

### Contents

#### New Release

**Strategy:** Revised draft of Direct Tax Code - A pragmatic approach

- ▶ Corporate taxation - MAT on book profits versus on assets previously, other modifications
- ▶ Personal taxation - Tax treatment of savings and income from house property
- ▶ Tax on capital gains and DTAA proposals - marginally negative for capital markets

#### Updates

**Larsen & Toubro:** Map out inflow guidance-appears stiff but revenue may have upside

- ▶ Map out likely order inflow mix; power and roads to be key driver; guidance target is very stiff
- ▶ Low 1QFY11 inflow, likely delay in NTPC bulk ordering increases risk
- ▶ Potential upside to revenue guidance even with longer execution cycle; margins likely to decline
- ▶ Marginally revise earnings estimates and target price to Rs1,900/share; reiterate BUY

**Bank of India:** Not yet out of the woods

- ▶ Asset quality yet to reach comfortable levels
- ▶ Target business growth over 20% levels for FY2011E; working capital loan growth remains weak
- ▶ Slowdown in systemic deposit growth rate not an immediate concern

**Chemicals:** India Chemical Monthly, June 2010

- ▶ Asia ethylene prices decline sharply
- ▶ Plastics margins increase in May but decline sharply in the recent weeks
- ▶ Margins for PSF and PFY increase sharply

### EQUITY MARKETS

India	Change %			
	15-Jun	1-day	1-mo	3-mo
Sensex	17,413	0.4	2.5	0.2
Nifty	5,222	0.5	2.5	0.5
<b>Global/Regional indices</b>				
Dow Jones	10,405	2.1	(2.0)	(2.6)
Nasdaq Composite	2,306	2.8	(1.7)	(3.0)
FTSE	5,218	0.3	(0.9)	(7.2)
Nikkei	10,041	1.5	(4.0)	(6.4)
Hang Seng	20,062	0.1	(0.4)	(4.6)
KOSPI	1,698	0.4	0.1	3.0
<b>Value traded – India</b>				
Cash (NSE+BSE)	192		166	174
Derivatives (NSE)	1,027		995	616
Deri. open interest	1,424		1,357	1,220

#### Forex/money market

	Change, basis points			
	15-Jun	1-day	1-mo	3-mo
Rs/US\$	46.6	7	93	98
10yr govt bond, %	7.7	-	16	(33)

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

	14-Jun	MTD	CYTD
FIs	82	84	4,684
MFs	24	47	(282)

#### Top movers -3mo basis

Best performers	Change, %			
	15-Jun	1-day	1-mo	3-mo
BJFIN IN Equity	454.0	(1.6)	(15.5)	37.3
RPWR IN Equity	177.5	5.7	22.4	25.7
BJAUT IN Equity	2288.1	0.2	4.8	25.6
IBULL IN Equity	133.6	(0.4)	(9.5)	25.4
DIVI IN Equity	762.1	1.1	10.0	23.5
<b>Worst performers</b>				
ABAN IN Equity	679.0	2.4	(18.4)	(45.8)
GRASIM IN Equity	1796.3	(0.5)	(31.9)	(38.1)
PUNJ IN Equity	121.2	3.3	(16.0)	(30.7)
EDSL IN Equity	538.4	(2.3)	(10.9)	(30.4)
MTNL IN Equity	55.6	2.4	(13.7)	(23.9)

JUNE 15, 2010

UPDATE

BSE-30: 17,413

**Revised draft of Direct Tax Code—a pragmatic approach.** The revised draft of the Direct Tax Code addresses several issues in the initial draft. We highlight (1) revised proposal to charge MAT on book profits versus the earlier proposal of MAT based on assets, (2) complete tax exemption for PF, PFRDA pension schemes, pure life insurance and annuity schemes and (3) extension of base date to April 01, 2010 for determining the cost of acquisition for capital gains tax on other assets is positive for individuals and companies. However, negatives may be (1) application of EET method of taxation for ULIPs and (2) higher short-term capital gains tax (to be taxed as ordinary income).

### Corporate taxation—MAT on book profits versus on assets previously, other modifications

The revised draft on Direct Tax Code proposes MAT with reference to book profits (rate or slab unspecified) versus MAT with reference to assets in the previous draft (0.25% of gross assets for banking companies and 2% of gross assets in case of other companies). In our view, the shift to MAT based on book profits is positive since the previous proposal resulted in companies that were loss-making or operating in a cyclical downturn also being forced to pay taxes. The revised proposal continues to retain the spirit of the initial draft in terms of removal of excessive tax incentives/exceptions--penalizing firms with a very low effective tax rate (<25%) owing to these incentives and does not allow for carry forward of MAT paid. The revised draft clarifies that current profit-linked deductions available to SEZ developers and units in SEZs will continue for the unexpired period.

### Personal taxation—Tax treatment of savings and income from house property

The revised draft of the Direct Tax Code proposes complete exemption (EEE method of taxation) for Government Provident Fund (GPF), Public Provident Fund (PPF), Recognized Provident Funds (RPFs), PFRDA pension schemes, pure life insurance and annuity schemes. The earlier proposal was to tax all savings under the EET method of taxation. Additionally, investments made before the date of commencement of DTC in instruments, which currently enjoy the EEE method of taxation would continue to enjoy EEE status, which is positive for individual tax payers. Finally, the earlier proposal of a presumptive rate of 6% of 'rateable' value or cost of construction/acquisition for computation of gross rent has been removed. In case of a house property which is not let out, the gross rent will be nil but no deduction for taxes or interest will be allowed; however, deduction of interest will be allowed for only one house property, which has not been let out.

### Tax on capital gains and DTAA proposals—marginally negative for capital markets

The revised Direct Tax Code draft proposes consideration of all capital gains as income from ordinary sources for all taxpayers including non-residents to be taxed at their respective marginal rates. For capital assets (equity shares or units of equity oriented fund) held for more than one year, capital gains will be computed after allowing a deduction at a specified percentage of capital gains. For assets held for less than one year, capital gains will be charged at the rate applicable to the taxpayer. Specifically for FIIs, the concept of 'business income' has been abolished and all income will be treated as capital gains. The capital gains will not be subject to TDS and FIIs will be required to pay tax advance tax. However, DTAA provisions will continue to apply and thus, we don't see any material change in the taxation for most FIIs.

### Revised Direct Tax Code proposals broadly positive for companies and individual taxpayers

Proposed income tax rates and slabs for individuals and companies (including proposed DTC), March fiscal year-ends, 2011-12E

	Existing (2011)	Initial proposal (2012, DTC) (a)	Revised proposal (2012, DTC) (a)
<b>Individual income tax</b>			
Individual tax rates	Total income <=Rs1,60,000: Nil	Total income <=Rs1,60,000: Nil	Total income <=Rs1,60,000: Nil
	> 1,60,000 <= 5,00,000: 10%	> 1,60,000 <= 10,00,000: 10%	> 1,60,000 <= 10,00,000: 10%
	> 5,00,000 <= 8,00,000: 20%	> 10,00,000 <= 25,00,000: 20%	> 10,00,000 <= 25,00,000: 20%
	> 8,00,000: 30%	>25,00,000: 30%	>25,00,000: 30%
Education cess	3%	NA	NA
<b>Treatment of savings</b>			
Method of taxation	EEE (Exempt at contribution, accretion and withdrawal stages)	EET (Exempt at contribution and accretion stage, Taxation at withdrawal stage)	EET in general; EEE only for GPF, PPF, RPF, PFRDA pension schemes, pure life insurance and annuity
Exemption limit	1,20,000	3,00,000	3,00,000
<b>Corporate income tax</b>			
Tax rates	30%	25%	25%
Surcharge rate	7.5%	NA	NA
Education cess	3%	NA	NA
Minimum Alternative Tax	19.93% of book profits; carry forward allowed	2% of value of gross assets (a); carry forward not allowed	Unspecified percentage of book profits; carry forward not allowed
<b>Capital markets</b>			
STT	Applicable	Abolished	Applicable; to be calibrated
Capital gains tax on capital assets	STCG taxed at 15%; LTCG: Nil	Differentiation between STCG and LTCG abolished; CG would now be taxed at applicable tax slab rates	STCG taxed at applicable tax slab rates; LTCG to be taxed at applicable tax slab rates after an allowed deduction
Capital gains tax on other assets	Base date for determining the cost of acquisition being April 01, 1981	Base date for determining the cost of acquisition being April 01, 1981	Base date for determining the cost of acquisition shifted to April 01, 2000
FIs	Capital market transactions as business income or capital gains	Capital market transactions as business income or capital gains	Capital market transactions liable to pay capital gains tax; concept of business income abolished
<b>Other incentives</b>			
R&D weighted deduction	200% of expenditure	NA	NA
Outsourced R&D (c)	175% of expenditure	NA	NA

Note:

(a) Tax rates and slabs are indicative and will be calibrated while finalizing the DTC legislation.

(b) 0.25% in case of banking companies.

(c) Outsourced to an approved university or scientific research association.

Source: Ministry of Finance, Kotak Institutional Equities

**JUNE 16, 2010**
**UPDATE**

Coverage view: **Attractive**

Price (Rs): **1,724**

Target price (Rs): **1,900**

BSE-30: **17,413**

**Map out inflow guidance—appears stiff but revenue may have upside.** Expect L&T to report inflows of Rs815 bn in FY2011E—up 17% yoy (vs guidance of 25%). We believe that power (Rs320 bn orders) and roads (Rs85 bn orders) may be the key growth drivers with several large opportunities in the offing. Sedate inflows in FY2011E so far and likely delay of NTPC bulk tender increase risk of meeting inflow guidance. Expect strong execution in FY2011-12E (25%+ growth) led by backlog and capex revival. Reiterate BUY.

**Company data and valuation summary**

Larsen &amp; Toubro

**Stock data**

52-week range (Rs) (high,low)	1,729-1,305
Market Cap. (Rs bn)	1,036.4

**Shareholding pattern (%)**

Promoters	0.0
FIs	17.1
MFs	5.4

**Price performance (%)**

	1M	3M	12M
Absolute	12.8	11.0	14.5
Rel. to BSE-30	10.0	9.4	(2.2)

**Forecasts/Valuations**

	2010	2011E	2012E
EPS (Rs)	58.1	71.2	90.4
EPS growth (%)	16.0	22.4	27.0
P/E (X)	29.7	24.2	19.1
Sales (Rs bn)	437.9	547.2	681.0
Net profits (Rs bn)	34.9	43.0	54.6
EBITDA (Rs bn)	66.8	79.9	98.8
EV/EBITDA (X)	18.0	15.1	12.1
ROE (%)	18.6	17.5	18.7
Div. Yield (%)	0.6	0.7	0.8

**Map out likely order inflow mix; power and roads to be key driver; guidance target is very stiff**

We attempt a likely distribution of L&T's order inflows for FY2011E. Expect order inflows of Rs815 bn in FY2011E, 17% growth (versus guidance of 25%) to be driven by power and roads sector while oil & gas and process may remain sedate.

- **Power:** Orders of Rs320 bn (up 46% yoy) led by (1) Rs65 bn of BoP orders (Rs47 bn in FY2010, equivalent to 3.7 GW BoP; key opportunity: Koradi-Rs20 bn), (2) Rs125 bn on EPC orders (Rs103 bn in FY2010, equiv. to 2.5 GW of EPC orders, opportunity: Rajpura and other in-house), (3) Rs70 bn of equipment orders (Rs24 bn in FY2010, equiv. to 2.5-3 GW of BTG; opportunity: NTPC bulk tender) and (4) Rs60 bn of Indian and Middle East T&D orders (Rs45 bn in FY2010).
- **Roads:** May contribute about Rs85 bn (equivalent to about 750 km of projects, or about six to seven project wins out of NHDP FY2011E ordering program; opportunity - 3 NHAI orders).

**Low 1QFY11E inflow, likely delay in NTPC bulk ordering increases risk**

1QFY11E has had extremely slow start with order inflow announcements of only Rs16 bn so far. Even though we understand that orders may be chunky but it increases the odds of not meeting the guidance. NTPC bulk tender ordering for 11X660 MW may push the actual ordering activity to FY2012E as L&T is facing disqualification on technical grounds of technology transfer.

**Potential upside to revenue guidance even with longer execution cycle; margins likely to decline**

Expect strong FY2011E and FY2012E execution based on (1) large backlog (~Rs1 tn), (2) stronger capex outlook with visible pick-up in product segments and (3) estimates build in slow execution pick-up in larger orders. We build ~25% revenue growth in FY2011E despite low bill-to-book ratio estimate of 28% (38% in FY2009) and 60 bps EBITDA margin decline to 12.4% as commodity adv. reverses.

**Marginally revise earnings estimates and target price to Rs1,900/share; reiterate BUY**

Revise our standalone earnings estimates to Rs64 and Rs80.6 and consol. estimates to Rs71.2 and Rs90.4 for FY2011E and FY2012E. Reiterate BUY (TP: Rs1,900) based on (1) inflow traction & execution pick-up, (2) large opportunity in power, (3) improved macro environment, (4) strong balance sheet.

### Robust inflow guidance—potentially supported by power, O&G, roads, building

The management has guided for strong order inflow growth of 25% in FY2011E over and above the 35% growth recorded in FY2010. This implies order inflows to the tune of about Rs870 bn in FY2011E. The inflow growth is likely to be supported by strong order inflows from the power, hydrocarbon, roads and building segment orders. The management has also guided for revenue growth of 20% yoy in FY2011E—broadly in line with our estimates. Lengthening execution cycle would partially limit the revenue growth and that is probably what limits the revenue growth guidance to 20%. L&T expects to have an order backlog of Rs1,300-1,400 bn by end-FY2011E. We have built in order inflows of Rs815 bn—17% yoy growth versus management guidance of 25-30% growth.

#### Power segment expected to drive the inflow growth in FY2011E

Rough break up of sector-wise order inflows of L&T, March fiscal year-ends, 2008-11E

Segment	FY2008 (Rs bn)	FY2009 (Rs bn)	Announced in FY2010 (Rs bn)	FY2010A (Rs bn)	FY2011E (Rs bn)
<b>Process</b>	95	125	94	90	109
Refineries	38	37	21		20
Petrochemicals	3	8	30		40
Minerals & metals	54	80	43		50
<b>Oil &amp; gas</b>	42	15	74	139	97
Platforms	42	—	74		90
Pipelines	—	15	—		
<b>Power</b>	35	80	220	230	321
BOP	5	7	47		65
EPC	—	—	103		125
Equipment	—	16	24		70
Electrification/ T&D	30	45	45		60
<b>Infrastructure</b>	100	185	135	188	225
Roads and bridges	3	43	15		85
Ports and airports	55	—	—		
Railways	3	28	8		15
Industrial & commercial bldg.	33	92	92		100
Water	6	23	21		25
<b>Others</b>	54	53	10	49	62
<b>Total</b>	<b>326</b>	<b>458</b>	<b>533</b>	<b>696</b>	<b>815</b>

Could be driven by further orders from ONGC for the Paradip refinery

Potential order for B-193 platform from ONGC - 5 other bidders in the running

BoP for 3,500 MW of power plants - Koradi itself could be 1,980 MW

EPC order for about 3 GW of power plants

NTPC bulk tender - expect 5 boiler orders (only two bidders) and 4 turbine orders

Historical business - assuming normal growth

Rs 63 bn order for process platform and 4 well platforms for ONGC's MHN project

Rs16 bn full-BoP order for 2X600 MW Malwa TPP and several other BoP package orders

Primarily led by commercial (~Rs33 bn) and residential (~28 bn) real estate orders

Expect NHAI road orders of about 750-800 km - equivalent to 4-5 road projects; 3 orders likely to be announced soon (pending financial closure):  
 - Samaikhiali-Gandhidham - 56 km,  
 - Devihalli-Hassan - 73 km and  
 - Krishnagiri-walajhapet 148 km

(1) Rs69 bn 3X 660 MW super-critical BTG units for Koradi TPP (MAHAGENCO)  
 (2) Rs20 bn for 2X 384 MW Vemagiri gas based power plant (GMR Infra)  
 (3) Rs14 bn Steam TG sets and Auxillary Package for 1,320 MW Rajpura TPP

Source: Company, Kotak Institutional Equities estimates

### Expect order inflows of Rs815 bn in FY2011E, 17% growth versus guidance of 25%

We have built in order inflows of about Rs815 bn in FY2011E—17% yoy growth versus the management guidance of 25%. We expect inflow growth to be primarily driven by power and roads sector while oil & gas and process may remain sedate. Power and infrastructure segments together are expected to contribute to ~ 67% of the estimated inflows in FY2011E.

- ▶ **Power:** We expect power segment orders of Rs320 bn in FY2011E, up 46% yoy. This would be primarily led by (1) Rs65 bn of BoP orders which is equivalent to about 3-3.5 GW of BoP; key opportunity in the near term would be the Koradi 6X660 MW order for MAHAGENCO with a potential size of Rs20 bn (L&T is executing the BTG for this order), (2) Rs125 bn EPC orders implying about 2.5-3 GW of orders; key opportunities in the near term include 2X660 MW Rajpura order and other in-house orders, (3) Rs70 bn of equipment order (about 2.5-3 GW of BTG) primarily led by the NTPC bulk tender; expect L&T to win 5 boiler units (limited competition, with BHEL as the only other bidder) and 4 turbine orders, and (4) Rs60 bn from the normal historical business of L&T. The company has not bid for the Chhabra and Suratgarh (2X660 MW each) EPC orders of RRVUNL potentially led by capacity constraints of MHI or client-related issues.
- ▶ **Infrastructure:** Infrastructure segment is expected to contribute to about 27-28% of the total inflows (Rs225 bn) primarily led by (1) road orders—expect Rs85 bn worth of orders which is equivalent to about 750 km of projects, or about six to seven project wins out of NHDP FY2011E ordering program; the management highlighted that the company is likely to announce 3 road projects which are pending financial closure (include - Samaikhiali-Gandhidham - 56 km, Devihalli-Hassan - 73 km and Krishnagiri-Walajahpet 148 km), and (2) industrial and commercial building orders of Rs100 bn (was Rs92 bn in FY2010) led by commercial real estate projects—has been the trend over last several years.
- ▶ **Oil & Gas:** We believe that the orders from the oil & gas segment may actually decline in this year versus FY2010 as the previous years inflows were boosted by several large orders from ONGC for the MHN project. The order inflows for this segment is likely to be led by the ONGC order for the B-193 platform which is likely to be finalized soon—currently there are five qualified bidders in the running.
- ▶ **Process:** Process segment orders would be primarily led by refinery segment (potential order from ONGC's Paradip refinery) and a mix of industries such as fertilizer, metals etc.

### Relatively sedate inflows in FY2011E so far; highlight risk to meeting guidance

Order inflows for the company have remained relatively sedate in FY2011E so far; has announced orders to the tune of only Rs16 bn. Of these only Rs7.5 bn worth of orders have been announced post the 4QFY10 results. This is versus order announcements of about Rs200 bn in the previous quarter. However, we highlight that order inflows were relatively sedate even in the first quarter of the previous year—announced orders of about Rs47 bn in 1QFY10. Furthermore, we note that the power BTG/ EPC and infrastructure-road segment orders tend to be lumpy in nature and a single order could significantly boost the backlog.

#### Order inflows have remained relatively muted in FY2011E so far

Date	Customer	Sector	Subsector	Order size (Rs bn)	Nature of Work
10-Jun-10	Coal India	Process	Bulk material handling	2.8	Coal Handling Plant at Northern Coalfield, Madhya Pradesh
10-Jun-10	Indiabulls Power Ltd	Power	BoP	2.6	Coal Handling Plants at Amravati and Nasik TPPs
10-Jun-10	Hindalco	Process	Minerals and Metals	2.1	Aluminium Rolling Mill Complex at Hirakud, Orissa
11-May-10	Public Works Authority, Qatar	Infrastructure	Water	8.5	Advanced waste water treatment & urban reuse
<b>Total large order booking in FY2011 so far</b>				<b>16.0</b>	

Source: Company, Kotak Institutional Equities

### Power sector—several large opportunities in the offing

The company has already placed bids for the 11X660 MW bulk tender offered by NTPC for boiler and turbine equipment. In addition to this the company has also placed a bid for balance of plant works for the 3X660 MW Koradi power plant of MAHAGENCO—highlight that L&T itself is executing the BTG portion of this power plant. We expect L&T to win a few units from the NTPC bulk tender which is likely to drive the power inflow growth. Despite several domestic players setting up manufacturing facilities in India, the competition was relatively sedate in this tender with only BHEL and L&T being the key bidders.

In addition to this we highlight several large tenders which are likely to open in the near future including (1) 9X800 MW bulk tender from NTPC for BTG equipment, (2) BTG equipment for 10X660/ 8X800 MW for Jindal Power. However, we believe that these orders are unlikely to be finalized in this fiscal year and are likely to come in only in FY2012E.

#### List of upcoming opportunities in the power space

Project	State	Client	Configuration	Type of contract
<b>Bids placed</b>				
Bulk tender		NTPC	11X 660 MW	BTG
Koradi	Maharashtra	MAHAGENCO	3X 660 MW	BoP
<b>Upcoming tenders</b>				
Bulk tender		NTPC	9X 800 MW	BTG
Bulk tender		Jindal Power	10X 660 / 8X 800 MW	BTG
Wanakbori	Gujarat	GSECL	1X 800 MW	EPC
Salboni	West Bengal	JSW Energy	2X 800 MW	BTG

Source: CEA, Projects Today, News flows, Kotak Institutional Equities

### Likely delay in award of NTPC bulk order due retendering increases risk to meeting guidance—would also lead to higher competition

Recent news flows suggest that L&T is in danger of being disqualified from the 6X660 MW NTPC bulk tender for supercritical boilers on technical grounds of not seem to be fulfilling the criterion of complete technology transfer. L&T and BHEL were the only two bidders in this tender as several of the other private players were still pending completion of procedures for pre-qualification. A re-tender may result in greater competition with other domestic players such as BGR Energy-Hitachi, Thermax-Babcock and Wilcox, Gammon-Ansaldo etc. likely to submit bids. The NTPC board is scheduled to meet in the last week of June to reach a conclusion on the matter. L&T Power management have declined the disqualification and MD, Mr. Ravi Uppal, has denied having received any communication from NTPC or the power ministry on the issue.

### Power offers large opportunity; lead over other newcomers, scale & scope advantages

We believe that the power segment offers of these upcoming vendors are product-focused (either a significant opportunity for L&T in the next few years). We expect the additional generation capacity of about 100-110 GW in the XIIth plan. In the near future, the key large opportunities would be the NTPC bulk tender and several large private sector orders (Tata Power, Essar). Although several small vendors are setting up equipment manufacturing capacities, most of these are product-focused (boiler or turbine) versus L&T which would be fully integrated player. That would remain an advantage for L&T over a period of time against some of the smaller vendors. These vendors are also at least two years away from starting their business. Even the recent NTPC bulk tender bids reflect relatively low competition versus expectations.



### Execution pick-up remains key; potential for 25%+ growth over next 2 years

We believe that more than inflows, revenue booking would be the key to look out for post relatively slow execution witnessed in FY2010—especially in the first nine months. Execution has already picked up in 4QFY10 which witnessed a strong revenue growth of about 28% yoy—versus relatively flat yoy revenues in 9MFY10. The order inflows of L&T are piling on to an already large backlog of about Rs1 tn (end-FY2010) which provides a revenue visibility of about 2-2.5 years based on forward four quarter revenues. Hence, the execution of this large backlog now remains the key to driving the growth for the company.

### Potential of 25%+ growth for FY11E-12E on strong backlog and outlook

We believe FY2011E and FY2012E execution may pick up based on (1) large backlog of Rs1 tn at the end of FY2010, (2) stronger capex outlook and (3) 25%+ revenue growth estimate—already builds in a slow pick-up in execution of larger orders such as power EPC orders, in our estimates.

### Potential of 20%+ growth for FY11E-12E on strong backlog and outlook

Segmental breakup of revenues, order inflows and backlog of L&T, March fiscal year-ends, 2008-12E (Rs mn)

	FY2008	FY2009	FY2010E	FY2011E	FY2012E
<b>Total E&amp;C</b>					
Orders received	420	516	696	815	924
YoY growth (%)	37.3	22.8	34.8	17.1	13.4
Revenues	190	287	323	406	516
% growth	44.3	51.5	12.6	26	27
Order backlog - year end	527	703	1,002	1,349	1,689
Order execution days	1,055	971	1,159	1,239	1,257
Bill to book ratio	35	38	31	29	29
<b>Segmental numbers</b>					
<b>Process</b>					
Orders received	63	83	90	109	125
Revenues	34	44	43	69	85
Order backlog - year end	74	112	160	200	240
Order execution days	824	958	1,353	1,141	1,123
Bill to book ratio	44	38	27	32	33
<b>Oil / gas</b>					
Orders received	105	62	139	97	107
Revenues	54	85	87	90	95
Order backlog - year end	121	98	150	158	170
Order execution days	829	656	703	811	811
Bill to book ratio	44	56	52	45	45
<b>Power</b>					
Orders received	59	129	230	321	354
Revenues	34	59	84	106	159
Order backlog - year end	84	155	301	516	710
Order execution days	961	926	1,177	1,587	1,587
Bill to book ratio	38	39	31	23	23
<b>Infrastructure</b>					
Orders received	130	201	188	225	270
Revenues	85	103	145	142	176
Order backlog - year end	190	288	331	414	509
Order execution days	903	1,032	960	1,141	1,141
Bill to book ratio	40	35	38	32	32

Assume moderate inflow growth of 18% in FY2011E (vs 25% guidance) and 12% in FY2012E

Expect robust growth of 24-27% in FY2011E and FY2012E led by strong backlog and outlook

Estimates build in longer execution cycle for power segment

Source: Company, Kotak Institutional Equities estimates



### Margins likely to decline as commodity advantage reverses

We expect EBITDA margins to decline by about 60 bps from FY2010 levels of 13% to 12.4% in FY2011E as the commodity advantage reverses. Partial trend of this was already witnessed in 4QFY10. Margins in FY2010 have been helped by lower raw material prices during the early part of FY2010. L&T's contribution margins reduced by 240 bps in 4QFY10 on a yoy basis versus about 230 bps contribution margin expansion that L&T had at the end of 9MFY10 over the same period a year ago, i.e. 9MFY09. Even the L&T management seemed slightly cautious about its margin outlook (during the 4QFY10 results meet), highlighting that the company is already operating at one of highest margins in E&C segment globally (EBITDA margin of 13% versus 11.6% during FY2009).

#### Contribution margin declines as commodity benefit starts to reverse

L&T standalone 4QFY10 margins (Rs mn)

	FY2009			FY2010		
	9MFY10	4QFY09	FY2009	9MFY10	4QFY10	FY2010
<b>Net sales</b>	<b>233,232</b>	<b>106,053</b>	<b>339,385</b>	<b>234,493</b>	<b>135,851</b>	<b>370,348</b>
Expenses	(209,549)	(91,214)	(300,164)	(207,733)	(115,343)	(322,193)
RM consumption	(67,016)	(27,613)	(94,628)	(62,086)	(35,546)	(98,516)
Construction materials	(51,630)	(23,450)	(75,100)	(42,446)	(33,163)	(74,781)
Subcontracting charges	(48,615)	(21,918)	(70,533)	(58,822)	(27,247)	(86,618)
Employee	(14,905)	(4,887)	(19,745)	(17,644)	(6,138)	(23,791)
Total other expenses	(27,384)	(13,346)	(40,158)	(26,735)	(13,249)	(38,487)
<b>EBITDA</b>	<b>23,683</b>	<b>14,839</b>	<b>39,222</b>	<b>26,760</b>	<b>20,508</b>	<b>48,156</b>
<b>Key ratios (%)</b>						
Raw materials/sales	28.7	26.0	27.9	26.5	26.2	26.6
Construction materials/sales	22.1	22.1	22.1	18.1	24.4	20.2
<b>Contribution margin</b>	<b>49.1</b>	<b>51.9</b>	<b>50.0</b>	<b>55.4</b>	<b>49.4</b>	<b>53.2</b>
Subcontracting charges	20.8	20.7	20.8	25.1	20.1	23.4
Employee expenses/sales	6.4	4.6	5.8	7.5	4.5	6.4
Other expenses/sales	11.7	12.6	11.8	11.4	9.8	10.4
<b>EBITDA margin</b>	<b>10.2</b>	<b>14.0</b>	<b>11.6</b>	<b>11.4</b>	<b>15.1</b>	<b>13.0</b>

Source: Company, Kotak Institutional Equities

### Marginally revise earnings estimates and TP to Rs1,900/share; reiterate BUY

We have marginally revised our standalone earnings estimates to Rs64 and Rs80.6 from Rs62.6 and Rs78.1 and our consolidated earnings estimates to Rs71.2 and Rs90.4 from Rs69.7 and Rs87.7 for FY2011E and FY2012E, respectively. We have correspondingly revised our SOTP-based target price to Rs1,900/share from Rs1,850 earlier.

Change in earnings estimates of L&T, March fiscal year-ends, 2011E and 2012E (Rs mn)

Target price (Rs)	New estimates		Old estimates		% revision	
	1,900		1,850		2.7	
	FY2011E	FY2012E	FY2011E	FY2012E	FY2011E	FY2012E
<b>Consolidated</b>						
Revenues	547,224	680,954	538,605	670,519	1.6	1.6
Operating profit	79,912	98,806	78,416	96,211	1.9	2.7
Operating profit margin (%)	14.6	14.5	14.6	14.3		
Profit after tax	42,988	54,585	42,089	52,976	2.1	3.0
<b>EPS (Rs)</b>	<b>71.2</b>	<b>90.4</b>	<b>69.7</b>	<b>87.7</b>	<b>2.1</b>	<b>3.0</b>
<b>Standalone</b>						
Revenues	465,882	583,615	457,938	573,998	1.7	1.7
Operating profit	57,590	72,589	56,196	70,117	2.5	3.5
Operating profit margin (%)	12.4	12.4	12.3	12.2		
Profit after tax	38,641	48,700	37,822	47,190	2.2	3.2
<b>EPS (Rs)</b>	<b>64.0</b>	<b>80.6</b>	<b>62.6</b>	<b>78.1</b>	<b>2.2</b>	<b>3.2</b>
<b>Order book</b>						
Order booking	814,689	924,126	820,995	922,166	(0.8)	0.2
Order booking growth (%)	17.1	13.4	18.0	12.3		
Order backlog	1,348,848	1,689,025	1,405,880	1,767,020	(4.1)	(4.4)

Source: Kotak Institutional Equities estimates

Our target price of Rs1,900/share is comprised of (1) Rs1,526/share from the core construction business based on 21X Sept-11E expected earnings, (2) Rs112/share from L&T's service subsidiaries, (3) Rs65/share from the manufacturing subsidiaries, (4) Rs102/share from the infrastructure SPVs and (5) Rs87/share from other subsidiaries and investments.

We arrive at an SOTP-based target price of Rs1,900/share for L&T  
Sept-11E-based Sum of The Parts (SOTP) valuation of Larsen and Toubro

	Earnings/Book (Rs mn)	Sept-11E multiple (X)	Valuation basis	Stake (%)	Value (Rs bn)	Per share (Rs)
<b>Core company valuation</b>	<b>43,670</b>	<b>21.0</b>	<b>P/E</b>	<b>100</b>	<b>917</b>	<b>1,526</b>
<b>Key subsidiaries - services</b>	<b>14,696</b>				<b>67</b>	<b>112</b>
L&T Finance	11,576	1.8	P/B	100	20	34
L&T Infotech	3,120	15.0	P/E	100	47	78
<b>Key subsidiaries - manufacturing</b>	<b>1,984</b>				<b>39</b>	<b>65</b>
Tractor Engineers	103	15.0	P/E	100	2	3
Associate companies*	1,881	15.0	P/E	50	14	23
Power equipment JVwth MHI	N.A.		DCF	51	24	39
<b>Infrastructure SPVs</b>	<b>30,989</b>	<b>2.5</b>	<b>P/B</b>	<b>79</b>	<b>61</b>	<b>102</b>
<b>Other subsidiaries</b>	<b>17,347</b>	<b>3.0</b>	<b>P/B</b>	<b>100</b>	<b>52</b>	<b>87</b>
<b>Total subsidiaries</b>					<b>220</b>	<b>365</b>
<b>Grand total</b>					<b>1,137</b>	<b>1,891</b>

Source: Company, Kotak Institutional Equities estimates

We reiterate our BUY rating on the stock based on (1) strong execution in FY2011-12E (potential for 25%+ growth) with modest margin decline, (2) scale-up of power equipment and EPC that is both less cyclical and competitive (versus other segments), (3) revival in capex activity, (4) strong investments in capacity and capability enhancement that would open new growth vistas such as power equipment, nuclear, defense, (5) value creation in subsidiaries and (6) strong balance sheet and cash flows that enable L&T to capture opportunities in various areas including infrastructure development.

Key risks originate from (1) continued order booking pressures led by the slowdown in capex in important segments such as Middle East, metals, real estate, petrochemicals etc. leading to lower-than-expected earnings momentum going forward, and (2) likely pressure on working capital and margins with likely dominance of infrastructure orders.

Standalone balance sheet and income statement of L&T, March fiscal year-ends, 2007-12E (Rs mn)

	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E
<b>Income statement</b>						
<b>Net operating revenues</b>	<b>176,142</b>	<b>248,779</b>	<b>339,385</b>	<b>370,348</b>	<b>465,882</b>	<b>583,615</b>
<b>Cost of goods sold</b>	<b>(158,247)</b>	<b>(220,515)</b>	<b>(300,164)</b>	<b>(322,193)</b>	<b>(408,291)</b>	<b>(511,026)</b>
Construction materials	(36,510)	(56,103)	(75,100)	(74,781)	(94,071)	(117,844)
Sub contracts	(33,920)	(44,904)	(70,533)	(86,618)	(108,961)	(136,497)
Stores, spares and tools	(4,694)	(6,995)	(9,008)	(9,259)	(11,647)	(14,590)
Other mfg exp	(13,635)	(16,772)	(22,455)	(24,622)	(30,748)	(38,519)
S, G & A	(10,280)	(13,856)	(17,703)	(13,866)	(17,238)	(21,010)
Salaries & wages	(12,592)	(15,354)	(19,745)	(23,791)	(30,088)	(37,830)
<b>EBIDTA</b>	<b>17,895</b>	<b>28,264</b>	<b>39,222</b>	<b>48,156</b>	<b>57,590</b>	<b>72,589</b>
<i>EBIDTA margin (%)</i>	<i>10.2</i>	<i>11.4</i>	<i>11.56</i>	<i>13.0</i>	<i>12.4</i>	<i>12.4</i>
Other income	4,927	6,520	7,398	9,103	10,110	10,376
Interest	(930)	(1,227)	(4,156)	(5,053)	(4,736)	(4,211)
Depreciation	(1,715)	(2,022)	(3,073)	(4,146)	(5,119)	(5,849)
<b>PBT</b>	<b>20,191</b>	<b>31,534</b>	<b>39,404</b>	<b>48,059</b>	<b>57,846</b>	<b>72,904</b>
Tax	(6,019)	(9,821)	(12,312)	(16,409)	(19,205)	(24,204)
<b>PAT</b>	<b>14,172</b>	<b>21,714</b>	<b>27,092</b>	<b>31,650</b>	<b>38,641</b>	<b>48,700</b>
Extraordinaries	—	(8)	7,725	12,105	—	—
Reported PAT	14,172	21,706	34,817	43,755	38,641	48,700
<b>EPS (Rs)</b>	<b>50.0</b>	<b>37.1</b>	<b>46.3</b>	<b>52.7</b>	<b>64.0</b>	<b>80.6</b>
<b>Balance sheet</b>						
Equity capital	567	585	1,171	1,202	1,208	1,208
Reserves & surplus	56,839	94,707	123,180	182,706	216,467	255,274
<b>Shareholders funds</b>	<b>57,405</b>	<b>95,292</b>	<b>124,351</b>	<b>183,908</b>	<b>217,675</b>	<b>256,482</b>
Reval reserves	279	259	246	246	246	246
Secured loans	2,454	3,085	11,024	11,024	11,024	11,024
Unsecured loans	18,324	32,755	54,537	64,137	49,137	49,137
<b>Total debt</b>	<b>20,778</b>	<b>35,840</b>	<b>65,560</b>	<b>75,160</b>	<b>60,160</b>	<b>60,160</b>
<b>Total sources of funds</b>	<b>78,462</b>	<b>131,391</b>	<b>190,157</b>	<b>259,314</b>	<b>278,081</b>	<b>316,888</b>
Net Block	17,083	28,544	40,128	55,982	66,863	73,514
Capital WIP	4,357	6,990	10,410	5,000	600	600
<b>Total fixed assets</b>	<b>21,440</b>	<b>35,534</b>	<b>50,538</b>	<b>60,982</b>	<b>67,463</b>	<b>74,114</b>
Intangible assets	807	920	1,408	1,408	1,408	1,408
Investments	31,044	69,223	82,637	147,637	155,137	155,137
<b>Net working capital (excl. cash)</b>	<b>14,530</b>	<b>16,652</b>	<b>48,303</b>	<b>38,014</b>	<b>53,583</b>	<b>72,352</b>
Cash and bank balances	10,944	9,645	7,753	11,755	972	14,359
<b>Total application of funds</b>	<b>78,462</b>	<b>131,391</b>	<b>190,157</b>	<b>259,314</b>	<b>278,081</b>	<b>316,888</b>

Source: Company, Kotak Institutional Equities estimates

JUNE 16, 2010

UPDATE

Coverage view: **Attractive**

Price (Rs): **337**

Target price (Rs): **360**

BSE-30: **17,413**

**Not yet out of the woods.** We maintain our REDUCE rating as concerns on asset quality has not alleviated which can result in slower business growth compared to competition. From our management meeting, we believe that margins will improve from low levels on back of deposit re-pricing but likely high provisions would keep earnings growth at 29%, mainly due to a depleted base of FY2010. The stock trades at 1.2x FY2011E. WE maintain REDUCE with a target price of Rs360.

#### Company data and valuation summary

Bank of India

Stock data				Forecasts/Valuations			
					2010	2011E	2012E
52-week range (Rs) (high,low)				EPS (Rs)	33.1	42.7	56.7
Market Cap. (Rs bn)				EPS growth (%)	(42.1)	28.9	32.8
Shareholding pattern (%)				P/E (X)	10.0	7.8	5.9
Promoters				NII (Rs bn)	57.6	72.5	85.9
FIIs				Net profits (Rs bn)	17.4	22.4	29.8
MFs				BVPS	243.4	275.5	318.2
Price performance (%)				P/B (X)	1.4	1.2	1.0
Absolute				ROE (%)	14.2	16.4	19.1
Rel. to BSE-30				Div. Yield (%)	2.1	2.7	3.6
	1M	3M	12M				
	0.7	(0.0)	6.2				
	(1.3)	(1.0)	(8.9)				

#### Asset quality yet to reach comfortable levels

Bank of India is targeting its NPA to be maintained on absolute basis at FY2010 levels of Rs48.8 bn. The bank is expecting slippages to be at normalized levels of 1.5% and is currently not seeing any large slippages. However, recoveries in the large slippages (2.9% witnessed in FY2010) would be slower indicating stickiness in some of these loans. Few sectors which saw large slippages are in pharmaceuticals, aviation, IT and infrastructure.

We continue to maintain our cautious stance on the underlying asset quality, the key re-rating trigger for the stock, and build slippages at 2% for FY2011E and 1.5% for FY2012E. With over 40% of the loan book towards large corporates, slippages/recoveries can be lumpy and difficult to predict and hence our cautious stance.

#### Target business growth over 20% levels for FY2011E; working capital loan growth remains weak

Bank of India is looking to grow its loan book by over 20% in FY2011E led by infrastructure, SME and retail. Retail would be led by housing and auto loans as the performance in the other products has not been satisfactory (retail NPLs at 4.2%). Pick-up in credit continues to remain on infrastructure but working capital demand remains low. The bank has participated in the current 3G/BWA auctions, lending mainly in the form of short-term loans to select companies. Contrary to expectations, the bank highlighted that correction in prices in select commodities like sugar has also resulted in lower working capital requirements. Also, the bank is not seeing strong growth in off-balance sheet products like guarantees and LCs, which has given early signals for working capital requirements. However, the bank expects a pick-up in business to reach its target as 2HFY11E kicks off.

#### Slowdown in systemic deposit growth rate not an immediate concern

BoI is not seeing any concern on the steady deceleration in systemic deposit growth as (1) liquidity in the balance sheet was comfortable (4QFY10 with domestic CD ratio at 69%), (2) the bank has been able to attract deposit rates at current levels, which are competitive, compared to its peers (even after the recent reduction in deposit rates), and (3) credit growth continues to remain gradual.

#### QUICK NUMBERS

- **Management focusing on maintaining NPLs at FY2010 levels**
- **Loan book growth at over 20% with margin expansion**
- **Revised earnings upwards for FY2011E by 6%**

## Asset quality has witnessed higher slippages in FY2010

Movement of NPLs, March year-end, 2QFY08-4QFY10 (%)

	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10
Gross NPL (beginning)	20.3	19.8	19.6	19.3	20.2	19.8	22.1	24.7	27.9	39.2	41.9
Recovery	2.1	1.8	2.9	1.3	2.0	1.6	(0.4)	1.1	1.7	2.4	1.6
Upgradation	1.3	0.3	0.9	0.4	0.8	0.7	(0.7)	0.6	0.4	0.6	1.0
Write-off	1.1	0.9	1.0	0.5	0.9	1.0	1.5	1.1	0.7	0.9	4.7
Slippages	4.0	2.8	4.4	3.0	5.2	5.6	2.9	5.9	13.8	6.8	14.5
Closing gross NPLs	19.9	19.7	19.2	20.2	21.6	22.2	24.6	27.9	38.9	42.2	49.1
Slippages	1.7	1.1	1.5	1.0	1.6	1.7	0.8	1.6	3.7	1.7	3.4
Loan loss provisions	0.9	0.8	0.6	0.5	0.2	0.6	0.5	0.5	1.3	1.1	1.5

Source: Company, Kotak Institutional Equities estimates

## Recoveries from select slippages could be slower than estimated

Sectoral slippages, March year-end, FY2010 (Rs bn)

Sector	Amount
Aviation	7.3
Pharma	3.9
Steel	2.6
IT	2.5
Infra	2.2
Gems & Jewellery	1.9
Minerals	1.8
Services	1.7
Construction	1.5
Retail	1.3
Engg	1.3
Others	13.1
<b>Total slippages</b>	<b>41.1</b>

Source: Kotak Institutional Equities, Company

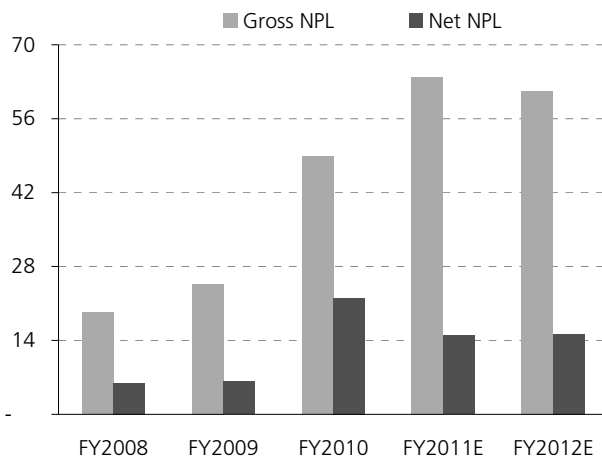
## Industry and services have contributed to the bulk of NPLs

Break-up of NPLs segment wise, March year-end, FY2009 (%)

	Bank of India	OBC	Union Bank	Allahabad Bank	HDFC Bank	Axis Bank	Syndicate Bank
Agriculture and allied	2.4	2.7	2.2	1.9	0.9	2.3	1.5
Industry	3.1	2.4	2.9	1.5	1.5	1.0	2.7
Services	4.7	2.7	3.2	4.6	3.9	0.7	5.4
Personal loans (retail)	4.2	5.9	3.1	3.4	1.1	1.9	2.5

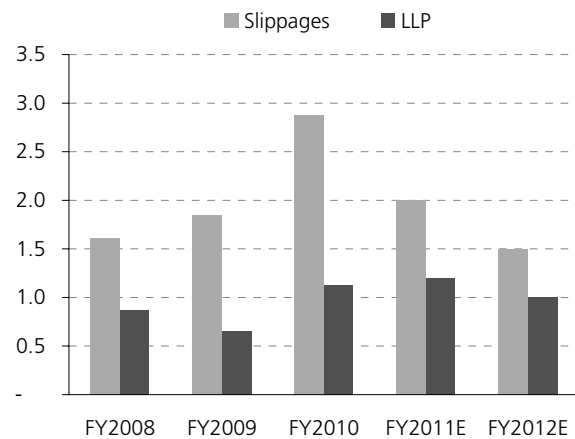
Source: Kotak Institutional Equities

Conservative estimates on asset quality in FY2011E and FY2012E  
Gross and net NPL's, March year-end, FY2008-FY2012E(%)



Source: Kotak Institutional Equities, Company

Giving the benefit of lower slippages in FY2011E and FY2012E  
Slippages and LLP, March year-end, FY2008-FY2012E (%)



Source: Kotak Institutional Equities, Company

### Margin outlook continues to remain positive but factored

Bol is aiming to improve its margins to 2.8% in FY2011E from 2.6% in FY2010 led by deposit re-pricing and improvement in lending yields. We are factoring this improvement (16 bps yoy) as the bank has nearly 26% of its deposits which are currently priced higher than its current term deposit rates. On the loans side, the benefit from moving to a base rate regime might be more balanced than expected as nearly 26% of loans are below 9% but the bank also has about 44% of loans above 12%.

### Deposit rates are in line with industry

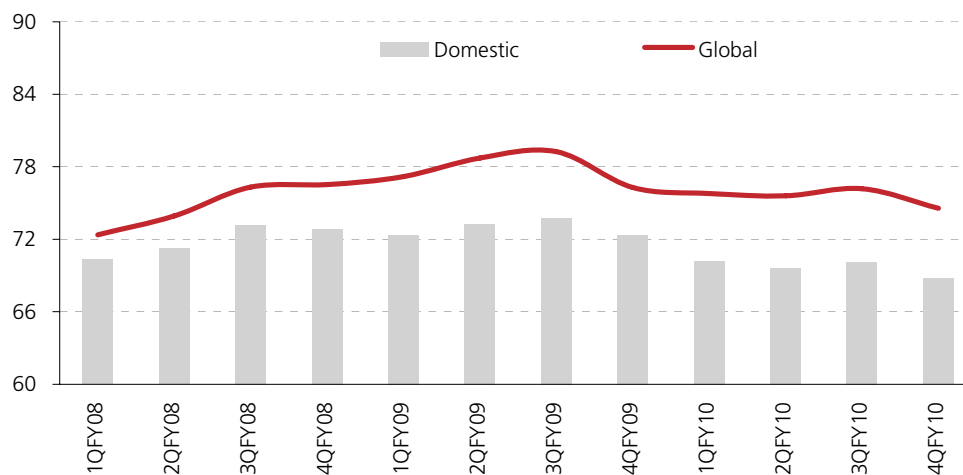
Deposit rates for banks, (%)

	7-14 days	15-30 days	31-45 days	46-90 days	91-179 days	180-269 days	270-364 days	1 Year- less than 2 years	2 Year- less than 3 years	3 years and above
Allahabad Bank	2.50	2.75	3.00	4.00	5.00	5.50	5.50	6.50	6.75	7.00
Andhra Bank	2.00	3.00	3.00	4.00	5.00	5.50	5.50	6.50	6.50	7.00
Bank of Baroda	2.50	3.00	3.00	4.00	5.00	5.50	5.50	6.50	7.00	7.00
<b>Bank of India</b>	<b>2.50</b>	<b>2.75</b>	<b>3.00</b>	<b>4.00</b>	<b>4.75</b>	<b>5.50</b>	<b>5.75</b>	<b>6.50</b>	<b>6.75</b>	<b>7.00</b>
Canara Bank	1.50	2.75	2.75	4.00	5.00	5.50	5.75	6.75	7.00	7.0-7.5
OBC	2.00	2.75	3.00	4.00	5.00	5.50	5.75	6.50	6.75	7.00
Punjab National Bank	2.50	2.75	2.75	4.00	4.50	5.50	5.50	6.50	6.75	7.00
State Bank of India		2.50	2.50	3.50	4.75	5.25	5.25	6.00	6.50	6.5-7.5
Union Bank of India	1.50	3.00	3.00	4.00	4.50	5.00	5.25	6.50	7.00	7.25-7.5
ICICI Bank	-	3.50	3.50	3.50	5.25	6.00	6.00	6.25	7.00	7.5-7.75
Axis Bank	-	2.50	3.00	3.5-4.0	4.5-5.0	6.00	6.00	6.5-6.6	7.00	7.00
HDFC Bank	2.25	2.25	3.00	3.50	4.50	5.50	5.75	6.50	7.00	7.50
Federal Bank	2.00	3.00	3.00	4.00	5.25	6.25	6.25	7.25	7.50	7.75-8

Source: Kotak Institutional Equities

## Domestic liquidity for Bank of India stands comfortable

Credit Deposit ratio, March Year-end, 1QFY08-4QFY10(%)



Source: Kotak Institutional Equities, Company

## Bank of India's deposits profile as of 4QFY10

Deposits proportion re-priced at various rates, March year-end, (%)

	1QFY10	2QFY10	3QFY10	4QFY10
Below 8%	26.2	37.4	49.2	64.1
8%	17.6	12.4	11.3	10.2
9%	12.0	11.5	10.9	7.4
10%	29.2	24.8	18.8	13.8
11%	10.5	9.8	7.5	3.1
12% and above	4.5	3.9	2.3	1.3
<b>Cost of deposits</b>	<b>6.5</b>	<b>6.2</b>	<b>5.9</b>	<b>5.4</b>

Source: Kotak Institutional Equities, Company

## Bank of India's advances profile as of 4QFY10

Proportion of advances at various rates, March year-end, (%)

	1QFY10	2QFY10	3QFY10	4QFY10
Below 8%	8.7	13.8	15.2	12.0
8%	14.5	4.7	5.5	5.9
9%	17.1	8.9	8.8	8.4
10%	14.9	10.9	10.8	10.8
11%	22.0	14.7	15.3	18.7
12% and above	22.9	47.1	44.4	44.2
<b>Yield on loans</b>	<b>10.7</b>	<b>10.4</b>	<b>9.9</b>	<b>9.6</b>

Source: Kotak Institutional Equities, Company



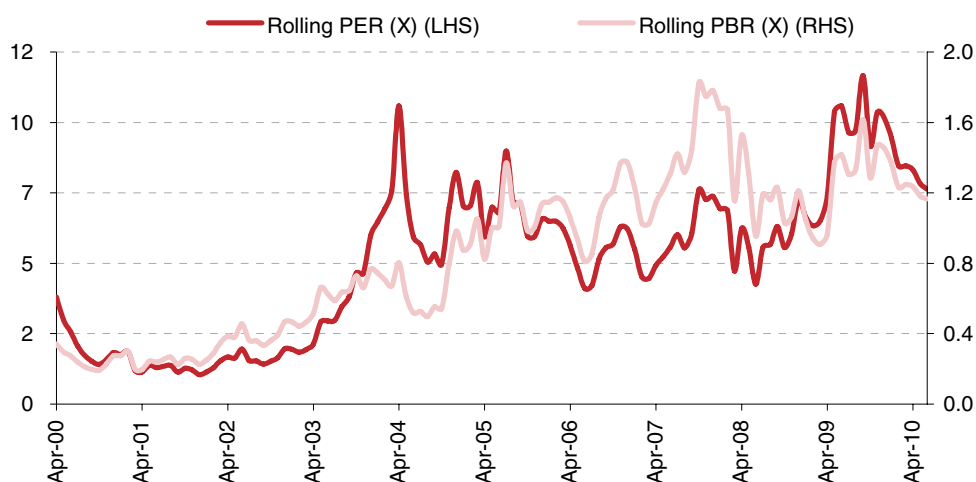
## Key changes to our estimates

March fiscal year-ends, 2011-2012E (Rs mn)

	Old estimates		New estimates		% change	
	2011E	2012E	2011E	2012E	2011E	2012E
Net interest income	70,194	86,308	72,491	85,943	3.3	(0.4)
Loan growth (%)	19.3	19.7	19.3	19.7		
NIM (%)	2.4	2.5	2.5	2.5		
Loan loss provisions	22,167	22,080	22,167	22,080	0.0	0.0
Other income	25,843	29,226	26,002	30,111	0.6	3.0
Fee income	16,527	19,006	12,939	15,268	(21.7)	(19.7)
Treasury income	2,500	2,500	2,500	3,000		
Operating expenses	40,966	48,412	40,966	48,412	—	(0.0)
Employee expenses	25,919	31,180	25,919	31,180	—	—
<b>Net profit</b>	<b>21,282</b>	<b>29,430</b>	<b>22,442</b>	<b>29,793</b>	<b>5.5</b>	<b>1.2</b>
<b>PBT-treasury + loan loss provisions</b>	<b>40,919</b>	<b>49,010</b>	<b>51,727</b>	<b>48,874</b>	<b>26.4</b>	<b>(0.3)</b>

Source: Kotak Institutional Equities

## Bank of India: Rolling PER and PBR (X)



Source: Kotak Institutional Equities, Company

**Bank of India's growth rates and key ratios**  
March fiscal year-ends, 2008-2012E (%)

	2008	2009	2010	2011E	2012E
<b>Growth rates (%)</b>					
Net loan	33.6	25.9	17.9	19.3	19.7
Customer assets	31.7	25.7	17.1	18.9	19.5
Investments excld. CPs and debentures growth	24.3	25.8	30.2	31.9	13.9
Net fixed and leased assets	207.4	4.4	(7.1)	28.3	13.7
Cash and bank balance	1.8	22.8	43.5	(10.9)	7.5
Total Asset	26.3	26.1	21.9	18.1	16.5
Deposits	25.1	26.5	21.1	17.2	17.7
Current	33.2	0.9	26.3	17.5	18.1
Savings	14.3	14.2	25.9	20.1	18.1
Fixed	28.1	33.5	19.3	16.3	17.5
Net interest income	14.8	30.0	4.7	25.9	18.6
Loan loss provisions	11.5	(2.6)	108.8	26.4	(0.4)
Total other income	36.8	44.2	(14.3)	(0.6)	15.8
Net fee income	31.2	39.4	0.4	18.0	18.0
Net capital gains	78.7	103.7	(20.4)	(57.9)	20.0
Net exchange gains	36.8	103.4	(40.4)	20.0	15.0
Operating expenses	1.4	17.0	18.5	11.7	18.2
Employee expenses	2.7	16.9	18.5	12.9	20.3
<b>Key ratios (%)</b>					
Yield on average earning assets	8.0	8.4	7.4	7.5	8.0
Yield on average loans	9.3	9.8	8.4	8.5	8.9
Yield on average investments	6.9	7.2	7.6	7.6	7.9
Average cost of funds	5.5	5.9	5.3	5.3	5.7
Interest on deposits	5.2	5.8	5.2	5.1	5.6
<b>Difference</b>	<b>2.5</b>	<b>2.5</b>	<b>2.1</b>	<b>2.3</b>	<b>2.3</b>
Net interest income/earning assets	2.7	2.8	2.4	2.5	2.5
Spreads on lending business	3.9	3.9	3.1	3.2	3.2
Spreads on lending business (incl. Fees)	4.6	4.8	3.8	3.9	3.9
New provisions/average net loans	0.9	0.7	1.1	1.2	1.0
Total provisions/gross loans	2.3	2.4	3.1	3.6	3.9
Interest income/total income	66.6	64.3	68.7	73.6	74.1
Other income / total income	33.4	35.7	31.3	26.4	25.9
Fee income to total income	12.3	12.8	13.1	13.1	13.2
Fee income to advances	0.8	0.9	0.7	0.7	0.7
Fees income to PBT	29.2	26.2	44.0	40.4	35.9
Net trading income to PBT	10.5	6.5	14.1	2.2	3.5
Exchange income to PBT	11.4	15.0	14.9	13.9	12.1
Operating expenses/total income	41.7	36.2	43.8	41.6	41.7
Operating expenses/assets	1.7	1.5	1.5	1.4	1.4
Operating profit /AWF	1.5	1.8	0.8	1.0	1.2
Tax rate	25.2	27.8	30.2	30.0	30.0
Dividend payout ratio	10.5	14.0	21.1	21.1	21.1
Share of deposits					
Current	9.9	7.9	8.1	8.1	8.1
Fixed	63.4	68.2	67.5	66.9	66.9
Savings	26.7	23.9	24.5	25.0	25.0
Loans-to-deposit ratio	75.6	75.3	73.3	74.7	76.0
Equity/assets (EoY)	5.9	6.0	5.2	4.9	4.8
<b>Dupont analysis (%)</b>					
Net interest income	2.7	2.7	2.3	2.4	2.5
Loan loss provisions	0.5	0.4	0.7	0.7	0.6
Net other income	1.3	1.5	1.1	0.9	0.9
Operating expenses	1.7	1.5	1.6	1.4	1.4
Inv. depreciation	0.1	0.2	0.1	0.1	0.0
(1- tax rate)	74.8	72.2	69.8	70.0	70.0
ROA	1.3	1.5	0.7	0.8	0.9
Average assets/average equity	21.9	19.4	20.2	21.9	22.4
ROE	27.6	29.2	14.2	16.4	19.1

Source: Kotak Institutional Equities, Company

Bank of India's P&L and balance sheet  
March fiscal year-ends, 2008-2012E (Rs mn)

	2008	2009	2010	2011E	2012E
<b>Income statement</b>					
Total interest income	123,552	163,474	178,780	218,608	273,378
Loans	92,751	125,392	131,032	156,750	196,648
Investments	26,390	33,703	44,643	57,429	72,399
Cash and deposits	4,411	4,378	3,105	4,429	4,331
Total interest expense	81,260	108,485	121,220	146,117	187,435
Deposits from customers	70,585	97,765	108,122	127,966	165,193
Net interest income	42,293	54,989	57,559	72,491	85,943
Loan loss provisions	8,628	8,403	17,543	22,167	22,080
Net interest income (after prov.)	33,665	46,586	40,016	50,324	63,862
Other income	21,169	30,519	26,166	26,002	30,111
Net fee income	7,829	10,916	10,965	12,939	15,268
Net capital gains	3,662	7,461	5,936	2,500	3,000
Net exchange gains	3,066	6,235	3,718	4,462	5,131
Operating expenses	26,450	30,940	36,678	40,966	48,412
Employee expenses	16,570	19,374	22,961	25,919	31,180
Depreciation on investments	834	4,741	2,430	1,800	1,500
Other Provisions	703	(220)	2,138	1,500	1,500
Pretax income	26,846	41,644	24,937	32,060	42,562
Tax provisions	6,753	11,571	7,526	9,618	12,768
Net Profit	20,094	30,073	17,411	22,442	29,793
% growth	78.9	49.7	(42.1)	28.9	32.8
PBT - Treasury + Provisions	33,349	47,107	41,112	55,027	64,642
% growth	54.5	41.3	(12.7)	33.8	17.5
<b>Balance sheet</b>					
Cash and bank balance	177,174	217,613	312,301	278,298	299,208
Cash	4,563	4,580	6,507	6,507	6,507
Balance with RBI	112,855	84,573	149,519	115,516	136,425
Balance with banks	19,524	26,101	78,795	78,795	78,795
Net value of investments	418,029	526,072	670,802	870,907	985,465
Govt. and other securities	330,318	425,310	568,693	774,831	890,546
Shares	3,145	3,800	7,925	8,690	9,455
Debentures and bonds	24,820	28,462	21,362	19,226	17,303
Net loans and advances	1,134,763	1,429,094	1,684,907	2,009,614	2,406,469
Fixed assets	24,261	25,319	23,518	30,165	34,306
Net leased assets	—	—	—	—	—
Net Owned assets	24,261	25,319	23,518	30,165	34,306
Other assets	34,073	56,920	58,136	58,136	58,136
<b>Total assets</b>	<b>1,788,300</b>	<b>2,255,018</b>	<b>2,749,665</b>	<b>3,247,121</b>	<b>3,783,584</b>
Deposits	1,500,120	1,897,085	2,297,619	2,691,858	3,167,274
Borrowings and bills payable	133,562	167,097	235,715	322,471	361,511
Other liabilities	48,724	55,887	74,030	74,030	74,030
<b>Total liabilities</b>	<b>1,682,406</b>	<b>2,120,068</b>	<b>2,607,365</b>	<b>3,088,359</b>	<b>3,602,814</b>
Paid-up capital	5,259	5,259	5,259	5,259	5,259
Reserves & surplus	100,635	129,690	137,041	153,503	175,511
Revaluation reserves	17,631	17,103	14,286	13,858	13,442
<b>Total shareholders' equity</b>	<b>105,894</b>	<b>134,949</b>	<b>142,300</b>	<b>158,762</b>	<b>180,770</b>

Source: Kotak Institutional Equities, Company

JUNE 16, 2010

UPDATE

BSE-30: 17,413

## India Chemical Monthly, June 2010

Asia ethylene prices decline sharply

Plastics margins increase in May but decline sharply in the recent weeks

Margins for PSF and PFY increase sharply

### Asia ethylene prices decline sharply

Ethylene prices declined sharply by 9.3% mom in May 2010 led by a decline in naphtha prices (-8.5% mom), which were driven by lower crude oil prices. Ethylene prices collapsed further by US\$80/ton in the recent weeks led by (1) continued high supplies from the Middle East (Iran, Qatar and UAE) and (2) weak spot demand. North-east Asia cracker operators are expected to reduce runs from mid-July, which will likely tighten the region's demand-supply balance.

### Plastics margins increase in May but decline sharply in the recent weeks

Asia plastics margins expanded in May 2010 led by a sharp decline in naphtha prices (-8.5% mom), which were driven by a decline in crude oil prices. Asia HDPE, LDPE and PP margins expanded in May by 15.8%, 9.8% and 9.2% mom. However, Asia plastics margins have plummeted (-US\$55-130/ton) in the recent weeks led by (1) a sharp decline in product prices (-US\$30-105/ton) and (2) a moderate rise in naphtha prices (+US\$25/ton). Buying sentiment for PE has been depressed recently by (1) falling ethylene prices and (2) volatile crude oil prices. In plant-related news—(1) Thailand's PTT Polyethylene is expected to start its new 300,000 tpa LDPE plant in mid-June after months of delays, (2) China's Sinopec is expected to commission 300,000 tpa PP plant in end-June and (3) Borouge's new 1.45 mtpa cracker has been delayed to end-June. We expect India HDPE and PP margins to expand by 8.8% and 3.3% mom in June 2010.

### Margins for PSF and PFY increase sharply

Asia PSF and PFY margins expanded sharply in May 2010 by 32% and 28.6% led by (1) a sharp decline in input prices (PTA -10.2% and MEG -15.1% mom) and (2) stable polyester prices (PSF -1.3% and PFY +2.5% mom). However, we expect PSF and PFY margins to decline in the near term led by a weak demand outlook. We expect India margins for PSF to increase by 9.3% mom and for PFY to remain stable in June 2010.

We have included some key exhibits here. For more details, please refer our India Chemical Monthly, June 2010.

### QUICK NUMBERS

- Asia polymer margins decline by US\$55-130/ton in recent weeks
- Asia PSF and PFY margins expanded by 32% and 29% mom in May
- India margins for HDPE and PP to expand by 8.8% and 3.3% mom in June 2010

## Chemical product prices have declined in the recent weeks

Asia chemical prices, calendar year-ends (US\$/ton)

	Annual average prices					Quarterly average					Monthly average				Recent			
	2006	2007	2008	2009	2010	3Q09	4Q09	1Q10	2Q10	2Q10 vs 1Q10 (%)	Feb	Mar	Apr	May	May 21	May 28	Jun 4	Jun 11
Naphtha	583	696	827	557	719	611	680	717	723	0.9	686	737	755	691	642	643	675	668
Benzene	861	1,021	980	683	958	817	854	963	951	(1.3)	932	921	997	904	861	806	817	799
<b>Ethylene chain</b>																		
Ethylene	1,132	1,137	1,162	831	1,207	960	993	1,214	1,198	(1.3)	1,243	1,130	1,223	1,173	1,099	1,001	921	919
High-density PE	1,237	1,325	1,437	1,113	1,270	1,194	1,185	1,280	1,254	(2.1)	1,304	1,269	1,247	1,260	1,265	1,230	1,170	1,125
Linear low-density PE	1,236	1,339	1,497	1,150	1,368	1,261	1,259	1,400	1,321	(5.6)	1,407	1,373	1,336	1,306	1,315	1,215	1,190	1,170
Low-density PE	1,243	1,445	1,602	1,174	1,493	1,276	1,326	1,519	1,456	(4.2)	1,540	1,479	1,454	1,458	1,445	1,425	1,340	1,335
<b>Propylene chain</b>																		
Propylene	1,091	1,069	1,180	892	1,226	1,026	1,042	1,223	1,230	0.5	1,211	1,256	1,285	1,174	1,140	1,020	1,110	1,063
Polypropylene	1,228	1,324	1,457	1,052	1,305	1,156	1,142	1,294	1,321	2.1	1,310	1,284	1,327	1,315	1,290	1,230	1,220	1,200
<b>Styrene chain</b>																		
Styrene	1,165	1,320	1,261	951	1,252	1,070	1,064	1,276	1,217	(4.6)	1,297	1,246	1,265	1,168	1,137	1,040	1,070	1,046
Polystyrene	1,232	1,426	1,397	1,065	1,377	1,201	1,170	1,397	1,346	(3.7)	1,426	1,376	1,374	1,318	1,320	1,200	1,205	1,195
<b>Vinyl chain</b>																		
PVC	832	945	1,026	800	1,019	909	883	1,020	1,018	(0.2)	1,024	1,043	1,030	1,006	1,009	965	949	945
EDC	351	426	384	359	510	467	397	494	534	8.0	510	516	535	533	530	515	485	485
<b>Polyester chain</b>																		
PSF	1,293	1,452	1,433	1,194	1,459	1,250	1,258	1,432	1,500	4.8	1,435	1,495	1,510	1,490	—	1,490	—	—
PFY	1,444	1,669	1,665	1,350	1,746	1,440	1,500	1,708	1,803	5.5	1,720	1,715	1,780	1,825	—	1,825	—	—
Pure terephthalic acid	898	881	906	835	952	878	891	959	942	(1.8)	964	964	992	891	860	860	860	860
Monoethylene glycol	853	1,115	932	634	919	704	788	963	854	(11.3)	982	923	924	785	753	745	727	716
Paraxylene	1,155	1,131	1,164	979	1,023	1,013	1,003	1,037	1,003	(3.3)	1,002	1,003	1,031	974	947	889	904	890

Source: Kotak Institutional Equities

## Chemical margins have declined sharply in the recent weeks

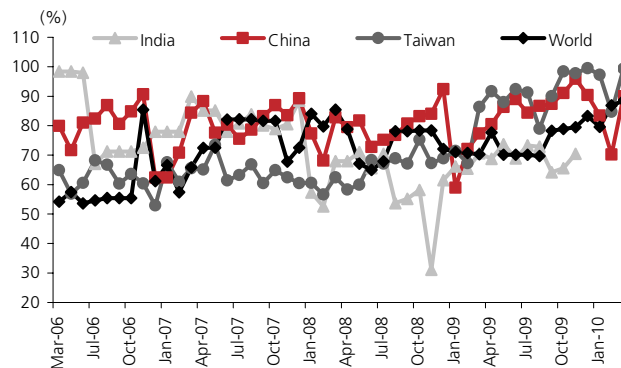
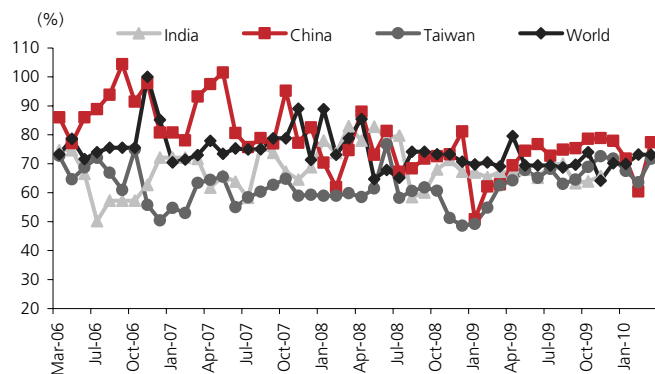
Asia chemical margins, calendar year-ending (US\$/ton)

	Annual average prices					Quarterly average					Monthly average				Recent			
	2006	2007	2008	2009	2010	3Q09	4Q09	1Q10	2Q10	2Q10 vs 1Q10 (%)	Feb	Mar	Apr	May	May 21	May 28	Jun 4	Jun 11
<b>Ethylene chain</b>																		
Ethylene – naphtha	549	441	336	274	488	349	312	497	475	(4.5)	556	394	467	482	457	358	246	251
HDPE – 1.015 x ethylene	88	171	258	270	44	219	177	48	38	(22.4)	43	121	6	69	150	214	235	192
LDPE – 1.015 x ethylene	87	185	317	307	143	286	252	168	105	(37.4)	146	226	95	115	200	199	255	237
LDPE – 1.015 x ethylene	94	291	422	331	268	301	319	287	240	(16.4)	279	332	213	267	330	409	405	402
HDPE – naphtha	655	629	611	556	550	583	504	564	530	(5.9)	617	532	492	569	623	587	495	457
LDPE – naphtha	654	643	670	594	649	650	579	683	598	(12.5)	720	637	581	615	673	572	515	502
LDPE – naphtha	660	749	775	618	774	664	646	802	732	(8.7)	854	743	698	767	803	782	665	667
<b>Propylene chain</b>																		
Propylene – naphtha	509	373	353	336	506	415	362	506	507	0.0	524	519	530	483	498	377	435	394
PP – 1.01 x propylene	125	244	265	151	67	119	89	59	79	34.4	87	16	29	129	139	200	99	127
PP – naphtha	645	628	630	495	586	544	461	577	598	3.5	624	548	572	624	648	587	545	532
<b>Styrene chain</b>																		
Benzene – naphtha	278	325	153	126	239	206	174	247	228	(7.7)	246	185	242	213	220	163	142	131
Styrene – 0.81 x benzene	139	163	131	157	126	130	84	143	99	(30.9)	182	172	103	96	120	97	141	132
– 0.29 x ethylene																		
Polystyrene – 0.98 styrene	90	132	161	132	150	152	128	147	154	4.6	154	155	134	173	206	181	156	170
PS – naphtha	649	730	571	508	658	590	490	681	623	(8.5)	739	640	619	627	678	557	530	527
<b>Vinyl chain</b>																		
EDC – (0.3 x ethylene)	11	85	35	109	148	179	99	130	174	33.9	137	177	168	181	200	215	209	209
PVC – 1.025 (0.235 x ethylene + 0.864 x EDC)	249	294	405	283	276	264	293	290	257	(11.4)	273	314	262	251	275	268	298	294
PVC – naphtha	250	249	199	244	300	298	203	303	295	(2.8)	337	307	275	315	367	322	274	277
<b>Polyester/intermediates</b>																		
PSF – 0.85 x PTA – 0.34 x MEG	240	324	347	269	337	264	233	290	409	41.3	282	362	353	466	—	506	—	—
PFY – 0.85 x PTA – 0.34 x MEG	391	541	578	425	624	454	475	566	712	25.7	567	582	623	801	—	841	—	—
PTA – 0.67 x PX	124	123	126	179	266	199	219	264	270	2.3	292	292	301	239	226	264	254	264
PX – naphtha	572	435	337	422	304	402	322	320	279	(12.8)	315	266	276	283	305	246	229	221
MEG – naphtha	270	419	105	77	200	93	107	246	131	(46.8)	296	186	168	94	111	102	52	48
MEG – 0.6 x ethylene	174	433	235	135	195	128	192	235	135	(42.3)	237	244	190	81	94	144	174	165

Source: Kotak Institutional Equities

### Operating rates have improved but remain low

Global operating rates for PSF and PFY (%)



Source: Kotak Institutional Equities

Source: Company, Bloomberg, Kotak Institutional Equities estimates

15-Jun-10			Mkt cap.		O/S		EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price		
Company	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	(Rs)	Upside (%)	ADVT-3mo	
Automobiles																														
Ashok Leyland	63	ADD	83,609	1,796	1,330	2.8	3.9	5.0	84.5	37.5	29.7	22.3	16.2	12.5	13.2	10.2	8.6	2.1	2.0	1.8	2.4	1.6	1.6	11.1	12.7	15.0	60	(4.5)	9.8	
Bajaj Auto	2,288	ADD	331,050	7,109	145	117.5	159.9	173.2	159.8	36.1	8.3	19.5	14.3	13.2	12.3	9.8	8.9	10.5	6.6	4.7	0.9	0.9	0.9	66.6	54.8	39.8	2,330	1.8	11.6	
Hero Honda	2,028	SELL	404,982	8,697	200	111.8	121.5	135.7	74.1	8.7	11.7	18.1	16.7	14.9	11.8	11.0	9.5	11.2	7.7	5.7	1.5	1.6	1.8	59.1	56.6	43.8	1,800	(11.2)	23.4	
Mahindra & Mahindra	608	BUY	351,754	7,554	578	34.9	39.0	43.9	132.5	11.7	12.5	17.4	15.6	13.9	11.5	10.2	9.0	4.4	3.5	2.9	1.6	1.5	1.6	30.0	24.9	22.8	630	3.6	26.7	
Maruti Suzuki	1,343	ADD	388,098	8,335	289	86.4	94.1	104.2	104.9	8.9	10.8	15.5	14.3	12.9	8.4	7.8	6.7	3.3	2.7	2.2	0.4	0.5	0.5	23.3	20.6	18.9	1,400	4.3	18.8	
Tata Motors	760	ADD	452,918	9,727	596	23.9	27.2	35.5	138.9	13.5	30.6	31.7	28.0	21.4	12.6	12.6	11.1	2.2	2.0	1.7	0.7	0.8	0.8	8.1	7.5	8.6	900	18.5	98.1	
Automobiles			Cautious	2,012,410	43,217				118.1	16.4	14.3	19.8	17.0	14.9	11.4	10.3	9.1	3.9	3.2	2.7	1.1	1.1	1.1	19.9	19.1	18.2				
Banks/Financial Institutions																														
Andhra Bank	136	BUY	66,009	1,418	485	21.0	21.1	25.4	56.1	0.6	20.0	6.5	6.4	5.4	—	—	—	1.4	1.2	1.0	3.1	3.1	3.7	24.4	20.2	20.7	160	17.6	5.9	
Axis Bank	1,245	ADD	504,586	10,836	405	62.1	77.4	98.5	22.7	24.7	27.3	20.1	16.1	12.6	—	—	—	3.1	2.7	2.3	1.0	1.2	1.5	18.9	18.1	19.9	1,360	9.2	51.0	
Bank of Baroda	730	BUY	266,872	5,731	366	83.7	89.8	111.0	37.3	7.3	23.6	8.7	8.1	6.6	—	—	—	1.9	1.6	1.4	2.1	2.2	2.7	24.4	21.8	22.6	825	13.0	10.8	
Bank of India	337	REDUCE	177,075	3,803	526	33.1	40.5	56.0	(42.1)	22.2	38.3	10.2	8.3	6.0	—	—	—	1.4	1.2	1.1	2.1	2.5	3.5	14.3	15.9	19.3	360	6.9	5.9	
Canara Bank	430	ADD	176,382	3,788	410	73.7	77.0	93.6	45.8	4.5	21.4	5.8	5.6	4.6	—	—	—	1.4	1.1	0.9	1.9	2.3	2.8	23.0	19.6	20.1	500	16.2	6.7	
Corporation Bank	550	BUY	78,833	1,693	143	81.6	86.7	100.3	31.1	6.3	15.7	6.7	6.3	5.5	—	—	—	1.4	1.2	1.0	3.0	3.2	3.7	21.9	19.9	19.8	650	18.3	5.1	
Federal Bank	332	BUY	56,749	1,219	171	27.2	38.7	48.0	(7.2)	42.3	24.2	12.2	8.6	6.9	—	—	—	1.2	1.1	1.0	1.5	2.1	2.7	10.3	13.4	14.8	360	8.5	12.2	
HDFC	2,859	ADD	820,862	17,628	287	98.4	118.2	143.7	22.7	20.1	21.5	29.0	24.2	19.9	—	—	—	5.4	4.8	4.2	1.3	1.4	1.8	20.0	21.0	22.4	3,200	11.9	39.7	
HDFC Bank	1,964	BUY	898,962	19,306	458	64.4	84.1	110.4	22.1	30.6	31.2	30.5	23.3	17.8	—	—	—	4.2	3.7	3.2	0.6	0.8	1.0	16.1	16.7	19.1	2,200	12.0	32.5	
KICICI Bank	860	REDUCE	958,917	20,593	1,115	36.1	46.5	58.0	6.9	28.9	24.7	23.8	18.5	14.8	—	—	—	1.9	1.8	1.6	1.4	1.8	2.2	8.1	9.8	11.5	980	13.9	92.4	
IDFC	165	ADD	214,990	4,617	1,301	8.2	9.2	11.2	41.1	12.9	21.9	20.2	17.9	14.7	—	—	—	3.1	2.7	2.4	0.9	1.0	1.2	16.1	16.0	17.1	180	8.9	18.3	
India Infoline	97	BUY	30,291	651	312	8.1	8.9	10.0	59.2	9.8	12.5	12.0	10.9	9.7	—	—	—	1.9	1.6	1.3	3.3	2.0	2.4	16.4	15.9	16.1	140	44.1	3.5	
Indian Bank	230	BUY	98,740	2,120	430	35.1	35.5	43.8	25.5	1.1	23.6	6.5	6.5	5.2	—	—	—	1.5	1.2	1.1	2.6	2.7	3.3	24.0	20.3	21.2	280	21.9	4.1	
Indian Overseas Bank	99	BUY	54,017	1,160	545	13.0	15.4	26.4	(46.7)	18.9	71.3	7.6	6.4	3.8	—	—	—	0.8	0.8	0.6	4.1	4.5	5.0	9.6	10.6	16.3	120	21.0	3.3	
J&K Bank	787	BUY	38,159	819	48	105.7	112.3	140.6	25.1	6.3	25.2	7.4	7.0	5.6	—	—	—	1.3	1.2	1.0	2.8	3.0	3.7	17.3	16.9	18.5	850	8.0	0.5	
LIC Housing Finance	973	ADD	92,383	1,984	95	69.7	93.2	104.2	11.4	33.8	11.7	14.0	10.4	9.3	—	—	—	2.9	2.4	2.0	1.5	2.1	2.3	23.6	23.8	22.4	1,050	8.0	21.0	
Mahindra & Mahindra Financial	468	BUY	44,904	964	96	35.7	42.6	49.8	59.3	19.3	16.8	13.1	11.0	9.4	—	—	—	2.7	2.3	1.9	1.6	1.9	2.3	21.4	21.7	21.6	500	6.9	1.2	
Oriental Bank of Commerce	330	ADD	82,678	1,776	251	45.3	52.8	58.6	25.3	16.5	11.0	7.3	6.3	5.6	—	—	—	1.2	1.0	0.9	2.8	3.2	3.6	14.1	15.4	15.3	400	21.2	4.7	
PFC	297	SELL	340,773	7,318	1,148	20.5	22.5	25.9	53.5	9.9	15.1	14.5	13.2	11.5	—	—	—	2.6	2.3	2.0	1.7	1.9	2.2	18.8	18.0	18.2	240	(19.2)	2.5	
Punjab National Bank	1,051	BUY	331,383	7,117	315	123.8	128.0	156.5	26.3	3.4	22.2	8.5	8.2	6.7	—	—	—	2.0	1.7	1.4	2.1	2.4	3.0	26.4	22.7	23.3	1,150	9.4	7.6	
Reliance Capital	738	ADD	181,629	3,901	246	13.8	16.1	14.1	(64.9)	17.0	(12.4)	53.5	45.7	52.2	—	—	—	2.6	2.6	2.5	0.9	0.9	0.8	5.0	5.7	4.8	875	18.6	29.5	
Rural Electrification Corp.	292	ADD	288,367	6,193	987	20.3	24.6	30.7	23.2	21.2	24.9	14.4	11.9	9.5	—	—	—	2.6	2.3	2.0	2.2	2.5	3.2	22.0	20.5	22.2	300	2.7	14.4	
Shriram Transport	584	ADD	130,258	2,797	223	39.2	49.1	62.4	30.1	25.4	27.2	14.9	11.9	9.3	—	—	—	3.5	3.0	2.5	2.0	2.5	3.2	28.4	26.1	27.8	600	2.8	4.7	
SREI	81	NR	9,431	203	116	8.3	7.9	9.9	17.8	(4.8)	25.8	9.8	10.3	8.2	—	—	—	0.8	0.7	0.7	1.5	1.5	1.5	11.1	10.5	12.3	—	—	4.5	
State Bank of India	2,364	BUY	1,500,984	32,234	635	144.4	178.1	223.0	0.5	23.4	25.2	16.4	13.3	10.6	—	—	—	2.3	2.0	1.8	1.7	1.8	1.9	14.8	16.1	17.8	2,700	14.2	97.0	
Union Bank	308	BUY	155,349	3,336	505	41.1	45.8	57.3	20.2	11.5	25.0	7.5	6.7	5.4	—	—	—	1.8	1.4	1.2	1.8	2.2	2.7	26.2	23.7	24.3	380	23.6	4.8	
Banks/Financial Institutions			Attractive	7,599,583	163,204				14.4	17.2	24.4	15.3	13.0	10.5	—	—	—	2.4	2.1	1.8	1.5	1.8	2.1	15.5	16.0	17.4				
Cement																														
ACC	880	SELL	165,316	3,550	188	83.2	61.8	63.4	47.9	(25.7)	2.6	10.6	14.2	13.9	5.7	6.7	5.8	2.6	2.3	2.0	2.7	2.7	2.7	29.3	19.4	17.7	830	(5.7)	9.5	
Ambuja Cements	116	SELL	176,215	3,784	1,522	8.0	7.9	8.1	11.4	(1.8)	2.6	14.5	14.7	14.3	8.1	8.4	7.6	2.5	2.2	2.0	1.6	1.8	1.8	19.3	16.7	15.3	98	(15.3)	6.4	
Grasim Industries	1,796	REDUCE	164,698	3,537	92	301.0	240.1	282.0	26.1	(20.2)	17.5	6.0	7.5	6.4	3.8	3.9	3.0	1.3	1.1	1.0	1.9	1.9	1.9	22.9	16.4	16.7	2,150	19.7	9.9	
India Cements	114	SELL	34,954	751	307	10.0	10.4	11.3	n/a	3.1	9.1	11.3	11.0	10.1	5.7	5.6	5.4	0.8	0.8	0.7	1.9	2.8	2.8	8.2	7.7	8.0	110	(3.4)	4.2	
Shree Cement	2,092	BUY	72,886	1,565	35	208.0	221.1	242.5	19.0	6.3	9.7	10.1	9.5	8.6	4.9	4.8	3.8	4.0	2.8	2.1	0.5	0.5	0.5	48.0	35.0	28.1	2,550	21.9	0.9	
UltraTech Cement	984	SELL	122,504	2,631	124	88.2	67.1	77.2	12.0	(23.9)	15.0	11.2	14.7	12.7	5.8	6.6	5.4	2.3	2.0	1.7	0.8	0.8	0.8	26.6	16.8	16.7	940	(4.5)	3.2	
Cement			Neutral	736,574	15,818				19.3	(15.5)	10.4	9.6	11.4	10.3	5.2	5.5	4.6	2.0	1.7	1.5	1.7	1.8	1.8	20.5	15.1	14.6				
Consumer products																														
Asian Paints	2,295	BUY	220,107	4,727	96	71.6	82.1	98.1	85.4	14.7	19.5	32.1	27.9	23.4	20.0	17.2	14.1	13.6	10.8	8.8	1.2	1.5	1.8	51.6	44.5	42.5	2,300	0.2	2.6	
Colgate-Palmolive (India)	828	REDUCE	112,541	2,417	136	29.7	33.0	37.6	37.6	11.1	13.9	27.9	25.1	22.0	20.7	18.2	15.5	35.2	27.6	22.1	2.4	2.7	3.1	150.2	122.2	109.9	760	(8.2)	2.3	
Dabur India	190	BUY	164,769	3,538	866	5.8	6.8	8.2	28.1	17.6	20.8	32.8	27.9	23.1	24.4	19.5	16.2	15.6	12.9	10.6	1.6	1.9	2.3	54.3	51.1	50.7	200	5.2	2.1	
GlaxoSmithKline Consumer (a)	1,709	ADD	71,854	1,543	42	55.4	70.0	82.9	23.6	26.5	18.4	30.9	24.4	20.6	16.9	14.3	11.7	8.0	6.6	5.6	1.1	1.3	1.6	27.9	29.6	29.2	1,800	5.4	1.0	
Godrej Consumer Products	346	NR	106,726	2,292	308	8.7	9.8	11.6	29.7	13.2	18.2	39.9	35.3	29.8	28.3	25.2	21.2	9.1	8.0	7.9	1.2	1.2	1.2	30.7	24.1	27.8	—	—	3.5	
Hindustan Unilever	260	REDUCE	566,987	12,176	2,179	9.7	10.4	11.8	1.7	7.3	14.0	26.9	25.1	22.0	18.1	17.0	14.3													



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

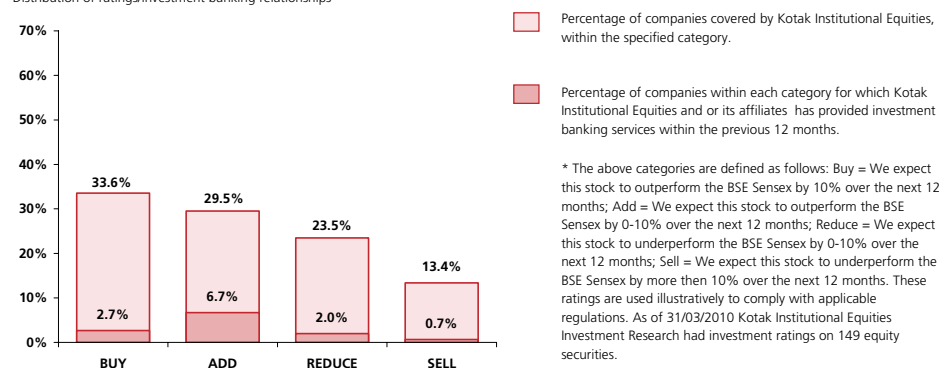
	15-Jun-10		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target	Upside	ADVT-3mo	
Company	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	(Rs)	(%)	(US\$ mn)	
Energy																														
Bharat Petroleum	531	RS	191,833	4,120	362	63.3	53.6	59.2	207.3	(15.3)	10.4	8.4	9.9	9.0	4.9	4.9	4.5	1.3	1.2	1.1	2.6	3.3	3.7	15.9	12.2	12.3	—	—	9.3	
Cairn India	305	SELL	579,049	12,435	1,897	5.3	28.5	40.0	—	433	40.5	57	11	7.6	44.7	7.3	5.2	1.7	1.5	1.3	—	—	4.9	3.0	14.6	18.1	250	(18.1)	19.5	
Castrol India (a)	417	REDUCE	103,017	2,212	247	15.4	19.6	20.6	44.6	27.0	5.3	27.0	21.3	20.2	16.0	13.0	12.2	22.4	20.9	19.3	3.0	3.7	3.8	83.8	101.6	99.2	365	(12.4)	1.5	
GAIL (India)	462	ADD	586,291	12,591	1,268	24.8	26.4	37.1	11.7	6.8	40.5	18.7	17.5	12.4	10.5	10.8	8.9	3.2	2.9	2.5	1.6	1.8	2.6	17.4	16.5	20.2	485	4.9	17.5	
GSPL	96	REDUCE	53,770	1,155	562	7.4	8.9	9.1	234.7	21.5	1.3	13.0	10.7	10.6	6.8	5.7	5.1	3.2	2.5	2.2	1.0	2.3	3.8	27.3	26.3	22.5	80	(16.3)	4.1	
Hindustan Petroleum	338	RS	114,704	2,463	339	54.7	44.6	56.3	222.7	(18.6)	26.4	6.2	7.6	6.0	2.3	2.7	2.2	0.9	0.8	0.7	3.5	4.1	5.2	13.9	10.1	11.7	—	—	7.9	
Indian Oil Corporation	330	RS	801,709	17,217	2,428	49.9	34.3	35.7	406.8	(31.3)	4.2	6.6	9.6	9.2	4.6	5.4	4.6	1.5	1.4	1.2	3.9	3.1	3.3	22.7	13.9	13.3	—	—	6.4	
Oil India	1,288	BUY	309,777	6,653	240	115.1	127.0	140.6	—	10.3	10.7	11.2	10.1	9.2	4.6	3.8	3.2	2.1	1.8	1.6	2.6	3.1	3.4	16.7	17.3	17.0	1,350	4.8	3.5	
Oil & Natural Gas Corporation	1,166	BUY	2,494,798	53,577	2,139	91.4	121.9	129.5	1.3	33.3	6.2	12.8	9.6	9.0	4.6	3.9	3.3	1.9	1.7	1.5	2.8	3.6	3.7	14.6	17.5	16.7	1,375	17.9	29.2	
Petronet LNG	81	REDUCE	60,713	1,304	750	5.4	6.2	7.9	—	14.9	28.0	15.0	13.1	10.2	9.4	7.8	6.8	2.4	2.0	1.8	2.2	2.5	3.4	15.9	15.9	17.6	82	1.3	4.1	
Reliance Industries	1,066	SELL	3,172,714	68,135	2,976	49.6	62.9	80.2	(1.8)	26.6	27.5	21.5	17.0	13.3	10.8	8.2	6.8	2.1	2.0	1.8	1.4	1.8	2.1	11.4	13.2	15.3	985	(7.6)	124.7	
Energy		Cautious	8,468,375	181,862					33.5	19.3	17.1	14.1	11.8	10.1	6.9	5.8	4.9	1.9	1.8	1.6	2.1	2.5	3.1	13.8	14.9	15.7				
Industrials																														
ABB	863	REDUCE	182,835	3,926	212	16.7	23.3	37.2	(35.2)	39.2	59.8	51.6	37.0	23.2	29.6	21.8	13.5	7.5	6.4	5.2	0.2	0.4	0.4	15.6	18.8	24.7	840	(2.6)	7.4	
BGR Energy Systems	732	BUY	52,733	1,132	72	16.0	28.0	39.7	32.2	74.6	41.9	45.7	26.2	18.4	25.7	14.9	10.8	9.4	7.5	5.7	0.4	1.0	1.1	22.3	31.8	35.1	800	9.2	2.4	
Bharat Electronics	1,787	REDUCE	142,960	3,070	80	93.9	111.8	127.4	(9.6)	19.1	13.9	19.0	16.0	14.0	9.2	7.4	6.2	3.2	2.8	2.4	1.4	1.4	1.4	17.9	18.7	18.5	1,790	0.2	3.5	
Bharat Heavy Electricals	2,402	ADD	1,175,852	25,252	490	92.0	115.8	136.2	44.1	25.8	17.7	26.1	20.8	17.6	14.5	11.4	9.3	7.2	5.7	4.6	0.8	1.0	1.2	30.8	30.7	28.9	2,500	4.1	31.4	
Crompton Greaves	255	BUY	163,659	3,515	642	12.8	13.3	15.8	46.5	3.2	19.0	19.9	19.2	16.2	11.5	10.5	8.7	6.2	4.9	3.9	0.7	0.7	0.8	36.8	28.5	26.8	290	13.7	8.5	
Larsen & Toubro	1,724	BUY	1,036,371	22,256	601	58.1	71.2	90.4	16.0	22.4	27.0	29.7	24.2	19.1	15.9	13.5	11.1	4.6	3.9	3.3	0.6	0.7	0.8	18.6	17.5	18.7	1,900	10.2	51.6	
Maharashtra Seamless	384	BUY	27,048	581	71	40.2	43.6	49.8	12.1	8.5	14.2	9.5	8.8	7.7	5.0	4.4	3.4	1.7	1.5	1.3	1.6	2.0	2.6	19.3	17.9	17.7	450	17.3	0.7	
Siemens	720	REDUCE	242,620	5,210	337	25.0	29.6	34.3	55.2	18.6	16.0	28.8	24.3	21.0	17.0	13.9	11.7	7.1	5.8	4.8	0.7	0.8	0.9	27.3	26.3	25.1	635	(11.8)	7.1	
Suzlon Energy	57	REDUCE	91,329	1,961	1,594	(5.9)	0.3	5.3	(182.3)	(104.4)	1,931.8	(9.6)	220.9	10.9	16.8	8.7	5.6	0.8	0.8	0.8	—	—	0.3	(8.8)	0.4	7.5	70	22.2	28.9	
Thermax	702	BUY	83,655	1,797	119	21.7	29.4	37.6	(10.4)	35.4	27.7	32.3	23.9	18.7	17.2	13.3	10.5	7.7	6.3	5.2	0.5	1.2	1.5	24.9	29.1	30.5	750	6.8	0.9	
Volvo	188	REDUCE	62,178	1,335	331	10.9	11.3	12.6	57.4	3.8	12.1	17.3	16.7	14.9	10.1	8.9	7.6	5.8	4.7	3.9	1.7	1.8	2.0	38.3	31.3	28.8	200	6.4	3.9	
Industrials		Attractive	3,261,241	70,036					3.7	33.5	27.4	30.1	22.5	17.7	15.1	11.9	9.5	4.9	4.1	3.5	0.7	0.9	1.0	16.2	18.4	19.7				
Infrastructure																														
Container Corporation	1,253	REDUCE	162,878	3,498	130	61.1	74.3	85.9	0.3	21.7	15.6	20.5	16.9	14.6	14.4	11.7	9.7	3.8	3.2	2.8	1.1	1.4	1.6	19.6	20.6	20.5	1,250	(0.2)	1.7	
GMR Infrastructure	56	ADD	205,902	4,422	3,667	0.4	0.2	0.1	(43.8)	(48.9)	(40.0)	130.3	255.0	424.7	23.1	14.9	14.0	2.0	1.7	1.7	—	—	—	2.4	1.2	0.7	65	15.8	5.9	
GVK Power & Infrastructure	43	BUY	67,827	1,457	1,579	0.8	1.1	1.4	6.7	33.5	32.4	52.8	39.5	29.9	18.2	16.6	17.1	2.1	2.1	2.0	—	0.7	0.7	4.7	5.3	6.7	54	25.7	6.0	
IRB Infrastructure	279	RS	92,746	1,992	332	9.7	12.6	12.1	83.8	29.2	(3.7)	28.7	22.2	23.1	13.5	12.0	11.1	4.0	3.1	2.5	—	—	—	15.6	15.7	11.9	—	—	4.9	
Mundra Port and SEZ	703	REDUCE	283,573	6,090	403	15.1	24.1	35.7	40.8	59.5	48.4	46.6	29.2	19.7	30.0	19.3	13.7	7.8	6.0	4.5	—	—	—	18.5	23.2	26.1	725	3.2	14.3	
Infrastructure		Attractive	812,926	17,458					12.7	29.5	24.1	40.4	31.2	25.1	20.4	15.0	13.0	3.4	2.9	2.6	—	—	—	0.4	8.4	9.2	10.2			
Media																														
DB Corp	248	ADD	44,973	966	181	10.6	12.9	15.7	276.4	21.0	22.3	23.3	19.3	15.8	12.9	10.7	8.4	6.4	5.1	4.4	0.8	1.6	2.4	38.2	29.6	29.9	280	13.0	9.9	
Dishtv	43	ADD	46,205	992	1,063	(2.5)	(1.2)	0.6	(61.6)	(52.4)	(146.5)	(17.2)	(36.2)	77.8	67.1	21.7	11.7	11.3	16.5	13.6	—	—	—	248.6	(37.1)	19.1	45	3.6	3.2	
HT Media	156	NR	36,742	789	235	6.1	7.8	9.4	623.3	27.0	20.9	25.6	20.2	16.7	12.8	10.6	8.7	3.8	3.4	3.0	0.6	1.3	2.6	15.6	17.6	19.2	—	—	0.2	
Jagran Prakashan	124	ADD	37,315	801	301	5.8	6.4	7.5	91.9	9.5	16.7	21.2	19.4	16.6	12.8	11.3	9.6	6.1	5.5	4.9	2.8	2.8	3.2	30.0	29.8	31.0	130	4.9	0.7	
Sun TV Network	412	REDUCE	162,440	3,488	394	13.1	17.9	22.8	44.8	36.0	27.5	31.4	23.1	18.1	17.8	13.3	10.5	8.4	7.1	5.8	1.8	1.8	2.2	28.4	33.5	35.5	420	1.9	1.7	
Zee Entertainment Enterprises	291	REDUCE	126,468	2,716	434	10.5	12.0	14.7	24.4	14.4	22.2	27.7	24.2	19.8	20.6	16.3	13.0	3.4	3.3	3.1	0.8	1.0	1.2	13.0	14.1	16.4	265	(9.1)	8.8	
Media		Neutral	454,143	9,753					183.3	41.2	36.3	37.6	26.6	19.5	18.1	13.8	10.7	5.5	5.0	4.5	1.2	1.4	1.8	14.5	18.8	22.9				
Metals																														
Hindalco Industries	145	ADD	277,044	5,950	1,914	5.7	12.5	14.7	(64.5)	119.8	18.2																			

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

	15-Jun-10		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target	Upside	ADVT-3mo	
Company	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	(Rs)	(%)	(US\$ mn)	
Retail	2,239	ADD	99,399	2,135	44	62.7	76.1	96.2	41.5	21.3	26.5	35.7	29.4	23.3	25.4	19.9	15.5	12.6	9.4	7.1	0.4	0.5	0.6	40.7	36.6	34.8	2,400	7.2	4.0	
Retail		Neutral	99,399	2,135					41.5	21.3	26.5	35.7	29.4	23.3	25.4	19.9	15.5	12.6	9.4	7.1	0.4	0.5	0.6	35.2	32.0	30.5				
Sugar																														
Bajaj Hindustan	116	SELL	22,140	475	191	9.7	9.9	8.9	—	2.2	(10.4)	11.9	11.6	13.0	7.0	5.8	5.4	0.9	0.8	0.8	0.6	0.6	0.6	8.1	7.5	6.3	99	(14.4)	8.5	
Balrampur Chini Mills	81	ADD	20,707	445	257	3.7	10.4	7.0	—	183.7	(32.7)	21.9	7.7	11.5	9.3	5.3	5.8	1.5	1.3	1.2	0.6	0.6	0.6	7.0	18.1	11.0	92	14.1	8.0	
Shree Renuka Sugars	67	BUY	44,776	962	670	9.9	7.6	7.8	196.4	(23.2)	3.1	6.8	8.8	8.5	4.6	5.2	4.5	1.8	1.5	1.2	0.6	0.5	0.5	32.0	18.1	15.7	76	13.7	19.1	
Sugar		Cautious	87,623	1,882					96.1	2.5	(9.4)	9.3	9.1	10.0	6.1	5.5	5.1	1.4	1.2	1.1	0.6	0.6	0.6	14.9	13.3	10.8				
Technology																														
HCL Technologies	385	REDUCE	265,340	5,698	690	17.8	25.1	28.5	2.0	40.6	13.6	21.6	15.3	13.5	10.9	9.4	7.8	4.2	3.5	2.9	1.0	1.0	1.6	20.8	24.9	23.3	370	(3.8)	8.7	
Hexaware Technologies	77	REDUCE	11,054	237	144	9.3	5.1	9.4	127.7	(45.4)	84.0	8.2	15.1	8.2	4.1	8.3	4.5	1.3	1.2	1.1	1.3	1.3	1.3	17.8	8.4	14.0	72	(6.4)	2.7	
Infosys Technologies	2,735	BUY	1,569,718	33,710	574	108.3	125.2	150.5	5.7	15.6	20.2	25.2	21.8	18.2	18.4	15.1	12.2	6.8	5.6	4.7	0.9	1.3	1.5	30.1	28.2	28.0	3,100	13.4	71.2	
Mphasis BFL	591	REDUCE	123,311	2,648	208	43.6	49.0	45.6	207.5	12.5	(7.0)	13.6	12.1	13.0	10.8	9.6	8.7	5.3	3.8	3.0	0.6	0.7	0.8	48.1	36.4	25.8	550	(7.0)	9.9	
Mindtree	538	REDUCE	22,138	475	41	52.2	38.9	51.6	294.3	(25.5)	32.6	10.3	13.8	10.4	8.8	8.5	6.0	3.3	2.7	2.2	0.4	0.7	1.0	35.2	21.4	23.1	550	2.2	2.7	
Patni Computer Systems	557	REDUCE	74,160	1,593	133	36.6	42.3	38.6	36.4	15.6	(8.7)	15.2	13.2	14.4	8.2	7.3	6.4	2.1	2.0	1.8	1.3	1.5	1.4	18.2	15.8	12.8	450	(19.2)	5.6	
Polaris Software Lab	179	SELL	17,826	383	100	15.4	19.1	18.6	16.9	24.3	(2.7)	11.6	9.4	9.6	5.8	7.4	6.3	2.0	1.7	1.5	2.0	2.1	2.2	18.6	20.1	17.0	180	0.7	3.6	
TCS	766	BUY	1,499,411	32,200	1,957	35.1	41.1	46.3	32.8	16.9	12.8	21.8	18.7	16.5	16.8	13.6	11.3	7.2	5.9	5.0	2.6	2.1	2.4	37.6	34.8	32.8	900	17.5	34.7	
Wipro	408	ADD	998,729	21,448	2,447	18.9	21.9	25.0	22.1	16.2	14.4	21.7	18.6	16.3	16.4	13.5	11.1	5.1	4.2	3.5	0.9	1.1	1.3	26.5	24.6	23.2	465	13.9	16.3	
Technology		Attractive	4,581,686	98,394					22.9	16.7	14.2	21.9	18.8	16.4	15.9	13.2	10.9	5.8	4.8	4.0	1.5	1.5	1.7	26.7	25.8	24.6				
Telecom																														
Bharti Airtel	270	REDUCE	1,023,643	21,983	3,798	24.0	21.4	24.2	7.5	(10.8)	13.2	11.2	12.6	11.1	6.3	6.0	5.1	2.3	2.0	1.7	1.1	1.5	1.9	24.1	17.0	16.5	290	7.6	46.4	
IDEA	54	REDUCE	179,344	3,851	3,300	2.7	1.3	2.3	(5.8)	(51.7)	71.9	19.9	41.2	23.9	7.2	7.2	5.9	1.6	1.5	1.4	—	—	—	7.2	3.8	6.3	50	(8.0)	9.6	
MTNL	56	SELL	35,028	752	630	(15.6)	(10.4)	(9.1)	(750.8)	(33.7)	(11.9)	(3.6)	(5.4)	(6.1)	0.2	0.2	0.3	0.3	0.3	0.4	—	—	—	(8.5)	(6.1)	(5.7)	50	(10.1)	1.7	
Reliance Communications	187	SELL	398,355	8,555	2,133	22.1	14.1	18.2	(30.2)	(36.2)	29.1	8.5	13.3	10.3	7.6	8.4	6.3	1.0	1.0	0.9	0.4	—	—	—	11.7	7.4	8.9	140	(25.1)	27.2
Tata Communications	252	REDUCE	71,678	1,539	285	14.0	15.2	15.7	3.2	8.2	3.5	17.9	16.6	16.0	7.4	6.8	6.5	1.0	1.0	1.0	2.6	3.0	3.4	5.2	5.5	5.5	225	(10.5)	1.3	
Telecom		Cautious	1,708,047	36,681					(15.1)	(19.8)	20.7	11.9	14.9	12.3	7.0	6.9	5.6	1.5	1.4	1.3	0.9	1.0	1.3	12.7	9.3	10.2				
Utilities																														
Adani Power	122	ADD	265,960	5,712	2,180	0.8	4.9	16.4	—	524.1	235.3	155.7	25.0	7.4	121.9	16.8	6.1	4.9	4.1	2.6	—	—	—	4.4	17.8	43.0	130	6.6	9.9	
CESC	393	ADD	49,156	1,056	125	34.1	43.3	46.7	5.6	27.0	7.9	11.5	9.1	8.4	6.6	6.4	7.1	1.2	1.0	0.9	1.1	1.4	1.5	10.7	12.1	11.7	455	15.6	2.1	
Lanco Infratech	66	BUY	158,850	3,411	2,405	2.0	3.6	4.5	35.1	82.2	26.4	33.6	18.5	14.6	20.1	8.6	8.4	4.6	3.7	3.0	—	—	—	15.8	20.6	21.0	70	6.0	9.9	
NTPC	202	REDUCE	1,666,821	35,796	8,245	10.6	12.4	14.7	7.8	16.8	18.9	19.1	16.4	13.8	14.8	12.5	10.5	2.6	2.4	2.2	2.0	2.3	2.7	14.2	15.3	16.6	200	(1.1)	12.2	
Reliance Infrastructure	1,184	ADD	291,225	6,254	246	61.8	62.7	80.3	(1.5)	1.6	28.0	19.2	18.9	14.7	20.4	19.6	13.4	1.5	1.4	1.3	0.7	0.8	0.9	6.3	7.3	10.1	1,100	(7.1)	41.2	
Reliance Power	178	SELL	425,424	9,136	2,397	2.5	3.1	5.1	—	24.4	66.1	72.0	57.9	34.9	—	—	—	3.0	2.8	2.6	—	—	—	4.2	5.0	7.8	128	(27.9)	14.3	
Tata Power	1,261	BUY	311,233	6,684	247	60.2	76.1	95.3	20.1	26.4	25.2	20.9	16.6	13.2	13.4	11.4	9.8	2.4	2.1	1.9	1.0	1.1	1.2	12.9	13.6	15.2	1,500	19.0	10.8	
Utilities		Attractive	3,168,669	68,048					15.1	25.4	36.3	23.7	18.9	13.9	19.4	14.7	11.0	2.6	2.3	2.1	1.2	1.4	1.7	10.8	12.4	15.0				
Others																														
Aban Offshore	679	ADD	29,534	634	43	94.5	172.3	103.6	(2.5)	82.3	(39.8)	7.2	3.9	6.6	8.0	5.9	6.4	1.3	0.7	0.7	0.5	0.5	0.6	21.7	20.8	11.1	900	32.6	44.8	
Havells India	627	SELL	37,738	810	60	5.3	31.6	45.0	3.7	497.9	42.6	118.7	19.9	13.9	16.5	10.2	8.3	10.4	6.9	4.6	0.4	0.4	0.4	6.6	41.6	39.7	480	(23.5)	10.4	
Jaiprakash Associates	126	BUY	268,658	5,770	2,129	1.5	8.0	10.8	(27.2)	447.1	35.7	86.7	15.8	11.7	21.8	13.2	9.4	3.1	2.7	2.2	—	—	—	4.1	18.3	20.8	183	45.0	36.2	
Jindal Saw	202	ADD	59,417	1,276	294	27.5	19.3	17.9	121.9	(29.8)	(7.2)	7.3	10.5	11.3	5.3	6.0	5.8	1.6	1.3	1.2	0.5	0.4	0.4	20.5	12.9	11.1	243	20.3	7.5	
PSL	128	BUY	6,846	147	53	22.9	25.4	28.2	3.3	10.6	11.0	5.6	5.0	4.5	3.2	2.7	2.8	0.7	0.7	0.6	5.1	5.1	5.5	12.6	11.7	12.0	175	36.7	0.6	
Sintex	297	BUY	40,601	872	136	24.1	29.8	34.3	0.5	23.5	15.1	12.3	10.0	8.7	9.1	6.9	5.7	1.9	1.6	1.3	0.4	0.4	0.4	15.1	15.6	15.2	380	27.8	4.1	
Tata Chemicals	320	ADD	77,741	1,670	243	28.6	30.1	35.9	7.4	5.1	19.3	11.2	10.6	8.9	6.4	5.7	4.9	1.6	1.5	1.3	2.8	2.8	2.8	17.2	17.3	17.9	340	6.4	3.1	
Welspun Gujarat Stahl Rohren	242	REDUCE	49,724	1,068	205	25.1	23.0	24.4	44.9	(8.1)	5.8	9.7	10.5	9.9	5.3	5.5	4.8	1.7	1.5	1.3	0.8	0.9	0.9	20.6	14.8	13.5	245	1.2	10.4	
United Phosphorus	180	BUY	83,076	1,784	463	11.9	15.6	19.0	18.8	30.2	22.1	15.0	11.5	9.5	8.7	7.2	5.8	2.4	2.1	1.7	0.8	1.1	1.1	17.7						

**Kotak Institutional Equities Research coverage universe**

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of March 31, 2010

**Ratings and other definitions/identifiers****Definitions of ratings**

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

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

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

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

Our target price are also on 12-month horizon basis.

**Other definitions**

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

**Other ratings/identifiers**

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

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

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

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

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

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

## Corporate Office

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

## Overseas Offices

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

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

**Copyright 2010 Kotak Institutional Equities (Kotak Securities Limited). All rights reserved.**

1. Note that the research analysts contributing to this report may not be registered/qualified as research analysts with FINRA; and
2. Such research analysts may not be associated persons of Kotak Mahindra Inc and therefore, may not be subject to NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

Kotak Securities Limited and its affiliates are a full-service, integrated investment banking, investment management, brokerage and financing group. We along with our affiliates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationships with a significant percentage of the companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. Investors should assume that Kotak Securities Limited and/or its affiliates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material and that the research professionals who were involved in preparing this material may participate in the solicitation of such business. Our research professionals are paid in part based on the profitability of Kotak Securities Limited, which include earnings from investment banking and other business. Kotak Securities Limited generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, Kotak Securities Limited generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of Kotak Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. Kotak Securities Limited does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment.

Certain transactions -including those involving futures, options, and other derivatives as well as non-investment-grade securities - give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavor to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so. We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. For the purpose of calculating whether Kotak Securities Limited and its affiliates holds beneficially owns or controls, including the right to vote for directors, 1% of more of the equity shares of the subject issuer of a research report, the holdings does not include accounts managed by Kotak Mahindra Mutual Fund. Kotak Securities Limited and its non US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies affectively assume currency risk. In addition options involve risks and are not suitable for all investors. Please ensure that you have read and understood the current derivatives risk disclosure document before entering into any derivative transactions.

This report has not been prepared by Kotak Mahindra Inc. (KMInc). However KMInc has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed. Any reference to Kotak Securities Limited shall also be deemed to mean and include Kotak Mahindra Inc.