kotak® Institutional Equities

INDIA DAILY

October 5, 2009

EQUITY MARKETS

India	1-Oct	Change % 1-day	1-mo	3-mo
Sensex	17,135	0.0	10.8	16.9
Nifty	5,083	(0.0)	10.3	16.9
Global/Regional indices				
Dow Jones	9,488	(0.2)	0.5	14.6
Nasdaq Composite	2,048	(0.5)	1.5	14.0
FTSE	4,989	(1.2)	2.8	17.8
Nikkie	9,737	0.0	(4.4)	(0.8)
Hang Seng	20,388	0.1	0.3	12.0
KOSPI	1,623	(1.3)	0.6	15.0
Value traded - India				
Cash (NSE+BSE)	264.5		243.0	240.5
Derivatives (NSE)	543.4		744.9	556
Deri. open interest	898.2		784	630

Forex/money market

	Change, basis points			
	1-Oct	1-day	1-mo	3-mo
Rs/US$	47.8	(35)	(127)	(14)
10yr govt bond, %	7.2	7	(23)	43
Net investment (US$mn)				
	30-Sep		MTD	CYTD
FIIs	314		-	11,856
MFs	(22)		-	550

Top movers -3mo basis

	Change, %			
Best performers	1-Oct	1-day	1-mo	3-mo
TTMT IN Equity	579.9	(1.9)	14.1	92.8
BHFC IN Equity	278.7	0.7	26.7	92.0
ABAN IN Equity	1650.6	3.5	4.9	85.9
HCLT IN Equity	336.4	(1.3)	10.3	75.8
RBXY IN Equity	408.2	1.2	26.9	62.3
Worst performers				
BJFIN IN Equity	291.2	4.6	6.9	(22.6)
ADE IN Equity	662.9	(0.4)	(0.6)	(19.1)
MTNL IN Equity	90.6	(1.0)	(3.1)	(15.6)
SUEL IN Equity	92.3	0.7	(7.9)	(13.7)
MSEZ IN Equity	525.6	1.1	(4.5)	(10.3)

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News Round-up

- **Grasim Industries**, the flagship of Aditya Birla Group, has decided to spin off its cement business into a separate entity and merge the same with its wholly owned subsidiary Samruddhi Cement. The group also plans to eventually merge Samruddhi with UltraTech Cement, in a bid to consolidate its cement business. *(BL)*
- The country's largest auto maker, **Tata Motors** today said it expects to clock a double digit growth in sales in the commercial vehicle (CV) segment this fiscal on the back of reviving market demand. The company hopes to benefit from orders for delivery of 5,000 buses to various state and local transport bodies under Jawaharlal Nehru National Urban Renewal Mission (JNNURM). *(BS)*
- Close on the heels of Air India inviting global expressions of interest to lease out seven aircraft, the airline's private counterpart **Jet Airways** has initiated discussions with foreign carriers to lease out two of its wide-body airplanes. Jet is looking for wet leasing of the planes for at least six months and a decision is likely to be taken very soon, sources added. *(BS)*
- The top managers at India's largest consumer goods company **HUL** are on their toes these days. The company, which saw its market share in key product categories coming under pressure, has got a clear directive from Paul Polman, the CEO of its UK-based parent Unilever that it cannot afford to lose market to competition any longer. *(ET)*
- **India is unlikely to keep its December 7 dateline for the auction of 3G airwaves**, which are vital for high-end services such as video conferencing and ultra-fast internet on mobiles. The Department of Telecom (DoT) has been unable to complete even the first step to kick off the auctions as per plan. *(ET)*
- In the last two weeks, **five real estate companies have filed prospectus** with SEBI for going public, while another four to five are expected to follow suit. Together these 9-10 realty firms are expected to raise over Rs15,000 crore from investors through the IPO route. While merchant bankers are gung-ho about the prospects of upcoming offers, institutional dealers dealing with large foreign and domestic fund managers are not so sure investors have the appetite for such a large dose of realty stocks within a short span of time. *(ET)*

Source: ET= Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line.

kotak Institutional Equities

Bharti Airtel (BHARTI)

Telecom

REDUCE

OCTOBER 05, 2009

CHANGE IN RECO.

Coverage view: Cautious

Price (Rs): 435

Target price (Rs): 400

BSE-30: 17,135

Downgrade to REDUCE—not the right time or price. We cut our FY2010-12E EPS estimates for Bharti by 2-5% and downgrade the stock to REDUCE from ADD. We also cut our target price to Rs400 (Rs425 earlier). The Indian wireless industry is entering a turbulent phase with increasing competition and slower growth. The duration and extent of the same are unknowns and warrant a greater margin of safety in the stock prices of wireless names, including Bharti. We reiterate our Cautious view on the sector.

Company data and valuation summary

Bharti Airtel

Stock data			
52-week range (Rs) (high,low)			518-242
Market Cap. (Rs bn)			1,652.1
Shareholding pattern (%)			
Promoters			67.4
FIIs			19.6
MFs			3.5
Price performance (%)	**1M**	**3M**	**12M**
Absolute	3.0	5.6	10.1
Rel. to BSE-30	(6.5)	(9.8)	(16.1)

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	22.3	26.4	29.1
EPS growth (%)	26.4	18.0	10.3
P/E (X)	19.5	16.5	15.0
Sales (Rs bn)	369.6	409.5	469.5
Net profits (Rs bn)	84.7	99.9	110.4
EBITDA (Rs bn)	151.6	172.7	189.5
EV/EBITDA (X)	11.4	9.9	8.6
ROE (%)	31.4	27.5	23.6
Div. Yield (%)	0.5	0.7	0.9

Industry dynamics set to deteriorate

We expect the next 12-24 months to be a rocky ride for the wireless players as new launches accelerate and pricing pressure intensifies in the new operators' bid to grab subscriber market share from incumbents. We believe that the 'wait and watch' approach adopted by the leading incumbents (primarily Bharti and Vodafone) could soon give way to a more aggressive response from these players to the threat of new competition. Increasing multi-SIM usage and potential double-counting of subs has prevented the impact of new competition showing up in the subs net adds of incumbents; however, our channel checks indicate that the incumbents have seen meaningful usage churn from their networks. We believe that some of the usage pressure will manifest itself in a poor operating September 2009 quarter for the Indian wireless companies. We see the stage ripe for a serious price war in the market (like it or not, pricing is the only meaningful competitive lever in the Indian wireless market) as the incumbents focus on protecting their turf.

Extent and duration of the upcoming rocky phase huge unknowns; demand higher risk premium

Overcapacity build-up coupled with slowing demand growth (especially in the urban markets; penetration 90%+) is a dangerous combination. We have long argued that new players will likely price their services on a marginal costing basis (estimated ARPU aspiration of Rs120-150) to gain volume market share; we have seen signs of the same in the tariff structures in some of the new launches, especially Tata Docomo's per-second billing offer. Investors have been uncomfortable with the temporal nature of such schemes. However, cheap, long-term funding and more importantly, overcapacity, can actually allow such aggressive pricing to sustain (just to fill the network). Continuous new network launches over the next 24 months will likely ensure that aggressive tariff schemes keep hitting the market.

Downgrade Bharti to REDUCE; still the best bet, but this is not the right time or price

We believe that increased competition will hit Bharti's operating metrics earlier and deeper (in the near-term) than we had expected. We cut Bharti's EPS estimates by 2%, 5%, and 4% for FY2010E, FY2011E, and FY2012E to Rs26.4, Rs29.1, and Rs33.1, respectively. Our 12-month forward DCF-based target price stands reduced to Rs400 (Rs425 earlier). Downgrade to REDUCE.

Industry growth slowing down

We reiterate that the Indian wireless industry has entered into a slowdown phase. While subs additions may continue to appear strong, we highlight the limited utility of subs net adds number given the potential subs double counting in the industry (due to inconsistent churn norms) and increased dual/multi SIM usage phenomenon. To substantiate the point, we note that India's wireless subs base increased 50% yoy from June 2008 to June 2009, while the increase in wireless gross revenues over the same period was a measly 10.7% yoy (impacted in part by termination rate cut). We expect the gap in subs growth and revenue growth to widen over the coming quarters.

Meaningful slowdown in revenue growth for the listed wireless players despite healthy subs growth

	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09
Bharti									
Subs growth yoy (%)	85.1	80.6	72.5	66.9	62.5	58.5	55.3	51.5	47.5
Wireless revenue growth yoy (%)	65.3	53.2	49.3	51.3	47.2	44.0	**41.5**	**28.1**	**19.0**
RCOM									
Subs growth yoy (%)	41.5	39.8	36.6	58.1	59.4	54.3	49.8	58.7	56.8
Wireless revenue growth yoy (%)	38.7	44.6	43.8	40.1	22.1	16.5	**11.5**	**8.2**	**16.4**
Idea (standalone)									
Subs growth yoy (%)	88.9	80.2	69.2	71.3	68.6	62.7	62.5	62.0	57.3
Wireless revenue growth yoy (%)	64.1	54.7	48.8	50.7	47.1	47.2	**53.4**	**45.1**	**32.9**

Source: Companies, Kotak Institutional Equities

Most new capacity addition in the highly-penetrated urban markets

Inevitably, the entire capacity addition targeted by the new players in the market is from urban/semi-urban markets. Rural market economics (low catchment area of subscribers) does not lend itself to being the focal point of a new player's entry strategy. Exhibit 2 depicts circle-wise rural and urban wireless penetration. As is evident from the data, urban markets are well-penetrated; the only option for a new operator is to glean subscribers from the incumbents. Weaker positioning in distribution presence, network coverage, and brand pull versus the incumbents leaves pricing as the only available competitive lever for the new players, in our view.

Exhibit 2: Urban and rural total tele-density across states
As on end-June 2008

	Wireless tele-density (%)	
Circle	**Rural**	**Urban**
Maharashtra	12.1	67.5
Gujarat	18.0	64.6
A.P.	11.5	80.5
Karnataka	12.9	79.1
Tamil Nadu	17.3	73.1
Kerala	27.9	107.5
Punjab	24.9	89.1
Haryana	21.8	74.0
U.P. (Incl Uttaranchal)	6.9	57.8
Rajasthan	14.0	64.6
M.P.(incl CG)	4.5	55.6
West Bengal	9.6	63.6
H.P.	31.4	137.6
Bihar (incl Jharkhand)	3.2	66.7
Orissa	7.8	60.9
Assam	5.1	82.1
North East	5.1	69.5
J&K	8.6	66.7
All India	**8.7**	**63.9**
All-India estimate (end-June 2009)	**15.4**	**87.2**

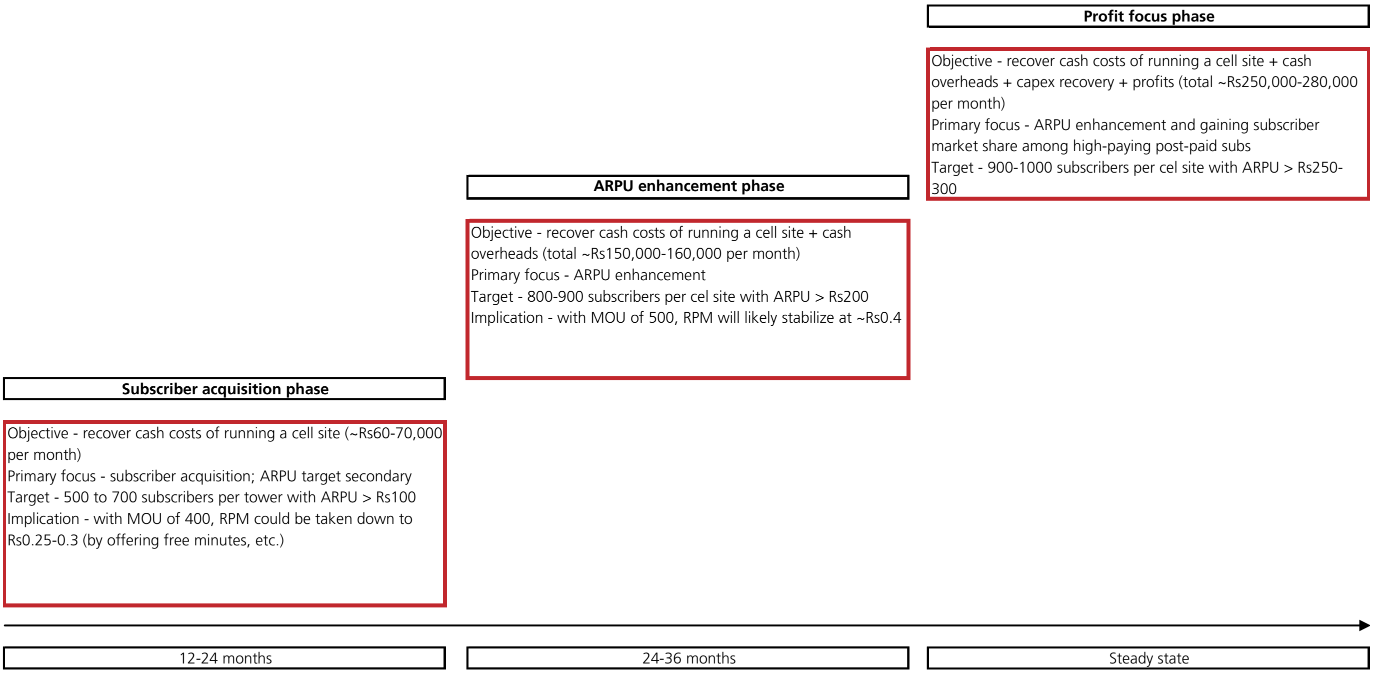
Source: TRAI

New players will likely price tariffs on marginal costing

We have long argued that new players entering urban markets will attempt to create churn to fill up their empty network. To do so, tariff structure has to be attractive compared to incumbents, as discussed in the previous paragraph. Effective RPM on Tata-Docomo's introductory GSM tariff (and per second billing) is at least 40% lower than incumbents and is one such instance. In our view, new players structure tariffs in the initial 12-18 months based on marginal costing. The marginal cost of a new player in our view is the cash cost of running a cell site, which can be anywhere from Rs90-100/sub (including interconnect costs and spectrum/license fees). We believe Rs120-150 would be the ARPU aspiration of new players in the initial phase (depending on the number of subscribers acquired per cell site), implying an effective RPM target of Rs0.3-0.4 (assuming MOU of 400), significantly lower than peers.

The street's argument that marginal costing leaves the new operators with an unviable business model is valid, in our view; however, the business model is even weaker without a critical subs base. We struggle to build a viable business case for a new entrant, any which way! However, nothing stops them from trying to create a business case for themselves and queer the pitch for the industry in the near-to-medium term. Exhibit 3 illustrates how a new entrant approaches the market.

Exhibit 3: Gaining subscriber market share is imperative for a new operator; profitability can follow



Source: Kotak Institutional Equities estimates

Source: Kotak Institutional Equities

Recent tariff actions in the market support our thesis

We highlight select recent pricing actions in the Indian wireless space, supporting our 'marginal-cost pricing by new entrants' thesis as well as depicting the willing/unwilling response from the incumbents—

- Tata Docomo's per-second billing launch; n addition, the companies' effective per-minute rate of Rs0.6/min for local and Rs1.2/min (post introductory offer) for NLD calls is also lower than the prevailing headline local tariff of Rs1/min for local and Rs1.5/min for NLD calls

- TTSL recently announced the launch of a new 'Pay Per Call' product for its CDMA subscribers. Under this plan, customers are charge a flat rate per call—Re1 for a local call and Rs3 for a STD call, regardless of the duration of the call

- MTS India, the CDMA mobile operator, recently announced its MTalk plan that offers local calls at just 1 paisa per second, with 1-second billing, plus full talk-time for a lifetime (no administrative or service charges, either upfront or on recharges). STD calls are charged at 2 paisa per second

- Bharti has launched its 'Airtel advantage' plan (see Exhibit 4), lowering the on-net calling rate to Rs0.5/min, and off-net call rate to Rs0.6-1/min (in different circles); the special tariff voucher costs Rs23-75 in different circles for a validity of 30 days, and

- Vodafone has launched its 'regional STD at Rs0.5/min' plan (see Exhibit 5 for details), which allows its subscribers to make STD calls to select circles (to any network) at Rs0.5/min; this 30-day validity bonus card is priced at Rs19-74 in different circles.

Exhibit 4: Details of Bharti's 'Airtel Advantage' plan in various circles

				Call rates (Rs/min)		
Circle(s)	**Voucher price (Rs)**	**Talktime (Rs)**	**Validity (days)**	**To Airtel mobiles**	**To other mobiles**	**To landline**
Delhi	70	—	30	0.50	1.00	1.00
Punjab, H.P., Mumbai, Maharashtra, North East, Assam	50	—	30	0.50	0.75	0.75
Haryana	40	—	30	0.50	0.75	0.75
U.P. (East)	52	—	30	0.50	0.75	0.75
U.P. (West)	40	—	30	0.50	0.75	0.75
J&K	75	—	30	0.50	0.75	0.75
M.P.	35	—	30	0.50	0.60	1.00
A.P., Rajasthan, Orissa	51	—	30	0.50	0.75	0.75
Kolkata, West Bengal, Kerala	54	—	30	0.50	0.75	0.75
Gujarat	49	—	30	0.50	0.75	0.75
Chennai, Tamil Nadu	45	—	30	0.50	0.60	1.00
Bihar	50	—	30	0.50	0.75	0.75 (local), 1.00 (STD)
Karnataka	**77**	**10**	**90**	**0.50**	**0.60**	**0.60**

Source: Company

Exhibit 5: Details of Vodafone's Rs0.5/min regional STD plan

Circle(s)	**Regional circles**	**Voucher price (Rs)**	**Validity (days)**
Andhra Pradesh	Kerala, Tamil Nadu, Karnataka	38	30
Assam	Bihar, Kolkata, West Bengal, Orissa, North East	42	30
Bihar	Kolkata, West Bengal, Assam, North East, Orissa	19	30
Chennai	Kerala, A.P., Karnataka	35	30
Delhi and NCR	Haryana, Punjab, H.P., J&K, U.P.(East), U.P. (West), Rajasthan	74	30
Gujarat	U.P.(East), U.P. (West), Bihar, Orissa	35	30
Haryana	Delhi, H.P., Punjab, J&K, U.P.(East), U.P. (West), Rajasthan	39	30
Himachal Pradesh	Delhi, Haryana, Punjab, J&K, U.P.(East), U.P. (West), Rajasthan	27	30
Jammu and Kashmir	Delhi, Haryana, Punjab, H.P., U.P.(East), U.P. (West), Rajasthan	36	30
Karnataka	Kerala, A.P., Tamil Nadu	39	30
Kerala	Karnataka, A.P., Tamil Nadu, Chennai	38	30
Kolkata	Bihar, West Bengal, Assam, North East, Orissa	35	30
Madhya Pradesh	A.P. Orissa, Bihar, Gujarat, Maharashtra, U.P.(East), U.P. (West), Rajasthan	35	30
Maharashtra	U.P.(East), U.P. (West), Bihar, Delhi, Rajasthan, Haryana, Punjab, H.P., J&K	38	30
Mumbai	Gujarat, Maharashtra, M.P, Chattisgarh, Rajasthan	37	30
North East	Bihar, Kolkata, West Bengal, Orissa, Assam	42	30
Punjab	Delhi, Haryana, H.P., J&K, U.P.(East), U.P. (West), Rajasthan	51	30
Rajasthan	Delhi, Haryana, Punjab, J&K, U.P.(East), U.P. (West), Rajasthan	46	30
Tamil Nadu	Kerala, A.P., Karnataka	35	30
U.P. (East)	Delhi, Haryana, Punjab, H.P., U.P.(West), M.P., Rajasthan, Bihar	35	30
U.P. (West)	Delhi, Haryana, Punjab, H.P., U.P.(East), J&K, Rajasthan	35	30
West Bengal	Bihar, Kolkata, Assam, North East, Orissa, U.P. (East), U.P. (West)	38	30

Source: Company

Impact of new competition should start impacting operating metrics soon

New entrants in the market have impacted the industry operating metrics in a rather unexpected manner – in the form of usage churn rather than reported subs churn. The increasing tendency of the pre-paid subscribers to use multiple SIMs and the inherent incentive of the retail channel to push 'SIM-cards' instead of 'recharge products' has kept the subscriber add momentum going for the incumbents. However, the incumbents are facing meaningful usage churn; this reflected in a sharp MOU drop for the listed players in the June 2009 quarter and the trend will likely continue in the Sep 2009 quarter. We expect a 4-7% drop in MOU and 5-8% drop in ARPU qoq for the wireless players in the Sep 2009 quarter.

Cut Bharti's near-term EPS estimates by 2-5%

We have reduced our FY2010E, FY2011E, and FY2012E EPS estimates for Bharti by 2%, 5% and 4% to Rs26.4, Rs29.1, and Rs33.1 respectively. Changes in wireless business assumptions drive a bulk of the change. We discuss the key changes to our earnings model below (see Exhibit 6 for details).

Key changes to Bharti earnings model

- Wireless subscribers. We take note of the changing 'unit' of metrics computation (from 'subscriber' to 'SIM-cards in use') and increase our end-period subs base estimates for Bharti to 125 mn (+3%), 149 mn (+6%), and 163 mn (+7%) for FY2010E, FY2011E, and FY2012E, respectively. We also increase our all-India wireless subs estimates for these years by a similar proportion.

- MOU. We build in the usage churn and lowering MOU elasticity in the Indian market and reduce Bharti's MOU estimates for FY2010E, FY2011E, and FY2012E by 6%, 8%, and 8%, to 465, 456, and 459, respectively.

- ARPU. We have reduced our ARPU estimate for FY2010E, FY2011E, and FY2012E by 6%, 9%, and 9% to Rs254, Rs233, and Rs227, respectively. We had already build in the impact of new competition on per minute yield earlier, and hence do not change our RPM assumptions meaningfully.

- Wireless OPM. Change in underlying metrics assumptions leads to a 60 bps reduction in our OPM assumption for FY2011/12E.

- Consolidated revenues and EBITDA. Change in wireless assumptions leads to a 3-4% reduction in Bharti's consolidated revenues, and 2-4% reduction in consolidated EBITDA for FY2010-12E.

Exhibit 6: Summary of key changes to the Bharti model, March fiscal year-ends

	Unit	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Mobile market subs old	mn	513	610	668	704	730	751	767	781
Mobile market subs new	mn	529	645	715	757	788	813	833	849
Revision	*(%)*	*3%*	*6%*	*7%*	*8%*	*8%*	*8%*	*9%*	*9%*
Bharti mobile subs old	mn	120.8	140.5	152.1	159.3	164.4	168.6	171.9	174.6
Bharti mobile subs new	mn	124.8	148.9	163.1	171.8	178.0	183.0	187.0	190.3
Revision	***(%)***	***3%***	***6%***	***7%***	***8%***	***8%***	***9%***	***9%***	***9%***
Blended ARPU (incl. inroaming) est. old	Rs	271	255	250	253	256	258	260	263
Blended ARPU (incl. inroaming) est. new	Rs	254	233	227	229	230	231	233	234
Revision	*(%)*	*-6%*	*-9%*	*-9%*	*-10%*	*-10%*	*-10%*	*-11%*	*-11%*
RPM estimate old	Rs/min	0.55	0.51	0.50	0.50	0.50	0.50	0.50	0.51
RPM estimate new	Rs/min	0.55	0.51	0.49	0.49	0.49	0.49	0.49	0.49
Revision	*(%)*	*-1%*	*0%*	*-1%*	*-1%*	*-2%*	*-2%*	*-3%*	*-3%*
MOU estimate old	min/month	492	498	501	510	515	516	518	520
MOU estimate new	min/month	465	456	459	468	472	474	476	477
Revision	*(%)*	*-6%*	*-8%*	*-8%*	*-8%*	*-8%*	*-8%*	*-8%*	*-8%*
Consolidated revenues old	(Rs bn)	425	487	539	584	619	650	679	705
Consolidated revenues new	(Rs bn)	409	470	525	571	606	636	663	688
Revision	*(%)*	*-4%*	*-4%*	*-3%*	*-2%*	*-2%*	*-2%*	*-2%*	*-2%*
Consolidated EBITDA old	**(Rs bn)**	**177.0**	**197.3**	**218.0**	**238.3**	**254.5**	**268.1**	**280.5**	**292.1**
Consolidated EBITDA new	**(Rs bn)**	**172.7**	**189.5**	**211.3**	**231.0**	**246.1**	**258.3**	**269.2**	**279.2**
Revision	***(%)***	***-2%***	***-4%***	***-3%***	***-3%***	***-3%***	***-4%***	***-4%***	***-4%***
Mobile EBITDA margin old	(%)	32.2	31.9	32.1	32.7	33.0	33.3	33.3	33.5
Mobile EBITDA margin new	(%)	32.2	31.2	31.4	31.9	32.1	32.1	32.0	31.9
Revision	*(bps)*	*-4*	*-69*	*-64*	*-79*	*-97*	*-115*	*-134*	*-152*
Adjusted PAT old	**(Rs bn)**	**102.1**	**116.3**	**130.7**	**143.1**	**157.6**	**165.3**	**170.1**	**178.3**
Adjusted PAT new	**(Rs bn)**	**99.9**	**110.4**	**125.6**	**137.7**	**150.8**	**160.1**	**166.2**	**175.6**
Revision	***(%)***	***-2%***	***-5%***	***-4%***	***-4%***	***-4%***	***-3%***	***-2%***	***-2%***
Diluted EPS estimate old	**(Rs)**	**26.9**	**30.6**	**34.4**	**37.7**	**41.5**	**43.5**	**44.8**	**47.0**
Diluted EPS estimate new	**(Rs)**	**26.4**	**29.1**	**33.1**	**36.3**	**39.7**	**42.2**	**43.8**	**46.2**
Revision	***(%)***	***-2%***	***-5%***	***-4%***	***-4%***	***-4%***	***-3%***	***-2%***	***-2%***
Capex old	**(Rs bn)**	**128.8**	**104.9**	**84.9**	**79.1**	**73.2**	**71.4**	**72.0**	**73.4**
Capex new	**(Rs bn)**	**121.5**	**102.1**	**87.7**	**80.9**	**74.3**	**72.1**	**72.6**	**74.0**
Revision	***(%)***	***-6%***	***-3%***	***3%***	***2%***	***1%***	***1%***	***1%***	***1%***
Mobile capex/sales old	(%)	16.5	15.2	11.7	9.9	8.4	7.6	7.4	7.3
Mobile capex/sales new	(%)	15.1	15.2	12.8	10.6	8.8	7.9	7.7	7.6
Revision	*(pps)*	*-1.4*	*0.0*	*1.1*	*0.7*	*0.4*	*0.3*	*0.3*	*0.3*

Source: Kotak Institutional Equities estimates

Downgrade to REDUCE from ADD

We reduce our 12-month forward DCF-based target price on Bharti to Rs400/share (Rs425/share earlier). We note that our fair value for the core business is Rs340/share and we add Rs60/share for Bharti's 42% stake in Indus towers. We downgrade our recommendation a notch to REDUCE from ADD earlier. We believe one needs a higher margin of safety amid increasing business risks to turn constructive on the stock.

Exhibit 7: Our 12-month forward DCF-based price target for Bharti Airtel is Rs400/share (including Rs60/share of option value of 42% stake in Indus towers)
Discounted cash flow value for Bharti Airtel (Rs mn)

	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
EBITDA	172,696	189,526	211,285	231,015	246,107	258,321	269,224	279,204
Tax	(21,674)	(23,525)	(27,091)	(30,912)	(44,539)	(57,346)	(69,428)	(74,168)
Change in working capital	(9,929)	1,768	(2,312)	(3,236)	(5,610)	(5,474)	(4,808)	(5,731)
Post-tax operating cash flow	**141,094**	**167,769**	**181,882**	**196,867**	**195,958**	**195,502**	**194,988**	**199,305**
Capex	(121,515)	(102,065)	(87,702)	(80,860)	(74,268)	(72,106)	(72,592)	(73,980)
Free cash flow	**19,579**	**65,704**	**94,180**	**116,007**	**121,690**	**123,396**	**122,396**	**125,326**

	+ 1-year		WACC and growth in perpetuity assumptions	
PV of cash flows	536,300	40%	**Terminal growth - g (%)**	**5.0**
PV of terminal value	810,912	60%	**WACC (%)**	**12.0**
EV	1,347,212			
Net debt	69,731			
Equity value (Rs mn)	1,277,480			
Equity value (Rs/share)	**337**			
Equity value (US$ mn)	25,550			
Exit FCF multiple (X)				
Exit EBITDA multiple (X)				

Key assumptions (%)	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Revenue growth	10.8	14.7	11.8	8.7	6.2	4.9	4.4	3.7
EBITDA growth	13.9	9.7	11.5	9.3	6.5	5.0	4.2	3.7
EBITDA margin	**42.2**	**40.4**	**40.3**	**40.5**	**40.6**	**40.6**	**40.6**	**40.6**
Capex/sales	29.7	21.7	16.7	14.2	12.3	11.3	10.9	10.7
Cash tax rate	18.3	18.2	18.3	18.5	24.0	28.5	32.4	32.4
Effective tax rate	14.4	16.2	18.8	21.4	23.0	24.9	27.0	28.1
Return on avg. capital employed	**22.6**	**21.7**	**22.0**	**22.3**	**22.9**	**23.1**	**22.9**	**23.4**

Source: Kotak Institutional Equities estimates

Passive infra business may be a bright spot, but recent news flow not encouraging for Bharti

A positive fallout of the new players entering the wireless segment could manifest in the form of higher tenancy for the tower operators. However, Indus towers' organizational challenges and Bharti Infratel's lack of national footprint has hurt the two organizations in some of the recent tower-leasing deals (Unitech wireless with Tata-Quippo, Etisalat and S Tel with Reliance Infratel, Aircel with BSNL, etc.), in our view.

Upside risks—slowdown in capacity buildup, 3G

We discuss the key upside risks to our revised recommendation on Bharti—(1) while industry consolidation is a must for better health of the industry in the long run, slowdown in capacity build-out by the new entrants or expanding incumbents (for lack of capital, or prevailing of spreadsheet logic, or for any other reason) could provide upside to our near-term earnings estimates, (2) 3G, and more importantly, Bharti being able to set up its 3G network before MNP rollout. MNP rollout will provide new entrants foot in the door to the incumbents' 'cream' post-paid subscribers. However, if Bharti is able to roll out its 3G network before MNP option is available to its dissatisfied high-usage subs, it would move these subs to the 3G network. This would also free up valuable 2G spectrum for Bharti and increase its aggressiveness in dealing with the new entrants, in our view.

Valuation—premium to regional peers may not sustain

At the CMP, Bharti trades at 9.3X FY2010E, and 7.7X FY2011E EV/EBITDA, a 40-50% premium to its emerging market peers (see Exhibit 8). We expect the premium to narrow over the coming months as the wireless metrics disappoint, competition intensifies, and the market takes cognizance of the extent of risk to the Indian wireless industry's profitability structure. We emphasize that Bharti remains the best bet within the Indian telecom space but would wait for some price correction before turning constructive on the stock. We also reiterate our Cautious coverage view on the sector and negative stance on RCOM and Idea.

Exhibit 8: Bharti is trading at a substantial EV/EBITDA premium to other emerging market telcos

	EV/EBITDA (X)	
	CY09E/FY10E	**CY10E/FY11E**
Bharti	**9.8**	**8.6**
Bharti (adjusted for Indus)	**9.3**	**7.7**
AIS	6.5	6.3
China Mobile	4.8	4.6
Digi.com	7.8	7.4
Indosat	5.0	4.6
MTN	5.2	4.8
Far Eastone	4.8	4.7
Mobile One	5.7	5.6
Taiwan Mobile	8.1	7.5
NTT Docomo	4.0	4.1
Average (ex-Bharti)	**5.8**	**5.5**

Source: Bloomberg, Kotak Institutional Equities estimates

Consolidated profit and loss for Bharti Airtel, March fiscal year-ends, 2008-2017E (Rs mn)

	2008	2009	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Revenues										
Wireless	217,861	303,601	333,906	382,891	424,998	459,414	483,304	501,237	516,382	529,232
Fixed line	28,484	33,517	35,843	40,621	44,690	48,163	51,408	54,448	57,317	60,014
DLD	22,103	41,835	47,375	52,579	56,888	60,480	63,365	65,670	67,506	68,960
ILD	21,067	26,102	28,787	31,564	34,371	37,087	40,023	43,216	46,693	50,487
Enterprise services	13,217	16,945	18,640	20,131	21,238	22,300	23,415	24,585	25,815	27,105
Others	2,431	3,611	4,694	6,103	7,323	8,055	8,861	9,747	10,722	11,794
Less: Intersegment eliminations	*(40,936)*	*(98,485)*	*(93,563)*	*(101,439)*	*(107,534)*	*(112,372)*	*(116,474)*	*(119,979)*	*(123,181)*	*(126,006)*
Consolidated revenues	**270,250**	**369,615**	**409,486**	**469,550**	**524,731**	**570,501**	**605,987**	**635,800**	**663,480**	**688,293**
Interconnection costs	(41,110)	(52,903)	(42,616)	(48,662)	(53,777)	(59,487)	(64,206)	(68,218)	(72,066)	(75,202)
License fees and spectrum charges	(26,900)	(38,266)	(41,697)	(48,643)	(54,241)	(58,760)	(62,158)	(64,954)	(67,475)	(69,851)
Network operating costs	(33,002)	(59,355)	(75,186)	(93,363)	(106,354)	(114,659)	(120,658)	(125,598)	(130,546)	(134,753)
Sales and marketing expenses	(19,058)	(26,760)	(32,620)	(40,121)	(44,818)	(48,443)	(51,423)	(53,998)	(56,322)	(58,455)
Employee costs	(14,768)	(16,992)	(19,239)	(21,493)	(24,409)	(26,621)	(28,646)	(30,601)	(32,602)	(34,582)
G&A costs	(22,187)	(23,776)	(25,432)	(27,741)	(29,847)	(31,514)	(32,790)	(34,109)	(35,245)	(36,246)
Consolidated EBITDA	**113,225**	**151,563**	**172,696**	**189,526**	**211,285**	**231,015**	**246,107**	**258,321**	**269,224**	**279,204**
Other income incl. Interest income	4,136	645	5,345	3,543	7,005	11,543	18,290	24,940	31,269	37,289
Interest expense	(4,054)	(11,613)	(1,857)	(1,354)	(225)	—	—	—	—	—
Amortization of entry fee	(1,829)	(2,122)	(1,148)	(1,148)	(1,148)	(1,148)	(1,148)	(1,148)	(1,148)	(1,148)
Depreciation	(34,942)	(45,344)	(58,626)	(62,495)	(68,895)	(74,461)	(77,435)	(80,631)	(84,903)	(86,133)
Pretax profits	**76,536**	**93,129**	**116,410**	**128,073**	**148,022**	**166,949**	**185,814**	**201,482**	**214,441**	**229,212**
Extraordinary income/(charges)	—	—	—	—	—	—	—	—	—	—
Prior period adjustments	—	—	—	—	—	—	—	—	—	—
Current tax expense	(8,414)	(7,371)	(21,333)	(23,279)	(27,049)	(30,912)	(44,539)	(57,346)	(69,428)	(74,168)
Deferred tax (liability)/asset	36	756	4,605	2,534	(773)	(4,881)	1,763	7,172	11,430	9,842
Minority interest expense	(1,151)	(1,759)	(1,438)	(2,700)	(3,591)	(4,193)	(4,527)	(5,029)	(5,528)	(5,994)
Equity in earnings of affiliates		(56)	1,702	5,799	8,982	10,769	12,255	13,801	15,279	16,700
Reported net profits	**67,007**	**84,699**	**99,946**	**110,426**	**125,591**	**137,732**	**150,766**	**160,081**	**166,195**	**175,593**
Adjusted net profits	**67,007**	**84,699**	**99,946**	**110,426**	**125,591**	**137,732**	**150,766**	**160,081**	**166,195**	**175,593**
Adjusted EPS (Rs)	**17.7**	**22.3**	**26.4**	**29.1**	**33.1**	**36.3**	**39.7**	**42.2**	**43.8**	**46.2**
Shares outstanding (mn)	3,796	3,797	3,797	3,797	3,797	3,797	3,797	3,797	3,797	3,797
Current tax rate (%)	11.0	7.9	18.3	18.2	18.3	18.5	24.0	28.5	32.4	32.4
Effective tax rate (%)	10.9	7.1	14.4	16.2	18.8	21.4	23.0	24.9	27.0	28.1
Growth (%)										
EBITDA	52.3	33.9	13.9	9.7	11.5	9.3	6.5	5.0	4.2	3.7
Net profits	65.0	26.4	18.0	10.5	13.7	9.7	9.5	6.2	3.8	5.7
EPS	65.0	26.4	18.0	10.3	13.7	9.7	9.5	6.2	3.8	5.7
Margin (%)										
EBITDA	41.9	41.0	42.2	40.4	40.3	40.5	40.6	40.6	40.6	40.6
Net profits	24.8	22.9	24.4	23.5	23.9	24.1	24.9	25.2	25.0	25.5
EBIT	28.3	28.2	27.6	26.8	26.9	27.2	27.6	27.8	27.6	27.9

Source: Company, Kotak Institutional Equities estimates

Consolidated balance sheet for Bharti Airtel, March fiscal year-ends, 2008-2017E (Rs mn)

	2008	2009	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Equity										
Share capital	18,979	18,985	18,985	18,985	18,985	18,985	18,985	18,985	18,985	18,985
Warrants	—	—	—	—	—	—	—	—	—	—
Reserves/surplus	203,606	284,960	382,048	488,987	607,649	726,615	846,702	964,113	1,075,557	1,184,222
Total equity	**222,585**	**303,945**	**401,033**	**507,972**	**626,634**	**745,600**	**865,687**	**983,098**	**1,094,542**	**1,203,207**
Minority shareholding	3,013	10,704	12,142	14,842	18,432	22,625	27,152	32,181	37,709	43,703
Deferred tax liability	1,940	7,556	2,951	418	1,191	6,072	4,309	(2,864)	(14,293)	(24,135)
Liabilities										
Secured loans	90,969	118,801	79,151	23,836	—	—	—	—	—	—
Unsecured loans	—	—	—	—	—	—	—	—	—	—
Total borrowings	**90,970**	**118,801**	**79,151**	**23,836**	—	—	—	—	—	—
Currrent liabilities	154,135	162,941	158,284	168,162	175,171	179,387	181,794	184,848	189,115	192,996
Total capital	**472,643**	**603,947**	**653,561**	**715,229**	**821,428**	**953,684**	**1,078,942**	**1,197,264**	**1,307,073**	**1,415,770**
Assets										
Cash	55,006	49,070	29,969	39,306	109,542	218,326	327,627	433,292	532,207	627,893
Current assets	58,776	95,009	100,280	108,391	117,712	125,164	133,180	141,709	150,784	160,395
Gross block	408,408	532,177	653,692	755,757	843,459	924,319	998,587	1,070,693	1,143,285	1,217,265
Less: accumulated depreciation	102,406	147,750	206,376	268,871	337,766	412,226	489,661	570,292	655,195	741,328
Net fixed assets	**306,002**	**384,427**	**447,316**	**486,886**	**505,694**	**512,093**	**508,926**	**500,401**	**488,090**	**475,937**
Capital work-in-progress	24,709	24,709	24,709	24,709	24,709	24,709	24,709	24,709	24,709	24,709
Total fixed assets	330,711	409,136	472,025	511,595	530,402	536,802	533,635	525,110	512,799	500,645
Entry fees unamortized	11,698	40,364	39,216	38,068	36,920	35,772	34,624	33,476	32,328	31,180
Investments	16,425	10,341	12,044	17,843	26,824	37,594	49,849	63,650	78,929	95,630
Deferred expenditure	27	27	27	27	27	27	27	27	27	27
Deferred tax asset	—	—	—	—	—	—	—	—	—	—
Total assets	**472,643**	**603,947**	**653,560**	**715,229**	**821,428**	**953,683**	**1,078,942**	**1,197,264**	**1,307,073**	**1,415,769**
Leverage ratios (%)										
Debt/equity	40.9	39.1	19.7	4.7	—	—	—	—	—	—
Debt/capitalization	29.0	28.1	16.5	4.5	—	—	—	—	—	—
Net debt/equity	16.2	22.9	12.3	(3.0)	(17.5)	(29.3)	(37.8)	(44.1)	(48.6)	(52.2)
Net debt/capitalization	13.9	18.7	10.9	(3.1)	(21.2)	(41.4)	(60.9)	(78.8)	(94.6)	(109.1)
RoAE	39.7	32.2	28.4	24.3	22.1	20.1	18.7	17.3	16.0	15.3
RoAE (excl cash and interest income	**45.5**	**38.9**	**30.0**	**25.5**	**24.3**	**24.5**	**25.4**	**26.0**	**26.2**	**27.1**
ROACE	29.2	25.4	20.6	20.3	20.3	19.2	16.9	15.1	13.6	13.2
RoACE (excl cash and interest incom	**31.9**	**29.5**	**22.6**	**21.7**	**22.0**	**22.3**	**22.9**	**23.1**	**22.9**	**23.4**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Energy

India

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BSE-30: 17,135

Subsidy burden remains at comfortable levels. Our estimate of gross under-recoveries for FY2010E (based on under-recoveries for 1HFY10) suggests that the total amount at Rs383 bn will be comfortable enough to ensure that (1) the government will bear the entire subsidy on cooking fuels and (2) downstream companies will report strong earnings in FY2010E even if they have to bear some portion of the gross under-recoveries on auto fuels.

Company data and valuation summary

Bharat Petroleum

Stock data				Forecasts/Valuations	2009	2010E	2011E
52-week range (Rs) (high,low)			601-226	EPS (Rs)	20.6	79.8	65.0
Market Cap. (Rs bn)			182.5	EPS growth (%)	(50.1)	287.1	(18.5)
Shareholding pattern (%)				P/E (X)	27.0	7.0	8.6
Promoters			54.9	Sales (Rs bn)	1,340.7	910.6	935.1
FIIs			8.3	Net profits (Rs bn)	7.5	28.8	23.5
MFs			7.6	EBITDA (Rs bn)	27.5	55.4	50.5
Price performance (%)	1M	3M	12M	EV/EBITDA (X)	11.5	6.0	6.3
Absolute	8.6	22.3	53.4	ROE (%)	5.3	18.9	13.8
Rel. to BSE-30	(1.4)	4.5	16.9	Div. Yield (%)	1.3	5.7	4.7

Company data and valuation summary

Hindustan Petroleum

Stock data				Forecasts/Valuations	2009	2010E	2011E
52-week range (Rs) (high,low)			426-163	EPS (Rs)	17.0	73.1	58.5
Market Cap. (Rs bn)			131.2	EPS growth (%)	(49.3)	330.9	(19.9)
Shareholding pattern (%)				P/E (X)	22.8	5.3	6.6
Promoters			51.1	Sales (Rs bn)	1,249.3	852.2	876.9
FIIs			8.9	Net profits (Rs bn)	4.8	24.8	19.8
MFs			10.8	EBITDA (Rs bn)	28.7	58.0	52.5
Price performance (%)	1M	3M	12M	EV/EBITDA (X)	10.7	5.4	5.8
Absolute	7.0	24.3	61.1	ROE (%)	4.4	17.7	12.8
Rel. to BSE-30	(2.9)	6.3	22.8	Div. Yield (%)	1.4	7.7	6.2

Company data and valuation summary

Indian Oil Corporation

Stock data				Forecasts/Valuations	2009	2010E	2011E
52-week range (Rs) (high,low)			790-299	EPS (Rs)	19.7	101.8	79.3
Market Cap. (Rs bn)			790.7	EPS growth (%)	(67.9)	416.7	(22.1)
Shareholding pattern (%)				P/E (X)	34.0	6.6	8.5
Promoters			78.9	Sales (Rs bn)	3,041.3	2,333.9	2,398.6
FIIs			0.9	Net profits (Rs bn)	23.5	123.4	96.3
MFs			2.0	EBITDA (Rs bn)	106.6	241.2	221.3
Price performance (%)	1M	3M	12M	EV/EBITDA (X)	9.0	4.5	4.5
Absolute	13.8	23.8	66.6	ROE (%)	4.8	22.6	15.6
Rel. to BSE-30	3.2	5.8	27.0	Div. Yield (%)	1.1	5.8	4.6

Subsidy burden of Rs383 bn FY2010E looks manageable

Exhibit 1 gives our computation of gross under-recoveries for FY2010E, which we estimate at Rs383 bn. Gross under-recoveries for 1HFY10 at crude price (Dated Brent) of US$60/bbl stood at Rs164 bn. We compute 2HFY10E under-recoveries at Rs219 bn even if we assume a crude price of US$69/bbl for 2HFY10, based on under-recoveries of Rs110 bn in 2QFY10 when crude price averaged US$69/bbl.

QUICK NUMBERS

- We compute the subsidy burden at Rs383 bn for FY2010E
- Downstream OMCs at attractive P/Es for FY2010E (BPCL 7X, HPCL 5.3X, IOCL 6.6X)

We estimate subsidy burden at Rs383 bn for FY2010E at an average crude price of US$65/bbl
Computation of subsidy burden, March fiscal year-end, 2010E (Rs bn)

	1QFY10	2QFY10	1HFY10	2HFY10E	FY2010E
Gasoline	10	12	22	24	46
Diesel	(5)	26	22	53	74
Auto fuel subsidy	**6**	**38**	**44**	**77**	**121**
LPG	16	26	42	52	94
Kerosene	32	45	78	91	168
Cooking fuel subsidy	**49**	**71**	**120**	**142**	**262**
Total subsidy burden	**54**	**110**	**164**	**219**	**383**
Crude price (US$/bbl)	52	**69**	60	69	**65**

Source: Kotak Institutional Equities estimates

Cooking fuel subsidy will likely be lower than previously estimated

We highlight that the subsidy burden on cooking fuels for FY2010E will likely be around Rs262 bn, which is significantly lower that the previous estimate of Rs320 bn when the government had announced its decision to bear the entire subsidy burden on cooking fuels. Thus, we see no reason for the government to go back on its decision. On the contrary, we do not rule out the government bearing some portion of the auto fuel subsidy, which we estimate at Rs121 bn.

FY2010E earnings for downstream companies look robust

We estimate downstream companies to report robust earnings for FY2010E as long as the government bears the entire subsidy burden on cooking fuels. We currently assume that downstream companies will not bear any subsidy burden on auto fuels either. However, we note that downstream companies will report good earnings even if they have to bear some portion of the auto fuel subsidy. Exhibit 2 gives the earnings and valuations of downstream companies under different scenarios of auto fuel subsidy-sharing.

R&M stocks' valuations are attractive even in a scenario of them bearing a portion of subsidy on auto fuels
Price/earnings (price to current year EPS) ratio for BPCL, HPCL and IOCL (X)

		Subsidy-burden on auto fuels (%)		
	Base case	20.0	33.3	50.0
BPCL				
Company's share of subsidy-burden (Rs mn)	—	5,059	8,431	12,647
FY2010E EPS (Rs)	79.8	70.5	64.4	56.7
P/E (X)	**7.0**	**7.9**	**8.6**	**9.8**
HPCL				
Company's share of subsidy-burden (Rs mn)	—	4,571	7,618	11,427
FY2010E EPS (Rs)	73.1	64.2	58.2	50.8
P/E (X)	**5.3**	**6.0**	**6.6**	**7.6**
IOCL				
Company's share of subsidy-burden (Rs mn)	—	9,203	15,338	23,007
FY2010E EPS (Rs)	101.8	96.8	93.4	89.3
P/E (X)	**6.6**	**6.9**	**7.2**	**7.5**

Source: Kotak Institutional Equities estimates

However, we do not expect downstream companies to bear a significant portion of the auto fuel subsidy as the subsidy-sharing is normally worked out on the relative profitability of companies and the combined earnings of upstream companies (ONGC, GAIL and OIL India) to be significantly higher than earnings of downstream companies (BPCL, HPCL and IOCL) (see Exhibit 3). Also, the Indian petroleum secretary had previously stated that the majority of the subsidy on auto fuels will be borne by the government-owned upstream companies.

We do not see downstream companies bearing a significant portion of auto fuel subsidy
Net profits of oil PSUs for FY2009 (Rs bn)

	Net profits	(%)
BPCL	7	3
HPCL	6	2
IOCL	27	10
Total downstream companies' net profits	**41**	**14**
ONGC	195	68
GAIL	28	10
OIL	22	8
Total upstream companies' net profits	**245**	**86**
Total profits of oil PSUs	**286**	**100**

Source: Company, Kotak Institutional Equities

Consolidated profit model, balance sheet, cash model of BPCL, March fiscal year-ends, 2006-2012E (Rs mn)

	2006	2007	2008	2009	2010E	2011E	2012E
Profit model (Rs mn)							
Net sales	755,333	965,569	1,102,081	1,340,734	910,620	935,127	970,212
EBITDA	**9,407**	**35,362**	**28,472**	**27,507**	**55,357**	**50,478**	**55,560**
Other income	4,653	7,332	13,954	15,087	12,413	9,072	7,188
Interest	(2,474)	(4,774)	(6,725)	(21,664)	(13,931)	(12,002)	(9,461)
Depreciation	(7,680)	(9,041)	(10,982)	(10,755)	(10,145)	(11,927)	(12,444)
Pretax profits	3,906	28,879	24,719	10,176	43,694	35,622	40,842
Extraordinary items	176	(68)	—	—	—	—	—
Tax	(140)	(9,286)	(9,059)	(5,103)	(12,530)	(10,313)	(12,756)
Deferred taxation	(1,025)	(268)	(1,108)	2,421	(2,322)	(1,795)	(1,126)
Net profits	2,916	18,055	15,806	7,359	28,843	23,514	26,960
Net profits after minority interests	**2,916**	**18,055**	**15,806**	**7,359**	**28,843**	**23,514**	**26,960**
Earnings per share (Rs)	**7.6**	**50.1**	**43.7**	**20.4**	**79.8**	**65.0**	**74.6**
Balance sheet (Rs mn)							
Total equity	91,394	102,735	116,768	121,281	136,588	149,067	163,375
Deferred taxation liability	13,558	13,826	14,814	12,392	14,714	16,509	17,635
Total borrowings	83,736	108,292	150,224	211,714	206,153	163,653	124,403
Currrent liabilities	94,070	112,767	145,803	128,313	111,143	119,599	121,904
Total liabilities and equity	**282,758**	**337,620**	**427,608**	**473,701**	**468,599**	**448,829**	**427,318**
Cash	4,921	8,640	9,616	4,416	4,595	4,068	4,280
Current assets	128,208	127,698	187,457	148,469	140,624	144,803	146,647
Goodwill	—	—	—	—	—	—	—
Total fixed assets	110,855	118,334	127,354	140,033	166,393	167,970	169,404
Investments	38,774	82,949	103,182	180,784	156,988	131,988	106,988
Total assets	**282,758**	**337,621**	**427,608**	**473,701**	**468,599**	**448,829**	**427,318**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	9,275	29,920	22,988	19,717	28,897	28,163	33,343
Working capital	1,577	11,451	(25,161)	20,585	(7,810)	5,531	461
Capital expenditure	(19,945)	(17,908)	(20,665)	(23,323)	(36,505)	(13,504)	(13,878)
Investments	(28,146)	(45,481)	(21,684)	(82,456)	23,796	25,000	25,000
Other income	1,785	4,337	6,434	6,655	10,897	7,818	7,188
Free cash flow	**(35,455)**	**(17,682)**	**(38,088)**	**(58,822)**	**19,275**	**53,008**	**52,113**
Ratios (%)							
Debt/equity	91.6	105.4	128.7	174.6	150.9	109.8	76.1
Net debt/equity	86.2	97.0	120.4	170.9	147.6	107.1	73.5
RoAE	3.3	16.3	12.7	5.5	20.2	14.8	15.6
RoACE	**4.1**	**11.0**	**7.9**	**5.1**	**11.7**	**9.9**	**10.9**
Key assumptions (standalone until FY2005)							
Crude throughput (mn tons)	17.2	19.8	20.9	20.0	20.2	22.7	22.7
Effective tariff protection (%)	2.9	1.6	1.4	2.4	2.4	2.4	2.4
Net refining margin (US$/bbl)	2.1	3.1	5.6	5.0	3.1	3.8	4.4
Sales volume (mn tons)	23.3	24.5	26.7	28.1	29.1	30.2	31.4
Marketing margin (Rs/ton)	(671)	(1,140)	(3,010)	(5,944)	665	1,440	1,435
Subsidy under-recoveries (Rs mn)	(31,847)	(20,159)	(26,680)	(27,706)	—	—	—

Source: Company, Kotak Institutional Equities estimates

Profit model, balance sheet, cash model of HPCL, March fiscal year-ends, 2006-2012E (Rs mn)

	2006	2007	2008	2009	2010E	2011E	2012E
Profit model (Rs mn)							
Net sales	708,609	889,959	1,043,130	1,249,348	852,192	876,930	926,556
EBITDA	**8,056**	**24,036**	**15,757**	**28,707**	**58,033**	**52,476**	**61,677**
Other income	3,285	6,845	11,980	9,057	5,014	4,466	2,401
Interest	(1,587)	(4,230)	(7,925)	(20,828)	(14,705)	(15,569)	(16,250)
Depreciation	(6,902)	(7,040)	(8,508)	(9,813)	(10,812)	(11,323)	(11,919)
Pretax profits	2,851	19,611	11,303	7,122	37,531	30,050	35,910
Extraordinary items	2,201	3,030	—	—	—	—	—
Tax	(898)	(6,625)	(1,799)	(2,416)	(11,536)	(7,829)	(10,003)
Deferred taxation	(97)	(365)	(2,025)	(343)	(1,220)	(2,385)	(2,202)
Prior period adjustment	—	61	3,870	1,387	—	—	—
Net profits	**4,056**	**15,712**	**11,349**	**5,750**	**24,774**	**19,836**	**23,704**
Earnings per share (Rs)	**6.6**	**40.0**	**33.5**	**17.0**	**73.1**	**58.5**	**69.9**
Balance sheet (Rs mn)							
Total equity	87,357	95,987	105,633	107,306	120,183	130,490	142,811
Deferred tax liability	13,844	14,209	15,960	16,034	17,254	19,639	21,841
Total borrowings	66,638	105,175	167,867	227,552	239,552	207,673	160,173
Currrent liabilities	79,549	101,195	124,337	117,558	94,965	99,203	100,927
Total liabilities and equity	**247,389**	**316,566**	**413,797**	**468,450**	**471,954**	**457,006**	**425,753**
Cash	426	868	2,940	6,083	1,540	1,484	1,480
Current assets	109,674	113,779	190,034	153,844	140,139	144,590	148,063
Total fixed assets	97,013	130,644	152,452	166,558	179,255	179,914	180,190
Investments	40,276	71,275	68,371	141,965	151,018	131,018	96,018
Total assets	**247,389**	**316,566**	**413,796**	**468,450**	**471,953**	**457,007**	**425,751**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	10,126	23,966	(18,679)	(12,139)	29,321	28,155	35,424
Working capital changes	(5,351)	8,936	(6,504)	48,461	(7,656)	729	(1,749)
Capital expenditure	(25,298)	(38,510)	(31,638)	(19,275)	(21,038)	(11,058)	(12,195)
Investments	(22,884)	(31,704)	(1,851)	(70,386)	(9,054)	20,000	35,000
Other income	941	2,067	4,692	3,187	3,782	3,524	2,401
Free cash flow	**(42,466)**	**(35,246)**	**(53,980)**	**(50,151)**	**(4,645)**	**41,350**	**58,881**
Ratios (%)							
Debt/equity	65.8	95.4	138.1	184.5	174.3	138.3	97.3
Net debt/equity	65.4	94.7	135.6	179.6	173.2	137.3	96.4
RoAE	4.1	14.9	9.8	4.7	19.0	13.8	15.1
RoACE	**2.5**	**8.8**	**6.4**	**5.8**	**9.9**	**9.2**	**11.0**
Key assumptions							
Crude throughput (mn tons)	14.0	16.7	16.8	15.8	18.0	19.3	19.3
Effective tariff protection (%)	3.1	1.4	1.3	2.4	2.4	2.4	2.4
Net refining margin (US$/bbl)	3.9	4.3	6.6	4.3	3.2	3.5	4.5
Sales volume (mn tons)	20.1	23.4	26.2	27.0	28.1	29.3	31.1
Marketing margin (Rs/ton)	(463)	(710)	(2,345)	(5,021)	797	1,424	1,415
Subsidy under-recoveries (Rs mn)	(29,671)	(18,899)	(28,549)	(28,432)	—	—	—

Source: Company, Kotak Institutional Equities estimates

Consolidated profit model, balance sheet, cash model of IOCL, March fiscal year-ends, 2006-2012E (Rs mn)

	2006	2007	2008	2009	2010E	2011E	2012E
Profit model (Rs mn)							
Net sales	1,729,474	2,149,428	2,444,378	3,041,265	2,333,855	2,398,593	2,515,212
EBITDA	**82,044**	**110,451**	**120,872**	**61,445**	**202,393**	**178,692**	**197,459**
Other income	21,310	27,451	43,748	45,155	38,821	42,630	33,941
Interest	(12,101)	(17,058)	(17,556)	(41,758)	(22,098)	(24,821)	(18,308)
Depreciation	(24,711)	(28,686)	(29,918)	(31,389)	(34,869)	(47,026)	(49,958)
Pretax profits	66,542	92,157	117,145	33,453	184,246	149,475	163,133
Extraordinary items	5,590	24,757	5,374	—	—	—	—
Tax	(19,975)	(25,834)	(38,293)	(13,316)	(50,296)	(38,118)	(51,772)
Deferred taxation	(1,282)	(8,040)	(473)	1,435	(7,318)	(12,773)	(3,762)
Net profits	51,125	82,729	83,430	25,523	126,633	98,583	107,599
Net profits after minority interests	**45,362**	**62,469**	**74,573**	**27,437**	**123,424**	**96,307**	**104,541**
Earnings per share (Rs)	**38.8**	**52.4**	**62.5**	**23.0**	**101.8**	**79.3**	**86.1**
Balance sheet (Rs mn)							
Total equity	317,977	378,117	450,449	470,654	548,282	602,426	662,039
Deferred tax liability	50,602	59,859	60,331	58,876	66,946	79,693	83,613
Total borrowings	292,395	290,215	382,818	465,250	604,326	511,941	266,829
Currrent liabilities	286,716	330,791	386,724	376,107	383,098	406,346	418,446
Total liabilities and equity	**947,691**	**1,058,981**	**1,280,322**	**1,370,888**	**1,602,652**	**1,600,406**	**1,430,927**
Cash	8,080	9,385	8,413	8,076	15,155	19,899	27,937
Current assets	413,904	437,178	599,256	473,965	551,932	567,956	578,742
Total fixed assets	383,717	415,014	460,307	565,545	705,661	732,647	694,344
Investments	141,990	197,403	212,345	318,208	329,904	279,904	129,904
Total assets	**947,691**	**1,058,981**	**1,280,322**	**1,365,795**	**1,602,652**	**1,600,406**	**1,430,927**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	(10,334)	(44,660)	(107,263)	(345,677)	123,589	109,973	123,534
Working capital changes	(8,136)	2,237	(1,414)	76,881	(60,869)	7,450	4,869
Capital expenditure	(49,042)	(50,969)	(79,586)	(135,923)	(139,810)	(57,647)	(12,112)
Investments	(17,778)	99,768	92,665	299,410	(10,894)	49,073	150,015
Other Income	10,317	13,582	18,253	16,413	29,010	35,093	33,011
Free cash flow	**(74,973)**	**19,958**	**(77,346)**	**(88,896)**	**(58,973)**	**143,941**	**299,317**
Ratios (%)							
Debt/equity	79.3	66.3	74.9	87.9	98.2	75.1	35.8
Net debt/equity	77.1	64.1	73.3	86.3	95.8	72.1	32.0
RoAE	13.7	16.1	16.3	5.5	22.3	15.4	15.1
RoACE	**9.3**	**11.3**	**11.2**	**4.8**	**13.5**	**10.8**	**11.2**
Key assumptions (IOC standalone)							
Crude throughput (mn tons)	38.5	44.0	47.4	51.3	52.4	53.4	53.4
Effective tariff protection (%)	3.1	1.6	1.3	2.8	2.8	2.8	2.8
Net refining margin (US$/bbl)	4.8	4.2	8.2	3.6	4.0	4.2	5.1
Sales volume (mn tons)	50.4	53.4	57.4	61.0	63.7	65.9	68.3
Marketing margin (Rs/ton)	26	(633)	(2,203)	(5,253)	923	1,394	1,393
Subsidy under-recoveries (Rs mn)	(95,361)	(34,041)	(64,486)	(55,535)	—	—	—

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Mahindra & Mahindra (MM)

Automobiles

ADD

OCTOBER 05, 2009

UPDATE

Coverage view: Cautious

Price (Rs): 890

Target price (Rs): 1,000

BSE-30: 17,135

Raise volume estimates on strong UV demand. We raise our FY2010E and FY2011E EPS estimates to Rs56.5 and Rs60 from Rs51.1 and Rs53.3 to reflect continued strong UV sales and reassuring tractor demand during Dussera. Our 2H growth estimates remain conservative with 33% for UVs and 28% for tractors, compared with 36% and 42% fiscal YTD. Further upside to our FY2011E EPS estimates could come from the ramp-up at the Chakan plant. We raise our TP to Rs1,000 from Rs915, maintain ADD.

Company data and valuation summary

Mahindra & Mahindra

Stock data			
52-week range (Rs) (high,low)			944-235
Market Cap. (Rs bn)			262.4
Shareholding pattern (%)			
Promoters			29.0
FIIs			28.6
MFs			3.8
Price performance (%)	**1M**	**3M**	**12M**
Absolute	5.1	24.6	75.0
Rel. to BSE-30	(4.6)	6.5	33.3

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	30.0	56.0	59.4
EPS growth (%)	(19.8)	86.4	6.1
P/E (X)	29.7	15.9	15.0
Sales (Rs bn)	130.9	170.1	184.2
Net profits (Rs bn)	8.3	16.5	17.5
EBITDA (Rs bn)	10.9	24.5	26.4
EV/EBITDA (X)	26.3	11.7	10.5
ROE (%)	17.4	25.9	21.1
Div. Yield (%)	1.1	1.1	1.1

Raising EPS estimates on continued strong UV sales growth and reassuring tractor volumes

We are raising our FY2010E EPS estimates to Rs56.5 from Rs51.1 prior to reflect continued strength in UVs and strong tractor demand during the Dussera season. M&M's UV sales were up 37% yoy in September and are now up 36% fiscal year-to-date. We are raising our UV sales growth estimate to 33% from 22% prior. Our UV volume estimate now implies 34% residual growth in the 2HFY10E, which seems reasonable given the low base in 3QFY09. Average UV sales in 3QFY09 were under 10,000 units versus an average of 17,000 in 1HFY10. Our FY2011E EPS estimate goes to Rs60 from Rs53.3 prior.

Strong demand during Dussera reflects limited impact of weak monsoon

On the tractor side, September sales were up 56% yoy and FYTD volumes are up 42% yoy. September's strong yoy comparison was largely driven by Dussera, which fell in September this year compared to October last year. Inventory levels also increase to 30 days from 21 days in August. As a result we expect October sales to decline sequentially and yoy. Given the year-to-date growth of 42%, we are raising our fiscal year growth estimate to 28% from 19% prior. We remain conservative for the rest of the year with average volumes of 11,000 units compared to almost 14,000 units in 1HFY10.

Volume and earnings contribution from Chakan plant not reflected in FY2011E estimates

M&M's Chakan plant is expected to start production in December, with the first product likely to be a light commercial vehicle. Total capacity of the plant is expected at 300,000 units when fully ramped-up. Close to 50,000 units would be assigned to the Mahindra Navistar JV (MNAL) and the rest would be utilized for LCVs and UVs. Our 10% volume growth estimate for FY2011E does not reflect any contribution from the Chakan plant.

Raising target price to Rs1,000 from Rs915 on higher earnings, maintain ADD

Our Rs1,000 SOTP-based target values the standalone business at Rs740 and assigns Rs260 for subsidiary holdings. The Rs740 standalone valuation is based on 13X FY2011E EPS. We assign a 15% discount to Maruti to reflect the holding company structure. We value subsidiary holdings at a 20% discount to market/target prices. The Rs85 increase in our target price is primarily driven by higher earnings estimates.

M&M, SOTP-based valuation, FY2011E basis

	EPS (Rs/share)	Multiple (X)	Value per share (Rs)	Comment
M&M standalone business	57	13.0	740	Based on 13X FY2010E EPS less dividend income/share from subs
Subsidiaries			**261**	
Tech Mahindra			138	Based on KIE current price of Rs945/share
Mahindra Lifespace Developers Ltd			17	Based on KIE target price of Rs410/share
M&M Financial Services Ltd			38	Based on KIE target price of Rs240/share
Other investments			68	Based on current price of Mahindra Holidays, Forgings
SOTP-based value			1,000	
Target price			**1,000**	

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

Source: Company, Kotak Institutional Equities estimates

Mahindra & Mahindra volume details, March fiscal-year ends, 2006-2012E

	2006	2007	2008	2009	2010E	2011E	2012E
Mahindra Navistar LCVs	6,777	8,694	10,402	8,604	9,464	11,357	13,629
Utility Vehicles	114,688	127,857	148,759	153,655	204,361	219,688	241,657
Auto Division	**114,688**	**127,857**	**148,759**	**153,655**	**204,361**	**219,688**	**241,657**
Tractors	85,007	102,536	98,710	118,565	152,800	163,496	179,845
3-wheelers	22,419	33,718	33,926	44,806	41,446	43,518	45,694
Total vehicles	**222,114**	**264,111**	**281,395**	**317,026**	**398,606**	**426,702**	**467,196**
Growth (yoy %)	**2006**	**2007**	**2008E**	**2009**	**2010E**	**2011E**	**2011E**
LCVs	(14.1)	28.3	19.6	(17.3)	10.0	20.0	20.0
Utility Vehicles	3.2	11.5	16.3	3.3	33.0	7.5	10.0
Auto Division	**(3.6)**	**11.5**	**16.3**	**3.3**	**33.0**	**7.5**	**10.0**
Tractors	30.0	20.6	(3.7)	20.1	12.5	7.0	10.0
3-wheelers	(2.3)	50.4	0.6	32.1	(7.5)	5.0	5.0
Total vehicles	**7.1**	**18.9**	**6.5**	**12.7**	**25.7**	**7.0**	**9.5**

Source: Company, Kotak Institutional Equities estimates

M&M, Standalone profit model, balance sheet and cash flow model, March fiscal year-ends, 2006-2012E (Rs mn)

	2006	2007	2008	2009	2010E	2011E	2012E
Profit model (Rs mn)							
Net sales	82,513	100,682	115,413	130,937	170,072	184,159	198,095
EBITDA	**9,958**	**13,048**	**13,666**	**10,926**	**24,512**	**26,403**	**28,627**
Other income	753	1,530	1,304	2,703	1,914	2,337	2,647
Interest	184	675	(242)	(453)	(582)	(526)	(389)
Depreciaiton	(2,000)	(2,096)	(2,387)	(2,915)	(3,849)	(4,871)	(5,809)
Profit before tax	**8,895**	**13,157**	**12,340**	**10,262**	**21,996**	**23,342**	**25,075**
Current tax	(2,854)	(3,657)	(2,788)	(585)	(3,299)	(3,501)	(3,761)
Deferred tax	430	157	(247)	(1,412)	(2,200)	(2,334)	(2,508)
Net profit	**8,571**	**10,684**	**11,034**	**8,368**	**16,497**	**17,507**	**18,807**
Earnings per share (Rs)	**34.8**	**43.0**	**44.4**	**30.0**	**56.5**	**59.9**	**64.3**
Balance sheet (Rs mn)							
Equity	30,556	35,727	44,068	52,621	74,835	91,377	109,391
Total Borrowings	8,834	16,360	25,871	40,528	32,578	32,578	32,578
Current liabilities	20,516	26,656	32,400	47,978	46,198	48,727	51,299
Total liabilities	**59,906**	**78,743**	**102,339**	**141,126**	**153,611**	**172,681**	**193,268**
Net fixed assets	15,544	18,712	23,609	32,143	44,295	55,423	63,114
Investments	16,691	22,375	42,151	57,864	56,853	51,853	-
Cash	7,303	13,261	8,612	15,744	7,503	16,762	77,828
Other current assets	20,188	24,221	27,831	35,249	44,835	48,517	52,199
Miscellaneous expenditure	181	176	135	126	126	126	126
Total assets	**59,906**	**78,743**	**102,339**	**141,126**	**153,611**	**172,681**	**193,268**
Free cash flow (Rs mn)							
Operating cash flow excl. working capital	6,919	9,712	10,730	10,395	21,213	22,901	24,866
Working capital changes	(50)	1,978	(2,472)	5,918	(11,548)	(1,154)	(1,111)
Capital expenditure	(2,747)	(4,819)	(7,171)	(9,152)	(16,000)	(16,000)	(13,500)
Free cash flow	**4,122**	**6,870**	**1,087**	**7,161**	**(6,335)**	**5,748**	**10,255**
Ratios							
Operating margin (%)	12.1	13.0	11.8	8.3	14.4	14.3	14.5
PAT margin (%)	10.4	10.6	9.6	6.4	9.7	9.5	9.5
Debt/equity (X)	0.3	0.5	0.6	0.8	0.4	0.4	0.3
Net debt/equity (X)	0.1	0.0	0.0	(0.1)	(0.1)	(0.1)	(0.2)
Book Value (Rs/share)	123.3	142.9	176.6	178.1	253.5	309.6	370.7
RoAE (%)	32.9	32.4	27.8	17.4	25.9	21.1	18.8
RoACE (%)	**23.6**	**22.4**	**18.4**	**10.7**	**16.9**	**15.5**	**14.4**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Grasim Industries (GRASIM)

Cement

REDUCE

OCTOBER 05, 2009

UPDATE

Coverage view: Neutral

Price (Rs): 2,692

Target price (Rs): 2,560

BSE-30: 17,135

QUICK NUMBERS

- Transfer of cement business to Samruddhi with 65% ownership
- Dilution of earnings to the extent of Rs57/share
- Economic interest of shareholders remains unchanged

Restructuring to create a concrete behemoth. Grasim Industries has proposed to transfer its cement business into a separate entity—Samruddhi Cement Ltd, diluting Grasim's stake to 65%, while the balance equity is issued to extant shareholders of Grasim. The merger of Ultratech with Samruddhi will eventually create India's largest cement company with a capacity of ~50 mn tpa. Grasim will, however, emerge as a holding company, with dilution of earnings from the cement business.

Company data and valuation summary

Grasim Industries

Stock data			
52-week range (Rs) (high,low)			2,940-824
Market Cap. (Rs bn)			246.8
Shareholding pattern (%)			
Promoters			25.2
FIIs			33.8
MFs			4.7
Price performance (%)	1M	3M	12M
Absolute	1.5	16.6	52.3
Rel. to BSE-30	(7.8)	(0.3)	16.0

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	238.6	251.9	266.5
EPS growth (%)	(16.2)	5.6	5.8
P/E (X)	11.3	10.7	10.1
Sales (Rs bn)	184.0	182.5	193.5
Net profits (Rs bn)	21.9	23.1	24.4
EBITDA (Rs bn)	47.8	55.8	54.5
EV/EBITDA (X)	6.4	5.3	5.0
ROE (%)	21.1	18.4	16.8
Div. Yield (%)	1.2	1.2	1.3

Cement business to be spun off into separate listed entity

Grasim Industries will transfer its cement business comprising 25.7 mn tpa of cement capacity and 6.8 mn cubic meters of RMC capacity along with associated infrastructure and captive power plants into Samruddhi Cement Ltd, as per the proposal of the Board. Grasim will dilute its ownership in the cement business to 65%, while the balance equity will be issued to extant shareholders of Grasim (1:1 ratio), making the transaction neutral in impact for Grasim shareholders as they continue to hold entire economic interest in the cement business, albeit only 35% directly. Grasim's earnings for FY2011E will be reduced to Rs209/share from Rs266 currently due to the dilution of ownership in the cement business in favor of shareholders of Grasim.

Synergies, benefits of scale already captured in extant structure

Grasim along with its ownership in Ultratech, has already capitalized on the available synergies and benefits of scale under the extant ownership structure, hence, we see limited incremental synergy benefits from the eventual merger of Ultratech with Samruddhi. Grasim and Ultratech already benefit from (1) common sales and marketing team, (2) unified cement brand under 'Ultratech', and (3) divergent regional exposure with each having carved out its key markets. We note that Grasim had previously sold its investment in Digvijay Cement, due to Ultratech's concentration in the common market of Gujarat.

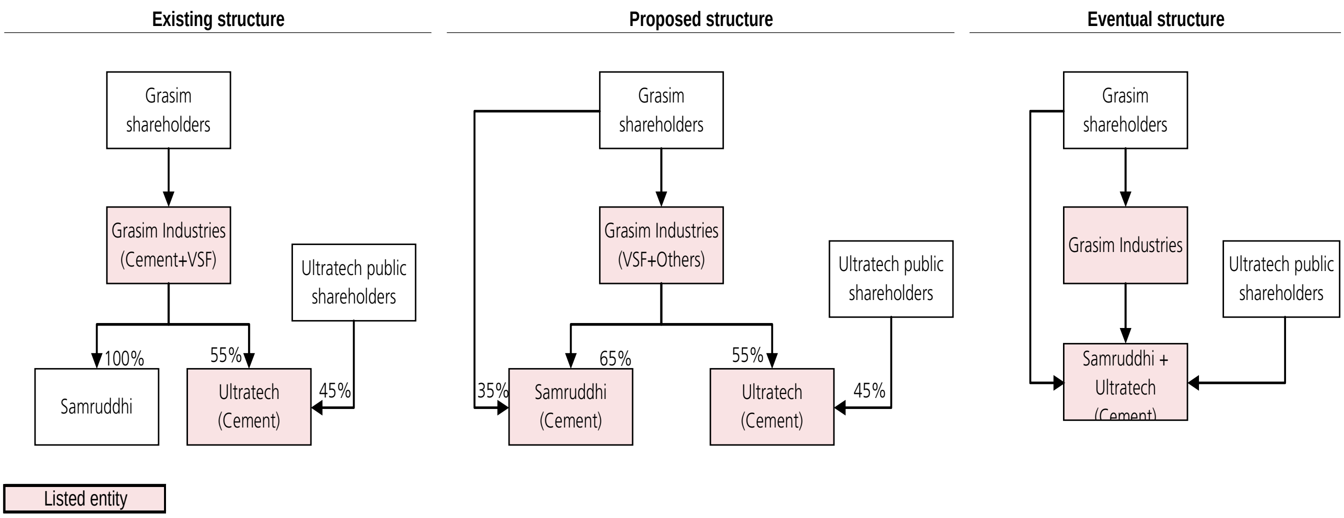
Pure-play cement entity likely to command a higher trading multiple for Samruddhi

Grasim has traditionally traded at a discount to its peers (Historical Average: 9X EV/EBITDA for ACC compared to 6X for Grasim), as the valuation of the cement business would get muddled among the valuation of VSF, textiles and erstwhile sponge iron business of Grasim. In our view, the creation of a large pure-play cement entity would reduce the trading discount for Samruddhi's cement business. However, upon completion of the transaction, Grasim will be reduced to the holding company (attracting discount on investment value) for the cement business with continued interest in VSF making it a less attractive investment proposition than Samruddhi. We retain our REDUCE rating on Grasim with a target price of Rs2,560.

Proposed structure dilutes ownership of Grasim in cement assets, though the economic interest of shareholders remains unchanged

The proposed transfer of cement assets into Samruddhi will dilute the earnings of Grasim, which will retain only 65% ownership in the cement business. However, as the shareholders of Grasim are to be issued equity shares in Samruddhi (1:1 ratio) for the balance 35% ownership, economic interests of Grasim shareholders remains intact. The transaction will result in issuance of 261 mn shares of Samruddhi, of which 169 mn shares will be held by Grasim and the balance 91 mn will be issued to the shareholders of Grasim. Management of Grasim opted for the given structure, as it wanted to retain its ownership in the cement business it has nurtured over time while allowing investors to directly participate in the growth prospects of a pure-play cement entity.

Exhibit 1: Proposed transfer of cement business into Samruddhi is a prequel to the eventual merger with Ultratech
Proposed structure of ownership of cement business of Grasim Industries (%)



Source: Company, Kotak Institutional Equities

In the next stage of re-structuring, Samruddhi (or Grasim) will likely offer to merge the business of Ultratech with Samruddhi, the announcement of which is expected in the next few weeks, before the eventual listing of Samruddhi by 4QFY10.

Grasim, under the proposed scheme, will transfer the entire cement business (other than investments in Ultratech) into Samruddhi. The extant cement business of Grasim comprises 25.7 mn tpa of cement capacity, 0.68 mn tpa of white cement capacity and 6.8 mn cubic meters of RMC capacity, and includes 268 MW of captive power plants. The cement business had an attributable debt of Rs21 bn and net fixed assets of Rs65 bn as of September 2009. Grasim's cement business earned an operating profit of Rs19 bn in FY2009 on revenues of Rs69 bn, and operating profit of Rs7.4 bn in 1QFY10 on revenues of Rs21 bn. Grasim's earnings for FY2011E will be reduced to Rs209/share from Rs266 currently due to the dilution of ownership in the cement business.

Grasim Industries—holding company for cement assets with increased focus on VSF

Upon the completion of the proposed re-structuring exercise, Grasim's core operations will consist of the VSF, though ownership in cement assets will continue to bolster consolidated earnings. Grasim has re-enforced its commitment to the VSF business by announcing a capex plan of Rs10 bn towards setting up an 80,000 tpa capacity at Vilayat in Gujarat. We note that key clearances for this capacity expansion have already been obtained, as the proposed expansion plan had been previously deferred on account of a weak demand environment for VSF. The renewal of the capacity expansion signals the improvement in VSF demand as foreseen by the management.

Exhibit 2: Cement business accounts for 78% of enterprise value
SOTP-based valuation of Grasim (Rs mn)

	Value (Rs mn)	
Cement	202,837	6X EV/EBITDA
VSF	31,674	DCF value implying an EV/EBITDA of 5X on FY2011E
Others (Chemicals)	7,585	DCF value implying an EV/EBITDA of 5.1X on FY2011E
Value of key investments	19,380	20% discount to current market price
Enterprise value (Rs mn)	**261,476**	
Gross debt	57,616	
- Cash	(30,905)	
Net debt	26,710	
Equity value (Rs mn)	**234,766**	
Number of shares o/s (mn)	91.7	
Implied share price (Rs)	**2,560**	
Target price (Rs)	**2,560**	

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Profit model, balance sheet, cash model of Grasim Industries (Consolidated), March fiscal year-ends, 2006-11E (Rs mn)

	2006	2007	2008	2009	2010E	2011E
Profit model (Rs mn)						
Net sales	102,003	140,952	169,739	184,039	182,450	193,521
EBITDA	**21,146**	**39,723**	**49,598**	**43,306**	**51,234**	**50,266**
Other income	1,712	3,177	4,623	4,532	4,621	4,252
Interest	(2,123)	(2,286)	(2,221)	(3,105)	(3,917)	(2,746)
Depreciation	(5,598)	(6,100)	(6,703)	(8,658)	(9,556)	(9,596)
Pretax profits	15,137	34,515	45,296	36,076	42,382	42,176
Minority interest	(1,132)	(3,919)	(4,548)	(4,286)	(4,699)	(3,640)
Tax	(4,114)	(10,921)	(14,658)	(9,914)	(14,546)	(14,104)
Net profits	**10,386**	**19,675**	**28,914**	**21,877**	**26,498**	**24,433**
Extraordinary items	495	—	2,824	—	3,361	—
Earnings per share (Rs)	**108**	**215**	**285**	**239**	**252**	**266**
Balance sheet (Rs mn)						
Total equity	48,376	66,399	91,438	115,701	135,405	156,298
Total borrowings	41,968	57,318	68,531	75,865	62,430	57,616
Currrent liabilities	19,663	24,632	36,783	35,685	34,267	35,859
Total liabilities and equity	**110,007**	**148,348**	**196,751**	**227,250**	**232,102**	**249,773**
Cash	2,374	3,692	2,903	2,270	3,637	18,248
Current assets	23,812	29,524	39,681	43,073	49,123	51,141
Total fixed assets	64,156	84,721	129,223	142,190	141,874	145,380
Investments	13,557	22,719	16,607	35,626	35,626	35,626
Deferred Expenditure	6,109	7,691	8,337	4,091	1,840	(622)
Total assets	**110,007**	**148,348**	**196,751**	**227,250**	**232,102**	**249,773**
Free cash flow (Rs mn)						
Operating cash flow, excl. working capital	17,339	31,262	38,559	41,870	44,062	43,232
Working capital	949	(744)	1,994	(4,490)	(7,469)	(425)
Capital expenditure	(6,151)	(25,530)	(47,774)	(17,824)	(9,241)	(13,101)
Investments	4,163	(3,258)	4,183	(20,338)	—	—
Free cash flow	**16,300**	**1,730**	**(3,038)**	**(780)**	**27,352**	**29,706**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Lupin (LPC)

Pharmaceuticals

BUY

OCTOBER 05, 2009

UPDATE

Coverage view: Attractive

Price (Rs): 1,135

Target price (Rs): 1,385

BSE-30: 17,135

Antara to more than double LPC's branded segment sales and boost margins.

The Antara acquisition will increase branded segment sales to 16% of sales in FY2011E from 10% in FY2009 and reduce dependence on Suprax. We add US$40 mn and US$90 mn of Antara sales to FY2010-11E. We assume 40% margins for Antara which leads to our PAT estimates increasing by 15% for FY2010-11E. We increase our price target to Rs1,385 (from Rs1,180), which implies 17X FY2011E earnings.

Company data and valuation summary

Lupin

Stock data			
52-week range (Rs) (high,low)			1,190-518
Market Cap. (Rs bn)			100.5
Shareholding pattern (%)			
Promoters			50.4
FIIs			12.1
MFs			15.7
Price performance (%)	**1M**	**3M**	**12M**
Absolute	16.3	37.1	50.4
Rel. to BSE-30	5.6	17.2	14.6

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	60.2	76.6	83.4
EPS growth (%)	21.0	27.2	8.9
P/E (X)	18.8	14.8	13.6
Sales (Rs bn)	37.8	47.4	56.1
Net profits (Rs bn)	5.0	6.8	7.4
EBITDA (Rs bn)	6.5	9.2	10.6
EV/EBITDA (X)	17.3	12.8	11.0
ROE (%)	37.1	36.4	28.4
Div. Yield (%)	1.0	1.1	1.3

LPC has acquired Antara for US$39 mn— brand had revenues of US$70 mn in 2008

LPC has acquired Antara from Oscient Pharmaceuticals on September 25, 2009, under the procedures of the US Bankruptcy Court. Antara recorded net sales of US$70 mn for 2008 (Source: IMS Dec 2008). Lupin paid US$39 mn for the product and related assets inclusive of inventory.

Antara revenues grew 20% in 2008

Antara is prescribed for adjunct treatment of high blood cholesterol and hyper-triglycerides Antara has 4.5% share of the Fenofibrate products market (US$2 bn revenues for the past 12 months) and grew 20% in revenue this past year (US$70 mn, up from US$59 mn).

Antara to reduce dependence on Suprax, LPC to double sales force in the next 12 months

The Antara acquisition expands LPC branded segment presence and reduces its dependence on Suprax. LPC had revenues of US$74 mn in FY2009 largely through Suprax and has Allernaze in FY2010E. We think branded segment sales will comprise around 16% of sales in FY2011E from 9% in FY2009. LPC intends to market Antara to primary care physicians and will be more than doubling its sales force size from around 70 currently in the next 12 months. Since Antara is an approved commercial product, sales and marketing will commence immediately.

We increase PAT by 15% for FY2010-11E to factor Antara

We add US$40 mn (six months sales) and US$90 mn of Antara sales to FY2010-11E estimates. This leads to revenue forecasts increasing by 4-8% for FY2010-11E. We believe Antara enjoys an EBITDA margin of ~40%. Addition of Antara sales at higher-than-assumed EBITDA margins for branded segment (35%) will boost LPC overall margins. We increase PAT estimates by 15% for FY2010-11E. Price target increases to Rs1,385 (from Rs1,180) on account of this addition and rolling forward price target by two months to September 2010E.

QUICK NUMBERS

- LPC to double sales force in 12 months
- We increase PAT by 15% for FY2010-11E due to inclusion of Antara
- We think Antara enjoys EBITDA margin of ~40%

Antara grew 20% in 2008

There are several other brands of fenofibrate available in US market. They are —Lipofen by Cipher, Tricor by Abbott, Triglide by Skyepharma. There are generic versions available from Teva, Impax and Ranbaxy.

Antara is prescribed for the adjunct treatment of high blood cholesterol and hyper-triglycerides Antara has 4.5% share of the Fenofibrate products market (US$2 bn for the last 12 months market) and grew 20% in revenue this past year (US$70.3 mn, up from US$58.6 mn). Oscient earned revenues of US$21 mn in 4Q2008 from Antara, up from US$19.3 mn a year ago. Oscient reported that during 4Q2008, based on Wolters Kluwer Health monthly prescription data, approximately 181,700 total prescriptions for Antara were filled. This translates to 19% growth yoy.

LPC resolves patent challenge, only one other Para 1V applicant

In December 2008, LPC had filed an ANDA containing paragraph IV certification for generic version of Antara. On September 21, 2009, prior to the acquisition of Antara, LPC sold its ANDA to DRRD (Dr. Reddy's Laboratories). LPC also settled and resolved the pending litigation regarding the ANDA product.

Patent of this product expires on August 20, 2020 while method of use exclusivity has expired. The only other Para IV applicant is Paddock Labs. Since DRL is now the FTF applicant and LPC has settled the patent litigation, it is safe to assume no generic competition for the next several years.

Antara to reduce dependence on Suprax

Although LPC has launched several line extensions for Suprax in anticipation of impending generic entry in FY2011-12E, we think the Antara acquisition will further (1) reduce its dependence on Suprax and (2) ensure limited downside in branded segment sales when generic competition sets in.

Antara to be marketed to primary care physicians, LPC to double sales force

Antara acquisition extends LPC presence in the primary care market. LPC already has a presence in the primary care market with Suprax Tabs and Allernaze. LPC will be more than doubling its sales force size in the next 12 months. Since Antara is a previously approved, commercial product, sales and marketing will commence immediately.

We increase PAT by 15% for FY2010-11E

- We add US$40 mn (six months sales) and US$90 mn of Antara sales to FY2010-11E estimates. This leads to revenue forecasts increasing by 4-8% for FY2010-11E.

- Since Antara is a branded product with EBITDA margins of around 40% in our view, LPC average margins are likely to increase. We assume 35% blended margins for LPC's branded segment currently. The addition of Antara sales at higher margins will likely boost LPC's margin.

- Oscient annual report for 2008 shows that material cost was 34% of sales of the company. Product API was manufactured in Europe and finished dosage packing was done in US. It was losing money at the operating level due to high selling and marketing costs and administrative costs. We think that LPC may continue with the current manufacturing arrangement for some time. Shifting manufacturing to India can certainly improve the margin but this is unlikely to be completed before end of FY2011E even if LPC starts the process immediately.

- We add around Rs11 to FY2011E EPS. This leads to our PAT estimate increasing by 15% for FY2011E.

- Price target increases to Rs1,385 (from Rs1,180) on account of this addition and rolling forward price target by two months to September 2010. The stock is trading at 15X FY2010E and 14X FY2011E estimates. At our target price, it will trade at 17X FY2011E estimates.

LPC expects resolution to US FDA issues at Mandideep plant

LPC reiterated that they met FDA authorities on 30th June 2009 and the meetings were satisfactory according to the company. LPC expects a re-audit to take place but has not put a timeline to this. LPC expects that it could happen sooner than later and post that LPC should be in the clear. The market seems to be overlooking the regulatory risk that still exists, in our view.

We increase PAT by 15% for FY2010-11E

Change in estimates, March fiscal year-ends, 2010-11E (Rs mn)

	New estimates		Old estimates		% change	
	2010E	2011E	2010E	2011E	2010E	2011E
Net sales	**47,413**	**56,058**	**45,533**	**51,845**	**4**	**8**
Materials	(21,401)	(25,392)	(20,968)	(23,411)	2	8
Selling and administration	(11,379)	(13,734)	(10,928)	(12,702)	4	8
Employee cost	(5,465)	(6,285)	(5,465)	(6,285)	—	—
Total expenditure	(38,246)	(45,411)	(37,361)	(42,398)	2	7
EBITDA	**9,167**	**10,647**	**8,172**	**9,446**	**12**	**13**
EBITDA %	19.3	19.0	17.9	18.2	1.4	0.8
Pretax profits before extra-ordinaries	**8,380**	**9,247**	**7,385**	**8,046**	**13**	**15**
Current tax	(1,203)	(1,464)	(1,050)	(1,248)	15	17
Deferred tax	(200)	(200)	(200)	(200)	—	—
Fringe benefit tax	—	—	—	—	—	—
Minority interests/share of loss in ass	193	193	193	193	—	—
Reported net profit after minority inte	**6,784**	**7,389**	**5,942**	**6,405**	**14**	**15**

Source: Kotak Institutional Equities estimates, Company

Profit and loss statement, March fiscal year-ends, 2006-2011E (Rs mn)

	2006	2007	2008E	2009	2010E	2011E
Net sales	**16,954**	**20,137**	**27,064**	**37,759**	**47,413**	**56,058**
Operating expenses						
Materials	(9,717)	(10,250)	(12,897)	(17,770)	(21,401)	(25,392)
Selling and administration	(2,207)	(3,406)	(5,075)	(6,727)	(8,322)	(10,090)
Employee cost	(1,690)	(2,200)	(3,076)	(4,549)	(5,465)	(6,285)
R&D	(989)	(1,359)	(1,657)	(2,228)	(3,057)	(3,644)
Total expenditure	**(14,603)**	**(17,215)**	**(22,705)**	**(31,274)**	**(38,246)**	**(45,411)**
EBITDA	**2,352**	**2,922**	**4,358**	**6,485**	**9,167**	**10,647**
Depreciation and amortisation	(409)	(466)	(647)	(880)	(1,091)	(1,300)
EBIT	**1,943**	**2,456**	**3,711**	**5,605**	**8,077**	**9,347**
Net finance cost	(313)	(372)	(374)	(499)	(507)	(500)
Other income	625	1,991	2,065	954	811	400
Pretax profits before extra-ordinaries	**2,255**	**4,074**	**5,402**	**6,060**	**8,380**	**9,247**
Current tax	(493)	(860)	(1,137)	(877)	(1,203)	(1,464)
Deferred tax	(28)	(129)	(181)	(106)	(200)	(200)
Fringe benefit tax	—	—	—	—	—	—
Reported net profit	**1,734**	**3,086**	**4,084**	**5,077**	**6,977**	**7,583**
Minority interests/share of loss in ass	4	1	1	62	193	193
Reported net profit after minority inte	**1,730**	**3,086**	**4,083**	**5,015**	**6,784**	**7,389**

Source: Kotak Institutional Equities estimates, Company

SOTP-based price target, March fiscal year-ends, 2011-2012E

	PAT (Rs mn)		P/E	Valuation (Rs mn)	
	2011E	**2012E**	**(X)**	**2011E**	**2012E**
India FD	2,183	2,474	16.0	34,925	39,579
India API - others	221	207	10.0	2,211	2,068
Advanced market FD-USA	1,389	1,468	15.0	20,832	22,026
Branded business USA	1,934	2,238	15.8	30,454	35,256
Advanced market FD-EU	311	366	15.0	4,670	5,493
Developing market API	519	559	10.0	5,186	5,585
Developing market FD	585	688	17.8	10,416	12,242
Kyowa	441	477	15.8	6,951	7,520
Total				**115,645**	**129,769**
Value per share (Rs)				**1,305**	**1,465**
Share price target (Rs)					**1,385**

Source: Kotak Institutional Equities estimates, Company

kotak Institutional Equities

Welspun Gujarat Stahl Rohren (WGS)

Others

REDUCE

OCTOBER 05, 2009

UPDATE

Coverage view:

Price (Rs): 262

Target price (Rs): 180

BSE-30: 17,135

Valuation expensive amidst low visibility. We find Welspun's current valuations at 7.6X FY2011E EBITDA expensive amidst low order flow and revenue visibility. WGS requires Rs50 bn of order addition over the next two quarters to meet our FY2011E revenue estimates. Low pipe demand in USA, Welpsun's key market and surplus global LSAW capacities are likely to keep order flow muted. We maintain our REDUCE rating with revised target price of Rs180.

Company data and valuation summary

Welspun Gujarat Stahl Rohren

Stock data			
52-week range (Rs) (high,low)			278-45
Market Cap. (Rs bn)			49.4
Shareholding pattern (%)			
Promoters			44.0
FIIs			15.1
MFs			9.8
Price performance (%)	1M	3M	12M
Absolute	12.8	30.0	5.1
Rel. to BSE-30	2.4	11.1	(19.9)

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	17.3	23.7	18.1
EPS growth (%)	(15.9)	37.3	(23.9)
P/E (X)	15.1	11.0	14.5
Sales (Rs bn)	57.4	70.8	60.9
Net profits (Rs bn)	3.2	4.4	3.4
EBITDA (Rs bn)	8.1	10.3	8.6
EV/EBITDA (X)	8.2	6.5	7.6
ROE (%)	17.7	21.4	13.5
Div. Yield (%)	0.8	0.6	0.7

Expensive valuations not supported by order addition

Welspun is currently trading at 7.6X FY2011E EBITDA, much above its normal trading range of 4-6X one-year forward EBITDA appears quite expensive. The recent run-up in the stock price has not been supported by new order flow or substantial improvement in the demand scenario. We believe order addition will likely remain slow in the near term due to the poor demand scenario in North America, Welspun's primary target market and surplus global capacity. Our major concerns are:

- **Low order addition.** WGS will need to add Rs50 bn of new orders over the next six months in order to meet our FY2011E revenue estimates. It has added only Rs31 bn of new orders in the past 11 months, which is only 54% of its FY2009 revenues.

- **US demand remains weak.** Demand for linepipe in USA continues to remain weak due to low gas prices. North America is the primary target market for Welspun contributing majority of its orders in the last two years, hence poor demand in that region is likely to impact order flows for Welspun.

- **Surplus LSAW capacity globally.** Global LSAW capacity has an oversupply of around 6 mn tons currently, and is expected to increase further with new capacities being added in Russia, China and Middle East. Surplus LSAW capacity will result in low capacity utilization for Welspun's LSAW plant and the plate mill.

- **Incremental debt being raised to fund capex.** WGS plans to raise upto US$150 mn through issue of FCCBs to fund its 0.6 mn ton capacity addition plan. We believe the new capacities will not be optimally utilized due to slow order addition and low utilization of the existing capacities.

QUICK NUMBERS

- Rs50 bn of new orders required over next six months
- Linepipe imports into USA down 45% CYTD
- US$150 mn FCCB issue planned to fund expansion capex

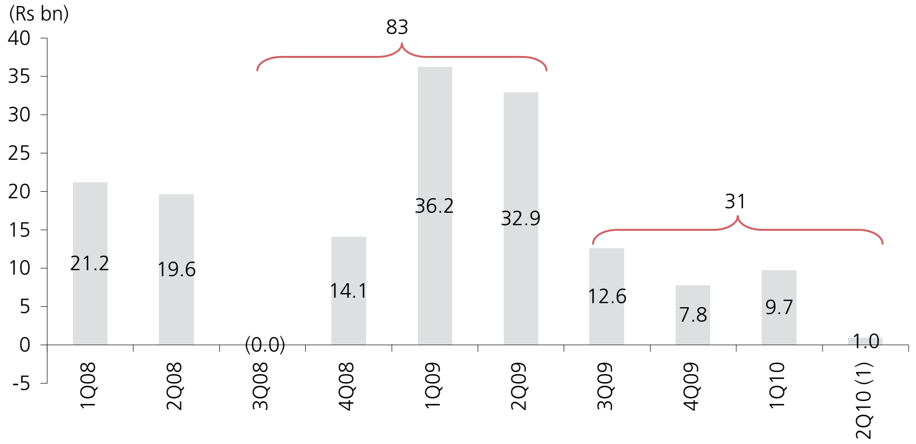
Augustya Somani
augustya.somani@kotak.com
Mumbai: +91-22-6634-1328

Kotak Institutional Equities Research
kotak.research@kotak.com
Mumbai: +91-22-6634-1100

Low order addition reduces visibility beyond FY2010E

Welspun has added only Rs31 bn of new orders in the past 11 months compared to Rs83 bn of order addition in the 12 months prior. We believe low order addition coupled with an increased capacity (50% capacity increase to 1.5 mn tons over the last 12 months) substantially reduces revenue visibility beyond FY2010E.

Low order addition reduces visibility beyond FY2010E
Welspun, quarterly order book addition, March fiscal year-ends, 2009-10 (Rs bn)



Note:
(1) Upto 8th September, 2009

Source: Company, Kotak Institutional Equities

Rs50 bn of order addition required over next six months

We believe Welspun will require Rs50 bn of new order addition over the next six months to meet our FY2011E revenue estimates. Welspun normally carries an order book equivalent to 85-90% of its next 12 month revenues, which implies an order book of Rs57 bn at end-FY2010E.

Rs50 bn of new orders required over next six months
Calculation of new orders required ('000 tons)

	Balance 9 months volume	Order book 1QFY10	Surplus/ (shortage)	Volumes FY2011E	Incremental order required	
	('000 tons)	('000 tons)	('000 tons)	('000 tons)	('000 tons)	(Rs bn)
HSAW	450	425	(25)	568	593	29.9
LSAW	141	210	69	175	106	6.6
ERW	62	40	(22)	100	122	5.3
Plate (external)	108	125	17	191	174	7.5
Total						**49.3**

Source: Kotak Institutional Equities estimates

Reverse calculation also implies Rs41 bn of order addition
Reverse calculation of new orders required over next six months (Rs mn)

Order book - 1QFY10	68,336
Estimated revenues for balance 9 months	52,154
Unexecuted order book at end-FY10 [A]	16,182
Revenues FY2011E	63,652
Required order book at end-FY2010 [B]	57,287
Incremental order addition required [B-A]	**41,105**

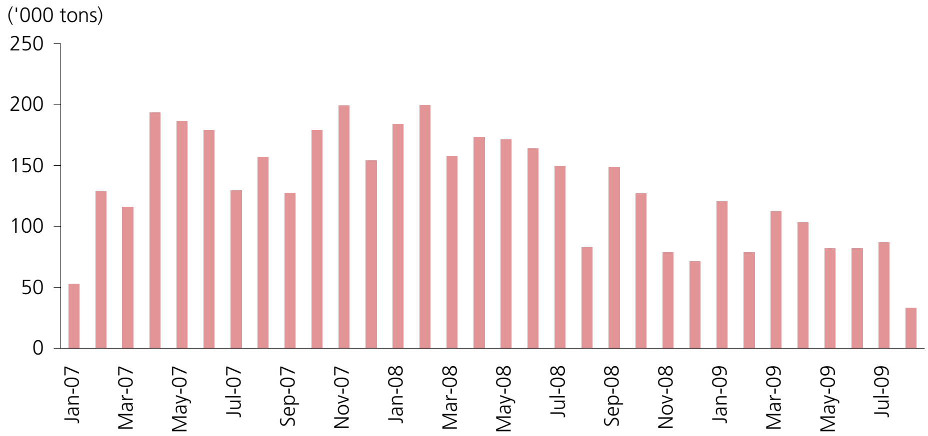
Note:
Required order book calculated based on order book/revenue ratio of 0.9X as per historical trend

Source: Kotak Institutional Equities estimates

Weak pipe demand in USA to impact order flow for Welspun

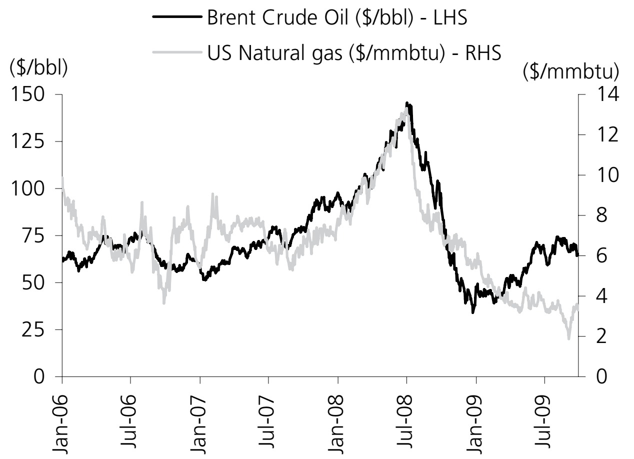
We believe one of the key reasons for low order flows for Welspun over the past few quarters is due to weak pipe demand in USA. USA accounted for more than 75% of Welspun's orders in the last two years; hence a slowdown in demand in that region will have significant impact on order flow for Welspun. Import of large diameter pipe in USA has fallen 45% YTD due to sharp decline in oil and gas prices. We believe pipe demand in USA is likely to remain low over the next few months due to low natural gas prices. Gas transportation accounts for the majority of the large diameter pipe demand in USA; however, natural gas price unlike crude oil price has not recovered from its earlier low levels and is still at a five-year low resulting in poor demand for linepipes.

Import of large diameter linepipe in USA has fallen 45% YTD
Import of large diameter (> 16") pipes in USA, 2007-09 ('000 tons)



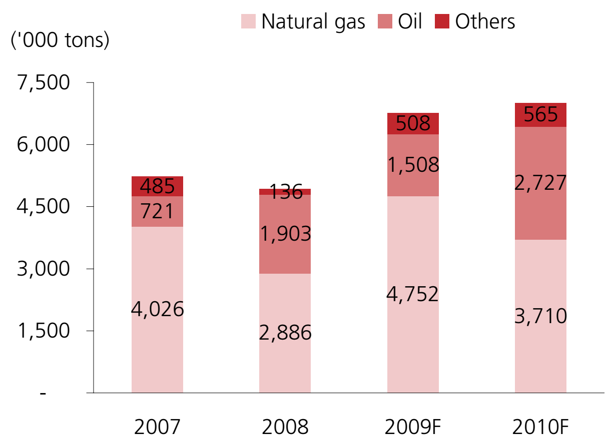
Source: US Census Bureau (Foreign trade statistics)

Low gas price is likely to keep pipe demand weak
Natural gas and Brent crude price, 2006-09



Source: Bloomberg

US linepipe demand is largely driven by gas transportation
Product wise linepipe demand in US, 2007-2010F ('000 tons)



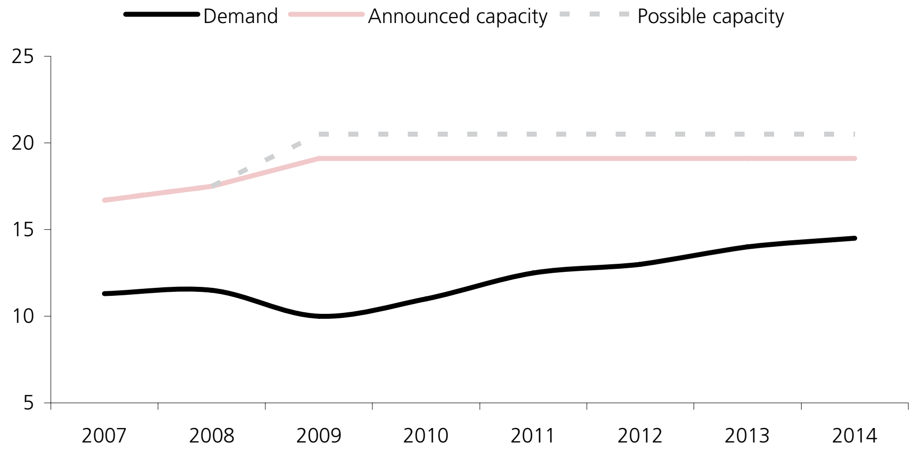
Source: Simdex

Surplus LSAW capacity may impact utilization of LSAW plant and plate mill

We highlight that the surplus LSAW capacity globally is likely to reduce opportunities for Welspun and may also impact the utilization of its plate mill due to lack of captive orders. Welspun has not received any major LSAW pipe orders over the past few months since a majority of the incremental pipe demand is largely HSAW dominated.

New LSAW capacity globally over the last two years has substantially increased the supply-demand gap with a surplus capacity of 6 mn tons in 2008. As per Hatch Beddows, the surplus LSAW capacity is likely to increase further over the next two years as new capacities will be added in Russia, China and Middle East. Russia is expected to turn net exporter and may target the middle-East market which has been one of the main focus areas for the Indian players.

Surplus LSAW capacity globally may keep utilization levels low
Global LSAW demand and production capacity, 2007-2014 (mn tons)



Note:
Possible capacity includes 1.4 mn ton of possible new mills in Middle East and China

Source: Hatch Beddows

Russia is likely to turn into a net LSAW exporter
Russia, LSAW demand and supply, 2008-2014 ('000 tons)

	2008	2009	2010	2011	2012	2013	2014
Capacity	3,862	5,197	4,762	4,787	4,812	4,812	4,812
Demand	2,217	1,261	1,663	1,911	2,101	2,162	2,193
Surplus	1,645	3,936	3,099	2,876	2,711	2,650	2,619

Source: Hatch Beddows

Welspun to raise US$150 mn through FCCB issue to fund capex

Welspun has announced plans to raise upto US$150 mn through issue of FCCBs to fund its 0.6 mn ton capacity expansion program. The FCCBs have been priced at a conversion price of Rs300/share. The company had earlier announced addition of 0.3 mn ton of HSAW and 0.3 mn ton of LSAW capacity over the next 15 months. We include these capacities and the related capex and borrowings in our model; however, we believe capacity utilization is likely to remain low due to low order book visibility. We expect margins to drop in the near term as the company will have to compromise on profitability to maintain capacity utilization.

Raise target price to Rs180 for higher volumes and new capacities

We raise our DCF-based target price for Welspun to Rs180 (from Rs145); however we maintain our REDUCE rating due to the concerns on (1) high valuations, (2) low order flows (3) weak demand in US and (4) surplus global LSAW capacities. Our target price increase is driven by (1) inclusion of the new 0.6 mn ton capacity in our estimates and (2) increase in our long term-capacity utilization for existing plants. We highlight that even after assuming higher volumes and high margins the current stock price appears expensive. At our target price the stock will be valued at 5.9X FY2011E EBITDA, which is near the higher-end of its normal trading range. Current valuations at 7.6X and 14.4X FY2011E EBITDA and EPS, respectively, are expensive and much above the normal trading range.

Valuations for Welspun are nearing expensive territory
Welspun, one-year forward rolling EV/EBITDA (X)

Source: Bloomberg, Kotak Institutional Equities

We value Welspun at Rs180/share
Welspun, DCF-based valuation (Rs mn)

	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	Terminal Value
EBITDA	10,098	8,420	9,034	10,050	10,695	11,522	11,816	12,082	12,451	12,260	
Tax expense	(1,531)	(1,371)	(1,673)	(2,144)	(2,562)	(2,982)	(3,156)	(3,419)	(3,723)	(3,624)	
Changes in working capital	(3,574)	(1,754)	(865)	(1,315)	(1,255)	(1,285)	(173)	1,082	(159)	108	
Cash flow from operations	**4,993**	**5,296**	**6,497**	**6,592**	**6,877**	**7,255**	**8,486**	**9,745**	**8,569**	**8,744**	
Capital expenditure	(3,697)	(3,328)	(954)	(973)	(993)	(1,013)	(1,033)	(1,580)	(1,628)	(1,676)	
Free cash flow to the firm	**1,296**	**1,968**	**5,542**	**5,618**	**5,885**	**6,243**	**7,454**	**8,165**	**6,942**	**7,068**	**62,380**
Dicounted cash flow-now	1,220	1,639	4,085	3,665	3,397	3,189	3,370	3,267	2,458	2,214	
Discounted cash flow-1 year forward		1,852	4,616	4,141	3,839	3,604	3,808	3,691	2,777	2,502	
Discounted cash flow-2 year forward			5,216	4,680	4,338	4,072	4,303	4,171	3,138	2,828	
Discount rate	13.0%										
Growth from 2019 to perpetuity	1.5%										
Discount factor at WACC	**0.94**	**0.83**	**0.74**	**0.65**	**0.58**	**0.51**	**0.45**	**0.40**	**0.35**	**0.31**	

	+ 1-year		+ 2-years	
Total PV of free cash flow (a)	**30,830**	**61%**	**32,745**	**60%**
PV of terminal value (b)	**19,544**	**39%**	**22,085**	**40%**
EV (a) + (b)	**50,374**		**54,830**	
Net debt	16,127		15,346	
Equity value	**34,248**		**39,484**	
No. of shares	188.8		188.8	
Implied share price (Rs)	**181**		**209**	
Exit EV/EBITDA multiple (X)	5.2		4.4	
Exit FCF multiple (X)	**8.8**			

Sensitivity of DCF value to WACC and growth rate (Rs)

Growth Rate	WACC 12.5%	13.0%	13.5%	14.0%
0.0%	179	168	158	149
0.5%	184	172	162	152
1.0%	189	177	166	156
1.5%	194	**181**	170	159
2.0%	200	187	175	163
2.5%	207	192	180	168
3.0%	214	199	185	173

Source: Kotak Institutional Equities estimates

Key operating assumptions

Welspun, key operating assumptions, March fiscal year-ends, 2008-11E (Rs mn)

	2008	2009	2010E	2011E
Sales (tons)				
HSAW	331,113	453,768	422,500	382,500
ERW	51,071	79,537	87,500	100,000
LSAW	259,300	156,853	227,500	175,000
HSAW- USA	—	3,500	135,000	165,000
Plate (external sales)	—	42,073	136,125	191,250
Realisation (US$/ton)				
HSAW	1,351	1,479	1,447	1,273
ERW	1,105	1,306	1,221	1,056
LSAW	1,650	1,898	1,632	1,501
HSAW- USA	—	1,479	1,457	1,282
Plate	—	1,296	1,044	939
EBITDA (US$/ton)				
HSAW	317	241	200	175
ERW	180	80	68	75
LSAW	131	235	181	157
HSAW- USA	—	—	174	168
Plate - external	—	130	125	110
Plates - captive	—	130	125	110

Source: Company, Kotak Institutional Equities estimates

Summary financials

Profit model, balance sheet, cash model for Welspun Gujarat, March fiscal year-ends, 2007-2011E, (Rs mn)

	2007	2008	2009	2010E	2011E
Profit model					
Net revenues	26,785	39,945	57,395	70,820	60,934
EBITDA	**3,332**	**6,476**	**7,923**	**10,098**	**8,420**
Other income	19	107	187	200	200
Interest (expense)/income	(708)	(818)	(1,766)	(1,797)	(1,420)
Depreciation	(476)	(609)	(1,433)	(1,791)	(2,094)
Adjusted pretax profits	**2,167**	**5,157**	**4,912**	**6,709**	**5,107**
Tax	(672)	(884)	(451)	(1,208)	(1,072)
Deferred taxation	(93)	(944)	(750)	(1,073)	(663)
Adjusted consolidated net income	**1,411**	**3,356**	**3,150**	**4,429**	**3,371**
Diluted Earnings per share (Rs)	**8.6**	**18.0**	**16.7**	**23.5**	**17.9**
Balance sheet					
Total equity	6,535	15,672	15,597	19,698	22,626
Deferred taxation liability	794	1,738	2,488	3,560	4,224
Total borrowings	15,146	25,274	26,538	31,442	26,500
Current liabilities	10,558	17,061	39,555	41,901	33,408
Total liabilities and equity	**33,103**	**59,745**	**84,178**	**96,602**	**86,757**
Cash	3,574	2,703	9,470	14,246	10,085
Other current assets	12,781	23,418	36,733	42,475	35,559
Total fixed assets	16,492	26,807	36,835	38,741	39,975
Investments	256	6,817	1,140	1,140	1,140
Total assets	**33,103**	**59,745**	**84,178**	**96,602**	**86,758**
Free cash flow					
Operating cash flow, excl working capital	2,002	5,061	6,119	7,270	6,105
Working capital changes	(2,601)	(2,993)	5,058	(3,574)	(1,754)
Capital expenditure	(6,294)	(12,400)	(10,690)	(3,697)	(3,328)
Investments	(256)	(6,525)	2,178	—	—
Other income	46	360	1,075	200	200
Free cash flow	**(7,102)**	**(16,497)**	**3,740**	**199**	**1,224**
Ratios (%)					
EBITDA margin (%)	12.4	16.2	13.8	14.3	13.8
Debt/equity	1.6	1.5	1.5	1.0	0.7
Net debt/equity	1.1	0.9	0.9	0.7	0.6
RoAE	22.0	27.1	17.7	21.4	13.5
RoACE	10.3	11.9	9.8	11.3	8.0

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

GSPL (GUJS)

Energy

REDUCE

OCTOBER 05, 2009

UPDATE

Coverage view: Attractive

Price (Rs): 82

Target price (Rs): 90

BSE-30: 17,135

Any value can be justified depending on one's imagination. We have revised our 12-month DCF-based target price for GSPL to Rs90 (Rs65 previously) to factor the removal of 30% contribution of profits for socio-economic development. However, we maintain our REDUCE rating on the stock as our target price is implying very high gas transmission tariffs and consequent high ROCE in perpetuity. We doubt a rational regulatory framework will allow a gas transmission company to earn ~20% CROCI.

Company data and valuation summary

GSPL

Stock data			
52-week range (Rs) (high,low)			87-25
Market Cap. (Rs bn)			46.0
Shareholding pattern (%)			
Promoters			37.8
FIIs			11.0
MFs			8.0
Price performance (%)	**1M**	**3M**	**12M**
Absolute	3.5	59.0	80.5
Rel. to BSE-30	(6.6)	36.1	37.5

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	2.2	5.0	9.6
EPS growth (%)	21.7	127.0	92.7
P/E (X)	37.3	16.4	8.5
Sales (Rs bn)	4.9	8.4	13.7
Net profits (Rs bn)	1.2	2.8	5.4
EBITDA (Rs bn)	4.5	7.9	12.9
EV/EBITDA (X)	12.7	7.4	4.7
ROE (%)	9.6	19.6	35.9
Div. Yield (%)	0.9	2.1	11.7

QUICK NUMBERS

- Stock trading at 3X FY2010E book value and 1.6X FY2010E GCI
- Outperformed Sensex by 40% since April 1, 2009

Revised earnings and target price for removal of contribution for socio-economic development

We have revised FY2010E, FY2011E and FY2012E EPS to Rs5, Rs9.6 and Rs12.1 from Rs3.5, Rs6.7 and Rs8.4 to reflect nil contribution towards socio-economic development. We highlight that the actual contribution every year to the Gujarat Socio-Economic Development Society (GSEDS) will be determined by the projects undertaken in the year. We will factor the same once we see actual spending on projects. Accordingly, our revised 12-month DCF-based target price is Rs90 versus Rs65 previously. However, we can justify any valuation for the company depending on our assumptions of (1) tariffs and (2) GSEDS. We find it difficult to assess GSPL's earnings/cash flows and fair valuation despite its simple business model and clear regulatory framework.

CROCI of ~20%, which seems high and unsustainable as per new regulations

We maintain our REDUCE rating on the stock despite moderate potential upside to our target price given that (1) the stock is trading at 3X FY2010E book value and 1.6X FY2010E gross cash invested (GCI) and (2) our tariff assumptions (already lower than current rates) result in an average CROCI of 20.5% in FY2010-20E, which, in our view, is unsustainable. We do not believe that regulations will permit the company to earn such super-normal profits in perpetuity. We see significant regulatory risk resulting in lower-than-expected tariffs and valuations. We are unsure about GSPL's tariffs (and earnings/cash flows) under the new regulations but are fairly sure that a strict application of the same will result in meaningfully lower tariffs versus our assumptions. We highlight that the fair valuation of the stock comes to Rs41 assuming (1) 14% average CROCI over FY2010-20E and (2) no contribution towards socio-economic development.

Book profits; limited gains from being brave now

We advise investors to book profits in GSPL after the recent steep run-up in its stock price. GSPL stock has rallied 113% since April 1, 2009 versus the BSE-30 Index's 73% rise over the same period. We note significant risks to our earnings assumption arising from (1) lower-than-expected volumes and (2) lower-than expected tariffs. Exhibit 1 has our DCF valuation. Exhibit 2 gives the DCF valuation of GSPL, average ROACE and average CROCI at various average tariffs in FY2010-20E.

DCF valuation of GSPL (Rs mn)

	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
EBITDA	7,742	12,735	15,024	14,127	12,941	12,700	12,679	12,657	12,633	12,608	12,582	12,582	12,582
Adjusted tax expense	(1,408)	(2,740)	(4,015)	(3,893)	(3,645)	(3,690)	(3,787)	(3,856)	(3,906)	(3,947)			
Change in working capital	(526)	(831)	(2,332)	44	62	12	—	—	—	—			
Operating cash flow	**5,808**	**9,164**	**8,677**	**10,278**	**9,359**	**9,023**	**8,892**	**8,801**	**8,728**	**8,661**			
Capital expenditure	(5,176)	(4,208)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(1,698)			
Free cash flow	**632**	**4,956**	**8,427**	**10,028**	**9,109**	**8,773**	**8,642**	**8,551**	**8,478**	**6,963**	**6,963**	**6,963**	**6,963**
Discounted cash flow	**597**	**4,160**	**6,287**	**6,650**	**5,369**	**4,596**	**4,023**	**3,539**	**3,119**	**2,277**	**2,023**		
Discounted cash flow-1 year forward		4,680	7,075	7,481	6,040	5,171	4,528	3,981	3,508	2,562	2,277	2,023	
Discounted cash flow-2 year forward			7,959	8,419	6,795	5,817	5,094	4,480	3,947	2,882	2,562	2,277	2,023

	Now	+ 1-year	+ 2-years
Discount rate (%)	12.5	12.5	12.5
Total PV of free cash flow	40,617	47,303	50,232
Terminal value assumption			
Growth to perpetuity (%)	—	—	—
FCF in 2020E	6,963	6,963	6,963
Exit FCF multiple (X)	8.0	8.0	8.0
Exit EV/EBITDA multiple (X)	4.4	4.4	4.4
Terminal value	55,705	55,705	55,705
PV of terminal value	16,186	16,186	16,186
Total company value	**56,803**	**63,490**	**66,418**
Net debt	11,160	12,424	14,609
Equity value	45,644	51,066	51,809
Shares outstanding (mn)	563	563	563
Estimated share price using DCF	**81.1**	**90.7**	**92.1**

Fiscal Year end (March 31, XXXX)	March-10	March-11	March-12	March-13	March-14	March-15	March-16	March-17	March-18	March-19	March-20	March-21	March-22
Today	5-Oct-09	5-Oct-09	5-Oct-09	5-Oct-09	5-Oct-09	5-Oct-09	5-Oct-09	5-Oct-09	5-Oct-09	5-Oct-09	5-Oct-09	5-Oct-09	5-Oct-09
Days left	177	542	908	1,273	1,638	2,003	2,369	2,734	3,099	3,464	3,830	4,195	4,560
Years left	0.48	1.48	2.49	3.49	4.49	5.49	6.49	7.49	8.49	9.49	10.49	11.49	12.49
Discount factor at WACC	**0.94**	**0.84**	**0.75**	**0.66**	**0.59**	**0.52**	**0.47**	**0.41**	**0.37**	**0.33**	**0.29**	**0.26**	**0.23**

Source: Kotak Institutional Equities estimates

DCF valuation at various levels of tariff for FY2010E-20E

Average Tariff (Rs/cu m)	CROCI (%)	ROCE (%)	Valuation (Rs/share)
0.57	20.6	32.7	91
0.56	20.0	31.1	86
0.50	18.0	26.2	72
0.44	16.0	21.0	58
0.38	14.0	15.8	44

Source: Kotak Institutional Equities estimates

GSPL: Profit model, balance sheet, cash model, March fiscal year-ends, 2006-2012E (Rs mn)

	2006	2007	2008	2009E	2010E	2011E	2012E
Profit model (Rs mn)							
Net sales	2,635	3,176	4,179	4,875	8,449	13,654	16,064
EBITDA	**1,942**	**2,677**	**3,645**	**4,245**	**7,742**	**12,735**	**15,024**
Other income	45	175	294	243	167	168	152
Interest	(413)	(457)	(815)	(870)	(1,044)	(1,392)	(1,487)
Depreciation	(791)	(1,026)	(1,632)	(1,705)	(2,640)	(3,333)	(3,412)
Pretax profits	783	1,369	1,491	1,914	4,224	8,177	10,277
Contribution towards GSEDS	—	—	—	—	—	—	—
Tax	(2)	(70)	(389)	(535)	(1,129)	(2,341)	(3,507)
Deferred taxation	(315)	(409)	(82)	(145)	(294)	(439)	14
Net profits	**467**	**894**	**999**	**1,234**	**2,801**	**5,398**	**6,784**
Earnings per share (Rs)	**1.2**	**1.6**	**1.8**	**2.2**	**5.0**	**9.6**	**12.1**
Balance sheet (Rs mn)							
Total equity	9,075	9,659	11,410	12,156	13,842	12,924	11,771
Deferred tax liability	508	917	999	1,144	1,438	1,877	1,862
Total borrowings	5,786	8,638	9,660	12,150	13,650	15,650	15,650
Currrent liabilities	1,771	1,845	5,106	4,148	3,808	3,266	1,067
Total liabilities and equity	**17,140**	**21,059**	**27,175**	**29,599**	**32,738**	**33,717**	**30,352**
Cash	2,372	1,811	2,569	991	1,227	1,041	704
Current assets	995	2,126	2,928	2,795	2,981	3,270	3,404
Total fixed assets	13,651	17,029	21,259	25,394	28,112	28,987	25,825
Investments	—	—	356	356	356	356	356
Deferred expenditure	123	93	63	63	63	63	63
Total assets	**17,140**	**21,059**	**27,175**	**29,599**	**32,738**	**33,717**	**30,352**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	1,562	2,212	2,743	2,674	5,387	9,001	10,030
Working capital changes	471	(1,058)	2,460	(825)	(526)	(831)	(2,332)
Capital expenditure	(6,049)	(4,404)	(5,863)	(5,673)	(5,176)	(4,208)	(250)
Investments	—	—	(356)	—	—	—	—
Other income	40	146	—	243	167	168	152
Free cash flow	**(3,976)**	**(3,103)**	**(659)**	**(3,580)**	**(149)**	**4,130**	**7,600**
Ratios (%)							
Debt/equity	60.4	81.7	77.9	91.4	89.3	105.7	114.8
Net debt/equity	37.6	45.0	43.8	47.7	47.2	51.4	53.4
RoAE	6.8	8.8	8.8	9.6	19.6	35.9	47.7
RoACE	**9.9**	**10.0**	**8.2**	**8.4**	**14.2**	**23.0**	**25.9**
CROCI	**13**	**13**	**13**	**11**	**17**	**24**	**25**
Key assumptions							
Volumes-old pipelines (mcm/d)	10.4	12.6	12.7	11.1	13.0	17.5	20.0
Volumes-new pipelines (mcm/d)	—	1.7	4.1	3.8	18.2	33.1	41.6
Volumes (mcm/d)	**10.5**	**14.3**	**16.8**	**14.9**	**31.2**	**50.6**	**61.6**
Average tariff (Rs/cu m)	**0.69**	**0.61**	**0.67**	**0.83**	**0.74**	**0.74**	**0.72**

Source: Company, Kotak Institutional Equities estimates

ATTRACTIVE

OCTOBER 05, 2009

UPDATE

BSE-30: 17,135

Mixed quarter; slow loan growth but margins are likely to be better. Loan growth is yet to pick up but we do expect marginal improvement in margins as the cost of funds declines. Treasury earnings are likely to be higher than last year but not as much as reported over the past couple of quarters. Comfort on asset quality has increased and private banks could see improving trends in retail NPLs. Overall, we expect stable asset quality. After a sharp upmove recently, we find valuations expensive for most banks; even as we still find value in public banks. Our top picks: Axis Bank, SBI, PNB, BOB, Canara Bank and IOB.

Loan growth has not picked up in 2QFY10; likely to happen from 3QFY10E onwards

Loan growth of the system has continued to remain sluggish in 2QFY10—13.2% yoy as of Sept 13th, 2009. Over the past three months, the loans of the banking system have increased marginally (Rs477 bn i.e.1.7%). Till Sept 13, banking credit had grown at 2% YTD. We are yet to see a pick up in credit despite a softening of interest rates. However, we believe that loan pick up is just a matter of time and we expect strong loan growth from 3QFY09E. Our discussions with bankers also suggests that while loan pipeline is strong, disbursements are getting delayed. We are modeling a 16% yoy loan growth in FY2010E. Deposit growth has continued to remain high at 20% yoy (about 7% growth since March 2009), largely driven by high deposit accumulation in the banking system in 2HFY09.

Stable margins for private banks but public banks margins to improve sequentially but down yoy

We expect the margins for public banks to improve marginally during the quarter on a sequential basis, and some of the high cost deposits get repriced / redeemed at this point. Deposit rates have corrected sharply (retail deposits are at 6.5-7.5% and wholesale deposits at about 6% for 1-year) but we expect significant re-pricing benefits from 3QFY10E onwards. The benchmark lending rates of few banks have declined in the current quarter (SBI, Canara Bank, Indian Bank, etc have reduced their PLR from July onwards). Also, we understand that short-term loan rates have declined very sharply on the back of ample liquidity in the system. We expect private banks to sustain margins as they benefit from wholesale deposit re-pricing, but lending yields may also reduce due to competitive lending rates.

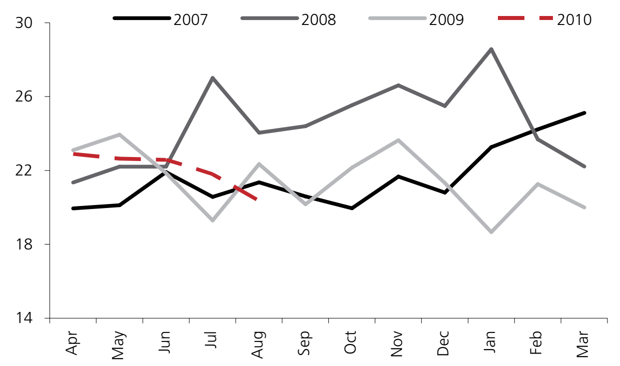
NII growth to also remain soft expect for few banks

We expect NII growth of 5-15% yoy for most public banks. Axis Bank, BoB, Canara Bank and PNB may report above 10% yoy growth in NII in 1QFY10E. Union Bank, OBC and SBI may see a decline in NII growth on a yoy basis. ICICI Bank, despite a margin improvement yoy is likely to report flat NII growth due to the shrinkage of its loan book. We expect a marginal reduction in NIM for even HDFC Bank, on the back of a slowdown in the high yielding businesses such as credit cards and personal loans.

QUICK NUMBERS

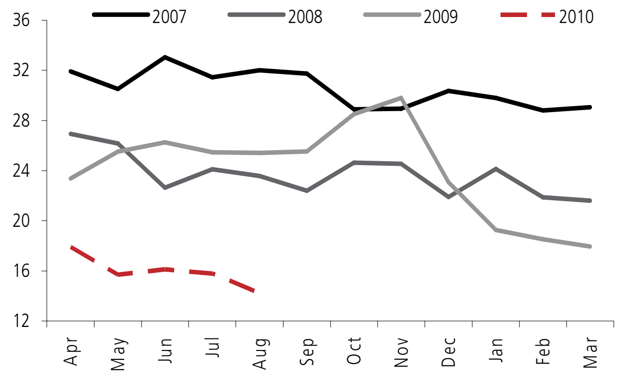
- Loan growth of the system continues to remain sluggish for the system at 13%, yoy
- Core earnings growth to be lower for larger banks like ICICI Bank and SBI; other banks likely to report better core earnings
- Except SBI, BOI and ICICI Bank, net earnings are likely to remain strong for most banks under coverage

Deposit growth continues to remain healthy reflecting the easy monetary stance of RBI
yoy growth in deposits (%)



Source: RBI

Loan growth has come off sharply in recent months
yoy growth in advances, March fiscal year-ends (%)



Source: RBI

NII growth will be subdued for most banks in 2QFY10E
Yoy growth in NII, March fiscal year-ends, 1QFY09 -2QFY10E (%)

	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10E
Public banks						
Andhra Bank	1.2	31.6	27.5	15.3	20.4	5.8
Bank of Baroda	5.8	7.9	46.6	43.0	7.9	14.7
Bank of India	24.7	38.3	44.4	17.8	10.1	4.9
Canara Bank	14.0	46.0	33.2	41.7	26.7	13.1
Corporation Bank	1.6	8.7	43.2	6.4	23.7	15.6
Indian Bank	10.0	46.4	28.1	30.1	36.7	3.4
IOB	2.0	28.1	28.6	13.1	16.4	5.5
OBC	0.8	30.6	41.1	5.3	8.4	(4.2)
PNB	4.8	25.3	38.1	25.7	28.9	11.2
State Bank of India	14.7	45.0	35.3	0.9	4.3	(2.4)
Union Bank	10.3	48.6	50.0	20.1	(1.0)	(8.8)
Old private banks						
Federal Bank	46.4	60.8	85.2	15.9	2.8	(5.1)
J&K Bank	19.3	33.9	30.2	11.7	17.6	6.0
New private banks						
Axis Bank	92.1	55.2	24.4	24.6	29.0	22.3
HDFC Bank	65.4	52.8	31.1	12.8	7.7	4.2
ICICI Bank	41.3	20.2	1.6	2.9	(5.0)	(3.9)

Source: Companies, Kotak Institutional Equities estimates

Core earnings growth will be subdued for larger banks (mainly ICICI and SBI) in 2QFY10E
Yoy growth in core earnings, March fiscal year-ends, 1QFY09 -2QFY10E (%)

	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10E
Public banks						
Andhra Bank	(1.3)	48.1	43.2	(1.3)	1.9	12.9
Bank of Baroda	36.3	38.8	38.1	56.0	(9.3)	17.2
Bank of India	74.3	101.1	64.2	5.4	(35.9)	(21.5)
Canara Bank	26.7	75.5	30.0	3.4	20.8	17.7
Corporation Bank	21.5	26.7	29.0	(2.0)	2.6	17.4
Indian Bank	41.9	70.5	(15.8)	27.1	32.8	30.7
IOB	4.0	20.2	2.1	(7.1)	(19.3)	(5.8)
OBC	(6.5)	27.6	(5.6)	35.9	(15.5)	20.5
PNB	19.4	65.7	77.3	18.5	26.0	12.1
State Bank of India	29.8	79.8	29.0	(13.3)	(21.9)	(14.0)
Union Bank	22.0	49.2	48.1	(22.6)	(10.2)	(12.8)
Old private banks						
Federal Bank	76.6	58.1	111.8	10.0	(23.6)	(4.7)
J&K Bank	49.0	37.1	30.5	7.3	(1.5)	7.2
New private banks						
Axis Bank	154.0	109.6	35.2	43.5	23.0	22.6
HDFC Bank	37.8	37.3	24.2	40.7	13.7	21.6
ICICI Bank	95.8	45.8	(9.2)	(8.7)	(21.4)	(15.7)

Source: Kotak Institutional Equities

Despite higher yields in the quarter, banks may report healthy treasury gains

We expect banks to report healthy treasury gains and no MTM losses

- Yields have moved up marginally both at the longer and shorter end (10- year yield increased and1-year Gsec have hardened only by 14 bps) during the current quarter and

- We believe most banks are cushioned at current yield levels and do not expect MTM losses on their treasury portfolio. Further, the gains on the equity portfolio could compensate for losses on the debt portfolio.

Fee income growth likely to remain steady for public banks (however loan based fees would come off as loan growth has slowed down). For private banks, fee income trends shall remain modest on back of much lower distribution income.

Treasury income likely to remain strong in 2QFY10, but lower than 1QFY09
Treasury income of banks, March fiscal year-ends, 1QFY09 - 2QFY10E (Rs mn)

	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10E
Public banks						
Andhra Bank	(10)	(80)	670	1,624	1,280	500
Bank of Baroda	890	923	4,180	3,009	2,554	2,000
Bank of India	683	180	4,350	2,240	2,400	800
Canara Bank	(219)	35	3,440	3,490	282	1,500
Corporation Bank	45	237	1,234	2,909	1,854	600
Indian Bank	239	30	1,095	578	1,029	400
IOB	(1,740)	580	3,626	3,170	340	1,500
OBC	610	780	1,851	1,569	2,363	1,000
PNB	120	720	3,410	2,384	3,585	1,800
State Bank of India	2,228	1,616	6,740	15,089	7,088	7,000
Union Bank	80	(380)	980	2,270	2,090	1,000
Old private banks						
Federal Bank	(83)	(70)	640	343	579	200
J&K Bank	260	53	58	406	668	300
New private banks						
Axis Bank	1,110	362	1,140	1,660	3,260	1,500
HDFC Bank	(776)	(156)	2,321	2,436	2,560	1,200
ICICI Bank	(5,940)	(1,530)	9,760	2,140	7,140	4,000

Source: Companies, Kotak Institutional Equities estimates

Yields have hardened marginally at the shorter end
Yield of 1-year Gsec (%)

Source: Bloomberg

Similarly the yields have remained more or less stable at the longer end in 2QFY10
Yield of 10-year Gsec (%)

Source: Bloomberg

Non-interest income (ex-treasury) likely to show moderate growth
Yoy growth in non -interest income (ex-treasury), March fiscal year-ends, 1QFY09 -2QFY10E (%)

	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10E
Public banks						
Andhra Bank	2.7	16.6	35.0	(7.6)	(8.0)	(2.4)
Bank of Baroda	44.0	17.2	17.3	16.8	5.7	19.9
Bank of India	57.7	56.6	40.4	(5.2)	(18.5)	(27.2)
Canara Bank	7.8	(9.6)	(12.9)	(18.9)	14.1	19.3
Corporation Bank	28.8	5.6	28.8	4.5	13.6	14.8
Indian Bank	33.3	15.9	(26.1)	(13.6)	12.7	2.5
IOB	195.9	29.3	36.9	40.2	36.8	(6.9)
OBC	6.5	36.8	20.0	41.0	7.7	22.0
PNB	17.8	64.2	72.9	32.2	37.7	15.0
State Bank of India	38.5	35.7	24.3	27.3	31.1	13.9
Union Bank	17.2	55.7	29.3	8.5	49.6	10.0
Old private banks						
Federal Bank	26.7	63.8	50.6	10.9	(14.4)	(10.1)
J&K Bank	(2.2)	(23.3)	(29.4)	30.4	25.9	19.0
New private banks						
Axis Bank	89.2	105.8	53.1	32.9	23.1	14.3
HDFC Bank	27.3	51.0	29.2	61.9	17.4	40.2
ICICI Bank	21.5	7.0	(28.3)	(33.6)	(35.5)	(24.6)

Source: Companies, Kotak Institutional Equities estimates

Asset quality to remain healthy; restructured assets could rise further

We believe that most of the stressed assets were already restructured in 4QFY09 and 1QFY10 and reported asset quality is unlikely to show a meaningful deterioration. Retail NPLs have likely peaked in 2QFY10E and incremental addition to NPLs in this segment is likely to be lower.

We expect incremental restructuring to continue in 2QFY10E, as a few CDR cases would have been completed in the current quarter. Our channel checks also seem to indicate that a large part of the restructuring undertaken by banks is in the form of a change in duration of the loans rather than a reduction in interest rates or requiring the banks to incur a hair cut on the principal amount. Thus, we do not expect large provisioning on account of the restructured loans.

We assume higher loan loss provisions for select banks
Loan loss provisions of banks, March fiscal year-ends,4QFY08-1QFY10E (Rs mn)

	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10E
Public banks						
Andhra Bank	362	457	320	921	380	800
Bank of Baroda	581	620	1,040	2,030	3,171	2,400
Bank of India	1,440	800	2,070	1,920	1,780	1,500
Canara Bank	1,550	1,530	3,570	2,500	2,160	3,000
Corporation Bank	320	530	540	400	600	1,000
Indian Bank	112	-	330	-	1,400	1,000
IOB	450	1,250	1,100	1,900	820	1,000
OBC	600	334	685	708	1,000	800
PNB	571	2,459	4,253	2,337	2,730	2,500
State Bank of India	(2,111)	10,930	5,151	11,953	12,482	8,000
Union Bank	(510)	2,400	1,660	2,700	2,860	1,500
Old private banks						
Federal Bank	286	1,510	1,340	516	932	1,000
J&K Bank	126	113	132	626	800	500
New private banks						
Axis Bank	667	1,390	2,750	2,730	3,700	3,500
HDFC Bank	3,244	3,373	4,654	6,000	6,300	5,300
ICICI Bank	7,925	8,680	10,080	10,845	13,237	10,000

Source: Company, Kotak Institutional Equities estimates

Reported profitability to show healthy growth largely due to base affect

As base effect starts to catch up with few banks, we expect growth in reported profitability to be low during 2QFY10E, as compared to earlier quarters. Large banks like ICICI Bank and State bank of India are likely to report flat profits. For other banks, reported profitability is likely to remain healthy on back of higher treasury gains (2QFY09 treasury gains were very muted) and somewhat stable provisions. Amongst private banks, both HDFC Bank and Axis Bank are likely to report healthy earnings growth.

PAT growth will likely be healthy for most except for ICICI Bank and SBI
yoy growth in PAT, March fiscal year-ends, 1QFY09-2QFY10E (%)

	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10E
Public banks						
Andhra Bank	(45.0)	6.8	33.7	61.9	230.1	18.7
Bank of Baroda	12.1	20.8	41.4	172.3	84.8	36.6
Bank of India	78.3	79.4	77.4	7.2	4.0	(9.1)
Canara Bank	(49.0)	31.8	52.9	55.2	353.0	28.9
Corporation Bank	4.1	18.7	34.4	26.7	41.8	14.7
Indian Bank	2.6	14.3	14.1	63.1	52.4	21.2
IOB	(4.7)	12.3	26.0	5.4	17.9	(3.4)
OBC	58.4	35.4	82.1	NA	16.8	(5.7)
PNB	20.5	31.3	85.8	59.2	62.4	25.1
State Bank of India	15.1	40.2	37.0	45.6	42.0	4.4
Union Bank	1.4	31.1	84.0	(10.8)	93.7	17.0
Old private banks						
Federal Bank	1.8	19.9	98.1	11.0	100.1	18.1
J&K Bank	58.0	7.5	10.5	31.5	(11.0)	5.4
New private banks						
Axis Bank	120.1	76.9	63.2	60.9	70.3	35.6
HDFC Bank	(2.6)	43.3	44.8	33.9	30.5	29.7
ICICI Bank	(6.0)	1.2	3.4	(35.3)	20.6	0.0

Source: Company, Kotak Institutional Equities estimates

Strong margins, buoyancy in select asset classes will drive earnings for NBFCs

We believe that most NBFCs will report about 15-25% core earnings growth during the quarter.

- A yoy improvement in margins on the back of low bulk borrowing rates is the key underlying trend across NBFCs. Interest rate for short duration loans (1 month – 3 months) have been closer to all-time lows. Notably, some of the high-rated NBFCs are borrowing short term funds (about 3 months) at 3.5-4%.

- Increasing demand in some asset classes (power, mortgages) is driving strong loan growth for select NBFCs; though demand for CVs and infrastructure finance (primarily roads, ports etc) is yet to pickup.

  - Investments in the power sector have remained healthy over the last few quarters, thus driving strong loan growth for REC and PFC.

  - The demand for retail mortgages has picked up since 1QFY10- while real estate prices are rapidly rising in certain pockets, we have not yet seen any signs of weakening demand.

- The buoyancy in capital markets (higher market volumes, investment banking deals, etc.) will also drive higher growth for brokerages though we believe that the growth in 2HFY10 will be significantly higher on a low base. In this backdrop, the guidance provided by the managements would be crucial.

- Stocks that could surprise with strong earnings growth: Mahindra Finance (PAT: 40% yoy); REC (Loan growth: 30% yoy, PAT up 56% yoy); LIC Housing Finance (Loan growth: 30%; PAT growth :20%).

High fiscal deficit may lead to hardening of rates in 2HFY10

The fiscal deficit of the government of India at 6.8% of GDP in FY2010E is likely to lead to hardening of interest rates in 2HFY10. An improvement in loan demand and/or sharp improvement in the balance of payments position (BoP) may lead to a hardening of rates in the system. Our calculations indicate that the interest rates in the system may not harden significantly provided the money supply grows at 20% yoy, BoP surplus is around US$40 bn and loans grow at 20% yoy —refer our report “Foreign flows could be too much of a good thing; be selective” (dated June 28,2009) for details.

Valuation of companies have become expensive post run-up in stock prices
Valuations of key banks, March fiscal year-ends

		Price (Rs)	Market cap.	EPS (Rs)			PER (X)			BVPS (Rs)			PBR (X)			RoE (%)		
	Reco.	1-Oct-09	US $bn	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E
Public banks																		
Andhra Bank	BUY	104	1.1	13.5	13.8	15.2	7.8	7.6	6.9	75	85	96	1.4	1.2	1.1	19	17	17
Bank of Baroda	ADD	481	3.7	60.9	63.9	65.6	7.9	7.5	7.3	310	362	417	1.6	1.3	1.2	21	19	17
Bank of India	REDUCE	402	4.4	57.2	51.5	64.0	7.0	7.8	6.3	224	267	314	1.8	1.5	1.3	29	22	22
Canara Bank	ADD	317	2.7	50.5	51.7	61.2	6.3	6.1	5.2	245	287	337	1.3	1.1	0.9	18	16	17
Corporation Bank	BUY	423	1.3	62.2	58.0	61.8	6.8	7.3	6.8	341	386	433	1.2	1.1	1.0	20	16	15
Indian Bank	BUY	163	1.5	28.0	27.6	34.4	5.8	5.9	4.7	128	150	174	1.3	1.1	0.9	24	23	21
IOB	BUY	127	1.4	24.3	19.7	29.2	5.2	6.4	4.3	109	127	155	1.2	1.0	0.8	22	15	18
OBC	REDUCE	232	1.2	36.1	29.1	37.0	6.4	8.0	6.3	242	265	298	1.0	0.9	0.8	14	10	10
PNB	BUY	810	5.3	98.0	104.3	119.6	8.3	7.8	6.8	417	497	589	1.9	1.6	1.4	26	23	22
SBI	BUY	2,211	29.4	143.7	148.7	172.2	15.4	14.9	12.8	913	1,026	1,161	2.4	2.2	1.9	17	15	16
SBI incl. banking subs	BUY	1,965	26.1	178.7	177.3	201.0	11.0	11.1	9.8	1,122	1,262	1,428	1.8	1.6	1.4	17	15	15
SBI (core banking business)	BUY	1,788	23.8	137.9	142.2	172.9	13.0	12.6	10.3	836	949	1,084	2.1	1.9	1.6	18	16	17
Union Bank	BUY	243	2.6	34.2	34.0	37.3	7.1	7.2	6.5	140	168	199	1.7	1.5	1.2	27	22	20
Old private banks																		
Federal Bank	BUY	249	0.9	27.8	34.3	39.9	8.9	7.2	6.2	253	280	311	1.0	0.9	0.8	12	13	13
J&K Bank	ADD	595	0.6	84.5	86.6	105.9	7.0	6.9	5.6	541	607	681	1.1	1.0	0.9	17	16	16
New private banks																		
Axis Bank	ADD	1,009	8.4	50.6	59.1	69.6	20.0	17.1	14.5	285	330	449	3.5	3.1	2.2	19	17	16
HDFC Bank	REDUCE	1,644	14.7	52.8	64.5	82.2	31.2	25.5	20.0	354	472	536	4.6	3.5	3.1	17	16	16
ICICI Bank	REDUCE	927	21.6	33.8	37.9	45.0	27.4	24.4	20.6	445	468	496	2.1	2.0	1.9	8	8	9
ICICI standalone	REDUCE	684	15.9	30.7	34.5	41.2	22.2	19.8	16.6	331	341	359	2.1	2.0	1.9	9	10	12
Non-banks																		
HDFC	ADD	2,703	16.1	80.2	101.4	117.5	33.7	26.7	23.0	462	508	577	5.9	5.3	4.7	18	20	21
HDFC core	ADD	1,691	10.1	72.5	91.2	102.0	23.3	18.5	16.6	295	203	263	5.7	8.3	6.4	27	25	35
IDFC	ADD	155	4.2	5.8	7.7	8.8	26.7	20.1	17.7	48	54	61	3.2	2.8	2.5	13	15	15
India Infoline	ADD	146	0.9	5.1	7.7	8.2	28.5	18.9	17.7	55	57	61	2.7	2.5	2.4	11	15	15
Mahindra Finance	ADD	234	0.4	22.4	26.7	28.8	10.4	8.8	8.1	154	172	193	1.5	1.4	1.2	15	16	16
Power Finance Corporation	SELL	229	5.5	13.0	18.0	20.0	17.6	12.7	11.5	102	114	127	2.2	2.0	1.8	13	17	17
Shriram Transport	ADD	383	1.4	30.1	33.7	37.4	12.7	11.3	10.2	114	132	156	3.4	2.9	2.5	30	28	26
Srei Infrastructure finance	ADD	79	0.2	7.0	7.5	6.8	11.2	10.5	11.6	97	103	108	0.8	0.8	0.7	13	10	10
Rural Electrification Corp.	ADD	202	3.6	16.5	19.6	21.3	12.3	10.3	9.5	83	99	115	2.4	2.1	1.8	21	22	20
Reliance Capital	ADD	912	4.7	41.7	39.3	29.0	21.9	23.2	31.4	241	273	297	0.8	0.7	0.7	15.3	10.2	9.3

Source: Companies, Bloomberg, Kotak Institutional Equities estimates

Stock prices of most banks have corrected in the past few days
Stock price performance—absolute and relative (%)

	Price		Change in price (%)					Relative performance to sensex (%)				
	1-Oct-09	Rating	1 month	3 month	6 month	12 month	Ytd	1 month	3 month	6 month	12 month	Ytd
Public banks												
Andhra Bank	104	BUY	18.2	28.5	127.0	84.6	89.3	7.3	9.8	31.2	40.7	6.6
Bank of Baroda	481	ADD	9.8	6.5	106.7	54.0	71.6	(0.4)	(9.0)	19.4	17.4	(3.4)
Bank of India	402	REDUCE	19.1	12.6	82.5	38.5	40.1	8.1	(3.7)	5.5	5.5	(21.1)
Canara Bank	317	ADD	16.0	20.2	93.9	68.3	68.4	5.3	2.7	12.1	28.2	(5.2)
Corporation Bank	423	BUY	8.7	29.9	133.8	54.9	123.6	(1.3)	11.1	35.1	18.0	25.9
Indian Bank	163	BUY	22.6	12.8	96.1	21.2	19.1	11.2	(3.6)	13.3	(7.7)	(33.0)
IOB	127	BUY	48.3	45.5	176.0	35.8	76.7	34.6	24.4	59.5	3.4	(0.5)
OBC	232	REDUCE	27.1	28.0	103.3	50.5	50.5	15.4	9.4	17.5	14.7	(15.3)
PNB	810	BUY	18.4	18.4	99.6	64.0	53.8	7.5	1.2	15.4	24.9	(13.4)
SBI	2,211	BUY	27.6	24.2	105.2	46.9	71.5	15.8	6.2	18.6	12.0	(3.4)
Union Bank	243	BUY	13.3	(2.0)	65.3	65.0	49.4	2.8	(16.2)	(4.5)	25.7	(15.9)
Old private banks												
Federal Bank	249	BUY	12.0	(0.3)	74.1	17.5	53.4	1.6	(14.8)	0.6	(10.5)	(13.6)
J&K Bank	595	ADD	1.1	24.1	81.3	33.0	67.7	(8.2)	6.1	4.8	1.3	(5.6)
New private banks												
Axis Bank	1,009	ADD	13.1	16.1	141.4	37.4	100.0	2.6	(0.8)	39.5	4.7	12.6
HDFC Bank	1,644	REDUCE	13.7	9.4	64.4	26.9	64.7	3.2	(6.5)	(5.0)	(3.3)	(7.3)
ICICI Bank	927	REDUCE	24.4	27.0	165.2	68.2	106.8	12.9	8.5	53.3	28.2	16.4
Non-banks												
HDFC	2,703	ADD	12.0	15.2	79.5	22.4	81.8	1.6	(1.5)	3.7	(6.7)	2.4
IDFC	155	ADD	18.1	15.8	168.5	112.3	131.5	7.2	(1.0)	55.2	61.8	30.3
LIC Housing Finance	753	NR	18.1	19.5	225.3	158.6	226.7	7.1	2.1	88.0	97.0	84.0
MMFS	234	ADD	8.8	(11.4)	14.4	(7.4)	(7.7)	(1.2)	(24.3)	(33.9)	(29.5)	(48.0)
PFC	229	SELL	(2.7)	17.6	61.1	80.6	72.2	(11.7)	0.5	(6.9)	37.6	(3.0)
Shriram Transport	383	ADD	6.2	29.6	107.8	23.7	96.3	(3.6)	10.8	20.1	(5.8)	10.5
SREI	79	ADD	11.0	2.4	181.6	27.0	102.3	0.7	(12.5)	62.7	(3.2)	13.9
Rural Electrification Corp.	202	BUY	(5.0)	22.7	112.0	149.2	177.7	(13.8)	4.8	22.5	89.9	56.4

Source: Bloomberg

Quarterly result expectations of companies under coverage

	Sep-08	Jun-09	Sep-09E	Change (%) yoy	qoq	Comments
Andhra Bank						
Net interest income	4,535	4,414	4,800	5.8	8.8	NII growth likely to be around 10% yoy as there could be some relief on the interest expenses for the company (compared to 1QFY10)
Operating profit	2,878	2,102	3,250	12.9	54.6	
Treasury income (net)	(206)	1,790	500	(342.7)	(72.1)	
Loan loss provision	457	380	800	75.1	110.5	Higher contribution from treasury segment (compared to 2QFY09), negligible depreciation losses on the AFS book may help the company report PAT growth of around 20% yoy
PAT	1,615	2,562	1,917	18.7	(25.2)	
PAT-reported	1,615	2,562	1,917	18.7	(25.2)	
Axis Bank						
Net interest income	9,135	10,456	11,172	22.3	6.8	Expect margins to improve sequentially as wholesale cost of funds has declined sharply
Operating profit	8,383	8,504	10,281	22.6	20.9	
Treasury income (net)	362	3,260	1,500	314.8	(54.0)	
Loan provision	1,390	3,700	3,500	151.8	(5.4)	Reported asset quality likely to remain strong, but expect higher provisions to continue in the current quarter as well
PAT	4,029	5,621	5,465	35.6	(2.8)	
PAT-reported	4,029	5,621	5,465	35.6	(2.8)	
Bank of Baroda						
Net interest income	11,338	12,047	13,009	14.7	8.0	NII likely to pick up sequentially; expect 12% yoy growth; Treasury likely to be much lower than 1Q
Operating profit	6,924	7,508	10,112	46.0	34.7	
Treasury income (net)	(267)	6,152	2,000	(849.6)	(67.5)	
Loan loss provision	620	3,171	2,500	303.2	(21.2)	Lower base of 2QFY09 likely to result in strong PAT growth for the bank
PAT	3,953	6,854	5,398	36.6	(21.2)	
PAT-reported	3,953	6,854	5,398	36.6	(21.2)	
Bank of India						
Net interest income	13,631	13,006	14,300	4.9	9.9	BoI's NII likely to be under pressure as the benefit of the equity offering made in 4QFY08 is no longer available and the credit environment remains subdued, while moderation in interest expenses could mitigate some of the pressures on NIM
Operating profit	13,887	7,256	10,900	(21.5)	50.2	
Treasury income (net)	6,495	6,459	5,400	(16.9)	(16.4)	
Loan loss provision	(1,740)	3,680	800	(146.0)	(78.3)	PAT growth may remain flat or decline on a yoy basis as the company's income in 2QFY09 was boosted by forex income (volatile income stream) and lower effective tax rate of 18%. The employee expenses in the current quarter could be higher as it has made provisions assuming a 15% wage rise compared to 17.5% by most public banks
PAT	7,629	5,843	6,936	(9.1)	18.7	
PAT-reported	7,629	5,843	6,936	(9.1)	18.7	
Canara Bank						
Net interest income	11,490	12,915	13,000	13.1	0.7	Canara Bank's NII likely to be in excess of 10% yoy, aided by the (1) lower base of the last year, (2) lower interest costs in the current quarter
Operating profit	7,729	8,932	9,100	17.7	1.9	
Treasury income (net)	95	282	3,000	3,048.0	965.3	
Loan provision	1,530	2,160	3,000	96.1	38.9	Company's income in the current quarter could be boosted in the current quarter by higher treasury income as it booked minimal income under this head in 1QFY10. Despite, the lower effective tax rate of 2QFY09 PAT growth likely to be around 30% yoy
PAT	5,294	5,553	6,825	28.9	22.9	
PAT-reported	5,294	5,553	6,825	28.9	22.9	
Corporation Bank						
Net interest income	4,067	4,676	4,700	15.6	0.5	NII growth likely to be healthy on account of (1) lower base of 1QFY10 and (2) softer interest rate environment helping reduce interest costs
Operating profit	3,220	3,197	3,780	17.4	18.3	
Treasury income (net)	268	1,566	600	124.2	(61.7)	
Loan provision	530	600	1,000	88.7	66.7	Higher contribution from non-interest sources are also likely to be positive for earnings. The PAT growth likely to be around 15-20% yoy for the current quarter
PAT	1,915	2,613	2,197	14.7	(15.9)	
PAT-reported	1,915	2,613	2,197	14.7	(15.9)	
Federal Bank						
Net interest income	3,318	2,901	3,150	(5.1)	8.6	NII growth to be under pressure as the benefit of rights made in 4QFY08 is no longer available and muted pricing power of banks in the current credit environment
PBT	2,781	1,908	2,650	(4.7)	38.9	
Treasury income (net)	190	1,288	200	5.3	(84.5)	
Loan provision	1,510	932	1,000	(33.8)	7.3	PAT growth likely to remain strong despite the company making higher provisions to protect against future credit losses on account of (1) lower MTM provisions and (2) better contribution from the treasury segment
PAT	1,143	1,364	1,350	18.1	(1.0)	
PAT-reported	1,143	1,364	1,350	18.1	(1.0)	

Source: Companies, Kotak Institutional Equities estimates

Quarterly result expectations of companies under coverage

HDFC						
Net operational income	8,579	8,813	10,108	17.8	14.7	Improvement in margins will support earnings, we expect strong traction in retail lending as well
PBT	7,600	7,798	9,078	19.4	16.4	
Treasury income (net)	226	513	500	121.6	(2.6)	
PAT	5,343	5,648	6,536	22.3	15.7	Capital gains and dividend income is challenging to project and remains a key sensitivity to our earnings
PAT-reported	5,343	5,648	6,536	22.3	15.7	
HDFC Bank						
Net interest income	18,665	18,556	19,451	4.2	4.8	Loan growth likely to remain subdued; Sequential comparision more important. We expect loans to grow 10% yoy and 5% qoq
PBT	11,297	12,338	13,742	21.6	11.4	
Treasury income (net)	(156)	2,560	1,200	(869.2)	(53.1)	
Loan provision	3,373	6,300	5,300	57.1	(15.9)	Margins to be stable at near 4%; Higher treasury and better cost / income to drive earnings
PAT	5,280	6,061	6,846	29.7	12.9	
PAT-reported	5,280	6,061	6,846	29.7	12.9	
ICICI Bank						
Net interest income	21,476	19,853	20,631	(3.9)	3.9	Margins likely to remain stable on account of slower growth and deposit repricing benefits
Operating profit	23,824	18,151	20,090	(15.7)	10.7	
Treasury income (net)	(1,530)	7,140	4,000	(361.4)	(44.0)	
Loan provision	8,680	13,237	10,000	15.2	(24.5)	
PAT	10,142	8,782	10,145	0.0	15.5	
PAT-reported	10,142	8,782	10,145	0.0	15.5	Expect one more quarter of higher NPL provisioning, but would still be lower than 1Q nos
IDFC						
Net operational income	4,246	4,679	4,798	13.0	2.5	We factor stable qoq margins and moderate loan growth in our estimates
Operating profit	3,169	3,718	3,763	18.7	1.2	
Treasury income (net)	-	-	-	-	-	
PAT	2,320	2,724	2,784	20.0	2.2	Earnings from capital market-linked business will likely provide an upside
PAT-reported	2,320	2,724	2,784	20.0	2.2	
Indian Bank						
Net interest income	6,818	7,377	7,050	3.4	(4.4)	NII will likely be flat on a yoy basis as the company had Rs490 mn (7.2% of NII) of additional income in 2QFY09 on account of recoveries from written off accounts
Operating profit	4,209	5,467	5,500	30.7	0.6	
Treasury income (net)	30	1,029	400	1,220.1	(61.1)	
Loan provision	-	1,400	1,000	-	(28.6)	PAT growth may be around 20% yoy despite likely higher loan loss provisions. Non-interest revenues will probably remain buoyant even in 2QFY10
PAT	2,830	3,317	3,430	21.2	3.4	
PAT-reported	2,830	3,317	3,430	21.2	3.4	
India Infoline						
Net sales	2,767	2,562	2,774	0.2	8.2	Moderate qoq improvement in market volumes, imporvement in market share will likely provide an upside
EBITDA	879	957	1,036	17.9	8.3	
PBT	673	816	876	30.2	7.4	Operating leverage remains the key sensitivity
PAT	402	516	556	38.3	7.8	
PAT-reported	402	516	556	38.3	7.8	
Indian Overseas Bank						
Net interest income	7,250	7,684	7,650	5.5	(0.4)	NII growth is likely to be under pressure given the credit environment of low credit demand and soft interest rates
Operating profit	4,884	3,394	4,600	(5.8)	35.5	
Treasury income (net)	590	1,880	1,500	154.2	(20.2)	
Loan provision	1,250	820	1,000	(20.0)	-	Company may report a flat growth in earnings despite higher contribution from non-interest revenues on account of (1) higher NPL provisions given the trend in slippages of the past few quarters and (2) effective tax rate was lower at 15% for 2QFY09
PAT	3,591	3,018	3,468	(3.4)	-	
PAT-reported	3,591	3,018	3,468	(3.4)	14.9	

Source: Companies, Kotak Institutional Equities estimates

Quarterly result expectations of companies under coverage

J&K Bank						
Net interest income	2,613	2,660	2,770	6.0	4.1	J&K Bank's NII growth may be under pressure in 2QFY10, similar to most banks in the system
Operating profit	1,814	1,895	1,945	7.2	2.7	
Treasury income (net)	(68)	668	300	(539.1)	(55.1)	PAT growth to be impacted by higher provisions, lower treasury profits and lower fee income on government business.
Loan provision	113	800	500	342.1	(37.5)	
PAT	1,159	1,171	1,221	5.4	4.4	
PAT-reported	1,159	1,171	1,221	5.4	4.4	
Mahindra & Mahindra Financial Services						
Net interest income	1,806	1,865	2,110	16.8	13.1	Loan growth will likely be moderate; strong margins will support earnings
PBT	546	602	750	37.3	24.6	
PAT	352	400	495	40.6	23.8	Impact of monsoons and outlook for 2HFY10 is crucial for stock performance
Extraordinaries	-	-	-	-	-	
PAT-reported	352	400	495	40.6	23.8	
Oriental Bank of Commerce						
Net interest income	5,217	4,843	5,000	(4.2)	3.3	NII growth likely to be under pressure on account of the credit environment -- low loan growth and soft interest rates
PBT	2,560	2,474	3,084	20.5	24.7	
PAT	2,369	2,575	2,233	(5.7)	(13.3)	yoy growth in PAT will likely be under pressure despite better non-interest revenue contribution as the company had a one-time tax write-back in 2QFY09 due to change in its accounting policy for valuing its investment book
Extraordinaries	-	-	-	-	-	
PAT-reported	2,369	2,575	2,233	(5.7)	(13.3)	
PFC						
Net interest income	5,420	7,000	6,878	26.9	(1.7)	Core earnings up by 25% on the back of about 20% loan growth
Operating profit	4,579	7,502	6,528	42.6	(13.0)	
Treasury income (net)	-	-	-	-	-	
PAT	3,299	5,546	4,831	46.4	(12.9)	Lower tax rate and lower losses on forex exposure will boost reported earnings
PAT-reported	3,299	5,546	4,831	46.4	(12.9)	
Punjab National Bank						
Net interest income	17,122	18,618	19,041	11.2	2.3	Margins to remain stable qoq but decline yoy by about 35 bps
Operating profit	12,409	11,821	13,907	12.1	17.7	
Treasury income (net)	551	3,585	1,800	226.8	(49.8)	
Loan loss provision	2,459	2,730	2,500	1.7	(8.4)	PAT growth expected to remain strong on back of stronger treasury profits and stable loan loss provisions
PAT	7,071	8,321	8,849	25.1	6.4	
PAT-reported	7,071	8,321	8,849	25.1	6.4	
Rural Electrification Corp.						
Net interest income	4,700	6,239	6,274	33.5	0.6	We factor healthy loan growth (about 30%) and marginal decline in spreads (on a high base)
Operating profit	4,637	6,053	6,064	30.8	0.2	
Treasury income (net)	215	(710)	(710)	(430.4)	-	
Loan loss provision	-	-	-	-	-	NPL provisions will likely remain low in the current quarter
PAT	2,917	4,718	4,548	55.9	(3.6)	
PAT-reported	2,917	4,718	4,548	55.9	(3.6)	
SREI Infrastructure Finance						
Net interest income	1,070	990	855	(20.1)	(13.6)	Margins will likely imporve qoq; loan growth may remain moderate
Operating profit	405	534	455	12.3	(14.9)	
Treasury income (net)	-	-	-	-	-	
PAT	268	398	223	(16.7)	(44.0)	Gains on forex exposure are the key sensitivity to our estimates
PAT-reported	268	398	223	(16.7)	(44.0)	

Source: Companies, Kotak Institutional Equities estimates

Quarterly result expectations of companies under coverage

Shriram Transport						
Net interest income	4,369	4,848	5,071	16.1	4.6	Moderate qoq loan growth; declining bulk borrowings cost will likely offset relatively higher cost of NCDs
Operating profit	2,380	2,469	2,646	11.2	7.2	
Treasury income (net)	-	-	-	-	-	
PAT	1,657	1,644	1,773	7.0	7.8	Trends in NPL are crucial for stock performance
PAT-reported	1,657	1,644	1,773	7.0	7.8	
State Bank of India						
Net interest income	54,554	50,249	53,264	(2.4)	6.0	Expect a marginal pick up in margins as rate cuts during the quarter would negate positive impact of deposit repricing
Operating profit	40,338	28,401	34,698	(14.0)	22.2	
Treasury income (net)	6,419	19,094	7,000	9.1	(63.3)	
Loan provision	10,930	12,482	8,000	(26.8)	(35.9)	Treasury income likely to remain strong aided by both debt and equity segments. Asset quality trends unlikely to worsen
PAT	22,597	23,304	23,589	4.4	1.2	
PAT-reported	22,597	23,304	23,589	4.4	1.2	
Union Bank						
Net interest income	9,753	8,016	8,894	(8.8)	11.0	Likely to witness subdued trend in NII as margins likely to be sharply lower yoy - expect a 9% decline
Operating profit	7,205	5,392	6,281	(12.8)	16.5	
Treasury income (net)	160	3,440	1,000	525.0	(70.9)	
Loan provision	2,400	2,860	1,500	(37.5)	(47.6)	Net earnings likely to be driven by higher treasury and lower provisions
PAT	3,615	4,422	4,231	17.0	(4.3)	
PAT-reported	3,615	4,422	4,231	17.0	(4.3)	

Source: Company, Kotak Institutional Equities estimates

Automobiles

India

CAUTIOUS

OCTOBER 05, 2009

UPDATE

BSE-30: 17,135

Robust start to festive season. Auto sales continue to be robust with Maruti reporting domestic volume growth of 10.7% yoy, Hyundai reporting 25% yoy growth and M&M reporting strong UV sales. Meanwhile, Hero Honda reported a slowdown in motorcycle volumes mainly due to strong dispatches in the last month and high base of the last year. Tata Motors reported CV volume growth of 6%, led largely by strong demand in the LCV segment while M&HCV growth was a dampener.

QUICK NUMBERS

- Maruti's domestic volumes grow 10.7% yoy
- Hero Honda reports 4.2% volume growth

Maruti's domestic sales lower-than-expected; exports remain robust

Maruti reported lower-than-expected domestic volume growth of 10.7% on a yoy basis. On a sequential basis, volumes grew 2.3%. Our channel checks along indicate that retail sales have outgrown dealer-level sales indicating strong demand. We expect current inventory level (about 21 days) to come down post Diwali. Maruti's compact car sales grew15% yoy while mid-size car sales declined 1%. The fall in mid-size volumes was mainly due to the production of SX4 being discontinued. We believe Maruti's volume growth is limited by capacity constraints. Export volumes at 11,712 vehicles grew 85% yoy—lower than our expectation of 12,500 vehicles. The management expects exports to be robust and maintain a monthly rate of 12,000 vehicles until Dec '09 beyond which volumes could be negatively impacted by the withdrawal of scrappage incentives. While the incentives in Germany have come to an end, UK has extended the scheme by three months.

Volume growth slows down for Hero Honda; new product launches to drive festival sales

Hero Honda reported a slowdown in volume growth mainly due to high base of the last season—sales grew 4.2% yoy. Large dispatches in Aug '09 also led to a lower-than-expected volume growth during Sep '09. Our talks with the Hero Honda management indicate that the impact of the strike at Rico Auto—its key component supplier was a mere 10,000 bikes. With current inventory of about 15-20 days, it seems to be well-positioned to capture the surge in demand during the on-coming festival season. It plans to launch newer products during the festive season while it launched a premium end bike—ZMR recently. We believe Hero Honda will continue to lead the 2W market and expect volumes to grow 15% for FY2010 implying a residual growth of only 5.5% for 2HFY10. In our view, volume growth seems to have peaked out.

M&M: UV sales beat expectations; tractor sales not affected by poor monsoons

M&M reported a 37% increase in UV sales at 21,961 units ahead of our expectation of 19%. Tractor sales also significantly beat expectations at almost 17,000 units, a 56% yoy increase versus our expectation of a 7% increase. Tractor sales were up 32% sequentially. Strong tractor growth was driven by Dussera falling in September this year versus October last year. We expect October sales to decline sequentially and on a yoy basis as inventory levels have gone up to 30 days from 21 days previously. Fiscal year-to-date UV and tractor sales are now up 36% and 42% respectively, compared to our FY2010E volume growth estimate of 22% and 19% respectively.

Bajaj Auto: New launch boosts motorcycle volumes; scooters disappoint

Bajaj reported motorcycle volume growth of 14.6% yoy and 36.6% mom. This was led largely by launch of new Discover DTS-Si—it sold 71,000 new vehicles in Sep '09 and increase in Pulsar sales. 3-wheeler volumes grew 15.7% yoy while scooter sales were disappointing with a decline of 41.4% yoy. We expect Bajaj to launch new products which will likely drive volumes in the festival season. Bajaj plans to launch the high-end Kawasaki Ninja 250R in October. Meanwhile, the launch of the new commercial vehicle RE 600 will help Bajaj gain traction in the goods segment.

Tata Motors: CV growth not too exciting; UVs take a major fall

Tata Motors reported domestic CV volume growth of 10% yoy; led largely by a 16% yoy growth in LCVs. We believe that the M&HCV growth at 2.4% (yoy) was not too exciting and does not indicate any strength. However, sequentially M&HCVs grew 17.1%. Our channel checks indicate that freight rates have remained firm and demand for M&HCVs has picked up as compared to the last year. We believe that lower interest rates will likely result in some demand brought forward ahead of the deadline for implementation of the revised emission norms. Passenger car volumes grew 13.5% largely led by Nano sales (2,524 in number). UV sales were down 28% yoy. We believe the lack of new products is impacting UV sales as it continues to loose market share to M&M.

Reported monthly sales of two-wheeler companies - Sep 2009

	Sep-09	Sep-08	yoy %	Aug-09	mom %	YTD, FY2010	YTD, FY2009	yoy %
Bajaj Auto								
Ungeared Scooters	662	1,129	-41.4%	610	8.5%	3,533	6,965	-49.3%
Motorcycles	249,133	217,365	14.6%	182,441	36.6%	1,082,464	1,120,108	-3.4%
Total 2-Wheelers	**249,795**	**218,494**	**14.3%**	**183,051**	**36.5%**	**1,085,997**	**1,127,073**	**-3.6%**
3 Wheelers	31,121	26,887	15.7%	30,021	3.7%	148,488	133,062	11.6%
TVS Motor								
Motorcycles	60,718	71,278	-14.8%	51,127	18.8%	307,621	341,987	-10.0%
Scooty	29,984	27,108	10.6%	28,582	4.9%	153,389	140,087	9.5%
Moped	51,851	38,860	33.4%	47,133	10.0%	276,520	219,862	25.8%
Total 2-Wheelers	**142,553**	**137,246**	**3.9%**	**126,842**	**12.4%**	**737,530**	**701,936**	**5.1%**
Hero Honda								
Total 2-Wheelers	**401,290**	**385,262**	**4.2%**	**415,137**	**-3.3%**	**2,302,222**	**1,866,339**	**23.4%**

Source: Company, Kotak Institutional Equities

4-wheelers Sep 2009 sales performance

	Sep-09	Sep-08	yoy %	Aug-09	mom %	YTD, FY2010	YTD, FY2009	yoy %
Tata Motors								
M&HCV	13,020	12,721	2.4%	11,118	17.1%	61,422	68,796	-10.7%
LCV	18,454	15,927	15.9%	18,644	-1.0%	100,278	76,944	30.3%
Domestic CV sales	31,474	28,648	9.9%	29,762	5.8%	161,700	145,740	11.0%
CV Exports	2,259	3,207	-29.6%	2,100	7.6%	10,531	17,620	-40.2%
Total CV	**33,733**	**31,855**	**5.9%**	**31,862**	**5.9%**	**172,231**	**163,360**	**5.4%**
UV	2,455	3,403	-27.9%	2,662	-7.8%	15,973	22,132	-27.8%
Passenger Cars	16,325	14,389	13.5%	15,286	6.8%	85,286	80,193	6.4%
Total	**52,513**	**49,647**	**5.8%**	**49,810**	**5.4%**	**273,490**	**265,685**	**2.9%**
Mahindra & Mahindra								
UVs	21,961	16,059	36.8%	16,631	32.0%	104,000	76,381	36.2%
LCVs	698	730	-4.4%	658	6.1%	4,868	5,642	-13.7%
Logan	510	1,752	-70.9%	469	8.7%	2,901	9,217	-
Tractors	16,986	10,868	56.3%	10,594	60.3%	83,813	58,876	42.4%
3 Wheelers	4,262	5,940	-28.2%	3,652	16.7%	20,752	25,731	-19.4%
Total	**44,417**	**35,349**	**25.7%**	**32,004**	**38.8%**	**216,334**	**175,847**	**23.0%**
Maruti Udyog						-	-	
Entry (A) segment	3,207	3,467	-7.5%	2,734	17.3%	15,856	28,786	-44.9%
Van-segment	8,297	7,416	11.9%	6,601	25.7%	44,433	40,970	8.5%
Compact (B) segment	52,508	45,621	15.1%	52,473	0.1%	299,830	243,510	23.1%
Mid-size (C) segment	7,356	7,413	-0.8%	7,821	-5.9%	44,225	34,789	27.1%
MUV	226	765	-70.5%	332	-31.9%	2,155	3,744	-42.4%
Domestic	**71,594**	**64,682**	**10.7%**	**69,961**	**2.3%**	**406,499**	**351,799**	**15.5%**
Exports	11,712	6,318	85.4%	14,847	-21.1%	66,419	30,236	119.7%
Total	**83,306**	**71,000**	**17.3%**	**84,808**	**-1.8%**	**472,918**	**382,035**	**23.8%**

Source: Company, Kotak Institutional Equities

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	1-Oct-09	Rating	Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
	Price (Rs)		(Rs mn)	(US$ mn)	(mn)	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	(Rs)	(%)	(US$ mn)
Automobiles																													
Ashok Leyland	42	ADD	55,675	1,166	1,330	1.5	2.3	2.4	(57.8)	50.3	5.8	27.4	18.2	17.2	15.5	10.1	8.2	1.5	1.4	1.4	2.4	2.4	2.4	6.2	8.1	8.2	37	(11.6)	4.6
Bajaj Auto	1,510	ADD	218,436	4,574	145	45.2	85.0	100.9	(13.4)	87.9	18.7	33.4	17.8	15.0	17.7	10.4	9.3	11.7	8.1	5.8	1.3	1.3	1.3	37.7	53.1	44.0	1,260	(16.5)	7.1
Hero Honda	1,634	REDUCE	326,300	6,833	200	64.2	87.7	95.2	32.5	36.6	8.5	25.5	18.6	17.2	15.1	11.2	9.9	8.3	6.3	5.0	1.2	1.3	1.3	36.6	38.8	32.7	1,330	(18.6)	20.6
Mahindra & Mahindra	890	ADD	262,350	5,494	295	30.0	56.0	59.4	(19.8)	86.4	6.1	29.7	15.9	15.0	21.1	10.9	9.7	5.0	3.5	2.9	1.1	1.1	1.1	17.4	25.9	21.1	1,000	12.3	28.7
Maruti Suzuki	1,656	SELL	478,570	10,021	289	42.2	73.3	77.3	(29.6)	73.8	5.5	39.3	22.6	21.4	23.9	12.8	11.5	5.0	4.2	3.5	0.2	0.3	0.3	13.5	20.2	17.8	1,160	(29.9)	30.8
Tata Motors	580	SELL	322,602	6,755	556	20.8	28.9	31.3	(58.3)	39.1	8.4	27.9	20.1	18.5	17.3	11.2	10.4	2.5	2.2	2.0	1.0	1.0	1.0	9.1	11.5	11.2	350	(39.6)	73.2
Automobiles		**Cautious**	**1,663,932**	**34,843**					**(24.8)**	**67.0**	**8.7**	**32.1**	**19.2**	**17.7**	**18.6**	**11.4**	**10.2**	**4.5**	**3.7**	**3.1**	**0.9**	**1.0**	**1.0**	**13.9**	**19.1**	**17.7**			
Banks/Financial Institutions																													
Andhra Bank	104	BUY	50,634	1,060	485	13.5	13.8	15.2	13.5	2.1	10.5	7.8	7.6	6.9	—	—	—	1.4	1.2	1.1	4.3	3.3	3.6	18.9	17.2	16.8	120	14.9	1.8
Axis Bank	1,009	ADD	404,738	8,475	401	50.6	56.7	69.6	56.9	12.1	22.8	20.0	17.8	14.5	—	—	—	4.0	2.6	2.2	0.9	1.1	1.4	19.1	17.4	16.5	915	(9.3)	65.5
Bank of Baroda	481	ADD	175,636	3,678	366	60.9	63.9	65.6	55.1	4.9	2.6	7.9	7.5	7.3	—	—	—	1.6	1.3	1.2	1.9	2.0	2.0	21.4	19.0	16.8	520	8.2	6.6
Bank of India	402	REDUCE	211,470	4,428	526	57.2	55.0	64.0	40.7	(3.8)	16.4	7.0	7.3	6.3	—	—	—	1.8	1.5	1.2	2.0	1.9	2.2	29.2	22.3	21.6	420	4.5	16.3
Canara Bank	317	ADD	129,909	2,720	410	50.5	51.7	61.2	32.4	2.4	18.4	6.3	6.1	5.2	—	—	—	1.3	1.1	0.9	2.5	2.5	3.2	18.3	16.2	16.8	385	21.5	4.6
Corporation Bank	423	BUY	60,689	1,271	143	62.3	58.0	61.8	21.5	(6.8)	6.5	6.8	7.3	6.8	—	—	—	1.2	1.1	1.0	3.0	2.8	2.9	19.6	16.0	15.1	500	18.2	0.8
Federal Bank	249	BUY	42,510	890	171	27.8	34.3	39.9	(19.2)	23.6	16.1	8.9	7.2	6.2	—	—	—	1.0	0.9	0.8	2.1	2.6	3.0	11.5	12.9	13.5	340	36.8	3.2
HDFC	2,703	ADD	768,726	16,097	284	80.2	101.4	117.5	(6.4)	26.4	15.9	33.7	26.7	23.0	—	—	—	5.9	5.3	4.7	1.1	1.3	1.5	18.2	20.4	20.9	2,450	(9.3)	54.2
HDFC Bank	1,644	REDUCE	743,320	15,565	452	52.8	66.5	82.3	17.6	26.0	23.8	31.2	24.7	20.0	—	—	—	4.9	3.5	3.1	0.6	0.8	0.9	16.9	16.5	16.3	1,530	(7.0)	35.6
ICICI Bank	927	REDUCE	1,031,574	21,601	1,113	33.8	37.9	45.0	(15.4)	12.3	18.6	27.4	24.4	20.6	—	—	—	2.1	2.0	1.9	1.2	1.4	1.6	7.8	8.3	9.3	775	(16.4)	142.1
IDFC	155	ADD	200,314	4,195	1,295	5.8	7.7	8.7	1.9	33.9	12.6	26.7	20.0	17.7	—	—	—	3.2	2.8	2.5	0.8	0.8	0.9	12.9	15.4	15.3	140	(9.5)	39.5
India Infoline	146	ADD	45,398	951	312	5.1	7.7	8.2	(8.7)	50.5	7.3	28.5	18.9	17.7	—	—	—	3.7	3.0	2.6	1.8	2.3	2.6	11.9	17.5	17.2	145	(0.4)	18.5
Indian Bank	163	BUY	70,031	1,466	430	28.0	31.6	34.4	24.1	13.0	8.7	5.8	5.2	4.7	—	—	—	1.3	1.1	0.9	3.1	3.3	3.6	22.9	21.7	20.0	215	31.9	2.8
Indian Overseas Bank	127	BUY	69,081	1,447	545	24.3	21.4	29.2	10.3	(12.1)	36.4	5.2	5.9	4.3	—	—	—	1.2	1.0	0.8	4.2	3.0	3.2	22.1	15.3	18.1	165	30.1	4.3
J&K Bank	601	ADD	29,139	610	48	84.5	94.6	105.9	13.8	11.9	12.0	7.1	6.4	5.7	—	—	—	1.2	1.1	1.1	2.8	3.1	3.5	16.7	16.4	16.2	650	8.2	1.1
Mahindra & Mahindra Financial	234	ADD	22,389	469	96	22.4	26.7	28.8	7.5	19.0	8.1	10.4	8.8	8.1	—	—	—	1.6	1.4	1.2	2.4	2.9	3.1	15.4	16.4	15.8	270	15.4	0.3
Oriental Bank of Commerce	232	REDUCE	58,050	1,216	251	36.1	35.3	37.0	51.4	(2.3)	4.8	6.4	6.6	6.3	—	—	—	1.1	1.0	0.9	3.2	3.1	3.2	13.7	11.5	11.2	250	7.9	4.5
PFC	229	SELL	263,126	5,510	1,148	13.0	18.0	20.0	14.3	38.6	11.1	17.6	12.7	11.5	—	—	—	2.4	2.1	1.9	1.2	2.4	2.6	13.8	17.3	17.2	185	(19.3)	4.7
Punjab National Bank	810	BUY	255,411	5,348	315	98.0	104.3	119.6	50.9	6.4	14.7	8.3	7.8	6.8	—	—	—	1.9	1.6	1.4	2.4	2.6	3.0	25.8	22.8	22.0	890	9.9	14.0
Reliance Capital	912	ADD	224,535	4,702	246	39.3	29.0	28.9	(5.6)	(26.2)	(0.5)	23.2	31.4	31.6	—	—	—	3.3	3.1	2.8	0.6	0.5	0.5	15.3	10.2	9.3	875	(4.1)	116.3
Rural Electrification Corp.	202	ADD	173,824	3,640	859	16.5	19.6	21.3	50.7	19.1	8.8	12.3	10.3	9.5	—	—	—	2.4	2.1	1.8	1.0	1.8	1.9	21.2	21.5	19.9	190	(6.1)	7.4
Shriram Transport	383	ADD	80,935	1,695	212	30.1	32.5	36.9	56.8	7.9	13.7	12.7	11.8	10.4	—	—	—	3.7	3.2	2.6	2.3	2.5	2.9	29.6	27.0	25.8	430	12.4	3.5
SREI	79	ADD	9,152	192	116	7.0	8.7	8.4	(24.7)	23.4	(3.6)	11.2	9.1	9.4	—	—	—	0.9	0.8	0.7	1.3	1.5	1.5	12.8	11.9	11.4	90	14.4	3.1
State Bank of India	2,211	BUY	1,403,561	29,391	635	143.7	148.7	172.2	34.8	3.5	15.8	15.4	14.9	12.8	—	—	—	2.4	2.2	1.9	1.3	1.4	1.4	17.1	15.3	15.7	2,200	(0.5)	97.1
Union Bank	243	BUY	122,971	2,575	505	34.2	34.0	37.3	24.5	(0.6)	9.6	7.1	7.2	6.5	—	—	—	1.7	1.5	1.2	2.1	2.0	2.2	27.2	22.1	20.3	300	23.2	5.3
Banks/Financial Institutions		**Attractive**	**6,711,133**	**140,533**					**26.8**	**9.3**	**15.1**	**15.4**	**14.1**	**12.3**	**—**	**—**	**—**	**2.5**	**2.1**	**1.9**	**1.4**	**1.5**	**1.7**	**16.1**	**15.1**	**15.4**			
Cement																													
ACC	827	REDUCE	155,330	3,253	188	56.3	74.0	57.1	(12.2)	31.6	(22.8)	14.7	11.2	14.5	7.4	5.7	6.5	3.0	2.5	2.2	2.8	2.8	2.8	24.7	27.1	18.4	875	5.8	13.6
Ambuja Cements	102	REDUCE	155,967	3,266	1,522	7.2	7.9	6.6	(5.0)	10.2	(16.8)	14.3	12.9	15.6	7.7	7.2	8.0	2.6	2.2	2.0	2.9	1.8	2.1	19.7	19.1	14.1	85	(17.0)	10.1
Grasim Industries	2,692	REDUCE	246,797	5,168	92	238.6	252.3	266.5	(16.2)	5.8	5.6	11.3	10.7	10.1	6.4	5.2	5.0	2.1	1.8	1.6	1.2	1.2	1.3	21.1	18.4	16.8	2,560	(4.9)	12.5
India Cements	135	ADD	38,185	800	282	17.8	19.4	15.2	n/a	9.1	(21.8)	7.6	7.0	8.9	5.3	4.2	4.8	1.0	0.9	0.8	1.3	1.6	2.4	14.8	14.6	10.4	155	14.6	8.8
Shree Cement	1,648	BUY	57,396	1,202	35	174.7	209.9	195.6	93.7	20.1	(6.8)	9.4	7.8	8.4	6.4	4.5	4.2	4.8	2.9	2.2	0.6	0.6	0.6	65.7	46.0	29.4	2,000	21.4	1.1
UltraTech Cement	849	BUY	105,686	2,213	124	78.8	90.2	73.8	(3.1)	14.5	(18.2)	10.8	9.4	11.5	6.4	5.0	5.6	2.4	2.0	1.7	0.7	1.0	1.0	31.1	27.3	18.3	900	6.0	3.2
Cement		**Neutral**	**759,361**	**15,901**					**(8.0)**	**13.7**	**(10.5)**	**11.8**	**10.4**	**11.6**	**6.7**	**5.4**	**5.7**	**2.4**	**2.0**	**1.7**	**1.8**	**1.6**	**1.7**	**20.0**	**19.0**	**14.9**			
Consumer products																													
Asian Paints	1,414	ADD	135,583	2,839	96	38.6	60.0	69.8	(1.7)	55.5	16.3	36.6	23.5	20.3	21.8	14.2	12.1	11.9	9.6	7.8	1.2	1.9	2.2	36.6	46.8	43.8	1,600	13.2	1.5
Colgate-Palmolive (India)	629	REDUCE	85,567	1,792	136	21.6	28.0	31.0	26.3	29.7	10.7	29.2	22.5	20.3	24.0	18.9	15.8	39.6	35.8	39.8	2.4	3.6	4.4	155.1	167.1	185.2	620	(1.5)	2.8
GlaxoSmithkline Consumer (a)	1,157	ADD	48,669	1,019	42	44.8	60.9	68.5	15.8	36.0	12.4	25.8	19.0	16.9	14.8	11.1	9.9	6.3	5.4	4.7	1.3	1.9	2.7	26.8	30.7	29.6	1,200	3.7	0.7
Godrej Consumer Products	248	ADD	64,036	1,341	258	6.7	9.6	11.0	(5.3)	43.0	14.9	37.1	25.9	22.6	25.6	16.7	14.3	11.2	6.8	5.7	1.6	1.6	1.6	46.9	32.7	27.6	235	(5.3)	1.0
Hindustan Unilever	265	BUY	578,429	12,112	2,179	9.5	10.6	12.2	19.0	11.1	15.0	27.9	25.1	21.8	21.3	18.8	16.2	28.1	25.1	22.5	3.3	3.6	4.1	112.4	105.9	108.9	320	20.6	25.4
ITC	233	BUY	876,390	18,352	3,769	8.7	10.3	11.8	2.8	19.3	14.3	26.9	22.5	19.7	16.4	13.9	12.2	6.0	5.2	4.6	1.6	1.7	1.9	25.3	26.3	26.0	255	9.7	29.7
Jyothy Laboratories	134	ADD	9,746	204	73	5.5	10.0	12.1	(12.9)	80.6	21.7	24.3	13.5	11.1	16.0	8.6	6.5	2.7	2.3	2.0	1.7	2.2	2.6	10.7	16.8	19.0	145	8.0	
Nestle India (a)	2,382	ADD	229,624	4,808	96	58.6	73.0	85.6	31.0	24.6	17.3	40.6	32.6	27.8	25.9	21.7	18.4	48.5	39.6	32.6	1.8	2.2	2.6	126.7	133.6	128.5	2,400	0.8	1.5
Tata Tea	894	BUY	55,279	1,158	62	57.0	62.8	69.2	5.3	10.1	10.2	15.7	14.2	12.9	8.3	7.4	6.2	1.2	1.1	1.0	1.9	2.1	2.3	9.8	10.1	10.4	900	0.7	4.3
Consumer products		**Attractive**	**2,083,323**	**43,625**					**9.9**	**20.5**	**14.5**	**28.5**	**23.6**	**20.6**	**18.6**	**15.4**	**13.3**	**8.3**	**7.3**	**6.4**	**2.1**	**2.4**	**2.8**	**29.3**	**30.8**	**31.0**			
Constructions																													
IVRCL	388	BUY	52,524	1,100	135	16.7	18.8	22.5	7.4	12.7	19.7	23.2	20.6	17.2	15.8	12.2	10.1	2.9	2.6	2.2	0.2	0.2	0.2	13.2	13.2	13.9	360	(7.2)	29.6
Punj Lloyd	262	BUY	88,804	1,860	339	(7.2)	16.6	19.6	(172.4)	(330.1)	17.8	(36.3)	15.8	13.4	26.4	8.8	7.7	3.6	2.4	2.1	0.1	0.3	0.3	(8.6)	18.3	16.6	315	20.2	42.6
Sadbhav Engineering	859	BUY	10,738	225	13	50.6	55.6	77.9	25.0	9.8	40.2	17.0	15.4	11.0	11.7	8.8	7.2	3.1	2.6	2.1	0.6	0.7	0.8	18.0	16.8	19.4	830	(3.4)	0.2
Construction		**Attractive**	**187,035**	**3,917**					**(70.7)**	**385.2**	**20.3**	**85.6**	**17.6**	**14.7**	**18.0**	**9.8**	**8.5**	**3.0**	**2.3**	**2.0**	**0.3**	**0.4**	**0.5**	**3.5**	**13.3**	**14.0**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	1-Oct-09 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2009	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS growth (%) 2009	EPS growth (%) 2010E	EPS growth (%) 2011E	PER (X) 2009	PER (X) 2010E	PER (X) 2011E	EV/EBITDA (X) 2009	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	Price/BV (X) 2009	Price/BV (X) 2010E	Price/BV (X) 2011E	Dividend yield (%) 2009	Dividend yield (%) 2010E	Dividend yield (%) 2011E	RoE (%) 2009	RoE (%) 2010E	RoE (%) 2011E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Energy																													
Bharat Petroleum	557	BUY	182,547	3,823	328	20.6	79.8	65.0	(50.1)	287.1	(18.5)	27.0	7.0	8.6	7.4	4.9	5.3	1.4	1.2	1.1	1.4	6.3	5.2	5.3	18.9	13.8	675	21.2	10.0
Cairn india	261	REDUCE	495,504	10,376	1,897	8.3	25.4	30.2	93	207	18.9	32	10	8.6	15.4	7.0	6.1	1.4	1.4	1.4	—	7.7	9.6	4.6	13.6	16.1	225	(13.9)	19.8
Castrol India (a)	523	ADD	64,645	1,354	124	21.3	31.1	32.0	20.8	45.9	3.0	24.5	16.8	16.3	14.1	10.0	9.6	14.4	12.7	11.4	2.9	4.2	4.4	61.2	80.2	73.5	480	(8.2)	1.3
GAIL (India)	362	ADD	459,317	9,618	1,268	22.2	20.9	22.9	8.7	(5.8)	9.6	16.3	17.3	15.8	8.8	10.0	9.9	2.9	2.6	2.4	1.9	2.2	2.2	17.5	14.7	14.8	355	(2.0)	19.8
GSPL	82	REDUCE	46,008	963	563	2.2	5.0	9.6	21.7	127.0	92.7	37.3	16.4	8.5	12.7	7.4	4.7	3.5	3.0	3.1	0.9	2.1	11.7	9.6	19.6	35.9	90	10.1	9.0
Hindustan Petroleum	387	BUY	131,248	2,748	339	17.0	73.1	58.5	(49.3)	330.9	(19.9)	22.8	5.3	6.6	3.5	2.1	2.3	1.1	1.0	0.9	1.4	7.7	6.2	4.4	17.7	12.8	525	35.6	12.3
Indian Oil Corporation	671	BUY	790,734	16,558	1,179	19.7	101.8	79.3	(67.9)	416.7	(22.1)	34.0	6.6	8.5	9.0	4.5	4.5	1.7	1.4	1.3	1.1	6.0	4.7	4.8	22.6	15.6	800	19.3	9.7
Oil India	1,166	BUY	265,029	5,550	227	101.1	123.1	133.5	—	21.7	8.5	11.5	9.5	8.7	5.3	3.3	2.6	2.6	1.8	1.6	2.5	4.2	4.8	20.1	18.0	18.4	1,350	15.7	—
Oil & Natural Gas Corporation	1,182	BUY	2,528,592	52,949	2,139	89.6	115.8	136.4	(3.4)	29.2	17.8	13.2	10.2	8.7	4.8	3.7	3.0	2.2	1.9	1.7	2.7	3.6	4.1	16.6	18.9	19.8	1,400	18.4	52.3
Petronet LNG	76	REDUCE	57,338	1,201	750	6.9	7.2	8.6	—	3.6	19.6	11.1	10.7	8.9	7.8	7.1	6.0	2.5	2.1	1.8	2.3	2.6	2.9	23.9	20.6	20.6	64	(16.3)	6.0
Reliance Industries	2,174	SELL	3,168,028	66,339	1,457	103.4	109.1	157.9	(1.5)	5.5	44.7	21.0	19.9	13.8	13.1	9.2	6.7	2.7	2.3	2.1	0.6	0.7	0.9	15.1	13.5	17.1	1,750	(19.5)	216.8
Reliance Petroleum	131	NR	589,275	12,340	4,500	—	3.1	10.0	n/a	n/a	n/a	n/a	n/a	13.0	n/a	n/a	9.9	4.4	4.3	3.4	—	1.5	1.5	0.6	10.1	29.0	—	—	15.3
Energy		**Attractive**	**8,778,264**	**183,819**					**(6.8)**	**57.1**	**18.6**	**19.0**	**12.1**	**10.2**	**8.6**	**5.9**	**5.0**	**2.3**	**2.0**	**1.8**	**1.4**	**2.9**	**3.1**	**12.0**	**16.6**	**17.6**			
Industrials																													
ABB	790	REDUCE	167,482	3,507	212	25.8	23.3	30.0	11.3	(9.8)	28.6	30.6	33.9	26.4	18.2	19.1	14.7	7.9	6.6	5.5	0.3	0.4	0.4	29.2	21.3	22.7	660	(16.5)	7.1
BGR Energy Systems	448	ADD	32,278	676	72	16.0	26.0	35.3	32.2	62.3	35.8	28.0	17.2	12.7	15.9	10.3	8.2	5.7	4.5	3.5	0.7	1.0	1.3	22.3	29.4	31.2	530	18.2	3.1
Bharat Electronics	1,574	ADD	125,904	2,636	80	103.8	115.1	125.7	1.8	10.9	9.1	15.2	13.7	12.5	7.6	6.3	5.5	3.2	2.7	2.3	1.2	1.6	1.6	20.7	21.6	20.1	1,500	(4.7)	2.9
Bharat Heavy Electricals	2,351	ADD	1,150,764	24,097	490	63.9	93.3	115.2	9.4	46.1	23.4	36.8	25.2	20.4	20.2	14.1	11.3	8.9	7.0	5.6	0.7	0.8	1.0	26.4	31.2	30.5	2,425	3.2	45.6
Crompton Greaves	322	ADD	117,990	2,471	367	15.3	17.7	20.3	37.3	15.3	15.0	21.0	18.2	15.8	11.2	9.7	8.3	6.4	4.9	3.9	0.6	0.7	0.8	35.9	30.8	27.6	315	(2.1)	4.9
Larsen & Toubro	1,665	ADD	981,968	20,563	590	50.1	62.1	78.4	32.1	24.0	26.1	33.2	26.8	21.2	20.8	15.4	12.6	6.5	4.8	3.9	0.6	0.7	0.7	21.7	20.5	20.4	1,725	3.6	78.6
Maharashtra Seamless	330	BUY	23,307	488	71	35.9	33.0	35.3	22.2	(7.9)	6.9	9.2	10.0	9.4	5.5	5.7	5.0	1.7	1.5	1.3	1.6	1.5	1.9	20.3	16.0	15.0	285	(13.8)	1.1
Siemens	559	ADD	188,506	3,947	337	14.2	22.8	22.7	(22.2)	61.0	(0.5)	39.4	24.5	24.6	19.0	14.2	14.4	8.3	6.9	5.7	0.5	1.3	0.8	23.3	30.8	25.2	515	(7.9)	6.8
Suzlon Energy	92	ADD	154,930	3,244	1,679	7.2	1.5	5.5	9.9	(78.6)	252.9	12.8	59.7	16.9	8.4	10.8	7.9	1.5	1.3	1.2	—	—	0.2	11.5	2.3	7.3	110	19.2	126.4
Industrials		**Attractive**	**2,943,129**	**61,630**					**13.1**	**18.6**	**26.5**	**29.7**	**25.1**	**19.8**	**16.5**	**13.5**	**10.9**	**5.8**	**4.6**	**3.9**	**0.6**	**0.8**	**0.9**	**19.5**	**18.5**	**19.5**			
Infrastructure																													
GMR Infrastructure	72	ADD	131,383	2,751	1,834	1.5	0.9	0.9	33.0	(38.3)	(6.8)	46.7	75.6	81.1	20.0	14.5	10.8	1.6	1.3	1.2	—	—	—	4.4	2.6	2.4	135	88.4	18.0
GVK Power & Infrastructure	45	BUY	71,538	1,498	1,579	0.8	0.8	1.0	(20.6)	3.7	31.1	59.4	57.3	43.7	53.4	17.6	16.3	3.1	2.3	2.2	—	—	0.7	4.8	4.6	5.1	50	10.4	17.5
IRB Infrastructure	209	ADD	69,464	1,455	332	5.3	10.6	13.5	54.3	101.2	27.0	39.5	19.6	15.5	20.4	10.5	9.6	3.8	3.1	2.5	0.6	—	—	10.1	17.3	18.0	200	(4.3)	9.7
Infrastructure		**Attractive**	**272,385**	**5,704**					**22.5**	**16.0**	**18.8**	**48.4**	**41.7**	**35.1**	**24.0**	**13.9**	**11.5**	**2.2**	**1.8**	**1.6**	**0.1**	**—**	**0.2**	**4.5**	**4.2**	**4.6**			
Media																													
DishTV	44	REDUCE	41,640	872	946	(6.6)	(3.3)	(1.5)	n/a	(49.1)	(53.9)	(6.7)	(13.2)	(28.5)	(38.1)	53.5	16.0	(6.7)	(39.3)	(16.5)	—	—	—	83.9	86.7	NA	35	(20.5)	9.9
HT Media	129	ADD	30,245	633	235	0.8	5.0	6.6	(80.5)	489.0	32.0	152.4	25.9	19.6	34.4	12.8	10.2	3.5	3.2	2.9	0.2	0.8	1.6	2.3	13.0	15.7	125	(2.9)	0.3
Jagran Prakashan	104	ADD	31,352	657	301	3.0	5.1	6.0	(6.6)	66.7	17.5	34.2	20.5	17.5	19.4	11.9	9.9	5.6	5.2	4.7	1.9	2.9	3.2	16.7	26.2	28.2	110	5.7	1.6
Sun TV Network	329	REDUCE	129,495	2,712	394	9.1	11.4	13.3	9.5	25.1	17.1	36.2	28.9	24.7	19.2	16.4	13.7	7.3	6.4	5.7	0.8	1.2	1.8	22.5	24.0	24.6	245	(25.4)	2.3
Zee Entertainment Enterprises	239	REDUCE	103,683	2,171	434	8.4	10.1	12.3	(4.8)	19.6	21.9	28.3	23.7	19.4	19.6	16.7	13.5	3.0	2.7	2.5	0.8	1.0	1.2	11.8	12.4	13.9	175	(26.7)	8.7
Zee News	47	ADD	11,151	233	240	1.9	2.1	2.7	20.4	11.7	29.6	25.0	22.4	17.3	12.5	10.6	8.8	4.6	3.9	3.3	0.9	0.9	1.5	20.1	19.2	21.4	48	3.2	0.8
Media		**Neutral**	**347,565**	**7,278**					**(21.0)**	**110.0**	**47.4**	**82.1**	**39.1**	**26.5**	**25.3**	**16.8**	**12.8**	**5.5**	**4.6**	**4.2**	**0.8**	**1.1**	**1.5**	**6.7**	**11.8**	**16.0**			
Metals																													
Hindalco Industries	127	BUY	222,231	4,654	1,753	2.8	3.5	11.1	(77.9)	25.5	218.4	45.8	36.5	11.5	12.6	9.3	7.2	0.8	0.8	0.7	—	—	—	10.3	5.2	6.5	135	6.5	33.0
National Aluminium Co.	344	SELL	221,772	4,644	644	19.7	13.7	20.4	(22.0)	(30.6)	48.8	17.4	25.1	16.9	9.0	9.5	6.5	2.1	2.0	1.8	1.0	0.6	0.6	12.7	8.1	11.1	290	(15.7)	2.6
Jindal Steel and Power	593	SELL	91,338	1,913	154	198.0	247.1	236.4	139.3	24.8	(4.3)	18.0	14.4	15.1	16.7	12.3	9.5	7.3	4.8	3.6	0.2	0.2	0.2	51.9	40.3	27.6	358	(39.6)	71.1
JSW Steel	854	SELL	159,693	3,344	187	13.1	36.8	65.9	(84.7)	180.1	79.1	64.9	23.2	12.9	10.8	10.2	7.6	1.8	1.4	1.3	0.1	0.4	0.6	11.7	5.1	10.7	440	(48.5)	44.6
Hindustan Zinc	826	BUY	349,180	7,312	423	64.6	57.3	74.1	(38.0)	(11.2)	29.3	12.8	14.4	11.2	8.8	8.9	6.0	2.3	2.0	1.7	0.5	0.6	0.6	20.1	15.1	16.7	825	(0.2)	6.7
Sesa Goa	267	BUY	210,508	4,408	787	25.1	25.5	34.2	32.6	1.3	34.3	10.6	10.5	7.8	7.1	6.7	4.4	4.6	3.4	2.4	1.3	1.3	1.3	53.3	36.9	35.9	240	(10.2)	55.0
Sterlite Industries	779	REDUCE	654,745	13,710	840	49.2	29.8	38.0	(23.6)	(39.3)	27.2	15.8	26.1	20.5	11.6	11.9	9.0	2.5	1.8	1.7	—	—	—	14.3	8.1	8.4	550	(29.4)	69.3
Tata Steel	511	BUY	453,284	9,492	887	110.1	38.7	74.2	45.3	(64.8)	91.9	4.6	13.2	6.9	5.4	8.0	6.0	1.5	1.4	1.2	2.8	1.6	1.6	24.0	11.0	18.8	480	(6.0)	144.6
Metals		**Cautious**	**2,362,751**	**49,477**					**(0.8)**	**(30.0)**	**46.8**	**10.2**	**14.6**	**9.9**	**7.3**	**7.9**	**6.0**	**1.8**	**1.5**	**1.3**	**0.9**	**0.6**	**0.6**	**17.7**	**10.5**	**13.4**			
Pharmaceutical																													
Biocon	263	BUY	52,580	1,101	200	4.7	14.4	18.6	(79.9)	206.8	29.3	56.1	18.3	14.1	22.4	10.6	8.4	3.4	3.0	2.6	0.0	0.0	0.1	6.2	17.8	20.0	270	2.7	5.6
Dishman Pharma & chemicals	242	BUY	19,703	413	81	18.0	23.5	27.2	22.1	30.6	15.9	13.5	10.3	8.9	9.9	7.7	6.4	2.8	2.2	1.8	0.0	0.0	0.0	22.7	23.8	22.3	280	15.6	2.1
Divi's Laboratories	553	BUY	35,664	747	65	31.9	36.8	43.3	19.9	15.2	17.7	17.3	15.0	12.8	6.8	5.3	4.0	6.0	4.5	3.5	0.0	0.1	0.1	40.4	34.4	31.1	565	2.3	4.6
Dr Reddy's Laboratories	952	BUY	161,299	3,378	169	32.4	49.3	52.5	24.3	52.2	6.4	29.4	19.3	18.1	12.5	10.0	9.1	4.6	3.8	3.2	0.7	0.7	0.8	13.6	21.4	19.2	860	(9.7)	9.4
GlaxoSmithkline Pharmaceuticals (a)	1,564	ADD	132,514	2,775	85	54.6	59.7	66.1	13.8	9.3	10.6	28.6	26.2	23.7	16.1	14.6	12.9	8.4	7.1	6.2	—	—	—	31.3	29.5	27.9	1,450	(7.3)	1.0
Glenmark Pharmaceuticals	237	NR	62,928	1,318	266	11.1	11.6	15.7	(57.0)	4.2	35.1	21.3	20.4	15.1	12.7	11.9	9.6	3.0	2.7	2.3	0.0	0.0	0.0	15.9	13.8	16.2	-	(100.0)	12.9
Jubilant Organosys	238	BUY	40,722	853	171	16.6	24.5	32.9	(26.1)	48.2	34.2	14.4	9.7	7.2	14.2	9.0	7.1	3.1	2.4	2.0	0.5	0.5	0.7	16.2	28.7	30.8	250	5.0	0.8
Lupin	1,135	BUY	100,524	2,105	89	60.2	76.6	83.4	21.0	27.2	8.9	18.8	14.8	13.6	17.3	12.8	11.0	7.0	4.3	3.4	1.0	1.1	1.3	37.1	36.4	28.4	1,385	22.0	4.6
Piramal Healthcare	377	BUY	78,730	1,649	209	17.3	22.1	28.5	(1.9)	28.0	29.0	21.8	17.1	13.2	15.4	11.1	9.0	5.9	4.7	3.6	1.1	1.2	1.2	26.2	30.9	31.1	390	3.5	1.8
Ranbaxy Laboratories	408	REDUCE	174,309	3,650	427	(8.1)	4.7	5.1	(134.7)	(158.6)	6.6	(50.5)	NA	80.8	(229.2)	29.1	31.6	4.1	4.2	4.1	-	1.0	1.0	(9.6)	4.9	5.3	165	(59.6)	15.8
Sun Pharmaceuticals	1,404	ADD	290,864	6,091	207	87.8	47.6	64.2	17.6	(45.8)	34.9	16.0	29.5	21.9	12.4	21.1	15.0	4.1	3.7	3.2	1.0	1.0	1.0	30.2	13.3	16.1	1,330	(5.3)	18.1
Pharmaceuticals		**Attractive**	**1,361,647**	**28,513**					**(17.6)**	**20.5**	**21.6**	**25.8**	**21.4**	**17.6**	**16.6**	**13.5**	**11.3**	**4.5**	**3.8**	**3.3**	**0.6**	**0.7**	**0.8**	**17.3**	**17.9**	**18.6**			
Property																													
DLF	440	SELL	747,131	15,645	1,699	29.3	14.7	17.4	(36.6)	(49.9)	18.4	15.0	30.0	25.3	14.7	21.2	18.4	3.0	2.8	2.6	0.7	0.7	0.9	22.5	9.8	10.7	320	(27.2)	137.6
Housing Development & Infrastructure	335	ADD	115,809	2,425	345	26.0	12.0	23.3	(49.2)	(53.9)	94.8	12.9	28.0	14.4	14.8	23.3	8.8	2.5	1.7	1.4	—	0.9	1.6	22.4	9.3	14.9	295	NA	105.4
Indiabulls Real Estate	273	ADD	109,415	2,291	401	3.0	3.1	7.5	(81.8)	3.8	141.1	90.9	87.6	36.3	(300)	84.6	20.5	1.6	1.2	1.2	—	—	—	1.3	1.6	3.2	235	(13.8)	57.8
Mahindra Life Space Developer	367	BUY	15,447	323	42	10.4	10.8	15.4	(38.5)	4.1	42.5	35.5	34.1	23.9	54.7	33.1	17.4	1.7	1.7	1.6	1.1	1.1	1.1	4.8	4.9	6.7	410	11.6	1.0
Phoenix Mills	174	BUY	25,181	527	145	5.2	6.0	8.5	63.1	15.8	41.3	33.6	29.1	20.6	38.2	21.5	14.7	1.7	1.6	1.5	0.6	0.6	0.9	5.1	5.7	7.6	210	20.8	0.9
Puravankara Projects	125	REDUCE	26,774	561	213	6.8	7.0	7.4	(39.8)	3.6	6.0	18.5	17.9	16.9	25.4	19.6	16.0	2.0	1.9	1.7	—	1.6	1.6	11.5	10.8	10.7	85	(32.2)	2.7
Sobha	264	ADD	25,850	541	98	15.1	14.3	16.1	(52.3)	(5.6)	12.5	17.4	18.5	16.4	16.1	13.1	12.2	2.3	1.5	1.4	1.1	1.5	1.5	10.4	9.8	8.8	215	(18.4)	2.7
Unitech	106	SELL	252,602	5,290	2,389	7.7	4.4	4.6	(25.7)	(42.8)	3.7	13.8	24.1	23.2	17.9	17.9	16.3	5.2	2.5	2.2	—	—	—	29.5	13.2	10.1	60	(43.3)	157.8
Property		**Neutral**	**1,318,209**	**27,604**					**(36.3)**	**(40.0)**	**30.5**	**17.3**	**28.9**	**22.1**	**16.7**	**20.9**	**16.2**	**2.9**	**2.3**	**2.1**	**0.4**	**0.6**	**0.7**	**16.7**	**7.8**	**9.4**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

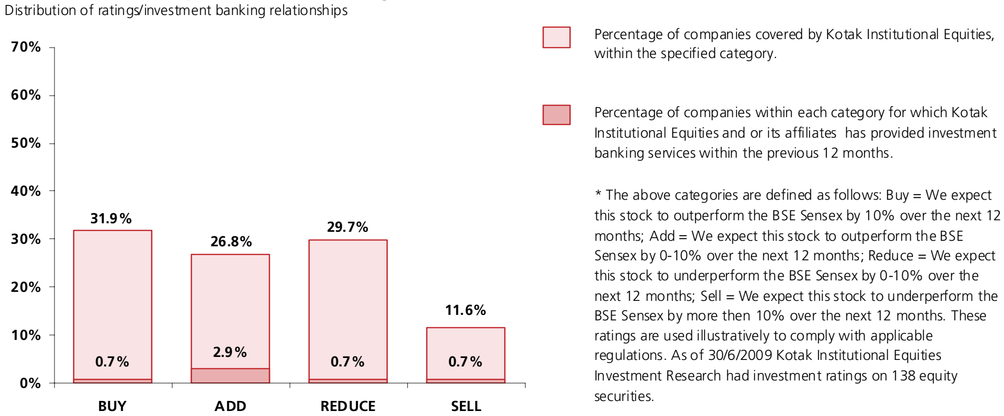
Company	1-Oct-09 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2009	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS growth (%) 2009	EPS growth (%) 2010E	EPS growth (%) 2011E	PER (X) 2009	PER (X) 2010E	PER (X) 2011E	EV/EBITDA (X) 2009	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	Price/BV (X) 2009	Price/BV (X) 2010E	Price/BV (X) 2011E	Dividend yield (%) 2009	Dividend yield (%) 2010E	Dividend yield (%) 2011E	RoE (%) 2009	RoE (%) 2010E	RoE (%) 2011E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Retail																													
Titan Industries	1,251	REDUCE	55,511	1,162	44	44.3	49.4	58.7	26.4	11.6	18.7	28.2	25.3	21.3	17.0	15.6	13.0	9.6	7.4	5.8	0.8	0.8	1.0	37.5	33.1	30.6	1,040	(16.8)	1.8
Retail		**Neutral**	**55,511**	**1,162**					**26.4**	**11.6**	**18.7**	**28.2**	**25.3**	**21.3**	**17.0**	**15.6**	**13.0**	**9.6**	**7.4**	**5.8**	**0.8**	**0.8**	**1.0**	**34.1**	**29.3**	**27.4**			
Sugar																													
Bajaj Hindustan	181	SELL	34,636	725	191	(1.0)	23.9	17.7	(92.1)	(2,491.2)	(25.8)	(181.4)	7.6	10.2	12.3	5.8	5.5	1.7	1.3	1.1	0.3	0.3	0.3	(1.2)	19.4	12.0	150	(17.1)	24.4
Balrampur Chini Mills	122	ADD	31,112	651	256	10.0	13.4	13.0	223.2	34.5	(2.9)	12.2	9.1	9.3	7.2	5.4	5.1	2.2	1.8	1.5	0.3	—	0.4	20.2	22.1	17.8	140	15.0	16.3
Shree Renuka Sugars	195	BUY	65,205	1,365	335	8.1	24.2	20.4	88.3	198.6	(15.9)	24.0	8.0	9.6	12.5	4.7	5.1	3.7	2.2	1.8	0.1	0.2	0.2	20.7	34.9	20.8	235	20.7	22.1
Sugar		**Attractive**	**130,952**	**2,742**					**3,055.5**	**217.4**	**(15.9)**	**25.8**	**8.1**	**9.7**	**10.7**	**5.2**	**5.2**	**2.5**	**1.8**	**1.5**	**0.2**	**0.3**	**0.3**	**9.8**	**22.2**	**15.6**			
Technology																													
HCL Technologies	336	REDUCE	233,798	4,896	695	17.5	16.7	22.8	14.5	(4.6)	36.5	19.2	20.2	14.8	10.7	9.9	9.2	4.1	3.6	3.0	3.6	3.6	3.6	20.9	19.0	22.3	275	(18.3)	10.6
Infosys Technologies	2,337	BUY	1,341,295	28,087	574	102.4	106.7	120.0	29.6	4.1	12.5	22.8	21.9	19.5	17.1	15.8	13.1	7.3	5.9	4.9	1.0	1.1	1.5	36.7	30.0	27.6	2,500	7.0	71.0
Mphasis BFL	663	REDUCE	138,302	2,896	208	14.2	41.5	42.2	15.7	192.6	1.8	46.8	16.0	15.7	35.6	11.7	10.5	9.6	6.3	4.7	0.6	0.7	0.8	22.8	47.7	34.2	450	(32.2)	15.4
Mindtree	614	BUY	25,284	529	41	13.2	39.2	50.1	(50.5)	196.0	27.9	46.4	15.7	12.3	7.9	10.9	8.0	4.6	3.5	2.8	0.3	—	0.8	5.5	25.3	25.1	650	5.8	5.1
Patni Computer Systems	453	REDUCE	58,201	1,219	129	26.8	33.8	36.7	(19.3)	26.1	8.6	16.9	13.4	12.3	8.6	6.6	6.4	2.3	1.9	1.7	0.4	1.5	1.6	16.2	14.8	14.6	320	(29.3)	10.4
Polaris Software Lab	151	SELL	14,874	311	99	13.1	13.8	12.9	76.0	5.4	(6.4)	11.5	10.9	11.6	4.9	5.9	6.3	1.9	1.7	1.5	1.8	1.3	1.3	18.1	16.4	13.6	80	(46.9)	4.9
TCS	630	ADD	1,232,742	25,814	1,957	26.4	31.2	35.3	3.1	17.8	13.3	23.8	20.2	17.8	16.7	14.5	12.6	7.9	6.3	5.3	1.1	1.5	2.2	36.9	34.6	32.2	600	(4.7)	45.3
Wipro	608	ADD	888,969	18,615	1,462	25.7	28.1	33.1	15.8	9.1	17.7	23.6	21.6	18.4	17.4	15.4	12.9	5.9	4.8	4.0	0.7	1.3	1.6	26.9	24.5	23.8	630	3.6	16.5
Technology		**Neutral**	**3,945,308**	**82,616**					**15.3**	**13.4**	**14.4**	**23.2**	**20.4**	**17.9**	**16.2**	**14.1**	**12.1**	**6.5**	**5.3**	**4.4**	**1.1**	**1.4**	**1.8**	**28.1**	**25.7**	**24.7**			
Telecom																													
Bharti Airtel	435	REDUCE	1,652,075	34,595	3,797	22.3	26.4	29.1	26.4	18.0	10.3	19.5	16.5	15.0	11.4	9.9	8.6	5.3	4.0	3.2	0.5	0.7	0.9	31.4	27.5	23.6	400	(8.1)	74.0
IDEA	74	REDUCE	229,064	4,797	3,104	2.9	3.4	3.6	(26.5)	15.8	7.3	25.4	22.0	20.5	9.4	7.9	7.1	1.7	1.6	1.4	—	—	—	10.4	7.4	8.0	65	(11.9)	13.8
MTNL	91	SELL	57,078	1,195	630	3.1	(4.8)	(3.9)	(57.1)	(256.5)	(18.1)	29.5	(18.9)	(23.0)	11.4	(14.3)	(49.2)	0.5	0.5	0.5	6.6	—	—	1.1	(2.6)	(2.2)	50	(44.8)	2.8
Reliance Communications	319	SELL	657,390	13,766	2,064	27.7	21.2	23.0	4.7	(23.3)	8.3	11.5	15.0	13.8	9.5	9.2	7.3	1.6	1.5	1.3	0.2	—	—	17.0	10.6	10.3	240	(24.6)	56.3
Tata Communications	487	REDUCE	138,752	2,906	285	13.6	14.0	15.2	24.0	3.2	8.2	35.8	34.7	32.1	15.3	13.9	12.8	2.0	1.9	1.9	1.0	1.3	1.5	5.4	5.2	5.5	400	(17.8)	4.4
Telecom		**Cautious**	**2,734,360**	**57,258**					**11.1**	**(0.3)**	**10.7**	**17.0**	**17.1**	**15.4**	**10.7**	**9.7**	**8.2**	**2.6**	**2.3**	**2.0**	**0.5**	**0.5**	**0.6**	**15.4**	**13.4**	**12.9**			
Transportation																													
Container Corporation	1,214	ADD	157,776	3,304	130	64.4	67.8	80.3	11.6	5.3	18.5	18.8	17.9	15.1	13.9	12.5	10.4	4.2	3.6	3.0	1.2	1.3	1.5	24.0	21.4	21.7	1,125	(7.3)	1.8
Transportation		**Cautious**	**157,776**	**3,304**					**11.6**	**5.3**	**18.5**	**18.8**	**17.9**	**15.1**	**13.9**	**12.5**	**10.4**	**4.2**	**3.6**	**3.0**	**1.2**	**1.3**	**1.5**	**22.1**	**19.9**	**20.1**			
Utilities																													
CESC	379	ADD	47,394	992	125	32.3	37.9	42.0	16.2	17.4	11.0	11.8	10.0	9.0	(0.5)	(0.9)	(0.9)	0.8	0.6	0.5	7.6	12.8	14.7	11.7	11.9	11.6	365	(3.8)	3.6
Lanco Infratech	478	ADD	106,182	2,223	222	14.5	20.8	36.6	(2.5)	43.8	76.2	33.0	23.0	13.0	25.8	17.3	8.4	4.9	3.8	2.9	—	—	—	16.1	18.7	25.2	440	(7.9)	28.1
NTPC	211	SELL	1,735,670	36,345	8,245	9.5	10.8	12.2	1.6	14.1	12.6	22.2	19.5	17.3	17.5	14.4	13.6	2.9	2.7	2.5	1.7	1.9	2.2	13.8	14.5	15.0	180	(14.5)	22.8
Reliance Infrastructure	1,207	BUY	273,325	5,723	226	62.7	63.7	68.6	66.7	1.6	7.8	19.3	19.0	17.6	24.2	22.0	17.5	1.6	1.5	1.4	0.6	0.7	0.8	4.9	6.1	7.8	1,250	3.6	82.0
Reliance Power	167	REDUCE	399,539	8,366	2,397	1.0	2.5	3.1	—	141.5	24.4	163.4	67.6	54.4	—	—	—	2.9	2.8	2.6	—	—	—	1.8	4.2	5.0	160	(4.0)	19.2
Tata Power	1,290	ADD	306,207	6,412	237	50.2	74.4	84.1	57.5	48.3	13.0	25.7	17.3	15.3	11.7	11.7	11.2	3.1	2.3	2.1	0.8	0.9	1.1	12.0	15.3	14.4	1,400	8.6	16.1
Utilities		**Attractive**	**2,868,317**	**60,063**					**13.9**	**22.1**	**14.9**	**21.9**	**18.0**	**15.6**	**15.6**	**13.6**	**12.2**	**2.6**	**2.3**	**2.1**	**1.4**	**1.7**	**1.9**	**11.7**	**12.6**	**13.2**			
Others																													
Havells India	311	REDUCE	18,821	394	61	4.9	12.3	19.1	(82)	NA	56.2	NA	25.4	16.2	10.6	8.6	7.5	2.9	3.4	2.9	0.8	0.8	0.8	4.5	12.4	19.3	175	(43.7)	1.4
Jaiprakash Associates	239	REDUCE	335,988	7,036	1,403	3.0	6.7	11.4	(39)	123.8	70.2	79.8	35.6	20.9	25.7	15.5	13.9	6.1	5.1	4.2	—	—	—	8.0	15.5	21.9	220	(8.1)	95.0
Jindal Saw	767	ADD	44,137	924	58	74.3	61.5	61.1	20	(17.2)	(0.7)	10.3	12.5	12.5	6.5	6.9	6.2	1.3	1.1	1.1	0.6	0.5	0.5	11.6	8.9	8.6	470	(38.7)	9.3
PSL	178	BUY	7,755	162	44	22.2	37.6	30.1	5	69.2	(19.8)	8.0	4.7	5.9	4.8	3.9	3.4	1.1	1.0	0.9	2.7	3.6	3.6	11.9	13.4	11.3	160	(10.1)	2.4
Sintex	252	BUY	34,349	719	136	23.8	25.2	27.6	22	5.6	9.6	10.6	10.0	9.1	7.4	6.7	5.7	1.8	1.5	1.3	0.4	0.5	0.5	16.6	15.0	14.2	275	9.3	3.8
Tata Chemicals	282	ADD	68,672	1,438	243	26.6	17.8	26.8	(33)	(33.0)	50.4	10.6	15.8	10.5	6.7	6.9	5.5	1.4	1.4	1.3	3.1	3.1	3.1	17.9	11.0	14.7	260	(7.8)	4.9
Welspun Gujarat Stahl Rohren	262	REDUCE	49,440	1,035	189	17.3	23.7	18.1	(16)	37.3	(23.9)	15.1	11.0	14.5	8.2	6.5	7.6	2.7	2.1	1.8	0.8	0.6	0.7	17.7	21.4	13.5	180	(31.3)	23.5
United Phosphorus	169	BUY	77,847	1,630	462	10.7	13.9	18.0	28	29.7	29.6	15.7	12.1	9.4	10.4	7.5	6.0	2.6	2.2	1.8	0.7	0.9	1.2	18.1	19.1	20.8	160	(5.0)	5.5
Others			**699,534**	**14,648**					**(8.2)**	**27.9**	**30.5**	**22.4**	**17.5**	**13.4**	**12.3**	**10.0**	**9.1**	**3.0**	**2.6**	**2.2**	**0.6**	**0.6**	**0.6**	**13.2**	**14.7**	**16.3**			
KS universe (b)			**39,046,620**	**817,645**					**2.5**	**18.4**	**18.1**	**19**	**16.0**	**13.5**	**11.8**	**9.5**	**8.1**	**2.9**	**2.5**	**2.2**	**1.1**	**1.6**	**1.8**	**15.4**	**15.7**	**16.3**			
KS universe (b) ex-Energy			**30,268,355**	**633,826**					**5.5**	**7.3**	**18.0**	**18.9**	**17.6**	**14.9**	**13.5**	**11.8**	**10.1**	**3.2**	**2.7**	**2.4**	**1.1**	**1.2**	**1.4**	**16.9**	**15.3**	**15.8**			
KS universe (d) ex-Energy & ex-Commodities			**27,146,244**	**568,448**					**7.5**	**13.6**	**16.2**	**20.8**	**18.3**	**15.7**	**15.9**	**13.3**	**11.4**	**3.4**	**2.9**	**2.6**	**1.1**	**1.2**	**1.5**	**16.6**	**16.0**	**16.3**			

Note:
(1) For banks we have used adjusted book values.
(2) 2009 means calendar year 2008, similarly for 2010 and 2011 for these particular companies.
(3) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.
(4) Rupee-US Dollar exchange rate (Rs/US$)= 47.76

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



* The above categories are defined as follows: Buy = We expect this stock to outperform the BSE Sensex by 10% over the next 12 months; Add = We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months; Reduce = We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months; Sell = We expect this stock to underperform the BSE Sensex by more then 10% over the next 12 months. These ratings are used illustratively to comply with applicable regulations. As of 30/6/2009 Kotak Institutional Equities Investment Research had investment ratings on 138 equity securities.

Source: Kotak Institutional Equities — As of June 30, 2009

Ratings and other definitions/identifiers

Rating system

Definitions of ratings

BUY. We expect this stock to outperform the BSE Sensex by 10% over the next 12 months.

ADD. We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months.

REDUCE. We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months.

SELL. We expect this stock to underperform the BSE Sensexby more than 10% over the next 12 months.

Our target price are also on 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 (A), Neutral (N), Cautious (C).

Other ratings/identifiers

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

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

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

Corporate Office

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

Overseas Offices

Kotak Mahindra (UK) Ltd
6th Floor, Portsoken House
155-157 The Minories
London EC 3N 1 LS
Tel: +44-20-7977-6900 / 6940

Kotak Mahindra Inc
50 Main Street, Suite No.310
Westchester Financial Centre
White Plains, New York 10606
Tel:+1-914-997-6120