kotak® Institutional Equities

INDIA DAILY

May 05, 2009

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News Roundup

Corporate

- **Tata Motors** said it has received over 2.03 lakh bookings for the Nano, garnering nearly Rs2,500 crore. The company sold a total of 6.10 lakh forms . *(ET)*
- **Maruti Suzuki**, the country's largest car manufacturer, plans to launch a 660 cc car in the coming years. In Japan, the 600 cc range includes the Cervo Mode and the Alto. *(BS)*
- **Suzlon Energy Ltd** said it is evaluating options on an offer to change the terms of US$500 million (Rs2,485 crore) of convertible bonds after some debtors rejected the plan.*(Live Mint)*
- **Oracle Corp.** agreed to buy **Sun Microsystems Inc.** and its Java programming language for $5.6 billion (Rs28,000 crore). *(Live Mint)*

Economic and political

- The **rupee** gained marginally against the dollar on Monday, it opened stronger at 49.60 and fell to close at 49.91, against the previous close of 50.04/05. *(Live Mint)*

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

EQUITY MARKETS

India	4-May	Change, % 1-day	1-mo	3-mo
Sensex	12,135	6.4	22.5	28.8
Nifty	3,654	5.2	19.4	27.1
Global/Regional indices				
Dow Jones	8,427	2.6	5.1	5.9
FTSE	4,243	(0.0)	5.3	0.3
Nikkie	8,977	1.7	2.6	11.7
Hang Seng	16,381	5.5	12.6	24.3
KOSPI	1,398	2.1	8.9	18.7

Value traded - India	4-May		Moving avg, Rs bn 1-mo	3-mo
Cash (NSE+BSE)	205.3		199.2	144.1
Derivatives (NSE)	463.5		565.1	321
Deri. open interest	644.9		677	469

Forex/money market

	4-May	Change, basis points 1-day	1-mo	3-mo
Rs/US$	49.9	(25)	(14)	118
10yr govt bond, %	6.4	12	(59)	49

Commodity market

	4-May	Change, % 1-day	1-mo	3-mo
Gold (US$/OZ)	903.7	0.2	1.2	(1.2)
Silver (US$/OZ)	13.1	0.2	2.3	1.6
Crude (US$/BBL)	54.2	3.9	0.4	18.7

Net investment (US$mn)

	29-Apr		MTD	CYTD
FIIs	68		-	(380)
MFs	4		-	(46)

Top movers -3mo basis

Best performers	4-May	Change, % 1-day	1-mo	3-mo
Mahindra & Mahinc	546	11.9	29.8	105.5
Tata Motors Ltd	258	6.0	26.9	97.1
Jsw Steel Limited	363	5.9	18.8	85.6
Financial Techn (Ind	792	12.2	16.4	77.1
Ivrcl Infrastructures	176	10.6	20.2	78.2
Worst performers				
Housing Developme	158	7.4	55.1	106.9
Ranbaxy Laboratori	172	3.4	(8.0)	(17.9)
Hindustan Unilever	240	2.2	3.9	(8.9)
Satyam Computer	45	(2.9)	13.9	(2.2)
Indiabulls Financial S	117	3.8	26.2	(12.1)

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Banking

HDFC.BO, Rs1965	
Rating	SELL
Sector coverage view	Attractive
Target Price (Rs)	1,730
52W High -Low (Rs)	2845 - 1116
Market Cap (Rs bn)	559.0

Financials

March y/e	2009	2010E	2011E
Sales (Rs bn)	35.9	41.8	48.7
Net Profit (Rs bn)	22.8	26.6	31.0
EPS (Rs)	80.2	93.4	109.1
EPS gth	*(6.5)*	*16.5*	*16.7*
P/E (x)	24.5	21.0	18.0
P/B (x)	4.3	3.8	3.4
Div yield (%)	1.5	1.7	1.9

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
24.6	41.6	12.3	(27.5)

Shareholding, March 2009

	Pattern	% of Portfolio	Over/(under) weight
Promoters	-	-	-
FIIs	59.8	5.9	4.4
MFs	3.7	1.7	0.2
UTI	-	-	(1.5)
LIC	2.8	0.9	(0.6)

HDFC: Positive surprise on margins though concerns on growth persist, retain SELL

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- **HDFC reported 4QFY09 PAT of Rs7.33 bn, down 5% yoy but 12% above estimates**
- **Higher margins, better fees supported core earnings**
- **Approvals trend upwards though loan sell-down will likely result in lower growth**
- **We revise estimates and price target to Rs1,730, retain SELL**

HDFC reported core profit (PBT excluding capital gains) of Rs9.71 bn - up 11% yoy and 11% above estimates (though PAT was down 5% yoy due to lower capital gains). Business traction has likely improved - 19% yoy growth in approvals in 4QFY09 on the back of yoy decline in 3QFY09; however, disbursements growth (17%) remained below the long-term average of 20%. A sharp correction in bulk borrowing rates and likely time-lag in passing the PLR cut to home loan customers supported margins for the quarter. We are raising our estimates by 7%-8% for FY2010E and FY2011E primarily to factor in somewhat better margins. We are raising our disbursements growth estimate for FY2010E to 15% from 12% earlier on the back of better business traction though we are reducing the overall 'on-balance sheet' loan book estimate to factor loan sell-down to HDFC Bank. We are raising our price target to Rs1,730 from Rs1,600 earlier. We find the current valuations rich at 3.7X core PBR FY2010E and retain SELL recommendation.

SOTP-based target price provides 14% downside

We value HDFC on a sum-of-the -parts methodology. We value the mortgage business using a residual growth model. At our fair value estimate of Rs1,039, the mortgage business will trade at 3.1X core PBR FY2010E for RoE of about 20%. HDFC SL Insurance is valued at 13% NBAP margin and 18X NBP multiple FY2010E. Our fair value estimate for HDFC, based on FY2011E, is Rs1,960 - thus, the current market price does not provide any upside to FY2011E-based valuation either.

Approval trend picks up in 4QFY09E but loan growth may remain under pressure

HDFC's loan approvals increased 19% yoy during 4QFY09 after an 8% yoy decline in approvals in 3QFY09 likely due to pickup in demand during March 2009 when large real estate players dropped prices. Disbursements grew by 17% in 4QFY09 (similar growth in 3QFY09) - though this is lower than previous quarters - 28% and 23% yoy in 1QFY09 and 2QFY09 respectively.

Will the growth traction sustain?

We are raising our disbursements growth estimates to 15% yoy from 12% yoy for FY2010E to factor the improvement in traction. However, our current estimate remains below the long-term average of 20%+. Our view is influenced by the following:

- According to our real estate analysts, post the recent correction, affordability is not a concern for retail buyers —the affordability index is at 2005-2006 levels. However, a pickup in demand is generally more visible after 1-2 quarters of price stability. Economic recovery, coupled with a more stable environment, will be crucial.
- HDFC will need to deliver about 50% volume growth to report 20% value growth, in case the overall price level declines by about 20%. This could be challenging unless demand picks up significantly. HDFC delivered 23% average growth in disbursements over last two years; the growth in average ticket size was about 19%, thus the volume growth was not significant.

Loan sell-down to HDFC Bank - net negative for HDFC

In 4QFY09, HDFC sold housing loans of Rs42 bn to HDFC Bank, primarily to fulfill its priority sector requirements. Thus, HDFC's reported loan growth declined to 17% versus 22% (if the loans were retained in its books). We believe that HDFC Bank will continue to buy home loans from HDFC in order to fulfill its priority sector requirements in the future.

HDFC Bank currently originates about 35% of HDFC's retail business. As per the agreement, the Bank has a right to buyback 70% of the loans originated for HDFC. The rate of interest for the buyback is agreed at 1.25% below the yield of the pool i.e. HDFC will earn a spread of 1.25% on the pool of loans - significantly below 2.1-2.2% reported by the company. HDFC will recognize this income on an ongoing basis and hence the loan sell-down will not result in lumpy capital gains. The company will continue to be responsible for operating expenses and collections. It will get capital relief on the transaction since the loans are sold-off from its book (like a securitization). We believe that HDFC will need to allocate capital for 'first loss' and 'second loss' requirements stipulated by the rating agency (that's rates the transaction)- this could be 6-8% of loans. However, the capital relief will assume significance primarily if the company has constrains on capital; this is not the current situation (Tier I CAR was 13.1% in March 2009).

Advantage for wholesale borrowers

We believe that HDFC is well placed in the current environment to maintain its spreads. Despite higher competition from mortgage players resulting in lower lending rates, we believe that spreads will remain stable as its borrowings are rapidly getting re-priced. For FY2009, spreads declined to 2.21%. However for 4QFY09, its spreads were about 2.27%. Even as HDFC has cut rates for existing and new borrowers by 50 bps, we expect reported spreads to remain strong at 2.25-2.3%.

One-offs support earnings in 4QFY09

- Higher fee income from AMC fees. Fees increased by 106% yoy in 4QFY09, largely due to one-off fees of Rs240 mn as advisory fees on its domestic real estate fund (AUMs of Rs30 bn). Even after adjusting for this, fees income growth was high at 39% yoy.
- Lower cost provisions also aid profitability. During 4QFY09, HDFC's operating cost was lower on account of CENVAT credit of Rs200 mn availed on its service tax liability. The management expects this benefit to continue, but this could be spaced out proportionately in the future quarters.

NPLs—stable for now

HDFC reported gross NPLs of 0.8%—down qoq and stable yoy. Despite concerns regarding a sharp decline in real estate prices, which could result in negative equity for the borrowers in the underlying properties, we believe HDFC has the ability to manage its credit quality and hence do not foresee significant NPLs as a potential risk

HDFC—sum-of-the-parts valuation

Business/ subsidiaries	HDFC's holding (%)	Value of companies (Rs mn)	Value per share (Rs)	Comments
HDFC -core business			1,057	Based on residual growth model- 3.1X PBR FY2010E
Value of subsidiaries and associates			**623**	
HDFC Bank	18.5	489,900	287	Based on target price
HDFC Standard Life MF	60	27,840	59	4% of Rs667 bn (March 2010E AUMs- 20% yoy growth)
-PMS business	60	8,760	19	10% of AUMs (March 2010E - 20% yoy growth
Life Insurance	72	85,600	200	NBAP analysis, giving value for 72% stake, 10% holding company discount
General Insurance	74	8,600	20	Based on deal with ERGO
Gruh Finance	62.0	3,759	7.4	Based on deal with ERGO
IDFC	1.9	110,510	6.6	Based on market price
HDFC Venture capital				
HDFC Property Fund	80.5	1,500	4.3	Rs10bn of fund assuming value of 15%
HDFC IT Corridor Fund	80.5	697	2.0	Rs4.64bn of fund assuming value of 15%
Real estate fund	100.0	5,040	17.7	US$800 mn assuming value of 15%
Equity investments			**48**	
BVPS of non-strategic investments			35	
Unrealised gains on above			13	
Total value per share			**1,727**	

Source:Kotak Institutional Equities estimates

HDFC - Quarterly results (Rs mn)

	4Q08	1Q09	2Q09	3Q09	4Q09	YoY(%)	4Q09E	Actual vs KS (%)
Operating income	25,143	23,135	26,151	29,178	31,484	25	28,994	9
Interest on loans	22,403	22,199	25,034	28,280	29,350	31	28,035	5
Fees and other charges	361	58	60	289	743	106	137	444
Dividend	79	599	492	333	533	574	269	98
Sale of investment	2,046	0	226	0	27	(99)	174	(85)
Other op income	254	279	339	277	831	227	284	192
Interest expense	13,598	15,684	17,572	20,427	20,641	52	19,142	8
Net operating income	**11,545**	**7,451**	**8,579**	**8,751**	**10,843**	**(6)**	**9,851**	**10**
Op. inc. excl. gains, capital gains and lease income	**9,420**	**6,853**	**7,861**	**8,418**	**10,283**	**9**	**9,583**	**7**
Net Fund based income	11,184	7,393	8,519	8,463	10,100	(10)	9,714	4
Net Fund based income excl gains	9,059	6,795	7,801	8,130	9,540	5	9,447	1
Other exp.	664	967	991	960	569	(14)	750	(24)
Other exp.	354	587	637	580	297	(16)	394	(25)
Staff expenses	310	381	354	380	272	(12)	356	(24)
PBDT	10,881	6,484	7,588	7,791	10,274	(6)	9,101	13
Depreciation	45	37	43	45	50	11	36	38
Other income	80	51	55	71	52	(35)	50	3
PBT	10,916	6,499	7,600	7,816	10,276	(6)	9,115	13
Tax	3,235	1,818	2,257	2,348	2,943	(9)	2,577	14
PAT	**7,681**	**4,681**	**5,343**	**5,469**	**7,333**	**(5)**	**6,538**	**12**
Tax rate	30	28	30	30	29	(3)	28	1
PBT excl. capital gains, other income and lease income	**8,790**	**6,447**	**7,320**	**7,746**	**9,717**	**11**	**8,797**	**10**
Cost to income (%)	6	13	12	11	5		8	
Other details - Rs bn	**4Q08**	**1Q09**	**2Q09**	**3Q09**	**4Q09**	**YoY(%)**	**4Q09E**	
Approval for the quarter	129	100	142	96	153	19		
Disbursement for the quarter	106	72	106	94	124	17	116	
Outstanding loans (Rs bn)	730	773	812	829	852			
Individuals	484	520	547	559	549			
Avg spread- reported (%)	2.32	NA	2.40	2.19	2.21			
NIMs (%)	4.8	3.4	3.6	3.8	4.1			
Gross NPAs (Rs mn)	6,210	8,429	8,444	8,372	6,901			
Gross NPL ratio (%)	0.8	1.1	1.0	1.0	0.8			
CAR (%)	17	15.9	15.2	16.0	15.0			
Tier I (%)	15	14.0	14.1	14.1	13.2			
Unrealized gains (Rs mn)	102,360	73,051	90,101	NA	65,600			
Less: Gains on HDFC Bank	95,000	66,868	85,107	NA	61,772			
Net gain	7,360	6,183	4,994	NA	3,828			
Balance sheet (Rs mn)	**4Q08**	**1Q09**	**2Q09**	**3Q09**	**4Q09**			
Sharecapital	2,840	2,842	2,842	2,844	2,845			
Reserves	116,633	121,107	126,328	131,969	128,529			
Term loans	211,997	220,229	214,110	225,305	253,719			
Bonds/debentures/CPs	366,552	377,014	406,184	415,488	391,096			
Deposits	112,962	130,441	147,233	175,513	193,747			
Total liabilities and shareholders funds	**810,984**	**851,633**	**896,698**	**951,119**	**969,935**			
Loans	729,978	773,271	811,919	828,957	851,981			
Individuals	483,781	520,093	547,276	558,986	548,894			
Corporate bodies	227,719	234,279	245,093	250,350	284,165			
Others	18,478	18,899	19,550	19,621	18,921			
Investments	69,150	68,553	69,908	105,251	104,688			
Deferred tax	1,466	1,652	1,702	1,783	2,158			
Current assets	41,524	42,215	43,511	44,734	55,708			
Current liabilities	33,220	36,127	32,423	31,651	46,634			
Fixed assets	2,085	2,070	2,080	2,044	2,034			
Total assets	**810,983**	**851,633**	**896,698**	**951,119**	**969,935**			

Source: Company, Kotak

HDFC- Comparison of old and new estimates
March fiscal year-ends, 2009-2010E (Rs mn)

	Old estimates			New estimates			% change			% yoy	
	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2010E	2011E
NIM (post provisions - %)	3.6	3.4	3.4	3.7	3.6	3.6					
Loan book	898,911	1,063,713	1,274,660	851,981	1,027,162	1,242,543	(5)	(3)	(3)	21	21
Operating income	106,930	121,760	138,235	108,798	120,256	136,049	2	(1)	(2)	11	13
Capital gains	400	2,000	2,500	252	2,000	2,000	(37)	-	(20)	694	-
Interest expense	72,825	83,631	93,399	74,325	79,980	89,037	2	(4)	(5)	8	11
Net operating income	**34,105**	**38,129**	**44,836**	**34,474**	**40,275**	**47,012**	**1**	**6**	**5**	**17**	**17**
Net operating inc. excl. gains	**33,705**	**36,129**	**42,336**	**34,222**	**38,275**	**45,012**	**2**	**6**	**6**	**12**	**18**
Loan loss provisions	368	423	487	500	550	616	36	30	27	10	12
Operating expenses	3,300	3,863	4,523	2,991	3,604	4,226	(9)	(7)	(7)	20	17
Employee expenses	1,470	1,758	2,103	1,386	1,758	2,103	(6)	-	-	27	20
PBT	**31,046**	**34,295**	**40,359**	**32,186**	**37,432**	**43,698**	**4**	**9**	**8**	**16**	**17**
Net profit	**22,043**	**24,692**	**29,059**	**22,821**	**26,577**	**31,026**	**4**	**8**	**7**	**16**	**17**
PBT before cap. gains	**30,646**	**32,295**	**37,859**	**31,934**	**35,432**	**41,698**	**4**	**10**	**10**	**11**	**18**

Source: Kotak Institutional Equities estimates.

Increase in affordability in FY2010E because of decline in interest rates and selling prices
Measurement of affordabilitiy of housing in India, March fiscal year-ends, 1999-2010E

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009E	2010E
Housing loan interest rates (%)	**14.5**	**13.9**	**12.8**	**12.1**	**10.4**	**8.9**	**8.0**	**8.5**	**9.5**	**10.5**	**11.75**	**9.25**
EMI per Rs100,000 on 20 yr loan (Rs)	1,366	1,240	1,160	1,110	995	895	836	868	932	998	1,084	916
Avg annual household income (for households with annual income > Rs200,000)		577,201	606,061	636,364	668,182	701,591	736,671	788,238	843,414	902,453	947,576	947,576
Income growth (%)			5.0%	5.0%	5.0%	5.0%	5.0%	7.0%	7.0%	7.0%	5.0%	0.0%
Taxes		115,440	121,212	127,273	133,636	140,318	147,334	157,648	168,683	180,491	142,136	142,136
Post tax income		461,761	484,849	509,091	534,546	561,273	589,337	630,590	674,731	721,963	805,439	805,439
Selling prices decline by 10% each in FY2009E and FY2010E												
Capital price in Koramangala,Bangalore		**1,900**	**1,800**	**1,750**	**1,900**	**2,350**	**2,800**	**4,500**	**4,750**	**4,750**	**4,000**	**3,600**
Price of 1,500 sq. ft house (Rs mn)		2.9	2.7	2.6	2.9	3.5	4.2	6.8	7.1	7.1	6.0	5.4
EMI payable assuming 70% LTV		24,738	21,924	20,396	19,850	22,084	24,578	41,013	46,484	49,775	45,528	34,625
Price/income ratio (X)		4.9	4.5	4.1	4.3	5.0	5.7	8.6	8.4	7.9	6.3	5.7
Affordability Index (assuming FY2000 as 100)		**100**	**84**	**75**	**69**	**73**	**78**	**121**	**129**	**129**	**106**	**80**
Capital price in Bandra, Mumbai		**7,992**	**8,791**	**8,000**	**8,500**	**8,500**	**10,000**	**13,000**	**16,000**	**20,000**	**18,000**	**15,000**
Affordability Index (assuming FY2000 as 100)		**100**	**98**	**81**	**74**	**63**	**66**	**83**	**103**	**129**	**113**	**79**

Source: RBI, Industry, Kotak Institutional Equities estimates.

HDFC (standalone): Key ratios, March fiscal year-ends, 2006-2010E

	2006	2007	2008	2009E	2010E	2011E
Spread calc						
Average yield on assets (incl fees)	9.0	9.9	11.8	11.9	11.1	10.7
- interest on housing loans	8.5	9.6	11.1	12.6	11.6	11.0
Average cost of funds	6.0	7.1	8.1	9.7	8.8	8.2
Overall spread	3.0	2.9	3.7	2.2	2.3	2.5
Spread on housing loans	**2.6**	**2.5**	**3.0**	**2.8**	**2.8**	**2.8**
NIMs (post-provision)	**3.5**	**3.6**	**4.8**	**3.7**	**3.6**	**3.6**
NIM (pre provisions)	**3.6**	**3.6**	**4.8**	**3.7**	**3.7**	**3.6**
DU PONT Analysis						
Net total income	3.6	3.6	4.8	3.7	3.6	3.5
Net interest income	2.8	2.9	3.7	3.5	3.3	3.2
Capital gains	0.5	0.5	1.0	0.0	0.2	0.2
Dividend income	0.2	0.2	0.1	0.2	0.1	0.1
Net other income	0.2	0.2	0.1	0.1	0.1	0.1
Operating expenses	0.4	0.4	0.4	0.3	0.3	0.3
(1- tax rate)	80.7	79.8	72.2	70.9	71.0	71.0
ROA	**2.6**	**2.6**	**3.2**	**2.5**	**2.4**	**2.3**
Average assets/average equity	11.5	11.9	8.6	7.4	7.9	8.3
ROE	**30.1**	**31.3**	**27.8**	**18.2**	**18.7**	**19.2**
Growth(%)						
Net loans	25	26	29	17	21	21
Total assets	26	23	29	20	16	19
Total income	27	38	51	24	11	13
Interest on Housing Loans	29	40	49	38	10	15
Net income before provision	27	25	69	(4)	17	17
Total expenses	22	12	22	12	20	17
PBT	24	26	71	(5)	16	17
PAT	21	25	55	(6)	16	17

Source: Company, Kotak Institutional Equities estimates

HDFC (standalone): Income statement and balance sheet, March fiscal year-ends, 2005-2010E

	2006	2007	2008	2009E	2010E	2011E
Income statement						
Total income excluding fee income	41,981	58,069	87,494	108,798	120,256	136,049
Interest on Housing Loans	34,614	48,502	72,164	99,310	108,990	124,834
Dividends	1,080	1,179	686	1,957	1,487	1,720
Lease rentals	676	110	155	107—	96—	87—
Other operating income	5,611	8,279	14,489	7,424	9,683	9,409
Income from investments	3,236	5,026	6,794	7,172	6,856	5,921
Capital gains	2,361	3,253	7,695	252	2,000	2,000
Income/ gains on securitisation	14	0	0	0	827	1,488
Interest payable	24,912	36,669	51,429	74,325	79,980	89,037
Net Income before provision	**17,069**	**21,401**	**36,065**	**34,474**	**40,275**	**47,012**
Provision	150	250	320	500	550	616
Fee income	**675**	**686**	**632**	**1,149**	**1,266**	**1,492**
Total income	42,656	58,755	88,126	109,947	121,522	137,541
Staff expenses	803	913	1,178	1,386	1,758	2,103
Establishments	244	258	303	364	418	481
Other expenses	916	1,022	1,192	1,241	1,428	1,642
Total expenses	**1,963**	**2,192**	**2,673**	**2,991**	**3,604**	**4,226**
Depreciation	187	175	166	175	184	193
Other income	129	208	197	229	229	229
Profit before tax	**15,573**	**19,678**	**33,735**	**32,186**	**37,432**	**43,698**
Tax	3,000	3,974	9,373	9,365	10,855	12,672
Profit after tax	**12,573**	**15,704**	**24,362**	**22,821**	**26,577**	**31,026**
- .EPS	50.2	62.1	85.8	80.2	93.4	109.1
EPS (core)	**36.5**	**44.6**	**56.3**	**72.5**	**81.2**	**96.0**
Book value	179	219	421	462	517	582
Book value (core)	112	145	285	295	339	394
Balance sheet						
Net loans	449,901	565,123	729,980	851,981	1,027,162	1,242,543
Total Investments	38,763	36,662	69,150	104,688	92,842	98,864
In equity	16,811	18,872	38,616	47,525	50,775	53,275
Fixed securities	21,952	17,790	30,534	57,162	42,067	45,589
Diminution in value of invt	(327)	(396)	(548)	(853)	(853)	(853)
Cash & deposits	12,537	14,437	8,586	10,000	10,000	10,000
Loans and advances and other assets	29,533	36,129	32,938	45,708	45,708	45,708
Deferred tax assets	774	1,231	1,466	2,158	2,158	2,158
Fixed assets owned	2,473	2,131	2,085	2,034	2,197	2,372
Total assets	**533,983**	**655,713**	**844,205**	**1,016,569**	**1,180,067**	**1,401,646**
Total borowings and CL	**489,297**	**600,199**	**724,732**	**885,195**	**1,032,990**	**1,236,238**
Share capital	2,496	2,530	2,840	2,845	2,845	2,845
Reserves	42,187	52,984	116,633	128,529	144,232	162,564
Shareholders fund	**44,683**	**55,514**	**119,473**	**131,374**	**147,077**	**165,408**

Source: Company, Kotak Institutional Equities estimates

Banking

CNBK.BO, Rs208	
Rating	REDUCE
Sector coverage view	Attractive
Target Price (Rs)	220
52W High -Low (Rs)	251 - 135
Market Cap (Rs bn)	85

Financials

March y/e	2009	2010E	2011E
Sales (Rs bn)	70.3	73.7	83.9
Net Profit (Rs bn)	20.7	15.8	17.0
EPS (Rs)	50.5	38.6	41.4
EPS gth	*32.4*	*(23.6)*	*7.1*
P/E (x)	4.1	5.4	5.0
P/B (x)	1.1	1.0	0.9
Div yield (%)	3.9	3.9	4.8

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
25.8	14.7	15.4	(15.4)

Shareholding, March 2009

	Pattern	% of Portfolio	Over/(under) weight
Promoters	73.2	-	-
FIIs	11.2	0.2	(0.1)
MFs	1.8	0.1	(0.1)
UTI	-	-	(0.3)
LIC	4.7	0.3	0.0

Canara Bank: PAT ahead of expectations, but largely driven by treasury gains

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- **PAT for 4QFY09 was Rs7.2 bn (55% yoy) and 50% ahead of estimates**
- **Loan growth remains strong at 29% yoy; NIMs remain stable on a sequential basis at 2.8%**
- **Reported NPLs decline sequentially. Restructured assets at 1.5% of loan book lower than many other banks**
- **Maintain target price of Rs220**

Canara Bank continues to maintain rather robust growth in loans of 29% yoy, which is ahead of the industry levels. However, unlike many other public banks, Canara Bank has been able to sustain margins as similar levels of the past few quarters at 2.8%. We believe that this is on account of repricing of wholesale deposits, which allowed the bank to keep the deposit costs under control. The company's PAT for 4QFY09 was Rs7.2 bn—a robust increase of 55% yoy and 50% ahead of our estimates, however, largely driven by strong treasury income. Reported NPLs were lower on a sequential basis and restructured assets at 1.5% of loans were also lower than other public banks. Valuations are undemanding at 0.7X PBR FY2010E. We retain target price of Rs220 and maintain REDUCE rating given the lower upside to our fair value estimate.

Strong loan growth and stable margins aid NII growth. Canara Bank's 4QFY09 earnings benefited from the sharp loan growth of 29% yoy and stable NIM— net interest income (NII) increased by 42% yoy to Rs13.1 bn (and 11% higher than our estimates). The yields improved to 10.8% in 4QFY09 compared to 10.7% in 3QFY09 and 10.2% in 4QFY08. The cost of deposits was contained at 6.9% in 4QFY09 despite the strong accretion of retail deposits at higher rates by the industry—company might have benefited from the repricing of its wholesale liabilities at lower rates in 4QFY09. NIM remained stable on a sequential basis at 2.8%.

Treasury gains drive profitability. Canara Bank's non-interest revenues in 4QFY09 were Rs8.5 bn, an increase of 19% yoy. Treasury income increased sharply by 245% yoy to Rs3.5 bn and was a key driver of revenues— accounting for 38% of PBT in 4QFY09. Non-interest income other than treasury declined by 19% yoy and this was largely on account of the one-off gains of dividend income made in 4QFY08. The company's core fee income grew by a healthy 21% yoy likely reflecting better pricing of its services and utilization of the core banking system.

Reported NPLs decline sequentially, restructured assets at 1.5% of loan book

Canara Bank is one of the few banks which had reported a sharp increase in gross NPLs in 3QFY09. This was on account of Dabhol (now Ratnagiri gas project) being recognized as NPLs and other technical NPLs of Rs3 bn. During 4QFY09, gross NPLs declined by Rs3.5 bn due to recoveries and aggressive write-offs. Net NPLs declined by 9% compared to December 2008. Reported net NPLs at 1.1% are higher than most of the other public banks but we do note that restructured assets at Rs21 bn (1.5% of loan book) are lower than many other public banks which have declared earnings so far. We await details on the restructuring proposals (both number of accounts and quantum) that have been received by the company as of March 2009 and are likely to be taken up for consideration before June 2009.

Employee expenses were higher than expected

Canara Bank's employee expenses for 4QFY09 were Rs5.3 bn, which was a growth of 49% yoy and 24% ahead of our estimates. The company has likely made provisions for the wage hike liabilities that are due post the negotiations that are currently underway between IBA and employee unions.

Canara Bank, Quarterly results, Rs mn

In Rs mn	1QFY05	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	% chg	4QFY09KS	Actual Vs KS
Interest income	18,191	37,880	37,305	41,092	46,254	46,539	22.9	44,046	5.7
Interest on advances	9,928	26,215	27,004	30,537	34,841	35,750	36.4	33,409	7.0
Income from investments	7,770	9,436	9,851	10,027	10,653	10,477	11.0	10,508	(0.3)
Others	493	2,229	450	528	760	312	(86.0)	130	140.8
Interest expense	10,731	28,665	27,114	29,602	33,811	33,486	16.8	32,249	3.8
Net interest income	**7,460**	**9,215**	**10,191**	**11,490**	**12,442**	**13,053**	**41.7**	**11,798**	**10.6**
Non-int.income	**3,666**	**7,143**	**3,685**	**3,388**	**7,575**	**8,465**	**18.5**	**7,940**	**6.6**
Sale of invts.	1,730	1,010	(220)	35	3,440	3,490	245.5	1,245	180.4
Other income excl treasury	1,936	6,133	3,905	3,352	4,135	4,975	(18.9)	6,696	(25.7)
Total income	**11,126**	**16,358**	**13,876**	**14,877**	**20,017**	**21,518**	**31.5**	**19,738**	**9.0**
Op. expenses	4,680	6,976	6,841	7,142	7,877	8,792	26.0	8,702	1.0
Employee cost	3,235	3,569	4,213	4,218	5,040	5,303	48.6	4,292	23.6
Other cost	1,445	3,407	2,628	2,925	2,838	3,489	2.4	4,410	(20.9)
Profit pre provisions	6,446	9,382	7,035	7,735	12,140	12,726	35.6	11,036	15.3
Provisions and cont.	1,782	3,751	5,409	1,441	3,526	3,538	(5.7)	5,227	(32.3)
Investment depreciation	512	280	4,000	(60)	(74)	200	(28.6)	1,134	(82.4)
NPL provisions	1,270	3,221	1,550	1,530	3,570	2,500	(22.4)	4,183	(40.2)
PBT	**4,664**	**5,631**	**1,626**	**6,294**	**8,614**	**9,188**	**63.2**	**5,809**	**58.2**
Tax	1,300	1,000	400	1,000	1,600	2,000	100.0	1,022	95.7
Net profit	**3,364**	**4,631**	**1,226**	**5,294**	**7,014**	**7,188**	**55.2**	**4,787**	**50.2**
Tax rate (%)	27.9	17.8	24.6	15.9	18.6	21.8		17.6	
PBT-invt gains+ provisions - extra	**4,716**	**6,302**	**7,396**	**7,729**	**8,670**	**6,648**	**5.5**	**9,881**	**(32.7)**
Key balance sheet items (Rs bn)									
Deposits	879	1,540	1,563	1,715	1,748	1,869	21.4		
CASA ratio (%)	-	32	34	32	30	30			
Advances	462	1,072	1,099	1,193	1,289	1,382	28.9		
Total retail loans	83	176	175	178	180	198	12.5		
Priority sector	-	434	424	449	460	488	12.4		
Agriculture advances	-	180	177	188	189	201	11.9		
SME	-	142	192	203	214	238	67.8		
Investments	360	498	505	-	524	571	14.8		
AFS (%)	-	40	37	26	28	28			
Yield management measures (%)									
Yield on advances	8.2	10.2	10.1	10.5	10.7	10.8			
Cost of deposits	4.7	6.8	5.9	6.6	6.8	6.9			
Cost of funds	-	6.2	5.9	6.1	6.2	6.3			
Net interest margin	3.4	2.4	2.6	2.7	2.8	2.8			
Asset quality details									
Gross NPLs (Rs bn)	32.1	14.2	14.5	15.7	25.2	21.7			
Gross NPL ratio (%)	6.9	1.3	1.3	1.3	1.9	1.6			
Net NPLs (Rs bn)	13.4	9.0	9.4	10.6	16.5	15.1			
Net NPL ratio (%)	2.9	0.8	0.9	0.9	1.3	1.1			
Capital adequacy details (%)									
CAR	12.8	13.3	12.7	13.2	13.4	14.1			
Tier I	-	7.0	6.8	7.2	7.5	8.0			

Source: Company.

Canara Bank growth rates and key ratios, March year-ends 2007-2011E

	2007	2008	2009E	2010E	2011E
Growth rates (%)					
Net loan	24.0	8.9	28.9	14.0	12.8
Total Asset	25.0	8.8	19.0	14.3	13.6
Deposits	21.9	8.2	21.3	16.1	14.8
Current	21.3	6.5	21.3	16.1	14.8
Savings	13.3	8.7	18.6	16.1	14.8
Fixed	25.1	8.3	23.9	14.6	14.8
Net interest income	12.4	(12.1)	33.4	14.0	17.2
Loan loss provisions	(16.0)	34.5	1.7	80.8	34.0
Total other income	9.7	52.7	0.2	(13.7)	4.5
Net fee income	10.2	57.0	(14.3)	10.0	10.0
Net capital gains	20.1	224.4	55.1	—	—
Net exchange gains	11.8	(11.2)	13.2	10.0	10.0
Operating expenses	9.3	8.8	9.8	13.7	8.9
Employee expenses	6.2	3.2	13.0	15.0	8.0
Key ratios (%)					
Yield on average earning assets	7.9	8.5	9.0	8.3	8.3
Yield on average loans	8.4	9.6	10.4	9.7	9.7
Yield on average investments	8.2	8.2	8.3	7.1	7.1
Average cost of funds	5.4	6.7	6.9	6.2	6.1
Interest on deposits	5.3	6.7	6.6	6.0	6.0
Difference	**2.5**	**1.8**	**2.1**	**2.1**	**2.2**
Net interest income/earning assets	2.8	2.1	2.5	2.4	2.5
New provisions/average net loans	0.7	0.9	0.7	1.1	1.3
Interest income/total income	72.7	60.5	67.1	72.9	75.1
Fee income to total income	8.6	12.8	9.1	9.5	9.2
Operating expenses/total income	46.3	47.8	43.6	47.3	45.3
Tax rate	15.0	17.8	18.0	25.0	25.0
Dividend payout ratio	20.2	21.0	15.8	20.7	24.2
Share of deposits					
Current	8.7	8.6	8.6	8.6	8.6
Fixed	68.5	68.5	69.0	69.0	69.0
Savings	22.8	22.9	22.4	22.4	22.4
Loans-to-deposit ratio	69.2	69.6	74.0	72.7	71.4
Equity/assets (EoY)	6.2	5.8	5.7	5.4	5.2
Dupont analysis (%)					
Net interest income	2.7	2.0	2.4	2.3	2.4
Loan loss provisions	0.4	0.5	0.5	0.7	0.8
Net other income	1.0	1.3	1.2	0.9	0.8
Operating expenses	1.7	1.6	1.8	1.6	1.5
Invt. depreciation	0.4	0.1	—	—	—
(1- tax rate)	85.0	82.2	80.6	75.0	75.0
ROA	1.0	0.9	1.0	0.7	0.6
Average assets/average equity	17.1	16.6	17.5	18.1	18.9
ROE	16.3	15.0	18.3	12.4	12.2

Source: Company, Kotak Institutional Equities estimates.

Canara Bank Income statement and balance sheet, March year-ends 2007-2011E

	2007	2008	2009E	2010E	2011E
Income statement					
Total interest income	113,646	142,007	171,191	184,507	211,517
Loans	75,076	98,753	128,132	142,754	161,876
Investments	33,240	38,173	41,008	39,545	47,303
Cash and deposits	5,330	5,080	2,051	2,207	2,338
Total interest expense	73,377	106,629	124,012	130,737	148,513
Deposits from customers	68,881	99,452	113,163	121,539	139,497
Net interest income	40,268	35,378	47,178	53,770	63,004
Loan loss provisions	6,580	8,850	9,000	16,272	21,805
Net interest income (after prov.)	33,689	26,528	38,178	37,498	41,199
Other income	15,113	23,072	23,112	19,951	20,859
Net fee income	4,749	7,453	6,390	7,029	7,732
Net capital gains	1,341	4,351	6,750—	3,500	3,000
Net exchange gains	1,731	1,536	1,740	1,914	2,105
Operating expenses	25,653	27,913	30,653	34,864	37,976
Employee expenses	16,093	16,613	18,772	21,587	23,314
Depreciation on investments	6,354	2,334	—	—	—
Other Provisions	92	314	4,914	1,474	1,474
Pretax income	16,708	19,050	25,724	21,111	22,608
Tax provisions	2,500	3,400	5,000	5,278	5,652
Net Profit	**14,208**	**15,650**	**20,724**	**15,833**	**16,956**
% growth	5.8	10.1	32.4	(23.6)	7.1
Operating profit	27,779	25,232	27,974	33,883	41,413
% growth	13.9	(9.2)	10.9	21.1	22.2
Balance sheet					
Cash and bank balance	163,739	178,780	194,505	207,182	218,274
Cash	3,584	4,315	4,530	4,757	4,995
Balance with RBI	87,368	129,333	144,842	157,293	168,147
Balance with banks	6,183	6,347	6,347	6,347	6,347
Net value of investments	452,255	498,116	514,404	615,455	736,065
Govt. and other securities	373,205	428,304	466,074	569,686	690,295
Shares	6,512	11,185	11,185	11,185	11,185
Debentures and bonds	43,256	27,122	21,698	21,698	21,698
Net loans and advances	985,057	1,072,380	1,382,190	1,576,374	1,778,227
Fixed assets	28,614	29,169	30,811	31,064	30,758
Net leased assets	43	22	22	22	22
Net Owned assets	28,570	29,147	30,789	31,042	30,736
Other assets	29,945	26,842	26,842	26,842	26,842
Total assets	**1,659,610**	**1,805,287**	**2,148,752**	**2,456,917**	**2,790,165**
Deposits	1,423,815	1,540,724	1,868,930	2,169,559	2,491,072
Borrowings and bills payable	96,068	105,394	104,207	100,179	100,179
Other liabilities	36,188	54,164	54,164	54,164	54,164
Total liabilities	**1,556,071**	**1,700,282**	**2,027,301**	**2,323,902**	**2,645,415**
Paid-up capital	4,100	4,100	4,100	4,100	4,100
Reserves & surplus	99,440	100,905	117,351	128,915	140,651
Total shareholders' equity	**103,540**	**105,005**	**121,451**	**133,015**	**144,751**

Source: Company, Kotak Institutional Equities estimates.

Telecom

MTNL.BO, Rs69	
Rating	SELL
Sector coverage view	Cautious
Target Price (Rs)	50
52W High -Low (Rs)	114 - 51
Market Cap (Rs bn)	43.6

Financials

March y/e	2009	2010E	2011E
Sales (Rs bn)	42.4	45.0	47.9
Net Profit (Rs bn)	1.9	2.6	2.9
EPS (Rs)	4.0	4.1	4.6
EPS gth	*(44.3)*	*2.6*	*11.8*
P/E (x)	17.4	17.0	15.2
EV/EBITDA (x)	5.4	4.0	2.7
Div yield (%)	8.7	8.7	8.7

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
(2.5)	1.2	(0.9)	(37.9)

Shareholding, March 2009

	Pattern	% of Portfolio	Over/(under) weight
Promoters	56.2	-	-
FIIs	12.5	0.1	(0.0)
MFs	2.2	0.1	(0.1)
UTI	-	-	(0.2)
LIC	17.9	0.6	0.5

MTNL: 4QFY09 sees loss at the EBITDA level. Bloated cost structure continues to hurt. Maintain SELL

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- **Weak 4QFY09 results marked by loss at the EBITDA level**
- **Aggressive cost control necessary to return to profitability; unlikely in the near term, in our view**
- **Earnings estimates under review; maintain SELL**

MTNL's ongoing struggle to revive/sustain its dwindling revenue base and control employee expenses manifested in the company reporting a loss (at the EBITDA as well as net income level) in 4QFY09. A sharp jump in employee expenses on account of the merger of dearness allowance with basic pay cost MTNL dear—operational costs rose 16% qoq driving an EBITDA loss of Rs1.1 bn for the quarter, despite a reasonable revenue performance (4QFY09 sequential revenue decline of 6.7% was lower than expected). We expect MTNL's operating challenges to continue; revenue revival remains pinned to the wireless and broadband businesses as the company's fixed-line and PCO revenues continue to decline. In addition, the company's bloated and largely fixed-cost structure (with employee costs now forming 56% of its cost base) continues to strain the financials. We reiterate our SELL rating on the company with a 12-month forward target price of Rs50/ share; signs of operational cash burn are an additional dent on cash comfort on the stock. Our earnings estimates are under review pending clarification on a few cost items.

Reiterate SELL. Operational losses an additional dent on cash comfort on the stock. We see significant risks to the two prime value drivers for the stock that have sustained the stock at levels higher than our estimated fair value—

1) **Cash on books.** MTNL's 4Q EBITDA loss and the likely sustenance of the same in the near-to-medium term will put incremental strain on the company's cash balance in addition to its aggressive capex plans and likely 3G license payout. We highlight that MTNL will have to match the winning bid for 3G spectrum in Mumbai and Delhi (which, in our view, will be the circles with highest level of competition for 3G spectrum). The reserve price of 3G spectrum in Mumbai and Delhi is Rs1.6 bn each. This, in addition to the likely 3G capex in these two circles (a minimum of US$200 mn together, in our view) could erode most of the current cash (Rs30-35 bn approx, or Rs50-55/share) on MTNL's books (free cash generation from 3G services in the initial years would not be meaningful, if any).

2) **Real estate assets.** Based on our discussions with MTNL management, we understand that MTNL has about 75 surplus plots in Delhi and Mumbai. The company has indicated that it would look for options to convert some of these real-estate assets to cash-flow generating assets through development partnerships with real estate companies. The current market conditions do not appear conducive for the management to implement its plans, in our view. We do continue to include Rs5/share as option value of surplus real estate in our target price for the stock.

Noting the above factors and the sharp (and sustained) deterioration in the company's operational performance, we reiterate our SELL rating on the stock with a target price of Rs50/share (downside of 28% from current levels).

4QFY09 results—sharp rise in employee costs leads to EBITDA loss for the quarter. MTNL's 4QFY09 revenues of Rs10.6 bn (down 7% qoq and down 9% yoy) was ahead of our expectations. However, a sharp 39% qoq and 101% yoy jump in employee expenses led to a 16% qoq rise in operational expenses, and resulted in an EBITDA loss of Rs1.1 bn for the quarter. Reported loss of Rs832 mn (versus our expectation of a profit of Rs205 mn) was aided by other income of Rs2.31 bn, which included interest received on income tax refund received during the quarter.

Increased employee costs and inflexibility on rationalizing the same will keep profitability under pressure. The sharp rise in employee expenses in 4QFY09 is on account of the merger of dearness allowance of employees with the basic pay; this has a spiral effect on total employee expenses as various other allowances (like house rent allowance) paid to employees is linked to the basic pay. We presume that some part of the sharp jump in employee costs could be payment of arrears related to these changes as these are effective with retrospective effect from Jan 1, 2007—MTNL had paid arrears of Rs1.22 bn in 3QFY09; however, the company has not disclosed any arrear payment in their earnings release for 4QFY09.

We also understand, from various press reports, that MTNL employees and officers have more wage-related demands, which, if met, could increase MTNL's employee costs further. Competing (profitably) with private operators with such a cost structure (employee expenses at 63% of revenues in 4QFY09 is substantially higher than private operators' 5-10%) is becoming an increasingly improbable task for MTNL, in our view.

Operational metrics—some positives on the subscriber addition and capacity front. Among the few positives in the 4QFY09 results were (1) growth in the company's fixed-line subs base; MTNL had positive net adds of 41,000 in its fixed-line subs base, bucking the trend of qoq decline for the past few quarters. However, the company's PCO base declined by a further 17,000 qoq to 218,000; we expect this to decline in further and exert pressure on MTNL's fixed-line revenue base, (2) sustained growth in broadband subs base, which grew 7.7% qoq and 22% yoy to 696,000 and (3) GSM capacity addition in Mumbai (0.75 mn lines) and BB capacity addition in both Mumbai and Delhi; BB capacity utilization has now come down to 70.6% from the peak of 95% in 4QFY08, thus removing capacity constraints to growth.

MTNL interim results, March fiscal year-ends (Rs mn)

		qoq			yoy	
	4Q 2009	3Q 2009	% chg	4Q 2009	4Q 2008	% chg
Revenues	**10,562**	**11,323**	***(6.7)***	**10,562**	**11,566**	***(8.7)***
Interconnection charges	(2,053)	(1,885)	*8.9*	(2,053)	(1,902)	*8.0*
License fee	(977)	(1,205)	*(18.9)*	(977)	(1,183)	*(17.5)*
Staff cost	(6,508)	(4,673)	*39.3*	(6,508)	(3,242)	*100.8*
Admin/operative	(2,074)	(2,245)	*(7.6)*	(2,074)	(2,920)	*(29.0)*
Total operating expenditure	**(11,612)**	**(10,008)**	***16.0***	**(11,612)**	**(9,247)**	***25.6***
EBITDA	**(1,050)**	**1,315**	***(180)***	**(1,050)**	**2,319**	***(145.3)***
EBITDA margin	*-9.9%*	*11.6%*	*(186)*	*-9.9%*	*20.0%*	*(149.6)*
Interest and other income	2,310	2,722	*(15.1)*	2,310	1,050	*120.0*
Interest expense	(20)	(1)	*3,858*	(20)	(5)	*289.6*
Depreciation	(1,884)	(1,798)	*4.8*	(1,884)	(1,840)	*2.4*
PBT	**(645)**	**2,238**	***(128.8)***	**(645)**	**1,523**	***(142.3)***
Provision for taxes	(189)	(432)	*(56.3)*	(189)	(1,344)	*(85.9)*
Extraordinaries/prior period	(5)	(1,223)		(5)	2,020	
Reported net profit	**(838)**	**583**	***(243.8)***	**(838)**	**2,199**	***(138.1)***
Adjusted net profit	**(832)**	**1,285**	***(164.8)***	**(832)**	**945**	***(188.0)***
Adjusted EPS (Rs)	(1.3)	2.0		(1.3)	1.5	
Effective Tax rate (%)	(29.1)	42.6		(29.1)	37.9	
Fixed-lines ('000)	3,695	3,654	*1.1*	3,695	3,807	*(2.9)*
Fixedline net-addition ('000)	**41**	**(38)**		**41**	**97**	
GSM wireless subs ('000)	4,177	3,900	*7.1*	4,177	3,242	*28.8*
CDMA wireless subs ('000)	184	168	*9.5*	184	161	*14.4*
Broadband subs ('000)	696	646	*7.7*	696	571	*21.9*
Fixed-line ARPU (Rs/mth)	581	614	*(5.4)*	581	668	*(13.0)*

Source: Company, Kotak Institutional Equities

Number of Payphones operator-wise ('000s)

	Mar-08	Jun-08	Sep-08	Dec-08
# of PCOs				
BSNL	2,052	1,999	1,915	1,892
MTNL	**239**	**235**	**235**	**218**
Bharti	202	197	189	183
HFCL Infotel	37	34	32	30
Tata Teleservices	1,569	1,568	1,544	1,522
Reliance Communications	2,046	2,149	2,319	2,104
Shyam Telelink	42	39	35	34
Total PCOs	**6,186**	**6,221**	**6,269**	**5,982**
qoq addition (#)				
BSNL		(52)	(84)	(24)
MTNL		**(4)**	**—**	**(17)**
Bharti		(6)	(8)	(6)
HFCL Infotel		(3)	(2)	(2)
Tata Teleservices		(1)	(24)	(21)
Reliance Communications		103	170	(215)
Shyam Telelink		(2)	(5)	(1)
Total PCOs		**35**	**48**	**(286)**

Source: TRAI

Property

PPRO.BO , Rs69	
Rating	REDUCE
Sector coverage view	Neutral
Target Price (Rs)	55
52W High -Low (Rs)	320 - 26
Market Cap (Rs bn)	14.7

Financials

March y/e	2009	2010E	2011E
Sales (Rs bn)	4	5	7
Net Profit (Rs bn)	1.4	1.5	1.6
EPS (Rs)	6.8	7.0	7.4
EPS gth	*(39.8)*	*2.8*	*6.9*
P/E (x)	10.2	9.9	9.3
EV/EBITDA (x)	16.5	13.5	11.0
Div yield (%)	-	2.9	2.9

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
59.4	91.0	27.6	(77.0)

Shareholding, March 2009

	Pattern	% of Portfolio	Over/(under) weight
Promoters	90.0	-	-
FIIs	7.8	0.0	0.0
MFs	-	-	-
UTI	-	-	-
LIC	-	-	-

Puravankara Project: Demand slowdown continues in Bangalore; maintain REDUCE

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- **Revenues down 56% yoy and PAT down 80% yoy; weakness continues in Bangalore residential market**
- **Successful launch of affordable housing project augurs well**
- **Maintain REDUCE and target price of Rs55**

PVKP reported consolidated revenues of Rs679 mn (down 56% yoy, 30% below our expectation of Rs970 mn) and net profit of Rs146 mn (down 80% yoy, 35% below estimates of Rs224 mn) for 4QFY09. Bangalore's and Kochi's residential markets continues to be weak and is driving yoy declines in revenues, PAT. Going forward, Provident Housing, a wholly-owned subsidiary of PVKP will be a key factor contributing to revenues. Its first project launch has been quite successful and we built-in total revenues of Rs4.4 bn from the project and PAT margins of 20%. Based on our revenue booking, expectation from this project, we maintain our revenue estimates of Rs5.3 bn in FY2010E and Rs7.6 bn in FY2011E. Our PAT estimates are Rs1.6 bn in FY2010E and Rs1.8 bn in FY2011E. PVKP's debt as of 4QFY09 as remained constant qoq at Rs8.1 bn and the cost of debt is currently at 14%. We continue to maintain a discount of 50% to NAV as pricing as well as demand uncertainty continues in Bangalore residential market. We maintain our REDUCE rating and target price of Rs55 based on a 50% discount to our Mar'10 NAV of Rs108 (earlier Rs109).

Poor yoy performance due to continued slowdown in demand environment

PVKP on a consolidated basis reported revenues of Rs679 mn (down 56% yoy) and net profit of Rs146 mn (down 80% yoy against our expectation of 70% yoy) for 4QFY09. PVKP incurred one-off cost of Rs40 mn for completed projects and the adjusted EBITDA margins at 21% dropped sharply compared to 34.3% in 4QFY08 mainly because of operating leverage. The management indicated it has taken very limited pricing cuts and demand revival will be a function of improvement in macro environment. The current demand environment remains weak though deterioration has stopped.

PVKP has outstanding debt of Rs8.3 bn as of March 2009 (reduction of debt by Rs123 mn in 4QFY09) at an average interest rate of approximately 14%. PVKP has a loan of Rs550 mn at an interest rate of >15%. The management indicated that Rs2.8 bn will come up for repayment in FY2010 and they would reschedule some portion of this debt considering the tight liquidity situation. Even though current debt level is manageable (D/E of 0.6X), PVKP could start facing issues in 2-3 quarters if current weak environment continues. PVKP capitalized interest costs of Rs1.1 bn in FY2009 (versus Rs777 mn during FY2008).

Balance sheet, profitability improvement will depend on success of affordable housing

PVKP's 100% subsidiary, Provident Housing has launched a large project in Chennai and is planning to replicate the launch in Bangalore. We describe the projects below.

Cosmo City, Chennai. It is 2.4 mn sq. ft affordable housing project in Puddupakam, Chennai at an all inclusive pricing of Rs2,000/sq. ft. PVKP has already sold 512 apartments in Phase I of the project. PVKP has already launched Phase II of the project with 328 apartments and increased unit prices by Rs0.1 mn. PVKP expects total revenue of Rs4.25 bn from the project and PAT margins of 20%. The project would be completed within 18-24 months from the launch date.

Launch in Bangalore. The management has indicated its intention to launch a large 4+ mn sq. ft affordable housing project on Doddaballapur road in Bangalore. The management indicated that environmental clearance has been obtained for the project and will be launched in six weeks. PVKP expects total revenue of Rs9 bn from the project.

PVKP is also looking at land acquisitions across South and North India for expanding its affordable income housing portfolio. We believe that subsequent to the successful launch of Chennai and any pick-up in sales for the to-be-launched Bangalore project would result in lower debt levels and would help improve investor interest as revenue visibility would likely improve.

Maintain REDUCE and target price of Rs55

We continue to maintain a 50% discount to NAV as we continue to be concerned about demand recovery in Bangalore. The slowdown in Bangalore is reflected by the fact that Puravankara has not launched a residential project in Bangalore in the past 24 months. In fact, ongoing projects in Bangalore have decreased from 10.8 mn sq. ft in FY2007 to 7.6 mn sq. ft in March 2009 (Exhibit 2). Balance sheet improvement will hinge on the ability to generate operating cash flows, which, in turn will be dependent on the success of affordable housing projects.

We maintain our revenue estimates of Rs5.3 bn in FY2010E and Rs7.6 bn in FY2011E. Our PAT estimates are Rs1.6 bn in FY2010E and Rs1.8 bn in FY2011E. Our target price of Rs55 is based on a 50% discount to March 2010 NAV of Rs108/share (earlier Rs109). We factor in a discount to account for (1) larger-than-expected price decline, (2) possibility of further disappointment in sale volumes due to low affordability, and (3) high debt/EBITA.

Puravankara :4QFY2009 results

					(% chg)					
(in Rs mn)	4QFY09	4QFY09E	4QFY08	3QFY09	4QFY09E	4QFY08	3QFY09	FY08	FY09	(% chg)
Net sales	**679**	**970**	**1,539**	**800**	**(30.0)**	**(55.9)**	**(15.1)**	**5,658**	**4,449**	**(21.4)**
Operating costs	**(537)**	**(750)**	**(1,011)**	**(519)**	**28.4**	**46.9**	**3.5**	**(3,535)**	**(3,138)**	**(11.3)**
Cost of revenues	(419)		(880)	(425)				(3,071)	(2,639)	
G&A	(78)		(67)	(64)				(225)	(283)	25.6
Selling expense	(40)		(65)	(30)				(239)	(216)	(9.8)
EBITDA	**142**	**220**	**527**	**282**	**(35.3)**	**(73.0)**	**(49.5)**	**2,123**	**1,312**	**(38.2)**
One-off items	(40)			(132)						
Other income	2	—	—	3				—	8	
Interest costs	—	—	2	—				98	—	
Depreciation	—	—	—	—				(48)	—	
PBT	**104**	**220**	**530**	**153**	**(52.5)**	**(80.3)**	**(31.5)**	**2,173**	**1,319**	**(39.3)**
Taxes	1	(46)	117	(8)	(101.7)	(99.3)	(109.1)	(67)	(26)	(61.2)
PAT	**105**	**174**	**646**	**144**	**(39.6)**	**(83.7)**	**(27.0)**	**2,106**	**1,293**	**(38.6)**
Share of profit in associates	41	50	81	31	(18.6)	(49.7)	33.0	295	151	(48.7)
Consolidated PAT	**146**	**224**	**727**	**175**	**(34.9)**	**(79.9)**	**(16.5)**	**2,401**	**1,444**	**(39.8)**
Key ratios										
EBITDA margin (%)	20.9	22.7	34.3	35.2				37.5	29.5	
PAT margin (%)	15.5	18.0	42.0	18.0				37.2	29.1	
Effective tax rate (%)	(0.7)	20.8	(22.0)	5.5				3.1	2.0	

Source: Company data, Kotak Institutional Equities estimates

Low cost housing project takes off in Chennai

Details of ongoing residential projects (mn sq. ft)

	FY2007	FY2008	Jun-08	Sep-08	Dec-08	Mar-09
Completed at the beginning of the period	3.0	3.0	4.6	4.6	4.6	6.3
Ongoing at the beginning of the period		12.3	17.4	18.2	18.3	12.9
Launched during the period		6.7	0.8	0.1	-	-
Put on Hold					3.7	
Handed over during the period		1.6			1.7	
Completed at end of the period	3.0	4.6	4.6	4.6	6.3	6.3
Ongoing at the end of the quarter	**12.3**	**17.4**	**18.2**	**18.3**	**12.9**	**12.9**

Ongoing projects citywise

	FY2007	FY2008	Jun-08	Sep-08	Dec-08	Mar-09
Bangalore	10.8	9.2	9.2	9.3	7.6	7.6
Kochi	1.5	2.1	2.1	2.1	2.1	2.1
Chennai	0.0	3.8	4.4	4.4	0.9	**1.4**
Kolkata		2.3	2.3	2.3	2.3	2.3
Mysore			0.2	0.2	0.0	0.0
Total	**12.3**	**17.4**	**18.2**	**18.3**	**12.9**	**13.4**

Source: Company data, Kotak Institutional Equities.

We estimate Mar' 10 based NAV at Rs109/share

NAV sensitivity to growth rate in selling prices

	March '10 based NAV Growth rate in selling prices			
	0%	**3%**	**5%**	**10%**
Valuation (Rs bn)	**19.2**	**30.9**	**31.1**	**64.5**
Residential	17.6	24.4	29.3	43.4
Retail	1.1	1.4	1.5	2.0
Commercial	0.5	5.2	8.7	19.1
Less: Net debt	(7.9)	(7.9)	(7.9)	(7.9)
NAV	**11.3**	**23.0**	**23.2**	**56.6**
NAV/share	53	107	**108**	264
Total no. of shares				214.5
Target price @50% discount to NAV				**55**

Source: Kotak Institutional Equities estimates.

Consolidated summary statement of assets and liablities (in Rs mn)

PPL's balance model as of 4QFY07-4QFY09

Particulars	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09
Net fixed assets	389	421	469	488	497	493	484	477	463
Investments	371	676	740	806	887	928	967	998	1,038
Current assets, loans and advances	6,305	6,613	12,353	11,242	9,090	9,707	10,235	10,842	11,051
Cash and cash equivalents	374	418	5,509	1,292	350	396	374	698	268
Inventories	159	226	177	151	171	169	194	191	197
Trade debtors	459	251	360	635	824	863	1,028	1,047	1,146
Properties under development	2,471	3,230	3,543	3,513	3,958	4,354	4,800	5,093	5,700
Properies held for sale	515	520	520	908	910	865	865	948	974
Loans and advances	2,327	1,969	2,245	4,742	2,878	3,060	2,974	2,865	2,766
Properties held for development	7,008	7,518	7,709	8,277	12,919	13,016	13,630	13,839	13,924
Total application of funds	**14,073**	**15,228**	**21,271**	**20,813**	**23,393**	**24,144**	**25,317**	**26,157**	**26,476**
Total loans	6,761	7,474	4,956	4,362	6,524	6,524	8,050	8,269	8,146
Current liabilities and provisions	5,084	5,087	5,063	4,571	4,732	4,858	3,997	4,366	4,659
Deferred tax liability (net)	11	9	15	11	10	17	19	21	23
Shareholders funds	2,218	2,658	11,238	11,869	12,127	12,746	13,251	13,501	13,649
Total sources of fund	**14,073**	**15,228**	**21,271**	**20,813**	**23,394**	**24,145**	**25,317**	**26,157**	**26,476**

Source: Company data, Kotak Institutional Equities.

PPL to focus on execution of large portion of pre-sold flats

Name of the project	Year of launch	City	SBA (mn sq. ft)	No. of apartments	Launched (mn sq. ft)
Purva Vantage	Jun-05	Bangalore	0.1	76	0.1
Purva Atria	Jan-06	Bangalore	0.3	131	0.2
Elita Promenade	Jun-06	Bangalore	2.6	1,573	1.3
Purva Venezia	Jan-06	Bangalore	2.1	1,332	2.1
Purva Highlands	Oct-06	Bangalore	2.5	1,589	1.4
Purva Grand Bay	Dec-05	Kochi	0.5	265	0.5
Purva Eternity	Apr-06	Kochi	1.0	600	0.8
Purva Swanlake	Apr-07	Chennai	0.8	522	0.8
Jade	Jun-07	Chennai	0.1	55	0.1
Moon Reach	Jun-07	Kochi	0.4	198	0.2
Oceana	Sep-07	Kochi	0.3	95	0.3
Parkway		Bangalore	0.0	10	0.0
Elita Garden Vista	Dec-07	Kolkata	2.3	1,376	0.4
Total			**12.9**	**7,822**	**8.0**

Source: Company data, Kotak Institutional Equities

Profit model of Puravankara Projects, March fiscal year-ends, 2005-20011E (Rs mn)

	2005	2006	2007	2008	2009	2010E	2011E
Total revenues	**1,510**	**2,797**	**4,169**	**5,658**	**4,449**	**5,210**	**7,375**
Land costs	(184)	(733)	(182)	(316)	(282)	(214)	(248)
Construction costs	(695)	(909)	(2,213)	(2,756)	(2,315)	(2,933)	
Selling expenses	(50)	(102)	(204)	(225)	(216)	(208)	(295)
G&A expenses	(98)	(165)	(217)	(240)	(271)	(156)	(258)
EBITDA	**484**	**889**	**1,353**	**2,122**	**1,366**	**1,698**	**2,137**
Other income	49	57	33	135	46	46	46
Interest	(110)	(122)	(46)	(36)	(38)	(216)	(357)
Depreciation	(9)	(18)	(18)	(48)	(54)	(85)	(116)
Pretax profits	**414**	**806**	**1,323**	**2,173**	**1,319**	**1,443**	**1,710**
Profit/(loss) share of associates	-	11	140	295	151	207	188
Current tax	(32)	(70)	(150)	(68)	(13)	(169)	(320)
Deferred tax	(1)	(0)	(9)	1	(13)	5	10
Net income	**380**	**735**	**1,304**	**2,400**	**1,444**	**1,485**	**1,587**
EPS (Rs)							
Primary	2.0	3.8	6.8	11.5	6.8	6.9	7.4
Fully diluted	2.0	3.8	6.8	11.5	6.8	6.9	7.4
Shares outstanding (mn)							
Year end	192	192	192	213	213	213	213
Primary	192	192	192	208	213	213	213
Fully diluted	192	192	192	208	213	213	213
Cash flow per share (Rs)							
Primary	2	3	9	7	3	3	4
Fully diluted	2	3	9	7	3	3	4
Growth (%)							
Net income (adjusted)	36	93	77	84	(40)	3	7
EPS (adjusted)	36	93	77	70	(41)	3	7
DCF/share	116	94	158	(26)	(57)	7	24
Cash tax rate (%)	8	9	11	3	1	12	19
Effective tax rate (%)	8	9	12	3	2	11	18

Source: Kotak Institutional Equities estimates.

Balance sheet of Puravankara Projects, March fiscal year-ends, 2005-2011E (Rs mn)

	2005	2006	2007	2008	2009	2010E	2011E
Equity							
Share capital	80	80	960	1,067	1,067	1,067	1,067
Reserves/surplus	436	1,034	1,258	11,060	12,582	13,578	14,678
Total equity	**516**	**1,114**	**2,218**	**12,127**	**13,649**	**14,645**	**15,745**
Deferred tax liability/(asset)	1	1	11	10	23	18	8
Liabilities							
Secured loans	1,007	1,622	6,761	5,774	8,106	10,822	10,822
Unsecured loans	—	—	—	750	40	11	11
Total borrowings	**1,007**	**1,622**	**6,761**	**6,524**	**8,146**	**10,833**	**10,833**
Currrent liabilities	1,987	4,782	5,053	4,732	4,659	5,333	6,153
Total capital	**3,511**	**7,520**	**14,043**	**23,394**	**26,476**	**30,829**	**32,739**
Assets							
Cash	420	444	374	350	268	2,553	2,059
Current assets	3,012	6,669	12,908	21,660	24,707	25,626	25,882
Gross block	109	211	443	611	632	745	1,302
Less: accumulated depreciation	30	36	61	115	169	253	369
Net fixed assets	79	175	382	497	463	492	933
Capital work-in-progress	—	—	7	—	—	1,121	2,828
Total fixed assets	**79**	**175**	**389**	**497**	**463**	**1,612**	**3,761**
Intangible assets	—	—	—	—	—	—	—
Investments	—	231	371	887	1,038	1,038	1,038
Misc. expenses	—	—	—	—	—	—	—
Total assets	**3,511**	**7,520**	**14,043**	**23,394**	**26,477**	**30,830**	**32,740**
Leverage ratios (%)							
Debt/equity	194.7	145.4	303.4	53.8	59.6	73.9	68.8
Debt/capitalization	66.1	59.2	75.2	35.0	37.3	42.5	40.7
Net debt/equity	113.5	105.6	286.6	50.9	57.6	56.5	55.7
Net debt/capitalization	53.2	51.4	74.1	33.7	36.6	36.1	35.8
RoAE	**96.4**	**90.1**	**78.0**	**33.4**	**11.2**	**10.5**	**10.4**
RoACE	**38.7**	**39.7**	**20.7**	**15.5**	**6.6**	**6.2**	**6.4**

Source: Kotak Institutional Equities estimates.

Construction

CCCL.BO, Rs139	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	190
52W High -Low (Rs)	688 - 101
Market Cap (Rs bn)	5.1

Financials

March y/e	2009E	2010E	2011E
Sales (Rs bn)	18.4	21.1	24.4
Net Profit (Rs bn)	0.7	1.0	1.2
EPS (Rs)	19.7	27.2	31.9
EPS gth	*(18.1)*	*38.0*	*17.5*
P/E (x)	7.0	5.1	4.3
EV/EBITDA (x)	5.0	3.6	3.1
Div yield (%)	2.0	2.8	3.3

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
22.1	4.7	(53.2)	(79.2)

Shareholding, March 2009

	Pattern	% of Portfolio	Over/(under) weight
Promoters	50.5	-	-
FIIs	7.5	0.0	0.0
MFs	2.5	0.0	0.0
UTI	-	-	-
LIC	-	-	-

Consolidated Construction Consortium: Results first take—disappointing revenues, margins lead to steep earnings underperformance; reiterate ADD

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- **Steep decline in operating margins might indicate continuation of order cancellations seen in past quarters**
- **Weak order booking during the quarter; large airport order in 3Q keeps order backlog strong**
- **Maintain estimates and ADD rating on the stock; would revisit our estimates once we get more clarity on the results**

CCCL reported lower-than-expected revenues as well as margins for the quarter ending March 31, 2009. The miss from expectations could probably be due to continuation of order cancellations seen in the past few quarters. Cancellations would have led to lower-than-expected execution as well as higher other income for the company due to unabsorbed overheads. We highlight weakness in order booking, with the company reporting new order of only Rs1.5 bn during the quarter. We believe that the lower order booking was probably led by slowdown in commercial and industrials segment which had shown signs of weakness in the previous quarter. The strong order backlog of Rs33.2 bn is mainly due to the large Rs12.1 bn airport order won by the company from AAI for the development and expansion of the Chennai airport. We highlight risk to the near-term business given likely weakness in commercial and industrial segments with large portion of CCCL's backlog exposed to these segments. We maintain our earnings estimates of Rs27.2 and Rs31.9 for FY2010E and FY2011E, respectively. We retain our DCF-based target price of Rs190/share and maintain our ADD rating on the stock.

Steep decline in operating margins might indicate continuation of order cancellations seen in past quarters

CCCL reported 4QFY09 revenues of Rs4.8 bn (up 2.7% yoy), about 8.4% below our estimate of Rs5.2 bn (Exhibit 1). The lower-than-expected revenue was probably led by lower execution and continued order cancellations, as in the past few quarters. The company reported steep operating profit decline of 520 bps yoy from 12.3% to 7.1% versus our expectation of 11%. The decline in operating margin was led by (1) 370 bps yoy increase in other expenses, (2) 90 bps yoy increase in employee costs and (3) 60 bps yoy increase in raw material expenses as a percentage of sales. The lower-than-expected operating margin was perhaps due to order cancellations which would have led to unabsorbed overheads for the company and thereby to higher other expenses. Falling short of revenue and margin expectations led to an earnings miss of about 39.5% from our estimates with the company reporting a PAT of Rs206 mn (down 42.5% yoy) versus our expectation of Rs339 mn.

For the full year ending March 31, 2009, CCCL reported revenues of Rs17.6 bn (up 21.3% yoy) and profit after tax of Rs691 mn (down 20.7% yoy). Operating profit margin declined by 280 bps yoy to 6.6% for the same period. At the consolidated level CCCL reported full-year revenues of Rs18.4 bn (up 24.6% yoy) and similar operating profit margin contraction of 280 bps yoy to 6.6%. Consolidated profit after tax for FY2009 reported was Rs728 mn, down 18.1% yoy from Rs889 mn in the previous year (Exhibit 2).

Weak order booking during the quarter; order backlog remains strong driven by large airport order won in previous quarter

The company reported an order backlog of Rs33.2 bn at the end of FY2009 implying a weak order booking of Rs1.5 bn during the quarter. This could be due to slowdown in the industrial and commercial segments which had shown signs of weakness in the past quarters. The strong order backlog of Rs33.2 bn (up 24% yoy) is mainly due to the large Rs12.1 bn airport order won by the company from AAI for the development and expansion of the Chennai airport. The current order book provides a visibility of about 1.6 years based on FY2010E expected revenues. We highlight risk to the near-term business given likely weakness in commercial and industrial segments. We highlight that these segments contributed to about 58% of the order backlog of CCCL at the end of December 2008.

Maintain estimates and ADD rating on the stock; would revisit our estimates once we get more clarity on the results

We maintain our earnings estimates of Rs27.2 and Rs31.9 for FY2010E and FY2011E respectively. We retain our DCF-based target price of Rs190/share (Exhibit 3) and maintain ADD rating on the stock.

Highlight risks related to tough operating environment for commercial construction, increase in working capital and delays in finalizing orders. Other risks relate to (a) ramp up of several new business segments like glazing and interior fit-outs, (2) concentrated business mix- revenues largely from South India and (3) exposure to IT as a vertical, leading to perceived demand pressure based on slowdown in IT.

We would be revisiting our estimates once we get better clarity on the results after the analyst conference call.

Exhibit 1. CCCL - 4QFY09 - Key nos (Rs mn)

					% change					
	4QFY09	4QFY09E	4QFY08	3QFY09	4QFY09E	4QFY08	3QFY09	FY2009	FY2008	*%change*
Sales	**4,776**	**6,131**	**4,650**	**4,316**	***(22.1)***	***2.7***	***10.7***	**17,558.613**	**14,481**	***21.3***
Expenses	**(4,439)**	**(5,456)**	**(4,079)**	**(4,085)**	***(18.6)***	***8.8***	***8.7***	**(16,404.286)**	**(13,121)**	***25.0***
Operating expenses	(3,813)		(3,683)	(3,544)		*3.5*	*7.6*	(14,369.963)	(11,801)	*21.8*
Employee expenses	(280)		(230)	(272)		*21.9*	*2.8*	(996.528)	(710)	*40.3*
Administration and selling	(346)		(166)	(268)		*108.0*	*29.0*	(1,037.795)	(609)	*70.4*
Operating profit	**337**	**674**	**571**	**231**	***(50.0)***	***(40.9)***	***45.7***	**1,154.327**	**1,360**	***(15.1)***
Other income	36	39	25	16	*(9.1)*	*40.3*	*127.4*	90.669	79	*15.4*
EBIDTA	**373**	**714**	**596**	**247**	***(47.8)***	***(37.4)***	***50.9***	**1,244.996**	**1,439**	***(13.5)***
Interest	(34)	(40)	(7)	(38)	*(14.6)*	*382.0*	*(11.6)*	(112.368)	(72)	*56.2*
Depreciation	(24)	(31)	(14)	(22)	*(22.4)*	*79.8*	*9.4*	(82.446)	(53)	*55.4*
PBT	**315**	**643**	**575**	**187**	***(51.0)***	***(45.3)***	***68.6***	**1,050.182**	**1,314**	***(20.1)***
Tax	(109)	(213)	(218)	(56)	*(48.8)*	*(49.8)*	*94.6*	(359.600)	(443)	*(18.8)*
Net profit	**206**	**429**	**358**	**131**	***(52.1)***	***(42.5)***	***57.4***	**690.582**	**871**	***(20.7)***
Key ratios (%)										
RM / Sales	79.8		79.2	82.1		*(0.6)*		81.8	81.5	
Employee exp/Sales	5.9		4.9	6.3		*(0.9)*		5.7	4.9	
Other exp/Sales	7.2		3.6	6.2		*(3.7)*		5.9	4.2	
OPM	**7.1**	**11.0**	**12.3**	**5.4**		***5.21***		**6.6**	**9.4**	***(2.82)***
PBT Margin	6.6	10.5	12.4	4.3				6.0	9.1	
PAT Margin	4.3	7.0	7.7	3.0				3.9	6.0	
Tax rate	34.7	33.2	37.8	30.1				34.2	33.2	

Source: Company, Kotak Institutional Equities

Exhibit 2. FY2009 consolidated results - key numbers (Rs mn)

	FY2009	FY2008	% change
Sales	**18,413**	**14,772**	***24.6***
Expenses	**(17,190)**	**(13,380)**	***28.5***
Stock			
Operating expenses	(14,983)	(12,004)	*24.8*
Employee expenses	(1,060)	(738)	*43.5*
Administration and selling	(1,147)	(638)	*79.7*
Operating profit	**1,223**	**1,392**	***(12.1)***
Other income	94	78	*20.3*
EBIDTA	**1,317**	**1,470**	***(10.4)***
Interest	(118)	(74)	*60.1*
Depreciation	(89)	(56)	*61.0*
PBT	**1,110**	**1,341**	***(17.2)***
Tax	(382)	(452)	*(15.6)*
Net profit	**728**	**889**	***(18.1)***
Key ratios (%)			
RM / Sales	81.4	81.3	
Employee exp/Sales	5.8	5.0	
Other exp/Sales	6.2	4.3	
OPM	**6.6**	**9.4**	
PBT Margin	6.0	9.1	
PAT Margin	4.0	6.0	
Tax rate	34.4	33.7	

Source: Company

Exhibit 3. CCCL, DCF model, March fiscal year-ends 2009E-2018E (Rs mn)

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
Revenues	**18,413**	**21,077**	**24,363**	**27,987**	**31,651**	**33,895**	**36,790**	**40,469**	**44,516**	**48,077**
Revenue growth (%)	*24.6*	*14.5*	*15.6*	*14.9*	*13.1*	*7.1*	*8.5*	*10.0*	*10.0*	*8.0*
EBITDA	**1,223**	**1,805**	**2,130**	**2,521**	**2,852**	**3,059**	**3,323**	**3,440**	**3,784**	**4,087**
EBITDA margin (%)	*6.6*	*8.6*	*8.7*	*9.0*	*9.0*	*9.0*	*9.0*	*8.5*	*8.5*	*8.5*
Depreciation	(89)	(131)	(167)	(209)	(251)	(297)	(347)	(347)	(347)	(347)
EBIT	**1,134**	**1,675**	**1,963**	**2,313**	**2,601**	**2,762**	**2,976**	**3,093**	**3,437**	**3,740**
Tax	(379)	(548)	(650)	(769)	(864)	(918)	(989)	(1,027)	(1,142)	(1,242)
Change in net working capital	(1,559)	(986)	(709)	(220)	(881)	(539)	(696)	(806)	(887)	(781)
Capex	(650)	(418)	(535)	(570)	(595)	(670)	(720)	(607)	(668)	(721)
Free cash flow	**(1,365)**	**(146)**	**235**	**962**	**511**	**932**	**918**	**999**	**1,087**	**1,343**
PV of each cash flow	(1,365)	(128)	183	658	308	495	430	412	395	430
EBITDA (%)	**6.6**	**8.57**	**8.74**	**9.01**	**9.01**	**9.03**	**9.03**	**8.50**	**8.50**	**8.50**
Capex (% of sales)	*3.53*	*1.98*	*2.20*	*2.04*	*1.88*	*1.98*	*1.96*	*1.50*	*1.50*	*1.50*

PV of cash flows	2,222
PV of terminal value	5,017
EV	7,239
Debt	377
Equity value	6,862
Shares outstanding (mn)	37
Equity value (Rs/share)	**186**
Exit FCF multiple (X)	12.4

FCF in terminal year (Rs mn)	1,441
Exit FCF multiple: (1+g)/(WACC-g)	12.4
Terminal value of FCF (Rs mn)	17,798
Exit EBITDA multiple	4.4

Weighted average cost of capital-WACC	
Terminal growth - g (%)	5.0
Risk free rate-Rf (%)	8.5
Market risk premium—(Rm-Rf) (%)	6.0
Beta (x)	1.1
Cost of equity-Ke (%)	15.1
Cost of debt-Kd (%)	12.0
Tax rate (%)	34.0
Debt/Capital (%)	31.9
Equity/Capital (%)	68.1
WACC (%)	12.8
Used WACC (%)	**13.5**

Sensitivity of DCF value to WACC, Terminal Growth rate

		WACC (%)				
		12.5	13.0	13.5	14.0	14.5
Terminal Growth rate (%)	3.0	186	171	158	146	135
	4.0	202	185	170	157	144
	5.0	224	203	**186**	170	156
	6.0	251	227	205	187	170
	7.0	289	257	231	208	188

Base case

Source: Kotak Institutional Equities estimates

Industrials

ABB.BO, Rs473	
Rating	REDUCE
Sector coverage view	Attractive
Target Price (Rs)	450
52W High -Low (Rs)	1139 - 343
Market Cap (Rs bn)	100.3

Financials

December y/e	2008	2009E	2010E
Sales (Rs bn)	68.4	74.7	85.3
Net Profit (Rs bn)	5.5	5.3	6.3
EPS (Rs)	25.8	24.9	29.6
EPS gth	*11.3*	*(3.6)*	*18.7*
P/E (x)	18.3	19.0	16.0
EV/EBITDA (x)	10.7	10.5	8.4
Div yield (%)	0.5	0.6	0.6

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
7.7	8.1	(10.5)	(57.4)

Shareholding, March 2009

	Pattern	% of Portfolio	Over/(under) weight
Promoters	52.1	-	-
FIIs	12.6	0.3	(0.1)
MFs	3.6	0.4	0.0
UTI	-	-	(0.3)
LIC	12.9	0.9	0.6

ABB: Annual report highlights—challenges across segments, nil cash from operations and lower margins led by unabsorbed costs

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- **Almost nil cash flows from operations in CY2008 led by an increase in working capital**
- **Higher fixed expenses led by capacity build up of affected margins**
- **Highlights challenges in all segments; bad debts provision on payment difficulties**
- **MTM loss in 1QFY09 leads to lower-than-expected margins for the quarter**
- **Upgrade to REDUCE based on recent sharp underperformance**

Key highlights from ABB's annual report include (1) deterioration in working capital efficiency leads to almost nil operating cash flow, (2) higher fixed cost not yet fully absorbed, (3) strong capital expenditure towards capacity expansion, (4) shift of revenue mix to projects halted and (5) slowdown in order inflows seen led by power systems segment. The company highlighted several challenges in its business segments such as increasing competition across segments, slowdown in industrial demand, volatile commodity prices and forex rates etc. However, ABB believes that, in the near term, revenues would be driven by resilient demand in the power segment. We highlight that capital expenditure towards range and capacity expansion has been increasing over the past few years, reaching an all-time high of Rs2.1 bn in CY2008. Capacity additions have taken place primarily in transformers. Sedate order booking during the year led by the power systems segment was due to ABB's exit from RGGVY related business. We highlight that ABB's revenues are likely to remain under pressure in CY2009, led by a slowdown in the industrials segment with about 45-50% of revenues originating from this segment. We highlight that the low margins during 1QFY09 were driven by an MTM loss but for which the operating margin would have been in line with our estimates. We maintain our earnings estimates and DCF-based target price of Rs450/ share. We upgrade our rating on the stock to REDUCE from SELL earlier based on recent sharp underperformance.

Almost nil cash flow from operations in CY2008 led by increase in working capital

The company reported net cash flows from operations of Rs196 mn significantly lower than the previous years' number of Rs2.7 bn primarily led by an increase in working capital levels of the company. The net working capital (excluding cash) increased to 55 days of sales at the end of CY2008 from 29 days last year (Exhibit 1). This was mainly driven by increase in debtor and inventory levels and lower creditor levels for ABB versus last year. This led to a decline in the cash position of the company from Rs6.4 bn at the end of CY2007 to Rs3.5 bn. We highlight that this could imply lower other income for the company going forward. Furthermore, the company might be required to incur higher intermittent debt to finance the increased working capital requirements leading to higher interest costs for ABB.

Higher fixed expenses led by capacity build up not fully absorbed by sedate revenue affected margins

We highlight that, during the year, the company increased its employee strength by 17.5% to 6496 from 5535 at the end of CY2007. This led to higher salaries and wage expenses and other employee related costs. We highlight that these costs are relatively fixed in nature and were probably not fully absorbed with only a sedate growth in revenues. This is likely to have led to the yoy decline of 90 bps in operating margins. We believe that the increased employee costs and capacity expansion costs are fixed in nature and would be completely absorbed by the company over a period of time. Operating profit margin for CY2008 declined to 11.3% from 12.2% in CY2007 led by a 70 bps yoy increase in salary and wages as a percentage of sales.

ABB highlights challenges in several segments of business; provisions for bad debts highlight payment difficulties

ABB highlighted several challenges in various business segments such as increasing competition across segments, slowdown in industrial demand especially affecting the automation segments, volatile commodity prices and forex rates etc. (Exhibit 2). However, the company believes that the power sector is likely to witness a relatively buoyant demand environment driven by several tender invites from PGCIL etc. We highlight that ABB recently won a large order worth Rs4.3 bn from PGCIL for 765/400 kV substations at Agra, Wardha, Bilaspur and Seoni and for 400/220 kV substation at Palakkad.

We also highlight that the provisions for doubtful debt and advances more than doubled during the year, from Rs252 mn at the end of CY2007 to Rs587 mn at the end of CY2008. We believe that this could highlight lower quality of business for ABB in the past.

Strong capital expenditure continues primarily led by transformer capacity expansion

ABB's has been aggressively investing over the last few years, reaching an all-time high of Rs2.2 bn in CY2008, about 6X of the capex committed in CY2004 (Exhibit 3). Capacity additions have taken place primarily for (1) transformers (41% growth versus last year), (2) motors and other machines (23% growth with installed capacity increase to 3,839,170 HP from 3,124,484 HP a year ago) and (3) process control instruments (49% growth with installed capacity increase to 45,000 nos. from 30,225 a year ago). ABB would complete the capacity expansion for manufacturing 765kV equipment in India, to support the country's power infrastructure needs in CY2009. ABB had recently committed an investment program of US$100 mn for capacity and range expansion over the next 2-3 years, to support the growth momentum in the Indian business. Other expansion plans on the anvil include (1) new greenfield facilities for manufacturing low voltage products, power electronics, small power transformers and distribution automation products, (2) doubling its production capacity for high voltage (HV) breakers, instrument transformers and HT (high tension) machines.

Shift of execution mix to projects from products has halted

The climbing contribution of project revenues—which had been more than product revenues for several years—has stablized and remained around 50% in CY2008 (Exhibit 4). Projects now contribute 50% of revenues versus 32% in CY2002. We highlight that project items likely provide bulky revenues (and hence provide strong revenue growth visibility) but have comparatively lower margins (versus products, as they possibly contain a larger proportion of bought-out items).

Slower order inflow momentum led by power systems because of withdrawal from RGGVY orders

ABB reported sedate order inflow growth of only 5% over the year and that is primarily led by 15% decline in power systems segment order booking. In this segment, the company exited the RGGVY related business led by working capital as well as safety concerns. Order inflow growth momentum was slow for process automation segment as well with yoy growth of 7.3% only (Exhibit 5, 6). Order booking continued to remain slow in 1QFY09 as well with the company reporting an order booking decline of 14.5% yoy to Rs23 bn. This sedate order booking has led to a backlog of Rs70.3 bn which provides a revenue visibility of only about 10 months based on forward 4 quarter revenues.

MTM loss in 1QFY09 leads to lower-than-expected margins for the quarter

ABB reported 1QCY09 lower-than-expected revenues of Rs13.9 bn, down 9.3 % yoy from Rs15.4 bn in 1QCY09 probably due to higher-than-expected slowdown in the industrial segment and lower power systems revenues (Exhibit 7). Operating margins for ABB declined by about 210 bps yoy to 9.1% versus our expectation of a 30 bps yoy decline. The lower-than-expected margin was led by a MTM loss of about Rs240-250 mn during the quarter. We highlight that adjusted for the MTM loss the company would have reported margins of 10.8% which would have been in line with our expectations. The lower-than-expected revenues as well as margins led to a disappointment of 36.5% at the net earnings level. ABB reported a profit after tax of Rs784 mn, down 33% yoy from Rs1.17 bn in 1QCY08.

We maintain our earnings estimate and target price of Rs450; upgrade to REDUCE based on recent sharp underperformance

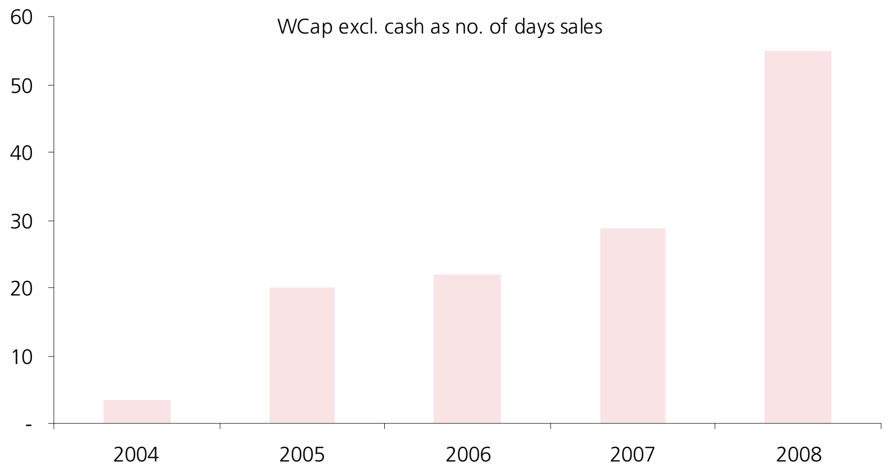
We have maintained our earnings estimates for CY2009E and CY2010E at Rs25 and Rs29.6 respectively and our DCF-based target price of Rs450/ share. Our target price implies a P/E multiple of 17X and 10X one year forward EV/EBITDA. We have revised our rating on the stock upwards to REDUCE from SELL earlier due to steep under performance of 21.5% versus the market. Our REDUCE rating is based on (a) potential of negative surprises in earnings led by execution as well as margins, (b) high valuation despite recent correction. We believe about 50% of ABB's revenues are exposed to this segment and thus could have negative incremental surprises in the near future. We highlight that lower commodity prices are also likely to squeeze earnings growth for the company as unit prices are likely to be lower on a yoy basis.

Our full year numbers imply about 14% yoy growth in revenues for the last three quarters of CY2009E over same period in CY2008 and stable margins. We highlight that our numbers have potential downside if the revival in growth and profitability is slower than expected.

Key catalysts for the stock include (1) higher-than-expected execution and margins and (2) strong order flows from Power Grid and industrial and private sector orders.

We highlight that the stock has underperformed the market by 21.5% since our update on April 21, 2009.

Exhibit 1. Working capital levels of ABB, December calendar year-ends, 2004-08 (days of sales)



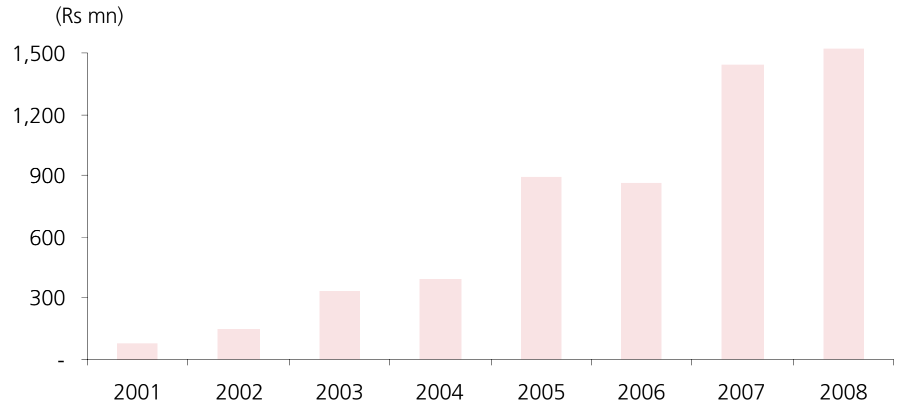
Source: Company, Kotak Institutional Equities

Exhibit 2. Challenges faced and opportunies available to the company in various segments of operation

	Revenue share (%)	Challenges	Opportunities
Power Systems	31	- Industrial power projects face delays/ cancellations - Global liquidity crunch, economic downturn and rising capital costs - Safety, logistics and cash flow concerns of rural electrification projects	- Continued buouyancy in power generation and T&D demand - Several tender invites by PGCIL for 765 kV substation - Augmentation of power generation capacity, efficient T&D network
Power Products	28	- Fierce competition - Lack of price advantage for quality and reliable products - Volatile commodity prices and foreign exchange rates	- Promotion of GIS, GCB and PASS - Expansion of manufacturing capabilities - Rs20 bn stimilus package announced by GoI for the power sector
Process Automation	18	- Competitors ability to provide total solution to customers - Rising competition from Chinese DCS vendors in India - Decline in demand from industrial players	- Rising per capita consumption of steel, cement and paper - Continued investment efforts by global steel majors in India - Mineral business unit recognized as centre of excellence
Automation Products	23	- Building up of capacities by competitors and rising new competition - Demand slump from industrials - Volatile commodity prices and foreign exchange rates	- Thrust on capacity and product range expansion - New factories for several product lines likely to go on stream in early 2009

Source: Company, Kotak Institutional Equities

Exhibit 3. ABB's capex has significantly increased in recent times
Capital expenditure of ABB, CY2001-08 (Rs mn)



Source: Company, Kotak Institutional Equities

Exhibit 4. Execution mix shifting towards projects from products over the years has slowed the execution speed
Revenue-mix of ABB's various products and services, December calender year-ends 2003, 2005, 2007 and 2008 (Rs mn)

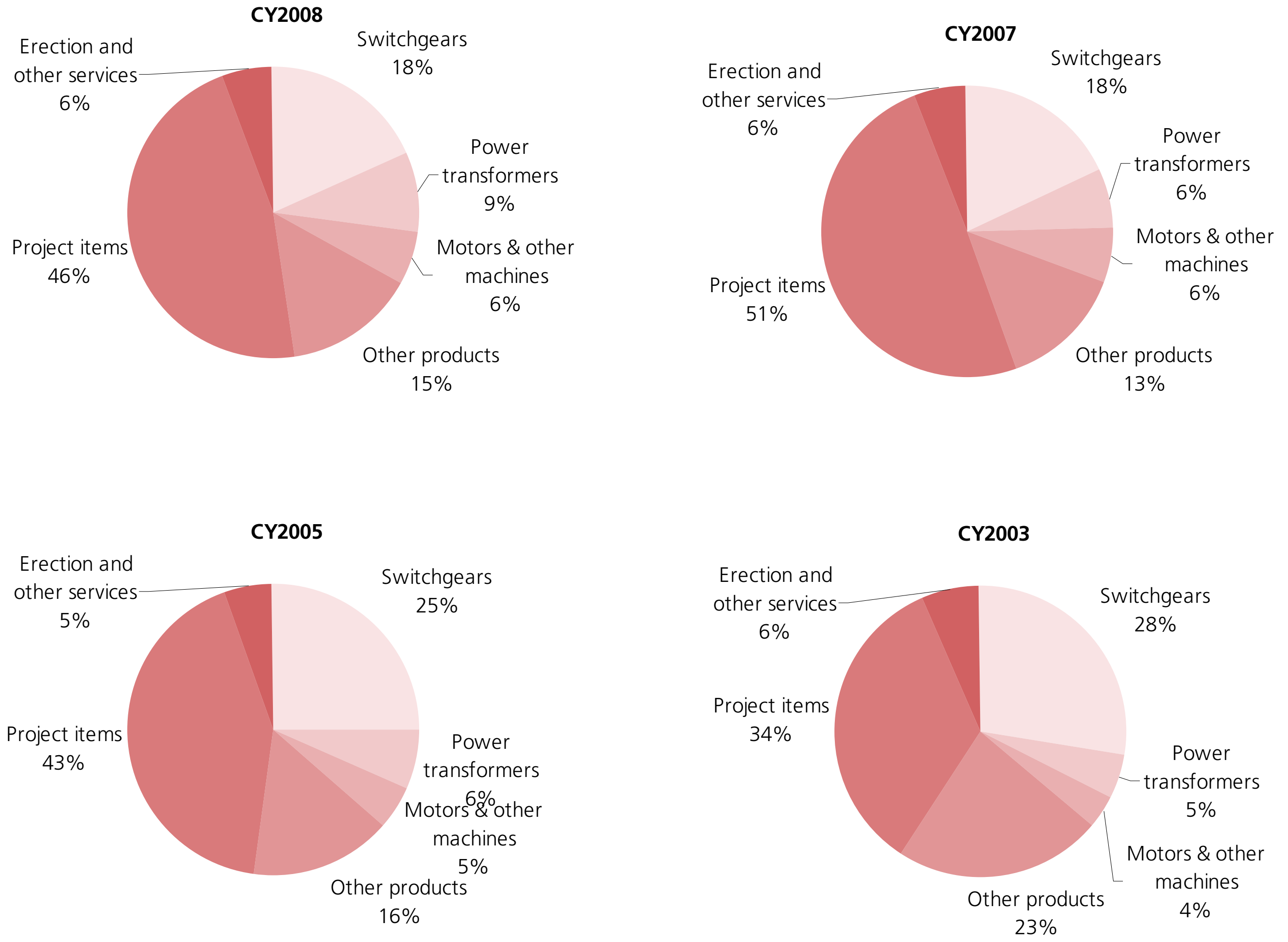
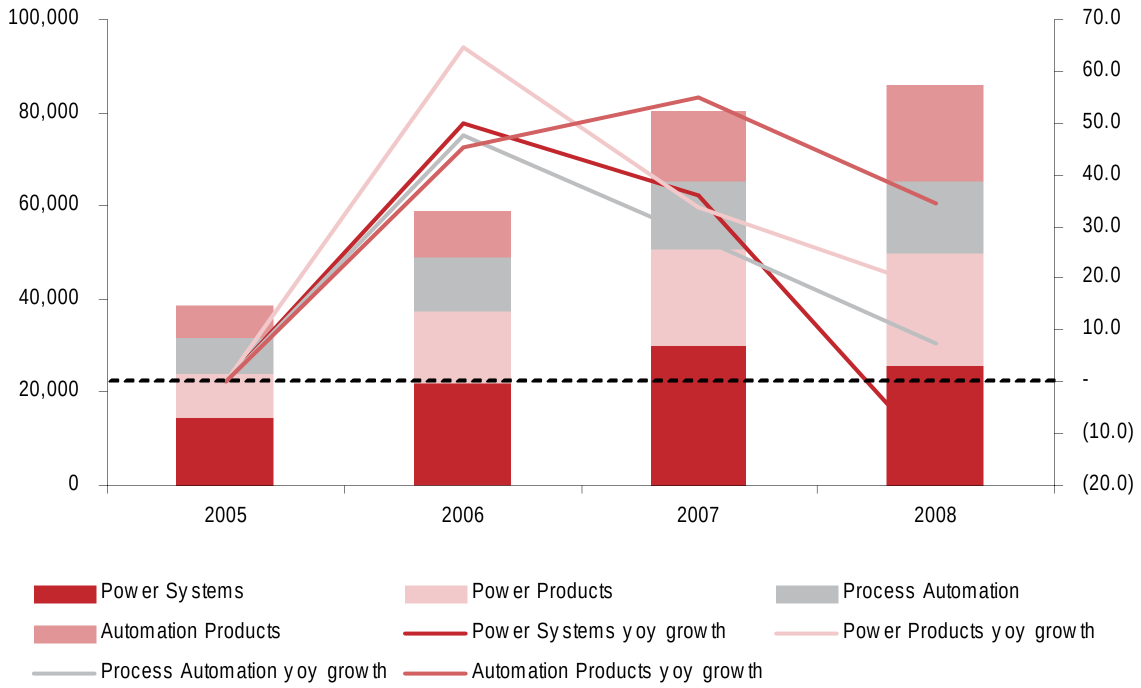


Exhibit 5. Segmental order booking and yoy growth in order booking for ABB, December calendar year-ends,



Source: Company, Kotak Institutional Equities

Exhibit 6. Key orders won by the various segments of ABB in CY2008

Customer	Scope of order
Power Systems	
PGCIL	400KV GIS substations in Navi Mumbai, Pune, Solapur and Parli
Vedanta Group	400KV substations
RRVPNL	132KV substations
DMRC	66KV GIS switchyard and railway electrification
Mumbai Metro Project	Power supply and traction electrification
JSW Energy Ltd, Hindustan Zinc Ltd, Tata Projects Ltd and Indure	Electricals for Balance of Plant
MSETCL and MPPTCL	PLC terminals and protection couplers
Indira Gandhi International Airport, New Delhi	Electrification of new terminal T3
Power Products	
Vedanta Group	250MVA, 400KV single phase interconnecting transformer
Raj West power and other associates of Jindal Group	160MVA, 400KV and 355MVA, 400KV transformers
Jai-Prakash Hydro-Power Ltd	112MVA, 400KV single phase transformers
Power Grid Corporation of Bangladesh	HV capacitors - 145KV capacitor banks
Several EPC contractors	245KV breakers
NTPC and others	Indoor switchgears
KSEB	1,474 outdoor RMUs
Process Automation	
Electricals and automation solutions	
Star Cements LLC, Dubai	Raw mill and clinkerisation
United Seamless Tubular Pvt. Ltd	Tube mill
Nagarjuna Construction Co. Ltd	Blast furnace
Larsen & Toubro Ltd	Base mix plant and coal handling plant
Jayajyothi Cements Ltd	Composite electrical and automation project
Bhushan Power and Steel Ltd	CRM complex
Punj Lloyd Ltd	MSQ upgradation job
Automation products	
Vedanta Group	High current rectifiers and associated equipments
INALUM, Indonesia	High current rectifiers
Megha Engineering and Infrastructure Ltd	HV machines and LV drives
L&T, Bhushan Steel and JSW Steel	MV drives
Chettinad Cements Ltd, Ballarpur Industries Ltd, Jaiprakash Associates Ltd	LV drives
Siemens	Wind generator

Source: Company

Exhibit 7. ABB - 1QCY09 - key numbers (Rs mn)

					% change					
	1QCY09	1QCY09E	1QCY08	4QCY08	1QCY09E	1QCY08	4QCY08	CY2009E	CY2008	*% change*
Sales	**13,931**	**16,607**	**15,353**	**21,663**	***(16.1)***	***(9.3)***	***(35.7)***	**74,732**	**68,370**	***9.3***
Expenses	(12,660)	(14,781)	(13,626)	(18,984)	*(14.3)*	*(7.1)*	*(33.3)*	(66,618)	(60,713)	*9.7*
Stock	(64)		118	(67)		*(154.4)*	*(4.1)*	0	738	
RM	(9,698)		(11,147)	(15,760)		*(13.0)*	*(38.5)*	(54,497)	(50,242)	*8.5*
Employee	(886)		(969)	(1,014)		*(8.6)*	*(12.7)*	(4,700)	(4,016)	*17.0*
Other Exp	(2,012)		(1,627)	(2,142)		*23.7*	*(6.1)*	(7,421)	(7,192)	*3.2*
Operating profit	**1,271**	**1,827**	**1,727**	**2,680**	***(30.4)***	***(26.4)***	***(52.6)***	**8,114**	**7,657**	***6.0***
Other income	143	246	185	507	*(41.8)*	*(22.8)*	*(71.8)*	926	1,304	*(29.0)*
EBIDT	1,414	2,073	1,912	3,186	*(31.8)*	*(26.0)*	*(55.6)*	9,040	8,961	*0.9*
Interest	(103)	(75)	(28)	(159)	*36.7*	*265.9*	*(35.1)*	(374)	(262)	*42.5*
Depreciation	(109)	(113)	(83)	(103)	*(3.8)*	*30.5*	*5.5*	(546)	(367)	*48.8*
PBT	**1,203**	**1,884**	**1,801**	**2,925**	***(36.2)***	***(33.2)***	***(58.9)***	**8,120**	**8,332**	***(2.5)***
Tax	(419)	(650)	(624)	(993)	*(35.5)*	*(32.9)*	*(57.8)*	(2,842)	(2,858)	*(0.6)*
Net profit	**784**	**1,234**	**1,177**	**1,931**	***(36.5)***	***(33.4)***	***(59.4)***	**5,278**	**5,474**	***(3.6)***
Key ratios (%)										
RM / Sales	*70.1*		*71.8*	*73.1*				*72.9*	*72.4*	
Empl / Sales	*6.4*		*6.3*	*4.7*				*6.3*	*5.9*	
OE / Sales	*14.4*		*10.6*	*9.9*				*9.9*	*10.5*	
OPM	***9.1***	***11.0***	***11.3***	***12.4***				***10.9***	***11.2***	
EBIDT Margin	*10.2*	*12.5*	*12.5*	*14.7*				*12.1*	*13.1*	
PBT Margin	*8.6*	*11.3*	*11.7*	*13.5*				*10.9*	*12.2*	
Tax rate	*34.8*	*34.5*	*34.6*	*34.0*				*35.0*	*35.5*	
PAT Margin	*5.6*	*7.4*	*7.7*	*8.9*				*7.1*	*8.0*	
Order inflow & backlog										
Order booking	23,033		26,954	12,610		*(14.5)*	*82.7*	86,752	80,541	*7.7*
Order backlog	70,315		61,749	61,618		*13.9*	*14.1*	69,947	61,618	*13.5*

Source: Company, Kotak Institutional Equities estimates

Value of total imports and exports for ABB, Areva, Crompton and Siemens, December calendar year-ends, 2008 (Rs mn)

Source: Company

Industrials

SIEM.BO, Rs337	
Rating	REDUCE
Sector coverage view	Attractive
Target Price (Rs)	310
52W High -Low (Rs)	600 - 186
Market Cap (Rs bn)	114

Financials

September y/e	2008	2009	2010E
Sales (Rs bn)	97	94	105
Net Profit (Rs bn)	4.8	6.7	7.1
EPS (Rs)	14.2	19.8	21.1
EPS gth	*(22.2)*	*39.7*	*6.4*
P/E (x)	23.8	17.0	16.0
EV/EBITDA (x)	10.8	9.2	8.7
Div yield (%)	0.9	2.0	1.2

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
23.8	64.9	5.7	5.7

Shareholding, March 2009

	Pattern	% of Portfolio	Over/(under) weight
Promoters	55.2	-	-
FIIs	2.3	0.1	(0.3)
MFs	3.7	0.4	0.0
UTI	-	-	(0.3)
LIC	13.3	1.0	0.6

Siemens: Analyst meeting take-aways—Management noncommittal on near-term outlook, did not quantify one-off revenue and profit

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- **Noncommittal on near-term outlook—recticent on additional revenue and profit (our estimate: Rs1.2 bn)**
- **May be declining orders and delaying deliveries where payment delays are expected**
- **Industrial segments reflect slowdown with yoy revenue as well as margin squeeze**
- **Retain REDUCE on downside risk to earnings, increasing competition and valuations**

Siemens management failed to quantify the additional revenue and profit recognition in the quarter which led to outperformance versus our estimates. We estimate additional revenue and profit recognition of about Rs1.15 bn resulting in power segment normalized revenue of Rs10.9 bn and EBIT margin of 10.7%. Adjusted for this, reported revenue at company level would have been Rs22.7 bn (up 5-6% yoy), operating profit would have been Rs2.34 bn, with operating margin of about 10.25%. Siemens management (a) remained noncommittal on outlook for the next few quarter and (b) highlighted weak performance of subsidiaries which partially justifies low valuation attributed to them at the time of divestiture. The industrials segment reflected the slowdown with industry solutions and automation & drives segment reporting revenue declines of 13% and 3.5% yoy, respectively, along with concomitant margin compression. We have revised our consolidated earnings estimates to Rs19.8 and Rs21 for y/e September 2009E and 2010E from Rs17.2 and Rs19.4 earlier respectively. We have revised our DCF-based target price to Rs310/share from Rs275/share. We reiterate our REDUCE rating based on (a) likely sedate earnings growth with ongoing slowdown, (b) increasing competition in the power segment with competitors such as Areva, Crompton and Hyosung scaling up, (c) likely downside risk to our earnings estimates and (d) high valuations with P/E of 16.5X one-year forward earnings.

Management reticent about additional revenue and profit recognition from re-estimation of cost to completion

Siemens reported revenues of Rs23.8 bn (11% yoy growth and our expectation of Rs21.6 bn) and net earnings of Rs2.3 bn versus our estimate of Rs1.4 bn. The company highlighted that it has recognized additional revenues and profits based on lower re-estimation of completion costs for certain projects but failed to quantify the exact benefit received from the same. Under percentage completion method revenues are recognized in proportion to percentage of total cost that has been spent on the project till certain date, a lower total cost would lead to additional revenue recognition and profits. This is evident from a steep sequential margin expansion of 490 bps from 9.8% in 1QFY09 to 14.6% in this quarter, led by 310 bps yoy decline in other expenses as a percentage of sales.

For the half year ending March 31, 2009, Siemens reported revenues of Rs40.1 bn, down 1.1% yoy from Rs40.6 bn in 1HFY08. Operating profit margin expanded to 12.7% leading to a profit after tax of Rs5.6 bn for the half year (Exhibits 1 and 2).

Recognition of additional profitability may be of the order of Rs1.2 bn, seem concentrated in power T&D segment

We highlight that, while the management failed to specify the quantum of increase due to the re-estimation, we believe that the recognition of additional revenues and profits seem concentrated in power T&D segment as this segment has reported an EBIT margin of 19.2%, almost double the level of margins of 10.3% last year, same quarter. Estimating additional revenue and profit recognition of about Rs1.15 bn result in power segment normalized revenue of Rs10.9 bn and EBIT margin of 10.7%. Adjusted for this, reported revenue at the company level would have been Rs22.7 bn, operating profit would have been Rs2.34 bn with operating margin of 10.3%. The management stated that there has been no additional revenue and profit recognition in the oil and gas segment even though that segment has reported sequential revenue growth of 51.5% and margin expansion of 470 bps.

Weak performance by subsidiaries—SISL reported NIL profitability partially justifies low valuation attributed to it at time of divestiture

Siemens reported weak subsidiary performance in 2Q and 1HFY09. SISL reported a sales decline of 6.8% for the first half and almost nil PBT margin (Exhibit 4). SBTPL reported a significant slowdown in sales as well as profitability due to a slowdown in the real estate sector. We highlight that SBTPL will be the only remaining subsidiary of Siemens going forward. Management did not share the numbers for Flender as it is not yet a subsidiary of the company (Exhibit 4).

Order booking witnesses substantial slowdown; may be declining orders and delaying deliveries as well for few customers

For the half year ending March 31, 2009, Siemens reported a 10% decline in order booking to Rs38.4 bn from Rs42.5 bn in the previous year. Siemens reported an order booking of Rs18.6 bn in 2QFY09, down 21% yoy, versus Rs23.4 bn in 2QFY08. The Siemens management highlighted that in addition to the pressures seen due to adverse conditions in the industrials segment, the company is also becoming more cautious regarding the quality of the orders. Siemens would not participate/ entertain all enquiries received and is becoming increasingly selective about the nature of the orders it executes. Similarly, Siemens may be delaying deliveries for customers where it expects payment difficulties. A steep slowdown was witnessed in the industrial segments (industry automation & drives and the industry solutions) while the fossil and oil & gas segments remained strong. Healthcare segment was marginally down due to a slowdown in private sector investments (government sector investments still on track).

Siemens reported an order backlog of Rs97 bn as on March 31, 2009 versus Rs95.6 bn in the previous year. The order backlog provides a visibility of about 1.0 years based on forward four quarter revenues (Exhibit 3).

Industrial segments shows signs of slowdown with yoy revenue decline as well as margin squeeze

We highlight that the industrials segment served as a dampener to the results of the company which showed weakness in the revenues as well as margins front. For 2QFY09 the industry solutions segment revenues declined by 13% yoy and the Industry automation & drives segment declined by 3.5% yoy with concomitant margin declines of 140 bps and 200 bps. The 1HFY09 order inflows for the industrial segment also declined by about 10% yoy to about Rs18 bn from Rs19.5 bn in 1HFY08. This decline was led mostly by the industry automation & drives and the industry solutions segment while the mobility segment showed an order booking growth during the same period.

Power segment likely to be key growth driver in near future

We believe that the near-term earnings of the company are likely to be driven by continued buoyancy in power sector. We believe that while the industrial capex might witness a slowdown, the ordering activity from PGCIL and large utilities is likely to remain resilient in the near future. We highlight that Siemens Ltd in consortium with Siemens AG recently won a large order worth Rs13.8 bn from Adani (Rs7.2 bn being Siemens Ltd portion of the order) for installation of a HVDC transmission system of 2500 MW capacity.

Moderately revise earnings estimates and target price to Rs310/ share; reiterate REDUCE

We have moderately revised our consolidated earnings estimates to Rs19.8 and Rs21 for y/e September 2009E and 2010E from Rs17.2 and Rs19.4 earlier respectively. We have revised our DCF-based target price to Rs310/share from Rs275/share (Exhibits 5 and 6). We reiterate our REDUCE rating based on (1) likely sedate earnings growth based on the ongoing slowdown in industrial capital expenditure, (2) increasing competition in the power segment with competitors such as Areva, Crompton and Hyosung scaling up presence, pressuring market share as well as price management, (c) likely downside risk to our earnings estimates and (d) high valuations with P/E of 16.5X one-year forward earnings.

Key upside risks arise from better-than-expected order booking, revenue growth and margins leading to positive earnings surprise.

Key downside risk arise from (1) repetition of problems witnessed in the earlier quarters in other orders and (2) residual dependence on large orders that potentially yield lower margins.

Exhibit 1. Siemens (standalone) - 2Q09 - key numbers, year ending September 30, 2009 (Rs mn)

					% change					
	2Q09	2Q09E	2Q08	1Q09	2Q09E	2Q08	1Q09	1H09	1H08	% change
Sales	**23,830**	**21,613**	**21,424**	**16,399**	***10.3***	***11.2***	***45.3***	**40,228**	**40,568**	***(0.8)***
Expenses	(20,341)	(19,614)	(21,394)	(14,697)	*3.7*	*(4.9)*	*38.4*	(35,038)	(39,041)	*(10.3)*
Stock	(799)		41	1,385		*(2,066.1)*	*(157.7)*	586	118	
Raw material	(17,230)		(18,276)	(13,797)		*(5.7)*	*24.9*	(31,027)	(33,864)	*(8.4)*
Employee	(1,354)		(1,015)	(1,131)		*33.4*	*19.7*	(2,484)	(1,982)	*25.3*
Other Exp	(959)		(2,144)	(1,154)		*(55.3)*	*(16.9)*	(2,112)	(3,313)	*(36.2)*
Operating profit	**3,489**	**1,999**	**30**	**1,702**	***74.5***	***11,513.5***	***105.0***	**5,191**	**1,527**	***239.9***
Other income	30	180	137	2,233	*(83.2)*	*(77.8)*	*(98.6)*	2,263	203	*1,016.9*
EBIDT	3,519	2,179	167	3,935	*61.5*	*2,011.7*	*(10.6)*	7,454	1,730	*330.9*
Interest	94	193	54	165	*(51.0)*	*76.1*	*(42.7)*	259	184	*40.6*
Depreciation	(184)	(193)	(149)	(181)	*(4.8)*	*23.6*	*1.8*	(365)	(300)	*21.9*
PBT	**3,429**	**2,178**	**71**	**3,919**	***57.4***	***4,717.7***	***(12.5)***	**7,348**	**1,615**	***355.1***
Tax	(1,174)	(762)	(55)	(613)	*54.0*	*2,049.5*	*91.6*	(1,787)	(873)	*104.6*
Net profit	**2,255**	**1,416**	**17**	**3,306**	***59.3***	***13,518.2***	***(31.8)***	**5,561**	**741**	***650.1***
Extraordinary items	0	0	0	0				0	1,246	
RPAT	2,255	1,416	17	3,306	*59.3*	*13,518.2*	*(31.8)*	5,561	1,987	*179.8*
Key ratios (%)										
Raw material / Sales	75.7		85.1	75.7				75.7	83.2	
Employee expenses / Sales	5.7		4.7	6.9				6.2	4.9	
Other expenses / Sales	4.0		10.0	7.0				5.3	8.2	
Operating profit margin	**14.6**	**9.3**	**0.1**	**10.4**				**12.9**	**3.8**	
PBT Margin	14.4	10.1	0.3	23.9				18.3	4.0	
Tax rate	34.2	35.0	76.7	15.6				24.3	54.1	
PAT margin	9.5	6.6	0.1	20.2				13.8	1.8	
Order booking and order backlog										
Order booking	18,594		23,422	19,797		*(20.6)*	*(6.1)*	38,391	42,542	*(9.8)*
Order backlog	97,047		95,683	101,502		*1.4*	*(4.4)*	97,047	95,683	*1.4*

Source: Company, Kotak Institutional Equities estimates

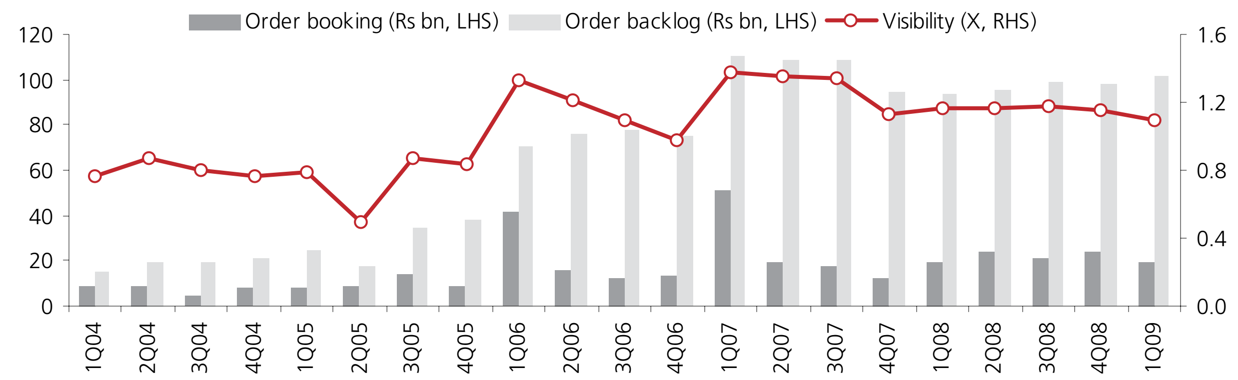
Exhibit 2: Segmental revenues and margins of Siemens

	2Q09	2Q08	1Q09	% change 2Q08	% change 1Q09	1H09	1H08	% change
Revenues								
Industry Automation & Drives	5,169	5,359	4,594	(3.5)	12.5	9,763	9,583	1.9
Building Technologies	208	213	147	(2.4)	41.2	356	406	(12.3)
Industry Solutions	2,507	2,881	2,237	(13.0)	12.1	4,743	5,025	(5.6)
Mobility	2,346	1,734	2,237	35.3	4.9	4,583	3,212	42.7
Fossil Power Generation	840	(80)	885	NA	(5.1)	1,725	595	189.9
Oil and Gas	1,409	1,075	930	31.1	51.5	2,339	2,254	3.8
Power T&D	12,056	10,479	5,848	15.1	106.1	17,905	19,552	(8.4)
Healthcare	1,223	1,355	1,171	(9.8)	4.4	2,393	2,457	(2.6)
Real estate	183	180	152	2.0	20.6	335	313	7.1
Discontinued Business	0	0	0	NA	NA	0	232	(100.0)
Less Intersegment	(2,259)	(1,772)	(1,911)	27.5	18.2	(4,170)	(3,059)	36.3
Total	**23,682**	**21,424**	**16,289**	**10.5**	**45.4**	**39,971**	**40,568**	**(1.5)**
PBIT								
Industry Automation & Drives	365	456	293	(20.0)	24.7	657	716	(8.2)
Building Technologies	7	15	(3)	(56.2)	(343.8)	4	24	(83.7)
Industry Solutions	246	341	252	(27.8)	(2.3)	499	593	(15.9)
Mobility	(76)	(88)	(65)	(14.2)	15.8	(141)	(224)	(37.3)
Fossil Power Generation	57	(2,055)	61	(102.8)	(6.6)	118	(2,096)	(105.6)
Oil and Gas	238	113	113	110.4	110.2	351	207	69.5
Power T&D	2,315	1,083	749	113.8	209.0	3,065	1,953	56.9
Healthcare	108	57	(12)	90.1	NA	96	51	90.5
Real estate	143	81	133	76.9	7.8	276	168	63.7
Discontinued Business	0	0	0	NA	NA	0	8	NA
Net Interest expense	94	54	165	76.1	(42.7)	259	184	40.6
Other net unallocable income	(69)	15	2,233	NA	NA	2,164	1,276	NA
Total Profit before tax	**3,429**	**71**	**3,918**	**4,717.4**	**(12.5)**	**7,348**	**2,860**	**156.9**
Capital Employed								
Industry Automation & Drives	2,663	2,068	3,804	28.8	(30.0)	2,663	2,068	28.8
Building Technologies	353	335	425	5.4	(16.8)	353	335	5.4
Industry Solutions	(985)	(1,519)	(151)	NA	NA	(985)	(1,519)	(35.1)
Mobility	434	(296)	618	NA	NA	434	(296)	(246.5)
Fossil Power Generation	(1,056)	(1,796)	(1,005)	NA	NA	(1,056)	(1,796)	(41.2)
Oil and Gas	(107)	40	52	NA	NA	(107)	40	(367.9)
Power T&D	11,299	11,077	9,810	2.0	15.2	11,299	11,077	2.0
Healthcare	79	(161)	(12)	NA	NA	79	(161)	(149.2)
Real estate	1,784	1,870	1,588	(4.6)	12.4	1,784	1,870	(4.6)
Unallocated	11,787	6,251	8,866	88.6	32.9	11,787	6,251	88.6
Total capital employed	**26,252**	**17,869**	**23,997**	**46.9**	**9.4**	**26,252**	**17,869**	**46.9**
Revenue mix								
Industry Automation & Drives	21.8	25.0	28.2			24.4	23.6	
Building Technologies	0.9	1.0	0.9			0.9	1.0	
Industry Solutions	10.6	13.4	13.7			11.9	12.4	
Mobility	9.9	8.1	13.7			11.5	7.9	
Fossil Power Generation	3.5	-0.4	5.4			4.3	1.5	
Oil and Gas	6.0	5.0	5.7			5.9	5.6	
Power T&D	50.9	48.9	35.9			44.8	48.2	
Healthcare	5.2	6.3	7.2			6.0	6.1	
Real estate	0.8	0.8	0.9			0.8	0.8	
Discontinued Business	0.0	0.0	0.0			0.0	0.6	
Less Intersegment	-9.5	-8.3	-11.7			-10.4	-7.5	
EBIT Margin								
Industry Automation & Drives	7.1	8.5	6.4			6.7	7.5	
Building Technologies	3.2	7.0	-1.8			1.1	5.9	
Industry Solutions	9.8	11.8	11.3			10.5	11.8	
Mobility	-3.2	-5.1	-2.9			-3.1	-7.0	
Fossil Power Generation	6.8	2581.1	6.9			6.8	-352.3	
Oil and Gas	16.9	10.5	12.2			15.0	9.2	
Power T&D	19.2	10.3	12.8			17.1	10.0	
Healthcare	8.9	4.2	-1.0			4.0	2.1	
Real estate	78.1	45.0	87.4			82.3	53.9	
EBIT Margin	**14.5**	**0.3**	**24.1**			**18.4**	**7.1**	

Source: Company, Kotak Institutional Equities

Exhibit 3. Visibility maintained at about 1.2 years at the end of March 2008

Order booking, order backlog & visibility trend for Siemens, September fiscal year-ends



Source: Company data, Kotak Institutional Equities estimates.

Exhibit 4: 2QFY09 performance of subsidiaries - key numbers (Rs mn)

	2Q09	2Q08	% change	1H09	1H08	%change
SISL						
New orders	2,521	2,429	3.8	4,667	4,880	(4.4)
Sales	2,142	2,371	(9.7)	4,047	4,340	(6.8)
PBT	(48)	(108)	(55.6)	14	100	(86.0)
PBT margin (%)	(2.2)	(4.6)		0.3	2.3	
SIPS						
New orders	312	266	17.3	590	524	12.6
Sales	215	292	(26.4)	497	430	15.6
PBT	37	14	164.3	75	52	44.2
PBT margin (%)	17.2	4.8		15.1	12.1	
SBTPL						
New orders	297	796	(62.7)	725	1,076	(32.6)
Sales	439	466	(5.8)	711	820	(13.3)
PBT	(26)	4	(750.0)	(126)	(25)	404.0
PBT margin (%)	(5.9)	0.9		(17.7)	(3.0)	

Source: Company

Exhibit 5. Siemens segmental revenue and margin assumptions, September fiscal year-ends, 2008-10E (Rs mn)

	1H08	2H08	2008	1H09	2H09E	2009E	2010E
Industry							
Industry automation & Drive technologies	**9,583**	**11,465**	**21,048**	**9,763**	**12,338**	**22,101**	**25,416**
% growth			*27.1*	*1.9*	*7.6*	*5.0*	*15.0*
% of sales	23.6	27.0	25.2	24.3	25.7	24.9	24.9
EBIT	716	1,076	1,792	657	1,166	1,823	2,097
EBIT Margin	7.5	9.4	8.5	6.7	9.4	8.3	8.3
Industry solutions & Building technologies	**5,431**	**6,599**	**12,029**	**5,099**	**7,171**	**12,270**	**14,111**
% growth			*26.2*	*(6.1)*	*8.7*	*2.0*	*15.0*
% of sales	13.4	15.6	14.4	12.7	14.9	13.8	13.8
EBIT	617	925	1,542	502	847	1,350	1,587
EBIT Margin	11.4	14.0	12.8	9.9	11.8	11.0	11.3
Mobility	**3,212**	**3,496**	**6,709**	**4,583**	**4,474**	**9,057**	**10,416**
% growth			*93.5*	*42.7*	*28.0*	*35.0*	*15.0*
% of sales	7.9	8.2	8.0	11.4	9.3	10.2	10.2
EBIT	(224)	20	(205)	(141)	231	91	521
EBIT Margin	(7.0)	0.6	(3.0)	(3.1)	5.2	1.0	5.0
Energy							
Power T&D, O&G and Fossil power gen.	**22,400**	**19,978**	**42,378**	**21,969**	**21,469**	**43,438**	**49,953**
% growth			*(1.5)*	*(1.9)*	*7.5*	*2.5*	*15.0*
% of sales	55.2	47.1	50.7	54.6	44.7	49.0	49.0
EBIT	64	3,005	3,070	3,534	1,793	5,327	4,621
EBIT Margin	0.3	15.0	7.2	16.1	8.4	9.5	9.3
Healthcare							
Healthcare	**2,457**	**3,597**	**6,053**	**2,393**	**3,903**	**6,296**	**7,240**
% growth			*15.4*	*(2.6)*	*8.5*	*4.0*	*15.0*
% of sales	6.1	8.5	7.2	5.9	8.1	7.1	7.1
EBIT	51	282	333	96	155	252	290
EBIT Margin	2.1	7.8	5.5	4.0	4.0	4.0	4.0
Real estate							
Real estate	**313**	**332**	**645**	**335**	**348**	**683**	**752**
% growth			*30.1*	*7.1*	*4.9*	*6.0*	*10.0*
% of sales	0.8	0.8	0.8	0.8	0.7	0.8	0.7
EBIT	168	446	614	276	271	547	601
EBIT Margin	53.9	134.3	95.3	82.3	77.8	80.0	80.0

Source: Company, Kotak Institutional Equities estimates

Exhibit 6: Our DCF value for Siemens is Rs310/share

Siemens (standalone) - DCF model, September fiscal year-ends, 2009E-19E (Rs mn)

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Revenues	88,711	101,961	117,192	134,702	150,866	168,970	189,247	211,956	237,391	265,878	297,783
Growth (%)	6.1	14.9	14.9	14.9	12.0	12.0	12.0	12.0	12.0	12.0	12.0
EBIT (excl finl income)	13,995	9,717	11,384	13,326	13,955	15,630	17,505	19,606	21,959	24,594	27,545
Growth (%)	95.6	(30.6)	17.2	17.1	4.7	12.0	12.0	12.0	12.0	12.0	12.0
EBIT Margins	15.8	9.5	9.7	9.9	9.3	9.3	9.3	9.3	9.3	9.3	9.3
Effective tax rate	34.9	34.9	34.9	34.9	34.9	34.9	34.9	34.9	34.9	34.9	34.9
EBIT*(1-tax rate)	**9,111**	**6,325**	**7,411**	**8,675**	**9,085**	**10,175**	**11,396**	**12,763**	**14,295**	**16,011**	**17,932**
Growth (%)	108.5	(30.6)	17.2	17.1	4.7	12.0	12.0	12.0	12.0	12.0	12.0
Depreciation / Amortisation	774	906	1,037	1,168	1,795	1,792	1,718	1,688	1,809	1,958	2,134
Change in Working Capital	(2,203)	(1,564)	(377)	(422)	(1,616)	(1,810)	(2,028)	(2,271)	(2,543)	(2,849)	(3,191)
Capital Expenditure	(1,750)	(2,000)	(2,000)	(2,250)	(1,778)	(1,991)	(2,230)	(2,498)	(2,798)	(3,134)	(3,510)
Free Cash Flows	**5,932**	**3,668**	**6,070**	**7,171**	**7,485**	**8,165**	**8,856**	**9,682**	**10,763**	**11,986**	**13,366**
Growth (%)	25.5	(38.2)	65.5	18.1	4.4	9.1	8.5	9.3	11.2	11.4	11.5
Years discounted	-	1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0
Discount factor	1.0	0.9	0.8	0.7	0.6	0.5	0.5	0.4	0.4	0.3	0.3
Discounted cash flow	**5,932**	**3,231**	**4,712**	**4,904**	**4,510**	**4,335**	**4,143**	**3,990**	**3,908**	**3,834**	**3,767**

Used WACC	**13.50%**

NPV calculation		**Terminal value calculation**	
Sum of free cash flow	47,268	Cash flow in terminal year	13,366
Terminal value	46,538	Terminal growth (%)	5%
Enterprise value	93,805	Capitalisation rate	9%
Add Investments	1,883	Terminal value	165,106
Net debt	(9,120)	Discount period (years)	10
Net present value-equity	104,809	Discount factor	0.28
Shares o/s	337	Discounted value	46,538
NPV /share(Rs)	**311**		

Source: Kotak Institutional Equities estimates.

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

	4-May-09		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US$ mn)	(mn)	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	(Rs)	(%)	(US$ mn)
Automobiles																													
Bajaj Auto	663	REDUCE	95,867	1,921	145	50.7	61.5	62.2	(2.9)	21.4	1.0	13.1	10.8	10.7	7.5	6.1	6.4	4.9	3.8	3.2	3.0	3.0	3.0	41.0	39.4	32.0	615	(7.2)	1.7
Hero Honda	1,203	REDUCE	240,329	4,815	200	64.2	83.8	91.2	32.4	30.5	8.8	18.7	14.4	13.2	10.7	8.2	7.0	6.1	4.7	3.8	1.7	1.8	1.8	36.6	37.4	31.9	1,000	(16.9)	15.0
Mahindra & Mahindra	546	ADD	144,775	2,901	265	21.6	34.7	34.4	(43.2)	60.6	(0.8)	25.3	15.7	15.9	17.0	10.0	9.5	3.0	2.3	2.1	1.7	1.7	1.7	12.2	16.9	14.0	450	(17.6)	12.3
Maruti Suzuki	839	REDUCE	242,572	4,860	289	42.2	57.9	63.6	(29.5)	37.1	9.8	19.9	14.5	13.2	10.8	7.3	6.2	2.5	2.2	1.9	0.4	0.6	0.6	13.3	16.0	15.2	780	(7.1)	24.6
Tata Motors	258	SELL	143,755	2,880	556	18.5	19.0	16.6	(49.2)	2.7	(12.6)	13.9	13.6	15.5	11.0	8.1	8.3	1.0	1.0	0.9	-	—	—	9.1	7.3	-	195	(24.5)	25.6
Automobiles		**Cautious**	**867,298**	**17,377**					**(25.1)**	**29.1**	**2.9**	**18.0**	**14.0**	**13.6**	11.0	7.9	7.4	**2.5**	**2.2**	**1.9**	**1.2**	**1.3**	**1.3**	**14.1**	**15.5**	**14.1**			
Banks/Financial Institutions																													
Andhra Bank	57	ADD	27,427	550	485	12.3	11.5	12.9	3.6	(6.5)	12.0	4.6	4.9	4.4	—	—	—	0.8	0.8	0.8	5.4	5.1	5.7	17.2	14.4	14.6	75	32.6	0.5
Axis Bank	609	BUY	218,763	4,383	359	50.6	55.8	64.5	56.9	10.3	15.6	12.1	10.9	9.5	—	—	—	2.3	2.1	1.9	1.6	1.7	2.0	19.2	18.2	18.3	700	14.9	49.6
Bank of Baroda	327	ADD	119,418	2,393	366	60.9	54.9	58.5	55.1	(9.8)	6.5	5.4	5.9	5.6	—	—	—	1.1	1.1	1.0	2.8	2.5	2.6	18.7	14.9	14.2	370	13.3	8.0
Bank of India	231	ADD	121,276	2,430	526	57.2	45.6	55.1	40.7	(20.2)	20.7	4.0	5.1	4.2	—	—	—	1.2	1.2	1.1	2.6	2.1	2.5	29.6	19.2	19.5	310	34.4	12.2
Canara Bank	208	REDUCE	85,178	1,707	410	50.5	38.6	41.4	32.4	(23.6)	7.1	4.1	5.4	5.0	—	—	—	1.1	1.0	0.9	3.9	3.9	4.8	18.3	12.4	12.2	220	5.9	3.8
Corporation Bank	224	BUY	32,094	643	143	62.2	51.5	55.3	21.4	(17.3)	7.4	3.6	4.3	4.0	—	—	—	0.7	0.6	0.5	5.7	4.7	5.1	19.6	14.3	13.8	310	38.5	0.5
Federal Bank	191	BUY	32,590	653	171	32.0	34.0	39.3	(6.9)	6.4	15.6	6.0	5.6	4.8	—	—	—	0.8	0.7	0.6	3.1	3.3	3.8	13.2	12.7	13.2	280	46.9	1.3
Future Capital Holdings	132	BUY	8,324	167	63	4.5	28.8	-	(198.6)	546.1	(100.0)	29.6	4.6	#####	—	—	—	1.1	0.9	#DIV/0!	—	—	—	3.8	21.4	-	440	234.2	0.7
HDFC	1,965	SELL	558,958	11,199	284	80.2	93.4	109.1	(6.5)	16.5	16.7	24.5	21.0	18.0	—	—	—	4.3	3.8	3.4	1.5	1.7	1.9	18.2	18.7	19.2	1,730	(12.0)	65.4
HDFC Bank	1,199	ADD	504,653	10,111	421	55.4	64.1	75.0	20.4	15.7	17.1	21.7	18.7	16.0	—	—	—	3.4	2.9	2.6	0.8	1.0	1.2	16.9	16.7	17.3	1,150	(4.1)	41.6
ICICI Bank	530	ADD	589,779	11,817	1,113	33.8	32.7	38.5	(15.4)	(3.1)	17.6	15.7	16.2	13.8	—	—	—	1.2	1.1	1.1	2.1	1.7	1.8	7.8	7.2	8.0	475	(10.4)	163.7
IDFC	86	ADD	110,792	2,220	1,294	5.8	7.0	8.0	2.3	21.0	13.3	14.7	12.2	10.8	—	—	—	1.8	1.6	1.4	1.2	1.4	1.5	12.9	14.1	14.2	85	(0.7)	15.3
India Infoline	83	ADD	25,692	515	311	5.0	5.8	6.5	(10.0)	15.5	12.3	16.4	14.2	12.6	—	—	—	2.0	1.8	1.6	3.2	4.0	4.9	11.7	13.5	14.6	90	9.1	4.6
Indian Bank	104	BUY	44,653	895	430	28.1	26.1	30.0	24.7	(7.2)	15.1	3.7	4.0	3.5	—	—	—	0.8	0.8	0.7	4.1	3.8	4.3	22.7	17.9	17.8	165	58.8	2.1
Indian Overseas Bank	68	BUY	36,992	741	545	25.5	20.8	24.4	15.3	(18.3)	17.2	2.7	3.3	2.8	—	—	—	0.6	0.5	0.5	6.1	5.5	6.1	25.5	17.5	17.7	120	76.7	2.1
J&K Bank	330	ADD	15,998	321	48	82.8	72.2	92.8	11.5	(12.7)	28.4	4.0	4.6	3.6	—	—	—	0.7	0.7	0.6	5.2	4.6	5.9	16.5	12.9	14.9	480	45.5	0.2
LIC Housing Finance	362	BUY	30,773	617	85	62.5	68.8	80.3	37.3	10.0	16.8	5.8	5.3	4.5	—	—	—	1.3	1.1	0.9	3.8	4.2	4.9	—	—	—	390	7.7	5.1
Mahindra & Mahindra Financial	209	ADD	20,035	401	96	22.4	27.5	30.0	7.5	22.9	8.7	9.3	7.6	7.0	—	—	—	1.4	1.2	1.1	2.6	3.3	3.6	15.4	16.9	16.3	240	14.6	0.1
Oriental Bank of Commerce	135	ADD	33,923	680	251	36.1	27.3	34.6	51.4	(24.5)	26.7	3.7	5.0	3.9	—	—	—	0.6	0.7	0.7	5.3	4.0	5.1	14.8	10.2	11.8	150	10.8	2.8
PFC	167	ADD	191,734	3,842	1,148	13.0	16.5	19.3	14.3	26.7	17.6	12.9	10.2	8.6	—	—	—	1.7	1.6	1.4	1.6	3.0	2.6	13.8	15.8	16.7	160	(4.2)	3.7
Punjab National Bank	503	BUY	158,692	3,180	315	90.7	90.7	99.7	39.6	(0.0)	10.0	5.5	5.5	5.0	—	—	—	1.4	1.2	1.1	3.6	3.6	4.0	21.5	18.6	18.0	650	29.1	19.3
Rural Electrification Corp.	109	BUY	93,587	1,875	859	15.2	17.7	20.0	38.8	16.8	13.0	7.2	6.2	5.4	—	—	—	1.3	1.1	1.0	4.5	5.2	5.9	19.6	19.9	19.6	125	14.7	1.5
Shriram Transport	232	REDUCE	48,928	980	211	28.6	27.0	27.7	49.0	(5.6)	2.6	8.1	8.6	8.4	—	—	—	2.4	2.0	1.7	3.6	3.5	3.6	28.8	23.6	20.9	215	(7.2)	1.4
SREI	42	ADD	4,878	98	116	7.3	6.9	8.2	(36.2)	(5.7)	18.7	5.8	6.1	5.1	—	—	—	0.4	0.4	0.4	5.5	6.7	7.6	13.1	11.5	12.9	50	19.2	1.9
State Bank of India	1,366	BUY	862,746	17,286	631	135.5	124.1	145.3	27.2	(8.4)	17.0	10.1	11.0	9.4	—	—	—	1.8	1.7	1.5	1.6	1.6	1.8	16.3	13.3	13.9	1,600	17.1	93.5
Union Bank	172	BUY	87,082	1,745	505	36.7	31.2	36.6	33.6	(14.9)	17.1	4.7	5.5	4.7	—	—	—	1.0	0.9	0.8	3.2	2.7	3.2	29.0	20.2	20.1	220	27.6	3.7
Banks/Financial Institutions		**Attractive**	**4,064,965**	**81,446**					**25.7**	**(2.7)**	**14.8**	**9.7**	**10.0**	**8.7**	**—**	**—**	**—**	**1.6**	**1.5**	**1.4**	**2.1**	**2.1**	**2.4**	**16.7**	**15.2**	**15.7**			
Cement																													
ACC	655	REDUCE	123,033	2,465	188	56.3	55.2	42.2	(12.2)	(1.9)	(23.6)	11.6	11.9	15.5	5.8	5.8	6.8	2.3	2.1	1.9	3.6	3.6	3.6	24.7	21.3	15.1	625	(4.6)	10.2
Ambuja Cements	82	REDUCE	124,606	2,497	1,522	7.2	6.8	5.4	(5.0)	(4.7)	(20.5)	11.4	12.0	15.0	6.1	6.3	7.5	2.1	1.8	1.7	3.7	2.3	2.6	19.7	16.6	12.0	70	(14.5)	3.6
Grasim Industries	1,800	REDUCE	165,083	3,308	92	225.7	188.5	192.6	(20.7)	(16.5)	2.2	8.0	9.6	9.3	4.7	4.8	4.6	1.5	1.3	1.2	1.8	1.8	1.9	20.7	14.9	13.6	1,500	(16.7)	10.1
India Cements	118	ADD	33,303	667	282	22.7	19.8	17.5	n/a	(12.8)	(11.2)	5.2	6.0	6.7	3.8	4.0	4.2	0.9	0.8	0.7	1.8	1.8	2.7	15.7	14.7	11.7	130	10.0	3.4
Shree Cement	796	BUY	27,729	556	35	174.7	91.6	86.2	93.7	(47.6)	(5.9)	4.6	8.7	9.2	3.3	3.5	3.6	2.3	1.9	1.6	1.3	1.3	1.3	65.7	24.0	18.9	950	19.4	0.4
UltraTech Cement	593	ADD	74,336	1,489	125	78.0	70.5	49.3	(4.1)	(9.7)	(30.0)	7.6	8.4	12.0	5.1	4.7	5.8	1.7	1.5	1.3	1.4	1.4	1.4	31.2	22.3	13.4	625	5.3	1.0
Cement		**Cautious**	**548,090**	**10,982**					**(6.8)**	**(14.5)**	**(13.8)**	**8.4**	**9.8**	**11.4**	**4.9**	**5.0**	**5.5**	**1.7**	**1.5**	**1.4**	**2.6**	**2.2**	**2.4**	**20.7**	**15.5**	**12.1**			
Consumer products																													
Asian Paints	886	REDUCE	84,937	1,702	96	35.7	44.3	51.1	(9.2)	24.3	15.2	24.8	20.0	17.3	14.8	11.5	9.9	7.7	6.5	5.5	2.0	2.3	2.5	34.2	36.2	35.1	800	(9.7)	0.6
Colgate-Palmolive (India)	480	ADD	65,283	1,308	136	20.4	23.3	25.7	19.4	14.4	10.1	23.6	20.6	18.7	20.5	17.1	14.9	38.7	42.8	48.7	3.8	4.4	4.8	157.8	198.4	245.6	490	2.1	1.8
GlaxoSmithkline Consumer (a)	841	ADD	35,356	708	42	44.8	56.1	63.6	15.8	25.2	13.5	18.8	15.0	13.2	10.3	8.3	7.3	4.6	3.9	3.5	1.8	2.5	3.5	26.8	28.5	28.0	900	7.1	0.3
Godrej Consumer Products	143	ADD	37,013	742	258	6.8	8.7	9.8	(3.9)	27.8	12.8	21.2	16.6	14.7	18.5	13.5	11.1	5.6	4.8	4.1	2.8	2.8	2.8	42.7	42.7	33.1	160	11.6	0.5
Hindustan Unilever	240	REDUCE	522,853	10,476	2,179	9.2	10.2	11.6	12.9	11.5	13.6	26.2	23.5	20.7	20.9	17.9	15.8	33.8	31.3	29.0	3.6	4.0	4.6	134.3	139.0	146.1	235	(2.0)	21.6
ITC	206	ADD	775,015	15,528	3,769	8.7	9.8	11.2	4.6	12.8	14.5	23.8	21.1	18.4	14.7	13.0	11.4	5.5	4.8	4.2	1.8	1.9	2.2	25.4	25.2	-	200	(2.7)	18.4
Jyothy Laboratories	67	ADD	4,888	98	73	7.2	10.6	13.0	10.2	47.3	22.1	9.3	6.3	5.2	5.5	3.8	2.7	1.3	1.1	0.9	3.5	4.3	5.2	13.0	16.5	18.8	127	88.6	
Nestle India (a)	1,756	ADD	169,296	3,392	96	58.6	70.5	82.4	31.0	20.4	16.8	30.0	24.9	21.3	19.1	16.3	14.1	35.8	29.4	24.3	2.4	2.9	3.4	126.7	129.6	124.8	1,800	2.5	1.3
Tata Tea	696	BUY	43,022	862	62	60.1	67.7	75.8	10.9	12.7	11.9	11.6	10.3	9.2	6.2	5.0	4.3	0.9	0.8	0.8	2.5	2.8	3.1	10.3	10.8	11.3	940	35.1	1.6
Consumer products		**Attractive**	**1,737,663**	**34,816**					**9.0**	**14.6**	**14.2**	**24.0**	**21.0**	**18.4**	**16.0**	**13.7**	**12.0**	**7.2**	**6.4**	**5.7**	**2.5**	**2.8**	**3.2**	**30.0**	**30.6**	**31.0**			
Constructions																													
Consolidated Construction Co.	139	ADD	5,124	103	37	19.7	27.2	31.9	(18.1)	38.0	17.5	7.0	5.1	4.3	5.0	3.6	3.1	1.0	0.9	0.7	2.0	2.8	3.3	15.0	18.1	18.3	190	37.0	0.1
IVRCL	176	BUY	23,789	477	135	14.9	16.1	17.0	(4.0)	8.0	5.6	11.8	10.9	10.3	8.0	6.7	5.8	1.3	1.2	1.1	0.4	0.4	0.4	11.9	11.5	10.9	175	(0.4)	9.3
Nagarjuna Construction Co.	75	BUY	17,101	343	229	7.3	8.8	9.6	2.5	19.7	9.0	10.2	8.5	7.8	6.7	5.9	5.3	1.0	0.9	0.8	1.8	2.1	2.7	10.3	11.3	11.3	100	34.0	2.3
Punj Lloyd	127	REDUCE	41,191	825	323	9.6	16.4	16.1	(4.0)	71.5	(2.1)	13.3	7.8	7.9	8.5	5.3	4.8	1.4	1.2	1.0	0.3	0.6	0.6	10.8	16.3	13.9	105	(17.6)	19.5
Sadbhav Engineering	376	ADD	4,696	94	13	43.8	54.3	88.0	8.2	23.8	62.2	8.6	6.9	4.3	5.7	4.8	3.8	1.4	1.2	0.9	1.3	1.6	1.9	15.9	16.8	21.7	550	46.4	0.1
Construction		**Attractive**	**91,901**	**1,841**					**(3.3)**	**38.6**	**7.1**	**11.4**	**8.2**	**7.7**	**7.6**	**5.6**	**4.9**	**1.2**	**1.1**	**1.0**	**0.8**	**1.0**	**1.1**	**11.0**	**13.4**	**12.7**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

	4-May-09		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US$ mn)	(mn)	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	(Rs)	(%)	(US$ mn)
Energy																													
Bharat Petroleum	384	SELL	126,031	2,525	328	0.0	42.0	51.5	(99.9)	#####	NA	####	NA	7.5	7.7	4.6	4.0	0.9	0.9	0.8	-	5—	6.0	0.0	10.2	11.6	425	10.5	5.1
Cairn india	202	BUY	383,222	7,678	1,897	4.2	4.4	28.5	(3,628)	5	543.2	48	46	7.1	28.5	20.8	5.9	1.1	1.1	1.1	—	—	15—	2.5	2.5	15.9	225	11.4	16.1
Castrol India (a)	341	BUY	42,192	845	124	21.3	25.5	26.6	20.8	19.5	4.3	16.0	13.4	12.8	9.0	7.7	7.3	9.4	8.5	7.9	4.4	5.3	5.9	61.2	66.5	63.7	390	14.3	0.3
GAIL (India)	258	SELL	327,711	6,566	1,268	23.3	19.7	20.7	14.2	(15.6)	5.1	11.1	13.1	12.5	6.0	7.4	7.9	2.0	1.8	1.7	2.8	2.6	2.6	18.3	13.8	13.3	240	(7.1)	10.6
GSPL	42	REDUCE	23,693	475	563	1.9	2.5	3.7	4.4	30.5	52.6	22.4	17.1	11.2	8.1	5.3	4.5	1.8	1.6	1.6	1.2	1.6	8.9	8.2	9.8	14.4	45	6.9	1.9
Hindustan Petroleum	271	SELL	91,872	1,841	339	(10.5)	30.2	3.0	(131.5)	(386.8)	(90.0)	(25.7)	9.0	89.9	7.0	4.7	#DIV/0!	0.8	0.7	#DIV/0!	-	4—	-	(2.9)	7.6	-	300	10.7	5.7
Indian Oil Corporation	443	REDUCE	522,321	10,465	1,179	24.3	46.8	49.6	(60.3)	92.1	6.1	18.2	9.5	8.9	8.4	4.7	4.1	1.1	1.0	0.9	-	4—	4.5	6.2	10.3	10.2	525	18.5	2.7
Oil & Natural Gas Corporation	891	ADD	1,905,748	38,184	2,139	103.9	103.9	138.2	12.0	0.0	33.0	8.6	8.6	6.4	3.2	2.9	2.2	1.7	1.5	1.3	3.8	4.0	5.4	19.5	17.2	20.3	950	6.6	33.8
Petronet LNG	53	ADD	39,638	794	750	6.9	7.7	9.0	—	10.8	17.6	7.6	6.9	5.9	6.6	5.2	4.6	1.7	1.4	1.2	2.8	2.8	3.8	24.0	21.8	20.9	57	7.9	2.3
Reliance Industries	1,887	REDUCE	2,590,988	51,913	1,373	103.4	127.7	175.7	(1.5)	23.5	37.7	18.3	14.8	10.7	10.8	6.8	5.0	2.2	1.9	1.7	0.7	0.8	1.1	15.1	15.9	19.2	1,650	(12.6)	196.0
Reliance Petroleum	117	NR	526,050	10,540	4,500	—	8.3	13.8	n/a	n/a	n/a	n/a	n/a	8.5	n/a	n/a	7.1	3.9	3.2	2.5	—	2—	1.7	1—	25.1	33.0	-	(100.0)	21.5
Energy		**Neutral**	**6,579,466**	**131,827**					**(5.7)**	**30.2**	**37.4**	**14.6**	**11.2**	**8.2**	**7.2**	**5.3**	**4.1**	**1.8**	**1.6**	**1.5**	**1.6**	**2.3**	**3.7**	**12.0**	**14.1**	**17.9**			
Industrials																													
ABB	473	REDUCE	100,275	2,009	212	25.8	24.9	29.6	11.3	(3.6)	18.7	18.3	19.0	16.0	10.7	10.5	8.4	4.7	3.9	3.2	0.5	0.6	0.6	29.2	22.6	22.1	450	(4.9)	6.1
BGR Energy Systems	186	REDUCE	13,363	268	72	15.3	20.7	24.3	26.1	35.4	17.5	12.1	9.0	7.6	6.9	5.8	5.1	2.4	2.0	1.6	1.3	1.8	2.1	21.3	23.9	23.2	165	(11.1)	1.0
Bharat Electronics	966	REDUCE	77,252	1,548	80	101.9	111.1	119.0	(0.0)	9.0	7.1	9.5	8.7	8.1	3.4	2.9	2.5	2.0	1.7	1.5	2.6	2.6	2.6	22.4	20.9	19.2	1,025	6.1	0.9
Bharat Heavy Electricals	1,707	REDUCE	835,464	16,739	490	59.8	89.0	105.5	2.3	48.9	18.5	28.6	19.2	16.2	15.0	10.4	8.7	6.5	5.2	4.2	0.9	1.1	1.3	24.7	30.0	28.5	1,475	(13.6)	51.8
Crompton Greaves	176	ADD	64,519	1,293	367	14.2	15.7	17.9	27.0	10.8	13.9	12.4	11.2	9.8	7.2	6.4	5.6	3.7	2.9	2.3	1.0	1.1	1.2	34.1	28.9	26.0	210	19.3	5.0
Larsen & Toubro	953	SELL	568,566	11,392	597	48.2	51.6	54.6	27.1	7.0	5.9	19.8	18.5	17.4	12.2	11.0	10.6	3.6	3.0	2.6	1.0	1.2	1.3	20.6	17.6	15.8	650	(31.8)	63.8
Maharashtra Seamless	165	BUY	11,666	234	71	35.9	33.0	39.6	22.2	(8.1)	20.3	4.6	5.0	4.2	3.0	3.0	2.3	0.9	0.8	0.7	3.3	3.0	4.3	20.3	16.0	16.8	225	36.0	0.4
Siemens	337	REDUCE	113,505	2,274	337	14.2	19.8	21.1	(22.2)	39.7	6.4	23.8	17.0	16.0	10.8	9.2	8.7	5.0	4.3	3.5	0.9	2.0	1.2	23.3	27.1	24.2	310	(7.9)	5.9
Suzlon Energy	66	ADD	103,262	2,069	1,567	7.0	6.1	10.4	6.6	(13.1)	70.3	9.4	10.8	6.4	8.1	8.0	6.2	1.0	0.9	0.8	0.8	0.8	1.5	11.3	8.7	12.9	60	(9.0)	41.1
Industrials		**Cautious**	**1,887,871**	**37,826**					**9.7**	**19.0**	**17.8**	**19.7**	**16.5**	**14.0**	**11.0**	**9.4**	**8.1**	**3.7**	**3.1**	**2.6**	**1.0**	**1.2**	**1.3**	**18.8**	**18.7**	**18.5**			
Infrastructure																													
IRB Infrastructure	98	ADD	32,605	653	332	5.6	10.4	10.8	63.5	85.5	3.9	17.5	9.4	9.1	10.6	6.0	5.6	1.8	1.4	1.2	—	—	—	10.6	16.8	14.5	110	12.1	3.4
Media																													
DishTV	33	REDUCE	30,757	616	946	(7.3)	(4.1)	(3.2)	n/a	(44.4)	(22.6)	(4.4)	(8.0)	(10.3)	(20.2)	(121.1)	39.2	(4.8)	(15.1)	(6.1)	—	—	—	86.1	91.1	NA	22	(32.3)	4.9
HT Media	70	BUY	16,444	329	234	2.9	4.1	7.0	(32.4)	39.3	72.8	24.0	17.2	10.0	10.7	7.6	5.2	1.8	1.7	1.6	0.6	1.1	3.5	7.7	10.2	16.3	100	42.5	0.1
Jagran Prakashan	60	BUY	18,070	362	301	2.9	4.1	6.0	(11.9)	41.4	49.2	20.9	14.8	9.9	11.6	8.1	5.6	3.1	2.9	2.5	2.4	3.4	4.5	15.5	20.4	27.3	80	33.3	0.1
Sun TV Network	195	REDUCE	76,767	1,538	394	9.3	11.1	12.8	11.8	19.2	15.8	21.0	17.6	15.2	11.1	9.7	8.4	4.5	4.1	3.9	2.1	3.1	4.1	23.5	25.1	26.7	200	2.7	0.8
Zee Entertainment Enterprises	122	ADD	53,047	1,063	434	8.1	9.0	10.7	(8.7)	11.5	18.4	15.1	13.5	11.4	10.8	9.6	8.0	1.6	1.5	1.4	1.8	2.1	2.5	11.6	11.9	13.2	135	10.3	6.7
Zee News	33	ADD	7,948	159	240	1.9	2.1	2.5	20.4	11.1	18.8	17.8	16.0	13.5	9.4	8.0	7.1	3.2	2.8	2.4	1.2	1.2	1.8	20.0	19.0	19.5	40	20.7	0.4
Media		**Neutral**	**203,033**	**4,068**					**(18.4)**	**62.2**	**51.6**	**46.4**	**28.6**	**18.9**	**15.2**	**11.1**	**8.7**	**3.3**	**2.9**	**2.8**	**1.6**	**2.2**	**3.0**	**7.2**	**10.0**	**14.6**			
Metals																													
Hindalco Industries	61	ADD	107,698	2,158	1,753	7.7	2.4	8.2	(44.4)	(69.2)	248.7	8.0	26.0	7.5	5.4	7.6	6.4	0.3	0.3	0.3	—	—	—	10.3	5.2	6.7	55	(10.5)	10.3
National Aluminium Co.	228	SELL	146,581	2,937	644	19.7	10.3	16.3	(22.2)	(47.8)	58.3	11.6	22.1	14.0	5.5	7.1	4.6	1.4	1.3	1.2	1.5	0.9	0.9	12.7	6.2	9.2	135	(40.7)	1.9
Jindal Steel and Power	1,658	BUY	255,322	5,116	154	179.7	171.6	195.4	117.2	(4.5)	13.9	9.2	9.7	8.5	6.3	6.2	5.0	3.5	2.6	2.0	—	0.4	0.6	48.4	31.0	26.5	1,400	(15.6)	24.3
JSW Steel	363	SELL	67,833	1,359	187	8.7	21.5	39.3	(89.9)	146.2	82.5	41.5	16.8	9.2	8.0	8.2	5.6	0.7	0.6	0.5	0.6	0.6	0.6	10.2	3.9	6.0	185	(49.0)	16.1
Hindustan Zinc	531	BUY	224,217	4,492	423	64.6	62.9	80.9	(38.0)	(2.6)	28.7	8.2	8.4	6.6	4.4	3.9	2.2	1.5	1.3	1.1	0.8	0.9	0.9	20.1	16.5	17.9	610	15.0	3.4
Sesa Goa	120	BUY	94,666	1,897	787	24.8	20.8	24.6	30.8	(16.1)	18.6	4.9	5.8	4.9	2.6	2.6	1.5	2.1	1.6	1.3	2.9	2.9	2.9	52.8	31.3	28.8	150	24.7	17.5
Sterlite Industries	478	BUY	338,696	6,786	708	49.2	41.0	50.5	(23.6)	(16.7)	23.4	9.7	11.7	9.5	5.5	6.1	4.5	1.3	1.2	1.1	—	—	—	14.3	10.7	11.8	410	(14.2)	31.4
Tata Steel	263	BUY	216,348	4,335	822	123.9	55.5	87.0	63.6	(55.2)	56.7	2.1	4.7	3.0	3.3	4.3	3.2	0.5	0.4	0.4	4.9	4.9	4.9	36.8	15.7	21.3	280	6.4	64.6
Metals		**Attractive**	**1,451,359**	**29,080**					**4.6**	**(35.6)**	**40.5**	**5.9**	**9.1**	**6.5**	**4.6**	**5.5**	**4.1**	**0.9**	**0.9**	**0.8**	**1.3**	**1.3**	**1.3**	**16.1**	**9.5**	**11.9**			
Pharmaceutical																													
Biocon	146	BUY	29,230	586	200	4.7	13.6	19.4	(80.0)	192.2	42.8	31.4	10.7	7.5	13.2	5.9	4.2	1.9	1.7	1.4	0.0	0.1	0.1	6.2	16.9	20.9	235	60.8	0.8
Cipla	239	ADD	185,423	3,715	777	9.9	13.9	15.5	9.5	40.6	11.9	24.1	17.2	15.4	17.3	12.4	11.0	4.3	3.6	3.1	1.0	1.3	1.5	19.1	23.0	21.8	260	9.0	7.2
Dishman Pharma & chemicals	105	BUY	8,511	171	81	11.4	24.8	28.0	(22.7)	118.0	13.0	9.2	4.2	3.7	8.0	4.4	3.9	1.3	1.0	0.8	0.0	0.0	0.0	15.1	27.1	24.3	280	167.6	0.3
Divi's Laboratories	892	BUY	57,595	1,154	65	65.2	75.1	91.1	22.5	15.2	21.3	13.7	11.9	9.8	10.6	8.5	6.6	4.7	3.4	2.6	0.1	0.1	0.2	40.3	33.3	30.3	1,450	62.5	4.5
Dr Reddy's Laboratories	567	BUY	96,007	1,924	169	26.2	39.9	45.8	0.6	52.1	14.8	21.6	14.2	12.4	9.1	6.6	5.7	2.0	1.8	1.6	0.7	0.7	0.7	9.4	13.0	13.2	700	23.4	4.1
Glenmark Pharmaceuticals	190	BUY	50,565	1,013	266	15.8	18.2	22.5	(38.7)	14.7	23.6	12.0	10.5	8.5	8.2	7.0	5.8	2.3	1.9	1.6	0.0	0.0	0.0	21.9	19.8	20.2	390	105.0	6.9
Jubilant Organosys	118	BUY	20,244	406	171	16.5	18.6	21.8	(26.2)	12.6	17	7.1	6.3	5.4	10.3	6.4	4.7	1.6	1.3	1.1	1.1	1.1	1.5	18.6	22.6	21.7	250	111.4	0.4
Lupin	731	BUY	64,723	1,297	89	50.8	65.3	73.6	2.0	28.7	12.7	14.4	11.2	9.9	12.5	9.5	8.2	3.2	2.6	2.2	1.3	1.6	1.8	27.4	26.0	24.0	1,100	50.6	2.0
Piramal Healthcare	242	BUY	50,568	1,013	209	17.3	22.4	28.2	(2.7)	29.8	26.0	14.0	10.8	8.6	10.6	7.4	6.0	3.8	3.0	2.3	1.7	1.9	1.9	26.3	31.4	30.8	340	40.5	2.5
Ranbaxy Laboratories	172	REDUCE	73,285	1,468	427	(8.1)	(5.7)	5.1	(134.7)	NA	NA	(21.2)	NA	33.5	(107.1)	534.4	14.0	1.5	1.3	1.3	5.9	6.6	7.3	(8.8)	(4.7)	4.1	150	(12.6)	13.8
Sun Pharmaceuticals	1,292	BUY	267,636	5,362	207	86.8	85.7	94.0	16.3	(1.3)	9.7	14.9	15.1	13.7	11.6	10.8	9.3	3.9	3.2	2.6	0.9	1.0	1.0	31.1	24.3	21.9	1,800	39.3	17.4
Pharmaceuticals		**Attractive**	**903,787**	**18,108**					**(21.0)**	**28.7**	**24.1**	**19.1**	**14.8**	**11.9**	**12.8**	**9.5**	**7.6**	**2.9**	**2.4**	**2.1**	**1.2**	**1.4**	**1.6**	**15.2**	**16.3**	**17.4**			
Property																													
DLF	233	REDUCE	397,814	7,971	1,705	29.3	16.0	17.4	(36.6)	(45.2)	8.4	8.0	14.6	13.4	8.9	12.6	10.7	1.6	1.5	1.4	1.3	1.3	1.7	22.5	10.6	10.6	190	(18.6)	76.6
Housing Development & Infrastruc	158	REDUCE	43,404	870	275	30.6	19.8	24.8	(40.1)	(35.3)	25.1	5.1	7.9	6.4	8.3	9.5	7.7	1.0	0.9	0.8	3.2	3.8	5.1	21.2	12.1	13.9	120	(23.8)	46.7
Indiabulls Real Estate	133	ADD	34,330	688	258	3.0	3.9	10.2	(81.6)	29.5	161.2	44.0	34.0	13.0	(40)	18.0	3.8	0.5	0.5	0.5	0.0	0.0	0.0	1.3	1.5	3.9	180	35.1	28.2
Mahindra Life Space Developer	182	BUY	7,652	153	42	10.2	10.8	15.4	(39.2)	5.3	42.5	17.8	16.9	11.9	26.7	15.0	7.2	0.9	0.8	0.8	2.1	2.1	2.1	4.8	4.9	6.7	410	125.3	0.7
Phoenix Mills	110	BUY	15,897	319	145	5.4	7.3	8.9	70.0	34.7	23.4	20.4	15.1	12.3	22.4	11.4	9.2	1.1	1.0	0.9	0.9	0.9	1.4	5.3	6.8	7.9	210	91.3	0.2
Puravankara Projects	69	REDUCE	14,694	294	213	6.8	7.0	7.4	(39.8)	2.8	6.9	10.2	9.9	9.3	16.5	13.5	11.0	1.1	1.0	1.0	-	3—	2.9	11.5	10.8	10.7	55	(20.1)	0.3
Sobha	103	REDUCE	7,491	150	73	15.9	11.9	14.7	(50.0)	(24.8)	23.5	6.5	8.6	7.0	8.1	11.3	10.2	0.7	0.7	0.6	3.9	3.9	3.9	11.0	7.8	9.1	90	(12.4)	0.4
Unitech	49	SELL	100,685	2,017	2,044	6.4	3.9	3.4	(38.4)	(39.0)	(12.9)	7.7	12.7	14.6	10.0	11.1	11.4	2.2	1.4	1.3	-	—	—	25.1	13.4	9.4	32	(35.0)	62.7
Property		**Cautious**	**621,967**	**12,462**					**(38.6)**	**(37.9)**	**11.3**	**8.5**	**13.7**	**12.3**	**9.5**	**12.0**	**10.2**	**1.4**	**1.2**	**1.2**	**1.1**	**1.3**	**1.6**	**16.3**	**9.1**	**9.4**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

	4-May-09		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US$ mn)	(mn)	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	(Rs)	(%)	(US$ mn)
Retail																													
Titan Industries	790	REDUCE	35,059	702	44	45.9	50.1	56.9	30.8	9.2	13.7	17.2	15.8	13.9	11.2	9.7	8.2	6.1	4.7	3.7	1.3	1.4	1.5	38.9	33.6	29.9	850	7.6	3.7
Retail		**Neutral**	**35,059**	**702**					**30.8**	**9.2**	**13.7**	**17.2**	**15.8**	**13.9**	**11.2**	**9.7**	**8.2**	**6.1**	**4.7**	**3.7**	**1.3**	**1.4**	**1.5**	**35.3**	**29.7**	**26.8**			
Technology																													
HCL Technologies	154	REDUCE	107,204	2,148	695	16.2	12.5	16.7	5.8	(22.6)	33.4	9.5	12.3	9.2	5.4	5.2	5.0	1.7	1.6	1.5	7.8	7.8	7.8	18.3	13.0	16.8	110	(28.7)	4.2
Hexaware Technologies	33	SELL	4,690	94	144	4.1	3.6	-	(46.4)	(12.9)	(100.0)	8.0	9.1	#####	1.6	1.5	#DIV/0!	0.7	0.7	#DIV/0!	1.5	3.1	-	8.6	7.6	-	25	(23.4)	2.6
Infosys Technologies	1,628	BUY	934,587	18,725	574	102.4	104.1	116.1	29.6	1.6	11.5	15.9	15.6	14.0	11.4	11.0	9.2	5.1	4.2	3.4	1.4	1.6	1.7	36.7	29.3	26.8	1,500	(7.9)	51.3
Mphasis BFL	239	REDUCE	49,777	997	208	14.2	32.6	27.9	15.7	129.8	(14.4)	16.8	7.3	8.6	12.7	5.0	4.5	3.5	2.5	2.0	1.7	1.9	2.1	22.8	39.5	26.0	190	(20.4)	2.2
Mindtree	343	BUY	14,123	283	41	13.2	44.0	50.7	(50.5)	232.5	15.1	25.9	7.8	6.8	4.5	4.6	3.8	2.6	1.9	1.5	0.5	—	1—	5.5	20.4	18.4	400	16.6	3.5
Patni Computer Systems	171	REDUCE	21,971	440	129	26.8	23.5	26.1	(19.3)	(12.4)	11.1	6.4	7.3	6.6	1.7	1.2	0.9	0.9	0.7	0.6	1.1	2.7	3.1	16.2	10.0	10.3	150	(12.3)	1.1
Polaris Software Lab	72	SELL	7,126	143	99	13.1	13.3	12.1	76.0	1.7	(8.9)	5.5	5.4	5.9	1.6	1.8	1.9	0.9	0.8	0.7	3.8	2.8	2.8	18.1	15.9	12.9	50	(30.7)	2.5
TCS	666	REDUCE	652,146	13,066	979	52.9	51.3	55.9	3.1	(2.9)	8.8	12.6	13.0	11.9	8.8	8.8	7.7	4.2	3.4	3.0	2.1	2.3	3.4	36.9	29.1	26.8	510	(23.5)	19.8
Tech Mahindra	335	ADD	43,293	867	129	70.4	38.0	37.2	19.3	(46.0)	(2.1)	4.8	8.8	9.0	3.0	6.2	5.8	1.9	1.6	1.4	1.2	1.8	2.1	52.8	20.3	17.0	360	7.4	12.0
Wipro	366	ADD	534,434	10,708	1,462	25.7	27.0	29.4	15.8	4.7	9.1	14.2	13.6	12.4	10.4	9.3	7.8	3.6	2.9	2.5	1.1	2.1	2.3	26.9	23.7	21.7	325	(11.1)	9.5
Technology		**Cautious**	**2,369,349**	**47,472**					**15.0**	**(0.5)**	**9.1**	**13.3**	**13.3**	**12.2**	**9.1**	**8.7**	**7.5**	**3.7**	**3.1**	**2.7**	**1.8**	**2.2**	**2.6**	**28.1**	**23.2**	**21.9**			
Telecom																													
Bharti Airtel	759	ADD	1,441,436	28,881	1,899	44.6	52.2	59.8	26.4	17.0	14.6	17.0	14.5	12.7	10.0	8.5	7.3	4.6	3.4	2.7	1—	0.8	1.1	31.4	27.0	23.8	775	2.1	66.3
IDEA	63	REDUCE	194,456	3,896	3,104	2.9	2.9	3.2	(26.5)	(0.1)	10.9	21.6	21.6	19.5	8.2	7.6	6.4	1.4	1.3	1.2	—	—	—	10.4	6.4	6.8	55	(12.2)	7.6
MTNL	69	SELL	43,628	874	630	4.0	4.1	4.6	(44.3)	2.6	11.8	17.4	17.0	15.2	5.4	4.0	2.7	0.4	0.4	0.4	8.7	8.7	8.7	1.6	1.6	1.9	50	(27.8)	1.2
Reliance Communications	229	SELL	473,280	9,483	2,064	27.7	20.3	21.1	4.7	(26.6)	3.9	8.3	11.3	10.9	7.7	7.4	5.8	1.4	1.2	1.1	0.3	-	—	18.6	11.7	10.9	180	(21.5)	47.9
Tata Communications	555	REDUCE	158,261	3,171	285	13.6	14.0	15.2	24.0	3.2	8.2	40.9	39.6	36.6	17.3	15.8	14.6	2.3	2.2	2.2	0.9	1.2	1.4	5.4	5.2	5.5	400	(28.0)	2.7
Telecom		**Cautious**	**2,311,060**	**46,305**					**11.5**	**(0.5)**	**11.3**	**14.4**	**14.4**	**13.0**	**9.3**	**8.2**	**6.8**	**2.3**	**2.0**	**1.8**	**0.6**	**0.7**	**0.9**	**16.3**	**14.0**	**13.6**			
Transportation																													
Container Corporation	774	ADD	100,663	2,017	130	64.4	71.4	83.3	11.6	10.8	16.6	12.0	10.8	9.3	8.3	6.9	5.7	2.7	2.3	1.9	1.8	2.1	2.4	24.0	22.5	22.2	850	9.8	0.9
Transportation		**Cautious**	**100,663**	**2,017**					**11.6**	**10.8**	**16.6**	**12.0**	**10.8**	**9.3**	**8.3**	**6.9**	**5.7**	**2.7**	**2.3**	**1.9**	**1.8**	**2.1**	**2.4**	**22.1**	**20.8**	**20.5**			
Utilities																													
CESC	250	BUY	31,203	625	125	31.2	38.0	42.1	12.3	21.8	10.8	8.0	6.6	5.9	4.5	5.4	5.9	0.9	0.8	0.7	1.8	2.2	2.4	11.4	12.2	11.9	385	54.2	0.8
Lanco Infratech	241	BUY	53,485	1,072	222	14.6	17.1	24.9	(1.3)	16.6	45.7	16.4	14.1	9.7	22.9	17.2	9.6	2.4	2.0	1.7	—	—	—	16.2	15.8	19.0	265	10.1	8.2
NTPC	194	REDUCE	1,595,497	31,967	8,245	8.8	10.7	12.0	(5.2)	20.8	12.7	21.9	18.1	16.1	14.8	13.4	12.8	2.7	2.5	2.3	1.8	2.1	2.3	12.9	14.4	15.0	180	(7.0)	27.2
Reliance Infrastructure	750	BUY	169,939	3,405	226	64.1	58.8	62.9	70.5	(8.2)	6.9	11.7	12.8	11.9	12.4	13.2	10.4	1.0	0.9	0.9	0.9	1.1	1.2	6.3	7.0	9.0	970	29.3	100.4
Reliance Power	127	REDUCE	305,346	6,118	2,397	1.0	2.5	3.1	—	140.3	25.3	124.9	52.0	41.5	—	—	—	2.2	2.1	2.0	—	—	—	1.8	4.2	5.0	120	(5.8)	14.3
Tata Power	905	BUY	201,516	4,038	223	65.2	90.2	101.5	104.6	38.4	12.5	13.9	10.0	8.9	9.8	9.3	8.8	1.9	1.6	1.4	1.2	1.3	1.5	15.0	17.5	17.0	1,000	10.5	11.0
Utilities		**Attractive**	**2,356,988**	**47,225**					**11.2**	**21.8**	**13.5**	**21.1**	**17.3**	**15.3**	**14.7**	**14.6**	**13.4**	**2.2**	**2.1**	**1.9**	**1.4**	**1.6**	**1.8**	**10.6**	**11.8**	**12.3**			
Others																													
Aban Offshore	429	REDUCE	16,245	325	38	87.8	148.2	277.7	21	68.8	87.4	4.9	2.9	1.5	8.0	6.2	4.8	1.2	0.8	0.6	0.9	1.2	1.2	33.7	36.9	41.2	300	(30.0)	29.1
Havells India	159	REDUCE	9,616	193	61	(1.0)	10.3	10.3	(104)	#####	0	####	15.5	15.5	7.9	6.8	6.7	1.3	1.3	1.3	2.1	2.6	3.1	(0.9)	8.5	8.5	120	(24.5)	0.2
Jaiprakash Associates	148	ADD	207,151	4,150	1,403	6.6	7.9	11.8	34	20.0	49.6	22.5	18.8	12.5	14.1	11.6	10.8	3.4	3.0	2.5	0.0	0.0	0.0	16.8	17.1	21.8	140	(5.1)	53.9
Jindal Saw	227	BUY	12,432	249	55	64.3	47.8	41.7	(1)	(25.6)	(12.8)	3.5	4.7	5.4	2.8	2.6	2.4	0.4	0.3	0.3	2.2	1.8	1.8	10.8	7.4	6.2	300	32.4	1.0
PSL	92	BUY	4,029	81	44	24.3	43.7	37.8	15	79.6	(13.4)	3.8	2.1	2.4	5.0	4.2	3.6	0.5	0.4	0.4	8.6	8.7	8.7	10.6	14.2	12.4	145	56.8	0.1
Sintex	160	BUY	21,826	437	136	21.3	22.5	25.4	9	5.7	12.9	7.5	7.1	6.3	5.7	5.1	4.1	1.1	1.0	0.9	0.8	0.9	1.1	15.0	13.8	13.5	125	(21.8)	3.7
Tata Chemicals	187	BUY	43,883	879	235	25.5	23.3	27.5	(36)	(8.4)	17.6	7.3	8.0	6.8	5.0	4.2	3.6	0.9	0.9	0.8	4.3	4.3	4.3	17.2	13.3	14.0	190	1.8	2.1
Welspun Gujarat Stahl Rohren	105	REDUCE	19,793	397	189	20.8	21.6	16.6	1	4.1	(23.5)	5.0	4.8	6.3	4.6	3.9	4.1	1.0	0.8	0.7	1.8	1.3	1.4	19.9	17.8	11.7	100	(4.6)	8.7
United Phosphorus	124	BUY	57,057	1,143	462	10.7	13.5	18.0	28	25.7	33.9	11.5	9.2	6.9	8.0	5.8	4.4	1.9	1.6	1.3	1.0	1.2	1.6	18.1	18.2	20.5	140	13.4	1.6
Others			**392,030**	**7,855**					**13.8**	**11.0**	**29.9**	**10.6**	**9.6**	**7.4**	**7.9**	**6.8**	**6.3**	**1.6**	**1.4**	**1.2**	**1.0**	**1.0**	**1.1**	**15.5**	**15.0**	**16.7**			
KS universe (b)			**26,555,155**	**532,061**					**3.2**	**4.6**	**21.8**	**13**	**12.5**	**10.2**	**8.6**	**7.6**	**6.4**	**2.0**	**1.8**	**1.6**	**1.6**	**1.9**	**2.4**	**15.5**	**14.5**	**15.9**			
KS universe (b) ex-Energy			**19,975,688**	**400,234**					**6.0**	**(2.6)**	**15.9**	**12.6**	**12.9**	**11.2**	**9.2**	**8.9**	**7.8**	**2.1**	**1.9**	**1.7**	**1.6**	**1.7**	**1.9**	**16.9**	**14.7**	**15.1**			
KS universe (d) ex-Energy & ex-Commodities			**17,976,240**	**360,173**					**7.0**	**4.4**	**14.1**	**14.1**	**13.5**	**11.8**	**11.2**	**10.0**	**8.8**	**2.4**	**2.1**	**1.9**	**1.5**	**1.7**	**2.0**	**16.9**	**15.7**	**15.9**			

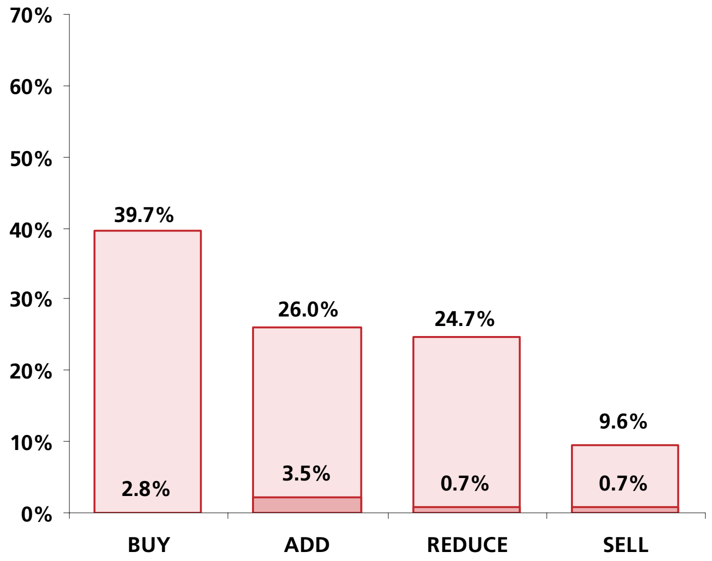
Note:
(1) For banks we have used adjusted book values.
(2) 2008 means calendar year 2007, similarly for 2009 and 2010 for these particular companies.
(3) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.

Source: Company, Bloomberg, Kotak Institutional Equities estimates

"Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Manish Karwa, Kawaljeet Saluja, Puneet Jain, Lokesh Garg."

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Percentage of companies covered by Kotak Institutional Equities, within the specified category.

Percentage of companies within each category for which Kotak Institutional Equities and or its affiliates has provided investment banking services within the previous 12 months.

* The above categories are defined as follows: Buy = We expect this stock to outperform the BSE Sensex by 10% over the next 12 months; Add = We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months; Reduce = We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months; Sell = We expect this stock to underperform the BSE Sensex by more then 10% over the next 12 months. These ratings are used illustratively to comply with applicable regulations. As of 31/03/2009 Kotak Institutional Equities Investment Research had investment ratings on 146 equity securities.

Source: Kotak Institutional Equities

As of March 31, 2009

Ratings and other definitions/identifiers

Rating system

Definitions of ratings

BUY. We expect this stock to outperform the BSE Sensex by 10% over the next 12 months.
ADD. We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months.
REDUCE: We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months.
SELL: We expect this stock to underperform the BSE Sensexby more than 10% over the next 12 months.

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

Other definitions

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

Other ratings/identifiers

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