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### EQUITY MARKETS

India	Change %			
	14-Oct	1-day	1-mo	3-mo
Sensex	17,231	1.2	4.7	20.9
Nifty	5,118	1.3	4.6	20.9
<b>Global/Regional indices</b>				
Dow Jones	10,016	1.5	3.4	16.2
Nasdaq Composite	2,172	1.5	3.3	16.6
FTSE	5,256	2.0	4.2	20.9
Nikkie	10,273	2.1	0.5	10.8
Hang Seng	22,235	1.6	6.6	21.8
KOSPI	1,663	0.9	0.6	17.1
<b>Value traded - India</b>				
Cash (NSE+BSE)	268.8	246.0	244.9	
Derivatives (NSE)	659.5	580.3	543	
Deri. open interest	1,043.8	1,020	770	

#### Forex/money market

	Change, basis points			
	14-Oct	1-day	1-mo	3-mo
Rs/US\$	46.1	(36)	(260)	(284)
10yr govt bond, %	7.4	3	13	38

#### Net investment (US\$m)

	12-Oct	MTD	CYTD
FIs	215	384	12,639
MFs	(1)	(563)	(16)

#### Top movers -3mo basis

	Change, %			
	14-Oct	1-day	1-mo	3-mo
<b>Best performers</b>				
BHFC IN Equity	288.2	5.8	24.4	104.0
<b>TTMT IN Equity</b>	<b>574.8</b>	<b>4.8</b>	<b>1.0</b>	99.2
ABAN IN Equity	1609.9	(1.1)	2.3	95.6
HDIL IN Equity	378.5	2.1	21.9	71.0
HNDL IN Equity	135.4	5.0	8.1	70.1
<b>Worst performers</b>				
ADE IN Equity	659.5	2.1	3.4	(17.5)
IDEA IN Equity	61.6	(3.1)	(18.2)	(16.0)
MTNL IN Equity	81.3	(1.5)	(12.4)	(14.4)
<b>BHARTI IN Equity</b>	<b>340.2</b>	<b>(3.2)</b>	<b>(18.2)</b>	(12.8)
ICEM IN Equity	125.4	(1.5)	(0.1)	(12.6)

**Good performance, but valuations are stretched.** HDFC Bank reported earnings growth of 30% yoy driven by (1) strong sequential loan growth of 11%, (2) better margins, (3) better productivity gains and (4) higher treasury income. Reduction in gross NPLs suggests that the delinquency trend has peaked and provisioning could decline in future quarters. Valuations at 3.2XFY2011E PBR and 20XFY2011E PER appear stretched. We maintain our REDUCE rating with a target price of Rs1,600.

**Company data and valuation summary**

HDFC Bank

**Stock data**

52-week range (Rs) (high,low)	1,729-774
Market Cap. (Rs bn)	769.5

**Shareholding pattern (%)**

Promoters	19.3
FIs	47.0
MFs	4.9

**Price performance (%)**

	1M	3M	12M
Absolute	14.0	24.9	49.2
Rel. to BSE-30	7.2	0.4	(0.6)

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	52.8	65.2	85.0
EPS growth (%)	41.2	23.5	30.5
P/E (X)	32.3	26.1	20.0
NII (Rs bn)	74.2	85.8	104.5
Net profits (Rs bn)	22.4	29.5	38.4
BVPS	332.9	472.3	538.5
P/B (X)	5.1	3.6	3.2
ROE (%)	16.9	16.2	16.8
Div. Yield (%)	0.6	0.7	0.9

**Business outlook improves but stretched valuations limit upside**

We maintain our REDUCE recommendation on HDFC Bank given the high valuations, even as its growth outlook has improved and concerns on retail profitability have reduced somewhat. However, at 20XFY2011E PBR and 3.2XFY2011E PBR, we find valuations stretched and do not find upside from current levels. We maintain our REDUCE recommendation with a target price of Rs1,600.

**Loan growth picks up driven by corporate loans**

HDFC Bank's loans grew by 11% sequentially to Rs1.04 tn as of September 2009. On a yoy basis, loan growth remains subdued at 11%, but this is likely to improve in future quarters as the base effect kicks in and favors the company. The prime driver for loan growth was the corporate segment, which grew by 39% qoq to Rs525 bn from a low base and was up 20% yoy. Retail loan book stood at Rs627 bn as of September 2009—reporting a relatively slower growth of 7% yoy, auto loans (up 27% yoy at Rs171 bn) and mortgages (10% of the retail loan book, largely bought from HDFC) were the key sub-segments driving growth.

**CASA deposits growth continues to remain healthy**

One of the key positives of HDFC Bank results was its strong growth of CASA deposits; savings deposits grew by 32% yoy to Rs432 bn and current deposits grew by 23% yoy to Rs322 bn. Reported CASA ratio was at 50%, while the core CASA ratio was at 47% up from 42% last year. The ability of the bank to consistently improve its CASA deposit franchise is impressive. We believe that new branch additions, better leveraging of the Centurion Bank branches, higher capital market activity, low interest rate environment have all resulted in higher CASA deposits for HDFC Bank. Overall deposits grew by 12% yoy to Rs1.5 tn, while term deposits were flat on a yoy basis at Rs744 bn.

**REDUCE**
**OCTOBER 14, 2009**
**RESULT**

Coverage view: **Attractive**

Price (Rs): **1,702**

Target price (Rs): **1,600**

BSE-30: **17,231**
**QUICK NUMBERS**

- **Loan book grew 11% qoq, largely driven by corporate loans**
- **Margins at 4.2% (up 10 bps) and better cost income resulted in earnings growth of 30**
- **Gross NPLs declined 6% qoq, indicating peaking of delinquency trend.**

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### Higher margins despite changing loan mix is impressive

HDFC Bank reported higher margins at 4.2% on a sequential basis (4.1% in 1QFY10), despite a decline in high yielding retail loans. Higher CASA deposits and a lower term deposits rate have helped HDFC Bank to improve its margins even as yields have been declining. The current traction in CASA deposits is likely to result in sustained margins despite a shift in asset mix towards corporate loans.

### Treasury income strong; fees (incl. exchange gains) grew 18%

Non-interest income grew by 57% yoy to Rs10.1 bn in 2QFY10, aided by higher treasury income of Rs1.6 bn against a loss of Rs156 mn booked in 2QFY09. Core fees grew by 18% yoy to Rs6.9 bn in 2QFY10, but including exchange gains, fees grew by 29% yoy to Rs8.4 bn.

### Cost-income ratio shows a good improvement

A slower retail banking growth coupled with slower addition of branches and better leveraging of CBoP branches resulted in flat operating expenses growth at -1% yoy for 2QFY10. The cost-income ratio (excluding treasury) declined from 55% in 2QFY09 to 49% in 2QFY10.

The bank has right-sized its operations and redeployed manpower more effectively which resulted in a reduction in head count over the past couple of quarters. Consequently, the company was able to reduce its employee expenses to Rs5.5 bn (down 9% yoy) in 2QFY10. We expect this trend of better productivity gains to continue for the next few quarters and the cost leverage would be an important factor driving earnings growth for HDFC Bank.

### NPLs declines sequentially, indicates peaking of delinquency

HDFC Bank reported a decline in gross NPLs by 6% qoq to Rs.20.3 bn as of 2QFY10 from Rs21.6 bn as of 1QFY10. This is the first quarter of decline in NPLs over the last many quarters. We estimate the delinquency rate to be around 2.1% (annualized) in 2QFY10 and may have reduced from about 2.5% in 1QFY10. The bank continues to make higher provisions and write-offs (compared to regulatory norms) resulting in much lower net NPLs at 0.5%. The total restructured assets continued to remain at 0.56% of loans.

### Retail profitability has improved sequentially

The segmental profit analysis of HDFC Bank shows that PBT of the retail segment has declined sharply by 44% yoy to Rs1.4 bn in 1QFY10, but has improved sharply sequentially (up 105%). The sharp drop in profits from this segment is likely due to high provisions/write-offs on the retail book and lower transfer pricing of retail liabilities, which is likely to improve as provisions are expected to moderate and transfer pricing would increase as interest rates rise.

The wholesale segment continues to remain healthy and the PBT of this segment has improved to Rs4.8 bn (up 45% yoy) in 2QFY10. Softer interest rates helped the company boost its revenues from the treasury segment and the PBT of this segment has been Rs2.5 bn (up from a loss of Rs1.6 bn) and was a key driver of its earnings in the current quarter.

## HDFC Bank, quarterly performance

March fiscal year-ends, 1QFY09-2QFY10 (Rs mn)

	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	% chg	2QFY10KS	Actual Vs KS
Interest income	39,912	44,685	42,508	40,931	39,919	0.0	40,708	(1.9)
Interest on advances	30,608	33,380	30,972	30,178	30,102	(1.7)	30,027	0.3
Interest on investments	8,967	10,282	11,264	10,334	9,596	7.0	10,231	(6.2)
Other interest	338	1,023	273	419	221	(34.6)	450	(50.9)
Interest expense	21,248	24,893	23,988	22,375	20,361	(4.2)	21,256	(4.2)
<b>Net interest income</b>	<b>18,665</b>	<b>19,793</b>	<b>18,520</b>	<b>18,556</b>	<b>19,558</b>	<b>4.8</b>	<b>19,451</b>	<b>0.5</b>
Non-int.income	6,431	9,394	11,147	10,437	10,074	56.6	10,437	(3.5)
- fee income	5,873	6,440	7,148	6,493	6,924	17.9	7,272	(4.8)
- exchange income	675	628	1,528	1,378	1,510	123.7	1,150	31.3
- sale of invts.	(156)	2,321	2,436	2,560	1,629	(1,144.2)	1,200	35.8
Non treasury income	6,587	7,073	8,711	7,877	8,445	28.2	9,237	(8.6)
<b>Total income</b>	<b>25,096</b>	<b>29,186</b>	<b>29,667</b>	<b>28,992</b>	<b>29,632</b>	<b>18.1</b>	<b>29,888</b>	<b>(0.9)</b>
Op. expenses	13,867	14,606	13,962	13,806	13,702	(1.2)	14,746	(7.1)
Employee cost	6,116	5,821	5,039	5,593	5,541	(9.4)	6,041	(8.3)
Other cost	7,751	8,784	8,923	8,212	8,161	5.3	8,705	(6.3)
<b>Operating profit</b>	<b>11,229</b>	<b>14,581</b>	<b>15,705</b>	<b>15,187</b>	<b>15,930</b>	<b>41.9</b>	<b>15,142</b>	<b>71.0</b>
Provisions and cont.	3,460	5,318	6,574	6,588	5,941	71.7	5,500	8.0
NPLs	3,373	4,654	6,000	6,300	5,941	76.1	5,300	12.1
PBT	7,768	9,263	9,131	8,598	9,989	28.6	9,642	3.6
Tax	2,488	3,045	2,822	2,537	3,114	25.1	2,796	11.4
<b>Net profit</b>	<b>5,280</b>	<b>6,218</b>	<b>6,309</b>	<b>6,061</b>	<b>6,875</b>	<b>30.2</b>	<b>6,846</b>	<b>0.4</b>
Tax rate (%)	32.0	32.9	30.9	29.5	31.2		29.0	
<b>Op.profit excl treasury gains</b>	<b>11,385</b>	<b>12,260</b>	<b>13,269</b>	<b>12,627</b>	<b>14,301</b>	<b>25.6</b>	<b>13,942</b>	<b>2.6</b>
<b>Key balance sheet items (Rs bn)</b>								
<b>Total deposits</b>	1338	1449	1428	1457	1498	12.0		
Savings deposits	328	331	349	385	432	31.9		
Current deposits	261	249	284	270	322	23.1		
Term deposits	749	875	795	802	744	-0.6		
CASA ratio (%)	44.0	40.0	44.4	45.0	50.3	0.0		
<b>Loans</b>	1022	988	989	1038	1151	12.6		
Retail credit	584	596	612	611	627	7.3		
Housing loans	21	0	50	55	64	-		
Car loans	135	151	155	161	171	26.7		
Loan against sec	10	7	7	7	8	(22.7)		
Personal loans	89	89	85	85	84	(5.6)		
Two wheeler	22	21	19	18	18	(21.9)		
Credit cards	39	41	39	38	38	(3.8)		
Commercial vehicles	87	83	80	77	79	(8.7)		
Business Banking	141	154	127	122	122	(13.5)		

Source: Company, Kotak Institutional Equities estimates

HDFC Bank-- key parameters and balance sheet  
March fiscal year-ends, 2QFY09-2QFY10

	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	% chg
<b>Yield management measures (%)</b>						
NIM	4.2	4.3	4.2	4.1	4.2	
<b>Asset quality details</b>						
Gross NPL(Rs mn)	16,759	19,114	19,881	21,635	20,269	20.9
Gross NPL (%)	1.6	1.9	2.0	2.1	1.8	
Net NPLs (Rs mn)	5,841	6,143	6,276	6,585	6,024	3.1
Net NPL (%)	0.6	0.6	0.6	0.6	0.5	
<b>Capital adequacy ratios (%)</b>						
CAR	11.4	13.7	15.1	15.4	15.7	
Tier I	8.8	9.7	10.6	10.6	10.9	
Tier II	2.6	4.0	4.5	4.8	4.8	
<b>Other key details</b>						
Branches	1,412	1,412	1,412	1,416	1,506	6.7
ATM network	2,890	3,177	3,295	3,382	3,573	23.6
Cities covered	528	527	528	550	635	20.3
<b>Balance sheet snapshot (Rs bn)</b>						
<b>CAPITAL AND LIABILITIES</b>						
Capital	4.3	4.3	4.3	4.3	4.3	0.5
Reserves and surplus	134.5	140.7	142.2	152.9	160.7	19.5
Deposits	1,337.8	1,448.6	1,428.1	1,457.3	1,498.1	12.0
Borrowings	61.5	45.1	26.9	30.5	51.0	(17.1)
Subordinated debt	35.7	53.1	64.8	63.8	63.8	79.0
Other liabilities and provisions	143.9	139.9	162.4	152.3	161.5	12.3
<b>Total</b>	<b>1,717.6</b>	<b>1,831.8</b>	<b>1,832.7</b>	<b>1,861.6</b>	<b>1,939.7</b>	<b>12.9</b>
<b>ASSETS</b>						
Cash and balances with RBI	152.6	100.1	135.3	118.1	136.6	(10.4)
Balances with banks, money at call	21.2	24.8	39.8	18.7	13.7	(35.4)
Investments	442.0	633.4	588.2	603.1	571.7	29.4
Advances	1,022.2	987.8	988.8	1,037.9	1,136.7	11.2
Fixed assets	15.6	16.7	17.1	19.7	19.9	27.5
Other assets	64.1	69.0	63.6	63.7	60.8	(5.2)
<b>Total</b>	<b>1,717.6</b>	<b>1,831.9</b>	<b>1,832.7</b>	<b>1,861.1</b>	<b>1,939.4</b>	<b>12.9</b>

Source: Company

## Retail segment's profitability has come off sharply

Segment revenues and PBT, March fiscal year-ends, 4QFY08-2QFY10

	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	yoy growth (%)
<b>Segment revenues (Rs mn)</b>								
Treasury	4,800	10,517	10,104	13,844	14,706	13,757	11,834	17
<b>Retail banking</b>	<b>25,045</b>	<b>32,729</b>	<b>39,664</b>	<b>38,160</b>	<b>38,286</b>	<b>38,433</b>	<b>38,290</b>	<b>(3)</b>
Wholesale banking	19,939	23,915	26,825	31,594	23,724	21,151	20,376	(24)
Other banking operations	4,121	3,911	4,905	5,861	6,784	5,425	5,638	15
Unallocated	-	35	-	-	-	-	-	
Total	53,904	71,107	81,497	89,459	83,500	78,766	76,138	(7)
Less inter-segmental revenues	18,849	28,956	35,123	35,380	29,845	27,398	26,145	(26)
Income from operations	35,055	42,152	46,374	54,079	53,655	51,368	49,993	8
<b>Segment PBT (Rs mn)</b>								
Treasury	913	435	(1,625)	1,840	4,232	4,042	2,505	(254)
<b>Retail banking</b>	<b>2,014</b>	<b>3,060</b>	<b>5,288</b>	<b>2,786</b>	<b>1,555</b>	<b>1,438</b>	<b>2,946</b>	<b>(44)</b>
Wholesale banking	2,940	3,422	3,346	3,600	2,055	3,797	4,858	45
Other banking operations	1,011	638	1,409	1,798	2,511	743	1,093	(22)
Unallocated	(642)	(725)	(649)	(761)	(1,221)	(1,421)	(1,413)	118
Total	6,236	6,830	7,768	9,263	9,131	8,598	9,989	29

Source: Company, Kotak Institutional Equities estimates

## Wholesale banking and treasury segments support overall profits of the company

PBT margin and contribution to overall PBT, March fiscal year-ends, 4QFY08-2QFY10 (%)

	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10
<b>PBT margin (%)</b>							
Treasury	19.0	4.1	(16.1)	13.3	28.8	29.4	21.2
<b>Retail banking</b>	<b>8.0</b>	<b>9.3</b>	<b>13.3</b>	<b>7.3</b>	<b>4.1</b>	<b>3.7</b>	<b>7.7</b>
Wholesale banking	14.7	14.3	12.5	11.4	8.7	18.0	23.8
Other banking operations	24.5	16.3	28.7	30.7	37.0	13.7	19.4
<b>Break-up of contribution to PBT (%)</b>							
Treasury	14.6	6.4	(20.9)	19.9	46.3	47.0	25.1
<b>Retail banking</b>	<b>32.3</b>	<b>44.8</b>	<b>68.1</b>	<b>30.1</b>	<b>17.0</b>	<b>16.7</b>	<b>29.5</b>
Wholesale banking	47.1	50.1	43.1	38.9	22.5	44.2	48.6
Other banking operations	16.2	9.3	18.1	19.4	27.5	8.6	10.9
Unallocated segment	(10.3)	(10.6)	(8.4)	(8.2)	(13.4)	(16.5)	(14.1)

Source: Company, Kotak Institutional Equities estimates

HDFC Bank—estimate changes  
March fiscal year-ends, 2010-2011E, Rs bn

	Old estimates		New estimates		% change	
	2010E	2011E	2010E	2011E	2010E	2011E
Net loan growth (%)	22.2	22.5	24.4	22.5		
Retail loan to total loans (%)	57.5	56.5	56.4	55.4		
Total assets	2,130	2,474	2,130	2,475	0.0	0.0
Total income	129.2	152.3	125.1	147.7	-3.2	-3.1
Net interest income	<b>90.4</b>	<b>109.9</b>	<b>85.8</b>	<b>104.5</b>	<b>-5.1</b>	<b>-4.9</b>
NIM (%)	<b>4.75</b>	<b>4.94</b>	<b>4.51</b>	<b>4.70</b>		
Other income	38.8	42.5	39.3	43.1	1.3	1.6
Fee income	28.7	33.1	28.7	33.1	0.0	0.0
Expenses	63.6	73.5	61.1	70.5	-3.9	-4.1
Employee cost	25.9	30.2	23.4	27.3	-9.4	-9.7
Other cost	37.7	43.3	37.6	43.2	-0.2	-0.2
Loan loss provisions	22.0	24.2	21.1	21.9	-4.0	-9.4
PBT	41.6	53.1	42.1	54.9	1.1	3.4
<b>PAT</b>	<b>29.1</b>	<b>37.2</b>	<b>29.5</b>	<b>38.4</b>	<b>1.1</b>	<b>3.4</b>
PBT-treasury+provisions	62.0	76.8	59.6	74.1	-3.9	-3.5

Source: Company, Kotak Institutional Equities estimates

HDFC Bank growth rates and key ratios  
March fiscal year-ends, 2007-2011E (%)

	2007	2008	2009	2010E	2011E
<b>Growth rates (%)</b>					
Net loan	33.9	35.1	55.9	24.4	22.5
Total Asset	24.1	46.0	37.6	16.2	16.2
Deposits	22.4	47.5	41.7	17.6	18.0
Current	34.3	45.2	(1.1)	18.1	12.1
Savings	21.0	33.5	73.3	12.0	20.3
Fixed	16.3	58.7	33.5	29.9	18.0
Net interest income	45.7	48.7	34.5	15.6	21.8
Loan loss provisions	79.5	41.2	42.0	22.1	3.9
Total other income	35.0	50.4	44.2	19.4	9.8
Net fee income	23.7	32.7	43.3	16.8	15.2
Net capital gains	31.3	(453.4)	58.2	15.0	(31.8)
Net exchange gains	91.5	48.7	111.4	(5.0)	12.0
Operating expenses	43.2	54.7	47.7	10.4	15.4
Employee expenses	59.6	67.5	72.0	4.8	16.5
<b>Key ratios (%)</b>					
Yield on average earning assets	8.8	9.7	10.8	9.0	9.2
Yield on average loans	10.6	12.6	15.0	11.7	11.7
Yield on average investments	7.8	7.9	7.4	6.2	6.3
Average cost of funds	4.5	5.2	6.7	5.1	5.1
Interest on deposits	4.3	5.2	6.6	5.0	4.9
<b>Difference</b>	<b>4.3</b>	<b>4.6</b>	<b>4.1</b>	<b>3.9</b>	<b>4.1</b>
Net interest income/earning assets	4.7	5.1	4.9	4.5	4.7
New provisions/average net loans	2.1	2.2	2.1	1.9	1.6
Interest income/total income	71.0	70.7	69.3	68.6	70.8
Fee income to total income	24.7	22.0	22.9	22.9	22.4
Operating expenses/total income	46.3	48.0	51.7	48.9	47.8
Tax rate	30.4	30.3	32.0	30.0	30.0
Share of deposits					
Current	29.0	28.5	19.9	20.0	19.0
Fixed	42.3	45.5	55.6	53.0	54.0
Savings	28.7	26.0	24.4	27.0	27.0
Loans-to-deposit ratio	68.7	62.9	69.2	73.3	76.1
Equity/assets (EoY)	7.1	8.6	8.2	10.0	9.8
<b>Dupont analysis (%)</b>					
Net interest income	4.2	4.7	4.7	4.3	4.5
Loan loss provisions	1.0	1.1	1.1	1.1	1.0
Net other income	1.8	2.0	2.1	2.0	1.9
Operating expenses	3.0	3.6	3.6	3.1	3.1
Invt. depreciation	0.0	0.0	0.0	0.0	0.0
(1- tax rate)	69.6	69.7	68.0	70.0	70.0
ROA	1.4	1.4	1.4	1.5	1.7
Average assets/average equity	14.0	12.5	11.9	10.9	10.1
ROE	19.5	17.7	16.9	16.2	16.8

Source: Company, Kotak Institutional Equities estimates



HDFC Bank P&L and balance sheet  
March fiscal year-ends, 2007-2011E (Rs mn)

	2007	2008	2009	2010E	2011E
<b>Income statement (Rs mn)</b>					
<b>Total interest income</b>	<b>68,890</b>	<b>104,034</b>	<b>163,323</b>	<b>171,274</b>	<b>204,682</b>
Loans	43,342	69,667	121,368	129,621	159,764
Investments	22,986	31,604	40,080	39,239	44,139
Cash and deposits	2,563	2,762	1,876	2,414	779
<b>Total interest expense</b>	<b>31,795</b>	<b>48,871</b>	<b>89,111</b>	<b>85,488</b>	<b>100,153</b>
Deposits from customers	26,953	43,827	80,155	77,142	90,421
<b>Net interest income</b>	<b>37,096</b>	<b>55,163</b>	<b>74,212</b>	<b>85,786</b>	<b>104,529</b>
Loan loss provisions	8,610	12,160	17,263	21,084	21,905
<b>Net interest income (after prov.)</b>	<b>28,486</b>	<b>43,002</b>	<b>56,949</b>	<b>64,702</b>	<b>82,624</b>
Other income	15,173	22,825	32,906	39,278	43,121
Net fee income	12,924	17,145	24,573	28,692	33,052
Net capital gains	(684)	2,418	3,826	4,400	3,000
Net exchange gains	1,904	2,831	5,986	5,687	6,369
Operating expenses	24,208	37,456	55,328	61,096	70,527
Employee expenses	7,769	13,014	22,382	23,447	27,320
Depreciation on investments	2,411	2,884	-	-	-
Other Provisions	636	2,683	1,528	800	300
Pretax income	16,393	22,811	32,999	42,085	54,919
Tax provisions	4,977	6,909	10,549	12,625	16,476
<b>Net Profit</b>	<b>11,416</b>	<b>15,902</b>	<b>22,449</b>	<b>29,459</b>	<b>38,443</b>
% growth	31.1	39.3	41.2	31.2	30.5
<b>PBT+provision-treasury gains</b>	<b>26,334</b>	<b>35,229</b>	<b>47,964</b>	<b>59,569</b>	<b>74,124</b>
% growth	47.5	33.8	36.1	24.2	24.4
<b>Balance sheet (Rs mn)</b>					
Cash and bank balance	91,539	147,783	175,066	146,806	164,986
Cash	7,465	9,401	15,862	18,241	20,065
Balance with RBI	44,360	116,131	119,410	88,771	105,126
Balance with banks	16,533	9,949	9,051	9,051	9,051
Net value of investments	305,648	493,933	588,252	676,732	723,964
Govt. and other securities	225,442	316,656	521,566	610,046	657,278
Shares	583	345	397	397	397
Debentures and bonds	73,899	62,517	19,428	19,428	19,428
Net loans and advances	469,448	634,269	988,830	1,230,492	1,507,642
<b>Fixed assets</b>	<b>9,667</b>	<b>11,751</b>	<b>16,989</b>	<b>11,253</b>	<b>12,171</b>
Net Owned assets	9,667	11,751	16,989	11,253	12,171
Other assets	36,055	44,027	63,568	64,987	66,547
<b>Total assets</b>	<b>912,356</b>	<b>1,331,764</b>	<b>1,832,706</b>	<b>2,130,269</b>	<b>2,475,310</b>
Deposits	682,979	1,007,686	1,428,116	1,679,310	1,982,045
Borrowings and bills payable	97,761	108,852	120,860	117,582	141,957
Other liabilities	67,284	100,256	133,204	119,884	107,895
<b>Total liabilities</b>	<b>848,025</b>	<b>1,216,794</b>	<b>1,682,180</b>	<b>1,916,777</b>	<b>2,231,897</b>
Paid-up capital	3,194	3,544	4,254	4,521	4,521
Reserves & surplus	61,139	111,428	146,219	208,972	238,893
<b>Total shareholders' equity</b>	<b>64,333</b>	<b>114,972</b>	<b>150,473</b>	<b>213,492</b>	<b>243,413</b>

Source: Company, Kotak Institutional Equities estimates

**OCTOBER 15, 2009**
**RESULT**

Coverage view: **Cautious**

Price (Rs): **1,160**

Target price (Rs): **1,125**

BSE-30: **17,231**

**Weak results possibly based on lower-than-expected volume recovery.** Concor reported weaker-than-expected results with revenues of Rs9.6 bn (up 6% yoy) and margins of 26.4% (27.3% in 1QFY10) versus our expectation of revenues of Rs10.5 bn and margins of 28.5%. We believe the results have been affected by lower-than-expected pick up in exim volumes (our expectation was 5% growth versus 5% decline in 1QFY10) and persistence of imbalanced flows leading to empties being carried.

### Company data and valuation summary

Container Corporation

#### Stock data

52-week range (Rs) (high,low)	1,279-540
Market Cap. (Rs bn)	150.8

#### Shareholding pattern (%)

Promoters	63.1
FIs	25.7
MFs	3.5

#### Price performance (%)

	1M	3M	12M
Absolute	4.3	25.2	59.5
Rel. to BSE-30	(1.9)	0.6	6.3

#### Forecasts/Valuations

	2009	2010E	2011E
EPS (Rs)	64.4	67.8	80.3
EPS growth (%)	11.6	5.3	18.5
P/E (X)	18.0	17.1	14.4
Sales (Rs bn)	34.1	37.2	43.0
Net profits (Rs bn)	8.4	8.8	10.4
EBITDA (Rs bn)	10.2	11.1	12.9
EV/EBITDA (X)	13.2	11.9	9.9
ROE (%)	24.0	21.4	21.7
Div. Yield (%)	1.2	1.3	1.6

### Revenue miss likely led by lower-than-expected pick up in exim volumes

Concor reported 2QFY10E revenues of Rs9.6 bn (up 6.3% yoy), about 9% below our estimate of Rs10.5 bn (see Exhibit 1). The disappointment in revenues versus estimates is likely to be led by lower-than-expected recovery in exim volumes. Concor has reported exim sales of Rs7.7 bn versus our estimates of Rs8.7 bn while the domestic sales were broadly in line with our estimates (see Exhibit 2). Lower-than-expected exim sales were probably led by lower volumes. We had built in volume growth of 5% in the exim segment for 2QFY10E which does not appear to have panned out. The volume recovery led by pick up in trade volumes is likely to kick in from 2HFY10E.

### Uneven-flow-led empties seem to persist as margins

We believe that uneven traffic flows, (particularly in the exim segment) resulting in higher proportion of empties seem to persist as Concor has disappointed on margins led by higher-than-expected rail freight and other expenses. Concor reported disappointing margins of 26.4% in 2QFY10, down 340 bps yoy and about 210 bps below our estimates of 28.5%, led by higher-than-expected rail freight and other expenses as a percentage of sales. Margins at 26.4% are lower than 27.3% margins reported in 1QFY10. On a qoq basis, margins have been affected by higher other expenses.

### Maintain earnings estimates and target price of Rs1,125/share; reiterate ADD

We maintain our earnings estimates of Rs68 and Rs80.3 for FY2010E and FY2011E, respectively. We have currently built in a 5% growth in exim volumes and 10% growth in domestic volumes for FY2010E (see Exhibit 3). We have maintained our SOTP-based target price of Rs1,125/share. We retain our ADD rating on the stock based on (1) presence in sector having underlying real growth potential of about 12-15%, (2) trends of volume recovery seen in the past few months in domestic as well as exim business, (3) 15% of market capitalization is cash in the balance sheet and (4) strong RoE of about 22% and P/B valuation of 2.3X on FY2011E book basis.

Key risks arise from (1) increasing competition from private players, (2) slower-than-expected growth in Indian containerized trade, (3) continued sluggishness in the domestic segment and (4) further haulage rate hikes by Indian Railways.

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Exhibit 1: Concor - 2QFY10 - key numbers (Rs mn)

	2QFY10	2QFY10E	2QFY09	1QFY10	% change			yoy		
					2QFY10E	2QFY09	1QFY10	1HFY10	1HFY09	%change
<b>Net Sales</b>	<b>9,599</b>	<b>10,537</b>	<b>9,034</b>	<b>9,074</b>	<b>(8.9)</b>	<b>6.3</b>	<b>5.8</b>	<b>18,673</b>	<b>17,262</b>	<b>8.2</b>
Staff cost	(209)	(209)	(156)	(198)	0.3	34.5	6.0	(407)	(307)	32.6
Rail freight exp	(5,588)	(6,006)	(4,983)	(5,269)	(7.0)	12.1	6.1	(10,857)	(9,468)	14.7
Others	(1,267)	(1,324)	(1,207)	(1,129)	(4.3)	5.0	12.2	(2,397)	(2,410)	12.1
<b>Total exp</b>	<b>(7,065)</b>	<b>(7,539)</b>	<b>(6,346)</b>	<b>(6,595)</b>	<b>(6.3)</b>	<b>11.3</b>	<b>7.1</b>	<b>(13,661)</b>	<b>(12,185)</b>	<b>13.3</b>
<b>EBITDA margin</b>	<b>2,534</b>	<b>2,998</b>	<b>2,688</b>	<b>2,478</b>	<b>(15.5)</b>	<b>(5.7)</b>	<b>2.2</b>	<b>5,012</b>	<b>5,077</b>	<b>(1.3)</b>
Other Income	439	541	480	413	(18.7)	(8.5)	6.5	852	933	(8.7)
<b>PBDIT</b>	<b>2,973</b>	<b>3,539</b>	<b>3,168</b>	<b>2,891</b>	<b>(16.0)</b>	<b>(6.1)</b>	<b>2.9</b>	<b>5,864</b>	<b>6,010</b>	<b>(2.4)</b>
Depreciation	(328)	(363)	(275)	(316)	(9.9)	19.1	3.7	(643)	(550)	17.1
<b>PBT</b>	<b>2,646</b>	<b>3,175</b>	<b>2,893</b>	<b>2,575</b>	<b>(16.7)</b>	<b>(8.5)</b>	<b>2.7</b>	<b>5,221</b>	<b>5,461</b>	<b>(4.4)</b>
Tax	(602)	(699)	(654)	(566)	(13.8)	(8.0)	6.4	(1,168)	(1,204)	(2.9)
<b>PAT</b>	<b>2,043</b>	<b>2,477</b>	<b>2,237</b>	<b>2,009</b>	<b>(17.5)</b>	<b>(8.6)</b>	<b>1.7</b>	<b>4,052</b>	<b>4,255</b>	<b>(4.8)</b>
<b>Key ratios (%)</b>										
Rail freight exps/Sales	58.2	57.0	55.2	58.1				58.1	54.8	
Other exp/Sales	13.2	12.6	13.4	12.4				12.8	14.0	
Employee exp/Sales	2.2	2.0	1.7	2.2				2.2	1.8	
<b>EBITDA margin</b>	<b>26.4</b>	<b>28.5</b>	<b>29.8</b>	<b>27.3</b>				<b>26.8</b>	<b>29.4</b>	
PBT margin	27.6	30.1	32.0	28.4				28.0	31.6	
Effective tax rate	22.8	22.0	22.6	22.0				22.4	22.0	
PAT margin	21.3	23.5	24.8	22.1				21.7	24.7	

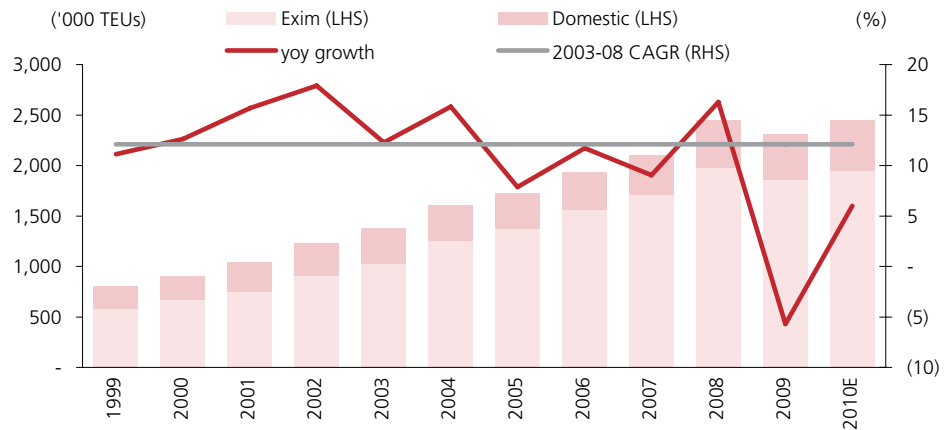
Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Concor - 2QFY10 - segmental key numbers (Rs mn)

	2QFY10	2QFY10E	2QFY09	1QFY10	% change			yoy		
					2QFY10E	2QFY09	1QFY10	1HFY10	1HFY09	%change
<b>Segmental</b>										
<b>Sales (Rs mn)</b>										
Exim	7,735	8,715	7,427	7,243	(11.2)	4.2	6.8	14,979	14,071	6.5
%	80.6	82.7	82.2	79.8				80.2	81.5	
Domestic	1,864	1,822	1,607	1,831	2.3	16.0	1.8	3,694	3,191	15.8
%	19.4	17.3	17.8	20.2				19.8	18.5	
<b>EBIT (Rs mn)</b>										
Exim	2,086		2,324	1,961		(10.3)	6.4	4,046	4,300	(5.9)
margin (%)	27.0		31.3	27.1				27.0	30.6	
Domestic	239		226	307		6.0	(22.0)	546	468	16.8
margin (%)	12.8		14.1	16.8				14.8	14.7	

Source: Company, Kotak Institutional Equities estimates

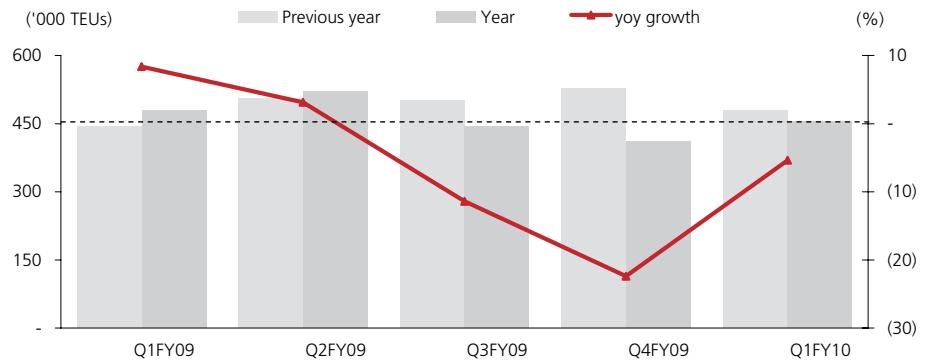
**Exhibit 3: Historical volume handled by Concor, March fiscal year-ends, 1999-10E (TEUs)**



Source: Company, Kotak Institutional Equities estimates

**Exim volumes decline seems to have been arrested in 1QFY10**

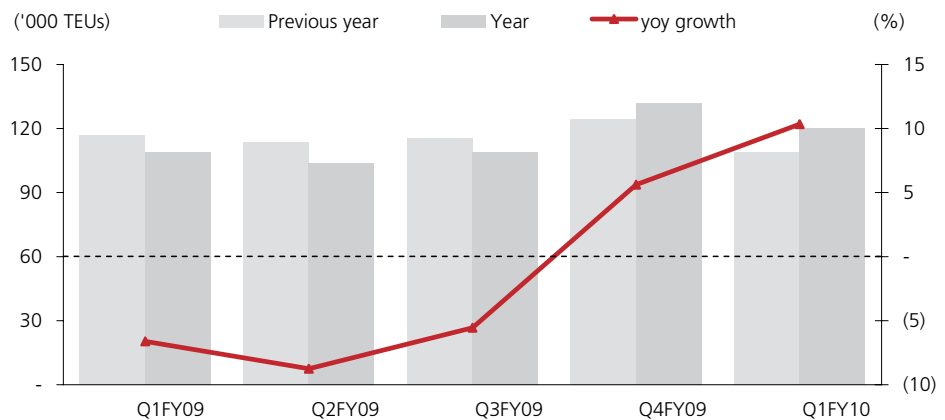
Quarterly volume numbers handled by Concor, March fiscal year-ends, 2008-10 ('000 TEUs)



Source: Company, Kotak Institutional Equities

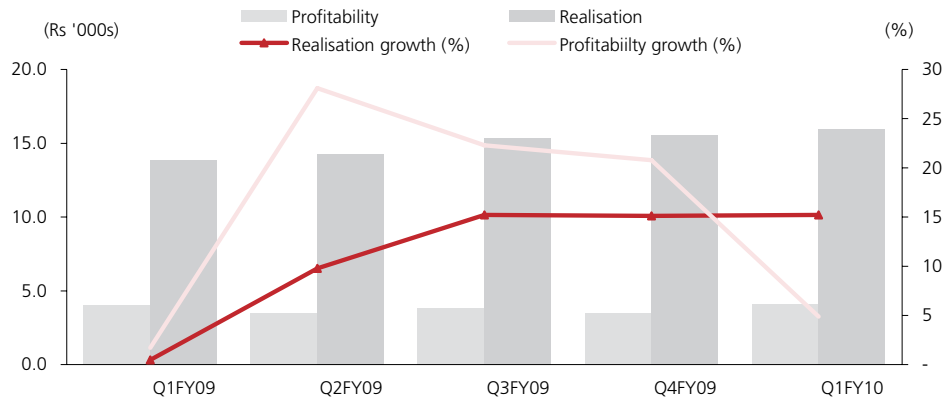
**Domestic volumes have maintained the growth trajectory**

Quarterly volume numbers handled by Concor, March fiscal year-ends, 2008-10 ('000 TEUs)



Source: Company, Kotak Institutional Equities estimates

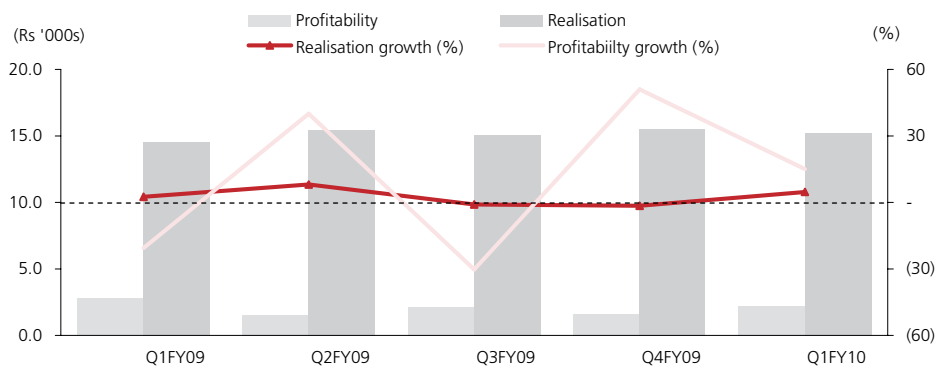
**Exim realizations has reflected growth since Q2FY09 on back of tariff increase in August, 2008**  
 Quarterly realization and profitability of exim segment of Concor, March fiscal year-ends, 2008-10 (Rs '000s)



Source: Company, Kotak Institutional Equities estimates

**Domestic realizations have been stable versus exim realization**

Quarterly realization and profitability of domestic segment of Concor, March fiscal year-ends, 2008-10 (Rs '000s)



Source: Company, Kotak Institutional Equities

OCTOBER 15, 2009

UPDATE

Coverage view: **Neutral**

Price (Rs): **46**

Target price (Rs): **48**

BSE-30: **17,231**

**ZEEN versus peers: We see margin and valuation gap closing.** Our analysis of broadcasting sector valuations reveals a large gap between ZEEN and its peers (ZEEL, SUNTV) despite its better growth (revenue) and expansion (margin) profile. We expect ZEEN to renew focus on its core businesses in the near term while going slow on new channel launches and Zee Tamil. We also expect competition to stay on an even keel in the Bengali market as key competitor Star turns 'pay' from Nov '09.

#### Company data and valuation summary

Zee News

##### Stock data

52-week range (Rs) (high,low)	52-24
Market Cap. (Rs bn)	11.0

##### Shareholding pattern (%)

Promoters	54.1
FIs	3.4
MFs	21.8

##### Price performance (%)

	1M	3M	12M
Absolute	0.8	20.1	37.9
Rel. to BSE-30	(5.2)	(3.5)	(8.1)

##### Forecasts/Valuations

	2009	2010E	2011E
EPS (Rs)	1.9	2.1	2.7
EPS growth (%)	20.4	11.7	29.6
P/E (X)	24.7	22.1	17.1
Sales (Rs bn)	5.2	6.1	7.3
Net profits (Rs bn)	0.4	0.5	0.6
EBITDA (Rs bn)	1.0	1.2	1.5
EV/EBITDA (X)	12.4	10.5	8.7
ROE (%)	20.1	19.2	21.4
Div. Yield (%)	0.9	0.9	1.5

#### Large margin and valuation gap between ZEEN and peers likely to close

- ▶ Exhibit 1 compares the financials of broadcasting sector stocks, notably SUNTV, ZEEL and ZEEN. We expect ZEEN to reduce its investments in the underperforming Zee Tamil channel (see our note "BUY for 21-30% return in likely scenarios for Zee Tamil" dated September 30, 2009) and also present ZEEN's financial performance under the likely scenario.
- ▶ We model robust 19% CAGR in SUNTV's revenues during FY2010E-11E, led by strong growth in DTH revenues, robust growth in advertising revenues (fast growing regional markets) and incremental contribution from Sun Pictures, the movie production division. However, operating (EBIT) margins are likely to remain stable at about 50%.
- ▶ We model modest growth in ZEEL's FY2010E revenue, led by domestic subscription revenues. We model revenue growth to recover in FY2011E led by continued robust ratings performance of ZTV and strong advertising revenues. We model margin expansion of about 200-250 bps, each led by lower competitive intensity and cost rationalization.
- ▶ We highlight the large gap between operating margins of ZEEN (16-18%) versus SUNTV (50%) and ZEEL (25-30%) despite the strong ratings performance of ZEEN across its core markets (Marathi, Bengali, Telugu, Kannada, Hindi and Business News). We model robust 18% CAGR in ZEEN's revenues during FY2010E-11E, led by both advertising and subscription revenues in our base case. We model margin expansion of 150-200 bps led by cost rationalization.
- ▶ We highlight that the depressed operating margins of ZEEN are largely on account of the large number of new channel launches over FY2008-09, particularly the large investment in Zee Tamil. However, ZEEN has now decided to reduce its investments in Zee Tamil (though it will not completely exit given the potential of the Tamil market) on account of continued distribution pressures and weak ratings. We model 17% CAGR in ZEEN's revenues during FY2010E-11E and a likely strong 300-400 bps margin expansion due to reduced losses in Zee Tamil in this scenario. More important, we highlight that valuations of ZEEN (see Exhibit 2) are at a significant discount to peers (SUNTV, ZEEL) despite its better growth (revenue) and expansion (margin) profile.

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## Financial summary of ZEEN and peers (ZEEL, SUNTV), March fiscal year-ends, 2007-2011E (Rs mn)

	Consolidated					Change (%)			
	2007	2008	2009	2010E	2011E	2008	2009	2010E	2011E
<b>Total revenues (Rs mn)</b>									
Sun TV	6,780	8,699	10,394	12,496	14,729	28.3	19.5	20.2	17.9
ZEEL	15,159	18,354	21,773	22,465	25,183	21.1	18.6	3.2	12.1
ZEEN	2,405	3,675	5,221	6,123	7,299	52.8	42.1	17.3	19.2
<b>ZEEN (b)</b>	<b>2,405</b>	<b>3,675</b>	<b>5,221</b>	<b>6,096</b>	<b>7,194</b>	<b>52.8</b>	<b>42.1</b>	<b>16.8</b>	<b>18.0</b>
<b>Operating income (Rs mn)</b>									
Sun TV (a)	3,524	4,736	5,166	6,173	7,390	34.4	9.1	19.5	19.7
ZEEL	3,204	5,423	5,480	6,194	7,494	69.3	1.1	13.0	21.0
ZEEN	77	678	836	1,101	1,422	778.7	23.4	31.7	29.1
<b>ZEEN (b)</b>	<b>77</b>	<b>678</b>	<b>836</b>	<b>1,225</b>	<b>1,661</b>	<b>778.7</b>	<b>23.4</b>	<b>46.5</b>	<b>35.6</b>
<b>Operating margin (%)</b>									
Sun TV (a)	52	54	50	49	50	2.5	(4.7)	(0.3)	0.8
ZEEL	21	30	25	28	30	8.4	(4.4)	2.4	2.2
ZEEN	3	18	16	18	19	15.2	(2.4)	2.0	1.5
<b>ZEEN (b)</b>	<b>3</b>	<b>18</b>	<b>16</b>	<b>20</b>	<b>23</b>	<b>15.2</b>	<b>(2.4)</b>	<b>4.1</b>	<b>3.0</b>

Notes:

(a) Assuming EBIT as the measure of operating income for Sun TV since it books content cost as amortization.

(b) Assuming the likely scenario that ZEEN significantly reduces its investment in Zee Tamizh, its Tamil channel.

Source: Companies data, Kotak Institutional Equities estimates

## Valuation summary of ZEEN and peers, 2007-2011E (Rs mn)

	2007	2008	2009	2010E	2011E
<b>P/E (X)</b>					
Sun TV	50.8	38.8	35.4	28.3	24.2
ZEEL	46.0	28.3	29.8	24.9	20.4
ZEEN	146.6	29.6	24.6	22.0	17.0
<b>ZEEN (b)</b>	<b>146.6</b>	<b>29.6</b>	<b>24.6</b>	<b>18.9</b>	<b>13.5</b>
<b>EV/EBITDA (X)</b>					
Sun TV (a)	34.4	26.0	24.0	19.7	16.5
ZEEL	35.2	20.6	20.3	18.3	14.6
ZEEN	143.1	18.4	15.3	12.0	9.4
<b>ZEEN (b)</b>	<b>143.1</b>	<b>18.4</b>	<b>15.3</b>	<b>10.8</b>	<b>8.0</b>

Notes:

(a) Assuming EBIT as the measure of operating income for Sun TV since it books content cost as amortization.

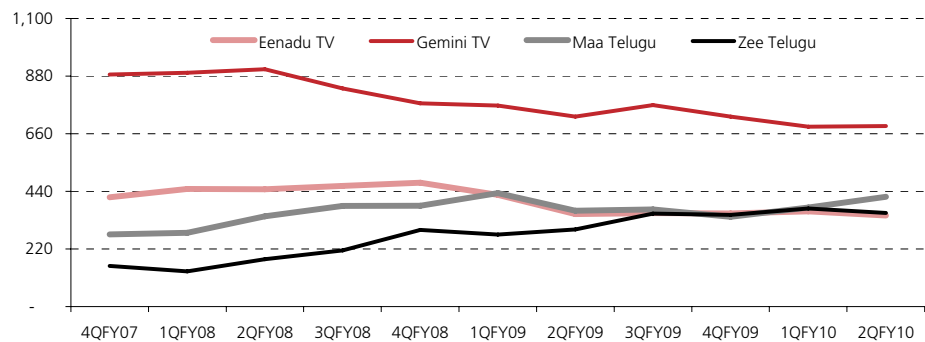
(b) Assuming the likely scenario that ZEEN significantly reduces its investment in Zee Tamizh, its Tamil channel.

Source: Companies data, Kotak Institutional Equities estimates

**New channel launches unlikely in the near term.** We believe the concerns of the street regarding continued new channel launches by ZEEN and continued depressed margins (and earnings) may be unfounded. Given the relative weakness in advertising revenue market in India (expected growth of 7-9% in FY2010E versus 16-18% CAGR during FY2007-09) and competition, the management is likely to refocus its attention on the driver channels; ZEEN is unlikely to launch any new channels in FY2010E based on our recent discussions with the company management.

**Focus on vertical integration/expansion.** More important, ZEEN's focus will be on strengthening its position in existing markets (regional, news) rather than geographic expansion when it resumes its expansion strategy. ZEEN management reiterated its plans to launch a Telugu movie channel likely in FY2011E. We highlight (1) strong presence of ZEEN in the Telugu market with its GE (see Exhibit 3) and news channels and the movie channel will complete its bouquet (at a low incremental cost since ZEEN has built a library of movie rights over time) and (2) strong position of ZEEN in Marathi and Bengali market with the complete bouquet of GE, movie and news channels.

## Trends in GRPs for key Telugu language channels (%)

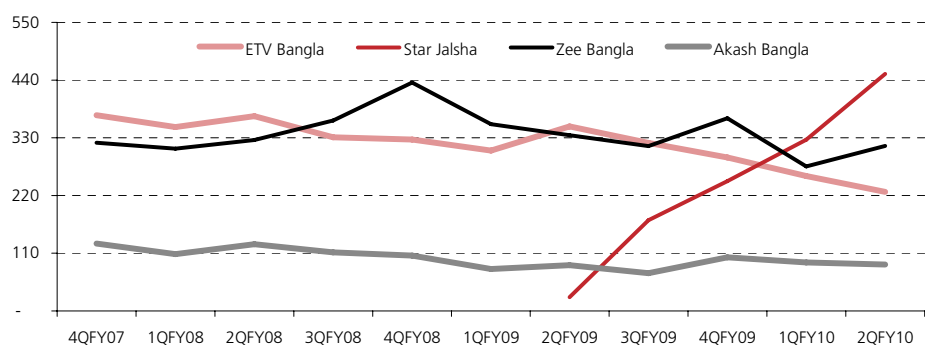


Source: TAM Media Research, compiled by Kotak Institutional Equities

**Competitive intensity likely to stabilize in core markets.** Star-DEN, the distribution partner for the Star bouquet of channels, has announced that Star Jalsha, the flagship Bengali general entertainment channel, is likely to turn pay channel in November 2009. We believe this signals some stabilization in competitive intensity in the Bengali market where Star has invested significantly in programming (notably movie content), marketing and distribution of its channel. Star will likely focus its attention of monetizing the channel (advertising as well as pay-TV revenues) reducing the pressure on revenues and cost structure (notably carriage fees) of existing players.

Zee has done well to maintain its ratings given the onslaught from Star (see Exhibit 4) and Star's growth has come largely through (1) market expansion (likely to result in advertising revenue market expansion) and (2) at the expense of weaker players likely ETV. Nonetheless, we model Zee Bengali's FY2010E and FY2011E advertising revenues to decline 5% in FY2010E and modest 10% growth in FY2011E despite likely 10% and 15% growth in the advertising revenue market in the same period; we believe this takes into account the market share losses in Zee Bengali even as expansion in the advertising market expansion will take place over a period of time.

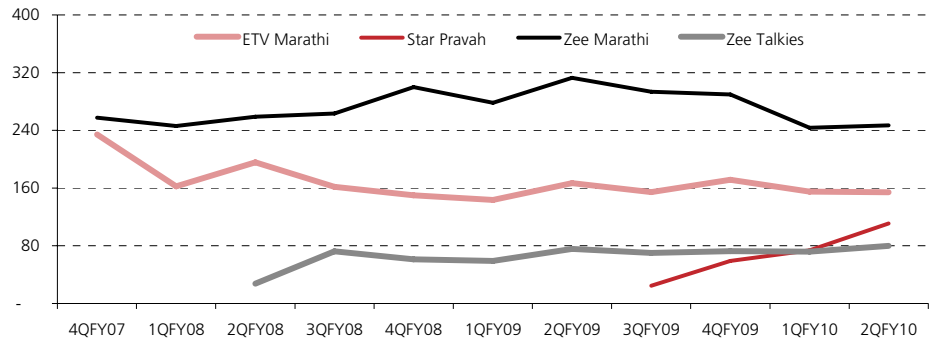
## Trends in GRPs for key Bengali language channels (%)



Source: TAM Media Research, compiled by Kotak Institutional Equities

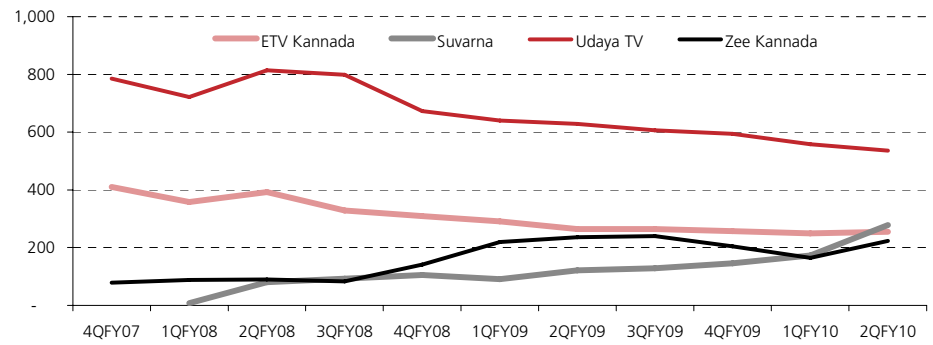


Trends in GRPs for key Marathi language channels (%)



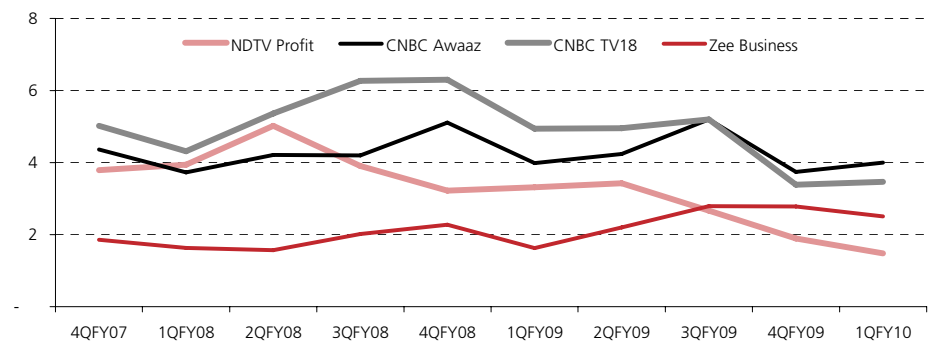
Source: TAM Media Research, compiled by Kotak Institutional Equities

Trends in GRPs for key Kannada language channels (%)



Source: TAM Media Research, compiled by Kotak Institutional Equities

Trends in GRPs for key Business News channels (%)



Source: TAM Media Research, compiled by Kotak Institutional Equities

## Consolidated financial summary of Zee News, March fiscal year-ends, 2007-2013E (Rs mn)

	2007	2008	2009	2010E	2011E	2012E	2013E
<b>Profit model (Rs mn)</b>							
Net sales	2,405	3,675	5,221	6,123	7,299	8,686	9,971
<b>EBITDA</b>	<b>77</b>	<b>678</b>	<b>836</b>	<b>1,101</b>	<b>1,422</b>	<b>1,844</b>	<b>2,216</b>
Interest income	131	14	176	122	113	116	121
Interest expense	(51)	(5)	(211)	(306)	(339)	(372)	(389)
Depreciation	(52)	(85)	(95)	(115)	(140)	(157)	(175)
<b>Pretax profits</b>	<b>104</b>	<b>601</b>	<b>706</b>	<b>801</b>	<b>1,056</b>	<b>1,431</b>	<b>1,773</b>
Tax-cash	(53)	(247)	(260)	(271)	(383)	(515)	(649)
Tax-deferred	7	15	1	(22)	(11)	(7)	(3)
Minority interest	16	2	(1)	(10)	(16)	(22)	(28)
<b>Net profits after minority interests</b>	<b>75</b>	<b>371</b>	<b>446</b>	<b>499</b>	<b>646</b>	<b>887</b>	<b>1,093</b>
<b>Earnings per share (Rs)</b>	<b>0.3</b>	<b>1.5</b>	<b>1.9</b>	<b>2.1</b>	<b>2.7</b>	<b>3.7</b>	<b>4.6</b>
<b>Balance sheet (Rs mn)</b>							
Total equity	1,813	2,071	2,406	2,792	3,242	3,848	4,520
Deferred Tax	1	(18)	(19)	2	13	20	23
Minority interest	36	51	54	64	80	102	130
Total borrowings	13	117	2,017	2,317	2,617	2,917	2,917
Current liabilities	973	1,407	1,624	1,589	1,663	1,904	2,133
<b>Total capital</b>	<b>2,835</b>	<b>3,628</b>	<b>6,081</b>	<b>6,764</b>	<b>7,616</b>	<b>8,792</b>	<b>9,724</b>
Cash	41	39	508	489	321	541	554
Current assets	1,501	2,013	2,883	3,080	3,639	4,282	4,883
Total fixed assets	808	812	1,047	1,132	1,192	1,236	1,286
Investments	484	764	1,644	2,063	2,463	2,734	3,000
<b>Total assets</b>	<b>2,835</b>	<b>3,628</b>	<b>6,081</b>	<b>6,764</b>	<b>7,616</b>	<b>8,792</b>	<b>9,724</b>
<b>Free cash flow (Rs mn)</b>							
Operating cash flow, excl. working capital	7	555	410	524	700	957	1,178
Working capital	(273)	(306)	(582)	(233)	(485)	(401)	(373)
Capital expenditure	(300)	(96)	(342)	(200)	(200)	(200)	(225)
Investments	964	(279)	(883)	(419)	(400)	(271)	(266)
Other income	122	—	64	122	113	116	121
<b>Free cash flow</b>	<b>(566)</b>	<b>154</b>	<b>(514)</b>	<b>91</b>	<b>15</b>	<b>355</b>	<b>580</b>
<b>Ratios (%)</b>							
Debt/equity	0.7	5.6	83.8	83.0	80.7	75.8	64.5
Net debt/equity	(1.5)	3.7	62.7	65.5	70.8	61.7	52.3
RoAE	8.2	19.2	20.1	19.2	21.4	24.9	26.0
<b>RoACE</b>	<b>1.5</b>	<b>18.2</b>	<b>14.3</b>	<b>13.2</b>	<b>14.6</b>	<b>16.9</b>	<b>18.1</b>

Source: Company data, Kotak Institutional Equities estimates

OCTOBER 15, 2009

UPDATE

BSE-30: 17,231

### Results preview: Looking forward to a strong quarter and stronger outlook.

We expect strong results from the industrial segment driven by (1) strong projects business led by backlog and (2) revival in products segment versus declines till 1QFY10. We highlight the potential for L&T, ABB, BGR Energy and BEL to underperform estimates on account of execution shortfall; conversely, we expect BHEL and Crompton to surpass estimates. Our picks include Crompton, L&T and Nagarjuna.

### Robust project business and revival in product segments would drive growth

In the industrial segment, we expect companies to report strong results on the back of (1) strong projects business led by accumulated order backlog and (2) revival in demand environment in the products segment versus steep yoy declines in Jun'09-end quarter. We expect strong revenue growth of 28% for BHEL and 20% for L&T in line with our full-year expectations for these companies. We believe low execution of about 450 MW would lead to wind business losses for Suzlon. We expect wind business to report a loss for full year also with execution of 2,050 MW.

We highlight that there is a potential for negative surprises in the results versus our estimates of L&T, ABB, BGR Energy and BEL led by lower-than-expected execution. Potential for positive surprises exist for BHEL and Crompton. We believe that order inflow momentum that reflected pick up in 1QFY10 would strengthen further in 2QFY10E and would watch this closely.

### Expect strong results from construction; positive on potential earnings surprise and valuations

We believe construction companies would report strong results in 2QFY10E versus weak 1Q. 1QFY10 results were affected by election during May 2009. We are positive on the construction sector based on potential earnings upgrades with new order inflows, margin uptick and decline in borrowing cost and upside potential in valuation of infrastructure and real estate assets in the portfolio. Our preference order would be Nagarjuna, Punj and IVRCL among construction stocks.

### Top picks include Crompton, L&T and Nagarjuna

In the industrials segment, we prefer Crompton and L&T. We prefer Crompton over other T&D players led by resilient business positioning, strong cash flows and relatively lower valuation. We believe L&T is a better play on likely revival of capex activity as well as long-term growth based on capacity and capability expansion in related segments. We believe BHEL may surpass expectations fogged by skepticism on its near-term earnings performance along with some sectoral positives such as private sector ordering and government preference. We remain cautious on ABB and Siemens led by relatively high valuations, higher exposure to industrial segment and potential for negative surprise in earnings despite recent ordering activity by PGCIL as it is only one component of total demand and that too has been dominated by new competition. In the construction sector. Our preference order is Nagarjuna, Punj Lloyd and IVRCL. We are positive on Nagarjuna based on likely strong earnings growth with potential positive surprise and long-term outlook for infrastructural investments.

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## INDUSTRIALS

**Industrials – expect results to be boosted by strong backlog in projects segment and revival in product segment**

We expect industrial company results to be driven by strong order backlog in the projects segment and demand revival in the products segment. We highlight that the products segment had seen steep yoy declines in the past few quarters. We expect strong revenue growth of 28% for BHEL and 20% for L&T in line with our full-year estimates. We believe low execution of about 325 MW would lead to wind business losses for Suzlon. We highlight the potential for negative surprises in results versus estimates of L&T, ABB, BGR Energy and BEL led by lower-than-expected execution and potential for positive surprises for BHEL and Crompton. We believe that order inflow momentum which had picked up in 1QFY10 would strengthen further in 2Q and we would watch this closely.

## Company wise 2QFY10E results expectations – key numbers (Rs mn)

	Sep-09E	Sep-08	Jun-09	Change (%)		Comments
				yoy	qoq	
<b>Bharat Heavy Electricals</b>						
Net sales	68,392	53,426	55,957	28.0	22.2	Strong revenue growth led by order backlog; margins likely to expand led by lower employee-wage-provision-related expenses and benefit of lower commodity prices
EBITDA	9,404	7,107	5,162	32.3	82.2	
PBT	11,553	9,414	7,187	22.7	60.8	
PAT-reported	7,510	6,158	4,706	22.0	59.6	
<b>Larsen &amp; Toubro</b>						
Net sales	92,210	76,864	74,083	20.0	24.5	Expect yoy revenue growth of 20% led by strong order backlog; Likely to achieve full-year inflow guidance led by large orders from power equipment and platform segments
EBITDA	9,221	7,368	8,319	25.1	10.8	
PBT	8,893	6,907	8,514	28.8	4.5	
PAT	6,047	4,603	5,783	31.4	4.6	
<b>Siemens</b>						
Net sales	27,631	24,636	19,177	12.2	44.1	Moderate revenue growth of about 12% yoy; highlight increased traction in order wins from PGCIL since March 2009 to help boost power sector revenues
EBITDA	3,623	3,437	2,571	5.4	40.9	
PBT	3,593	3,438	2,568	4.5	39.9	
PAT	2,336	2,252	1,944	3.7	20.2	
<b>ABB</b>						
Net sales	16,308	15,191	15,148	7.4	7.7	Moderate growth of 7% with 100 bps margin expansion; sequential improvement in execution across segments likely to continue
EBITDA	1,700	1,348	1,379	26.1	23.3	
PBT	1,803	1,588	1,284	13.5	40.4	
PAT-reported	1,172	1,048	836	11.8	40.2	
<b>Suzlon Energy</b>						
Net sales	24,750	41,818	11,650	(40.8)	112.4	Expect low execution of about 325 MW leading to low operating margin of 5.6%; estimate net loss of Rs2.1 bn for the quarter led by low volumes and high interest costs
EBITDA	2,235	4,126	(1,730)	(45.8)	NA	
PBT	(892)	1,775	(4,550)	(150.2)	NA	
PAT	(892)	1,473	(4,440)	(160.5)	NA	
<b>Bharat Electronics</b>						
Net sales	9,224	7,877	9,106	17.1	1.3	Strong revenue growth led by large order backlog of over Rs100 bn and company's efforts towards more even spread of revenues among the four quarters
EBITDA	1,772	1,696	916	4.5	93.4	
PBT	2,037	1,902	1,073	7.1	89.9	
PAT-reported	1,385	1,308	727	6.0	90.6	
<b>Crompton Greaves</b>						
Net sales	23,694	20,927	21,975	13.2	7.8	Expect 13% yoy revenue growth led by resilient demand in power sector; margins to remain relatively flat
EBITDA	2,666	2,318	2,476	15.0	7.6	
PBT	2,422	1,934	2,299	25.2	5.4	
PAT-reported	1,611	1,209	1,605	33.2	0.4	
<b>BGR Energy Systems</b>						
Net sales	5,052	4,246	3,111	19.0	62.4	Very strong revenue growth on the back of large order backlog and pick up in execution of large EPC contracts; margins likely to expand led by lower raw material expenses
EBITDA	606	438	422	38.5	43.6	
PBT	453	362	307	25.3	47.9	
PAT-reported	299	237	202	26.3	47.9	
<b>KIE industrials sector total</b>						
Net sales	267,261	244,985	210,206	9.1	27.1	
EBITDA	31,227	27,838	19,516	12.2	60.0	
PBT	29,864	27,319	18,681	9.3	59.9	
PAT-reported	19,469	15,509	22,818	25.5	(14.7)	

Source: Company, Kotak Institutional Equities estimates

BHEL

**BHEL – backlog to drive revenue growth for the quarter; highlight improved track record in private orders and visibility in XIIth plan orders**

We expect BHEL to report a strong revenue growth of 28% to Rs68.4 bn in 2QFY10E from Rs53.4 bn in 2QFY09. The revenue growth would be driven by the strong order backlog of Rs1,240 bn at the end of 1QFY10. We expect margins to expand to 13.8% in 2QFY10E led by lower raw material and employee costs. We expect BHEL to report net profit of Rs7.5 bn for the quarter, up 21% yoy, from Rs6.2 bn in 2QFY09.

**Strong backlog to drive revenue growth; margins likely to expand led by lower material and employee costs**  
 BHEL - 2QFY10E revenue model (Rs mn)

	2QFY10E	2QFY09	1QFY10	% change		FY2010E	FY2009	% change
				2QFY09	1QFY10			
<b>Net revenues</b>	<b>68,392</b>	<b>53,426</b>	<b>55,957</b>	<b>28.0</b>	<b>22.2</b>	<b>210,907</b>	<b>262,342</b>	<b>(19.6)</b>
(Inc)/Dec in WIP	-	4,400	301	(100.0)	(100.0)	(301)	11,515	(102.6)
Raw material consumption	(42,232)	(36,212)	(35,753)	16.6	18.1	(120,925)	(171,204)	(29.4)
Staff cost	(11,627)	(8,898)	(11,137)	30.7	4.4	(24,938)	(41,128)	(39.4)
Other items	(5,129)	(5,609)	(4,206)	(8.6)	22.0	(19,810)	(23,511)	(15.7)
Total Expenditure	(58,988)	(46,319)	(50,795)	27.4	16.1	(165,673)	(224,328)	(26.1)
<b>EBITDA</b>	<b>9,404</b>	<b>7,107</b>	<b>5,162</b>	<b>32.3</b>	<b>82.2</b>	<b>45,233</b>	<b>38,014</b>	<b>19.0</b>
Other income	3,148	3,072	3,029	2.5	3.9	9,128	14,124	(35.4)
PBDIT	12,551	10,179	8,190	23.3	53.2	54,361	52,138	4.3
Interest	(45)	(22)	(43)	106.7	6.3	(91)	(307)	(70.4)
Depreciation	(953)	(744)	(961)	28.1	(0.9)	(1,905)	(3,343)	(43.0)
<b>PBT</b>	<b>11,553</b>	<b>9,414</b>	<b>7,187</b>	<b>22.7</b>	<b>60.8</b>	<b>52,365</b>	<b>48,489</b>	<b>8.0</b>
Tax	(4,044)	(3,256)	(2,481)	24.2	63.0	(18,611)	(17,103)	8.8
<b>PAT</b>	<b>7,510</b>	<b>6,158</b>	<b>4,706</b>	<b>22.0</b>	<b>59.6</b>	<b>33,754</b>	<b>31,385</b>	
<b>Key ratios</b>								
<b>EBITDA margin</b>	<b>13.8</b>	<b>13.3</b>	<b>9.2</b>			<b>21.4</b>	<b>14.5</b>	
PBDIT margin	18.4	19.1	14.6			25.8	19.9	
Effective tax rate	35.0	34.6	34.5			35.5	35.3	
EPS	15.3	12.6	9.6			69.0	64.1	

Source: Company, Kotak Institutional Equities estimates

**Lower margins in 1QFY10 may have been affected by one-offs**

We highlight that the low operating margin of 9.2% in 1QFY10 was probably led by one-offs in raw material and employee expenses. Raw material costs as a percentage of sales increased by 490 bps yoy in 1QFY10 primarily led by a supply of three gas turbines which were supplied on a “purchase and sell” basis which suppressed the margins. BHEL also reported a Rs2.2 bn rise in employee costs in 1QFY10 led by (1) the absence of reversal of provision for PF leave encashment which was present last year to the tune of about Rs510 mn, (2) increase in wage provisions by about Rs300 mn and (3) Rs300 mn increase due to provisioning for its employee incentive scheme. Furthermore, BHEL’s management highlighted that the company typically works with an inventory of 8-9 months and hence the effect of lower commodity prices is likely to kick in from 2Q onwards.

**Highlight improved track record in private sector**

We highlight increased traction in order wins from the private sector for BHEL. The company has recently announced two large orders, cumulatively worth about Rs52 bn, from Monnet Power Company Ltd and Jindal India Thermal Power Ltd. This follows a large Rs20 bn order from Hindalco in June. The management had highlighted that 90% of the order inflows in 1QFY10 was from the private sector. We believe that BHEL’s growing footprint in the private space is a crucial positive considering the increasing role of private sector players in the XIIth plan onwards.

### Highlight sensitivity of earnings estimates to raw material cost assumptions

We have currently estimates earnings of Rs93.3 and Rs115.2 for FY2010E and FY2011E respectively for BHEL. Based on BHEL's 1Q performance and 2Q estimates, the company would have to report an EPS of Rs69 in 2HFY10E. We expect strong earnings in 2HFY10E led by typically stronger execution during the second half and margin benefit due to lower material and employee costs. We expect lower raw material costs as a percentage of sales in 2H led by the non-recurrence of one-offs seen in 1QFY10 and effect of decline in commodity prices starting to kick in. Employee expenses for 2HFY10E are expected to be lower based on completion of the wage provisioning program and improved operating leverage led by higher volumes.

We highlight that a 100 bps increase in raw material expenses as a percentage to sales versus estimates in 2HFY10E would lead to a 4% decline in EPS to Rs89.6 from Rs93.3.

#### Sensitivity of FY2010E earnings estimates to raw material expenses in 2HFY10E

	1QFY10A	2QFY10E	1HFY10E	2HFY10E	FY2010E
<b>Base case</b>					
RM expenses (Rs mn)	(35,753)	(42,232)	(77,985)	(120,925)	(198,910)
RM expenses/ sales (%)	63.9	61.8	62.7	57.3	59.3
EBITDA margin (%)	9.2	13.8	11.7	21.4	17.7
PAT (Rs mn)	4,706	7,510	12,216	33,754	45,669
<b>EPS (Rs)</b>	<b>9.6</b>	<b>15.3</b>	<b>25.0</b>	<b>69.0</b>	<b>93.3</b>
<b>100 bps above estimates</b>					
RM expenses (Rs mn)	(35,753)	(42,232)	(77,985)	(123,034)	(201,019)
RM expenses/ sales (%)	63.9	61.8	62.7	58.3	60.0
EBITDA margin (%)	9.2	13.8	11.7	20.4	17.1
PAT (Rs mn)	4,706	7,510	12,216	31,645	43,861
<b>EPS (Rs)</b>	<b>9.6</b>	<b>15.3</b>	<b>25.0</b>	<b>64.6</b>	<b>89.6</b>
<b>200 bps above estimates</b>					
RM expenses (Rs mn)	(35,753)	(42,232)	(77,985)	(125,143)	(203,128)
RM expenses/ sales (%)	63.9	61.8	62.7	59.3	60.6
EBITDA margin (%)	9.2	13.8	11.7	19.4	16.5
PAT (Rs mn)	4,706	7,510	12,216	29,536	41,751
<b>EPS (Rs)</b>	<b>9.6</b>	<b>15.3</b>	<b>25.0</b>	<b>60.3</b>	<b>85.3</b>

Source: Company, Kotak Institutional Equities estimates

### L&T

#### L&T – revenue growth driven by large order backlog; several large order wins during the quarter

Strong order backlog of Rs717 bn at the end of 1QFY10 is likely to drive revenue growth. We expect L&T to report a revenue growth of 20% in 2QFY10 to Rs92.2 bn from Rs76.8 bn in 2QFY09. We expect the company to report a net profit after tax (before extraordinary items) of about Rs6 bn, up 31.4%, led by margin expansion and higher other income. Margins are expected to expand slightly by about 40 bps yoy to 10% in 2QFY10E from 9.6% in 2QFY09 led by lower raw material expenses.

Strong revenue growth led by order backlog; several large order wins during the quarter provide visibility to order inflow guidance of Rs600-700 bn

L&T - 2QFY10E standalone revenue model (Rs mn)

	2QFY10E	2QFY09	1QFY10	% change		FY2010E	FY2009	% change
				2QFY09	1QFY10			
<b>Net sales</b>	<b>92,210</b>	<b>76,864</b>	<b>74,083</b>	<b>20.0</b>	<b>24.5</b>	<b>414,427</b>	<b>336,486</b>	<b>23.2</b>
Expenses	(82,989)	(69,495)	(65,764)	19.4	26.2	(366,818)	(300,695)	22.0
<b>EBITDA</b>	<b>9,221</b>	<b>7,368</b>	<b>8,319</b>	<b>25.1</b>	<b>10.8</b>	<b>47,609</b>	<b>35,790</b>	<b>33.0</b>
Other income	1,743	959	2,228	81.8	(21.7)	7,458	10,196	(26.9)
PBDIT	10,964	8,327	10,547	31.7	4.0	55,067	45,986	19.7
Interest	(1,101)	(690)	(1,096)	59.5	0.4	(4,398)	(3,502)	25.6
Depreciation	(971)	(731)	(937)	32.9	3.6	(3,850)	(3,060)	25.8
<b>PBT</b>	<b>8,893</b>	<b>6,907</b>	<b>8,514</b>	<b>28.8</b>	<b>4.5</b>	<b>46,819</b>	<b>39,424</b>	<b>18.8</b>
Tax	(2,846)	(2,304)	(2,730)	23.5	4.2	(14,514)	(12,312)	17.9
<b>Net profit</b>	<b>6,047</b>	<b>4,603</b>	<b>5,783</b>	<b>31.4</b>	<b>4.6</b>	<b>32,305</b>	<b>27,112</b>	<b>19.2</b>
Extraordinary items	-	-	10,199			-	7,725	(100.0)
<b>RPAT</b>	<b>6,047</b>	<b>4,603</b>	<b>15,982</b>	<b>31.4</b>	<b>(62.2)</b>	<b>32,305</b>	<b>34,837</b>	<b>(7.3)</b>
<b>Key ratios (%)</b>								
<b>EBITDA margin</b>	<b>10.0</b>	<b>9.6</b>	<b>11.2</b>			<b>11.5</b>	<b>10.6</b>	
PBDIT margin	11.9	10.8	14.2			13.3	13.7	
PBT margin	9.6	9.0	11.5			11.3	11.7	
Tax rate	32.0	33.4	32.1			31.0	31.2	
EPS (Rs)	23.3	17.7	22.3			124.3	104.4	

Source: Company, Kotak Institutional Equities estimates

### Highlight strong order inflows in 2Q led by large orders in the power equipment and O&G segments

We highlight very strong order inflows during 2QFY10E led by large orders from the power equipment and oil & gas segments. L&T management highlighted that L&T has been adjudged as L1 for Koradi power plant of MahaGenco for supercritical equipment of 3X 660 MW configuration worth about Rs70 bn. L&T has also been rated L1 for balance of plant (BoP) tender of Malwa power plant worth about Rs16 bn. L&T has recently won equipment tenders worth roughly Rs40 bn from JaiPrakash Associates for its Nigrie plant of 2X 660 MW configuration.

We highlight that another large set of opportunity is presented by ONGC orders for platforms this year. ONGC has already awarded MHN platform order worth Rs53 bn to L&T and is in the process of taking internal approvals for placement of final orders for other opportunities such as B-22 and B-193. We believe L&T has a strong chance of winning a major portion of these orders as well post its success in MHN.

L&T has announced orders in other sectors as well such as (1) road sector order in Tamil Nadu, (2) shipbuilding orders worth Rs20 bn and (3) Rs10.4 bn of orders in the power transmission segment order from the Middle East. These orders are in addition to the Rs53 bn MHN platform order from ONGC.

## Recent large orders received/ likely to be received from power and oil &amp; gas segments

Customer	Public/ Private	Size (Rs bn)	Nature of work
<b>Power</b>			
Maharashtra State Power Generation Co. Ltd	Public	70	3X 660 MW of supercritical equipment for Koradi power plant
Madhya Pradesh Power Generation Co. Ltd	Public	16	Balance of plant works for Malwa power plant
Andhra Pradesh Power Development Co. Ltd	Public	15	Turbine generator package for 2x 800 MW Krishnapatnam power project
Jaypee Group	Private	40	Supply of super critical equipment
<b>Oil &amp; Gas</b>			
Oil and Gas Natural Commission (ONGC)	Public	53	Process platform & living quarters and process gas compression modules

Source: Company, News reports

**Raised about US\$600 mn via QIP and FCCB placement**

On October 09, 2009, L&T raised about US\$ 600 mn via Foreign Currency Convertible Bonds (FCCBs – US\$200 mn) and Qualified Institutional Placement (QIP – US\$400 mn). Details of the issues are described in the exhibit below. The company's total equity capital base will get diluted by around 1.9% subsequent to the raising. The L&T management highlighted that the raised funds would be used towards upcoming projects in the ship building, nuclear forging, power plants and ports segments.

**Key terms of the recent FCCBs and QIP issued by L&T**

<b>FCCBs</b>	- Issue size: US\$200 mn
	- Face value: US\$100,000 per bond
	- YTM: 3.5%
	- Coupon: 3.5%
	- Tenor: 5 years & 1 day
<b>QIP</b>	- Initial conversion price: Rs1,908.2 per share
	- Total amount raised: Rs18.7 bn
	- No. of shares issued: 11.3 mn
	- Face value: Rs2 per share
	- Premium: Rs1,657.3 per share

Source: BSE, Company

## Siemens

**Siemens – moderate revenue growth primarily led by power segment**

We estimate a yoy revenue growth of 12.2% for Siemens for 4QFY09 (September fiscal year-ends, 2009) to Rs27.6 bn from Rs24.6 bn in 4QFY08. The operating margins are expected to decline to 13% versus 13.9% in 4QFY08 and 13.4% in the previous quarter.

For the full-year ending September 2009, we expect Siemens to report a revenue growth of 8.6% to Rs90.1 bn versus Rs83 bn in FY2008. Margins are expected to expand significantly to 13% in FY2009 from 8.6% in the previous year led by re-estimation of cost-to-completion for some projects leading to revenue and profit recognition. We estimate a profit after tax (before extraordinary items) of Rs7.6 bn, up 62.5%, from Rs4.7 bn.



Power segment to drive revenue growth; margins likely to remain relatively flat  
Siemens - 4QFY09E consolidated revenue model (Rs mn) for year ending Sept 2009

	4QFY09E	4QFY08	3QFY09	% chg.		FY2009E	FY2008	% chg.
				4QFY08	3QFY09			
<b>Sales</b>	<b>27,631</b>	<b>24,636</b>	<b>19,177</b>	<b>12.2</b>	<b>44.1</b>	<b>90,106</b>	<b>82,955</b>	<b>8.6</b>
Expenses	(24,008)	(21,199)	(16,606)	13.2	44.6	(78,351)	(75,787)	3.4
Stock	-	261	996	(100.0)	(100.0)	-	(11)	(100.0)
Raw material	(20,861)	(18,237)	(14,706)	14.4	41.9	(67,579)	(65,167)	3.7
Employee	(1,500)	(1,300)	(1,428)	15.4	5.1	(5,363)	(4,476)	19.8
Other Exp	(1,646)	(1,923)	(1,467)	(14.4)	12.2	(5,409)	(6,133)	(11.8)
<b>EBITDA</b>	<b>3,623</b>	<b>3,437</b>	<b>2,571</b>	<b>5.4</b>	<b>40.9</b>	<b>11,755</b>	<b>7,169</b>	<b>64.0</b>
Other income	40	21	78	93.4	(48.7)	67	689	(90.2)
PBDIT	3,663	3,457	2,649	6.0	38.3	11,822	7,858	50.4
Interest	118	157	118	(24.4)	-	676	451	49.8
Depreciation	(188)	(176)	(199)	6.6	(5.6)	(774)	(637)	21.4
<b>PBT</b>	<b>3,593</b>	<b>3,438</b>	<b>2,568</b>	<b>4.5</b>	<b>39.9</b>	<b>11,704</b>	<b>7,672</b>	<b>52.6</b>
Tax	(1,258)	(1,186)	(624)	6.1	101.4	(4,085)	(2,984)	36.9
<b>Net profit</b>	<b>2,336</b>	<b>2,252</b>	<b>1,944</b>	<b>3.7</b>	<b>20.2</b>	<b>7,619</b>	<b>4,687</b>	<b>62.5</b>
Extraordinary items	-	-	1,427	-	-	-	1,246	(100.0)
<b>RPAT</b>	<b>2,336</b>	<b>2,252</b>	<b>3,370</b>	<b>3.7</b>	<b>(30.7)</b>	<b>7,619</b>	<b>5,933</b>	<b>28.4</b>
<b>Key ratios (%)</b>								
<b>EBITDA margin</b>	<b>13.1</b>	<b>13.9</b>	<b>13.4</b>			<b>13.0</b>	<b>8.6</b>	
PBT margin	13.0	14.0	13.4			13.0	9.2	
Tax rate	35.0	34.5	24.3			34.9	38.9	
PAT margin	8.5	9.1	10.1			8.5	5.7	

Source: Company, Kotak Institutional Equities estimates

### First three quarter results likely to have been benefited by write-back of provisioning

For the nine months ending June 30, 2009, Siemens reported operating profit margin of 13.1% ahead of our estimates led by lower raw material expenses as a percentage of sales. We believe that the margins might have been higher due to one-off write backs of previous provisions. Growth and profitability for the previous quarters were led by the power T&D and transportation segments. Power segment (Fossil power, Oil & gas, Power T&D) has registered a strong growth of 16.6% in 3QFY09. Margins for the power T&D segment expanded to 17% in the quarter from 14.9% in 3QFY08. This is likely to be led by a write-back of provisions in this segment.

Siemens segmental revenue and margin assumptions, September fiscal year-ends, 2008-10E (Rs mn)

	1H08	3Q08	9M08	4Q08	2008	1H09	3Q09	9M09	4Q09E	2009E	2010E
<b>Industry</b>											
<b>Industry automation &amp; drives</b>	<b>9,583</b>	<b>4,514</b>	<b>14,097</b>	<b>6,951</b>	<b>21,048</b>	<b>9,763</b>	<b>4,503</b>	<b>14,266</b>	<b>7,624</b>	<b>21,890</b>	<b>25,174</b>
growth (%)					27.1	1.9	(0.2)	1.2	9.7	4.0	15.0
% of sales	23.6	24.9	24.0	28.2	25.2	24.3	23.5	24.0	26.5	24.3	24.3
EBIT	716	359	1,076	716	1,792	657	269	927	715	1,642	2,140
EBIT Margin (%)	7.5	8.0	7.6	10.3	8.5	6.7	6.0	6.5	9.4	7.5	8.5
<b>Industry soln &amp; Building tech.</b>	<b>5,431</b>	<b>3,076</b>	<b>8,507</b>	<b>3,523</b>	<b>12,029</b>	<b>5,099</b>	<b>2,535</b>	<b>7,634</b>	<b>3,794</b>	<b>11,428</b>	<b>13,142</b>
growth (%)					26.2	(6.1)	(17.6)	(10.3)	7.7	(5.0)	15.0
% of sales	13.4	17.0	14.5	14.3	14.4	12.7	13.2	12.9	13.2	12.7	12.7
EBIT	617	524	1,141	401	1,542	502	182	685	401	1,086	1,511
EBIT Margin (%)	11.4	17.0	13.4	11.4	12.8	9.9	7.2	9.0	10.6	9.5	11.5
<b>Mobility</b>	<b>3,212</b>	<b>1,582</b>	<b>4,794</b>	<b>1,914</b>	<b>6,709</b>	<b>4,583</b>	<b>2,742</b>	<b>7,325</b>	<b>2,906</b>	<b>10,231</b>	<b>11,766</b>
growth (%)					(1.5)	(1.9)	16.6	3.1	17.3	7.0	15.0
% of sales	7.9	8.7	8.2	7.8	8.0	11.4	14.3	12.3	10.1	11.4	11.4
EBIT	(224)	71	(153)	(51)	(205)	(141)	102	(39)	193	153	824
EBIT Margin (%)	(7.0)	4.5	(3.2)	(2.7)	(3.0)	(3.1)	3.7	(0.5)	6.6	1.5	7.0
<b>Energy</b>											
<b>Power T&amp;D, O&amp;G and Fossil</b>	<b>22,400</b>	<b>8,427</b>	<b>30,827</b>	<b>11,551</b>	<b>42,378</b>	<b>21,969</b>	<b>9,824</b>	<b>31,792</b>	<b>13,552</b>	<b>45,345</b>	<b>52,147</b>
growth (%)					93.5	42.7	73.3	52.8	51.8	52.5	15.0
% of sales	55.2	46.6	52.5	46.9	50.7	54.6	51.2	53.5	47.1	50.3	50.4
EBIT	64	1,405	1,469	1,600	3,070	3,534	1,656	5,190	2,065	7,255	5,215
<b>EBIT Margin (%)</b>	<b>0.3</b>	<b>16.7</b>	<b>4.8</b>	<b>13.9</b>	<b>7.2</b>	<b>16.1</b>	<b>16.9</b>	<b>16.3</b>	<b>15.2</b>	<b>16.0</b>	<b>10.0</b>

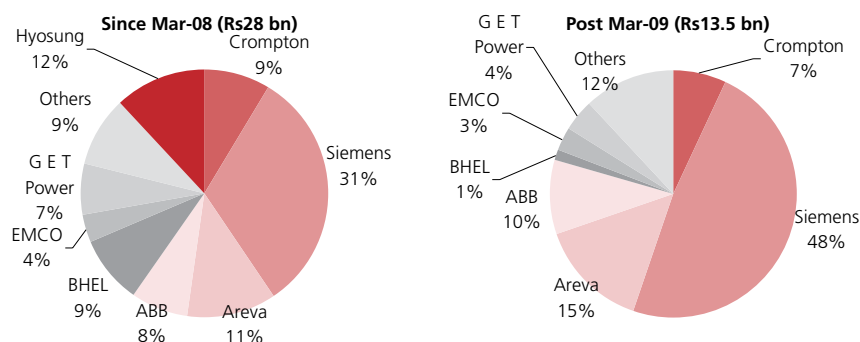
Source: Company, Kotak Institutional Equities estimates

### Highlight increased market share in PGCIL equipment related orders

We highlight that Siemens has won about 48% of the total equipment orders (excluding towers, conductors, rural electrification etc) placed by PGCIL in FY2010 so far. PGCIL has placed total equipment orders worth Rs13.5 bn in FY2010E so far of which Siemens won orders worth Rs6.5 bn. This has been significantly above its FY2009 market share of about 16%. Siemens was followed by Area, ABB and Crompton which won 15%, 10% and 7% of PGCIL's equipment orders in FY2010 so far.

### Recent wins puts Siemens in lead at 31% share of the total equipment orders among large players

Player-wise break up of PGCIL's ordering for equipment (excluding conductors, towers, rural electrification etc) since FY2009 (%)



Source: PGCIL website, Kotak Institutional Equities

ABB

**ABB – exposure to industrials and withdrawal from RGGVY projects likely to continue to dampen results**

We expect ABB to report a moderate revenue growth of 7.4% in 3QCY09E to Rs16.3 bn from Rs15.2 bn in 3QCY08. We highlight that high exposure to industrial segment and withdrawal from RGGVY projects could lead to potential negative surprises. We highlight that the company had reported a yoy decline of 8.1% in revenues in 1HCY09. We estimate the margins of the company to improve to 10.4% in 2QFY10E from 8.9% in 2QFY09. We expect the company to report a net profit after tax of Rs1.2 bn in 2QFY10E, up 11.8% yoy, from Rs1.05 bn in 2QFY09.

We believe that order booking would remain the key factor driving the stock performance as it is likely to be an indicator of recovery in the industrial segment. We highlight that order booking for ABB has seen a slight revival versus a decline seen in 1QCY09; however, the booking momentum still remains weak. ABB has reported orders to the tune of Rs12.6 bn in the past month primarily from the power sector.

**Exposure to industrials and withdrawal from RGGVY projects would continue to dampen results**  
 ABB - 3QCY09E consolidated revenue model (Rs mn)

	3QCY09E	3QCY08	2QCY09	% chg.		CY2009E	CY2008	% chg.
				3QCY08	2QCY09			
<b>Sales</b>	<b>16,308</b>	<b>15,191</b>	<b>15,148</b>	<b>7.4</b>	<b>7.7</b>	<b>70,904</b>	<b>68,510</b>	<b>3.5</b>
Expenses	(14,608)	(13,843)	(13,769)	5.5	6.1	(63,346)	(60,713)	4.3
<b>EBITDA</b>	<b>1,700</b>	<b>1,348</b>	<b>1,379</b>	<b>26.1</b>	<b>23.3</b>	<b>7,558</b>	<b>7,797</b>	<b>(3.1)</b>
Other income	344	399	110	(13.7)	212.5	942	1,164	(19.1)
PBDIT	2,045	1,747	1,489	17.0	37.3	8,500	8,961	(5.1)
Interest	(85)	(67)	(80)	28.0	6.3	(355)	(262)	35.2
Depreciation	(156)	(92)	(125)	69.1	25.1	(546)	(367)	48.8
<b>PBT</b>	<b>1,803</b>	<b>1,588</b>	<b>1,284</b>	<b>13.5</b>	<b>40.4</b>	<b>7,600</b>	<b>8,332</b>	<b>(8.8)</b>
Tax	(631)	(540)	(448)	16.8	40.9	(2,660)	(2,858)	(6.9)
<b>Net profit</b>	<b>1,172</b>	<b>1,048</b>	<b>836</b>	<b>11.8</b>	<b>40.2</b>	<b>4,940</b>	<b>5,474</b>	<b>(9.8)</b>
<b>Key ratios (%)</b>								
<b>EBITDA margin</b>	<b>10.4</b>	<b>8.9</b>	<b>9.1</b>			<b>10.7</b>	<b>11.4</b>	
PBDIT margin	12.5	11.5	9.8			12.0	13.1	
PBT margin	35.0	34.0	8.5			10.7	12.2	
Tax rate	7.2	6.9	5.5			7.0	8.0	

Source: Company, Kotak Institutional Equities estimates

List of orders announced by ABB in CY2009 so far

Date	Sector	Client	Size (Rs bn)	Scope of work
25-Aug-09	Power	Power Grid Corporation of India Ltd	1,283	400kV GIS substation
14-Jul-09	Power	Maharashtra State Electricity Transmission Company Ltd	1,410	132kV and 220kV substation orders
1-Jul-09	Power	Power Transmission Corporation of Uttarakhand Ltd	1,654	132kV, 220kV and 400kV substation orders
24-Jul-09	Power	Tata Projects Ltd	2,200	Power products for 2X800 MW Krishnapatnam power plant
		Italian-Thai Development Company Ltd;		
22-Jun-09	Power	ITD Cementation	550	Electrical Infrastructure for Kolkata Airport
29-Apr-09	Power	NTPC Ltd	1,270	Transformer order for 2X500 MW Mauda plant
28-Apr-09	Power	Power Grid Corporation of India Ltd	4,250	765/400 kV substations at Agra, Wardha, Bilaspur and Seoni
<b>Total orders announced by ABB in CY2009 so far</b>			<b>12,617</b>	

Source: Company, BSE

## Suzlon

**Suzlon – expect low execution of 450 MW to lead to a net loss in the wind business for the quarter**

We expect Suzlon Energy to report sales of about 450 MW during the quarter versus 727 MW in 2QFY09 and 123 MW in 1QFY10. This is versus our full-year execution assumption of 2,053 MW. We estimate revenues of Rs24.8 bn for 2QFY10E, down 38% yoy, from Rs41.8 bn in 2QFY09. The low sales volumes are likely to lead to lower operating margins of 9% in 2QFY10E versus 9.9% in 2QFY09 led by negative operating leverage. Margins are likely to improve on a sequential basis led by non-recurrence of one-off costs. Low operating margin and high interest costs are likely to lead to a net loss of Rs892 mn for Suzlon in 2QFY10E versus a profit (before extraordinary items) of Rs1.8 bn in 2QFY09.

Low execution estimate of 450 MW; margins to improve on a sequential basis however, low volumes and high interest costs likely to lead to net loss in the wind business for the quarter

Suzlon Energy - 2QFY10E wind business revenue model (Rs mn)

	2QFY10E	2QFY09	1QFY10	% change		FY2010E	FY2009	% change
				2QFY09	1QFY10			
<b>MW sales</b>	<b>450</b>	<b>727</b>	<b>123</b>	<b>(38.1)</b>	<b>265.9</b>	<b>2,053</b>	<b>2,790</b>	<b>(26.4)</b>
<b>Sales</b>	<b>24,750</b>	<b>41,818</b>	11,650	<b>(40.8)</b>	<b>112.4</b>	<b>112,269</b>	<b>260,817</b>	<b>(57.0)</b>
Total Expenditure	(22,515)	(37,692)	(13,380)	(40.3)	68.3	(101,060)	(234,429)	(56.9)
<b>EBITDA</b>	<b>2,235</b>	<b>4,126</b>	<b>(1,730)</b>	<b>(45.8)</b>	<b>(229.2)</b>	<b>11,208</b>	<b>26,388</b>	<b>(57.5)</b>
Other income	169	159	140	6.8	21.0	648	4,488	(85.6)
PBDIT	2,404	4,285	(1,590)	(43.9)	(251.2)	11,857	30,876	(61.6)
Interest	(2,656)	(1,885)	(2,340)	40.9	13.5	(10,307)	(9,012)	14.4
Depreciation	(641)	(625)	(620)	2.4	3.3	(3,182)	(5,731)	(44.5)
<b>Profit before tax</b>	<b>(892)</b>	<b>1,775</b>	<b>(4,550)</b>	<b>(150.2)</b>	<b>(80.4)</b>	<b>(1,632)</b>	<b>16,133</b>	<b>(110.1)</b>
Tax	—	(302)	110	(100.0)	(100.0)	—	(2,881)	(100.0)
<b>Net profit</b>	<b>(892)</b>	<b>1,473</b>	<b>(4,440)</b>	<b>(160.5)</b>	<b>(79.9)</b>	<b>(1,632)</b>	<b>13,252</b>	<b>(112.3)</b>
One-time items	—	(2,778)	(180)	(100.0)	(100.0)	—	(8,963)	N.A.
Associates/Minority interest	—	—	10	—	(100.0)	—	(1,924)	N.A.
<b>Reported profit</b>	<b>(892)</b>	<b>(1,305)</b>	<b>(4,610)</b>	<b>NA</b>	<b>(80.7)</b>	<b>(1,632)</b>	<b>2,365</b>	<b>(169.0)</b>
<b>Key ratios</b>								
<b>EBITDA margin</b>	<b>9.0</b>	<b>9.9</b>	<b>(14.8)</b>			<b>10.0</b>	<b>15.0</b>	
PBDIT margin	15.6	10.2	(13.6)			10.6	16.7	
Pre-tax margin	1.2	4.2	(39.1)			(1.5)	12.7	
Tax rate	—	17.0	2.4			—	10.2	
PAT margin	0.9	3.5	(38.1)			(1.5)	11.4	

Source: Company, Kotak Institutional Equities estimates

## Bharat Electronics

**Bharat Electronics – may not spring as big a positive surprise as in 1Q**

We expect BEL to execute orders to the tune of about Rs9.2 bn in 2QFY10E which would be about 17.5% of full-year estimates of Rs52.1 bn. Highlight that the execution cycle tends to be back ended for BEL; about 60% of total FY2008 revenues originated from 4QFY09 alone. However, we believe that in FY2010E, 1H would contribute about 35% of total revenues due to high 1Q revenues led by spill over from FY2009 and the management's efforts to have more even distribution of revenues across the quarters. We expect BEL's margins to improve significantly on a sequential basis to 19.2% in 2QFY10E from 10.1% in the previous quarter led by lower raw material and employee expenses. We estimate a net PAT of Rs1.4 bn for 2QFY10E, up 6% yoy.

**Backlog driven revenue growth; margins to improve sequentially led by lower material and employee costs**

BEL - 2QFY10E revenue model (Rs mn)

	2QFY10E	2QFY09	1QFY10	% chg.		FY2010E	FY2009	% chg.
				2QFY09	1QFY10			
<b>Net Sales</b>	<b>9,224</b>	<b>7,877</b>	<b>9,106</b>	<b>17.1</b>	<b>1.3</b>	<b>52,711</b>	<b>45,707</b>	<b>15.3</b>
Total Expenditure	(7,452)	(6,181)	(8,189)	20.6	(9.0)	(40,792)	(34,733)	17.4
<b>EBITDA</b>	<b>1,772</b>	<b>1,696</b>	<b>916</b>	<b>4.5</b>	<b>93.4</b>	<b>11,919</b>	<b>10,974</b>	<b>8.6</b>
Other Income	558	532	437	4.9	27.6	2,670	2,079	28.5
PBDIT	2,330	2,228	1,354	4.6	72.1	14,589	13,053	11.8
Interest	(3)	(71)	(1)	(95.7)	259.7	(10)	(108)	(90.7)
PBDT	2,327	2,158	1,353	7.9	72.0	14,579	12,945	12.6
Depreciation	(290)	(256)	(280)	13.3	3.5	(1,150)	(1,043)	10.3
<b>PBT</b>	<b>2,037</b>	<b>1,902</b>	<b>1,073</b>	<b>7.1</b>	<b>89.9</b>	<b>13,430</b>	<b>11,903</b>	<b>12.8</b>
Tax	(652)	(594)	(346)	9.7	88.6	(4,298)	(3,818)	12.6
<b>PAT</b>	<b>1,385</b>	<b>1,308</b>	<b>727</b>	<b>6.0</b>	<b>90.6</b>	<b>9,132</b>	<b>8,085</b>	<b>13.0</b>
<b>Key ratios</b>								
<b>EBITDA margin</b>	<b>19.2</b>	<b>21.5</b>	<b>10.1</b>			<b>22.6</b>	<b>24.0</b>	
PBDIT margin	25.3	28.3	14.9			27.7	28.6	
PBT margin	22.1	24.1	11.8			25.5	26.0	
Effective tax rate	32.0	31.2	32.2			32.0	32.1	
EPS	17.3	16.3	9.1			114.2	101.1	
PAT margin	15.0	16.6	8.0			17.3	17.7	

Source: Company, Kotak Institutional Equities estimates

Crompton Greaves

**Crompton Greaves – Moderate revenue growth likely to be driven by power segment**

We expect Crompton Greaves to report revenue growth of 13.2% yoy to Rs23.7 bn in 2QFY10E versus Rs20.9 bn in 2QFY09. Revenue growth would primarily be driven by the power segment with growth remaining low in the industrial segment. The international subsidiaries reported very strong growth in FY2009, reflecting resilient demand in the global power markets. We expect the company to report relatively flat margins of 11.3%. We believe that Crompton's resilient business model and diversity of exposure in terms of geography and business segments provides a potential for positive surprise to our estimates.

**Moderate revenue growth likely to be driven by power segment in the domestic as well as overseas markets**

Crompton Greaves - 2QFY10E consolidated revenue model for year ending March 2010 (Rs mn)

	2QFY10E	2QFY09	1QFY10	% chg.		FY2010E	FY2009	% chg.
				2QFY09	1QFY10			
<b>Sales</b>	<b>23,694</b>	<b>20,927</b>	<b>21,975</b>	<b>13.2</b>	<b>7.8</b>	<b>96,709</b>	<b>87,373</b>	<b>10.7</b>
Expenses	(21,028)	(18,609)	(19,499)	13.0	7.8	(83,141)	(77,429)	7.4
<b>EBITDA</b>	<b>2,666</b>	<b>2,318</b>	<b>2,476</b>	<b>15.0</b>	<b>7.6</b>	<b>11,073</b>	<b>9,944</b>	<b>11.3</b>
Other income	173	126	239	37.5	(27.5)	759	600	26.4
PBDIT	2,839	2,444	2,715	16.2	4.5	11,831	10,544	12.2
Interest	(45)	(166)	(45)	(72.8)	-	(570)	(656)	(13.1)
Depreciation	(371)	(343)	(371)	8.2	-	(1,422)	(1,216)	16.9
<b>PBT</b>	<b>2,422</b>	<b>1,934</b>	<b>2,299</b>	<b>25.2</b>	<b>5.4</b>	<b>9,839</b>	<b>8,672</b>	<b>13.5</b>
Tax	(811)	(725)	(695)	12.0	16.8	(3,337)	(3,047)	9.5
<b>Net profit</b>	<b>1,611</b>	<b>1,209</b>	<b>1,605</b>	<b>33.2</b>	<b>0.4</b>	<b>6,502</b>	<b>5,625</b>	<b>15.6</b>
Extraordinary items	-	-	-	-	-	-	-	-
<b>RPAT</b>	<b>1,611</b>	<b>1,209</b>	<b>1,605</b>	<b>33.2</b>	<b>0.4</b>	<b>6,502</b>	<b>5,625</b>	<b>15.6</b>
<b>Key ratios (%)</b>								
<b>EBITDA margin</b>	<b>11.3</b>	<b>11.1</b>	<b>11.3</b>			<b>11.4</b>	<b>11.4</b>	
PBT margin	9.2	9.2	10.5			10.2	9.9	
Tax rate	33.5	37.5	30.2			33.9	35.1	
PAT margin	6.1	5.8	7.3			6.7	6.4	

Source: Company, Kotak Institutional Equities estimates

**BGR Energy**

**BGR Energy – strong revenue growth led by pick up of execution of large EPC projects**

We expect BGR Energy 2QFY10E revenues to see strong growth of about 19% yoy led by pick up in execution of the two large thermal power projects. The two large EPC orders (Mettur and Kalisindh) worth Rs80 bn are expected to contribute about Rs18.4 bn towards the full year revenues of the company. We expect BGR Energy's operating margin to expand to 12% from 10.3% on 2QFY09 led by lower raw material costs as a percentage of sales.

**Strong revenue growth led by pick up of execution of large EPC projects**

BGR Energy Systems - 2QFY10E consolidated revenue model (Rs mn)

	2QFY10E	2QFY09	1QFY10	% change		FY2010E	FY2009	% change
				2QFY09	1QFY10			
<b>Sales</b>	<b>5,052</b>	<b>4,246</b>	<b>3,111</b>	<b>19.0</b>	<b>62.4</b>	<b>29,720</b>	<b>19,303</b>	<b>54.0</b>
Expenses	(4,446)	(3,808)	(2,688)	16.8	65.4	(26,218)	(17,214)	52.3
<b>EBITDA</b>	<b>606</b>	<b>438</b>	<b>422</b>	<b>38.5</b>	<b>43.6</b>	<b>3,502</b>	<b>2,089</b>	<b>67.6</b>
Other income	84	84	67	0.3	24.8	320	317	0.9
PBDIT	690	522	490	32.4	41.0	3,822	2,406	58.8
Interest	(217)	(145)	(163)	49.2	33.1	(812)	(579)	40.1
Depreciation	(21)	(15)	(21)	40.3	-	(187)	(75)	149.1
<b>PBT</b>	<b>453</b>	<b>362</b>	<b>307</b>	<b>25.3</b>	<b>47.9</b>	<b>2,823</b>	<b>1,752</b>	<b>61.2</b>
Tax	(154)	(125)	(104)	23.4	47.9	(950)	(596)	59.5
<b>Net profit</b>	<b>299</b>	<b>237</b>	<b>202</b>	<b>26.3</b>	<b>47.9</b>	<b>1,873</b>	<b>1,156</b>	<b>62.0</b>
Extraordinary items	-	-	-	-	-	-	-	-
<b>RPAT</b>	<b>299</b>	<b>237</b>	<b>202</b>	<b>26.3</b>	<b>47.9</b>	<b>1,873</b>	<b>1,156</b>	<b>62.0</b>
<b>Key ratios</b>								
<b>EBITDA margin</b>	<b>12.0</b>	<b>10.3</b>	<b>13.6</b>			<b>11.8</b>	<b>10.8</b>	
PBT margin	8.2	8.5	9.9			9.5	9.1	
Tax rate	34.0	34.5	34.0			33.7	34.0	
PAT margin	6.4	5.6	6.5			6.3	6.0	

Source: Company, Kotak Institutional Equities estimates

We highlight potential for downside to our estimates if the pick up in EPC execution activity gets pushed post 2QFY10E.

CONSTRUCTION

**Construction sector: Expect strong results; we are optimistic about potential earnings upgrades and valuation upside**

We believe that construction companies would report strong results in 2QFY10E versus weak 1QFY10. 1QFY10 results were affected by election during May 2009. We are positive on the construction sector based on potential earnings upgrades with new order inflows, margin uptick and decline in borrowing cost and upside potential in valuation of infrastructure and real estate assets in the portfolio. Our preference order would be Nagarjuna, Punj and IVRCL among construction stocks

**Expect strong results; positive on potential earnings surprise and valuations**  
Company wise 2QFY10E results expectations for construction sector – key numbers (Rs mn)

	Sep-09E	Sep-08	Jun-09	Change (%)		Comments
				yoy	qoq	
<b>Construction</b>						
<b>Punj Lloyd</b>						
Net sales	33,414	29,261	29,728	14.2	12.4	
EBITDA	3,174	2,724	3,094	16.5	2.6	
PBT	1,940	2,076	1,872	(6.5)	3.7	Revenue growth of 14% yoy led by strong order backlog; margins to remain relatively flat on a yoy basis
PAT-reported	1,300	1,429	1,250	(9.0)	4.0	
<b>IVRCL</b>						
Net sales	14,137	11,366	10,860	24.4	30.2	
EBITDA	1,308	913	996	43.3	31.3	
PBT	893	667	516	33.8	72.9	Strong revenues growth driven by large order backlog while high borrowing costs to put pressure on bottom line
PAT-reported	589	571	351	3.2	67.8	
<b>Nagarjuna Construction Co.</b>						
Net sales	12,040	10,558	10,010	14.0	20.3	
EBITDA	1,234	1,085	1,038	13.8	18.9	
PBT	774	671	578	15.3	33.7	Strong order backlog drives revenue growth while high borrowing costs to put pressure on bottom line
PAT-reported	511	423	382	20.7	33.6	
<b>Sadbhav Engineering</b>						
Net sales	1,949	1,242	2,994	57.0	(34.9)	
EBITDA	214	143	340	49.7	(36.9)	
PBT	119	109	244	8.6	(51.4)	Strong topline growth led by large order backlog boosted by recent wins in road segment and start of toll collections in Aurangabad-Jalna BOT project
PAT-reported	147	50	179	191.5	(17.9)	
<b>KIE construction sector total</b>						
Net sales	61,541	52,427	53,593	17.4	14.8	
EBITDA	5,931	4,865	5,468	21.9	8.5	
PBT	3,725	3,523	3,211	5.7	16.0	
PAT-reported	2,547	2,473	2,162	3.0	17.8	

Source: Company, Kotak Institutional Equities estimates

Punj Lloyd

**Punj Lloyd – Moderate revenue growth and margins to remain relatively flat**

We expect the company to report a moderate revenue growth of 14% yoy to Rs33.4 bn in 2QFY10E from Rs29.3 bn in 2QFY09. We expect the company's operating margin to remain relatively flat on a yoy basis at about 9.5% versus 9.3% in the previous year. High interest costs are likely to put pressure on the bottom line of the company. We expect Punj to report a yoy decline of 9% in the net earnings of the company to Rs1.3 bn in 2QFY10E versus Rs1.43 bn in 2QFY09.

## Punj Lloyd - 2QFY10E consolidated revenue model (Rs mn)

	2QFY10E	2QFY09	1QFY10	% chg.		FY2010E	FY2009	% chg.
				2QFY09	1QFY10			
<b>Net Sales</b>	<b>33,414</b>	<b>29,261</b>	<b>29,728</b>	<b>14.2</b>	<b>12.4</b>	<b>139,225</b>	<b>119,120</b>	<b>16.9</b>
Expenditure	(30,240)	(26,536)	(26,634)	14.0	(0.4)	(126,347)	(116,028)	8.9
<b>EBITDA</b>	<b>3,174</b>	<b>2,724</b>	<b>3,094</b>	<b>16.5</b>	<b>(12.0)</b>	<b>12,878</b>	<b>3,093</b>	<b>316.4</b>
Other Income	211	280	63	(24.7)	347.8	907	745	21.8
<b>PBDIT</b>	<b>3,386</b>	<b>3,005</b>	<b>3,157</b>	<b>12.7</b>	<b>(4.8)</b>	<b>13,786</b>	<b>3,838</b>	<b>259.2</b>
Interest	(913)	(490)	(744)	86.1	(34.1)	(3,481)	(2,208)	57.7
Gross Profit	2,473	2,514	2,413	(1.6)	4.2	10,304	1,630	532.1
Depreciation	(533)	(439)	(541)	21.4	(19.0)	(2,140)	(1,771)	20.8
<b>Profit before tax</b>	<b>1,940</b>	<b>2,076</b>	<b>1,872</b>	<b>(6.5)</b>	<b>10.9</b>	<b>8,165</b>	<b>(141)</b>	<b>NA</b>
Tax	(640)	(647)	(622)	(1.0)	4.0	(2,531)	(2,260)	12.0
<b>Profit after tax</b>	<b>1,300</b>	<b>1,429</b>	<b>1,250</b>	<b>(9.0)</b>	<b>14.3</b>	<b>5,634</b>	<b>(2,401)</b>	<b>NA</b>
<b>Key ratios (%)</b>								
<b>EBITDA margin</b>	<b>9.5</b>	<b>9.3</b>	<b>10.4</b>			<b>9.3</b>	<b>2.6</b>	
PBDIT margin	10.1	10.2	10.6			9.8	3.2	
PBT margin	5.8	7.1	6.3			5.9	(0.1)	
PAT margin	3.9	4.9	4.2			4.0	(2.0)	

Source: Company, Kotak Institutional Equities estimates

## IVRCL

**IVRCL – Strong revenue growth led by order backlog; however, high interest and depreciation costs to pressure bottom line**

We expect IVRCL to report a strong revenue growth of 24.4% yoy to Rs14.1 bn in 2QFY10E from Rs11.4 bn in 2QFY09 led by strong order backlog of Rs139 bn at the end of 1QFY10. Despite strong revenue growth we expect only a 3% yoy growth in net earnings to Rs589 mn led by higher interest and depreciation costs.

**Strong revenue growth led by order backlog; however high interest and depreciation costs to put pressure on bottom line**

IVRCL - 2QFY10E revenue model (Rs mn)

	2QFY10E	2QFY09	1QFY10	% chg.		FY2010E	FY2009	% chg.
				2QFY09	1QFY10			
<b>Net Sales</b>	<b>14,137</b>	<b>11,366</b>	<b>10,860</b>	<b>24.4</b>	<b>30.2</b>	<b>60,806</b>	<b>48,819</b>	<b>24.6</b>
Expenditure	(12,830)	(10,453)	(9,864)	22.7	30.1	(55,212)	(44,601)	23.8
<b>EBITDA</b>	<b>1,308</b>	<b>913</b>	<b>996</b>	<b>43.3</b>	<b>31.3</b>	<b>5,594</b>	<b>4,218</b>	<b>32.6</b>
Other Income	39	172	39	(77.3)	-	974	299	225.5
<b>PBDIT</b>	<b>1,347</b>	<b>1,085</b>	<b>1,035</b>	<b>24.2</b>	<b>30.1</b>	<b>6,568</b>	<b>4,517</b>	<b>45.4</b>
Interest	(316)	(304)	(389)	3.9	(18.8)	(2,018)	(1,306)	54.5
Gross Profit	1,031	780	646	32.1	59.6	4,550	3,211	41.7
Depreciation	(138)	(113)	(129)	22.0	6.7	(682)	(473)	44.2
<b>Profit before tax</b>	<b>893</b>	<b>667</b>	<b>516</b>	<b>33.8</b>	<b>72.9</b>	<b>3,868</b>	<b>2,738</b>	<b>41.3</b>
Tax	(303)	(96)	(165)	215.7	83.8	(1,300)	(478)	171.8
<b>Profit after tax</b>	<b>589</b>	<b>571</b>	<b>351</b>	<b>3.2</b>	<b>67.8</b>	<b>2,568</b>	<b>2,260</b>	<b>13.7</b>
<b>Key ratios (%)</b>								
<b>EBITDA margin</b>	<b>9.3</b>	<b>8.0</b>	<b>9.2</b>			<b>9.2</b>	<b>8.6</b>	
PBT margin	6.3	5.9	4.8			6.4	5.6	
Net profit margin	4.2	5.0	3.2			4.2	4.6	
Effective tax rate	(34.0)	14.4	32.0			(33.6)	17.5	

Source: Company, Kotak Institutional Equities estimates

## Nagarjuna

**Nagarjuna – Order book to drive revenue growth; margins to remain flat**

Strong order backlog of Rs123 bn likely to drive revenue growth of 14% yoy in 2QFY10E to Rs12 bn from Rs10.6 bn in 2QFY09. We expect margins to remain relatively flat yoy at 10.3%. Expect the company to report a net profit of Rs511 mn in 2QFY10E, up 21% yoy, from Rs423 mn in 2QFY09.



**Raises Rs3.7 bn via QIP issue in September 2009**

Nagarjuna raised about Rs3.7 bn in the first week of September-09 through a QIP of 27.7 mn shares of Rs2 each at a premium of Rs130.46 per share. The management cited that these funds would be utilized for retirement of the short-term debt and for investment in roads and power infrastructure projects.

NCC - 2QFY10E revenue model (Rs mn)

	2QFY10E	2QFY09	1QFY10	% chg.		FY2010E	FY2009	% chg.
				2QFY09	1QFY10			
<b>Net sales</b>	<b>12,040</b>	<b>10,558</b>	<b>10,010</b>	<b>14.0</b>	<b>20.3</b>	<b>50,165</b>	<b>41,199</b>	<b>21.8</b>
<b>Operating costs</b>	<b>(10,806)</b>	<b>(9,473)</b>	<b>(8,972)</b>	<b>14.1</b>	<b>20.4</b>	<b>(45,585)</b>	<b>(37,777)</b>	<b>20.7</b>
<b>EBITDA</b>	<b>1,234</b>	<b>1,085</b>	<b>1,038</b>	<b>13.8</b>	<b>18.9</b>	<b>4,580</b>	<b>3,422</b>	<b>33.8</b>
Other income	14	10	14	38.1	-	588	356	65.1
Interest cost	(313)	(275)	(346)	14.1	(9.5)	(1,874)	(964)	94.5
Depreciation	(147)	(149)	(127)	(1.4)	16.0	(569)	(533)	6.7
<b>Profit before tax</b>	<b>774</b>	<b>671</b>	<b>578</b>	<b>15.3</b>	<b>33.7</b>	<b>2,725</b>	<b>2,282</b>	<b>19.4</b>
Tax	(263)	(248)	(196)	6.2	34.0	(899)	(743)	21.0
<b>Profit after tax</b>	<b>511</b>	<b>423</b>	<b>382</b>	<b>20.7</b>	<b>33.6</b>	<b>1,826</b>	<b>1,539</b>	<b>18.7</b>
<b>Key ratios (%)</b>								
<b>EBITDA margin</b>	<b>10.3</b>	<b>10.3</b>	<b>10.4</b>			<b>9.1</b>	<b>8.3</b>	
PAT margin	4.2	4.0	3.8			3.6	3.7	
Effective tax rate	34.0	36.9	33.9			33.0	32.6	

Source: Company, Kotak Institutional Equities estimates

Sadbhav Engineering

**Sadbhav Engineering – very strong revenue growth led by order backlog and start of toll collection in Aurangabad-Jalna project**

We expect Sadbhav Engineering to report a very strong yoy revenue growth of 57% in 1QFY10E driven by a strong order backlog of Rs44 bn at the end of FY2009 and start of toll collections in the Aurangabad-Jalna toll collections. The order backlog is comprised primarily of the roads sector with the recent wins of the two large projects viz. Mumbai border check post and Maharashtra-Dhule project. We expect the company to report relatively flat operating margin of 11%. Net earnings of the company is expected to grow to Rs147 mn for 2QFY10E versus Rs50 mn for 2QFY09.

Sadbhav Engg - 2QFY10E revenue model (Rs mn)

	2QFY10E	2QFY09	1QFY10	% chg.		FY2010E	FY2009	% chg.
				2QFY09	1QFY10			
<b>Net sales</b>	<b>1,949</b>	<b>1,242</b>	<b>2,994</b>	<b>57.0</b>	<b>(34.9)</b>	<b>12,997</b>	<b>10,625</b>	<b>22.3</b>
Total expenditure	1,735	(1,099)	(2,654)	(257.9)	(165.4)	11,538	(9,542)	(220.9)
<b>EBITDA</b>	<b>214</b>	<b>143</b>	<b>340</b>	<b>49.7</b>	<b>(36.9)</b>	<b>1,458</b>	<b>1,083</b>	<b>34.7</b>
Other income	24	55	24	(55.8)	-	36	117	(69.4)
Interest	(64)	(50)	(64)	27.5	-	(279)	(214)	30.3
Depreciation	(56)	(39)	(56)	44.2	-	(172)	(157)	9.8
<b>Pretax profits</b>	<b>119</b>	<b>109</b>	<b>244</b>	<b>8.6</b>	<b>(51.4)</b>	<b>1,043</b>	<b>829</b>	<b>25.8</b>
Tax	(65)	(75)	(65)	(13.5)	-	(348)	(196)	77.4
<b>Net income</b>	<b>147</b>	<b>50</b>	<b>179</b>	<b>191.5</b>	<b>(17.9)</b>	<b>695</b>	<b>633</b>	<b>9.8</b>
EO	-	-	-	-	-	-	-	-
<b>Adjusted profits</b>	<b>147</b>	<b>50</b>	<b>179</b>	<b>191.5</b>	<b>(17.9)</b>	<b>695</b>	<b>633</b>	<b>9.8</b>
<b>Key ratios (%)</b>								
<b>EBITDA margin</b>	<b>11.0</b>	<b>11.5</b>	<b>11.4</b>			<b>11.2</b>	<b>10.2</b>	
PBT margin	6.1	8.8	8.2			8.0	7.8	
PAT margin	7.5	4.1	6.0			5.3	6.0	
Effective tax rate	54.8	68.7	26.6			33.4	23.7	

Source: Company, Kotak Institutional Equities estimates

## INFRASTRUCTURE

**Infrastructure development – very strong revenue growth led by start of commercial operations of several projects**

We expect the infrastructure development sector to report very strong revenue growth led by the start of commercial operations of several projects in the power and roads segment. We expect GVKPIL's revenue to grow more than three-fold in 2QFY10E led by start of operations of the Jegurupadu II and Gautami power plants. IRB's revenues for 2QFY10E are expected to more than double versus last year led by start of toll collections of the Surat-Dahisar project. However, high interest and depreciation costs are likely to pressure the bottom line leading to lower profitability.

**Expect very strong revenue growth in the infrastructure development segment led by start of commercial operations of several projects**  
Company wise 2QFY10E results expectations for infrastructure development sector – key numbers (Rs mn)

	Sep-09E	Sep-08	Jun-09	Change (%)		Comments
				yoy	qoq	
<b>Infrastructure developers</b>						
<b>GMR Infrastructures Ltd</b>						
Net sales	10,099	8,468	11,775	19.3	(14.2)	
EBITDA	3,030	2,471	3,213	22.6	(5.7)	
PBT	392	978	363	(60.0)	8.0	Strong revenue growth led by commissioning of power and road sector projects; however high interest and depreciation costs likely to put pressure on bottom line
PAT	258	918	240	(71.8)	7.6	
Extraordinaries	-	(589)	-	(100.0)		
PAT-reported	258	328	240	(21.2)	7.6	
<b>GVK Power and Infrastructure Ltd</b>						
Net sales	4,607	1,095	3,322	320.7	38.7	
EBITDA	1,382	468	944	195.4	46.4	
PBT	389	247	317	57.1	22.7	Very strong revenue growth led by start of commercial operations of Jegurupadu II and Gautami; however higher interest and depreciation costs to adversely impact net earnings
PAT	291	220	236	32.4	23.3	
Extraordinaries	122	84	91	44.9	34.4	
PAT-reported	414	305	327	35.8	26.4	
<b>IRB Infrastructure Developers Ltd</b>						
Net sales	4,456	2,016	4,141	121.0	7.6	
EBITDA	1,898	985	1,662	92.7	14.2	
PBT	1,234	491	1,033	151.3	19.4	Strong revenue growth boosted by construction revenues of 4 new project wins, start of toll collections in Surat-Dahisar project and partial revival of traffic levels
PAT-reported	987	412	851	139.5	15.9	
<b>KIE Infrastructure development sector total</b>						
Net sales	19,162	11,579	19,239	65.5	(0.4)	
EBITDA	6,310	3,924	5,818	60.8	8.5	
PBT	2,014	1,716	1,713	17.4	17.6	
PAT	1,537	1,550	1,328	(0.8)	15.7	
Extraordinaries	122	(505)	91	(124.2)	34.4	
PAT-reported	1,659	1,045	1,419	58.8	16.9	

Source: Company, Kotak Institutional Equities estimates

## GMR Infrastructure

**GMR Infrastructure – revenue growth boosted by start of toll collections in three road projects**

We expect GMR to report strong revenue growth of about 19% led by higher power and road sector revenues. The power sector revenues are likely to be boosted by higher PLF of the Vemagiri power plant which was facing gas availability issues. The road sector revenues would be boosted by start of commercial operations of three projects viz. Ambala-Chandigarh, Pochanpalli and Jadcherla expressways. However, high interest costs and depreciation due to capitalization of the projects is likely to lead to a decline in net earnings to Rs258 mn in 2QFY10 versus Rs328 mn in 2QFY09.

GMR Infrastructure - consolidated 2QFY10E results - key numbers (Rs mn)

	2QFY10E	2QFY09	1QFY10	%chg.		FY2010E	FY2009	% chg.
				2QFY09	1QFY10			
<b>Net sales</b>	<b>10,099</b>	<b>8,468</b>	<b>11,775</b>	<b>19.3</b>	<b>(14.2)</b>	<b>37,405</b>	<b>40,192</b>	<b>(6.9)</b>
Cost of goods sold	(7,070)	(5,997)	(8,563)	17.9	(17.4)	(22,667)	(29,524)	(23.2)
<b>EBITDA</b>	<b>3,030</b>	<b>2,471</b>	<b>3,213</b>	<b>22.6</b>	<b>(5.7)</b>	<b>14,738</b>	<b>10,668</b>	<b>38.2</b>
Other income	166	70	121	136.3	37.7	619	214	189.6
Financial charges	(1,476)	(709)	(1,598)	108.3	(7.6)	(6,764)	(3,682)	83.7
Depreciation	(1,328)	(855)	(1,373)	55.3	(3.3)	(6,022)	(3,898)	54.5
<b>Pre-tax profit</b>	<b>392</b>	<b>978</b>	<b>363</b>	<b>(60.0)</b>	<b>8.0</b>	<b>2,571</b>	<b>3,301</b>	<b>(22.1)</b>
Taxation	(133)	(60)	(123)	120.8	8.6	(874)	(530)	64.9
<b>PAT</b>	<b>258</b>	<b>918</b>	<b>240</b>	<b>(71.8)</b>	<b>7.6</b>	<b>1,697</b>	<b>2,771</b>	<b>(38.8)</b>
Minority/ Exceptional items	-	(589)	-	(100.0)		(537)	23	
<b>PAT for equity holders</b>	<b>258</b>	<b>328</b>	<b>240</b>	<b>(21.2)</b>	<b>7.6</b>	<b>1,160</b>	<b>2,794</b>	
<b>Key ratios (%)</b>								
<b>EBITDA margin</b>	<b>30.0</b>	<b>29.2</b>	<b>27.3</b>			<b>39.4</b>	<b>26.5</b>	
PBT margin	3.9	11.5	3.1			6.9	8.2	
PAT margin	2.6	10.8	2.0			4.5	6.9	
Effective tax rate	34.0	6.2	33.8			34.0	16.1	

Source: Company, Kotak Institutional Equities estimates

GVKPIL

**GVKPIL – revenue growth led by start of commercial operations of power plants; high interest and depreciation cost to mute the earnings growth**

We expect GVKPIL to report very strong revenues of Rs4.6 bn in 2QFY10E, more than three times the revenues reported in 1QFY09 (Rs1.1 bn). This strong growth is primarily led by the start of commercial operations of the Jegurupadu II and Gautami power plants since May-June 2009. However, despite the strong revenue growth, we expect the net earnings of the company to grow by only 35.8% on a yoy basis to Rs414 mn. The decline in profitability would be due to higher depreciation and interest costs led by depreciation and interest charges on the power plants that have recently started.

GVKPIL - consolidated 2QFY10E results - key numbers (Rs mn)

	2QFY10E	2QFY09	1QFY10	%chg.		FY2010E	FY2009	% chg.
				2QFY09	1QFY10			
<b>Net sales</b>	<b>4,607</b>	<b>1,095</b>	<b>3,322</b>	<b>320.7</b>	<b>38.7</b>	<b>19,126</b>	<b>5,138</b>	<b>272.3</b>
Cost of goods sold	(3,225)	(627)	(2,378)	414.2	35.6	(13,077)	(3,375)	287.5
<b>EBITDA</b>	<b>1,382</b>	<b>468</b>	<b>944</b>	<b>195.4</b>	<b>46.4</b>	<b>6,049</b>	<b>1,763</b>	<b>243.1</b>
Depreciation	(376)	(198)	(358)	90.4	5.0	(2,258)	(780)	189.7
EBIT	1,006	270	586	272.3	71.8	3,791	983	285.5
Interest (expense)	(617)	(83)	(307)	644.4	101.2	(2,468)	(334)	639.3
Other income	-	60	38	(100.0)	(100.0)	9	202	(95.7)
<b>Pre-tax profit</b>	<b>389</b>	<b>247</b>	<b>317</b>	<b>57.1</b>	<b>22.7</b>	<b>1,331</b>	<b>851</b>	<b>56.4</b>
Income tax	(97)	(27)	(80)	258.5	20.8	(571)	(101)	463.3
Minority interest	(11)	(1)	(22)	2,141.1	(49.3)	(45)	(3)	1,368.2
Share from associates	134	85	113	57.3	18.0	534	316	69.3
<b>Net profit</b>	<b>414</b>	<b>305</b>	<b>327</b>	<b>35.8</b>	<b>26.4</b>	<b>1,249</b>	<b>1,072</b>	<b>16.5</b>
<b>Key ratios (%)</b>								
<b>EBITDA margin</b>	<b>30.0</b>	<b>42.7</b>	<b>28.4</b>			<b>31.6</b>	<b>34.3</b>	
PBT margin	8.4	22.6	9.5			7.0	16.6	
PAT margin	9.0	27.8	9.9			6.5	20.9	
Effective tax rate	25.0	11.0	25.4			42.9	11.9	

Source: Company, Kotak Institutional Equities estimates

## IRB Infrastructure Developers

### IRB Infrastructure Developers – traffic growth would be key factor to watch for; construction segment may remain strong

High construction segment revenues (up 173% yoy) and start of toll collections at the Surat-Dahisar project are likely to boost the revenue growth of IRB. We expect the company to report revenues of Rs4.5 bn in 2QFY10E—more than double its reported revenues in 2QFY09. We expect margins to decline significantly to 42.6% for the quarter from 48.9% in 2QFY09 led by lower toll segment margins.

IRB - 2QFY10E consolidated revenue model (Rs mn)

	2QFY10E	2QFY09	1QFY10	% chg.		FY2010E	FY2009	% chg.
				2QFY09	1QFY10			
<b>Operating income</b>	<b>4,456</b>	<b>2,016</b>	<b>4,141</b>	<b>121.0</b>	<b>7.6</b>	<b>20,855</b>	<b>9,919</b>	<b>110.3</b>
Construction	2,774	1,015	2,750	173.2	0.9	12,329	5,629	119.0
Toll collection BOT	1,682	1,082	1,607	55.4	4.6	8,526	4,437	92.2
Real estate	-	1,015	-			-	-	
Total operating costs	(2,557)	(1,031)	(2,480)	148.0	3.1	(11,533)	(5,545)	108.0
<b>EBITDA</b>	<b>1,898</b>	<b>985</b>	<b>1,662</b>	<b>92.7</b>	<b>14.2</b>	<b>9,322</b>	<b>4,374</b>	<b>113.1</b>
Other income	94	82	215	15.5	(56.2)	377	296	27.4
PBDIT	1,993	1,067	1,877	86.8	6.2	9,699	4,670	107.7
Financial charges	(398)	(304)	(467)	30.8	(14.9)	(2,894)	(1,377)	110.2
Depreciation	(361)	(271)	(376)	33.1	(4.0)	(1,965)	(1,144)	71.8
<b>Pre-tax profit</b>	<b>1,234</b>	<b>491</b>	<b>1,033</b>	<b>151.3</b>	<b>19.4</b>	<b>4,840</b>	<b>2,149</b>	<b>125.2</b>
Taxation	(247)	(79)	(182)	213.0	35.7	(983)	(378)	160.2
<b>Adjusted PAT</b>	<b>987</b>	<b>412</b>	<b>851</b>	<b>139.5</b>	<b>15.9</b>	<b>3,858</b>	<b>1,772</b>	<b>117.7</b>
<b>Key Ratios (%)</b>								
EBITDA margin	42.6	48.9	40.1			44.7	44.1	
PBT margin	27.7	24.3	24.9			23.2	21.7	
Effective tax rate	20.0	16.1	17.6			20.3	17.6	
PAT margin	22.1	20.4	20.6			18.5	17.9	

Source: Company, Kotak Institutional Equities estimates

OCTOBER 15, 2009

UPDATE

BSE-30: 17,231

**Reforms and regulations—evolving face of the power sector.** Amongst other regulatory reforms, CERC proposes to increase trading margins on the short-term sale of power from the Rs0.04/kwh margin cap imposed on power trading companies. We review the recent spate of regulations and reforms announced, which balance the need for encouraging investments in the power sector with ensuring rationalization of tariffs for the end-consumer.

#### Proposed revision in trading margins augurs well for near-term earnings

CERC has proposed to increase trading margins on the short-term sale of power to 1.5% of selling price replacing the extant blanket cap on trading margins of Rs0.04/kwh. However, the proposed revision in trading margin continues to maintain a cap on margins at Rs0.07/kwh for power traded above Rs3/kwh and Rs0.04/kwh for power traded below Rs3/kwh. In our view, while the recommended change is positive for near-term earnings of PTC and other trading companies, our assessment of sustainable short-term tariffs of Rs3/kwh leaves offers limited revision of trading margins in the long term.

We also seek clarification on applicable trading margin for long-term PPAs, which currently attract the Rs0.04/kwh cap on trading margin, and are likely to command a larger share of trading volumes for PTC in the medium-to-long term. We note that in FY2009, out of ~15 bn units traded by PTC, ~5 bn units were imports of power from Bhutan, while of the remaining 10 bn units, ~5.2 bn units (35% of total power traded) were traded at a price in excess of Rs4.67/kwh (tariff price attracting margin cap of Rs0.07/kwh).

#### Unscheduled interchange charges revised upwards

Unscheduled interchange (UI) charges are proposed to be revised upwards, increasing the maximum charge to Rs9.07/kwh from Rs7.45/kwh, currently taking cognizance of the increased cost of generation from marginal fuel sources such as naphtha and RLNG. The revised UI rates benefit for large generation companies such as NTPC, which earned ~Rs8.6 bn in FY2009 from UI charges, as well as power projects such as Mundra I (Adani Power) and Amarkantak (Lanco), which currently sell power on an 'infirm' basis at UI rates pending announcement of commercial operation.

We note that the upward revision in UI charges may discourage power utilities from resorting to over-draw of power, incentivizing better demand forecast and encouraging purchases from the short-term market in the long-term.

#### Mega power policy extends ambit for qualifying projects

The Union Cabinet recently approved the long-standing changes proposed in the mega power policy, extending the ambit of projects qualifying for the fiscal benefits. The changes will likely encourage investment in the power sector and make lower cost of power available to the end-consumer. The amended policy envisages reduced capital cost for competitively-bid projects selling power to single states as well as to expansion units of extant 'mega power projects'. The amended mega power policy drops the conditions of (1) privatization of distribution by purchasing states, and (2) requirement for inter-state sale of power. The benefits of mega power status have also been extended to (1) brown-field expansions of existing mega power projects and (2) power projects selling power outside long-term PPAs., although in accordance with the Tariff Policy 2006.

#### QUICK NUMBERS

- **Cap on trading margin revised upwards**
- **Maximum UI charge increased to Rs9.07/kwh**

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### Tariff guidelines for renewable energy—ensuring visibility on long-term tariffs

CERC recently introduced tariff guideline for power generation from renewable sources, extending the benefit of assured post-tax returns on investment for renewable energy-based power generation. Key features of the tariff guideline include (1) 19% pre-tax returns for first ten years and 24% pre-tax returns for next fifteen years, and (2) specified normative parameters for each source of renewable energy-based generation, ensuring long-term visibility for tariff determination.

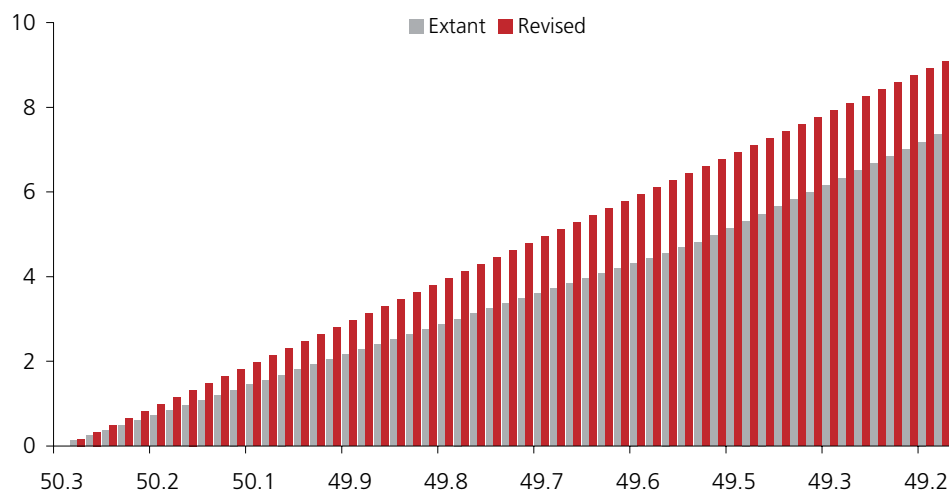
Upward revision in trading margins augurs well for near-term earnings for power trading companies due to increasing trend of short-term prices

Price-volume data for short-term power trading, March fiscal year-ends, 2005-08

Sale price Rs/kWh	% volumes in short-term trading								
	2005	2006	2007	2008	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10
0-1									
0-2	10.2		1.7	27.3					
2-3	87.6	36.0	9.2	15.3					
3-4	2.2	59.5	11.9						
4-5		4.6	47.9	23.6					
5-6			26.2						
6-8			3.1	30.5					
8-10				3.2					
10-12				0.0					
<b>Weighted avg. price</b>		<b>3.23</b>	<b>4.51</b>	<b>4.52</b>	<b>7.24</b>	<b>6.91</b>	<b>7.89</b>	<b>7.08</b>	<b>6.37</b>

Source: CERC, Kotak Institutional Equities

Increase in UI charges to benefit power stations in the near-term, rationalize over-drawl by distribution companies in the long-term  
UI charges (Rs/kwh) at various frequency levels (Hz)



Note:

(a) Each 0.02 Hz step is equivalent to Rs0.12/kwh in the 50.3-49.5 Hz frequency range and to Rs0.17/kwh in the 49.5-49.2 Hz frequency range under the extant norms, while each 0.02 Hz step is equivalent to Rs0.165/kwh under the proposed norms.

(b) As demand-supply balance becomes unfavourable, frequency of the grid drops.

Source: Kotak Institutional Equities

## Kotak Institutional Equities: Valuation summary of key Indian companies

Company	14-Oct-09		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target	ADVT-	
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	shares (mn)	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	price (Rs)	Upside (%)	3mo (US\$ mn)
<b>Automobiles</b>																													
Ashok Leyland	43	ADD	56,739	1,230	1,330	1.5	2.3	2.4	(57.8)	50.3	5.8	27.9	18.6	17.5	15.8	10.2	8.4	1.5	1.5	1.4	2.3	2.3	2.3	6.2	8.1	8.2	37	(13.2)	4.6
Bajaj Auto	1,605	ADD	232,174	5,032	145	45.2	85.7	100.6	(13.4)	89.6	17.3	35.5	18.7	16.0	18.8	11.1	9.9	12.4	8.4	6.0	1.2	1.2	1.2	37.7	53.4	43.7	1,260	(21.5)	7.9
Hero Honda	1,644	REDUCE	328,277	7,116	200	64.2	87.7	95.2	32.5	36.6	8.5	25.6	18.7	17.3	15.2	11.3	10.0	8.4	6.4	5.0	1.2	1.3	1.3	36.6	38.8	32.7	1,330	(19.1)	22.2
Mahindra & Mahindra	971	ADD	286,180	6,203	295	30.0	56.0	59.4	(19.8)	86.4	6.1	32.3	17.3	16.3	22.8	11.8	10.5	5.4	3.8	3.1	1.0	1.0	1.0	17.4	25.9	21.1	1,000	3.0	30.1
Maruti Suzuki	1,520	SELL	439,164	9,919	289	42.2	73.1	77.2	(29.6)	73.3	5.6	36.0	20.8	19.7	21.8	11.7	10.5	4.6	3.8	3.2	0.2	0.3	0.3	13.5	20.1	17.8	1,160	(23.7)	36.3
Tata Motors	575	SELL	328,331	7,117	571	20.8	30.4	34.8	(58.3)	46.5	14.4	27.7	18.9	16.5	17.5	11.0	9.8	2.5	2.0	1.8	0.9	1.0	1.0	9.1	11.7	11.6	465	(19.1)	81.4
Automobiles		<b>Cautious</b>	<b>1,670,865</b>	<b>36,217</b>					<b>(24.8)</b>	<b>69.6</b>	<b>10.3</b>	<b>32.2</b>	<b>19.0</b>	<b>17.2</b>	<b>18.7</b>	<b>11.3</b>	<b>10.1</b>	<b>4.5</b>	<b>3.5</b>	<b>3.0</b>	<b>0.9</b>	<b>1.0</b>	<b>1.0</b>	<b>13.9</b>	<b>18.6</b>	<b>17.5</b>			
<b>Banks/Financial Institutions</b>																													
Andhra Bank	106	BUY	51,531	1,117	485	13.5	13.8	15.2	13.5	2.1	10.5	7.9	7.7	7.0	--	--	--	1.4	1.3	1.1	4.2	3.2	3.6	18.9	17.2	16.8	120	12.9	1.9
Axis Bank	1,032	ADD	392,319	8,504	380	50.6	61.8	71.6	56.9	22.2	15.9	20.4	16.7	14.4	--	--	--	3.8	2.5	2.2	0.9	1.2	1.4	19.1	18.0	16.9	980	(5.1)	66.1
Bank of Baroda	510	ADD	186,309	4,038	366	60.9	63.9	65.6	55.1	4.9	2.6	8.4	8.0	7.8	--	--	--	1.6	1.4	1.2	1.8	1.9	1.9	21.4	19.0	16.8	520	2.0	6.8
Bank of India	439	REDUCE	230,771	5,002	526	57.2	55.0	64.0	40.7	(3.8)	16.4	7.7	8.0	6.9	--	--	--	2.0	1.6	1.4	1.8	1.8	2.0	29.2	22.3	21.6	420	(4.3)	17.3
Canara Bank	368	ADD	150,778	3,268	410	50.5	51.7	61.2	32.4	2.4	18.4	7.3	7.1	6.0	--	--	--	1.5	1.3	1.1	2.2	2.2	2.7	18.3	16.2	16.8	385	4.7	5.4
Corporation Bank	447	BUY	64,081	1,389	143	62.3	58.0	61.8	21.5	(6.8)	6.5	7.2	7.7	7.2	--	--	--	1.3	1.2	1.0	2.8	2.6	2.8	19.6	16.0	15.1	500	11.9	0.9
Federal Bank	235	BUY	40,201	871	171	27.8	34.3	39.9	(19.2)	23.6	16.1	8.5	6.8	5.9	--	--	--	0.9	0.8	0.8	2.2	2.7	3.2	11.5	12.9	13.5	340	44.7	3.9
HDFC	2,801	ADD	796,645	17,268	284	80.2	99.6	117.1	(6.4)	24.1	17.6	34.9	28.1	23.9	--	--	--	6.1	5.5	4.9	1.1	1.2	1.5	18.2	20.0	20.8	2,575	(8.1)	55.4
HDFC Bank	1,702	REDUCE	769,495	16,679	452	52.8	66.5	82.3	17.6	26.0	23.8	32.3	25.6	20.7	--	--	--	5.1	3.6	3.2	0.6	0.7	0.9	16.9	16.5	16.3	1,600	(6.0)	36.8
ICICI Bank	921	REDUCE	1,025,340	22,225	1,113	33.8	37.9	49.2	(15.4)	12.3	29.8	27.3	24.3	18.7	--	--	--	2.1	2.0	1.8	1.2	1.4	1.8	7.8	8.3	10.2	850	(7.7)	141.2
IDFC	155	ADD	200,768	4,352	1,295	5.8	7.7	8.7	1.9	33.9	12.6	26.8	20.0	17.8	--	--	--	3.3	2.9	2.5	0.8	0.8	0.9	12.9	15.4	15.3	140	(9.7)	40.8
India Infoline	162	ADD	50,480	1,094	312	5.1	7.7	8.2	(8.7)	50.5	7.3	31.7	21.1	19.6	--	--	--	4.1	3.4	2.9	1.6	2.0	2.4	11.9	17.5	17.2	145	(10.4)	19.7
Indian Bank	184	BUY	78,970	1,712	430	28.0	31.6	34.4	24.1	13.0	8.7	6.6	5.8	5.3	--	--	--	1.4	1.2	1.0	2.7	3.0	3.2	22.9	21.7	20.0	215	17.0	3.3
Indian Overseas Bank	134	BUY	72,867	1,579	545	24.3	21.4	29.2	10.3	(12.1)	36.4	5.5	6.2	4.6	--	--	--	1.2	1.0	0.9	3.9	2.8	3.1	22.1	15.3	18.1	165	23.4	4.9
J&K Bank	590	ADD	28,589	620	48	84.5	94.6	105.9	13.8	11.9	12.0	7.0	6.2	5.6	--	--	--	1.2	1.1	1.0	2.9	3.2	3.6	16.7	16.4	16.2	650	10.3	1.2
LIC Housing Finance	803	NR	68,252	1,479	85	62.5	68.8	80.3	37.3	10.0	16.8	12.8	11.7	10.0	--	--	--	2.9	2.4	2.0	1.7	1.9	2.2	26.2	23.9	23.4	--	--	23.4
Mahindra & Mahindra Financial	262	ADD	25,112	544	96	22.4	26.7	28.8	7.5	19.0	8.1	11.7	9.8	9.1	--	--	--	1.8	1.5	1.4	2.1	2.5	2.7	15.4	16.4	15.8	270	2.9	0.7
Oriental Bank of Commerce	253	REDUCE	63,299	1,372	251	36.1	35.3	37.0	51.4	(2.3)	4.8	7.0	7.2	6.8	--	--	--	1.2	1.1	1.0	2.9	2.8	3.0	13.7	11.5	11.2	250	(1.0)	5.0
PFC	236	SELL	270,471	5,863	1,148	33.0	18.0	20.0	14.3	38.6	11.1	18.1	13.1	11.8	--	--	--	2.4	2.2	1.9	1.2	2.3	2.5	13.8	17.3	17.2	185	(21.5)	4.8
Punjab National Bank	851	BUY	268,354	5,817	315	98.0	104.3	119.6	50.9	6.4	14.7	8.7	8.2	7.1	--	--	--	2.0	1.7	1.4	2.3	2.5	2.8	25.8	22.8	22.0	890	4.6	14.4
Reliance Capital	935	ADD	230,110	4,988	246	39.3	29.0	28.9	(5.6)	(26.2)	(0.5)	23.8	32.2	32.4	--	--	--	3.4	3.1	2.9	0.6	0.5	0.5	15.3	10.2	9.3	875	(6.4)	114.3
Rural Electrification Corp.	207	ADD	177,558	3,849	859	16.5	19.6	21.3	50.7	19.1	8.8	12.6	10.6	9.7	--	--	--	2.5	2.1	1.8	1.0	1.7	1.9	21.2	21.5	19.9	190	(8.1)	7.9
Shriram Transport	383	BUY	81,094	1,758	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	12.2	3.6
SREI	82	BUY	9,518	206	116	7.0	8.7	8.4	(24.7)	23.4	(3.6)	11.6	9.4	9.8	--	--	--	0.9	0.8	0.7	1.2	1.5	1.5	12.8	11.9	11.4	115	40.5	3.1
State Bank of India	2,272	BUY	1,442,734	31,272	635	143.7	148.7	172.2	34.8	3.5	15.8	15.8	15.3	13.2	--	--	--	2.5	2.2	2.0	1.3	1.3	1.4	17.1	15.3	15.7	2,200	(3.2)	105.6
Union Bank	250	BUY	126,052	2,732	505	34.2	34.0	37.3	24.5	(0.6)	9.6	7.3	7.3	6.7	--	--	--	1.8	1.5	1.3	2.0	2.0	2.2	27.2	22.1	20.3	300	20.2	5.3
Banks/Financial Institutions		<b>Attractive</b>	<b>6,901,698</b>	<b>149,598</b>					<b>26.8</b>	<b>9.4</b>	<b>16.1</b>	<b>15.9</b>	<b>14.5</b>	<b>12.5</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>2.6</b>	<b>2.2</b>	<b>1.9</b>	<b>1.3</b>	<b>1.5</b>	<b>1.7</b>	<b>16.1</b>	<b>15.2</b>	<b>15.5</b>			
<b>Cement</b>																													
ACC	788	REDUCE	148,002	3,208	188	56.3	74.0	57.1	(12.2)	31.6	(22.8)	14.0	10.6	13.8	7.0	5.4	6.2	2.8	2.3	2.1	3.0	3.0	3.0	24.7	27.1	18.4	875	11.1	13.7
Ambuja Cements	94	REDUCE	143,179	3,103	1,522	7.2	7.9	6.6	(5.0)	10.2	(16.8)	13.1	11.9	14.3	7.0	6.6	7.4	2.4	2.1	1.9	3.2	2.0	2.3	19.7	19.1	14.1	85	(9.6)	10.8
Grasim Industries	2,404	REDUCE	220,395	4,777	92	238.6	252.3	266.5	(16.2)	5.8	5.6	10.1	9.5	9.0	5.9	4.8	4.5	1.9	1.6	1.4	1.4	1.4	1.4	21.1	18.4	16.8	2,560	6.5	14.5
India Cements	125	ADD	35,417	768	282	17.8	19.4	15.2	n/a	9.1	(21.8)	7.1	6.5	8.3	5.1	4.0	4.5	0.9	0.8	0.8	1.4	1.7	2.5	14.8	14.6	10.4	155	23.6	9.1
Shree Cement	1,573	BUY	54,781	1,187	35	174.7	209.9	195.6	93.7	20.1	(6.8)	9.0	7.5	8.0	6.1	4.3	4.0	4.6	2.8	2.1	0.7	0.7	0.7	65.7	46.0	29.4	2,000	27.2	1.3
UltraTech Cement	812	BUY	101,055	2,190	124	78.8	90.2	73.8	(3.1)	14.5	(18.2)	10.3	9.0	11.0	6.1	4.8	5.4	2.3	1.9	1.6	0.7	1.0	1.0	31.1	27.3	18.3	900	10.9	4.8
Cement		<b>Neutral</b>	<b>702,830</b>	<b>15,234</b>					<b>(8.0)</b>	<b>13.7</b>	<b>(10.5)</b>	<b>10.9</b>	<b>9.6</b> </																

## Kotak Institutional Equities: Valuation summary of key Indian companies

Company	14-Oct-09		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)		EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)		Target Price	Upside	ADVT-3mo			
	Price (Rs)	Rating	(Rs mn)	(US\$ 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)	
<b>Energy</b>																														
Bharat Petroleum	546	BUY	179,121	3,883	328	20.6	79.8	65.0	(50.1)	287.1	(18.5)	26.5	6.8	8.4	7.3	4.9	5.3	1.3	1.2	1.1	1.4	6.5	5.3	5.3	18.9	13.8	675	23.5	10.1	
Cairn India	281	REDUCE	532,015	11,532	1,897	8.3	25.4	30.2	93	207	18.9	34	11	9.3	16.5	7.5	6.5	1.5	1.5	1.5	—	7.1	8.9	4.6	13.6	16.1	225	(19.8)	19.5	
Castrol India (a)	554	ADD	68,497	1,485	124	21.3	31.1	32.0	20.8	45.9	3.0	26.0	17.8	17.3	14.9	10.7	10.2	15.3	13.4	12.1	2.7	4.0	4.2	61.2	80.2	73.5	480	(13.4)	1.6	
GAIL (India)	377	ADD	478,217	10,366	1,268	22.2	20.9	22.9	8.7	(5.8)	9.6	17.0	18.1	16.5	9.1	10.4	10.3	3.0	2.7	2.5	1.9	2.1	2.1	17.5	14.7	14.8	355	(5.8)	18.2	
GSPL	82	REDUCE	46,149	1,000	563	2.2	5.0	9.6	21.7	127.0	92.7	37.4	16.5	8.5	12.8	7.4	4.7	3.5	3.0	3.1	0.9	2.1	11.7	9.6	19.6	35.9	9.0	9.8	9.3	
Hindustan Petroleum	379	BUY	128,434	2,784	339	17.0	73.1	58.5	(49.3)	330.9	(19.9)	22.3	5.2	6.5	3.4	2.0	2.3	1.0	0.9	0.9	1.4	7.9	6.3	4.4	17.7	12.8	525	38.6	11.8	
Indian Oil Corporation	642	BUY	757,006	16,408	1,179	19.7	101.8	79.3	(67.9)	416.7	(22.1)	32.6	6.3	8.1	8.7	4.4	4.3	1.6	1.4	1.3	1.2	6.3	4.9	4.8	22.6	15.6	800	24.6	9.8	
Oil India	1,190	BUY	270,505	5,863	227	101.1	123.1	133.5	—	21.7	8.5	11.8	9.7	8.9	5.4	3.4	2.7	2.6	1.9	1.7	2.4	4.1	4.7	20.1	18.0	18.4	1,350	13.4	—	
Oil & Natural Gas Corporation	1,262	BUY	2,699,382	58,511	2,139	89.6	115.8	136.4	(3.4)	29.2	17.8	14.1	10.9	9.2	5.2	4.1	3.3	2.3	2.1	1.8	2.5	3.3	3.8	16.6	18.9	19.8	1,400	10.9	49.6	
Petronet LNG	74	REDUCE	55,763	1,209	750	6.9	7.2	8.6	—	3.6	19.6	10.8	10.4	8.7	7.7	6.9	5.9	2.5	2.1	1.7	2.4	2.7	3.0	23.9	20.6	20.6	64	(13.9)	6.2	
Reliance Industries	2,184	SELL	3,182,379	68,980	1,457	101.2	104.2	150.7	(3.6)	3.0	44.5	21.6	21.0	14.5	13.1	9.4	7.1	2.7	2.3	2.1	0.6	0.7	0.9	15.1	13.5	17.2	1,750	(19.9)	222.8	
<b>Energy</b>		<b>Cautious</b>	<b>8,986,742</b>	<b>194,792</b>					<b>(6.8)</b>	<b>56.9</b>	<b>18.5</b>	<b>19.5</b>	<b>12.4</b>	<b>10.5</b>	<b>8.8</b>	<b>6.1</b>	<b>5.1</b>	<b>2.3</b>	<b>2.1</b>	<b>1.9</b>	<b>1.3</b>	<b>2.8</b>	<b>3.1</b>	<b>12.0</b>	<b>16.6</b>	<b>17.7</b>				
<b>Industrials</b>																														
ABB	803	REDUCE	170,194	3,689	212	25.8	23.3	30.0	11.3	(9.8)	28.6	31.1	34.5	26.8	18.5	19.4	14.9	8.0	6.7	5.5	0.3	0.4	0.4	29.2	21.3	22.7	660	(17.8)	7.6	
BGR Energy Systems	501	ADD	36,065	782	72	16.0	26.0	35.3	32.2	62.3	35.8	31.2	19.3	14.2	17.7	11.3	9.0	6.4	5.1	3.9	0.6	0.9	1.2	22.3	29.4	31.2	530	5.8	3.5	
Bharat Electronics	1,545	ADD	123,628	2,680	80	103.8	115.1	125.7	1.8	10.9	9.1	14.9	13.4	12.3	7.4	6.1	5.3	3.2	2.7	2.3	1.2	1.6	1.6	20.7	21.6	20.1	1,500	(2.9)	3.0	
Bharat Heavy Electricals	2,498	ADD	1,222,723	26,503	490	63.9	93.3	115.2	9.4	46.1	23.4	39.1	26.8	21.7	21.5	15.1	12.0	9.5	7.5	5.9	0.7	0.8	1.0	26.4	31.2	30.5	2,425	(2.9)	48.6	
Crompton Greaves	359	ADD	131,609	2,853	367	15.3	17.7	20.3	37.3	15.3	15.0	23.4	20.3	17.6	12.5	10.9	9.3	7.2	5.5	4.4	0.6	0.6	0.7	35.9	30.8	27.6	315	(12.3)	5.6	
Larsen & Toubro	1,690	ADD	996,622	21,602	590	50.1	62.1	78.4	32.1	24.0	26.1	33.7	27.2	21.6	21.1	15.6	12.8	6.6	4.9	4.0	0.6	0.7	0.7	21.7	20.5	20.4	1,725	2.1	75.3	
Maharashtra Seamless	329	BUY	23,229	504	71	35.9	33.0	35.3	22.2	(7.9)	6.9	9.2	10.0	9.3	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	(13.5)	1.2	
Siemens	587	ADD	197,845	4,288	337	14.2	22.8	22.7	(22.2)	61.0	(0.5)	41.4	25.7	25.9	20.0	15.0	15.2	8.8	7.2	5.9	0.5	1.2	0.8	23.3	30.8	25.2	515	(12.2)	7.5	
Suzlon Energy	86	ADD	143,678	3,114	1,679	7.2	1.5	5.5	9.9	(78.6)	252.9	11.8	55.3	15.7	8.1	10.3	7.6	1.4	1.2	1.1	—	—	0.2	11.5	2.3	7.3	110	28.6	119.6	
<b>Industrials</b>		<b>Attractive</b>	<b>3,045,595</b>	<b>66,015</b>					<b>13.1</b>	<b>18.6</b>	<b>26.5</b>	<b>30.8</b>	<b>25.9</b>	<b>20.5</b>	<b>17.0</b>	<b>13.9</b>	<b>11.3</b>	<b>6.0</b>	<b>4.8</b>	<b>4.0</b>	<b>0.6</b>	<b>0.7</b>	<b>0.8</b>	<b>19.5</b>	<b>18.5</b>	<b>19.5</b>				
<b>Infrastructure</b>																														
GMR Infrastructure	72	ADD	132,391	2,870	1,834	0.8	0.5	0.4	(33.5)	(38.3)	(6.8)	94.1	152.4	163.5	20.1	14.6	10.8	1.6	1.3	1.2	—	—	—	4.4	2.6	2.4	68	(5.8)	14.9	
GVK Power & Infrastructure	47	BUY	74,539	1,616	1,579	0.8	0.8	1.0	(20.6)	3.7	31.1	61.9	59.7	45.5	54.9	18.1	16.7	3.2	2.4	2.3	—	—	—	0.6	4.8	4.6	5.1	5.0	5.9	16.1
IRB Infrastructure	250	ADD	83,124	1,802	332	5.3	10.6	13.5	54.3	101.2	27.0	47.3	23.5	18.5	23.5	12.0	10.7	4.6	3.7	3.0	0.5	—	—	10.1	17.3	18.0	200	(20.0)	9.8	
<b>Infrastructure</b>		<b>Attractive</b>	<b>290,054</b>	<b>6,287</b>					<b>22.5</b>	<b>16.0</b>	<b>18.8</b>	<b>51.6</b>	<b>44.5</b>	<b>37.4</b>	<b>25.0</b>	<b>14.5</b>	<b>11.9</b>	<b>2.3</b>	<b>1.9</b>	<b>1.7</b>	<b>0.1</b>	<b>—</b>	<b>0.2</b>	<b>4.5</b>	<b>4.2</b>	<b>4.6</b>				
<b>Media</b>																														
DishTV	47	REDUCE	44,858	972	946	(6.6)	(3.3)	(1.5)	n/a	(49.1)	(53.9)	(7.2)	(14.2)	(30.7)	(40.5)	57.0	17.0	(2.7)	(42.3)	(17.8)	—	—	—	83.9	86.7	NA	35	(26.2)	11.1	
HT Media	131	ADD	30,762	667	235	0.8	5.0	6.6	(80.5)	489.0	32.0	155.0	26.3	19.9	35.0	13.0	10.4	3.6	3.3	3.0	0.2	0.8	1.5	2.3	13.0	15.7	125	(4.5)	0.5	
Jagran Prakashan	106	ADD	32,029	694	301	3.0	5.1	6.0	(6.6)	66.7	17.5	35.0	21.0	17.8	19.8	12.2	10.2	5.7	5.3	4.8	1.9	2.9	3.1	16.7	26.2	28.2	110	3.4	1.0	
Sun TV Network	326	REDUCE	128,293	2,781	394	9.1	11.4	13.3	9.5	25.1	17.1	35.9	28.7	24.5	19.0	16.3	13.6	7.3	6.3	5.7	0.8	1.2	1.8	22.5	24.0	24.6	245	(24.7)	2.1	
Zee Entertainment Enterprises	255	REDUCE	110,605	2,397	434	8.4	10.1	12.3	(4.8)	19.6	21.9	30.2	25.2	20.7	20.9	17.8	14.4	3.2	2.9	2.7	0.8	0.9	1.1	11.8	12.4	13.9	175	(31.3)	9.8	
Zee News	46	ADD	11,043	239	240	1.9	2.1	2.7	20.4	11.7	29.6	24.7	22.1	17.1	12.4	10.5	8.7	4.5	3.9	3.3	0.9	0.9	1.5	20.1	19.2	21.4	48	4.2	0.9	
<b>Media</b>		<b>Neutral</b>	<b>357,589</b>	<b>7,751</b>					<b>(21.0)</b>	<b>110.0</b>	<b>47.4</b>	<b>84.4</b>	<b>40.2</b>	<b>27.3</b>	<b>26.0</b>	<b>17.3</b>	<b>13.2</b>	<b>5.7</b>	<b>4.7</b>	<b>4.4</b>	<b>0.7</b>	<b>1.1</b>	<b>1.5</b>	<b>6.7</b>	<b>11.8</b>	<b>16.0</b>				
<b>Metals</b>																														
Hindalco Industries	135	BUY	237,304	5,144	1,753	2.8	3.5	11.1	(77.9)	25.5	218.4	48.9	39.0	12.2	13.0	9.6	7.5	0.8	0.8	0.8	—	—	—	10.3	5.2	6.5	135	(0.3)	37.4	
National Aluminium Co.	356	SELL	229,407	4,973	644	19.7	13.7	20.4	(22.0)	(30.6)	48.8	18.0	26.0	17.5	9.3	9.9	6.8	2.2	2.0	1.9	1.0	0.6	0.6	12.7	8.1	11.1	290	(18.6)	2.6	
Jindal Steel and Power	670	SELL	618,647	13,410	924	198.0	41.2	39.4	139.3	(79.2)	(4.3)	3.4	16.3	17.0	13.0	10.5	10.2	8.2	5.4	4.1	0.2	0.2	0.2	51.9	40.4	27.6	358	(46.5)	77.6	
JSW Steel	913	SELL	170,701	3,700	187	13.1	36.8	65.9	(84.7)	180.1	79.1	6																		



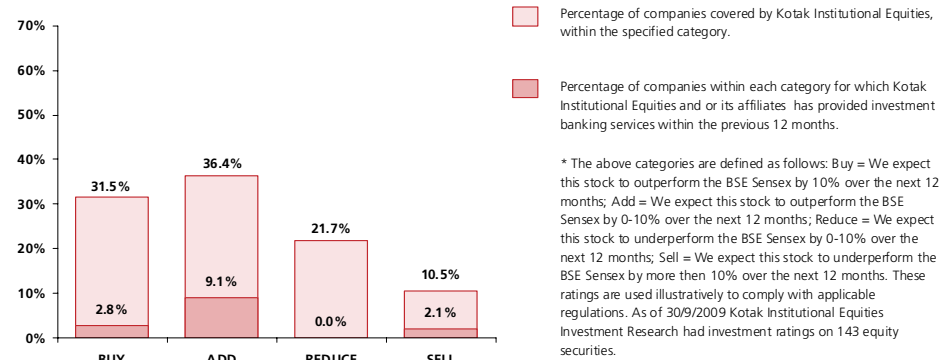
Kotak Institutional Equities: Valuation summary of key Indian companies

Company	14-Oct-09		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target	ADVT-	
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	shares (mn)	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	price (Rs)	Upside (%)	3mo (US\$ mn)
<b>Retail</b>																													
Titan Industries	1,444	REDUCE	64,111	1,390	44	44.3	49.4	58.7	26.4	11.6	18.7	32.6	29.2	24.6	19.6	17.9	15.0	11.1	8.5	6.7	0.7	0.7	0.8	37.5	33.1	30.6	1,040	(28.0)	2.4
<b>Retail</b>		<b>Neutral</b>	<b>64,111</b>	<b>1,390</b>					<b>26.4</b>	<b>11.6</b>	<b>18.7</b>	<b>32.6</b>	<b>29.2</b>	<b>24.6</b>	<b>19.6</b>	<b>17.9</b>	<b>15.0</b>	<b>11.1</b>	<b>8.5</b>	<b>6.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.8</b>	<b>34.1</b>	<b>29.3</b>	<b>27.4</b>			
<b>Sugar</b>																													
Bajaj Hindustan	203	SELL	38,798	841	191	(1.0)	23.9	17.7	(92.1)	(2,491.2)	(25.8)	(203.2)	8.5	11.4	13.1	6.2	6.0	1.9	1.5	1.3	0.3	0.3	0.3	(1.2)	19.4	12.0	150	(26.0)	26.1
Balrampur Chini Mills	136	ADD	34,778	754	256	10.0	13.4	13.0	223.2	34.5	(2.9)	13.6	10.1	10.4	7.9	6.0	5.7	2.5	2.0	1.7	0.3	—	0.3	20.2	22.1	17.8	140	2.9	17.7
Shree Renuka Sugars	207	BUY	69,157	1,499	335	8.1	24.2	20.4	88.3	198.6	(15.9)	25.5	8.5	10.1	13.2	5.0	5.4	4.0	2.4	1.9	0.1	0.2	0.2	20.7	34.9	20.8	235	13.8	24.2
<b>Sugar</b>		<b>Attractive</b>	<b>142,733</b>	<b>3,094</b>					<b>3,055.5</b>	<b>217.4</b>	<b>(15.9)</b>	<b>28.1</b>	<b>8.9</b>	<b>10.5</b>	<b>11.5</b>	<b>5.6</b>	<b>5.7</b>	<b>2.8</b>	<b>2.0</b>	<b>1.6</b>	<b>0.2</b>	<b>0.3</b>	<b>0.2</b>	<b>9.8</b>	<b>22.2</b>	<b>15.6</b>			
<b>Technology</b>																													
HCL Technologies	304	REDUCE	211,558	4,586	695	17.5	16.7	22.8	14.5	(4.6)	36.5	17.4	18.2	13.4	9.8	9.0	8.3	3.7	3.2	2.7	3.9	3.9	3.9	20.9	19.0	22.3	275	(9.7)	12.1
Infosys Technologies	2,256	BUY	1,294,858	28,067	574	102.4	104.5	118.0	29.6	2.0	12.9	22.0	21.6	19.1	16.4	15.3	13.0	7.1	5.7	4.8	1.0	1.1	1.5	36.7	29.4	27.3	2,500	10.8	77.1
Mphasis BFL	634	REDUCE	132,131	2,864	208	14.2	41.5	42.2	15.7	192.6	1.8	44.7	15.3	15.0	34.0	11.2	10.0	9.2	6.0	4.5	0.6	0.7	0.8	22.8	47.7	34.2	450	(29.0)	18.0
Mindtree	572	BUY	23,557	511	41	13.2	39.2	50.1	(50.5)	196.0	27.9	43.2	14.6	11.4	7.4	10.2	7.4	4.3	3.3	2.6	0.3	—	0.9	5.5	25.3	25.1	650	13.6	5.1
Patni Computer Systems	420	REDUCE	53,940	1,169	129	26.8	33.8	36.7	(19.3)	26.1	8.6	15.7	12.4	11.4	7.8	5.9	5.7	2.1	1.7	1.6	0.4	1.6	1.8	16.2	14.8	14.6	320	(23.8)	11.9
Polaris Software Lab	148	SELL	14,642	317	99	13.1	13.8	12.9	76.0	5.4	(6.4)	11.3	10.7	11.5	4.8	5.8	6.1	1.9	1.7	1.5	1.9	1.3	1.3	18.1	16.4	13.6	80	(46.1)	5.9
TCS	593	ADD	1,160,522	25,155	1,957	26.4	31.2	35.3	3.1	17.8	13.3	22.4	19.0	16.8	15.7	13.6	11.8	7.4	5.9	5.0	1.2	1.6	2.4	36.9	34.6	32.2	600	1.2	51.7
Wipro	582	ADD	850,445	18,434	1,462	25.7	28.1	33.1	15.8	9.1	17.7	22.6	20.7	17.6	16.6	14.7	12.3	5.7	4.6	3.9	0.7	1.4	1.6	26.9	24.5	23.8	630	8.3	18.5
<b>Technology</b>		<b>Neutral</b>	<b>3,753,619</b>	<b>81,362</b>					<b>15.3</b>	<b>12.7</b>	<b>14.6</b>	<b>22.1</b>	<b>19.6</b>	<b>17.1</b>	<b>15.4</b>	<b>13.4</b>	<b>11.6</b>	<b>6.2</b>	<b>5.0</b>	<b>4.2</b>	<b>1.1</b>	<b>1.5</b>	<b>1.9</b>	<b>28.1</b>	<b>25.6</b>	<b>24.6</b>			
<b>Telecom</b>																													
Bharti Airtel	340	REDUCE	1,291,550	27,995	3,797	22.3	25.5	23.2	26.4	14.3	(9.2)	15.2	13.3	14.7	9.0	8.0	7.9	4.1	3.1	2.6	0.6	0.9	1.2	31.4	26.7	19.4	325	(4.5)	111.1
IDEA	62	REDUCE	191,197	4,144	3,104	2.9	3.0	1.7	(26.5)	2.9	(43.3)	21.2	20.6	36.4	8.1	7.1	7.6	1.4	1.3	1.2	—	—	—	10.4	6.6	4.0	55	(10.7)	15.7
MTNL	81	SELL	51,188	1,110	630	3.1	(4.8)	(3.9)	(57.1)	(256.5)	(18.1)	26.5	(16.9)	(20.7)	9.0	(11.3)	(38.9)	0.4	0.5	0.5	7.4	—	—	1.1	(2.6)	(2.2)	50	(38.5)	2.6
Reliance Communications	232	SELL	478,233	10,366	2,064	27.7	20.1	17.0	4.7	(27.4)	(15.4)	8.4	11.5	13.6	7.6	8.0	7.3	1.2	1.1	1.0	0.3	—	—	17.0	10.1	7.8	220	(5.0)	66.6
Tata Communications	475	REDUCE	135,332	2,933	285	13.6	14.0	15.2	24.0	3.2	8.2	35.0	33.9	31.3	14.9	13.5	12.5	2.0	1.9	1.8	1.1	1.4	1.6	5.4	5.2	5.5	400	(15.8)	4.1
<b>Telecom</b>		<b>Cautious</b>	<b>2,147,500</b>	<b>46,548</b>					<b>11.1</b>	<b>(4.4)</b>	<b>(11.6)</b>	<b>13.4</b>	<b>14.0</b>	<b>15.8</b>	<b>8.6</b>	<b>8.2</b>	<b>7.9</b>	<b>2.1</b>	<b>1.8</b>	<b>1.6</b>	<b>0.7</b>	<b>0.6</b>	<b>0.8</b>	<b>15.4</b>	<b>12.9</b>	<b>10.3</b>			
<b>Transportation</b>																													
Container Corporation	1,160	ADD	150,809	3,269	130	64.4	67.8	80.3	11.6	5.3	18.5	18.0	17.1	14.4	13.2	11.9	9.9	4.0	3.4	2.9	1.2	1.3	1.6	24.0	21.4	21.7	1,125	(3.0)	1.9
<b>Transportation</b>		<b>Cautious</b>	<b>150,809</b>	<b>3,269</b>					<b>11.6</b>	<b>5.3</b>	<b>18.5</b>	<b>18.0</b>	<b>17.1</b>	<b>14.4</b>	<b>13.2</b>	<b>11.9</b>	<b>9.9</b>	<b>4.0</b>	<b>3.4</b>	<b>2.9</b>	<b>1.2</b>	<b>1.3</b>	<b>1.6</b>	<b>22.1</b>	<b>19.9</b>	<b>20.1</b>			
<b>Utilities</b>																													
CESC	388	ADD	48,419	1,050	125	32.3	37.9	42.0	16.2	17.4	11.0	12.0	10.2	9.2	(0.4)	(0.9)	(0.9)	0.9	0.6	0.5	7.4	12.6	14.4	11.7	11.9	11.6	365	(5.8)	3.5
Lanco Infratech	538	ADD	119,531	2,591	222	14.5	20.8	36.6	(2.5)	43.8	76.2	37.2	25.9	14.7	27.3	18.2	8.8	5.5	4.3	3.3	—	—	—	16.1	18.7	25.2	440	(18.2)	29.0
NTPC	214	SELL	1,767,828	38,319	8,245	9.5	10.8	12.2	1.6	14.1	12.6	22.6	19.8	17.6	17.8	14.6	13.8	3.0	2.8	2.5	1.7	1.9	2.1	13.8	14.5	15.0	180	(16.0)	21.9
Reliance Infrastructure	1,320	BUY	298,982	6,481	226	62.7	63.7	68.6	66.7	1.6	7.8	21.1	20.7	19.2	26.4	23.9	18.9	1.8	1.6	1.5	0.5	0.6	0.7	4.9	6.1	7.8	1,250	(5.3)	78.4
Reliance Power	163	REDUCE	389,832	8,450	2,397	1.0	2.5	3.1	—	141.5	24.4	159.4	66.0	53.1	—	—	—	2.8	2.7	2.6	—	—	—	1.8	4.2	5.0	160	(1.6)	18.5
Tata Power	1,343	ADD	318,969	6,914	237	50.2	74.4	84.1	57.5	48.3	13.0	26.8	18.1	16.0	12.1	12.0	11.5	3.2	2.4	2.2	0.8	0.9	1.0	12.0	15.3	14.4	1,400	4.2	17.0
<b>Utilities</b>		<b>Attractive</b>	<b>2,943,560</b>	<b>63,803</b>					<b>13.9</b>	<b>22.1</b>	<b>14.9</b>	<b>22.5</b>	<b>18.4</b>	<b>16.0</b>	<b>16.0</b>	<b>13.9</b>	<b>12.5</b>	<b>2.6</b>	<b>2.3</b>	<b>2.1</b>	<b>1.4</b>	<b>1.7</b>	<b>1.9</b>	<b>11.7</b>	<b>12.6</b>	<b>13.2</b>			
<b>Others</b>																													
Havells India	317	REDUCE	19,206	416	61	4.9	12.3	19.1	(82)	NA	56.2	NA	25.9	16.6	10.7	8.7	7.6	3.0	3.5	3.0	0.8	0.8	0.8	4.5	12.4	19.3	175	(44.9)	1.5
Jaiprakash Associates	252	REDUCE	354,163	7,677	1,403	3.0	6.7	11.4	(39)	123.8	70.2	84.1	37.6	22.1	26.7	16.1	14.3	6.4	5.4	4.4	—	—	—	8.0	15.5	21.9	220	(12.8)	96.5
Jindal Saw	744	ADD	42,839	929	58	74.3	61.5	61.1	20	(17.2)	(0.7)	10.0	12.1	12.2	6.4	6.8	6.0	1.2	1.1	1.0	0.6	0.5	0.5	11.6	8.9	8.6	470	(36.8)	11.5
PSL	165	BUY	7,178	156	44	22.2	37.6	30.1	5	69.2	(19.8)	7.4	4.4	5.5	4.6	3.7	3.2	1.1	0.9	0.8	3.0	3.9	3.9	11.9	13.4	11.3	160	(2.9)	2.6
Sintex	248	BUY	33,858	734	136	24.0	25.0	27.9	23	4.0	11.7	10.3	9.9	8.9	8.8	7.6	6.1	1.8	1.5	1.3	0.4	0.5	0.5	17.6	15.5	14.7	280	12.9	4.0
Tata Chemicals	282	ADD	68,720	1,490	243	26.6	17.8	26.8	(33)	(33.0)	50.4																		

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As of September 30, 2009

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