY2014-18E (gross) ('000 b/d)	Recoverable reserves (gross) (bn bbls)	Fair value of Cairn India (Rs) Dated Brent crude price (US$/bbl) 90	100	110	120
160	1.00	239	270	295	322
175	1.20	268	303	332	363
200	1.35	296	331	366	406
225	1.50	323	365	410	456

Notes:
(a) Gross production and recoverable reserves from RJ-ON-90/1 block.
(b) We have assumed current exchange rate of Rs58/US$ for our calculations.

Source: Kotak Institutional Equities estimates

Exhibit 3: Cairn India has estimated 1 bn boe of 2P + 2C resource potential from MBA fields
Estimates of hydrocarbon reserves and resources (mn boe)

	Gross proved and probable hydrocarbons initially in place		Gross proved and probable reserves and resources		Net proved and probable reserves and resources	
	Mar-13	Mar-12	Mar-13	Mar-12	Mar-13	Mar-12
Rajasthan MBA fields (a)	2,193	2,090	905	944	634	661
Rajasthan block other fields	2,004	2,088	180	178	126	125
Ravva fields	681	690	50	70	11	16
CBOS/2 fields	209	182	20	13	8	5
KG-ONN-2003/1	481	68	74	17	36	8
SL-2007-01-001	74	74	56	56	56	56
Total (excl. KG-DWN-98/2)	**5,641**	**5,192**	**1,286**	**1,278**	**871**	**871**
KG-DWN-98/2 (b)	—	650	—	353	—	35
Total	**5,641**	**5,842**	**1,286**	**1,631**	**871**	**906**

Notes:
(a) Including MBA EOR potential.
(b) The company has divested its 10% stake in KG-DWN-98/2 block in FY2013.

Source: Company, Kotak Institutional Equities

Key assumptions behind our earnings model of Cairn India

Exhibit 4 gives the key assumptions behind our earnings estimates of Cairn India.

Exhibit 4: Key assumptions for Cairn India, March fiscal year-ends, 2010-17E

	2010	2011	2012	2013E	2014E	2015E	2016E	2017E
Pricing assumptions								
Exchange rate (Rs/US$)	47.4	45.6	47.8	54.4	56.0	55.5	55.0	55.0
Dated Brent crude price (US$/bbl)	**69.8**	**86.7**	**114.4**	**110.5**	**105.0**	**100.0**	**95.0**	**90.0**
Discount of Rajasthan crude to Dated	5.0	10.4	10.6	12.2	10.0	10.0	10.0	10.0
Volume assumptions ('000 b/d)								
Gross production (RJ-ON-90/1)	9	101	128	169	184	200	220	240
Net production (RJ-ON-90/1)	6	75	90	119	129	140	154	168
Gross production (O+OEG)	64	151	174	206	215	226	241	255
Net production (O+OEG)	**21**	**88**	**102**	**128**	**136**	**146**	**159**	**171**

Source: Company, Kotak Institutional Equities estimates

- **Recoverable reserves.** We assume gross recoverable reserves of 1.51 bn bbls (1.06 bn bbls net to Cairn) over the life of the Rajasthan block, which is lower versus the management's guidance of 1.76 bn bbls of expected ultimate recovery (see Exhibit 5). We model gross recoverable reserves of 1.1 bn bbls from MBA fields (including EOR) and 0.4 bn bbls from Barmer Hill, other discoveries and exploration upside.

Exhibit 5: Cairn India has estimated 1.76 bn boe of EUR from the Rajasthan block
Estimate of gross resource potential (mn boe)

Estimated resource potential	Gross oil in place	Gross EUR	Working Interest	Status
MBARS	2.27	0.83	0.58	Producing
MBARS EOR		0.24	0.17	FDP submitted to JV
Other fields (including Barmer Hill)	1.93	0.17	0.12	Future development
Exploration potential	3.10	0.53	0.37	Prospective resource
Total RJ-ON-90/1	**7.30**	**1.76**	**1.23**	

Source: Company, Kotak Institutional Equities

- **Volumes.** We model gross oil production from the Rajasthan block at 9.2 mn tons (184 kb/d) for FY2014, 10 mn tons (200 kb/d) for FY2015 and 11 mn tons (220 kb/d) for FY2016. Our estimates for FY2014-15 are contingent on (1) no major disappointment in production from Mangala field, which we model at 145,000 b/d and 140,000 b/d for FY2014 and FY2015 including EOR, (2) ramp-up in production from Bhagyam and Aishwariya fields.

- **Crude oil price assumption.** We assume crude oil prices for FY2014, FY2015 and FY2016 at US$105/bbl, US$100/bbl and US$95/bbl. We model FY2017 crude prices at US$90/bbl. We have assumed an increase in crude prices by 2% in perpetuity beyond FY2017. We model US$10/bbl discount to Dated Brent crude price for Cairn's Rajasthan crude in the long term.

- **Exchange rate.** We now assume Rupee-Dollar exchange rate for FY2014E, FY2015E and FY2016E at ₹56/US$, ₹55.5/US$ and ₹55/US$ versus ₹54/US$, ₹53/US$ and ₹52/US$ previously. We model long-term exchange rate from FY2016E onwards at ₹55/US$.

Exhibit 6: Current stock price is discounting US$88/bbl of crude price in perpetuity
Crude price discounted at various levels of stock price of Cairn India

Stock price (Rs/share)	Crude price discounted (US$/bbl)
410	120
395	115
380	112
365	107
350	103
335	100
320	95
305	92
290	88
275	84
260	81

Notes:
(1) Long-term exchange rate assumption of Rs55/US$.

Source: Kotak Institutional Equities estimates

Exhibit 7: We value the Cairn India stock at ₹350
EV and equity value of Cairn (US$ mn)

	Now	+ 1-year	+ 2-years
RJ-ON-90/1	8,221	8,059	8,004
CB-OS-2	33	19	8
Ravva	133	101	74
Total	**8,387**	**8,179**	**8,086**
Net debt	(2,846)	(3,291)	(3,620)
Equity value	**11,234**	**11,470**	**11,706**
Equity shares (mn)	1,910	1,910	1,910
Equity value per share (Rs/share)	**336**	**352**	**368**

Source: Kotak Institutional Equities estimates

Exhibit 8: Profit model, balance sheet, cash model of Cairn, March fiscal year-ends, 2010-16E (₹ mn)

	2010	2011	2012	2013	2014E	2015E	2016E
Profit model (Rs mn)							
Net sales	22,627	108,977	143,279	184,558	186,128	176,012	174,443
EBITDA	**9,874**	**84,117**	**95,533**	**134,880**	**133,129**	**118,277**	**108,702**
Other income	4,077	1,288	9,380	10,363	12,827	13,362	14,694
Interest	(148)	(2,909)	(2,258)	(687)	(250)	—	—
Depreciation	(3,570)	(13,596)	(17,391)	(23,008)	(23,293)	(26,112)	(31,677)
Pretax profits	10,232	68,900	85,263	121,548	122,413	105,526	91,719
Extraordinary items	(69)	—	(1,028)	1,367	—	—	—
Tax	(739)	(4,397)	(3,732)	(2,986)	(7,066)	(6,769)	(6,857)
Deferred taxation	1,087	(1,159)	(1,126)	636	(1,217)	(607)	(218)
Net profits	**10,511**	**63,344**	**79,377**	**120,564**	**114,130**	**98,151**	**84,645**
Earnings per share (Rs)	**5.5**	**33.3**	**41.6**	**63.1**	**59.7**	**51.4**	**44.3**
Balance sheet (Rs mn)							
Total equity	338,683	402,932	482,921	454,792	542,104	613,436	671,262
Deferred tax liability	4,453	5,612	6,738	6,102	7,319	7,926	8,144
Total borrowings	34,007	26,782	12,518	—	—	—	—
Currrent liabilities	14,806	29,266	32,255	58,377	61,096	62,029	64,193
Total liabilities and equity	**391,949**	**464,592**	**534,432**	**519,271**	**610,519**	**683,391**	**743,599**
Cash	6,269	44,847	73,963	55,568	78,841	95,273	116,912
Current assets	17,465	34,761	53,559	59,980	82,248	102,288	121,209
Total fixed assets	92,904	99,054	105,145	105,429	117,929	101,371	73,952
Net producing properties	4,995	20,850	30,207	38,490	71,697	124,656	171,723
Investments	17,124	10,944	18,356	103,823	103,823	103,823	103,823
Goodwill	253,193	253,193	253,193	151,522	151,522	151,522	151,522
Deferred expenditure	—	943	10	4,459	4,459	4,459	4,459
Total assets	**391,949**	**464,592**	**534,432**	**519,271**	**610,519**	**683,391**	**743,599**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	6,501	71,403	69,417	106,468	99,390	88,591	81,253
Working capital changes	(7,082)	(10,088)	(29)	15,252	5,124	2,360	2,385
Capital expenditure	(33,662)	(25,648)	(29,558)	(27,026)	(67,250)	(61,063)	(49,875)
Investments/Goodwill	25,194	(24,004)	(196)	(85,467)	—	—	—
Other income	2,360	903	2,449	10,363	12,827	13,362	14,694
Free cash flow	**(6,689)**	**12,566**	**42,083**	**19,589**	**50,092**	**43,250**	**48,458**
Key assumptions							
Gross production ('000 boe/d)	64	151	174	206	215	226	241
Net production ('000 boe/d)	21	88	102	128	136	146	159
Gross production from Rajasthan block ('000 boe/d)	9	101	128	169	184	200	220
Dated Brent (US$/bbl)	70	87	114	111	105	100	95
Discount of Rajasthan crude to Dated Brent (US$/bbl)	5	10	11	12	10	10	10

Source: Company, Kotak Institutional Equities estimates

Kotak Institutional Equities

Media

India

NEUTRAL

JUNE 11, 2013

UPDATE

BSE-30: 19,441

TRAI advertising limit regulation: Short-term pain. TRAI's regulation on advertising time limit on C&S channels (12minutes/clock hour) is likely to impact ad revenue across broadcasters, given that many run 15-20minutes/hour of primetime advertising. Rising ratings, reduced clutter and industry-wide impact will force upward pressure on ad rates but are unlikely to completely negate a large reduction in volume. Among listed broadcasters, we estimate relatively limited impact on Zee (REDUCE) but a modest hit for Sun (REDUCE) and TV18 (unrated). Potential side-effects: (1) Consolidation among smaller FTA broadcasters (notably news) and (2) pressure on digital cable to reduce carriage fee and deliver on subscription revenues (FTA channels may turn pay).

TRAI advertising limit regulations: History, mechanics and implementation timelines

TRAI first issued regulations limiting advertising time on C&S channels in May 2012 but the broadcasters challenged the regulations in TDSAT, noting lack of clarity on TRAI's powers to regulate content (and by association, advertising). The deadlock was broken when the MIB intervened, noting the Cable Act specified a 12 minutes/hour limit, which was being flouted by broadcasters and channels by a large margin (15-20 minutes versus an acceptable 13-14 minutes/hour). We discuss the mechanics and timelines below.

- The advertising limit will be 12 minutes/hour, comprising 10 minutes/hour of commercial advertising and two minutes/hour of promotions.
- The advertising limit will be implemented on a clock-hour basis rather than all-day/a 24-hour basis, as envisaged in the Cable Act.
- The regulation will be implemented in a phased manner, with 20 minutes/hour limit for FTA/news channels and 16 minutes/hour for pay channels until September 2013. All channels will have to adhere to the 12 minutes/hour advertising limit from October 2013.

Each to his own: Varied impact on broadcasters given quantum/quality of slippage

Exhibits 1-2 present primetime and all-day ad time for Zee and Sun channels in 1QFY14. All broadcasters (barring DD, the national broadcaster) are in violation of the 12 minutes/hour ad limit. We focus on relative ad time as industry-wide reduction in ad time will anyway put upward pressure on rates. Zee is marginally above the limit in its flagship (Zee TV, Zee Cinema) and niche channels (some are below the limit); regional channels would be the key hurdle. Sun is way above the limit across almost all channels; Sun will likely be able to hike rates enough to negate the impact on flagship Tamil channels but non-Tamil channels' market share has been under pressure (see Exhibits 3-4); declining market share trends (notably non-Tamil channels) will make it harder to justify significantly higher ad rates and negate the impact of the ad limit.

Short-term pain: We retain our Cautious view on Zee (REDUCE) and Sun (REDUCE)

Exhibit 5 presents the sensitivity of Zee's and Sun's earnings to ad revenues/growth. We note that for every minute/hour of reduction in ad time, broadcasters will have to increase ad rates by 7-8% to compensate. This is without taking into account our ad-growth assumptions over FY2014-15. In the long run (1) a shift from small and mid-sized to large advertisers may help to maintain the medium's pre-eminent position as an advertising platform in India and (2) potential consolidation in the market may help large tier-I broadcasters to hike rates enough to negate the impact of the ad limit. However, the near-term positive impact of digitization on subscription growth of large tier-I broadcasters is likely to be diluted. We retain our Cautious view on expensive valuations.

Exhibit 1: Advertising time across key Zee TV channels, 1QFY14

	Ad time (min/hr)	
	Primetime	All-day
Zee TV	15.8	12.7
Zee Cinema	14.9	15.3
Zee Bangla	17.5	15.3
Zee Bangla Cinema	18.4	15.5
Zee Marathi	17.9	16.3
Zee Talkies	19.3	15.4
Zee Telugu	18.0	16.0
Zee Kannada	17.7	15.6
Zee Studio	13.2	10.4
Zee Café	17.7	15.9
Zee Classic Cinema	10.2	9.2
Weighted avg	**16.1**	**13.8**

Source: TAM Media Research, Kotak Institutional Equities

Exhibit 2: Advertising time across key Sun TV channels, 1QFY14

	Ad time (min/hr)	
	Primetime	All-day
Sun TV	21.0	12.4
KTV Tamil Movies	16.2	13.8
Gemini TV	18.0	11.0
Gemini Movies	19.2	10.8
Udaya TV	16.7	10.4
Udaya Movies	15.4	11.2
Surya TV	12.7	10.5
Kiran TV	14.6	10.1
Aditya TV	23.1	16.1
Chutti TV	17.7	12.8
Gemini Comedy	15.8	8.7
Weighted avg	**18.1**	**12.0**

Source: TAM Media Research, Kotak Institutional Equities

Exhibit 3: Market share of key Zee Entertainment channels, 4QFY12-13

	4QFY12	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14
Zee TV	**16**	**18**	**19**	**16**	**19**	**17**
Zee Cinema	26	24	22	21	21	19
Zee Bengali	34	28	30	32	31	31
Zee B Cinema	-	-	1	7	6	5
Zee Marathi	24	26	24	29	31	31
Zee Talkies	9	9	8	10	10	12
Zee Telugu	15	16	16	16	15	17
Zee Kannada	17	15	15	16	16	13
Average	**17.6**	**17.2**	**16.9**	**18.4**	**18.7**	**18.2**
Weighted	**17.9**	**18.5**	**18.6**	**18.2**	**19.3**	**18.4**
Cumulative	**304**	**315**	**317**	**310**	**328**	**313**

Source: TAM Media Research, Kotak Institutional Equities

Exhibit 4: Market share of key Sun TV Network channels, 4QFY12-13

	4QFY12	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14
Sun TV	**55**	**52**	**51**	**53**	**51**	**52**
KTV	13	14	15	14	14	14
Gemini TV	32	29	30	29	28	26
Gemini Movies	12	12	12	12	12	11
Udaya TV	35	33	33	31	31	27
Udaya Movies	11	12	12	12	10	11
Surya TV	25	25	23	17	19	19
Kiran TV	8	9	9	8	7	8
Average	**23.8**	**23.3**	**23.2**	**22.1**	**21.4**	**21.0**
Weighted	**28.5**	**27.4**	**27.5**	**26.8**	**26.1**	**25.6**
Cumulative	**314**	**302**	**302**	**295**	**288**	**282**

Source: TAM Media Research, Kotak Institutional Equities

Exhibit 5: Sensitivity of ad growth to Zee/Sun earnings, FY2014E (%)

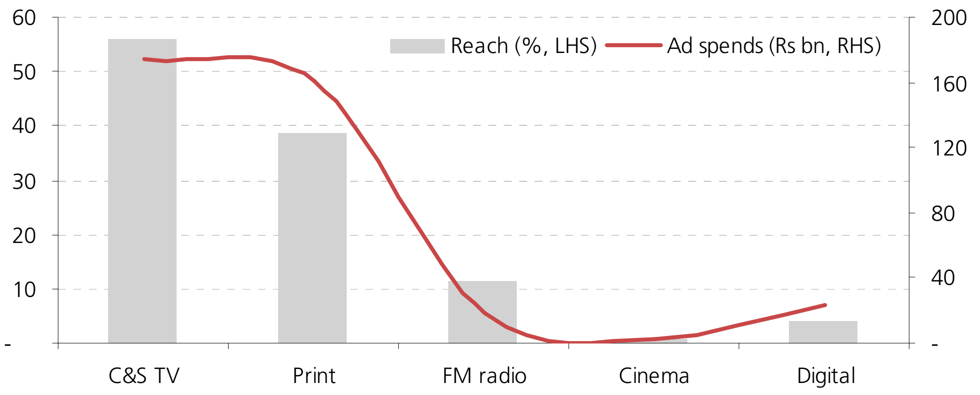
	FY2014E			
	Base	-5%	-10%	*chg (%)*
Zee Entertainment				
Ad growth (%, ex-sports)	18	**12**	6	
EPS (Rs/share)	8.8	**8.2**	7.6	*(7)*
P/E (X)	26	**28**	31	
Sun TV Network				
Ad growth (%)	11	6	**0**	
EPS (Rs/share)	20.5	19.4	**18.3**	*(11)*
P/E (X)	21	22	**23**	

Source: Kotak Institutional Equities estimates

C&S TV to remain top media platform; growth likely to take a hit

In our discussions, broadcasters indicated higher ad rates would compensate for the loss of ad time, on the strengths of (1) C&S TV being the leading media platform in India (maximum reach) and (2) the efficiency of the platform (lowest cost to reach an audience). We agree. We note that limits on ad time benefit advertisers, which they would likely pay for. The benefits are (1) reduced clutter and (2) higher ratings of advertisements (30-40% lower than programs given that viewers switch channels during long ad breaks). We estimate 20-30% industry-wide increase in ad rates, but further hikes may push advertisers to revisit their media mix; channels with 15-16 minutes/hour of ad time are safe but channels with more than 18 minutes/hour of ad time may find it hard to increase rates immediately by more than 50%.

Exhibit 6: Trends in reach and ad spends across media platforms, CY2012



Source: Indian Readership Survey, Kotak Institutional Equities estimates

Which genres will be impacted? Which media platforms might benefit?

Exhibits 6-7 present the ad time on Hindi news and music/youth channels in 1QFY14; these genres have an inordinately long ad times and consequently, will likely bear the maximum impact of the ad limit regulation. In our discussions, media agencies indicated C&S TV would likely retain 85-90% of ad spends, advertisers and genres such as Hindi and regional GE (large reach) as well as pure brand advertisers (such as FMCG, which contributes 45-50% of C&S TV ad spends). Nonetheless, there is likely to be a 5-15% swing in ad spends to other media platforms. It is difficult to quantify the impact, given the change in the media mix will be a function of individual advertisers and their requirements, but digital will benefit in the long run.

Exhibit 7: Advertising time across Hindi news channels, 1QFY14

	Ad time (min/hr)	
	Primetime	All-day
Aaj Tak	22.5	19.2
ABP News	21.9	17.0
India TV	22.1	19.4
IBN7	19.5	18.9
News 24	18.2	14.3
NDTV India	17.8	18.3
Zee News	23.1	20.2
DD News	9.7	6.6
TEZ	20.9	16.5
Average	**19.5**	**16.7**

Source: TAM Media Research, Kotak Institutional Equities

Exhibit 8: Advertising time across youth/music channels, 1QFY14

	Ad time (min/hr)	
	Primetime	All-day
9XM	33.5	23.6
Bindass	19.2	14.8
Channel V	21.4	18.7
MTV	26.3	18.1
Mastii	11.6	12.8
Sony MIX	22.8	17.0
Music India	17.1	12.4
Music Express	16.7	11.5
Zing	8.4	7.0
Average	**19.7**	**15.1**

Source: TAM Media Research, Kotak Institutional Equities

Likely pressure on C&S distributors to deliver, notably cable

The side-effects of this ad limit regulation are likely to reverberate across the value chain. Broadcasters are likely to pressure content partners to keep costs in check (unlikely to impact fiction, but likely deflation in cost of non-fiction, films and sports) and C&S distributors for more subscription revenue. We believe DTH may be in a relatively secure position, already contributing more than half the subscription revenue of broadcasters with ~30% share of C&S subscribers. Given the nascent stage of the digitization process, broadcasters were willing to allow cable MSOs time to settle down (continuation of fixed-fee arrangements). The ad limits may force broadcasters to push for more subscription, earlier than expected; potential consolidation to impact carriage fees.

Additionally, we believe TRAI missed a trick used by regulators globally. The ad limit regulations may have been relaxed for FTA (free-to-air) broadcasters, which have a public service utility/function (content to viewers at zero cost). The potential consolidation in the broadcasting market (largely FTA channels) and limited financial flexibility of leftover FTA channels may push them to turn pay. The unintended side effect would be higher ARPUs charged to consumers for reduced content.

Exhibit 9: Zee subscriber revenues and DTH content costs, FY2010-13

	2010	2011	2012	2013	*CAGR (%)*
Zee subs revenues					
DTH revenues	**2,371**	**3,302**	**4,611**	**5,940**	***36***
Cable revenues	**3,431**	**3,880**	**4,611**	**5,708**	***18***
DTH content costs					
Dish TV India (old)	4,373	5,036	6,066	6,525	*14*
Videocon D2H (new)	373	2,005	3,319	4,457	*129*
Old+New DTH	**4,745**	**7,041**	**9,384**	**10,982**	***32***

Source: Company data, Kotak Institutional Equities estimates

An opportunity for the national broadcaster, DD

The national broadcaster, DD, has been adversely impacted by the emergence of C&S TV, with decline in viewership and advertising. Surprisingly, digitization has benefitted DD with a modest uptick in ratings (likely benefit of increased reach, previously constrained on analog cable). DD may benefit from consolidation and ability to offer more ad inventory to advertisers constrained elsewhere (including higher rates). Sony TV has limited slippages across its flagship Hindi GE/cinema channels and sports (IPL).

Exhibit 10: Advertising time on key DD channels, 1QFY14

	Ad time (min/hr)	
	Primetime	All-day
DD National	11.1	8.4
DD News	9.7	6.6
DD Bengali	8.9	5.6
DD Marathi	8.3	9.3
DD Tamil	4.7	3.3
DD Telugu	3.0	2.7
DD Kannada	4.3	4.2
DD Malayalam	4.0	2.5
Average	**6.7**	**5.3**

Source: TAM Media Research, Kotak Institutional Equities

Exhibit 11: Advertising time on key Sony India channels, 1QFY14

	Ad time (min/hr)	
	Primetime	All-day
Sony TV	13.7	12.6
SAB TV	15.2	13.4
MAX	13.7	13.2
AXN	17.9	13.4
PIX	15.6	10.2
MIX	22.8	17.0
Maa Telugu	18.6	13.1
Maa Movies	19.6	13.5
Average	**16.5**	**13.3**

Source: TAM Media Research, Kotak Institutional Equities

TV18 and Star have been aggressive with ad time on their flagship channels

Exhibit 12: Advertising time on key TV18 channels, 1QFY14

	Ad time (min/hr)	
	Primetime	All-day
Colors	16.0	15.0
CNBC TV18	14.5	14.5
CNN IBN	13.9	15.7
IBN7	19.5	18.9
CNBC Awaaz	14.8	15.2
MTV	26.3	18.1
Nick	20.0	10.2
History TV18	16.9	17.1
ETV Kannada	15.8	15.1
ETV Marathi	16.3	15.9
ETV Bangla	16.0	15.4
Weighted avg	**16.9**	**15.4**

Source: TAM Media Research, Kotak Institutional Equities

Exhibit 13: Advertising time on key Star India channels, 1QFY14

	Ad time (min/hr)	
	Primetime	All-day
Star Plus	16.5	16.3
LikeOK	15.4	15.4
Star Gold	15.8	16.3
MoviesOK	16.6	15.7
Star Jalsha	16.5	16.5
Star Pravah	16.5	16.5
Asianet	16.9	16.1
Suvarna	19.8	15.9
Vijay TV	18.0	14.7
Star Movies	14.7	10.9
Star World	18.0	15.9
Average	**16.8**	**15.5**

Source: TAM Media Research, Kotak Institutional Equities

Hindi GE and Cinema genres ad time is under control

Exhibit 14: Advertising time on Hindi GE channels, 1QFY14

	Ad time (min/hr)	
	Primetime	All-day
Colors	16.0	15.0
DD National	11.1	8.4
LikeOK	15.4	15.4
Sahara One	17.8	11.8
SAB TV	15.2	13.4
Sony TV	13.7	12.6
Star Plus	16.5	16.3
Zee TV	15.8	12.7
Average	**15.2**	**13.2**

Source: TAM Media Research, Kotak Institutional Equities

Exhibit 15: Advertising time on Hindi Cinema channels, 1QFY14

	Ad time (min/hr)	
	Primetime	All-day
FILMY	16.1	10.1
MoviesOK	16.6	15.7
MAX	13.7	13.2
Star Gold	15.8	16.3
UTV Action	15.5	10.8
UTV Movies	15.5	11.5
Zee Cinema	14.9	15.3
Zee Classic	10.2	9.2
Average	**14.8**	**12.8**

Source: TAM Media Research, Kotak Institutional Equities

Regional entertainment genre ad time is quite high

Exhibit 16: Advertising time on Bengali channels, 1QFY14

	Ad time (min/hr)	
	Primetime	All-day
DD Bangla	8.9	5.6
ETV Bangla	16.0	15.4
Jalsha Movies	16.3	15.3
S Bangla	26.1	17.2
Sony Aath	16.6	10.7
Star Jalsha	16.5	16.5
Zee Bangla	17.5	15.3
Zee Bangla Cinema	18.4	15.5
Average	**17.0**	**13.9**

Source: TAM Media Research, Kotak Institutional Equities

Exhibit 17: Advertising time on Marathi channels, 1QFY14

	Ad time (min/hr)	
	Primetime	All-day
9X Jhakaas	29.3	20.2
DD Sahyadri	8.3	9.3
ETV Marathi	16.3	15.9
Saam TV	18.1	16.1
Star Pravah	16.5	16.5
Zee Marathi	17.9	16.3
Zee Talkies	19.3	15.4
Average	**18.0**	**15.7**

Source: TAM Media Research, Kotak Institutional Equities

Exhibit 18: Advertising time on Tamil channels, 1QFY14

	Ad time (min/hr)	
	Primetime	All-day
Adithya	23.1	16.1
Chutti TV	17.7	12.8
DD Podhigai	4.7	3.3
Kalaignar	14.5	10.7
KTV	16.2	13.8
Jaya TV	13.8	11.9
Sun TV	21.0	12.4
Vijay TV	18.0	14.7
Zee Tamil	16.7	12.7
Average	**16.2**	**12.0**

Source: TAM Media Research, Kotak Institutional Equities

Exhibit 19: Advertising time on Telugu channels, 1QFY14

	Ad time (min/hr)	
	Primetime	All-day
DD Saptagiri	3.0	2.7
ETV	16.2	11.1
Gemini TV	18.0	11.0
Gemini Movies	19.2	10.8
Gemini Comedy	15.8	8.7
Kushi TV	8.3	6.7
Maa TV	18.6	13.1
Maa Movies	19.6	13.5
Zee Telugu	18.0	16.0
Average	**15.2**	**10.4**

Source: TAM Media Research, Kotak Institutional Equities

Exhibit 20: Advertising time on Kannada channels, 1QFY14

	Ad time (min/hr)	
	Primetime	All-day
DD Chandana	4.3	4.2
ETV Kannada	15.8	15.1
Kasturi	18.0	16.2
Suvarna	19.8	15.9
Udaya TV	16.7	10.4
Udaya Movies	15.4	11.2
Udaya Comedy	15.1	8.6
Z Kannada	17.7	15.6
Average	**15.4**	**12.1**

Source: TAM Media Research, Kotak Institutional Equities

Exhibit 21: Advertising time on Kannada channels, 1QFY14

	Ad time (min/hr)	
	Primetime	All-day
Amrita	13.8	11.3
Asianet	16.9	16.1
Asianet Plus	14.5	13.8
DD Malayalam	4.0	2.5
Kairali	18.0	15.2
Kiran TV	14.6	10.1
M Manorama	15.1	14.9
Surya TV	12.7	10.5
Average	**13.7**	**11.8**

Source: TAM Media Research, Kotak Institutional Equities

Infotainment and English (including Business) News ad time under control

Exhibit 22: Advertising time on infotainment channels, 1QFY14

	Ad time (min/hr)	
	Primetime	All-day
Animal Planet	13.8	11.6
Discovery	15.7	15.0
Discovery Tamil	15.7	13.0
Discovery Turbo	15.0	12.5
Fox Traveller	15.6	14.6
History TV18	16.9	17.1
Nat Geo	13.9	12.9
NDTV Goodtimes	21.0	18.0
TLC	14.9	15.0
Average	**15.8**	**14.4**

Source: TAM Media Research, Kotak Institutional Equities

Exhibit 23: Advertising time on English-business news channels, 1QFY14

	Ad time (min/hr)	
	Primetime	All-day
Bloomberg TV	11.7	11.0
CNBC Awaaz	14.8	15.2
CNBC TV18	14.5	14.5
CNN IBN	13.9	15.7
ET Now	10.7	10.3
Headlines Today	12.2	11.0
NDTV 24X7	11.5	13.6
NDTV Profit	13.4	12.9
News X	4.5	4.1
Times Now	13.0	13.6
Zee Business	12.3	12.0
Average	**12.0**	**12.2**

Source: TAM Media Research, Kotak Institutional Equities

Sports channels' ad time is quite low given live-action programming

Sports channels are unlikely to be impacted by the ad limit regulation given live action programming automatically limits the scope of advertising. A running cricket match typically provides 30-40 seconds of ad time opportunity between overs. Assuming no more than 14-15 overs per hour, it implies 10 minutes/hour of ad time. The limitation of ad time in sports channels is visible throughout (Sony SIX telecast IPL during 1QFY14).

Exhibit 24: Advertising time on sports channels, 1QFY14

	Ad time (min/hr)	
	Primetime	**All-day**
ESPN	9.1	9.8
Neo Prime	11.1	10.4
Neo Sports	6.6	7.8
Sony SIX	12.7	11.2
Star Cricket	8.8	9.5
Star Sports	10.0	9.5
Star Sports2	8.0	8.3
Ten Action	6.9	6.7
Ten Cricket	9.3	9.3
Ten Sports	8.8	8.8
Average	**9.1**	**9.1**

Source: TAM Media Research, Kotak Institutional Equities

Exhibit 25: Advertising time on children's channels, 1QFY14

	Ad time (min/hr)	
	Primetime	**All-day**
Cartoon Network	15.6	10.1
Disney Channel	17.6	10.5
Disney Junior	11.1	7.8
Disney XD	13.4	9.0
DK Discovery Kids	15.1	15.1
Hungama	18.7	9.5
Nick	20.0	10.2
Pogo	14.7	10.0
Sonic Nick	10.6	10.3
Average	**15.2**	**10.3**

Source: TAM Media Research, Kotak Institutional Equities

English movie channels are fine; English GE channels have high ad time

Exhibit 26: Advertising time on English GE channels, 1QFY14

	Ad time (min/hr)	
	Primetime	**All-day**
AXN	17.9	13.4
Comedy Central	16.3	9.4
FX	16.6	16.5
Love Big CBS	16.9	16.2
Prime Big CBS	16.1	15.7
Star World	18.0	15.9
Thrill Big RTL	12.6	10.2
Z Café	17.7	15.9
Average	**16.5**	**14.1**

Source: TAM Media Research, Kotak Institutional Equities

Exhibit 27: Advertising time on English cinema channels, 1QFY14

	Ad time (min/hr)	
	Primetime	**All-day**
HBO	14.4	10.4
Movies Now	11.2	9.7
Sony PIX	15.6	10.2
Star Movies	14.7	10.9
WB	11.5	7.0
Zee Studio	13.2	10.4
Average	**13.4**	**9.8**

Source: TAM Media Research, Kotak Institutional Equities

NEUTRAL

JUNE 11, 2013

UPDATE

BSE-30: 19,441

Consolidation benefits for incumbents visible; we expect more. The benefits of the quasi-consolidation phase in the sector for incumbents are becoming increasingly visible. The top-three GSM incumbents clocked a combined 68.6% gross revenue (GR) market share in the March 2013 quarter, an uptick of 90 bps qoq and 170 bps yoy – a direct result of several in-survival-mode challengers rationalizing their footprints. We believe this is the start of a multi-year market share gain story for incumbents and remain positive on Bharti and Idea with preference for the latter.

Incumbents benefit as challengers strive for survival

The top-three GSM incumbents – Bharti, Vodafone, and Idea – increased their combined gross revenue (GR) market share in the Indian wireless industry again in the March 2013 quarter, per player-wise revenue data released by TRAI. The three together clocked a 68.6% GR market share (MS) in the March 2013 quarter, notably their highest ever as a composite. This represents a qoq market share gain of 90 bps and a yoy MS gain of 170 bps. Even as most of the sequential MS gain accrued to Vodafone and Idea, Bharti has done well, over the past year or so, to stem the sustained three-year-plus MS loss trend.

MS gains for the incumbents reflect the ongoing phase of quasi-consolidation in the industry. Facing cash flow (read survival) issues, challengers have of late taken to rationalizing their network footprints by moving out of some circles and/or reducing their network presence across circles. What is also aiding is the fading multi-SIM phenomenon – incumbents have a higher market share among primary SIMs, in our view. Even as the P&Ls of challengers should improve with such drastic cost rationalization moves, we do not see any of them quickly posing a serious competitive threat (of course, an equity infusion into any of the challengers would change this equation). We would therefore expect this phase of quasi-consolidation to continue for some time.

Vodafone, Idea continue to do better even as Bharti has stemmed MS losses

Within the incumbent pack, Vodafone and Idea continue to gain relative market share over Bharti. Both Vodafone and Idea reported their highest ever GR market shares in the March 2013 quarter – 23% and 15.7%, respectively. To Bharti's credit, it has done well to stem the trend of sustained market share losses – its market share continues to hover around 30%. We expect Bharti to start benefitting from the quasi-consolidation tailwind; however, we also believe it will continue to lose relative GR RMS to Vodafone and Idea (for our detailed thoughts on this aspect, please read a couple of pieces we wrote in March 2012).

Other players – quarterly movement not meaningful; trend not encouraging

We refrain from commenting on the sequential change in MS of other players, given the (1) high volatility in their revenues reported to the regulator and (2) the more pronounced impact of BSNL's extremely volatile reported revenues on these players' MS given the low base; this issue impacts the incumbents as well but their higher MS base lowers the quantum. However, from a trend perspective, nearly all the challengers continue to lose – some (like RCOM and BSNL) due to structural issues and some (like Aircel, Uninor, Shyam-Sistema) due to recent network closures. The only player that made a marked diversion from the trend is TTSL – the company has started losing market share after gaining and holding on for a long time. This appears to be a direct consequence of the company now focusing on profitability as the time for Docomo to decide on its put/call option comes closer.

Exhibit 1: Circle-wise change in revenue market share of incumbents from June 2009 to March 2013

Bharti a loser in most circles; Vodafone, Idea growing in both their established and new circles

Circle	Bharti				Vodafone				Idea			
	% of Rev	Market share (%)		Change	% of Rev	Market share (%)		Change	% of Rev	Market share (%)		Change
	Mar 13	Jun-09	Mar-13	(bps)	Mar 13	Jun-09	Mar-13	(bps)	Mar 13	Jun-09	Mar-13	(bps)
Metro + Circle A	**54.0**	**33.6**	**29.6**	**(402)**	**59.2**	**23.2**	**24.9**	**171**	**48.4**	**11.0**	**13.9**	**288**
Andhra Pradesh	9.6	40.1	37.5	(266)	3.6	13.7	10.8	(287)	9.7	17.7	19.8	209
Delhi	9.4	38.6	34.4	(418)	10.4	22.9	29.3	636	6.1	9.7	11.6	189
Gujarat	3.4	21.1	18.0	(311)	9.7	40.7	39.1	(157)	7.0	17.6	19.4	178
Karnataka	10.7	54.0	45.3	(872)	4.8	16.0	15.6	(41)	4.6	6.2	10.2	406
Kolkata	2.2	32.2	26.6	(562)	3.4	32.1	31.3	(75)	0.9	—	5.6	555
Maharashtra	5.5	23.4	19.7	(365)	9.2	18.8	25.4	661	14.8	28.7	27.8	(89)
Mumbai	4.4	20.7	20.2	(48)	9.4	31.5	33.4	182	3.7	3.9	9.0	511
TN (incl Chennai)	8.7	34.3	30.4	(397)	8.5	21.3	22.7	146	1.6	0.0	3.0	295
Circle B	**30.1**	**30.0**	**26.8**	**(317)**	**34.2**	**22.1**	**23.3**	**128**	**46.4**	**17.1**	**21.6**	**450**
Haryana	1.2	19.9	17.7	(225)	2.7	25.4	30.0	468	3.3	20.1	24.6	449
Kerala	2.4	21.2	16.8	(442)	4.5	19.6	24.1	449	9.6	28.0	34.9	691
Madhya Pradesh	3.8	32.1	23.9	(818)	1.8	2.6	9.0	639	10.5	28.6	34.8	625
Punjab	4.4	38.8	34.2	(456)	3.1	16.1	18.5	241	5.2	18.0	21.3	333
Rajasthan	6.5	45.7	39.5	(613)	5.0	23.1	23.6	52	3.7	5.7	11.8	617
U.P. (E)	6.0	29.1	28.5	(63)	7.7	32.1	28.4	(375)	5.1	8.5	12.8	430
U.P. (W)	2.8	17.8	19.7	190	4.5	25.0	23.8	(120)	7.8	27.1	28.3	125
West Bengal	3.1	29.0	28.4	(56)	4.8	36.3	33.9	(231)	1.3	—	6.1	614
Circle C	**15.9**	**47.5**	**40.4**	**(715)**	**6.6**	**3.5**	**12.9**	**943**	**5.1**	**2.5**	**6.8**	**432**
Assam	1.9	35.7	32.1	(357)	1.3	2.7	16.8	1,412	0.3	—	2.5	247
Bihar	7.4	49.8	44.3	(551)	2.7	4.0	12.6	859	3.4	4.7	10.6	591
Himachal Pradesh	0.9	46.9	39.3	(764)	0.3	2.6	9.0	640	0.4	6.1	9.8	364
J&K	1.4	68.2	37.0	(3,117)	0.4	1.5	8.8	722	0.2	—	3.3	333
North East	1.6	39.0	42.0	300	0.6	4.1	12.3	823	0.2	—	3.4	337
Orissa	2.7	45.6	39.5	(609)	1.3	4.1	14.2	1,012	0.6	0.8	4.3	349
Pan India	**100.0**	**33.9**	**29.9**	**(392)**	**100.0**	**20.8**	**23.0**	**217**	**100.0**	**12.2**	**15.7**	**351**

Note:

(a) Circles shaded in pink represent the top-5 circles for each operator.

Source: TRAI, Kotak Institutional Equities

Exhibit 2: Gross revenue matrix for Indian wireless operators

	Bharti	Reliance	BSNL	Vodafone	Idea	TTSL	Aircel	MTNL	BPL	Shyam	HFCL	Uninor	Total
GR - Mar 2013 quarter	**116,012**	**30,413**	**25,936**	**88,957**	**60,752**	**31,647**	**19,156**	**1,738**	**1,580**	**3,606**	**597**	**7,131**	**387,526**
GR market share	**29.9%**	**7.8%**	**6.7%**	**23.0%**	**15.7%**	**8.2%**	**4.9%**	**0.4%**	**0.4%**	**0.9%**	**0.2%**	**1.8%**	**100%**
Circle-wise GR (Rs mn)													
Metro + Circle A													
Calcutta	**2,560**	**1,218**	**316**	**3,020**	**535**	**1,247**	**512**			**210**		**21**	**9,638**
Delhi	**10,902**	**2,774**		**9,289**	**3,678**	**2,426**	**1,145**	**1,123**		**374**			**31,711**
Mumbai	**5,075**	**2,647**		**8,374**	**2,267**	**3,430**	**575**	**614**	**1,580**	**152**		**383**	**25,097**
Andhra Pradesh	**11,147**	**1,722**	**3,034**	**3,222**	**5,881**	**3,336**	**461**			**107**		**836**	**29,746**
Gujarat	**3,973**	**1,492**	**1,020**	**8,642**	**4,278**	**1,442**	**122**			**72**		**1,057**	**22,097**
Karnataka	**12,451**	**1,699**	**1,739**	**4,280**	**2,811**	**3,391**	**524**			**610**		**1**	**27,505**
Maharashtra	**6,375**	**1,805**	**2,076**	**8,211**	**8,974**	**3,086**	**262**			**170**		**1,327**	**32,287**
TN + Chennai	**10,142**	**2,004**	**2,545**	**7,585**	**994**	**2,576**	**7,223**			**322**		**2**	**33,393**
Circle B													
Haryana	**1,429**	**381**	**793**	**2,428**	**1,989**	**1,032**	**10**			**21**			**8,083**
Kerala	**2,810**	**547**	**2,430**	**4,045**	**5,856**	**920**	**18**			**139**		**1**	**16,765**
Madhya Pradesh	**4,375**	**3,409**	**1,215**	**1,640**	**6,365**	**1,277**	**2**			**0**			**18,282**
Punjab	**5,078**	**610**	**1,181**	**2,748**	**3,165**	**1,175**	**282**			**0**	**597**		**14,834**
Rajasthan	**7,489**	**908**	**1,130**	**4,468**	**2,241**	**1,069**	**1,021**			**610**			**18,935**
Uttar Pradesh (east)	**6,917**	**1,438**	**1,935**	**6,886**	**3,100**	**1,347**	**927**			**87**		**1,636**	**24,274**
Uttar Pradesh (west)	**3,280**	**963**	**1,119**	**3,967**	**4,724**	**1,345**	**127**			**83**		**1,060**	**16,667**
West Benga	**3,558**	**1,560**	**737**	**4,247**	**768**	**529**	**614**			**464**		**40**	**12,516**
Circle C													
Assam	**2,262**	**1,053**	**819**	**1,187**	**174**	**10**	**1,543**			**0**			**7,048**
Bihar	**8,566**	**2,327**	**915**	**2,431**	**2,058**	**1,175**	**913**			**185**		**767**	**19,336**
Himachal Pradesh	**1,061**	**411**	**460**	**244**	**264**	**91**	**169**						**2,698**
North East	**1,856**	**320**	**508**	**545**	**149**	**6**	**1,034**						**4,418**
Orissa	**3,141**	**905**	**1,082**	**1,128**	**341**	**738**	**618**			**0**		**1**	**7,954**
J&K	**1,569**	**219**	**885**	**371**	**141**	**1**	**1,056**						**4,243**

Source: TRAI, Kotak Institutional Equities

kotak Institutional Equities

Utilities

India

ATTRACTIVE

JUNE 11, 2013

UPDATE

BSE-30: 19,441

Trends from the financial year gone by. We run a quick review of power companies under our coverage to pick up macro trends—dipping utilizations, rising debtor days and disparity in merchant realizations. We highlight company-specific issues and their implications on future performance such as NTPC's inability to ramp up imports, Powergrid's leverage that may risk growth capex, NHPC's unproductive net worth composition, Tata Power's coal hedge and earnings from CESC's non-power business. We retain our preference for regulated utilities, as in our view, the uncertainty over reform for private utilities will drag on in an election year.

Generation moderates for most capacities, gas capacities operate at 44% PLF

All-India generation in FY2013 grew by a modest 4% yoy, despite capacity addition of 20 GW (12% yoy) (excluding renewable) reflecting in lower utilization rates for capacities—coal (70% PLF, a drop of 376 bps), gas (44% PLF drop of over 15 percentage points). Among the large utilities, NTPC bore the brunt of the drop in utilizations by coal and gas-based capacities. In terms of sectoral break-up of coal-based capacities—private sector utilities (61% PLF) continue to bear the burden of lack of domestic coal supplies, key among them being Adani, Lanco and Sterlite even as Reliance Power sustained PLF of 80% despite fuel shortages. Among gas-based capacities, companies such as GMR, GVK and Lanco saw average utilizations drop to 25-35%.

Merchant realizations largely unchanged, may see some pick-up

Industry-level realizations were largely unchanged in FY2013. Nonetheless, one sees regional disparity in the realizations enjoyed by leading merchant power players—JSW Energy (Rs4.5/kWh) enjoyed superior realizations almost throughout the year, while its sibling company Jindal Power (Rs3.5/kWh) saw a steady decline in tariffs.

The disparity can be partially explained by the premium enjoyed in South India (dominant position for JSW Energy), which has limited inter-regional transmission capacity. We expect merchant tariffs to strengthen in FY2014, in the run-up to the elections that has traditionally seen distribution utilities being less cost conscious.

Stress visible in working capital, debtor days a cause for concern

Although September 2011, marked the peak of the receivables cycle for most generators as cash-strapped utilities delayed payments considerably, the issue does not appear to have been entirely resolved. JSW Energy, in our coverage universe, is burdened with the most delayed payments (76 days) possibly reflective of poor cash flows from states like Tamil Nadu and Karnataka where it sells most of its merchant power.

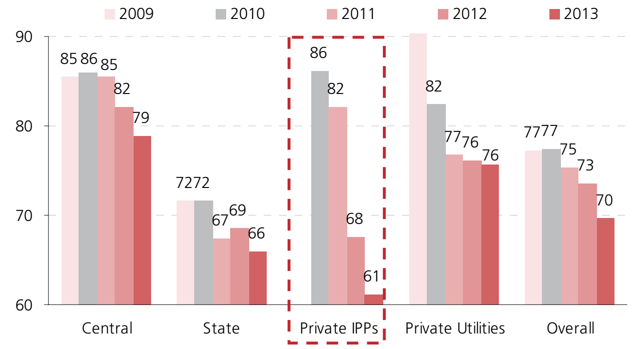
NHPC among public-sector undertakings has seen a significant deterioration in its working capital—primarily due to lack of payments from states such as Jammu and Kashmir and Delhi. Most public undertakings saw a large cash payment accrue in 4QFY13 from Delhi.

Our preference for regulated utilities remains; uncertainty over reform continues

Even as the private sector reels under operational issues of fuel scarcity and pricing, the Street is hopeful of brisk policy action. While compensatory tariff orders, financial restructuring of distribution utilities and signing of fuel supply agreements offer hope, the fine print of Government decisions throws light on the challenges of implementation and conflict among stakeholders that seem to suggest a prolonged, painful recovery.

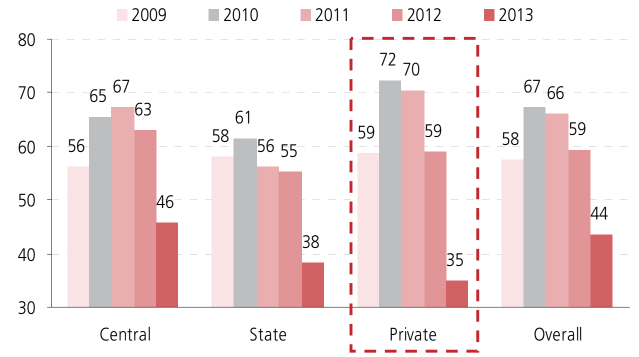
In the interim, we prefer regulated utilities (Powergrid and NTPC) which have improved execution, are trading at the lower end of historical multiples and may throw up some surprises as the regulator reviews the tariff mechanism. We are more constructive on Tata Power and JSPL, which may overcome regulatory hurdles, though would stay cautious about Adani Power, which does not offer a favorable risk-reward proposition as it has a multitude of regulatory and operational hurdles to overcome.

Exhibit 1: Coal-based PLFs have gradually fallen over 2009-13
PLFs of coal-based capacities by ownership segment, March fiscal year-ends, 2009-13 (%)



Source: CEA, Kotak Institutional Equities

Exhibit 2: Gas-based PLFs declined sharply in 2013 due to fall in KG-D6 gas output
PLFs of gas-based capacities by ownership segment, March fiscal year-ends, 2009-13 (%)



Source: CEA, Kotak Institutional Equities

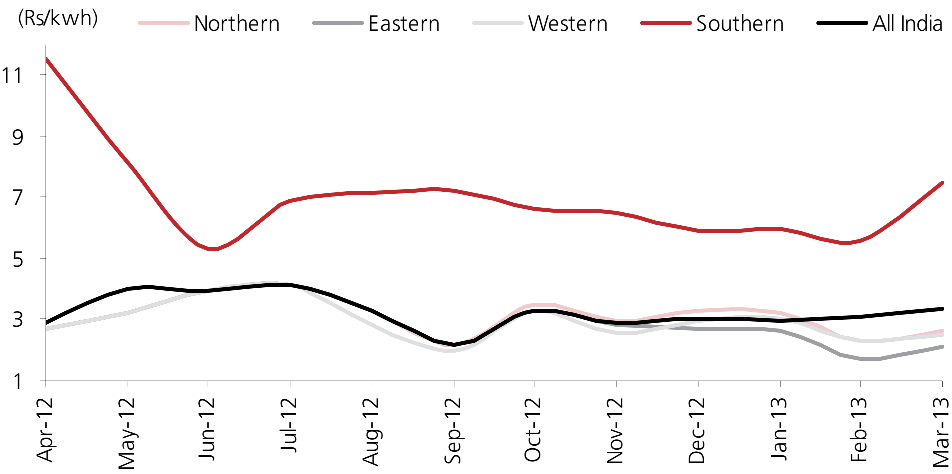
Exhibit 3: Merchant realizations remained soft throughout 2013
Quarterly average realizations of various companies, March fiscal year-ends, 1QFY12-4QFY13 (Rs/kwh)

	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
Realisations (Rs/kwh)								
JSW Energy (Merchant)	5.3	3.9	4.3	4.3	4.4	4.6	4.6	4.5
Jindal Power	3.9	3.6	3.9	4.0	3.8	3.3	3.5	3.2
Sterlite Energy	3.5	3.4	3.5	3.4	3.5	3.4	3.3	3.1
Traders	4.4	3.9	4.2	4.4	4.3	4.2	4.4	4.4
IEX	3.1	3.0	4.5	3.3	3.6	3.8	3.9	3.3
UI-NEW Grid	3.2	3.5	5.6	3.2	4.2	3.2	2.2	1.9
UI-SR Grid	4.5	3.1	4.9	5.1	5.1	4.3	3.5	3.4

Note:
(a) For JSW energy, the realisations are quarterly merchant realisations (Reported/estimated).
(b) For Jindal Power, the realisations are blended realisations (reported/estimated).
(c) For Sterlite Energy, the realisations are average realisations of SEL (Reported/estimated).

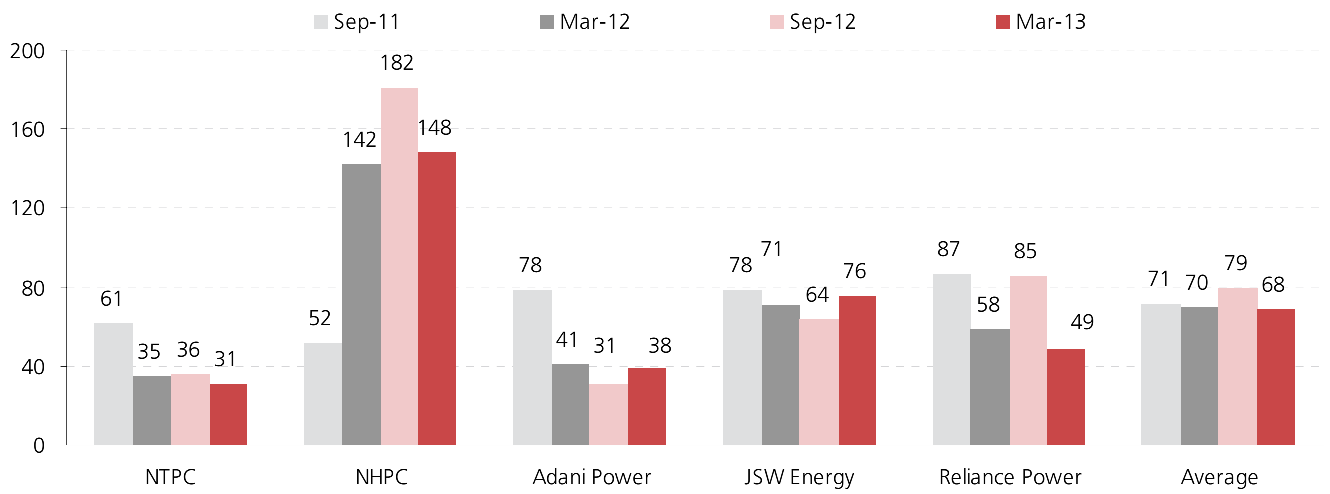
Source: Company, Kotak Institutional Equities,

Exhibit 4: Prices in South are at a premium to other regions
Monthly average prices of power traded on IEX across various regions, April 2012- March 2013 (Rs/kWh)



Source: IEX, Kotak Institutional Equities

Exhibit 5: Adjusted debtor days increased for NHPC and JSW Energy over March 2012- March 2013
Adjusted debtor days for companies as on half and full year-ends, September 2011- March 2013 (days of sales)



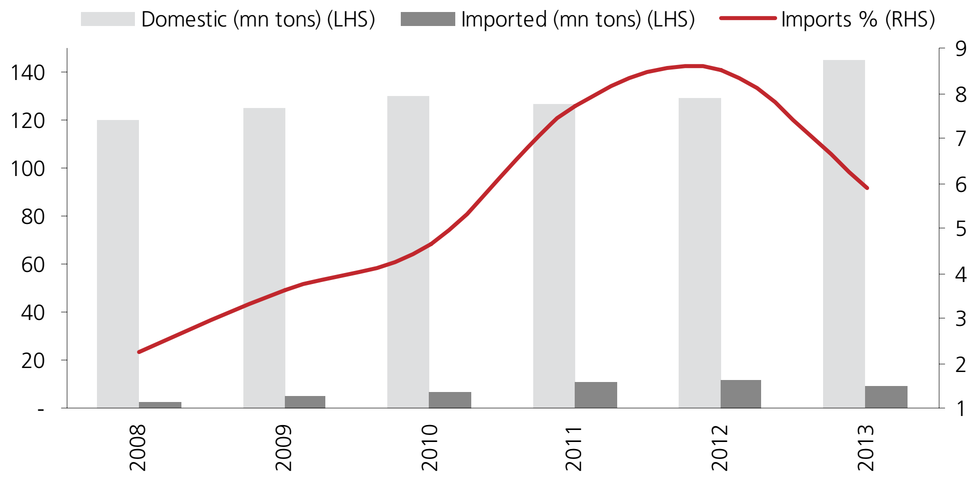
Notes:
(a) Debtor days of sales have been adjusted for unbilled and prior-period revenues.

Source: Company, Kotak Institutional Equities

NTPC—inability to supplement imports could limit utilizations

NTPC's inability to import adequate quantities of coal could be an area of concern, in view of constant supply constraints at Coal India. We highlight that over the years, NTPC's dependence on imports has risen to 12 mtpa (in FY2012) from 3 mtpa in FY2008, implying that half the incremental coal supplies have been met through imports. NTPC's inability to import the requisite quantum of coal would not only hamper generation, but even associated availability-based incentives, and it is pertinent for the company to ramp-up its import capabilities.

Exhibit 6: Imported coal requirement rose from 3 mn tons in 2008 to 12 mn tons in 2013
Consumption of domestic and imported coal by NTPC, March fiscal-year ends, 2008-13 (mn tons)



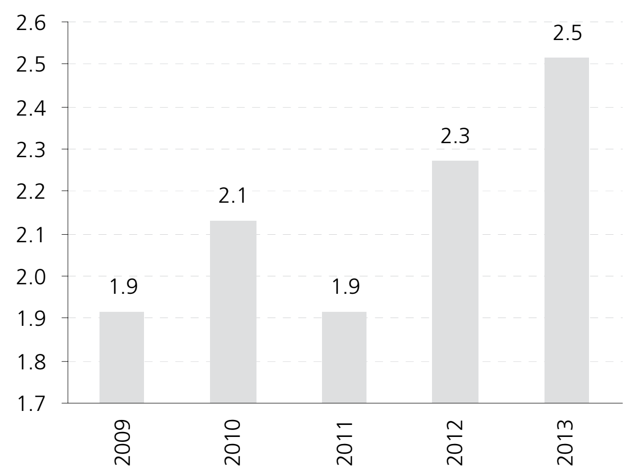
Source: Company, Kotak Institutional Equities

Powergrid—precariously balancing leverage, incremental equity investment

Powergrid's debt:equity ratio is as high as 2.5X as of March 2013—raising Street concerns about its ability to fund incremental projects or risk dilution of ownership. We are less concerned about equity dilution (at a fair price) as it funds incremental growth (akin to banks), and note that PGCIL continues to fund its projects at 30% equity—out of 28 orders released in FY2013, 26 projects consider equity investment of 30% in the project.

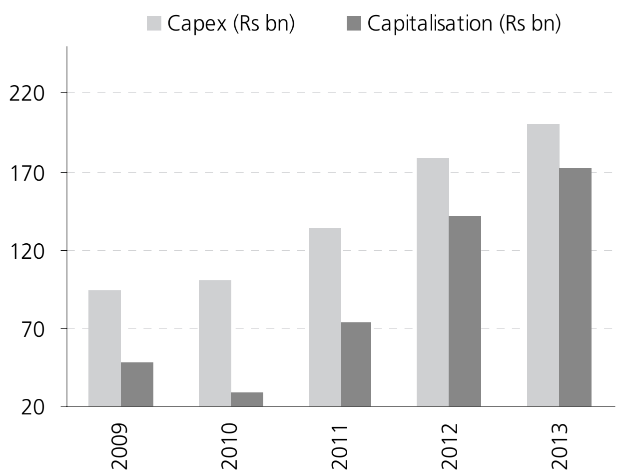
PWGR, for its part, maintains its growth trajectory, having incurred capex of Rs200 bn and capitalized assets of Rs172 bn in FY2013. We factor capex and capitalization of Rs182 bn and Rs262 bn respectively in FY2014E.

Exhibit 7: Powergrid leverage ratio jumped sharply from 2011 to 2013
Debt:equity ratio for Powergrid as on March 31, March fiscal year-ends, 2009-13



Source: Company, Kotak Institutional Equities

Exhibit 8: PWGR has improved significantly in capex and capitalization
Capex and capitalization for Powergrid, March fiscal year-ends, 2009-13 (Rs bn)



Source: Company, Kotak Institutional Equities

NHPC—what is the composition of its net worth? Clarity emerging on Parbati III

NHPC ended March 2013 with net worth of Rs278 bn (Rs23/share), and the Street is concerned about the composition of its net worth, which comprises Rs74 bn invested in operational power projects (as derived from tariff orders). Incrementally, another Rs68 bn is likely invested in projects under construction, out of which Rs32 bn belongs to projects such as Subansiri and Parbati II, where construction work is close to a standstill. Exhibit 11 highlights the composition of the net worth of NHPC.

The NHPC management said the long-standing concern about revenue accrual from Parbati III may likely find a resolution—CEA has revised downwards the design energy for Parbati III from 1,963 MU to 701 MU. As tariff computations for revenue requirement are based on design energy, Street concerns about non-accrual of revenue on the overall capacity (with original design energy) may likely be addressed.

Exhibit 9: CWIP constituted 25% of NHPC's net worth in 2013
Composition of net worth of NHPC, March fiscal year-ends, 2009-13 (Rs bn)

	2009	2010	2011	2012	2013
Regulated equity	**67**	**68**	**71**	**71**	**74**
CWIP	**31**	**42**	**51**	**58**	**68**
Others	**81**	**123**	**124**	**134**	**136**
Cash	19	51	29	60	56
Investments	28	44	54	27	19
Others	34	28	41	47	61
Net worth	**180**	**233**	**246**	**264**	**278**

Source: Company, Kotak Institutional Equities

CESC—retail losses curtailed, First Source contributing

CESC reported meaningful improvement across its power, retail and IT businesses. While the power business benefited from accrual of revenue pertaining to a tariff order released in May 2012, the retail business had a more meaningful 32% reduction in losses (excluding extraordinary items). The business process outsourcing subsidiary, recently acquired, further chipped in with Rs834 mn contribution yielding consolidated earnings of Rs4.2 bn (54% yoy). Exhibit 12 gives the composition of CESC's consolidated earnings.

Exhibit 10: The newly acquired BPO business made a contribution of Rs834 mn to CESC's earnings
Composition of revenue and net profit of CESC (consolidated), March fiscal year-ends, 2009-13 (Rs mn)

	2009	2010	2011	2012	2013
Revenues					
Standalone	30,313	32,928	39,399	46,050	52,420
Retail	10,665	8,944	9,968	11,989	13,378
BPO	-	-	-	-	9,219
Others	(468)	169	59	91	(47)
Total (Consolidated)	**40,510**	**42,042**	**49,425**	**58,131**	**74,970**
Net Profits					
Standalone	4,097	4,319	4,884	5,543	6,180
Retail	(2,542)	(2,153)	(1,719)	(2,395)	(1,645)
BPO	-	-	-	-	834
Others	(110)	(176)	(169)	(433)	(366)
Total (Consolidated)	**1,445**	**1,990**	**2,996**	**2,716**	**4,170**

Source: Company, Kotak Institutional Equities

Tata Power—is the hedge playing out?

Mundra UMPP continued to report an improvement in operational performance, aided by (1) lower coal price and (2) step-up in generation, ensuring better absorption of overhead costs. However, the drop in coal prices had a corresponding decline in earnings contribution from the coal business—EBIT of Rs10 bn (-50% yoy) despite increase in sales volumes to 72 mn tons in FY2013. While we may refrain from drawing conclusions as Mundra UMPP will likely lower utilization rates or have a compensatory order that allows sustenance of current operating levels—the quarter's earnings reflect an annual net loss of Rs9 bn.

Exhibit 11: Mundra generation has been picking up steadily though coal realizations have fallen

Key operational and financial details of Mundra UMPP and the coal business in Tata Power (consolidated), March fiscal year ends, 1QFY12-4QFY13

	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13	4QFY13
Mundra								
Generation (MU)					**1,288**	**1400**	**3,256**	**5,881**
Realisation (Rs/kwh)					2.0	2.3	2.0	2.5
Fuel Cost (Rs/kwh)					2.4	2.6	2.5	1.8
Revenues (Rs bn)					3	4	8	14
Operating Profit (Rs bn)					0.1	(0.0)	0.9	0.7
Coal business								
Volume (tons)	15.3	16.0	17.5	15.8	16.4	15.5	20.7	19.5
Realisation (US$/ton)	**94**	**95**	**95**	**92**	**84**	**78**	**72**	**75**
Cost of Production (US$/ton)	36	37	37	41	41	46	41	47
EBITDA (US$/ton)	19	17	18	22	34	25	3	19
Revenues (Rs bn)	20	22	27	23	23	21	25	22
EBIT (Rs bn)	7.5	6.0	1.4	5.1	2.6	2.9	3.1	1.7

Note: The generation data is as reported by CEA.

Source: CEA, Company, Kotak Institutional Equities

Exhibit 12: Summary valuations of utilities companies

	Rating	Mkt Cap. (US$ bn)	Price 10-Jun	Target price	EV/EBITDA (X) 2012	2013	2014E	2015E	P/E (X) 2012	2013	2014E	2015E
Adani Power	SELL	2.2	53	35	36.3	46.0	12.0	8.2	(137.2)	(5.9)	(28.3)	11.7
CESC	REDUCE	0.7	344	320	8.9	10.6	6.1	5.4	15.8	19.1	9.9	10.2
JSW Energy	SELL	1.6	56	61	14.1	6.8	5.5	5.6	27.5	8.3	7.9	9.5
Lanco Infratech	RS	0.3	8	-	8.5	6.9	5.7	0.3	(14.5)	(1.6)	(1.3)	1.7
NHPC	ADD	3.9	18	26	7.1	9.0	7.7	6.1	7.3	9.8	8.8	7.7
NTPC	ADD	21.3	150	175	11.0	9.5	8.6	7.8	13.9	11.3	10.8	10.4
Power Grid	BUY	8.8	110	140	12.0	10.5	8.2	6.9	15.6	12.0	10.2	8.6
Reliance Infrastructure	BUY	1.7	372	810	9.5	7.8	6.5	5.7	6.2	5.6	5.0	4.3
Reliance Power	SELL	3.3	68	75	36.8	21.9	14.2	8.4	22.0	21.3	21.9	14.3
Tata Power	ADD	3.7	88	108	10.2	7.7	6.3	6.0	19.0	21.0	15.6	15.2

	P/BV (X) 2012	2013	2014E	2015E	Div Yield (%) 2013E	ROCE (%) 2012	2013	2014E	2015E	ROE (%) 2012	2013	2014E	2015E
Adani Power	2.1	3.0	3.3	2.6	—	(0.3)	(4.8)	(0.9)	2.8	(1.5)	(41.7)	(11.0)	24.7
CESC	0.9	0.9	0.8	0.8	1.6	5.9	5.2	7.8	6.8	4.5	3.7	6.8	6.1
JSW Energy	1.6	1.3	1.1	1.0	3.1	2.6	7.7	7.9	6.5	5.8	17.5	15.7	11.4
Lanco Infratech	0.4	0.4	0.7	0.5	—	4.6	4.0	4.3	12.5	(2.5)	(24.2)	(41.9)	33.3
NHPC	0.8	0.8	0.7	0.7	3.4	7.7	5.5	6.2	6.9	11.6	8.1	8.5	9.2
NTPC	1.7	1.5	1.4	1.3	2.7	8.8	8.6	9.9	11.9	12.8	12.6	14.7	17.2
Power Grid	2.2	1.9	1.7	1.5	2.6	6.3	6.8	7.1	7.6	13.7	15.9	16.5	17.1
Reliance Infrastructure	0.4	0.4	0.4	0.3	2.8	5.5	4.5	4.7	4.9	8.9	9.8	10.2	9.4
Reliance Power	1.1	1.0	1.0	0.9	—	3.4	3.2	2.8	3.6	5.0	4.9	4.6	6.6
Tata Power	1.7	1.8	1.7	1.6	1.8	4.3	5.4	6.9	6.8	8.7	8.5	11.2	10.7

Source: Kotak Institutional Equities

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

	10-Jun-13		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)	2013	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E	(Rs)	(%)	(US$ mn)
Automobiles																													
Amara Raja Batteries	246	SELL	41,986	720	171	16.8	17.1	17.8	33.3	1.8	4.1	14.6	14.4	13.8	8.2	8.6	7.7	4.0	3.3	2.8	1.0	1.4	1.4	30.4	24.9	21.7	240	(2.4)	1.6
Apollo Tyres	90	BUY	45,368	778	504	12.3	14.2	14.6	51.6	15.4	2.4	7.3	6.3	6.2	4.7	4.2	4.2	1.2	1.0	0.9	0.8	0.9	0.9	19.9	19.1	16.6	110	22.2	2.9
Ashok Leyland	22	ADD	59,599	1,023	2,661	0.5	0.9	2.6	(74.5)	60.7	196.7	41.3	25.7	8.7	11.9	10.0	6.4	1.2	1.2	1.1	2.7	2.3	5.2	12.6	6.4	18.0	24	7.1	1.6
Bajaj Auto	1,767	ADD	511,370	8,774	289	105.2	119.2	139.1	1.3	13.4	16.7	16.8	14.8	12.7	12.7	11.3	9.8	6.4	5.2	4.3	2.5	2.7	3.1	43.2	38.6	36.9	2,000	13.2	13.8
Bharat Forge	229	SELL	54,235	931	237	9.6	11.7	18.1	(44.7)	21.6	54.7	23.8	19.6	12.7	9.9	9.1	7.2	2.1	2.0	1.8	1.1	1.1	1.6	12.7	9.6	12.3	200	(12.5)	1.3
Exide Industries	130	SELL	110,840	1,902	850	6.2	7.3	8.6	13.4	18.9	17.0	21.2	17.8	15.2	13.9	12.2	10.6	3.2	2.9	2.5	1.0	1.4	1.7	16.1	17.1	17.7	120	(8.0)	2.9
Hero Motocorp	1,643	ADD	328,017	5,628	200	106.1	117.1	146.9	(10.9)	10.4	25.5	15.5	14.0	11.2	11.7	9.5	7.1	6.4	4.9	3.9	1.9	2.1	3.1	44.0	39.6	39.0	1,900	15.7	9.8
Mahindra & Mahindra	976	ADD	599,479	10,286	614	53.1	53.3	61.8	17.7	0.3	16.0	18.4	18.3	15.8	13.1	13.0	11.2	3.9	3.4	3.0	1.3	1.6	1.9	24.1	20.5	20.8	1,050	7.5	20.1
Maruti Suzuki	1,522	SELL	459,721	7,888	302	79.2	103.1	113.0	39.9	30.2	9.6	19.2	14.8	13.5	9.5	7.0	5.9	2.4	2.1	1.9	0.5	0.7	0.8	13.3	14.8	14.2	1,480	(2.7)	17.5
Motherson Sumi Systems	211	BUY	123,950	2,127	588	7.6	13.6	18.3	71.2	80.4	33.9	27.9	15.5	11.5	9.4	7.0	5.5	5.4	4.1	3.1	0.9	1.9	2.6	26.8	29.3	30.7	235	11.5	2.0
Tata Motors	296	BUY	952,644	16,346	3,218	30.7	37.0	44.0	(31.1)	20.4	18.8	9.6	8.0	6.7	5.0	4.4	3.8	2.6	2.0	1.5	0.7	0.2	0.2	28.8	28.7	26.1	350	18.2	43.7
Automobiles		**Neutral**	**3,287,209**	**56,404**					**(11.1)**	**14.7**	**19.4**	**14.0**	**12.2**	**10.2**	**7.8**	**6.7**	**5.7**	**3.2**	**2.6**	**2.2**	**1.3**	**1.3**	**1.6**	**23.1**	**21.8**	**21.5**			
Banks/Financial Institutions																													
Andhra Bank	87	ADD	48,544	833	560	23.0	22.0	23.6	(4.1)	(4.3)	7.0	3.8	3.9	3.7	—	—	—	0.7	0.6	0.5	5.8	5.5	5.9	16.2	13.9	13.4	110	26.8	2.1
Axis Bank	1,355	ADD	634,189	10,882	468	110.7	113.4	123.5	7.8	2.4	8.9	12.2	12.0	11.0	—	—	—	1.9	1.7	1.5	1.3	1.4	1.5	18.5	15.0	14.5	1,540	13.6	46.5
Bajaj Finserv	651	ADD	103,508	1,776	159	99.0	79.0	90.0	4.4	(20.2)	13.8	6.6	8.2	7.2	—	—	—	1.3	1.2	1.0	2.1	2.1	2.1	24.6	15.1	15.0	840	29.1	0.8
Bank of Baroda	652	REDUCE	268,831	4,613	412	109.3	115.5	119.2	(10.0)	5.7	3.2	6.0	5.6	5.5	—	—	—	1.0	0.8	0.8	3.3	3.5	3.6	15.7	14.5	13.5	740	13.5	11.6
Bank of India	287	ADD	171,146	2,937	597	46.1	55.4	58.3	(1.1)	20.2	5.1	6.2	5.2	4.9	—	—	—	0.9	0.8	0.8	3.5	4.2	4.4	12.9	13.7	13.1	365	27.2	5.6
Canara Bank	393	REDUCE	174,254	2,990	443	64.8	69.8	79.4	(12.5)	7.7	13.8	6.1	5.6	5.0	—	—	—	0.9	0.8	0.7	3.3	3.1	3.1	12.1	11.9	12.2	415	5.5	7.9
Corporation Bank	380	BUY	58,037	996	153	93.8	102.3	108.7	(7.7)	9.0	6.3	4.0	3.7	3.5	—	—	—	0.7	0.6	0.6	5.3	5.7	6.1	16.1	15.4	14.6	480	26.5	1.0
Federal Bank	442	ADD	75,651	1,298	171	49.0	49.4	58.0	7.9	0.7	17.5	9.0	9.0	7.6	—	—	—	1.2	1.1	1.0	2.0	2.1	2.4	13.9	12.6	13.4	530	19.8	4.0
HDFC	853	SELL	1,305,943	22,408	1,532	31.4	37.1	43.3	12.3	18.3	16.8	27.2	23.0	19.7	—	—	—	5.2	4.7	4.1	1.5	1.8	2.0	22.0	21.6	22.4	790	(7.3)	41.2
HDFC Bank	676	REDUCE	1,609,320	27,614	2,379	28.3	35.0	43.3	28.4	23.7	23.8	23.9	19.3	15.6	—	—	—	4.5	3.8	3.2	0.8	1.0	1.2	20.3	21.1	22.1	655	(3.2)	36.7
ICICI Bank	1,118	BUY	1,294,502	22,212	1,158	71.9	74.0	78.4	28.2	2.9	6.0	15.5	15.1	14.3	—	—	—	2.0	1.8	1.7	1.8	2.0	2.1	13.1	12.3	12.1	1,290	15.4	70.0
IDFC	144	BUY	218,460	3,748	1,512	12.1	14.0	16.3	18.1	15.1	16.4	11.9	10.3	8.9	—	—	—	1.6	1.4	1.3	1.6	1.9	2.2	14.2	14.6	15.2	185	28.1	16.0
India Infoline	61	ADD	18,602	319	304	9.2	10.9	13.1	102.9	17.7	20.3	6.6	5.6	4.7	—	—	—	0.9	0.8	0.7	5.0	3.0	3.7	15.1	16.4	16.2	77	25.9	0.2
Indian Bank	139	BUY	59,631	1,023	430	35.8	35.4	37.3	(9.5)	(1.1)	5.4	3.9	3.9	3.7	—	—	—	0.7	0.6	0.5	4.8	4.6	4.8	15.4	13.6	13.0	230	65.8	0.7
Indian Overseas Bank	59	REDUCE	54,383	933	924	6.1	16.5	19.4	(53.3)	169.0	17.2	9.6	3.6	3.0	—	—	—	0.6	0.5	0.4	3.4	6.6	7.7	4.5	10.9	11.7	65	10.5	1.5
IndusInd Bank	495	ADD	259,056	4,445	523	20.3	23.6	27.2	18.3	16.2	15.3	24.4	21.0	18.2	—	—	—	3.5	3.1	2.7	0.6	0.7	0.8	18.0	15.6	15.8	490	(1.1)	15.2
J&K Bank	1,283	REDUCE	62,218	1,068	48	217.6	199.6	188.1	31.4	(8.3)	(5.8)	5.9	6.4	6.8	—	—	—	1.3	1.1	1.0	3.9	3.6	3.4	23.6	18.5	15.4	1,320	2.9	1.2
LIC Housing Finance	260	ADD	131,337	2,254	505	20.3	25.4	30.8	11.9	25.3	21.3	12.8	10.2	8.4	—	—	—	2.1	1.8	1.5	1.5	1.9	2.4	16.8	18.4	19.3	300	15.3	11.8
L&T Finance Holdings	79	SELL	134,609	2,310	1,715	4.3	4.7	5.3	60.3	10.1	12.8	18.5	16.8	14.9	—	—	—	2.4	2.1	1.8	—	—	—	14.1	13.4	13.2	60	(23.6)	3.3
Magma Fincorp	89	BUY	16,977	291	190	6.5	11.0	13.8	100.6	69.3	25.0	13.7	8.1	6.5	—	—	—	1.2	1.1	1.0	1.2	2.0	2.4	10.1	13.6	15.4	135	51.1	0.4
Mahindra & Mahindra Financial	253	REDUCE	143,821	2,468	568	15.5	18.9	21.8	28.6	21.6	15.2	16.3	13.4	11.6	—	—	—	3.3	2.8	2.4	1.4	1.8	2.0	23.8	22.2	21.8	230	(9.1)	5.6
Oriental Bank of Commerce	231	REDUCE	67,280	1,154	292	45.5	53.7	56.7	16.3	17.9	5.6	5.1	4.3	4.1	—	—	—	0.7	0.6	0.5	4.0	4.7	5.0	10.7	11.7	11.4	280	21.4	4.4
PFC	178	ADD	235,303	4,037	1,319	33.5	36.7	43.6	45.6	9.6	18.7	5.3	4.9	4.1	—	—	—	1.0	0.9	0.8	3.9	4.3	5.1	19.8	18.7	19.2	245	37.4	7.6
Punjab National Bank	758	REDUCE	267,915	4,597	353	134.3	130.2	144.3	(6.7)	(3.0)	10.8	5.6	5.8	5.3	—	—	—	1.0	0.9	0.8	3.6	3.5	3.8	16.5	13.9	13.9	810	6.9	11.4
Reliance Capital	334	ADD	82,254	1,411	246	26.9	23.4	28.5	27.5	(13.0)	21.7	12.4	14.3	11.7	—	—	—	0.7	0.7	0.7	2.4	2.1	2.6	5.9	4.9	5.8	505	51.1	35.4
Rural Electrification Corp.	223	ADD	219,694	3,770	987	38.7	44.3	47.6	35.3	14.6	7.5	5.8	5.0	4.7	—	—	—	1.3	1.2	1.0	3.7	3.6	4.2	23.7	22.8	20.7	270	21.3	7.0
Shriram Transport	779	ADD	173,837	2,983	223	61.0	73.1	84.9	8.2	20.0	16.0	12.8	10.7	9.2	—	—	—	2.5	2.0	1.8	1.6	0.1	2.2	20.6	20.4	19.9	800	2.7	12.4
State Bank of India	2,012	ADD	1,375,961	23,609	684	206.2	210.4	227.0	18.2	2.0	7.9	9.8	9.6	8.9	—	—	—	1.8	1.6	1.4	2.1	2.2	2.3	15.4	13.8	13.4	2,430	20.8	90.9
Union Bank	208	ADD	124,043	2,128	597	36.0	36.4	37.4	11.5	1.3	2.6	5.8	5.7	5.6	—	—	—	0.9	0.8	0.7	3.8	3.9	4.0	15.0	13.1	12.3	285	37.1	6.7
Yes Bank	491	REDUCE	175,901	3,018	359	36.3	36.9	41.0	31.0	1.8	11.1	13.5	13.3	12.0	—	—	—	3.0	2.6	2.2	1.2	1.2	1.4	24.8	20.9	19.7	450	(8.3)	17.1
Banks/Financial Institutions		**Cautious**	**9,679,226**	**166,081**					**15.5**	**8.5**	**11.4**	**11.3**	**10.4**	**9.4**	**—**	**—**	**—**	**1.9**	**1.7**	**1.5**	**1.9**	**2.0**	**2.3**	**16.6**	**16.1**	**15.9**			
Cement																													
ACC	1,229	REDUCE	230,923	3,962	188	73.7	68.1	79.6	29.1	(7.7)	16.9	16.7	18.1	15.4	10.3	10.2	8.3	2.9	2.7	2.4	2.9	1.9	1.9	19.5	16.4	17.1	1,170	(4.8)	5.8
Ambuja Cements	173	REDUCE	263,295	4,518	1,522	10.3	10.1	12.3	32.8	(2.3)	21.3	16.7	17.1	14.1	9.3	9.3	8.1	2.8	2.6	2.4	1.6	1.6	2.5	17.8	16.1	17.7	175	1.2	6.9
Grasim Industries	2,783	ADD	255,243	4,380	92	272.6	312.6	354.8	(5.6)	14.7	13.5	10.2	8.9	7.8	5.7	4.9	3.6	1.3	1.2	1.0	0.8	1.2	1.2	13.7	13.9	14.0	3,500	25.8	3.3
India Cements	64	ADD	19,629	337	307	6.8	8.9	9.5	(24.4)	31.2	7.2	9.4	7.2	6.7	4.4	3.8	3.2	0.5	0.4	0.4	3.3	5.0	5.0	5.2	6.6	6.6	95	48.7	1.5
Shree Cement	4,734	SELL	164,905	2,830	35	281.2	303.0	336.2	76.1	7.7	11.0	16.8	15.6	14.1	10.0	8.0	6.9	4.8	3.8	3.1	0.4	0.4	0.4	32.2	27.3	24.4	3,700	(21.8)	1.3
UltraTech Cement	1,893	SELL	519,146	8,908	274	101.3	114.2	136.3	13.4	12.8	19.4	18.7	16.6	13.9	11.3	9.2	7.0	3.0	2.5	2.2	0.5	0.5	0.5	18.9	18.8	18.8	1,700	(10.2)	7.6
Cement		**Cautious**	**1,453,141**	**24,934**					**15.1**	**7.6**	**16.5**	**15.4**	**14.3**	**12.3**	**8.5**	**7.5**	**5.9**	**2.4**	**2.1**	**1.8**	**1.2**	**1.1**	**1.3**	**15.3**	**14.5**	**14.9**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	10-Jun-13 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2013	EPS (Rs) 2014E	EPS (Rs) 2015E	EPS growth (%) 2013	EPS growth (%) 2014E	EPS growth (%) 2015E	PER (X) 2013	PER (X) 2014E	PER (X) 2015E	EV/EBITDA (X) 2013	EV/EBITDA (X) 2014E	EV/EBITDA (X) 2015E	Price/BV (X) 2013	Price/BV (X) 2014E	Price/BV (X) 2015E	Dividend yield (%) 2013	Dividend yield (%) 2014E	Dividend yield (%) 2015E	RoE (%) 2013	RoE (%) 2014E	RoE (%) 2015E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Consumer products																													
Asian Paints	4,537	SELL	435,213	7,468	96	116.1	137.4	163.2	12.7	18.3	18.7	39.1	33.0	27.8	24.8	20.4	17.2	12.3	10.2	8.5	1.0	1.3	1.6	37.8	36.8	36.6	3,850	(15.1)	9.5
Bajaj Corp.	273	BUY	40,304	692	148	11.3	13.8	16.4	39.4	21.7	18.9	24.1	19.8	16.6	22.4	17.7	14.4	8.4	7.4	6.6	2.4	3.0	3.7	26.4	32.6	35.2	320	17.1	0.3
Colgate-Palmolive (India)	1,432	SELL	194,742	3,341	136	36.5	41.3	46.6	11.3	12.9	13.1	39.2	34.7	30.7	29.0	25.3	21.9	41.7	33.6	30.5	2.0	2.2	2.5	107.4	102.7	100.4	1,300	(9.2)	2.6
Dabur India	152	ADD	264,136	4,532	1,743	4.4	5.4	6.4	19.1	23.3	17.8	34.6	28.0	23.8	27.1	21.7	18.2	12.4	10.0	8.1	1.0	1.4	1.6	40.0	39.8	37.9	160	5.6	3.3
GlaxoSmithkline Consumer	5,726	SELL	240,814	4,132	42	103.8	124.9	149.0	20.7	20.2	19.3	55.1	45.9	38.4	48.6	41.1	34.4	17.7	15.0	12.9	0.8	1.0	1.3	34.9	35.4	36.1	3,500	(38.9)	3.6
Godrej Consumer Products	855	REDUCE	291,093	4,995	340	19.6	26.8	32.4	26.7	36.5	21.2	43.6	32.0	26.4	31.3	22.9	18.0	8.2	6.8	5.5	0.6	0.6	0.7	21.8	24.9	24.9	795	(7.1)	2.9
Hindustan Unilever	593	REDUCE	1,281,714	21,992	2,163	14.7	15.8	17.3	23.9	6.9	9.6	40.2	37.6	34.3	37.2	31.8	27.3	40.9	37.4	30.7	3.1	1.8	2.0	103.1	111.7	98.3	550	(7.2)	24.8
ITC	337	ADD	2,662,907	45,692	7,902	9.4	11.1	13.0	19.7	18.4	17.0	35.9	30.3	25.9	25.4	21.2	17.9	11.3	10.1	9.1	1.6	1.9	2.3	36.1	37.1	38.5	350	3.9	36.8
Jubilant Foodworks	1,075	SELL	71,206	1,222	66	19.9	25.0	34.0	21.7	25.4	35.8	53.9	43.0	31.6	29.3	22.8	16.5	16.6	12.5	9.6	—	—	0.6	30.5	29.2	30.6	900	(16.3)	8.5
Jyothy Laboratories	199	ADD	32,763	562	165	1.1	4.3	8.3	(53.3)	290.2	91.2	179.0	45.9	24.0	29.6	19.3	14.5	5.1	4.7	4.2	1.2	0.5	1.1	—	—	—	200	0.4	0.3
Marico	233	REDUCE	150,270	2,578	645	5.6	6.7	7.9	8.1	19.5	17.3	41.5	34.7	29.6	24.9	21.6	18.6	7.5	6.4	5.5	0.4	0.6	0.8	23.2	20.2	20.4	210	(9.9)	1.2
Nestle India	5,167	SELL	498,207	8,549	96	110.8	126.6	142.7	5.9	14.3	12.8	46.7	40.8	36.2	27.5	23.1	20.4	27.7	21.1	16.7	0.9	1.1	1.3	71.6	60.3	52.9	4,050	(21.6)	2.9
Speciality Restaurants	168	ADD	7,896	135	47	5.0	6.5	7.6	1.8	30.2	17.6	33.7	25.9	22.0	21.2	16.3	12.7	2.7	2.5	2.2	—	—	—	11.5	10.0	10.6	195	15.9	0.1
Tata Global Beverages	146	BUY	90,286	1,549	618	6.3	7.4	8.5	14.8	17.3	13.8	23.1	19.7	17.3	13.6	11.3	9.9	1.6	1.5	1.4	1.7	2.1	2.5	8.4	9.3	10.1	165	13.0	6.4
Titan Industries	265	ADD	234,997	4,032	888	8.2	9.3	11.1	20.9	13.4	20.1	32.4	28.6	23.8	22.1	19.0	15.4	12.0	9.4	7.5	0.9	1.0	1.2	42.3	36.8	34.9	295	11.4	14.6
United Breweries	644	SELL	170,250	2,921	264	6.5	10.2	15.1	36.2	56.7	47.5	98.6	62.9	42.6	38.0	25.8	19.5	12.0	10.4	8.8	0.2	0.3	0.5	12.0	17.1	21.6	700	8.7	5.0
United Spirits	2,495	ADD	362,615	6,222	145	36.8	64.8	80.9	133.6	75.8	24.9	67.7	38.5	30.9	27.6	21.7	18.5	4.4	4.0	3.6	0.3	0.2	0.3	7.3	11.0	12.3	2,380	(4.6)	66.9
Consumer products		**Cautious**	**7,029,414**	**120,615**					**21.2**	**20.0**	**17.1**	**39.8**	**33.1**	**28.3**	**27.9**	**23.0**	**19.4**	**11.6**	**10.2**	**8.9**	**1.5**	**1.5**	**1.8**	**29.2**	**30.7**	**31.3**			
Constructions																													
NCC	29	ADD	7,479	128	257	2.4	2.3	2.6	74.2	(5.9)	15.0	11.9	12.7	11.0	6.1	6.6	6.3	0.3	0.3	0.3	2.1	3.4	3.4	2.6	2.4	2.7	55	88.7	0.7
Punj Lloyd	41	REDUCE	14,059	241	340	(0.9)	1.2	4.2	(125.9)	236.3	257.6	(48.3)	35.5	9.9	6.3	5.9	5.3	0.5	0.5	0.5	(0.0)	0.2	0.9	(1.0)	1.4	4.9	45	8.7	4.8
Sadbhav Engineering	107	BUY	16,219	278	151	4.9	5.6	9.7	(47.3)	13.8	74.6	21.9	19.2	11.0	14.6	9.0	6.6	1.9	1.7	1.5	0.6	0.6	0.6	8.6	9.0	13.7	180	67.5	0.2
Construction		**Cautious**	**37,758**	**648**					**(62.7)**	**69.9**	**95.0**	**35.1**	**20.6**	**10.6**	**7.0**	**6.5**	**5.8**	**0.6**	**0.6**	**0.6**	**0.6**	**1.0**	**1.2**	**1.8**	**2.9**	**5.4**			
Energy																													
Aban Offshore	294	RS	12,812	220	44	38.6	80.1	81.1	(43.5)	107.5	1.2	7.6	3.7	3.6	7.5	6.2	6.0	0.4	0.3	0.3	1.2	1.7	1.7	6.4	10.4	9.4	—	—	2.0
Bharat Petroleum	366	BUY	264,864	4,545	723	36.6	39.6	42.2	99.2	8.4	6.4	10.0	9.2	8.7	7.1	5.8	5.3	1.4	1.3	1.2	2.6	3.2	3.5	14.6	14.0	13.5	510	39.2	6.7
Cairn india	290	BUY	553,110	9,491	1,910	63.1	59.7	51.4	51.7	(5.3)	(14.0)	4.6	4.8	5.6	3.7	3.6	3.9	1.2	1.0	0.9	4.0	4.1	4.1	25.4	22.6	16.8	350	20.9	12.7
Castrol India	351	SELL	173,714	2,981	495	9.0	10.0	10.8	(4.4)	10.8	7.8	38.8	35.0	32.5	27.0	23.6	21.7	29.7	28.2	26.4	2.0	2.3	2.4	79.0	82.6	83.8	220	(37.4)	0.9
GAIL (India)	304	ADD	385,301	6,611	1,268	35.5	31.7	33.5	16.5	(10.6)	5.6	8.6	9.6	9.1	5.8	6.0	5.5	1.5	1.3	1.2	3.2	3.0	3.3	17.2	13.6	12.9	380	25.1	5.9
GSPL	57	ADD	31,906	547	563	9.6	8.4	9.2	2.6	(12.6)	9.8	5.9	6.8	6.2	3.7	3.7	3.2	1.0	0.8	0.8	1.8	1.8	3.2	17.6	13.2	12.9	78	37.6	0.8
Hindustan Petroleum	273	ADD	92,448	1,586	339	26.7	33.0	36.1	(0.5)	23.5	9.6	10.2	8.3	7.6	8.8	7.7	6.5	0.5	0.5	0.5	3.1	3.8	4.2	5.1	6.0	6.2	340	24.7	4.0
Indian Oil Corporation	266	ADD	646,927	11,100	2,428	16.8	28.6	32.8	(48.7)	69.5	14.8	15.8	9.3	8.1	10.9	6.6	5.4	1.0	1.0	0.9	2.3	2.8	3.2	6.2	10.2	10.8	340	27.6	2.9
Oil India	567	BUY	340,808	5,848	601	59.7	63.0	67.1	4.1	5.4	6.6	9.5	9.0	8.4	4.6	3.8	3.3	1.7	1.5	1.4	5.3	5.5	6.0	16.0	15.6	15.4	700	23.5	5.7
Oil & Natural Gas Corporation	321	BUY	2,746,750	47,130	8,556	29.9	33.6	37.6	(8.9)	12.4	11.8	10.7	9.6	8.5	4.4	3.7	3.0	1.5	1.3	1.2	3.0	3.4	3.9	13.5	13.7	13.8	385	19.9	20.1
Petronet LNG	140	BUY	104,850	1,799	750	15.3	12.8	14.6	8.7	(16.5)	14.0	9.1	10.9	9.6	6.2	7.3	5.8	2.2	1.8	1.5	1.8	1.8	2.1	25.6	17.5	16.8	175	25.2	2.4
Reliance Industries	789	REDUCE	2,317,532	39,765	2,936	65.0	66.6	71.2	6.2	2.4	6.9	12.1	11.9	11.1	8.0	7.8	6.9	1.2	1.1	1.0	1.1	1.1	1.3	11.3	10.7	10.4	855	8.3	51.5
Energy		**Attractive**	**7,671,021**	**131,624**					**0.7**	**8.0**	**6.4**	**10.0**	**9.3**	**8.7**	**6.2**	**5.3**	**4.6**	**1.3**	**1.2**	**1.1**	**2.5**	**2.7**	**3.1**	**13.1**	**12.8**	**12.4**			
Industrials																													
ABB	621	SELL	131,542	2,257	212	6.7	17.0	24.5	(23.6)	155.6	44.3	93.3	36.5	25.3	54.7	22.6	16.7	5.1	4.6	4.0	0.5	0.5	0.6	5.5	13.1	16.8	425	(31.5)	2.0
BGR Energy Systems	152	REDUCE	10,943	188	72	22.3	21.4	26.0	(28.1)	(4.4)	21.9	6.8	7.1	5.8	5.4	4.1	3.5	0.9	0.8	0.7	3.0	2.8	3.4	13.8	12.0	13.3	215	41.8	0.6
Bharat Electronics	1,353	REDUCE	108,200	1,857	80	113.6	122.9	135.3	6.8	8.2	10.1	11.9	11.0	10.0	10.3	5.7	4.6	1.6	1.5	1.3	2.2	2.2	2.2	14.5	14.0	14.0	1,370	1.3	0.5
Bharat Heavy Electricals	184	SELL	450,848	7,736	2,448	27.1	21.1	16.2	(6.0)	(22.0)	(23.2)	6.8	8.7	11.4	4.4	5.2	6.3	1.5	1.3	1.2	3.1	2.4	1.9	23.7	16.0	11.1	175	(5.0)	10.9
Crompton Greaves	88	ADD	56,741	974	642	1.3	5.4	8.1	(77.2)	314.1	50.0	67.7	16.3	10.9	16.1	8.3	6.4	1.6	1.5	1.3	1.4	1.4	1.6	2.3	9.4	12.9	105	18.7	3.8
Cummins India	459	REDUCE	127,152	2,182	277	28.5	26.9	29.6	29.1	(5.3)	10.0	16.1	17.0	15.5	15.7	14.7	13.0	5.3	4.8	4.3	3.1	2.9	3.2	34.5	28.1	27.6	520	13.4	1.8
Kalpataru Power Transmission	71	BUY	10,849	186	153	8.8	13.1	15.3	(34.1)	49.0	17.6	8.1	5.4	4.6	5.7	4.0	3.5	0.6	0.5	0.5	2.1	2.1	2.1	6.6	9.2	9.9	120	69.7	0.1
KEC International	38	BUY	9,744	167	257	2.5	6.5	9.3	(63.1)	154.7	44.4	14.9	5.9	4.1	6.5	5.0	4.0	0.8	0.7	0.6	1.0	2.6	3.7	5.5	13.0	16.6	70	84.7	0.2
Larsen & Toubro	1,404	ADD	864,299	14,830	615	78.5	78.5	96.5	4.2	(0.0)	23.0	17.9	17.9	14.5	14.8	13.7	12.3	2.5	2.1	1.8	1.0	1.0	1.0	15.2	12.8	13.3	1,600	13.9	46.7
Siemens	567	SELL	199,637	3,425	352	10.0	18.6	23.2	(27.4)	86.6	24.8	57.0	30.5	24.5	23.9	14.3	11.8	5.0	4.7	4.3	0.9	1.0	1.0	8.8	15.9	18.3	425	(25.1)	4.1
Thermax	610	REDUCE	72,644	1,246	119	26.4	31.6	37.0	(19.7)	19.4	17.3	23.1	19.3	16.5	14.8	12.4	10.3	3.9	3.4	3.0	1.4	1.5	1.7	18.0	18.9	19.5	575	(5.7)	0.5
Voltas	80	BUY	26,357	452	331	5.9	7.8	8.8	(37.6)	31.7	12.9	13.5	10.3	9.1	9.0	5.9	4.9	1.6	1.5	1.3	2.2	2.9	3.3	12.5	14.9	15.3	105	31.7	2.2
Industrials		**Cautious**	**2,087,705**	**35,822**					**(28.9)**	**31.0**	**9.1**	**19.9**	**15.2**	**13.9**	**12.3**	**10.2**	**9.7**	**2.3**	**2.0**	**1.8**	**1.7**	**1.5**	**1.5**	**11.3**	**12.9**	**12.6**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	10-Jun-13 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2013	EPS (Rs) 2014E	EPS (Rs) 2015E	EPS growth (%) 2013	EPS growth (%) 2014E	EPS growth (%) 2015E	PER (X) 2013	PER (X) 2014E	PER (X) 2015E	EV/EBITDA (X) 2013	EV/EBITDA (X) 2014E	EV/EBITDA (X) 2015E	Price/BV (X) 2013	Price/BV (X) 2014E	Price/BV (X) 2015E	Dividend yield (%) 2013	Dividend yield (%) 2014E	Dividend yield (%) 2015E	RoE (%) 2013	RoE (%) 2014E	RoE (%) 2015E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Infrastructure																													
Adani Port and SEZ	151	BUY	304,231	5,220	2,017	8.1	9.8	12.6	48.7	20.4	28.6	18.6	15.4	12.0	17.3	12.1	9.6	4.7	3.5	2.8	0.8	1.1	1.4	28.5	25.8	25.8	180	19.4	7.0
Container Corporation	1,116	ADD	145,038	2,489	130	72.5	80.9	93.0	7.4	11.6	14.9	15.4	13.8	12.0	11.1	9.9	8.2	2.3	2.1	1.8	1.5	1.7	1.9	15.9	15.8	16.1	1,150	3.1	2.3
GMR Infrastructure	21	RS	79,794	1,369	3,892	(1.8)	(0.6)	(0.7)	(56.2)	67.2	(19.6)	(11.6)	(35.3)	(29.5)	18.0	9.4	6.2	0.9	0.9	1.0	—	—	—	(9.3)	(3.2)	(3.9)	—	—	3.5
Gujarat Pipavav Port	48	BUY	22,988	394	483	1.5	3.1	3.4	29.7	104.0	7.6	31.1	15.2	14.2	13.0	10.6	8.9	1.9	1.7	1.5	—	—	—	7.6	14.0	11.9	60	26.2	0.5
IRB Infrastructure	116	BUY	38,687	664	332	16.7	16.6	13.7	11.1	(0.8)	(17.5)	6.9	7.0	8.5	6.5	5.5	5.7	0.9	0.8	0.7	—	—	—	15.1	11.8	8.8	170	46.0	3.8
Infrastructure		**Cautious**	**603,293**	**10,352**					**8.8**	**50.5**	**18.0**	**25.7**	**17.1**	**14.5**	**15.1**	**9.5**	**7.5**	**2.0**	**1.8**	**1.6**	**0.8**	**1.0**	**1.1**	**7.6**	**10.4**	**11.1**			
Media																													
DB Corp	248	BUY	45,443	780	183	11.9	14.0	17.5	8.0	18.0	24.9	20.8	17.7	14.1	11.7	10.0	8.2	4.5	4.1	3.7	2.4	3.2	4.0	22.4	24.2	27.7	280	12.9	0.3
DishTV	61	ADD	64,826	1,112	1,064	(1.3)	0.4	1.5	(31.8)	128.5	299.5	(45.6)	160.2	40.1	12.9	10.3	8.3	(40.6)	(54.4)	(79)	—	—	1.6	112.2	(29.0)	(161)	75	23.1	3.4
Eros International	158	ADD	14,527	249	92	16.7	20.4	23.8	1.5	22.0	16.5	9.5	7.8	6.7	6.5	5.4	4.6	1.5	1.2	1.0	—	—	—	16.7	17.2	16.7	200	26.3	0.5
Hindustan Media Ventures	128	BUY	9,401	161	73	11.1	12.1	13.2	25.0	8.6	9.0	11.5	10.6	9.7	5.8	5.0	4.2	1.9	1.7	1.6	1.6	3.1	4.7	17.3	16.7	16.6	200	56.1	0.0
HT Media	100	BUY	23,555	404	235	7.0	8.8	11.5	(0.1)	25.1	31.3	14.2	11.4	8.7	6.0	4.5	3.3	1.4	1.3	1.3	2.0	4.0	7.0	10.3	12.0	14.9	130	29.8	0.2
Jagran Prakashan	93	BUY	29,269	502	316	5.4	6.5	8.4	(4.5)	20.4	29.0	17.2	14.3	11.1	9.5	8.1	6.4	3.4	3.2	2.9	3.8	4.3	4.9	21.0	22.9	27.1	130	40.5	0.2
Sun TV Network	423	REDUCE	166,617	2,859	394	18.0	20.5	24.0	2.4	13.7	17.2	23.5	20.6	17.6	14.7	12.7	10.9	5.7	5.2	4.9	2.4	2.8	3.8	26.5	27.5	29.8	420	(0.7)	8.7
Zee Entertainment Enterprises	231	REDUCE	219,593	3,768	950	7.6	8.8	10.7	25.6	16.1	21.8	30.5	26.3	21.6	21.4	17.6	14.3	4.5	4.2	4.0	0.8	0.9	1.0	15.3	16.6	19.2	220	(4.8)	11.3
Media		**Neutral**	**573,231**	**9,836**					**8.1**	**26.6**	**25.5**	**27.6**	**21.8**	**17.4**	**14.0**	**11.7**	**9.6**	**4.5**	**4.1**	**3.8**	**1.5**	**1.9**	**2.6**	**16.3**	**18.9**	**22.0**			
Metals & Mining																													
Coal India	320	BUY	2,020,921	34,676	6,316	27.5	29.3	33.3	18.1	6.8	13.5	11.6	10.9	9.6	7.2	6.0	4.9	4.1	3.6	3.1	4.5	4.8	5.5	37.8	35.0	34.6	410	28.1	14.0
Hindalco Industries	101	REDUCE	192,659	3,306	1,915	15.8	10.8	9.8	(10.9)	(31.9)	(8.7)	6.4	9.3	10.2	8.4	8.8	7.9	0.5	0.5	0.5	1.4	1.4	1.4	9.0	5.7	5.0	100	(0.6)	13.8
Hindustan Zinc	112	ADD	474,468	8,141	4,225	16.4	14.6	14.7	24.2	(11.1)	1.1	6.9	7.7	7.6	4.0	3.6	3.0	1.5	1.3	1.1	2.8	2.8	2.8	23.5	17.8	15.9	150	33.6	1.4
Jindal Steel and Power	267	ADD	249,825	4,287	935	31.1	34.4	38.3	(26.6)	10.4	11.5	8.6	7.8	7.0	7.4	8.0	6.7	1.2	1.0	0.9	0.7	0.7	0.7	14.9	14.2	13.9	385	44.1	13.3
JSW Steel	726	SELL	162,074	2,781	223	43.2	58.0	86.2	79.1	34.4	48.6	16.8	12.5	8.4	5.8	6.2	5.5	0.9	0.9	0.8	1.4	1.4	1.4	7.8	7.3	10.0	585	(19.5)	15.0
National Aluminium Co.	32	REDUCE	82,600	1,417	2,577	2.3	2.7	3.1	(31.2)	15.4	15.7	13.9	12.1	10.4	3.8	4.0	4.3	0.7	0.7	0.7	3.9	3.9	3.9	5.0	5.7	6.4	38	18.6	0.5
NMDC	116	BUY	460,896	7,908	3,965	16.1	16.1	16.2	(13.0)	0.2	0.4	7.2	7.2	7.2	3.4	3.2	3.2	1.7	1.5	1.4	6.0	6.0	6.0	24.4	21.9	19.9	170	46.2	7.6
Sesa Goa	152	ADD	131,973	2,264	869	26.2	25.8	24.9	(15.4)	(1.8)	(3.5)	5.8	5.9	6.1	37.9	26.2	17.5	0.8	0.7	0.6	0.1	0.1	0.1	3.3	(0.3)	1.5	180	18.5	4.8
Sterlite Industries	87	ADD	293,601	5,038	3,361	18.4	14.9	15.5	16.6	(19.1)	4.5	4.8	5.9	5.6	3.6	3.8	3.4	0.6	0.5	0.5	2.6	2.6	2.6	12.7	9.4	9.1	110	25.9	8.0
Tata Steel	291	ADD	282,292	4,844	971	46.2	40.0	49.7	168.1	(13.4)	24.2	6.3	7.3	5.8	6.9	5.7	5.8	0.8	0.8	0.7	2.8	4.1	4.1	0.9	11.0	12.6	370	27.3	27.9
Metals & Mining		**Neutral**	**4,351,309**	**74,662**					**11.0**	**(5.0)**	**9.3**	**8.4**	**8.8**	**8.1**	**6.2**	**5.8**	**5.3**	**1.5**	**1.3**	**1.2**	**3.6**	**3.9**	**4.2**	**17.5**	**15.1**	**15.0**			
Pharmaceutical																													
Apollo Hospitals	1,001	SELL	139,196	2,388	139	21.4	27.6	33.4	35.7	28.7	21.2	46.7	36.3	30.0	23.9	19.3	15.8	5.0	4.6	4.1	0.5	0.7	0.8	11.3	13.3	14.6	850	(15.1)	7.3
Biocon	275	ADD	55,060	945	200	25.4	19.3	22.6	48.7	(24.2)	17.3	10.8	14.3	12.2	9.5	7.8	7.0	2.0	1.9	1.7	2.7	2.2	2.5	20.5	13.7	14.7	295	7.2	1.8
Cipla	374	ADD	300,453	5,155	803	18.7	18.3	21.5	34.0	(2.4)	17.7	20.0	20.4	17.4	14.3	13.1	10.8	3.3	2.9	2.5	0.5	0.5	0.6	16.0	15.2	15.6	420	12.2	10.0
Cadila Healthcare	765	ADD	156,664	2,688	205	32.0	39.7	53.2	0.4	24.1	34.0	23.9	19.3	14.4	19.0	15.1	11.7	5.2	4.3	3.5	1.0	1.2	1.6	23.3	24.4	27.1	840	9.8	1.6
Divi's Laboratories	936	REDUCE	124,228	2,132	133	45.4	51.4	61.0	12.9	13.3	18.7	20.6	18.2	15.3	14.9	12.7	10.5	5.0	4.2	3.6	1.6	1.8	2.1	26.0	25.1	25.4	1,060	13.2	3.1
Dr Reddy's Laboratories	2,182	BUY	370,419	6,356	170	96.3	111.8	125.6	14.6	16.0	12.4	22.6	19.5	17.4	15.3	13.0	11.5	5.1	4.2	3.5	0.7	0.8	0.9	24.1	22.5	21.9	2,230	2.2	13.0
GlaxoSmithkline Pharmaceuticals	2,514	SELL	213,116	3,657	85	81.4	84.5	97.5	9.7	3.8	15.5	30.9	29.8	25.8	23.8	22.8	19.0	10.6	9.8	8.8	2.0	2.2	2.4	28.5	34.2	36.0	1,920	(23.6)	1.7
Glenmark Pharmaceuticals	553	REDUCE	149,778	2,570	271	22.7	27.7	32.3	3.8	22.0	16.6	24.4	20.0	17.1	17.4	13.7	11.9	5.4	4.4	3.6	0.4	0.6	0.7	23.8	24.3	23.1	520	(6.0)	6.3
Lupin	761	ADD	340,301	5,839	447	29.4	32.4	37.4	51.0	10.3	15.4	25.9	23.5	20.3	15.5	13.9	12.0	6.5	5.3	4.4	0.5	0.7	0.8	28.5	25.1	23.8	760	(0.2)	13.4
Ranbaxy Laboratories	377	REDUCE	159,375	2,735	423	21.8	16.5	28.6	217.7	(24.4)	73.0	17.3	22.8	13.2	9.4	15.9	8.1	3.9	2.9	1.8	—	—	—	26.5	12.8	14.8	430	14.1	8.8
Sun Pharmaceuticals	999	SELL	1,034,175	17,745	1,036	29.0	36.8	41.9	16.3	26.8	13.8	34.4	27.1	23.8	19.0	17.5	15.2	6.6	5.3	4.4	0.5	0.6	0.7	20.7	21.7	20.2	825	(17.4)	18.9
Pharmaceuticals		**Attractive**	**3,042,766**	**52,209**					**43.7**	**11.0**	**19.6**	**25.8**	**23.3**	**19.5**	**16.5**	**15.2**	**12.5**	**5.3**	**4.4**	**3.6**	**0.7**	**0.8**	**1.0**	**20.6**	**19.0**	**18.7**			
Real Estate																													
DLF	196	ADD	348,763	5,984	1,779	4.0	4.2	11.1	(41.9)	5.9	163.5	49.4	46.7	17.7	21.9	18.7	12.1	1.3	1.2	1.1	1.0	1.0	1.0	2.5	2.6	6.5	270	37.8	40.0
HDIL	39	NR	16,530	284	419	1.7	11.0	14.3	(91.0)	528.0	30.4	22.6	3.6	2.8	8.1	7.1	6.1	0.2	0.2	0.1	—	—	—	0.7	4.3	5.4	—	—	24.5
Oberoi Realty	212	ADD	69,684	1,196	328	14.5	28.9	42.1	9.2	99.4	45.4	14.6	7.3	5.0	10.1	5.0	3.1	1.7	1.4	1.1	0.9	0.9	0.9	12.1	20.6	24.0	307	44.6	0.3
Prestige Estates Projects	163	ADD	57,068	979	350	8.2	13.1	17.1	224.5	60.9	30.1	20.0	12.4	9.5	13.1	8.3	6.8	2.1	1.8	1.5	—	—	—	11.7	15.6	17.4	200	22.7	0.8
Sobha Developers	381	BUY	37,318	640	98	22.1	23.2	36.5	5.4	4.7	57.5	17.2	16.4	10.4	9.2	9.2	6.8	1.7	1.6	1.4	1.8	1.3	1.3	10.5	10.2	14.6	500	31.4	1.0
Real Estate		**Cautious**	**572,357**	**9,821**					**(35.0)**	**73.3**	**73.4**	**31.4**	**18.1**	**10.5**	**16.5**	**11.9**	**8.0**	**1.2**	**1.1**	**1.0**	**0.9**	**0.9**	**0.9**	**3.8**	**6.0**	**9.6**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

	10-Jun-13		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)**	**2013**	**2014E**	**2015E**	**2013**	**2014E**	**2015E**	**2013**	**2014E**	**2015E**	**2013**	**2014E**	**2015E**	**2013**	**2014E**	**2015E**	**2013**	**2014E**	**2015E**	**2013**	**2014E**	**2015E**	**(Rs)**	**(%)**	**(US$ mn)**
Technology																													
HCL Technologies	753	REDUCE	535,703	9,192	711	54.3	57.8	61.9	57.0	6.5	7.2	13.9	13.0	12.2	8.9	8.1	7.2	3.9	3.1	2.6	1.1	1.3	1.6	31.7	26.1	23.4	675	(10.4)	22.0
Hexaware Technologies	85	REDUCE	24,892	427	293	11.2	10.5	10.4	22.8	(6.2)	(0.5)	7.6	8.1	8.1	5.6	4.9	4.7	2.1	1.9	1.7	6.4	6.2	6.1	29.5	24.2	21.9	90	6.1	3.1
Infosys	2,487	ADD	1,420,929	24,381	571	164.9	169.3	184.0	13.3	2.7	8.6	15.1	14.7	13.5	10.4	9.4	8.4	3.7	3.3	2.8	1.9	2.4	2.5	27.2	23.7	22.4	2,750	10.6	63.3
Mahindra Satyam	107	ADD	125,420	2,152	1,176	11.3	11.3	12.2	10.7	0.5	7.4	9.5	9.4	8.8	5.9	5.4	4.5	3.0	2.4	2.0	0.6	2.1	2.3	37.5	28.9	25.3	130	21.9	6.2
Mindtree	827	ADD	34,334	589	41	81.7	91.4	101.2	53.2	12.0	10.6	10.1	9.0	8.2	6.9	6.0	5.0	2.6	2.1	1.7	1.5	1.7	1.8	29.8	25.8	23.3	935	13.0	0.8
Mphasis	435	SELL	91,675	1,573	211	37.6	35.7	35.9	(3.7)	(5.0)	0.6	11.6	12.2	12.1	8.6	9.2	8.8	2.1	1.9	1.8	3.9	4.1	4.1	19.1	16.5	15.5	360	(17.3)	1.3
Polaris Financial Technology	123	REDUCE	12,283	211	100	20.0	17.2	17.2	(3.8)	(13.9)	(0.0)	6.2	7.2	7.2	3.2	3.2	3.0	0.9	0.8	0.8	3.3	3.5	3.7	15.3	12.2	11.2	110	(10.7)	1.5
TCS	1,525	REDUCE	2,984,828	51,215	1,957	71.2	82.9	90.9	31.1	16.4	9.6	21.4	18.4	16.8	15.9	12.9	11.5	7.3	6.0	5.0	1.4	2.2	2.4	38.0	35.8	32.7	1,410	(7.5)	37.5
Tech Mahindra	940	ADD	120,459	2,067	128	98.3	111.3	110.0	17.6	13.3	(1.2)	9.6	8.4	8.5	8.9	8.0	8.0	2.2	1.9	1.7	0.5	0.9	1.1	27.2	25.0	21.9	1,100	17.0	7.9
Wipro	343	REDUCE	845,425	14,506	2,463	24.9	27.3	29.7	9.9	9.6	8.8	13.8	12.6	11.6	9.3	8.1	7.0	3.0	2.6	2.2	2.0	2.3	2.6	21.6	21.9	20.6	365	6.3	13.1
Technology		**Cautious**	**6,195,947**	**106,313**					**22.1**	**9.3**	**7.1**	**16.3**	**14.9**	**13.9**	**11.5**	**10.0**	**9.1**	**4.3**	**3.7**	**3.2**	**1.6**	**2.2**	**2.4**	**26.7**	**24.7**	**23.3**			
Telecom																													
Bharti Airtel	284	ADD	1,077,569	18,490	3,798	6.0	11.9	17.5	(46.6)	99.1	46.4	47.4	23.8	16.2	7.2	6.2	5.1	2.1	2.0	1.8	0.4	0.4	1.2	4.5	8.7	11.7	350	23.3	26.0
Bharti Infratel	163	ADD	307,409	5,275	1,889	5.3	6.8	7.6	23.0	28.4	12.1	30.7	23.9	21.3	8.8	8.0	7.2	1.8	1.7	1.7	2.4	1.7	2.1	6.3	7.3	7.9	207	27.2	—
IDEA	130	ADD	428,108	7,346	3,303	3.1	5.5	8.9	39.8	81.3	60.5	42.4	23.4	14.6	9.5	7.2	5.6	3.1	2.7	2.3	—	—	0.5	7.5	12.4	17.4	142	9.6	9.0
Reliance Communications	111	SELL	229,207	3,933	2,064	3.3	9.3	8.6	(27.5)	186.7	(8.3)	34.1	11.9	13.0	9.3	6.8	6.6	0.8	0.7	0.7	—	—	—	0.4	6.5	5.6	65	(41.5)	49.6
Tata Communications	192	REDUCE	54,578	936	285	(29.4)	(9.8)	(1.6)	(5.5)	66.6	83.7	(6.5)	(19.5)	(119.6)	8.2	7.4	6.6	3.3	4.1	4.2	—	—	—	(42.6)	(18.8)	(3.5)	220	14.9	1.0
Telecom		**Neutral**	**2,096,870**	**35,979**					**(39.1)**	**160.3**	**37.0**	**58.7**	**22.6**	**16.5**	**8.0**	**6.7**	**5.6**	**1.9**	**1.8**	**1.6**	**0.6**	**0.5**	**1.0**	**3.2**	**7.8**	**9.8**			
Utilities																													
Adani Power	53	SELL	126,843	2,176	2,393	(9.0)	(1.9)	4.5	(2,023.1)	79.2	341.0	(5.9)	(28.3)	11.7	46.0	12.0	8.2	3.0	3.3	2.6	—	—	—	(41.7)	(11.0)	24.7	35	(34.0)	3.4
CESC	344	REDUCE	43,003	738	125	33.4	38.1	38.0	53.5	14.0	(0.3)	10.3	9.0	9.1	10.4	6.7	5.9	0.6	0.6	0.6	2.0	2.2	2.2	6.5	7.0	6.7	320	(7.0)	1.6
JSW Energy	56	SELL	91,102	1,563	1,640	6.7	7.5	6.0	232.1	12.3	(20.0)	8.3	7.4	9.2	6.6	5.3	5.5	1.5	1.2	1.1	—	—	—	18.5	18.1	12.5	61	9.8	1.6
Lanco Infratech	8	RS	16,895	290	2,223	(4.7)	(6.0)	4.5	(790.4)	(28.6)	174.6	(1.6)	(1.3)	1.7	14.9	13.5	6.0	0.4	0.7	0.5	—	—	—	(24.2)	(41.9)	33.3	—	—	1.6
NHPC	18	ADD	223,873	3,841	12,301	1.9	2.0	2.3	(22.4)	6.1	11.7	9.4	8.9	7.9	9.7	8.5	6.4	0.7	0.7	0.6	2.8	3.0	3.4	7.9	7.8	8.2	26	42.9	2.8
NTPC	150	ADD	1,237,232	21,229	8,245	13.0	13.3	14.2	20.8	2.3	6.3	11.5	11.2	10.6	10.3	8.9	8.3	1.5	1.4	1.3	4.5	2.7	2.8	14.0	13.1	12.8	175	16.6	15.6
Power Grid	110	BUY	509,270	8,738	4,630	9.1	10.7	12.8	28.7	17.3	19.9	12.1	10.3	8.6	10.9	8.6	7.3	1.9	1.7	1.5	2.5	3.0	3.5	16.9	17.7	18.9	140	27.3	4.9
Reliance Infrastructure	372	BUY	97,742	1,677	263	70.9	68.1	74.7	17.5	(4.0)	9.8	5.2	5.5	5.0	9.2	6.6	7.1	0.4	0.4	0.3	2.0	3.0	3.0	11.0	11.2	9.3	810	118.0	26.4
Reliance Power	68	SELL	190,468	3,268	2,805	3.6	3.7	3.9	16.7	2.4	5.1	18.8	18.4	17.5	23.9	18.8	12.6	1.0	1.0	0.9	—	—	—	5.6	5.4	5.4	75	10.5	12.4
Tata Power	88	ADD	216,350	3,712	2,468	4.0	5.5	5.6	(12.9)	36.9	1.2	21.8	16.0	15.8	9.2	7.0	6.4	1.8	1.7	1.5	1.3	1.4	1.4	7.8	10.9	10.2	108	23.2	4.4
Utilities		**Attractive**	**2,752,779**	**47,234**					**1.6**	**15.5**	**25.8**	**14.1**	**12.2**	**9.7**	**11.4**	**9.1**	**7.5**	**1.3**	**1.2**	**1.1**	**2.9**	**2.2**	**2.5**	**9.0**	**9.8**	**11.3**			
Others																													
Carborundum Universal	129	BUY	24,137	414	187	5.7	9.6	13.7	(50.7)	67.5	43.4	22.5	13.5	9.4	11.1	7.3	5.3	2.1	1.8	1.6	0.8	1.3	1.8	10.3	15.7	19.1	180	39.8	0.2
Coromandel International	195	SELL	55,101	945	283	18.1	18.1	20.4	(19.7)	0.0	12.4	10.7	10.7	9.6	9.3	7.2	6.7	2.1	1.9	1.7	3.8	4.0	4.0	18.8	16.9	17.3	150	(23.1)	0.4
Havells India	718	REDUCE	89,644	1,538	125	31.7	37.3	41.1	0.8	17.6	10.1	22.6	19.3	17.5	12.9	11.1	10.0	6.1	4.9	4.0	1.0	1.1	1.2	31.8	28.2	25.3	625	(13.0)	4.8
Jaiprakash Associates	63	BUY	138,778	2,381	2,191	2.0	9.6	17.1	(32.1)	383.4	78.3	31.9	6.6	3.7	9.1	6.7	5.0	1.1	1.0	0.8	—	—	—	3.7	16.0	23.7	100	57.9	28.0
Jet Airways	404	SELL	45,852	787	114	1.2	91.5	45.4	100.6	7,639	(50.4)	341.4	4.4	8.9	10.1	7.0	6.4	32.5	1.4	1.2	—	—	—	7.5	61.5	14.7	550	36.3	28.8
MCX India	913	ADD	46,350	795	51	58.1	44.3	49.9	(2.4)	(24)	12.7	15.7	20.6	18.3	10.2	15.3	12.2	4.0	3.8	3.4	2.6	2.6	2.6	27.4	18.9	19.7	990	8.4	3.1
Rallis India	139	BUY	26,954	462	194	6.3	8.6	10.0	22.9	38	15.6	22.1	16.1	13.9	13.0	9.0	7.7	4.3	3.6	3.0	1.6	1.6	1.6	19.6	24.5	23.9	155	11.8	0.5
SpiceJet	33	BUY	15,791	271	484	0.4	3.5	5.1	103.2	679.1	47.5	73.6	9.4	6.4	19.9	6.4	4.4	(49.1)	11.7	4.1	—	—	—	(23)	325.1	95.5	60	84.0	2.1
Tata Chemicals	305	BUY	77,771	1,334	255	33.6	37.7	40.7	2.2	12.2	8.0	9.1	8.1	7.5	5.5	4.8	4.3	1.0	0.9	0.8	3.3	3.3	3.3	11.1	11.2	10.9	370	21.2	2.1
United Phosphorus	153	REDUCE	67,873	1,165	443	17.5	18.1	19.0	39.4	3.3	5.2	8.8	8.5	8.1	5.4	5.3	4.8	1.4	1.3	1.1	1.7	1.7	1.7	17.8	16.2	15.0	130	(15.2)	5.0
Others			**588,251**	**10,094**					**140.8**	**87.6**	**23.6**	**16.7**	**8.9**	**7.2**	**8.7**	**6.7**	**5.4**	**1.8**	**1.5**	**1.3**	**1.4**	**1.5**	**1.5**	**11.1**	**16.7**	**17.5**			
KIE universe			**52,022,279**	**892,627**					**7.2**	**11.6**	**13.1**	**14.5**	**13.0**	**11.5**	**9.6**	**8.2**	**7.1**	**2.2**	**2.0**	**1.8**	**1.9**	**2.0**	**2.2**	**15.1**	**15.1**	**15.2**			
KIE universe ex-energy			**44,351,257**	**761,003**					**9.1**	**12.6**	**14.9**	**15.8**	**14.0**	**12.2**	**10.9**	**9.2**	**7.9**	**2.5**	**2.2**	**2.0**	**1.8**	**1.9**	**2.1**	**15.7**	**15.8**	**16.1**			
KIE universe ex-energy & ex-commodities			**38,546,807**	**661,407**					**8.4**	**17.0**	**15.9**	**17.5**	**15.0**	**12.9**	**12.3**	**10.1**	**8.6**	**2.7**	**2.4**	**2.1**	**1.6**	**1.7**	**1.9**	**15.4**	**16.0**	**16.4**			

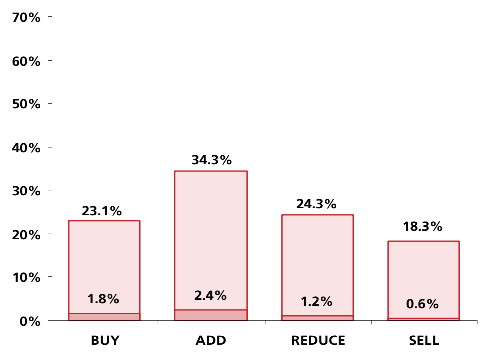
Notes:
(a) For banks we have used adjusted book values.
(b) 2012 means calendar year 2011, similarly for 2013 and 2014 for these particular companies.
(c) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.
(d) Rupee-US Dollar exchange rate (Rs/US$)= 58.28

Source: Company, Bloomberg, Kotak Institutional Equities estimates

"Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Rohit Chordia, Hitesh Goel, Lokesh Garg, Murtuza Arsiwalla, Amit Kumar, Tarun Lakhotia."

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 deliver more than 15% returns over the next 12 months; Add = We expect this stock to deliver 5-15% returns over the next 12 months; Reduce = We expect this stock to deliver -5-+5% returns over the next 12 months; Sell = We expect this stock to deliver less than -5% returns 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 31/03/2013 Kotak Institutional Equities Investment Research had investment ratings on 169 equity securities.

Source: Kotak Institutional Equities — As of March 31, 2013

Ratings and other definitions/identifiers

Definitions of ratings

BUY. We expect this stock to deliver more than 15% returns over the next 12 months.

ADD. We expect this stock to deliver 5-15% returns over the next 12 months.

REDUCE. We expect this stock to deliver -5-+5% returns over the next 12 months.

SELL. We expect this stock to deliver <-5% returns over the next 12 months.

Our 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.**

Other ratings/identifiers

NR = Not Rated. The investment rating and target price, if any, have been suspended temporarily. Such suspension is in compliance with applicable regulation(s) and/or Kotak Securities policies in circumstances when Kotak Securities or its affiliates is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.

CS = Coverage Suspended. Kotak Securities has suspended coverage of this company.

NC = Not Covered. Kotak Securities does not cover this company.

RS = Rating Suspended. Kotak Securities Research has suspended the investment rating and price target, if any, for this stock, because there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.

NA = Not Available or Not Applicable. The information is not available for display or is not applicable.

NM = Not Meaningful. The information is not meaningful and is therefore excluded.

Corporate Office

Kotak Securities Ltd.
Bakhtawar, 1st Floor
229, Nariman Point
Mumbai 400 021, India
Tel: +91-22-6634-1100

Overseas Offices

Kotak Mahindra (UK) Ltd
8th Floor, Portsoken House
155-157 Minories
London EC3N 1LS
Tel: +44-20-7977-6900

Kotak Mahindra Inc
50 Main Street, Ste. 890
Westchester Financial Centre
White Plains, New York 10606
Tel:+1-914-997-6120