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EQUITY MARKETS

India	Change %			
	24-Feb	1-day	1-mo	3-mo
Sensex	17,924	(0.9)	4.0	14.2
Nifty	5,429	(1.0)	4.3	15.3
Global/Regional indices				
Dow Jones	12,983	(0.0)	2.5	15.6
Nasdaq Composite	2,964	0.2	5.2	21.4
FTSE	5,935	(0.0)	3.5	14.9
Nikkei	9,699	0.5	9.7	18.9
Hang Seng	21,521	0.5	5.0	21.7
KOSPI	1,994	(1.3)	1.5	12.3
Value traded – India				
Cash (NSE+BSE)	264		190	100
Derivatives (NSE)	869		2,053	2,593
Deri. open interest	1,026		1,435	1,506

Forex/money market

	Change, basis points			
	24-Feb	1-day	1-mo	3-mo
Rs/US\$	48.9	(8)	(46)	(310)
10yr govt bond, %	8.3	-	(2)	(49)

Net investment (US\$m)

	23-Feb		MTD	CYTD
FIs	77		3,386	5,569
MFs	(50)		(342)	(282)

Top movers -3mo basis

		Change, %			
		24-Feb	1-day	1-mo	3-mo
Best performers					
WLCO	IN Equity	141.5	(3.9)	16.7	97.5
HDIL	IN Equity	107.9	(4.2)	35.2	65.7
IVRC	IN Equity	53.0	(1.5)	7.0	59.5
IBULL	IN Equity	203.2	(5.9)	10.9	57.0
TTMT	IN Equity	265.5	(1.1)	10.7	54.5
Worst performers					
UNSP	IN Equity	589.7	(0.6)	(10.5)	(18.1)
BHARTI	IN Equity	342.6	1.2	(8.5)	(8.7)
NMDC	IN Equity	177.1	(1.4)	(2.7)	(5.5)
NHPC	IN Equity	21.3	0.7	3.9	(4.9)
ESOIL	IN Equity	66.1	(3.1)	5.8	(4.5)

FEBRUARY 27, 2012

CHANGE IN RECO.

Coverage view: **Cautious**

Price (Rs): **119/227**

Target price (Rs): **132/220**

BSE-30: **17,924**

Restructuring at a cost: Sterlite's and Sesa's loss is VED's gain. Vedanta Resources (VED) announced a simplified group structure with consolidation of all assets, except Konkola Copper Mines (KCM), with Sesa Sterlite. Transfer of VAL at equity valuation of Rs23.3 bn (instead of negative equity) leads to a shift in value from Sesa and Sterlite to VED shareholders. We compute impact of Rs18/share from this restructuring for Sterlite. Accordingly, we lower the target price to Rs132 and cut our rating to ADD. Sesa remains a REDUCE rated stock with fair value of Rs220/share.

Company data and valuation summary

Sterlite Industries

Stock data

52-week range (Rs) (high,low) 190-86

Market Cap. (Rs bn) 398.6

Shareholding pattern (%)

Promoters 53.3

FIs 25.0

MFs 3.5

Price performance (%)

Absolute 1M 3M 12M 6.7 14.6 (27.3)

Rel. to BSE-30 1.1 1.4 (28.5)

Forecasts/Valuations

	2012	2013E	2014E
EPS (Rs)	13.5	15.2	18.3
EPS growth (%)	(11.0)	12.4	20.8
P/E (X)	8.8	7.8	6.5
Sales (Rs bn)	394.1	451.0	476.5
Net profits (Rs bn)	45.4	51.0	61.7
EBITDA (Rs bn)	96.8	114.6	132.7
EV/EBITDA (X)	4.2	3.3	2.4
ROE (%)	10.5	10.8	11.8
Div. Yield (%)	1.7	1.7	1.7

Simplified group structure: a quick run down

VED announced a new organization structure in which all assets, except Konkola Copper Mines (KCM), will reside in a single entity, Sesa Sterlite. India assets directly held by VED, 38.8% stake in Cairn India (Cairn), VAL and Malco will be owned by Sesa Sterlite. This will be achieved through (1) a Sterlite merger in to Sesa; Sterlite shareholders will get 3 shares of Sesa for every 5 shares; (2) the issue of 72 mn shares (2.4% of Sesa Sterlite) for 70.5% stake in VAL and (3) the issue of 79 mn shares to Malco shareholders. VED will also transfer 38.8% of Cairn along with associated debt of US\$5.9 bn to Sesa Sterlite; this translates into a price of Rs390/share in Cairn, higher than Rs355 paid by VED for Cairn. VED's stake in Sesa will increase to 58.3% after this transaction.

VAL transfer impacts Sterlite and Sesa, but benefits VED shareholders

We value VAL at EV of Rs90 bn, lower than debt transfer of Rs220 bn in this transaction. This results in negative equity value of Rs131 bn, the cost of which will be borne by Sterlite and Sesa shareholders. VED shareholders (and promoters) have got a nice deal in the process. Equity value of Rs23.3 bn assigned for VAL is based on blue sky assumptions of the start of captive bauxite mining after three years and restart of alumina refinery and production ramp-up from a new aluminium smelter. Value destruction from the deal is offset by tax efficiencies: a tax shield on losses of VAL and the 2400 MW Jharsuguda power plant can offset the standalone profit of the merged Sesa-Sterlite entity. We value the tax synergy benefit at Rs43 bn for Sesa Sterlite

Cut Sterlite target price to Rs132 and rating to ADD, establish Sesa target price at Rs220

We take cognizance of the loss for minorities of Sterlite (Rs18/share) from the transaction and cut target price to Rs132. We cut rating to ADD from BUY earlier, noting a modest 11% upside. Our Sterlite fair value builds in potential imposition of mining tax through lower EBITDA multiple for the Hindustan Zinc (HZ) business. We establish value of Rs217 for Sesa Sterlite. As highlighted earlier, Sesa shareholders also get a raw deal courtesy unfavorable valuation for VAL and we expect the stock to correct. Sterlite-Sesa stock will move on the stock swap ratio from hereon.

Simplicity may attract investors but the recent deal leaves a sour taste

In the near term the stock may trade on euphoria of (1) simplification of group structure that may make the stock investible for many; (2) consolidation of India assets in a single entity may increase size and index weight of the stock; and (3) one can even take a charitable view that the transaction should mark the end of unfriendly decisions for minority shareholders. It is difficult to take a constructive view on the third point, given that the management had an option to prevent value transfer to VED, an option it failed to exercise.

Focus in Sesa Sterlite may shift to fundamentals in the medium term. The key catalyst for the stock will be the buyout of Government stake in Hindustan Zinc (and minorities). Successful completion will ensure cash fungibility and better capital structure.

Exhibit 1 and 2 give pre-restructuring and post-restructuring fair value for Sterlite. We assume that VED will not start metal tapping from the new 1.25 mtpa aluminium smelter at Jharsuguda. Instead power will be sold from 2400MW IPP on a merchant basis.

Exhibit 1: SOTP-based target price of Sterlite Industries was Rs150 (pre-merger)

SOTP-based target price of Sterlite, March fiscal year-ends, 2013E basis (Rs mn)

	EBITDA (Rs bn)	Multiple (X)	EV (Rs bn)	Net debt (Rs bn)	Implied M Cap (Rs bn)	Sterlite's stake (%)	Attributable M Cap (Rs bn)	Holding Co discount %	Contribution Rs/ share
BALCO	7	6.3	46	44.8	0.9	51.0	0	15.0	0
Copper business									
Copper smelting business	10	6.0	63	(104)	166.9	100.0	167	-	50
Copper mining									2
Zinc business									
Hindustan Zinc	73	5.5	402	(227)	629	64.9	408	15.0	103
Zinc International	15	3.5	54	21	75	100.0	75	-	22
Other businesses									-
Less: investments and loans to VAL							96		(29)
Target price (Rs/ share)									149

Source: Kotak Institutional Equities estimates

Exhibit 2: Revised fair value of Sterlite (Rs/share)

	Rs/ share	Rs bn
Fair value of Sterlite	150	504
VAL merger	(27)	(92)
Share of tax and other synergies	9	30
Loss from restructuring	(18)	(61)
Revised fair value	132	443

Source: Company

Exhibit 3 details SOTP-based fair value for the merged Sesa-Sterlite entity. We assume that stake in Cairn India has been transferred at fair value to the combined entity. We value Sesa Goa's mining business, using discounted cash-flow basis, based on (1) benchmark iron-ore price of US\$120/tonne and US\$100/tonne for FY2013E and FY2014E and long-term iron-ore price assumption of US\$85/tonne; (2) accretion of 70 mn tonnes to the reserves; and (3) Sesa gets permission to restart the Karnataka mine without penalties.

Exhibit 3: SOTP-based target price of the combined entity i.e. Sesa Sterlite (Rs/share)

	EBITDA (Rs bn)	Multiple (X)	EV (Rs bn)	Net debt (Rs bn)	Implied M Cap (Rs bn)	Sterlite's stake (%)	Attributable M Cap (Rs bn)	Holding Co discount %	Contribution Rs/ share
BALCO	7	6.3	46	44.8	0.9	51.0	0	15.0	0
VAL	14	6.5	90	220.9	(131.1)	100.0	(131)		(44)
Copper business									
Copper smelting business	10	6.0	63	(8)	70.9	100.0	71	-	24
Copper mining									2
Zinc business									
Hindustan Zinc	73	5.5	402	(227)	629	64.9	408	15.0	117
Zinc International	15	3.5	54	21	75	100.0	75	-	25
Sesa Goa (iron ore mining)									29
Cairn India (fair value assumed at the current market price)									147
Debt transferred for Cairn India acquisition									(97)
Synergies and other businesses									14
Target price (Rs/ share)									217

Source: Kotak Institutional Equities estimates

VAL: value loss of Rs131 bn for Sesa Sterlite

We compute value loss of Rs131 bn from transfer of 70.5% stake in VAL by VED to Sesa Sterlite. We establish an EV of Rs90 bn for VAL based on 6.5X multiple to FY2013E EBITDA. Against this EV, debt of Rs220 bn has been transferred to the new entity. In addition, Sesa Sterlite paid Rs16.4 bn for the equity value of VAL. Assigning equity value to VAL is a surprise, in our view, as (1) shareholder funds of VAL are eroded. VAL is carrying accumulated losses of US\$400 mn and (2) VAL is unlikely to generate profits for 3-5 years.

VAL is generating EBITDA from operational 0.5 mtpa aluminium smelter and 1mtpa alumina refinery at Lanjigarh. VAL's COP will be in the fourth quartile of global aluminium cost curve.

Sesa Sterlite will have large scale cash fungibility but with constraints

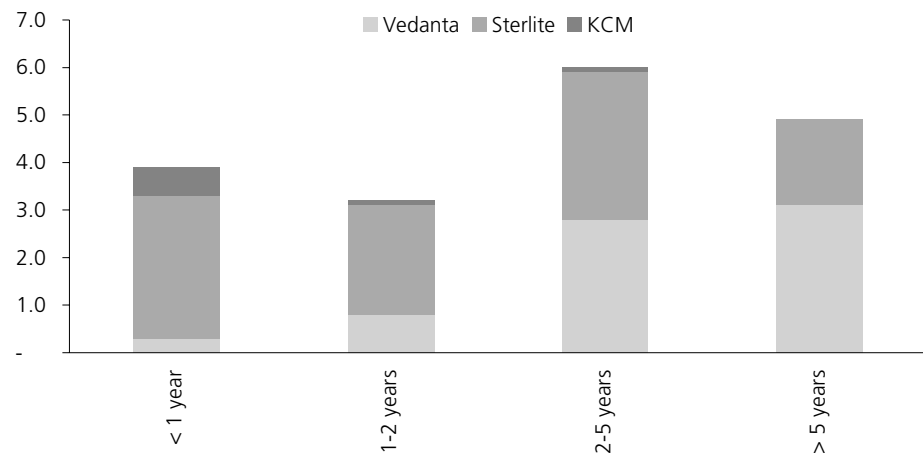
After restructuring, the size of Sesa Sterlite will be substantial on various parameters (1) enterprise value of US\$22 bn at Sesa's stock price of Rs227; (2) consolidated attributable EBITDA of US\$4.3 bn; and (3) 7th largest diversified natural resources company in the world.

Post-restructuring entities can be clubbed in three major buckets

- ▶ Cash-rich Hindustan Zinc operations, which had net cash of Rs161 bn at the end of December 2011 and will end with a cash balance of Rs226 bn at the end of FY2013E. Hindustan Zinc will likely account for 22-25% of EBITDA and ~35% of Sesa Sterlite's net income.
- ▶ 60% ownership in Cairn India. Cairn India will account for ~35% of EBITDA and 55% of net income of Sesa Sterlite. Sesa Sterlite's attributable share of cash of Cairn will likely be Rs64.9 bn in FY2013E and Rs101.5 bn in FY2014E.
- ▶ Sesa Sterlite operations will have gross debt of US\$13.5 bn in FY2012E. This debt will likely be serviced through US\$1.5 bn of EBITDA generation. EBITDA contribution of ~35% from the rest of the operations will likely go in servicing this debt. Also note that that Sesa Sterlite has debt repayment obligations of US\$5.3 bn over the next two years.

In effect, Sesa Sterlite will rely on up-streaming cash to service debt and meet repayment criteria (Exhibit 4 details the debt maturity profile of Sesa Sterlite). Cairn India could become the primary vehicle to achieve this objective, given constraints on cash movement at Hindustan Zinc.

Exhibit 4: Debt maturity profile of Sesa Sterlite (US\$ bn)



Source: Company, Kotak Institutional Equities estimates

Exhibit 5: Shares of Sesa Sterlite combined entity (mn shares)

	mn	%
Shares outstanding of Sesa	869	29.3
Issued for Sterlite	2,017	68.0
Malco	79	0.2
Vedanta Aluminium's 70.5% stake	72	2.4
Shares outstanding of the new entity	3,037	
Less: Cancellation of shares in new co	72	
Shares of new company	2,965	100

Source: Company, Kotak Institutional Equities estimates

Exhibit 6: Earnings and valuation impact from Vedanta group restructuring (Rs mn)

	Sterlite			Sesa Goa			Sesa-Sterlite		
	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E
EBITDA (attributable)									
Hindustan Zinc	38,123	47,481	53,320				38,123	47,481	53,320
Sterlite Industries- ex Hindustan Zinc	29,292	31,375	39,062				29,292	31,375	39,062
Sterlite Industries (consolidated)	67,415	78,857	92,381				67,415	78,857	92,381
Sesa Goa				40,208	33,375	22,544	40,208	33,375	22,544
Cairn India							59,396	87,914	76,026
VAL							4,425	13,816	15,272
Consolidated attributable EBITDA	67,415	78,857	92,381	40,208	33,375	22,544	171,444	213,962	206,223
Net debt (attributable)									
Hindustan Zinc	(117,929)	(147,232)	(185,580)				(117,929)	(147,232)	(185,580)
Sterlite + subs- ex-HZ	44,638	38,306	7,037				44,638	38,306	7,037
Sterlite	(73,291)	(108,926)	(178,543)				(73,291)	(108,926)	(178,543)
Cairn India							(40,028)	(64,961)	(101,491)
Sesa				37,995	12,016	2,724	37,995	12,016	2,724
VAL (excluding loans by Sterlite)							200,860	220,860	240,860
Cairn India acquisition debt pushdown							287,965	287,965	287,965
Attributable debt	(73,291)	(108,926)	(178,543)	37,995	12,016	2,724	413,501	346,954	251,515
Shares outstanding (mn)	3,361	3,361	3,361	869	869	869	2,965	2,965	2,965
Stock price	115	115	115	227	227	227	227	227	227
Market capitalization	386,538	386,538	386,538	197,286	197,286	197,286	672,991	672,991	672,991
Value of Cairn India's stake (without holdco discount)				137,016	137,016	137,016			
Enterprise value	313,247	277,612	207,995	98,265	72,286	62,994	1,086,493	1,019,945	924,506
EV/EBITDA (X)	4.6	3.5	2.3	2.4	2.2	2.8	6.3	4.8	4.5
Earnings impact (Rs mn)									
Hindustan Zinc	34,584	40,329	45,671				34,584	40,329	45,671
Sterlite-ex HZ	17,748	13,009	17,899				17,748	13,009	17,899
Sterlite - consolidated (excluding VAL)	52,332	53,338	63,570				52,332	53,338	63,570
Sesa Goa				21,863	37,834	29,686	23,714	19,872	13,344
Cairn India							51,186	71,517	61,338
VAL (assuming no capitalization of interest)	(6,942)	(2,309)	(1,914)				(23,533)	(11,476)	(10,429)
Cairn India debt							(14,974)	(14,974)	(14,974)
Total	45,390	51,029	61,657	21,863	37,834	29,686	88,726	118,276	112,850
EPS	13.5	15.2	18.3	25.2	43.5	34.2	29.9	39.9	38.1
P/E (X)	8.5	7.6	6.3	9.0	5.2	6.6	7.6	5.7	6.0
Earnings composition									
Hindustan Zinc	76	79	74				39	34	40
Sterlite-ex HZ	39	25	29				20	11	16
Sterlite - consolidated	115	105	103				59	45	56
Sesa Goa				100	100	100	27	17	12
Cairn India				-	-	-	58	60	54
VAL				-	-	-	(27)	(10)	(9)
Cairn India debt							(17)	(13)	(13)
Total	115	105	103	100	100	100	100	100	100

Note

(1) Share of losses of VAL shown under Sterlite financials are attributable for 29.5% stake only

Source: Kotak Institutional Equities estimates

Restructuring reduces the stress on VED's balance sheet

VED has net debt of ~US\$10 bn on its books, which will fall to US\$1 bn after completion of the transaction. VED, in our view, would have struggled to service debt given that it did not fully own any operating assets. Debt servicing could have primarily been done through (1) dividend distribution of subsidiaries—this is inefficient in our view given double taxation on the dividend and (2) inter-corporate deposits, which is not a good corporate governance practice, in our view.

Steps for group consolidation

Exhibit 7 gives the timelines for completion of the transaction. The management expects completion of all regulatory formalities by the end of CY2012. Steps involved in the restructuring exercise are as follows.

Exhibit 7: Transaction completion timeline expected by the company

BSE and NSE approval sought	Mar-12
Competition Commission approval sought	Mar-12
Foreign Investment Promotion Board approval sought	Mar-12
BSE and NSE approval	Apr-12
Vedanta posting of UK circular	Apr-12
Competition Commission approval	Apr-12
Application to High Court in India and Supreme Court of Mauritius	Apr-12
Vedanta EGM	May-12
Scheme documents posted to shareholders	May-12
Sesa / Sterlite / MALCO EGM	Jun-12
Foreign Investment Promotion Board approval	Jun-12
High Court of India and Supreme Court of Mauritius approval	Sep-12
Other required approvals	CY 2012
Transaction completion	CY 2012

Source: Company

- ▶ Sterlite will merge into Sesa Goa. Sesa Goa will issue shares to Sterlite shareholders based on a swap ratio of 3:5.
- ▶ VED's stake in VAL will be consolidated in Sesa Sterlite through the merger of Ekaterina, 100% subsidiary of VED with Sesa Goa. Sesa will issue shares to VED based on equity value assigned to the stake i.e. 72 mn shares.
- ▶ VAL will demerge its aluminium business into Sesa Sterlite. The demerger shall be effective after VAL becomes a fully owned subsidiary of Sesa Sterlite after the merger of Ekaterina and Sterlite. This demerger of the aluminium business into Sesa Sterlite will provide a tax shield on losses in the aluminium business.
- ▶ Malco will merge into Sesa. Sesa will issue 79 mn shares to shareholders of Malco. Shares held by Malco of Sterlite will be extinguished on the merger (72 mn shares). Power plant of Malco will be transferred to VAL as part of the scheme.
- ▶ SEL will merge into Sesa.
- ▶ VED's 38.8% holding in Cairn India, held through two subsidiaries, will be transferred to Sesa.

The VAL challenge

VAL was conceived as a vertically integrated project in Orissa, with planned capex of ~US\$10 bn with (1) captive access to bauxite and (2) access to coal block.

The project has an operational 1 mtpa alumina refinery and 500ktpa aluminium smelter backed by 1215 MW captive power plant. Total capex in Phase 1 was US\$3.3 bn. Second stage of expansion involved expansion of alumina refinery to 5mtpa, aluminium smelter to 1.75 mtpa and power plant to 3615 MW (including 2400 MW IPP at Jharsugda). The company has already spent US\$4.6 bn in Phase II.

MOEF rejected VAL's application for the bauxite mine and stopped the expansion phase of the alumina refinery. This has impacted existing operations and expansion projects.

VAL has a 0.5 mtpa operational aluminium smelter (with cash cost of production in the third quartile of global aluminium smelting cost curve) and 1 mtpa alumina refinery. VAL will complete 1.25 mtpa aluminium expansion, but may not start meal tapping till it receives coal block and bauxite mine.

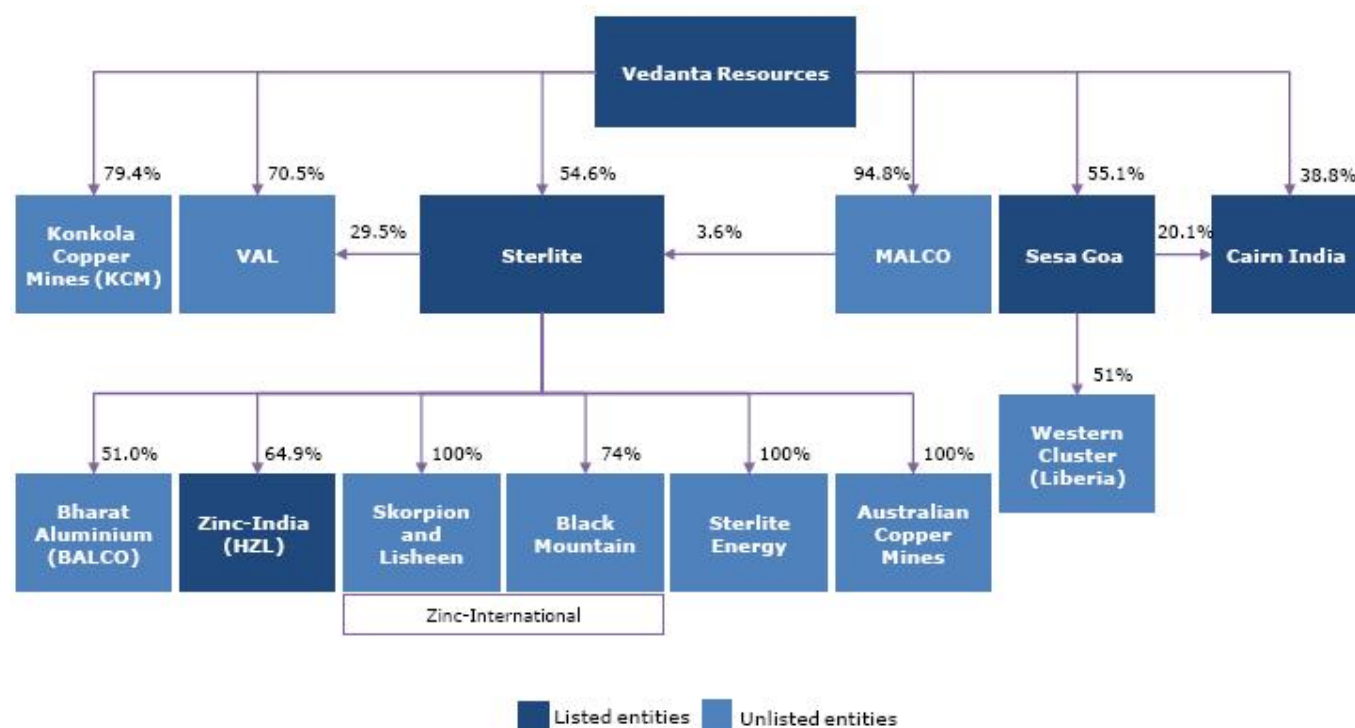
VAL has a highly leveraged balance sheet (Rs276 bn of debt at end-December 2011 and is essentially surviving on corporate guarantees given by VED and Sterlite. It is difficult to be sanguine on VAL's operations. Without captive bauxite and coal block, cost of operations will be in the 3rd or 4th quartile of global cost curve. Cost of production of VAL at Rs102,224/tonne (US\$2,004/tonne) is high even after start of all pots which suffered an outage in 1QFY12

Exhibit 8: Key expansion plan capex spending pattern in VAL and Sterlite Energy (US\$ mn)

Sector	Project	Volume mtpa	Cost (US\$ mn)	Spent upto 30th Sep, 2011 (US\$ mn)
Alumina				
	Lanjigarh I Alumina refinery	1.0	1,015	983
	Debottlenecking Lanjigarh 1	1.0	150	74
	Lanjigarh II Alumina refinery	3.0	1,570	819
Aluminium				
	Jharsuguda I smelter (including 1215 MW CPP)	0.5	2,400	2,324
	Jharsuguda II smelter	1.25	2,920	2,187
Power				
	SEL IPP	2400MW	1,900	1,577
TOTAL			9,955	7,964

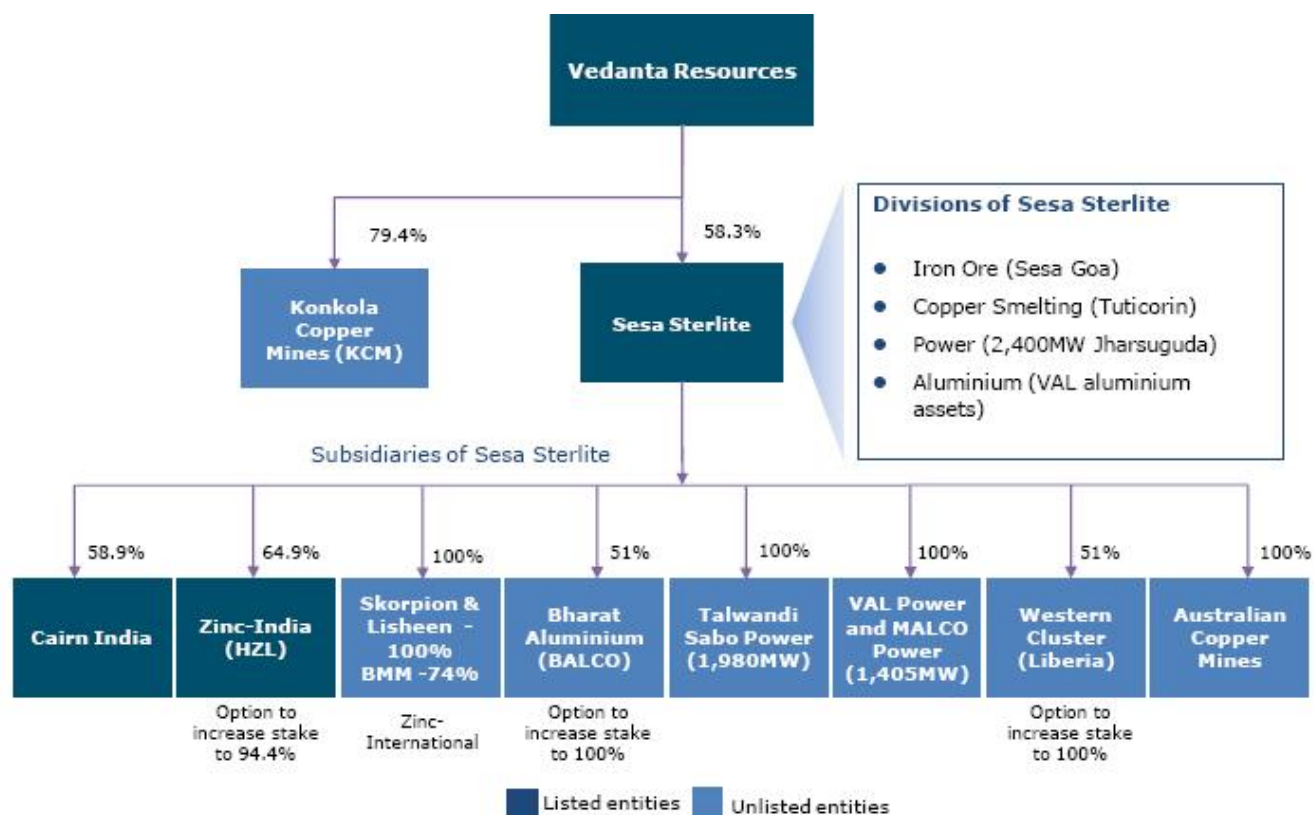
Source: Company, Kotak Institutional Equities estimates

Exhibit 9: Vedanta Resources original group structure (%)



Source: Company

Exhibit 10: Vedanta Resources new group structure (%)



Source: Company

Exhibit 11: Sesa Sterlite ownership pre and post transaction and valuation details

	Sesa Goa	Sterlite	MALCO	VAL	Synergies / Other adjustments	Sesa Sterlite
Equity value (US\$ mn)	4,013	9,310	363	333	(332)	13,687
Net debt (US\$ mn)	867	(1,864)	(39)	3,999	4,536	7,499
Shares in new company (mn)	869	2,017	79	72	(72)	2,965
Ownership (Pre-transaction)						
Vedanta Resources	55.1	54.6	94.8	70.5		
Others	44.9	45.4	5.2	29.5		
Ownership Sesa Sterlite						
Vedanta Resources	16.2	37.2	2.5	2.4	—	58.3
Others	13.2	30.9	0.1	—	(2.5)	41.7

Source: Company, Kotak Institutional Equities estimates

Exhibit 12: Entity-wise key financial parameter performance for the last twelve months (Rs bn)

	Sesa Goa	Sterlite	Cairn India	VAL	MALCO	Synergies / Other adjustments	Sesa Sterlite
Key financials							
Revenue	91	402	119	57	3	(7)	664
EBITDA	42	106	96	5	1	—	250
Attributable net income	30	55	82	(23)	1	(34)	110
Gross Debt	44	124	13	199	—	288	667
Cash and marketable securities	1	215	77	2	2	—	298
Net debt	43	(92)	(65)	197	(2)	288	369
Net interest expense	(2)	(18)	(6)	20	(0)	16	10

Source: Company, Kotak Institutional Equities estimates

Exhibit 13: Sesa Goa, Profit model, balance sheet and cash flow model, March fiscal year-ends, 2009-2014E (Rs mn)

	2010	2011	2012E	2013E	2014E
Profit model (Rs mn)					
Net sales	58,583	92,051	86,158	90,422	78,182
EBITDA	31,448	51,543	40,208	33,375	22,544
Other income	4,260	5,399	(1,518)	943	1,752
Interest	(517)	(381)	(2,582)	(3,554)	(3,087)
Depreciaton	(745)	(964)	(1,005)	(1,349)	(1,456)
Profit before tax	34,446	55,597	35,104	29,416	19,753
Taxes	(8,056)	(13,372)	(11,389)	(9,544)	(6,409)
Net profit	26,390	42,225	23,714	19,872	13,344
Minority interest	(99)	—	—	—	—
PAT	26,291	42,225	29,237	40,632	30,331
Earnings per share (Rs)	29.4	48.6	32.7	46.8	34.9
Balance sheet (Rs mn)					
Equity	79,177	128,104	153,798	201,263	228,050
Deferred tax liability	750	682	682	682	682
Total Borrowings	19,606	9,995	44,680	34,304	34,304
Minority interest	433	—	—	—	—
Current liabilities	12,400	17,256	10,416	12,064	10,723
Total liabilities	112,366	156,037	209,576	248,312	273,758
Net fixed assets	22,557	31,443	38,488	41,164	43,918
Investments	45,649	87,998	145,493	166,254	183,240
Cash	23,918	8,970	6,711	22,315	31,606
Other current assets	20,242	27,626	18,884	18,580	14,994
Miscellaneous expenditure	(0)	—	—	—	—
Total assets	112,366	156,037	209,576	248,312	273,758
Free cash flow (Rs mn)					
Operating cash flow excl. working capital	23,922	38,372	26,237	20,277	13,048
Working capital changes	1,791	(3,037)	1,902	1,952	2,245
Capital expenditure	(1,316)	(8,330)	(8,050)	(4,025)	(4,210)
Free cash flow	24,397	27,005	20,089	18,204	11,083
Ratios					
Debt/equity (%)	0.2	0.1	0.3	0.2	0.2
Net debt/equity (%)	(0.8)	(0.8)	0.1	(0.0)	(0.1)
RoAE (%)	36.1	36.8	17.2	22.1	13.8
RoACE (%)	31.6	32.6	15.3	18.8	12.6

Source: Company, Kotak Institutional Equities estimates

Exhibit 14: Sterlite Industries, Profit model, balance sheet and cash flow model, March fiscal year-ends, 2009-2014E (Rs mn)

	2009	2010	2011	2012E	2013E	2014E
Profit model (Rs mn)						
Net sales	211,442	244,103	304,285	394,113	450,971	476,521
EBITDA	47,041	60,718	80,495	96,802	114,577	132,710
Other income	21,543	19,594	24,724	29,382	25,254	28,033
Interest	(3,973)	(3,424)	(3,012)	(13,053)	(11,742)	(14,077)
Depreciation	(7,007)	(7,498)	(10,301)	(18,011)	(21,442)	(24,274)
Profit before tax	57,604	69,390	91,905	95,120	106,647	122,391
Extraordinaries	2,258	(2,970)	(568)	(283)	—	—
Current tax	(8,795)	(11,038)	(18,165)	(17,820)	(23,774)	(26,314)
Deferred tax	(1,461)	(1,291)	48	(4,105)	(5,891)	(5,885)
Net income before minorities	49,607	54,091	73,220	72,913	76,982	90,192
Minority interest	(12,671)	(17,241)	(19,945)	(20,863)	(23,644)	(26,621)
Share of profit/loss from associates	(1,536)	588	(2,850)	(6,942)	(2,309)	(1,914)
Net income	35,400	37,437	50,425	45,107	51,029	61,657
Adjusted net income	34,847	40,407	50,993	45,390	51,029	61,657
EPS (Rs)	12.3	12.0	15.2	13.5	15.2	18.3
Balance sheet (Rs mn)						
Equity	256,132	370,120	414,355	451,649	494,865	548,709
Deferred tax liability	14,076	15,524	21,789	25,893	31,784	37,669
Total Borrowings	70,135	92,600	117,287	161,164	169,996	177,400
Minority Interest	68,132	84,096	102,913	123,776	147,420	174,041
Current liabilities	42,051	49,319	88,128	78,130	70,457	70,895
Total liabilities	450,526	611,659	744,471	840,612	914,522	1,008,715
Net fixed assets	102,319	109,858	175,056	199,070	263,521	287,332
Capital work-in-progress	69,786	110,844	121,501	122,029	70,948	45,648
Goodwill	—	12,799	38,918	38,918	38,918	38,918
Cash	55,048	33,378	99,124	124,293	155,975	230,252
Other current assets	61,312	141,737	180,267	206,698	215,556	216,962
Investments	162,062	203,045	129,553	149,551	169,551	189,551
Deferred tax asset	—	—	52	52	52	52
Total assets	450,526	611,659	744,471	840,612	914,522	1,008,715
Free cash flow (Rs mn)						
Operating cash flow excl. working capital	40,654	44,554	57,344	58,705	76,752	90,405
Working capital changes	13,636	(8,487)	(3,154)	(36,430)	(16,530)	(968)
Capital expenditure	(40,095)	(61,819)	(53,487)	(42,554)	(34,812)	(22,785)
Free cash flow	14,195	(25,752)	704	(20,279)	25,409	66,652
Ratios						
Debt/equity (X)	0.3	0.3	0.3	0.4	0.3	0.3
Net debt/equity (X)	(0.5)	(0.3)	(0.3)	(0.3)	(0.3)	(0.5)
RoE (%)	14.5	12.9	13.0	10.5	10.8	11.8
RoACE (%)	10.3	9.7	9.5	9.2	9.0	9.8

Source: Company, Kotak Institutional Equities estimates

FEBRUARY 24, 2012

CHANGE IN RECO.

Coverage view:

Price (Rs): 302

Target price (Rs): 280

BSE-30: 17,924

Cash-flow issues to the fore. As per our understanding, Jet Airways is facing cash-flow issues with banks denying incremental working capital limits. The Kingfisher episode has made banks wary of lending to other leveraged airlines. Media articles suggest that the company has sought government intervention to get finance from banks. In our view, cash-flow issues could limit turnaround potential for the company. Hence, we recommend investors to look at players with lower leverage (such as SpiceJet) as a play on a potential turnaround in the sector. We have reduced our estimates and downgraded Jet to SELL (ADD earlier) with a revised target price of Rs280 (Rs380 earlier) at 8.7X FY2013E EBITDAR.

Company data and valuation summary

Jet Airways

Stock data

52-week range (Rs) (high,low)	518-167
Market Cap. (Rs bn)	26.0

Shareholding pattern (%)

Promoters	80.0
FIs	4.7
MFs	4.6

Price performance (%)	1M	3M	12M
Absolute	23.1	22.1	(23.8)
Rel. to BSE-30	16.7	8.0	(25.0)

Forecasts/Valuations

	2012	2013E	2014E
EPS (Rs)	(233.8)	(33.8)	(29.1)
EPS growth (%)	2,225.0	(85.6)	(13.9)
P/E (X)	(1.3)	(8.9)	(10.4)
Sales (Rs bn)	174.5	200.7	213.9
Net profits (Rs bn)	(20.2)	(2.9)	(2.5)
EBITDA (Rs bn)	(1.0)	15.0	15.1
EV/EBITDA (X)	(162.4)	10.5	10.0
ROE (%)	0.0	0.0	0.0
Div. Yield (%)	0.0	0.0	0.0

Banks are hesitant on incremental working capital limits

Jet Airways is facing cash-flow issues with banks denying incremental working capital lines as they have turned wary of further exposure to the sector in light of current issues with Kingfisher. Media articles suggest that the company has asked for government intervention to secure Rs10 bn of working capital loans. Also, the company has asked for extension of credit period from oil companies from two months to three months. Incremental working capital is required to fund cash losses and repayment of US\$350 mn of debt due in FY2013E. Even if incremental limits come through, they would be at a steep cost.

Large cash losses, constraints on working capital could limit potential turnaround

As per our estimates, the airline has lost close to Rs10 bn of operating cash (EBITDA-interest) in the past four quarters without including any incremental working capital requirements or capex. Given the high debt in the balance sheet, the cash-loss situation is serious. In 3QFY12 cash loss was partly offset by Rs2.2 bn of cash inflows on sale and lease-back transactions. The company can realize ~US\$150 mn of further cash inflows from sale and lease-back transactions, which could provide some cushion.

In our view, cash-flow issues could limit the potential turnaround of the airline. Increased risk profile could make sustaining/expanding operations difficult as creditors would also want to reduce their exposure, which means further working capital requirements (difficult to come by).

Downgrade to SELL; inability to manage operations without government help – big negative

We would recommend investors to look at players with lower leverage (such as SpiceJet) as a play on the potential turnaround in the sector, led by higher PLFs and hence, higher yields. In our view, constrained cash-flows would limit a potential turnaround for Jet Airways. We have reduced our EBITDA estimates for FY2013E and FY2014E by 6% each. We downgrade Jet to SELL with a target price of Rs280 (Rs380 earlier) at 8.7X FY2013E EBITDAR.

Large cash losses, constrained working capital could limit turnaround

Jet Airways has lost close to Rs10 bn of cash (EBITDA-interest) in the past four quarters. Given the already stretched balance sheet, the cash-flow position is worrying. In 3QFY12 cash outflow on account of operational losses has been taken care of partly by cash inflows on sale and lease-back transactions of Rs2.2 bn (after paying debt). As of now, there is a cushion (cash flow) of US\$150 mn available on potential sale and lease-back transactions. As per our interaction with the company, in 4QFY12 there could be Rs2 bn of cash inflows on account of sale and lease-back transactions for four aircraft.

Cash-flow situation is worrying – company has lost close to Rs10 bn of cash in past four quarters

Quarterly trend in operating cash flow (excluding capex and working capital) for Jet Airways, consolidated, March fiscal year-ends (Rs mn)

	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12
Operating revenues	26,258	33,020	32,456	34,391	34,865	39,580	36,390	39,704	36,845	44,695
Total expenditure	26,995	27,921	27,353	30,185	30,606	32,895	35,848	39,341	38,325	45,362
Employee Remuneration	3,392	3,273	3,440	3,464	3,661	3,769	4,211	4,040	4,488	4,658
Aircraft Fuel Expenses	9,420	10,494	9,926	11,848	11,653	12,937	15,235	18,407	17,604	20,452
Selling and Distribution Expenses	2,801	3,218	2,461	2,982	3,488	3,633	3,611	3,693	3,563	3,914
Other Operating expenses	8,538	8,112	8,561	9,064	8,791	9,649	10,085	10,444	9,881	13,104
EBITDAR	2,109	7,923	8,068	7,033	7,272	9,592	3,247	3,120	1,310	2,567
EBITDAR (%)	8	24	25	20	21	24	9	8	4	6
Aircraft Lease Rentals	2,845	2,824	2,965	2,827	3,013	2,907	2,705	2,758	2,790	3,234
EBITDA	(736)	5,099	5,103	4,206	4,259	6,685	542	363	(1,479)	(667)
EBITDA %	(3)	15	16	12	12	17	1	1	(4)	(1)
Non-operating revenues	596	663	935	600	365	438	641	441	413	505
Depreciation	2,380	2,459	2,380	2,285	2,361	2,326	2,214	2,253	2,293	2,405
Interest	2,464	2,589	2,838	2,876	2,690	2,610	2,682	2,219	2,219	2,438
PBT	(4,984)	714	820	(355)	(427)	2,187	(3,713)	(3,668)	(5,578)	(5,005)
Exceptional items	(344)	382	1,531	439	(73)	250	1,208	2,049	(2,572)	3,777
Reported PBT	(5,328)	1,096	2,351	84	(500)	2,437	(2,505)	(1,620)	(8,150)	(1,228)
Provision for tax	(8)	7	(102)	(0)	(0)	(997)	622	(337)	6	—
PAT	(5,337)	1,103	2,249	84	(500)	1,441	(1,883)	(1,284)	(8,145)	(1,228)
Cash generation (PBT+Depreciation)	(2,604)	3,173	3,200	1,930	1,934	4,513	(2,140)	(1,857)	(3,698)	(3,105)

Source: Company, Kotak Institutional Equities

Incremental working capital is required to finance cash losses and for loan repayments due in FY2013E

The company has sought government intervention for obtaining incremental working capital limits of Rs10 bn from banks. Incremental funds would be used to finance cash losses and also for loan repayments of US\$350 mn per annum due in the next two years. Also, the company has sought government help to extend credit period for fuel payments from two months to three months.

The airline business does not require working capital in a scenario where companies are achieving cash breakeven (excluding working capital) as the credit period (two months) for fuel and other services finance most of the current assets.

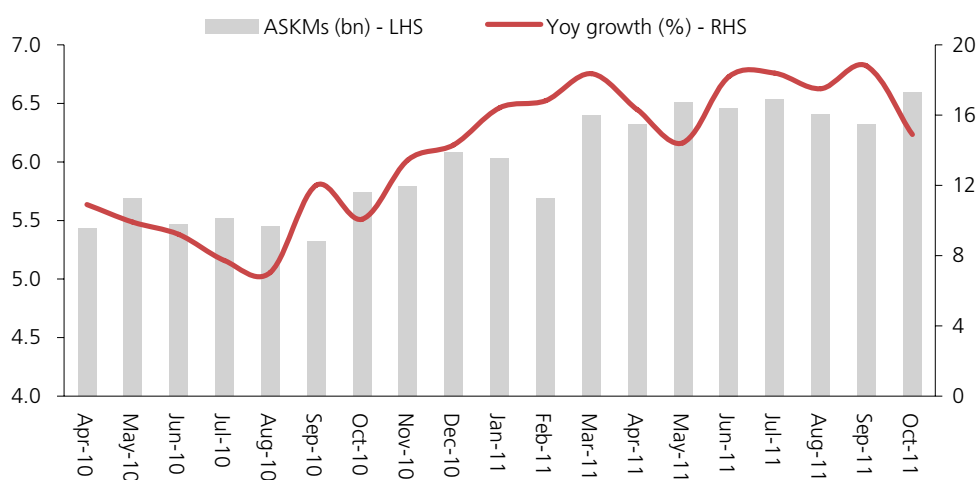
Players with lower leverage would be able to gain in the emerging scenario

In our view, airlines with lower leverage would be able to gain out of emerging scenario where outlook for PLF and yield is positive on account of the current consolidation in the sector. Media reports state that Kingfisher's operational fleet has declined from ~65 aircraft to ~28 aircraft as of now. In absence of incremental working capital limits from banks, it would be difficult for the airline (Kingfisher) to get back on its feet. The emerging scenario would benefit players with lower leverage as:

1. Rate of capacity growth to reduce significantly in FY2013E; augurs well for PLF and profitability

As per industry sources, the capacity of the industry would increase at mid-single-digit growth rates at best in FY2013E and could actually fall in case some of the stressed players take out capacity to reduce cash losses. In that scenario, assuming normalized growth in passenger numbers in the range of 12-15% implies that PLF of the industry would improve yoy in FY2013E, which augurs well for yields and hence, profitability. One of the reasons that yields have remained weak in FY2012E (apart from Air India discounting prices) is the fact that the capacity of the industry has grown at a faster pace than growth in passenger numbers, leading to declining PLFs. This will get addressed in the current year.

Capacity has grown at a faster rate than growth in passengers numbers (YTD) in FY2012E
Trend in capacity of domestic aviation industry, ASKMs (bn)



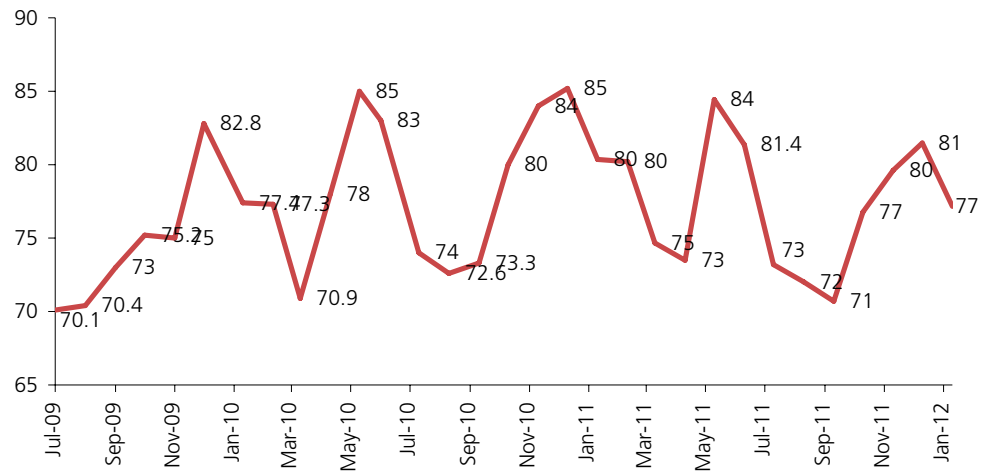
Source: DGCA, Kotak Institutional Equities

Growth in capacity has been more than the growth in passenger numbers in the past few months
Data for passenger volumes in the domestic aviation market (mn)

	CY2009	CY2010	CY2011	CY2012	Growth (% yoy)			
					CY2009	CY2010	CY2011	CY2012
January	3.33	4.09	4.9	5.3	(14.7)	22.8%	20.7%	8.0%
February	3.34	3.86	4.6		(6.9)	15.6%	18.5%	
March	3.16	3.9	4.8		(14.8)	23.4%	23.1%	
April	3.32	4.19	4.7		(14.8)	26.2%	11.5%	
May	3.93	4.79	5.5		(4.5)	21.9%	14.7%	
June	3.69	4.5	5.3		5.4	22.0%	18.0%	
July	3.6	4.08	4.0		23.0	13.3%	-2.2%	
August	3.63	3.99	4.8		26.0	9.9%	19.9%	
September	3.51	3.91	4.6		24.8	11.4%	18.1%	
October	3.97	4.62	5.4		29.9	16.4%	16.9%	
November	3.9	4.88	5.4		26.6	25.0%	11.1%	
December	4.49	5.21	5.6		35.0	16.1%	8.0%	
Total	43.9	52.0	59.6		—	18.6%	14.6%	

Source: DGCA, Kotak Institutional Equities

PLF of the industry has declined yoy, which is one of the reasons for weak pricing
Trend in monthly PLF of the domestic aviation industry (%)



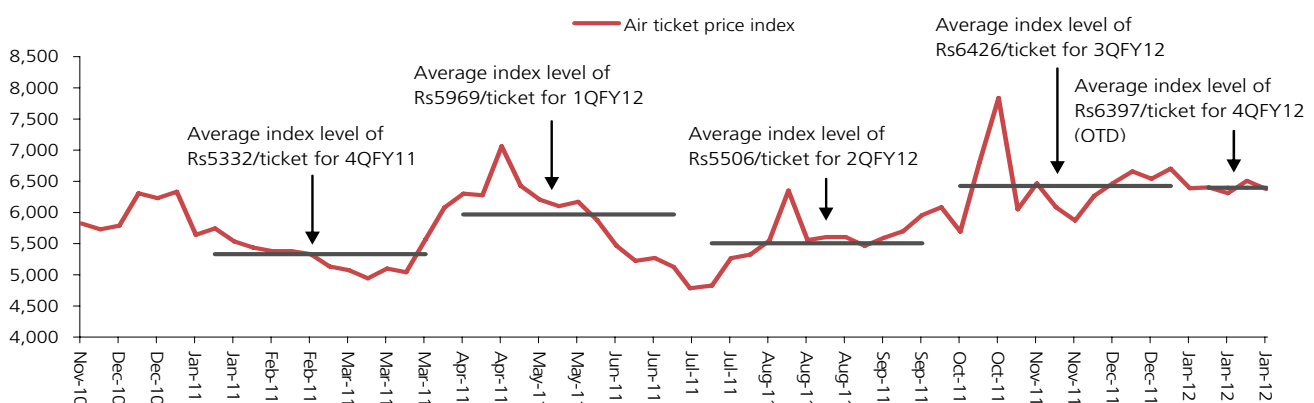
Source: DGCA, Kotak Institutional Equities

2. Yields would trend higher; yields are holding out much better in 4QFY12 versus usual trends

Higher PLF means that yields should be strong in FY2013E. Leading indicators are already there. Yields (revenue per RPKM) are holding out much better in 4QFY12 versus the usual trend in past years. Analysis of the past trends suggests that on account of seasonality, yields go down ~5% qoq from 3Q to 4Q on an average basis. In 4QFY12, yields have managed to hold at average levels of 3QFY12 so far. Also, recent appreciation of the Rupee should lead to reduction of cost pressure, which was there in the previous quarters as USD-denominated costs had increased on account of a depreciating Rupee.

Yields have held out much better in 4QFY12 versus the usual seasonal trend in the past years

Kotak's proprietary index for average one-week forward fares on eight routes (Rs)



Source: Company, Kotak Institutional Equities

Downgrade to SELL; prefer SpiceJet on lower leverage

We are downgrading Jet Airways to SELL from ADD. We have lowered our earning (EBITDA) estimates by 6% each for FY2013E and FY2014E respectively. We prefer SpiceJet on account of lower leverage (net debt of Rs4.7 bn as of September 2011). Most of the debt of the company (SpiceJet) is on account of purchase of aircraft (Q-400s). As per our understanding, working capital debt is ~Rs1.9 bn which is not much of a problem.

Change in estimates for Jet Airways, March fiscal year-ends (Rs mn)

	Old estimates		New estimates		Change (%)	
	2013E	2014E	2013E	2014E	2013E	2014E
Revenue	200,151	213,492	200,190	213,531	0.0	0.0
EBITDAR	30,622	31,601	29,777	30,685	(2.8)	(2.9)
EBITDA	15,997	16,168	14,999	15,092	(6.2)	(6.7)

Source: Kotak Institutional Equities

Valuation

We value Jet Airways at Rs280 per share

Valuation table for Jet Airways, FY2013E basis (Rs mn)

EBITDAR	29,777
EV/EBITDAR multiple (X)	8.7
EV	259,058
Aircraft lease rentals capitalised at 7X	(103,447)
Net Debt	(131,779)
Value of the equity	23,832
Value per share	276

Source: Kotak Institutional Equities

Summary financials; Jet Airways

Profit and loss statement, balance sheet and cash flow statement of Jet Airways, March fiscal year-ends (Rs mn)

	2008	2009	2010	2011	2012E	2013E	2014E
Profit model							
Income	102,456	130,779	118,764	145,226	173,874	200,190	213,531
EBITDAR	6,586	1,842	22,214	27,144	13,181	29,777	30,685
Aircraft lease rentals	(8,216)	(10,429)	(11,591)	(11,452)	(14,200)	(14,778)	(15,593)
EBITDA	(1,630)	(8,587)	10,623	15,692	(1,019)	14,999	15,092
Depreciation	(8,018)	(9,021)	(9,691)	(9,186)	(9,114)	(9,122)	(9,130)
Interest and finance charges	(5,225)	(8,023)	(10,474)	(10,858)	(11,059)	(10,054)	(9,503)
Non-operating revenue	7,452	3,710	3,617	2,044	671	532	403
PBT before exceptional items	(7,421)	(21,921)	(5,924)	(2,308)	(20,521)	(3,644)	(3,138)
Exceptional items	(695)	11,651	1,826	1,824	3,500	—	—
Reported PBT	(8,115)	(10,270)	(4,098)	(484)	(17,021)	(3,644)	(3,138)
Taxes	1,577	656	(104)	(374)	340	729	628
PAT	(6,539)	(9,614)	(4,202)	(858)	(16,681)	(2,915)	(2,510)
EPS							
Diluted	(76)	(111)	(49)	(10)	(193)	(34)	(29)
Margins %							
EBITDAR	6	1	19	19	8	15	14
EBITDA	(2)	(7)	9	11	(1)	7	7
PBT	(7.2)	(16.8)	(5.0)	(1.6)	(11.8)	(1.8)	(1.5)
Balance sheet							
Equity	863	863	863	863	863	863	863
Reserves and surplus	41,697	33,321	32,847	32,374	32,374	32,374	32,374
P&L balance	(1,052)	(12,213)	(16,415)	(17,273)	(37,454)	(40,370)	(42,880)
Net worth	41,508	21,971	17,296	15,964	(4,217)	(7,132)	(9,642)
Secured loans	17,530	50,364	43,066	46,605	46,605	46,605	46,605
Unsecured loans	104,523	115,976	99,738	90,199	93,299	87,299	77,299
Loan funds	122,053	166,340	142,804	136,804	139,904	133,904	123,904
Deferred payment liability	4,125	2,750	1,375	—	—	—	—
Deferred tax liability	1,602	—	—	336	336	336	336
Current liabilities and provisions	45,230	41,125	45,199	50,843	60,117	68,913	73,372
Total sources of funds	214,519	232,186	206,674	203,947	196,140	196,021	187,970
Assets							
Gross block	166,687	188,450	180,110	180,048	180,648	181,248	181,848
Less: depreciation	25,560	25,502	35,558	43,676	52,789	61,911	71,040
Net block	141,127	162,948	144,552	136,372	127,859	119,337	110,807
Capital work in progress	13,026	6,571	3,335	3,828	3,828	3,828	3,828
Fixed assets	154,153	169,519	147,887	140,200	131,686	123,165	114,635
Goodwill on consolidation	18,724	18,724	18,724	18,724	18,724	18,724	18,724
Investments	104	1,000	1,000	801	1,000	1,000	1,000
Inventories	6,044	6,963	6,975	8,252	10,004	11,518	12,285
Sundry debtors	13,990	8,075	8,765	10,254	12,862	14,809	15,795
Cash and bank balances	9,584	14,662	8,264	6,772	428	2,125	(796)
Loans and advances	11,921	13,243	15,059	18,944	21,437	24,681	26,326
Current assets	41,538	42,943	39,063	44,223	44,730	53,132	53,611
Total uses of funds	214,519	232,186	206,674	203,947	196,140	196,021	187,970
Free cash flow							
Operating cash flow excl. working capital	(6,846)	(14,803)	1,865	5,465	(11,067)	6,206	6,620
Working capital changes	4,919	1,728	4,638	(55)	2,422	2,091	1,060
Capital expenditure	(58,114)	354	(615)	(1,253)	(600)	(600)	(600)
Investment changes	1,704	(8,844)	3,662	7,179	—	—	—
Changes in deferred payment liability	(5,525)	(1,375)	(1,375)	(1,375)	—	—	—
Other income	388	272	505	548	671	532	403
Free cash flow	(63,474)	(22,668)	8,681	10,510	(8,574)	8,229	7,483

Source: Company, Kotak Institutional Equities

FEBRUARY 25, 2012
UPDATE

Coverage view: **Attractive**

Price (Rs): **285**

Target price (Rs): **330**

BSE-30: **17,924**

Weak results overseas. OVL reported sharply lower net income of ₹6.5 bn in 3QFY12 versus ₹12.8 bn in 2QFY12 led by (1) surprisingly lower crude price realizations, (2) lower oil sales volumes and (3) higher DD&A expenses (write-off in Nigeria). However, ONGC's 9MFY12 consolidated EPS was marginally higher than its FY2011 EPS. We retain our BUY rating on ONGC given (1) inexpensive valuations of 8.1X FY2013E EPS and (2) 16% potential upside to our revised target price of ₹330 (₹350 previously) based on 9X FY2013E estimates plus the value of investments.

Company data and valuation summary

Oil & Natural Gas Corporation

Stock data		Forecasts/Valuations			
52-week range (Rs) (high,low)	326-242	EPS (Rs)	2012	2013E	2014E
Market Cap. (Rs bn)	2,434.5	EPS growth (%)	16.3	22.8	13.1
Shareholding pattern (%)		P/E (X)	9.9	8.1	7.1
Promoters	74.1	Sales (Rs bn)	1,459.8	1,717.1	1,792.3
FIs	5.2	Net profits (Rs bn)	245.3	301.2	340.6
MFs	1.6	EBITDA (Rs bn)	588.2	715.3	784.6
Price performance (%)		EV/EBITDA (X)	3.7	2.9	2.3
Absolute	3.8	ROE (%)	14.8	16.3	16.4
Rel. to BSE-30	(1.6)	Div. Yield (%)	3.5	4.0	4.7
1M	3M	12M			

QUICK NUMBERS

- Consolidated EPS (adjusted) of ₹25.3 in 9MFY12 versus ₹24.7 in FY2011
- Stock trades at 8.1X FY2013E EPS
- 16% potential upside to our target price

Weak results reflect lower crude realizations and lower oil sales volumes

OVL reported consolidated net income of ₹6.5 bn in 3QFY12 versus ₹12.8 bn in 2QFY12. The sharp sequential decline in net income reflects (1) lower crude price realizations, (2) exclusion of crude oil sales from producing fields in Syria, (3) likely lower oil sales volumes from other assets given lower oil production and (4) higher DD&A expenses. This was partially offset by (1) higher gas sales and (2) a weaker Rupee qoq. OVL reported consolidated net income of ₹33.7 bn in 9MFY12 (₹3.9/share of EPS attributed to ONGC) versus ₹14.2 bn in 9MFY11 (₹1.7/share of EPS for ONGC). The sharp increase in net income, despite a decline in oil and gas production yoy, reflects (1) higher crude oil prices and (2) a weaker Rupee.

ONGC (standalone) to benefit from likely increase in fuel prices

We expect ONGC to benefit from an imminent increase in fuel prices in the near term. The Government is likely to increase prices of regulated petroleum products after the State elections as current high under-recoveries are not sustainable. This will result in lower subsidy losses and likely lower subsidy burden on upstream companies. We have assumed moderate price increases in diesel, kerosene and LPG, which result in gross under-recoveries declining to ₹1.1 tn in FY2013E versus ₹1.4 tn in FY2012E. We estimate ONGC's net crude realizations will increase to US\$52/bbl in FY2013 from US\$43/bbl in FY2012 despite our conservative assumption of higher subsidy sharing for upstream companies at 50% of gross under-recoveries versus 45% in FY2012E.

Revise earnings; maintain BUY with a target price of ₹330 (₹350 previously)

We have revised our FY2012-14E EPS to ₹28.7, ₹35.2 and ₹39.8 respectively from ₹31.2, ₹37.5 and ₹42.9 previously to reflect (1) higher crude oil prices and a higher subsidy burden; the net effect is lower net crude price realization, (2) lower production from Sudan and nil crude oil production in Syria for OVL in FY2013-14E and (4) other minor changes. We maintain our BUY rating on ONGC with a revised target price of ₹330 (₹350 previously) based on 9X FY2013E EPS plus value of investments. We are conservatively ascribing low value to ONGC's overseas fields by effectively assuming low volumes in Sudan and nil volumes in Syria in perpetuity.

Key highlights of OVL's 3QFY12 results

Exhibit 1 gives OVL's 3QFY12 and 9MFY12 results and compares them on a yoy basis.

OVL interim results, March fiscal year-ends (₹ mn)

	qoq			yoy			yoy		
	3QFY12	3QFY11	% chg	9MFY12	9MFY11	(% chg.)	FY2012E	FY2011	(% chg.)
Key financials									
Net sales	49,961	46,315	7.9	170,340	130,820	30.2	215,999	184,111	17.3
Total expenditure	(26,493)	(20,620)	28.5	(82,740)	(70,330)	17.6	(103,190)	(87,166)	18.4
Increase/(decrease) in stock in trade	141	544		10	560		—	121	
Operating expenditure	(8,806)	(7,577)	16.2	(30,080)	(31,450)	(4.4)	(35,674)	(32,132)	11.0
Statutory levies	(17,829)	(13,586)	31.2	(52,670)	(39,440)	33.5	(67,516)	(55,156)	22.4
EBITDA	23,467	25,696	(8.7)	87,600	60,490	44.8	112,809	96,946	16.4
Other income	136	660	(79.4)	2,330	1,600	45.6	3,060	2,599	17.7
Interest	(614)	1,074	(157.2)	(1,830)	(410)	346.3	(2,482)	(2,716)	(8.6)
DD&A	(12,478)	(14,140)	(11.7)	(33,480)	(30,860)	8.5	(45,065)	(42,683)	5.6
Pretax profits	10,510	13,290	(20.9)	54,620	30,820	77.2	68,321	54,146	26.2
Prior-period adjustment	180	(150)		180	(150)		—	(4,729)	
Profit/(loss) from minority interest	364	(70)	(616.8)	(80)	(170)		—	(464)	
Tax	(4,562)	(6,386)	(28.6)	(21,060)	(16,340)		(26,721)	(22,048)	
Net income	6,492	6,684	(2.9)	33,660	14,160	137.7	41,600	26,905	54.6
EPS (Rs) (a)	0.8	0.8		3.9	1.7		4.9	3.1	
Tax rate (%)	43.4	48.1		38.6	53.0		39.1	40.7	
Volume data									
Crude production ('000 tons)	1,416	1,792	(21.0)	4,806	5,042	(4.7)	5,987	6,756	(11.4)
Gas production (mcm)	663	712	(6.9)	1,818	2,023	(10.1)	2,491	2,692	(7.5)
Dated Brent crude price (US\$/bbl)	109.3	86.8		113.0	80.6		113.0	86.7	
Exchange rate (Rs/US\$)	51.0	44.9		47.1	45.6		48.0	45.6	

Notes:

(a) We compute OVL's EPS attributed to ONGC's shares.

Source: Company, Kotak Institutional Equities

- **Lower revenues.** OVL's consolidated revenues declined to ₹50 bn in 3QFY12 against a run-rate of 1HFY12 (total revenues of ₹120.4 bn) led by (1) presumably lower crude price realizations and (2) exclusion of revenue generated from fields in Syria, which produced 0.117 mn tons of oil in the quarter. The qoq decline in crude price realization is surprising since crude prices were higher in Rupee terms. We do not have data of sales, broken down by oil and gas for the previous quarters, to draw any trends of OVL's relative prices to benchmark prices. However, a comparison of 9MFY12, FY2011 and FY2010 crude price realizations shows that the difference versus Dated Brent likely widened substantially in 3QFY12 (see Exhibit 2).

Discount to Dated Brent crude prices increased in 9MFY12

Implied crude price realizations for OVL, March fiscal year-ends, 2010-12YTD (US\$/bbl)

	9MFY12	FY2011	FY2010
Crude oil sales (Rs bn)	164	176	142
Crude oil production ('000 tons)	4,806	6,756	6,513
Exchange rate (Rs/US\$)	47.1	45.6	47.4
Crude price realizations	99.1	78.1	63.1
Dated Brent crude price	113.0	86.7	69.8
Discount to Dated Brent	13.9	8.6	6.7

Notes:

(a) We have computed crude price realizations on oil production volumes.

Source: Company, Kotak Institutional Equities estimates

- ▶ **Increase in DD&A expense.** The company reported higher DD&A expense of ₹12.5 bn in 3QFY12 against ₹21 bn in 1HFY12. OVL accounted a one-off loss of ₹2.35 bn from blocks in Nigeria.
- ▶ **Higher taxation.** OVL's effective tax rate increased to 43.4% in 3QFY12 from 37.4% in 1HFY12. The management attributed the increased tax rate to certain non-deductible expenses in 3QFY12.
- ▶ **Decline in oil production.** Oil production from OVL's fields declined to 1.533 mn tons in 3QFY12 from 1.658 mn tons in 2QFY12. The decline in oil production reflects lower production from assets in Sudan, Syria, Brazil and Russia. Oil production from OVL's fields declined to 4.923 mn tons (-2.4% yoy) in 9MFY12.
- ▶ **Increase in gas production.** Gas production from OVL's fields increased to 0.663 bcm in 3QFY12 from 0.514 bcm in 2QFY12, led by higher production from blocks in Vietnam and Sakhalin. Gas production from OVL's fields declined to 1.818 bcm (-10.1% yoy) in 9MFY12.

Key assumptions behind our earnings model

We discuss our key assumptions behind and changes to our earnings model below. Exhibit 3 gives the major assumptions behind our earnings model.

We assume moderate increase in net crude price realization in FY2013-14

Key assumptions, March fiscal year-ends, 2007-2014E

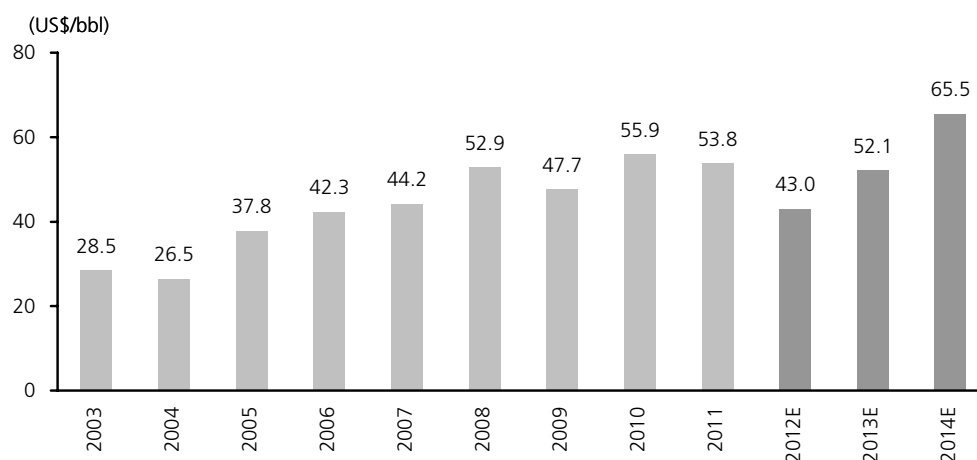
	2007	2008	2009	2010	2011	2012E	2013E	2014E
Macro assumptions								
Rs/US\$ rate	45.3	40.3	45.8	47.4	45.6	48.0	50.5	50.0
Subsidy share scheme loss (Rs bn)	170.2	220.0	282.3	115.5	248.9	499.0	416.7	284.0
Import tariff on crude oil (%)	5.1	5.2	0.9	0.4	5.2	1.2	—	—
Pricing and volumes assumptions								
Crude price								
Crude price, Bonny Light (US\$/bbl)	64.8	78.9	83.0	67.1	84.0	115.0	110.0	105.0
Net crude price, ONGC-India (US\$/bbl)	46.1	52.9	47.7	55.9	53.8	43.0	52.1	65.5
Natural gas price								
Ceiling natural gas price, India (Rs/cu m)	3.20	3.20	3.20	3.20	6.78	7.54	7.94	7.86
Ceiling natural gas price, India (US\$/mn BTU)	1.89	2.12	1.87	1.80	3.98	4.20	4.20	4.20
International operations								
Net natural gas price, OVL-Vietnam (Rs/cu m)	3.2	2.8	3.2	3.3	3.2	3.4	3.6	3.5
Net crude price, OVL-Sudan (Rs/ton)	9,384	10,142	12,136	10,173	12,223	18,826	21,771	20,583
Net crude price, OVL-Russia (Rs/ton)	14,985	16,231	19,433	16,253	19,573	26,280	30,414	28,744
Sales volumes—Domestic fields								
Crude oil - own fields (mn tons)	22.6	22.3	21.2	20.5	20.4	19.6	19.6	19.8
Crude oil - JV (mn tons)	1.8	1.8	1.7	1.8	2.5	3.2	4.1	4.3
Natural gas - own fields (bcm)	17.9	17.8	17.7	18.1	18.3	17.9	18.3	18.5
Natural gas - JV (bcm)	2.4	2.7	2.8	2.5	2.0	2.1	1.9	1.8
Sales volumes—Overseas fields								
Crude oil (mn tons)	5.8	6.8	6.6	6.5	6.8	6.0	5.9	6.1
Natural gas (bcm)	2.1	2.0	2.2	2.4	2.7	2.5	2.6	2.7
Total sales								
Crude oil (mn tons)	30.2	30.9	29.4	28.8	29.7	28.8	29.6	30.1
Natural gas (bcm)	22.5	22.4	22.8	23.0	23.0	22.4	22.7	23.0
Total sales (mn toe)	50.3	50.9	49.8	49.3	50.2	48.9	49.9	50.6
Total sales (mn boe)	367	372	363	360	367	357	364	370
Crude oil (%)	60	61	59	58	59	59	59	60
Natural gas (%)	40	39	41	42	41	41	41	40

Source: Company, Kotak Institutional Equities estimates

- **Subsidy amount.** We model subsidy amount for FY2012E, FY2013E and FY2014E at ₹499 bn, ₹417 bn and ₹284 bn respectively. We assume that the upstream companies will bear 45% of gross under-recoveries in FY2012 and 50% in FY2013-14 against ~38% in 9MFY12 and 38.7% in FY2011. We assume (1) moderate price increases in diesel, kerosene and LPG, and (2) modestly lower crude oil prices, which result in gross under-recoveries declining to ₹1.1 tn in FY2013E versus ₹1.4 tn in FY2012E. We model ONGC to bear 82.2% of the subsidy burden on upstream companies in FY2012 and 80-81% in FY2013-14 versus 82.1% in 9MFY12. We assume a modest decline in ONGC's share in FY2013-14 due to an increase in GAIL's share, given a lower proportion of under-recoveries on diesel in the overall under-recoveries over the next two years, led by lower crude prices and higher diesel prices.
- **Crude oil price assumption.** We have assumed higher crude oil prices in FY2013 and FY2014 at US\$110/bbl and US\$105/bbl respectively versus US\$105/bbl and US\$100/bbl previously. However, we would focus more on ONGC's net realized crude price for domestic crude and our long-term crude price assumption. Exhibit 4 gives ONGC's historical net realized price and our expectations for FY2012 (US\$43/bbl), FY2013 (US\$52/bbl) and FY2014 (US\$66/bbl). Our previous estimates for net crude oil price realization for domestic oil were US\$43/bbl, US\$55/bbl and US\$68/bbl.

We model lower net crude realization in FY2012

ONGC's net crude price realization, March fiscal year-ends, 2003-2014E (US\$/bbl)



Source: Company, Kotak Institutional Equities estimates

- **Natural gas price assumption.** We assume FY2012-14 natural gas price at US\$4.2/mn BTU.
- **INR-USD exchange rate.** We have assumed an exchange rate for FY2012, FY2013 and FY2014 of ₹48/US\$, ₹50.5/US\$ and ₹50/US\$ respectively.

Fair value of ONGC (₹/share)

FY2013E EPS	35
Less: income from investments valued separately	0
Adjusted EPS for FY2013E	35
P/E (X)	9
Valuation	314
Investments	14
Indian Oil Corp.	9
GAIL	3
Petronet LNG	2
Fair value	328

Source: Kotak Institutional Equities estimates

Consolidated profit model, balance sheet, cash model of ONGC, March fiscal year-ends, 2007-2014E (₹ mn)

	2007	2008	2009	2010	2011	2012E	2013E	2014E
Profit model (Rs mn)								
Net sales	966,542	1,091,644	1,200,176	1,070,520	1,232,000	1,459,809	1,717,123	1,792,263
EBITDA	357,906	408,423	419,955	445,845	493,944	544,408	662,820	720,094
Other income	45,378	53,565	50,721	50,409	42,048	43,745	52,441	64,532
Interest	394	(12,027)	(5,966)	(3,019)	(4,011)	(4,551)	(9,236)	(8,824)
Depreciation and depletion	(119,550)	(138,624)	(153,985)	(186,838)	(205,853)	(210,345)	(250,298)	(261,288)
Pretax profits	284,127	311,338	310,725	306,397	326,128	373,258	455,727	514,514
Tax	(88,986)	(102,908)	(111,333)	(95,580)	(110,328)	(123,739)	(136,585)	(157,037)
Deferred tax	(9,264)	(6,471)	(3,495)	(11,457)	(8,842)	(8,867)	(16,130)	(13,748)
Net profits	178,318	203,710	201,719	199,951	228,376	262,024	303,012	343,729
Adjusted net profits after minority interests	181,700	198,959	194,624	196,409	210,963	245,321	301,189	340,647
Adjusted EPS (Rs)	21.2	23.3	22.7	23.0	24.7	28.7	35.2	39.8
Balance sheet (Rs mn)								
Total equity	670,137	786,657	929,353	1,024,615	1,166,139	1,326,844	1,514,126	1,721,363
Deferred tax liability	80,976	87,227	92,076	102,669	111,328	120,195	136,325	150,073
Liability for abandonment cost	151,857	129,325	171,451	174,590	198,504	198,504	198,504	198,504
Total borrowings	21,826	22,039	73,633	61,274	48,691	134,691	128,247	106,247
Current liabilities	187,051	251,797	293,499	306,532	390,543	351,161	372,394	380,643
Total liabilities and equity	1,111,847	1,277,045	1,560,013	1,669,680	1,915,205	2,131,394	2,349,596	2,556,830
Cash	206,262	249,807	224,671	222,348	285,722	338,150	479,071	671,113
Current assets	192,652	257,384	309,514	306,619	331,746	335,778	369,250	376,108
Total fixed assets	643,219	695,227	871,287	986,293	1,168,907	1,328,637	1,372,446	1,380,780
Goodwill	27,686	22,847	111,108	92,455	86,998	86,998	86,998	86,998
Investments	36,888	45,041	36,926	53,551	33,871	33,871	33,871	33,871
Deferred expenditure	5,141	6,739	6,506	8,413	7,960	7,960	7,960	7,960
Total assets	1,111,848	1,277,045	1,560,013	1,669,680	1,915,205	2,131,394	2,349,596	2,556,830
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	252,772	284,517	274,321	302,059	343,505	335,258	403,390	431,584
Working capital changes	(4,990)	(24,929)	(109,306)	(29,693)	68,489	6,587	47,761	64,177
Capital expenditure	(135,049)	(166,427)	(208,137)	(207,849)	(267,547)	(267,842)	(180,497)	(146,972)
Investments	53,822	(7,348)	(92,159)	(11,021)	15,288	—	—	—
Other income	20,422	22,822	31,612	22,154	21,385	43,745	52,441	64,532
Free cash flow	186,976	108,636	(103,668)	75,650	181,120	117,748	323,095	413,320
Ratios (%)								
Debt/equity	3.3	2.8	7.9	6.0	4.2	10.2	8.5	6.2
Net debt/equity	(27.5)	(29.0)	(16.3)	(15.7)	(20.3)	(15.3)	(23.2)	(32.8)
RoAE	25.5	24.9	21.2	18.6	19.0	19.3	19.7	19.6
RoACE	21.8	22.1	18.4	16.2	15.6	16.1	17.7	17.8
Key assumptions								
Exchange rate (Rs/US\$)	45.3	40.3	45.8	47.4	45.6	48.0	50.5	50.0
Crude fob price (US\$/bbl)	64.8	78.9	83.0	67.1	84.0	115.0	110.0	105.0
Ceiling/actual natural gas price (Rs/'000 cm)	3,200	3,200	3,200	3,200	6,783	7,544	7,937	7,858
Subsidy loss (Rs bn)	170.2	220.0	282.3	115.5	248.9	499.0	416.7	284.0

Source: Company, Kotak Institutional Equities estimates

FEBRUARY 26, 2012

UPDATE

BSE-30: 17,924

Unsustainable rally. Steel equities rallied 23-45% over the past three months, against 1-20% in other markets, led by factors such as (1) the likelihood of resumption of iron-ore supplies from Karnataka; (2) a smart recovery in European steel prices and (3) signs of domestic recovery. It helps that soft raw material prices and a rebound in steel prices are likely to result in a strong March 2012 quarter. We recommend a cautious view of the sector due to (1) expensive valuations, with stocks trading at 6-8X FY2013E EBITDA; (2) a soft steel market in Asia and (3) overcapacity in the domestic market.

A rebound, helped by various factors

Steel equities rebounded by 23-45% over the past three months, led by factors such as (1) the likelihood of restart of mining operations in Karnataka, which would ease iron-ore sourcing constraints for JSW. The CEC report recommended the restart of 45 mining leases with 11 mn tonnes of production in the A category to restart operations; (2) increase in finished steel prices, especially in Europe, beneficial to Tata Steel; (3) flow through of lower raw material prices in the near term, which will benefit all players including SAIL; and (4) rebound in domestic steel consumption with growth numbers of 11.7%, 8.8% and 7.3% in November, December and January, respectively, are encouraging in our view.

A weak year likely for Asian steel

Steel demand is likely to slow in China, in our view. Prolonged monetary tightening and consequent impact on the property sector is likely moderate growth to 5% in 2012 from 10% over the past two years (monetary policy is being loosened though the quantum is unlikely to match stimulus post GFC). More important, with capacity utilization of only 76% and 30 mn tonnes of new capacity likely to come on stream, profitability may remain under pressure. To fill out capacity, production may make its way to export markets. Production in January was muted qoq at 52.1 mn tonnes (seasonality and slowdown). The pick-up in steel demand has been modest, at best, post the holiday season with steel production run rate at 1.7mn tonnes in the first 10 days of February. Long prices are at a yearly low and the rebound in flat prices has been modest.

A brighter domestic situation but overcapacity persists

Closer home, domestic steel data show signs of recovery in demand with January apparent steel consumption up 7.3% yoy; this comes on the back of an 11.7% yoy growth in November and 8.8% in December 2011. Demand recovery was led mainly by time-bound projects in infrastructure and real estate, which have started to push hard to procure material to use their annual budgets before the close of the fiscal year in March. However basic issues of overcapacity, especially in the flats segment, remain unaddressed and may be a headwind on pricing, especially in the flats segment. The industry will add 14-16 mn tonnes of capacity in the flats segment over the next two years, an increase of 65% from FY2011 levels.

Valuations getting into the expensive zone

Steel stocks have traded at a historical P/B band of 0.5-2X and EV/ EBITDA range of 5-7X. Stocks are trading at 6-8X FY2013E EBITDA, in the expensive zone. We retain our SELL rating on JSW Steel (6.4X FY2013E EBITDA): the stock implies EBITDA/tonne of US\$146, which is unlikely, in our view. SAIL trades at consensus FY2013E EBITDA of 8.2X. Tata Steel delivered a strong performance of 41.8% YTD. The recent rally captures some of the upside of a turnaround in TSE and commissioning of brown-field expansion at Jamshedpur. Tata Steel can deliver upsides, but only with a focus on FY2014E financials. We retain our ADD rating on the stock.

Exhibit 1: Stock performances of domestic metal companies

	Performance (%)				
	1M	3M	6M	1 Year	CYTD
Metals					
JSW Steel	25.1	43.6	21.2	(5.8)	60.9
Sesa Goa	19.7	28.7	3.8	(19.5)	38.7
Sterlite Industries	6.7	14.6	(5.4)	(27.3)	32.2
Tata Steel	10.0	23.3	4.6	(21.1)	41.8
Hindalco Industries	3.0	25.4	1.0	(27.9)	27.8
Jindal Steel and Power	11.4	22.5	24.3	(3.0)	35.1
National Aluminium Co.	12.3	22.0	(6.7)	(42.1)	21.0
Hindustan Zinc	5.2	21.8	10.2	6.5	13.2

Source: Bloomberg, Kotak Institutional Equities estimates

Exhibit 2: Stock performances of global metal companies

	Performance (%)			
	1M	3M	6M	CYTD
Ferrous				
CSN	(4.0)	23.3	20.5	17.4
Thyssenkrupp AG	(6.7)	20.4	(4.7)	15.7
Hyundai Steel	0.5	21.0	11.1	14.9
Nucor Corp	(0.6)	23.3	27.6	10.8
Angang Steel	1.2	(1.2)	(13.8)	8.6
Baoshan Iron & Steel	(0.6)	3.2	(4.6)	6.6
US Steel	(4.2)	26.3	2.1	6.3
Non-ferrous				
Vedanta Resources Plc	19.8	61.6	20.4	47.8
Aluminum Corp Of China Ltd-H	1.5	19.8	(20.5)	23.7
Jiangxi Copper Co Ltd-A	5.1	8.0	(18.1)	24.4
Xstrata Plc	7.6	33.7	24.0	24.2
Alcoa Inc	0.7	16.5	(12.1)	20.6
Freeport-Mcmoran Copper	(5.6)	29.8	(1.4)	19.4
Grupo Mexico Sab De Cv-Ser B	(3.4)	18.3	2.4	9.7
Mining				
Rio Tinto Ltd	(0.4)	9.9	(1.5)	12.9
CVRD	3.0	6.3	3.0	11.8
BHP BILLITON (Australia)	(2.4)	7.3	(5.4)	6.2

Source: Bloomberg, Kotak Institutional Equities estimates

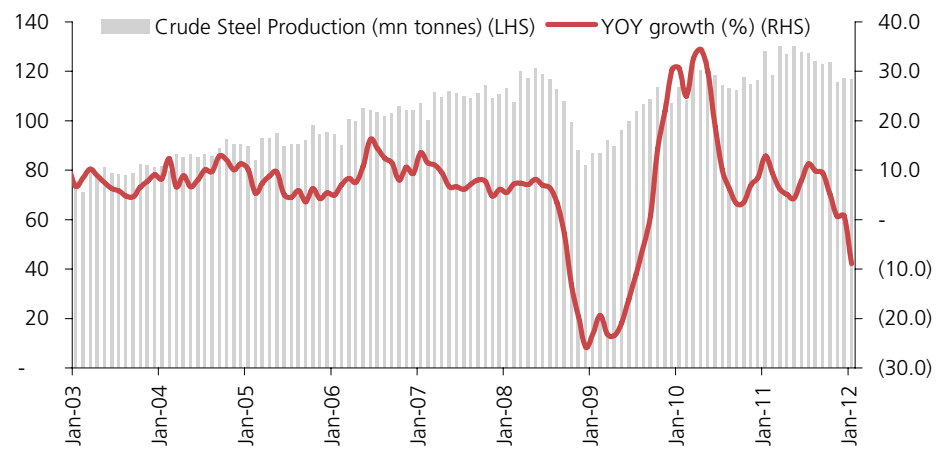
Exhibit 3: China FOB HRC price trend over the last year (US\$/tonne)



Source: Bloomberg, Kotak Institutional Equities estimates

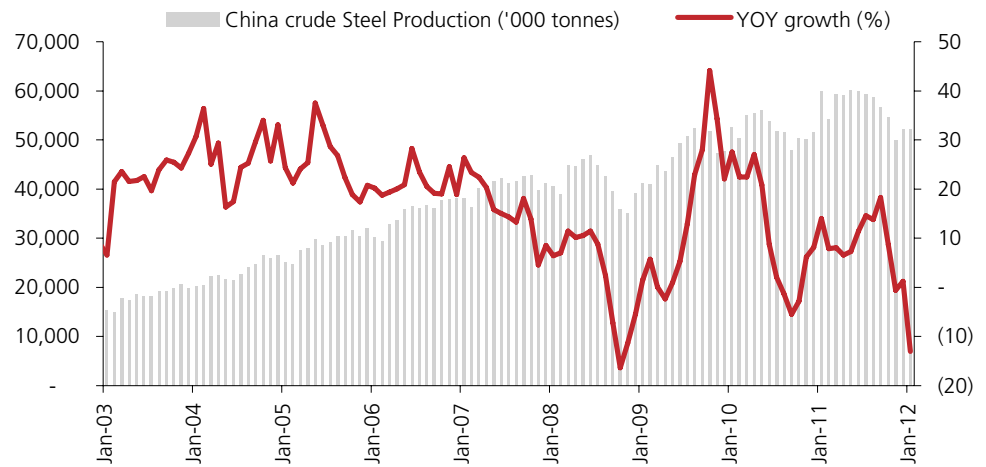
Exhibit 4: Global crude steel production down 8% yoy in January 2012

Monthly crude steel production, December year-ends, (mn tonnes)



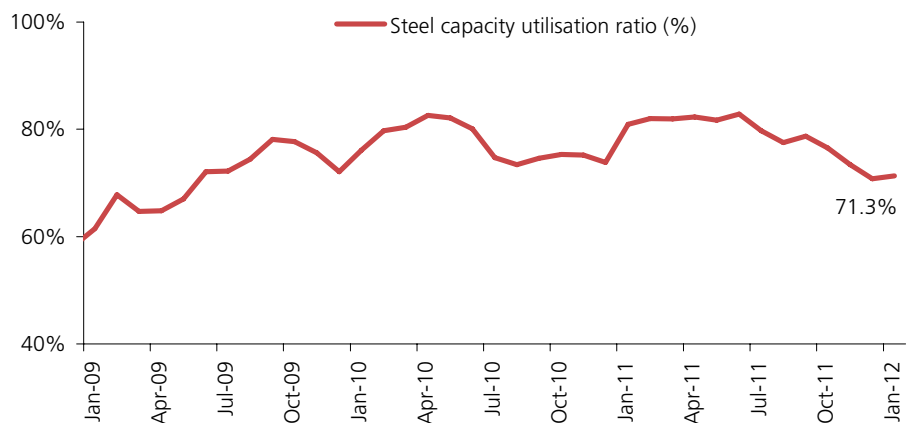
Source: WorldSteel, Kotak Institutional Equities estimates

Exhibit 5: China crude steel production down 13% yoy in January 2012
Monthly crude steel production, December year-ends, ('000 tonnes)



Source: WorldSteel, Kotak Institutional Equities estimates

Exhibit 6: Steel capacity utilization at 71.3% in January 2012
World steel capacity utilization details, December year-ends, 2008-11 (%)



Source: WorldSteel, Kotak Institutional Equities estimates

Exhibit 7: Consumption growth at 7.3% yoy in January 2012
Domestic steel production-consumption trends, March fiscal year-ends, 2011-12E (mn tonnes)

	Jan-12	Jan-11	Change (%)
Finished steel production	6.19	6.10	1.5
Imports	0.78	0.26	197.3
Exports	0.40	0.30	34.3
Availability	6.56	6.06	8.4
Less: variation in stock	0.05	0.29	NM
Apparent consumption	6.52	5.77	12.9
Less: double counting	0.57	0.22	154.3
Real finished steel consumption	5.95	5.55	7.3

Source: JPC, Kotak Institutional Equities estimates

Exhibit 8: Consumption growth at 4.7% in 10MFY12
Domestic steel production-consumption trends, March fiscal year-ends, 2011-12E (mn tonnes)

	Apr-Jan '11	Apr-Jan '10	Change (%)
Finished steel production	58.3	54.5	6.9
Imports	5.6	5.6	(0.6)
Exports	3.4	2.8	23.9
Availability	60.4	57.4	5.3
Less: variation in stock	(0.1)	0.2	NM
Apparent consumption	60.5	57.2	5.8
Less: double counting	3.7	2.9	25.5
Real finished steel consumption	56.8	54.2	4.7

Source: JPC, Kotak Institutional Equities estimates

Exhibit 9: Consolidated leverage details (X)

	2012E	2013E	2014E
Tata Steel			
EBITDA (Rs mn)	118,585	159,512	193,084
Shareholders funds	402,478	445,756	510,383
Net debt	475,012	500,406	500,810
Net debt/ EBITDA (X)	4.0	3.1	2.6
Net debt/ Equity (X)	1.2	1.1	1.0
JSW Steel			
EBITDA (Rs mn)	60,380	62,155	67,840
Shareholders funds	169,628	184,224	202,677
Net debt	173,073	212,659	222,558
Net debt/ EBITDA (X)	2.9	3.4	3.3
Net debt/ Equity (X)	1.0	1.2	1.1
Jindal Steel and Power			
EBITDA (Rs mn)	69,743	77,050	101,093
Shareholders funds	176,414	217,811	270,157
Net debt	164,695	177,097	149,187
Net debt/ EBITDA (X)	2.4	2.3	1.5
Net debt/ Equity (X)	0.9	0.8	0.6
SAIL			
EBITDA (Rs mn)	58,797	79,561	106,953
Shareholders funds	401,168	435,893	462,106
Net debt	119,681	212,977	319,645
Net debt/ EBITDA (X)	2.0	2.7	3.0
Net debt/ Equity (X)	0.3	0.5	0.7

Source: Kotak Institutional Equities estimates

Exhibit 10: Metals comparative valuation summary, March fiscal year ends, 2011-14E

Company	Market cap. (US\$ mn)	CMP (Rs) 24-Feb	Target price (Rs)	Rating	EPS (Rs)				P/E (X)			
					2011	2012E	2013E	2014E	2011	2012E	2013E	2014E
Jindal Steel and Power	11,660	612	530	REDUCE	40.2	40.9	46.1	57.8	15.2	15.0	13.3	10.6
JSW Steel	3,758	816	680	SELL	78.6	32.3	77.7	94.8	10.4	25.2	10.5	8.6
Tata Steel	9,413	476	525	ADD	75.3	27.8	58.4	80.4	NM	17.1	8.1	5.9

Company	EV/EBITDA (X)				Price/BV (X)				RoE (%)			
	2011	2012E	2013E	2014E	2011	2012E	2013E	2014E	2011	2012E	2013E	2014E
Jindal Steel and Power	11.1	10.6	9.8	7.2	4.1	3.2	2.6	2.6	30.6	24.0	21.7	22.0
JSW Steel	7.0	5.9	6.4	6.0	1.1	1.1	1.0	1.0	13.6	4.4	9.9	11.1
Tata Steel	5.9	7.9	6.0	5.0	1.3	1.1	1.0	1.0	24.7	7.1	13.4	16.3

Note:

1. EV/EBITDA for Sterlite Industries is proportionate EV/EBITDA

Source: Bloomberg, Company, Kotak Institutional Equities estimates

FEBRUARY 24, 2012

UPDATE

BSE-30: 18,079

Bengaluru: commercial today, residential tomorrow. Bengaluru absorbed 11.7 mn sq ft of commercial space in CY2011, 33% of the overall absorption of India's top seven cities. Strong demand for commercial space augurs well for residential volumes in coming years. In CY2011 Bengaluru created 0.12 mn (assuming 100 sq ft of space per person) future customers for residential space, who can potentially consume 70 mn sq ft (1,200 sq ft per person assuming 50% will buy) of residential space in coming years. CY2011 residential absorption of 49 mn sq ft was more than any Indian city. BUY Sobha with a target price of Rs360.

	Absolute price performance, %					Relative price performance, %				
	1-Day	1-mo	3-mo	6-mo	1-Year	1-Day	1-mo	3-mo	6-mo	1-Year
DLF	(3.5)	7.2	11.3	28.8	6.7	(2.7)	3.1	(2.5)	13.9	5.4
HDIL	(4.2)	35.2	65.7	12.5	(28.6)	(3.3)	30.0	45.1	(0.5)	(29.5)
Mahindra Life Space Developer	(2.8)	16.4	21.7	8.5	(3.4)	(2.0)	11.9	6.6	(4.0)	(4.6)
Sobha Developers	(3.8)	4.8	15.7	28.2	8.4	(3.0)	0.7	1.3	13.4	7.0
Puravankara Projects	(3.3)	12.4	8.8	11.9	(29.5)	(2.5)	8.1	(4.7)	(1.1)	(30.4)
Phoenix Mills	(1.2)	9.4	(2.4)	(2.7)	10.1	(0.3)	5.2	(14.5)	(14.0)	8.7
Indiabulls Real Estate	2.1	5.1	17.9	(3.3)	(28.6)	3.0	1.0	3.3	(14.5)	(29.5)
Oberoi Realty	(5.5)	6.2	21.0	21.4	3.7	(4.7)	2.1	6.0	7.3	2.4
Unitech	0.9	22.0	40.5	29.0	(2.6)	1.8	17.3	23.0	14.1	(3.8)

Bengaluru commercial absorption: highest among top seven cities in CY2011

Bengaluru absorbed 11.7 mn sq. ft (+15% yoy) of commercial space in CY2011, 33% of the total absorption in the top seven cities in India. In contrast, NCR and Mumbai were relatively muted at 6.2 (+8% yoy) mn sq. ft and 4.1 mn sq. ft. (-6% yoy) respectively. Bengaluru outperformed as it is an IT hub and IT/ITES absorbed 35% of the commercial space across the top seven Indian cities.

Demand to outstrip upcoming supply in Bengaluru: low vacancies; rising rentals

Bengaluru is likely to add 22-23 mn sq. ft of commercial space over CY2012-14, implying demand will outpace supply, leading to lower vacancies and rising rentals. Vacancy (Bengaluru) in 4QCY11 at 11%, already among the lowest in India, is set to fall further to 8% in CY2013E, as per JLL. Rentals should maintain an upward trend over CY2012E-14E. As per JLL, Bengaluru commercial rentals will increase by 5% and 7% yoy in CY2012E and CY2013E, respectively. As per NASSCOM, IT headcount is set to grow by 10% in FY2013, which augurs well for commercial demand by IT/ITES, especially in Bengaluru.

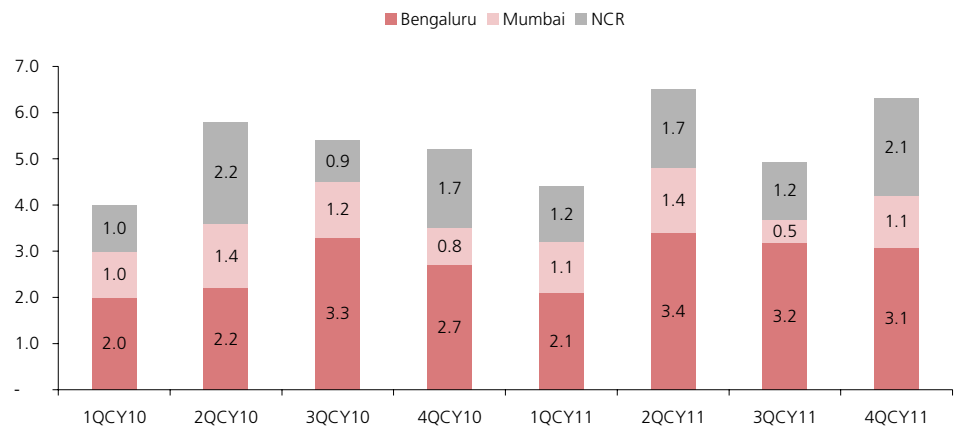
Commercial absorption is a lead indicator of residential sales; Bengaluru to remain strong

Strong demand for commercial space augurs well for residential volumes in the coming years. In CY2011, Bengaluru created 0.12 mn (assuming 100 sq ft of space per person) future customers for residential space, who can potentially consume 70 mn sq ft (1,200 sq ft per person assuming 50% will buy) of residential space. This is equal to 1.5 years of demand, going by the current absorption rate of 49 mn sq. ft in CY2011. Residential sales have been steady in Bengaluru at 4-5mn sq ft/month in CY2011, which is 20% of total sales in India's top seven cities.

Strong Bengaluru market: Prestige and Sobha stand to benefit

Prestige, due to its large commercial portfolio, and Sobha, due to its dominance in the residential market, would be beneficiaries of this trend. BUY Sobha with a target price of Rs360.

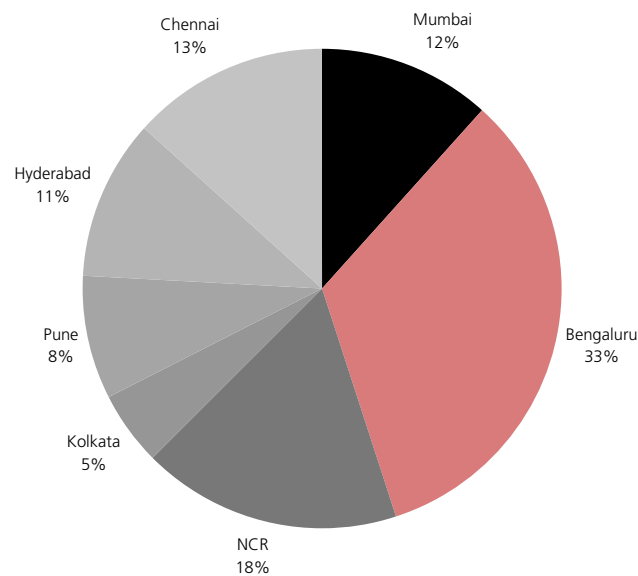
Bengaluru absorbed 11.7 mn sq ft (+15% yoy) of commercial space in CY2011; absorption in Mumbai was flat and, in the NCR, it grew 8% yoy
Commercial area absorbed (mn sq ft)



Source: JLL - State of the Nation 4Q11, Kotak Institutional Equities

.... and contributed 33% to overall commercial space absorbed in top seven cities (highest among peers)

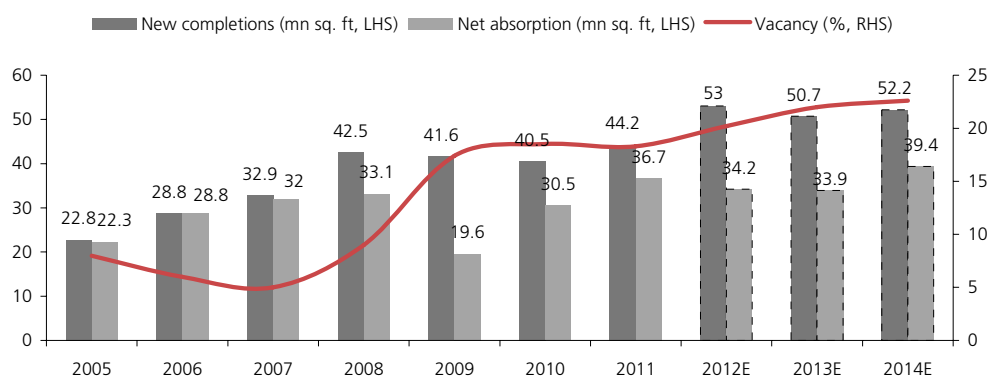
Contribution to commercial absorption in CY2011 (%)



Source: Cushman and Wakefield, Kotak Institutional Equities

Net absorption of commercial space increased 20% yoy (top seven cities) in CY2011

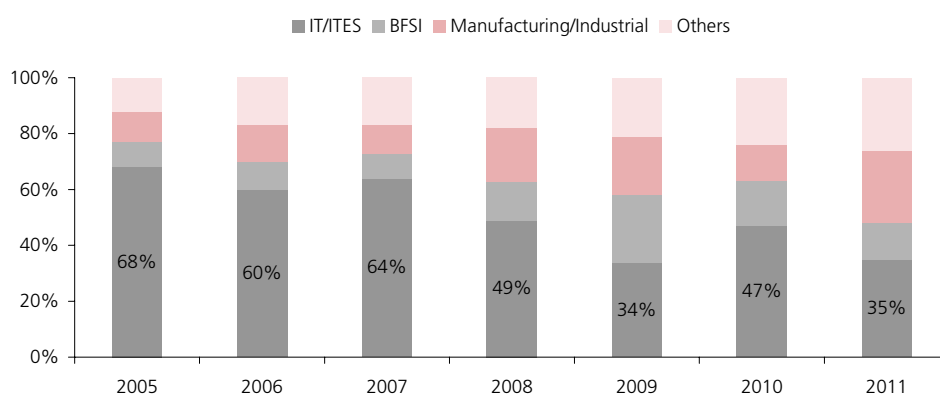
New completions, net absorption and vacancy, December year-ends, 2005-14E



Source: JLL - State of the Nation 4Q11, Kotak Institutional Equities

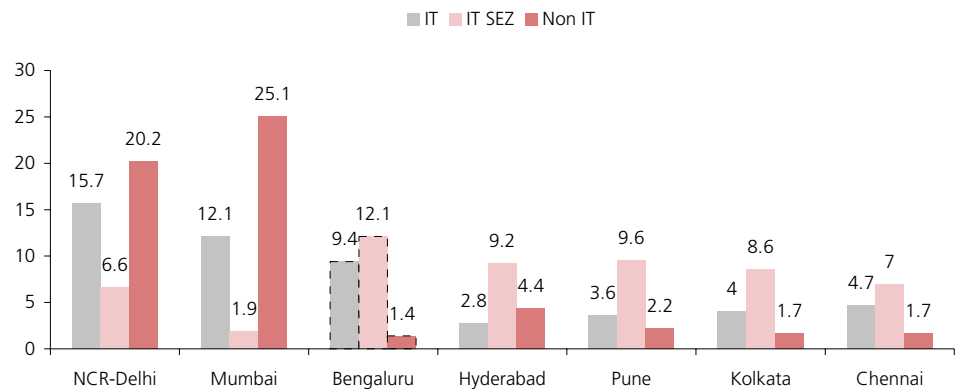
IT/ITES account for most of the absorption; Bengaluru benefits from being an IT hub

Sectoral demand break-up for commercial space (%)



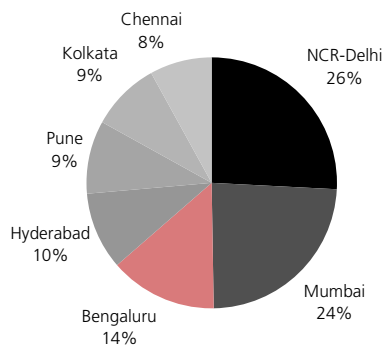
Source: JLL - State of the Nation 4Q11, Kotak Institutional Equities

Bengaluru will add 22-23 mn sq. ft of commercial space over 1QCY12E-2014E; lower than current absorption rate will lead to lower vacancies and higher rentals
 Forecast completions 1QCY12-2014 (mn sq ft)



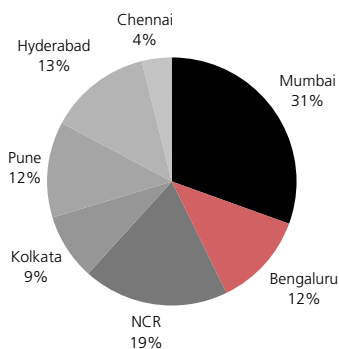
Source: JLL - State of the Nation 4Q11, Kotak Institutional Equities

.... which is a small percentage of the total supply coming up in the top seven Indian cities
 Proportion of commercial supply coming up in 1QCY12E-2014E (%)



Source: Cushman and Wakefield, Kotak Institutional Equities

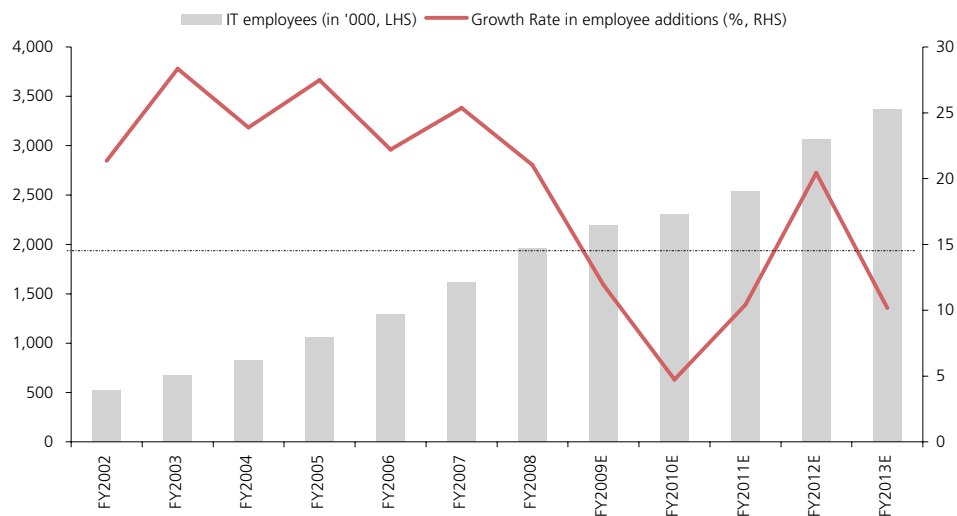
Supply of commercial space was lower in Bengaluru (with respect to absorption rate) versus other cities
 Proportion of completions in CY2011 (%)



Source: Cushman and Wakefield, Kotak Institutional Equities

As per NASSCOM, IT headcount will grow by 10% in FY2013E

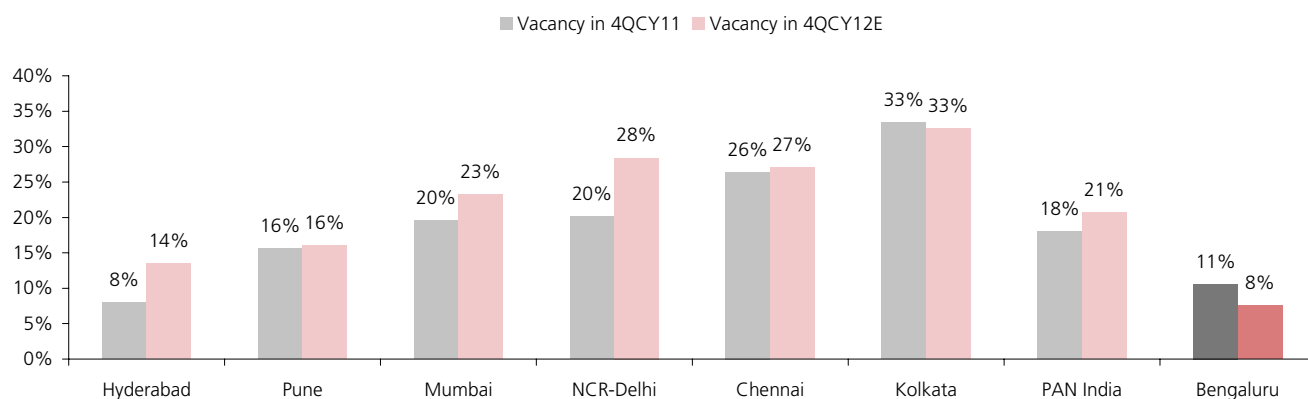
IT employees and growth rate in employee additions, March fiscal year-ends, 2002-2013E



Source: NASSCOM, Kotak Institutional Equities estimates

Upcoming supply in Bengaluru will be lower than absorption; vacancy levels will head lower in CY2012E

Vacancy rates in the top seven Indian cities (%)



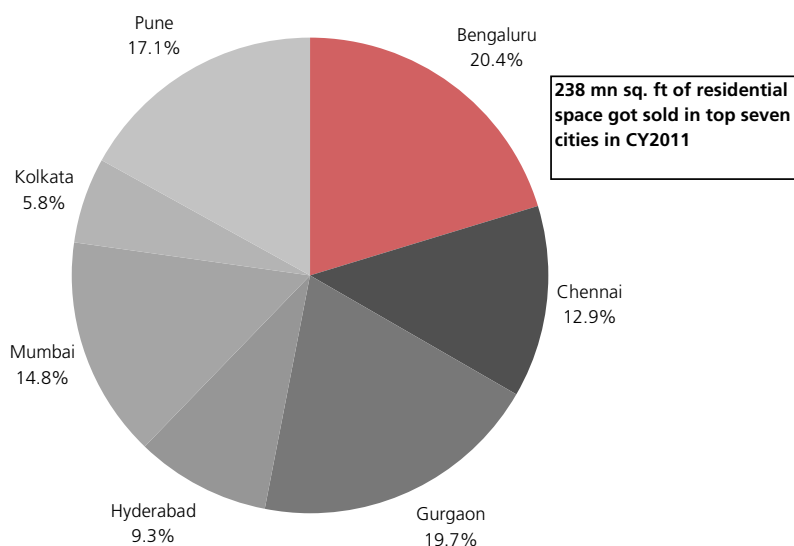
Source: JLL - State of the Nation 4Q11, Kotak Institutional Equities

Lower vacancy rates make for higher rentals; Bengaluru is projected to be the strongest market in terms of growth in rentals
Growth in rentals for commercial space, yoy (%)

	1HCY08	2HCY08	1HCY09	2HCY09	1HCY10	2HCY10	1HCY11	2HCY11	CY2012E	CY2013E	CY2014E
Bengaluru	1.7%	-1.4%	-5.0%	-2.2%	0.0%	1.5%	3.4%	1.4%	5.0%	7.3%	9.0%
Mumbai City	2.2%	-4.0%	-16.1%	-3.2%	-1.3%	1.7%	0.1%	0.2%	2.6%	4.2%	5.1%
Mumbai Suburbs	3.3%	-6.3%	-12.8%	-5.0%	0.0%	0.7%	3.5%	0.7%	3.9%	5.0%	6.0%
Hyderabad	3.2%	-2.4%	-10.5%	-2.9%	0.0%	0.0%	1.5%	1.2%	4.3%	6.3%	7.2%
Kolkata	4.8%	-2.7%	-10.3%	-2.8%	0.0%	0.0%	1.4%	2.0%	2.6%	4.0%	5.3%
Gurgaon	5.0%	-5.6%	-12.5%	-6.6%	-0.1%	0.4%	2.7%	2.8%	5.0%	5.7%	6.5%

Source: JLL - State of the Nation 4Q11, Kotak Institutional Equities

Strong commercial demand is a lead indicator of residential demand; Bengaluru market is best placed to sustain/grow sales
Residential sales break-up in CY2011



Source: Propequity, Kotak Institutional Equities

Bengaluru-based companies have been able to maintain steady sales in the face of a declining trend in other markets. DLF's sales look high due to plot sales and in 3QFY12 the entire 3.3 mn sq. ft of residential sales were accounted for by plots. The trend in group housing sales has been declining.

Bengaluru-based companies have maintained steady sales versus a declining trend in other markets
Sales trend, 1QFY11-3QFY12, (mn sq. ft)

								9M		
	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	FY2012	FY2011	% change
PAN India										
DLF	1.9	2.1	2.5	3.8	2.3	1.3	3.3	6.8	6.5	6%
UT	3.0	2.0	2.2	2.0	1.9	1.8	1.7	5.4	7.2	-25%
Bangalore based										
Sobha	0.7	0.7	0.7	0.7	0.7	0.9	0.8	2.4	2.1	14%
Puravankara	0.3	1.0	0.7	0.8	0.7	0.6	0.5	1.8	2.1	-15%
Prestige	0.2	0.5	0.3	0.2	0.4	2.0	0.9	3.3	1.0	230%
Mumbai based										
Oberoi			0.2	0.3	0.2	0.2	0.1	0.5	NA	NA
IBREL	0.7	1.8	2.3	1.1	0.8	1.2	0.9	2.9	4.8	-39%
MLIFE	0.2	0.5	0.5	0.3	0.3	0.1	0.6	1.1	1.2	-10%

Notes:

(a) Sales in MLIFE in 3QFY12 is mainly from its Gurgaon project

Source: Company, Kotak Institutional Equities

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	24-Feb-12		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target		ADVT-3mo	
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	(Rs)	(%)		(US\$ mn)
Automobiles																														
Apollo Tyres	76	BUY	38,185	780	504	8.7	7.4	10.0	(26.1)	(15.4)	34.6	8.7	10.2	7.6	6.2	5.6	4.4	1.4	1.2	1.1	0.7	0.6	0.8	20.1	14.4	16.8	90	18.8	3.7	
Ashok Leyland	28	ADD	73,967	1,511	2,661	2.4	1.7	2.8	68.1	(26.8)	58.6	11.7	16.0	10.1	8.0	9.2	6.9	1.6	1.6	1.5	3.6	3.6	3.6	21.8	14.6	21.5	33	18.7	3.6	
Bajaj Auto	1,763	SELL	510,183	10,425	289	90.4	106.6	122.3	43.9	18.0	14.7	19.5	16.5	14.4	14.9	12.4	11.0	10.3	7.5	5.7	2.3	2.3	2.3	84.9	52.5	44.7	1,715	(2.7)	21.6	
Bharat Forge	297	REDUCE	70,526	1,441	237	12.5	17.5	20.0	1,402.1	39.2	14.6	23.7	17.0	14.8	11.0	8.7	7.6	3.1	2.7	2.3	1.2	—	—	8.2	14.6	15.6	315	6.0	2.5	
Exide Industries	135	SELL	114,708	2,344	850	7.5	5.1	6.5	18.0	(32.1)	28.4	18.1	26.7	20.8	13.0	17.3	13.8	4.2	3.8	3.3	1.1	0.9	0.9	25.5	14.9	17.0	105	(22.2)	3.9	
Hero Motocorp	2,073	SELL	413,958	8,458	200	99.3	118.0	131.8	(11.1)	18.8	11.7	20.9	17.6	15.7	13.8	12.7	11.2	8.9	7.7	6.5	5.1	3.4	3.4	56.5	66.1	59.5	1,850	(10.8)	24.5	
Mahindra & Mahindra	730	BUY	448,189	9,158	614	41.7	42.8	46.4	22.7	2.5	8.5	17.5	17.1	15.7	13.4	12.9	11.5	4.2	3.5	3.0	1.6	1.3	1.3	27.3	22.5	20.8	835	14.4	38.4	
Maruti Suzuki	1,285	SELL	371,309	7,587	289	79.2	52.3	89.9	(8.4)	(33.9)	71.7	16.2	24.6	14.3	10.3	16.8	8.8	2.6	2.4	2.1	0.6	0.6	0.6	17.6	10.3	15.8	1,250	(2.7)	19.0	
Tata Motors	265	REDUCE	882,621	18,035	3,325	27.2	34.3	38.7	737.9	26.2	12.8	9.8	7.7	6.9	6.5	5.1	4.3	4.5	3.0	2.2	1.4	1.1	1.1	66.1	46.8	37.0	285	7.4	78.6	
Automobiles	Cautious		2,923,646	59,739					82.8	10.7	17.8	14.3	12.9	10.9	9.4	8.2	6.8	4.4	3.5	2.8	2.0	1.6	1.6	31.1	27.5	25.8				
Banks/Financial Institutions																														
Andhra Bank	124	BUY	69,108	1,412	560	22.6	23.6	23.0	5.0	4.4	(2.8)	5.5	5.2	5.4	—	—	—	1.1	0.9	0.8	4.5	4.6	4.5	23.2	19.0	16.3	150	21.5	1.5	
Axis Bank	1,183	BUY	502,171	10,261	424	82.5	95.5	102.8	33.0	15.7	7.6	14.3	12.4	11.5	—	—	—	2.6	2.3	1.9	1.1	1.4	1.5	19.3	19.6	18.2	1,350	14.1	59.2	
Bajaj Finserv	580	ADD	83,871	1,714	145	78.2	63.2	62.9	102.3	(19.2)	(0.4)	7.4	9.2	9.2	—	—	—	2.4	1.7	1.4	2.2	2.2	2.2	37.2	21.9	16.8	650	12.1	1.3	
Bank of Baroda	796	BUY	312,478	6,385	393	108.0	115.6	121.2	29.1	7.1	4.9	7.4	6.9	6.6	—	—	—	1.6	1.4	1.2	2.4	2.6	2.7	25.9	21.5	19.2	1,050	32.0	9.4	
Bank of India	373	BUY	203,894	4,166	547	45.5	46.7	62.0	37.4	2.7	32.8	8.2	8.0	6.0	—	—	—	1.3	1.1	1.0	2.2	2.2	3.0	17.3	15.1	17.6	450	20.8	6.0	
Canara Bank	503	BUY	222,895	4,554	443	90.9	74.8	93.2	23.3	(17.7)	24.6	5.5	6.7	5.4	—	—	—	1.2	1.1	0.9	2.2	2.4	2.4	23.2	15.5	16.9	550	9.3	8.3	
Corporation Bank	477	BUY	70,695	1,445	148	95.4	107.5	107.5	16.3	12.7	(0.0)	5.0	4.4	4.4	—	—	—	1.0	0.8	0.7	4.2	4.7	4.7	21.9	20.6	17.8	600	25.7	0.8	
Federal Bank	409	BUY	69,907	1,428	171	34.3	42.4	49.7	26.3	23.5	17.3	11.9	9.6	8.2	—	—	—	1.4	1.3	1.2	2.1	2.6	3.0	12.0	13.5	14.3	500	22.3	4.2	
HDFC	676	REDUCE	992,211	20,274	1,467	24.1	27.7	31.8	22.4	14.9	14.7	28.1	24.4	21.3	—	—	—	5.7	5.1	3.9	1.3	1.5	1.8	21.7	22.0	21.4	725	7.2	70.0	
HDFC Bank	525	ADD	1,220,403	24,937	2,326	16.9	22.1	28.1	31.0	30.9	27.2	31.1	23.7	18.7	—	—	—	4.8	4.2	3.5	0.6	0.8	1.0	16.7	18.8	20.5	560	6.7	34.4	
ICICI Bank	932	BUY	1,073,093	21,927	1,152	44.7	53.2	56.7	23.9	19.0	6.5	20.8	17.5	16.4	—	—	—	1.9	1.8	1.7	1.5	1.7	1.8	9.7	10.7	10.7	1,100	18.1	111.6	
IDFC	141	ADD	212,421	4,340	1,509	8.8	10.6	12.8	4.6	20.6	20.8	16.1	13.3	11.0	—	—	—	2.0	1.7	1.5	1.5	1.5	1.8	14.7	13.9	14.6	155	10.1	25.3	
India Infoline	71	SELL	20,306	415	286	7.4	4.0	4.3	(9.3)	(45.5)	5.7	9.6	17.6	16.7	—	—	—	1.2	1.2	1.0	5.0	1.2	1.2	12.9	6.7	7.3	70	(1.3)	1.1	
Indian Bank	238	BUY	102,070	2,086	430	38.8	41.9	46.6	10.5	8.0	11.2	6.1	5.7	5.1	—	—	—	1.3	1.1	0.9	3.2	3.3	3.7	22.3	20.4	19.4	300	26.3	2.0	
Indian Overseas Bank	102	BUY	62,927	1,286	619	17.3	14.4	27.8	33.6	(17.2)	93.6	5.9	7.1	3.7	—	—	—	0.8	0.7	0.6	4.9	1.9	3.8	12.7	9.1	15.9	140	37.7	1.8	
IndusInd Bank	302	ADD	140,489	2,871	466	12.4	16.8	17.9	45.2	35.2	7.1	24.3	18.0	16.8	—	—	—	3.5	3.0	2.6	0.7	0.9	1.0	20.8	19.3	17.4	330	9.5	4.1	
J&K Bank	814	ADD	39,473	807	48	126.9	155.4	160.6	20.1	22.5	3.4	6.4	5.2	5.1	—	—	—	1.1	1.0	0.9	3.2	3.9	4.0	19.0	20.0	17.9	950	16.7	0.5	
LIC Housing Finance	247	ADD	117,455	2,400	475	20.5	19.3	29.5	47.2	(5.8)	52.7	12.1	12.8	8.4	—	—	—	3.0	2.5	2.2	1.8	1.7	2.6	25.8	20.3	26.0	270	9.2	13.9	
Mahindra & Mahindra Financial	728	BUY	74,544	1,523	102	45.2	55.6	71.9	26.1	23.0	29.3	16.1	13.1	10.1	—	—	—	3.0	2.7	2.3	1.4	1.7	2.2	22.0	21.1	23.1	825	13.4	1.6	
Muthoot Finance	162	BUY	60,039	1,227	371	15.7	23.1	27.5	108.4	46.4	19.3	10.3	7.0	5.9	—	—	—	4.5	1.9	1.5	—	—	—	51.5	38.7	28.4	240	48.5	—	
Oriental Bank of Commerce	281	BUY	81,854	1,673	292	51.5	43.0	57.9	13.7	(16.5)	34.7	5.4	6.5	4.8	—	—	—	0.8	0.7	0.7	3.7	3.1	4.2	15.5	10.9	13.4	370	31.9	3.0	
PFC	192	BUY	252,972	5,169	1,320	22.8	22.7	29.3	11.1	(0.5)	29.0	8.4	8.4	6.5	—	—	—	1.7	1.3	1.1	2.1	2.4	3.1	18.4	16.7	17.4	225	17.4	15.7	
Punjab National Bank	965	BUY	305,787	6,248	317	140.0	152.0	166.5	13.0	8.6	9.5	6.9	6.3	5.8	—	—	—	1.5	1.3	1.1	2.3	3.2	3.5	24.4	22.0	20.5	1,270	31.6	9.4	
Reliance Capital	410	ADD	100,876	2,061	246	9.3	8.4	22.6	(25.3)	(10.2)	170.0	44.0	49.0	18.2	—	—	—	1.4	1.4	1.4	0.9	0.8	2.2	3.3	2.9	7.6	470	14.7	30.2	
Rural Electrification Corp.	205	BUY	202,316	4,134	987	26.0	28.7	33.7	28.1	10.5	17.2	7.9	7.1	6.1	—	—	—	1.6	1.4	1.2	3.7	4.0	4.7	21.5	20.7	21.1	230	12.2	11.8	
SKS Microfinance	128	RS	9,424	193	74	15.7	(89.1)	(27.5)	(41.8)	(667.7)	(69.1)	8.2	(1.4)	(4.6)	—	—	—	0.5	0.8	1.0	—	—	—	8.3	(44.7)	(19.3)	—	—	2.1	
State Bank of India	2,206	BUY	1,483,467	30,312	673	130.2	179.2	219.6	(9.9)	37.7	22.6	16.9	12.3	10.0	—	—	—	2.3	1.8	1.6	1.5	1.6	1.7	12.6	16.4	16.8	2,450	11.1	149.3	
Union Bank	242	BUY	129,523	2,647	536	39.5	31.6	44.0	(3.9)	(19.8)	39.0	6.1	7.6	5.5	—	—	—	1.2	1.0	0.9	3.2	2.6	3.7	20.9	14.4	17.5	340	40.7	6.1	
Yes Bank	340	ADD	117,943	2,410	347	20.9	27.1	31.8	39.6	29.3	17.3	16.2	12.5	10.7	—	—	—	3.1	2.6	2.1	0.7	1.0	1.1	21.1	22.4	21.7	375	10.4	19.1	
Banks/Financial Institutions	Attractive		8,461,972	172,905					20.0	13.1	20.1	13.8	12.2	10.2	—	—	—	2.2	1.9	1.7	1.6	1.8	2.0	16.0	15.5	16.2				
Cement																														
ACC	1,268	SELL	238,194	4,867	188	53.0	57.1	69.9	(36.3)	7.8	22.4	23.9	22.2	18.1	14.2	13.4	9.6	3.5	3.1	2.8	2.8	1.8	1.8	17.5	16.1	17.6	1,030	(18.8)	9.6	
Ambuja Cements	160	SELL	244,113	4,988	1,522	7.9	7.8	10.0	(1.5)	(1.2)	28.6	20.3	20.6	16.0	12.5	11.7	8.7	3.1	2.8	2.5	1.3	1.4	1.5	16.6	14.6	17.1	145	(9.6)	9.2	
Grasim Industries	2,722	BUY																												

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

	24-Feb-12		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)		EV/EBITDA (X)		Price/BV (X)		Dividend yield (%)			RoE (%)			Target	Upside	ADVT-3mo				
Company	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	(Rs)	(%)	(US\$ mn)				
Consumer products																														
Asian Paints	3,067	SELL	294,196	6,011	96	80.8	94.4	106.9	13.0	16.8	13.3	38.0	32.5	28.7	25.3	22.1	17.8	14.3	11.0	9.0	1.0	0.9	1.1	43.9	39.9	35.6	2,500	(18.5)	5.2	
Colgate-Palmolive (India)	1,057	SELL	143,676	2,936	136	29.6	32.5	39.1	(4.9)	9.9	20.3	35.7	32.5	27.0	31.1	27.9	22.5	37.4	38.0	30.3	2.1	2.7	2.6	113.4	116.1	124.9	900	(14.8)	2.0	
Dabur India	103	ADD	179,346	3,665	1,740	3.3	3.7	4.4	12.8	12.1	19.2	31.5	28.1	23.6	25.4	21.5	18.4	13.7	10.6	8.4	1.1	1.3	1.5	51.2	43.2	40.2	115	11.6	3.5	
GlaxoSmithkline Consumer (a)	2,642	ADD	111,130	2,271	42	71.3	84.5	105.4	28.8	18.5	24.8	37.1	31.3	25.1	26.9	23.6	19.3	11.9	10.1	8.4	1.9	1.3	1.7	32.2	33.8	35.2	3,000	13.5	1.0	
Godrej Consumer Products	452	ADD	146,198	2,987	324	14.9	16.8	21.8	31.3	13.1	29.8	30.4	26.8	20.7	25.6	20.4	15.3	8.5	6.4	5.1	1.1	0.7	0.7	35.9	27.6	28.9	500	10.7	1.9	
Hindustan Unilever	386	REDUCE	833,327	17,028	2,159	9.9	11.8	14.2	4.8	19.7	19.7	39.1	32.6	27.3	33.5	26.8	21.3	31.6	27.2	23.3	2.0	2.6	3.1	66.3	89.8	92.4	420	8.8	22.0	
ITC	209	ADD	1,608,333	32,863	7,681	6.4	7.9	9.0	20.7	22.5	14.1	32.7	26.7	23.4	21.7	18.2	15.7	9.6	8.3	7.2	2.1	1.8	2.1	33.2	34.9	34.3	230	9.8	30.7	
Jubilant Foodworks	1,004	SELL	65,876	1,346	66	11.2	16.3	24.0	99.6	45.4	47.3	89.6	61.6	41.9	54.9	34.2	23.5	34.4	22.1	14.4	—	—	—	46.6	43.6	41.7	800	(20.3)	22.2	
Jyothy Laboratories	198	ADD	15,373	314	78	10.3	8.4	10.8	(6.2)	(18.8)	28.0	19.2	23.6	18.4	15.7	35.8	26.6	2.3	2.2	2.1	3.0	2.4	3.0	12.3	9.7	11.7	190	(4.1)	0.4	
Marico	160	BUY	98,495	2,013	615	3.9	5.2	6.8	(12.8)	33.5	31.7	41.3	30.9	23.5	25.3	21.8	16.6	10.5	8.2	6.4	0.4	0.5	0.6	30.3	30.3	30.8	190	18.7	0.8	
Nestle India (a)	4,400	SELL	424,248	8,669	96	86.8	104.6	125.1	16.7	20.5	19.6	50.7	42.1	35.2	33.7	27.8	22.6	49.6	33.3	19.9	1.1	1.1	1.3	116.5	94.7	70.7	3,600	(18.2)	2.6	
Tata Global Beverages	120	BUY	74,177	1,516	618	4.0	5.3	6.6	(34.6)	35.1	23.0	30.3	22.4	18.2	12.6	12.2	9.9	1.4	1.4	1.3	1.7	1.5	1.8	6.4	8.2	9.5	110	(8.3)	6.8	
Titan Industries	226	ADD	200,640	4,100	888	4.9	6.5	7.9	71.7	32.5	20.7	46.0	34.7	28.7	32.3	24.5	19.7	19.3	14.6	11.3	0.6	1.0	1.3	49.2	48.0	44.4	230	1.8	19.7	
United Spirits	590	BUY	74,063	1,513	126	35.3	36.6	42.7	29.5	3.5	16.9	16.7	16.1	13.8	12.6	10.7	9.8	1.8	1.6	1.5	0.4	0.4	0.5	11.2	10.5	11.1	900	52.6	20.4	
Consumer products																														
Constructions		Attractive	4,269,076	87,231					16.3	19.3	18.1	35.5	29.8	25.2	24.9	20.8	17.3	11.0	9.4	8.0	1.7	1.6	2.0	31.0	31.6	31.8				
Energy																														
IVRCL	53	ADD	14,138	289	267	5.9	2.9	3.9	(25.2)	(70.5)	33.6	9.0	18.1	13.5	6.5	8.3	7.2	0.7	0.7	0.7	1.2	0.8	0.8	8.2	3.9	5.0	70	32.2	9.7	
Nagarjuna Construction Co.	55	BUY	14,189	290	257	6.4	1.8	3.7	(29.7)	(71.1)	100.8	8.7	30.0	14.9	7.7	9.5	8.0	0.6	0.6	0.6	1.9	3.6	3.6	7.1	2.0	4.0	65	17.5	1.6	
Punj Lloyd	56	REDUCE	19,119	391	340	(1.5)	5.1	6.6	(56.6)	(442.7)	28.9	(37.9)	11.1	8.6	12.7	9.3	6.5	0.6	0.6	0.6	(0.1)	0.8	1.0	(1.7)	5.7	6.9	60	6.6	5.2	
Sadbhav Engineering	136	BUY	20,368	416	150	7.8	10.0	10.0	51.0	28.5	0.5	17.5	13.6	13.5	10.4	8.4	8.1	3.2	2.6	2.2	0.4	0.4	0.4	18.1	19.2	16.3	180	32.5	0.5	
Construction		Attractive	67,814	1,386					(1.1)	15.6	27.8	17.5	15.1	11.8	9.0	9.0	7.2	0.8	0.8	0.8	0.7	1.3	1.3	4.8	5.4	6.5				
Energy																														
Aban Offshore	503	BUY	21,870	447	44	134.2	71.5	92.4	25.9	(46.7)	29.1	3.7	7.0	5.4	6.7	7.7	6.8	1.0	1.3	1.1	0.7	0.8	0.9	33.3	20.8	21.4	615	22.4	11.6	
Bharat Petroleum	656	RS	237,297	4,849	362	38.9	42.3	53.5	(32.5)	8.8	26.3	16.9	15.5	12.3	10.8	8.4	8.0	1.6	1.5	1.4	2.1	2.1	2.7	9.2	9.3	11.0	—	—	7.7	
Cairn India	381	SELL	725,698	14,828	1,903	33.3	45.7	63.8	501.1	37.1	39.7	11.5	8.4	6.0	8.4	6.5	4.1	1.8	1.5	1.3	—	—	—	3.9	16.9	19.7	23.9	360	(5.6)	20.4
Castrol India (a)	482	SELL	119,226	2,436	247	19.8	19.5	21.0	28.5	(1.8)	7.8	24.4	24.8	23.0	15.6	17.0	15.6	23.1	21.8	20.3	3.1	3.1	3.4	100.2	90.4	91.4	400	(17.0)	0.9	
GAIL (India)	375	BUY	475,553	9,717	1,268	28.2	30.1	31.0	13.8	6.8	3.2	13.3	12.5	12.1	8.4	8.8	8.3	2.3	2.0	1.7	2.0	2.1	2.3	17.5	16.3	14.7	485	29.4	11.6	
GSPL	74	REDUCE	41,884	856	563	8.9	9.2	8.5	21.7	3.4	(7.1)	8.4	8.1	8.7	5.6	5.1	5.2	1.8	1.5	1.3	1.3	1.9	2.9	25.2	20.5	16.2	87	16.9	2.8	
Hindustan Petroleum	288	RS	97,533	1,993	339	40.8	11.0	28.8	(20.8)	(73.2)	162.9	7.0	26.3	10.0	3.2	2.7	3.2	0.6	0.6	0.6	4.9	1.2	3.1	9.0	2.2	5.7	—	—	4.7	
Indian Oil Corporation	277	RS	671,328	13,717	2,428	32.4	30.1	29.8	(34.0)	(7.2)	(0.9)	8.5	9.2	9.3	8.3	7.2	6.6	1.1	1.1	1.0	3.4	0.6	3.2	13.3	12.2	11.1	—	—	2.8	
Oil India	1,277	BUY	307,127	6,276	240	120.0	146.1	189.9	4.2	21.8	30.0	10.6	8.7	6.7	5.3	3.5	2.5	1.8	1.6	1.4	2.9	4.3	5.9	16.2	17.5	20.1	1,750	37.0	2.8	
Oil & Natural Gas Corporation	285	BUY	2,434,473	49,744	8,556	24.7	28.7	35.2	7.4	16.3	22.8	11.5	9.9	8.1	4.4	4.0	3.1	1.6	1.5	1.3	3.1	3.5	4.0	14.3	14.8	16.3	330	16.0	18.4	
Petronet LNG	161	SELL	121,050	2,473	750	8.1	14.9	13.6	50.3	83.4	(8.2)	19.9	10.9	11.8	11.5	7.7	8.3	4.0	3.1	2.5	1.2	1.9	1.9	20.9	31.1	22.5	140	(13.3)	6.8	
Reliance Industries	820	REDUCE	2,444,271	49,944	2,981	62.0	62.7	61.6	24.8	1.2	(1.7)	13.2	13.1	13.3	7.2	6.6	6.6	1.5	1.3	1.2	1.0	1.0	1.0	13.0	11.9	10.6	855	4.3	90.2	
Energy																														
Industrials		Attractive	7,697,310	157,281					11.6	8.5	14.7	11.5	10.6	9.2	6.4	5.7	4.8	1.6	1.4	1.3	2.0	1.9	2.8	13.8	13.6	14.0				
Infrastructure																														
ABB	828	SELL	175,503	3,586	212	3.0	11.7	22.7	(82.2)	291.5	94.5	277.5	70.9	36.4	202.3	47.0	23.7	7.2	6.8	5.9	0.2	0.4	0.4	2.6	9.9	17.3	515	(37.8)	1.8	
BGR Energy Systems	318	REDUCE	22,956	469	72	44.8	29.4	27.2	60.0	(34.4)	(7.4)	7.1	10.8	11.7	4.8	5.7	4.8	2.4	2.1	1.8	3.1	1.8	1.7	39.0	20.5	16.5	260	(18.3)	6.0	
Bharat Electronics	1,468	ADD	117,428	2,399	80	107.3	115.8	132.8	11.6	8.0	14.7	13.7	12.7	11.1	5.8	6.4	4.3	2.3	2.0	1.8	1.5	1.7	1.7	18.2	16.8	16.9	1,650	12.4	1.8	
Crompton Greaves	149	ADD	95,840	1,958	642	14.3	6.4	10.3	11.5	(55.2)	60.0	10.4	23.3	14.5	6.8	11.4	8.0	2.9	2.7	2.3	1.6	1.0	1.0	31.7	12.0	17.0	170	13.8	7.7	
Cummins India	463	REDUCE	128,330	2,622	277	22.2	21.6	25.9	37.1	(2.9)	19.8	20.8	21.4	17.9	18.6	19.3	15.3	7.1	6.2	5.5	2.3	2.2	2.7	35.1	29.7	31.2	475	2.6	2.8	
KEC International	59	BUY	15,053	308	257	8.0	6.7	8.1	4.1	(16.5)	21.6	7.3	8.8	7.2	6.0	6.4	5.6	1.5	1.3	1.2	2.0	2.2	2.1	22.5	16.2	17.2	65	11.0	0.5	
Larsen & Toubro	1,349	REDUCE	821,095	16,778	609	67.7	80.7	87.0	18.1	19.2	7.8	19.9	16.7	15.5	14.5	11.3	10.3	3.1	2.6	2.2	1.1	1.0	1.0	17.0	16.8	15.4	1,325	(1.7)	78.6	
Maharashtra Seamless	375	BUY	26,435	540	71	48.2	42.1	46.8	24.8	(12.6)	11.0	7.8	8.9	8.0	5.0	5.0	4.2	1.0	1.0	0.9	2.2	2.2	2.5	13.8	11.1	11.5	460	22.7	0.2	
Siemens	792	SELL	269,548	5,508	340	25.5	22.3	27.9	13.6	(12.7)	25.5	31.1	35.6	28.4	21.5	22.6	18.0	7.0	6.0	5.2	0.8	0.6	0.7	24.4	18.2	19.7	550	(30.6)	3.4	
Suzlon Energy	27	REDUCE	46,693	954	1,746	(6.0)	(0.9)	3.8	(4.6)	(85.7)	(539.2)	(4.4)	(31.1)	7.1	17.4	7.9	5.3	0.7	0.7	0.7	—	0.7	0.7	(15.8)	(2.2)	9.7	32	19.6	16.5	
Tecpro Systems	165	ADD	8,308	170	50	27.0	28.2	24.4	24.2	4.3	(13.5)	6.1	5.8	6.8																

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

	24-Feb-12		Mkt cap.		O/S	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)	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	(Rs)	(%)	(US\$ mn)
Media																													
DB Corp	202	BUY	37,078	758	183	14.1	11.2	13.5	32.7	(20.7)	20.6	14.3	18.1	15.0	9.3	10.6	8.7	4.5	3.9	3.5	2.0	2.0	3.0	35.0	23.0	24.5	300	48.3	0.1
DishTV	57	BUY	61,016	1,247	1,063	(1.8)	(0.7)	0.6	(27.7)	(62.1)	(192.8)	(32.2)	(84.9)	91.5	28.7	13.4	10.0	97.3	(668.9)	106.0	—	—	—	(81.9)	(268.1)	275.3	80	39.4	7.3
Eros International	186	BUY	18,065	369	97	11.8	15.6	19.6	19.0	32.7	25.6	15.8	11.9	9.5	10.9	8.4	6.0	2.7	2.2	1.7	—	—	—	24.9	20.1	20.4	270	44.9	1.5
Hindustan Media Ventures	135	BUY	9,882	202	73	7.3	9.0	10.6	198.0	23.3	17.8	18.4	14.9	12.7	8.8	8.5	6.4	2.6	2.2	2.0	0.7	0.7	1.5	23.3	16.1	16.5	190	41.1	0.1
HT Media	143	ADD	33,692	688	235	7.7	7.5	9.2	31.0	(3.1)	23.3	18.6	19.2	15.6	8.9	9.6	7.2	2.4	2.2	2.0	0.3	1.4	2.8	14.9	11.8	13.4	160	11.7	0.1
Jagran Prakashan	107	BUY	33,934	693	316	6.8	6.5	7.8	16.7	(5.3)	21.6	15.7	16.6	13.7	9.4	9.0	7.8	4.8	4.4	3.9	3.3	3.3	3.7	32.8	27.6	30.0	150	39.8	0.1
Sun TV Network	318	ADD	125,436	2,563	394	19.5	18.5	21.4	48.1	(5.4)	15.9	16.3	17.2	14.9	9.9	10.2	9.0	5.2	4.7	4.4	2.7	3.5	4.4	36.5	30.2	32.2	390	22.5	7.1
Zee Entertainment Enterprises	132	BUY	128,900	2,634	978	5.8	6.2	7.7	10.0	6.4	23.3	22.5	21.2	17.2	15.2	14.0	11.1	3.1	2.9	2.8	1.0	1.0	1.2	14.2	14.3	16.9	160	21.4	3.7
Media		Neutral	448,002	9,154					51.6	4.7	27.8	22.7	21.7	17.0	12.1	11.2	9.1	4.2	3.9	3.5	1.5	1.8	2.3	18.4	17.8	20.9			
Metals & Mining																													
Coal India	328	ADD	2,069,557	42,288	6,316	17.3	23.4	26.9	13.6	35.1	14.9	18.9	14.0	12.2	11.0	8.5	7.3	5.9	4.7	3.8	1.2	2.1	2.5	35.1	37.3	34.1	380	16.0	30.9
Hindalco Industries	148	REDUCE	283,501	5,793	1,915	12.8	17.2	16.1	(36.0)	34.3	(6.0)	11.6	8.6	9.2	6.2	7.0	6.7	1.0	0.9	0.8	1.0	1.0	1.0	9.7	10.8	9.2	160	8.1	33.0
Hindustan Zinc	136	ADD	572,488	11,698	4,225	11.6	12.7	14.7	21.8	8.8	16.0	11.6	10.7	9.2	7.7	6.7	4.7	2.5	2.1	1.8	0.7	1.8	1.8	24.3	21.8	21.4	150	10.7	2.2
Jindal Steel and Power	612	REDUCE	572,165	11,691	934	40.2	40.9	46.1	5.1	1.7	12.7	15.2	15.0	13.3	11.1	10.6	9.8	4.1	3.2	2.6	0.2	0.3	0.3	30.9	24.1	21.8	530	(13.5)	23.6
JSW Steel	816	SELL	184,427	3,768	226	78.6	32.3	77.7	(2.2)	(58.9)	140.5	10.4	25.2	10.5	7.1	6.0	6.4	1.1	1.1	1.0	1.5	1.2	1.2	13.6	14.1	9.9	680	(16.7)	42.6
National Aluminium Co.	62	SELL	158,758	3,244	2,577	4.2	3.2	3.7	36.4	(23.9)	15.8	14.8	19.5	16.8	6.8	9.5	7.6	1.4	1.4	1.3	2.4	2.4	2.4	9.9	7.2	8.0	53	(14.0)	0.9
Sesa Goa	227	REDUCE	202,828	4,144	895	48.6	32.7	46.8	65.3	(32.7)	43.1	4.7	6.9	4.8	4.0	6.0	6.4	1.6	1.3	1.0	1.7	1.7	1.7	36.8	17.2	22.1	190	(16.2)	19.0
Sterite Industries	119	ADD	398,638	8,145	3,361	15.2	13.5	15.2	26.2	(11.0)	12.4	7.8	8.8	7.8	4.9	4.2	3.3	1.0	0.9	0.8	0.9	1.7	1.7	13.0	10.5	10.8	132	11.3	23.5
Tata Steel	476	ADD	461,905	9,438	971	75.3	27.8	58.4	(2,258.1)	(63.1)	110.4	6.3	17.1	8.1	6.0	8.0	6.1	1.3	1.1	1.0	2.5	2.5	2.5	24.7	7.1	13.4	525	10.4	64.0
Metals & Mining		Cautious	4,904,268	100,210					39.1	(1.9)	18.4	11.8	12.1	10.2	7.5	7.4	6.3	2.2	2.0	1.7	1.2	1.8	1.9	19.0	16.3	16.7			
Pharmaceutical																													
Apollo Hospitals	574	BUY	79,684	1,628	139	13.2	17.1	21.2	21.0	29.3	24.0	43.3	33.5	27.0	19.7	14.6	12.6	4.1	3.1	2.8	—	—	—	9.8	10.3	10.5	650	13.3	5.6
Biocon	285	BUY	56,900	1,163	200	18.4	16.8	20.7	23.9	(8.7)	23.2	15.5	17.0	13.8	8.7	9.5	7.5	2.7	2.5	2.2	—	—	—	19.4	15.7	17.2	380	33.6	4.0
Cipla	314	SELL	252,037	5,150	803	12.3	14.1	17.7	(10.0)	14.1	25.5	25.5	22.3	17.8	22.0	17.5	13.4	3.8	3.4	2.9	0.9	1.0	1.1	15.4	15.6	17.3	320	1.9	9.7
Cadila Healthcare	697	REDUCE	142,648	2,915	205	34.7	31.1	40.9	40.6	(10.5)	31.4	20.1	22.4	17.1	17.5	17.6	13.2	6.6	5.4	4.3	0.9	0.9	1.2	37.5	26.4	28.1	700	0.5	1.9
Dishman Pharma & chemicals	55	REDUCE	4,437	91	81	9.8	5.1	8.3	(31.8)	(48.6)	64.7	5.5	10.8	6.5	7.8	7.5	5.6	0.5	0.5	0.5	—	—	—	9.6	4.6	7.2	60	10.0	0.3
Divi's Laboratories	721	ADD	95,620	1,954	133	32.4	37.4	46.4	25.7	15.6	24.1	22.3	19.3	15.5	18.4	14.9	10.9	5.3	4.5	3.8	—	—	—	25.9	25.4	26.8	935	29.7	3.0
Dr Reddy's Laboratories	1,629	REDUCE	276,924	5,658	170	64.9	90.7	106.9	932.5	39.7	17.8	25.1	18.0	15.2	17.6	11.8	9.7	6.0	4.7	3.7	0.7	0.8	0.9	24.8	29.3	27.1	1,740	6.8	13.1
GlaxoSmithkline Pharmaceuticals (a)	2,080	SELL	176,144	3,599	85	68.3	74.3	82.8	15.5	8.8	11.5	30.5	28.0	25.1	20.2	20.2	16.7	9.0	9.1	8.5	1.9	2.2	2.7	30.9	32.4	35.0	1,930	(7.2)	1.2
Glenmark Pharmaceuticals	315	REDUCE	85,059	1,738	270	17.0	19.9	22.4	33.6	17.6	12.2	18.5	15.8	14.1	20.6	19.3	11.4	4.2	3.4	2.7	—	—	—	20.6	23.6	21.5	340	8.1	3.1
Jubilant Life Sciences	190	REDUCE	30,307	619	159	14.4	16.9	29.5	(45.6)	17.3	74.1	13.2	11.2	6.5	10.8	8.1	6.4	1.4	1.2	1.0	1.0	1.1	1.6	12.3	16.3	18.0	180	(5.4)	0.4
Lupin	471	ADD	211,054	4,313	448	19.2	21.1	26.5	25.6	9.7	25.3	24.5	22.3	17.8	20.5	17.7	13.1	6.3	5.1	4.2	0.6	0.7	1.0	29.5	25.8	26.2	520	10.4	7.6
Ranbaxy Laboratories	429	SELL	180,698	3,692	422	40.6	19.9	30.4	474.9	(50.9)	52.3	10.6	21.5	14.1	12.9	13.7	10.0	3.2	4.4	3.4	—	—	—	34.5	17.4	27.4	380	(11.3)	10.8
Sun Pharmaceuticals	548	ADD	567,302	11,592	1,036	17.5	23.4	28.1	34.4	33.4	20.1	31.2	23.4	19.5	26.8	16.9	14.0	5.5	4.5	3.7	0.6	0.7	0.9	21.0	23.1	22.9	625	14.1	10.3
Pharmaceuticals		Neutral	2,158,815	44,111					43.1	8.5	24.2	22.6	20.8	16.8	18.3	14.4	11.1	3.6	3.2	2.7	0.7	0.8	0.9	16.0	15.3	16.1			
Property																													
DLF	227	ADD	388,865	7,946	1,715	9.1	9.7	12.7	(14.5)	6.5	31.5	25.0	23.5	17.8	16.4	15.1	12.2	1.5	1.4	1.3	0.9	1.1	1.3	5.4	6.1	7.6	260	14.6	41.3
Housing Development & Infrastructure	108	BUY	47,562	972	441	19.8	19.4	29.8	24.2	(2.1)	53.6	5.4	5.6	3.6	5.4	6.8	5.0	0.5	0.4	0.4	—	0.9	1.4	10.0	8.4	11.6	130	20.5	26.7
Indiabulls Real Estate	74	RS	29,927	611	402	4.0	8.5	15.4	(1,095.5)	114.1	81.5	18.7	8.8	4.8	13.3	10.7	4.6	0.3	0.2	0.2	0.4	0.7	0.9	1.4	2.9	5.0	—	—	11.5
Mahindra Life Space Developer	330	BUY	13,483	276	41	24.9	26.7	32.2	30.2	6.9	20.8	13.2	12.4	10.3	10.1	8.3	6.6	1.3	1.2	1.1	1.5	1.4	1.5	10.4	10.2	11.2	405	22.6	0.3
Oberoi Realty	266	BUY	87,611	1,790	330	15.7	14.9	26.4	14.8	(5.0)	77.3	16.9	17.8	10.1	12.8	13.0	6.2	2.6	2.3	1.9	0.4	0.6	0.9	19.9	13.9	21.1	300	12.9	0.3
Phoenix Mills	194	BUY	28,071	574	145	6.3	7.4	10.7	53.0	17.2	44.1	30.6	26.1	18.1	22.7	18.9	14.2	1.8	1.7	1.6	0.9	1.0	1.0	5.8	6.6	8.9	300	54.8	0.2
Puravankara Projects	74	REDUCE	15,793	323	213	5.5	7.4	9.5	(18.9)	33.2	29.4	13.4	10.1	7.8	18.2	13.2	10.9	1.0	1.0	0.9	1.4	2.0	2.7	8.0	9.9	11.8	80	8.1	0.1
Sobha Developers	268	BUY	26,242	536	98	18.8	15.6	25.7	33.8	(17.2)	65.3	14.2	17.2	10.4	12.1	13.1	8.3	1.4	1.3	1.2	1.1	1.3	1.5	10.2	7.9	12.0	340	27.1	1.0
Unitech	32	RS	84,899	1,735	2,616	2.3	1.5	2.0	(23.4)	(35.3)	34.7	14.0	21.6	16.0	15.0	17.5	12.1	0.7	0.7	0.6	0.3	0.6	0.9	5.4	3.3	4.0	—	—	14.7
Property		Cautious	761,570	15,561					5.3	12.2	45.0	17.8	15.8	10.9	13.9	12.8	9.1	1.1	1.0	0.9	0.7	1.0	1.3	6.1	6.4	8.5			

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	24-Feb-12		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E			
Technology																													
HCL Technologies	493	REDUCE	347,459	7,100	705	22.9	33.8	39.9	30.4	47.9	18.0	21.6	14.6	12.4	13.1	8.6	7.4	4.1	3.1	2.5	1.5	1.6	1.6	21.0	22.8	22.3	460	(6.7)	10.8
Hexaware Technologies	110	ADD	32,270	659	294	3.0	9.1	10.7	(36.8)	207.9	17.3	37.2	12.1	10.3	29.9	10.6	7.1	3.3	3.2	2.7	1.3	2.7	3.0	9.3	26.9	28.0	110	0.0	3.4
Infosys	2,948	ADD	1,692,181	34,577	574	119.7	146.1	173.7	10.5	22.0	18.9	24.6	20.2	17.0	17.0	13.6	10.9	6.5	5.4	4.5	2.0	1.6	1.8	28.0	29.3	28.9	3,100	5.2	74.4
Mahindra Satyam	71	REDUCE	82,908	1,694	1,176	4.2	8.7	8.1	68.9	106.3	(6.5)	16.8	8.1	8.7	12.2	5.6	4.3	4.8	3.0	2.2	—	—	—	27.6	45.7	29.7	80	13.5	7.2
Mindtree	451	ADD	18,543	379	41	24.7	50.5	53.9	(52.7)	104.5	6.8	18.3	8.9	8.4	10.2	6.0	4.6	2.4	1.9	1.7	0.5	1.1	3.6	14.4	23.9	21.5	540	19.9	0.7
Mphasis	411	SELL	86,575	1,769	211	51.8	39.0	34.6	18.8	(24.6)	(11.4)	7.9	10.5	11.9	6.7	8.8	8.0	2.6	2.2	1.9	1.0	1.1	1.2	38.6	22.8	17.3	310	(24.5)	2.6
Polaris Financial Technology	161	REDUCE	16,062	328	100	19.3	21.7	24.0	25.7	12.5	10.4	8.3	7.4	6.7	5.1	3.2	2.4	1.6	1.3	1.1	2.3	2.4	2.5	20.2	19.2	18.2	145	(10.0)	1.4
TCS	1,270	REDUCE	2,485,644	50,790	1,957	44.5	54.6	66.4	26.8	22.6	21.6	28.5	23.3	19.1	21.4	16.3	13.3	9.8	7.9	6.3	1.1	1.5	1.8	37.8	37.6	36.6	1,250	(1.6)	39.6
Tech Mahindra	612	SELL	77,118	1,576	126	48.0	74.7	80.7	(26.3)	55.5	8.0	12.7	8.2	7.6	8.6	9.2	7.5	2.3	2.0	1.8	0.7	0.7	1.6	20.2	27.0	25.5	600	(2.0)	2.1
Wipro	438	ADD	1,074,607	21,958	2,454	21.6	23.2	28.2	14.5	7.4	21.7	20.3	18.9	15.5	15.1	12.9	10.3	4.5	3.8	3.2	1.0	1.1	1.4	24.3	21.7	22.2	460	5.0	14.7
Technology		Attractive	5,976,730	122,124					17.0	20.9	18.1	23.3	19.2	16.3	16.8	13.3	10.8	6.1	5.0	4.1	1.5	1.4	1.7	26.2	25.9	25.3			
Telecom																													
Bharti Airtel	343	ADD	1,301,058	26,585	3,798	15.9	12.8	20.8	(32.6)	(19.9)	62.9	21.5	26.8	16.5	9.6	8.0	6.2	2.7	2.6	2.3	—	—	—	13.3	9.9	14.7	390	13.8	58.1
IDEA	93	ADD	307,207	6,277	3,303	2.7	2.1	4.6	(0.5)	(22.2)	118.5	34.2	43.9	20.1	11.0	8.6	6.5	2.5	2.5	2.2	—	—	—	7.6	5.7	11.6	100	7.5	13.0
MTNL	31	RS	19,499	398	630	(10.4)	(9.1)	(8.4)	(33.7)	(11.9)	(8.1)	(3.0)	(3.4)	(3.7)	0.9	1.3	1.6	0.2	0.2	0.2	—	—	—	(6.1)	(5.7)	(5.5)	—	—	1.4
Reliance Communications	94	SELL	193,087	3,945	2,064	6.5	3.9	1.0	(71.1)	(39.7)	(73.5)	14.4	23.8	89.6	6.3	8.1	6.9	0.5	0.5	0.5	—	—	—	3.2	2.0	0.6	60	(35.9)	25.8
Tata Communications	235	REDUCE	67,075	1,371	285	(24.9)	(27.0)	(26.6)	(13.0)	8.4	(1.4)	(9.5)	(8.7)	(8.8)	11.7	8.8	7.9	1.9	2.6	4.3	—	—	—	(17.5)	(25.1)	(37.0)	215	(8.6)	1.7
Telecom		Cautious	1,887,925	38,576					(45.8)	(27.5)	66.7	27.3	37.7	22.6	9.2	8.3	6.5	1.6	1.7	1.6	—	—	—	6.0	4.4	6.9			
Utilities																													
Adani Power	81	SELL	194,806	3,981	2,393	2.4	2.3	8.1	200.7	(4.3)	259.1	34.6	36.1	10.1	35.5	24.1	6.9	3.1	2.6	2.1	—	—	—	8.5	7.9	23.2	60	(26.3)	8.0
CESC	256	BUY	32,009	654	125	39.1	32.1	39.9	13.1	(17.9)	24.4	6.6	8.0	6.4	4.5	6.5	6.2	0.7	0.6	0.6	1.6	1.6	1.8	10.8	8.2	9.4	400	56.1	1.7
JSW Energy	63	REDUCE	103,402	2,113	1,640	5.1	1.6	2.3	12.9	(69.5)	44.8	12.3	40.3	27.8	12.7	18.9	8.7	1.8	1.8	1.7	(1.6)	—	—	16.1	4.5	6.3	43	(31.8)	3.4
Lanco Infratech	22	BUY	47,795	977	2,223	1.6	0.8	0.9	(22.6)	(48.7)	3.0	13.0	25.4	24.7	11.0	10.5	8.8	1.0	1.0	0.9	—	—	—	9.2	3.9	3.7	33	53.5	11.9
NHPC	21	BUY	262,006	5,354	12,301	1.3	2.0	2.2	(27.2)	49.2	7.2	15.8	10.6	9.9	11.6	10.8	7.8	1.0	0.9	0.9	2.8	2.6	2.7	6.4	9.0	9.1	29	36.2	3.0
NTPC	184	REDUCE	1,514,692	30,950	8,245	10.9	11.4	12.2	4.2	4.1	7.6	16.8	16.2	15.0	12.7	14.1	12.1	2.2	2.0	1.9	2.2	1.9	2.0	13.6	13.0	12.9	175	(4.7)	9.7
Reliance Infrastructure	585	BUY	155,034	3,168	265	58.0	65.3	71.4	(6.5)	12.5	9.4	10.1	9.0	8.2	13.0	7.4	8.2	0.7	0.6	0.6	1.2	1.8	1.9	6.8	11.7	8.9	890	52.3	26.0
Reliance Power	119	SELL	334,231	6,829	2,805	2.7	2.6	2.9	(0.2)	(5.3)	13.5	44.0	46.4	40.9	169.5	63.8	27.2	2.0	1.9	1.8	—	—	—	4.9	4.2	4.5	76	(36.2)	13.8
Tata Power	114	BUY	280,897	5,740	2,468	7.6	4.9	8.7	21.5	(36.3)	77.6	14.9	23.3	13.1	11.3	9.6	8.3	1.9	2.0	1.8	1.2	1.3	1.5	13.8	8.4	14.5	125	9.8	9.9
Utilities		Cautious	2,924,872	59,764					4.3	(1.1)	21.9	17.1	17.3	14.2	14.1	13.5	10.2	1.7	1.6	1.5	1.5	1.4	1.5	9.9	9.2	10.4			
Others																													
Carborundum Universal	164	REDUCE	30,612	625	187	9.1	11.6	11.7	67.7	26.6	1.0	17.9	14.2	14.0	11.0	8.1	7.7	3.6	3.0	2.5	1.2	1.5	1.5	25.2	25.9	22.0	150	(8.4)	0.1
Havells India	518	ADD	64,683	1,322	125	24.5	29.7	33.0	334.1	21.1	11.0	21.1	17.4	15.7	13.3	11.1	9.6	9.1	6.5	4.7	0.5	0.5	0.6	53.9	43.3	34.7	500	(3.5)	3.8
Jaiprakash Associates	75	BUY	158,739	3,244	2,126	6.0	6.4	8.1	230.2	6.2	26.1	12.4	11.7	9.3	11.9	10.6	8.3	1.5	1.3	1.2	—	—	—	13.3	12.0	13.6	97	29.9	28.4
Jet Airways	302	SELL	26,028	532	86	(10.1)	(233.8)	(33.8)	(91.0)	2,225	(85.6)	(30.0)	(1.3)	(8.9)	9.9	(162.4)	10.5	1.6	(6.2)	(3.6)	—	—	—	(5.0)	—	—	280	(7.1)	16.5
SpiceJet	23	BUY	10,350	211	441	2.5	(8.7)	1.9	(1.8)	(450.3)	(122.1)	9.4	(2.7)	12.1	13.8	(7.7)	11.2	3.2	16.9	7.1	—	—	—	(96.1)	(201.8)	82.1	45	91.9	1.9
Tata Chemicals	355	REDUCE	90,438	1,848	255	26.2	32.9	38.8	(0.7)	25.4	17.9	13.5	10.8	9.2	8.0	5.6	4.8	1.7	1.5	1.3	2.8	3.4	4.2	16.9	18.6	19.5	365	2.8	2.4
United Phosphorus	147	ADD	67,885	1,387	462	12.3	14.4	21.0	3.9	16.7	45.6	11.9	10.2	7.0	7.3	4.9	4.1	1.8	1.6	1.4	1.4	2.0	2.4	18.0	17.3	21.3	170	15.6	3.7
Others			448,736	9,169					233.8	(63.1)	291.1	15.8	42.9	11.0	10.5	11.0	7.6	1.9	1.9	1.6	0.9	1.2	1.4	12.1	4.4	14.9			
KS universe (b)			47,398,495	968,502					18.4	8.0	20.0	16.1	14.9	12.5	10.3	9.3	7.7	2.5	2.2	1.9	1.5	1.5	1.8	15.4	14.8	15.7			
KS universe (b) ex-Energy			39,701,185	811,222					20.6	7.8	21.6	17.5	16.2	13.4	12.1	10.8	8.8	2.8	2.5	2.2	1.4	1.4	1.6	16.0	15.2	16.2			
KS universe (d) ex-Energy & ex-Commodities			33,556,923	685,675					19.3	9.3	22.6	18.7	17.1	14.0	13.6	11.9	9.6	2.9	2.6	2.3	1.4	1.4	1.6	15.6	15.1	16.2			

Notes:

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

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

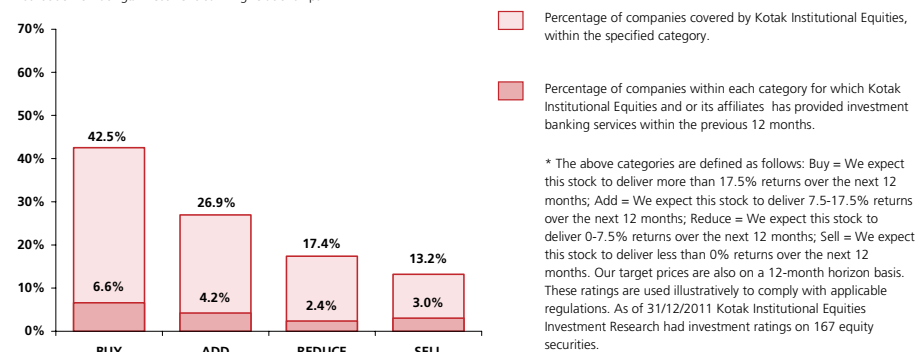
(c) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.

(d) Rupee-US Dollar exchange rate (Rs/US\$)= 48.94

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of December 31, 2011

Ratings and other definitions/identifiers

Definitions of ratings

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

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

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

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

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

Other definitions

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

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