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#### Updates

**HDFC:** Growth outlook strong, rising rates may temper margin

**Economy:** India's trade policy changes: languid in face of colossal challenge

#### News Round-up

- ▶ Vedanta Resources plan to buy control of oil & gas explorer Cairn India (CAIR IN) for USD 9.6bn may be headed towards a legal & takeover battle, with the govt. insisting on its approval for the transaction & ostensibly prodding cos. owned by it to launch a counter bid. (ECNT)
- ▶ ONGC (ONGC IN), OIL (OINL IN) and GAIL (GAIL IN) may make a joint bid to counter Vedanta Resource's USD 8.48 bn offer of a majority stake in Cairn India. They already have USD 10 bn in loan commitments from international banks for the move. (BSTD)
- ▶ Cairn India (CAIR IN), in which Vedanta Resources is looking to pick up a majority stake, has discovered oil and gas in an onshore block in the Krishna-Godavari basin. (BSTD)
- ▶ IOC (IOCL IN) & Oil India (OINL IN) are in talks with the Essar group to pick up 20% each in a gas block in Myanmar that is estimated to have even bigger reserves than Reliance Ind. KG-D6 as they seek to gain access to oil & gas assets across the world. (ECNT)
- ▶ M&M (MM IN) & Atul Auto are separately interested in acquiring a majority stake in state owned Scooter India. The govt. plans to offer up to 74% stake in Scooters India. (ECNT)
- ▶ L&T (LT IN) has received 2 orders worth USD 254.25mn from ONGC for construction related works. (ECNT)
- ▶ M&M (MM IN) has signed an agreement to acquire a majority stake in Ssangyong Motor Company. (BSTD)
- ▶ Oil India (OINL IN) has achieved a record production level of 10,000 tonnes a day. The company which produces most of its oil from its Assam oilfields, has been producing 10,000 tonnes daily since the middle of August. (BSTD)
- ▶ Adani Power (ADANI IN) plans to expand its power generation capacity to 16,000 Mw by the end of 2014, from 1,000 Mw currently. The company plans to invest around USD 19.29 bn for the total capacity of 16,000 Mw. It is in the process of construction six plants with capacity of 10,000 Mw, which will be commissioned by March 2013. While another 6,000 Mw will be commissioned by 2014. (BSTD)
- ▶ NMDC (NMDC IN), has acquired the entire private land required for its proposed USD 3.22 bn steel plant at Jagdalpur, the headquarters of Bastar district of Chhattisgarh. (BSTD)
- ▶ ABB (ABB IN), launched its fourth global wind power generator factory at Vadodara. (THBL)
- ▶ Jubilant Organosys, (JOL IN) signed a long term contract in CRAMS business with a leading US Life Sciences company for USD 51mn. (FNLE)

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

### EQUITY MARKETS

India	Change %			
	23-Aug	1-day	1-mo	3-mo
Sensex	18,409	0.0	1.5	11.8
Nifty	5,544	0.2	1.7	12.1
<b>Global/Regional indices</b>				
Dow Jones	10,644	(0.5)	4.4	(1.0)
Nasdaq Composite	2,277	(1.2)	3.7	(4.1)
FTSE	5,376	(0.6)	4.7	0.8
Nikkie	9,332	(2.3)	(2.6)	(10.4)
Hang Seng	21,542	0.3	5.7	6.9
KOSPI	1,764	(0.9)	2.4	5.6
<b>Value traded – India</b>				
Cash (NSE+BSE)	203		172	169
Derivatives (NSE)	977		663	989
Deri. open interest	1,956		1,387	1,266

#### Forex/money market

	Change, basis points			
	23-Aug	1-day	1-mo	3-mo
Rs/US\$	46.4	27	(38)	154
10yr govt bond, %	7.8	3	19	15
<b>Net investment (US\$m)</b>				
	9-Aug		MTD	CYTD
FIs	(13)		710	11,187
MFs	(70)		(135)	(282)

#### Top movers -3mo basis

Best performers	Change, %			
	23-Aug	1-day	1-mo	3-mo
HPCL IN Equity	537.8	5.4	23.2	56.8
TTMT IN Equity	1015.4	0.0	21.1	43.6
BOI IN Equity	463.5	0.8	15.0	43.5
HDIL IN Equity	296.9	1.1	10.4	42.1
TCOM IN Equity	339.7	(1.5)	19.0	40.3
<b>Worst performers</b>				
RNR IN Equity	38.3	0.4	(13.2)	(29.9)
SUEL IN Equity	50.3	1.7	(15.5)	(14.5)
PUNJ IN Equity	115.7	(0.2)	(14.1)	(11.6)
ABB IN Equity	778.5	0.7	(7.2)	(6.1)
MMTC IN Equity	1392.4	(0.4)	(7.3)	(5.8)

**AUGUST 24, 2010**
**UPDATE**

Coverage view: **Attractive**

Price (Rs): **630**

Target price (Rs): **690**

BSE-30: **18,409**

**Growth outlook strong, rising rates may temper margins.** We believe that a rising interest rate regime will increase HDFC's borrowings cost though robust mortgage demand will underpin higher mortgage rates as well. Mortgage demand has not yet shown any signs of fatigue and will aid housing finance companies to pass on lending rates to their customers. However, competition continues to remain strong. We retain ADD rating on the stock with price target of Rs690 (post-stock split).

**Company data and valuation summary**

HDFC

**Stock data**

52-week range (Rs) (high,low)	669-390
Market Cap. (Rs bn)	903.8

**Shareholding pattern (%)**

Promoters	0.0
FIs	57.9
MFs	3.5

**Price performance (%)**

	1M	3M	12M
Absolute	5.2	16.2	29.0
Rel. to BSE-30	3.6	3.8	6.8

**Forecasts/Valuations**

	2010	2011E	2012E
EPS (Rs)	19.7	23.2	27.8
EPS growth (%)	22.7	17.9	19.6
P/E (X)	32.0	27.1	22.7
NII (Rs bn)	35.8	42.1	50.5
Net profits (Rs bn)	28.3	33.3	39.9
BVPS	102.0	115.2	131.0
P/B (X)	6.2	5.5	4.8
ROE (%)	20.0	20.6	21.7
Div. Yield (%)	1.1	1.2	1.5

**Housing demand in sweet spot**

We expect HDFC to sustain 25% disbursements growth over the next few quarters. Strong growth in approvals (over 30% in last three quarters) likely provides comfort on the pipeline of disbursements. Our real estate analysts remain positive on growth traction in the industry at the current juncture. Despite an appreciation in prices, affordability remains strong thereby driving real estate demand. Prices in most parts of the country (except Mumbai and Pune) are still 10-15% below peaks.

**Rising interest rates may put pressure on margins**

We believe that the emerging business scenario will temper HDFC's margins even as the mortgage demand remains strong.

- ▶ **Higher interest rates...** Rise in bulk borrowings rates on the back of lower liquidity in the system will likely increase HDFC's borrowings cost. Medium-term borrowing costs for high-rated NBFCs has increased by about 100 bps over the past two quarters. Rise in short-term rates was much higher and will increase HDFC's borrowings cost. About 25% of HDFC's business (assets/liabilities) typically mature in one year.
- ▶ **...though growth remains strong.** A robust business environment will help HDFC to pass on the rise in borrowings cost to its customers. In the past, it has been observed that HDFC's reported spreads have been strong even in a higher interest rates environment, if the demand remains strong (Exhibit 3).
- ▶ **Competition is a concern.** We believe that the competitive environment will continue to remain challenging. SBI has raised its PLR (for existing loans) yet retained the dual rate home loan scheme. We do not rule out competition from other players as well. See Exhibit 5 for a comparison of interest rates offered by various banks and housing finance companies.
  - A likely change in stance by ICICI Bank to increase business traction will likely affect the dynamics of the housing finance market.

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- ▶ LICHF continues to report strong growth and is now amongst the largest retail housing finance players. Its five-year fixed-rate home loan product (at 9.25%) will likely appeal to customers and be successful though we are not very clear about LICHF's ability to manage interest rate risk.
- ▶ PNB has recently launched a special housing finance scheme, offering loans at 8.5%-fixed for three years.
- ▶ New players like India Infoline and Indiabulls are also offering competitive interest rates. However, these players are yet to gain significant traction in the mortgage business.
- ▶ HDFC's dual rate home loan scheme is due to a review by the end of August 2010 and the company may need to raise lending rates in order to maintain its spreads.

#### SOTP-based target price of Rs690; retain ADD

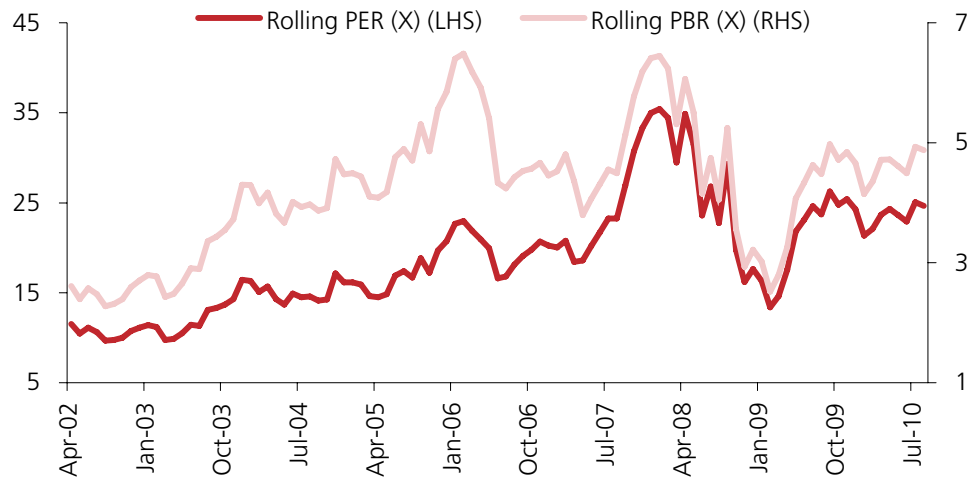
We are factoring the stock split and revising our target price to Rs690 from Rs3,400. In our fair value estimate, we value HDFC's mortgage business at Rs401 —5.5X core PBR and 17X core PER FY2012E. In order to capture the impact of the likely warrant conversion in FY2013E, we have valued the business using a residual growth model as of March 2013E and discounted back the value to March 2011E at 12.5%. At our fair value estimate, the mortgage business will trade at 4X core PBR and 15X core PER FY2013E for RoEs of about 26-30% (2% core RoA and leverage of 13-15X).

Exhibit 1: HDFC, Sum-of-the-parts-based valuation (FY2012E)

Business/ subsidiaries	HDFC's holding (%)	Value of companies (Rs mn)	Value per share (Rs)	Valuation methodology
HDFC			401	Based on residual growth model; exit multiple of 3.9X PBR FY2013E discounted to FY2012E
<b>Value of subsidiaries and associates</b>			<b>251</b>	
HDFC Bank	23	1,084,800	158	Based on target price
HDFC Standard Life MF	60	54,720	23	4% of March 2012E AUMs- 20% growth assumed
-PMS business	60	2,074	1	10% of AUMs (March 2012E - 20% yoy growth)
Life Insurance	72	115,000	54	13.5% margins and 17X NBV multiple
General insurance	74	9,890	5	Based on deal with ERGO
Gruh Finance	62.0	15,738	6	Based on market price
IDFC	1.9	236,899	3	Based on market price
HDFC Venture capital				
HDFC Property Fund	81	1,500	1	Rs10bn of fund assuming value of 15%
HDFC IT Corridor Fund	81	697	0	Rs4.64bn of fund assuming value of 15%
Real estate fund	60	2,520	1	US\$800 mn assuming value of 7.5%
<b>Equity investments</b>			<b>31</b>	
BVPS of non-strategic investments			6	
Unrealised gains on above			25	
<b>Total value per share</b>			<b>683</b>	

Source: Kotak Institutional Equities

Exhibit 2: HDFC – One year forward rolling PER and PBR (X)



Source: Company, Bloomberg, Kotak Institutional Equities estimates

Exhibit 3: HDFC has passed on interest rate hike to its customers when demand has been strong  
Spreads, disbursements and loan growth at HDFC, March fiscal year-ends, 2004-2012E

	2004	2005	2006	2007	2008	2009	2010	2011E	2012E
Yield on home loans (%)	9.7	8.4	8.5	9.6	11.1	12.6	10.9	11.2	11.1
Average cost of funds (%)	7.2	6.0	6.0	7.1	8.1	9.7	8.0	8.6	8.4
<b>Spread on housing loan (%)</b>	<b>2.5</b>	<b>2.4</b>	<b>2.6</b>	<b>2.5</b>	<b>3.0</b>	<b>2.8</b>	<b>2.9</b>	<b>2.6</b>	<b>2.7</b>
HDFC's reported spreads (%)	2.2	2.17	2.18	2.18	2.32	2.21	2.30		
Loan growth (pre-loan securitization- %)	28	29	25	26	29	22	20	24	25

Source: Company, Kotak Institutional Equities estimates

Exhibit 4: Affordability index just above 2006 levels  
Measurement of affordability of housing in India, 1999-2010E

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Housing loan interest rates (%)	14.5	13.9	12.8	12.1	10.4	8.9	8.0	8.5	9.5	10.5	10.5	8.70
EMI per Rs100,000 on 20 yr loan (Rs)	1,366	1,240	1,160	1,110	995	895	836	868	932	998	998	881
Avg annual household income (for households with annual income > Rs200,000)		577,201	606,061	636,364	668,182	701,591	736,671	788,238	843,414	902,453	947,576	947,576
Income growth (%)			5.0%	5.0%	5.0%	5.0%	5.0%	7.0%	7.0%	7.0%	5.0%	5.0%
Taxes		115,440	121,212	127,273	133,636	140,318	147,334	157,648	168,683	180,491	142,136	142,136
Post tax income		461,761	484,849	509,091	534,546	561,273	589,337	630,590	674,731	721,963	805,439	805,439
Selling prices rise by 5% FY2010E												
Capital price in Koramangala, Bangalore		1,900	1,800	1,750	1,900	2,350	2,800	4,500	4,750	4,750	3,600	3,780
Price of 1,500 sq. ft house (Rs mn)		2.9	2.7	2.6	2.9	3.5	4.2	6.8	7.1	7.1	5.4	5.7
EMI payable assuming 70% LTV		24,738	21,924	20,396	19,850	22,084	24,578	41,013	46,484	49,775	37,724	34,967
Price/income ratio (X)		4.9	4.5	4.1	4.3	5.0	5.7	8.6	8.4	7.9	5.7	6.0
<b>Affordability Index (assuming FY2000 as 100)</b>		<b>100</b>	<b>84</b>	<b>75</b>	<b>69</b>	<b>73</b>	<b>78</b>	<b>121</b>	<b>129</b>	<b>129</b>	<b>87</b>	<b>81</b>
Capital price in Bandra, Mumbai		7,992	8,791	8,000	8,500	8,500	10,000	13,000	16,000	20,000	14,000	17,000
<b>Affordability Index (assuming FY2000 as 100)</b>		<b>100</b>	<b>98</b>	<b>81</b>	<b>74</b>	<b>63</b>	<b>66</b>	<b>83</b>	<b>103</b>	<b>129</b>	<b>81</b>	<b>87</b>

Source: Kotak Institutional Equities

Exhibit 5: A comparison of dual-rate home loan rates for loans up to Rs3 mn

	HDFC (%)	SBI (%)	PNB (%)	LICHF (%)	Indiabulls (%)	India Infoline (%)
Year 1	8.25	8.0	8.5	8.9	8.25	8.5
Year 2	9	8.5	8.5	8.9	9.25	
Year 3		8.5	8.5	8.9		
Year 4 onwards	8.75 (1) (2)	9.5 (1)		9.75 (1)		
Prepayment penalty (%)	3	2		2	NA	NA

**Note**

DR- Dual rate home loan scheme

(1) Linked to PLR; indicative rate based on current PLR

(2) Applicable from year 3

Source: Company

Exhibit 6: HDFC (standalone), Key ratios, March fiscal year-ends, 2008-2013E (%)

	2008	2009	2010	2011E	2012E	2013E
<b>Spread calc</b>						
Average yield on assets (incl fees)	11.8	11.9	10.4	11.0	11.1	11.2
- interest on housing loans	11.1	12.6	10.9	11.2	11.1	11.2
Average cost of funds	8.1	9.7	8.0	8.6	8.4	8.4
Overall spread	3.7	2.2	2.4	2.5	2.6	2.8
<b>Spread on housing loans</b>	<b>3.0</b>	<b>2.8</b>	<b>2.9</b>	<b>2.6</b>	<b>2.7</b>	<b>2.8</b>
<b>NIMs (post-provision)</b>	<b>4.8</b>	<b>3.7</b>	<b>3.7</b>	<b>3.7</b>	<b>3.7</b>	<b>3.8</b>
<b>NIM (pre provisions)</b>	<b>4.8</b>	<b>3.7</b>	<b>3.7</b>	<b>3.8</b>	<b>3.8</b>	<b>3.9</b>
<b>DU PONT Analysis</b>						
Net total income	4.8	3.7	3.7	3.8	3.8	3.9
Net interest income	3.7	3.5	3.3	3.3	3.3	3.5
Capital gains	1.0	0.0	0.2	0.2	0.2	0.2
Dividend income	0.1	0.2	0.2	0.2	0.2	0.2
Net other income	0.1	0.1	0.2	0.2	0.2	0.2
Operating expenses	0.4	0.3	0.3	0.3	0.3	0.3
(1- tax rate)	72.2	70.9	72.2	71.5	71.5	71.5
<b>ROA</b>	<b>3.2</b>	<b>2.5</b>	<b>2.6</b>	<b>2.6</b>	<b>2.6</b>	<b>2.7</b>
Average assets/average equity	8.6	7.4	7.7	7.9	8.3	8.1
<b>ROE</b>	<b>27.8</b>	<b>18.2</b>	<b>20.0</b>	<b>20.6</b>	<b>21.7</b>	<b>22.1</b>
<b>Growth(%)</b>						
Net loans	29	17	15	21	24	23
Total assets	29	20	15	18	21	21
Total income	51	24	2	23	21	22
Interest on Housing Loans	49	38	0	22	22	24
Net income before provision	69	(4)	17	18	20	25
Total expenses	22	12	2	13	14	14
PBT	71	(5)	22	19	20	26
PAT	55	(6)	24	18	20	26

Source: Company, Kotak Institutional Equities estimates

Exhibit 7: HDFC (standalone), 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 income excluding fee income	87,494	108,798	111,066	137,003	165,401	202,130
Interest on Housing Loans	72,164	99,310	99,790	121,498	147,793	183,961
Dividends	686	1,957	2,327	2,948	3,567	2,982
Lease rentals	155	147	241	217	195	176
Other operating income	14,489	7,384	8,708	12,340	13,847	15,012
Income from investments	6,794	7,132	6,614	7,907	8,122	8,358
Capital gains	7,695	252	2,094	2,500	3,000	3,500
Income/ gains on securitisation	—	—	—	1,933	2,725	3,154
Interest payable	51,429	74,324	70,631	89,189	108,097	130,576
<b>Net Income before provision</b>	<b>36,065</b>	<b>34,474</b>	<b>40,435</b>	<b>47,814</b>	<b>57,304</b>	<b>71,554</b>
Provision	320	500	580	650	728	815
<b>Fee income</b>	<b>632</b>	<b>1,149</b>	<b>2,317</b>	<b>2,876</b>	<b>3,085</b>	<b>3,720</b>
Total income	88,126	109,948	113,383	139,879	168,486	205,850
Staff expenses	1,178	1,386	1,467	1,662	1,901	2,175
<b>Total expenses</b>	<b>2,673</b>	<b>2,987</b>	<b>3,056</b>	<b>3,454</b>	<b>3,922</b>	<b>4,455</b>
Depreciation	166	175	182	192	202	212
Other income	197	229	226	226	226	226
<b>Profit before tax</b>	<b>33,735</b>	<b>32,190</b>	<b>39,160</b>	<b>46,619</b>	<b>55,762</b>	<b>70,018</b>
Tax	9,373	9,365	10,895	13,287	15,892	19,955
<b>Profit after tax</b>	<b>24,362</b>	<b>22,825</b>	<b>28,265</b>	<b>33,333</b>	<b>39,870</b>	<b>50,063</b>
- .EPS	17	16	20	23	28	34
<b>EPS (core)</b>	<b>11</b>	<b>14</b>	<b>17</b>	<b>19</b>	<b>23</b>	<b>29</b>
Book value	84	92	106	120	136	173
Book value (core)	57	59	47	59	73	111
<b>Balance sheet</b>						
Net loans	729,980	851,981	979,670	1,189,934	1,472,994	1,812,020
Total Investments	69,150	104,688	107,275	111,723	116,366	121,223
In equity	38,616	47,525	85,185	87,685	90,185	92,685
Fixed securities	30,534	57,162	22,089	24,037	26,180	28,538
Diminution in value of invt	(548)	(853)	(364)	(364)	(364)	(364)
Cash & deposits	8,586	17,185	52,241	52,241	52,241	52,241
Loans and advances and other assets	32,938	38,523	22,150	22,150	22,150	22,150
Deferred tax assets	1,466	2,158	2,857	2,857	2,857	2,857
Fixed assets owned	2,085	2,034	2,221	2,399	2,591	2,798
<b>Total assets</b>	<b>844,205</b>	<b>1,016,569</b>	<b>1,166,415</b>	<b>1,381,304</b>	<b>1,669,200</b>	<b>2,013,290</b>
<b>Total borrowings and CL</b>	<b>724,732</b>	<b>885,195</b>	<b>1,014,438</b>	<b>1,209,633</b>	<b>1,473,971</b>	<b>1,755,621</b>
Share capital	2,840	2,845	2,871	2,871	2,871	2,981
Reserves	116,633	128,529	149,106	168,800	192,357	254,689
<b>Shareholders fund</b>	<b>119,473</b>	<b>131,374</b>	<b>151,977</b>	<b>171,671</b>	<b>195,229</b>	<b>257,669</b>

Source: Company, Kotak Institutional Equities estimates

AUGUST 23, 2010

UPDATE

BSE-30: 18,409

**India's trade policy changes: languid in face of colossal challenge.** India announced its Annual Supplement 2010-11 to its Foreign Trade Policy 2009-14 today. In our assessment, it is a torpid response to the colossal challenge of widening trade and current account deficits that India faces. It is marginally positive for some labor-intensive sectors, but does very little to address the core structural issues or take the bold new strategic initiatives necessary to cross the export target of US\$200 bn for FY2011E.

### Highlights of the Annual Supplement 2010-11 to the Foreign Trade Policy 2009-14

Major highlights of the Annual Supplement to the trade policy for 2010-11 are: (1) 6-month extension to DEPB scheme, (2) 1-year extension and wider coverage under the EPCG scheme, (3) additional benefits and expanded coverage under FPS, (4) support for technological upgradation, (5) procedural simplification and (6) sector-specific sops in leather, handloom, textiles, gems and jewelry, handicraft, services and agriculture.

### Policy changes marginally positive for select sectors

In our assessment, the policy is marginally positive for certain select sectors, mainly—engineering & electronics, textiles, leather, tea, steel & pipes, computers and handicrafts.

### Strategic initiatives largely missing in policy statement

We think the strategic initiatives necessary to meet the colossal challenges that India faces from widening trade and current account deficits are missing in the new trade policy. The policy does not look at key strategic trade policy issues that include India failing to reap possible gains from bilateral, multilateral or trade bloc-related tariff cuts, removing bias against agriculture in trade policy, skill-intensity of India's trade and by strategically reconciling trade and environmental and labor standards.

### New trade policy unlikely to mitigate widening trade and current account deficits

We are not unduly enthused by the annual trade policy supplement and maintain that India continues to face macro-risk arising from wide trade and current account deficits. We retain our projections of merchandise trade deficit at 9.2% of GDP and CAD at 3.4% of GDP in FY2011E. The first four months of trade data increase raise the probability of the trade deficit and CAD coming in higher than our projections. We note that the policy does nothing to correct rising gold imports or dampen the non-software services imports.

### QUICK NUMBERS

- **Export target at US\$200 bn for FY2011E; same as in FY2009**
- **Fresh sops to cost only Rs10.5 bn (US\$225 mn)**
- **We expect trade deficit at 9.2%, CAD at 3.4% of GDP in FY2011E**

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### Major highlights of the new trade policy

The second Annual Supplement to India's Foreign Trade Policy 2009-14 marked stability/continuity with not much surprises.

#### **FPS expanded and improved to provide relief to recession-hit export products:**

An additional 2% bonus (over existing benefits of 5% / 2%) under Focus Product Scheme (FPS). Also, 256 new products added to existing 135 products covered under the scheme, which would be entitled to benefits of 2% of the FOB value of exports.

**MLFPS improved and extended by 6 months till end-March 2011:** Market-Linked Focus Product Scheme, under which about 300 products of ready-made garment sector were incentivized through duty credit scrips for exports to 27 EU countries, has been extended by 6 months to end-FY2011. An incentive of 2% of FOB is available under the scheme designed for notified new products and markets.

**DEPB extended by 6 months till end-June 2011:** Duty Entitlement Passbook Scheme (DEPB), under which taxes are reimbursed to exporters, has been extended by 6 months to June 30, 2011. This is intended to be the last extension.

**EPCGS extended by a year till end-March 2012:** Export Promotion Capital Goods Scheme (EPCGS), under which these exports are zero duty rated, has been extended by a year till end-March 2012. The scheme was introduced in August 2009 for technological upgradation of select sectors.

**SHIS extended by a year till end-March 2012:** A Status Holder Incentive Scheme (SHIS) designed to support technological upgradation for star export houses through incentives of 1% FOB through additional duty scrip has been extended by a year till end-FY2012 and its coverage has been expanded.

**Procedural simplification and reduction of transaction cost:** The annual supplement also makes several procedural simplifications that cover EPCG, advance authorization scheme, 4% Special Additional duty (SAD) refunds, etc. The Commerce Minister also added that GOI intends to help cut transportation costs by 40%, but strategy to do this was missing in the announced policy.

**Additional Towns for Export Excellence (TEE):** The policy adds to the TEE list the following: (1) Barmer in Rajasthan for handicrafts, (2) Bhiwandi in Maharashtra for textiles and (3) Agra in UP for leather products.

### Sector-specific implications of the new trade policy

In our view, the trade policy changes introduced would bring about some sector-specific gains. These include:

- ▶ Engineering and electronic industry would gain from additional 2% bonus under FPS, as also coverage of additional items, especially pipes and tubes, electric generator sets, cast articles of iron & steel, ferro manganese and ferro silicon. Also certain products of these industries earlier getting the MLFPS benefits would now get FPS benefit, thus freeing the benefits for market specificity and making them general in nature. These include telecom equipment, color TVs, audio systems, semi-conductors, capacitors, resistors, desktops and notebooks, machine tools, compressors, ductile tubes and pipes, etc.
- ▶ Gains seen for organized textile sector that would benefit from extension of MLFPS. Though the Annual Supplement Policy also adds the duty free imports of specified trimmings and embellishments at 3% of exports of polyester made-ups that may benefit the tiny sector, the same was already announced as part of the 2009-2014 foreign trade policy effected from August 27, 2009.



- ▶ Tea industry to gain as instant tea has been included for benefits of 5% of FOB under Vishesh Krishi or Gram Udyog Yojana (VKGUY). Similarly, CSNL Cardinol has also been extended to benefit industrial resins producers.
- ▶ Handicraft sector that gains from 2% additional benefits under FPS. However, the Annual Supplement Policy also adds duty-free imports of tools by handicraft sector through duty-free import scrips, a benefit that was already available to the sector as part of the EPCG in place.

### Strategic initiatives missing

The Annual Policy Supplement has adopted the same hackneyed approach to export promotion as has been the bane for India's foreign trade strategy for long — more sops, extended sops, intricate web of wider bureaucratic interventions that incentivizes corruption in the name of export incentives. There has been hardly anything in terms of new strategic initiatives by means of removing old structural bottlenecks and for opening new markets.

- ▶ The policy is silent on possible trade and welfare gains from possibility of India arriving at unilateral tariff reductions, bilateral trade preferences or joining of trade blocs. There is no strategic thought in this direction.
- ▶ The issue of agricultural protectionism is not looked at. Trade weighted average tariffs are discriminatorily large for agriculture at about 45% versus 7% for manufacturing.
- ▶ India's SEZs have failed to take off and have been reduced to speculative real estate zones. The annual policy does nothing to seek correction therein.
- ▶ Despite India being a knowledge economy, the share of high technology manufactured goods remains very low and has hardly grown over the years in stark contrast to China.
- ▶ There have been very little fresh initiatives for trade capacity building and for better monitoring of key trade issues such as environmental and labor standards, or on non-tariff barriers or effective protection levels.
- ▶ The new trade policy is silent on how India would move ahead on its future climate change commitments and does nothing to nudge ahead in this direction reconciling trade and environmental concerns.
- ▶ The new trade policy is also silent on preparing the changeover to the new GST regime that was intended to be introduced from April 2011, but risks getting postponed by at least a few months.
- ▶ Similarly, there is no clear thinking on the changes that may be necessary if the stalled Doha Round gets completed. In our view, a Doha Round culmination could bring India income gains of about US\$1.5 bn, with consumer welfare gains of about US\$700 bn.
- ▶ The new trade policy does not look at trade in services, where India's surplus has started diminishing on account of sharp rise in imports of business-related services.
- ▶ The new trade policy also does nothing on gold imports that have become the single most important factor in India's wide merchandise trade deficit.

### Trade and current account deficits likely to stay wide even with new policy

In our assessment, the new trade policy falls well short of the goal to reduce trade and current account gaps, which have widened sharply over FY2010 and may turn out to be still wider in FY2011E.

- ▶ India's trade deficit had touched US\$118 bn in FY2009 and had stayed wide at US\$103 bn in FY2010. In the first four months of FY2011, trade deficit has already run up to US\$44 bn and at the current run rate it could be about US\$132 bn on trade basis, which is easily in line with our projected US\$141 bn trade deficit on a BOP basis. The trade data is thus in line with our projected CAD of about US\$51 bn in FY2011E.
- ▶ We see structural deterioration in India's current account and its merchandise trade component arising from (1) sharp rise in gold imports and (2) sharp rise in business services imports. In our view, these need to be addressed through policy interventions.

**Exhibit 1: Trends in India's trade performance**

Trade figures in US\$ bn, 2008-present



Source: DGCIS, Kotak Institutional Equities

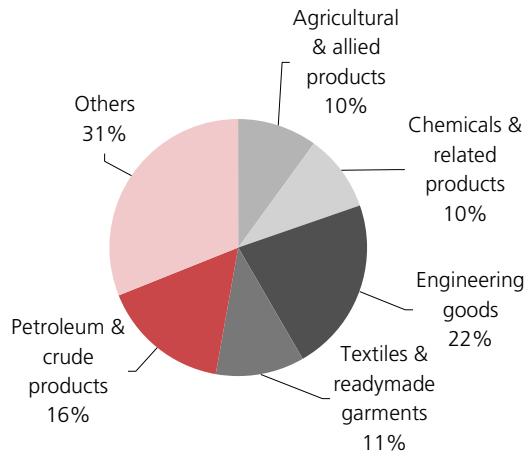
**Exhibit 2: Trends in India's import performance**

Trade figures in US\$ bn, 2008-present



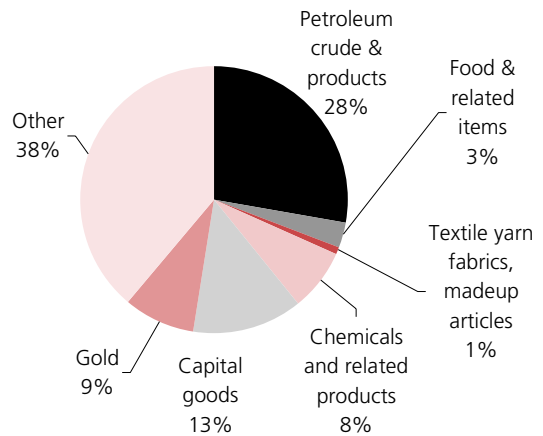
Source: DGCIS, Kotak Institutional Equities

**Exhibit 3: Composition of India's exports**  
Percentage of India's total exports, FY2010 (%)



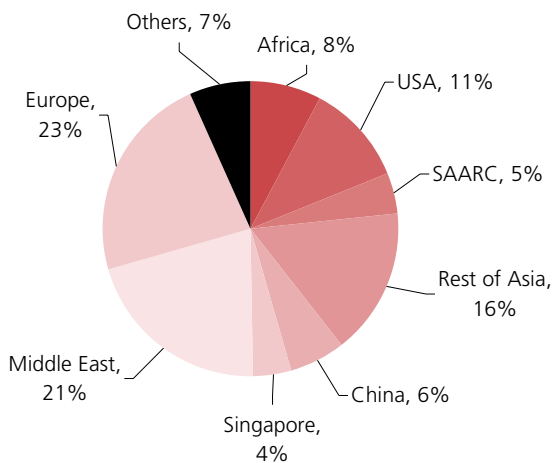
Source: DGCIS, Kotak Institutional Equities

**Exhibit 4: Composition of India's Imports**  
Percentage of India's total imports, FY2010 (%)



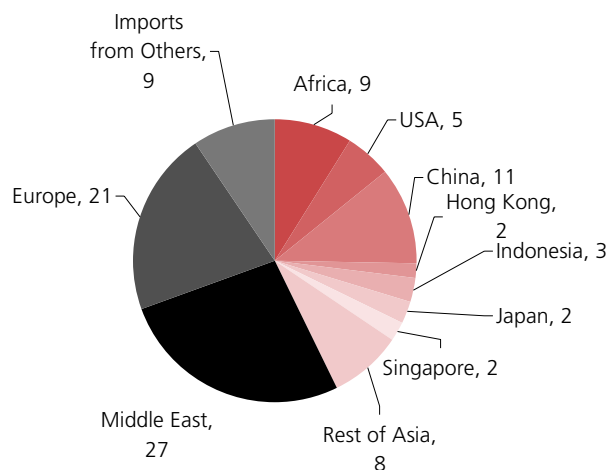
Source: DGCIS, Kotak Institutional Equities

**Exhibit 5: Direction of India's Exports**  
Percentage of India's total exports, FY2010 (%)



Source: DGCIS, Kotak Institutional Equities

**Exhibit 6: Direction of India's imports**  
Percentage of India's total imports, FY2010 (%)



Source: DGCIS, Kotak Institutional Equities

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

Company	23-Aug-10		Mkt cap.		O/S shares (mm)	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>Automobiles</b>																													
Ashok Leyland	69	ADD	91,458	1,971	1,330	2.8	4.3	5.9	84.5	52.3	37.5	24.4	16.0	11.6	14.1	10.7	8.4	2.3	2.1	1.8	2.2	1.5	1.5	10.9	13.5	16.7	78	13.5	7.4
Bajaj Auto	2,775	ADD	401,586	8,656	145	117.7	169.0	189.5	160.1	43.6	12.2	23.6	16.4	14.6	15.2	11.6	10.1	13.7	8.0	5.4	0.7	0.7	0.7	70.9	61.4	44.0	2,650	(4.5)	14.0
Bharat Forge	353	ADD	84,400	1,819	239	0.7	12.4	19.7	(92.0)	1,705.4	59.1	513.5	28.4	17.9	26.2	12.3	8.6	2.2	2.1	1.9	—	—	—	0.9	0.4	0.1	360	2.0	4.7
Hero Honda	1,924	SELL	384,303	8,283	200	111.8	115.3	130.1	74.1	3.1	12.8	17.2	16.7	14.8	11.1	11.0	9.3	10.7	7.4	5.5	1.6	1.6	1.8	59.1	52.5	42.8	1,800	(6.5)	19.4
Mahindra & Mahindra	624	BUY	371,663	8,011	595	33.9	44.1	51.7	125.8	30.1	17.3	18.4	14.2	12.1	12.1	10.2	8.5	4.6	3.7	3.0	1.5	1.5	1.6	30.0	29.0	27.3	760	21.8	25.5
Maruti Suzuki	1,245	REDUCE	359,834	7,756	289	86.4	77.6	88.3	104.9	(10.2)	13.9	14.4	16.0	14.1	7.7	8.0	6.9	3.0	2.6	2.2	0.5	0.4	0.5	23.3	17.3	16.7	1,200	(3.6)	22.0
Tata Motors	1,015	ADD	635,823	13,705	626	27.4	94.8	109.2	(182.5)	246.1	15.2	37.1	10.7	9.3	13.2	6.9	6.0	4.1	2.9	2.2	1.3	0.5	0.5	8.7	11.9	11.1	1,150	13.3	91.6
<b>Automobiles</b>		<b>Cautious</b>	<b>2,329,065</b>	<b>50,201</b>					<b>276.0</b>	<b>57.2</b>	<b>16.1</b>	<b>22.3</b>	<b>14.2</b>	<b>12.2</b>	<b>12.2</b>	<b>8.7</b>	<b>7.5</b>	<b>4.7</b>	<b>3.6</b>	<b>2.8</b>	<b>1.1</b>	<b>0.9</b>	<b>1.0</b>	<b>20.9</b>	<b>25.3</b>	<b>23.3</b>			
<b>Banks/Financial Institutions</b>																													
Andhra Bank	160	BUY	77,649	1,674	485	21.6	22.9	26.7	60.1	6.4	16.4	7.4	7.0	6.0	—	—	—	1.8	1.5	1.3	3.1	3.3	3.9	26.0	23.1	22.7	180	12.4	5.0
Axis Bank	1,381	ADD	559,647	12,063	405	62.1	78.1	98.3	22.7	25.9	25.9	22.3	17.7	14.0	—	—	—	3.5	3.0	2.6	0.9	1.1	1.4	19.2	18.3	19.9	1,500	8.6	41.6
Bank of Baroda	832	BUY	304,009	6,553	366	83.7	95.1	115.7	37.3	13.7	21.7	9.9	8.7	7.2	—	—	—	2.2	1.8	1.5	1.8	2.0	2.5	24.4	23.0	23.3	950	14.2	9.2
Bank of India	464	REDUCE	243,761	5,254	526	33.1	49.9	58.1	(42.1)	50.9	16.4	14.0	9.3	8.0	—	—	—	1.9	1.6	1.4	1.5	2.3	2.7	14.2	19.0	19.2	460	(0.8)	8.4
Canara Bank	530	ADD	217,218	4,682	410	73.7	82.2	98.3	45.8	11.6	19.5	7.2	6.4	5.4	—	—	—	1.7	1.4	1.1	1.5	1.9	2.3	22.4	20.8	20.8	580	9.5	6.7
Corporation Bank	628	BUY	90,050	1,941	143	82.0	88.0	102.6	31.8	7.3	16.6	7.7	7.1	6.1	—	—	—	1.6	1.3	1.1	2.6	2.8	3.3	22.0	20.2	20.2	700	11.5	1.2
Federal Bank	354	ADD	60,623	1,307	171	27.2	36.4	49.0	(7.2)	34.1	34.4	13.0	9.7	7.2	—	—	—	1.3	1.2	1.0	1.4	1.9	2.5	10.3	12.6	15.2	360	1.6	6.1
HDFC	630	ADD	903,822	19,481	1,436	19.7	23.2	27.8	22.7	17.9	19.6	32.0	27.1	22.7	—	—	—	5.9	5.3	4.6	1.1	1.3	1.5	20.0	20.6	21.7	690	9.6	39.9
HDFC Bank	2,197	BUY	1,005,479	21,672	458	64.4	87.2	113.8	22.1	35.4	30.5	34.1	25.2	19.3	—	—	—	4.7	4.1	3.5	0.5	0.7	1.0	16.1	17.3	19.5	2,400	9.3	33.0
ICICI Bank	1,012	REDUCE	1,127,710	24,307	1,115	36.1	45.2	57.3	6.9	25.3	26.6	28.0	22.4	17.7	—	—	—	2.2	2.1	1.9	1.2	1.5	1.9	8.0	9.5	11.3	1,000	(1.1)	80.3
IDFC	189	ADD	274,899	5,925	1,458	8.4	9.4	11.2	44.9	12.4	18.7	22.5	20.0	16.8	—	—	—	3.9	2.6	2.1	0.7	0.9	1.2	16.6	15.5	14.3	205	8.8	24.7
India Infoline	103	BUY	32,100	692	312	8.1	7.2	8.7	59.2	(11.9)	21.6	12.7	14.4	11.8	—	—	—	2.0	1.7	1.4	3.1	1.5	2.0	16.4	12.9	14.4	120	16.6	4.6
Indian Bank	253	ADD	108,861	2,346	430	35.1	32.4	44.1	25.5	(7.7)	36.2	7.2	7.8	5.7	—	—	—	1.6	1.4	1.2	2.6	2.3	3.1	24.1	18.8	21.7	280	10.5	4.2
Indian Overseas Bank	134	BUY	73,139	1,576	545	13.0	16.7	24.8	(46.7)	29.0	48.4	10.3	8.0	5.4	—	—	—	1.2	1.0	0.9	2.6	2.9	3.2	9.6	11.6	15.4	160	19.2	4.7
J&K Bank	883	BUY	42,797	922	48	105.7	119.3	139.9	25.1	12.8	17.3	8.4	7.4	6.3	—	—	—	1.4	1.3	1.1	2.5	2.8	3.3	18.2	17.9	18.3	930	5.4	1.4
LIC Housing Finance	1,261	REDUCE	119,749	2,581	95	69.7	100.7	109.9	11.5	44.5	9.1	18.1	12.5	11.5	—	—	—	3.7	3.1	2.6	1.2	1.7	1.9	23.6	25.5	23.2	1,250	(0.8)	23.2
Mahindra & Mahindra Financial	604	BUY	58,013	1,250	96	35.9	46.4	56.2	60.0	29.4	21.2	16.9	13.0	10.7	—	—	—	3.4	2.9	2.4	1.3	1.6	2.0	21.5	23.5	23.8	590	(2.4)	2.3
Oriental Bank of Commerce	439	ADD	109,937	2,370	251	45.3	57.8	66.8	25.3	27.6	15.5	9.7	7.6	6.6	—	—	—	1.5	1.3	1.1	2.1	2.6	3.1	14.5	16.5	16.9	430	(2.0)	6.3
PFC	341	SELL	391,906	8,447	1,148	20.5	22.9	27.6	53.5	11.9	20.3	16.7	14.9	12.4	—	—	—	3.0	2.7	2.3	1.5	1.7	2.0	18.8	18.3	19.2	275	(19.5)	4.0
Punjab National Bank	1,201	BUY	378,599	8,160	315	123.9	133.4	163.3	26.4	7.7	22.4	9.7	9.0	7.4	—	—	—	2.3	1.9	1.6	1.8	2.3	2.8	26.2	23.2	23.7	1,300	8.3	8.9
Reliance Capital	789	NR	194,146	4,185	246	12.9	13.7	9.8	(67.3)	6.5	(28.6)	61.3	57.6	80.7	—	—	—	2.8	2.8	2.7	0.8	0.7	0.5	4.7	4.8	3.4	—	—	41.5
Rural Electrification Corp.	339	ADD	334,330	7,206	987	20.3	25.3	31.2	23.2	24.5	23.4	16.7	13.4	10.9	—	—	—	3.0	2.6	2.3	1.9	2.2	2.8	22.0	21.0	22.5	325	(4.0)	12.8
Shriram Transport	767	ADD	171,249	3,691	223	39.2	53.4	64.8	30.1	36.4	21.3	19.6	14.4	11.8	—	—	—	4.6	3.9	3.2	1.5	2.1	2.5	28.4	28.2	28.4	700	(8.8)	4.6
SREI	93	NR	10,815	233	116	8.3	7.9	9.9	17.8	(4.8)	25.8	11.2	11.8	9.4	—	—	—	0.9	0.9	0.8	1.3	1.3	1.3	11.1	10.5	12.3	—	—	4.4
State Bank of India	2,823	BUY	1,792,432	38,634	635	144.4	177.7	211.2	0.5	23.1	18.8	19.6	15.9	13.4	—	—	—	2.7	2.4	2.1	1.1	1.1	1.2	14.8	16.0	16.7	3,100	9.8	98.2
Union Bank	355	BUY	179,241	3,863	505	41.1	45.7	56.9	20.2	11.3	24.5	8.6	7.8	6.2	—	—	—	2.0	1.7	1.4	1.5	1.7	2.1	26.2	23.7	24.1	400	12.7	4.9
Yes Bank	333	BUY	113,058	2,437	340	15.0	17.7	22.5	46.7	18.2	26.6	22.2	18.8	14.8	—	—	—	3.7	3.1	2.6	0.4	0.5	0.7	20.3	18.0	19.3	350	5.2	20.5
<b>Banks/Financial Institutions</b>		<b>Attractive</b>	<b>8,975,241</b>	<b>193,453</b>					<b>14.8</b>	<b>20.3</b>	<b>22.1</b>	<b>17.8</b>	<b>14.8</b>	<b>12.1</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>2.8</b>	<b>2.4</b>	<b>2.1</b>	<b>1.2</b>	<b>1.5</b>	<b>1.7</b>	<b>15.5</b>	<b>16.2</b>	<b>17.2</b>			
<b>Cement</b>																													
ACC	875	ADD	164,357	3,543	188	83.2	66.0	72.4	47.9	(20.7)	9.8	10.5	13.3	12.1	5.6	6.2	5.0	2.6	2.3	2.0	3.1	2.7	2.7	29.3	20.0	19.2	920	5.2	7.3
Ambuja Cements	122	SELL	185,578	4,000	1,522	8.0	8.4	8.9	11.4	5.3	5.1	15.2	14.5	13.8	8.4	8.0	6.8	2.7	2.3	2.1	1.5	1.7	1.8	19.3	17.8	16.5	108	(11.4)	4.7
Grasim Industries	2,085	ADD	191,215	4,121	92	301.0	229.0	273.3	26.1	(23.9)	19.4	6.9	9.1	7.6	4.3	4.7	3.6	1.5	1.3	1.2	1.6	1.6	1.6	22.9	15.7	16.3	2,200	5.5	8.3
India Cements	111	SELL	33,989	733	307	10.0	8.7	10.6	(43.5)	(13.1)	21.1	11.0	12.7	10.5	6.0	7.5	5.1	0.8	0.8	0.7	1.9	2.9	2.9	8.2	6.7	7.7	95		

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

Company	23-Aug-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	2,758	BUY	264,580	5,703	96	71.5	89.0	107.1	85.3	24.4	20.4	38.6	31.0	25.7	23.8	19.3	15.9	16.5	12.9	10.3	1.0	1.4	1.6	51.8	47.9	45.4	3,000	8.8	5.7
Colgate-Palmolive (India)	818	REDUCE	111,297	2,399	136	31.1	34.5	39.6	44.2	10.9	14.6	26.3	23.7	20.7	21.5	17.5	15.0	34.1	29.1	24.9	2.4	3.2	3.6	156.1	132.3	129.4	830	1.4	2.4
Dabur India	207	REDUCE	179,452	3,868	866	5.8	6.8	8.2	28.1	17.6	20.8	35.7	30.4	25.2	26.6	21.3	17.7	17.0	14.0	11.5	1.5	1.7	2.1	54.3	51.1	50.7	210	1.4	4.3
GlaxoSmithkline Consumer (a)	1,808	ADD	76,028	1,639	42	55.4	68.6	81.3	23.6	23.9	18.6	32.7	26.4	22.2	18.1	15.6	12.8	8.5	7.1	5.9	1.0	1.2	1.5	27.9	29.0	28.7	2,000	10.6	0.6
Godrej Consumer Products	390	ADD	126,330	2,723	324	11.3	13.0	17.3	69.5	14.4	33.1	34.4	30.1	22.6	27.3	21.4	16.1	13.1	7.2	6.6	1.0	0.8	0.8	44.6	31.0	30.4	400	2.5	2.2
Hindustan Unilever	269	REDUCE	586,546	12,642	2,182	9.4	10.2	12.0	(0.9)	8.4	17.5	28.5	26.3	22.4	19.5	18.7	15.3	22.7	19.6	16.9	2.8	3.1	3.7	71.1	80.2	81.3	250	(7.0)	11.0
ITC	160	BUY	1,220,262	26,302	7,651	5.3	6.3	7.3	22.6	18.2	15.8	30.0	25.4	22.0	18.2	16.0	13.5	8.2	6.9	6.0	3.1	1.7	1.9	29.2	31.1	30.5	165	3.4	23.7
Jubilant Foodworks	544	REDUCE	34,709	748	64	5.5	9.7	12.1	340.6	75.7	24.6	98.1	55.8	44.8	52.2	31.7	22.2	29.5	19.3	13.5	—	—	—	46.6	41.8	35.4	370	(31.9)	12.4
Jyothy Laboratories	277	NR	20,123	434	73	11.0	12.9	15.3	99.6	17.0	18.3	25.1	21.5	18.2	19.4	14.7	12.1	5.0	4.2	3.6	1.7	1.3	1.7	18.6	20.2	20.5	—	—	1.3
Nestle India (a)	2,910	REDUCE	280,599	6,048	96	74.4	86.6	104.8	27.0	16.4	20.9	39.1	33.6	27.8	25.8	22.5	19.1	48.3	38.5	30.7	1.7	2.1	2.5	136.0	127.5	122.9	3,000	3.1	2.0
Tata Global Beverages	117	ADD	72,167	1,555	618	6.6	7.4	8.4	23.4	11.1	13.8	17.6	15.9	14.0	11.3	9.2	8.3	1.5	1.4	1.3	1.9	2.1	2.3	10.9	11.4	12.0	125	7	3.8
<b>Consumer products</b>	<b>Attractive</b>		<b>3,050,381</b>	<b>65,748</b>					<b>24.2</b>	<b>16.4</b>	<b>17.9</b>	<b>31.1</b>	<b>26.7</b>	<b>22.7</b>	<b>20.0</b>	<b>17.4</b>	<b>14.5</b>	<b>10.5</b>	<b>8.8</b>	<b>7.6</b>	<b>2.3</b>	<b>2.0</b>	<b>2.2</b>	<b>33.9</b>	<b>32.9</b>	<b>33.4</b>			
<b>Constructions</b>																													
IVRCL	163	BUY	43,483	937	267	7.9	9.1	11.6	(6.7)	15.0	27.9	20.6	17.9	14.0	10.5	9.9	7.8	2.1	1.9	1.7	0.2	0.2	0.2	11.0	11.3	12.9	205	25.9	7.6
Nagarjuna Construction Co.	163	BUY	41,810	901	257	7.1	9.2	11.8	6.1	29.6	27.8	22.8	17.6	13.8	11.4	9.8	8.2	1.9	1.7	1.6	0.8	1.2	1.2	9.3	10.2	11.9	210	28.9	3.5
Punj Lloyd	116	REDUCE	39,209	845	339	(12.9)	9.8	12.0	79.2	(175.4)	22.4	(8.9)	11.8	9.7	34.2	6.7	6.1	1.3	1.2	1.1	(0.1)	0.4	0.9	(15.8)	10.3	11.4	140	21.0	12.0
Sadbhav Engineering	1,553	BUY	23,296	502	15	43.1	62.0	84.0	(15.8)	43.9	35.5	36.1	25.1	18.5	19.6	12.7	10.2	5.6	3.8	3.2	0.2	0.4	0.4	13.3	14.1	17.4	1,575	1.4	0.3
<b>Construction</b>	<b>Attractive</b>		<b>147,797</b>	<b>3,186</b>					<b>(95.8)</b>	<b>9,733</b>	<b>27.8</b>	<b>1,622.2</b>	<b>16.5</b>	<b>12.9</b>	<b>15.5</b>	<b>8.7</b>	<b>7.5</b>	<b>1.9</b>	<b>1.7</b>	<b>1.5</b>	<b>0.3</b>	<b>0.6</b>	<b>0.7</b>	<b>0.1</b>	<b>10.3</b>	<b>11.8</b>			
<b>Energy</b>																													
Aban Offshore	821	ADD	35,722	770	43	94.5	154.1	139.3	(2.5)	63.0	(9.6)	8.7	5.3	5.9	8.3	6.7	6.5	1.6	1.5	1.3	0.4	0.4	0.5	21.7	33.1	22.9	935	13.9	48.9
Bharat Petroleum	776	ADD	280,573	6,047	362	62.1	57.4	65.7	201	(8)	14.5	12	14	11.8	6.6	6.4	5.8	2.0	1.8	1.6	1.8	2.4	2.8	15.6	13.0	13.5	690	(11.1)	31.8
Cairn india	344	RS	651,703	14,047	1,897	5.5	20.5	36.0	29.0	270.6	75.1	62.0	16.7	9.6	48.7	10.0	6.1	1.9	1.7	1.6	—	—	—	4.4	3.1	10.7	17.0	—	25.6
Castrol India (a)	484	REDUCE	119,745	2,581	247	15.4	20.7	21.2	45	34	2.4	31	23	22.9	18.7	14.5	14.0	26.0	24.4	23.1	2.6	3.4	3.5	83.8	107.4	103.7	380	(21.5)	1.1
GAIL (India)	466	BUY	590,477	12,727	1,268	24.8	27.2	40.2	11.7	10.1	47.4	18.8	17.1	11.6	10.5	10.6	8.5	3.2	2.9	2.4	1.6	1.8	2.7	17.4	17.0	21.6	550	18.2	16.7
GSPL	118	SELL	66,285	1,429	562	7.4	7.2	8.0	235	(3)	12.1	16	16	14.7	8.1	7.9	6.6	3.9	3.2	2.9	0.8	1.5	2.7	27.3	21.4	20.8	83	(29.6)	4.6
Hindustan Petroleum	538	ADD	182,320	3,930	339	52.6	53.5	58.6	210.1	1.8	9.5	10.2	10.0	9.2	3.7	3.7	3.4	1.4	1.2	1.1	2.2	3.1	3.4	13.3	12.2	12.1	535	(0.5)	39.3
Indian Oil Corporation	404	ADD	981,742	21,161	2,428	49.9	38.8	41.1	407	(22)	5.9	8	10	9.8	5.4	5.5	4.9	1.8	1.6	1.5	3.2	2.9	3.1	22.7	15.6	15.1	415	2.6	18.3
Oil India	1,476	BUY	354,815	7,648	240	115.1	133.6	153.4	13.8	16.1	14.8	12.8	11.0	9.6	5.6	4.4	3.7	2.4	2.1	1.9	2.3	3.0	3.5	16.7	18.1	18.3	1,550	5.0	7.4
Oil & Natural Gas Corporation	1,283	BUY	2,744,513	59,155	2,139	91.4	116.6	136.1	1	27	16.7	14	11	9.4	5.1	4.4	3.5	2.1	1.9	1.7	2.6	3.3	3.7	14.6	16.8	17.6	1,480	15.3	36.1
Petronet LNG	115	REDUCE	86,175	1,857	750	5.4	6.5	7.9	(22.0)	20.5	21.8	21.3	17.7	14.5	12.1	10.3	9.0	3.4	2.9	2.5	1.5	1.7	2.4	15.9	16.7	17.6	88	(23.4)	6.7
Reliance Industries	977	REDUCE	2,907,254	62,663	2,976	49.6	59.0	74.4	(2)	19	26.2	20	17	13.1	10.0	7.8	6.5	2.0	1.8	1.6	0.7	0.8	1.0	11.4	12.3	13.9	1,060	8.5	108.0
<b>Energy</b>	<b>Cautious</b>		<b>9,001,323</b>	<b>194,015</b>					<b>38.1</b>	<b>16.3</b>	<b>21.9</b>	<b>14.9</b>	<b>12.8</b>	<b>10.5</b>	<b>7.3</b>	<b>6.1</b>	<b>5.1</b>	<b>2.1</b>	<b>1.9</b>	<b>1.7</b>	<b>1.7</b>	<b>2.0</b>	<b>2.7</b>	<b>13.8</b>	<b>14.5</b>	<b>15.7</b>			
<b>Industrials</b>																													
ABB	778	REDUCE	164,960	3,556	212	16.7	18.3	33.1	(35.2)	9.3	80.7	46.5	42.6	23.6	26.6	24.4	13.6	6.8	6.0	4.9	0.3	0.4	0.4	15.6	15.0	23.0	725	(6.9)	5.1
BGR Energy Systems	825	BUY	59,393	1,280	72	16.0	28.0	39.7	32.2	74.6	41.9	51.5	29.5	20.8	28.9	16.8	12.1	10.5	8.4	6.4	0.4	0.8	1.0	22.3	31.8	35.1	950	15.2	4.2
Bharat Electronics	1,731	REDUCE	138,512	2,985	80	93.9	107.3	122.4	(9.6)	14.3	14.1	18.4	16.1	14.1	8.8	7.4	6.2	3.1	2.7	2.4	1.4	1.4	1.4	17.9	18.0	17.9	1,835	6.0	2.2
Bharat Heavy Electricals	2,510	REDUCE	1,228,597	26,481	490	88.1	116.3	135.4	37.9	32.1	16.4	28.5	21.6	18.5	16.0	12.2	10.3	7.7	6.1	4.9	0.7	1.0	1.2	29.9	31.5	29.2	2,600	3.6	26.7
Crompton Greaves	287	BUY	184,239	3,971	642	12.8	14.0	16.3	46.5	9.0	16.6	22.4	20.5	17.6	12.9	11.5	9.6	7.3	5.6	4.4	0.4	0.7	0.7	37.9	31.1	28.2	320	11.4	7.1
Larsen & Toubro	1,878	ADD	1,131,172	24,381	602	57.9	71.7	89.0	15.6	23.8	24.1	32.4	26.2	21.1	18.1	14.2	11.9	5.1	4.2	3.6	0.7	0.6	0.7	18.6	17.7	18.5	2,075	10.5	51.8
Maharashtra Seamless	392	BUY	27,627	595	71	40.2	43.6	49.8	12.1	8.5	14.2	9.7	9.0	7.9	5.2	4.5	3.5	1.7	1.5	1.3	1.5	2.0	2.5	19.3	17.9	17.7	450	14.9	0.4
Siemens	714	REDUCE	240,631	5,187	337	25.2	27.0	31.9	56.4	7.3	18.0	28.4	26.4	22.4	17.2	15.6	12.9	7.1	5.9	4.9	0.7	0.7	0.9	27.6	24.2	23.8	635	(11.0)	6.0
Suzlon Energy	50	REDUCE	80,085	1,726	1,594	(6.2)	(0.8)	3.3	(185.4)	(86.8)	(504.1)	(8.2)	(61.9)	15.3	13.9	11.6	7.7	1.2	1.1	1.0	—	—	0.4	(11.4)	(1.8)	6.9	55	9.5	21.6</



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

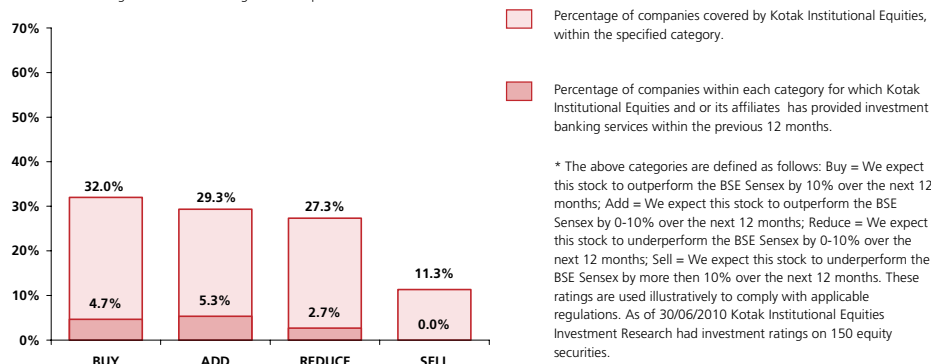
Company	23-Aug-10		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price			Upside (%)	ADVT-3mo (US\$ mn)
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E		
<b>Retail</b>																															
Titan Industries	3,031	ADD	134,557	2,900	44	57.3	83.4	110.2	29.3	45.6	32.2	52.9	36.3	27.5	33.7	24.5	18.7	18.3	13.0	9.3	0.5	0.4	0.4	38.7	41.8	39.4	3,000	(1.0)	6.5		
<b>Retail</b>		<b>Neutral</b>	<b>134,557</b>	<b>2,900</b>					<b>29.3</b>	<b>45.6</b>	<b>32.2</b>	<b>52.9</b>	<b>36.3</b>	<b>27.5</b>	<b>33.7</b>	<b>24.5</b>	<b>18.7</b>	<b>18.3</b>	<b>13.0</b>	<b>9.3</b>	<b>0.5</b>	<b>0.4</b>	<b>0.4</b>	<b>34.5</b>	<b>35.8</b>	<b>33.8</b>					
<b>Sugar</b>																															
Bajaj Hindustan	126	SELL	24,111	520	191	4.9	9.9	8.9	52.3	101.0	(9.9)	25.6	12.7	14.2	8.5	6.2	5.9	1.0	1.0	0.9	0.6	0.6	0.6	4.2	7.9	6.5	99	(21.4)	5.1		
Balrampur Chini Mills	88	ADD	22,646	488	257	4.3	10.4	7.0	(43.2)	140.4	(32.7)	20.3	8.5	12.6	9.3	5.7	6.2	1.6	1.4	1.3	0.5	0.5	0.5	8.2	17.9	10.9	93	5.4	4.7		
Shree Renuka Sugars	70	BUY	47,087	1,015	670	9.9	7.7	8.1	195.3	(21.9)	4.7	7.1	9.1	8.7	4.4	5.1	4.4	1.6	1.4	1.2	0.6	0.5	0.5	22.4	17.0	14.8	76	8.1	12.2		
<b>Sugar</b>		<b>Cautious</b>	<b>93,844</b>	<b>2,023</b>					<b>80.0</b>	<b>12.4</b>	<b>(8.4)</b>	<b>10.8</b>	<b>9.6</b>	<b>10.5</b>	<b>6.5</b>	<b>5.6</b>	<b>5.2</b>	<b>1.4</b>	<b>1.2</b>	<b>1.1</b>	<b>0.6</b>	<b>0.5</b>	<b>0.5</b>	<b>13.1</b>	<b>12.8</b>	<b>10.5</b>					
<b>Technology</b>																															
HCL Technologies	409	REDUCE	282,279	6,084	690	17.5	24.5	30.1	0.2	39.7	23.0	23.3	16.7	13.6	11.4	9.9	8.1	4.0	3.4	2.9	1.0	1.0	1.5	19.3	22.0	21.2	390	(4.7)	11.8		
Hexaware Technologies	76	REDUCE	10,925	235	144	9.3	5.0	9.4	127.7	(46.3)	87.7	8.1	15.1	8.1	4.0	9.4	4.7	1.3	1.2	1.1	1.3	1.3	1.3	17.8	8.2	14.0	72	(5.3)	1.9		
Infosys Technologies	2,803	BUY	1,609,008	34,681	574	108.3	124.1	150.0	5.7	14.5	20.9	25.9	22.6	18.7	18.9	15.5	12.5	7.0	5.8	4.8	0.9	1.2	1.5	30.1	28.0	28.0	3,100	10.6	54.8		
Mphasis BFL	605	REDUCE	126,032	2,717	208	43.6	49.0	45.6	207.5	12.5	(7.0)	13.9	12.3	13.3	11.0	9.8	8.9	5.4	3.9	3.1	0.6	0.7	0.7	48.1	36.4	25.8	550	(9.0)	7.9		
Mindtree	525	REDUCE	21,600	466	41	52.2	32.6	51.6	294.3	(37.5)	58.1	10.1	16.1	10.2	8.6	9.2	6.0	3.2	2.7	2.2	0.4	0.6	1.0	35.2	19.2	23.7	550	4.8	1.0		
Patni Computer Systems	531	REDUCE	70,690	1,524	133	36.6	41.3	37.5	36.4	12.8	(9.1)	14.5	12.9	14.2	7.7	6.8	5.8	2.0	1.8	1.7	1.3	1.6	1.4	18.2	15.1	12.4	450	(15.2)	12.5		
Polaris Software Lab	178	SELL	17,791	383	100	15.4	19.1	18.8	16.9	24.3	(1.7)	11.6	9.3	9.5	5.8	7.4	6.3	2.0	1.7	1.5	2.0	2.1	2.2	18.6	20.1	17.2	180	0.9	4.4		
TCS	870	BUY	1,703,547	36,718	1,957	35.1	42.1	48.2	32.8	19.8	14.5	24.8	20.7	18.1	18.7	15.1	12.5	8.1	6.7	5.6	2.3	1.9	2.2	37.6	35.6	33.9	965	10.9	29.6		
Wipro	413	ADD	1,010,351	21,777	2,447	18.9	22.3	25.7	22.1	18.1	15.6	21.9	18.6	16.0	16.6	13.3	11.0	5.2	4.2	3.5	0.9	1.1	1.3	26.5	25.0	23.7	465	12.6	12.4		
<b>Technology</b>		<b>Attractive</b>	<b>4,852,223</b>	<b>104,585</b>					<b>22.7</b>	<b>17.4</b>	<b>16.0</b>	<b>23.2</b>	<b>19.8</b>	<b>17.1</b>	<b>16.8</b>	<b>13.9</b>	<b>11.4</b>	<b>6.1</b>	<b>5.1</b>	<b>4.3</b>	<b>1.4</b>	<b>1.4</b>	<b>1.7</b>	<b>26.4</b>	<b>25.7</b>	<b>24.9</b>					
<b>Telecom</b>																															
Bharti Airtel	317	REDUCE	1,205,168	25,976	3,798	23.6	20.0	20.7	5.8	(15.6)	3.9	13.4	15.9	15.3	7.6	8.4	6.9	2.9	2.4	2.1	—	—	—	24.4	16.5	14.7	305	(3.9)	46.7		
IDEA	71	REDUCE	232,966	5,021	3,300	2.7	2.2	1.5	(5.8)	(19.7)	(30.8)	25.8	32.2	46.5	8.8	9.6	8.2	2.0	1.9	1.8	—	—	—	7.2	6.2	4.2	55	(22.1)	11.7		
MTNL	66	SELL	41,297	890	630	(15.6)	(10.4)	(9.1)	(750.8)	(33.7)	(11.9)	(4.2)	(6.3)	(7.2)	(0.5)	(0.6)	(0.8)	0.4	0.4	0.4	—	—	—	(8.5)	(6.1)	(5.7)	50	(23.7)	3.1		
Reliance Communications	164	SELL	349,733	7,538	2,133	22.1	6.0	9.4	(30.2)	(72.8)	56.1	7.4	27.3	17.5	6.9	9.5	7.9	0.9	0.9	0.8	0.5	—	—	11.7	3.2	4.9	150	(8.5)	43.7		
Tata Communications	340	REDUCE	96,800	2,086	285	14.0	15.2	15.7	3.2	8.2	3.5	24.2	22.4	21.7	9.8	9.1	8.6	1.4	1.3	1.3	1.9	2.2	2.5	5.2	5.5	5.5	225	(33.8)	3.0		
<b>Telecom</b>		<b>Cautious</b>	<b>1,925,964</b>	<b>41,512</b>					<b>(15.9)</b>	<b>(33.1)</b>	<b>9.5</b>	<b>13.6</b>	<b>20.3</b>	<b>18.5</b>	<b>7.9</b>	<b>9.0</b>	<b>7.4</b>	<b>1.7</b>	<b>1.6</b>	<b>1.5</b>	<b>0.2</b>	<b>0.1</b>	<b>0.1</b>	<b>12.8</b>	<b>7.9</b>	<b>8.0</b>					
<b>Utilities</b>																															
Adani Power	140	ADD	305,091	6,576	2,180	0.8	4.3	17.4	—	455.1	300.9	178.6	32.2	8.0	136.0	23.7	7.0	5.5	4.7	3.0	—	—	—	4.4	15.9	45.5	146	4.3	3.3		
CESC	401	ADD	50,137	1,081	125	35.2	37.3	44.3	9.3	5.7	18.9	11.4	10.8	9.1	7.2	6.0	6.4	1.2	1.1	1.0	1.1	1.2	1.4	11.1	10.4	11.3	466	16.1	2.0		
Lanco Infratech	74	BUY	177,489	3,826	2,405	2.0	3.7	5.0	35.1	87.6	34.9	37.6	20.0	14.9	21.3	9.0	8.5	5.2	4.1	3.3	—	—	—	15.8	21.2	22.7	77	4.3	7.3		
NHPC	31	REDUCE	384,398	8,285	12,301	1.9	1.3	1.6	74.9	(27.5)	20.6	16.9	23.3	19.3	10.8	11.6	9.0	1.5	1.5	1.4	1.8	1.1	1.4	9.7	6.4	7.4	28	(10.4)	5.8		
NTPC	194	REDUCE	1,601,269	34,514	8,245	10.8	12.5	14.7	9.6	16.2	17.4	18.0	15.5	13.2	13.8	12.1	10.2	2.5	2.3	2.1	2.1	2.4	2.8	14.5	15.4	16.6	210	8.1	8.2		
Reliance Infrastructure	1,045	ADD	257,159	5,543	246	61.8	65.0	84.5	(1.5)	5.3	30.0	16.9	16.1	12.4	18.2	16.1	11.3	1.3	1.2	1.1	0.8	0.9	1.0	6.3	7.3	10.1	1,160	11.0	44.3		
Reliance Power	154	SELL	370,059	7,976	2,397	2.9	3.1	5.3	179.7	9.8	70.0	54.1	49.3	29.0	(509.5)	225.8	35.3	2.6	2.4	2.2	—	—	—	4.8	5.1	8.1	135	(12.6)	20.7		
Tata Power	1,289	ADD	318,256	6,860	247	60.2	69.2	88.5	20.1	15.0	27.8	21.4	18.6	14.6	13.6	12.3	10.6	2.4	2.2	2.0	0.9	1.1	1.2	12.9	12.5	14.3	1,420	10.1	10.1		
<b>Utilities</b>		<b>REDUCE</b>	<b>3,463,858</b>	<b>74,660</b>					<b>23.5</b>	<b>15.6</b>	<b>37.5</b>	<b>21.9</b>	<b>19.0</b>	<b>13.8</b>	<b>17.3</b>	<b>14.5</b>	<b>10.6</b>	<b>2.3</b>	<b>2.1</b>	<b>1.9</b>	<b>1.3</b>	<b>1.4</b>	<b>1.7</b>	<b>10.6</b>	<b>11.3</b>	<b>13.9</b>					
<b>Others</b>																															
Havells India	796	SELL	47,918	1,033	60	5.3	31.6	45.0	3.7	497.9	42.6	150.7	25.2	17.7	19.9	12.3	10.1	13.2	8.7	5.9	0.3	0.3	0.3	6.6	41.6	39.7	497	(37.6)	8.5		
Jaiprakash Associates	121	BUY	257,481	5,550	2,129	1.5	5.5	7.4	(27.2)	279.8	34.1	83.1	21.9	16.3	21.4	15.7	11.2	3.0	2.6	2.3	—	—	—	4.1	12.8	14.9	170	40.6	25.2		
Jindal Saw	209	ADD	61,579	1,327	294	25.0	18.6	17.9	110.8	(25.4)	(4.0)	8.4	11.2	11.7	5.4	6.2	6.0	1.6	1.3	1.2	0.5	0.4	0.4	20.5	12.9	11.1	256	22.3	3.2		
PSL	134	BUY	7,177	155	53	22.9	25.4	28.2	3.3	10.6	11.0	5.9	5.3	4.8	3.3	2.7	2.9	0.8	0.7	0.6	4.8	4.8	5.2	12.6	11.7	12.0	182	35.6	0.6		
Sintex	365	BUY	49,882	1,075	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	1.7	0.3	0.4	0.4	15.5	15.3	15.2	380	4.0	4.7		
Tata Chemicals	405	REDUCE	98,618	2,126	243	26.4	33.2	37.5	(27.1)	25.8	12.7	15.3	12.2	10.8	7.7	6.6	5.6	2.1	1.8	1.6	2.2	2.2	2.2	16.0	18.7	18.3	360	(11.2)	4.6		
Welspun Corp	247	ADD	50,844	1,096	205	32.0	27.0	25.6	85.2	(15.7)	(5.4)	7.7	9.2	9.7	4.5	4.8	4.6	1.6	1.3	1.2	0.9	0.9	0.9	24.8	15.6	12.8	286	15.6	4.7		
United Phosphorus	193	BUY	89,229	1,923	463	11.9	13.8	17.4	18.8	15.8	25.9	16.1	13.9	11.1	9.3	8.4	6.8	2.6	2.3	1.9	0.8	1.0	1.0								



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As of June 30, 2010

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