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EQUITY MARKETS

India	Change %			
	28-Feb	1-day	1-mo	3-mo
Sensex	17,731	1.6	2.9	9.7
Nifty	5,376	1.8	3.3	10.8
Global/Regional indices				
Dow Jones	13,005	0.2	2.7	12.9
Nasdaq Composite	2,987	0.7	6.0	18.2
FTSE	5,928	0.2	3.4	11.6
Nikkei	9,836	1.2	11.7	16.6
Hang Seng	21,548	(0.1)	5.7	19.8
KOSPI	2,029	1.3	3.7	9.8
Value traded – India				
Cash (NSE+BSE)	168		194	107
Derivatives (NSE)	920		700	806
Deri. open interest	1,115		988	1,038

Forex/money market

Change, basis points				
	28-Feb	1-day	1-mo	3-mo
Rs/US\$	48.9	(6)	(64)	(335)
10yr govt bond, %	8.3	(1)	(8)	(52)

Net investment (US\$m)

	27-Feb	MTD	CYTD
FIs	(111)	3,386	5,569
MFs	143	(342)	(282)

Top movers -3mo basis

Change, %				
Best performers	28-Feb	1-day	1-mo	3-mo
WLCO IN Equity	139.7	5.2	20.7	102.1
HDIL IN Equity	112.8	13.8	41.7	87.1
IBULL IN Equity	223.6	15.4	23.3	62.0
TTMT IN Equity	273.4	5.2	12.1	58.2
IVRC IN Equity	53.9	8.3	6.9	55.1
Worst performers				
UNSP IN Equity	592.7	0.8	(11.3)	(15.3)
BHARTI IN Equity	343.3	0.7	(6.1)	(11.1)
ESOIL IN Equity	62.8	2.9	2.2	(9.3)
NHPC IN Equity	21.2	2.9	2.9	(5.6)
GAIL IN Equity	374.2	0.7	0.2	(4.5)

FEBRUARY 28, 2012

NEW RELEASE

BSE-30: 17,731

Philosophical questions but logical outcomes. (1) The Supreme Court's decision to cancel 2G licenses awarded in January 2008 and (2) the debate over the use of Coal India's coal raises certain important questions about (1) ownership, (2) exploitation and (3) beneficiaries of natural resources in India. This is not a hypothetical exercise as a logical resolution of the debate may lead to unfavorable outcomes for certain industries and companies.

Owners and beneficiaries of natural resources—we, the people of India

In our view, an approach to exploitation of natural resources should reflect the underlying principle that the people of India ultimately own India's natural resources and they should be the biggest beneficiaries of exploitation of natural resources. The role of other players (exploiting agencies, Government) should be a derivative of the aforementioned principle: (1) exploiting agencies are merely agents to deliver outcomes to citizens and (2) the Government is the fiduciary agent to ensure the process of exploitation is fair for all stakeholders and transparent.

Low cost of output for Indian citizens or revenue maximization for the Government?

We see only two rational approaches of 'transfer' of natural resources to exploiting agencies, which comply with our underlying philosophy: (1) award of natural resources for free or at low cost to several competing entities if sufficient resources are available, with strong regulatory oversight to prevent regulatory 'capture' by exploiting players and (2) award of natural resources through auction, with the Government using the proceeds for betterment of society.

Too many mistakes in the past: coal blocks, mines and spectrum; auction in future

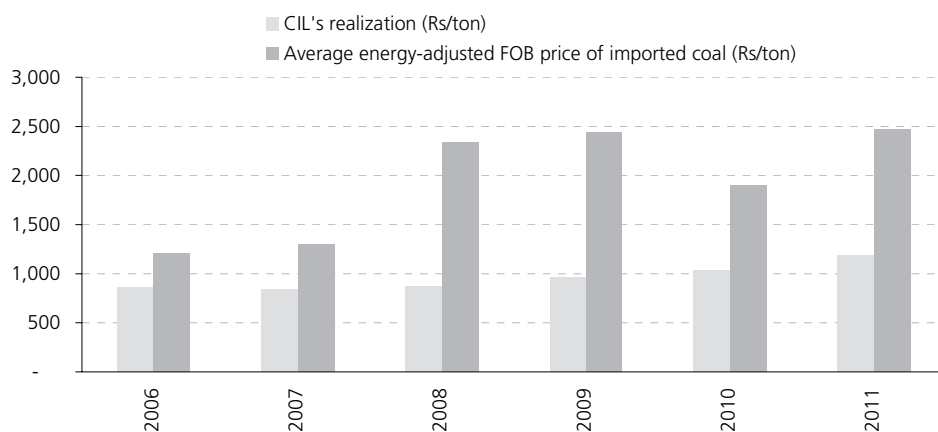
India's award of natural resources (coal blocks, land, mines and spectrum) in the past, at below-market rates and without a proper regulatory framework, led to high profitability (regulatory 'capture') for certain companies. On the other hand, the award of 3G and BWA licenses at exorbitant costs through a transparent bidding process raises the prospects of inadequate and/or high-priced data services to customers. It is difficult to strike the right balance given diverse objectives (low cost of product/service versus maximization of revenues for the Government) but we believe the auction route is preferable and inevitable for award of all natural resources in future given (1) high levels of corruption in India, (2) repeated regulatory failure and (3) recent judgments of the Supreme Court.

Coal, minerals and telecom: nothing for free in future, and pay for the past, as well

The Supreme Court's recent judgments favoring the auction process for award of natural resources and proposed legislations such as the Land Acquisition Bill and the Mines and Minerals (Development and Regulation) Bill (MMRDA Bill) provide sufficient evidence that companies will have to (1) pay a fair price for of natural resources at future auctions and (2) probably pay higher taxes (royalty) on natural resources acquired in the past.

Coal India's realized prices are well below global levels (adjusted for calorific value)

Average energy-adjusted FOB prices of imported coal and Coal India's realization, March fiscal year-ends, 2006-11



Source: Bloomberg, Coal India Ltd, Kotak Institutional Equities

Coal India has enviable profitability and financial returns, a result of its low-cost reserve base

Profitability and CROCI of CIL, March fiscal year-ends, 2006-14E

	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E
Cash return (Rs bn)	72	72	62	47	113	129	160	172	198
Cash invested (Rs bn)	227	249	250	197	208	250	289	324	351
CROCI (%)	32	29	25	24	55	52	55	53	56
EBITDA (Rs bn)	82	76	70	39	115	147	178	191	221
Volumes (mn tons)	327	350	374	401	415	425	433	448	469
EBITDA/ton (Rs/ton)	251	217	186	98	277	346	411	426	472

Notes:

(a) Cash return and cash invested have been adjusted for OBR adjustment account

Source: Coal India Ltd, Kotak Institutional Equities estimates

Small impact of higher coal prices on India's power sector

Impact of various levels of prices of coal on India's power sector, March fiscal year-end, 2013E

	Notified price of CIL (Rs/ton)			
	1,200	1,400	1,600	1,800
Power demand in FY2013E (bn Kwh)	977	977	977	977
Non-coal thermal generation (bn Kwh)	112	112	112	112
Hydro and nuclear generation (bn Kwh)	155	155	155	155
Coal-based generation (bn Kwh)	709	709	709	709
Coal requirement (@ 3,400 kcal/kg GCV) (mn tons)	484	484	484	484
Domestic supply (mn tons)	404	404	404	404
Of which e-auction (mn tons)	40	40	40	40
Deficit (mn tons)	80	80	80	80
Imports (mn tons)	45	45	45	45
Notified price of CIL (Rs/ton)	1,200	1,400	1,600	1,800
Landed price of domestic coal (Rs/ton)	1,700	1,900	2,100	2,300
Landed price of e-auction coal (Rs/ton)	2,780	3,160	3,540	3,920
Landed price of imported coal (Rs/ton)	6,500	6,500	6,500	6,500
Blended fuel cost (Rs/kwh)	1.50	1.62	1.75	1.88
Increase in overall generation cost (Rs/Kwh)		0.09	0.19	0.28

Notes:

(a) We have assumed an average landed price of US\$130/ton for imported coal.

(b) We have assumed an average transportation cost of Rs500/ton for domestic coal.

Source: Kotak Institutional Equities estimates

Mining tax can impact FY2013E earnings by 3-13%

Impact on EPS if the MMRD Bill 2011 is enacted and its provisions apply

	EPS (Rs/share)	Mining tax (Rs/share)	EPS post mining tax	% impact on EPS
Hindalco	16.1	0.6	15.6	3.4
Hindustan Zinc	14.7	1.9	12.8	13.1
JSPL	46.1	2.9	43.2	6.2
JSW Steel	77.7	2.5	75.3	3.2
Nalco	3.7	0.3	3.4	7.0
Sesa Goa	50.8	2.1	48.7	4.2
Sterlite	15.2	1.6	13.6	10.3
Tata Steel	58.4	5.3	53.2	9.0

Source: Kotak Institutional Equities estimates

We note that the current rates of royalty for ores is quite low compared to the oil and gas sector

Current royalty rates prevalent in India for various ores and crude oil (%)

Ore	Zinc	Lead	Silver	Iron ore	Copper	Bauxite	Oil
Price	100	100	100	100	100	100	100
Royalty rate (%)	8.4	12.7	7.0	10.0	4.2	0.5	19.5
Net realization	91.6	87.3	93.0	90.0	95.8	99.5	80.5

Notes:

(a) Based on LME zinc metal price on ad valorem basis chargeable on contained zinc metal in concentrate produced.

(b) Based on LME lead metal price chargeable on contained lead metal in concentrate produced.

(c) Based on LME price, chargeable on by-product silver metal actually produced.

(d) Based on sale price on an ad valorem basis at the pit-head for lumps, fines and concentrates of all grades.

(e) Based on LME copper metal price chargeable on contained copper metal in the ore.

(f) Based on LME aluminium metal price chargeable on contained aluminium metal in the ore.

(g) We assume royalty at 12.5% on a blended basis for onshore and offshore oil production.

Source: Ministry of Mines, Kotak Institutional Equities estimates

ONGC's net crude realizations post subsidy and levies remain quite low

Estimated net crude realizations for ONGC post subsidy and statutory levies, March fiscal year-ends, 2005-12E (US\$/bbl)

	2005	2006	2007	2008	2009	2010	2011	2012E
Gross crude realizations	45	60	67	86	86	72	89	116
Subsidy	5	16	21	33	38	16	36	73
Royalty	4	5	5	6	5	6	6	5
Cess	6	6	8	9	8	7	8	7
Net crude realizations	29	33	33	38	35	42	40	31

Source: Company, Kotak Institutional Equities estimates

Government may increase royalty rates along with prices for natural gas

ONGC's EPS at various levels of gas prices and royalty rates, March fiscal year-end, 2014E (Rs)

FY2014E EPS for ONGC (Rs)		Natural gas price (US\$/mn BTU)			
Royalty on natural gas (%)		4.2	5.2	6.2	7.2
	10	40	42	44	47
	20	39	41	43	45
	30	38	40	42	44
	40	38	39	41	43

Source: Kotak Institutional Equities estimates

MOPNG has conducted nine rounds of NELP

Details of NELP blocks

	NELP I 1999	NELP II 2000	NELP III 2002	NELP IV 2003	NELP V 2005	NELP VI 2006	NELP VII 2008	NELP VIII 2009	NELP IX 2012	Total
Blocks offered	48	25	27	24	20	55	57	70	34	360
Blocks awarded	25	23	23	21	20	52	44	33	—	241
PSCs signed	24	23	23	20	20	52	41	32	—	235
Blocks under operation	11	4	19	18	18	52	41	32	—	195
Wells drilled	82	64	56	39	43	2	—	—	—	286
Discoveries	39	8	16	10	19	5	—	—	—	97

Source: DGH, Kotak Institutional Equities

No consistent approach to awarding telecom licenses or spectrum

Timeline of policy initiatives, spectrum & license grants in the Indian telecom sector

Year	Action
1994	<ul style="list-style-type: none"> NTP 1994 announced Two licenses granted in each of the four metros
1995	<ul style="list-style-type: none"> Following a competitive bidding process, 25 licenses issued in December 95 (Bharti, Essar, Idea and RCOM key winners) 4.4 MHz GSM spectrum awarded to the licensees (cumulative 140.8 MHz across 21 circles)
1996	<ul style="list-style-type: none"> Four new licenses granted Cumulative 23 MHz of GSM spectrum granted (including additional spectrum to certain Metro operators)
1997	<ul style="list-style-type: none"> Seven new licenses granted (MTNL given spectrum in Delhi & Mumbai) CDMA spectrum granted to two players (cumulative 7.5 MHz) 3.6 MHz of additional GSM spectrum granted
1998	<ul style="list-style-type: none"> Two new licenses; 16.25 MHz CDMA and 6.2 MHz GSM spectrum granted
1999	<ul style="list-style-type: none"> NTP 1999 announced; categorizes telecom service providers into 8 segments Decides to charge a license fee and spectrum usage fee (% of revenue basis) Cumulative 18 MHz of additional spectrum granted across A,B & C circles
2000	<ul style="list-style-type: none"> BSNL/MTNL become third operator in all circles 6.2 MHz of GSM spectrum and 2.5 MHz of CDMA spectrum granted to BSNL/MTNL in each circle Entry fee for fourth operator to be decided through competitive bidding New operators to meet pre-qualification criteria including financial strength, telecom service provider experience and minimum roll-out obligation
2001	<ul style="list-style-type: none"> 38 new licenses granted for fourth GSM operators and CDMA operators RCOM, Tata granted licenses for CDMA operations Bharti, Idea and Essar granted fourth operator licenses (15 in total)
2002	<ul style="list-style-type: none"> Cumulative grant of 99.2 MHz GSM spectrum (first time issue to fourth operators and additional spectrum issued to existing operators in certain circles) A total of 48.75 MHz CDMA spectrum issued to RCOM and Tata Allocation of spectrum in the 1800 MHz band begins
2003	<ul style="list-style-type: none"> Move to a Unified Access Licensing Regime mooted and finalised Entry fee for UAS license will be the entry fee paid by fourth operator License will be awarded continuously on first-come-first-serve basis on paying an entry fee, whereas spectrum will be allotted subject to availability at no additional cost Total of 34.8 MHz GSM spectrum and 17.5 MHz of CDMA spectrum granted
2004	<ul style="list-style-type: none"> 29 new UAS licenses issued to operators across the country Total of 96.4 MHz GSM spectrum and 50 MHz of CDMA spectrum allotted
2005	<ul style="list-style-type: none"> License fee for UAS licenses fixed at 10/8/6% of Adjusted Gross Revenues for A/B/C circles. Additional spectrum fee charged on revenue-share basis Upper limit for no. of UAS licenses per service area removed Total of 22.2 MHz GSM spectrum and 5 MHz of CDMA spectrum allotted
2006	<ul style="list-style-type: none"> 22 new licenses issued to Aircel, Vodafone and Idea Total of 49.2 MHz GSM spectrum and 21.25 MHz of CDMA spectrum allotted
2007	<ul style="list-style-type: none"> 1 new license issued, 61.2 MHz of GSM and 1.25 MHz of CDMA spectrum allotted TRAI suggests the current spectrum allocation mechanism needs to be reexamined, and that all future allocation of spectrum should be auction-based UAS license will allow operators to provide both GSM & CDMA services Reserve price set for future 3G/BWA auctions
2008	<ul style="list-style-type: none"> 122 new licenses issued based on applications received in 2007 Total of 589.2 MHz GSM spectrum and 65 MHz of CDMA spectrum allotted
2009	<ul style="list-style-type: none"> Total of 86.6 MHz GSM spectrum allotted
2010	<ul style="list-style-type: none"> 3G/BWA auctions conducted across all circles 4 blocks of 5 MHz 3G spectrum are auctioned in each circle (five blocks were auctioned in Punjab, WB, HP, J&K, Bihar) 3 blocks of 20 MHz BWA spectrum are auctioned in each circle
2011	<ul style="list-style-type: none"> Draft NTP 2011 is released, aiming to address issues of spectrum pricing and de-linking spectrum from licenses

Source: TRAI, Supreme Court judgment

Severe negative impact on Bharti from one-off spectrum charge and renewal fees
Impact of various potential positives and negatives on Bharti (Rs/share), without refarming

	Per share impact
Negatives	
One time excess spectrum charge	(12)
Charges on spectrum renewal (NPV of the impact)	(32)
Change in roaming regulations	(26)
Spectrum refarming	—
5 paise reduction in termination charges	(19)
8% license fee for towercos	(10)
Total negatives	(100)
Positives	
Reduction in license fees	5
Lower USO fee from meeting rural rollout obligations	33
Total positives	37
Net impact (Rs/share)	(63)

Source: Kotak Institutional Equities estimates

Severe negative impact on Idea from one-off spectrum charge and renewal fees
Impact of various potential positives and negatives on Idea (Rs/share), without refarming

	Per share impact
Negatives	
One time excess spectrum charge	(6)
Charges on spectrum renewal (NPV of the impact)	(32)
Change in roaming regulations	(11)
Spectrum refarming	—
5 paise reduction in termination charges	(12)
8% license fees for towercos	(2)
Total negatives	(63)
Positives	
Reduction in license fees	3
Lower USO fee from meeting rural rollout obligations	16
Total positives	19
Net impact (Rs/share)	(44)

Source: Kotak Institutional Equities estimates

FEBRUARY 28, 2012

CHANGE IN RECO.

Coverage view: **Attractive**

Price (Rs): **374**

Target price (Rs): **435**

BSE-30: **17,731**

Not enough gas in the tank. We have reduced our gas transmission volume assumptions for GAIL to reflect the likely decline in domestic gas supply led by lower production from RIL's KG D-6 block. We have cut our earnings estimates and downgraded our rating on GAIL stock to ADD from BUY with a revised SOTP-based target price of ₹435 (₹485 previously). Key triggers in the medium term include (1) lower subsidy burden on the company and (2) upward increase in transmission tariffs by PNGRB to factor in lower gas volumes in the long term.

Company data and valuation summary

GAIL (India)

Stock data

52-week range (Rs) (high,low) 486-360

Market Cap. (Rs bn) 474.7

Shareholding pattern (%)

Promoters 57.3

FIs 14.3

MFs 3.1

Price performance (%)

Absolute 1M 3M 12M 0.5 (3.8) (12.3)

Rel. to BSE-30 (2.4) (12.2) (11.8)

Forecasts/Valuations

	2012	2013E	2014E
EPS (Rs)	29.6	28.0	31.5
EPS growth (%)	5.2	(5.4)	12.5
P/E (X)	12.6	13.4	11.9
Sales (Rs bn)	387.3	466.3	587.2
Net profits (Rs bn)	37.6	35.5	40.0
EBITDA (Rs bn)	63.4	65.3	77.3
EV/EBITDA (X)	8.4	8.7	7.0
ROE (%)	16.1	13.3	13.4
Div. Yield (%)	2.1	2.1	2.4

QUICK NUMBERS

- 118 mcm/d of gas in FY2013E and 127 mcm/d of gas in FY2014E
- 16% potential upside from current levels

Lower transmission volumes to reflect decline in domestic gas supply

We have reduced our gas transmission estimates for GAIL to 118 mcm/d in FY2013E and 127 mcm/d in FY2014E from 125 mcm/d and 135 mcm/d previously to reflect lower domestic gas supply (see Exhibit 1) led by likely lower gas production from RIL's KG D-6 block. We have assumed gas transmission volumes to remain stable in FY2013E versus FY2012E as incremental LNG supply from the start of new LNG import terminals in Dabhol (March 2012) and Kochi (3QFY13) will likely offset the decline in KG D-6 gas production. Our expected increase in gas transmission volumes for FY2014E reflects (1) higher LNG imports from Dabhol, Hazira and Kochi terminals and (2) incremental gas production from ONGC's marginal fields.

Downgrade to ADD with a revised SOTP-based target price of ₹435 (₹485 previously)

We have revised our rating on GAIL stock to ADD from BUY noting 16% potential upside to our revised SOTP-based target price of ₹435 (₹485 previously) based on FY2013E estimates. The downward revision in our target price for GAIL reflects assumption of lower gas transmission volumes in the long term. We have reduced gas transmission volumes for DV-GREP pipeline to 27 mcm/d in the long term, assuming 50% utilization of expanded capacity. This results in a project IRR of ~9% at the current transmission tariffs fixed by PNGRB versus regulated pre-tax return of 18%. We note that transmission tariffs for DV-GREP pipeline may be revised upwards by PNGRB in order to compensate the company for lower gas volumes in the long term.

Revise earnings for lower gas transmission volumes and higher crude prices

We have cut our FY2012E-14E EPS estimates to ₹29.6, ₹28 and ₹31.5 from ₹30.1, ₹31 and ₹33.2 to reflect (1) lower gas transmission volumes, (2) higher subsidy burden for FY2013-14E given our higher crude price assumptions, (3) higher prices for crude-linked products, (4) revised exchange rate assumptions and (5) other minor changes. Key downside risks stem from (1) higher-than-expected subsidy burden and (2) complete removal of marketing margins.

We see delays in several domestic projects, which may delay ramp-up in domestic gas supply

Supply of natural gas in India, March fiscal year-ends, 2008-17E (mcm/d)

	2008	2009	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E
Mumbai High	45	46	48	48	48	48	48	48	48	48
Gujarat	8	7	7	6	6	6	6	6	6	6
North-East	9	9	9	9	10	10	11	11	11	11
Rajasthan	1	1	1	1	1	1	1	1	1	1
TN/AP	7	8	7	7	7	7	7	7	7	7
Eastern offshore										
KG-D6 (RIL-Niko)	—	—	39	56	43	30	25	25	33	40
KG-D3 (RIL-Hardy)	—	—	—	—	—	—	—	—	—	—
KG-D9 (RIL-Hardy)	—	—	—	—	—	—	—	—	—	—
NEC-25 (RIL-Niko)	—	—	—	—	—	—	—	—	—	6
Deen Dayal (GSPC)	—	—	—	—	—	—	3	5	6	6
ONGC	—	—	—	—	0	1	2	2	2	2
PY-3	0	0	0	0	0	0	0	0	0	0
Ravva	2	2	1	2	2	2	1	1	1	1
Western offshore										
Lakshmi	1	1	1	1	1	0	0	—	—	—
Panna-Mukta	6	5	5	4	5	5	4	5	4	4
Tapti	9	12	8	7	7	6	6	6	6	5
ONGC marginal fields	—	—	—	—	1	3	4	6	6	6
LNG and CBM										
Petronet LNG - Dahej	24	24	30	33	41	41	40	48	53	62
Petronet LNG - Kochi	—	—	—	—	—	3	11	16	18	18
RGPL - Dabhol	—	—	—	—	1	2	6	8	15	18
Shell Total LNG - Hazira	8	6	3	4	8	11	14	15	18	18
CBM gas	—	—	—	0	0	2	3	4	5	5
Domestic gas supply	88	89	128	141	130	121	121	126	135	147
Total gas supply	120	119	160	178	180	178	192	213	239	264

Source: Company, MOPNG, Kotak Institutional Equities estimates

Key assumptions behind earnings model

Exhibit 2 gives our key assumptions for GAIL. We discuss the key assumptions behind our earnings model below.

Key assumptions behind GAIL model, March fiscal year-ends, 2007-14E

	2007	2008	2009	2010	2011	2012E	2013E	2014E
Volumes								
Natural gas transportation, gross (mcm/day)								
HBJ pipeline	32	32	32	32	32	32	32	32
Dahej-Vijaypur-GREP upgradation						2	2	4
Dadri-Bawana-Nangal (transmitted and sold)				1	2	3	3	3
Dadri-Bawana-Nangal (transmitted)					1	2	2	2
Chainsa-Jhajjar-Hissar (transmitted and sold)					2	3	3	3
Chainsa-Jhajjar-Hissar (transmitted)					1	2	2	2
Other pipelines (transmitted)					16	16	12	13
Other pipelines	39	40	39	49	39	37	38	35
Regassified LNG								
Dahej-Vijaipur pipeline (transmitted and sold)	6	9	9	15	13	13	13	13
Dahej-Vijaipur pipeline (transmitted)	4	6	6	10	13	12	12	12
Dahej-Uran pipeline (transmitted and sold)		6	9	12	6	6	6	6
Dahej-Uran pipeline (transmitted)					6	6	6	6
Panvel-Dabhol pipeline (transmitted and sold)		4	6	8	3	3	3	3
Panvel-Dabhol pipeline (transmitted)					5	5	5	5
Dabhol-Bangalore pipeline							2	6
Kochi-Bangalore/Mangalore pipeline							3	8
Elimination of double-counted volumes (a)	(3)	(15)	(18)	(21)	(20)	(24)	(26)	(26)
Total gas transmission	77	82	83	107	118	118	118	127
Total gas sales					83	84	88	96
LPG (000 tons)								
Sold	1,037	1,039	1,092	1,101	1,073	1,135	1,165	1,165
Transported	2,490	2,754	2,744	3,160	3,337	3,350	3,350	3,350
Petrochemicals (000 tons)								
Polyethylene								
Domestic sales	337	381	423	410	420	440	445	480
Exports	10	10	—	—	—	—	—	—
Total petrochemicals	347	391	423	410	420	440	445	480
Prices								
Natural gas (Rs/cubic meter)								
Natural gas ceiling price	4.21	4.21	4.59	5.75	7.55	7.71	7.71	7.71
Regassified LNG including transportation	6.93	6.44	7.05	11.09	12.59	16.67	22.15	25.85
Transmission plus marketing charges								
HBJ pipeline, Dahej-Vijaipur pipeline (from FY2007)	0.99	0.96	1.05	0.99	0.99	0.99	0.99	0.99
Dahej-Vijaypur-GREP upgradation				1.95	1.95	1.95	1.95	1.95
Dadri-Bawana-Nangal				1.16	1.16	1.16	1.16	1.16
Chainsa-Jhajjar-Hissar				0.71	0.71	0.71	0.71	0.71
Dahej-Vijaipur, Dahej-Uran, Panvel-Dabhol pipeline	0.99	1.03	1.04	1.04	0.95	0.89	0.89	0.89
Dabhol-Bangalore pipeline							2.09	2.09
Kochi-Bangalore/Mangalore pipeline							1.37	1.37
Other pipelines	0.40	0.42	0.44	0.44	0.46	0.46	0.48	0.48
LPG								
LPG (US\$/ton)	531	702	685	612	749	865	888	849
Transmission charges (Rs/ton)								
Jamnagar-Loni	1,522	1,522	1,522	1,522	1,522	1,522	1,522	1,522
Vizag-Secunderabad	1,450	1,450	1,450	1,450	1,450	1,450	1,450	1,450
Other assumptions								
Polyethylene, HDPE (US\$/ton)	1,315	1,500	1,360	1,340	1,415	1,525	1,425	1,435
Import tariff, Polyethylene	5%	5%	5%	5%	5%	5%	5%	5%
Import tariff, LPG	0%	0%	0%	0%	0%	0%	0%	0%
Exchange rate (Rs/US\$)	45.3	40.3	45.8	47.4	45.6	48.0	50.5	50.0
Subsidy losses	14,880	13,137	17,812	13,267	21,112	33,995	36,015	29,110

Note:

(a) Gas transported through the HVJ or DV pipeline and then to smaller pipelines.

Source: Company, Kotak Institutional Equities estimates

- **Subsidy burden.** We model subsidy burden on GAIL for FY2012E, FY2013E and FY2014E at ₹34 bn, ₹36 bn and ₹29.1 bn. We assume that upstream companies will bear 45% of total under-recoveries for FY2012E and GAIL will bear 5.6% of subsidy burden on upstream companies. We assume upstream companies to bear 50% in FY2013-14E. We assume GAIL's share of subsidy burden on upstream companies at 7% in FY2013E and 8.2% in FY2014E. The rising share reflects the fact that GAIL bears subsidy on kerosene and LPG only and we expect the share of these two fuels to rise disproportionately as a share of overall under-recoveries on fuels.
- **Gas transmission volumes.** We estimate GAIL's transmission volumes for FY2012E at 118.3 mcm/d versus 118.3 mcm/d in 9MFY12 and 117.9 mcm/d in FY2011. We model gas transmission volumes for FY2013E and FY2014E at 118 mcm/d and 127 mcm/d. We believe increased gas supply from (1) higher LNG imports from terminals in Dabhol, Hazira and Kochi and (2) incremental gas production from ONGC's marginal fields will more than offset the decline in gas supply from KG D-6 block by FY2014E.
- **Crude oil and LPG price assumptions.** We have increased our FY2013E and FY2014E crude oil (Dated Brent) price assumptions to US\$110/bbl and US\$105/bbl from US\$105/bbl and US\$100/bbl previously.
- **Rupee-Dollar exchange rate assumptions.** We have revised our exchange rate assumptions for FY2012E, FY2013E and FY2014E to ₹48/US\$, ₹50.5/US\$ and ₹50/US\$ versus ₹48.7/US\$, ₹52.5/US\$ and ₹51/US\$ previously.

We value GAIL stock at ₹435 per share

Sum-of-the-parts valuation of GAIL, FY2013E basis (₹ bn)

	Valuation base (Rs bn)		Multiples (X)		EV (Rs bn)		EV (Rs/share)
	Other	EBITDA	Other	EV/EBITDA	Other	EBITDA basis	
Natural gas transportation							
HVJ pipeline	41				41		33
DV pipeline	34				34		27
DUPD pipeline	31				31		24
DBN pipeline	38				38		30
CGJH pipeline	15				15		12
DV GREP pipeline	101				101		80
DB pipeline	69				69		54
KBM pipeline	46				46		36
Short distance pipelines		4.9		5.0		24	19
Total natural gas transportation							314
Other businesses							
LPG transportation		3.7		6.0		22	18
LPG production		8.6		5.0		43	34
Petrochemicals		14.5		5.0		72	57
Natural gas trading		8.9		3.0		27	21
Total other business segments							130
Investments							
ONGC shares	68		0.8		54		43
Others	47		0.8		37		29
Investments	114		0.8		92		72
Total						189	516
Net debt/(cash)					105	105	83
Implied value of share (Rs/share)							434

Source: Kotak Institutional Equities estimates

GAIL (India) Ltd: Profit model, balance sheet, cash model of GAIL, March fiscal year-ends, 2007-14E (₹ mn)

	2007	2008	2009	2010	2011	2012E	2013E	2014E
Profit model (Rs mn)								
Net sales	160,472	180,082	237,760	249,964	324,586	387,290	466,263	587,238
EBITDA	30,649	39,275	40,647	46,688	54,718	59,830	61,909	73,539
Other income	5,450	5,564	7,966	5,411	5,186	3,613	3,408	3,753
Interest	(1,071)	(796)	(870)	(700)	(829)	(939)	(2,224)	(6,277)
Depreciation	(5,754)	(5,710)	(5,599)	(5,618)	(6,503)	(7,832)	(11,244)	(13,238)
Pretax profits	29,274	38,333	42,144	45,781	52,572	54,672	51,849	57,778
Tax	(7,941)	(12,525)	(13,941)	(13,750)	(14,352)	(12,866)	(9,810)	(12,065)
Deferred taxation	(190)	(10)	(62)	(636)	(2,437)	(4,210)	(6,490)	(5,733)
Net profits	24,619	26,015	28,037	31,398	35,611	37,597	35,549	39,980
Earnings per share (Rs)	19.4	20.5	22.1	24.8	28.1	29.6	28.0	31.5
Balance sheet (Rs mn)								
Total equity	113,929	130,049	147,696	167,990	192,533	218,336	242,091	268,803
Deferred taxation liability	13,187	13,197	13,259	13,896	16,332	20,542	27,033	32,766
Total borrowings	13,379	12,659	12,001	14,804	23,100	88,400	120,700	99,500
Current liabilities	45,512	60,604	81,548	103,784	88,149	79,575	89,081	102,682
Total liabilities and equity	186,007	216,509	254,505	300,473	320,115	406,854	478,905	503,751
Cash	26,604	44,730	34,562	41,715	21,314	13,326	9,837	13,196
Other current assets	50,851	59,370	87,804	95,412	90,148	103,244	114,374	123,159
Total fixed assets	93,913	97,500	114,767	142,616	182,827	264,459	328,869	341,571
Investments	14,638	14,909	17,373	20,730	25,825	25,825	25,825	25,825
Total assets	186,007	216,509	254,505	300,473	320,115	406,854	478,905	503,751
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	23,920	33,692	30,456	33,480	42,110	42,270	43,203	52,508
Working capital changes	(10,151)	(388)	(5,573)	12,454	(12,420)	(21,669)	(1,624)	4,816
Capital expenditure	(20,449)	(12,419)	(25,535)	(35,702)	(46,322)	(85,708)	(68,983)	(23,250)
Investments	(205)	(270)	(2,464)	(3,358)	(5,095)	—	—	—
Other income	3,884	4,042	5,243	4,705	4,090	3,613	3,408	3,753
Free cash flow	(3,002)	24,658	2,127	11,580	(17,637)	(61,494)	(23,994)	37,827
Ratios (%)								
Debt/equity	10.5	8.8	7.5	8.1	11.1	37.0	44.8	33.0
Net debt/equity	(10.4)	(22.4)	(14.0)	(14.8)	0.9	31.4	41.2	28.6
ROAE (%)	20.5	19.2	18.4	18.3	18.2	16.8	14.0	14.0
ROACE (%)	16.1	17.8	17.5	17.2	16.9	13.7	10.3	11.2
Key assumptions								
Gas transmission volumes (mcm/d)	77	82	83	107	118	118	118	127
Petrochemical sales volumes (000 tons)	347	391	423	410	420	440	445	480
LPG sales volumes (000 tons)	1,037	1,039	1,092	1,101	1,073	1,135	1,165	1,165
LPG transmission volumes (000 tons)	2,490	2,754	2,744	3,160	3,337	3,350	3,350	3,350
Subsidy losses (Rs mn)	14,880	13,137	17,812	13,267	21,112	33,995	36,015	29,110

Source: Company, Kotak Institutional Equities estimates

Notes from TPWR's Asia NDR. We recently hosted the management of Tata Power (TPWR) at a non-deal road show where the key points of discussion revolved around (1) curtailing losses at Mundra, (2) ramp-up of production at the Indonesian coal mines, (3) view on the renewed impetus to resolve sector issues including domestic coal availability, and (4) status of development of captive blocks and new projects. We maintain our BUY rating and target price of Rs125/share as we like the hedge from resource ownership and measured steps to curtail losses at Mundra.

Company data and valuation summary

Tata Power

Stock data

52-week range (Rs) (high,low) 136-80

Market Cap. (Rs bn) 276.8

Shareholding pattern (%)

Promoters 31.8

FIIs 23.3

MFs 4.7

Price performance (%)

Absolute 1M 3M 12M 6.8 19.4 (2.5)

Rel. to BSE-30 3.8 8.8 (2.0)

Forecasts/Valuations

2012 2013E 2014E

EPS (Rs) 4.9 8.7 7.4

EPS growth (%) (36.3) 77.6 (14.9)

P/E (X) 23.0 13.0 15.2

Sales (Rs bn) 260.0 288.9 317.7

Net profits (Rs bn) 12.0 21.4 18.2

EBITDA (Rs bn) 55.9 66.5 69.4

EV/EBITDA (X) 9.4 8.1 7.6

ROE (%) 8.4 14.5 11.2

Div. Yield (%) 1.3 1.5 1.5

Mundra UMPP—pursuing various options to curtail losses

The management highlighted various initiatives being pursued to curtail losses (Rs10 bn losses before tax in FY2014E as per our estimates) at Mundra UMPP including (1) blending of low-grade coal that is available at 10-30% energy-adjusted discount, (2) operating the plant units at minimum committed operational levels (70-75% PLF), (3) possible compensation for cost escalations in prices of imported coal, and (4) looking at setting up additional units using extant infrastructure (and therefore lower capex costs).

We note that 5% reduction in overall fuel costs reduces losses by ~20% (at PBT level). TPWR has so far successfully blended 30% low-grade coal during the commissioning phase. The management highlighted that at current coal prices (US\$120/ton) Mundra needs a tariff of Rs2.9 for break-even and Rs3.1 to make a reasonable return—competitive in comparison to other fuel sources.

Indonesian coal mines—likely to achieve 75 mn tons in CY2012E

TPWR management remains confident of achieving 75 mn tons of production at its coal mines in Indonesia by CY2012E, thereby augmenting consolidated earnings and absorbing the losses at Mundra. The management highlighted that capex incurred (sanctioned only in CY2010) so far has helped not only increase production capacity but also reduce cost of production. They further indicated that any restructuring of the ownership of the coal mines with Mundra would be pursued only after ascertaining tax implications under the proposed Direct Tax Code.

Maintain BUY rating with target price of Rs125/share

We maintain our BUY rating on Tata Power with a target price of Rs125/share. As we have been highlighting, despite the potential losses at Mundra, TPWR will remain a net beneficiary of rising prices of coal which could be further magnified by a more aggressive production ramp-up at Bumi. We continue to like TPWR's core distribution business which earns a stable return and is insulated from risks of deteriorating financial health of SEBs.

Addressing power sector concerns—a positive start, though a long road ahead

The management is encouraged by the renewed focus of the government to address the constraints of the power sector—the directive of the PMO asking Coal India to sign Fuel Supply Agreements (FSAs) with 80% commitments is a positive start, though several intermittent issues need a resolution before the diktat translates into tangible benefits.

The management believes that the government needs to have an overall policy directive that takes into consideration the issues pertaining to the availability and pricing of coal (both domestic as well as imported) in conjunction with the health of state-owned distribution utilities.

Growth projects—progressing beyond Mundra and Maithon

TPWR has 4.6 GW of capacities currently under construction and slated to commission over the next 18 months including Unit II at Maithon (525 MW), Mundra UMPP (4,000 MW) and Dagacchu hydro project in Bhutan (114 MW). We highlight that beyond these projects, TPWR has another 7 GW of projects under various stages of planning and development with varied fuel mix. We describe some of the key projects in detail below:

- ▶ **Kalinganagar (3 X 67.5 Gas + 2 X 245 Coal).** This is a mix of gas and coal-based projects. Production gas from Tata Steel is proposed to be used for gas capacities while linkage coal will be the primary option for coal-based units (with Indonesia coal as the back up). Environmental Clearance for the gas-based plant obtained by Tata Steel.
- ▶ **Orissa IPP (1,320 MW).** Location for the project has not been finalized as the original location has been converted into gas-based capacity. The project is proposed to utilize coal from Mandakini coal block (TPWR has 33% stake in proposed 7.5 mtpa of production).
- ▶ **Tiruldih IPP/CPP (1,980 MW).** The project will partly utilize coal from Tubed coal block (TPWR has 40% stake in proposed 6 mtpa of production). Currently, land acquisition for the project is under progress.
- ▶ **Maithon phase II (1,320 MW).** Land for this proposed expansion project is in possession. The project is proposed to run on linkage coal and Environment Impact Assessment (EIS) study is currently under progress.
- ▶ **Mundra phase II (1,600 MW).** Expansion of the extant Mundra UMPP is proposed to run on imported coal. Land is in possession.

Exhibit 1: Blending of low-grade coal could add Rs5-6/share to our fair value estimate of TPWR

Sensitivity of TPWR's fair value estimate to coal prices and volumes, PLF at Mundra and blending ratio (Rs/share)

Fair Value		Realization @ US\$70/ton			Base case realization @ US\$80/ton			Realization @ US\$90/ton			
		Share value (Rs/share)			Share value (Rs/share)			Share value (Rs/share)			
		PLF at Mundra (%)			PLF at Mundra (%)			PLF at Mundra (%)			
		65	75	85	65	75	85	65	75	85	
Sustainable volumes at Bumi (mn tons)	60	97	102	98	106	110	105	115	118	111	Assuming no blending
	70	102	107	103	113	117	112	124	127	121	
	80	107	111	107	120	124	119	134	137	131	
	90	111	116	112	128	132	126	144	147	140	
	100	116	121	116	135	139	133	154	157	150	
Fair Value		No blending			20% blending of			40% blending			At our base case realization assumption of US\$80/ton for Bumi
		Share value (Rs/share)			Share value (Rs/share)			Share value (Rs/share)			
		PLF at Mundra (%)			PLF at Mundra (%)			PLF at Mundra (%)			
		65	75	85	65	75	85	65	75	85	
Sustainable volumes at Bumi (mn tons)	60	106	110	105	108	112	107	110	114	109	
	70	113	117	112	115	119	114	117	121	117	
	80	120	124	119	122	126	121	124	129	124	
	90	128	132	126	129	134	128	131	136	131	
	100	135	139	133	136	141	136	138	143	138	

Note:

- (1) We assume availability to be 5% higher than the PLF
(2) Low grade coal has been assumed to be at a 20% discount to anergy adjusted price
(3) GCV of low-grade coal has been assumed to be 4,200 kcal/kg

Source: Kotak Institutional Equities estimates

Exhibit 2: Tata Power Sum-of-the-parts valuation

	Methodology	Key assumptions/comments	FY2013E Book value per share (Rs)	Per share value (Rs)
Mumbai (Generation, transmission & distribution business)	DCFe CoE: 12% Term. Yr. Grth: 4%	Includes valuation of extant Mumbai business	11	29
Other generation assets (standalone)	DCFe CoE: 12%	Jojobera + Belgaum + Haldia (629 MW)	4	7
IEL	DCFe CoE: 12%	Jojobera Unit 5 + IEL Phase 6 - 240 MW	1	2
Powerlinks Transmission Ltd	DCFe CoE: 12%	The project earns a regulated RoE of 15.5% as per the CERC tariff guideline for inter-state transmission project	1	1
Delhi Distcom (NDPL)	DCFes CoE: 12% Term. Yr. Grth: 2%	NDPL earns 16% RoE provided it meets certain A,T&C loss reduction benchmarks. It is also incentivized by way of higher returns in the event of bettering the benchmarks	2	3
Tata BP Solar	P/E (X)	12X P/E on FY09	0	1
Investments	Various	20% discount to CMP/ KIE target price	8	18
Investible surplus on books	Market value	Marketable securities & cash on books	29	29
Bumi Resources	DCF	Net economic interest - based on dividend discount model	4	51
Mundra UMPP	DCF-equity	Levelized tariff of Rs2.26/unit for 25 years	7	(26)
Maithon	DCF-equity	74% stake in 1,050 MW project; 300 MW to be sold to DVC, 300 MW to NDPL, 300 MW to Punjab and 150 MW to West Bengal (regulated returns); Coal linkage allocated	4	9
TOTAL			60	124

Source: Kotak Institutional Equities estimates

Exhibit 3: TPWR has 7 GW of projects under various stages of planning and development

Details of TPWR's portfolio of projects under construction and development

Project	Capacity (MW)	TPWR's stake (%)	Attributable capacity (MW)	Fuel	Remarks
Under construction					
Maithon Unit II	525	74	389	Linkage coal	Unit I commissioned, Unit II by end FY2012E
Mundra UMPP	4,000	100	4,000	Imported coal	Unit I to be commissioned by April 2012
Dagacchu hydropower in Bhutan	114	26	30	NA	COD by 2013
Total	4,639		4,418		
Under development					
Dugar Hydro project	236	100	236	NA	Preliminary survey work commenced
Kalinganagar (3 X 67.5 Gas + 2 X 245 Coal)	650	74	481	Production gas from Tata Steel + Linage coal	Environmental clearance for gas plants obtained.
Orissa IPP	1,320	100	1,320	Mandakini coal block	Location not finalized as original location has been converted into gas-based capacity
Tirulidih IPP/CPP	1,980	74	1,465	Tubed coal block	Land acquisition in progress
Maithon II	1,320	74	977	Linkage coal	Land in possession. EIA study being conducted
Mundra II	1,600	100	1,600	Imported coal	Land in possession. Project under planning
Total	7,106		6,079		

Notes:

(a) We have not included the renewable portfolio including Wind, Solar and Geothermal projects

Source: Company, Kotak Institutional Equities

Exhibit 4: Tata Power: Profit model, balance sheet, cash model (Consolidated), March fiscal year-ends, 2009-14E (Rs mn)

	2009	2010	2011	2012E	2013E	2014E
Profit model (Rs mn)						
Net sales	175,875	189,858	194,508	259,983	288,942	317,658
EBITDA	36,496	38,379	45,956	54,730	65,287	68,113
Other income	2,266	1,841	2,671	3,727	5,618	5,671
Interest	(8,129)	(7,818)	(8,684)	(14,769)	(18,909)	(23,513)
Depreciation	(6,565)	(8,777)	(9,802)	(12,586)	(17,858)	(21,066)
Pretax profits	24,069	23,625	30,141	31,102	34,138	29,205
Tax	(11,651)	(6,287)	(9,756)	(17,728)	(11,948)	(10,160)
Minority interest	(800)	(1,718)	(1,223)	(1,341)	(824)	(863)
Net profits	11,618	15,620	19,162	12,033	21,365	18,181
Extraordinary items	1,023	3,984	1,719	(13,760)	—	—
Earnings per share (Rs)	5	6	8	5	9	7
Balance sheet (Rs mn)						
Total equity	92,576	120,403	137,442	131,384	147,840	161,112
Deferred taxation liability	5,154	4,308	4,753	4,066	3,380	3,380
Total borrowings	141,434	184,469	247,624	305,735	318,468	319,673
Current liabilities	67,812	74,080	95,087	106,968	111,143	122,525
Capital contribution from Consumers	2,030	3,664	3,823	3,823	3,823	3,823
Minority interest	9,444	12,098	14,143	15,483	16,308	17,171
Total liabilities and equity	318,450	399,021	502,871	567,460	600,962	627,684
Cash	11,780	23,108	22,066	71,938	69,330	79,759
Current assets	62,686	73,794	88,862	82,450	97,651	108,545
Total fixed assets	201,076	267,402	356,124	374,867	395,775	401,174
Investments	32,512	30,823	28,410	30,797	30,797	30,797
Deferred expenditure	10,397	3,896	7,409	7,409	7,409	7,409
Total assets	318,450	399,021	502,871	567,460	600,962	627,684
Free cash flow (Rs mn)						
Operating cash flow, excl. working capital	22,396	29,242	31,888	11,568	39,146	40,079
Working capital	10,724	(10,899)	(769)	18,035	(11,285)	519
Capital expenditure	(65,047)	(78,368)	(97,932)	(31,329)	(38,767)	(26,465)
Investments	(4,684)	3,486	(1,100)	(2,387)	—	—
Free cash flow	(36,612)	(56,540)	(67,913)	(4,112)	(10,906)	14,134

Source: Company, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

	28-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	2011	2012E	2013E	(Rs)	(%)	(US\$ mn)	
Automobiles																														
Apollo Tyres	83	BUY	41,764	854	504	8.7	7.4	10.0	(26.1)	(15.4)	34.6	9.5	11.2	8.3	6.6	5.9	4.7	1.5	1.4	1.2	0.6	0.5	0.7	20.1	14.4	16.8	90	8.6	3.8	
Ashok Leyland	28	ADD	74,499	1,523	2,661	2.4	1.7	2.8	68.1	(26.8)	58.6	11.8	16.1	10.2	8.0	9.3	7.0	1.7	1.6	1.5	3.6	3.6	3.6	21.8	14.6	21.5	33	17.9	3.6	
Bajaj Auto	1,767	SELL	511,225	10,453	289	90.4	106.6	122.3	43.9	18.0	14.7	19.5	16.6	14.4	14.9	12.4	11.1	10.3	7.5	5.7	2.3	2.3	2.3	84.9	52.5	44.7	1,715	(2.9)	21.2	
Bharat Forge	312	REDUCE	74,133	1,516	237	12.5	17.5	20.0	1,402.1	39.2	14.6	24.9	17.9	15.6	11.5	9.0	8.0	3.3	2.8	2.4	1.1	—	—	8.2	14.6	15.6	315	0.8	2.5	
Exide Industries	136	SELL	115,260	2,357	850	7.5	5.1	6.5	18.0	(32.1)	28.4	18.2	26.8	20.9	13.1	17.4	13.9	4.2	3.8	3.3	1.1	0.9	0.9	25.5	14.9	17.0	105	(22.6)	3.8	
Hero Motocorp	1,966	SELL	392,650	8,028	200	99.3	118.0	131.8	(11.1)	18.8	11.7	19.8	16.7	14.9	13.0	11.9	10.5	8.4	7.3	6.1	5.3	3.6	3.6	56.5	66.1	59.5	1,850	(5.9)	24.3	
Mahindra & Mahindra	704	BUY	432,317	8,839	614	41.7	42.8	46.4	22.7	2.5	8.5	16.9	16.5	15.2	13.0	12.4	11.1	4.1	3.4	2.9	1.6	1.3	1.3	27.3	22.5	20.8	835	18.6	38.0	
Maruti Suzuki	1,270	SELL	366,787	7,500	289	79.2	52.3	89.9	(8.4)	(33.9)	71.7	16.0	24.3	14.1	10.2	16.6	8.7	2.6	2.4	2.1	0.6	0.6	0.6	17.6	10.3	15.8	1,250	(1.5)	19.0	
Tata Motors	273	REDUCE	908,889	18,584	3,325	27.2	34.3	38.7	737.9	26.2	12.8	10.1	8.0	7.1	6.7	5.3	4.4	4.7	3.1	2.2	1.4	1.1	1.1	66.1	46.8	37.0	285	4.3	78.9	
Automobiles		Cautious	2,917,524	59,654					82.8	10.7	17.8	14.2	12.9	10.9	9.3	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	121	BUY	67,513	1,380	560	22.6	23.6	23.0	5.0	4.4	(2.8)	5.3	5.1	5.3	—	—	—	1.0	0.9	0.8	4.6	4.8	4.6	23.2	19.0	16.3	150	24.3	1.5	
Axis Bank	1,171	BUY	496,698	10,156	424	82.5	95.5	102.8	33.0	15.7	7.6	14.2	12.3	11.4	—	—	—	2.6	2.2	1.9	1.2	1.4	1.5	19.3	19.6	18.2	1,350	15.3	60.0	
Bajaj Finserv	583	ADD	84,341	1,725	145	78.2	63.2	62.9	102.3	(19.2)	(0.4)	7.5	9.2	9.3	—	—	—	2.4	1.7	1.4	2.1	2.1	2.1	37.2	21.9	16.8	650	11.5	1.3	
Bank of Baroda	810	BUY	318,292	6,508	393	108.0	115.6	121.2	29.1	7.1	4.9	7.5	7.0	6.7	—	—	—	1.6	1.4	1.2	2.4	2.5	2.7	25.9	21.5	19.2	1,050	29.6	9.3	
Bank of India	375	BUY	205,071	4,193	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	20.1	6.0	
Canara Bank	513	BUY	227,259	4,647	443	90.9	74.8	93.2	23.3	(17.7)	24.6	5.6	6.9	5.5	—	—	—	1.3	1.1	0.9	2.1	2.3	2.3	23.2	15.5	16.9	550	7.2	8.4	
Corporation Bank	469	BUY	69,488	1,421	148	95.4	107.5	107.5	16.3	12.7	(0.0)	4.9	4.4	4.4	—	—	—	1.0	0.8	0.7	4.3	4.8	4.8	21.9	20.6	17.8	600	27.9	0.8	
Federal Bank	406	BUY	69,462	1,420	171	34.3	42.4	49.7	26.3	23.5	17.3	11.8	9.6	8.2	—	—	—	1.4	1.3	1.2	2.1	2.6	3.0	12.0	13.5	14.3	500	23.1	4.3	
HDFC	670	REDUCE	982,896	20,097	1,467	24.1	27.7	31.8	22.4	14.9	14.7	27.8	24.2	21.1	—	—	—	5.7	5.0	3.8	1.3	1.5	1.8	21.7	22.0	21.4	725	8.2	70.9	
HDFC Bank	531	ADD	1,234,011	25,232	2,326	16.9	22.1	28.1	31.0	30.9	27.2	31.4	24.0	18.9	—	—	—	4.9	4.2	3.6	0.6	0.8	1.0	16.7	18.8	20.5	560	5.6	34.0	
ICICI Bank	911	BUY	1,049,078	21,450	1,152	44.7	53.2	56.7	23.9	19.0	6.5	20.4	17.1	16.1	—	—	—	1.9	1.8	1.7	1.5	1.8	1.9	9.7	10.7	10.7	1,100	20.8	112.1	
IDFC	140	ADD	211,365	4,322	1,509	8.8	10.6	12.8	4.6	20.6	20.8	16.0	13.2	11.0	—	—	—	2.0	1.7	1.5	1.5	1.5	1.8	14.7	13.9	14.6	155	10.6	25.6	
India Infoline	72	SELL	20,521	420	286	7.4	4.0	4.3	(9.3)	(45.5)	5.7	9.7	17.8	16.9	—	—	—	1.2	1.2	1.0	4.9	1.2	1.2	12.9	6.7	7.3	70	(2.3)	1.1	
Indian Bank	238	BUY	102,457	2,095	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	3.1	3.3	3.7	22.3	20.4	19.4	300	25.8	2.1	
Indian Overseas Bank	101	BUY	62,617	1,280	619	17.3	14.4	27.8	33.6	(17.2)	93.6	5.8	7.1	3.6	—	—	—	0.8	0.7	0.6	4.9	1.9	3.8	12.7	9.1	15.9	140	38.3	1.8	
IndusInd Bank	304	ADD	141,677	2,897	466	12.4	16.8	17.9	45.2	35.2	7.1	24.5	18.1	16.9	—	—	—	3.5	3.0	2.6	0.7	0.9	1.0	20.8	19.3	17.4	330	8.5	4.2	
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	253	ADD	120,281	2,459	475	20.5	19.3	29.5	47.2	(5.8)	52.7	12.3	13.1	8.6	—	—	—	3.1	2.6	2.2	1.7	1.6	2.5	25.8	20.3	26.0	270	6.6	13.9	
Mahindra & Mahindra Financial	745	BUY	76,316	1,560	102	45.2	55.6	71.9	26.1	23.0	29.3	16.5	13.4	10.4	—	—	—	3.1	2.7	2.3	1.4	1.6	2.1	22.0	21.1	23.1	825	10.8	1.6	
Muthoot Finance	155	BUY	57,550	1,177	371	15.7	23.1	27.5	108.4	46.4	19.3	9.8	6.7	5.6	—	—	—	4.3	1.9	1.4	—	—	—	51.5	38.7	28.4	240	54.9	—	
Oriental Bank of Commerce	279	BUY	81,358	1,663	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	32.7	3.1	
PFC	194	BUY	256,602	5,247	1,320	22.8	22.7	29.3	11.1	(0.5)	29.0	8.5	8.6	6.6	—	—	—	1.7	1.3	1.2	2.0	2.3	3.0	18.4	16.7	17.4	225	15.7	15.8	
Punjab National Bank	951	BUY	301,383	6,162	317	140.0	152.0	166.5	13.0	8.6	9.5	6.8	6.3	5.7	—	—	—	1.5	1.3	1.1	2.3	3.3	3.6	24.4	22.0	20.5	1,270	33.5	9.4	
Reliance Capital	406	ADD	99,818	2,041	246	9.3	8.4	22.6	(25.3)	(10.2)	170.0	43.6	48.5	18.0	—	—	—	1.4	1.4	1.3	0.9	0.8	2.2	3.3	2.9	7.6	470	15.9	31.1	
Rural Electrification Corp.	213	BUY	210,709	4,308	987	26.0	28.7	33.7	28.1	10.5	17.2	8.2	7.4	6.3	—	—	—	1.6	1.4	1.2	3.5	3.9	4.5	21.5	20.7	21.1	230	7.8	11.9	
SKS Microfinance	128	RS	9,413	192	74	15.7	(89.1)	(27.5)	(41.8)	(667.7)	(69.1)	8.1	(1.4)	(4.6)	—	—	—	0.5	0.8	1.0	—	—	—	8.3	(44.7)	(19.3)	—	—	2.1	
State Bank of India	2,231	BUY	1,500,719	30,685	673	130.2	179.2	219.6	(9.9)	37.7	22.6	17.1	12.5	10.2	—	—	—	2.3	1.8	1.6	1.4	1.6	1.7	12.6	16.4	16.8	2,450	9.8	150.9	
Union Bank	234	BUY	125,584	2,568	536	39.5	31.6	44.0	(3.9)	(19.8)	39.0	5.9	7.4	5.3	—	—	—	1.1	1.0	0.9	3.3	2.7	3.8	20.9	14.4	17.5	340	45.1	6.5	
Yes Bank	349	ADD	121,276	2,480	347	20.9	27.1	31.8	39.6	29.3	17.3	16.7	12.9	11.0	—	—	—	3.2	2.6	2.2	0.7	0.9	1.1	21.1	22.4	21.7	375	7.3	19.4	
Banks/Financial Institutions		Attractive	8,470,240	173,189					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	1,289	SELL	242,112	4,950	188	53.0	57.1	69.9	(36.3)	7.8	22.4	24.3	22.6	18.4	14.4	13.6	9.8	3.5	3.1	2.8	2.8	1.8	1.8	17.5	16.1	17.6	1,030	(20.1)	9.7	
Ambuja Cements	163	SELL	248,223	5,075	1,522	7.9	7.8	10.0	(1.5)	(1.2)	28.6	20.7	20.9	16.3	12.7	12.0	8.9	3.2	2.8	2.6	1.3	1.4	1.5	16.6	14.6	17.1	145	(11.1)	9.3	
Grasim Industries	2,743	BUY	251,602	5,144	92	232.0	275.8	281.7	(22.9)	18.9	2.2	11.8	9.9	9.7	7.0	5.7	5.1	1												

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

	28-Feb-12		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target		
Company	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	shares (mn)	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	(Rs)	Upside (%)	ADVT-3mo (US\$ mn)
Consumer products																													
Asian Paints	3,159	SELL	302,977	6,195	96	80.8	94.4	106.9	13.0	16.8	13.3	39.1	33.5	29.5	26.1	22.7	18.4	14.8	11.4	9.3	1.0	0.9	1.1	43.9	39.9	35.6	2,500	(20.9)	5.5
Colgate-Palmolive (India)	1,052	SELL	143,058	2,925	136	29.6	32.5	39.1	(4.9)	9.9	20.3	35.5	32.3	26.9	31.0	27.8	22.4	37.2	37.9	30.2	2.1	2.7	2.6	113.4	116.1	124.9	900	(14.4)	2.0
Dabur India	103	ADD	179,868	3,678	1,740	3.3	3.7	4.4	12.8	12.1	19.2	31.6	28.2	23.7	25.5	21.6	18.4	13.7	10.6	8.4	1.1	1.2	1.5	51.2	43.2	40.2	115	11.3	3.5
GlaxoSmithKline Consumer (a)	2,607	ADD	109,637	2,242	42	71.3	84.5	105.4	28.8	18.5	24.8	36.6	30.9	24.7	26.5	23.3	19.0	11.7	9.9	8.2	1.9	1.3	1.7	32.2	33.8	35.2	3,000	15.1	1.0
Godrej Consumer Products	447	ADD	144,564	2,956	324	14.9	16.8	21.8	31.3	13.1	29.8	30.0	26.5	20.5	25.4	20.2	15.1	8.4	6.3	5.1	1.1	0.7	0.7	35.9	27.6	28.9	500	11.9	1.9
Hindustan Unilever	381	REDUCE	823,285	16,834	2,159	9.9	11.8	14.2	4.8	19.7	19.7	38.6	32.2	26.9	33.0	26.4	21.0	31.3	26.9	23.1	2.0	2.6	3.1	66.3	89.8	92.4	420	10.2	22.2
ITC	211	ADD	1,618,318	33,089	7,681	6.4	7.9	9.0	20.7	22.5	14.1	32.9	26.8	23.5	21.8	18.3	15.8	9.7	8.3	7.3	2.1	1.8	2.1	33.2	34.9	34.3	230	9.2	31.2
Jubilant Foodworks	1,014	SELL	66,535	1,360	66	11.2	16.3	24.0	99.6	45.4	47.3	90.5	62.3	42.3	55.4	34.5	23.7	34.7	22.3	14.6	—	—	—	46.6	43.6	41.7	800	(21.1)	22.3
Jyothy Laboratories	197	ADD	15,276	312	78	10.3	8.4	10.8	(6.2)	(18.8)	28.0	19.0	23.4	18.3	15.5	35.6	26.4	2.3	2.2	2.1	3.1	2.4	3.0	12.3	9.7	11.7	190	(3.5)	0.4
Marico	160	BUY	98,618	2,016	615	3.9	5.2	6.8	(12.8)	33.5	31.7	41.3	31.0	23.5	25.4	21.9	16.6	10.5	8.2	6.4	0.4	0.5	0.6	30.3	30.3	30.8	190	18.6	0.8
Nestle India (a)	4,450	SELL	429,011	8,772	96	86.8	104.6	125.1	16.7	20.5	19.6	51.3	42.5	35.6	34.1	28.1	22.8	50.2	33.7	20.1	1.1	1.1	1.3	116.5	94.7	70.7	3,600	(19.1)	2.5
Tata Global Beverages	121	BUY	74,641	1,526	618	4.0	5.3	6.6	(34.6)	35.1	23.0	30.5	22.6	18.3	12.6	12.3	10.0	1.5	1.4	1.3	1.7	1.5	1.8	6.4	8.2	9.5	110	(8.9)	6.9
Titan Industries	225	ADD	199,885	4,087	888	4.9	6.5	7.9	71.7	32.5	20.7	45.8	34.6	28.6	32.1	24.4	19.7	19.3	14.6	11.3	0.6	1.0	1.3	49.2	48.0	44.4	230	2.2	19.6
United Spirits	593	BUY	74,433	1,522	126	35.3	36.6	42.7	29.5	3.5	16.9	16.8	16.2	13.9	12.7	10.7	9.9	1.8	1.6	1.5	0.4	0.4	0.5	11.2	10.5	11.1	900	51.9	21.3
Consumer products																													
Constructions		Attractive	4,280,106	87,514					16.3	19.3	18.1	35.6	29.8	25.3	25.0	20.9	17.4	11.0	9.4	8.0	1.7	1.6	2.0	31.0	31.6	31.8			
Constructions																													
IVRCL	54	ADD	14,392	294	267	5.9	2.9	3.9	(25.2)	(50.5)	33.6	9.1	18.4	13.8	6.6	8.4	7.3	0.7	0.7	0.7	1.1	0.7	0.7	8.2	3.9	5.0	70	29.9	10.1
Nagarjuna Construction Co.	56	BUY	14,484	296	257	6.4	1.8	3.7	(29.7)	(71.1)	100.8	8.9	30.6	15.2	7.8	9.5	8.1	0.6	0.6	0.6	1.8	3.5	3.5	7.1	2.0	4.0	65	15.1	1.6
Punj Lloyd	57	REDUCE	19,204	393	340	(1.5)	5.1	6.6	(56.6)	(442.7)	28.9	(38.1)	11.1	8.6	12.8	9.3	6.5	0.6	0.6	0.6	(0.1)	0.8	1.0	(1.7)	5.7	6.9	60	6.1	5.2
Sadbhav Engineering	134	BUY	20,068	410	150	7.8	10.0	10.0	51.0	28.5	0.5	17.2	13.4	13.3	10.3	8.3	8.0	3.1	2.6	2.2	0.4	0.4	0.4	18.1	19.2	16.3	180	34.4	0.5
Construction																													
Energy		Attractive	68,148	1,393					(1.1)	15.6	27.8	17.6	15.2	11.9	9.0	9.0	7.2	0.9	0.8	0.8	0.7	1.3	1.3	4.8	5.4	6.5			
Energy																													
Aban Offshore	484	BUY	21,061	431	44	134.2	71.5	92.4	25.9	(46.7)	29.1	3.6	6.8	5.2	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	27.1	11.7
Bharat Petroleum	653	RS	235,977	4,825	362	38.9	42.3	53.5	(32.5)	8.8	26.3	16.8	15.4	12.2	10.7	8.4	7.9	1.6	1.5	1.4	2.1	2.1	2.7	9.2	9.3	11.0	—	—	7.9
Cairn India	367	SELL	698,105	14,274	1,903	33.3	45.7	63.8	501.1	37.1	39.7	11.0	8.0	5.7	8.1	6.3	4.0	1.7	1.5	1.3	—	—	4.1	16.9	19.7	23.9	360	(1.9)	21.0
Castrol India (a)	473	SELL	116,988	2,392	247	19.8	19.5	21.0	28.5	(1.8)	7.8	23.9	24.3	22.6	15.3	16.6	15.3	22.7	21.4	19.9	3.2	3.2	3.5	100.2	90.4	91.4	400	(15.5)	0.9
GAIL (India)	374	ADD	474,665	9,705	1,268	28.2	29.6	28.0	13.8	5.2	(5.4)	13.3	12.6	13.4	8.4	8.9	9.1	2.3	2.0	1.8	2.0	2.1	2.1	17.5	16.1	13.3	435	16.2	11.4
GSPL	76	REDUCE	42,756	874	563	8.9	9.2	8.5	21.7	3.4	(7.1)	8.5	8.3	8.9	5.7	5.2	5.3	1.9	1.5	1.3	1.3	1.8	2.8	25.2	20.5	16.2	87	14.5	2.8
Hindustan Petroleum	300	RS	101,703	2,079	339	40.8	11.0	28.8	(20.8)	(73.2)	162.9	7.3	27.4	10.4	3.3	2.9	3.3	0.6	0.6	0.6	4.7	1.1	3.0	9.0	2.2	5.7	—	—	4.8
Indian Oil Corporation	276	RS	669,750	13,694	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	1,263	BUY	303,736	6,210	240	120.0	40.1	189.9	4.2	21.8	30.0	10.5	8.6	6.7	5.2	3.4	2.4	1.8	1.6	1.4	3.0	4.4	5.9	16.2	17.5	20.1	1,750	38.5	2.8
Oil & Natural Gas Corporation	283	BUY	2,424,634	49,576	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	4.1	14.3	14.8	16.3	330	16.4	18.8
Petronet LNG	167	SELL	125,588	2,568	750	8.1	14.9	13.6	50.3	83.4	(8.2)	20.7	11.3	12.3	11.9	7.9	8.6	4.1	3.2	2.6	1.2	1.8	1.8	20.9	31.1	22.5	140	(16.4)	6.9
Reliance Industries	797	REDUCE	2,374,367	48,548	2,981	62.0	62.7	61.6	24.8	1.2	(1.7)	12.9	12.7	12.9	7.0	6.4	6.3	1.5	1.3	1.2	1.0	1.0	1.0	13.0	11.9	10.6	855	7.3	90.7
Energy																													
Industrials		Attractive	7,589,329	155,177					11.6	8.4	14.2	11.3	10.4	9.1	6.3	5.6	4.7	1.6	1.4	1.3	2.1	2.0	2.9	13.8	13.6	14.0			
Industrials																													
ABB	820	SELL	173,723	3,552	212	3.0	11.7	22.7	(82.2)	291.5	94.5	274.7	70.2	36.1	200.2	46.6	23.5	7.2	6.7	5.8	0.2	0.4	0.4	2.6	9.9	17.3	515	(37.2)	1.9
BGR Energy Systems	337	REDUCE	24,291	497	72	44.8	29.4	27.2	60.0	(34.4)	(7.4)	7.5	11.5	12.4	5.1	6.0	5.1	2.6	2.2	1.9	3.0	1.7	1.6	39.0	20.5	16.5	260	(22.8)	6.5
Bharat Electronics	1,565	ADD	125,180	2,560	80	107.3	115.8	132.8	11.6	8.0	14.7	14.6	13.5	11.8	6.7	7.4	5.0	2.4	2.1	1.9	1.4	1.6	1.6	18.2	16.8	16.9	1,650	5.4	1.8
Crompton Greaves	145	ADD	92,761	1,897	642	14.3	6.4	10.3	11.5	(55.2)	60.0	10.1	22.5	14.1	6.5	11.0	7.7	2.8	2.6	2.2	1.7	1.0	1.1	31.7	12.0	17.0	170	17.6	7.8
Cummins India	461	REDUCE	127,831	2,614	277	22.2	21.6	25.9	37.1	(2.9)	19.8	20.7	21.4	17.8	18.6	19.2	15.2	7.1	6.2	5.5	2.3	2.3	2.7	35.1	29.7	31.2	475	3.0	2.8
KEC International	60	BUY	15,425	315	257	8.0	6.7	8.1	4.1	(16.5)	21.6	7.5	9.0	7.4	6.1	6.5	5.6	1.5	1.4	1.2	2.0	2.2	2.0	22.5	16.2	17.2	65	8.3	0.5
Larsen & Toubro	1,349	REDUCE	821,217	16,791	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	(1.8)	78.5
Maharashtra Seamless	378	BUY	26,667	545	71	48.2	42.1	46.8	24.8	(12.6)	11.0	7.8	9.0	8.1	5.1	5.0	4.2	1.0	1.0	0.9	2.2	2.2	2.5	13.8	11.1	11.5	460	21.7	0.2
Siemens	812	SELL	276,149	5,646	340	25.5	22.3	27.9	13.6	(12.7)	25.5	31.8	36.5	29.1	22.1	23.2	18.4	7.1	6.2	5.3	0.7	0.6	0.7	24.4	18.2	19.7	550	(32.2)	3.4
Suzlon Energy	26	REDUCE	45,820	937	1,746	(6.0)	(0.9)	3.8	(4.6)	(8																			

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

	28-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	2011	2012E	2013E	(Rs)	(%)	(US\$ mn)	
Media																														
DB Corp	201	BUY	36,858	754	183	14.1	11.2	13.5	32.7	(20.7)	20.6	14.3	18.0	14.9	9.3	10.5	8.7	4.4	3.9	3.5	2.0	2.0	3.0	35.0	23.0	24.5	300	49.2	0.1	
DishTV	55	BUY	58,465	1,195	1,063	(1.8)	(0.7)	0.6	(27.7)	(62.1)	(192.8)	(30.8)	(81.4)	87.7	27.6	12.9	9.6	93.2	(640.9)	101.5	—	—	—	(81.9)	(268.1)	275.3	80	45.5	7.5	
Eros International	190	BUY	18,409	376	97	11.8	15.6	19.6	19.0	32.7	25.6	16.1	12.1	9.7	11.1	8.5	6.1	2.7	2.2	1.8	—	—	—	24.9	20.1	20.4	270	42.2	1.5	
Hindustan Media Ventures	141	BUY	10,366	212	73	7.3	9.0	10.6	198.0	23.3	17.8	19.3	15.7	13.3	9.4	9.0	6.8	2.7	2.4	2.1	0.7	0.7	1.4	23.3	16.1	16.5	190	34.5	0.1	
HT Media	142	ADD	33,351	682	235	7.7	7.5	9.2	31.0	(3.1)	23.3	18.4	19.0	15.4	8.7	9.5	7.1	2.3	2.2	2.0	0.3	1.4	2.8	14.9	11.8	13.4	160	12.8	0.1	
Jagran Prakashan	107	BUY	33,791	691	316	6.8	6.5	7.8	16.7	(5.3)	21.6	15.7	16.6	13.6	9.3	9.0	7.8	4.8	4.3	3.8	3.3	3.3	3.7	32.8	27.6	30.0	150	40.4	0.2	
Sun TV Network	309	ADD	121,909	2,493	394	19.5	18.5	21.4	48.1	(5.4)	15.9	15.8	16.7	14.5	9.6	9.9	8.7	5.0	4.6	4.3	2.8	3.6	4.5	36.5	30.2	32.2	390	26.1	6.9	
Zee Entertainment Enterprises	126	BUY	122,834	2,512	978	5.8	6.2	7.7	10.0	6.4	23.3	21.5	20.2	16.4	14.4	13.3	10.5	2.9	2.8	2.7	1.1	1.0	1.2	14.2	14.3	16.9	160	27.4	3.6	
Media		Neutral	435,983	8,914					51.6	4.7	27.8	22.1	21.1	16.5	11.8	10.9	8.8	4.1	3.8	3.4	1.6	1.8	2.4	18.4	17.8	20.9				
Metals & Mining																														
Coal India	330	ADD	2,087,243	42,677	6,316	17.3	23.4	26.9	13.6	35.1	14.9	19.1	14.1	12.3	11.1	8.6	7.4	6.0	4.7	3.8	1.2	2.1	2.4	35.1	37.3	34.1	380	15.0	31.0	
Hindalco Industries	147	REDUCE	280,724	5,740	1,915	12.8	17.2	16.1	(36.0)	34.3	(6.0)	11.5	8.5	9.1	6.2	6.9	6.7	1.0	0.9	0.8	1.0	1.0	1.0	9.7	10.8	9.2	160	9.1	33.1	
Hindustan Zinc	142	ADD	598,260	12,232	4,225	11.6	12.7	14.7	21.8	8.8	16.0	12.2	11.2	9.6	8.2	7.1	5.1	2.7	2.2	1.9	0.7	1.8	1.8	24.3	21.8	21.4	150	5.9	2.2	
Jindal Steel and Power	594	REDUCE	554,647	11,341	934	40.2	40.9	46.1	5.1	1.7	12.7	14.8	14.5	12.9	10.8	10.4	9.5	3.9	3.1	2.5	0.3	0.3	0.3	30.9	24.1	21.8	530	(10.7)	23.9	
JSW Steel	794	SELL	179,410	3,668	226	78.6	32.3	77.7	(2.2)	(58.9)	140.5	10.1	24.6	10.2	7.0	5.9	6.4	1.1	1.1	1.0	1.5	1.3	1.3	13.6	14.1	9.9	680	(14.3)	42.9	
National Aluminium Co.	62	SELL	159,016	3,251	2,577	4.2	3.2	3.7	36.4	(23.9)	15.8	14.9	19.5	16.9	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	(14.1)	0.9	
Sesa Goa	208	REDUCE	186,187	3,807	895	48.6	32.7	46.8	65.3	(32.7)	43.1	4.3	6.4	4.5	3.6	5.6	5.9	1.5	1.2	0.9	1.9	1.9	1.9	36.8	17.2	22.1	220	5.7	20.3	
Sterite Industries	121	ADD	407,377	8,330	3,361	15.2	13.5	15.2	26.2	(11.0)	12.4	8.0	9.0	8.0	5.0	4.3	3.4	1.0	0.9	0.8	0.9	1.7	1.7	13.0	10.5	10.8	132	8.9	25.4	
Tata Steel	460	ADD	446,654	9,133	971	75.3	27.8	58.4	(2,258.1)	(63.1)	110.4	6.1	16.6	7.9	5.9	7.8	6.0	1.3	1.1	1.0	2.6	2.6	2.6	24.7	7.1	13.4	525	14.2	64.3	
Metals & Mining		Cautious	4,899,518	100,179					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	570	BUY	79,129	1,618	139	13.2	17.1	21.2	21.0	29.3	24.0	43.0	33.3	26.8	19.6	14.5	12.5	4.1	3.1	2.7	—	—	—	9.8	10.3	10.5	650	14.1	5.6	
Biocon	276	BUY	55,110	1,127	200	18.4	16.8	20.7	23.9	(8.7)	23.2	15.0	16.4	13.3	8.4	9.2	7.3	2.7	2.4	2.2	—	—	—	19.4	15.7	17.2	380	37.9	4.0	
Cipla	319	SELL	256,292	5,240	803	12.3	14.1	17.7	(10.0)	14.1	25.5	25.9	22.7	18.1	22.4	17.8	13.6	3.8	3.4	3.0	0.9	0.9	1.1	15.4	15.6	17.3	320	0.3	9.7	
Cadila Healthcare	693	REDUCE	141,829	2,900	205	34.7	31.1	40.9	40.6	(10.5)	31.4	19.9	22.3	17.0	17.4	17.5	13.1	6.5	5.3	4.3	0.9	0.9	1.2	37.5	26.4	28.1	700	1.1	2.0	
Dishman Pharma & chemicals	51	REDUCE	4,132	84	81	9.8	5.1	8.3	(31.8)	(48.6)	64.7	5.2	10.0	6.1	7.6	7.3	5.5	0.5	0.5	0.4	—	—	—	9.6	4.6	7.2	60	18.1	0.3	
Divi's Laboratories	723	ADD	95,978	1,962	133	32.4	37.4	46.4	25.7	15.6	24.1	22.4	19.3	15.6	18.4	15.0	10.9	5.3	4.6	3.9	—	—	—	25.9	25.4	26.8	935	29.3	3.0	
Dr Reddy's Laboratories	1,648	REDUCE	280,111	5,727	170	64.9	90.7	106.9	932.5	39.7	17.8	25.4	18.2	15.4	17.8	11.9	9.9	6.1	4.7	3.7	0.7	0.8	0.8	24.8	29.3	27.1	1,740	5.6	13.0	
GlaxoSmithkline Pharmaceuticals (a)	2,081	SELL	176,233	3,603	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)	1.1	
Glenmark Pharmaceuticals	311	REDUCE	84,072	1,719	270	17.0	19.9	22.4	33.6	17.6	12.2	18.3	15.6	13.9	20.4	19.1	11.3	4.1	3.3	2.7	—	—	—	20.6	23.6	21.5	340	9.4	3.1	
Jubilant Life Sciences	195	REDUCE	31,008	634	159	14.4	16.9	29.5	(45.6)	17.3	74.1	13.5	11.5	6.6	10.9	8.2	6.5	1.4	1.3	1.1	1.0	1.0	1.5	12.3	16.3	18.0	180	(7.5)	0.5	
Lupin	485	ADD	217,441	4,446	448	19.2	21.1	26.5	25.6	9.7	25.3	25.2	23.0	18.3	21.1	18.2	13.5	6.5	5.3	4.3	0.6	0.7	0.9	29.5	25.8	26.2	520	7.2	7.6	
Ranbaxy Laboratories	429	SELL	180,698	3,695	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)	10.6	
Sun Pharmaceuticals	546	ADD	565,800	11,569	1,036	17.5	23.4	28.1	34.4	33.4	20.1	31.2	23.4	19.5	26.7	16.9	13.9	5.5	4.5	3.7	0.6	0.7	0.9	21.0	23.1	22.9	625	14.4	10.2	
Pharmaceuticals		Neutral	2,167,833	44,325					43.1	8.5	24.2	22.7	20.9	16.8	18.4	14.4	11.2	3.6	3.2	2.7	0.7	0.8	0.9	16.0	15.3	16.1				
Property																														
DLF	226	ADD	387,236	7,918	1,715	9.1	9.7	12.7	(14.5)	6.5	31.5	24.9	23.4	17.8	16.4	15.0	12.2	1.5	1.4	1.3	0.9	1.1	1.3	5.4	6.1	7.6	260	15.1	41.3	
Housing Development & Infrastructure	113	BUY	49,723	1,017	441	19.8	19.4	29.8	24.2	(2.1)	53.6	5.7	5.8	3.8	5.5	7.0	5.2	0.5	0.5	0.4	—	0.9	1.3	10.0	8.4	11.6	130	15.3	28.1	
Indiabulls Real Estate	75	RS	30,128	616	402	4.0	8.5	15.4	(1,095.5)	114.1	81.5	18.9	8.8	4.9	13.4	10.7	4.7	0.3	0.2	0.2	0.4	0.7	0.9	1.4	2.9	5.0	—	—	11.6	
Mahindra Life Space Developer	321	BUY	13,110	268	41	24.9	26.7	32.2	30.2	6.9	20.8	12.9	12.1	10.0	9.8	8.1	6.3	1.3	1.2	1.1	1.6	1.4	1.6	10.4	10.2	11.2	405	26.1	0.4	
Oberoi Realty	265	BUY	87,232	1,784	330	15.7	14.9	26.4	14.8	(5.0)	77.3	16.9	17.7	10.0	12.7	13.0	6.2	2.6	2.3	1.9	0.4	0.6	0.9	19.9	13.9	21.1	300	13.4	0.4	
Phoenix Mills	199	BUY	28,860	590	145	6.3	7.4	10.7	53.0	17.2	44.1	31.5	26.9	18.6	23.3	19.5	14.6	1.8	1.7	1.6	0.9	1.0	1.0	5.8	6.6	8.9	300	50.6	0.2	
Puravankara Projects	77	REDUCE	16,359	334	213	5.5	7.4	9.5	(11.8)	33.2	29.4	13.9	10.4	8.0	18.6	13.4	11.1	1.1	1.0	0.9	1.3	2.0	2.6	8.0	9.9	11.8	80	4.4	0.1	
Sobha Developers	280	BUY	27,458	561	98	18.8	15.6	25.7	33.8	(17.2)	65.3	14.9	18.0	10.9	12.5	13.6	8.5	1.5	1.4	1.2	1.1	1.3	1.4	10.2	7.9	12.0	340	21.4	1.0	
Unitech	32	RS	83,983	1,717	2,616	2.3	1.5	2.0	(23.4)	(35.3)	34.7	13.8	21.4	15.9	14.9	17.4	12.1	0.7	0.7	0.6	0.3	0.6	0.9	5.4	3.3	4.0	—	—	14.9	
Property		Cautious	762,540	15,591					5.3	12.4	45.0	17.8	15.8	10.9	13.9	12.8	9.1	1.1	1.0	0.9	0.7	1.0	1.2	6.1	6.4	8.5				

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

	28-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)	shares (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)	
Technology																														
HCL Technologies	482	REDUCE	340,022	6,952	705	22.9	33.8	39.9	30.4	47.9	18.0	21.1	14.3	12.1	12.8	8.4	7.2	4.0	3.0	2.5	1.5	1.7	1.7	21.0	22.8	22.3	460	(4.6)	10.8	
Hexaware Technologies	114	ADD	33,547	686	294	3.0	9.1	10.7	(36.8)	207.9	17.3	38.7	12.6	10.7	31.2	11.1	7.4	3.5	3.3	2.8	1.3	2.6	2.8	9.3	26.9	28.0	110	(3.8)	3.5	
Infosys	2,872	ADD	1,648,758	33,712	574	119.7	146.1	173.7	10.5	22.0	18.9	24.0	19.7	16.5	16.5	13.2	10.6	6.3	5.3	4.4	2.1	1.6	1.9	28.0	29.3	28.9	3,100	7.9	73.7	
Mahindra Satyam	69	REDUCE	81,614	1,669	1,176	4.2	8.7	8.1	68.9	106.3	(6.5)	16.5	8.0	8.6	12.0	5.4	4.2	4.7	3.0	2.2	—	—	—	27.6	45.7	29.7	80	15.3	7.3	
Mindtree	444	ADD	18,277	374	41	24.7	50.5	53.9	(52.7)	104.5	6.8	18.0	8.8	8.2	10.1	5.9	4.5	2.4	1.9	1.7	0.6	1.1	3.6	14.4	23.9	21.5	540	21.6	0.7	
Mphasis	421	SELL	88,714	1,814	211	51.8	39.0	34.6	18.8	(24.6)	(11.4)	8.1	10.8	12.2	6.9	9.0	8.2	2.7	2.3	2.0	1.0	1.1	1.2	38.6	22.8	17.3	310	(26.4)	2.8	
Polaris Financial Technology	159	REDUCE	15,852	324	100	19.3	21.7	24.0	25.7	12.5	10.4	8.2	7.3	6.6	5.0	3.1	2.3	1.5	1.3	1.1	2.3	2.5	2.6	20.2	19.2	18.2	145	(8.8)	1.4	
TCS	1,227	REDUCE	2,400,604	49,085	1,957	44.5	54.6	66.4	26.8	22.6	21.6	27.5	22.5	18.5	20.6	15.7	12.9	9.5	7.6	6.1	1.1	1.6	1.9	37.8	37.6	36.6	1,250	1.9	39.7	
Tech Mahindra	600	SELL	75,619	1,546	126	48.0	74.7	80.7	(26.3)	55.5	8.0	12.5	8.0	7.4	8.5	9.1	7.4	2.3	1.9	1.7	0.7	0.7	1.7	20.2	27.0	25.5	600	(0.0)	2.0	
Wipro	420	ADD	1,031,294	21,087	2,454	21.6	23.2	28.2	14.5	7.4	21.7	19.5	18.1	14.9	14.4	12.3	9.8	4.3	3.6	3.0	1.0	1.2	1.5	24.3	21.7	22.2	460	9.5	14.4	
Technology			Attractive	5,797,704	118,544					17.0	20.9	18.1	22.6	18.7	15.8	16.3	12.9	10.5	5.9	4.8	4.0	1.5	1.5	1.8	26.2	25.9	25.3			
Telecom																														
Bharti Airtel	343	ADD	1,303,526	26,653	3,798	15.9	12.8	20.8	(32.6)	(19.9)	62.9	21.6	26.9	16.5	9.6	8.1	6.2	2.7	2.6	2.3	—	—	—	13.3	9.9	14.7	390	13.6	56.8	
IDEA	95	ADD	312,657	6,393	3,303	2.7	2.1	4.6	(0.5)	(22.2)	118.5	34.8	44.7	20.5	11.1	8.7	6.6	2.5	2.5	2.2	—	—	—	7.6	5.7	11.6	100	5.7	12.8	
MTNL	32	RS	20,003	409	630	(10.4)	(9.1)	(8.4)	(33.7)	(11.9)	(8.1)	(3.1)	(3.5)	(3.8)	0.9	1.2	1.5	0.2	0.2	0.2	—	—	—	(6.1)	(5.7)	(5.5)	—	—	1.6	
Reliance Communications	94	SELL	194,635	3,980	2,064	6.5	3.9	1.0	(71.1)	(39.7)	(73.5)	14.5	24.0	90.3	6.3	8.2	6.9	0.5	0.5	0.5	—	—	—	3.2	2.0	0.6	60	(36.4)	26.3	
Tata Communications	233	REDUCE	66,348	1,357	285	(24.9)	(27.0)	(26.6)	(13.0)	8.4	(1.4)	(9.3)	(8.6)	(8.7)	11.7	8.7	7.8	1.8	2.6	4.3	—	—	—	(17.5)	(25.1)	(37.0)	215	(7.6)	1.7	
Telecom			Cautious	1,897,169	38,791				(45.8)	(27.5)	66.7	27.4	37.9	22.7	9.2	8.3	6.5	1.6	1.7	1.6	—	—	—	6.0	4.4	6.9				
Utilities																														
Adani Power	77	SELL	185,234	3,787	2,393	2.4	2.3	8.1	200.7	(4.3)	259.1	32.9	34.3	9.6	34.7	23.6	6.7	2.9	2.5	2.0	—	—	—	8.5	7.9	23.2	60	(22.5)	8.6	
CESC	263	BUY	32,827	671	125	39.1	32.1	39.9	13.1	(17.9)	24.4	6.7	8.2	6.6	4.6	6.6	6.3	0.7	0.7	0.6	1.5	1.5	1.8	10.8	8.2	9.4	400	52.2	1.6	
JSW Energy	64	REDUCE	105,370	2,154	1,640	5.1	1.6	2.3	12.9	(69.5)	44.8	12.5	41.1	28.4	12.8	19.1	8.8	1.9	1.8	1.7	(1.6)	—	—	16.1	4.5	6.3	43	(33.1)	3.5	
Lanco Infratech	21	BUY	46,461	950	2,223	1.6	0.8	0.9	(22.6)	(48.7)	3.0	12.7	24.7	24.0	10.9	10.5	8.7	1.0	0.9	0.9	—	—	—	9.2	3.9	3.7	33	57.9	13.1	
NHPC	21	BUY	260,776	5,332	12,301	1.3	2.0	2.2	(27.2)	49.2	7.2	15.7	10.5	9.8	11.5	10.7	7.7	1.0	0.9	0.9	2.8	2.6	2.8	6.4	9.0	9.1	29	36.8	3.0	
NTPC	180	REDUCE	1,484,596	30,355	8,245	10.9	11.4	12.2	4.2	4.1	7.6	16.5	15.8	14.7	12.5	13.9	11.9	2.2	2.0	1.8	2.2	1.9	2.0	13.6	13.0	12.9	175	(2.8)	9.6	
Reliance Infrastructure	602	BUY	159,609	3,263	265	58.0	65.3	71.4	(6.5)	12.5	9.4	10.4	9.2	8.4	13.3	7.6	8.4	0.7	0.6	0.6	1.2	1.7	1.9	6.8	11.7	8.9	890	47.9	26.7	
Reliance Power	118	SELL	332,127	6,791	2,805	2.7	2.6	2.9	(0.2)	(5.3)	13.5	43.7	46.1	40.7	168.6	63.5	27.1	2.0	1.9	1.8	—	—	—	4.9	4.2	4.5	76	(35.8)	14.2	
Tata Power	112	BUY	276,825	5,660	2,468	7.6	4.9	8.7	21.5	(36.3)	77.6	14.7	23.0	13.0	11.2	9.5	8.3	1.9	2.0	1.8	1.2	1.3	1.5	13.8	8.4	14.5	125	11.5	10.0	
Utilities			Cautious	2,883,824	58,965				4.3	(1.1)	21.9	16.9	17.1	14.0	14.0	13.4	10.1	1.7	1.6	1.5	1.5	1.5	1.6	9.9	9.2	10.4				
Others																														
Carborundum Universal	163	REDUCE	30,481	623	187	9.1	11.6	11.7	67.7	26.6	1.0	17.8	14.1	14.0	11.0	8.0	7.7	3.6	2.9	2.5	1.2	1.5	1.5	25.2	25.9	22.0	150	(8.0)	0.1	
Havells India	528	ADD	65,856	1,347	125	24.5	29.7	33.0	334.1	21.1	11.0	21.5	17.8	16.0	13.5	11.3	9.8	9.3	6.6	4.8	0.5	0.5	0.6	53.9	43.3	34.7	500	(5.3)	3.9	
Jaiprakash Associates	75	BUY	159,271	3,257	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	29.5	28.7	
Jet Airways	303	SELL	26,115	534	86	(10.1)	(233.8)	(33.8)	(91.0)	2,225	(85.6)	(30.1)	(1.3)	(9.0)	10.0	(162.5)	10.5	1.6	(6.2)	(3.7)	—	—	—	(5.0)	—	—	280	(7.4)	16.4	
SpiceJet	22	BUY	9,489	194	441	2.5	(8.7)	1.9	(1.8)	(450.3)	(122.1)	8.6	(2.5)	11.1	12.5	(7.5)	11.0	3.0	15.5	6.5	—	—	—	(96.1)	(201.8)	82.1	45	109.3	1.9	
Tata Chemicals	349	REDUCE	88,884	1,817	255	26.2	32.9	38.8	(0.7)	25.4	17.9	13.3	10.6	9.0	7.9	5.5	4.7	1.6	1.4	1.3	2.9	3.4	4.3	16.9	18.6	19.5	365	4.6	2.4	
United Phosphorus	147	ADD	68,070	1,392	462	12.3	14.4	21.0	3.9	16.7	45.6	11.9	10.2	7.0	7.3	5.0	4.1	1.8	1.6	1.4	1.4	2.0	2.4	18.0	17.3	21.3	170	15.3	3.6	
Others			448,167	9,164					233.8	(63.1)	291.1	15.8	42.8	10.9	10.5	10.9	7.6	1.9	1.9	1.6	0.9	1.2	1.4	12.1	4.4	14.9				
KS universe (b)			47,134,239	963,743					18.4	8.0	19.9	16.0	14.9	12.4	10.3	9.2	7.7	2.5	2.2	1.9	1.5	1.5	1.8	15.4	14.8	15.6				
KS universe (b) ex-Energy			39,544,910	808,565					20.6	7.8	21.6	17.4	16.2	13.3	12.0	10.8	8.8	2.8	2.5	2.2	1.4	1.5	1.6	16.0	15.2	16.2				
KS universe (d) ex-Energy & ex-Commodities			33,393,153	682,782					19.3	9.3	22.6	18.6	17.0	13.9	13.6	11.9	9.5	2.9	2.6	2.2	1.4	1.4	1.6	15.6	15.1	16.2				

Notes:

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

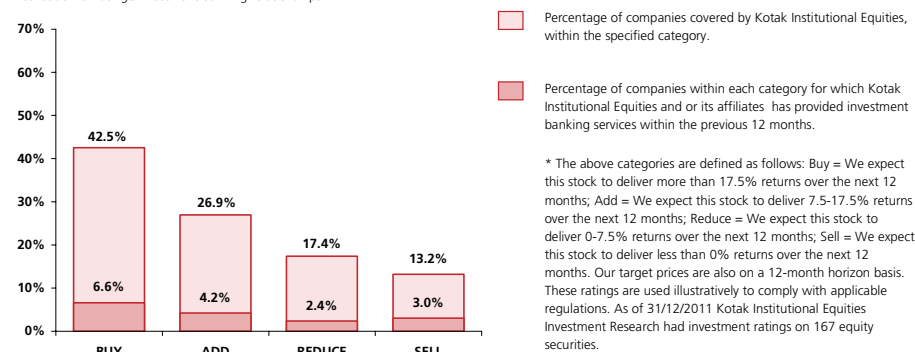
(b) 2010 means calendar year 2009, similarly for 2011 and 2012 for these particular companies.

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

(d) Rupee-US Dollar

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of December 31, 2011

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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.

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