kotak® Institutional Equities

INDIA DAILY

December 29, 2011

Contents

KIE Communication

We are dropping coverage of Shree Renuka Sugars with effect from December 28, 2011. Our last assigned rating on the stock was REDUCE with a target price of Rs24. The current price of the stock is Rs25.

News Round-up

- The Union Budget is likely to be presented between March 9 & 15 after the state assembly elections are over to ensure that the govt.'s financial statement does not clash with EC's code of conduct. (TTOI)
- The govt. is set to provide around USD 1.15bn to SBI (SBIN IN) as part of a USD 3.27bn equity infusion plan in public sector banks during the current financial year. (TTOI)
- India & Japan signed a revised USD 15bn currency swap deal which is expected to help support the rupee. (TTOI)
- Rajya Sabha maths not likely to favour Lok Pal, BJP vows to defeat Bill today, another SP, BSP walk-out could help UPA govt. (BSTD)
- Reliance Ind. (RIL IN) is in advanced talks with American defence giant Raytheon to create a homeland security JV. (BSTD)
- Reliance Power (RPWR IN) reached a power generation level of 900mw at its Rosa power plant in Shahjahanpur district in Uttar Pradesh. The company formally commissioned its 300mw second-phase unit three months ahead of schedule. (BSTD)
- Govt. may soon ask Sterlite Ind. (STLT IN) to buy its 49% stake in Balco, may adopt similar route to disinvest residual stake in Hind Zinc (HZ IN). (ECNT)
- Troubles mounted for DLF Ltd (DLFU IN) with credit rating agency Crisil (CRISIL IN) downgrading a slew of debt programmes and terming the outlook "negative". (THBL)
- DLF (DLFU IN) & its JV partner offloaded their entire stake in DLF Ackruti Info Parks to private equity major Blackstone for USD 155.77mn. (BSTD)
- Relief for Kingfisher (KFA IN) as public sector banks, oil cos ready to consider working capital loan. (FNLE)
- M&M (MM IN) to raise price of XUV500 Sports utility vehicle by INR 50,000. (FNLE)
- Glenmark Pharma (GNP IN) has received approval from Drug Controller General of India to conduct phase III trails for Crofelemer, aimed at treatment of acute diarrhoea in adults. (ECNT)

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

EQUITY MARKETS

		Change %		
India	**28-Dec**	**1-day**	**1-mo**	**3-mo**
Sensex	15,728	(0.9)	(2.7)	(4.4)
Nifty	4,706	(0.9)	(3.0)	(4.9)
Global/Regional indices				
Dow Jones	12,151	(1.1)	5.2	8.9
Nasdaq Composite	2,590	(1.3)	2.5	3.9
FTSE	5,507	(0.1)	3.2	6.0
Nikkie	8,357	(0.8)	(1.4)	(4.0)
Hang Seng	18,324	(1.1)	0.4	1.7
KOSPI	1,817	(0.4)	(2.1)	2.7
Value traded – India				
Cash (NSE+BSE)	75		115	122
Derivatives (NSE)	1,530		806	1,795
Deri. open interest	1,382		1,038	1,459

Forex/money market				
		Change, basis points		
	28-Dec	**1-day**	**1-mo**	**3-mo**
Rs/US$	53.0	4	94	422
10yr govt bond, %	8.5	1	(31)	18
Net investment (US$mn)				
	27-Dec		**MTD**	**CYTD**
FIIs	69		20	(481)
MFs	1		(15)	(282)

Top movers -3mo basis				
		Change, %		
Best performers	**28-Dec**	**1-day**	**1-mo**	**3-mo**
HUVR IN Equity	411.7	(1.2)	6.0	19.7
WPRO IN Equity	397.1	(2.4)	6.2	14.2
CAIR IN Equity	314.2	(2.9)	3.5	13.4
TCOM IN Equity	211.3	0.1	10.5	12.8
TTMT IN Equity	180.2	(1.0)	1.5	12.0
Worst performers				
SUEL IN Equity	19.2	1.3	(17.4)	(49.1)
HDIL IN Equity	56.9	(2.4)	(11.6)	(44.3)
ESOIL IN Equity	48.8	(0.5)	(29.1)	(40.5)
IBREL IN Equity	46.5	2.1	(28.5)	(39.9)
ADE IN Equity	325.2	1.0	6.4	(39.5)

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BUY

DECEMBER 28, 2011

UPDATE

Coverage view: Attractive

Price (Rs): 136/148

Target price (Rs): 210/220

BSE-30: 15,728

Switching on the dimmer. We turned more cautious on power finance companies (PFC and REC) after our management meetings in Delhi. While developments with respect to SEBs are positive, we believe performance (growth and NPLs) of their private sector book (though this is only 9-11% of total loans as on September 2011) will drive the stocks. We reduce estimates and target prices. Retain BUY; the stocks are trading at distressed valuations. We believe resolution of macro issues will be the key sensitivity for near-term stock performance.

Company data and valuation summary
PFC

Stock data				Forecasts/Valuations	2011	2012E	2013E
52-week range (Rs) (high,low)			324-130	EPS (Rs)	22.8	17.0	27.9
Market Cap. (Rs bn)			179.0	EPS growth (%)	11.1	(25.3)	63.8
Shareholding pattern (%)				P/E (X)	5.9	8.0	4.9
Promoters			73.7	NII (Rs bn)	35.5	43.6	52.9
FIIs			6.5	Net profits (Rs bn)	26.2	22.5	36.9
MFs			6.7	BVPS	114.0	147.8	161.8
Price performance (%)	1M	3M	12M	P/B (X)	1.2	0.9	0.8
Absolute	(19.7)	(11.0)	(57.3)	ROE (%)	18.4	12.7	17.0
Rel. to BSE-30	(17.5)	(7.0)	(45.6)	Div. Yield (%)	2.9	2.5	4.1

Company data and valuation summary
Rural Electrification Corp.

Stock data				Forecasts/Valuations	2011	2012E	2013E
52-week range (Rs) (high,low)			303-144	EPS (Rs)	26.0	27.7	31.9
Market Cap. (Rs bn)			146.3	EPS growth (%)	28.1	6.6	15.0
Shareholding pattern (%)				P/E (X)	5.7	5.3	4.7
Promoters			66.8	NII (Rs bn)	32.6	37.2	41.1
FIIs			18.5	Net profits (Rs bn)	25.7	27.4	31.5
MFs			2.1	BVPS	129.4	147.8	169.0
Price performance (%)	1M	3M	12M	P/B (X)	1.1	1.0	0.9
Absolute	(23.0)	(14.2)	(47.1)	ROE (%)	21.5	20.0	20.1
Rel. to BSE-30	(20.9)	(10.2)	(32.6)	Div. Yield (%)	5.1	5.4	6.2

Shifting focus to private sector loan book

Positive developments at SEBs. We are relatively more comfortable on the asset quality performance of state sector loans (70% to 82% of loan book for PFC and REC as on September 2011) given the positive developments at state electricity boards (SEBs) over the past few months. While recently-proposed tariff hikes may not, in themselves, drive turnaround at SEBs, a more disciplined approach by SEBs and regulators is likely to reduce their credit risk in the medium-term.

Concerns in private sector will have an overhang. We believe stress in the private sector loan book is likely to be reflected over the next few quarters. While the 'long-term value' of the underlying assets may not be debated, early resolution of macro issues in the sector (availability and supply of coal, (likely) renegotiation of power purchase agreements) will affect the fortunes of these projects and hence drive the stock performance of PFC and REC. Recent developments are somewhat positive: scrapping of the 'No-go' policy, increased mining activity (as indicated by a rise in bank credit to the segment) and environment clearances for some projects.

Revision in estimates

We are reducing our estimates for PFC by 12% and 2% for FY2012 and FY2013 respectively, to factor-in higher losses on forex loans, increased credit costs and lower loan growth. We are reducing our target price to Rs210 from Rs225.

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We are reducing our estimates for REC by 4% and 2% for FY2012 and FY2013 respectively to factor-in increased credit costs and lower loan growth. We are reducing our target price to Rs220 from Rs240.

Stocks trading at distressed valuations, retain BUY

PFC is trading at 4.9X PER and 0.8X PBR FY2013E. This works out to 1X FY2014E adjusted PBR, if we build-in NPLs of 5.5%. This effectively implies that 95% of the private sector loan book (as on September 2011) is written-off. PFC provides a dividend yield of 4%.

REC is trading at 4.7X PER and 0.9X PBR FY2013E. This works out to 1X FY2014E adjusted PBR, if we build-in NPLs of 4%. This effectively implies that 45% of the private sector loan book (as on September 2011) is written-off. REC provides a dividend yield of 6%.

Loan growth to moderate unless new proposals increase

We are reducing our loan growth estimates for PFC and REC by 2-3% for FY2013. We are now modeling 14-15% loan growth in FY2014 against ~20% in earlier years.

- We believe disbursements towards pre-approved projects (projects that have begun construction activity) will drive business over the next few quarters. However, subdued activity in new projects will hit loan growth from FY2014E unless the macro environment improves.

- In light of challenges in the sector, power finance companies have adopted more stringent disbursement pre-conditions for projects approved from 2011 (like firm fuel supply agreements and power purchase agreements). We believe it will be challenging to promoters to meet some of these conditions at this juncture.

- PFC and REC will continue/resume disbursements to SEBs that raised tariff, publish financials and follow norms laid down by the joint committee of chief ministers.

Pricing power remains strong, expect NIMs to be stable

We believe lower competition from banks in lending to SEBs and (refinancing loans to private power players) will be likely to improve the negotiating power of PFC and REC with its borrowers. As such, we believe PFC and REC are well placed in maintaining their interest spreads. We are modeling a marginal decline in spreads for REC (down 30 bps) in 2013 to factor-in the impact of higher leverage and increase in non-performing assets.

We raise estimates for provisions

In order to factor likely deterioration in asset quality, we are now increasing our estimates for loan losses for PFC and REC. We highlight that its is challenging to model the NPLs, credit losses and restructured losses for PFC and REC given their large and lumpy exposures to generation projects.

We are now modeling NPL provisions of Rs7.7 bn for PFC and Rs4 bn for REC between FY2012 and FY2014. This works out to 8% and 4% of the current private sector loan book for PFC and REC respectively.

- Exposure to the hydel project in MP (Rs4 bn for REC and Rs7 bn for PFC) is considered a standard restructured exposure by PFC while REC classified it as an NPL in 1QFY12. In case the power company is unable to raise equity capital, this loan is likely to be classified as an NPL by PFC as well. PFC has also extended a guarantee of Rs4 bn on this project. If this devolves on PFC, the NPL will be Rs11 bn.

- In light of a likely delay in commissioning of power projects (due to challenges in arranging supply of fuel or otherwise), we expect PFC and REC to restructure loans as well. Notably, unlike banks, PFC and REC have restructured loans in the past.

MTM losses on forex borrowings temper near-term earnings for PFC

We are raising our estimates for PFC's MTM losses on forex borrowings on the back of revision in the Rupee-US Dollar rates by our economist. We are now modeling the US Dollar at Rs53.5 as on March 2012 compared with our previous estimate of about Rs50. PFC has un-hedged forex exposure of (US$383 mn; JPY42 bn and Euro23 mn). REC recently hedged most of its borrowings and currently has un-hedged forex exposure of US$50 mn.

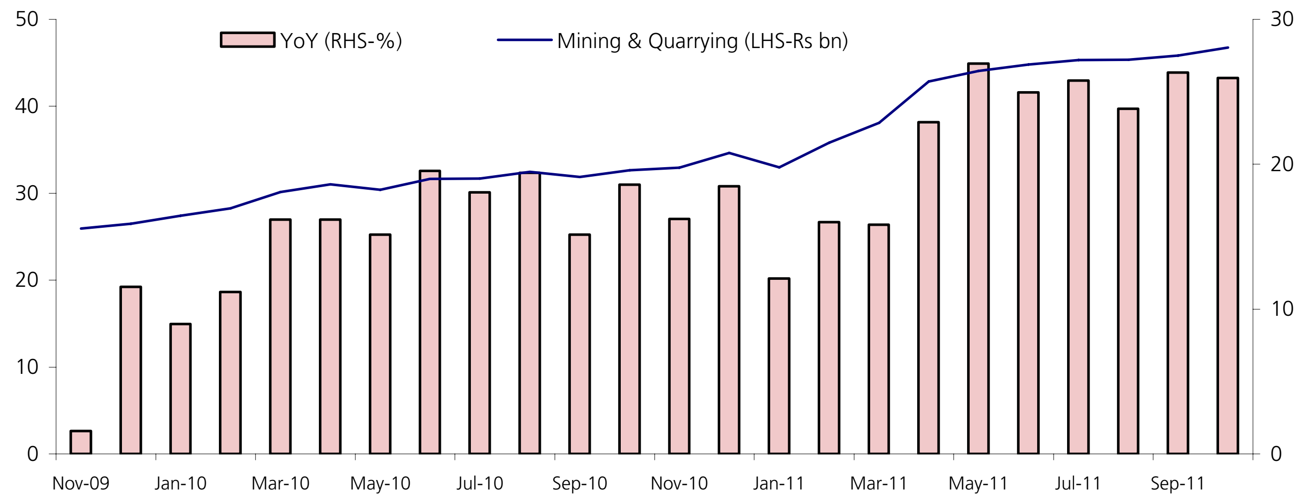
According to news reports, the regulatory bodies may allow companies to capitalize forex losses on borrowings. In this scenario, the losses in the forex account are likely to be much lower.

Several SEBs have raised tariffs in the recent past

State	Quantum	Month
Andhra Pradesh	10-13%	April-11
Bihar	19%	June-11
Chandigarh	27%	August-11
Chattisgarh	14-22%	March-11
Delhi	22%	August-11
Gujarat	5%	September-11
Himachal Pradesh	12%	July-11
Jharkhand	19%	July-11
Karnataka	7-8%	October-11
Madhya Pradesh	9%	July-11
Maharasthra	10%	October-11
Odisha (2)	20%	March-11
Punjab	9%	May-11
Rajasthan	20-30%	September-11
Tamil Nadu	35%	November-11

Source: PFC, newspapers

Mining activity has been increasing recently
Bank loans to the mining segment, November 2009-September 2011 (Rsbn)



Source: RBI

PFC, old and new estimates
March fiscal years 2012-2013E (Rs mn)

	Old estimates		New estimates		Old vs New (%)	
	2012E	2013E	2012E	2013E	2012E	2013E
Net interest income	43,215	52,694	43,629	52,855	1	0
Loan growth (%)	23	19	23	18		
NIM (%)	3.8	3.9	3.9	3.9		
NPL provisions	1,111	1,613	1,111	2,676	-	66
Other operational income (incl forex gains/losses)	750	1,000	-	1,000		-
Operating expenses	1,272	1,667	1,272	1,659	-	(0)
Employee	692	796	692	796	-	(0)
PBT	34,540	50,371	30,203	49,477	(13)	(2)
Tax	8,980	13,096	7,702	12,617	(14)	(4)
PAT	25,559	37,274	22,501	36,860	(12)	(1)

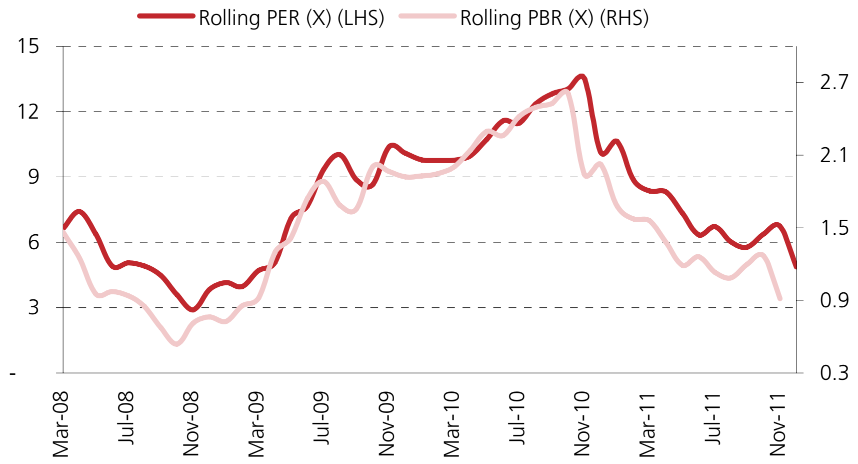
Source: Kotak Institutional Equities estimates

REC, old and new estimates
March fiscal years 2012-2013E (Rs mn)

	Old estimates		New estimates		% change	
	2012E	2013E	2012E	2013E	2012E	2013E
Net interest income	37,178	41,967	37,157	41,109	(0)	(2)
Loan growth (%)	21	19	21	17		
NIM (%)	4.1	3.8	4.1	3.8	(0.1)	(0.9)
NPL provisions	1,000	1,200	1,000	1,250		
Other operational income	4,275	4,880	4,275	4,880	-	-
Other income (forex etc)	-	-	-	-		
Operating expenses	1,931	2,239	3,593	2,220	86	(1)
Employee	1,466	1,686	1,466	1,686	-	-
Others	465	553	2,127	534		
PBT	38,522	43,408	36,839	42,520	(4)	(2)
Tax	9,919	11,286	9,486	11,055	(4)	(2)
PAT	28,603	32,122	27,353	31,465	(4)	(2)

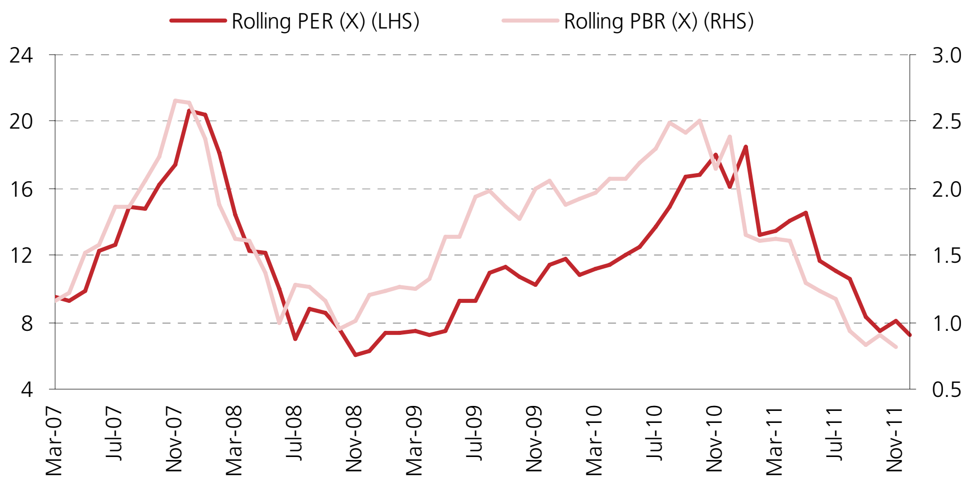
Source: Kotak Institutional Equities estimates

Rural Electrification Corporation – Rolling PBR and PER
March 2008-December 2011 (X)



Source: Kotak Institutional Equities

PFC- Rolling PER and PBR
February 2007-December 2011 (X)



Source: Company, Bloomberg, Kotak Institutional Equities estimates

PFC : Key ratios, March fiscal year-ends, 2009-2014E (%)

	2009	2010	2011	2012E	2013E	2014E
Growth rates (%)						
Net interest income	32.5	26.2	18.8	22.8	21.1	15.5
Loan loss provisions	(135.0)	(115.6)	(5,666.7)	250.0	141.0	46.1
Other income	(71.2)	(21.5)	794.8	(100.0)	0.0	0.0
Operating expense	66.0	(21.3)	(12.4)	37.4	30.4	16.7
PBT	11.3	51.4	17.6	(14.8)	63.8	13.5
PAT	**63.3**	**19.7**	**11.1**	**(14.1)**	**63.8**	**13.5**
PBT- forex gains	**26**	**29**	**22**	**16**	**20**	**14**
Net loans	25	24	25	23	18	16
Disbursements	30	24	30	24	12	8
Unsecurued loans (liabilities)	28	29	27	20	20	16
Net worth	23	15	14	33	14	14
Yield measures (%)						
Yield on earnings assets	10.4	10.3	10.3	11.0	11.2	11.3
Yield on loans	11.0	10.9	10.9	11.5	11.6	11.7
Cost of funds	8.8	8.3	8.5	9.0	9.2	9.3
Spread	2.2	2.6	2.4	2.5	2.4	2.4
Net interest margin	**4.0**	**4.1**	**3.9**	**3.9**	**3.9**	**3.9**
Total provisions/net loans (EoY)	0.01	—	0.03	0.09	0.18	0.23
Tax rate	1	22	26	26	26	26
Dividend payout ratio	23	22	20	20	20	20
Profitability measures (%)						
Interest income/total income	111.0	95.8	96.7	133.7	98.1	98.4
Other operating income/total income	0.8	0.4	3.3	-	1.9	1.6
Other income / total income	(11.8)	3.8	-	(33.7)	-	-
Operating expenses/total income	6.3	3.4	2.5	3.9	3.1	3.1
Payout ratio	23.3	21.9	20.0	20.0	20.0	20.0
LT Debt- Equity Ratio (X)	4.5	5.1	5.6	5.1	5.3	5.4
CAR (%)	17.9	16.6	15.2	16.5	15.9	15.7
Loan loss provisions/ ave loan assets	0.01	—	0.01	0.10	0.20	0.25
ROA decomposition - % of avg. assets						
Net interest income	3.9	3.9	3.8	3.8	3.8	3.8
Interest restructuring premium	—	—	—	—	—	—
Loan loss provisions	—	—	—	0.1	0.2	0.2
Adj. Net interest income	3.8	3.9	3.7	3.7	3.6	3.5
Net other operating income	—	0.0	0.1	-	0.1	0.1
Other income	(0.4)	0.2	—	1—	—	—
Operating expenses	0.2	0.1	0.1	0.1	0.1	0.1
Other expenses & extraordinaries	—	—	—	—	—	—
(1- tax rate)	99.0	78.2	73.9	74.5	74.5	74.5
ROA	**3.2**	**3.1**	**2.8**	**1.9**	**2.7**	**2.6**
Average assets/average equity	5.9	6.2	6.7	6.5	6.4	6.5
ROE	**18.9**	**19.0**	**18.4**	**12.7**	**17.0**	**17.0**
RoE (incl def tax)	**13.8**	**19.0**	**18.3**	**12.6**	**17.0**	**16.9**

Source: Company, Kotak Institutional Equities estimates

PFC : Income statement and balance sheet, March fiscal year-ends, 2009-2014E (Rs mn)

	2009	2010	2011	2012E	2013E	2014E
Income statement (Rsmn)						
Total interest income	64,534	79,214	100,389	128,493	156,010	184,025
Adj. interest (after rebate for timely	63,965	78,634	97,605	127,493	155,010	183,025
Other interest income	569	580—	2,784	1,000	1,000	1,000
Total interest expense	40,859	49,324	64,870	84,864	103,154	122,971
Net interest income	23,675	29,890	35,519	43,629	52,855	61,054
Loan loss provisions	37	(6)	317	1,111	2,676	3,910
Other operating income	173	136	1,217	-	1,000	1,000
Other income	(2,525)	1,184	—	11,000—	—	—
Net total income	**21,323**	**31,209**	**36,736**	**32,629**	**53,855**	**62,054**
Operating expenses	1344	1058	926	1272	1659	1937
Depreciation	38	34	43	43	43	43
PBT	19,905	30,134	35,443	30,203	49,477	56,164
Tax	205	6,562	9,250	7,702	12,617	14,322
PAT	**19,699**	**23,573**	**26,193**	**22,501**	**36,860**	**41,842**
PAT (incl def tax/normalised)	**15,310**	**23,573**	**26,193**	**22,501**	**36,860**	**41,842**
PBT + provisions-interest on restruction premium	19,941	29,983	35,760	31,314	52,153	60,075
EPS (Rs)	17.2	20.5	22.8	17.0	27.9	31.7
% growth	63.3	19.7	11.1	(25.3)	63.8	13.5
DPS(Rs)	4.0	4.5	4.6	3.4	5.6	6.3
BPS (Rs)	100.3	115.5	132.3	153.3	174.6	198.9
EPS (incl def tax Rs)	**13**	**21**	**23**	**17**	**28**	**32**
BPS (incl def tax Rs)	**101**	**116**	**133**	**154**	**175**	**200**
ABVPS (Rs)	**96**	**110**	**130**	**147**	**161**	**166**
ABVPS (incl def tax Rs)	**96**	**110**	**131**	**148**	**162**	**167**
Balance sheet (Rs mn)						
Assets						
Fixed Assets (Net)	752	745	767	741	742	742
Total Loan Assets	644,290	798,558	995,707	1,225,426	1,450,894	1,677,334
Total Current Assets, Loans & Advances	36,686	48,155	49,327	40,868	46,520	51,877
Total Assets	**682,086**	**847,771**	**1,046,340**	**1,267,035**	**1,498,156**	**1,729,954**
Unsecured Loans	521,602	671,084	853,632	1,024,454	1,225,403	1,423,013
Total current liabilities	18,606	21,245	30,215	31,426	32,699	34,035
Deferred tax liability	555	469	830	830	830	830
Interest Subsidy Fund from GOI	9,089	6,635	4,519	4,519	4,519	4,519
Total liabilities	**567,007**	**715,164**	**894,518**	**1,064,743**	**1,267,625**	**1,467,367**
Paid up capital	11,478	11,478	11,478	13,200	13,200	13,200
Reserves & surplus	103,601	121,130	140,347	189,092	217,331	249,387
Total equity	**115,078**	**132,608**	**151,825**	**202,292**	**230,531**	**262,586**

Source: Company, Kotak Institutional Equities estimates

Rural Electrification Corporation, key ratios,
March fiscal year-ends, 2009-2014E (%)

	2009	2010	2011	2012E	2013E	2014E
Growth in key parameters (%)						
Interest income	32.6	37.9	26.1	25.9	16.1	15.2
Interest costs	39.8	35.0	24.0	33.9	19.2	15.4
Net interest income	22.4	42.5	29.3	14.0	10.6	14.8
PAT	47.9	57.3	28.4	6.4	15.0	14.1
Disbursements	34.0	23.2	16.0	11.1	8.9	6.4
Loans	30.7	29.3	23.6	21.1	16.7	13.9
Borrowings	31.1	24.5	26.3	22.0	16.9	13.7
Shareholders funds	15.3	79.0	15.4	14.2	14.3	14.3
Key ratios (%)						
Interest yield	10.29	10.92	10.92	11.25	11.00	11.00
Interest cost	7.31	7.75	7.66	8.28	8.28	8.30
Spreads	**2.97**	**3.16**	**3.25**	**2.97**	**2.72**	**2.70**
NIMs	**3.90**	**4.28**	**4.39**	**4.09**	**3.81**	**3.80**
Tax rate	26	24	26	26	26	26
Debt/ equity+DTL (X)	6.3	5.1	5.5	5.9	6.0	6.0
Du Pont analysis						
(% of average assets)						
Net interest income	3.6	4.0	4.2	3.9	3.6	3.6
Other income	0.5	0.4	0.5	0.4	0.4	0.4
Credit costs	0.0	—	—	—	—	—
Operating expneses	0.2	0.2	0.2	0.4	0.2	0.2
PBT post extraordinaries	3.9	4.2	4.5	3.9	3.8	3.7
1-tax rate	0.7	0.8	0.7	0.7	0.7	0.7
RoA	**2.6**	**3.2**	**3.3**	**2.9**	**2.8**	**2.8**
Average assets / average equity (X)	8.6	7.3	6.5	7.0	7.2	7.3
RoE	**22.0**	**23.2**	**21.5**	**20.0**	**20.1**	**20.1**

Source: Company, Kotak Institutional Equities estimates

Rural Electrification Corporation, key financials,
March fiscal year-ends, 2009-2014E (Rs mn)

	2009	2010	2011	2012E	2013E	2014E
Income statement (Rs mn)						
Interest income	46,650	64,309	81,090	102,132	118,543	136,581
Interest costs	(28,970)	(39,112)	(48,510)	64,975	77,434	89,395
Net interest income	**17,680**	**25,197**	**32,580**	**37,157**	**41,109**	**47,185**
Other income	2,660	2,768	3,860	4,275	4,880	5,581
Fees	1,740	1,189	1,480	1,776	2,131	2,557
Net total income	**20,340**	**27,965**	**36,440**	**41,432**	**45,989**	**52,767**
Provisioning expenses	(20)	(2)	(3)	1,000	1,250	1,688
Net income (post provisions)	**20,320**	**27,962**	**36,437**	**40,432**	**44,739**	**51,079**
Operating expneses	**(1,120)**	**(1,470)**	**(1,666)**	**3,593**	**2,220**	**2,558**
PBT before extraordinaties	**19,200**	**26,492**	**34,772**	**36,839**	**42,520**	**48,521**
PBT post extraordinaries	**19,200**	**26,492**	**34,772**	**36,839**	**42,520**	**48,521**
Tax	(5,070)	(6,473)	(9,121)	9,486	11,055	12,616
Provision for DTL	(1,410)	(5)	54	-	1	1
PAT	**12,720**	**20,014**	**25,705**	**27,353**	**31,464**	**35,905**
PAT (add. back DTL)	**14,130**	**20,019**	**25,650**	**27,353**	**31,465**	**35,906**
EPS (adding back DTL) (Rs)	16	20	26	28	32	36
BVPS (adding back DTL) (Rs)	83	112	129	148	169	193
ABVPS (adding back DTL) (Rs)	83	112	129	139	148	157
Balance sheet (Rs mn)						
Assets						
Loans	513,810	664,520	821,321	994,586	1,160,743	1,322,544
Investments	10,060	9,100	8,124	8,124	8,124	8,124
Fixed assets	810	900	881	1,013	1,165	1,339
Current assets	34,890	20,837	34,447	40,650	48,040	56,848
Total assets	**559,570**	**695,357**	**864,773**	**1,044,373**	**1,218,072**	**1,388,856**
Liabilities						
Borrowings	449,360	559,480	706,835	862,219	1,007,760	1,145,987
Deferred tax liability	9,570	(70)	(124)	(124)	(123)	(122)
Current liabilities and provisions	38,740	25,147	30,176	36,212	43,454	52,145
Total liabilities	**497,670**	**584,557**	**736,887**	**898,306**	**1,051,091**	**1,198,010**
Share capital	8,586	9,874	9,874	9,874	9,874	9,874
Reserves and surplus	53,314	100,926	118,012	136,193	157,107	180,972
Shareholders funds	**61,900**	**110,800**	**127,886**	**146,067**	**166,980**	**190,846**

Source: Company, Kotak Institutional Equities estimates

CAUTIOUS

DECEMBER 28, 2011

UPDATE

BSE-30: 15,874

Cost-plus or market pricing—distorting signals. Media reports indicate the Ministry of Power is likely to cap tariffs or cost-plus tariffs for capacities fueled by low cost captive coal mines—a departure from the extant policy of transitioning to competitively-bid or market-driven pricing. The move is likely to be prompted by a spike in merchant tariffs, leading to disparate profitability for merchant capacities, such as those of Jindal Steel and Power, running on low-cost fuel.

Proposal to cap tariffs on cost-basis – a departure from the National Tariff Policy

As per media reports, the Ministry of Power proposes to cap power tariffs for plants running on captive or domestic linkage coal, implying a cost-plus tariffs with limited returns for all such low-cost producers. In our view, if implemented this would be a reversal of the extant policy framework that looks to shift to market-driven pricing (competitively-bid and/or merchant) that rewards efficient low-cost producers while penalizing inefficient producers. In our view, the market driven policy is progressive as it differentiates between power producers based on their cost efficiency, unlike the traditional cost-plus regime that allowed a reasonable return for all power producers—irrespective of their cost of generation.

Policy shift could discourage much-needed development of captive blocks

Moving captive coal-based power under the cost-plus regime would (1) deter the extant owners of captive blocks from developing their blocks and (2) jeopardize the government's plan to auction India's coal reserves—until complete clarity on the tariff structure to be adopted for captive coal-based power producers emerges. With domestic coal production significantly lagging demand and Coal India unlikely to significantly ramp up production, captive production has been viewed as a way of shoring up domestic coal capacity. Recent policy action has largely been directed at efficient allocation of captive blocks with the Ministry of Coal cancelling some previously-allocated coal blocks and putting forth a draft proposal for auctioning coal blocks.

Regulators last intervened to counter a tariff spike during the 2009 general elections

CERC had capped merchant tariffs for power traded at Rs8/kwh in September 2008—preceding the general and state elections. With merchant rates trending up, leading to assembly elections in five states (Uttar Pradesh, Punjab, Uttaranchal, Manipur and Goa) in CY2012 the spike in merchant tariffs and probable policy action is not entirely alarming.

Under the Electricity Act 2003, in case of a shortage of electricity supply, CERC is empowered to fix a minimum and maximum tariff for sale or purchase of electricity between a generating company and licensee or between licensees, for a period not exceeding one year, to ensure reasonable prices of electricity.

Lack of clarity on policy complicates investment decisions

With the power sector already reeling from an acute shortage of fuel and poor financial health of distribution utilities—lack of clarity on pricing of power for captive coal-based capacities could further dampen the investment environment. Implementation of the proposed policy could be negative for companies with merchant capacities running on captive coal (JSPL's 1,000 MW Tamnar plant) or linkage coal (subject to availability). Exhibit 1 below highlights the sensitivity of our fair value estimate of JSPL's power business to merchant prices.

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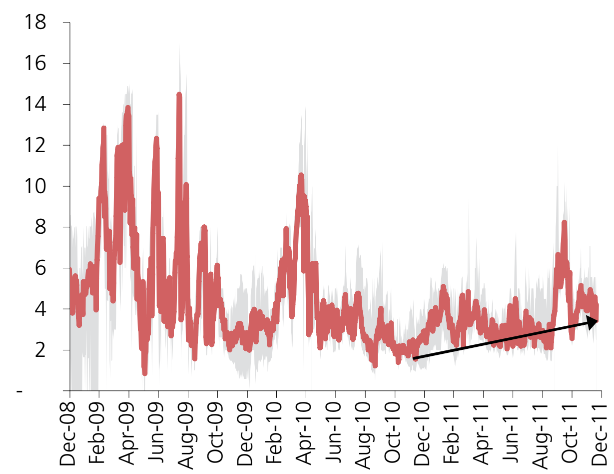
We maintain our cautious stance on the sector and recommend aligning with utilities with (1) access to fuel or resource ownership, (2) integrated operations and (3) low cost generation that better combat the current fuel deficit and the questionable financial health of state electricity boards. NHPC, Tata Power and CESC, in our coverage universe, are better positioned to cope with the current situation in the power sector.

Exhibit 1: A Re1/kwh lower average realization could impact our fair value of power business for JSPL by 37%
Sensitivity of our fair value estimate of JSPL's power business to merchant prices

	Merchant tariff (Rs/kwh)									
	2.5		3.0		3.5 (base case)		4.0		4.5	
Plant	**Value (Rs bn)**	**Value (Rs/share)**	**Value (Rs bn)**	**Value (Rs/share)**	**Value (Rs bn)**	**Value (Rs/share)**	**Value (Rs bn)**	**Value (Rs/share)**	**Value (Rs bn)**	**Value (Rs/share)**
1000 MW	147	159	164	176	180	194	196	212	213	229
2400 MW	6	6	20	22	35	38	49	53	64	69
CPP	23	24	43	46	63	67	83	89	102	110
Total	**176**	**189**	**227**	**244**	**278**	**299**	**328**	**354**	**379**	**409**

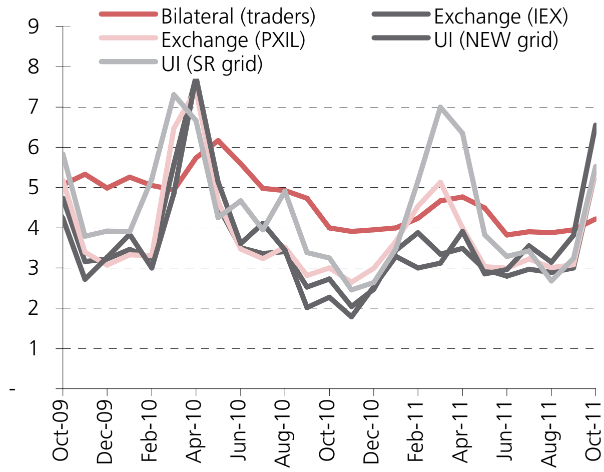
Source: Kotak Institutional Equities estimates

Exhibit 2: Average price of exchange traded power has gone up from levels in December 2010
Average price of power traded in IEX (Rs/kwh)



Source: IEX, Kotak Institutional Equities

Exhibit 3: Sharp spike in short-term tariff in October
Average price of short-term power in various markets (Rs/kwh)



Source: CERC, Kotak Institutional Equities

Exhibit 4: Summary Valuation of Utility Companies

	Category	Rating	Mkt Cap. (US$ bn)	Price 27-Dec	Target price	EV/EBITDA (X) 2009	2010	2011E	2012E	2013E	P/E (X) 2009	2010	2011E	2012E	2013E
Adani Power	Gen	REDUCE	3.0	67	74	—	98.3	31.0	12.4	5.2	0.0	82.3	28.5	12.6	6.6
CESC	Int	BUY	0.5	200	400	5.0	4.8	4.3	3.9	3.3	6.3	5.8	5.1	5.3	5.1
Jindal Steel and Power	Div	REDUCE	8.6	490	540	10.2	9.2	9.2	8.6		14.9	12.8	12.2	11.3	
JSW Energy	Gen	REDUCE	2.5	39	43		14.4	13.4	14.6	9.3	15.4	13.6	30.6	28.0	29.5
Lanco Infratech	Div	BUY	0.4	10	39	12.2	10.4	10.2	9.1	5.6	6.8	4.6	6.0	5.2	3.8
NHPC	Gen	BUY	4.3	19	29	13.5	7.7	9.6	7.2	6.4	17.6	10.1	13.9	9.1	8.6
NTPC	Gen	REDUCE	24.4	157	175	13.4	11.6	11.9	10.8	10.1	16.0	15.0	15.5	13.1	11.7
Reliance Infrastructure	Int	BUY	1.8	369	890	8.8	6.8	8.2	5.2	4.6	5.9	6.0	6.4	6.5	4.9
Reliance Power	Gen	SELL	3.8	72	76	(80.5)	(107.1)	87.3	39.1	20.8	70.8	26.6	26.6	27.1	22.9
Tata Power	Int	BUY	4.2	91	125	8.9	10.0	9.9	7.6	7.3	17.3	14.3	11.7	10.7	9.8

	P/BV (X) 2009	2010	2011E	2012E	2013E	Div Yield (%) 2010	ROCE (%) 2009	2010	2011E	2012E	2013E	ROE (%) 2009	2010	2011E	2012E	2013E
Adani Power	—	2.5	2.2	1.8	1.3	—	—	1.4	2.1	4.4	8.6	—	4.2	8.5	19.7	30.2
CESC	0.9	0.8	0.7	0.6	0.6	2.2	10.7	9.7	10.3	9.7	9.5	14.9	14.2	14.4	12.4	11.6
Jindal Steel and Power	8.6	8.6	8.2	5.9		—	25.2	21.5	18.9	18.0		50.9	20.4	12.5	12.6	0.0
JSW Energy		2.3	2.0	1.8	1.7	—		8.2	7.2	2.9	3.2		23.8	16.1	6.4	6.6
Lanco Infratech	0.6	0.6	1.1	1.2	1.0	—	164.5	182.4	259.9	308.9	342.9	12.0	12.3	9.7	7.2	9.4
NHPC	1.1	1.0	0.9	0.8	0.8	2.9	5.7	7.4	5.0	6.6	6.9	6.5	10.3	6.7	9.6	9.5
NTPC	2.2	2.0	1.9	1.7	1.6	2.3	10.6	9.8	10.0	9.6	8.9	14.3	14.1	13.7	13.5	13.3
Reliance Infrastructure	0.5	0.4	0.4	0.4	0.4	22.2	6.9	5.9	5.5	4.6	6.0	4.9	6.5	6.8	10.3	9.0
Reliance Power	1.3	1.2	1.2	1.2	1.1	—	1.8	4.2	3.9	3.2	3.2	1.8	4.6	4.9	4.3	4.9
Tata Power	2.2	1.8	1.6	1.4	1.3	1.5	7.5	8.0	7.1	6.8	7.3	13.3	14.7	14.9	14.3	14.0

Source: Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	28-Dec-11 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2011	EPS (Rs) 2012E	EPS (Rs) 2013E	EPS growth (%) 2011	EPS growth (%) 2012E	EPS growth (%) 2013E	PER (X) 2011	PER (X) 2012E	PER (X) 2013E	EV/EBITDA (X) 2011	EV/EBITDA (X) 2012E	EV/EBITDA (X) 2013E	Price/BV (X) 2011	Price/BV (X) 2012E	Price/BV (X) 2013E	Dividend yield (%) 2011	Dividend yield (%) 2012E	Dividend yield (%) 2013E	RoE (%) 2011	RoE (%) 2012E	RoE (%) 2013E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Automobiles																													
Ashok Leyland	23	ADD	60,398	1,140	2,661	2.4	1.9	2.3	68.1	(19.7)	22.5	9.6	11.9	9.7	6.9	7.6	6.6	1.3	1.3	1.2	4.4	4.4	4.4	21.8	15.9	18.2	26	14.5	2.6
Bajaj Auto	1,610	ADD	465,891	8,795	289	90.4	114.0	133.2	43.9	26.1	16.9	17.8	14.1	12.1	13.6	11.1	9.4	9.4	6.8	5.0	2.5	2.5	2.5	84.9	55.8	47.4	1,865	15.8	15.1
Bharat Forge	250	ADD	59,372	1,121	237	12.5	16.7	19.8	1,402.1	32.8	18.7	19.9	15.0	12.7	9.6	7.7	6.6	2.7	2.3	1.9	1.4	—	—	8.2	14.3	15.2	315	25.9	1.8
Exide Industries	102	SELL	86,573	1,634	850	7.5	4.5	6.1	18.0	(39.5)	35.6	13.7	22.6	16.6	9.8	15.1	11.5	3.2	2.9	2.6	1.5	1.3	1.3	25.5	13.4	16.3	100	(1.8)	4.8
Hero Motocorp	1,911	SELL	381,557	7,203	200	99.3	120.5	135.4	(11.1)	21.3	12.4	19.2	15.9	14.1	12.6	11.3	9.5	8.2	7.0	5.9	5.5	3.7	3.7	56.5	67.0	60.0	1,900	(0.6)	24.0
Mahindra & Mahindra	687	BUY	422,064	7,967	614	41.7	43.9	49.0	22.7	5.3	11.6	16.5	15.7	14.0	12.7	11.9	10.3	4.0	3.3	2.8	1.7	1.4	1.4	27.3	23.1	21.7	840	22.2	28.7
Maruti Suzuki	959	ADD	277,142	5,232	289	79.2	60.3	90.5	(8.4)	(23.9)	50.1	12.1	15.9	10.6	7.1	9.6	5.6	2.0	1.8	1.6	0.8	0.8	0.8	17.6	11.8	15.7	1,240	29.3	15.6
Tata Motors	180	ADD	599,165	11,310	3,325	27.2	25.0	27.4	737.9	(8.1)	9.7	6.6	7.2	6.6	4.9	4.8	4.4	3.1	2.3	1.7	2.1	1.6	1.6	66.1	36.5	30.0	195	8.2	60.9
Automobiles		**Cautious**	**2,382,506**	**44,974**					**82.8**	**(2.0)**	**16.4**	**11.6**	**11.9**	**10.2**	**7.7**	**7.5**	**6.4**	**3.6**	**3.0**	**2.4**	**2.5**	**2.0**	**2.0**	**31.1**	**25.0**	**23.8**			
Banks/Financial Institutions																													
Andhra Bank	81	BUY	45,242	854	560	22.6	23.4	22.3	5.0	3.2	(4.7)	3.6	3.5	3.6	—	—	—	0.7	0.6	0.5	6.8	7.0	6.7	23.2	18.8	15.8	170	110.3	1.2
Axis Bank	833	BUY	353,296	6,669	424	82.5	96.1	111.8	33.0	16.4	16.3	10.1	8.7	7.5	—	—	—	1.9	1.6	1.4	1.6	2.0	2.3	19.3	19.8	19.6	1,500	80.2	50.2
Bajaj Finserv	438	ADD	63,406	1,197	145	78.2	62.7	61.4	102.3	(19.8)	(2.1)	5.6	7.0	7.1	—	—	—	1.8	1.3	1.1	2.9	2.9	2.9	37.2	21.8	16.4	650	48.3	1.0
Bank of Baroda	659	BUY	258,860	4,886	393	108.0	107.7	122.3	29.1	(0.3)	13.6	6.1	6.1	5.4	—	—	—	1.3	1.1	1.0	2.9	2.9	3.3	25.9	20.1	19.5	1,100	66.9	7.8
Bank of India	276	BUY	150,868	2,848	547	45.5	45.2	63.3	37.4	(0.7)	40.2	6.1	6.1	4.4	—	—	—	0.9	0.8	0.7	2.9	2.9	4.1	17.3	14.6	18.0	450	63.2	4.1
Canara Bank	354	BUY	156,733	2,959	443	90.9	80.9	101.5	23.3	(10.9)	25.4	3.9	4.4	3.5	—	—	—	0.9	0.7	0.6	3.1	3.4	3.4	23.2	16.7	18.1	550	55.5	6.6
Corporation Bank	357	BUY	52,809	997	148	95.4	86.2	89.5	16.3	(9.7)	3.9	3.7	4.1	4.0	—	—	—	0.7	0.7	0.6	5.6	5.1	5.3	21.9	16.8	15.4	600	68.3	0.6
Federal Bank	327	BUY	55,932	1,056	171	34.3	42.5	51.3	26.3	23.7	20.9	9.5	7.7	6.4	—	—	—	1.1	1.0	0.9	2.6	3.2	3.9	12.0	13.5	14.8	500	52.9	3.1
HDFC	661	REDUCE	969,401	18,299	1,467	24.1	27.8	31.6	22.4	15.5	13.7	27.4	23.7	20.9	—	—	—	5.6	4.9	3.8	1.4	1.6	1.9	21.7	22.1	21.3	725	9.7	32.1
HDFC Bank	440	ADD	1,023,031	19,312	2,326	16.9	22.0	28.1	31.0	30.2	27.8	26.1	20.0	15.7	—	—	—	4.0	3.5	3.0	0.8	1.0	1.2	16.7	18.7	20.5	560	27.3	35.5
ICICI Bank	697	BUY	803,222	15,162	1,152	44.7	52.0	53.7	23.9	16.3	3.3	15.6	13.4	13.0	—	—	—	1.5	1.4	1.3	2.0	2.2	2.3	9.7	10.5	10.1	1,100	57.7	92.7
IDFC	95	ADD	143,400	2,707	1,509	8.8	10.3	12.1	4.6	17.1	18.2	10.8	9.3	7.8	—	—	—	1.4	1.2	1.0	2.3	2.2	2.6	14.7	13.6	13.9	150	57.8	15.4
India Infoline	47	SELL	15,299	289	327	7.4	3.5	(6.1)	(9.3)	(52.3)	(274.8)	6.3	13.3	(7.6)	—	—	—	0.9	0.8	0.9	6.6	1.6	(2.8)	12.9	6.4	(10.8)	70	49.6	0.6
Indian Bank	182	BUY	78,347	1,479	430	38.8	40.9	48.3	10.5	5.5	18.1	4.7	4.5	3.8	—	—	—	1.0	0.8	0.7	4.1	4.2	5.0	22.3	19.9	20.1	300	64.6	1.1
Indian Overseas Bank	76	BUY	47,056	888	619	17.3	20.1	29.1	33.6	15.8	45.1	4.4	3.8	2.6	—	—	—	0.6	0.5	0.4	6.5	5.6	6.1	12.7	12.7	16.3	160	110.4	0.9
IndusInd Bank	233	BUY	108,384	2,046	466	12.4	15.6	18.2	45.2	26.1	16.6	18.8	14.9	12.8	—	—	—	3.0	2.6	2.3	0.9	1.1	1.3	20.8	18.1	17.8	325	39.7	3.3
J&K Bank	814	ADD	39,473	745	48	126.9	149.9	160.5	20.1	18.1	7.1	6.4	5.4	5.1	—	—	—	1.1	1.0	0.9	3.2	3.8	4.0	19.0	19.4	18.0	950	16.7	0.3
LIC Housing Finance	226	ADD	107,410	2,028	475	20.5	22.7	27.1	47.2	10.8	19.2	11.0	9.9	8.3	—	—	—	2.7	2.3	1.9	2.0	2.2	2.6	25.8	23.6	23.6	260	15.0	13.4
Mahindra & Mahindra Financial	601	BUY	61,615	1,163	102	45.2	55.7	70.7	26.1	23.2	26.9	13.3	10.8	8.5	—	—	—	2.5	2.2	1.9	1.7	2.0	2.6	22.0	21.1	22.8	825	37.2	1.4
Muthoot Finance	155	BUY	57,718	1,090	371	15.7	21.6	26.7	108.4	37.1	23.7	9.9	7.2	5.8	—	—	—	4.3	1.9	1.4	—	—	—	51.5	36.7	28.1	230	48.0	—
Oriental Bank of Commerce	201	BUY	58,542	1,105	292	51.5	48.0	59.5	13.7	(6.9)	23.9	3.9	4.2	3.4	—	—	—	0.6	0.5	0.5	5.2	4.8	6.0	15.5	12.1	13.6	430	114.3	2.9
PFC	136	BUY	178,988	3,379	1,320	22.8	17.0	27.9	11.1	(25.3)	63.8	5.9	8.0	4.9	—	—	—	1.2	0.9	0.8	2.9	2.5	4.1	18.4	12.7	17.0	210	54.9	12.1
Punjab National Bank	774	BUY	245,324	4,631	317	140.0	157.0	181.8	13.0	12.2	15.8	5.5	4.9	4.3	—	—	—	1.2	1.0	0.9	2.8	4.1	4.8	24.4	22.7	22.1	1,350	74.3	8.0
Reliance Capital	247	ADD	60,851	1,149	246	9.3	12.6	24.2	(25.3)	35.8	91.7	26.6	19.6	10.2	—	—	—	0.9	0.8	0.8	1.5	2.0	3.9	3.3	4.4	8.1	470	90.1	23.2
Rural Electrification Corp.	148	BUY	146,331	2,762	987	26.0	27.7	31.9	28.1	6.6	15.0	5.7	5.3	4.7	—	—	—	1.1	1.0	0.9	5.1	5.4	6.2	21.5	20.0	20.1	220	48.4	9.2
Shriram Transport	428	ADD	95,426	1,801	223	55.1	58.3	67.7	40.8	5.7	16.2	7.8	7.3	6.3	—	—	—	2.0	1.7	1.4	1.5	2.7	3.2	28.1	24.1	23.3	600	40.3	5.7
SKS Microfinance	95	RS	7,027	133	74	15.7	(89.1)	(27.5)	(41.8)	(667.7)	(69.1)	6.1	(1.1)	(3.5)	—	—	—	0.4	0.6	0.7	—	—	—	8.3	(44.7)	(19.3)	—	—	1.4
State Bank of India	1,610	BUY	1,022,475	19,301	635	130.2	174.8	251.1	(9.9)	34.3	43.7	12.4	9.2	6.4	—	—	—	1.6	1.4	1.2	2.1	2.2	2.4	12.6	16.0	19.9	2,600	61.5	140.0
Union Bank	160	BUY	83,710	1,580	524	39.5	43.0	56.1	(3.9)	9.0	30.3	4.0	3.7	2.8	—	—	—	0.8	0.7	0.6	5.0	5.4	7.1	20.9	19.0	21.2	340	113.0	4.3
Yes Bank	242	BUY	83,871	1,583	347	20.9	25.3	29.5	39.6	20.9	16.5	11.5	9.5	8.2	—	—	—	2.2	1.8	1.5	1.0	1.3	1.5	21.1	21.1	20.5	375	55.2	15.2
Banks/Financial Institutions		**Attractive**	**6,574,044**	**124,097**					**20.0**	**11.2**	**24.7**	**10.7**	**9.7**	**7.8**	**—**	**—**	**—**	**1.7**	**1.5**	**1.3**	**2.0**	**2.3**	**2.6**	**16.0**	**15.5**	**16.8**			
Cement																													
ACC	1,168	SELL	219,500	4,143	188	55.6	57.3	69.0	(33.2)	3.1	20.4	21.0	20.4	16.9	13.0	11.7	9.1	3.2	2.9	2.6	3.0	2.0	2.0	17.5	16.5	17.4	980	(16.1)	6.6
Ambuja Cements	163	SELL	247,386	4,670	1,522	7.9	7.9	9.8	(1.5)	(0.2)	24.8	20.6	20.7	16.6	12.6	11.6	9.1	3.1	2.9	2.6	1.3	1.4	1.5	16.6	14.8	16.8	135	(16.9)	6.7
Grasim Industries	2,459	BUY	225,572	4,258	92	232.0	254.4	271.5	(22.9)	9.7	6.7	10.6	9.7	9.1	6.4	5.0	4.4	1.5	1.4	1.2	0.8	1.4	1.4	15.7	15.0	14.1	2,900	17.9	3.2
India Cements	70	ADD	21,410	404	307	1.9	9.9	10.1	(81.2)	424.3	1.8	36.9	7.0	6.9	14.0	4.8	4.3	0.5	0.5	0.4	2.3	4.6	4.6	1.4	7.3	7.0	90	29.1	1.2
Shree Cement	2,095	REDUCE	72,987	1,378	35	57.2	76.4	116.8	(72.5)	33.7	52.9	36.7	27.4	17.9	8.6	7.0	6.1	3.8	3.5	3.1	0.7	0.8	1.0	10.7	13.2	18.3	1,850	(11.7)	0.4
UltraTech Cement	1,176	ADD	322,161	6,081	274	44.9	75.7	89.7	(49.2)	68.7	18.5	26.2	15.5	13.1	12.8	8.3	6.8	2.6	2.2	1.9	0.4	0.5	0.5	16.7	17.8	17.9	1,220	3.8	3.6
Cement		**Neutral**	**1,109,017**	**20,935**					**(23.7)**	**23.8**	**16.6**	**18.9**	**15.3**	**13.1**	**10.0**	**7.6**	**6.3**	**2.3**	**2.1**	**1.8**	**1.3**	**1.3**	**1.3**	**12.2**	**13.5**	**14.0**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	28-Dec-11 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2011	EPS (Rs) 2012E	EPS (Rs) 2013E	EPS growth (%) 2011	EPS growth (%) 2012E	EPS growth (%) 2013E	PER (X) 2011	PER (X) 2012E	PER (X) 2013E	EV/EBITDA (X) 2011	EV/EBITDA (X) 2012E	EV/EBITDA (X) 2013E	Price/BV (X) 2011	Price/BV (X) 2012E	Price/BV (X) 2013E	Dividend yield (%) 2011	Dividend yield (%) 2012E	Dividend yield (%) 2013E	RoE (%) 2011	RoE (%) 2012E	RoE (%) 2013E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Consumer products																													
Asian Paints	2,599	SELL	249,315	4,706	96	80.8	94.4	106.9	13.0	16.8	13.3	32.2	27.5	24.3	21.4	18.7	15.0	12.2	9.3	7.6	1.2	1.1	1.3	43.9	39.9	35.6	2,500	(3.8)	3.9
Colgate-Palmolive (India)	1,011	SELL	137,462	2,595	136	29.6	32.5	39.1	(4.9)	9.9	20.3	34.1	31.1	25.8	29.7	26.7	21.5	35.8	36.4	29.0	2.2	2.8	2.7	113.4	116.1	124.9	900	(11.0)	1.5
Dabur India	105	REDUCE	182,043	3,436	1,740	3.3	3.6	4.4	12.8	11.3	19.9	32.0	28.8	24.0	25.8	21.7	18.2	13.9	10.8	8.5	1.1	1.2	1.5	51.2	42.9	40.3	105	0.4	2.3
GlaxoSmithkline Consumer (a)	2,518	ADD	105,906	1,999	42	71.3	86.6	104.1	28.8	21.5	20.1	35.3	29.1	24.2	25.5	22.5	18.8	11.3	9.6	8.0	2.0	1.5	1.8	32.2	34.8	35.2	2,900	15.2	1.2
Godrej Consumer Products	392	ADD	126,864	2,395	324	14.9	16.8	21.8	31.3	13.1	29.8	26.3	23.3	18.0	22.6	18.0	13.4	7.3	5.5	4.5	1.3	0.8	0.8	35.9	27.6	28.9	460	17.3	1.7
Hindustan Unilever	412	ADD	888,932	16,780	2,159	9.9	11.8	14.2	4.8	19.7	19.7	41.7	34.8	29.1	35.8	28.7	22.9	33.7	29.0	24.9	1.8	2.4	2.9	66.3	89.8	92.4	420	2.0	22.7
ITC	202	ADD	1,551,880	29,295	7,681	6.4	7.9	9.0	20.7	22.5	14.1	31.5	25.7	22.6	20.9	17.5	15.1	9.3	8.0	7.0	2.2	1.9	2.2	33.2	34.9	34.3	230	13.8	29.7
Jubilant Foodworks	750	SELL	49,170	928	66	11.2	16.1	23.6	99.6	43.8	46.5	66.9	46.5	31.8	40.9	25.6	17.7	25.7	16.5	10.9	—	—	—	46.6	43.2	41.3	750	0.1	25.1
Jyothy Laboratories	157	ADD	12,169	230	78	10.3	8.4	10.8	(6.2)	(18.8)	28.0	15.2	18.7	14.6	11.6	28.8	21.6	1.8	1.7	1.7	3.9	3.0	3.7	12.3	9.7	11.7	190	21.1	0.2
Marico	147	BUY	90,310	1,705	615	3.9	5.0	6.5	(12.8)	28.1	30.2	37.8	29.5	22.7	23.3	20.8	16.0	9.6	7.6	5.9	0.4	0.5	0.6	30.3	29.2	29.7	175	19.3	0.9
Nestle India (a)	4,208	SELL	405,684	7,658	96	86.8	106.6	125.0	16.7	22.8	17.3	48.5	39.5	33.7	32.3	26.1	21.8	47.4	33.6	25.1	1.2	1.4	1.7	116.5	99.7	85.4	3,600	(14.4)	2.2
Tata Global Beverages	87	BUY	54,079	1,021	618	4.0	5.6	6.6	(34.6)	42.7	16.7	22.1	15.5	13.3	8.5	9.3	6.9	1.1	1.0	1.0	2.3	3.3	3.8	6.5	8.9	10.0	110	25.8	1.8
Titan Industries	174	BUY	154,253	2,912	888	4.8	6.5	7.9	69.1	34.5	20.9	35.9	26.7	22.1	26.2	19.3	15.3	14.2	10.7	8.4	0.7	1.3	1.7	47.1	45.7	42.5	210	20.9	18.3
United Spirits	549	BUY	68,907	1,301	126	35.3	36.6	42.7	29.5	3.5	16.9	15.5	15.0	12.8	12.2	10.3	9.5	1.6	1.5	1.4	0.5	0.4	0.6	11.2	10.5	11.1	900	64.0	8.5
Consumer products		**Attractive**	**4,076,974**	**76,960**					**16.3**	**19.6**	**17.7**	**33.9**	**28.4**	**24.1**	**23.8**	**19.9**	**16.6**	**10.5**	**9.0**	**7.8**	**1.7**	**1.8**	**2.1**	**31.0**	**31.8**	**32.3**			
Constructions																													
IVRCL	28	BUY	7,583	143	267	5.9	4.2	5.0	(25.2)	(28.5)	18.5	4.8	6.7	5.7	5.3	6.4	5.6	0.4	0.4	0.3	2.2	1.4	1.4	8.2	5.5	6.2	59	107.7	3.6
Nagarjuna Construction Co.	33	BUY	8,339	157	257	6.4	4.1	5.5	(29.7)	(35.5)	32.7	5.1	7.9	6.0	6.5	6.9	6.2	0.4	0.3	0.3	3.2	6.2	6.2	7.1	4.4	5.7	85	161.5	0.7
Punj Lloyd	41	REDUCE	13,872	262	340	(1.5)	3.4	6.5	(56.6)	(328.7)	90.7	(27.5)	12.0	6.3	11.5	6.4	5.5	0.5	0.5	0.4	(0.2)	0.7	1.4	(1.7)	3.8	6.9	60	46.9	3.6
Sadbhav Engineering	100	BUY	14,913	282	150	7.8	10.8	11.9	51.0	38.9	10.6	12.8	9.2	8.3	8.0	6.5	5.9	2.3	1.9	1.6	0.6	0.6	0.6	18.1	20.4	18.6	180	80.9	0.3
Construction		**Attractive**	**44,707**	**844**					**(1.1)**	**27.8**	**35.7**	**11.5**	**9.0**	**6.7**	**7.6**	**6.5**	**5.7**	**0.6**	**0.5**	**0.5**	**1.1**	**1.8**	**2.0**	**4.8**	**5.9**	**7.5**			
Energy																													
Aban Offshore	341	BUY	14,839	280	44	134.2	96.5	115.8	25.9	(28.1)	19.9	2.5	3.5	2.9	6.4	7.0	6.3	0.7	0.8	0.6	1.1	1.2	1.3	33.3	24.4	22.7	635	86.2	6.7
Bharat Petroleum	495	RS	178,962	3,378	362	38.9	33.0	49.5	(32.5)	(15.2)	49.9	12.7	15.0	10.0	9.0	8.7	6.9	1.2	1.1	1.1	2.8	2.2	3.3	9.2	7.3	10.4	—	—	5.7
Cairn india	314	ADD	597,696	11,283	1,903	33.3	43.5	54.6	501.1	30.7	25.3	9.4	7.2	5.8	6.9	5.3	3.9	1.5	1.3	1.2	—	1.6	4.8	16.9	19.0	21.3	335	6.6	14.1
Castrol India (a)	406	REDUCE	100,383	1,895	247	19.8	19.7	21.6	28.5	(0.6)	9.9	20.5	20.6	18.8	13.0	13.9	12.4	19.4	18.1	16.8	3.7	3.8	4.2	100.2	91.0	93.0	410	1.0	0.6
GAIL (India)	395	BUY	501,050	9,458	1,268	28.2	31.8	33.8	13.8	12.8	6.5	14.0	12.4	11.7	8.8	9.0	8.0	2.4	2.1	1.8	1.9	2.2	2.4	17.5	17.1	15.8	535	35.4	8.7
GSPL	81	REDUCE	45,569	860	563	8.9	9.1	8.6	21.7	2.1	(5.2)	9.1	8.9	9.4	6.0	5.5	5.6	2.0	1.7	1.5	1.2	2.2	3.2	25.2	20.4	16.6	93	14.8	1.8
Hindustan Petroleum	254	RS	86,142	1,626	339	40.8	14.0	28.7	(20.8)	(65.8)	105.7	6.2	18.2	8.8	2.8	4.1	3.0	0.5	0.5	0.5	5.5	1.7	3.5	9.0	2.8	5.6	—	—	5.0
Indian Oil Corporation	253	RS	614,393	11,598	2,428	32.4	14.7	33.0	(34.0)	(54.8)	125.1	7.8	17.3	7.7	7.9	8.6	5.8	1.0	1.0	0.9	3.8	1.9	3.9	13.3	5.6	11.9	—	—	3.2
Oil India	1,158	BUY	278,525	5,258	240	120.0	154.5	186.9	4.2	28.8	21.0	9.7	7.5	6.2	4.5	2.6	2.0	1.6	1.4	1.3	3.2	4.1	4.9	16.2	18.4	19.3	1,720	48.5	1.8
Oil & Natural Gas Corporation	261	BUY	2,234,701	42,184	8,556	24.7	33.7	38.2	7.4	36.8	13.3	10.6	7.7	6.8	4.0	3.3	2.6	1.5	1.3	1.2	3.3	4.2	4.8	14.3	17.3	17.3	355	35.9	14.7
Petronet LNG	160	SELL	120,000	2,265	750	8.1	13.3	12.8	50.3	64.1	(3.5)	19.7	12.0	12.5	11.4	8.3	8.6	4.0	3.2	2.6	1.3	1.9	1.9	20.9	28.1	21.9	135	(15.6)	6.4
Reliance Industries	739	BUY	2,203,108	41,588	2,981	62.0	70.4	76.5	24.8	13.6	8.7	11.9	10.5	9.7	6.6	5.4	4.8	1.4	1.2	1.1	1.1	1.2	1.4	13.0	13.3	12.9	925	25.2	76.4
Energy		**Attractive**	**6,975,369**	**131,673**					**11.6**	**12.8**	**19.1**	**10.4**	**9.2**	**7.7**	**5.8**	**5.0**	**4.0**	**1.4**	**1.3**	**1.1**	**2.2**	**2.5**	**3.3**	**13.8**	**13.9**	**14.8**			
Industrials																													
ABB	581	SELL	123,151	2,325	212	3.0	11.7	22.7	(82.2)	291.5	94.5	194.8	49.7	25.6	139.8	33.0	16.6	5.1	4.8	4.1	0.3	0.6	0.6	2.6	9.9	17.3	515	(11.4)	1.6
BGR Energy Systems	179	REDUCE	12,889	243	72	44.8	32.5	20.3	60.0	(27.3)	(37.6)	4.0	5.5	8.8	2.9	3.9	3.4	1.4	1.1	1.0	5.6	3.6	2.3	39.0	22.5	12.3	175	(2.0)	3.1
Bharat Electronics	1,356	ADD	108,476	2,048	80	107.3	127.2	134.5	11.6	18.6	5.7	12.6	10.7	10.1	4.8	4.4	3.2	2.1	1.8	1.6	1.6	1.8	1.8	18.2	18.3	16.9	1,850	36.4	0.7
Bharat Heavy Electricals	247	REDUCE	604,802	11,417	2,448	24.6	25.0	25.4	39.7	1.9	1.4	10.1	9.9	9.7	6.4	6.4	6.1	3.0	2.4	2.1	2.5	2.2	2.2	33.3	27.3	22.9	310	25.5	20.2
Crompton Greaves	125	BUY	79,899	1,508	642	14.3	9.2	10.3	11.5	(36.0)	12.3	8.7	13.6	12.1	5.6	7.9	6.7	2.4	2.1	1.8	1.9	1.2	1.2	31.7	16.7	16.3	135	8.4	5.5
Larsen & Toubro	1,029	REDUCE	626,720	11,830	609	67.7	77.5	84.5	18.1	14.5	8.9	15.2	13.3	12.2	11.9	9.4	8.9	2.4	2.0	1.7	1.4	1.4	1.4	17.0	16.2	15.0	1,175	14.1	68.3
Maharashtra Seamless	323	BUY	22,795	430	71	48.2	42.1	46.8	24.8	(12.6)	11.0	6.7	7.7	6.9	4.2	4.1	3.4	0.9	0.8	0.8	2.5	2.6	2.9	13.8	11.1	11.5	460	42.3	0.4
Siemens	657	SELL	223,523	4,219	340	25.5	27.2	30.5	13.6	6.6	12.1	25.8	24.2	21.5	17.6	15.0	13.4	5.7	4.8	4.1	0.8	0.8	0.9	24.2	21.7	20.7	640	(2.6)	3.0
Suzlon Energy	19	REDUCE	33,514	633	1,746	(6.0)	1.9	3.8	(4.6)	(132.4)	96.6	(3.2)	9.8	5.0	15.7	5.8	4.8	0.5	0.5	0.4	—	1.0	1.0	(15.8)	4.9	9.2	40	108.3	10.9
Tecpro Systems	165	BUY	8,326	157	50	27.0	28.8	24.8	24.2	6.9	(14.1)	6.1	5.7	6.7	4.3	4.8	4.9	1.2	1.1	1.0	—	—	—	26.8	20.2	15.2	200	21.2	0.1
Thermax	402	ADD	47,910	904	119	31.6	32.8	31.4	44.3	3.7	(4.3)	12.7	12.3	12.8	8.2	7.9	7.8	3.6	3.0	2.6	2.2	2.3	2.2	31.5	27.0	21.9	440	9.4	1.0
Voltas	76	ADD	25,170	475	331	9.8	6.4	7.6	(14.3)	(34.4)	17.6	7.8	11.9	10.1	4.1	7.5	5.7	1.8	1.7	1.5	2.6	2.6	3.1	26.1	14.8	15.9	90	18.3	2.2
Industrials		**Cautious**	**1,926,570**	**36,368**					**23.9**	**14.1**	**8.4**	**14.3**	**12.5**	**11.5**	**9.4**	**8.2**	**7.6**	**2.5**	**2.2**	**1.9**	**1.7**	**1.6**	**1.6**	**17.7**	**17.2**	**16.2**			
Infrastructure																													
Container Corporation	817	ADD	106,181	2,004	130	67.6	71.7	77.9	11.7	6.1	8.7	12.1	11.4	10.5	8.3	7.2	6.2	2.1	1.9	1.7	1.9	2.0	2.2	18.9	17.5	16.8	1,150	40.8	0.9
GMR Infrastructure	20	RS	72,981	1,378	3,667	(0.0)	(0.4)	0.5	(102.0)	3,980.8	(243.5)	(2,295.9)	(56.3)	39.2	11.0	9.6	7.7	0.7	0.7	0.7	—	—	—	(0.0)	(2.0)	2.8	—	—	2.2
Gujarat Pipavav Port	54	ADD	22,872	432	424	(1.2)	1.2	2.3	(65.8)	(195.8)	102.4	(44.9)	46.9	23.2	23.9	15.9	12.1	3.1	2.9	2.6	—	—	—	(9.1)	8.9	12.2	63	16.7	0.5
GVK Power & Infrastructure	11	RS	17,924	338	1,579	1.0	1.0	0.3	(0.6)	1.6	(73.4)	11.6	11.4	42.8	16.3	15.1	17.9	0.5	0.5	0.5	—	2.6	3.1	4.7	4.6	1.2	—	—	2.8
IRB Infrastructure	137	BUY	45,434	858	332	13.6	12.1	15.7	30.4	(10.7)	29.1	10.0	11.3	8.7	7.2	7.6	5.8	1.8	1.3	1.1	1.1	—	—	19.3	13.4	13.4	200	46.3	5.3
Mundra Port and SEZ	121	BUY	243,304	4,593	2,017	4.6	5.6	8.5	36.3	22.0	53.2	26.5	21.7	14.2	22.0	16.9	12.1	5.7	4.5	3.6	1—	—	—	23.4	23.2	28.3	155	28.5	4.0
Infrastructure		**Cautious**	**508,697**	**9,603**					**16.9**	**7.8**	**41.2**	**21.6**	**20.1**	**14.2**	**13.1**	**11.4**	**9.1**	**1.9**	**1.7**	**1.6**	**0.8**	**0.5**	**0.6**	**8.8**	**8.6**	**10.9**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

	28-Dec-11		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US$ mn)	(mn)	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	(Rs)	(%)	(US$ mn)
Media																													
DB Corp	193	BUY	35,428	669	183	14.1	11.4	14.0	32.7	(19.4)	22.9	13.7	17.0	13.8	8.9	10.0	8.1	4.3	3.8	3.3	2.1	2.6	3.1	35.0	23.7	25.7	300	55.2	0.1
DishTV	61	BUY	64,471	1,217	1,063	(1.8)	(0.2)	1.1	(27.7)	(89.8)	(733.5)	(34.0)	(334.5)	52.8	30.2	12.6	9.4	102.8	148.3	38.9	—	—	—	(81.9)	(36.3)	116.8	90	48.4	5.2
Eros International	200	BUY	19,393	366	97	11.8	15.6	19.6	19.0	32.7	25.6	17.0	12.8	10.2	11.7	9.0	6.5	2.9	2.3	1.9	—	—	—	24.9	20.1	20.4	270	35.0	1.6
Hindustan Media Ventures	124	BUY	9,093	172	73	7.3	9.8	11.9	198.0	34.7	20.7	17.0	12.6	10.4	8.0	7.0	5.3	2.4	2.0	1.8	0.8	0.8	1.6	23.3	17.4	18.0	210	69.5	0.0
HT Media	125	ADD	29,412	555	235	7.7	7.1	9.0	31.0	(8.0)	27.2	16.3	17.7	13.9	7.5	7.8	5.9	2.1	1.9	1.8	0.3	1.6	3.2	14.9	11.2	13.2	160	27.9	0.1
Jagran Prakashan	93	BUY	29,427	555	316	6.8	6.6	7.9	16.7	(3.1)	20.0	13.7	14.1	11.7	8.1	7.9	6.6	4.2	3.8	3.3	3.8	3.8	4.3	32.8	28.1	30.1	150	61.2	0.1
Sun TV Network	282	BUY	110,953	2,094	394	19.5	20.0	23.8	48.1	2.5	18.9	14.4	14.1	11.8	8.7	8.2	7.0	4.6	4.0	3.6	3.1	3.6	5.0	36.5	32.1	33.8	400	42.1	6.3
Zee Entertainment Enterprises	117	BUY	114,371	2,159	978	5.8	6.2	7.7	10.0	6.4	23.3	20.0	18.8	15.2	13.3	12.3	9.7	2.7	2.6	2.5	1.2	1.1	1.3	14.2	14.3	16.9	160	36.9	3.1
Media		**Neutral**	**412,548**	**7,788**					**51.6**	**10.7**	**28.4**	**20.9**	**18.9**	**14.7**	**11.1**	**9.8**	**7.8**	**3.8**	**3.5**	**3.2**	**1.6**	**1.9**	**2.5**	**18.4**	**18.6**	**21.6**			
Metals & Mining																													
Coal India	300	ADD	1,892,067	35,716	6,316	17.3	22.9	27.4	13.6	32.1	20.0	17.3	13.1	10.9	9.8	7.3	6.1	5.4	4.3	3.4	1.3	2.3	2.7	35.1	36.5	34.9	380	26.9	30.8
Hindalco Industries	117	ADD	223,277	4,215	1,915	12.8	15.4	16.0	(36.0)	20.6	4.1	9.1	7.6	7.3	5.5	6.4	6.0	0.8	0.7	0.6	1.3	1.3	1.3	9.7	9.7	9.3	150	28.6	24.9
Hindustan Zinc	119	ADD	503,409	9,503	4,225	11.6	12.8	14.2	21.8	9.5	11.3	10.2	9.3	8.4	6.4	5.4	3.9	2.2	1.9	1.6	0.8	2.1	2.1	24.3	22.0	20.7	145	21.7	1.6
Jindal Steel and Power	455	REDUCE	425,060	8,024	934	40.2	41.7	46.4	5.1	3.9	11.2	11.3	10.9	9.8	8.8	8.0	7.6	3.0	2.4	1.9	0.3	0.4	0.4	30.9	24.6	21.9	540	18.7	21.0
JSW Steel	514	REDUCE	116,119	2,192	226	78.6	48.5	77.6	(2.2)	(38.4)	60.1	6.5	10.6	6.6	5.6	6.2	5.6	0.7	0.7	0.6	2.4	1.9	1.9	13.6	9.5	9.7	545	6.1	30.3
National Aluminium Co.	48	SELL	124,481	2,350	2,577	4.2	3.5	3.9	36.4	(16.7)	13.1	11.6	14.0	12.3	4.6	5.5	4.5	1.1	1.1	1.0	3.1	3.1	3.1	9.9	7.8	8.5	55	13.9	0.2
Sesa Goa	160	REDUCE	142,704	2,694	895	47.0	38.8	52.3	59.8	(17.3)	34.7	3.4	4.1	3.0	2.8	4.0	3.0	1.1	0.9	0.7	2.5	2.5	2.6	36.8	20.6	26.3	190	19.1	11.9
Sterlite Industries	90	BUY	301,668	5,695	3,361	15.2	13.2	15.2	26.2	(12.9)	15.2	5.9	6.8	5.9	3.7	3.1	2.4	0.7	0.7	0.6	1.3	1.4	1.4	13.0	10.2	10.7	155	72.7	14.3
Tata Steel	347	BUY	336,934	6,360	971	75.3	42.4	56.2	(2,258.1)	(43.7)	32.6	4.6	8.2	6.2	5.2	6.5	5.3	0.9	0.8	0.7	3.4	3.4	3.4	24.7	9.2	12.7	490	41.3	46.8
Metals & Mining		**Cautious**	**4,065,718**	**76,748**					**39.1**	**(0.3)**	**18.1**	**9.8**	**9.8**	**8.3**	**6.3**	**6.1**	**5.2**	**1.9**	**1.6**	**1.4**	**1.4**	**2.1**	**2.3**	**19.0**	**16.4**	**16.8**			
Pharmaceutical																													
Apollo Hospitals	566	BUY	78,636	1,484	139	13.2	17.1	21.2	21.0	29.3	24.0	42.8	33.1	26.7	19.4	14.4	12.5	4.1	3.1	2.7	—	—	—	9.8	10.3	10.5	650	14.8	4.6
Biocon	267	BUY	53,310	1,006	200	18.4	16.6	23.0	23.9	(9.7)	38.8	14.5	16.1	11.6	8.1	8.8	6.7	2.6	2.4	2.1	—	—	—	19.4	15.5	19.0	390	46.3	1.8
Cipla	322	SELL	258,822	4,886	803	12.3	15.6	18.4	(10.0)	26.2	18.0	26.2	20.7	17.6	22.6	15.5	12.4	3.9	3.4	3.0	0.9	0.9	1.1	15.4	17.2	18.0	330	2.4	8.9
Cadila Healthcare	664	REDUCE	135,984	2,567	205	34.7	32.6	45.6	40.6	(6.1)	39.7	19.1	20.4	14.6	16.7	14.6	11.3	6.3	5.1	4.0	0.9	1.0	1.4	37.5	27.5	30.8	765	15.2	1.2
Dishman Pharma & chemicals	37	REDUCE	2,977	56	81	9.8	(0.9)	11.0	(31.8)	(109.1)	(1,325.4)	3.7	(41.0)	3.3	6.9	9.9	5.7	0.3	0.3	0.3	—	—	—	9.6	(0.8)	9.9	40	9.3	0.1
Divi's Laboratories	782	ADD	103,727	1,958	133	32.4	38.8	49.8	25.7	19.8	28.4	24.2	20.2	15.7	20.0	15.3	11.4	5.8	4.9	4.1	—	—	—	25.9	26.2	28.2	915	17.0	2.0
Dr Reddy's Laboratories	1,567	ADD	266,302	5,027	170	64.9	85.3	108.4	932.5	31.4	27.0	24.1	18.4	14.5	17.0	12.4	9.9	5.8	4.6	3.6	0.7	0.8	0.9	24.8	27.8	27.8	1,800	14.9	10.5
GlaxoSmithkline Pharmaceuticals (a)	1,928	SELL	163,290	3,082	85	68.3	75.5	83.3	15.5	10.6	10.3	28.2	25.5	23.1	18.5	17.7	15.4	8.4	8.6	8.0	2.1	2.6	3.0	30.9	33.2	35.7	1,930	0.1	0.8
Glenmark Pharmaceuticals	281	BUY	76,026	1,435	270	17.0	22.3	27.6	33.6	31.4	23.7	16.6	12.6	10.2	18.8	15.6	9.6	3.7	2.9	2.3	—	—	—	20.6	26.0	25.2	375	33.4	3.8
Jubilant Life Sciences	175	REDUCE	27,846	526	159	14.4	11.6	34.9	(45.6)	(19.8)	201.6	12.1	15.1	5.0	10.3	6.6	5.9	1.3	1.2	1.0	1.1	1.1	1.7	12.3	19.8	18.8	180	3.0	0.5
Lupin	437	ADD	195,726	3,695	448	19.2	20.8	27.7	25.6	8.3	33.0	22.7	21.0	15.8	19.1	17.4	12.1	5.9	4.8	3.8	0.7	0.8	1.0	29.5	25.5	27.4	545	24.8	7.3
Ranbaxy Laboratories	405	REDUCE	171,487	3,237	423	40.6	20.4	42.9	474.9	(49.7)	109.8	10.0	19.8	9.5	12.3	12.8	7.6	3.0	2.8	2.2	—	—	—	34.5	14.9	26.1	450	11.0	9.1
Sun Pharmaceuticals	499	ADD	517,023	9,760	1,036	17.5	21.7	28.3	34.4	23.5	30.5	28.5	23.0	17.7	24.2	17.0	13.2	5.0	4.2	3.4	0.7	0.8	1.0	21.0	21.6	23.4	625	25.2	9.0
Pharmaceuticals		**Neutral**	**2,051,154**	**38,719**					**43.1**	**8.5**	**34.6**	**21.5**	**19.8**	**14.7**	**17.3**	**13.6**	**10.1**	**3.4**	**3.0**	**2.5**	**0.8**	**0.8**	**1.0**	**16.0**	**15.0**	**16.9**			
Property																													
DLF	193	ADD	330,227	6,234	1,715	9.1	11.9	15.7	(14.5)	31.3	31.8	21.2	16.2	12.3	14.8	11.7	8.9	1.3	1.2	1.1	1.0	1.3	1.5	5.4	7.5	9.2	270	40.2	28.8
Housing Development & Infrastructure	57	BUY	25,093	474	441	19.8	24.8	32.7	24.2	25.0	32.1	2.9	2.3	1.7	4.0	5.2	3.4	0.3	0.2	0.2	—	1.8	2.6	10.0	10.7	12.4	150	163.6	15.1
Indiabulls Real Estate	46	RS	18,684	353	402	4.0	8.5	15.4	(1,095.5)	114.1	81.5	11.7	5.5	3.0	9.8	7.7	3.3	0.2	0.2	0.1	1—	1.1	1.5	1.4	2.9	5.0	—	—	8.2
Mahindra Life Space Developer	247	BUY	10,084	190	41	24.9	30.8	37.5	30.2	23.7	21.6	9.9	8.0	6.6	7.4	5.3	3.8	1.0	0.9	0.8	2.0	1.8	2.0	10.4	11.6	12.7	450	82.1	0.1
Oberoi Realty	210	BUY	69,314	1,308	330	15.7	17.2	27.4	14.8	9.7	59.3	13.4	12.2	7.7	9.6	8.4	4.5	2.1	1.8	1.5	0.5	0.7	1.2	19.9	15.8	21.4	310	47.4	0.2
Phoenix Mills	162	BUY	23,516	444	145	6.3	7.4	10.7	53.0	17.2	44.1	25.7	21.9	15.2	19.0	15.9	11.9	1.5	1.4	1.3	1.1	1.2	1.2	5.8	6.6	8.9	300	84.8	0.1
Puravankara Projects	56	REDUCE	11,994	226	213	5.5	9.0	10.9	(18.9)	62.8	21.5	10.2	6.2	5.1	15.6	8.5	7.2	0.8	0.7	0.6	1.8	2.7	3.6	8.0	12.0	13.1	80	42.3	0.0
Sobha Developers	189	BUY	18,573	351	98	18.8	18.9	27.4	33.8	0.5	44.9	10.1	10.0	6.9	9.7	8.9	6.1	1.0	0.9	0.8	1.6	1.8	2.1	10.2	9.5	12.6	350	84.8	0.6
Unitech	19	RS	50,756	958	2,616	2.3	2.3	2.3	(23.4)	0.2	(3.0)	8.4	8.3	8.6	11.3	9.7	8.1	0.4	0.4	0.4	1—	1.0	1.5	5.4	5.0	4.4	—	—	9.6
Property		**Cautious**	**591,203**	**11,160**					**5.3**	**35.7**	**33.9**	**13.8**	**10.2**	**7.6**	**11.8**	**9.4**	**6.7**	**0.8**	**0.8**	**0.7**	**0.9**	**1.3**	**1.6**	**6.1**	**7.6**	**9.3**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE Universe stocks

Company	28-Dec-11 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2011	EPS (Rs) 2012E	EPS (Rs) 2013E	EPS growth (%) 2011	EPS growth (%) 2012E	EPS growth (%) 2013E	PER (X) 2011	PER (X) 2012E	PER (X) 2013E	EV/EBITDA (X) 2011	EV/EBITDA (X) 2012E	EV/EBITDA (X) 2013E	Price/BV (X) 2011	Price/BV (X) 2012E	Price/BV (X) 2013E	Dividend yield (%) 2011	Dividend yield (%) 2012E	Dividend yield (%) 2013E	RoE (%) 2011	RoE (%) 2012E	RoE (%) 2013E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Technology																													
HCL Technologies	392	REDUCE	276,254	5,215	705	22.9	33.0	38.7	30.4	44.2	17.3	17.1	11.9	10.1	10.4	7.2	6.1	3.3	2.5	2.1	1.9	2.0	2.1	21.0	23.2	22.8	450	14.8	10.6
Hexaware Technologies	74	ADD	21,475	405	290	3.0	8.6	9.5	(36.8)	191.2	10.8	25.0	8.6	7.8	18.4	6.8	4.5	2.2	1.9	1.7	2.0	4.1	4.4	9.3	24.0	23.1	100	35.2	2.4
Infosys	2,782	BUY	1,596,868	30,144	574	119.7	147.8	180.6	10.5	23.5	22.2	23.2	18.8	15.4	15.9	12.6	9.7	6.1	5.1	4.2	2.2	1.7	2.1	28.0	29.6	30.0	3,300	18.6	76.9
Mahindra Satyam	64	REDUCE	75,440	1,424	1,176	4.2	7.5	8.1	68.9	79.5	7.0	15.3	8.5	8.0	10.6	4.7	3.3	4.4	2.9	2.1	—	—	—	27.6	41.0	30.8	80	24.7	4.8
Mindtree	398	ADD	16,368	309	41	24.7	44.3	51.2	(52.7)	79.6	15.5	16.1	9.0	7.8	9.0	5.9	4.3	2.1	1.7	1.5	0.6	1.1	3.9	14.4	21.3	21.0	500	25.7	0.5
Mphasis	300	SELL	63,248	1,194	211	51.8	39.0	34.6	18.8	(24.6)	(11.4)	5.8	7.7	8.7	4.9	6.4	5.7	1.9	1.6	1.4	1.3	1.5	1.7	38.6	22.8	17.3	310	3.3	1.8
Polaris Software Lab	117	REDUCE	11,710	221	100	19.3	20.8	23.2	25.7	7.8	11.3	6.1	5.6	5.1	3.1	2.1	1.4	1.1	1.0	0.8	3.2	3.3	3.5	20.2	18.4	17.6	145	23.5	1.4
TCS	1,169	BUY	2,288,358	43,197	1,957	44.5	55.8	68.6	26.8	25.2	23.0	26.3	21.0	17.0	19.9	14.8	11.8	9.1	7.4	6.0	1.5	1.9	2.3	37.8	38.8	38.8	1,300	11.2	37.0
Tech Mahindra	571	SELL	71,908	1,357	126	48.0	75.2	80.0	(26.3)	56.5	6.5	11.9	7.6	7.1	8.1	8.7	7.1	2.1	1.8	1.6	0.7	0.7	1.8	20.2	27.2	25.3	600	5.1	2.3
Wipro	397	ADD	974,361	18,393	2,454	21.6	23.2	27.9	14.5	7.5	20.0	18.4	17.1	14.3	13.6	11.5	9.3	4.1	3.4	2.9	1.1	1.2	1.5	24.3	21.7	22.0	450	13.3	13.3
Technology		**Attractive**	**5,455,218**	**102,977**					**17.0**	**21.3**	**19.6**	**21.2**	**17.5**	**14.6**	**15.3**	**12.1**	**9.6**	**5.6**	**4.6**	**3.8**	**1.8**	**1.7**	**2.1**	**26.2**	**26.2**	**26.0**			
Telecom																													
Bharti Airtel	344	ADD	1,305,235	24,639	3,798	15.9	14.4	25.2	(32.6)	(9.4)	75.0	21.6	23.8	13.6	9.6	8.0	6.0	2.7	2.8	2.3	—	—	—	13.3	11.5	18.8	405	17.8	45.2
IDEA	81	ADD	268,228	5,063	3,303	2.7	2.1	4.6	(0.5)	(24.2)	125.0	29.8	39.4	17.5	9.9	7.8	5.9	2.2	2.2	1.9	—	—	—	7.6	5.5	11.7	95	17.0	13.2
MTNL	23	RS	14,490	274	630	(10.4)	(9.1)	(8.4)	(33.7)	(11.9)	(8.1)	(2.2)	(2.5)	(2.7)	1.6	2.2	2.7	0.1	0.1	0.2	—	—	—	(6.1)	(5.7)	(5.5)	-	(100.0)	0.3
Reliance Communications	72	SELL	148,402	2,801	2,064	6.5	3.5	2.6	(71.1)	(46.9)	(24.9)	11.0	20.8	27.7	5.8	7.6	6.4	0.4	0.4	0.4	—	—	—	3.2	1.7	1.3	60	(16.6)	12.6
Tata Communications	211	REDUCE	60,206	1,137	285	(24.9)	(27.0)	(26.6)	(13.0)	8.4	(1.4)	(8.5)	(7.8)	(7.9)	11.2	8.4	7.6	1.7	2.4	3.9	—	—	—	(17.5)	(25.1)	(37.0)	215	1.8	0.8
Telecom		**Cautious**	**1,796,561**	**33,913**					**(45.8)**	**(20.1)**	**87.5**	**26.0**	**32.5**	**17.3**	**8.9**	**8.0**	**6.2**	**1.6**	**1.6**	**1.5**	**—**	**—**	**—**	**6.0**	**4.9**	**8.5**			
Utilities																													
Adani Power	62	REDUCE	148,618	2,805	2,393	2.4	5.3	10.1	200.7	126.4	90.2	26.4	11.6	6.1	31.7	13.5	5.6	2.4	1.8	1.4	—	—	—	8.5	17.7	26.0	74	19.2	1.2
CESC	195	BUY	24,400	461	125	39.1	37.8	41.4	13.1	(3.4)	9.5	5.0	5.2	4.7	3.8	5.2	5.4	0.5	0.5	0.4	2.0	2.4	2.5	10.8	9.6	9.6	400	104.8	1.2
JSW Energy	38	REDUCE	61,910	1,169	1,640	5.1	2.3	2.5	12.9	(55.4)	9.1	7.4	16.5	15.1	9.9	10.9	6.9	1.1	1.0	1.0	(2.6)	—	—	16.1	6.4	6.6	43	13.9	0.8
Lanco Infratech	10	BUY	21,230	401	2,223	1.6	1.9	2.6	(22.6)	14.7	36.9	5.8	5.0	3.7	9.5	9.9	7.0	0.5	0.4	0.4	—	—	—	9.2	8.4	10.3	39	308.4	2.8
NHPC	19	BUY	227,564	4,296	12,301	1.3	2.1	2.2	(27.2)	52.4	5.4	13.7	9.0	8.5	10.6	7.9	6.9	0.9	0.8	0.8	3.2	3.0	3.2	6.4	9.2	9.1	29	56.8	2.1
NTPC	161	REDUCE	1,330,406	25,114	8,245	10.9	11.5	12.5	4.2	5.2	8.5	14.8	14.0	12.9	11.3	11.8	10.5	1.9	1.8	1.6	2.5	2.1	2.3	13.6	13.2	13.1	175	8.5	8.1
Reliance Infrastructure	359	BUY	95,108	1,795	265	58.0	57.2	75.6	(6.5)	(1.4)	32.2	6.2	6.3	4.7	9.0	6.0	5.5	0.4	0.4	0.4	2.0	2.9	3.2	6.8	10.3	9.0	890	148.2	13.0
Reliance Power	72	SELL	201,689	3,807	2,805	2.7	2.7	2.9	(0.2)	(2.0)	7.7	26.5	27.1	25.1	111.7	39.1	18.9	1.2	1.1	1.1	—	—	—	4.9	4.3	4.5	76	5.7	6.1
Tata Power	92	BUY	227,088	4,287	2,468	7.6	7.1	8.2	21.5	(6.5)	14.1	12.0	12.9	11.3	10.1	8.1	8.4	1.6	1.4	1.3	1.5	1.6	1.8	13.8	11.6	12.1	125	35.9	6.8
Utilities		**Cautious**	**2,338,011**	**44,134**					**4.3**	**8.8**	**16.8**	**13.7**	**12.6**	**10.8**	**12.1**	**10.5**	**8.6**	**1.4**	**1.3**	**1.2**	**1.9**	**1.8**	**2.0**	**9.9**	**10.0**	**10.7**			
Others																													
Carborundum Universal	138	REDUCE	25,873	488	187	9.1	11.6	12.5	67.7	26.6	7.8	15.1	12.0	11.1	9.5	6.9	6.4	3.0	2.5	2.1	1.4	1.8	1.9	25.2	25.9	23.4	155	12.0	0.1
Havells India	386	ADD	48,126	908	125	24.5	27.5	30.5	334.1	12.0	10.8	15.7	14.0	12.7	10.3	9.2	7.9	6.8	4.9	3.6	0.6	0.7	0.8	53.9	40.4	32.8	450	16.7	2.7
Jaiprakash Associates	54	BUY	113,978	2,152	2,126	6.0	6.4	6.9	230.2	5.9	7.6	8.9	8.4	7.8	11.0	8.1	7.2	1.1	1.0	0.9	—	—	—	13.3	12.0	11.7	105	95.9	23.5
Jet Airways	173	BUY	14,957	282	86	(10.1)	(105.5)	4.4	(91.0)	949	(104.2)	(17.2)	(1.6)	39.3	9.2	14.9	7.3	0.9	2.2	2.1	—	—	—	(5.0)	—	—	500	188.6	8.1
SpiceJet	16	BUY	7,194	136	441	2.5	(5.4)	3.0	(1.8)	(317.9)	(154.4)	6.5	(3.0)	5.5	9.1	(8.2)	9.0	2.2	4.9	2.6	—	—	—	(961)	(102.5)	61.4	50	206.7	1.1
Tata Chemicals	308	REDUCE	78,338	1,479	255	26.2	32.9	38.8	(0.7)	25.4	17.9	11.7	9.3	7.9	7.3	5.1	4.3	1.4	1.3	1.1	3.3	3.9	4.9	16.9	18.6	19.5	365	18.7	1.9
United Phosphorus	129	BUY	59,619	1,125	462	12.3	14.6	23.5	3.9	17.9	61.6	10.5	8.9	5.5	6.4	4.3	3.5	1.6	1.4	1.2	1.6	2.3	2.7	18.0	16.9	23.3	170	31.7	3.0
Others			**348,083**	**6,571**					**233.8**	**(19.8)**	**89.6**	**12.3**	**15.3**	**8.1**	**9.5**	**7.9**	**6.3**	**1.5**	**1.4**	**1.2**	**1.2**	**1.5**	**1.8**	**12.1**	**9.0**	**15.0**			
KS universe (b)			**40,673,239**	**767,782**					**18.5**	**9.3**	**22.1**	**13.9**	**12.7**	**10.4**	**9.2**	**8.1**	**6.6**	**2.1**	**1.9**	**1.7**	**1.7**	**1.8**	**2.2**	**15.4**	**15.0**	**16.1**			
KS universe (b) ex-Energy			**33,697,871**	**636,109**					**20.7**	**8.3**	**23.0**	**14.9**	**13.8**	**11.2**	**10.7**	**9.4**	**7.7**	**2.4**	**2.1**	**1.8**	**1.6**	**1.7**	**1.9**	**16.0**	**15.3**	**16.5**			
KS universe (d) ex-Energy & ex-Commodities			**28,523,136**	**538,426**					**19.3**	**9.8**	**24.3**	**15.9**	**14.5**	**11.7**	**12.2**	**10.5**	**8.5**	**2.5**	**2.2**	**1.9**	**1.7**	**1.7**	**1.9**	**15.6**	**15.2**	**16.5**			

Notes:
(a) For banks we have used adjusted book values.
(b) 2010 means calendar year 2009, similarly for 2011 and 2012 for these particular companies.
(c) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.
(d) Rupee-US Dollar exchange rate (Rs/US$)= 0.00

#REF!

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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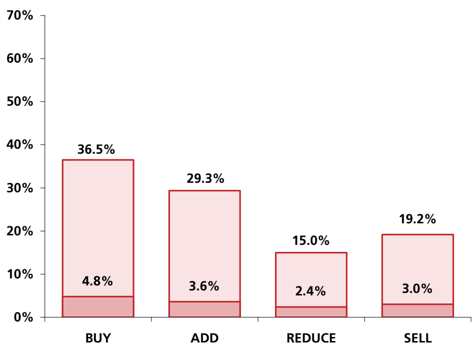

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Source: Kotak Institutional Equities

As of September 30, 2011

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ADD. We expect this stock to deliver 7.5-17.5% returns over the next 12 months.

REDUCE. We expect this stock to deliver 0-7.5% returns over the next 12 months.

SELL. We expect this stock to deliver less than 0% returns over the next 12 months.

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