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### News Round-up

- ▶ Bharti Airtel (BHARTI IN), which has concluded a USD 10.7 bn acquisition of African assets of Zain Telecom, will make an open offer for one of its operations in Zambia. Airtel will make a mandatory offer for 22% of Celtel Zambia, which is listed on the Lusaka stock exchange. The total payout for the offer can be anywhere between USD 210 mn and USD 300 mn. (BSTD)
- ▶ Glenmark Pharma (GNP IN) has received USFDA nod to market & distribute generic contraceptive pills, Norethindrone Acetate, in the US market. (ECNT)
- ▶ Lakshmi Vilas Bank (LVB IN) is in talks with Citigroup to acquire CitiFinancial Consumer Finance India, the struggling non-banking financial co. which gives loans to low income borrowers. (ECNT)
- ▶ Bangalore based real estate co. Brigade Enterprises (BRGD IN) has sought shareholder's approval to raise USD 159.57mn of additional funding. The money will be raised through various instruments such as GDR's, ADR's, FCCB's or via placement with qualified institutional investors. (ECNT)
- ▶ India's food inflation eased to 12.47% in the year to July 10, against its 12.81% reading in the previous week. (BSTD)
- ▶ Sajjan Jindal-promoted JSW Steel (JSTL IN) is likely to announce a stake sale to Japan's second-largest steel maker, JFE, after about eight months of discussion. (BSTD)
- ▶ Petroleum products, alcohol and power are out of GST net. Centre and States reach consensus on tax treatment of such products in the new regime. (THBL)
- ▶ Honda Sael Cars India plans to invest USD 63.83mn in its second plant at Tapukara (Rajasthan) to make engine & transmission components that will help it cut costs of critical car components. (ECNT)

Source: ECNT= Economic Times, BSTD = Business Standard, FNLE = Financial Express, THBL = Business Line.

### EQUITY MARKETS

India	Change %		
	22-Jul	1-day	1-mo 3-mo
Sensex	18,113	0.8	2.0 2.4
Nifty	5,442	0.8	2.2 2.6
<b>Global/Regional indices</b>			
Dow Jones	10,322	2.0	0.2 (7.9)
Nasdaq Composite	2,246	2.7	(0.4) (11.2)
FTSE	5,314	1.9	2.6 (7.2)
Nikkei	9,382	1.7	(5.5) (14.0)
Hang Seng	20,738	0.7	(0.6) (2.4)
KOSPI	1,751	0.9	1.5 0.8
<b>Value traded – India</b>			
Cash (NSE+BSE)	173		168 170
Derivatives (NSE)	1,029		1,164 1,458
Deri. open interest	1,692		1,578 1,328

#### Forex/money market

	Change, basis points			
	22-Jul	1-day	1-mo	3-mo
Rs/US\$	47.1	(4)	88	258
10yr govt bond, %	7.7	1	11	(31)

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

	21-Jul	MTD	CYTD
FIs	67	1,933	8,633
MFs	(43)	(312)	(282)

#### Top movers -3mo basis

Best performers	Change, %			
	22-Jul	1-day	1-mo	3-mo
HPCL IN Equity	440.7	(0.0)	22.7	45.1
BJFIN IN Equity	433.2	(0.3)	3.6	34.6
IOCL IN Equity	374.8	0.2	7.6	33.3
BPCL IN Equity	641.2	(0.8)	14.7	28.6
AL IN Equity	72.8	0.6	15.4	28.2
<b>Worst performers</b>				
ABAN IN Equity	840.1	0.0	13.3	(30.7)
RNR IN Equity	44.3	(0.1)	(30.3)	(29.5)
ICEM IN Equity	108.0	(1.0)	(4.2)	(20.0)
PUNJ IN Equity	136.3	0.2	8.1	(18.3)
SESA IN Equity	366.8	0.3	(2.3)	(16.9)

**JULY 22, 2010**
**RESULT**

Coverage view: **Attractive**

Price (Rs): **298**

Target price (Rs): **330**

BSE-30: **18,113**

**Solid performance.** Cigarette volumes are seeing typical consumer response to price increases (marginal dip & recovery)—likely decline of ~3% in 1QFY11. In FY2010-12E, watch for (1) cigarette volumes (obviously!), (2) personal care ramp-up, (3) Marlboro threat and (4) potentially higher payout ratio. Improving profitability in extant FMCG will likely support personal care investments, in our view. All non-cigarette businesses contribute to incremental profit growth in FY2011E. **BUY.**

**Company data and valuation summary**

ITC				Forecasts/Valuations			
Stock data				2010	2011E	2012E	
52-week range (Rs) (high,low)	308-211			EPS (Rs)	10.6	12.5	14.5
Market Cap. (Rs bn)	1,121.9			EPS growth (%)	22.6	17.5	16.0
Shareholding pattern (%)				P/E (X)	28.0	23.9	20.6
Promoters	0.0			Sales (Rs bn)	181.5	206.8	239.5
FIs	13.8			Net profits (Rs bn)	40.6	47.7	55.4
MFs	3.0			EBITDA (Rs bn)	64.3	73.2	86.3
Price performance (%)				EV/EBITDA (X)	16.7	14.7	12.4
Absolute	1M	3M	12M	ROE (%)	29.2	31.4	31.1
Rel. to BSE-30	(1.4)	15.1	39.5	Div. Yield (%)	3.4	1.8	2.0
	(3.3)	11.6	14.3				

**1QFY11 results beat estimates line by line**

- ▶ ITC reported net sales of Rs48.2 bn (+18% yoy, KIE estimate Rs46.8 bn), EBITDA of Rs16.1 bn (+20%, KIE estimate Rs15.4 bn) and PAT of Rs10.7bn (+22%, KIE estimate Rs10.2 bn).
- ▶ The cigarette segment grew 12% to Rs46.7 bn on the back of 15% pricing growth and ~3% volume decline. Other FMCG sales grew 32% yoy—led by personal care categories (soaps and shampoo) at +86%, Staples +21%, Biscuits +43%, Confectionery +25% and Stationery +30%. Higher soybean and wheat exports (mostly trading) helped agri business growth of +44%.
- ▶ Margins improved in all segments except agri business. Reported cigarette PBIT margins improved 90 bps to 27.9% (KIE estimate of 26.9%) led mostly by good management of sales mix and likely lower trade spends. Moreover, cigarette margins expanded 20 bps qoq on a gross sales basis and 150 bps on a net sales basis.
- ▶ Improvement in biscuits and branded packaged foods profitability likely helped ITC report lower losses of Rs0.89 bn (Rs1 bn in 1QFY10) in 'Other FMCG'. Agri business PBIT margins at 9.1% were lower due to higher soybean exports (a low margin business) despite higher leaf tobacco exports (which are seasonal with a bias towards April-September period). Paperboard PBIT margins at 22.7% (+520 bps yoy) were surprisingly high (likely due to superior mix) and are peak margins, in our view.

**QUICK NUMBERS**

- ~3% volume decline is in line with estimates
- Cigarettes PBIT margins expand 90 bps to 27.9%
- FMCG business sales growth of +32%—all round good growth

Manoj Menon  
manoj.menon@kotak.com  
Mumbai: +91-22-6634-1391

Amrita Basu  
amrita.basu@kotak.com  
Mumbai: +91-22-6634-1147

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

## Interim results of ITC Limited, March fiscal year-ends (Rs mn)

	1QFY11	1QFY11E	1QFY10	4QFY10	(% chg)		
					1QFY11E	1QFY10	4QFY10
<b>Net sales</b>	<b>48,166</b>	<b>46,825</b>	<b>40,827</b>	<b>50,538</b>	<b>3</b>	<b>18</b>	<b>(5)</b>
Total expenditure	(32,103)	(31,465)	(27,456)	(35,137)	2	17	(9)
Material cost	(17,911)	(17,503)	(16,219)	(21,785)	2	10	(18)
Staff cost	(3,419)	(3,378)	(2,822)	(2,558)	1	21	34
Other expenditure	(10,772)	(10,584)	(8,415)	(10,793)	2	28	(0)
<b>EBITDA</b>	<b>16,064</b>	<b>15,360</b>	<b>13,371</b>	<b>15,401</b>	<b>5</b>	<b>20</b>	<b>4</b>
Other income	1,292	1,484	1,378	1,370		(6)	(6)
Interest	(58)	(65)	(58)	(185)		(1)	(69)
Depreciation	(1,597)	(1,713)	(1,516)	(1,539)		5	4
<b>Pretax profits</b>	<b>15,701</b>	<b>15,066</b>	<b>13,175</b>	<b>15,048</b>	<b>4</b>	<b>19</b>	<b>4</b>
Tax	(4,998)	(4,818)	(4,388)	(4,766)		14	5
<b>Net income</b>	<b>10,703</b>	<b>10,248</b>	<b>8,787</b>	<b>10,282</b>	<b>4</b>	<b>22</b>	<b>4</b>
Income tax rate (%)	31.8	32.0	33.3	31.7			
<b>Cost as a % of Sales</b>							
Material cost	37.2	37.4	39.7	43.1			
Staff cost	7.1	7.2	6.9	5.1			
Other expenditure	22.4	22.6	20.6	21.4			
<b>Segment results</b>							
<b>Revenue</b>							
Cigarettes	46,697	47,472	41,606	45,168	(2)	12	3
Other FMCG	10,056	9,810	7,594	11,253	3	32	(11)
Hotel	2,251	2,188	1,857	2,743	3	21	(18)
Agri business	13,498	11,472	9,406	9,881	18	44	37
Paperboards, paper & packaging	8,291	8,126	7,306	8,360	2	13	(1)
Total	80,794	79,069	67,769	77,405	2	19	(1)
Less: Intersegment revenue	(10,365)	(8,190)	(6,460)	(5,817)	27	60	78
<b>Gross sales</b>	<b>70,430</b>	<b>70,879</b>	<b>61,309</b>	<b>71,587</b>	<b>(1)</b>	<b>15</b>	<b>(2)</b>
<b>EBIT</b>							
Cigarettes	13,050	12,802	11,254	12,512	2	16	4
Other FMCG	(893)	(913)	(998)	(787)	(2)	(11)	13
Hotel	385	399	306	782	(3)	26	(51)
Agri business	1,231	967	999	583	27	23	111
Paperboards, paper & packaging	1,885	1,541	1,278	1,688	22	47	12
<b>Total</b>	<b>15,658</b>	<b>14,796</b>	<b>12,839</b>	<b>14,779</b>	<b>6</b>	<b>22</b>	<b>6</b>
<b>EBIT margins (%)</b>							
Cigarettes	27.9	27.0	27.0	27.7	4	3	1
Other FMCG	(8.9)	(9.3)	(13.1)	(7.0)	(5)	(32)	27
Hotel	17.1	18.2	16.5	28.5	(6)	4	(40)
Agri business	9.1	8.4	10.6	5.9	8	(14)	55
Paperboards, paper & packaging	22.7	19.0	17.5	20.2	20	30	13
<b>Capital employed</b>							
Cigarettes	30,316		27,923	29,975		9	1
Other FMCG	18,805		19,255	17,191		(2)	9
Hotel	25,111		22,723	24,574		11	2
Agri business	14,406		13,887	15,796		4	(9)
Paperboards, paper & packaging	36,358		37,073	37,113		(2)	(2)
<b>Total</b>	<b>124,996</b>		<b>120,860</b>	<b>124,647</b>		<b>3</b>	<b>0</b>

Source: Company, Kotak Institutional Equities

**Good performance**

Cigarette segment performance

Rs mn	1QFY11	1QFY10	% yoy change
Gross sales	46,697	41,606	12
Excise	21,861	19,504	<b>12</b>
Net sales	24,836	22,102	12
Segment expenses	11,786	10,848	9
Segment PBIT	13,050	11,254	16

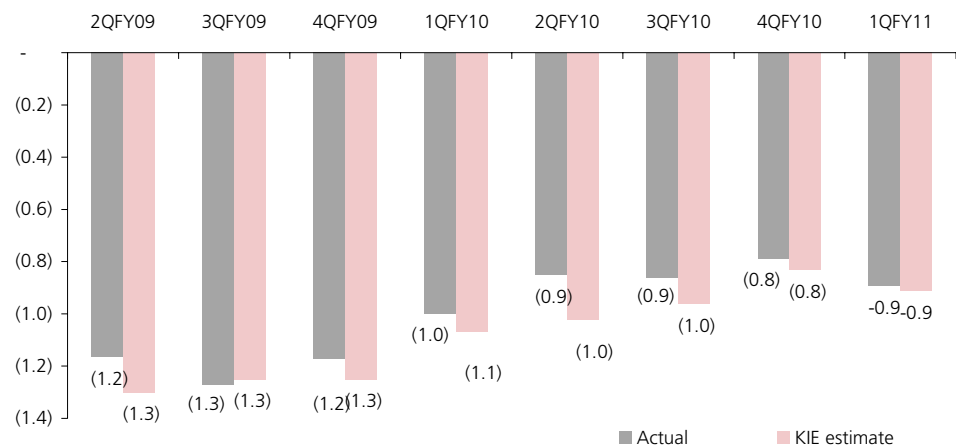
  

<b>PBIT margin (%)</b>			
On gross sales	27.9	27.0	
On net sales	52.5	50.9	

Source: Kotak Institutional Equities estimates

**Actual FMCG losses have been surprising positively**

Quarterly actual and KIE estimated FMCG losses, (Rs mn)



Source: Company, Kotak Institutional Equities estimates

**Improving RoCE and increasing cash position (dividend payout can potentially increase) are triggers**

ITC's free cash flow is likely to increase to Rs47 bn during FY2011E and the company will likely have Rs50 bn of net cash by March 2011E (Rs13/share). An increase in the dividend payout ratio (<50% in FY2010, adjusting for special dividend) will be a potential trigger for the stock, in our view. Continuing strong performance in cigarettes and likely improvement in all non-cigarette business will drive RoCE improvement to 28% in FY2012E from 25% in FY2010 (lower losses in FMCG business, hotels business coming out of the cyclical low in CY2009, higher leaf tobacco exports resulting in mix improvement in agri business and margin expansion in paper business due to benefits of backward integration).

**Improving ROCE levels**

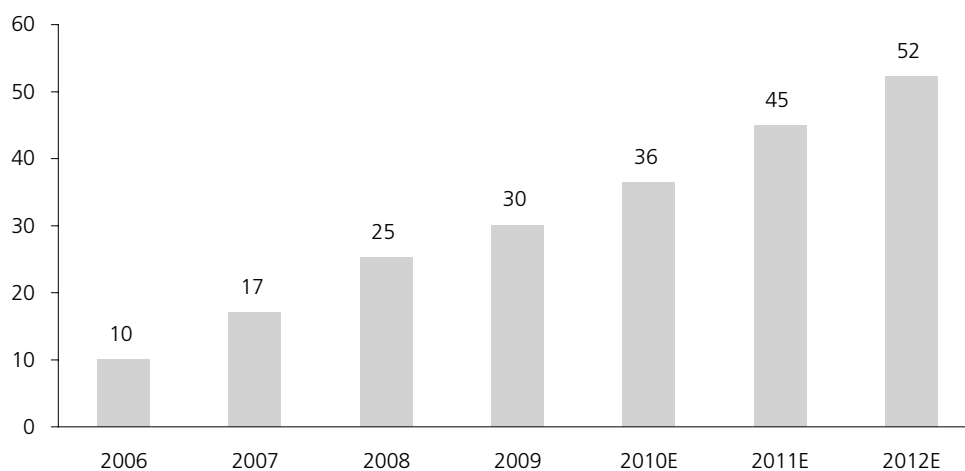
ROACE, March fiscal year-ends, 2005 - 2012E (%)



Source: Kotak Institutional Equities estimates

**Steady growth in FMCG sales**

FMCG sales, March fiscal year-ends, 2006-2012E (Rs bn)



Source: Kotak Institutional Equities estimates

**Maintain estimates, retain BUY; potential for earnings upgrade exists**

We are maintaining estimates and increasing our target price on ITC to Rs330 (Rs315 previously) as we roll over to FY2012E. Key factors favoring ITC is likely stability in regulation as most of the penal actions are behind it (including threat of indiscriminate increase in VAT by states—current effective VAT rate of ~14.5%). We continue to value ITC stock at the past three years' average PE of 23X. We believe upside risks to our target multiple exist as the industry has faced one of its most difficult phases during FY2007-09. Taxation worries (including uncertainty on rates for demerit goods under GST) are real; however, strong underlying demand conditions provide a buffer.

ITC: Segment revenue, 2006-2012E, March fiscal year-ends (Rs mn)

	2006	2007	2008	2009	2010	2011E	2012E
<b>Segment revenue, gross (Rs mn)</b>							
Cigarettes	113,297	128,337	138,256	151,151	172,830	198,670	224,596
Other FMCG	10,135	17,044	25,231	30,140	36,417	45,032	52,304
Hotels	7,834	9,857	11,002	10,203	9,108	10,740	12,840
Agri Business	26,784	36,914	38,998	38,460	38,621	41,306	47,242
Paperboards, Paper & Packaging	18,957	21,001	23,643	28,220	32,336	38,959	46,478
TOTAL	177,007	213,152	237,131	258,173	289,313	334,706	383,460
Less: Inter segment revenue	14,763	18,101	23,137	26,738	26,715	32,106	37,488
<b>Gross sales</b>	<b>162,244</b>	<b>195,051</b>	<b>213,994</b>	<b>231,435</b>	<b>262,598</b>	<b>302,600</b>	<b>345,972</b>
Net sales	97,905	123,693	140,012	156,119	181,532	206,805	239,451
<b>Segment revenue growth, (%)</b>							
Cigarettes		13.3	7.7	9.3	14.3	15.0	13.1
Other FMCG		68.2	48.0	19.5	20.8	23.7	16.1
Hotels		25.8	11.6	(7.3)	(10.7)	17.9	19.6
Agri Business		37.8	5.6	(1.4)	0.4	6.9	14.4
Paperboards, Paper & Packaging		10.8	12.6	19.4	14.6	20.5	19.3
TOTAL		20.4	11.2	8.9	12.1	15.7	14.6
Gross sales		20.2	9.7	8.2	13.5	15.2	14.3
Net sales		26.3	13.2	11.5	16.3	13.9	15.8

Source: Kotak Institutional Equities estimates

ITC: Segment revenue and PBIT, 2006-2012E, March fiscal year-ends (Rs mn)

	2006	2007	2008	2009	2010	2011E	2012E
<b>Segment revenue, gross (Rs mn)</b>							
Cigarettes	113,297	128,337	138,256	151,151	172,830	198,670	224,596
Other FMCG	10,135	17,044	25,231	30,140	36,417	45,032	52,304
Hotels	7,834	9,857	11,002	10,203	9,108	10,740	12,840
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Net sales	97,905	123,693	140,012	156,119	181,532	206,805	239,451

<b>Segment revenue break up, (%)</b>							
<b>Cigarettes</b>	<b>69.8</b>	<b>65.8</b>	<b>64.6</b>	<b>65.3</b>	<b>65.8</b>	<b>65.7</b>	<b>64.9</b>
Other FMCG	6.2	8.7	11.8	13.0	13.9	14.9	15.1
Hotels	4.8	5.1	5.1	4.4	3.5	3.5	3.7
Agri Business	16.5	18.9	18.2	16.6	14.7	13.7	13.7
Paperboards, Paper & Packaging	11.7	10.8	11.0	12.2	12.3	12.9	13.4
TOTAL	109.1	109.3	110.8	111.6	110.2	110.6	110.8
Less: Inter segment revenue	9.1	9.3	10.8	11.6	10.2	10.6	10.8
Gross sales	100.0	100.0	100.0	100.0	100.0	100.0	100.0

<b>Segment PBIT margins (Rs mn)</b>							
Cigarettes	27,088	31,722	36,340	41,838	49,381	56,252	64,320
Other FMCG	(1,718)	(2,020)	(2,635)	(4,835)	(3,495)	(2,639)	(668)
Hotels	2,581	3,508	4,108	3,162	2,166	3,345	4,050
Agri Business	909	1,236	1,292	2,562	4,364	4,108	4,626
Paperboards, Paper & Packaging	3,514	4,168	4,531	5,086	6,843	8,216	10,033
<b>TOTAL</b>	<b>32,373</b>	<b>38,613</b>	<b>43,636</b>	<b>47,813</b>	<b>59,259</b>	<b>69,283</b>	<b>82,361</b>

<b>Segment PBIT margins (%)</b>							
Cigarettes	23.9	24.7	26.3	27.7	28.6	28.3	28.6
Other FMCG	(17.0)	(11.9)	(10.4)	(16.0)	(9.6)	(5.9)	(1.3)
Hotels	32.9	35.6	37.3	31.0	23.8	31.1	31.5
Agri Business	3.4	3.3	3.3	6.7	11.3	9.9	9.8
Paperboards, Paper & Packaging	18.5	19.8	19.2	18.0	21.2	21.1	21.6
TOTAL	18.3	18.1	18.4	18.5	20.5	20.7	21.5

Source: Kotak Institutional Equities estimates

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

	2006	2007	2008	2009	2010	2011E	2012E
<b>Profit model (Rs mn)</b>							
Net sales	97,905	123,693	140,012	156,119	181,532	206,805	239,451
<b>EBITDA</b>	<b>33,274</b>	<b>39,700</b>	<b>44,703</b>	<b>48,686</b>	<b>60,936</b>	<b>70,163</b>	<b>83,281</b>
Other income	2,899	3,365	6,109	5,349	6,034	6,794	6,224
Interest	(158)	(169)	(173)	(284)	(730)	(543)	(592)
Depreciation	(3,323)	(3,629)	(4,385)	(5,494)	(6,087)	(6,871)	(7,683)
Pretax profits	32,629	39,267	46,255	48,258	60,153	69,543	81,230
Tax	(10,276)	(12,267)	(14,517)	(15,622)	(19,543)	(21,807)	(25,873)
<b>Net profits</b>	<b>22,353</b>	<b>27,000</b>	<b>31,738</b>	<b>32,636</b>	<b>40,610</b>	<b>47,735</b>	<b>55,358</b>
<b>Earnings per share (Rs)</b>	<b>6.0</b>	<b>7.2</b>	<b>8.4</b>	<b>8.7</b>	<b>10.7</b>	<b>12.5</b>	<b>14.5</b>
<b>Balance sheet (Rs mn)</b>							
Total equity	90,615	104,371	120,577	137,351	140,644	163,810	192,365
Deferred taxation liability	3,248	4,729	5,451	8,672	7,850	7,850	7,850
Total borrowings	1,197	2,009	2,144	1,776	1,077	1,077	1,077
Current liabilities	35,781	38,576	44,323	47,036	80,482	64,413	65,077
<b>Total liabilities and equity</b>	<b>130,840</b>	<b>149,684</b>	<b>172,495</b>	<b>194,835</b>	<b>230,053</b>	<b>237,150</b>	<b>266,369</b>
Cash	8,558	9,002	5,703	10,310	11,263	10,119	14,987
Current assets	43,061	53,896	64,490	71,287	70,008	70,129	87,174
Total fixed assets	44,051	56,109	72,956	84,860	91,514	99,633	106,940
Investments	35,170	30,678	29,346	28,378	57,269	57,269	57,269
<b>Total assets</b>	<b>130,840</b>	<b>149,684</b>	<b>172,495</b>	<b>194,834</b>	<b>230,053</b>	<b>237,150</b>	<b>266,369</b>
<b>Free cash flow (Rs mn)</b>							
Operating cash flow	25,638	31,040	37,112	41,493	49,850	55,351	64,369
Working capital	(5,469)	(8,667)	(6,634)	(4,991)	6,541	6,306	(14,320)
Capital expenditure	(6,013)	(15,702)	(21,239)	(17,407)	(12,751)	(15,000)	(15,000)
<b>Free cash flow</b>	<b>14,157</b>	<b>6,672</b>	<b>9,238</b>	<b>19,095</b>	<b>43,640</b>	<b>46,657</b>	<b>35,049</b>
<b>Key ratios (%)</b>							
Sales growth	28.2	26.3	13.2	11.5	16.3	13.9	15.8
EBITDA margin	34.0	32.1	31.9	31.2	33.6	33.9	34.8
EPS growth	28.3	20.1	17.1	2.8	23.8	16.5	16.0

Source: Kotak Institutional Equities estimates



**JULY 22, 2010**
**RESULT**

Coverage view: **Attractive**

Price (Rs): **323**

Target price (Rs): **275**

BSE-30: **18,113**

**Pick-up in loan growth positive but priced in, retain SELL.** PFC reported PAT of Rs6.5 bn, up 18% yoy and 5% above estimates. Loan growth accelerated to 29% from 23% in 4QFY10, thereby driving NII. Higher loan yields and stable borrowings cost buoyed margins during the quarter. We revise earnings to factor higher loan growth and somewhat better margin trends in the near term. Retain SELL with a price target of Rs275.

**Company data and valuation summary**

PFC

**Stock data**

52-week range (Rs) (high,low)	338-200
Market Cap. (Rs bn)	371.0

**Shareholding pattern (%)**

Promoters	89.8
FIs	3.9
MFs	2.4

**Price performance (%)**

	1M	3M	12M
Absolute	11.3	19.5	49.0
Rel. to BSE-30	9.0	15.9	22.1

**Forecasts/Valuations**

	2010	2011E	2012E
EPS (Rs)	20.5	22.9	27.6
EPS growth (%)	53.5	11.9	20.3
P/E (X)	15.8	14.1	11.7
NII (Rs bn)	29.2	36.5	44.6
Net profits (Rs bn)	23.5	26.3	31.6
BVPS	112.2	127.5	146.1
P/B (X)	2.9	2.5	2.2
ROE (%)	18.8	18.3	19.2
Div. Yield (%)	1.6	1.8	2.1

**Core growth strong**

PFC reported core earnings growth of 26% yoy, 4% above estimates on the back of 29% loan growth and strong margins. NII (Rs8.5 bn) was up 23% yoy and 6% above estimates.

**Trends in new business encouraging.** Strong growth in disbursements (up 87% yoy) pushed loan growth to 29% in June 2010 from 23% in March 2010. We believe that it is inaccurate to track the trends in disbursements and approvals on a quarterly basis due to lumpy nature of the business. Nevertheless, the sharp traction in loan growth of power sector finance companies (PFC and REC) during 1QFY11 is encouraging.

**... and a strong pipeline.** PFC has a pipeline of Rs1.4 tn of undisbursed approvals as of June 2010. In the above, approvals of Rs680 bn (~94% of current loan book) comprise loans towards projects which are already under construction and have started drawing funds (thereby having higher visibility). We are raising our loan growth estimates to 28% for FY2011E and 27% for FY2012E from 23% and 21% earlier, respectively.

**Better asset yields during the quarter.** Despite a rise in borrowings cost at the lower end of the yield curve, PFC's borrowings cost was stable. A qoq rise in interest yields due to asset re-pricing and lending to private sector (at higher yields) increased spreads by 25 bps. We are marginally tweaking up our NIM estimates for the next three quarters to factor the current traction. Rising interest rates in the system will temper borrowings costs and margins for bulk borrowers over the next few months. However, in light of the current traction in margins, the impact will likely be visible by FY2012E. The management has guided for spreads of 2.5% in the medium term as against 2.75% reported in 1QFY10.

**PFC to raise equity capital by FY2012E**

PFC has highlighted that it proposes to raise equity capital by FY2012E. The company intends to get an 'infrastructure NBFC' classification. Over the medium term, PFC proposes to restrict its leverage to 7X and may, hence, require fresh capital infusion to maintain its growth momentum.

Nischint Chawathe  
nischint.chawathe@kotak.com  
Mumbai: +91-22-6634-1545

Manish Karwa  
manish.karwa@kotak.com  
Mumbai: +91-22-6634-1350

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

### Revising estimates

We are raising our earnings estimates by 2% for FY2011E and 6% for FY2012E to factor higher loan growth and fees for PFC. We are now assuming 27-28% loan growth and 2.5% spreads over the next two years. We roll over to FY2012E and revise target price to Rs275 (from Rs240). At our target price, the stock will trade at 10X PER and 1.8X PBR FY2012E for RoE of about 17-18% and 21% EPS CAGR. We believe that valuations are expensive, especially in an environment of rising rates.

### A quarter of extraordinary items

PFC reported a large MTM loss on its forex borrowings of Rs620 mn during the quarter. The impact of the forex loss was largely offset by income from APDRP scheme. The Ministry of Power has finalized norms for payment of nodal agency fees and reimbursement of expenses to PFC. Accordingly, PFC has booked income of Rs428 mn during the quarter. The company has also set off Rs228 mn expenses as a reimbursement.

#### Reimbursement for APDRP's nodal agency fees, net impact of Rs657 mn

Income recognized by PFC for APDRP assignments, 1QFY10

	<b>Income receivable</b>	<b>Employee expenses reimbursed</b>	<b>Other expenses reimbursed</b>	<b>Total</b>
	<b>(Rs mn)</b>	<b>(Rs mn)</b>	<b>(Rs mn)</b>	<b>(Rs mn)</b>
<b>Total</b>	<b>428.6</b>	<b>67.7</b>	<b>160.5</b>	<b>657</b>
FY2010	341.55	52.58	135.3	529
1QFY11	87.05	15.2	25.19	127

Source: Company

## Power Finance Corporation - Quarterly data, (Rs mn)

	1Q10	2Q10	3Q10	4Q10	1Q11	YoY(%)	1Q11E	Actual vs KS (%)
<b>Profit and Loss statement</b>								
Net interest income	7,000	7,200	7,484	7,570	8,580	23	8,120	6
Loan loss provisions	1	1	10	—	—	(100)	10	(100)
Net interest income (after provisions)	7,000	7,199	7,474	7,570	8,580	23	8,110	6
Other operating income- incl. fees	60	810	130	(110)	650	983	500	30
Net operating income	7,060	8,009	7,604	7,460	9,230	31	8,610	7
Other income	631	(130)	295	290	(620)	(198)	—	—
Forex gains	631	(130)	295	290	(620)	(198)	—	—
Others	—	—	—	—	—	—	—	—
Total income	7,691	7,879	7,899	7,750	8,610	12	8,610	—
Total income (after provisioning)	7,690	7,878	7,889	7,750	8,610	12	8,610	—
Operating expenses	180	240	252	397	15	(92)	235	(94)
Staff expenses	121	147	134	289	119	(2)	150	(21)
Other expenses	50	83	107	98	(112)	(325)	75	(249)
Depreciation	9	10	10	11	9	(3)	10	(14)
PBT	7,502	7,628	7,627	7,341	8,586	14	8,365	3
Tax	1,956	1,266	1,991	1,363	2,069	6	2,175	(5)
PAT (reported)	5,546	6,362	5,636	5,978	6,517	18	6,190	5
PAT (included deferred tax)	5,524	6,367	5,636	5,978	6,517	18	6,190	5
PBT - forex gains and extraordinary	6,870	7,758	7,332	7,482	8,677	26	8,365	4
<b>Other details</b>								
Approvals (Rs bn)	188	162	42	282	144	(23)		
Disbursements (Rs bn)	43	45	65	104	81	87		
Loan assets (Rs bn)	662	687	724	798	856	29	821	4
Yield on Assets (%)	11.30	11.29	11.08	10.81	11.03			
Cost of funds (%)	8.64	8.83	8.57	8.32	8.28			
Spreads (%)	2.66	2.46	2.51	2.49	2.75	3.38		
Net interest margins - reported (%)	4.26	4.20	4.17	3.93	4.09	(4)		
Net interest margins- KS calc (%)	4.29	4.27	4.24	3.98	4.15	(3)	4.0	3
Gross NPLs(%)	0.02	0.02	0.03	0.02	0.02			
Capital adequacy ratio (%)	17.51	17.76	17.70	19.25	17.38			
<b>Balance Sheet (Rs mn)</b>								
Fixed Assets (Net)	740	740	740	740	770			
Loan Assets	662,050	686,610	724,410	798,560	855,970			
Investments	330	310	300	310	300			
Current Assets, Loans & Advances	38,590	55,410	43,830	47,850	52,270			
<b>Total Assets</b>	<b>701,710</b>	<b>743,070</b>	<b>769,280</b>	<b>847,460</b>	<b>909,310</b>			
Loans and borrowings	528,470	565,380	585,140	671,080	716,300			
Total Current Liabilities	43,030	38,300	43,280	34,660	45,670			
Deferred tax liability	530	540	510	480	440			
Interest Subsidy Fund from GOI	8,590	8,130	7,710	6,640	6,290			
<b>Total liabilities</b>	<b>581,080</b>	<b>616,050</b>	<b>636,640</b>	<b>712,860</b>	<b>770,180</b>			
<b>Total equity</b>	<b>120,630</b>	<b>127,010</b>	<b>132,640</b>	<b>134,600</b>	<b>139,130</b>			

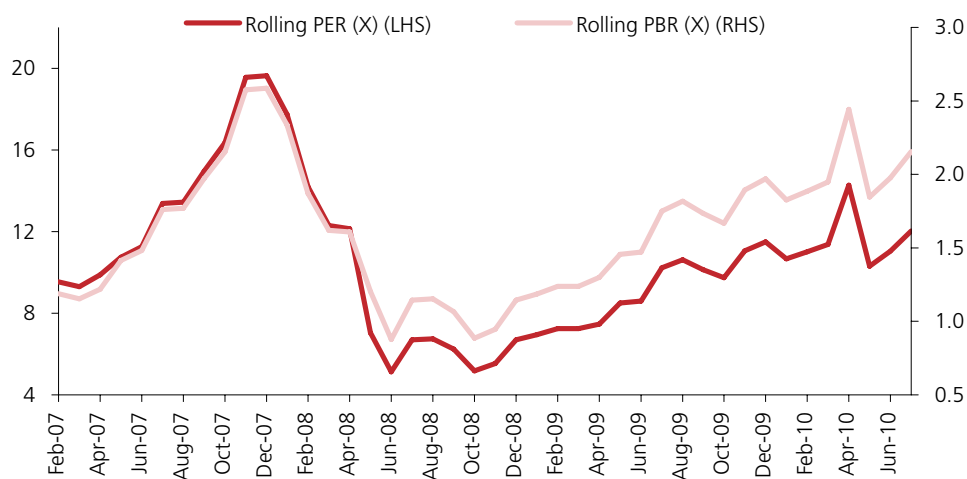
Source: Company, Kotak Institutional Equities estimates

## PFC, old and new estimates

March fiscal years 2011-2012E (Rs mn)

	Old estimates		New estimates		Old vs New (%)	
	2011E	2012E	2011E	2012E	2011E	2012E
Net interest income	35,800	41,820	36,466	44,577	2	7
Loan growth (%)	23	21	28	27	—	—
NIM (%)	4.0	3.8	4.0	3.8	—	—
NPL provisions	446	1,087	455	1,158	2	6
Other operational income (incl forex gains/losses)	1,000	1,200	1,000	1,200	—	—
Operating expenses	1,413	1,716	1,442	1,826	2	6
Employee	760	874	760	874	—	—
PBT	34,903	40,178	35,532	42,755	2	6
Tax	9,075	10,446	9,238	11,116	2	6
PAT	25,828	29,732	26,294	31,639	2	6

Source: Kotak Institutional Equities estimates

PFC- Rolling PER and PBR  
February 2007-July 2010 (X)

Source: Company, Bloomberg, Kotak Institutional Equities estimates

PFC : Key ratios, March fiscal year-ends, 2007-2012E

	2007	2008	2009	2010E	2011E	2012E
<b>Growth rates (%)</b>						
Net interest income	25.8	25.6	32.5	23.5	24.8	22.2
Loan loss provisions	59.7	113.3	(135.0)	(45.4)	2,172.6	154.7
Other income	(59.0)	128.3	(71.2)	407.8	13.6	20.0
Operating expense	0.9	64.6	66.0	(21.9)	37.3	26.7
PBT	19.5	18.3	11.3	51.1	18.2	20.3
<b>PAT</b>	<b>1.6</b>	<b>22.3</b>	<b>63.3</b>	<b>19.3</b>	<b>11.9</b>	<b>20.3</b>
<b>PBT- forex gains</b>	<b>21</b>	<b>27</b>	<b>26</b>	<b>29</b>	<b>23</b>	<b>20</b>
Net loans	23	17	25	24	28	27
Disbursements	20	15	30	24	38	37
Unsecured loans (liabilities)	25	21	28	29	29	29
Net worth	24	9	23	17	14	15
<b>Yield measures (%)</b>						
Yield on earnings assets	8.9	9.6	10.4	10.3	10.7	10.8
Yield on loans	9.3	10.1	11.0	10.9	11.3	11.4
Cost of funds	7.6	8.3	8.8	8.3	8.8	8.9
Spread	1.7	1.8	2.2	2.6	2.5	2.5
<b>Net interest margin</b>	<b>3.5</b>	<b>3.7</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>3.8</b>
Total provisions/net loans (EoY)	(0.01)	(0.02)	0.01	—	0.04	0.09
Tax rate	35	32	1	24	26	26
Dividend payout ratio	26	33	23	25	25	25
<b>Profitability measures (%)</b>						
Interest income/total income	91.2	96.2	111.0	93.7	97.3	97.4
Other operating income/total income	1.7	3.2	0.8	2.8	2.7	2.6
Other income / total income	7.1	0.6	(11.8)	3.4	—	—
Operating expenses/total income	3.2	4.4	6.3	3.4	3.8	4.0
Payout ratio	26.3	33.3	23.3	25.0	25.0	25.0
LT Debt- Equity Ratio (X)	3.9	4.4	4.5	5.0	5.7	6.4
CAR (%)	22.63	23.6	17.9	16.9	15.0	13.5
Loan loss provisions/ ave loan assets	(0.01)	(0.02)	0.01	—	0.05	0.10
<b>ROA decomposition - % of avg. assets</b>						
Net interest income	3.4	3.5	3.9	3.8	3.8	3.7
Interest restructuring premium	—	—	—	—	—	—
Loan loss provisions	(0.0)	(0.0)	—	—	—	0.1
Adj. Net interest income	3.4	3.5	3.8	3.8	3.7	3.6
Net other operating income	0.1	0.1	—	0.1	0.1	0.1
Other income	0.3	—	(0.4)	0.1	—	—
Operating expenses	0.1	0.2	0.2	0.1	0.2	0.2
Other expenses & extraordinary	—	(0.0)	—	—	—	—
(1- tax rate)	65.2	67.5	99.0	78.2	74.0	74.0
<b>ROA</b>	<b>2.4</b>	<b>2.4</b>	<b>3.2</b>	<b>3.1</b>	<b>2.7</b>	<b>2.6</b>
Average assets/average equity	5.4	5.7	5.9	6.1	6.7	7.4
<b>ROE</b>	<b>12.7</b>	<b>13.5</b>	<b>18.9</b>	<b>18.8</b>	<b>18.3</b>	<b>19.2</b>
<b>RoE (incl def tax)</b>	<b>13.1</b>	<b>12.8</b>	<b>13.8</b>	<b>18.7</b>	<b>18.2</b>	<b>19.2</b>

Source: Company, Kotak Institutional Equities estimates

PFC : Income statement and balance sheet, March fiscal year-ends, 2007-2012E (Rs mn)

	2007	2008	2009	2010E	2011E	2012E
<b>Income statement (Rsmn)</b>						
Total interest income	37,171	48,833	64,534	78,600	104,507	133,441
Adj. interest (after rebate for timely)	37,035	48,452	63,965	78,600	103,007	131,941
Other interest income	136	381	569	—	1,500	1,500
Total interest expense	22,948	30,968	40,859	49,370	68,040	88,864
Net interest income	14,223	17,865	23,675	29,230	36,466	44,577
Loan loss provisions	(49)	(105)	37	20	455	1,158
Other operating income	264	602	173	880	1,000	1,200
Other income	1,110	108	(2,525)	1,070	—	—
<b>Net total income</b>	<b>15,597</b>	<b>18,574</b>	<b>21,323</b>	<b>31,180</b>	<b>37,466</b>	<b>45,777</b>
Operating expenses	492	810	1344	1050	1442	1826
Depreciation	38	45	38	38	38	38
PBT	15,116	17,876	19,905	30,072	35,532	42,755
Tax	5,253	5,809	205	6,570	9,238	11,116
<b>PAT</b>	<b>9,863</b>	<b>12,067</b>	<b>19,699</b>	<b>23,502</b>	<b>26,294</b>	<b>31,639</b>
<b>PAT (incl def tax/normalised)</b>	<b>11,547</b>	<b>13,043</b>	<b>15,310</b>	<b>23,502</b>	<b>26,294</b>	<b>31,639</b>
<b>PBT + provisions-interest on restruction premium</b>	<b>15,067</b>	<b>17,771</b>	<b>19,941</b>	<b>30,092</b>	<b>35,986</b>	<b>43,913</b>
EPS (Rs)	8.6	10.5	17.2	20.5	22.9	27.6
% growth	(8.8)	22.3	63.3	19.3	11.9	20.3
DPS(Rs)	2.3	3.5	4.0	5.1	5.7	6.9
BPS (Rs)	74.9	81.3	100.3	117.3	133.5	153.0
<b>EPS (incl def tax Rs)</b>	<b>11</b>	<b>11</b>	<b>13</b>	<b>20</b>	<b>23</b>	<b>28</b>
<b>BPS (incl def tax Rs)</b>	<b>85</b>	<b>92</b>	<b>101</b>	<b>118</b>	<b>134</b>	<b>153</b>
<b>ABVPS (Rs)</b>	<b>73</b>	<b>77</b>	<b>96</b>	<b>112</b>	<b>127</b>	<b>146</b>
<b>ABVPS (incl def tax Rs)</b>	<b>83</b>	<b>88</b>	<b>96</b>	<b>112</b>	<b>128</b>	<b>146</b>
<b>Balance sheet (Rs mn)</b>						
<b>Assets</b>						
Fixed Assets (Net)	817	770	752	740	693	671
Total Loan Assets	439,028	515,683	644,290	798,560	1,019,527	1,296,199
Total Current Assets, Loans & Advances	26,203	29,896	36,686	47,850	54,526	63,299
<b>Total Assets</b>	<b>466,637</b>	<b>547,005</b>	<b>682,086</b>	<b>847,460</b>	<b>1,074,746</b>	<b>1,360,169</b>
Unsecured Loans	335,842	406,478	521,602	671,080	867,764	1,123,602
Total Current Liabilities	11,882	12,125	18,606	13,410	20,089	20,888
Deferred tax liability	11,426	12,403	555	480	480	480
Interest Subsidy Fund from GOI	12,316	10,668	9,089	6,640	6,640	6,640
<b>Total liabilities</b>	<b>380,706</b>	<b>453,706</b>	<b>567,007</b>	<b>712,860</b>	<b>921,540</b>	<b>1,184,575</b>
Paid up capital	11,478	11,478	11,478	11,478	11,478	11,478
Reserves & surplus	74,453	81,821	103,601	123,122	141,728	164,117
<b>Total equity</b>	<b>85,931</b>	<b>93,298</b>	<b>115,078</b>	<b>134,600</b>	<b>153,206</b>	<b>175,594</b>

Source: Company, Kotak Institutional Equities estimates

JULY 22, 2010

RESULT

Coverage view: **Cautious**

Price (Rs): **2,491**

Target price (Rs): **2,650**

BSE-30: **18,113**

**Discovering new highs.** Bajaj Auto reported better-than-expected PAT of Rs5.9 bn for 1QFY11 on the back of higher financial other income. EBITDA was in line with estimates despite a steeper increase in raw material costs as export incentive realizations were stronger than expected. We expect margins to improve in 2QFY11E as they reflect commodity price declines seen since April. We tweaked our EPS estimates upwards by 3% on average to reflect higher financial other income. Retain ADD at a TP of Rs2,650.

#### Company data and valuation summary

Bajaj Auto

Stock data		Forecasts/Valuations			
		2010	2011E	2012E	
52-week range (Rs) (high,low)	2,525-1,040	EPS (Rs)	117.7	169.0	189.5
Market Cap. (Rs bn)	360.3	EPS growth (%)	160.1	43.6	12.2
<b>Shareholding pattern (%)</b>		P/E (X)	21.2	14.7	13.1
Promoters	49.6	Sales (Rs bn)	115.1	155.9	173.1
FIs	17.9	Net profits (Rs bn)	17.0	24.5	27.4
MFs	3.3	EBITDA (Rs bn)	26.2	32.7	36.0
<b>Price performance (%)</b>		EV/EBITDA (X)	14.2	11.3	10.0
Absolute	1M 3M 12M	ROE (%)	70.9	61.4	44.0
Rel. to BSE-30	6.9 17.8 113.7	Div. Yield (%)	0.8	0.8	0.8
	4.7 14.3 75.1				

#### 1QFY11 PAT upside driven by higher other income despite steeper raw material cost increase

Bajaj Auto reported 1QFY11 PAT of Rs5.9 bn compared to our Rs5.6 bn estimate. The Rs300 mn upside was driven by higher-than-expected financial other income of Rs817 mn versus our estimate of Rs500 mn, primarily driven by strong free cash flow generation. EBITDA for the quarter came in at Rs7.8 bn, slightly higher than our estimate of Rs7.7 bn. Here, a steeper-than-expected increase in raw material costs got offset by higher other operating income. Other operating income came in 50% higher than 4QFY10 levels. This was driven by an improvement in realized value of DEPP certificates and an increase in export revenues.

#### Raw material as a percentage of sales increased 250 bps from 4QFY10

The 250 bps increase was steeper than we anticipated as commodity contract prices reflected highs seen in April. Since then, the contracts for 2QFY10E have been entered at levels close to 5% lower than 1QFY11 levels. As a result, we expect margins to increase in 2QFY11E. The company, however, maintained its 20% margin estimate as they expect commodity prices to increase in 2HFY11E. If commodity prices remain at current levels, we think there could be margin upside of up to 100 bps for the year.

#### Raising FY2011E and FY2012E EPS estimates to Rs169 and Rs190, upping target to Rs2,650

The increase in our EPS estimate largely reflects the 1QFY11 beat and higher financial other income. Our target for Bajaj Auto stock goes to Rs2,650 from Rs2,500 prior. Our Rs2,650 target reflects 14X our FY2012E EPS estimate of Rs190. We believe there could be upside to our EPS estimates if commodity prices stay at current spot levels. A 100 bps lower raw material cost as a percentage of sales could drive further 5% upside to our EPS estimates. We expect a strong 2QFY11E from Bajaj on the back of sequentially higher volumes and margins. We believe volumes for 2QFY11E could be up at least 10% from 1QFY11. This and a 100 bps sequential decline in raw material costs could make up for a strong 2QFY11E.

Jairam Nathan CFA  
 jairam.nathan@kotak.com  
 Mumbai: +91-22-6634-1327

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

## Interim results of Bajaj Auto, March fiscal year-ends (Rs mn)

	1QFY11	1QFY11E	1QFY10	4QFY10	(% chg.)			2010	2011E	(%chg)
					1QFY11E	1QFY10	4QFY10			
<b>Net sales</b>	<b>37,373</b>	<b>37,382</b>	<b>22,590</b>	<b>32,905</b>	<b>(0.0)</b>	<b>65.4</b>	<b>13.6</b>	<b>115,085</b>	<b>155,862</b>	<b>35.4</b>
Total expenditure	31,131	30,614	18,831	26,224	1.7	65.3	18.7	(93,284)	(128,700)	38.0
Inc/(Dec) in stock	(869)	(550)	(477)	1,006	58.0	82.2	(186.3)	476	1,110	133.1
Raw materials	(26,813)	(26,739)	(14,993)	(24,550)	0.3	78.8	9.2	(81,180)	(115,297)	42.0
Staff cost	(1,264)	(1,100)	(1,129)	(862)	14.9	11.9	46.6	(3,995)	(5,009)	25.4
Other expenditure	(2,195)	(2,250)	(2,244)	(1,877)	(2.5)	(2.2)	16.9	(8,742)	(9,660)	10.5
Expenses capitalized	9	25	13	59	—	(30.2)	(84.7)	157	157	—
Other operating income	1,528	900	795	1,090	69.7	92.2	40.2	4,125	5,516	33.7
<b>EBITDA</b>	<b>7,769</b>	<b>7,668</b>	<b>4,554</b>	<b>7,771</b>	<b>1.3</b>	<b>70.6</b>	<b>(0.0)</b>	<b>25,926</b>	<b>32,678</b>	<b>26.0</b>
<b>OPM (%)</b>	<b>20.0</b>	<b>20.0</b>	<b>19.5</b>	<b>22.9</b>				<b>21.7</b>	<b>20.2</b>	
Other income	817	500	231	425	63.3	252.9	92.2	1,225	2,716	121.7
Interest	(6)	-	(60)	0	—	—	—	(60)	-	(100.0)
Depreciation	(318)	(350)	(331)	(341)	(9.1)	(3.8)	(6.7)	(1,365)	(1,430)	4.8
<b>Pretax profits</b>	<b>8,262</b>	<b>7,818</b>	<b>4,395</b>	<b>7,855</b>	<b>5.7</b>	<b>88.0</b>	<b>5.2</b>	<b>25,726</b>	<b>33,964</b>	<b>32.0</b>
Extraordinaries	-	-	240	494				1,650	-	
Tax	2,360	2,189	1,220	2,075	7.8	93.4	13.7	7,075	9,510	34.4
<b>Net income</b>	<b>5,902</b>	<b>5,629</b>	<b>2,935</b>	<b>5,287</b>	<b>4.8</b>	<b>101.1</b>	<b>11.6</b>	<b>17,001</b>	<b>24,454</b>	<b>43.8</b>
Income tax rate (%)	28.6	28.0	29.4	28.2				29.4	28.0	
<b>Ratios</b>										
RM to sales (%)	74.1	73.0	68.5	71.6				70.1	73.3	
EBITDA margin (%)	20.0	20.0	19.5	22.9				21.7	20.2	
Net profit margin (%)	15.2	14.7	12.6	15.6				14.3	15.2	
ETR (%)	28.6	28.0	29.4	28.2				29.4	28.0	
EPS (Rs)	40.8	38.9	20.3	36.7				117.7	169.2	
<b>Other details</b>										
Sales volumes (# vehicles)	928,336	928,336	547,662	808,973	-	69.5	14.8	2,852,580	3,926,260	37.6
<b>Net sales realisation (Rs/vehicle)</b>	<b>40,258</b>	<b>40,268</b>	<b>41,248</b>	<b>40,674</b>	<b>(0.0)</b>	<b>(2.4)</b>	<b>(1.0)</b>	<b>40,344</b>	<b>39,697</b>	<b>(1.6)</b>

Source: Company, Kotak Institutional Equities

## Bajaj Auto, Volume assumptions, March fiscal year ends, 2007-2012E

	2007	2008	2009	2010E	2011E	2012E
<b>Volumes (# vehicles)</b>						
<b>Motorcycles</b>	<b>2,376,519</b>	<b>2,139,633</b>	<b>1,907,810</b>	<b>2,506,845</b>	<b>3,518,838</b>	<b>3,901,203</b>
Domestic	2,078,860	1,658,084	1,276,427	1,800,876	2,614,225	2,906,129
Exports	297,659	481,549	631,383	705,969	904,613	995,074
<b>Scooters</b>	<b>20,480</b>	<b>21,294</b>	<b>11,772</b>	<b>4,851</b>	<b>—</b>	<b>—</b>
<b>Total 2-wheelers</b>	<b>2,396,999</b>	<b>2,160,927</b>	<b>1,919,582</b>	<b>2,511,696</b>	<b>3,518,838</b>	<b>3,901,203</b>
<b>Domestic 3-Wheelers</b>						
Passenger 3-wheelers	138,759	127,379	125,273	169,119	194,486	213,935
Goods 3-wheelers	42,374	26,607	10,197	9,177	9,636	9,636
Exports	140,663	136,315	139,056	162,640	203,300	223,630
<b>Total 3-wheelers</b>	<b>321,796</b>	<b>290,301</b>	<b>274,526</b>	<b>340,936</b>	<b>407,423</b>	<b>447,201</b>
<b>Total vehicles</b>	<b>2,718,795</b>	<b>2,451,228</b>	<b>2,194,108</b>	<b>2,852,632</b>	<b>3,926,260</b>	<b>4,348,404</b>
<b>Growth rates (yoy %)</b>						
<b>Motorcycles</b>	<b>24.2</b>	<b>(10.0)</b>	<b>(10.8)</b>	<b>31.4</b>	<b>40.4</b>	<b>10.9</b>
Domestic	18.9	(20.2)	(23.0)	41.1	45.2	11.2
Exports	80.1	61.8	31.1	11.8	28.1	10.0
<b>Scooters</b>	<b>(82.3)</b>	<b>4.0</b>	<b>(44.7)</b>	<b>(58.8)</b>		
<b>Total 2-wheelers</b>	<b>18.2</b>	<b>(9.8)</b>	<b>(11.2)</b>	<b>30.8</b>	<b>40.1</b>	<b>10.9</b>
<b>Domestic 3-Wheelers</b>	<b>2.5</b>	<b>(15.0)</b>	<b>(12.0)</b>	<b>31.6</b>	<b>14.5</b>	<b>9.5</b>
Passenger 3-wheelers	(1.8)	(8.2)	(1.7)	35.0	15.0	10.0
Goods 3-wheelers	19.7	(37.2)	(61.7)	(10.0)	5.0	-
Exports	86.9	(3.1)	2.0	20.0	25.0	10.0
<b>Total 3-wheelers</b>	<b>27.7</b>	<b>(9.8)</b>	<b>(5.4)</b>	<b>24.2</b>	<b>19.5</b>	<b>9.8</b>
<b>TOTAL Vehicles</b>	<b>19.2</b>	<b>(9.8)</b>	<b>(10.5)</b>	<b>30.0</b>	<b>37.6</b>	<b>10.8</b>

Source: Company, Kotak Institutional Equities estimates



Bajaj Auto, Profit model and Balance Sheet, March fiscal year-ends, 2008-2012E (Rs mn)

	2007	2008	2009	2010	2011E	2012E
<b>Profit model (Rs mn)</b>						
Net sales	93,253	86,633	84,369	115,085	155,862	173,090
<b>Operating profit</b>	<b>14,408</b>	<b>12,900</b>	<b>12,097</b>	<b>26,175</b>	<b>32,678</b>	<b>35,967</b>
Other income	14,408	1,262	1,043	976	2,716	3,655
Interest	(53)	(52)	(210)	(60)	-	-
Depreciation	(1,903)	(1,740)	(1,298)	(1,365)	(1,430)	(1,531)
<b>Profit before tax</b>	<b>17,770</b>	<b>12,371</b>	<b>11,632</b>	<b>25,726</b>	<b>33,964</b>	<b>38,090</b>
Extra-ordinary items	(490)	(1,025)	(2,071)	(1,624)	-	-
Taxes	(4,901)	(3,788)	(3,016)	(7,075)	(9,510)	(10,665)
<b>Net profit</b>	<b>12,380</b>	<b>7,558</b>	<b>6,545</b>	<b>17,027</b>	<b>24,454</b>	<b>27,425</b>
<b>Earnings per share (Rs)</b>	<b>122.3</b>	<b>54.2</b>	<b>45.2</b>	<b>117.7</b>	<b>169.0</b>	<b>189.5</b>
<b>Balance sheet (Rs mn)</b>						
Equity	55,343	15,876	18,697	29,283	50,351	74,391
Deferred tax liability	742	110	42	17	17	17
Total borrowings	16,254	13,343	15,700	13,386	12,060	10,867
Current liabilities	43,328	18,773	24,376	42,750	45,835	48,218
<b>Total liabilities</b>	<b>115,667</b>	<b>48,102</b>	<b>58,814</b>	<b>85,436</b>	<b>108,264</b>	<b>133,492</b>
Net fixed assets	12,964	12,928	15,481	15,211	16,531	17,250
Investments	64,475	18,571	18,085	40,215	57,215	72,215
Cash	835	561	1,369	1,014	2,670	10,952
Other current assets	37,352	15,936	21,884	28,995	31,838	33,065
Miscellaneous expenditure	41	105	1,996	-	-	-
Deferred tax assets	-	-	-	-	9	9
<b>Total assets</b>	<b>115,667</b>	<b>48,102</b>	<b>58,814</b>	<b>85,436</b>	<b>108,264</b>	<b>133,492</b>
<b>Ratios</b>						
Operating margin (%)	15.1	14.3	13.7	21.9	20.2	20.1
PAT margin (%)	18.1	8.4	7.4	14.3	15.2	15.3
Debt/equity (X)	-	0.8	0.8	0.5	0.2	0.1
Net debt/equity (X)	0.3	0.0	0.2	(0.7)	(0.8)	(0.9)
Book Value (Rs/share)	2.9	114.6	129.5	202.5	348.1	514.2
RoAE (%)	(0.9)	21.0	37.7	70.9	61.4	44.0
<b>RoACE (%)</b>	<b>23.7</b>	<b>72.5</b>	<b>44.1</b>	<b>174.0</b>	<b>585.6</b>	<b>271.4</b>

Source: Company, Kotak Institutional Equities estimates

JULY 22, 2010

#### RESULT

Coverage view: **Attractive**

Price (Rs): **1,059**

Target price (Rs): **1,300**

BSE-30: **18,113**

**Impressive earnings but marred by slippages.** PNB reported strong earnings at Rs10.7 bn (increase of 28% yoy) with NII growing impressively by 45% yoy. Slippages at 2.6% of loans were high and a bit disappointing, but not overtly concerning, as earnings drivers like margins (~4%), fees (up 12%) remain strong and costs are under control. RoEs likely to sustain at 22-23% over next couple of years and valuations at 1.4XFY2012E PBR remain reasonable. Retain BUY with a price target of Rs1,300.

#### Company data and valuation summary

Punjab National Bank

##### Stock data

52-week range (Rs) (high,low)	1,145-648
Market Cap. (Rs bn)	333.8

##### Shareholding pattern (%)

Promoters	57.8
FIs	19.1
MFs	3.0

##### Price performance (%)

	1M	3M	12M
Absolute	1.2	3.5	49.8
Rel. to BSE-30	(0.8)	0.4	22.8

##### Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	123.9	133.4	163.3
EPS growth (%)	26.4	7.7	22.4
P/E (X)	8.5	7.9	6.5
NII (Rs bn)	85.2	106.0	123.9
Net profits (Rs bn)	39.1	42.1	51.5
BVPS	524.4	626.0	750.3
P/B (X)	2.0	1.7	1.4
ROE (%)	26.2	23.2	23.7
Div. Yield (%)	2.1	2.6	3.1

#### QUICK NUMBERS

- NII growth at 45% yoy; NIM at 3.9%
- Reported slippages higher at 2.6%
- Revising TP to Rs 1,300 (from Rs1,150 earlier)

#### Strong earnings cushion to take care of higher provisioning requirement; Retain BUY

We are impressed by PNB's ability to sustain margins at elevated levels which is enabling the bank to withstand the pressure on asset quality. With a comfortable ALM position, margins remained impressive at 3.94% (down 5 bps qoq, but up 53 bps yoy). Cost-Income ratio remained under 40%, despite higher operating expenses and lower treasury income. However, higher slippages at 2.6% of loans are disappointing and will require additional provisions going forward, but provision coverage at 78% (65% reported) remains comfortable. We are maintaining our slippages assumptions and loan loss provisions at about 1% and still see near-term RoEs at comfortable levels of 22%. Overall, we still increase our earnings, factoring higher net interest income, for PNB by about 4% each in FY2011E and FY2012E. The bank is trading at 1.4XFY2012E PBR. We roll over our TP to FY2012E and retain BUY with a target price of Rs1,300.

#### Asset quality comes under pressure; slippages rise sharply

Asset quality came under pressure during the quarter, increasing sharply qoq. Gross NPL increased by 26% yoy and 12% qoq to Rs 36 bn (1.8% of loans). Net NPLs increased 31% sequentially to Rs12.8 bn (0.7% of loans). During the quarter, fresh slippages were Rs12.2 bn (2.6% annualized) compared to Rs0.5 bn in 1QFY10. Of this, slippages were mainly from the restructured book, industry and agriculture loans. Including technically written-off portfolio, the provision coverage stands healthy at 78%, while reported coverage is at 65%. We model a delinquency ratio of 2.2% in FY2011E and 1.8% in FY2012E. We also believe this is the peak quarter for slippages and it should see an improvement from here.

#### Restructured loans increased by 7% qoq to Rs130 bn, now at 6.6% of loans

Total restructured assets are at Rs130 bn, about 6.6% of the loan book (up from about 6.0% as of June 2010). High level of restructured assets continues to remain a concern with fresh restructuring coming mainly in the infrastructure segment. The management expects about 15% of restructured book to slip into NPLs, which is currently at about 8%.

Manish Karwa

manish.karwa@kotak.com  
Mumbai: +91-22-6634-1350

M B Mahesh

mb.mahesh@kotak.com  
Mumbai: +91-22-6634-1231

Nischint Chawathe

nischint.chawathe@kotak.com  
Mumbai: +91-22-6634-1545

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

**Balance sheet growth remains strong with healthy CASA ratios**

Loans at Rs1.97 tn grew by 24% yoy and 6% qoq as of June 2010. Strong growth was witnessed in industry (mainly in telecom and textiles). Deposit growth was slower at 17% yoy. CASA ratio was flat qoq at 41%.

**Other key operational highlights for the quarter**

- ▶ The bank has provided Rs1.25 bn for revised pension benefit and another Rs1.25 bn for revised gratuity benefit (maximum benefit has been increased from Rs0.35 mn to Rs1 mn per employee). The total impact of Rs5 bn for gratuity would be taken in FY2010 while the bank would make Rs1.25 bn every quarter for the next five years for pension option. Despite these costs, the cost-income ratio was still at 40% for the quarter.
- ▶ Core fee income was at Rs4.9 bn in 1QFY11—growth of 8% yoy, driven by transaction fees. Processing fees (40% of core fee), was disappointing, grew by 4% yoy. Non-interest income other than treasury increased by 12%.
- ▶ Treasury income was lower by 66% yoy to Rs1.2 bn.

PNB --key quarterly P&L and balance sheet items  
March fiscal year-ends, 1QFY10-1QFY11 (Rs mn)

	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	% chg	1QFY11E	Actual Vs KS
Interest income	51,466	54,072	55,055	56,076	59,919	16.4	59,134	1.3
Loans	40,258	41,518	41,937	43,300	46,947	16.6	46,005	2.0
Investments	10,715	11,936	12,841	12,277	12,768	19.2	12,862	(0.7)
Balance with RBI & banks	452	501	231	308	160	(64.6)	171	(6.3)
Others	41	117	46	192	44	7.6	96	(54.2)
Interest expense	33,456	33,123	31,764	31,097	33,733	0.8	34,423	(2.0)
<b>Net interest income</b>	<b>18,010</b>	<b>20,949</b>	<b>23,291</b>	<b>24,980</b>	<b>26,186</b>	<b>45.4</b>	<b>24,711</b>	<b>6.0</b>
Non-int.income	10,309	6,686	7,310	9,346	8,715	(15.5)	9,645	(9.6)
Other income excl treasury	6,725	5,182	5,740	7,160	7,505	11.6	8,553	(12.2)
Fee income	4,580	3,810	3,820	4,610	4,960	8.3	5,496	(9.8)
Sale of invts.	3,585	1,504	1,570	2,186	1,210	(66.2)	1,093	10.7
<b>Total income</b>	<b>28,320</b>	<b>27,636</b>	<b>30,601</b>	<b>34,326</b>	<b>34,901</b>	<b>23.2</b>	<b>34,357</b>	<b>1.6</b>
Op. expenses	12,626	11,573	12,419	11,001	13,919	10.2	13,782	1.0
Employee cost	9,076	7,276	8,327	6,532	9,952	9.6	9,167	8.6
Other cost	3,550	4,297	4,092	4,469	3,967	11.7	4,615	(14.0)
<b>Operating profit</b>	<b>15,693</b>	<b>16,063</b>	<b>18,182</b>	<b>23,325</b>	<b>20,982</b>	<b>33.7</b>	<b>20,575</b>	<b>2.0</b>
Provisions and cont.	3,018	2,160	2,819	6,219	5,341	77.0	5,003	6.8
NPLs	2,730	565	3,290	5,770	5,320	94.9	4,808	10.6
Investment depreciation	—	828	420	(60)	140			
PBT	12,676	13,903	15,363	17,106	15,640	23.4	15,572	0.4
Tax	4,355	4,634	5,250	5,756	4,958	13.8	5,139	(3.5)
<b>Net profit</b>	<b>8,321</b>	<b>9,270</b>	<b>10,113</b>	<b>11,350</b>	<b>10,683</b>	<b>28.4</b>	<b>10,433</b>	<b>2.4</b>
Tax rate (%)	34	33	34	34	32		32	
<b>PBT - treasury + provisions</b>	<b>11,821</b>	<b>13,792</b>	<b>17,503</b>	<b>20,630</b>	<b>19,890</b>	<b>63.3</b>	<b>19,287</b>	<b>3.1</b>
<b>Key balance sheet details (Rs bn)</b>								
Total Deposit	2,190	2,308	2,339	2,493	2,553	16.6		
CASA (%)	38%	39%	39%	41%	41%			
Advances	1,580	1,636	1,704	1,866	1,969	24.6		
Investments	653	705	742	785	810	24.1		
<b>Yield management measures (%)</b>								
Yield on investments	6.68	6.37	6.36	6.63	6.78			
Yield on advances	10.67	10.79	10.44	10.22	10.28			
Average cost of deposits	5.94	5.67	5.16	4.88	5.02			
NIM	3.41	3.64	3.84	3.99	3.94			
<b>Asset quality details</b>								
Gross NPLs (Rs bn)	28.6	26.2	31.6	32.1	36.1			
Gross NPL ratio (%)	1.8	1.6	1.8	1.7	1.8			
Net NPLs (Rs bn)	3.0	2.3	8.1	9.8	12.8			
Net NPL ratio (%)	0.2	0.1	0.5	0.5	0.7			
Slippages (Rs bn)	5.3	3.3	11.3	8.5	12.2			
Slippage ratio (%)	1.4	0.8	2.8	2.0	2.6			
Restructured Loans (Rs bn)	94.7	100.5	105.0	121.0	129.7			
% of loans	6.0	6.1	6.2	6.5	6.6			
Restructured Loans (Rs bn)				7.8	10.4			
% of loans				6.4	8.0			
<b>Asset quality details (%)</b>								
CAR	14.5	14.7	14.6	14.2	13.8			
Tier I	9.1	9.4	9.3	9.2	8.7			
Tier II	5.4	5.3	5.3	5.0	5.1			

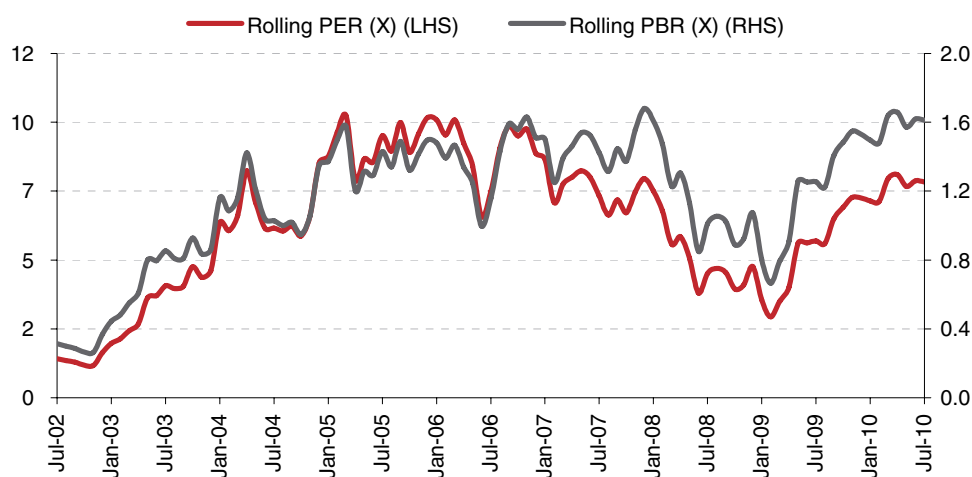
Source: Company, Kotak Institutional Equities estimates

**We marginally increase our near-term estimates**

Old and new estimates, March fiscal year-ends, 2011-2012E (Rs mn)

	Old estimates		New estimates			% change	
	2011E	2012E	2011E	2012E	2013E	2011E	2012E
Net interest income	96,780	117,418	105,993	123,950	145,116	9.5	5.6
Loan growth	21.5	21.4	22.6	21.4	21.3		
NIM	3.2	3.3	3.4	3.4	3.4		
NPL Prov	16,535	20,086	20,765	20,256	24,586	25.6	0.8
Non-interest income	33,826	37,821	32,372	36,602	41,350	(4.3)	(3.2)
Fee income	19,343	22,244	19,345	22,247	25,584	0.0	0.0
Operating expenditure	53,799	61,477	55,730	64,570	74,906	3.6	5.0
Employee expenses	35,893	41,277	36,517	42,725	49,989	1.7	3.5
PBT	60,272	73,676	61,870	75,726	86,974	2.7	2.8
<b>PAT</b>	<b>40,383</b>	<b>49,363</b>	<b>42,071</b>	<b>51,493</b>	<b>59,142</b>	<b>4.2</b>	<b>4.3</b>
PBT -treasury + NPL provisions	76,808	93,762	82,635	95,982	111,560	7.6	2.4
Deposit growth	18.4	18.3	18.4	18.3	18.2		

Source: Company, Kotak Institutional Equities estimates

Punjab National Bank: Rolling PER and PBR (X)  
July 2002-July 2010

Source: Kotak Institutional Equities

PNB key growth rates and ratios  
March fiscal year-ends, 2008-2013E (%)

	2008	2009	2010	2011E	2012E	2013E
<b>Growth rates (%)</b>						
Net loan	23.7	29.5	20.6	22.6	21.4	21.3
Total Asset	22.5	24.1	20.1	16.5	16.8	16.9
Deposits	19.0	26.0	18.9	18.4	18.3	18.2
Current	8.0	5.7	41.6	18.4	18.3	18.2
Savings	11.8	16.5	28.6	10.0	18.3	18.2
Fixed	26.0	35.2	10.8	23.2	18.3	18.2
Net interest income	5.8	17.1	24.8	24.4	16.9	17.1
Loan loss provisions	(27.5)	109.4	18.5	53.5	(2.5)	21.4
Total other income	15.4	53.5	16.3	(9.2)	13.1	13.0
Net fee income	14.0	24.4	12.0	15.0	15.0	15.0
Net capital gains	18.5	83.2	36.6	(59.3)	11.1	10.0
Net exchange gains	19.6	39.2	10.0	10.0	10.0	10.0
Operating expenses	6.0	19.3	13.2	17.0	15.9	16.0
Employee expenses	4.6	18.8	6.7	17.0	17.0	17.0
<b>Key ratios (%)</b>						
Yield on average earning assets	8.4	8.9	8.2	8.5	8.6	8.7
Yield on average loans	9.7	10.6	9.8	10.1	10.1	10.1
Yield on average investments	8.0	7.4	6.6	6.6	6.6	6.6
Average cost of funds	5.3	6.1	5.2	5.4	5.5	5.6
Interest on deposits	5.4	6.1	5.2	5.2	5.3	5.4
<b>Difference</b>	<b>3.0</b>	<b>2.8</b>	<b>3.0</b>	<b>3.1</b>	<b>3.1</b>	<b>3.1</b>
Net interest income/earning assets	3.2	3.2	3.3	3.4	3.4	3.4
New provisions/average net loans	0.5	0.8	0.7	1.0	0.8	0.8
Interest income/total income	74.5	69.0	70.5	76.6	77.2	77.8
Fee income to total income	14.1	13.9	13.9	14.0	13.9	13.7
Operating expenses/total income	45.0	42.5	39.4	40.3	40.2	40.2
Tax rate	37.8	35.2	33.0	32.0	32.0	32.0
Dividend payout ratio	20.0	20.4	20.4	20.4	20.4	20.4
Share of deposits						
Current	10.7	9.0	10.7	10.7	10.7	10.7
Fixed	57.0	61.2	57.0	59.3	59.3	59.3
Savings	32.3	29.9	32.3	30.0	30.0	30.0
Loans-to-deposit ratio	71.8	73.8	74.8	77.4	79.5	81.5
Equity/assets (EoY)	6.2	5.9	6.0	6.0	6.1	6.1
<b>Dupont analysis (%)</b>						
Net interest income	3.1	3.1	3.1	3.3	3.3	3.3
Loan loss provisions	0.3	0.5	0.5	0.6	0.5	0.6
Net other income	1.1	1.4	1.3	1.0	1.0	0.9
Operating expenses	2.0	1.9	1.8	1.7	1.7	1.7
Inv. depreciation	0.1	(0.1)	0.0	0.0	0.0	0.0
(1- tax rate)	62.2	64.8	66.1	68.0	68.0	68.0
ROA	1.1	1.4	1.4	1.3	1.4	1.4
Average assets/average equity	17.3	18.5	18.2	17.7	17.3	16.9
<b>ROE</b>	<b>19.6</b>	<b>25.7</b>	<b>26.2</b>	<b>23.2</b>	<b>23.7</b>	<b>22.8</b>

Source: Company, Kotak Institutional Equities estimates

## PNB P&amp;L and balance sheet

March fiscal year-ends, 2008-2013E (Rs mn)

	2008	2009	2010	2011E	2012E	2013E
<b>Income statement</b>						
Total interest income	145,660	191,272	214,669	265,484	312,728	370,867
Loans	104,391	145,838	167,013	209,828	256,325	311,058
<b>Investments</b>	39,123	42,650	45,767	51,890	54,969	58,166
Cash and deposits	2,146	2,784	1,889	3,766	1,433	1,642
<b>Total interest expense</b>	87,309	122,953	129,440	159,491	188,778	225,751
Deposits from customers	82,651	115,643	119,656	142,237	171,525	207,419
<b>Net interest income</b>	58,352	68,319	85,229	105,993	123,950	145,116
Loan loss provisions	5,452	11,416	13,531	20,765	20,256	24,586
Net interest income (after prov.)	52,899	56,903	71,698	85,228	103,694	120,530
Other income	19,964	30,647	35,653	32,372	36,602	41,350
Net fee income	11,062	13,766	16,822	19,345	22,247	25,584
<b>Net capital gains</b>	4,419	8,097	11,059	4,500	5,000	5,500
Net exchange gains	2,114	2,943	3,136	3,449	3,794	4,174
Operating expenses	35,255	42,062	47,619	55,730	64,570	74,906
Employee expenses	24,615	29,244	31,211	36,517	42,725	49,989
Depreciation on investments	4,052	(2,163)	684	—	—	—
Other Provisions	609	(18)	-	—	—	—
<b>Pretax income</b>	32,959	47,669	59,048	61,870	75,726	86,974
Tax provisions	12,472	16,760	19,994	19,798	24,232	27,832
<b>Net Profit</b>	<b>20,488</b>	<b>30,909</b>	<b>39,054</b>	<b>42,071</b>	<b>51,493</b>	<b>59,142</b>
% growth	33	51	26	8	22	15
PBT+provisions-treasury gains	35,643	48,807	62,204	80,135	92,982	108,060
% growth	10	37	27	29	16	16
<b>Balance sheet</b>						
Cash and bank balance	188,307	214,131	234,736	267,409	305,795	350,873
Cash	14,421	16,288	13,305	14,636	16,099	17,709
Balance with RBI	138,160	154,295	169,971	201,314	238,236	281,704
Balance with banks	25,631	26,307	24,401	24,401	24,401	24,401
Net value of investments	539,918	633,852	777,245	819,360	872,006	917,731
Govt. and other securities	442,167	545,308	659,704	761,978	814,624	860,349
Shares	8,692	12,057	17,429	17,429	17,429	17,429
Debentures and bonds	40,067	44,704	30,327	30,327	30,327	30,327
Net loans and advances	1,195,016	1,547,030	1,866,012	2,286,985	2,777,030	3,369,394
Fixed assets	23,155	23,971	25,135	19,749	18,225	16,623
Net Owned assets	23,149	23,967	25,132	19,747	18,223	16,620
Other assets	43,808	50,202	63,201	63,201	63,201	63,201
<b>Total assets</b>	<b>1,990,204</b>	<b>2,469,186</b>	<b>2,966,328</b>	<b>3,456,704</b>	<b>4,036,257</b>	<b>4,717,822</b>
Deposits	1,664,572	2,097,605	2,493,298	2,953,071	3,494,677	4,132,321
Current	177,912	188,139	237,172	315,628	373,515	441,668
Savings	537,697	626,460	781,328	885,921	1,048,403	1,239,696
Borrowings and bills payable	137,244	151,044	215,666	215,666	215,666	215,666
Other liabilities	65,203	74,001	80,134	80,134	80,134	80,134
<b>Total liabilities</b>	<b>1,867,020</b>	<b>2,322,650</b>	<b>2,789,099</b>	<b>3,248,872</b>	<b>3,790,478</b>	<b>4,428,122</b>
<b>Total shareholders' equity</b>	<b>123,183</b>	<b>146,536</b>	<b>177,229</b>	<b>207,832</b>	<b>245,779</b>	<b>289,700</b>

Source: Company, Kotak Institutional Equities estimates

**Miss due to poor sales of high-margin opportunities.** Lower-than-forecasted sales in US generics and PSAl business led to PAT declining yoy in 1QFY11. US sales adjusted for exclusivity was flat yoy due to slow build-up in the market share for key limited competition products. With additional competition expected in early next year, we believe revenue generation from these limited competition products in 2HFY11E is key for DRRD meeting our estimates. We believe further disappointment on these high-margin opportunities can lead to correction. Since DRL has discontinued with IGAAP accounting system, we will publish our estimates post detailed review. We retain our REDUCE rating and PT of Rs1,150 (subject to revision due to change in accounting system).

#### 1QFY11 revenues at Rs16.8 bn lower than our estimate of Rs18.9 bn

Sales was 11% lower than expectations due to disappointment in (1) US generic revenues at US\$84 mn (36% lower than our est.) due to slow pick-up in Omeprazole OTC revenues (US\$5 mn vs our estimate of US\$15 mn) and slow build-up in market share for products launched in US during 1QFY11 despite these being limited-competition products and (2) PSAl business (10% lower than our est.) due to no new launches this quarter and price erosion in existing products.

#### Sales growth in India, Russia ROW branded finished dosage markets was strong

Yoy sales growth was only reported in the following three branded finished dosage segments (1) strong sales growth in Russia/CIS, 14% higher than our estimate, (2) India sales, although, up 16% was 3% lower than our estimate due to sales growth at 16% vs our estimate of 20% and (3) ROW markets, up 21% yoy and higher than our estimate by 6%.

#### We estimate 22% sales growth in FY2011E, no changes to estimates

Our FY2011-12E forecast is based on US\$ = Rs46. We estimate sales growth of 22% in FY2011E. DRRD hopes to launch Allegra D24 by end-FY2011E, we await DRRD gaining approval before including this in our estimates. We expect DRRD sales to pick up in 2HFY11E on account of stronger US sales. We expect margin expansion in FY2011E from (1) 20% sales growth in Indian and Russian revenues, (2) new product launches in US. DRL plans to launch 8-10 products in US, out of which 3-4 will be limited competition, and (3) cost restructuring in German business.

#### Maintain REDUCE; SOTP-based TP at Rs1,150 (subject to revision for change in accounting system)

We retain REDUCE rating and believe further disappointment on these high-margin opportunities can lead to correction. Since DRL has discontinued with IGAAP accounting system, we will publish our estimates post detailed review.

## REDUCE

JULY 22, 2010

### RESULT

Coverage view: **Attractive**

Price (Rs): **1,381**

Target price (Rs): **1,150**

BSE-30: **18,113**

### QUICK NUMBERS

- 1QFY11 revenues at Rs16.8 bn lower than our estimate of Rs18.9 bn
- Sales growth in India, Russia ROW branded finished dosage markets was strong
- Maintain REDUCE with SOTP-based PT at Rs1,150

Prashant Vaishampayan  
prashant.vaishampayan@kotak.com  
Mumbai: +91-22-6634-1127

Priti Arora  
priti.arora@kotak.com  
Mumbai: +91-22-6634-1151

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



### US revenues excluding generic Imitrex was flat yoy

US generic business at US\$84 mn was lower than our estimate of US\$134 mn due to lower revenues from (1) Lotrel: DRL is 4<sup>th</sup> to enter the market, (2) Prilosec: DRL is 2<sup>nd</sup> in the market and (3) lower Omeprazole OTC revenues because (1) DRL is now serving 4 customers and gaining market share in private label OTC segment has been tougher than gaining market share in generic, according to the company, and (2) DRL has not been very aggressive on pricing, thereby the slower pick-up in market share.

### German revenues were down yoy; however, stabilized qoq in Euro terms

Betapharm revenues were down yoy to Euro22 mn; however, marginally up qoq and higher than our estimate of Euro20 mn. The company continues to find market conditions challenging due to the highly tender based competitive model. However, cost cutting initiatives continue with shifting of production and SG&A cost reduction. DRL expects Betapharm to become profit accretive in FY2011E.

### PSAI segment sales lower than forecast due to no major launches in 1QFY11

PSAI segment sales at Rs4.5 bn were lower than our estimate of Rs5 bn due to no new launches this quarter and price erosion in existing products. DRL has an extensive DMF of 378 as of June 2010. However, it expects sales to grow at high single digit in FY2011E.

### Russia/CIS grew 36% yoy, driven by restocking of inventories by retailers

Russia reported super normal growth of 36% for all industry players, including DRL due to restocking of inventories by retailers. There was a void in the inventories due to the pricing legislation in the previous quarters. However, DRL expects growth to return to normal levels of 20% in 9MFY10. Sales in CIS markets at US\$10 mn were in line with estimate. DRL grew sales in Russia/CIS also on account of (1) 4 new product launches during the quarter and (2) volume increase in key brands.

### India finished dosage grew 16% yoy, 3% lower than our estimate

Indian finished dosages revenues were Rs2.7 bn, was marginally lower than our estimate. This implies 16% yoy growth in 1QFY11 versus our assumption of 20% sales growth for the quarter. We expect sales growth at 20% in FY2011E. DRRD's third biosimilar Darbepoetin will be launched soon in India.

### US generic business update

DRRD'S current product pipeline for generic business is as under: 71 ANDAs are pending approval, 36 of these are para IV filings and 12 are first-to-file opportunities, according to DRRD. DRRD expects to launch 8-10 products in US in FY2011E, including 3-4 limited competition products which includes generic Arixtra. Updates on major product launches are as follows:

- ▶ DRRD is ready to launch generic Arixtra as soon as final approval is received but is not providing a timetable for approval. We include generic Arixtra revenues of \$US27 mn with EBITDA margin of 40% in FY2011E.
- ▶ DRRD is on track to launch Allegra D12 (US\$300 mn branded annual sales) in post-exclusivity phase. DRRD expects approval to come through in early 2011E as Impax will have the second exclusivity till end 2010E, after Teva's second exclusivity that ends in May 2010. With five-player market post exclusivity, we assume price erosion of around 70% and market share of 10% for DRRD. We, therefore, expect DRRD to clock annual revenues of US\$10 mn in FY2011-12E.

- ▶ DRRD had received final approval for Allegra D24 and planned to launch at-risk. DRRD could have potentially enjoyed no competition in FY2011-12E as it is the only Para IV filer till date. Innovator won a motion for preliminary injunction in June 2010E which delays generic launch till appeal process is finished. DRRD is not appealing the PI decision but is going back to the same judge and presenting additional evidence that the premise of infringement is wrong. DRRD expects legal proceedings to commence in November and get completed by end of December 2010E. It hopes to launch in FY2012E. We await approval before including this product in our estimates.
- ▶ DRRD expects Omerpazole OTC to be a major product in FY2011E as it has won four customers now; however, it expects sales to ramp up slowly in FY2011E. We include sales of US\$60 mn from this product in FY2011-12E.
- ▶ We include generic Lotrel and Prograf with revenues of US\$137 mn in FY2011E with EBITDA margin of 55%.

## Interim results- Dr Reddy , March fiscal year-ends (Rs mn), (IFRS)

	2007	2008	2009	2010E	2011E	2012E
<b>Profit model (Rs mn)</b>						
Net sales	69,319	72,370	79,445	81,674	90,834	100,969
<b>EBITDA</b>	<b>18,421</b>	<b>16,608</b>	<b>23,970</b>	<b>19,943</b>	<b>22,765</b>	<b>26,899</b>
Other income	2,416	3,104	3,230	3,141	3,489	3,996
Interest	(739)	(400)	(843)	(623)	(606)	(588)
Depreciation	(8,051)	(2,942)	(3,421)	(4,039)	(4,527)	(4,739)
Pretax profits	17,048	16,371	22,936	18,421	21,120	25,568
Tax	(4,917)	(5,169)	(6,877)	(5,525)	(7,013)	(8,902)
Share in associates	(45)	(632)	(421)	(502)	(501)	(281)
<b>Net profits</b>	<b>12,086</b>	<b>10,571</b>	<b>15,639</b>	<b>12,395</b>	<b>13,606</b>	<b>16,384</b>
Extraordinary items	2,255	500	8	—	—	—
<b>Earnings per share (Rs)</b>	<b>64.1</b>	<b>56.3</b>	<b>83.2</b>	<b>66.0</b>	<b>72.4</b>	<b>87.2</b>
<b>Balance sheet (Rs mn)</b>						
Total equity	44,844	52,627	63,646	72,843	83,252	95,938
Total borrowings	3,064	4,820	5,669	5,653	5,637	3,121
Current liabilities	22,212	27,413	31,522	28,589	29,261	30,031
<b>Total liabilities and equity</b>	<b>70,120</b>	<b>84,860</b>	<b>100,837</b>	<b>107,085</b>	<b>118,150</b>	<b>129,090</b>
Cash	7,435	9,842	7,464	15,173	27,378	36,226
Current assets	14,596	17,510	15,481	17,423	18,678	20,096
Total fixed assets	39,641	50,718	63,137	59,733	57,339	58,012
Investments	8,448	6,791	14,756	14,756	14,756	14,756
Deferred expenditure	—	—	—	—	—	—
<b>Total assets</b>	<b>70,120</b>	<b>84,860</b>	<b>100,838</b>	<b>107,086</b>	<b>118,151</b>	<b>129,090</b>
<b>Free cash flow (Rs mn)</b>						
Operating cash flow, excl. working capital	15,819	14,391	20,210	18,094	19,759	22,215
Working capital	1,202	758	6,138	(4,875)	(583)	(648)
Capital expenditure	(8,283)	(14,940)	(15,440)	(635)	(2,133)	(5,411)
Investments	(2,921)	894	—	—	—	—
<b>Free cash flow</b>	<b>5,818</b>	<b>1,103</b>	<b>10,908</b>	<b>12,583</b>	<b>17,043</b>	<b>16,155</b>

Source: Kotak Institutional Equities estimates, Company

**JULY 22, 2010**
**RESULT**

Coverage view: **Cautious**

Price (Rs): **66**

Target price (Rs): **50**

BSE-30: **18,113**

**Margin decline worrying.** Idea's reported EBITDA of Rs8.9 bn (-3.8% qoq, + 3.3% yoy) was marginally ahead of our estimates. Strong minutes growth limited impact of higher-than-expected RPM decline. EBITDA margin declined sharply led by provision for increase in spectrum charges and full consolidation of Spice's financials. Idea trades at expensive valuations even after using benign assumptions on tariff and competition. Reiterate REDUCE. We will review estimates after the earnings call.

**Company data and valuation summary**

IDEA

**Stock data**

52-week range (Rs) (high,low)	85-47
Market Cap. (Rs bn)	216.1

**Shareholding pattern (%)**

Promoters	47.0
FIs	7.4
MFs	0.9

**Price performance (%)**

	1M	3M	12M
Absolute	20.2	(0.8)	(12.3)
Rel. to BSE-30	17.8	(3.7)	(28.1)

**Forecasts/Valuations**

	2010	2011E	2012E
EPS (Rs)	2.7	1.3	2.3
EPS growth (%)	(5.8)	(51.7)	71.9
P/E (X)	24.0	49.6	28.9
Sales (Rs bn)	124.5	141.2	174.5
Net profits (Rs bn)	9.0	4.4	7.7
EBITDA (Rs bn)	34.1	34.9	42.7
EV/EBITDA (X)	8.3	8.2	6.7
ROE (%)	7.2	3.8	6.3
Div. Yield (%)	0.0	0.0	0.0

**1QFY11 results—strong minutes growth offset by sharp RPM and EBITDA margin decline**

Idea reported net income of Rs2 bn (-24% qoq, -32% yoy), ahead of our expectation of Rs1.7 bn. Net income outperformance was driven by lower-than-expected tax provision and interest expense. Full quarter consolidation of Spice and strong minutes growth (+20% qoq on reported basis and 13.4% after adjusting for Spice consolidation) drove qoq revenue growth of 9.1% to Rs36.5 bn, better than our estimate of Rs35 bn. Strong minutes growth limited the impact of higher-than-expected RPM decline to Rs0.44 (-5.7% qoq, -25% yoy).

EBITDA margin declined sharply to 24.3%, from 27.6% in the previous quarter. Decline in EBITDA margin can be attributed to three factors (1) previous quarter EBITDA margin as boosted by Rs600 mn of reversal of expenses; (2) provision for higher spectrum charges of Rs600 mn (1.6% impact), pending TDSAT judgment and (3) full quarter consolidation of Spice's financials versus one month in 4QFY10 (1.1% impact). Note that Spice's EBITDA margins are significantly lower than Idea.

**Wireless metrics—magnitude of RPM decline intriguing**

Idea's RPM decline was higher than our estimate and surprising noting quiet quarter on headline tariffs. We suspect that RPM decline could be a combination of (1) increased adoption of night calling/ heavily discounted on-net plans; (2) circle specific special recharge coupons/ rate cutters and (3) continued transition of subscribers to per second billing/ other attractive plans. Strong minutes growth (MOU increased 4.3% qoq to 415) indicates underlying elasticity; this helped in keeping ARPU decline to Rs182 (-1.6% qoq).

**Valuations expensive on benign assumptions; watch out for another round of tariff wars**

Idea trades at 8.2X FY2011E and 6.7X FY2012E EBTIDA, a substantial premium to Bharti and other emerging market players, even after using benign assumptions on competition and tariff. We continue to believe that the Idea stock has an in-built M&A premium, which could sustain the stock at levels higher than our fair value estimates. However, returns from the current levels would hinge on further earnings upgrades - Idea would need to deliver positive surprise on execution over the coming quarters, not an easy task, in our view. We expect another round of tariff war to disturb the temporary competitive equilibrium and put pressure on Idea's financials.

Rohit Chordia  
rohit.chordia@kotak.com  
Mumbai: +91-22-6634-1397

Kawaljeet Saluja  
kawaljeet.saluja@kotak.com  
Mumbai: +91-22-6634-1243

Vineet Thodge  
vineet.thodge@kotak.com  
Mumbai: +91-22-6634-1225

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

### Other result highlights

- ▶ We would seek clarifications on Idea standalone's net debt movement. Idea's net debt increased by only Rs45.3 bn to Rs96.6 bn, despite Rs57.7 bn payment for 3G spectrum. Net negative working capital increased to Rs12.4 bn versus Rs3.8 bn in 4QFY10.
- ▶ EBITDA/ min declined further to 10 paisa in 1QFY11 versus 12 paisa in 4QFY10. EBIT/ min was a modest 3 paisa, down from 5 paisa in 4QFY10.
- ▶ Capex for the quarter was Rs3.6 bn, lower than Rs5.3 bn in 4QFY10. The company rolled out only 538 sites during the quarter. Low capex could be possibly due to extra security approvals recently mandated by the DoT on import of telecom equipment. Note that Idea's primary active infrastructure partners are Ericsson and Nokia-Siemens.
- ▶ Idea has raised FY2011 capex guidance to Rs40-44 bn versus Rs30 bn. Revised guidance includes 3G capex but excludes upfront 3G spectrum fee payment and interest on the same. Implied incremental 3G capex for FY2011E works out to Rs10-14 bn. We would seek clarifications on coverage plans and 3G strategy from earnings call on July 23. Note that Idea has capitalized interest of Rs404 mn for the quarter against payment for 3G auction fee.
- ▶ Prepaid churn increased to 8.4% in 1QFY11 versus 7.9% in 4QFY10. Note that subscriber churn has remained at elevated levels ever since new GSM networks launches by RCOM and Tata DoCoMo .
- ▶ Post 3G auctions the financial leverage of the company has significantly increased. Net debt of the company now stands at Rs97 bn with a net debt to EBITDA ratio of 2.7X based on annualized 1QFY2011 EBITDA.
- ▶ Indus reported better-than-expected quarter with sequential EBITDA increase of 13% qoq. Indus revenues were up 9.4% qoq to Rs16 bn and EBITDA margin expanded 130 bps qoq.
- ▶ EBITDA loss from new service areas was largely unchanged at Rs1.4 bn. Revenue growth from new circles was 11% qoq, benign noting low base.

## Idea 1QFY11E quarterly performance (Rs mn)

	1QFY10	4QFY10	1QFY11E	qoq (%)	yoy (%)	Jun-10E	Deviation (%)
<b>Idea Cellular (standalone)</b>							
Revenues	28,883	33,011	36,987				
<b>EBITDA</b>	<b>7,700</b>	<b>8,328</b>	<b>7,937</b>				
EBIT	3,636	3,400	2,777				
<b>PAT</b>	<b>3,074</b>	<b>2,764</b>	<b>1,965</b>				
EBITDA margin (%)	26.7	25.2	21.5				
EBIT margin (%)	12.6	10.3	7.5				
Wireless ARPU (Rs/sub/month)	232	185	182	(1.6)	(21.6)	179	1.8
Wireless MOU (min/sub/month)	399	398	415	4.3	4.0	393	5.7
Wireless RPM (Rs/min)	0.58	0.46	0.44	(5.7)	(24.6)	0.46	(3.7)
Wireless EPM (Rs/min)	0.16	0.12					
Total minutes of usage (mn min)	48,729	68,275	82,274	20.5	68.8	77,834	5.7
<b>Idea Cellular (consolidated, with Spice and Indus)</b>							
<b>Revenues</b>	<b>29,759</b>	<b>33,477</b>	<b>36,537</b>	<b>9.1</b>	<b>22.8</b>	<b>34,990</b>	<b>4.4</b>
Standalone	28,883	33,011	36,897	11.8	27.7	35,455	4.1
Spice	1,359	989	—			—	
Indus	1,990	2,335	2,554	9.4	28.3	2,475	3.2
Eliminations	(2,472)	(2,858)	(2,914)	2.0	17.9	(2,940)	(0.9)
<b>Costs</b>							
Interconnection costs	(4,221)	(5,064)	(5,761)			(5,354)	7.6
License fee and spectrum charges	(3,369)	(3,328)	(4,242)			(3,779)	12.3
Network operating costs	(7,506)	(8,214)	(10,159)			(8,993)	13.0
Employee costs	(1,446)	(1,558)	(1,715)			(1,680)	2.1
SG&A expenses	(4,619)	(6,079)	(5,776)			(6,403)	(9.8)
<b>Total</b>	<b>(21,160)</b>	<b>(24,243)</b>	<b>(27,653)</b>			<b>(26,208)</b>	<b>5.5</b>
<b>EBITDA</b>	<b>8,600</b>	<b>9,234</b>	<b>8,884</b>	<b>(3.8)</b>	<b>3.3</b>	<b>8,783</b>	<b>1.2</b>
<b>EBITDA margin (%)</b>	<b>28.9</b>	<b>27.6</b>	<b>24.3</b>			<b>25.1</b>	
EBIT	4,044	4,087	3,228	(21.0)	(20.2)	2,988	8.0
<b>PAT</b>	<b>2,971</b>	<b>2,665</b>	<b>2,014</b>	<b>(24.4)</b>	<b>(32.2)</b>	<b>1,698</b>	<b>18.6</b>

Source: Company, Kotak Institutional Equities estimates

## Idea: 3G Spectrum payout

Circles	Price (Rs mn)
Andhra Pradesh	13,731
Gujarat	10,761
Maharashtra	12,578
Haryana	2,226
Kerala	3,125
Madhya Pradesh	2,584
Punjab	3,220
UP East	3,646
UP West	5,140
Himachal Pradesh	372
J&K	303
<b>Total</b>	<b>57,686</b>

Source: DoT

## Financials of new service areas (Rs mn)

	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11
Revenues	52	483	985	1,427	1,822	2,384	2,761	3,063
<b>EBITDA</b>	(337)	(765)	(654)	(644)	(830)	(1,288)	(1,422)	(1,401)
EBITDA margin (%)	(648.1)	(158.4)	(66.4)	(45.1)	(45.6)	(54.0)	(51.5)	(45.7)

Source: Company

JULY 22, 2010

**RESULT**

Coverage view: **Neutral**

Price (Rs): **115**

Target price (Rs): **108**

BSE-30: **18,113**

**Realizations hold.** ACEM reported stable realizations (+1.5% qoq) as the weakness in South and West was offset by the company's presence in East, which continues to enjoy a favorable demand environment. Operating margins were marginally below expectations as the benefits of lower raw material cost were lost to non-recurring overheads and higher power cost. We maintain our SELL rating with a revised price target of Rs108/share.

#### Company data and valuation summary

Ambuja Cements

##### Stock data

52-week range (Rs) (high,low)	126-82
Market Cap. (Rs bn)	175.1

##### Shareholding pattern (%)

Promoters	46.4
FIs	26.0
MFs	1.3

Price performance (%)	1M	3M	12M
Absolute	(3.2)	(4.2)	19.5
Rel. to BSE-30	(5.1)	(7.1)	(2.1)

##### Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	8.0	8.4	8.9
EPS growth (%)	11.4	5.3	5.1
P/E (X)	14.4	13.6	13.0
Sales (Rs bn)	69.4	76.7	86.8
Net profits (Rs bn)	12.2	12.8	13.5
EBITDA (Rs bn)	21.2	22.3	24.8
EV/EBITDA (X)	7.9	7.5	6.4
ROE (%)	19.3	17.8	16.5
Div. Yield (%)	1.6	1.8	1.9

#### Clinker gives a reason to cheer, overheads include non-recurring expenses

ACEM reported revenues of Rs20.5 bn (+10.8% yoy), operating profit of Rs6.0 bn (+25.7% yoy) and net income of Rs3.9 bn (+20.5% yoy) against our estimate of Rs20.7 bn, Rs6.6 bn and Rs4.5 bn, respectively. Raw material cost declined significantly from Rs442/ton in 1QCY10 to Rs155/ton in 2QCY10 as benefits from newly commissioned clinker capacities near-eliminated dependence on purchased clinker.

However, the benefit of stable realizations and lower raw material cost was lost to (1) higher overhead expenses, which included a non-recurring component of ~Rs250 mn, and (2) higher power and fuel cost attributable to self-production of clinker and overall increase in cost of domestic coal. Commissioning of cement capacities towards the end of the previous quarter and a captive power plant during the quarter led to a higher-than-estimated depreciation expense of Rs1 bn during the quarter.

#### Stable pricing in East offsets weakness in West and South

ACEM reported a 1.5% qoq increase in cement realizations, despite a pre-dominance of sales (37% in CY2009) in the South and West markets. We note that ACEM sells 17% of its volumes in East and 35% in North, which have benefited from a more favorable pricing regime so far and helped compensate the weakness in South and West. We note that cement prices in West have come off significantly in July with prices in Maharashtra falling by Rs17/bag from May 2010 levels. Our realizations for 2HCY10E build in Rs6/bag decline in cement prices.

#### Retain SELL with a revised target price of Rs108/share

We retain our SELL rating with a revised target price of Rs108/share (Rs98/share previously) based on CY2011E valuations. We have revised our earnings estimates on account of (1) stable realizations in 1HCY10 and (2) rationalization of production costs. We estimate EPS of Rs8.4 (Rs7.9 previously) for CY2010E and Rs8.9 (Rs8.1 previously) for CY2011E. Our target price of Rs108/share implies EV/EBITDA of 5.8X and EV/ton production of US\$134/ton on CY2010E earnings and production, respectively.

Murtuza Arsiwalla  
murtuza.arsiwalla@kotak.com  
Mumbai: +91-22-6634-1125

Shubham Satyarth  
shubham.satyarth@kotak.com  
Mumbai: +91-22-6634-1320

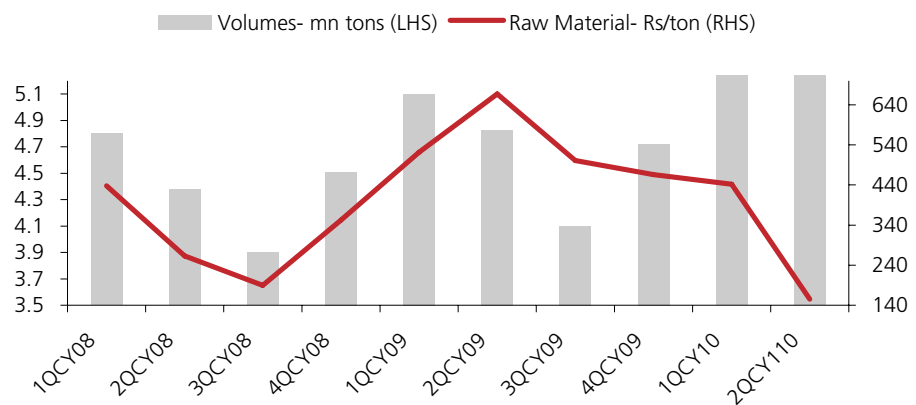
Kotak Institutional Equities Research  
kotak.research@kotak.com  
Mumbai: +91-22-6634-1100

Exhibit 1: Higher-than-expected power and fuel cost and overhead expenses eat into savings from raw material cost  
Quarterly results for Ambuja Cements, December year-ends (Rs mn)

	2QCY10	2QCY10E	2QCY09	1QCY10	(% chg.)			CY2010E	CY2011E	(% chg.)
					2QCY10E	2QCY09	1QCY10			
<b>Sales</b>	<b>20,476</b>	<b>20,771</b>	<b>18,474</b>	<b>19,902</b>	<b>(1.4)</b>	<b>10.8</b>	<b>2.9</b>	<b>76,730</b>	<b>86,828</b>	<b>13.2</b>
<b>Operating costs</b>										
Raw material costs	(829)	(2,160)	(3,224)	(2,329)				(5,411)	(8,572)	
Employee costs	(901)	(785)	(688)	(772)				(3,820)	(4,316)	
Freight costs	(4,474)	(4,374)	(3,294)	(4,122)				(16,946)	(17,402)	
Power & fuel costs	(4,534)	(3,834)	(3,752)	(3,552)				(16,685)	(19,050)	
Other costs	(3,706)	(3,051)	(2,719)	(2,900)				(13,975)	(15,665)	
Total operating costs	(14,444)	(14,204)	(13,677)	(13,675)				(56,837)	(65,005)	
<b>EBITDA</b>	<b>6,032</b>	<b>6,567</b>	<b>4,797</b>	<b>6,227</b>	<b>(8.1)</b>	<b>25.7</b>	<b>(3.1)</b>	<b>19,893</b>	<b>21,822</b>	<b>9.7</b>
EBITDA margin (%)	29.5	31.6	26.0	31.3				25.9	25.1	
Other income	667	600	692	546				2,405	2,975	
Interest	(81)	(120)	(52)	(108)				(355)	(341)	
Depreciation	(1,001)	(860)	(704)	(767)				(3,837)	(4,749)	
<b>PBT</b>	<b>5,618</b>	<b>6,187</b>	<b>4,732</b>	<b>5,897</b>	<b>(9.2)</b>	<b>18.7</b>	<b>(4.7)</b>	<b>18,107</b>	<b>19,708</b>	<b>8.8</b>
Current tax (expense)/income	(1,705)	(1,670)	(1,486)	(1,513)				(5,274)	(6,224)	
<b>Net income</b>	<b>3,912</b>	<b>4,516</b>	<b>3,247</b>	<b>4,384</b>	<b>(13.4)</b>	<b>20.5</b>	<b>(10.8)</b>	<b>12,833</b>	<b>13,484</b>	<b>5.1</b>
Extraordinaries	—	—	—	238				628	—	
<b>Reported net income</b>	<b>3,912</b>	<b>4,516</b>	<b>3,247</b>	<b>4,622</b>				<b>13,461</b>	<b>13,484</b>	
<b>Per ton analysis</b>										
<b>Despatches, '000 tons</b>	<b>5,340</b>	<b>5,400</b>	<b>4,830</b>	<b>5,270</b>	<b>(1.1)</b>	<b>10.6</b>	<b>1.3</b>	<b>20,467</b>	<b>22,824</b>	<b>11.5</b>
<b>Realization (Rs/ton)</b>	<b>3,834</b>	<b>3,846</b>	<b>3,825</b>	<b>3,776</b>	<b>(0.3)</b>	<b>0.2</b>	<b>1.5</b>	<b>3,749</b>	<b>3,804</b>	<b>1.5</b>
Operating cost (Rs/ton)	2,705	2,630	2,832	2,595				2,777	2,848	
Raw materials	155	400	667	442				264	376	
Employee costs	169	145	142	146				187	189	
Freight costs	838	810	682	782				828	762	
Power & fuel costs	849	710	777	674				815	835	
Other costs	694	565	563	550				683	686	
<b>Profitability (Rs/ton)</b>	<b>1,130</b>	<b>1,216</b>	<b>993</b>	<b>1,181</b>	<b>(7.1)</b>	<b>13.7</b>	<b>(4.4)</b>	<b>972</b>	<b>956</b>	<b>(1.6)</b>

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Dependence on purchased clinker is now negligible  
Volume (mn tons) and raw material cost (Rs/ton)



Source: Company, Kotak Institutional Equities



### Analysis of balance sheet – significant debt reduction in 1HCY10

ACEM paid ~Rs1.1 bn of debt as its total outstanding debt came down from Rs1.7 bn as of December 2009 to Rs584 mn as of June 2010. ACEM incurred a capex of ~Rs4 bn in 1HCY10. Significant reduction in CWIP is on account of commissioning of new clinker and grinding capacities during 1HCY10. Also, ACEM invested ~Rs2.7 bn in working capital during 1HCY10.

Exhibit 3: ACEM repaid ~Rs1.1 bn of debt during 1HCY10  
Key balance sheet figures of ACEM as of June 2010 (Rs mn)

	Jun-10	Dec-09
<b>Sources of fund</b>		
Share Capital	3,049	3,047
Reserves and Surplus	70,319	61,662
Shareholder's fund	73,368	64,709
Total debt	584	1,657
Deferred tax liability	5,030	4,858
<b>Total liabilities</b>	<b>78,982</b>	<b>71,224</b>
<b>Application of funds</b>		
Net block	54,415	34,400
CWIP	9,405	27,144
Investments	5,773	7,270
Current assets	26,329	19,793
Current liabilities and provisions	16,965	17,411
Deferred expenditure	25	27
<b>Total assets</b>	<b>78,982</b>	<b>71,224</b>

Source: Company, Kotak Institutional Equities

Exhibit 4: East contributed 17% of ACEM's total sales volume in CY2009  
Region wise break-up of ACEM sales, December fiscal year-ends, 2009-09

Region	CY2008		CY2009	
	(mn tons)	(%)	(mn tons)	(%)
North	6.2	35.2	6.6	35.2
East	2.6	14.8	3.2	17.1
West/South	6.9	39.2	7.0	37.4
Others	1.9	10.8	1.9	10.4
<b>Total</b>	<b>17.6</b>	<b>100.0</b>	<b>18.7</b>	<b>100.0</b>

Source: Company, Kotak Institutional Equities

Exhibit 5: Change in estimates for Ambuja Cements, December fiscal year-ends, 2010-12E (Rs mn)

	Revenues			EBITDA			Net profit		
	Old	New	% Chg.	Old	New	% Chg.	Old	New	% Chg.
2010E	73,417	76,730	4.5	20,751	22,299	7.5	11,968	12,833	7.2
2011E	82,417	86,828	5.4	22,290	24,797	11.2	12,282	13,482	9.8

Source: Kotak Institutional Equities estimates

Exhibit 6: Profit model, balance sheet, cash model of Ambuja Cements, December fiscal year-ends, 2007-12E (Rs mn)

	2007	2008	2009	2010E	2011E	2012E
<b>Profit model (Rs mn)</b>						
Net sales	55,303	60,597	69,446	76,730	86,828	91,988
<b>EBITDA</b>	<b>18,706</b>	<b>16,030</b>	<b>17,346</b>	<b>19,893</b>	<b>21,822</b>	<b>23,368</b>
Other income	3,345	3,503	3,881	2,405	2,975	3,103
Interest	(759)	(321)	(224)	(355)	(341)	(413)
Depreciation	(2,363)	(2,598)	(2,970)	(3,837)	(4,749)	(5,247)
Pretax profits	18,929	16,615	18,033	18,107	19,708	20,811
Tax	(7,413)	(5,676)	(5,849)	(5,274)	(6,224)	(6,354)
<b>Net profits</b>	<b>11,517</b>	<b>10,939</b>	<b>12,184</b>	<b>12,833</b>	<b>13,482</b>	<b>14,455</b>
<b>Earnings per share (Rs)</b>	<b>7.6</b>	<b>7.2</b>	<b>8.0</b>	<b>8.4</b>	<b>8.9</b>	<b>9.5</b>
<b>Balance sheet (Rs mn)</b>						
Total equity	50,396	60,536	69,567	79,273	88,778	96,346
Total borrowings	3,304	2,887	1,657	957	657	657
Current liabilities	11,691	14,738	17,411	17,176	20,067	20,344
<b>Total liabilities and equity</b>	<b>65,391</b>	<b>78,161</b>	<b>88,635</b>	<b>97,406</b>	<b>109,503</b>	<b>117,347</b>
Cash	6,508	8,518	8,807	9,186	16,604	24,110
Current assets	9,365	14,876	10,987	17,363	19,791	20,876
Total fixed assets	36,567	51,400	61,545	65,559	67,811	67,064
Investments	12,889	3,324	7,270	5,270	5,270	5,270
Deferred expenditure	62	43	27	27	27	27
<b>Total assets</b>	<b>65,391</b>	<b>78,161</b>	<b>88,636</b>	<b>97,406</b>	<b>109,503</b>	<b>117,347</b>
<b>Free cash flow (Rs mn)</b>						
Operating cash flow, excl. working capital	14,332	13,772	16,369	17,633	18,949	17,507
Working capital change	3,305	(2,464)	6,562	(6,612)	464	(809)
Capital expenditure	(7,504)	(17,263)	(12,844)	(7,852)	(7,000)	(4,500)
Investments	(1,558)	9,566	(3,946)	2,000	0	0
<b>Free cash flow</b>	<b>8,574</b>	<b>3,611</b>	<b>6,141</b>	<b>5,169</b>	<b>12,413</b>	<b>12,198</b>

Source: Company, Kotak Institutional Equities estimates

**JULY 22, 2010**
**RESULT, CHANGE IN RECO.**

 Coverage view: **Neutral**

 Price (Rs): **816**

 Target price (Rs): **920**

 BSE-30: **18,113**

**Looking beyond near-term glitches.** The deceleration rate and dwindling pipeline of capacity additions prompt us to revisit our stance on ACC; we upgrade our rating to ADD (from SELL previously) on reasonable valuations and limited down-side risk to our earning estimates. We increase our target price to Rs920/share (Rs830 previously), implying an EV/EBITDA of 5.4X on CY2011E earnings and EV/ton of US\$128 on CY2011E production.

**Company data and valuation summary**

ACC				Forecasts/Valuations			
Stock data				2010	2011E	2012E	
52-week range (Rs) (high,low)	1,020-681		EPS (Rs)	83.2	66.0	72.4	
Market Cap. (Rs bn)	153.3		EPS growth (%)	47.9	(20.7)	9.8	
<b>Shareholding pattern (%)</b>			P/E (X)	9.8	12.4	11.3	
Promoters	46.2		Sales (Rs bn)	79.4	81.7	90.8	
FIs	12.6		Net profits (Rs bn)	15.6	12.4	13.6	
MFs	1.2		EBITDA (Rs bn)	27.2	23.1	26.3	
<b>Price performance (%)</b>			EV/EBITDA (X)	5.2	5.7	4.6	
Absolute	1M	3M	12M	ROE (%)	29.3	20.0	19.2
Rel. to BSE-30	(5.3)	(11.3)	0.9	Div. Yield (%)	3.3	2.9	2.9
	(7.2)	(13.9)	(17.3)				

**2QCY10 margins contract as overhead cost continues to surprise**

ACC reported net sales of Rs20.2 bn (-3% yoy), operating profit of Rs5.5 bn (-25% yoy) and net income of Rs3.6 bn against our estimate of Rs20.6 bn, Rs6.4 bn and Rs4.1 bn, respectively. Realizations at Rs3,834/ton (+2% qoq) remained stable during the quarter despite the early onset of monsoons. Although revenues were only marginally lower than our estimates, profitability took a hit as EBITDA margins contracted from 31.1% in 1QCY10 to 27.4% in 2QCY10, primarily on account high employee and overhead costs. Overhead cost continues to be volatile with a 7% sequential increase despite 6% qoq decline in sales volumes.

**Limited risks to CY2010E earnings estimates, built sufficient cushion on prices and costs**

We concede the near-term pressures on earnings of cement companies that could impact stock performance, but believe that our estimates for CY2010E and CY2011E have built in sufficient cushion for the same. Our realizations for 2HCY10E at Rs3,627/ton factor in Rs9/bag decline in cement prices from current levels of Rs3,800/ton in 1HCY10. We have also factored in Rs115/ton average increase in cost of production in 2HCY10E based on higher prices of coal and freight. Key risks to our earnings stem from lower-than-estimated volume growth, we currently factor in volumes of 22 mn tons in CY2010E compared to 11 mn tons done in 1HCY10, though remain optimistic on increased contribution from recently commissioned capacities in Karnataka (2.8 mn tpa).

**Upgrade to ADD with a revised target price of Rs920/share**

We upgrade ACC to ADD on account of relatively inexpensive valuations and revise our target price to Rs920/share (Rs830/share previously) based on CY2011E earnings. Our target price implies an EV/ton of US\$128/ton and EV/EBITDA of 5.4X on CY2011E earnings. The revision in CY2010E earnings stems from (1) stable realizations in 1HCY10, (2) lower volume assumptions and (3) rationalization of overhead and other production costs. We now factor in earnings of Rs66/share (Rs62/share previously) for CY2010E and Rs72/share (Rs63/share previously) for CY2011E and foresee lower-than-estimated volumes as the key risk to our estimates.

Murtuza Arsiwalla  
murtuza.arsiwalla@kotak.com  
Mumbai: +91-22-6634-1125

Shubham Satyarth  
shubham.satyarth@kotak.com  
Mumbai: +91-22-6634-1320

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

Exhibit 1: Employee cost and overhead expenses eat into profitability  
Quarterly results for ACC Limited (Standalone), December year-ends (Rs mn)

	2QCY10	2QCY10E	2QCY09	1QCY10	(% chg.)			CY2010E	CY2011E	(% chg)
					2QCY10E	2QCY09	1QCY10			
<b>Sales</b>	<b>20,207</b>	<b>20,642</b>	<b>20,813</b>	<b>21,018</b>	<b>(2)</b>	<b>(3)</b>	<b>(4)</b>	<b>82,542</b>	<b>91,790</b>	<b>11.2</b>
<b>Operating costs</b>										
Raw material costs	(2,346)	(2,341)	(2,234)	(2,802)				(9,635)	(10,526)	
Employee costs	(1,063)	(930)	(968)	(896)				(4,124)	(4,713)	
Freight costs	(2,700)	(2,756)	(2,547)	(2,753)				(11,640)	(12,528)	
Power costs	(3,934)	(3,937)	(3,738)	(3,926)				(16,721)	(18,800)	
Purchased cement	(296)	(213)	(247)	(266)				(920)	(915)	
Other expenditure	(4,339)	(4,043)	(3,741)	(4,154)				(18,692)	(20,587)	
Total operating costs	(14,677)	(14,219)	(13,476)	(14,796)				(61,731)	(68,069)	
<b>EBITDA</b>	<b>5,530</b>	<b>6,422</b>	<b>7,337</b>	<b>6,222</b>	<b>(14)</b>	<b>(25)</b>	<b>(11)</b>	<b>20,811</b>	<b>23,721</b>	<b>14.0</b>
EBITDA margin (%)	27.4	31.1	35.3	29.6				25.2	25.8	
Other income	597	586	570	609				2,273	2,533	
Interest	(141)	(136)	(159)	(127)				(623)	(606)	
Depreciation	(962)	(972)	(784)	(935)				(4,039)	(4,527)	
<b>PBT</b>	<b>5,024</b>	<b>5,900</b>	<b>6,963</b>	<b>5,768</b>	<b>(15)</b>	<b>(28)</b>	<b>(13)</b>	<b>18,421</b>	<b>21,120</b>	<b>14.7</b>
Current tax (expense)/income	(1,435)	(1,770)	(2,107)	(1,717)				(4,826)	(6,313)	
<b>Net income</b>	<b>3,589</b>	<b>4,130</b>	<b>4,856</b>	<b>4,051</b>	<b>(13)</b>	<b>(26)</b>	<b>(11)</b>	<b>12,896</b>	<b>14,107</b>	<b>9.4</b>
Extraordinaries	—	—	—	—				—	—	
<b>Reported net income</b>	<b>3,589</b>	<b>4,130</b>	<b>4,856</b>	<b>4,051</b>	<b>(13)</b>	<b>(26)</b>	<b>(11)</b>	<b>12,896</b>	<b>14,107</b>	
<b>Sales, mn tons</b>	<b>5.3</b>	<b>5.3</b>	<b>5.4</b>	<b>5.6</b>	<b>(1)</b>	<b>(3)</b>	<b>(6)</b>	<b>22.2</b>	<b>23.9</b>	<b>7.5</b>
<b>Realization (Rs/ton)</b>	<b>3,834</b>	<b>3,880</b>	<b>3,840</b>	<b>3,767</b>	<b>(1)</b>	<b>(0)</b>	<b>2</b>	<b>3,711</b>	<b>3,840</b>	<b>3.5</b>
Operating costs (Rs/ton)										
Raw materials	445	440	412	502				433	440	
Employee costs	202	175	179	161				185	197	
Freight costs	512	518	470	493				523	524	
Power & fuel costs	746	740	690	703				752	787	
Purchased cement	56	40	46	48				41	38	
Other expenditure	823	760	690	745				840	861	
<b>Profitability (Rs/ton)</b>	<b>1,049</b>	<b>1,207</b>	<b>1,354</b>	<b>1,115</b>	<b>(13)</b>	<b>(22)</b>	<b>(6)</b>	<b>936</b>	<b>992</b>	<b>6.1</b>

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: We build in for decline in realization and increase in input cost in 2HCY10 over 1HCY10  
Key financial metric of ACC

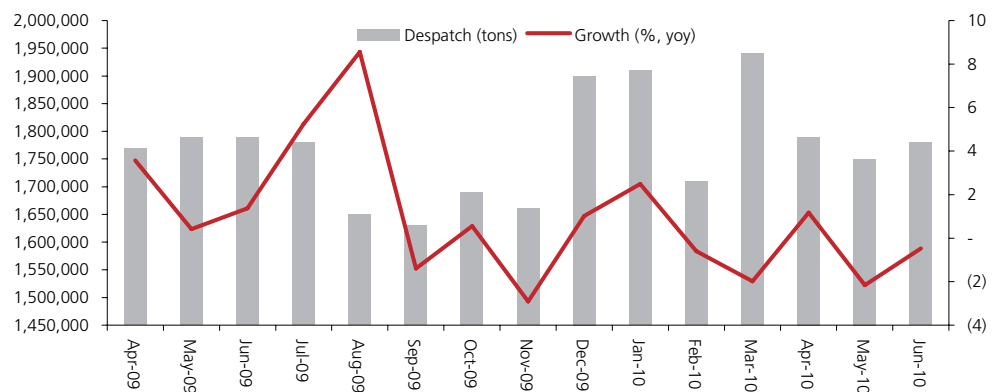
	1QCY10	2QCY10	1HCY10	2HCY10E	CY2010E	CY2011E
Revenue (Rs mn)	21,018	20,207	41,225	41,317	82,542	91,790
EBITDA (Rs mn)	6,222	5,530	11,752	9,059	20,811	23,721
Volumes (mn tons)	5.6	5.3	10.9	11.4	22.2	23.9
Realization (Rs/ton)	3,767	3,834	3,800	3,627	3,711	3,840
EBITDA per ton (Rs/ton)	1,115	1,049	1,083	795	936	992
Operating cost (Rs/ton)	2,652	2,785	2,716	2,832	2,776	2,848

Source: Company, Kotak Institutional Equities estimates

### Volumes growth and declining market share a concern

We note that although realizations have remained stable for ACC in 1HCY10, volume growth remains a key concern as ACC has been registering negative growth in despatches since February 2010—the exception being April when despatches grew by a modest 1.1% yoy. We highlight that ACC has been continually losing market share and registered a despatch growth of 1.3% in CY2010 as against industry despatch growth of 10.2%. We draw optimism from 2.8 mn tpa of capacities recently commissioned in Karnataka and another 3 mn tpa capacity in Maharashtra that is nearing completion to help give a fillip to ACC's volume growth.

**Exhibit 3: Despatch growth has remained negative since February 2010**  
Despatch and despatch growth of ACC (tons, %)



Source: Company, Kotak Institutional Equities

### Analysis of balance sheet—capex of Rs4.9 bn incurred in 1HCY10

ACC repaid ~Rs500 mn of debt as total debt levels came down from Rs5.7 bn as of Dec 2009 to Rs5.2 bn as of June 2010. ACC has also done a capex of ~Rs4.9 bn in 1HCY10. Meanwhile, current assets excluding cash increased marginally from Rs15.5 bn to Rs16.2 bn but current liabilities decreased from Rs31.5 bn to Rs28.3 bn, implying an incremental investment of ~Rs3.9 bn in working capital during 1HCY10. During the quarter, ACC has invested Rs368 mn for acquiring a 45% ownership in Asian Concretes and Cements Pvt. Ltd. Exhibit 4 highlights the movement of balance sheet items over 1HCY10.

**Exhibit 4: ACC repaid ~Rs500 mn of debt during 1HCY10**  
Key balance sheet items of ACC (Rs mn)

	Jun-10	Dec-09
<b>Sources of fund</b>		
Share Capital	1,879	1,880
Reserves and Surplus	63,744	58,282
Shareholder's fund	65,623	60,162
Total debt	5,167	5,669
Deferred tax liability	4,299	3,493
<b>Total liabilities</b>	<b>75,088</b>	<b>69,324</b>
<b>Application of funds</b>		
Net block	42,737	41,583
CWIP	23,363	21,562
Investments	13,871	14,756
Current assets	23,417	22,945
Current liabilities and provisions	28,300	31,522
<b>Total assets</b>	<b>75,088</b>	<b>69,324</b>

Source: Company, Kotak Institutional Equities

Exhibit 5: Change in estimates for ACC, December fiscal year-ends, 2010-11E (Rs mn)

	Revenues			EBITDA			Net profit		
	Old	New	% Chg.	Old	New	% Chg.	Old	New	% Chg.
2010E	84,655	81,674	(3.5)	23,301	23,084	(0.9)	11,612	12,395	6.7
2011E	92,221	90,834	(1.5)	25,079	26,254	4.7	11,918	13,606	14.2

Source: Kotak Institutional Equities estimates

Exhibit 6: Profit model, balance sheet, cash model of ACC (Consolidated), December fiscal year-ends, 2007-12E (Rs mn)

	2007	2008	2009	2010E	2011E	2012E
<b>Profit model (Rs mn)</b>						
Net sales	69,319	72,370	79,445	81,674	90,834	100,969
<b>EBITDA</b>	<b>18,421</b>	<b>16,608</b>	<b>23,970</b>	<b>19,943</b>	<b>22,765</b>	<b>26,899</b>
Other income	2,416	3,104	3,230	3,141	3,489	3,996
Interest	(739)	(400)	(843)	(623)	(606)	(588)
Depreciation	(3,051)	(2,942)	(3,421)	(4,039)	(4,527)	(4,739)
Pretax profits	17,048	16,371	22,936	18,421	21,120	25,568
Tax	(4,917)	(5,169)	(6,877)	(5,525)	(7,013)	(8,902)
Share in associates	(45)	(632)	(421)	(502)	(501)	(281)
<b>Net profits</b>	<b>12,086</b>	<b>10,571</b>	<b>15,639</b>	<b>12,395</b>	<b>13,606</b>	<b>16,384</b>
Extraordinary items	2,255	500	8—	—	—	—
<b>Earnings per share (Rs)</b>	<b>64.1</b>	<b>56.3</b>	<b>83.2</b>	<b>66.0</b>	<b>72.4</b>	<b>87.2</b>
<b>Balance sheet (Rs mn)</b>						
Total equity	44,844	52,627	63,646	72,843	83,252	95,938
Total borrowings	3,064	4,820	5,669	5,653	5,637	3,121
Current liabilities	22,212	27,413	31,522	28,589	29,261	30,031
<b>Total liabilities and equity</b>	<b>70,120</b>	<b>84,860</b>	<b>100,837</b>	<b>107,085</b>	<b>118,150</b>	<b>129,090</b>
Cash	7,435	9,842	7,464	15,173	27,378	36,226
Current assets	14,596	17,510	15,481	17,423	18,678	20,096
Total fixed assets	39,641	50,718	63,137	59,733	57,339	58,012
Investments	8,448	6,791	14,756	14,756	14,756	14,756
Deferred expenditure	—	—	—	—	—	—
<b>Total assets</b>	<b>70,120</b>	<b>84,860</b>	<b>100,838</b>	<b>107,086</b>	<b>118,151</b>	<b>129,090</b>
<b>Free cash flow (Rs mn)</b>						
Operating cash flow, excl. working capital	15,819	14,391	20,210	18,094	19,759	22,215
Working capital	1,202	758	6,138	(4,875)	(583)	(648)
Capital expenditure	(8,283)	(14,940)	(15,440)	(635)	(2,133)	(5,411)
Investments	(2,921)	894	—	—	—	—
<b>Free cash flow</b>	<b>5,818</b>	<b>1,103</b>	<b>10,908</b>	<b>12,583</b>	<b>17,043</b>	<b>16,155</b>

Source: Company, Kotak Institutional Equities estimates

JULY 23, 2010

**RESULT**

Coverage view: **Attractive**

Price (Rs): **597**

Target price (Rs): **700**

BSE-30: **18,113**

**Core earnings strong, retain ADD.** Shriram Transport Finance (STFC) reported strong quarterly performance – high asset yields raised margins, loan growth was on track. A healthy macro environment for CV operators will likely help STFC pass on higher interest rates to its customers and improve asset quality performance as well. We revise estimates to reflect this. Retain ADD with a price target of Rs700.

#### Company data and valuation summary

Shriram Transport

##### Stock data

52-week range (Rs) (high,low)	645-291
Market Cap. (Rs bn)	133.2

##### Shareholding pattern (%)

Promoters	41.4
FIs	32.6
MFs	4.2

##### Price performance (%)

	1M	3M	12M
Absolute	(0.2)	7.8	93.6
Rel. to BSE-30	(2.2)	4.6	58.6

##### Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	39.2	53.4	64.8
EPS growth (%)	30.1	36.4	21.3
P/E (X)	15.2	11.2	9.2
NII (Rs bn)	22.2	28.8	35.6
Net profits (Rs bn)	8.7	11.9	14.5
BVPS	165.6	195.3	236.8
P/B (X)	3.6	3.1	2.5
ROE (%)	28.4	28.2	28.4
Div. Yield (%)	2.0	2.7	3.3

#### QUICK NUMBERS

- **PAT up 76% to Rs2.9 bn**
- **Truck loans up 27% yoy**

#### Core earnings ahead of expectations

Shriram Transport Finance (STFC) reported PAT of Rs2.9 bn, up 76% yoy and 17% above estimates. Margins at 9.3% (as per KS calculations) improved yoy and qoq -9.0% in 4QFY10 and 8.1% in 1QFY11 and were ahead of our estimates as well -8.5%. Truck loans under management grew by 27%, 2% above estimates. NPL further declined qoq - credit cost (provisions and write-offs) was up 35% yoy, 28% above estimates. Net NPLs declined to 0.4% in June 2010 from 0.7% in March 2010.

**Revision in estimates.** We are raising our estimates primarily to factor better margin traction for STFC. We retain ADD rating on the stock with a price target of Rs700 (Rs600 earlier) as we roll over to FY2012E. At our target price, the stock will trade at 2.8X PBR FY2012E for 26-28% medium-term RoE and 28% earnings CAGR between FY2010 and FY2012E.

#### Margins remain strong

**NIM ahead of expectations.** STFC's NIM (NII/AUM) was strong at 9.3% as compared to 9.0% in 4QFY10. Even after excluding the estimated impact of the recent equity issuance, NIM was 8.9%. We believe that NIM/AUM would be a more accurate matrix to track the margin at STFC due to its large off-balance sheet loans. Likely reasons for higher asset yield (1) despite the buoyancy in the CV industry, STFC has continued its focus on its high-yielding used CV finance segment - the share of used CVs remains high at 74% of overall AUMs. As such, asset yields were higher than expected, thereby improving margins at STFC, and (2) during 4QFY10, the company sold down a large portfolio of used vehicle thereby pushing the yield on off-balance sheet CV portfolio - a segment difficult to model.

Nischint Chawathe  
nischint.chawathe@kotak.com  
Mumbai: +91-22-6634-1545

Manish Karwa  
manish.karwa@kotak.com  
Mumbai: +91-22-6634-1350

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

**Lower interest rate risk.** Over the last two quarters, interest rate risk on STFC's balance sheet has reduced considerably. About 24% of STFC's borrowings now carry a floating rate as compared 50% in the past. The entire truck loan portfolio carries a fixed rate. As such, STFC faces interest rate risk in a rising interest rate scenario though the impact will now be much lower. More importantly, in light of the upturn in the CV industry, the company is well placed to pass on the hike in interest rates to its customers. We are raising our margins estimates for STFC to 8.8% in FY2011E and FY2012E from 8.6% earlier. Consequently, our earnings estimates rise by 4-9%.

#### **Loan growth on track**

Loan growth (AUM growth) continued to be strong at 27% yoy in June 2010 marginally ahead of our expectations. Disbursements were up 22% yoy. We continue to model moderate growth in AUM - 24% CAGR between FY2010 and FY2012E. The current buoyancy in the CV cycle provides an upside risk to our estimates.

#### **New business to scale-up over time**

In order to improve its non-fund based income, STFC proposes to set up auto malls. The business rollout has been somewhat delayed than envisaged earlier. The company now proposes to open two auto malls by September.

STFC has recently recruited the senior management team for its construction equipment finance; the business will likely commence operations in next 1-2 quarters.

Operating expenses at STFC continue to be low – cost to income ratio of 25% in 1QFY11 versus 31% in 1QFY10 and 22% in 4QFY10. We are modeling operating expenses ratio of 27% in FY2011E. We believe that the cost will likely increase over time as the new initiatives shape up and growth momentum increases.



**Shriram Transport Finance**  
 Quarterly data (Rs mn)

	1Q10	2Q10	3Q10	4Q10	1Q11	YoY(%)	1Q11E	Actual vs KS (%)
<b>Profit and loss statement</b>								
Total operational income	10,233	10,631	11,553	11,993	12,465	22		
Income on securitised loans	1,037	1,044	1,208	3,241	3,725	259		
Total interest expense	5,384	5,248	5,828	5,730	5,450	1		
Interest expenditure	5,384	5,248	5,828	5,521	5,450	1		
Mark to market loss on Swaps								
<b>Net operational income (before provisions)</b>	<b>4,848</b>	<b>5,382</b>	<b>5,725</b>	<b>6,472</b>	<b>7,014</b>	<b>45</b>	<b>6,303</b>	<b>11</b>
Net operational income	4,848	5,382	5,725	6,472	7,014	45	6,303	11
Net interest income	3,811	4,338	4,517	3,231	3,289	(14)	-	-
Provision and credit costs	949	1,122	1,013	1,022	1,281	35	1,000	28
<b>Net operational income after provisions</b>	<b>3,899</b>	<b>4,261</b>	<b>4,712</b>	<b>5,450</b>	<b>5,733</b>	<b>47</b>	<b>5,303</b>	<b>8</b>
Other income	64	32	126	89	360	465	100	260
Fees from trading	62	NA	NA	82	61	—	—	—
<b>Total income</b>	<b>4,912</b>	<b>5,414</b>	<b>5,851</b>	<b>6,561</b>	<b>7,374</b>	<b>50</b>	<b>6,403</b>	<b>15</b>
<b>Operating expenses</b>	<b>1,494</b>	<b>1,230</b>	<b>1,250</b>	<b>1,414</b>	<b>1,747</b>	<b>17</b>	<b>1,589</b>	<b>10</b>
Employee expenses	558	535	547	611	860	54	650	32
Other expenses	856	650	671	773	915	7	899	2
Depreciation	79	44	32	30	28	(65)	40	(30)
<b>Pretax income</b>	<b>2,469</b>	<b>3,063</b>	<b>3,589</b>	<b>4,125</b>	<b>4,346</b>	<b>76</b>	<b>3,814</b>	<b>14</b>
Tax provisions	825	988	1,219	1,482	1,456	76	1,335	9
<b>Net Profit</b>	<b>1,644</b>	<b>2,075</b>	<b>2,369</b>	<b>2,643</b>	<b>2,890</b>	<b>76</b>	<b>2,479</b>	<b>17</b>
<b>PBT (excl provisions and extraordinaries)</b>	<b>3,418</b>	<b>4,185</b>	<b>4,602</b>	<b>5,147</b>	<b>5,627</b>	<b>65</b>	<b>4,814</b>	<b>17</b>
Tax rate (%)	33	32	34	36	33	—	35	—
<b>Other details</b>								
<b>Disbursements (Rs mn)</b>	<b>32,596</b>	<b>35,763</b>	<b>39,500</b>	<b>39,029</b>	<b>39,735</b>	<b>22</b>		
Pre-owned	26,378	28,663	32,500	30,897	33,331	26		
New	6,217	7,100	7,000	8,132	6,404	3		
Securitisation during the period (Rs mn)	1,946	12,084	18,593	54,940				
O/s Truck assets (Rs mn)	193,359	203,575	215,520	179,451	209,228			
Off balance sheet truck assets (Rs mn)	49,391	54,663	54,510	111,800	99,161			
<b>Total truck assets under management (Rs mn)</b>	<b>242,750</b>	<b>258,237</b>	<b>270,030</b>	<b>291,251</b>	<b>308,389</b>	<b>27</b>	<b>303,438</b>	<b>2</b>
Used vehicle / total assets under management (%)	77	79	74	76	76			
New vehicle / total assets under management (%)	23	21	26	24	24			
NIMs (KS calc - %)	8.2	8.6	8.5	9.0	9.4	15	8.5	
Yield on loan on bal sheet (%)	19.7	19.3	19.7	17.7	18.3			
Cost of borrowings (%)	10.7	10.1	10.6	11.2	11.5			
Spreads (%)	9.1	9.2	9.1	6.6	6.8			
RoA (%)	2.7	3.2	3.5	3.9	4.2			
RoE (%)	26.2	29.6	31.0	30.0	29.0			
Cost to income (%)	30.8	22.8	21.8	21.8	24.9			
<b>Gross NPLs(%)</b>	<b>2.2</b>	<b>2.3</b>	<b>2.4</b>	<b>2.8</b>	<b>2.5</b>			
Gross NPL (Rs mn)	4,300	4,676	5,245	5,112	5,095			
Net NPLs(%)	0.8	0.7	0.7	0.7	0.4			
Net NPL (Rs mn)	1,542	1,319	1,439	1,284	881			
<b>Capital adequacy ratio (%)</b>	<b>17</b>	<b>17</b>	<b>17</b>	<b>21</b>	<b>23</b>			
Debt equity ratio (X)	7.47	7.35	7.29	4.80	4.73			
<b>Balance sheet</b>								
Fixed assets	1,279	784	490	464	449			
Loans and advances	774	928	769	912	1,382			
Cash and bank	37,610	44,796	47,054	45,373	40,078			
Investments	13,243	10,410	12,557	18,560	17,666			
Truck receivables	193,346	203,568	215,520	179,460	203,228			
Current assets	4,430	4,521	6,967	24,726	22,183			
<b>Total</b>	<b>250,682</b>	<b>265,007</b>	<b>283,357</b>	<b>269,495</b>	<b>284,986</b>			
Shareholders funds	26,985	29,041	30,950	38,423	41,316			
Equity capital	2,116	2,117	2,128	2,255	2,255			
Reserves	24,869	26,924	28,822	36,168	39,061			
Loans	201,659	213,459	225,561	184,598	195,289			
Current liabilities	22,039	22,771	26,845	46,474	48,380			
Deferred tax liabilities	-	-	-	-	-			
<b>Total</b>	<b>250,683</b>	<b>265,271</b>	<b>283,357</b>	<b>269,495</b>	<b>284,985</b>			

Source: Company, Kotak Institutional Equities estimates

Shriram Transport Finance - Old and New estimates  
March fiscal year-ends, 2011-2012E (Rs mn)

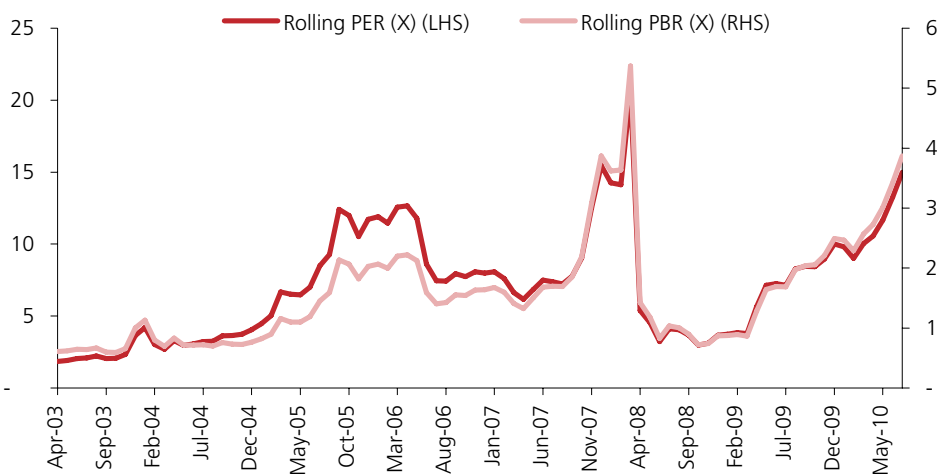
	Old estimates		New estimates		% change	
	2011E	2012E	2011E	2012E	2011E	2012E
Net interest income (a)	27,842	34,960	28,776	35,623	3	2
Loans (including securitised loans)	364,752	446,738	364,752	446,738	—	—
<b>YoY(%)</b>	<b>25.2</b>	<b>22.5</b>	<b>25.2</b>	<b>22.5</b>		
<b>NII/ AUMs (%)</b>	<b>8.5</b>	<b>8.6</b>	<b>8.8</b>	<b>8.8</b>		
NPL provisions	5,652	6,941	5,138	6,813	(9)	(2)
Operating expenses	6,721	8,268	6,721	8,268	—	—
Employee	2,636	3,118	2,636	3,118	—	—
Others	4,085	5,150	4,085	5,150	—	—
PBT	16,469	20,950	17,917	21,742	9	4
Tax	5,517	7,018	6,002	7,283	9	4
<b>PAT</b>	<b>10,952</b>	<b>13,932</b>	<b>11,915</b>	<b>14,458</b>	<b>9</b>	<b>4</b>
<b>PBT-provisions- extraordinary (b)</b>	<b>22,121</b>	<b>27,891</b>	<b>23,055</b>	<b>28,554</b>	<b>4</b>	<b>2</b>

Note

(a) Includes income on securitised assets

Source: Kotak Institutional Equities

STFC- 1 year forward PER and PBR (X)



Source: Company, Bloomberg, Kotak Institutional Equities estimates

## Shriram Transport Finance - key ratios, March fiscal year-ends, 2008-2012E (Rs mn)

	2008	2009	2010E	2011E	2012E
<b>Growth in key parameters (%)</b>					
Loans	80.0	18.8	0.2	29.0	22.0
Total assets	68.6	36.8	7.8	21.8	19.0
Borrowings	69.2	36.1	(8.3)	41.7	18.4
Net interest income	73.7	45.9	30.1	29.3	23.8
Operating expenses	50.9	47.9	5.4	21.9	23.0
<b>Key ratios(%)</b>					
Yield on assets	19.2	19.7	20.9	21.2	20.9
Average cost of funds	11.0	11.3	11.3	11.1	11.1
Difference	8.1	8.3	9.6	10.1	9.8
Net interest income/earning assets	8.3	8.0	9.0	10.5	10.6
NII/ AUMs(%)	7.4	8.1	8.6	8.8	8.8
Operating expenses/total income	29.7	29.9	24.1	22.6	22.5
Tax rate	35.7	33.5	33.5	33.5	33.5
Dividend payout ratio	30.5	19.5	30.0	30.0	30.0
Debt/ equity (X)	8.14	8.69	4.80	5.67	5.58
<b>Du Pont Analysis</b>					
<b>(% of average AUMs)</b>					
Net interest income	7.4	8.1	8.6	8.8	8.8
Loan loss provisions	1.5	1.4	1.6	1.6	1.7
Net other income	0.1	0.2	0.2	0.3	0.3
Operating expenses	2.2	2.5	2.1	2.0	2.0
(1- tax rate)	64.3	66.5	65.9	66.5	66.5
<b>ROA</b>	<b>2.5</b>	<b>2.9</b>	<b>3.4</b>	<b>3.6</b>	<b>3.6</b>
Average AUMs/average equity (X)	10.9	10.2	8.4	7.8	8.0
<b>ROE</b>	<b>26.9</b>	<b>29.6</b>	<b>28.4</b>	<b>28.2</b>	<b>28.4</b>

Source: Company, Kotak Institutional Equities estimates

Shriram Transport Finance. - Income statement and balance sheet, March fiscal year-ends, 2008-2012E (Rs mn)

	2008	2009	2010E	2011E	2012E
<b>Income statement</b>					
Total interest income	24,687	36,875	44,075	53,546	67,343
Total interest expense	12,966	19,777	21,826	24,769	31,720
<b>Net interest income</b>	<b>11,721</b>	<b>17,098</b>	<b>22,249</b>	<b>28,776</b>	<b>35,623</b>
Provisions and write/off	2,311	3,049	4,106	5,138	6,813
<b>Net interest income (after prov.)</b>	<b>9,410</b>	<b>14,049</b>	<b>18,143</b>	<b>23,638</b>	<b>28,810</b>
Other income	182	385	620	1,000	1,200
<b>Operating expenses</b>	<b>3,534</b>	<b>5,228</b>	<b>5,512</b>	<b>6,721</b>	<b>8,268</b>
Employee expenses	1,252	2,005	2,251	2,636	3,118
Depreciation	371	404	163	164	178
Advt and commission/brokerage	662	875	945	1,134	1,361
Sourcing and collection commission	6	9	30	30	30
Other expenses	1,309	1,977	2,114	2,748	3,573
<b>Pretax income</b>	<b>6,058</b>	<b>9,206</b>	<b>13,251</b>	<b>17,917</b>	<b>21,742</b>
Tax provisions	2,160	3,082	4,514	6,002	7,283
<b>Net Profit</b>	<b>3,898</b>	<b>6,124</b>	<b>8,737</b>	<b>11,915</b>	<b>14,458</b>
<b>% growth</b>	<b>105</b>	<b>57</b>	<b>43</b>	<b>36</b>	<b>21</b>
<b>EPS (Rs)</b>	<b>19</b>	<b>30</b>	<b>39</b>	<b>53</b>	<b>65</b>
<b>% growth</b>	<b>86</b>	<b>57</b>	<b>30</b>	<b>36</b>	<b>21</b>
<b>BPS (Rs)</b>	<b>89</b>	<b>114</b>	<b>172</b>	<b>207</b>	<b>249</b>
<b>ABVPS (Rs)</b>	<b>86</b>	<b>110</b>	<b>166</b>	<b>195</b>	<b>237</b>
<b>Balance sheet</b>					
<b>Total Loans</b>	<b>150,751</b>	<b>179,071</b>	<b>179,460</b>	<b>231,567</b>	<b>282,608</b>
Investments	80	80	80	80	80
Cash & deposits	13,742	57,849	45,373	53,660	64,816
Loans and advances	405	4,437	912	1,186	1,541
Net fixed assets	1,426	1,343	465	397	273
Other current assets	2,508	386	23,979	24,063	24,147
<b>Total assets</b>	<b>182,684</b>	<b>249,897</b>	<b>269,496</b>	<b>328,324</b>	<b>390,837</b>
<b>Total Borrowings</b>	<b>147,864</b>	<b>201,213</b>	<b>184,598</b>	<b>261,631</b>	<b>309,889</b>
Current liabilities	13,595	21,191	42,147	16,210	19,783
Provisions	2,703	4,327	4,327	4,327	5,625
Deffered tax liabilities	359	—	—	—	—
<b>Total liabilities</b>	<b>164,520</b>	<b>226,731</b>	<b>231,072</b>	<b>282,167</b>	<b>335,297</b>
Share capital	2,032	2,035	2,231	2,231	2,231
Reserves	16,132	21,131	36,168	43,901	53,285
<b>Shareholders fund</b>	<b>18,164</b>	<b>23,166</b>	<b>38,423</b>	<b>46,156</b>	<b>55,540</b>
<b>Truck AUM</b>	<b>194,761</b>	<b>227,400</b>	<b>291,260</b>	<b>364,752</b>	<b>446,738</b>

Source: estimates, Company, Kotak Institutional Equities estimates

JULY 22, 2010

**RESULT**

Coverage view: **Neutral**

Price (Rs): **46**

Target price (Rs): **47**

BSE-30: **18,113**

**The curious case of weak 1QFY11 results despite strong operating data.** Dish TV reported weaker-than-expected 1QFY11 results with EBITDA at Rs322 mn (+122% yoy, -8% qoq), below our expectations (Rs450 mn) and those of the street (Rs380 mn). However, the negative variance was due to stronger-than-expected 0.64 mn gross subscriber addition with impact on (1) blended ARPU and (2) advertising expenses. We retain our ADD rating though upside at current levels is limited; we discuss TRAI's recent tariff order that may provide upside to current TP (pending clarifications).

#### Company data and valuation summary

DishTV

##### Stock data

52-week range (Rs) (high,low) 54-32

Market Cap. (Rs bn) 48.8

##### Shareholding pattern (%)

Promoters 64.8

FIs 16.6

MFs 4.7

##### Price performance (%)

	1M	3M	12M
Absolute	5.8	23.4	12.2
Rel. to BSE-30	3.6	19.7	(8.0)

##### Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	(2.5)	(1.8)	0.1
EPS growth (%)	(62.0)	(28.8)	(107.4)
P/E (X)	(18.4)	(25.8)	350.5
Sales (Rs bn)	10.8	13.9	17.5
Net profits (Rs bn)	(2.7)	(1.9)	0.1
EBITDA (Rs bn)	0.9	2.3	4.4
EV/EBITDA (X)	60.8	24.5	13.0
ROE (%)	249.3	(59.7)	6.1
Div. Yield (%)	0.0	0.0	0.0

#### 1QFY11 results analysis—bridging the gap between operating and financial performance

- ▶ Dish TV reported weak 1QFY11 results with EBITDA at Rs322 mn (+122% yoy; -8% qoq) below our and street estimates; the negative variance was despite very strong operating performance (stronger-than-expected gross additions, lower-than-expected churn rate); it may not continue since 1QFY11 featured robust sports calendar (IPL, FIFA WC).
- ▶ Exhibit 2 presents the trend in subscriber additions and EBITDA margins of Dish TV over the last few quarters; we highlight that operating performance drops when Dish TV reports strong subscriber addition due to reduced blended ARPUs (new subs) and increased advertising and distribution expenses but subsequently recovers in the following quarters.
- ▶ Dish TV reported gross subscriber addition of 0.64 mn, ahead of our expectation. Net subscriber addition at 0.52 mn was, further ahead of our 0.44 mn expectation. Churn rate dropped to around 8.1% (annualized) versus >10% in the last 2 quarters; however, churn may increase going forward as DITV noted churn-back due to sports in 1QFY11.

#### Full valuations capture potential for strong growth; regulatory drivers emerging positive

Dish TV is seeing robust growth in its subscriber base led by demand and uptake of digital services (better picture quality, more number of channels) among the Indian households; however, we also caution that 1QFY11 must not be seen as the benchmark given strong sports season. The strong growth in volumes will likely result in robust operating leverage (given relatively large fixed cost model). Nonetheless, we believe the potential for strong growth and sharp improvement in financials (5.1X increase in EBITDA between FY2010-12E) is captured in relatively full valuations at 12X FY2012E EBITDA. Even our relative valuation comparable with Indian telecom does not provide any headroom for upside (see Exhibit 3). However, regulatory drivers are emerging (TRAI's recent order on wholesale pricing of channels/bouquet of channels, which we discuss later in the note), which may provide potential for further upside.

Amit Kumar  
 amit.ckumar@kotak.com  
 Mumbai: +91-22-6634-1392

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

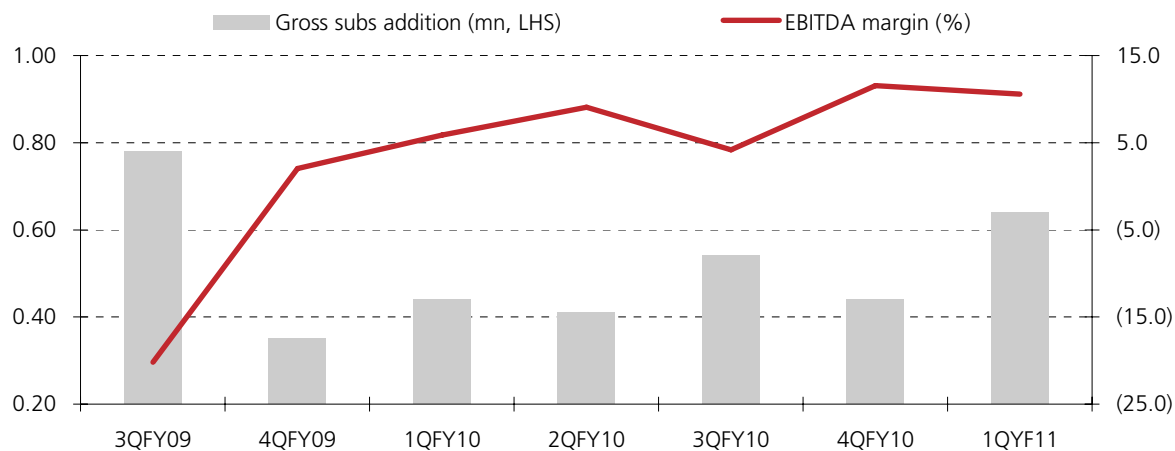
## Interim results of Dish TV India (DITV), March fiscal year-ends (Rs mn)

	1QFY11	1QFY11E	1QFY10	4QFY10	(% chg)			FY2010	FY2009	(% chg)
					1QFY11E	1QFY10	4QFY10			
<b>Total revenues</b>	<b>3,043</b>	<b>3,125</b>	<b>2,467</b>	<b>3,032</b>	<b>(3)</b>	<b>23</b>	<b>0</b>	<b>10,848</b>	<b>7,376</b>	<b>47</b>
DTH service revenues	2,945	2,950	2,270	2,710	(0)	30	9	9,880	6,887	43
--Subscription	2,495	2,500	1,920	2,300	(0)	30	8			
--Rental Income	450	450	350	410	-	29	10			
Bandwidth revenue	55	75	27	45	(27)	104	22	167	261	(36)
Other operating revenues	43	100	170	277	(57)	(75)	(84)	801	229	251
<b>Total expenditure</b>	<b>(2,721)</b>	<b>(2,675)</b>	<b>(2,322)</b>	<b>(2,682)</b>	<b>2</b>	<b>17</b>	<b>1</b>	<b>(9,986)</b>	<b>(9,264)</b>	<b>8</b>
Direct operating costs	(1,794)	(1,775)	(1,642)	(1,868)	1	9	(4)	(7,030)	(5,406)	30
--Programming cost	(1,220)	(1,150)	(1,068)	(1,187)	6	14	3			
--Other direct cost	(574)	(625)	(574)	(681)	(8)	(0)	(16)			
<b>Advertising expenses</b>	<b>(249)</b>	<b>(200)</b>	<b>(150)</b>	<b>(182)</b>	<b>25</b>	<b>66</b>	<b>37</b>	<b>(752)</b>	<b>(898)</b>	<b>(16)</b>
<b>Distribution expenses</b>	<b>(421)</b>	<b>(450)</b>	<b>(318)</b>	<b>(334)</b>	<b>(6)</b>	<b>32</b>	<b>26</b>	<b>(1,266)</b>	<b>(1,611)</b>	<b>(21)</b>
Employee expenses	(123)	(100)	(101)	(110)	23	22	12	(405)	(395)	3
Overhead expenses	(134)	(150)	(111)	(187)	(11)	21	(28)	(533)	(954)	(44)
<b>EBITDA</b>	<b>322</b>	<b>450</b>	<b>145</b>	<b>350</b>	<b>(28)</b>	<b>122</b>	<b>(8)</b>	<b>862</b>	<b>(1,888)</b>	<b>(146)</b>
<b>OPM (%)</b>	<b>10.6</b>	<b>14.4</b>	<b>5.9</b>	<b>11.5</b>				<b>7.9</b>	<b>(25.6)</b>	
Other income	69	—	54	5				53	13	309
Interest expense	(134)	(100)	(202)	(106)	34	(34)	26	(485)	(727)	(33)
Depreciation	(889)	(900)	(689)	(846)	(1)	29	5	(3,044)	(2,154)	41
<b>Pretax profits</b>	<b>(632)</b>	<b>(550)</b>	<b>(692)</b>	<b>(597)</b>	<b>15</b>	<b>(9)</b>	<b>6</b>	<b>(2,613)</b>	<b>(4,756)</b>	<b>(45)</b>
<b>PBTM (%)</b>	<b>(20.8)</b>	<b>(17.6)</b>	<b>(28.1)</b>	<b>(19.7)</b>				<b>(24.1)</b>	<b>(64.5)</b>	
Extraordinaries	—	—	—	—				—	—	
Tax provision	—	—	—	—				—	(7)	
Minority interest	—	—	—	—				—	—	
<b>Net income</b>	<b>(632)</b>	<b>(550)</b>	<b>(692)</b>	<b>(597)</b>	<b>15</b>	<b>(9)</b>	<b>6</b>	<b>(2,613)</b>	<b>(4,763)</b>	<b>(45)</b>
<b>Operational data</b>										
Gross subscribers (mn)	7.54	7.50	5.51	6.90	1	37	9			
<b>Net paying subscribers (mn)</b>	<b>6.18</b>	<b>6.10</b>	<b>4.64</b>	<b>5.66</b>	<b>1</b>	<b>33</b>	<b>9</b>			
<b>Subs ARPU (Rs/sub/month)</b>	<b>139</b>	<b>142</b>	<b>142</b>	<b>138</b>	<b>(2)</b>	<b>(2)</b>	<b>1</b>			

Source: Company data, Kotak Institutional Equities estimates

- ▶ Dish TV reported DTH subscription and rental revenues of Rs2.5 bn and Rs0.4 bn, in line with our estimates. 1QFY11 ARPU of Rs139 increased from Rs138 in 4QFY10 but below our Rs142 expectation. We note that new subscribers come in as part of various schemes on offer and report nominal ARPUs for the first 1-2 quarters.
- ▶ 1QFY11 programming costs (+14% yoy, +3% qoq) were marginally ahead of our estimates though well within our assumed 18% increase in FY2011E. We highlight that DITV has guided for 10-12% increase in content costs on account of fixed fee deals. However, Zee Entertainment, the sister broadcasting company, noted limited period (one year) of the fixed fee deal and re-negotiations thereafter.
- ▶ 1QFY11 advertising and distribution expenses increased 37% and 26% qoq; the increase was on account of efforts by DITV to capture the full potential of subscriber additions during the robust sports season. Additionally, Dish TV has marketing expenses related to the launch of its High Definition (HD) offering. Nonetheless, subscriber acquisition cost dropped to Rs2,147 from Rs2,383 due to higher subscriber addition.
- ▶ Dish TV was operating the HITS platform on account of its sister company WWIL on an EBITDA-neutral basis. The HITS platform was shut down in 1QFY11 with other operating revenues lower by around Rs200 mn and correspondingly, other direct and overhead costs also declined by Rs150 mn versus 4QFY10.

## Trends in subscriber addition and operating leverage for Dish TV/DTH



Source: Company data, Kotak Institutional Equities

## Comparative valuation of Dish TV, March fiscal year-ends, 2010

Company	22-Jul-10		Wireless	
	Mcap (US\$ bn)	EV (US\$ bn)	Mcap (US\$ bn)	EV (US\$ bn)
Bharti Airtel	24.3	25.6	17.0	17.9
Reliance Comm	8.3	15.8	6.2	11.9
<b>Idea Cellular</b>	<b>4.6</b>	<b>5.4</b>	<b>3.7</b>	<b>4.3</b>

Company	2010				
	Subscribers (mn)	ARPU (Rs/month)	EBITDA margin (%)	EBITDA (Rs/sub)	EV/sub (US\$)
Bharti Airtel	128	244	31	913	140
Reliance Comm	102	161	33	644	116
<b>Idea Cellular</b>	<b>64</b>	<b>207</b>	<b>27</b>	<b>679</b>	<b>68</b>

Dish TV comparative valuation	Comments
Dish TV paying subs base (mn, end-FY2015E)	9.8
Dish TV ARPU (Rs/sub/month, FY2015E)	213 ARPUs 10% lower but rising trend
Dish TV EBITDA margin (% , FY2015E)	34 EBITDA margin ahead of Bharti Airtel
<b>EV/subscriber (US\$, end-FY2015E)</b>	<b>154 10% premium to Bharti Airtel</b>
Enterprise Value (US\$ bn, end-FY2015E)	1.51
Enterprise Value (US\$ bn, end-FY2010E)	0.86
<b>Enterprise Value (Rs bn, end-FY2010E)</b>	<b>40.3</b>
<b>Net debt/(cash) (Rs bn, end-FY2010E)</b>	<b>(1.2) Dish TV rights issue/GDR in FY2010E</b>
Equity value (Rs bn, end-FY2010E)	41.6
Shares outstanding (mn, end-FY2010E)	1,063 Conversion of Dish TV rights issue
<b>Equity value (Rs/share, end-FY2010E)</b>	<b>39</b>

Source: Bloomberg data, Kotak Institutional Equities estimates

### TRAI's order on wholesale tariff/pricing positive, if implemented

We discuss the key provisions of TRAI's latest order on wholesale pricing and its impact on DTH operators in general and Dish TV in particular.

- ▶ TRAI has capped the wholesale tariff/rate (paid by DTH operators to broadcasters) to 35% (versus 50% previously) of the rate specified by the broadcaster on non-addressable (analog) cable systems. This provision is positive for DTH operators provided, if it gets implemented; we (as also DITV) expect resistance from broadcasters since it significantly reduces the subscription revenues realized from DTH platforms (around 40-50% of total subscription revenues despite only around 20% of India's C&S households being on DTH). The content cost of DTH operators will likely reduce as a result, though the benefit is very difficult to quantify currently; Exhibit 4 presents the potential upside (TP of Rs51) in Dish TV stock assuming content cost is 5% lower versus expectation.

However, the provision benefits smaller, relatively late entrants (Reliance and Airtel) more than first-moving large players (Dish TV and TataSky). We note that Dish TV has previously specified fixed/semi-fixed deals with various broadcasters; we believe Dish TV being the largest player in the DTH segment enjoys some bargaining power over the broadcasters and TataSky had also achieved the requisite scale. Thus, actual content costs paid by Dish TV and TataSky are already around 30-40% of non-addressable/analog cable rates. Reliance Big TV and Airtel Digital TV will get the benefit of lower pricing without the required investment in building the necessary scale; they will likely pass the benefit to consumers and compete more aggressively in the market.

#### Sensitivity of Dish TV's valuation to subscribers, ARPUs and content costs

	DCF value (Rs/share)	Change from base case (%)
<b>Change in monthly subscription fees (%)</b>		
10%	62	30
5%	55	16
<b>Base case</b>	<b>47</b>	
-5%	40	(15)
<b>Change in average content costs (%)</b>		
-10%	54	13
<b>-5%</b>	<b>51</b>	<b>7</b>
<b>Base case</b>	<b>47</b>	
5%	45	(6)
10%	42	(12)
<b>Change in # of paying subscribers (%)</b>		
20%	54	14
<b>10%</b>	<b>51</b>	<b>7</b>
<b>Base case</b>	<b>47</b>	
-10%	44	(7)
-20%	41	(14)
<b>Change in churn rate (%)</b>		
-2%	55	16
<b>-1%</b>	<b>51</b>	<b>8</b>
<b>Base case</b>	<b>47</b>	
1%	44	(7)
2%	41	(14)

Source: Kotak Institutional Equities estimates



- ▶ TRAI has mandated all DTH providers to necessarily offer all pay channels to their subscribers on a-la-carte basis and specify the maximum retail price for each pay channel, as payable by the subscriber. This has created some consternation in the ranks of DTH operators given that it is technically and operationally a challenging task to provide completely a-la-carte options to all of their subscribers. We believe the same may be challenging only assuming all the subscribers of a DTH opt for a-la-carte channel options; from a practical standpoint, given the less-than-stellar uptake in add-on packages currently offered by DTH operators, most subscribers will stick with the basic packages offered by the DTH operator.

TRAI has softened the blow by allowing DTH operators to charge a minimum monthly fee not exceeding Rs150 (more than current Dish TV ARPUs) towards channels chosen by the subscriber; we believe the same itself will be a deterrent to the uptake of the a-la-carte option by a majority of the subscribers (Rs150 being the current cap on cost of basic package across DTH operators including nearly all FTA channels and quite a number of pay channels). Exhibit 5 presents the comparison of cost of Dish TV's basic bouquet with the sum of its part (assume retail price at 2X wholesale price). Finally, to ease the operating challenges, TRAI has mandated a minimum subscription period for the subscriber not exceeding 3 months. DTH operators continue to be free to offer bouquet of channels and specify the retail price of the same.

#### Comparison of Dish TV's basic package with sum of cost of constituent a-la-carte pay channels

Channels	Dish TV Silver (Basic)	Cable wholesale price	DTH wholesale price	DTH retail price
Star Plus		18.7	6.5	13.1
Zee TV		13.9	4.9	9.7
Sony TV		21.4	7.5	15.0
Star One		21.9	7.7	15.3
SAB		14.7	5.1	10.3
SET MAX		18.2	6.4	12.7
Zee Cinema		13.9	4.9	9.7
Star Gold		17.7	6.2	12.4
UTV Bindass		10.0	3.5	7.0
ETC Punjabi		9.6	3.4	6.7
Cartoon Network		13.4	4.7	9.4
Discovery		16.0	5.6	11.2
Discovery Science		12.0	4.2	8.4
Discovery Turbo		10.0	3.5	7.0
Aaj Tak		7.5	2.6	5.3
Zee News		8.0	2.8	5.6
Zee Business		5.1	1.8	3.6
Marathi bouquet (a)		45.4	15.9	31.8
Bangla Bouquet (b)		44.2	15.5	30.9
<b>Number of channels</b>	<b>175+</b>			<b>30+</b>
<b>Total cost (a)</b>	<b>150</b>			<b>194</b>

Source: Company data, TRAI, Kotak Institutional Equities estimates

The other provisions are merely a continuation of TRAI's previous policy. We enumerated them below for the sake of completeness.

- ▶ TRAI has mandated every broadcaster to offer all of its pay-channels on a-la-carte basis to DTH operators and specify the a-la-carte rate for each channel as per the provision discussed above. In addition, the broadcasters can also offer bouquet of channels to the DTH operators provided (1) the composition of the bouquet shall be the same as those offered on non-addressable cable systems and (2) pricing is in line with the provision discussed above (35% of non-addressable/analog cable pricing).
- ▶ TRAI has mandated all DTH operators to provide an option to make available Set-Top Box on (1) outright purchase basis, (2) hire purchase basis and (3) rental basis. The DTH operator will allow (1) return of STB and refund security deposit or advance payment after depreciation (not exceed 25% every year) and (2) replacement and maintenance of STB without requiring the customer to make any payment.
- ▶ TRAI has disallowed DTH operators to increase the charges of a subscription package offered to a subscriber for a minimum period of six months from the date of enrolment of the subscriber. However, the subscriber is free to opt for any other subscription package offered by the DTH provider during this period.

Key financial and operating data of Dish TV, March fiscal year-ends, 2007-13E

	2007	2008	2009	2010	2011E	2012E	2013E
Revenues (Rs bn)	1.9	4.1	7.4	10.8	13.9	17.5	19.9
EBITDA (Rs bn)	(1.9)	(2.2)	(1.4)	0.9	2.3	4.4	5.9
<b>EBITDA margin (%)</b>	<b>(97.0)</b>	<b>(52.1)</b>	<b>(18.3)</b>	<b>7.9</b>	<b>16.3</b>	<b>25.2</b>	<b>29.5</b>
<b>Year-end # of paying subscribers (mn)</b>	<b>1.6</b>	<b>2.5</b>	<b>4.3</b>	<b>5.7</b>	<b>7.1</b>	<b>8.2</b>	<b>9.0</b>
Increase/(decrease) in # of paying subs (mn)	0.9	0.9	1.8	1.4	1.4	1.1	0.8
Average # of paying subscribers (mn)	1.2	2.1	3.4	5.0	6.4	7.6	8.6
<b>Net subscription fees (Rs/sub/month)</b>	<b>98</b>	<b>130</b>	<b>143</b>	<b>140</b>	<b>147</b>	<b>157</b>	<b>169</b>
<b>Gross subscription fees (Rs/sub/month)</b>	<b>135</b>	<b>166</b>	<b>182</b>	<b>182</b>	<b>181</b>	<b>191</b>	<b>193</b>

Source: Company data, Kotak Institutional Equities estimates

## Financial summary of Dish TV, March fiscal year-ends, 2007-13E (Rs mn)

	2007	2008	2009	2010E	2011E	2012E	2013E
<b>Profit model</b>							
Net revenues	1,909	4,127	7,377	10,848	13,865	17,513	19,869
<b>EBITDA</b>	<b>(1,852)</b>	<b>(2,152)</b>	<b>(1,350)</b>	<b>862</b>	<b>2,265</b>	<b>4,412</b>	<b>5,858</b>
Other income	34	30	13	710	750	714	727
Interest (expense)/income	(118)	(513)	(1,019)	(1,184)	(1,022)	(1,202)	(1,267)
Depreciation	(565)	(1,480)	(2,144)	(3,043)	(3,883)	(3,920)	(4,228)
Amortization	(10)	(10)	(10)	—	—	—	—
<b>Pretax profits</b>	<b>(2,511)</b>	<b>(4,126)</b>	<b>(4,511)</b>	<b>(2,655)</b>	<b>(1,890)</b>	<b>5</b>	<b>1,090</b>
Extraordinary items	(5)	—	(244)	—	—	—	—
Tax	(3)	(6)	(7)	—	—	(1)	(123)
Deferred taxation	—	—	—	—	0	135	206
<b>Net income</b>	<b>(2,519)</b>	<b>(4,132)</b>	<b>(4,763)</b>	<b>(2,655)</b>	<b>(1,890)</b>	<b>139</b>	<b>1,172</b>
<b>Earnings per share (Rs)</b>	<b>(5.9)</b>	<b>(9.6)</b>	<b>(6.9)</b>	<b>(2.5)</b>	<b>(1.8)</b>	<b>0.1</b>	<b>1.1</b>
<b>Balance sheet</b>							
Total equity	(395)	(4,527)	(6,241)	4,111	2,221	2,360	3,532
Deferred taxation liability	—	—	—	—	0	(135)	(341)
Total borrowings	1,751	5,266	11,311	7,015	9,015	11,015	11,015
Current liabilities	8,596	11,376	15,899	14,196	14,369	13,311	12,289
<b>Total liabilities and equity</b>	<b>9,952</b>	<b>12,116</b>	<b>20,969</b>	<b>25,322</b>	<b>25,605</b>	<b>26,551</b>	<b>26,495</b>
Cash	113	199	540	2,444	1,249	1,403	1,618
Other current assets	2,271	3,276	8,297	8,701	8,959	9,271	9,474
Total fixed assets	6,107	7,190	11,187	13,233	14,452	14,932	14,458
Intangible assets	516	506	—	—	—	—	—
Investments	945	945	945	945	945	945	945
<b>Total assets</b>	<b>9,952</b>	<b>12,116</b>	<b>20,969</b>	<b>25,322</b>	<b>25,605</b>	<b>26,551</b>	<b>26,495</b>
<b>Free cash flow</b>							
Operating cash flow, excl. working capital	(1,814)	(2,552)	(2,675)	(322)	1,244	3,210	4,468
Working capital changes	3,507	2,129	(883)	(2,106)	(85)	(1,370)	(1,224)
Capital expenditure	(2,921)	(2,579)	(5,102)	(5,089)	(5,102)	(4,400)	(3,755)
Investments	(451)	(293)	14	—	—	—	—
Other income	5	9	11	710	750	714	727
<b>Free cash flow</b>	<b>(1,674)</b>	<b>(3,287)</b>	<b>(8,635)</b>	<b>(6,807)</b>	<b>(3,194)</b>	<b>(1,846)</b>	<b>215</b>
<b>Ratios (%)</b>							
Debt/equity	(443.6)	(116.3)	(181.3)	170.7	405.9	466.8	311.9
Net debt/equity	(414.9)	(111.9)	(172.6)	111.2	349.7	407.3	266.1
ROAE (%)	(331.3)	167.9	88.5	249.3	(59.7)	6.3	43.3
<b>ROACE (%)</b>	<b>(283.2)</b>	<b>(345.3)</b>	<b>(120.4)</b>	<b>(18.2)</b>	<b>(7.8)</b>	<b>301.6</b>	<b>18.5</b>

Source: Company data, Kotak Institutional Equities estimates

**JULY 23, 2010**
**UPDATE**
**Coverage view: Attractive**
**Price (Rs): 810**
**Target price (Rs): 865**
**BSE-30: 18,113**

**Mgmt appears upbeat on inflow and execution.** TMX appears upbeat on inflows and execution. However, inflows excluding the Rs6 bn order lack significant traction vs FY2010 quarterly average. Other takeaways – (1) plan to bid for 800 MW tender but 660 MW is still under evaluation, (2) inflow traction in water but it may not be sizeable as yet, (3) potential opportunities in SPX JV, solar-thermal and nuclear. We have built in strong assumptions for the rest of 9MFY11; although visibly high growth in 1QFY11 includes a base effect. Tweak estimates; retain ADD with a target price of Rs865.

**Company data and valuation summary**

Thermax

**Stock data**

52-week range (Rs) (high,low) 814-390

Market Cap. (Rs bn) 96.5

**Shareholding pattern (%)**

Promoters 62.0

FIs 8.9

MFs 12.1

**Price performance (%)**

	1M	3M	12M
Absolute	9.6	12.0	88.4
Rel. to BSE-30	7.4	8.7	54.4

**Forecasts/Valuations**

	2010	2011E	2012E
EPS (Rs)	21.7	29.5	39.7
EPS growth (%)	(10.4)	35.9	34.4
P/E (X)	37.3	27.4	20.4
Sales (Rs bn)	33.7	46.1	61.9
Net profits (Rs bn)	2.6	3.5	4.7
EBITDA (Rs bn)	3.9	5.3	7.3
EV/EBITDA (X)	21.9	16.5	11.8
ROE (%)	25.0	29.5	32.2
Div. Yield (%)	0.6	1.1	1.4

**TMX upbeat on inflow and execution; but excl. Rs6 bn order inflows just in line with FY2010**

TMX appears upbeat on inflows and order enquiries (a positive takeaway for capex environment), and cited that every business had yoy growth in inflows in 1QFY11. However, inflows excluding the Rs6 bn order fail to show significant traction vs FY2010 – Rs8.6 bn inflow in energy (vs a four quarter average of Rs9 bn) and Rs3 bn in environment (in line with the past four quarter average). For FY2011E, mgmt expects – (1) strong execution on the back of large backlog, (2) continued order traction driven by power and steel sectors, and (3) margins within 100 bps yoy variation.

**Plan to bid for 800 MW tender, 660 MW under eval.; traction in water business but margins low**

TMX plans to bid for 800 MW tender, expected in Sep 2010. Re-tender of 660 MW could be an opportunity which TMX is stills evaluating. JV facility is expected to be ready by end-FY2012. The mgmt believes that majority of utility plants would be based on super-critical; while sub-critical orders would be driven by expansion projects and captive plants. TMX reported continued traction in orders in the water business, however, it may not be sizeable as yet. The management expects to achieve low double digit margins in the business by FY2012E through focus on high-tech areas.

**Build strong assumptions for rem-9MFY11E; visibly high growth in 1QFY11 include base effect**

For rem-9MFY11E, we estimate revenues of Rs36 bn, up 36% yoy. We note that high growth in 1QFY11 was partially led by base effect as revenues were down 25% yoy in 1QFY10. 1QFY11 revenues are only about 10% up versus 1QFY09. Our assumption of Rs36 bn revenues for rem-9MFY11E implies 41% growth versus rem-9MFY09. EBITDA margins are expected to remain almost flat at 11.5% as operating leverage may cushion most of the impact of commodity prices.

**Marginally revise estimates on higher execution in large projects; retain ADD with TP: Rs865**

We revise estimates to Rs30 and Rs40 (from Rs29 and Rs38) for FY2011E and FY2012E, respectively, on slightly higher execution of large orders. Our TP of Rs865 (Rs835 earlier) comprises – (1) Rs790 for core business (20X P/E on FY12E) and (b) Rs75 for super critical JV. We retain ADD despite limited upside to target price based on potential pick-up in capex environment (in line with management commentary) although high expectations and valuations limit positive stance.

 Lokesh Garg  
 lokesh.garg@kotak.com  
 Mumbai: +91-22-6634-1496

 Supriya Subramanian  
 supriya.subramanian@kotak.com  
 Mumbai: +91-22-6634-1383

 Nitij Mangal  
 nitij.mangal@kotak.com  
 Mumbai: +91-22-6634-1453

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

### Thermax appears upbeat on inflows, order enquiries and execution

Thermax management appears upbeat on inflows and order enquiries and highlighted that every business has shown yoy growth in inflows 1QFY11. The management commentary also indicates a positive takeaway for the overall capex environment. The company received orders worth Rs17 bn in 1QFY11 (Rs14 bn in energy segment and Rs3 bn in environment) versus Rs10 bn in 1QFY10. However, order inflow excluding the large Rs5.8 bn order does not indicate significant order traction versus FY2010 quarterly average – Rs8.6 bn inflow in energy segment (vs. last four quarter average of Rs9.1 bn) and Rs3 bn in environment segment (in line with last four quarter average). The company reported standalone backlog of Rs63 bn at end-1QFY11. Energy segment contributed Rs54 bn (up 20% qoq) while environment segment contributed Rs9 bn (up 18% qoq) to the order book.

### Management expects strong execution in FY2011E; margins within 100 bps yoy

The management expects strong execution in FY2011E on the back of a large order backlog and believes that the only potential constraint could be availability of funds with the clients. Two large orders – Meenakshi and Essar – are expected to contribute about 20% of the revenues in FY2011E. Thermax recognized revenues of about Rs 300-400 mn from Essar order (total value Rs3.8 bn) in FY2010. Otherwise revenues are expected to be fairly spread out across projects. The management expects to see continued order traction primarily from power and steel sectors (both small-sized sponge iron plants and expansion at large facilities). The management expects FY2011E margins to be with 100 bps variation yoy.

### Plans to bid for 800 MW tender; decision to bid for 660 MW under evaluation

The company plans to place bids for 800 MW bulk tender, expected to be opened around Sep 2010. Re-tendering of 660 MW boilers could be an incremental opportunity for the company which it is still evaluating even though it may be technically ready to bid. The management cited progress on land acquisition for super-critical JV and expects to make related announcement towards end-August. The JV facility is expected to be ready around end-FY2012 and the company expects to book major orders in FY2011-12E. The company would prefer to bid for independent boiler orders in the JV and would go for BTG orders via consortium only depending on the customer needs. Thermax does not plan to place EPC bids in super-critical as it would lead to high single project risk for the company.

### Utility to move to super-critical; sub-critical orders from expansion & captive projects

The management believes that a substantial part of utility capacity addition would be using super-critical technologies going forward. Sub-critical may constitute about 1/3rd of the total market largely driven by (1) captive plants setting up additional capacities to benefit from merchant power sale, and (2) expansion plans at current sub-critical units. Unit sizes are expected to be mainly 2x135 MW through 2x300 MW in sub-critical.

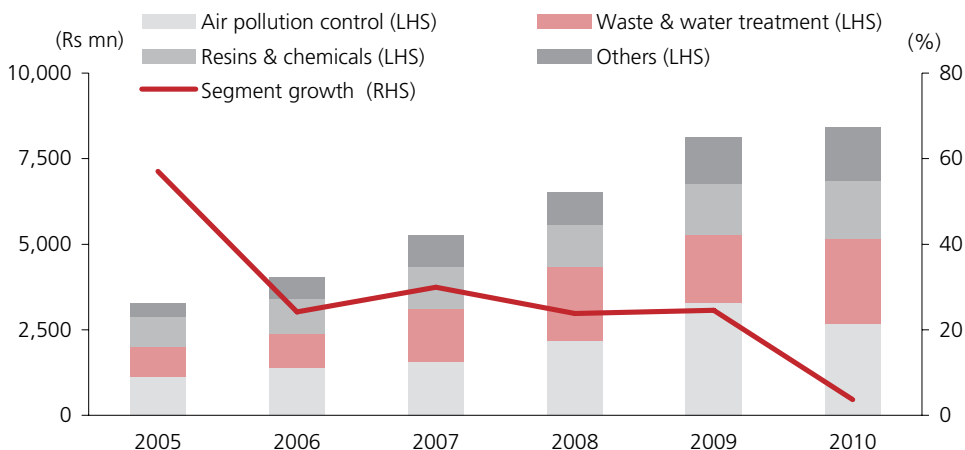
**Gas segment opportunities in small captive plants and coal-to-gas conversion**

The gas-based Combined Cycle Power Plant (CCPP) order would re-establish company's presence in the gas-based segment as the company would be executing such an order after a gap of about 18 years. The management believes in significant upcoming opportunity in the gas-based segment with the availability of gas in the country. The management also mentioned that there are only a few players in the country who are technically qualified to undertake such a projects (BHEL, L&T and Thermax were the three bidders in this case) and hence the company could have the opportunity to secure projects in a less competitive segment. Thermax, in particular, plans to be present in (1) small sized captive power plants (10-100MW), (2) building heating and cooling systems as waste gas from the heating system itself could be used for about one-half of the cooling energy requirement, and (3) conversion of coal-based plants to gas-fired plants.

**Traction in water orders; margins may improve in 1-2 years with high-tech focus**

The company reported continued traction in water and waste treatment orders including (1) order for entire 400 km of Delhi Metro, (2) about 80% of the water and waste treatment works for Commonwealth Games, (3) all of the water related orders for Terminal 3 at Delhi Airport, (4) sewage treatment order from an SEZ, and (5) order for Delhi Municipal Co. civic center which is one of the tallest building currently existing in the country. However, the margins in the segment continue to remain below the rest of the business. The company expects to achieve double digit margins in FY2012E as it has been focusing on slightly high-tech niche areas such as membrane bio-reactors, chemical and mechanical technologies and patented electronic destructors. The business is operated as three units – municipal, industrial and products – all of which are expected to show significant growth. Water and waste water treatment business also exhibited strong 24% yoy growth in FY2010 and constituted about 30% of the segment revenues (versus 25% in FY2009).

**Water business grew 24% yoy in FY2010 to constitute about one-third of segment revenues**  
Sales mix of environment segment for Thermax, March fiscal year-ends, 2009-10



Source: Company, Kotak Institutional Equities

**Other opportunities in absorption chillers, SPX JV, solar-thermal and nuclear**

- ▶ **Absorption chillers** market in India is expected to be about Rs1 bn in FY2011E where Thermax would have about 75-80% share.
- ▶ **SPX JV** is operational and generated enquiries worth Rs5 bn. With a gestation period of 6-9 months, the company expected to see order booking in 3QFY11E and significant revenues in FY2011E. Overall, the market opportunity is expected to be about Rs10 bn where Thermax would aim to achieve about 25-35% market share in about 3 years.

- ▶ **Solar-thermal:** The company is making headway into the space with small-sized projects (250 kW project and school projects) as it expects the segment to become sizeable in about 5 years or so.
- ▶ **Nuclear:** Thermax plans to participate in non-core packages in NPCIL projects. Although B&W is an established player in nuclear energy in North America; opportunity from such a tie-up could materialize only when the regulations allow foreign entry into the space.

#### Other takeaways from the conference call

- ▶ Proposed **chemical factory in Gujarat** has received MOEF clearance and is expected to be up and running in about 18 months.
- ▶ **Exports revenue** were down 6% yoy in 1QFY11 which indicates continued slowdown in the international market.
- ▶ **SAIL order** saw significant execution in FY2010 itself as most of the equipment deliveries were completed. FY2011E would see execution of balance work, primarily commissioning.
- ▶ **Manpower** recruitment may be one the main challenges for the company, particularly in the super-critical JV, as the country prepares to set up so many power plants.
- ▶ **Cash of Rs9.3 bn** at end-1QFY11.
- ▶ **Capex** for FY2011E would include about Rs1.8 bn for super-critical JV, Rs0.8 bn for chemical factory, and Rs0.4 bn for Sholapur plant.
- ▶ The 3,000 TR chiller testing facility of the company commissioned one of the largest chillers in a textile mill in the country.

#### Strong assumptions for rem-9MFY11E; growth in 1QFY11 include base effect

For remaining-9MFY11E, we estimate Thermax to record revenues of Rs36 bn, up 36% yoy, led by backlog of Rs53 bn at end-FY2010 (up 82% yoy). We note that even though the company reported high 47% yoy growth in 1QFY11 and in that perspective assumption for about 35% yoy growth in rem-9MFY11E may appear modest. However, the high growth in 1QFY11 was partially led by base effect as the revenues were down 25% yoy in 1QFY10. 1QFY11 revenues are only about 10% up versus 1QFY09 revenue. On the other hand, our assumption of Rs36 bn revenues in rem-9MFY11E implies about 41% growth from rem-9MFY09 revenues of Rs25 bn. EBITDA margins are expected to remain almost flat at 11.6% as we expect operating leverage to cushion most of the impact of commodity prices.

Thermax (standalone) - 1QFY11 and remaining-9MFY11E - key numbers (Rs mn)

	1QFY11	1QFY10	1QFY09	% change		rem-9MFY11E	rem-9MFY10	rem-9MFY09	% change		FY2011E	FY2010	%chg
				1QFY10	1QFY09				9MFY10	9MFY09			
<b>Total income</b>	<b>7,898</b>	<b>5,376</b>	<b>7,170</b>	<b>46.9</b>	<b>10.2</b>	<b>35,952</b>	<b>26,479</b>	<b>25,474</b>	<b>35.8</b>	<b>41.1</b>	<b>43,850</b>	<b>31,855</b>	<b>37.7</b>
Expenses	(6,938)	(4,687)	(6,259)	48.0	10.9	(31,807)	(23,327)	(22,241)	36.4	43.0	(38,745)	(28,013)	38.3
<b>EBITDA</b>	<b>960</b>	<b>689</b>	<b>911</b>	<b>39.2</b>	<b>5.3</b>	<b>4,146</b>	<b>3,152</b>	<b>3,233</b>	<b>31.5</b>	<b>28.2</b>	<b>5,106</b>	<b>3,841</b>	<b>32.9</b>
Other income	140	103	102	35.9	37.4	343	395	286	(13.0)	19.9	483	498	(2.9)
Interest	(6)	(5)	(3)	18.2	113.1	(10)	(10)	(30)	(8.3)	(68.1)	(15)	(15)	—
Depreciation	(106)	(95)	(70)	10.8	51.2	(363)	(309)	(251)	17.5	44.4	(469)	(404)	15.9
<b>PBT</b>	<b>988</b>	<b>692</b>	<b>940</b>	<b>42.8</b>	<b>5.1</b>	<b>4,117</b>	<b>3,228</b>	<b>3,238</b>	<b>27.6</b>	<b>27.1</b>	<b>5,105</b>	<b>3,920</b>	<b>30.2</b>
Tax	(326)	(227)	(303)	43.8	7.6	(1,368)	(1,129)	(1,016)	21.2	34.7	(1,695)	(1,356)	25.0
<b>Net profit</b>	<b>662</b>	<b>465</b>	<b>637</b>	<b>42.3</b>	<b>3.9</b>	<b>2,748</b>	<b>2,098</b>	<b>2,222</b>	<b>31.0</b>	<b>23.7</b>	<b>3,410</b>	<b>2,563</b>	<b>33.0</b>
<b>Order details</b>													
<b>Order booking</b>	<b>17,310</b>	<b>10,030</b>	<b>9,140</b>	<b>72.6</b>	<b>89.4</b>	<b>52,998</b>	<b>47,900</b>	<b>33,680</b>	<b>10.6</b>	<b>57.4</b>	<b>70,308</b>	<b>57,930</b>	<b>21.4</b>
Order backlog	63,300	32,300	26,490	96.0	139.0						77,527	52,810	46.8
<b>Key ratios (%)</b>													
<b>EBITDA margin</b>	<b>12.2</b>	<b>12.8</b>	<b>12.7</b>	<b>(0.7)</b>	<b>(0.6)</b>	<b>11.5</b>	<b>11.9</b>	<b>12.7</b>	<b>(0.3)</b>	<b>(1.0)</b>	<b>11.6</b>	<b>12.1</b>	<b>(0.4)</b>
Tax rate	33.0	32.8	32.3			33.2	35.0	31.4			33.2	34.6	
PAT margin	8.4	8.6	8.9			7.6	7.9	8.7			7.8	8.0	
<b>EPS (Rs)</b>	<b>5.6</b>	<b>3.9</b>	<b>5.3</b>	<b>42.3</b>	<b>3.9</b>	<b>23.1</b>	<b>17.6</b>	<b>18.7</b>	<b>31.0</b>	<b>23.7</b>	<b>28.6</b>	<b>21.5</b>	<b>33.0</b>

Source: Company, Kotak Institutional Equities estimates

High revenue growth in 1QFY11 was partially led by low base effect of 1QFY10 as energy segment revenues declined 23% yoy and environment segment revenues declined 30% yoy in 1QFY10.

Segmental revenues and margins of Thermax for 1QFY11 and rem-9MFY11E (Rs mn)

	1QFY11	1QFY10	1QFY09	% change		rem-9MFY11E	rem-9MFY10	rem-9MFY09	% change		FY2011E	FY2010	FY2009	%chg
				1QFY10	1QFY09				9MFY10	9MFY09				
<b>Revenues</b>														
Energy	6,066	4,194	5,472	44.6	10.8	27,271	19,887	19,700	37.1	38.4	33,336	24,082	25,173	38.4
Environment	2,221	1,252	1,787	77.4	24.3	8,713	7,158	6,326	21.7	37.7	10,934	8,410	8,113	30.0
<b>Total</b>	<b>7,898</b>	<b>5,376</b>	<b>7,170</b>	<b>46.9</b>	<b>10.2</b>	<b>35,952</b>	<b>26,479</b>	<b>25,474</b>	<b>35.8</b>	<b>41.1</b>	<b>43,850</b>	<b>31,855</b>	<b>32,643</b>	<b>37.7</b>
<b>PBIT</b>														
Energy	680	522	796	30.4	(14.5)	3,185	2,352	2,520	35.4	26.4	3,865	2,873	3,315	34.5
Environment	269	149	211	80.6	27.3	1,207	1,025	928	17.8	30.0	1,476	1,173	1,140	25.8
<b>Total</b>	<b>988</b>	<b>692</b>	<b>940</b>	<b>42.8</b>	<b>5.1</b>	<b>4,117</b>	<b>3,227</b>	<b>3,238</b>	<b>27.6</b>	<b>27.1</b>	<b>5,105</b>	<b>3,919</b>	<b>4,179</b>	<b>30.3</b>
<b>EBIT Margin</b>														
Energy	11.2	12.4	14.5	(1.2)	(3.3)	11.7	11.8	12.8	(0.1)	(1.1)	11.6	11.9	13.2	(0.3)
Environment	12.1	11.9	11.8	0.2	0.3	13.9	14.3	14.7	(0.5)	(0.8)	13.5	14.0	14.0	(0.5)
<b>Total</b>	<b>12.5</b>	<b>12.9</b>	<b>13.1</b>	<b>(0.4)</b>	<b>(0.6)</b>	<b>11.5</b>	<b>12.2</b>	<b>12.7</b>	<b>(0.7)</b>	<b>(1.3)</b>	<b>11.6</b>	<b>12.3</b>	<b>12.8</b>	<b>(0.7)</b>
<b>Order inflow</b>														
Energy	14,370	7,630	7,430	88.3	93.4	42,623	38,722	28,080	10.1	51.8	56,993	46,352	35,510	23.0
Environment	2,940	2,400	1,710	22.5	71.9	10,375	9,178	5,600	13.0	85.3	13,315	11,578	7,310	15.0
<b>Total inflow</b>	<b>17,310</b>	<b>10,030</b>	<b>9,140</b>	<b>72.6</b>	<b>89.4</b>	<b>52,998</b>	<b>47,900</b>	<b>33,680</b>	<b>10.6</b>	<b>57.4</b>	<b>70,308</b>	<b>57,930</b>	<b>42,820</b>	<b>21.4</b>

Source: Company, Kotak Institutional Equities estimates



### Revise estimates on higher execution of large projects; retain ADD (TP: Rs865)

We have marginally changed our estimate to Rs29.5 and Rs39.7 (from Rs28.5 and Rs38.3) for FY2011E and FY2012E, respectively, based on assumption of slightly higher execution in large captive/utility projects. We have revised our target price to Rs865/ share (from Rs835 earlier) comprised of – (a) Rs790/ share for the core business (implying 20X P/E on FY2012E EPS) and (b) Rs75 for 51% stake in a super-critical JV with B&W. Thermax has traded at an average P/E of 18X over the last five years and we have used a 10% premium to the historical average on evidence of scale up towards (a) full EPC of larger captive/small utility plants in standalone and (b) super-critical utility plants through JV. We retain our ADD rating based on limited upside to our FY2012E based target price. Key risks to our estimates include — (1) slower-than-expected execution of large orders, (2) margin and working capital pressure as execution of large-sized orders ramp-up, and (3) delay in setting up super-critical JV facility and winning large utility orders.

Revised estimates for Thermax, March fiscal year-ends, 2011E-13E (Rs mn)

Target price (Rs)	New estimates			Old estimates			% change		
	865			835			3.6		
	ADD			ADD					
Rating	FY2011E	FY2012E	FY2013E	FY2011E	FY2012E	FY2013E	FY2011E	FY2012E	FY2013E
Revenues	46,084	61,933	76,898	44,737	60,019	73,855	3.0	3.2	4.1
EBITDA	5,293	7,287	8,985	5,172	7,142	8,730	2.3	2.0	2.9
EBITDA margin (%)	11.5	11.8	11.7	11.6	11.9	11.8			
PBT	5,276	7,089	8,694	5,098	6,832	8,310	3.5	3.8	4.6
PAT	3,520	4,731	5,803	3,401	4,559	5,546	3.5	3.8	4.6
<b>EPS (Rs)</b>	<b>29.5</b>	<b>39.7</b>	<b>48.7</b>	<b>28.5</b>	<b>38.3</b>	<b>46.5</b>	<b>3.5</b>	<b>3.8</b>	<b>4.6</b>
<b>yoy growth (%)</b>									
Revenues	36.7	34.4	24.2	39.2	34.2	23.1			
EPS	35.9	34.4	22.7	33.2	34.1	21.7			

Source: Company, Kotak Institutional Equities estimates

Segment-wise standalone revenues and margins for Thermax, March fiscal year-ends, 2007-2013E (Rs mn)

	2007	2008	2009	2010	2011E	2012E	2013E
<b>Energy segment excluding utility orders</b>							
<b>Revenue</b>	<b>17,093</b>	<b>26,207</b>	<b>25,173</b>	<b>22,761</b>	<b>28,087</b>	<b>35,725</b>	<b>41,471</b>
Growth (%)	39.6	53.3	(3.9)	(9.6)	23.4	27.2	16.1
<b>Order inflow</b>	<b>28,324</b>	<b>20,770</b>	<b>31,710</b>	<b>36,342</b>	<b>39,976</b>	<b>43,974</b>	<b>48,371</b>
Growth (%)	59.0	(26.7)	52.7	14.6	10.0	10.0	10.0
<b>Order backlog</b>	<b>24,680</b>	<b>19,340</b>	<b>20,709</b>	<b>31,079</b>	<b>42,968</b>	<b>51,217</b>	<b>58,117</b>
Growth (%)	77.5	(21.6)	7.1	50.1	38.3	19.2	13.5
<b>Bill to book ratio (%)</b>	<b>60.9</b>	<b>74.7</b>	<b>71.5</b>	<b>58.5</b>	<b>55.0</b>	<b>55.0</b>	<b>55.0</b>
EBIT	2,553	3,705	3,315	2,873	3,314	4,216	4,894
<b>EBIT Margin (%)</b>	<b>14.9</b>	<b>14.1</b>	<b>13.2</b>	<b>12.6</b>	<b>11.8</b>	<b>11.8</b>	<b>11.8</b>
<b>Utility and large power plant business</b>							
<b>Revenue</b>	—	—	—	<b>1,321</b>	<b>5,249</b>	<b>10,723</b>	<b>17,401</b>
Growth (%)	—	—	—	—	297.5	104.3	62.3
<b>Order inflow</b>	—	—	<b>3,800</b>	<b>10,010</b>	<b>17,017</b>	<b>22,973</b>	<b>26,419</b>
Growth (%)	—	—	—	163.4	70.0	35.0	15.0
<b>Order backlog</b>	—	—	<b>3,800</b>	<b>12,489</b>	<b>24,257</b>	<b>36,507</b>	<b>45,525</b>
Growth (%)	—	—	—	228.7	94.2	50.5	24.7
<b>Bill to book ratio (%)</b>	—	—	—	<b>15.0</b>	<b>25.0</b>	<b>30.0</b>	<b>35.0</b>
EBIT	—	—	—	139	551	1,126	1,827
<b>EBIT Margin (%)</b>	—	—	—	<b>10.5</b>	<b>10.5</b>	<b>10.5</b>	<b>10.5</b>
<b>Total for energy segment</b>							
<b>Revenue</b>	<b>17,093</b>	<b>26,207</b>	<b>25,173</b>	<b>24,082</b>	<b>33,336</b>	<b>46,448</b>	<b>58,872</b>
Growth (%)	39.6	53.3	(3.9)	(4.3)	38.4	39.3	26.7
<b>Order inflow</b>	<b>28,324</b>	<b>20,770</b>	<b>35,510</b>	<b>46,352</b>	<b>56,993</b>	<b>66,947</b>	<b>74,790</b>
Growth (%)	59.0	(26.7)	71.0	30.5	23.0	17.5	11.7
<b>Order backlog</b>	<b>24,680</b>	<b>19,340</b>	<b>24,509</b>	<b>43,568</b>	<b>67,225</b>	<b>87,723</b>	<b>103,642</b>
Growth (%)	77.5	(21.6)	26.7	77.8	54.3	30.5	18.1
Bill to book ratio (%)	60.9	74.7	67.9	50.5	46.3	46.1	47.1
EBIT	2,553	3,705	3,315	3,012	3,865	5,341	6,721
<b>EBIT Margin (%)</b>	<b>14.9</b>	<b>14.1</b>	<b>13.2</b>	<b>12.5</b>	<b>11.6</b>	<b>11.5</b>	<b>11.4</b>
<b>Environment segment</b>							
<b>Revenue</b>	<b>5,261</b>	<b>6,513</b>	<b>8,113</b>	<b>8,410</b>	<b>10,934</b>	<b>13,469</b>	<b>15,712</b>
Growth (%)	29.9	23.8	24.6	3.7	30.0	23.2	16.7
<b>Order inflow</b>	<b>6,577</b>	<b>7,420</b>	<b>7,310</b>	<b>11,578</b>	<b>13,315</b>	<b>15,312</b>	<b>17,609</b>
Growth (%)	34.8	12.8	(1.5)	58.4	15.0	15.0	15.0
<b>Order backlog</b>	<b>3,000</b>	<b>5,000</b>	<b>4,461</b>	<b>7,922</b>	<b>10,302</b>	<b>12,145</b>	<b>14,042</b>
Growth (%)	82.3	66.7	(10.8)	77.6	30.1	17.9	15.6
<b>Bill to book ratio (%)</b>	<b>106.6</b>	<b>97.1</b>	<b>93.7</b>	<b>82.0</b>	<b>75.0</b>	<b>75.0</b>	<b>75.0</b>
EBIT	665	792	1,140	1,173	1,476	1,818	2,043
<b>EBIT Margin (%)</b>	<b>12.6</b>	<b>12.2</b>	<b>14.0</b>	<b>14.0</b>	<b>13.5</b>	<b>13.5</b>	<b>13.0</b>
<b>Sum of Segments</b>							
<b>Revenues</b>	<b>21,368</b>	<b>31,568</b>	<b>32,111</b>	<b>31,855</b>	<b>43,163</b>	<b>58,419</b>	<b>72,720</b>
Growth (%)	45.9	47.7	1.7	(0.8)	35.5	35.3	24.5
<b>EBIT</b>	<b>2,973</b>	<b>4,296</b>	<b>4,211</b>	<b>4,073</b>	<b>5,120</b>	<b>6,860</b>	<b>8,390</b>
<b>Margin (%)</b>	<b>13.9</b>	<b>13.6</b>	<b>13.1</b>	<b>12.8</b>	<b>11.9</b>	<b>11.7</b>	<b>11.5</b>
<b>Order inflow</b>	<b>34,901</b>	<b>28,190</b>	<b>42,820</b>	<b>57,930</b>	<b>70,308</b>	<b>82,259</b>	<b>92,399</b>
Growth (%)	53.8	(19.2)	51.9	35.3	21.4	17.0	12.3
<b>Order backlog</b>	<b>27,680</b>	<b>24,340</b>	<b>28,970</b>	<b>52,810</b>	<b>77,527</b>	<b>99,869</b>	<b>117,683</b>
Growth (%)	78.0	(12.1)	19.0	82.3	46.8	28.8	17.8

Assume moderate growth in order inflows in the core energy business (excluding utility orders).

Execution rate of order book would be less than historical as company takes larger-sized orders and projects.

2-3 utility order (up to about 300 MW) each year.

Gradual pick up in execution of large orders. Assume large orders to be about 24-36 months execution cycle.

EBIT margins for large utility projects assumed to be 100-200 bps below core energy segment business.

Assume moderate growth in order inflows in FY2011E-12E

Assume slower execution as order size increase, for e.g. municipal sewage plants.

Source: Company, Kotak Institutional Equities estimates

Standalone balance sheet, profit model and cash flow statement of Thermax, March fiscal year-ends, 2007-13E (Rs mn)

	2007	2008	2009	2010	2011E	2012E	2013E
<b>Balance sheet</b>							
Shareholders funds	5,792	7,361	9,619	10,508	12,725	15,698	19,335
Loan funds	—	—	—	—	—	—	—
<b>Total sources of funds</b>	<b>5,989</b>	<b>7,672</b>	<b>9,981</b>	<b>10,944</b>	<b>13,161</b>	<b>16,134</b>	<b>19,771</b>
Net block	1,579	2,786	4,399	4,939	5,670	6,559	7,497
CWIP	117	476	177	112	324	438	545
<b>Net fixed assets</b>	<b>1,696</b>	<b>3,262</b>	<b>4,576</b>	<b>5,050</b>	<b>5,994</b>	<b>6,997</b>	<b>8,042</b>
Investments	5,776	5,797	1,765	3,782	4,282	5,532	6,782
Cash balances	625	279	3,408	6,056	3,943	3,504	4,885
<b>Net current assets excluding cash</b>	<b>(2,202)</b>	<b>(1,826)</b>	<b>51</b>	<b>(4,207)</b>	<b>(1,322)</b>	<b>(162)</b>	<b>(202)</b>
<b>Total application of funds</b>	<b>5,989</b>	<b>7,672</b>	<b>9,981</b>	<b>10,944</b>	<b>13,161</b>	<b>16,134</b>	<b>19,771</b>
<b>Profit model</b>							
<b>Total operating income</b>	<b>21,730</b>	<b>32,042</b>	<b>32,644</b>	<b>31,855</b>	<b>43,850</b>	<b>59,243</b>	<b>73,654</b>
Total operating costs	(18,940)	(27,946)	(28,499)	(28,013)	(38,745)	(52,215)	(65,000)
<b>EBITDA</b>	<b>2,791</b>	<b>4,096</b>	<b>4,144</b>	<b>3,841</b>	<b>5,106</b>	<b>7,028</b>	<b>8,654</b>
Other income	370	418	388	498	483	383	382
<b>PBDIT</b>	<b>3,161</b>	<b>4,514</b>	<b>4,532</b>	<b>4,339</b>	<b>5,589</b>	<b>7,411</b>	<b>9,036</b>
Financial charges	(13)	(13)	(33)	(15)	(15)	(15)	(15)
Depreciation	(188)	(218)	(321)	(404)	(469)	(551)	(646)
Pre-tax profit	2,960	4,283	4,178	3,920	5,105	6,845	8,375
Taxation	(1,027)	(1,496)	(1,319)	(1,356)	(1,695)	(2,273)	(2,781)
<b>Adjusted PAT</b>	<b>1,933</b>	<b>2,787</b>	<b>2,859</b>	<b>2,563</b>	<b>3,410</b>	<b>4,572</b>	<b>5,595</b>
Extraordinary items, net of tax	(55)	21	14	(1,149)	—	—	—
<b>Reported PAT</b>	<b>1,878</b>	<b>2,808</b>	<b>2,873</b>	<b>1,415</b>	<b>3,410</b>	<b>4,572</b>	<b>5,595</b>
<b>Cash flow statement</b>							
<b>Cashflow from operating activities</b>							
Operating profit before working capital changes	2,131	3,061	3,210	2,959	3,879	5,124	6,240
Change in working capital / other adjustments	1,119	(498)	(1,796)	4,428	(2,886)	(1,159)	39
<b>Net cashflow from operating activities</b>	<b>3,250</b>	<b>2,563</b>	<b>1,414</b>	<b>7,387</b>	<b>993</b>	<b>3,964</b>	<b>6,280</b>
Fixed Assets	(506)	(1,783)	(1,635)	(879)	(1,412)	(1,554)	(1,691)
Investments	(1,601)	(21)	4,033	(2,017)	(500)	(1,250)	(1,250)
<b>Cash (used) / realised in investing activities</b>	<b>(2,107)</b>	<b>(1,805)</b>	<b>2,398</b>	<b>(2,896)</b>	<b>(1,912)</b>	<b>(2,804)</b>	<b>(2,941)</b>
Dividend paid	(824)	(1,115)	(697)	(695)	(1,193)	(1,600)	(1,957)
<b>Cash (used) / realised in financing activities</b>	<b>(824)</b>	<b>(1,115)</b>	<b>(697)</b>	<b>(695)</b>	<b>(1,193)</b>	<b>(1,600)</b>	<b>(1,957)</b>
Cash generated / utilised	264	(346)	3,129	2,648	(2,112)	(440)	1,381
Net cash at begin of year	361	625	279	3,408	6,056	3,943	3,504
<b>Net cash at end of year</b>	<b>625</b>	<b>279</b>	<b>3,408</b>	<b>6,056</b>	<b>3,943</b>	<b>3,504</b>	<b>4,885</b>
<b>Margins for standalone business (%)</b>							
Raw material / sales	65.8	68.0	64.3	64.6	66.1	66.4	66.5
Other expenses / sales	12.6	11.6	15.2	14.1	13.5	13.3	13.3
Employee expense / sales	8.8	7.5	7.8	9.2	8.8	8.4	8.4
<b>EBITDA margin</b>	<b>12.8</b>	<b>12.8</b>	<b>12.7</b>	<b>12.1</b>	<b>11.6</b>	<b>11.9</b>	<b>11.7</b>
PAT margin	8.9	8.7	8.8	8.0	7.8	7.7	7.6
RoE	36.9	43.1	33.0	25.0	29.5	32.2	32.0
RoCE	36.8	43.2	33.2	25.0	29.4	32.2	31.9
<b>EPS (standalone) (Rs)</b>	<b>16.2</b>	<b>23.4</b>	<b>24.0</b>	<b>21.5</b>	<b>28.6</b>	<b>38.4</b>	<b>47.0</b>

Source: Company, Kotak Institutional Equities estimates

## June 2010: Earnings announcement calendar

Mon	Tue	Wed	Thu	Fri	Sat
19-Jul	20-Jul	21-Jul	22-Jul	23-Jul	24-Jul
			<b>ACC</b>	Allahabad Bank	Balrampur Chini Mills
			<b>Ambuja Cements</b>	Areva T&D	Eicher Motors
			<b>Bajaj Auto</b>	<b>BHEL</b>	Godrej Consumers
			Bajaj Holdings & Investments	<b>Biocon</b>	Hindustan Zinc
			Crisil	<b>CESC</b>	Indiabulls Financial Services
			Deepak Fertilisers	<b>HPCL</b>	Indian Bank
			<b>DishTV</b>	IFCI	IOCL
			<b>Dr Reddy Laboratories</b>	Indiabulls Securities	Jaiprakash Power Ventures
			Gujarat Gas	<b>Jaiprakash Associates</b>	Maruti Suzuki
			IDBI Bank	Jet Airways	
			<b>Idea Cellular</b>	<b>Mahindra &amp; Mahindra Financials</b>	
			ING Vysya Bank	Mangalam Cement	
			<b>ITC</b>	Mcleod Russel	
			<b>Power Finance</b>	Motilal Oswal	
			<b>Punjab Natiaol Bank</b>	Praj Industries	
			<b>Shriram Transport</b>	Redington India	
			Varun Industries	UCO Bank	
			Vijaya Bank	<b>Wipro</b>	
			Zee News	Brigade Enterprises	
26-Jul	27-Jul	28-Jul	29-Jul	30-Jul	31-Jul
Bharat Forge	Ashok Leyland	Bajaj Electric	Aban Offshore	ABB	EIH
Century Textiles	Asian Paints	Chennai Petroleum Corporation Bank	Alok Industries	Aditya Birla Nuvo	Bank of India
Dabur India	Binani Cement	Corporation Bank	Bank of Baroda	Bharat Electronics	City Union Bank
Dena Bank	Blue Dart	DLF	Central Bank of India	BPCL	Grasim Industries
Essar Oils	Cadila Healthacare	Essel Propack	Federal Bank	Hindustan Construction	GVK Power & Infra
Glaxosmithkline Pharma	Cairn India	GTL Infra	GE Shipping	Indian Hotels	ICICI Bank
Mahindra Holidays	Everest Kanto	Gujarat Mineral Development Corp.	GHCL	Karnataka Bank	JK Cement
NTPC	Glenmark Pharmaceuticals	Havells India	GSPL	Max India	Syndicate Bank
Sterilite Industries	Godrej Industries	Jindal Steel & Power	HCL Technologies	NMDC	Indian Overseas Bank
Tech Mahindra	GTL	JM financial	HDIL	PSL	
Union Bank	Hindustan Unilever	Lupin	Hero Honda	REI Agro	
United Phosporus	IRB Infrastructure	Mahindra & Mahindra	ONGC	Religare Enterprises	
	JSW Steel	Marico	Oriental Bank of Commerce	Shipping Corp	
	Jubilant Organosys	MMTC	Petronet LNG	Tata Chemicals	
	L&T	Neyveli Lignite	SAIL	Torrent Power	
	Manglore Refinery and Petrochemicals	Phoenix Mills	Siemens	Reliance Natural Resources	
	Reliance Industries	Samruddhi Cement	Tata Tea	Indian Infoline	
	Titan Industries	Sobha Develpoers	Tata Teleservices		
		Sun Pharmaceuticals	Ultratech Cement		
		SunTV Network			
		Tata Communications			
		Voltas			
		Welspun Corp			
2-Aug	3-Aug	4-Aug	5-Aug	6-Aug	7-Aug
Glaxosmithkline Consumer	<b>Hindalco Industries</b>	IDFC		Rashtriya Chemicals & Fertilisers	GMR Infra
India Cements		Mundra Port & SEZ			
Madras Cement					
Nestle India					
GAIL					
9-Aug	10-Aug	11-Aug	12-Aug	13-Aug	14-Aug
	Nagarjuna Constructions		Ranbaxy Laboratories		Lanco Infratech

Source: BSE, Kotak Institutional Equities

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

Company	22-Jul-10		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target		
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)
<b>Automobiles</b>																													
Ashok Leyland	73	ADD	96,779	2,054	1,330	2.8	4.1	5.5	84.5	46.1	34.3	25.8	17.6	13.1	14.9	10.8	8.9	2.5	2.3	2.0	2.1	1.4	1.4	11.1	13.4	16.2	65	(10.7)	10.6
Bajaj Auto	2,491	ADD	360,334	7,646	145	117.5	166.0	182.9	159.8	41.3	10.1	21.2	15.0	13.6	13.2	10.1	9.0	11.2	6.8	4.7	0.8	0.8	0.8	66.6	56.3	41.0	2,500	0.4	12.1
Bharat Forge	334	ADD	80,326	1,704	240	0.7	11.4	18.7	(92.0)	1,553.7	64.6	485.8	29.4	17.8	24.0	11.4	7.9	2.2	2.0	1.8	—	—	—	0.9	13.9	18.2	335	0.3	4.4
Hero Honda	1,948	SELL	388,986	8,254	200	111.8	121.5	135.7	74.1	8.7	11.7	17.4	16.0	14.4	11.2	10.5	9.0	10.8	7.4	5.5	1.5	1.7	1.9	59.1	56.6	43.8	1,800	(7.6)	16.8
Mahindra & Mahindra	633	BUY	366,272	7,772	578	34.9	40.7	48.7	132.5	16.6	19.8	18.1	15.6	13.0	12.0	10.2	8.5	4.5	3.6	2.9	1.5	1.5	1.5	30.0	25.9	24.7	680	7.4	26.6
Maruti Suzuki	1,354	ADD	391,349	8,304	289	86.4	94.1	104.2	104.9	8.9	10.8	15.7	14.4	13.0	8.5	7.8	6.8	3.3	2.7	2.3	0.4	0.5	0.5	23.3	20.6	18.9	1,400	3.4	19.0
Tata Motors	837	ADD	499,003	10,588	596	23.9	27.2	35.5	138.9	13.5	30.6	35.0	30.8	23.6	13.6	13.6	11.9	2.4	2.2	1.9	0.7	0.7	0.7	8.1	7.5	8.6	900	7.5	87.5
<b>Automobiles</b>		<b>Cautious</b>	<b>2,183,048</b>	<b>46,322</b>					<b>109.8</b>	<b>21.0</b>	<b>17.4</b>	<b>21.4</b>	<b>17.7</b>	<b>15.1</b>	<b>12.1</b>	<b>10.6</b>	<b>9.1</b>	<b>4.0</b>	<b>3.3</b>	<b>2.7</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>18.6</b>	<b>18.6</b>	<b>18.1</b>			
<b>Banks/Financial Institutions</b>																													
Andhra Bank	144	BUY	69,767	1,480	485	21.0	21.1	25.4	56.1	0.6	20.0	6.8	6.8	5.7	—	—	—	1.5	1.3	1.1	2.9	2.9	3.5	24.4	20.2	20.7	160	11.2	5.0
Axis Bank	1,357	ADD	549,740	11,665	405	62.1	78.1	98.3	22.7	25.9	25.9	21.9	17.4	13.8	—	—	—	3.4	3.0	2.5	0.9	1.1	1.4	19.2	18.3	19.9	1,500	10.6	48.5
Bank of Baroda	727	BUY	265,556	5,635	366	83.7	93.2	114.7	37.3	11.4	23.0	8.7	7.8	6.3	—	—	—	1.9	1.6	1.3	2.1	2.3	2.8	24.4	22.6	23.2	825	13.6	10.0
Bank of India	403	REDUCE	212,022	4,499	526	33.1	42.7	56.7	(42.1)	28.9	32.8	12.2	9.4	7.1	—	—	—	1.7	1.5	1.3	1.7	2.2	3.0	14.2	16.4	19.1	360	(10.7)	7.0
Canara Bank	486	ADD	199,137	4,225	410	73.7	82.2	98.3	45.8	11.6	19.5	6.6	5.9	4.9	—	—	—	1.6	1.3	1.0	1.6	2.1	2.5	22.4	20.8	20.8	580	19.4	7.6
Corporation Bank	574	BUY	82,269	1,746	143	82.0	86.1	104.7	31.8	4.9	21.6	7.0	6.7	5.5	—	—	—	1.4	1.2	1.0	2.9	3.0	3.7	22.0	19.8	20.6	650	13.3	1.3
Federal Bank	356	BUY	60,905	1,292	171	27.2	38.7	48.0	(7.2)	42.3	24.2	13.1	9.2	7.4	—	—	—	1.3	1.2	1.0	1.4	2.0	2.5	10.3	13.4	14.8	360	1.1	6.2
HDFC	3,018	ADD	866,412	18,384	287	98.4	116.1	138.9	22.7	17.9	19.6	30.7	26.0	21.7	—	—	—	5.7	5.0	4.4	1.2	1.3	1.6	20.0	20.6	21.7	3,450	14.3	38.2
HDFC Bank	2,057	BUY	941,692	19,982	458	64.4	87.2	113.8	22.1	35.4	30.5	31.9	23.6	18.1	—	—	—	4.4	3.8	3.3	0.6	0.8	1.0	16.1	17.3	19.5	2,400	16.7	30.9
ICI Bank	909	REDUCE	1,013,100	21,497	1,115	36.1	47.5	58.4	6.9	31.7	22.9	25.2	19.1	15.5	—	—	—	2.0	1.8	1.7	1.3	1.7	2.1	8.0	10.0	11.5	980	7.8	82.8
IDFC	193	ADD	280,810	5,959	1,459	8.2	9.2	11.3	41.1	13.3	22.8	23.6	20.8	17.0	—	—	—	4.0	2.6	2.2	0.7	0.9	1.1	16.1	15.2	14.5	205	6.5	23.6
India Infoline	99	BUY	30,853	655	312	8.1	8.9	10.0	59.2	9.8	12.5	12.2	11.1	9.9	—	—	—	1.9	1.6	1.3	3.2	1.9	2.4	16.4	15.9	16.1	140	41.5	3.9
Indian Bank	246	BUY	105,874	2,247	430	35.1	35.5	43.8	25.5	1.1	23.6	7.0	6.9	5.6	—	—	—	1.6	1.3	1.1	2.5	2.5	3.1	24.0	20.3	21.2	280	13.7	4.3
Indian Overseas Bank	115	BUY	62,543	1,327	545	13.0	15.4	26.4	(46.7)	18.9	71.3	8.8	7.4	4.3	—	—	—	1.0	0.9	0.7	3.6	3.9	4.3	9.6	10.6	16.3	120	4.5	4.1
J&K Bank	800	BUY	38,780	823	48	105.7	112.3	140.6	25.1	6.3	25.2	7.6	7.1	5.7	—	—	—	1.4	1.2	1.1	2.8	2.9	3.7	17.3	16.9	18.5	850	6.3	0.6
LIC Housing Finance	1,039	ADD	98,676	2,094	95	69.7	100.7	109.9	11.5	44.5	9.1	14.9	10.3	9.5	—	—	—	3.0	2.5	2.1	1.4	2.1	2.3	23.6	25.5	23.2	1,250	20.3	20.0
Mahindra & Mahindra Financial	508	BUY	48,758	1,035	96	35.7	42.6	49.8	59.3	19.3	16.8	14.2	11.9	10.2	—	—	—	2.9	2.5	2.1	1.5	1.8	2.1	21.4	21.7	21.6	500	(1.6)	1.3
Oriental Bank of Commerce	353	ADD	88,528	1,878	251	45.3	52.8	58.6	25.3	16.5	11.0	7.8	6.7	6.0	—	—	—	1.3	1.1	1.0	2.6	3.0	3.3	14.1	15.4	15.3	400	13.2	4.4
PFCL	323	REDUCE	370,959	7,871	1,148	20.5	22.5	25.9	53.5	9.9	15.1	15.8	14.4	12.5	—	—	—	2.9	2.5	2.2	1.6	1.7	2.0	18.8	18.0	18.2	240	(25.7)	3.7
Punjab National Bank	1,059	BUY	333,779	7,082	315	123.8	138.8	169.6	26.3	12.1	22.2	8.5	7.6	6.2	—	—	—	2.1	1.7	1.4	2.1	2.6	3.2	26.4	24.5	24.7	1,150	8.6	8.7
Reliance Capital	815	ADD	200,719	4,259	246	13.8	16.1	14.1	(64.9)	17.0	(12.4)	59.1	50.5	57.7	—	—	—	2.9	2.8	2.8	0.8	0.8	0.7	5.0	5.7	4.8	875	7.3	40.4
Rural Electrification Corp.	306	ADD	301,796	6,404	987	20.3	25.3	31.2	23.2	24.5	23.4	15.1	12.1	9.8	—	—	—	2.7	2.4	2.1	2.1	2.5	3.1	22.0	21.0	22.5	325	6.3	14.1
Shriram Transport	597	ADD	133,237	2,827	223	39.2	49.1	62.4	30.1	25.4	27.2	15.2	12.2	9.6	—	—	—	3.6	3.1	2.6	2.0	2.5	3.1	28.4	26.1	27.8	600	0.5	4.1
SREI	90	NR	10,513	223	116	8.3	7.9	9.9	17.8	(4.8)	25.8	10.9	11.5	9.1	—	—	—	0.9	0.8	0.8	1.3	1.3	1.3	11.1	10.5	12.3	—	—	4.0
State Bank of India	2,476	BUY	1,572,128	33,359	635	144.4	170.9	210.6	0.5	18.3	23.2	17.2	14.5	11.8	—	—	—	2.4	2.1	1.8	1.2	1.3	1.4	14.8	15.5	16.7	2,900	17.1	96.3
Union Bank	325	BUY	163,936	3,479	505	41.1	45.8	57.3	20.2	11.5	25.0	7.9	7.1	5.7	—	—	—	1.9	1.5	1.2	1.7	2.1	2.6	26.2	23.7	24.3	380	17.1	4.0
Yes Bank	299	BUY	101,493	2,154	340	15.0	17.7	22.5	46.7	18.2	26.6	19.9	16.8	13.3	—	—	—	3.3	2.8	2.4	0.5	0.6	0.8	20.3	18.0	19.3	350	17.1	20.6
<b>Banks/Financial Institutions</b>		<b>Attractive</b>	<b>8,203,981</b>	<b>174,081</b>					<b>14.7</b>	<b>18.9</b>	<b>23.4</b>	<b>16.3</b>	<b>13.7</b>	<b>11.1</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>2.5</b>	<b>2.2</b>	<b>1.9</b>	<b>1.4</b>	<b>1.6</b>	<b>1.9</b>	<b>15.5</b>	<b>16.1</b>	<b>17.2</b>			
<b>Cement</b>																													
ACC	816	SELL	153,338	3,254	188	83.2	61.8	63.4	47.9	(25.7)	2.6	9.8	13.2	12.9	5.3	6.2	5.3	2.4	2.1	1.9	2.9	2.9	2.9	29.3	19.4	17.7	830	1.7	8.2
Ambuja Cements	115	SELL	175,073	3,715	1,522	8.0	7.9	8.1	11.4	(1.8)	2.6	14.4	14.6	14.3	8.0	8.3	7.5	2.5	2.2	2.0	1.6	1.9	1.9	19.3	16.7	15.3	98	(14.8)	5.4
Grasim Industries	1,826	ADD	167,463	3,553	92	301.0	240.1	282.0	26.1	(20.2)	17.5	6.1	7.6	6.5	3.9	3.9	3.0	1.3	1.2	1.0	1.8	1.9	1.9	22.9	16.4	16.7	2,150	17.7	8.2
India Cements	108	SELL	33,143	703	307	10.0	11.8	12.9	(43.5)	17.7	9.0	10.8	9.1	8.4	5.5	5.0	4.8	0.8	0.7	0.7	2.0	3.0	3.0	8.2	8.7	9.0	110	1.9	2.4
Shree Cement	1,873	BUY	65,257	1,385																									

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	22-Jul-10		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E			
<b>Consumer products</b>																													
Asian Paints	2,522	BUY	241,900	5,133	96	71.5	81.5	101.1	85.3	13.9	24.2	35.3	31.0	24.9	21.7	19.2	15.3	15.1	12.0	9.7	1.1	1.4	1.7	51.8	44.4	44.0	2,500	(0.9)	4.1
Colgate-Palmolive (India)	850	REDUCE	115,573	2,452	136	31.1	34.5	39.6	44.2	10.9	14.6	27.3	24.6	21.5	22.4	18.2	15.6	35.4	30.2	25.8	2.4	3.0	3.5	156.1	132.3	129.4	830	(2.3)	2.3
Dabur India	209	BUY	181,012	3,841	866	5.8	6.8	8.2	28.1	17.6	20.8	36.1	30.7	25.4	26.8	21.5	17.8	17.2	14.1	11.6	1.5	1.7	2.1	54.3	51.1	50.7	200	(4.3)	3.0
GlaxoSmithkline Consumer (a)	1,789	ADD	75,237	1,596	42	55.4	70.0	82.9	23.6	26.5	18.4	32.3	25.6	21.6	17.8	15.1	12.3	8.4	7.0	5.8	1.0	1.3	1.5	27.9	29.6	29.2	1,800	0.6	0.6
Godrej Consumer Products	363	NR	111,734	2,371	308	8.7	9.8	11.6	29.7	13.2	18.2	41.8	36.9	31.2	29.6	26.4	22.3	9.5	8.3	8.3	1.1	1.1	1.1	30.7	24.1	27.8	—	—	3.0
Hindustan Unilever	262	REDUCE	571,673	12,130	2,179	9.7	10.4	11.8	1.7	7.3	14.0	27.1	25.3	22.2	18.3	17.2	14.4	22.4	19.3	16.7	2.9	3.2	3.7	91.6	82.2	80.8	230	(12.3)	11.9
ITC	298	BUY	1,121,915	23,806	3,769	10.8	12.4	14.5	24.4	15.2	17.0	27.6	24.0	20.5	16.9	15.0	12.6	7.9	6.8	5.8	3.4	1.8	2.0	29.9	32.2	32.1	315	5.8	23.0
Jubilant Foodworks	342	REDUCE	22,201	471	65	5.5	7.7	9.7	340.6	39.3	25.3	61.8	44.4	35.4	33.4	23.4	16.6	18.9	13.2	9.6	—	—	—	46.6	35.1	31.5	290	(15.3)	5.9
Jyothy Laboratories	270	NR	19,586	416	73	11.0	12.9	15.3	99.6	17.0	18.3	24.5	20.9	17.7	18.9	14.3	11.7	4.8	4.1	3.5	1.7	1.3	1.7	18.6	20.2	20.5	—	—	1.3
Nestle India (a)	2,950	REDUCE	284,417	6,035	96	74.4	87.0	105.5	27.0	17.0	21.3	39.6	33.9	28.0	26.2	23.2	20.0	48.9	38.8	30.7	1.6	2.1	2.5	136.0	127.8	122.7	3,000	1.7	2.2
Tata Global Beverages	121	BUY	74,764	1,586	618	6.6	7.4	8.4	23.4	11.1	13.8	18.3	16.4	14.5	11.7	9.5	8.5	1.5	1.4	1.3	1.8	2.0	2.3	10.9	11.4	10.9	125	3.4	3.8
<b>Consumer products</b>		<b>Attractive</b>	<b>2,820,014</b>	<b>59,838</b>					<b>23.7</b>	<b>13.6</b>	<b>17.3</b>	<b>29.6</b>	<b>26.1</b>	<b>22.2</b>	<b>19.1</b>	<b>16.8</b>	<b>14.1</b>	<b>10.1</b>	<b>8.7</b>	<b>7.5</b>	<b>2.5</b>	<b>2.1</b>	<b>2.4</b>	<b>34.1</b>	<b>33.5</b>	<b>34.0</b>			
<b>Constructions</b>																													
IVRCL	190	BUY	50,825	1,078	267	7.8	10.3	12.4	(7.7)	32.4	19.7	24.4	18.4	15.4	12.7	10.4	8.8	2.5	2.2	2.0	0.2	0.2	0.2	10.9	12.8	13.5	215	12.9	6.9
Nagarjuna Construction Co.	184	BUY	47,237	1,002	257	7.1	11.5	14.3	6.1	61.1	24.1	25.8	16.0	12.9	12.5	9.4	7.7	2.1	1.9	1.7	0.9	1.1	1.1	9.3	12.5	13.9	210	14.1	3.6
Punj Lloyd	136	REDUCE	46,190	980	339	(12.9)	9.8	12.0	79.2	(175.4)	22.4	(10.5)	14.0	11.4	37.4	7.3	6.7	1.5	1.4	1.2	(0.1)	0.3	0.8	(15.8)	10.3	11.4	140	2.7	11.8
Sadbhav Engineering	1,300	BUY	19,500	414	15	43.1	62.0	84.0	(15.8)	43.9	35.5	30.2	21.0	15.5	16.9	10.9	8.9	4.7	3.2	2.7	0.3	0.5	0.5	13.3	14.1	17.4	1,450	11.5	0.3
<b>Construction</b>		<b>Attractive</b>	<b>163,752</b>	<b>3,475</b>					<b>(96.9)</b>	<b>14,481</b>	<b>24.4</b>	<b>2,418.5</b>	<b>16.6</b>	<b>13.3</b>	<b>17.1</b>	<b>8.9</b>	<b>7.7</b>	<b>2.1</b>	<b>1.9</b>	<b>1.7</b>	<b>0.3</b>	<b>0.5</b>	<b>0.7</b>	<b>0.1</b>	<b>11.3</b>	<b>12.5</b>			
<b>Energy</b>																													
Aban Offshore	840	ADD	36,544	775	43	106.6	172.3	103.6	10.0	61.6	(39.8)	7.9	4.9	8.1	8.4	6.2	6.7	1.6	0.9	0.9	0.4	0.4	0.5	24.3	20.8	11.1	900	7.1	49.1
Bharat Petroleum	641	ADD	231,801	4,919	362	62.1	54.3	67.6	201	(12)	24.5	10	12	9.5	5.7	5.8	4.9	1.6	1.5	1.3	2.2	2.8	3.5	15.6	12.3	13.9	660	2.9	25.5
Cairn india	323	SELL	613,479	13,017	1,897	5.5	28.5	40.0	29.0	413.9	40.5	58.4	11.4	8.1	46.0	7.7	5.5	1.8	1.5	1.4	—	—	4.6	3.1	14.6	18.1	250	(22.7)	16.9
Castrol India (a)	470	REDUCE	116,172	2,465	247	15.4	20.7	21.2	45	34	2.4	30	23	22.2	18.1	14.1	13.6	25.2	23.7	22.4	2.7	3.5	3.6	83.8	107.4	103.7	380	(19.1)	1.1
GAIL (India)	474	ADD	601,830	12,770	1,268	24.8	26.2	38.8	11.7	5.8	48.0	19.2	18.1	12.2	10.8	11.2	8.7	3.3	3.0	2.5	1.6	1.8	2.6	17.4	16.3	21.1	495	4.3	16.2
GSPL	105	REDUCE	58,973	1,251	562	7.4	8.9	9.1	235	22	1.3	14	12	11.6	7.3	6.1	5.5	3.5	2.8	2.5	1.0	2.1	3.5	27.3	26.3	22.5	80	(23.7)	4.2
Hindustan Petroleum	441	ADD	149,385	3,170	339	52.6	45.0	62.0	210.1	(14.5)	38.0	8.4	9.8	7.1	3.0	3.5	2.7	1.1	1.0	0.9	2.7	3.2	4.4	13.3	10.3	13.0	500	13.5	31.2
Indian Oil Corporation	375	ADD	909,874	19,307	2,428	49.9	34.0	37.4	407	(32)	10.0	8	11	10.0	5.1	6.1	5.0	1.7	1.5	1.4	3.5	2.8	3.0	22.7	13.8	14.0	410	9.4	17.2
Oil India	1,338	BUY	321,800	6,828	240	115.1	130.7	152.0	13.8	13.5	16.3	11.6	10.2	8.8	4.9	3.9	3.1	2.2	1.9	1.7	2.5	3.3	3.7	16.7	17.8	18.2	1,440	7.6	7.4
Oil & Natural Gas Corporation	1,278	BUY	2,733,070	57,993	2,139	91.4	124.9	141.1	1	37	12.9	14	10	9.1	5.1	4.2	3.5	2.1	1.8	1.6	2.6	3.3	3.8	14.6	17.9	18.0	1,450	13.5	37.1
Petronet LNG	84	REDUCE	63,000	1,337	750	5.4	5.5	8.2	(22.0)	2.6	47.8	15.6	15.2	10.3	9.4	8.8	7.0	2.5	2.2	1.9	2.1	2.4	3.3	15.9	14.3	18.6	82	(2.4)	3.5
Reliance Industries	1,059	SELL	3,151,584	66,874	2,976	49.6	62.9	80.2	(2)	27	27.5	21	17	13.2	10.7	8.1	6.8	2.1	1.9	1.7	1.4	1.8	2.2	11.4	13.2	15.3	985	(7.0)	113.3
<b>Energy</b>		<b>Cautious</b>	<b>8,987,513</b>	<b>190,706</b>					<b>38.0</b>	<b>21.0</b>	<b>20.8</b>	<b>14.9</b>	<b>12.3</b>	<b>10.2</b>	<b>7.3</b>	<b>6.1</b>	<b>5.0</b>	<b>2.1</b>	<b>1.8</b>	<b>1.7</b>	<b>2.0</b>	<b>2.3</b>	<b>3.1</b>	<b>13.8</b>	<b>15.0</b>	<b>16.3</b>			
<b>Industrials</b>																													
ABB	848	REDUCE	179,709	3,813	212	16.7	23.3	37.2	(35.2)	39.2	59.8	50.7	36.4	22.8	29.1	21.4	13.2	7.4	6.3	5.1	0.2	0.4	0.4	15.6	18.8	24.7	840	(0.9)	6.7
BGR Energy Systems	741	BUY	53,381	1,133	72	16.0	28.0	39.7	32.2	74.6	41.9	46.2	26.5	18.7	26.0	15.1	10.9	9.5	7.6	5.8	0.4	0.9	1.1	22.3	31.8	35.1	800	7.9	3.2
Bharat Electronics	1,802	REDUCE	144,140	3,059	80	93.9	111.8	127.4	(9.6)	19.1	13.9	19.2	16.1	14.1	9.3	7.5	6.3	3.2	2.8	2.4	1.4	1.4	1.4	17.9	18.7	18.5	1,790	(0.7)	2.1
Bharat Heavy Electricals	2,406	REDUCE	1,177,932	24,995	490	88.1	113.1	137.5	37.9	28.4	21.6	27.3	21.3	17.5	15.3	11.5	9.4	7.4	5.9	4.7	0.8	1.0	1.2	29.9	30.8	29.8	2,500	3.9	28.1
Crompton Greaves	282	BUY	181,128	3,843	642	12.8	14.0	16.3	46.5	9.0	16.6	22.0	20.2	17.3	12.7	11.2	9.4	7.2	5.5	4.4	0.4	0.7	0.8	37.9	31.1	28.2	320	13.3	8.5
Larsen & Toubro	1,916	BUY	1,151,220	24,428	601	58.1	71.4	90.7	16.0	22.8	27.1	33.0	26.8	21.1	17.3	14.7	12.1	5.1	4.3	3.6	0.6	0.6	0.7	18.6	17.6	18.8	2,100	9.6	54.2
Maharashtra Seamless	396	BUY	27,905	592	71	40.2	43.6	49.8	12.1	8.5	14.2	9.8	9.1	7.9	5.2	4.6	3.6	1.8	1.5	1.3	1.5	2.0	2.5	19.3	17.9	17.7	450	13.7	0.4
Siemens	715	REDUCE	240,935	5,112	337	25.0	29.6	34.3	55.2	18.6	16.0	28.6	24.1	20.8	16.9	13.8	11.6	7.1	5.8	4.8	0.7	0.8	0.9	27.3	26.3	25.1	635	(11.1)	6.9
Suzlon Energy	60	REDUCE	96,031	2,038	1,594	(5.9)	0.3	5.3	(182.3)	(104.4)	1,931.8	(10.1)	232.3	11.4	17.2	8.9	5.8	0.9	0.9	0.8	—	—	0.3	(8.8)	0.4	7.5	70	16.2	26.0</

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

Company	22-Jul-10		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	(Rs)	(%)	(US\$ mn)
<b>Infrastructure</b>																													
Container Corporation	1,390	REDUCE	180,705	3,834	130	61.1	74.3	85.9	0.3	21.7	15.6	22.8	18.7	16.2	16.1	13.1	11.0	4.2	3.6	3.1	1.0	1.2	1.4	19.6	20.6	20.5	1,250	(10.1)	2.0
GMR Infrastructure	60	ADD	221,670	4,704	3,667	0.4	0.2	0.1	(43.8)	(48.9)	(40.0)	140.3	274.6	457.3	24.3	15.7	14.7	2.1	1.8	1.8	—	—	—	2.4	1.2	0.7	65	7.5	5.9
GVK Power & Infrastructure	46	BUY	72,407	1,536	1,579	0.8	1.1	1.4	6.7	33.5	32.4	56.4	42.2	31.9	19.0	17.3	17.7	2.3	2.2	2.1	—	0.7	0.7	4.7	5.3	6.7	54	17.8	5.5
IRB Infrastructure	266	RS	88,259	1,873	332	9.7	12.6	12.1	83.8	29.2	(3.7)	27.3	21.1	21.9	13.0	11.6	10.8	3.8	2.9	2.4	—	—	—	15.6	15.7	11.9	—	—	5.5
Mundra Port and SEZ	726	REDUCE	292,752	6,212	403	15.1	24.1	35.7	40.8	59.5	48.4	48.1	30.1	20.3	30.9	19.9	14.1	8.0	6.2	4.6	—	—	—	18.5	23.2	26.1	725	(0.1)	6.2
<b>Infrastructure</b>		<b>Attractive</b>	<b>855,793</b>	<b>18,159</b>					<b>12.7</b>	<b>29.5</b>	<b>24.1</b>	<b>42.5</b>	<b>32.8</b>	<b>26.4</b>	<b>21.3</b>	<b>15.7</b>	<b>13.5</b>	<b>3.6</b>	<b>3.0</b>	<b>2.7</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>0.4</b>	<b>8.4</b>	<b>9.2</b>	<b>10.2</b>		
<b>Media</b>																													
DB Corp	239	ADD	43,424	921	182	10.6	12.6	15.5	286.5	18.4	23.2	22.5	19.0	15.4	12.6	10.6	8.5	6.7	5.4	4.7	0.8	1.3	1.7	40.3	31.6	32.9	275	15.1	0.2
DishTV	46	ADD	48,757	1,035	1,063	(2.5)	(1.2)	0.5	(62.6)	(49.9)	(141.4)	(18.7)	(37.2)	90.0	60.7	22.1	12.1	11.7	17.2	14.4	—	—	—	250.2	(37.4)	17.4	47	2.5	3.5
HT Media	163	NR	38,282	812	235	6.1	7.8	9.4	623.3	27.0	20.9	26.7	21.0	17.4	13.4	11.1	9.1	3.9	3.5	3.2	0.6	1.2	2.5	15.6	17.6	19.2	—	—	0.4
Jagran Prakashan	123	ADD	37,044	786	301	5.8	6.4	7.5	91.9	9.5	16.7	21.1	19.2	16.5	12.7	11.2	9.6	6.0	5.4	4.8	2.8	2.8	3.3	30.0	29.8	31.0	130	5.7	0.6
Sun TV Network	443	REDUCE	174,459	3,702	394	13.1	17.9	22.8	44.8	36.0	27.5	33.7	24.8	19.4	19.1	14.3	11.3	9.0	7.6	6.3	1.7	1.7	2.0	28.4	33.5	35.5	420	(5.1)	1.8
Zee Entertainment Enterprises	301	REDUCE	130,931	2,778	435	10.6	11.8	14.4	25.0	12.0	21.5	28.5	25.5	21.0	21.2	16.9	13.5	3.5	3.4	3.2	0.8	1.0	1.2	13.1	13.8	16.0	270	(10.4)	9.1
<b>Media</b>		<b>Neutral</b>	<b>472,896</b>	<b>10,034</b>					<b>186.3</b>	<b>38.8</b>	<b>36.2</b>	<b>38.8</b>	<b>28.0</b>	<b>20.5</b>	<b>18.7</b>	<b>14.3</b>	<b>11.2</b>	<b>5.7</b>	<b>5.2</b>	<b>4.7</b>	<b>1.2</b>	<b>1.3</b>	<b>1.7</b>	<b>14.7</b>	<b>18.7</b>	<b>22.9</b>			
<b>Metals</b>																													
Hindalco Industries	158	ADD	302,212	6,413	1,914	5.7	12.6	15.1	(64.5)	122.5	19.4	27.8	12.5	10.5	8.1	8.5	8.7	1.4	1.2	1.1	0.9	0.9	0.9	10.3	10.4	11.2	185	17.2	41.7
Hindustan Zinc	1,008	BUY	425,764	9,034	423	95.6	102.5	116.0	48.2	7.2	13.1	10.5	9.8	8.7	6.6	5.2	3.6	2.3	1.8	1.5	0.6	0.6	0.6	24.1	20.8	19.4	1,240	23.1	4.3
Jindal Steel and Power	647	SELL	600,315	12,738	928	38.5	48.7	50.8	17.2	26.5	4.3	16.8	13.3	12.7	10.5	8.5	8.0	5.2	3.8	2.9	0.2	0.2	0.2	37.3	33.0	25.7	575	(11.1)	29.4
JSW Steel	1,201	REDUCE	238,555	5,062	199	80.4	106.4	136.9	447.0	32.3	28.7	14.9	11.3	8.8	9.0	7.5	6.0	2.0	1.7	1.4	0.7	0.4	0.4	15.4	16.4	17.3	1,150	(4.2)	54.9
National Aluminium Co.	439	SELL	282,594	5,996	644	10.1	28.0	27.7	(49.0)	178.6	(1.2)	43.6	15.6	15.8	19.4	7.6	7.1	2.6	2.2	2.0	0.5	0.5	0.5	6.1	15.4	13.3	320	(27.0)	1.0
Sesa Goa	367	REDUCE	326,298	6,924	890	29.6	58.6	46.3	23.5	98.4	(21.0)	12.4	6.3	7.9	10.2	4.4	4.3	4.1	2.5	1.9	1.0	1.0	1.0	35.8	41.5	23.7	340	(7.3)	78.2
Sterilite Industries	176	ADD	592,996	12,583	3,362	12.0	14.2	19.2	2.8	18.3	35.1	14.7	12.4	9.2	12.4	10.7	7.0	1.6	1.4	1.2	0.5	0.5	0.5	12.9	12.2	14.5	210	19.0	49.0
Tata Steel	541	BUY	479,951	10,184	887	3.2	78.7	93.5	(97.1)	2,331.6	18.7	167.0	6.9	5.8	18.0	6.1	5.1	1.9	1.5	1.2	1.5	1.5	1.5	1.1	24.7	23.8	700	29.4	110.3
<b>Metals</b>		<b>Cautious</b>	<b>3,248,686</b>	<b>68,934</b>					<b>(28.9)</b>	<b>79.7</b>	<b>11.5</b>	<b>18.1</b>	<b>10.1</b>	<b>9.1</b>	<b>11.1</b>	<b>7.2</b>	<b>6.1</b>	<b>2.2</b>	<b>1.8</b>	<b>1.5</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>12.3</b>	<b>18.3</b>	<b>17.1</b>			
<b>Pharmaceutical</b>																													
Biocon	331	BUY	66,230	1,405	200	14.8	18.1	22.1	216.4	22.0	22.3	22.3	18.3	15.0	12.9	10.9	8.8	3.7	3.2	2.7	—	—	0.0	17.9	19.1	20.1	400	20.8	3.7
Cipla	328	REDUCE	263,398	5,589	803	13.5	12.8	15.6	35.9	(4.9)	21.9	24.3	25.6	21.0	18.0	16.9	14.2	4.5	3.9	3.4	0.8	0.8	0.8	19.9	16.3	17.4	280	(14.6)	9.4
Cadila Healthcare	634	REDUCE	129,718	2,752	205	24.7	29.6	34.9	66.9	20.0	17.6	25.6	21.4	18.2	16.5	13.9	12.1	8.1	6.2	4.9	0.8	0.9	1.1	36.1	32.8	30.3	535	(15.6)	1.6
Dishman Pharma & chemicals	219	BUY	17,808	378	81	14.4	17.2	28.8	(19.7)	19.4	67.0	15.2	12.7	7.6	10.9	9.0	6.4	2.2	1.9	1.6	—	—	—	15.5	16.3	22.7	300	37.0	0.5
Divi's Laboratories	779	ADD	102,985	2,185	132	25.8	34.3	43.9	(18.3)	33.3	27.9	30.3	22.7	17.8	22.6	16.7	12.8	6.9	5.6	4.6	—	—	—	24.8	27.2	28.4	800	2.6	3.1
Dr Reddy's Laboratories	1,381	REDUCE	233,885	4,963	169	48.1	66.7	70.8	48.3	38.8	6.1	28.7	20.7	19.5	15.9	12.0	11.1	6.2	4.9	4.0	0.5	0.6	0.6	22.2	26.3	22.6	1,150	(16.7)	16.7
GlaxoSmithkline Pharmaceuticals (a)	2,030	REDUCE	171,939	3,648	85	59.1	69.1	79.2	8.1	17.0	14.5	34.4	29.4	25.6	19.7	16.9	14.4	9.6	8.2	7.0	—	—	—	29.8	30.2	29.5	1,800	(11.3)	1.5
Glenmark Pharmaceuticals	280	NR	76,795	1,630	274	12.7	19.2	20.3	14.7	50.6	5.6	22.0	14.6	13.8	14.1	9.2	8.8	3.3	2.7	2.3	—	—	—	16.7	19.9	17.6	—	—	4.8
Jubilant Organosys	369	BUY	58,549	1,242	159	26.5	34.2	39.3	49.0	29.1	14.9	13.9	10.8	9.4	9.9	8.7	7.3	2.6	2.1	1.8	0.5	0.7	0.8	26.3	22.3	21.0	400	8.5	2.3
Lupin	1,862	ADD	164,959	3,500	89	76.9	104.1	122.5	27.8	35.3	17.6	24.2	17.9	15.2	20.7	15.0	11.8	7.1	5.3	4.1	0.7	0.8	0.8	36.6	34.4	30.7	1,920	3.1	6.8
Piramal Healthcare	504	REDUCE	105,388	2,236	209	23.4	13.4	11.0	35.5	(42.9)	(17.6)	21.6	37.7	45.8	15.9	6.3	4.6	6.3	1.1	1.0	1.1	1.2	0.7	32.1	141.2	16.6	490	(2.8)	31.1
Ranbaxy Laboratories	457	SELL	195,672	4,152	428	7.1	28.0	11.7	(128.4)	297.1	(58.3)	64.7	16.3	39.1	15.9	9.5	18.9	5.0	3.9	3.6	—	0.9	0.9	6.9	24.6	9.1	220	(51.8)	10.3
Sun Pharmaceuticals	1,748	REDUCE	361,942	7,680	207	65.2	67.7	77.6	(25.7)	3.8	14.6	26.8	25.8	22.5	20.2	18.2	15.4	4.4	3.8	3.4	0.8	0.8	0.8	17.8	16.2	16.2	1,560	(10.7)	8.8
<b>Pharmaceuticals</b>		<b>Attractive</b>	<b>1,949,269</b>	<b>41,362</b>					<b>44.7</b>	<b>27.3</b>	<b>5.7</b>	<b>27.1</b>	<b>21.3</b>	<b>20.1</b>	<b>16.9</b>	<b>13.0</b>	<b>12.2</b>	<b>5.1</b>	<b>3.7</b>	<b>3.1</b>	<b>0.5</b>	<b>0.6</b>	<b>0.6</b>	<b>18.9</b>	<b>17.3</b>	<b>15.6</b>			
<b>Property</b>																													
DLF	327	ADD	558,576	11,852	1,708	9.6	16.3	25.1	(64.0)	69.4	53.8	33.9	20.0	13.0	21.2	13.5	10.1	2.1	1.9	1.7	0.9	0.9	1.5	6.4	9.9	13.8	340	4.0	47.5
Indiabulls Real Estate	166	RS	66,644	1,414	401	1.6	4.0	8.0	109.7	151.7	101.7	104.7	41.6	20.6	(74)	36.9	9.5	0.7	0.7	0.7	—	—	—	0.8	1.8	3.5	285	71.6	19.3
Mahindra Life Space Developer	497	ADD	20,901	444	42	18.9	20.3	27.5	82.4	7.3	35.8	26.3	24.5	18.1	22.3	18.7	10.4	2.2	2.1	1.9	0.8	0.8	0.8	8.4	8.5	10.7	540	8.7	0.6
Phoenix Mills																													

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

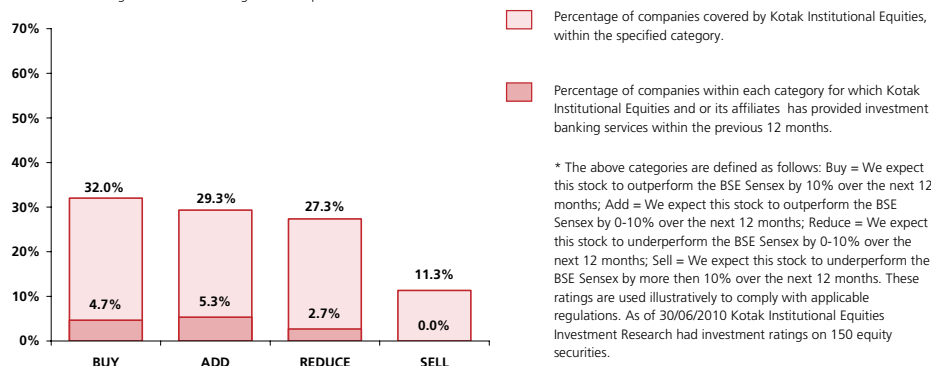
Company	22-Jul-10		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target				
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	price (Rs)	Upside (%)
	<b>Retail</b>																														
Titan Industries	2,741	ADD	121,680	2,582	44	62.7	76.1	96.2	41.5	21.3	26.5	43.7	36.0	28.5	31.0	24.3	19.0	15.4	11.5	8.7	0.4	0.4	0.5	40.7	36.6	34.8	2,400	(12.4)	4.6		
<b>Retail</b>		<b>Neutral</b>	<b>121,680</b>	<b>2,582</b>					<b>41.5</b>	<b>21.3</b>	<b>26.5</b>	<b>43.7</b>	<b>36.0</b>	<b>28.5</b>	<b>31.0</b>	<b>24.3</b>	<b>19.0</b>	<b>15.4</b>	<b>11.5</b>	<b>8.7</b>	<b>0.4</b>	<b>0.4</b>	<b>0.5</b>	<b>35.2</b>	<b>32.0</b>	<b>30.5</b>					
<b>Sugar</b>																															
Bajaj Hindustan	114	SELL	21,853	464	191	9.7	9.9	8.9	201.1	2.2	(10.4)	11.7	11.5	12.8	7.0	5.8	5.4	0.9	0.8	0.8	0.6	0.6	0.6	8.1	7.5	6.3	99	(13.3)	6.3		
Balrampur Chini Mills	79	ADD	20,374	432	257	3.7	10.4	7.0	(51.9)	183.7	(32.7)	21.6	7.6	11.3	9.2	5.3	5.7	1.5	1.3	1.2	0.6	0.6	0.6	7.0	18.1	11.0	92	15.9	5.9		
Shree Renuka Sugars	64	BUY	42,968	912	670	9.9	7.6	7.8	196.4	(23.2)	3.1	6.5	8.4	8.2	4.5	5.0	4.3	1.7	1.4	1.2	0.6	0.5	0.5	32.0	18.1	15.7	76	18.5	14.6		
<b>Sugar</b>		<b>Cautious</b>	<b>85,194</b>	<b>1,808</b>					<b>96.1</b>	<b>2.5</b>	<b>(9.4)</b>	<b>9.0</b>	<b>8.8</b>	<b>9.7</b>	<b>6.0</b>	<b>5.4</b>	<b>5.0</b>	<b>1.3</b>	<b>1.2</b>	<b>1.0</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>14.9</b>	<b>13.3</b>	<b>10.8</b>					
<b>Technology</b>																															
HCL Technologies	371	REDUCE	255,852	5,429	690	17.8	25.1	28.5	2.0	40.6	13.6	20.8	14.8	13.0	10.6	9.1	7.5	4.0	3.3	2.8	1.1	1.1	1.6	20.8	24.9	23.3	370	(0.2)	12.3		
Hexaware Technologies	82	REDUCE	11,736	249	144	9.3	5.1	9.4	127.7	(45.4)	84.0	8.7	16.0	8.7	4.4	9.1	4.9	1.4	1.3	1.1	1.2	1.2	1.2	17.8	8.4	14.0	72	(11.9)	2.9		
Infosys Technologies	2,755	BUY	1,581,083	33,549	574	108.3	124.1	150.0	5.7	14.5	20.9	25.4	22.2	18.4	18.5	15.2	12.3	6.9	5.7	4.7	0.9	1.3	1.5	30.1	28.0	28.0	3,100	12.5	59.2		
Mphasis BFL	613	REDUCE	127,731	2,710	208	43.6	49.0	45.6	207.5	12.5	(7.0)	14.1	12.5	13.4	11.2	10.0	9.1	5.4	3.9	3.1	0.6	0.7	0.7	48.1	36.4	25.8	550	(10.2)	8.1		
Mindtree	540	REDUCE	22,238	472	41	52.2	32.6	51.6	294.3	(37.5)	58.1	10.4	16.6	10.5	8.9	9.4	6.2	3.3	2.8	2.2	0.4	0.6	1.0	35.2	19.2	23.7	550	1.8	2.2		
Patni Computer Systems	523	REDUCE	69,611	1,477	133	36.6	42.3	38.6	36.4	15.6	(8.7)	14.3	12.4	13.5	7.5	6.6	5.8	1.9	1.8	1.7	1.4	1.6	1.5	18.2	15.8	12.8	450	(13.9)	6.5		
Polaris Software Lab	185	SELL	18,454	392	100	15.4	19.1	18.8	16.9	24.3	(1.7)	12.0	9.7	9.9	6.1	7.7	6.6	2.1	1.8	1.6	1.9	2.0	2.1	18.6	20.1	17.2	180	(2.8)	4.6		
TCS	844	BUY	1,651,290	35,039	1,957	35.1	42.1	48.2	32.8	19.8	14.5	24.0	20.1	17.5	18.1	14.6	12.1	7.9	6.5	5.4	2.4	2.0	2.3	37.6	35.6	33.9	965	14.4	28.6		
Wipro	415	ADD	1,016,345	21,566	2,447	18.9	21.9	25.0	22.1	16.2	14.4	22.0	19.0	16.6	16.7	13.7	11.3	5.2	4.2	3.5	0.9	1.1	1.3	26.5	24.6	23.2	465	11.9	15.0		
<b>Technology</b>		<b>Attractive</b>	<b>4,754,341</b>	<b>100,883</b>					<b>22.9</b>	<b>17.2</b>	<b>15.1</b>	<b>22.7</b>	<b>19.4</b>	<b>16.9</b>	<b>16.4</b>	<b>13.6</b>	<b>11.3</b>	<b>6.2</b>	<b>5.0</b>	<b>4.2</b>	<b>1.4</b>	<b>1.5</b>	<b>1.7</b>	<b>26.7</b>	<b>25.9</b>	<b>24.9</b>					
<b>Telecom</b>																															
Bharti Airtel	302	REDUCE	1,147,255	24,344	3,798	24.0	21.4	24.2	7.5	(10.8)	13.2	12.6	14.1	12.5	7.1	6.7	5.8	2.6	2.2	1.9	1.0	1.3	1.7	24.1	17.0	16.5	290	(4.0)	50.1		
IDEA	66	REDUCE	216,137	4,586	3,300	2.7	1.3	2.3	(5.8)	(51.7)	71.9	24.0	49.6	28.9	8.3	8.2	6.7	1.9	1.8	1.7	—	—	—	7.2	3.8	6.3	50	(23.7)	11.3		
MTNL	67	SELL	41,958	890	630	(15.6)	(10.4)	(9.1)	(750.8)	(33.7)	(11.9)	(4.3)	(6.4)	(7.3)	(0.6)	(0.7)	(1.0)	0.4	0.4	0.4	—	—	—	(8.5)	(6.1)	(5.7)	50	(24.9)	2.7		
Reliance Communications	190	SELL	405,285	8,600	2,133	22.1	14.1	18.2	(30.2)	(36.2)	29.1	8.6	13.5	10.5	7.6	8.5	6.4	1.0	1.0	0.9	0.4	—	—	11.7	7.4	8.9	175	(7.9)	42.1		
Tata Communications	285	REDUCE	81,125	1,721	285	14.0	15.2	15.7	3.2	8.2	3.5	20.3	18.8	18.1	8.3	7.6	7.3	1.1	1.1	1.1	2.3	2.6	3.0	5.2	5.5	5.5	225	(21.0)	1.7		
<b>Telecom</b>		<b>Cautious</b>	<b>1,891,761</b>	<b>40,141</b>					<b>(15.1)</b>	<b>(19.8)</b>	<b>20.7</b>	<b>13.2</b>	<b>16.5</b>	<b>13.7</b>	<b>7.7</b>	<b>7.6</b>	<b>6.2</b>	<b>1.7</b>	<b>1.5</b>	<b>1.4</b>	<b>0.8</b>	<b>0.9</b>	<b>1.1</b>	<b>12.7</b>	<b>9.3</b>	<b>10.2</b>					
<b>Utilities</b>																															
Adani Power	127	ADD	277,514	5,889	2,180	0.8	4.9	16.4	—	524.1	235.3	162.5	26.0	7.8	125.9	17.2	6.2	5.0	4.2	2.7	—	—	—	4.4	17.7	42.8	130	2.1	2.8		
CESC	403	ADD	50,362	1,069	125	35.2	42.2	45.7	9.3	19.6	8.4	11.4	9.6	8.8	7.2	6.6	7.3	1.2	1.1	1.0	1.1	1.3	1.4	11.1	11.7	11.4	439	8.9	2.0		
Lanco Infratech	68	BUY	162,819	3,455	2,405	2.0	3.7	5.0	35.1	87.6	34.9	34.5	18.4	13.6	20.3	8.6	8.2	4.7	3.8	3.0	—	—	—	15.8	21.2	22.7	77	13.7	8.6		
NHPC	30	REDUCE	369,637	7,843	12,301	1.9	1.3	1.6	74.9	(27.2)	20.1	16.2	22.3	18.5	10.5	10.7	8.7	1.5	1.4	1.3	1.8	1.2	1.4	9.7	6.5	7.4	28	(6.8)	20.6		
NTPC	204	REDUCE	1,685,373	35,762	8,245	10.8	12.5	14.7	9.6	16.2	17.4	19.0	16.3	13.9	14.5	12.7	10.6	2.6	2.4	2.2	2.0	2.3	2.7	14.5	15.4	16.6	200	(2.2)	10.3		
Reliance Infrastructure	1,131	ADD	278,221	5,904	246	61.8	62.7	80.3	(1.5)	1.6	28.0	18.3	18.0	14.1	19.6	18.9	12.9	1.4	1.4	1.2	0.7	0.8	0.9	6.3	7.3	10.1	1,100	(2.7)	48.3		
Reliance Power	173	SELL	414,399	8,793	2,397	2.9	3.1	5.4	179.7	7.4	76.4	60.6	56.4	32.0	98.3	33.8	2.9	2.7	2.5	—	—	—	—	4.8	5.0	8.2	135	(21.9)	22.9		
Tata Power	1,330	ADD	328,265	6,965	247	60.2	69.2	88.5	20.1	15.0	27.8	22.1	19.2	15.0	13.9	12.5	10.8	2.5	2.3	2.0	0.9	1.1	1.1	12.9	12.5	14.3	1,420	6.8	10.4		
<b>Utilities</b>		<b>REDUCE</b>	<b>3,566,589</b>	<b>75,680</b>					<b>23.5</b>	<b>16.3</b>	<b>35.0</b>	<b>22.6</b>	<b>19.4</b>	<b>14.4</b>	<b>17.7</b>	<b>14.4</b>	<b>10.8</b>	<b>2.4</b>	<b>2.2</b>	<b>2.0</b>	<b>1.3</b>	<b>1.4</b>	<b>1.6</b>	<b>10.6</b>	<b>11.4</b>	<b>13.8</b>					
<b>Others</b>																															
Havells India	681	SELL	40,963	869	60	5.3	31.6	45.0	3.7	497.9	42.6	128.9	21.6	15.1	17.6	10.9	8.9	11.3	7.4	5.0	—	—	—	6.6	41.6	39.7	480	(29.5)	7.1		
Jaiprakash Associates	131	BUY	278,557	5,911	2,129	1.5	5.9	7.9	(27.2)	305.4	34.4	89.8	22.2	16.5	22.2	14.1	10.4	3.3	2.9	2.5	—	—	—	4.1	13.9	16.3	183	39.9	32.5		
Jindal Saw	205	ADD	60,329	1,280	294	25.0	18.6	17.9	110.8	(25.4)	(4.0)	8.2	11.0	11.5	5.3	6.1	5.9	1.6	1.3	1.2	—	—	—	20.5	12.9	11.1	256	24.8	4.1		
PSL	137	BUY	7,311	155	53	22.9	25.4	28.2	3.3	10.6	11.0	6.0	5.4	4.9	3.3	2.8	3.0	0.8	0.7	0.6	4.8	4.8	5.1	12.6	11.7	12.0	175	28.0	0.6		
Sintex	366	BUY	49,951	1,060	136	24.1	28.3	33.3	0.5	17.4	17.5	15.2	12.9	11.0	12.5	8.4	7.2	2.4	2.0	1											



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As of June 30, 2010

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## Corporate Office

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

## Overseas Offices

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

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

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