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News Roundup

- Alexandria, the world's largest lab space provider, will invest around US\$200 million in Genome Valley, Hyderabad in a phased manner. This US-based life science infrastructure company will create a 'plug and play' lab. (BL)
- Aurobindo Pharma Ltd** has expanded its existing licensing and supply agreements with **Pfizer Inc** by entering into new pacts for several solid dosage and sterile products for emerging markets. Under the terms of the agreement, Pfizer has acquired rights to 55 solid oral dose products and five sterile injectable products for several countries throughout Asia, Latin America, Africa and West Asia, the Hyderabad-based company said in a release. (BL)
- Ranbaxy Laboratories Ltd** announced that it has acquired trademarks, product dossiers and marketing rights from **Ochoa Laboratories Ltd** (Ochoa) for its entire range of dermatological and lifestyle products. (BL)
- Real estate developer **Akriti City** has been awarded a contract by the **Gujarat State Road Transport Corporation** to revamp four bus terminals in two cities in Gujarat. The project, which is being undertaken as a pilot, involves two terminals each in Surat and Baroda. (BL)
- Low-cost computing and broadband penetration in the country is expected to get an added boost, with India's largest telecom operator, **Bharti Airtel**, launching a low-cost online computer powered by **Microsoft** and **Nivio**. The Airtel Net PC is priced at Rs 7,999 exclusively for Airtel broadband customers. (BS)
- The new government has brought the disinvestment of **Air India** back on its agenda. At a **National Aviation Company of India** board meeting in Mumbai yesterday, discussions were held on the requirement of working capital worth Rs3,000 crore, likely to be raised through debt. AI's debt figure is understood to be touching Rs14,600 crore already. (BS)
- The Enforcement Directorate has asked **Apollo Hospitals** to explain how it used the \$65.1 million it had raised through Global Depository Receipts (GDRs) in 2005. (ET)

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

EQUITY MARKETS

| India | Change, % | | | |
|--------|-----------|-------|------|------|
| | 21-May | 1-day | 1-mo | 3-mo |
| Sensex | 13,737 | (2.3) | 27.0 | 55.3 |
| Nifty | 4,211 | (1.4) | 26.4 | 53.9 |

Global/Regional indices

| | | | | |
|-----------|--------|-------|------|------|
| Dow Jones | 8,292 | (1.5) | 5.1 | 12.6 |
| FTSE | 4,345 | (2.8) | 7.8 | 11.7 |
| Nikkei | 9,257 | (0.1) | 6.1 | 24.8 |
| Hang Seng | 17,260 | 0.4 | 16.0 | 35.9 |
| KOSPI | 1,427 | 0.4 | 5.2 | 33.8 |

Value traded - India

| | Moving avg, Rs bn | | | |
|---------------------|-------------------|-------|-------|--|
| | 21-May | 1-mo | 3-mo | |
| Cash (NSE+BSE) | 321.3 | 222.3 | 173.9 | |
| Derivatives (NSE) | 717.0 | 727.5 | 432 | |
| Deri. open interest | 945.6 | 889 | 615 | |

Forex/money market

| | Change, basis points | | | |
|-------------------|----------------------|-------|-------|-------|
| | 21-May | 1-day | 1-mo | 3-mo |
| Rs/US\$ | 47.4 | (12) | (309) | (235) |
| 10yr govt bond, % | 6.4 | 3 | 18 | 35 |

Commodity market

| | Change, % | | | |
|------------------|-----------|-------|------|-------|
| | 21-May | 1-day | 1-mo | 3-mo |
| Gold (US\$/OZ) | 953.0 | (0.1) | 7.1 | (4.0) |
| Silver (US\$/OZ) | 14.5 | (0.1) | 17.9 | 0.5 |
| Crude (US\$/BBL) | 59.7 | 0.9 | 21.9 | 45.0 |

Net investment (US\$m)

| | 20-May | MTD | CYTD |
|-----|--------|-------|-------|
| FIs | (49) | 3,028 | 3,050 |
| MFs | 51 | (77) | (201) |

Top movers -3mo basis

| Best performers | Change, % | | | |
|----------------------|-----------|-------|------|-------|
| | 21-May | 1-day | 1-mo | 3-mo |
| Jaiprakash Associat | 174 | 0.3 | 53.2 | 159.3 |
| Century Textiles & I | 386 | (5.9) | 87.2 | 156.4 |
| Unitex Limited | 72 | (2.2) | 50.5 | 156.0 |
| Essar Oil Ltd | 172 | (2.8) | 8.2 | 155.5 |
| Kotak Mahindra Ba | 620 | (6.2) | 67.8 | 153.3 |

Worst performers

| | 21-May | 1-day | 1-mo | 3-mo |
|--------------------|--------|-------|-------|-------|
| Housing Developme | 300 | 1.1 | 130.4 | 287.1 |
| Hindustan Unilever | 230 | (1.3) | (4.2) | (7.6) |
| Itc Ltd | 182 | (2.3) | (4.4) | 1.1 |
| Satyam Computer S | 48 | 4.6 | 2.6 | 5.6 |
| Bharat Petroleum C | 445 | 10.0 | 15.8 | 7.8 |

Technology**MBFL.BO, Rs285**

| | |
|----------------------|-----------|
| Rating | REDUCE |
| Sector coverage view | Neutral |
| Target Price (Rs) | 240 |
| 52W High -Low (Rs) | 304 - 116 |
| Market Cap (Rs bn) | 59.5 |

Financials

| March y/e | 2009 | 2010E | 2011E |
|--------------------|------|-------|--------|
| Sales (Rs bn) | 19.1 | 41.3 | 45.1 |
| Net Profit (Rs bn) | 3.0 | 8.1 | 6.3 |
| EPS (Rs) | 14.2 | 38.8 | 30.3 |
| EPS gth | 15.7 | 173.5 | (21.9) |
| P/E (x) | 20.1 | 7.4 | 9.4 |
| EV/EBITDA (x) | 15.2 | 5.2 | 5.0 |
| Div yield (%) | 1.4 | 1.6 | 1.8 |

Pricing performance

| Perf-1m | Perf-3m | Perf-6m | Perf-1y |
|---------|---------|---------|---------|
| 29.1 | 90.3 | 83.2 | 21.8 |

Shareholding, March 2009

| | % of Pattern Portfolio | Over/(under) weight |
|-----------|---------------------------|------------------------|
| Promoters | 60.8 | - |
| FIs | 11.7 | 0.1 (0.0) |
| MFs | 7.4 | 0.4 0.2 |
| UTI | - | - (0.2) |
| LIC | - | - (0.2) |

Mphasis BFL: Good quarter but challenges ahead

- **Solid operating quarter**
- **Metrics stable; hires 3800 people in the quarter**
- **Challenges ahead, maintain Reduce rating**

Mphasis' April 2009 quarter (Q2) performance beat our expectations (and the Street's)—revenues at Rs10.5 bn were up 7.2% qoq, and 52.3% yoy, while EBIT of Rs2.27 bn was up 7.6% qoq. Net income of Rs2.24 bn (quarterly EPS of Rs10.7) was up 7% qoq. OPM (EBIT margin) was stable sequentially, helped by significant improvement in utilization rates and optimization of SG&A expenses. We revise our FY2009E EPS estimate to Rs38.8 (Rs32.6/ earlier) and FY2010E EPS to Rs30.3 (Rs27.9 earlier). The revision reflects an increase in our revenue and marginal upward revision in OPM forecast (accruing from SG&A optimization). We maintain our REDUCE rating on the stock with a revised DCF-based target price of Rs240/ share (Rs190/ earlier). We concede that the company has surprised us with better-than-expected cost management over the past four quarters; however, we believe that the company has exhausted all the potential areas of cost control. We see significant risks to profitability arising from rupee appreciation and pricing pressure. We also remain cautious on growth outlook of the company as the joint go-to-market strategy, post the HP takeover of EDS remains uncertain. Note that HP has various operating arms in India offering similar services.

Good quarter. Mphasis reported 2QFY09 (or Apr '09 quarter) revenues of Rs10.5 bn, up 7.2% qoq and 52.3% yoy. Revenue growth was once again driven by strong performance from the company's ITO business (+19% qoq), while BPO continued to remain muted. The applications business grew at a modest pace. HP/EDS channel continues to provide avenues for growth—11 out of 14 clients added during the quarter were from the HP/ EDS channel.

EBIT margin was stable at 21.6% as against our expectations of a decline. OPM stability was led by a reduction in G&A expenses (down 50 bps) and improvement in utilization rates. The tax rate increased to 7.2% from 3.5% in the previous quarter on account of the expiry of the tax holiday in a few STPI units and higher tax payout onsite.

Metrics stable; hires 3800 people in the quarter. Key business metrics such as pricing, vertical and client metrics were stable. Revenue growth was led by the telecom (+37% qoq) and healthcare (+40% qoq) verticals. The company added 3,800 employees, taking the total headcount to 33,810; a majority of the additions were in the BPO (3,450) segment. Hiring was minimal in Applications and ITO businesses. Receivables collection cycle was flat at 90 days.

Challenges ahead, maintain Reduce rating. We maintain our Reduce rating on Mphasis despite apparently inexpensive valuations. The following concerns drive our rating:

1. **Joint go-to-market strategy unclear.** Mphasis' go-to-market approach has changed frequently. The company has renewed its emphasis on independent sales and marketing channels after de-emphasizing it when EDS acquired Mphasis. After EDS' acquisition by HP, the joint go-to-market strategy remains unclear. We note that HP has separate IT services, BPO and India sales arms. While the management indicated that there is a governance structure for hunting of new projects by HP's two India arms (Mphasis and HP India), more clarity needs to emerge to assure investors on the go-to-market strategy, in our view.

2. Operating margin will likely be under pressure. Mphasis has aggressively cut costs and has limited levers to protect operating margins—SG&A costs at 10.8% of revenues are the lowest in the industry and utilization rates at 76% (including trainees) are the highest. Mphasis' revenue mix is heavily skewed towards offshore (75% of revenues, highest in the industry) and cannot be a further lever for improving profitability. Rupee appreciation will likely hurt Mphasis more than peers—a 1% appreciation of the Rupee against the US\$ would impact Mphasis' OPM by 60 bps as against 30-40 bps for other Indian IT companies. We also believe that pricing will likely come under pressure (rates have been stable till April 2009 quarter) from clients acquired through EDS. We model OPM decline of 340 bps in FY2010E and 200 bps in FY2011E.

We forecast earnings 22% earnings decline in FY2010E (year-end October 2010) to Rs30.3/ share and flat earnings in FY2011E after forecasting strong growth in FY2009E (150%). A decline in earnings in FY2010E will be led by (1) decline in operating margin from rupee appreciation and pricing pressure and (2) increase in tax rates to 22% from our forecast 9.9% for FY2009E. Note that high offshore-centricity has also lead to lower tax rates. The expiry of STPI tax benefits starting April 1, 2010 will correspondingly lead to a significant increase, in our view.

Mphasis consolidated quarterly performance - 2QFY09, fiscal year-ends October (Rs mn)

| | 2QFY08 | 1QFY09 | 2QFY09 | qoq (%) | yoy (%) |
|-------------------------------|--------------|--------------|---------------|-------------|--------------|
| Revenues | 6,884 | 9,777 | 10,485 | 7.2 | 52.3 |
| Cost of revenues | (5,490) | (6,579) | (7,074) | 7.5 | 28.9 |
| Gross profits | 1,394 | 3,198 | 3,411 | 6.7 | 144.7 |
| S&M expenses | (270) | (419) | (468) | 11.7 | 73.1 |
| G&A expenses | (444) | (673) | (669) | (0.6) | 50.7 |
| Provision for doubtful debts | (13) | - | (8) | | |
| EBIT | 666 | 2,106 | 2,266 | 7.6 | 240.0 |
| Forex gain/(loss), net | 40 | 31 | 124 | | |
| Other income/(loss) | 0 | 16 | 20 | | |
| Interest income | 14 | 18 | 9 | | |
| PBT | 721 | 2,170 | 2,419 | 11.5 | 235.5 |
| Provision for tax | (18) | (70) | (175) | | |
| PAT | 703 | 2,100 | 2,245 | 6.9 | 219.1 |
| Margins (%) | | | | | |
| Gross margin | 20.3 | 32.7 | 32.5 | | |
| EBITDA margin | 15.3 | 26.5 | 26.9 | | |
| EBIT margin | 9.7 | 21.5 | 21.6 | | |
| PAT margin | 10.2 | 21.5 | 21.4 | | |
| SG&A expenses (% of revenues) | 10.4 | 11.2 | 10.8 | | |
| Tax rate (as % of PBT) | 2.5 | 3.2 | 7.2 | | |

Source: Company

Condensed consolidated financials for Mphasis, 2009-2011E, October fiscal year-ends (Rs mn)

| | 2009E | 2010E | 2011E |
|---|---------------|---------------|---------------|
| Profit model | | | |
| Revenues | 41,296 | 45,142 | 50,328 |
| EBITDA | 10,975 | 10,444 | 10,622 |
| Depreciation (incl amortization of intangibles) | (2,322) | (2,631) | (3,034) |
| Other income | 314 | 319 | 614 |
| Pretax profits | 8,966 | 8,132 | 8,201 |
| Tax | (886) | (1,820) | (1,861) |
| Profit after tax | 8,080 | 6,312 | 6,341 |
| Diluted earnings per share (Rs) | 38.8 | 30.3 | 30.4 |
| Balance sheet | | | |
| Total equity | 21,346 | 26,438 | 31,437 |
| Total borrowings | — | — | — |
| Current liabilities | 7,149 | 7,104 | 9,042 |
| Total liabilities and equity | 28,496 | 33,542 | 40,479 |
| Cash | 2,534 | 7,265 | 11,772 |
| Other current assets | 18,707 | 19,558 | 20,990 |
| Goodwill | 2,959 | 2,959 | 2,959 |
| Tangible fixed assets | 3,949 | 3,414 | 4,412 |
| Deferred tax assets | 345 | 345 | 345 |
| Total assets | 28,496 | 33,542 | 40,479 |
| Free cash flow | | | |
| Operating cash flow, excl. working capital | 10,264 | 8,644 | 8,781 |
| Working capital changes | (5,117) | (897) | 506 |
| Capital expenditure | (2,136) | (2,096) | (4,032) |
| Investment changes/(acquisition) | — | — | — |
| Free cash flow | 3,011 | 5,652 | 5,255 |
| Ratios (%) | | | |
| EBITDA margin | 26.6 | 23.1 | 21.1 |
| EBIT margin | 21.0 | 17.3 | 15.1 |

Note:

(1) FY2010E corresponds to fiscal year ending October 2009

Source: Company data, Kotak Institutional Equities estimates

Infrastructure**IRBL.BO, Rs133**

| | |
|----------------------|----------|
| Rating | ADD |
| Sector coverage view | Cautious |
| Target Price (Rs) | 135 |
| 52W High-Low (Rs) | 212 - 64 |
| Market Cap (Rs bn) | 44 |

Financials

| March y/e | 2009 | 2010E | 2011E |
|--------------------|------|-------|-------|
| Sales (Rs bn) | 9 | 20 | 24 |
| Net Profit (Rs bn) | 1.9 | 3.5 | 3.6 |
| EPS (Rs) | 5.6 | 10.4 | 10.8 |
| EPS gth | 63.5 | 85.5 | 3.9 |
| P/E (x) | 23.8 | 12.8 | 12.4 |
| EV/EBITDA (x) | 13.2 | 7.3 | 6.6 |
| Div yield (%) | - | - | - |

Pricing performance

| Perf-1m | Perf-3m | Perf-6m | Perf-1y |
|---------|---------|---------|---------|
| 38.0 | 30.8 | 90.6 | (34.2) |

Shareholding, March 2009

| | % of Pattern Portfolio | Over/(under) weight |
|-----------|---------------------------|------------------------|
| Promoters | 74.4 | - |
| FIs | 9.2 | 0.1 |
| MFs | 4.1 | 0.1 |
| UTI | - | - |
| LIC | - | - |

IRB Infrastructure Developers: Results first take: Miss expectations upon lower-than-expected operating margins; retain ADD

- Lower-than-expected net earnings probably led by lower construction margins
- Maintain earnings estimates; change target price to Rs135 on rollover to FY2011E basis
- Retain ADD rating based on likely benefit from lower borrowing and ability to win more projects

IRB Infrastructure reported 4QFY09 consolidated revenues of Rs3.2 bn (up 34% qoq), about 6% above our estimate of Rs3 bn. Revenues may have exceeded expectations due to revenues from Surat-Dahisar project being included on a gross basis. Operating profit was much lower at Rs1.27 bn versus our expectation of Rs1.47 bn. This may have been led by lower-than-expected revenues as well as operating margins in the toll segment. We have changed our SOTP-based target price of Rs135/ share comprised of (1) Rs89 per share for the road BOT portfolio valued on March FY2011E (using an expected return on equity of 14%), (2) Rs35 per share for the construction business, (EV/EBITDA multiple of 6X FY2011E) and (3) Rs10.4 per share of estimated net cash on books as of end-FY2009E. We reiterate our ADD rating on the stock based on (a) likely lower borrowing costs and (b) ability to create value by leveraging further growth opportunities. Key upsides originate from (a) higher-than-expected traffic growth and (b) lower interest rates.

Lower-than-expected net earnings probably led by lower-than-expected toll segment margins

IRB Infrastructure reported 4QFY09 consolidated revenues of Rs3.2 bn (up 34% qoq), about 6% above our estimate of Rs3 bn (Exhibit 1). Revenues may have exceeded expectations if the revenues from Surat-Dahisar project were included on a gross basis versus our expectation of inclusion on net basis. Operating profit was much lower at Rs1.27 bn versus our expectation of Rs1.47 bn. This may be led by (a) difference in toll revenues versus our expectation and (b) difference in operating margins across these two segments, particularly, lower margins in the toll segment. Details of segmental data and asset-wise toll collection are given in Exhibits 1-3.

Maintain earnings estimates and change target price to Rs135 on rollover to FY2011E basis; Retain ADD rating

We maintain our earnings estimates of Rs6.6 and Rs13.9 for FY2009E and FY2010E, respectively. We have changed our SOTP-based target price of Rs135/ share (Exhibit 4) comprising (1) Rs89 per share for the road BOT portfolio that we value based on free cash flow to equity method (based on March FY2011E, using expected return on equity of 14%), (2) Rs35 per share for the construction business, applying an EV/EBITDA multiple of 6X FY2011E EBITDA and (3) Rs10.4 per share of estimated net cash on books as of end-FY2009E.

We reiterate our ADD rating on the stock based on (a) likely lower borrowing costs and (b) ability to create value by leveraging further growth opportunities based on the experience it has accumulated in the toll-road segment. Key upsides originate from (a) higher-than-expected traffic growth based on economic recovery and (b) lower interest rates which can reduce interest costs and also lead to higher valuation based on a lower rate of discounting.

Key risks to the existing projects are (1) lower-than-expected economic growth which affects traffic growth as well as real estate demand, (2) higher interest rates, affecting interest cost of BOT projects and real estate demand and (3) cost and time escalations in projects under execution, affecting expected returns. We highlight that a 1% lower traffic growth rate and 1% higher interest rate assumption (throughout the life of the project versus our base case assumption) reduces our target price by about 10%. Risks to growth opportunities are posed by (1) government delays in offering projects for development and (2) increasing competition, which would probably reduce equity returns.

Exhibit 1. IRB (consolidated) - 4QFY09 - Key numbers (Rs mn)

| | % change | | | | | | | |
|---------------------------------------|----------|---------|---------|---------|--------|---------|---------|------------|
| | 4QFY09 | 4QFY09E | 3QFY09 | 4QFY09E | 3QFY09 | FY2009E | FY2008 | % chng yoy |
| Net Sales/Income from Operations | 3,211 | 3,036 | 2,391 | 6 | 34 | 9,919 | 7,327 | 35.4 |
| Total Expenses | (2,006) | (1,660) | (1,376) | 21 | 46 | (5,545) | (3,208) | 72.8 |
| Operating Profit | 1,205 | 1,376 | 1,015 | (12) | 19 | 4,374 | 4,119 | 6.2 |
| Other Income | 66 | 90 | 90 | (27) | (27) | 296 | 520 | (43.1) |
| EBITDA | 1,271 | 1,466 | 1,105 | (13) | 15 | 4,670 | 4,639 | 0.7 |
| Depreciation | (331) | (286) | (286) | 16 | 16 | (1,144) | (1,016) | 12.6 |
| EBIT | 940 | 1,180 | 819 | (20) | 15 | 3,526 | 3,623 | (2.7) |
| Interest | (403) | (364) | (364) | 11 | 11 | (1,377) | (1,958) | (29.7) |
| PBT | 536 | 815 | 455 | (34) | 18 | 2,149 | 1,666 | 29.1 |
| Tax Expense | (101) | (183) | (72) | (45) | 39 | (378) | (400) | (5.5) |
| Net Profit | 435 | 632 | 382 | (31) | 14 | 1,772 | 1,266 | 40.0 |
| Extraordinary Items/Minority interest | (13) | - | - | | | (13) | (126) | (89.6) |
| Reprted PAT | 422 | 632 | 382 | (33) | 10 | 1,758 | 1,139 | 54.3 |
| OPM | 37.5 | 45.3 | 42.5 | | | 44.1 | 56.2 | |
| EBITDA Margin | 39.6 | 48.3 | 46.2 | | | 47.1 | 63.3 | |
| PBT Margin | 16.7 | 26.9 | 19.0 | | | 21.7 | 22.7 | |
| PAT Margin | 13.6 | 20.8 | 16.0 | | | 17.9 | 17.3 | |
| Effective tax rate | 18.8 | 22.5 | 15.9 | | | 17.6 | 24.0 | |

Source: Company, Kotak Institutional Equities estimates

Exhibit 2. IRB - key segmental numbers - 4QFY09 (Rs mn)

| | qoq | | | | | | |
|--------------------|---------------|--------------|---------------|--------------|---------------|--------------|--------------|
| | 4QFY09 | 3QFY09 | % change | 2QFY09 | FY2009 | FY2009E | FY2008 |
| Revenues | 3276.8 | 2,481 | 18.3 | 2,098 | 10,215 | 9,459 | 7,327 |
| BOT | 1279.7 | 1,068 | (1.3) | 1,082 | 4,543 | 4,380 | 3,696 |
| Construction | 1997.1 | 1,413 | 39.2 | 1,015 | 5,672 | 5,079 | 3,631 |
| EBITDA | 1270.6 | 1,105 | 3.6 | 1,067 | 4,670 | 4,625 | 4,110 |
| BOT | 906.7 | 908 | 0.4 | 904 | 3,657 | 3,710 | 3,380 |
| Construction | 363.9 | 198 | 21.6 | 163 | 1,013 | 914 | 730 |
| Margins (%) | 38.8 | 44.5 | (12.4) | 50.8 | 45.7 | 48.9 | 56.1 |
| BOT | 70.9 | 85.0 | 1.8 | 83.5 | 80.5 | 84.7 | 91.4 |
| Construction | 18.2 | 14.0 | (12.6) | 16.0 | 17.9 | 18.0 | 20.1 |
| PBT | 536.4 | 455 | (7.4) | 491 | 2,149 | 2,438 | 1,666 |
| BOT | 334.3 | 312 | (16.3) | 373 | 1,447 | | |
| Construction | 202.1 | 143 | 20.8 | 118 | 703 | | |
| PAT | 382 | 382 | (7.2) | 412 | 1,759 | 1,862 | 1,139 |
| BOT | 287.3 | 279 | (13.9) | 324 | 1,269 | | |
| Construction | 135 | 103 | 17.7 | 88 | 490 | | |

Source: Company, Kotak Institutional Equities estimates

Exhibit 3. IRB - key segmental numbers - 3QFY09 (Rs mn)

| | 4QFY09 | 3QFY09 | 3QFY08 | % chng | 2QFY09 | 2QFY08 | % chng | 1QFY09 | 1QFY08 | % chng | FY2009 | FY2009E | FY2008 | % chng |
|-----------------------------|--------------|--------------|------------|-------------|--------------|------------|-------------|--------------|------------|-------------|----------------|--------------|--------------|-----------|
| Toll collection | 1,382 | 1,053 | 932 | 13.0 | 1,068 | 891 | 19.8 | 1,097 | 905 | 21.3 | 4,600.7 | 4,167 | 3,635 | 27 |
| 4 BOT projects | 144 | 137 | 131 | 4.2 | 143 | 117 | 22.6 | 163 | 124 | 31.0 | 587 | 497 | 529 | 11 |
| Kharpada Bridge | 17 | 16 | 18 | (9.0) | 17 | 17 | - | 20 | 21 | (3.5) | 71 | 72 | 75 | (6) |
| Nagar - Karmala - Tembhurni | 27 | 27 | 27 | (2.4) | 29 | 27 | 7.1 | 31 | 28 | 13.6 | 113 | 116 | 110 | 3 |
| Pune - Solapur | 30 | 30 | 35 | (16.2) | 31 | 29 | 4.8 | 37 | 34 | 8.2 | 127 | 144 | 137 | (7) |
| Pune - Nashik | 41 | 41 | 40 | 0.9 | 42 | 39 | 7.7 | 40 | 40 | (0.7) | 164 | 182 | 160 | 3 |
| Mumbai - Pune | 704 | 722 | 594 | 21.4 | 726 | 584 | 24.3 | 720 | 579 | 24.5 | 2,873 | 2,884 | 2,352 | 22 |
| Thane - Ghodbunder | 66 | 67 | 69 | (4.1) | 64 | 63 | 1.9 | 68 | 66 | 2.4 | 265 | 272 | 273 | (3) |
| MMK | 16 | 15 | 16 | (5.9) | 17 | 16 | 6.4 | 18 | 13 | 43.1 | 65 | | | |
| Surat Dahisar | | | | | | | | | | | 336 | | | |

Note: We do not include MMK, a small project, in our estimates

Source: Company, Kotak Institutional Equities estimates

Exhibit 4. IRB Infrastructure Developers - SOTP valuation

| | Equity value (Rs mn) | IRB's stake (%) | Value (Rs mn) | % contribution (%) | Per share (Rs) | Asset valuation methodology |
|---------------------------------|-------------------------|--------------------|------------------|-----------------------|-------------------|--|
| Roads | 29,098 | - | 29,437 | 66.3 | 88.6 | FCFE |
| 4 BOT projects | 3,400 | 100.0 | 3,400 | 7.7 | 10.2 | FCFE based on FY2011E |
| Kharpada Bridge | 368 | 100.0 | 368 | 0.8 | 1.1 | FCFE based on FY2011E |
| Nagar - Karmala - Tembhurni | 718 | 100.0 | 718 | 1.6 | 2.2 | FCFE based on FY2011E |
| Pune - Solapur | 1,354 | 100.0 | 1,354 | 3.1 | 4.1 | FCFE based on FY2011E |
| Pune - Nashik | 1,741 | 100.0 | 1,741 | 3.9 | 5.2 | FCFE based on FY2011E |
| Mumbai - Pune | 13,535 | 100.0 | 13,535 | 30.5 | 40.7 | FCFE based on FY2011E |
| Thane - Ghodbunder | 3,027 | 100.0 | 3,027 | 6.8 | 9.1 | FCFE based on FY2011E |
| Bharuch - Surat | 7,553 | 100.0 | 7,553 | 17.0 | 22.7 | FCFE based on FY2011E |
| Surat-Dahisar | (3,385) | 90.0 | (3,047) | (6.9) | (9.2) | FCFE based on FY2011E |
| Kolhapur urban road project | 788 | 100.0 | 788 | 1.8 | 2.4 | FCFE based on FY2011E |
| Construction | 11,486 | 100.0 | 11,486 | 25.9 | 34.6 | EV/EBITDA multiple of 6X based on FY2011E |
| Net cash at parent level | 3,460 | 100.0 | 3,460 | 7.8 | 10.4 | Estimated balance at end-FY2009E |
| Grand total | 44,045 | - | 44,383 | 100 | 133.5 | SOTP |

Source: Kotak Institutional Equities estimates

Exhibit 5. IRB - Sensitivity analysis of stock price to initial traffic growth rate and interest rate assumptions

| | | Initial traffic growth rate (%) | | | | |
|-------------------|-----------------|---------------------------------|-----|-----|-----|-----|
| | | 4.0 | 5.0 | 6.0 | 7.0 | 8.0 |
| Interest rate (%) | Assumed rate -2 | 68 | 82 | 98 | 116 | 135 |
| | Assumed rate -1 | 65 | 78 | 93 | 110 | 128 |
| | Assumed rate | 62 | 74 | 89 | 105 | 121 |
| | Assumed rate +1 | 59 | 70 | 84 | 99 | 115 |
| | Assumed rate +2 | 56 | 67 | 80 | 95 | 110 |

Note: Base case interest rate is 11.5% throughout the life of the project with equity return expectation of 14%

Source: Kotak Institutional Equities estimates

Automobiles**MRTI.BO, Rs969**

| | |
|----------------------|------------|
| Rating | SELL |
| Sector coverage view | Cautious |
| Target Price (Rs) | 780 |
| 52W High -Low (Rs) | 1064 - 428 |
| Market Cap (Rs bn) | 280.1 |

Financials

| March y/e | 2009 | 2010E | 2011E |
|--------------------|--------|-------|-------|
| Sales (Rs bn) | 204.6 | 232.7 | 259.5 |
| Net Profit (Rs bn) | 12.2 | 16.9 | 18.3 |
| EPS (Rs) | 42.2 | 58.3 | 63.4 |
| EPS gth | (29.5) | 38.1 | 8.6 |
| P/E (x) | 22.9 | 16.6 | 15.3 |
| EV/EBITDA (x) | 12.9 | 8.4 | 7.0 |
| Div yield (%) | 0.4 | 0.5 | 0.5 |

Pricing performance

| Perf-1m | Perf-3m | Perf-6m | Perf-1y |
|---------|---------|---------|---------|
| 28.5 | 54.0 | 90.1 | 20.3 |

Shareholding, March 2009

| | % of Pattern Portfolio | Over/(under) weight |
|-----------|---------------------------|------------------------|
| Promoters | 54.2 | - |
| FIs | 19.4 | 1.1 |
| MFs | 3.1 | 0.8 |
| UTI | - | (0.8) |
| LIC | 14.6 | 2.7 |

Maruti Suzuki: Current valuations unjustified, lower rating to SELL

- Current stock price implies a 600 bps increase in EBITDA margin
- Current valuation is unjustified as any sharp increase is ruled out in (1) EBITDA margin, (2) volumes or (3) average realization
- Lower rating to SELL; maintain TP of Rs780/share

We believe that the sharp rally in Maruti's stock price is a good opportunity to sell the stock. The current stock prices implies an increase in (1) operating margin by 600 bps, (2) sales volume by 42% or (3) average realization by 30%. We believe that neither of these options is possible. Moreover, any rise in fuel prices and interest rates in the coming months could depress car-buying sentiment. We lower our rating on Maruti to SELL (REDUCE previously) while we maintain our TP at Rs780/share.

Downgrade stock to SELL (REDUCE previously); maintain TP of Rs780/share

The recent surge in stock prices makes valuations expensive—we advise investors to use this opportunity to book profits. The stock is trading at our 16.7X FY2010E EPS—a multiple that implies expectations of higher operating margins (see Exhibit 2). However, such margins may be difficult to achieve as commodity price benefits have already been factored in. Besides, any sharp increase in realization might lead to a decline in volume which in turn would hurt earnings. Maruti has historically traded in a P/E band of 9-14X.

We have not made any changes to our earnings estimates. We maintain our volume growth assumption of 11.5% and 10.2% for FY2010E and FY2011E, respectively, and our earnings estimate for Rs58.3 and Rs63.4. We maintain our target price of Rs780/share based on 13.5X FY2010E EPS. Our target price implies an EV/EBITDA of 6.5X FY2010 estimates.

Current stock price implies sharp increase in EBITDA margin, volume or realization

We have carried out a reverse valuation exercise for Maruti highlighting three different implications for the current stock price (see Exhibit 1).

- 1. Our reverse valuation exercise suggests that Maruti's current stock price implies an increase in EBITDA margin of 600 bps over FY2009.** Based on our current assumption of 11.5% volume growth for FY2010E and a 12-month forward EV/EBITDA multiple of 6.5X, the implied EBITDA for FY2010E works out to Rs35.4 bn. This translates to an EBITDA margin of 15.2%, 600 bps higher over FY2009 operating margin and 330 bps higher than our estimate of 11.9%. We believe that such a sharp increase in EBITDA margin is unlikely as we have already factored in (1) lower input costs on account of decline in commodity prices and (2) improved product mix on account of increased sales of higher-margin cars.
- 2. The current stock price appears to price in a volume growth of 42% in FY2010E over FY2009 based on our current margin estimate of 11.9% for FY2010E.** We believe this will not be achievable on account of tough economic conditions. Moreover, yoy volume growth of 42% is quite aggressive and would be possible only if prices reduce significantly or disposable income increases sharply, which we believe is unlikely. We estimate FY2010E volume growth for Maruti at 11.5%.
- 3. Our reverse valuation exercise also suggests that the current stock price implies a 30% increase in average realization for Maruti over FY2009.** We rule out this possibility as this would result in a sharp decline in volumes, which would negatively impact profitability.

Exhibit 1: Maruti's stock is implying a 600 bps increase in EBITDA margin from current levels

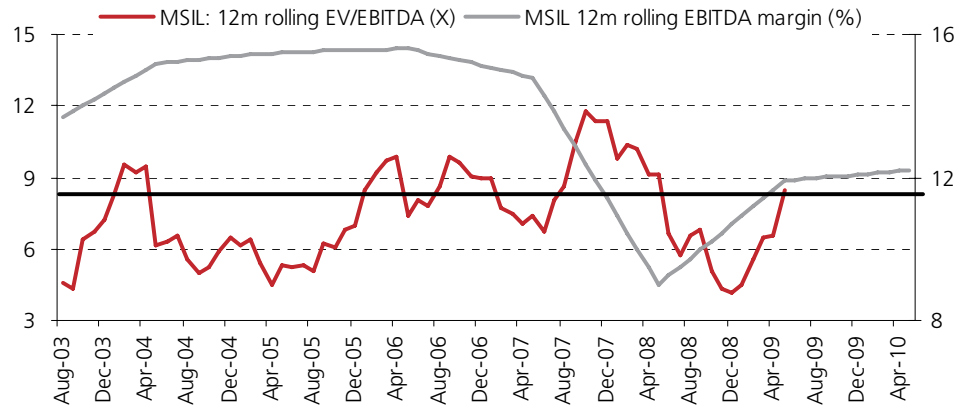
Implied margin calculation for Maruti Suzuki

| Details | | Comments |
|--|-------------|--|
| 1. Implied EBITDA margin calculation | | |
| Current market price of MSIL (Rs) | 971 | |
| M-cap (Rs mn) | 280,619 | Based on fully diluted number of shares |
| Add: FY2010E net debt (Rs mn) | (50,239) | Net debt for FY2010E |
| Enterprise value (Rs mn) | 230,380 | |
| EBITDA multiple assumed for FY2010E (X) | 6.5 | |
| Implied FY2010E EBITDA (Rs mn) | 35,443 | Based on volume growth of 11.5% for FY2010E |
| Implied FY2010E EBITDA margin (%) | 15.2 | |
| 2. Implied volume growth | | |
| FY2010E EBITDA margin (%) | 11.9 | Based on our current estimates |
| Implied sales for FY2010E (Rs mn) | 296,602 | |
| Average realisation for FY2010E (Rs) | 263,506 | Based on our estimates for FY2010E |
| Implied volumes for FY2010E (# cars) | 1,125,599 | |
| FY2009 volumes (# cars) | 792,167 | |
| Implied volume growth for FY2010E (%) | 42.1 | |
| Our volume assumption for FY2010E (%) | 11.5 | |
| 3. Implied realisation growth | | |
| Implied sales for FY2010E (Rs mn) | 296,602 | |
| FY2010E volume (# cars) | 883,000 | Our estimate based of volume growth of 11.5% |
| Average realisation per car for FY2010E (Rs) | 335,903 | |
| Average realisation per car for FY2009 (Rs) | 257,852 | |
| Implied growth in realisation for FY2010E (%) | 30.3 | |

Source: Kotak Institutional Equities estimates.

Exhibit 2: Current multiple discounting significant margin recovery

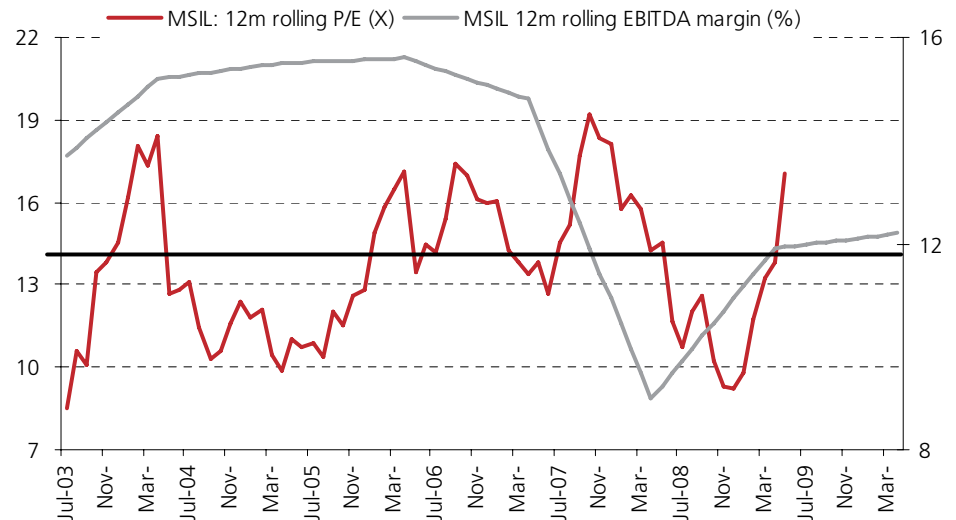
Maruti Suzuki, 12-month rolling EV/EBITDA (X)(LHS) chart versus EBITDA margin (% , RHS)



Source: Bloomberg, Kotak Institutional Equities estimates

Exhibit 3: Current multiple discounting significant margin recovery

Maruti Suzuki, 12-month rolling P/E (X)(LHS) chart versus EBITDA margin (% , RHS)



Source: Bloomberg, Kotak Institutional Equities estimates

Exhibit 4: Volume assumptions for Maruti Suzuki, March fiscal year-ends, 2007-11E (# vehicles)

| Segment-wise sales (no of vehicles) | 2007 | 2008 | 2009E | 2010E | 2011E |
|--|----------------|----------------|----------------|----------------|----------------|
| Entry (A) segment | 79,245 | 69,553 | 49,383 | 35,000 | 15,000 |
| Van-Segment | 83,091 | 89,729 | 77,948 | 60,500 | 50,500 |
| Compact (B) segment | 440,375 | 499,280 | 511,396 | 595,000 | 661,500 |
| Mid-size (C) segment | 29,697 | 49,335 | 75,928 | 75,000 | 82,750 |
| MUV | 3,221 | 3,921 | 7,489 | 7,500 | 8,350 |
| Domestic | 635,629 | 711,818 | 722,144 | 773,000 | 818,100 |
| Exports | 39,295 | 53,024 | 70,023 | 110,000 | 155,000 |
| Total | 674,924 | 764,842 | 792,167 | 883,000 | 973,100 |

| Segment-wise sales growth(yoy %) | | | | | |
|---|-------------|-------------|------------|-------------|-------------|
| Entry (A) segment | (11.0) | (12.2) | (29.0) | (29.1) | (57.1) |
| Van-Segment | 24.0 | 8.0 | (13.1) | (22.4) | (16.5) |
| Compact (B) segment | 31.5 | 13.4 | 2.4 | 16.3 | 11.2 |
| Mid-size (C) segment | (7.3) | 66.1 | 53.9 | (1.2) | 10.3 |
| MUV | (19.5) | 21.7 | 91.0 | 0.1 | 11.3 |
| Domestic | 20.6 | 12.0 | 1.5 | 7.0 | 5.8 |
| Exports | 13.0 | 34.9 | 32.1 | 57.1 | 40.9 |
| Total | 20.1 | 13.3 | 3.6 | 11.5 | 10.2 |

Source: SIAM, Kotak Institutional Equities estimates.

Exhibit 5: Maruti Suzuki, Profit model, balance sheet and cash flow model, March fiscal year-ends, 2006-2011E (Rs mn)

| | 2006 | 2007 | 2008 | 2009E | 2010E | 2011E |
|---|---------------|----------------|----------------|----------------|----------------|----------------|
| Profit model (Rs mn) | | | | | | |
| Net sales | 120,522 | 146,539 | 179,362 | 204,553 | 232,676 | 259,534 |
| EBITDA | 18,669 | 22,862 | 26,524 | 18,350 | 27,804 | 31,777 |
| Other income | 1,889 | 3,026 | 4,784 | 6,013 | 4,680 | 4,622 |
| Interest | (204) | (376) | (596) | (510) | (540) | (840) |
| Depreciation | (2,854) | (2,714) | (5,682) | (7,065) | (8,530) | (10,129) |
| Profit before tax | 17,500 | 22,798 | 25,030 | 16,788 | 23,414 | 25,429 |
| Current tax | 5,930 | 6,281 | 7,696 | 4,365 | 6,322 | 6,866 |
| Deferred tax | (321) | 897 | 26 | 215 | 234 | 254 |
| Net profit | 11,891 | 15,620 | 17,308 | 12,208 | 16,858 | 18,309 |
| Earnings per share (Rs) | 41.1 | 54.0 | 59.9 | 42.2 | 58.3 | 63.4 |
| Balance sheet (Rs mn) | | | | | | |
| Equity | 54,526 | 68,539 | 84,154 | 95,179 | 110,346 | 126,965 |
| Deferred tax liability | 779 | 1,675 | 1,701 | 1,916 | 2,150 | 2,404 |
| Total Borrowings | 717 | 6,308 | 9,002 | 9,002 | 9,002 | 7,002 |
| Current liabilities | 19,771 | 25,015 | 28,187 | 29,123 | 31,039 | 32,240 |
| Total liabilities | 75,793 | 101,537 | 123,044 | 135,220 | 152,537 | 168,611 |
| Net fixed assets | 17,872 | 29,104 | 40,328 | 49,263 | 58,733 | 63,604 |
| Investments | 20,512 | 34,092 | 51,807 | 51,807 | 51,807 | 53,807 |
| Cash | 14,016 | 14,228 | 3,240 | 3,943 | 7,434 | 12,740 |
| Other current assets | 23,393 | 24,113 | 27,669 | 30,207 | 34,563 | 38,460 |
| Miscellaneous expenditure | - | - | - | - | - | - |
| Total assets | 75,793 | 101,537 | 123,044 | 135,220 | 152,537 | 168,611 |
| Free cash flow (Rs mn) | | | | | | |
| Operating cash flow excl. working capital | 13,041 | 15,988 | 18,387 | 13,985 | 21,482 | 24,911 |
| Working capital changes | (815) | 4,410 | (83) | (1,602) | (2,440) | (2,696) |
| Capital expenditure | (1,788) | (13,950) | (16,930) | (16,000) | (18,000) | (15,000) |
| Free cash flow | 10,438 | 6,448 | 1,374 | (3,617) | 1,042 | 7,215 |
| Ratios | | | | | | |
| Operating margin (%) | 15.5 | 15.6 | 14.8 | 9.0 | 11.9 | 12.2 |
| PAT margin (%) | 9.9 | 10.7 | 9.6 | 6.0 | 7.2 | 7.1 |
| Debt/equity (X) | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Net debt/equity (X) | (0.6) | (0.6) | (0.5) | (0.5) | (0.4) | (0.5) |
| Book Value (Rs/share) | 191.4 | 243.0 | 297.1 | 336.0 | 389.3 | 447.6 |
| RoAE (%) | 23.7 | 24.9 | 22.2 | 13.3 | 16.1 | 15.1 |
| RoACE (%) | 23.1 | 24.0 | 20.7 | 12.5 | 15.2 | 14.7 |

Source: Company, Kotak Institutional Equities estimates.

Automobiles**BJAT.BO, Rs926**

| | |
|----------------------|-----------|
| Rating | SELL |
| Sector coverage view | Cautious |
| Target Price (Rs) | 780 |
| 52W High -Low (Rs) | 974 - 262 |
| Market Cap (Rs bn) | 134 |

Financials

| March y/e | 2009 | 2010E | 2011E |
|--------------------|-------|-------|-------|
| Sales (Rs bn) | 84 | 94 | 99 |
| Net Profit (Rs bn) | 7.0 | 9.4 | 10.6 |
| EPS (Rs) | 48.7 | 65.3 | 73.1 |
| EPS gth | (6.7) | 34.0 | 12.0 |
| P/E (x) | 19.0 | 14.2 | 12.7 |
| EV/EBITDA (x) | 10.6 | 8.1 | 8.0 |
| Div yield (%) | 2.2 | 2.2 | 2.2 |

Pricing performance

| Perf-1m | Perf-3m | Perf-6m | Perf-1y |
|---------|---------|---------|---------|
| 46.0 | 85.4 | 173.2 | - |

Shareholding, March 2009

| | % of Pattern Portfolio | Over/(under) weight |
|-----------|---------------------------|------------------------|
| Promoters | 49.6 | - |
| FIs | 13.9 | 0.3 |
| MFs | 3.4 | 0.3 |
| UTI | - | (0.3) |
| LIC | 5.2 | 0.4 |

Bajaj Auto: High (back-end loaded) growth expectations leave little room for error at current multiples; downgrading to SELL

- **Stock expensive even at 350 bps margin improvement and 11% domestic volume growth assumption for FY2010E**
- **Bajaj Auto reported 4QFY09E EPS of Rs9; EBITDA margin of 16%; raising our FY2010E estimate to Rs65 from Rs61.5**
- **We are downgrading stock to SELL from REDUCE; volumes may fall short of expectations**

Bajaj Auto reported 4QFY09E EPS of Rs9, which included Rs611 mn of VRS charges and Rs220 mn of non-cash notional foreign exchange valuation charge. Excluding the latter, EPS came in just over Rs10. We raise our EPS estimate for Bajaj to Rs65 from Rs61.5 to reflect a lower tax rate and higher volume growth assumption. At Rs935, the stock is trading at 14.3X our FY2010E EPS estimate and in line with Hero Honda. Our 10% domestic volume growth estimate would require an average 43% yoy increase in sales for 2HFY10E, implying strong execution and reception for Bajaj Auto's new bike to be launched in July 2010. This seems a bit presumptuous at the current multiple.

Cutting rating to SELL even as we raise our target to Rs780 from Rs615

We are raising our target to Rs780 from Rs615 primarily to reflect a higher and best-case P/E multiple of 12X versus 10X prior and higher earnings estimates. Our 12X P/E multiple is now in line with the historical average multiple for Hero Honda. Rs130 of our target increase is driven by the higher multiple and Rs35 is due to the earnings increase.

We believe high expectations for back-end loaded volume growth combined with rich valuations leave little room for error on the stock. We expect Bajaj's volumes to remain under stress in the near term and see 10% yoy declines through 1HFY10E. A 10% annual increase for FY2010E would imply a 25% improvement in volumes from 1H to 2H.

Bajaj is currently trading at 14.3X our FY2010E EPS estimate, at a slight discount to Hero Honda's 14.8X. This seems aggressive given the stronger market position of Hero Honda and a more crowded competitive landscape for Bajaj.

Raising our FY2010E EPS estimate for Bajaj to Rs65 from Rs61.5 to reflect a lower tax rate and higher volume growth assumption

We are now assuming 8% overall volume growth compared to 2% prior. We expect 10% yoy growth in domestic motorcycles and 19% growth in 3-wheelers. Exports are expected to be largely flat on a yoy basis. A higher rupee/\$ estimate of Rs48 compared to Rs50.75 prior partly offsets the impact of higher volume growth assumption on the EPS.

The company indicated that domestic motorcycle volumes are running at 115,000 monthly rate in May compared to the 106,000 units in April. We have assumed an increase in the monthly unit rate to 140,000 for 2HFY10E. A new motorcycle product in the deluxe commuting segment (higher than XCD135) is expected to drive the increase. However, increasing competition in the space from Yamaha and Honda Motorcycles could make things difficult for Bajaj.

Also, EPS is more sensitive to volumes than margins. A 1% upside to motorcycle volume growth would raise our EPS by only Rs0.50. We see lesser room for improvement in margins. Our Rs65 FY2010E EPS estimate assumes a 17.7% EBITDA margin for the year, a 350 bps improvement from FY2009E and a 170 bps increase from the 4QFY09 exit rate, which had the benefit of lower steel prices.

Bajaj Auto reported 4QFY09E EPS of Rs9; EBITDA margin of 16%

Bajaj reported 4QFY09 net income of Rs1.3 bn, lower than our Rs1.8 bn and Rs1.75 bn street estimate. The lower-than-expected earnings were driven by higher- than-expected material and staff costs and an Rs220 mn forex charge. Revenues and realization were in-line with our expectations. EBITDA margins of 16% were slightly better than the 15.3% recorded in 3QFY09 despite lower export volumes. Compared to 1HFY09, margins were up 300 bps as the company got the benefit of lower steel costs. The management indicated that most of the benefit of lower aluminum costs would accrue only in the current fiscal.

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

| | 4QFY09 | 4QFY09E | 4QFY08 | 3QFY09 | (% chg.) | | | 2009 | 2008 | (%chg) |
|---|---------------|---------------|---------------|---------------|---------------|--------------|---------------|---------------|---------------|---------------|
| | | | | | 4QFY09E | 4QFY08 | 3QFY09 | | | |
| Net sales | 17,875 | 17,903 | 19,845 | 20,048 | (0.2) | (9.9) | (10.8) | 84,369 | 86,633 | (2.6) |
| Total expenditure | 15,976 | 15,248 | 18,129 | 17,973 | 4.8 | (11.9) | (11.1) | 76,080 | 77,526 | (1.9) |
| Inc/(Dec) in stock | (16) | (382) | 389 | (881) | (95.9) | (104.0) | (98.2) | (245) | 679 | (136.1) |
| Raw materials | (12,936) | (12,013) | (15,629) | (14,333) | 7.7 | (17.2) | (9.7) | (64,390) | (66,882) | (3.7) |
| Staff cost | (946) | (813) | (863) | (762) | 16.4 | 9.7 | 24.3 | (3,544) | (3,416) | 3.7 |
| Other expenditure | (2,094) | (2,087) | (2,088) | (2,049) | 0.4 | 0.3 | 2.2 | (8,046) | (8,137) | (1.1) |
| Expenses capitalized | 17 | 47 | 63 | 52 | (65.0) | (73.6) | (68.0) | 144 | 230 | |
| Other operating income | 959 | 1,117 | 900 | 984 | (14.2) | 6.5 | (2.5) | 3,734 | 3,829 | |
| EBITDA | 2,858 | 3,773 | 2,616 | 3,058 | (24.2) | 9.3 | (6.5) | 12,023 | 12,935 | (7.1) |
| OPM (%) | 16.0 | 21.1 | 13.2 | 15.3 | | | | 14.3 | 14.9 | |
| Other income | 229 | 327 | 204 | 379 | (29.9) | 12.1 | (39.5) | 1,117 | 1,227 | (9.0) |
| Interest | (52) | (117) | (18) | (90) | (55.5) | 187.3 | (42.4) | (210) | (52) | 307.2 |
| Depreciation | (313) | (320) | (414) | (319) | (2.1) | (24.4) | (1.9) | (1,298) | (1,740) | (25.4) |
| Pretax profits | 2,723 | 3,663 | 2,388 | 3,028 | (25.7) | 14.0 | (10.1) | 11,632 | 12,371 | (6.0) |
| Extraordinaries | 829 | 592 | 512 | 630 | 40.2 | 62.1 | 31.6 | 2,071— | 1,025— | |
| Tax | 591 | 1,012 | 670 | 755 | (41.6) | (11.7) | (21.7) | 3,016 | 3,788 | (20.4) |
| Net income | 1,302 | 1,842 | 1,207 | 1,643 | (29.3) | 7.9 | (20.7) | 6,545 | 7,558 | (13.4) |
| Income tax rate (%) | 31.2 | 32.9 | 35.7 | 31.5 | | | | 31.5 | 33.4 | |
| Ratios | | | | | | | | | | |
| RM to sales (%) | 72.4 | 67.1 | 78.8 | 71.5 | | | | 76.3 | 77.2 | |
| EBITDA margin (%) | 16.0 | 21.1 | 13.2 | 15.3 | | | | 14.3 | 14.9 | |
| Net profit margin (%) | 7.3 | 11.5 | 6.1 | 8.2 | | | | 7.8 | 8.7 | |
| ETR (%) | 31.2 | 32.9 | 35.7 | 31.5 | | | | 31.5 | 33.4 | |
| EPS (Rs) | 9.0 | 12.7 | 8.3 | 11.4 | | | | 45.2 | - | |
| Other details | | | | | | | | | | |
| Sales volumes (# vehicles) | 440,269 | 440,223 | 552,280 | 493,748 | | | | 2,194,154 | 2,451,407 | (10.5) |
| Net sales realisation (Rs/vehicle) | 40,601 | 40,669 | 35,932 | 40,603 | | | | 38,452 | 39,528 | (2.7) |

Source: Company data, Kotak Institutional Equities

Bajaj Auto, Volume assumptions, March fiscal year ends, 2006-2011E

| | 2006 | 2007 | 2008 | 2009E | 2010E | 2011E |
|-----------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Volumes (# vehicles) | | | | | | |
| Motorcycles | 1,913,094 | 2,376,519 | 2,139,633 | 1,907,810 | 2,055,032 | 2,182,327 |
| Domestic | 1,747,806 | 2,078,860 | 1,658,084 | 1,276,427 | 1,407,865 | 1,502,801 |
| Exports | 165,288 | 297,659 | 481,549 | 631,383 | 647,168 | 679,526 |
| Scooters | 115,472 | 20,480 | 21,294 | 11,772 | 7,887 | 7,887 |
| Geared | 62,860 | 5,254 | - | - | - | - |
| Ungeared | 52,612 | 15,226 | 20,817 | 9,692 | 6,494 | 6,494 |
| Exports | - | - | 477 | 2,080 | 1,394 | 1,394 |
| Total 2-wheelers | 2,028,566 | 2,396,999 | 2,160,927 | 1,919,582 | 2,062,919 | 2,190,214 |
| Domestic 3-Wheelers | | | | | | |
| Passenger 3-wheelers | 141,351 | 138,759 | 127,379 | 125,273 | 150,328 | 157,844 |
| Goods 3-wheelers | 35,394 | 42,374 | 26,607 | 10,197 | 11,217 | 7,852 |
| Exports | 75,261 | 140,663 | 136,315 | 139,056 | 139,056 | 139,056 |
| Total 3-wheelers | 252,006 | 321,796 | 290,301 | 274,526 | 300,600 | 304,752 |
| Total vehicles | 2,280,572 | 2,718,795 | 2,451,228 | 2,194,108 | 2,363,520 | 2,494,965 |
| Growth rates (yoy %) | | | | | | |
| Motorcycles | 30.2 | 24.2 | (10.0) | (10.8) | 7.7 | 6.2 |
| Domestic | 30.0 | 18.9 | (20.2) | (23.0) | 10.3 | 6.7 |
| Exports | 33.4 | 80.1 | 61.8 | 31.1 | 2.5 | 5.0 |
| Scooters | (13.5) | (82.3) | 4.0 | (44.7) | (33.0) | - |
| Geared | (38.7) | (91.6) | (100.0) | - | - | - |
| Ungeared | 70.1 | (71.1) | 36.7 | (53.4) | (33.0) | - |
| Exports | - | - | - | 336.1 | (33.0) | - |
| Total 2-wheelers | 26.6 | 18.2 | (9.8) | (11.2) | 7.5 | 6.2 |
| Domestic 3-Wheelers | | | | | | |
| Passenger 3-wheelers | 14.2 | (1.8) | (8.2) | (1.7) | 20.0 | 5.0 |
| Goods 3-wheelers | 9.1 | 19.7 | (37.2) | (61.7) | 10.0 | (30.0) |
| Exports | 14.5 | 86.9 | (3.1) | 2.0 | - | - |
| Total 3-wheelers | 13.5 | 27.7 | (9.8) | (5.4) | 9.5 | 1.4 |
| TOTAL Vehicles | 25.0 | 19.2 | (9.8) | (10.5) | 7.7 | 5.6 |

Source: SIAM, Kotak Institutional Equities estimates.

Bajaj Auto, Profit model and Balance Sheet, March fiscal year-ends, 2008-2011E (Rs mn)

| | 2008 | 2009E | 2010E | 2011E |
|--------------------------------|---------------|---------------|---------------|---------------|
| Profit model (Rs mn) | | | | |
| Net sales | 86,633 | 84,369 | 93,975 | 98,963 |
| Operating profit | 12,900 | 12,512 | 16,655 | 16,316 |
| Other income | 12,900 | 12,512 | 16,655 | 16,316 |
| Interest | (52) | (210) | (315) | (378) |
| Depreciation | (1,740) | (1,298) | (1,617) | (1,767) |
| Profit before tax | 12,371 | 12,120 | 15,753 | 15,322 |
| Extra-ordinary items | (1,025) | (2,071) | (2,071) | - |
| Taxes | (3,788) | (3,002) | (4,242) | (4,750) |
| Net profit | 7,558 | 7,048 | 9,441 | 10,572 |
| Earnings per share (Rs) | 52.2 | 45.3 | 65.3 | 73.1 |
| Balance sheet (Rs mn) | | | | |
| Equity | 15,876 | 19,048 | 25,104 | 32,290 |
| Deferred tax liability | 110 | 5 | - | - |
| Total Borrowings | 13,343 | 12,016 | 10,821 | 9,746 |
| Current liabilities | 18,773 | 18,350 | 19,004 | 19,558 |
| Total liabilities | 48,102 | 49,419 | 54,929 | 61,595 |
| Net fixed assets | 12,928 | 12,630 | 14,013 | 15,246 |
| Investments | 18,571 | 20,527 | 22,480 | 24,431 |
| Cash | 561 | 945 | 2,103 | 4,727 |
| Other current assets | 15,936 | 15,212 | 15,823 | 16,222 |
| Miscellaneous expenditure | 105 | 105 | 105 | 105 |
| Deferred tax assets | - | - | 404 | 863 |
| Total assets | 48,102 | 49,419 | 54,929 | 61,595 |
| Ratios | | | | |
| Operating margin (%) | 14.9 | 14.2 | 17.7 | 16.5 |
| PAT margin (%) | 8.7 | 7.8 | 10.0 | 10.7 |
| Debt/equity (X) | 0.8 | 0.6 | 0.4 | 0.3 |
| Net debt/equity (X) | 0.0 | (0.2) | (0.3) | (0.4) |
| Book Value (Rs/share) | 110.5 | 131.7 | 173.5 | 223.2 |
| RoAE (%) | 21.0 | 40.2 | 42.8 | 36.8 |
| RoACE (%) | 72.5 | 60.3 | 74.6 | 64.7 |

Source: Company, Kotak Institutional Equities estimates.

Energy**BPCL.BO, Rs445**

| | |
|----------------------|-----------|
| Rating | SELL |
| Sector coverage view | Neutral |
| Target Price (Rs) | 450 |
| 52W High -Low (Rs) | 452 - 206 |
| Market Cap (Rs bn) | 145.8 |

Financials

| March y/e | 2009 | 2010E | 2011E |
|--------------------|--------|-------|-------|
| Sales (Rs bn) | 1,402 | 885.1 | 920.9 |
| Net Profit (Rs bn) | 5.6 | 11.0 | 14.3 |
| EPS (Rs) | 15.6 | 30.3 | 39.5 |
| EPS gth | (62.2) | 93.9 | 30.3 |
| P/E (x) | 28.5 | 14.7 | 11.3 |
| EV/EBITDA (x) | 6.6 | 5.7 | 5.1 |
| Div yield (%) | - | 4.0 | 5.2 |

Energy**HPCL.BO, Rs322**

| | |
|----------------------|-----------|
| Rating | SELL |
| Sector coverage view | Neutral |
| Target Price (Rs) | 325 |
| 52W High -Low (Rs) | 355 - 163 |
| Market Cap (Rs bn) | 109.2 |

Financials

| March y/e | 2008 | 2009E | 2010E |
|--------------------|---------|-------|-------|
| Sales (Rs bn) | 1,274 | 836.4 | 884.4 |
| Net Profit (Rs bn) | (2.5) | 6.1 | 11.5 |
| EPS (Rs) | (7.4) | 17.9 | 34.0 |
| EPS gth | (122.0) | - | 90.1 |
| P/E (x) | (43.8) | 18.0 | 9.5 |
| EV/EBITDA (x) | 7.0 | 6.0 | 5.2 |
| Div yield (%) | - | 3.7 | 7.1 |

Energy**IOC.BO, Rs528**

| | |
|----------------------|-----------|
| Rating | REDUCE |
| Sector coverage view | Neutral |
| Target Price (Rs) | 500 |
| 52W High -Low (Rs) | 547 - 299 |
| Market Cap (Rs bn) | 622.4 |

Financials

| March y/e | 2008 | 2009E | 2010E |
|--------------------|--------|-------|-------|
| Sales (Rs bn) | 3,446 | 2,232 | 2,312 |
| Net Profit (Rs bn) | 22.8 | 49.5 | 48.0 |
| EPS (Rs) | 19.1 | 41.5 | 40.3 |
| EPS gth | (68.8) | 116.8 | (3.0) |
| P/E (x) | 27.6 | 12.7 | 13.1 |
| EV/EBITDA (x) | 10.0 | 5.8 | 5.6 |
| Div yield (%) | - | 3.4 | 3.5 |

BPCL, HPCL, IOCL: Stock prices suggest that deregulation of fuel prices has already happened

- Stocks are fully priced for full deregulation
- Stock prices seem to be ignoring significant risk to all business segments
- Revised earnings, maintain cautious view on downstream companies

We would use the recent spurt in stock prices of downstream oil companies—driven by speculation about pricing deregulation—to sell them. We find the stocks fully valued at current levels—even in a scenario of full deregulation of fuel prices. We have revised our earnings for BPCL, HPCL and IOCL to reflect (1) issue of oil bonds worth Rs103 bn for 4QFY09, (2) additional contribution of Rs9.4 bn from upstream companies, (3) moderately stronger refining margins for 4QFY09 and (4) change in exchange rate assumptions. Exhibit 1 gives details of the changes in earnings estimates. We retain our rating on BPCL (SELL), HPCL (SELL) and IOCL (REDUCE) with revised 12-month target price of Rs450, Rs325 and Rs500 versus Rs425, Rs300 and Rs525 previously. We now use 8X FY2011E EPS plus value of investments to value the stocks versus FY2010E estimates previously. Key upside risk stems from higher-than-expected refining margins.

Use euphoria about deregulation to exit the stocks. Exhibit 2 compares our estimated fair valuations of downstream oil companies in a fully deregulated scenario versus their current stock prices. We see limited upside to our fair valuations even assuming normalized marketing margins on auto fuel and cooking fuels. We assume marketing margin of Rs1,500/ton (Rs1.25/liter) and Rs1,900/ton (Rs1.4/liter) for diesel and gasoline.

We attribute the steep increase in the stock prices of BPCL (+21.8%), HPCL (+22.4%) and IOCL (+21.5%) in current week to the Street's speculation of likely deregulation of fuel prices. We expect deregulation (if any) to be restricted to auto fuels only. We doubt the government can deregulate pricing of cooking fuels (LPG and kerosene) and do not think its weak fiscal position will allow it to absorb the subsidies in the budget. Thus, downstream oil companies may continue to bear under-recoveries on LPG and kerosene and depend on oil bonds and discounts from upstream companies.

We continue to see high risks to all revenue and profit drivers of downstream oil companies—(1) refining margins due to large global oversupply, (2) uncertainty on marketing margins of auto fuels due to government control on pricing and re-entry of Reliance Industries into auto fuel retailing, (3) continued losses on LPG and kerosene and (4) likely sharp decline in FO/naphtha volumes and margins due to displacement by natural gas.

ONGC is a better play on deregulation than downstream companies. We prefer ONGC as a better play on any possible deregulation versus downstream companies. We expect ONGC to benefit from deregulation of prices of petroleum products and natural gas. We see potential upside of Rs20/share from (1) lower subsidy from deregulation of auto fuel price and (2) higher gas prices. Please see our notes 'Sell at 5-10% higher levels with or without deregulation' dated May 21, 2009 and 'Look no further if you expect reforms' dated May 20, 2009 for detailed discussion on the same.

Subsidy-sharing for FY2009 finalized. Exhibit 3 gives the government computation of under-recovery and sharing of subsidy for FY2009E. The total under-recovery for FY2009 is Rs1 tn. We compute negligible net under-recovery for the downstream companies based on the oil bonds of Rs713 bn and Rs329 bn of contribution from upstream companies. As per press reports, the government has worked the figures in such a way to ensure small profits for BPCL and HPCL. This would suggest that the underlying profits of the companies were very low in FY2009E; profits will be very small despite negligible under-recoveries on subsidized products.

Earnings revisions

Exhibits 4, 5 and 6 present our summary models and key assumptions for BPCL, HPCL and IOCL. We note that estimating earnings for downstream companies remains an academic exercise given the lack of clarity on the subsidy-sharing scheme. We work on the philosophy that the government will ensure profits of the downstream oil companies at a certain 'minimum' level until deregulation; there is no other basis to forecast earnings of the downstream oil companies in the current environment. We expect the deregulation of auto fuel prices to address this concern to some extent.

We list the common assumptions below. We have given the company-specific assumptions in the summary models.

Oil bonds. We model oil bonds of Rs713 bn for FY2009 based on issue of additional bonds of Rs103 bn in 4QFY09. This is lower versus our previous assumption of Rs759 bn which was based on Rs759 figure provided in Interim Budget 2009 and Rs610 bn of oil bonds issued in 9MFY09.

Contribution from upstream companies. We assume contribution from upstream companies at Rs329 bn for FY2009 based on additional discounts of Rs9.4 bn by ONGC and OIL in 4QFY2009.

Exchange rate assumptions. We have revised our exchange rate assumption for FY2010-12E to Rs48/US\$, Rs47.8/US\$ and Rs47.5/US\$ versus Rs48/US\$, Rs47/US\$ and Rs46/US\$.

Change in earnings estimates, March fiscal year-ends, 2010-2012E (Rs mn)

| | 2010E | | | 2011E | | | 2012E | | |
|-----------------------|---------------|---------------|---------------|---------------|---------------|---------------|------------|-------------|------------|
| | BPCL | HPCL | IOCL | BPCL | HPCL | IOCL | BPCL | HPCL | IOCL |
| EBITDA | | | | | | | | | |
| Old estimates | 39,354 | 37,991 | 116,705 | 43,991 | 43,943 | 121,855 | 47,345 | 53,247 | 130,884 |
| New estimates | 30,767 | 30,365 | 106,508 | 37,094 | 39,241 | 105,955 | 49,663 | 56,660 | 133,643 |
| Change (%) | (21.8) | (20.1) | (8.7) | (15.7) | (10.7) | (13.0) | 4.9 | 6.4 | 2.1 |
| Net profits | | | | | | | | | |
| Old estimates | 15,171 | 10,252 | 60,204 | 18,637 | 14,178 | 65,278 | 21,709 | 20,924 | 75,410 |
| New estimates | 10,954 | 6,061 | 53,935 | 14,278 | 11,521 | 54,159 | 23,253 | 23,197 | 75,991 |
| Change (%) | (27.8) | (40.9) | (10.4) | (23.4) | (18.7) | (17.0) | 7.1 | 10.9 | 0.8 |
| EPS (Rs/share) | | | | | | | | | |
| Old estimates | 42.0 | 30.2 | 50.5 | 51.5 | 41.8 | 54.7 | 60.0 | 61.7 | 63.2 |
| New estimates | 30.3 | 17.9 | 45.2 | 39.5 | 34.0 | 45.4 | 64.3 | 68.4 | 63.7 |
| Change (%) | (27.8) | (40.9) | (10.4) | (23.4) | (18.7) | (17.0) | 7.1 | 10.9 | 0.8 |

Source: Kotak Institutional Equities estimates

Normalized marketing margins also show very little upside or downside from current levels

Comparison of normalized marketing margins with FY2010 estimates (Rs/ton)

| | BPCL | | HPCL | | IOCL | |
|-----------------------------------|-------------|-------------|-------------|-------------|--------------|--------------|
| | 2010E | Normalized | 2010E | Normalized | 2010E | Normalized |
| LPG | (9,282) | 1,500 | (9,282) | 1,500 | (9,282) | 1,500 |
| Naphtha | 1,000 | 400 | 1,000 | 400 | 1,200 | 400 |
| Gasoline | 1,688 | 1,900 | 1,688 | 1,900 | 1,900 | 1,900 |
| Jet fuel | 1,400 | 1,400 | 1,400 | 1,400 | 1,700 | 1,400 |
| Kerosene | (16,784) | 600 | (16,784) | 600 | (16,784) | 600 |
| Diesel | 1,500 | 1,500 | 1,500 | 1,500 | 1,700 | 1,500 |
| Light diesel oil | 1,200 | 500 | 1,200 | 500 | 1,450 | 500 |
| Low sulphur heavy stock | 700 | 500 | 700 | 500 | 1,000 | 500 |
| Fuel oil | 700 | 500 | 700 | 500 | 1,000 | 500 |
| Bitumen | 2,000 | 1,000 | 2,000 | 1,000 | 2,000 | 1,000 |
| EPS (Rs) | 30.3 | 44.7 | 17.9 | 42.9 | 43.0 | 53.4 |
| EBITDA (Rs bn) | 30.8 | 38.6 | 30.4 | 43.2 | 108.8 | 127.6 |
| EV (5X normalised EBITDA) (Rs bn) | | 193 | | 216 | | 638 |
| Value of investments (Rs bn) | | 49 | | 31 | | 197 |
| Net debt (Rs bn) | | 95 | | 120 | | 216 |
| Equity value (Rs/share) | | 407 | | 377 | | 519 |
| Current target price | | 450 | | 325 | | 500 |

Note:

(a) Our normalized earnings estimates are based on normalized marketing margins and actual refining margin estimates for FY2010E.

Source: Kotak Institutional Equities estimates

Gross under-recoveries will likely be significantly higher in FY2009E

Share of various participants of under-recoveries, March fiscal year-ends, 2006-2010E (Rs bn)

| | 2006 | 2007 | 2008 | 2009 |
|---|------------|------------|------------|--------------|
| Dated Brent crude oil price (US\$/bbl) | 57 | 65 | 79 | 85 |
| Subsidy loss | 400 | 494 | 771 | 1,032 |
| Payment by government (oil bonds) | 115 | 241 | 353 | 713 |
| Share of BPCL | 22 | 53 | 86 | 162 |
| Share of HPCL | 23 | 49 | 77 | 147 |
| Share of IOCL | 70 | 138 | 190 | 404 |
| Net under-recovery of oil companies | 285 | 253 | 418 | 319 |
| Share of refining companies | 27 | — | — | — |
| Share of upstream companies | 140 | 205 | 257 | 329 |
| Share of ONGC | 120 | 170 | 220 | 282 |
| Share of GAIL | 11 | 15 | 14 | 18 |
| Share of Oil India | 10 | 20 | 23 | 29 |
| Net under-recovery of R&M companies (BPCL, HPCL, IOCL) | 118 | 48 | 161 | (10) |
| Pre-tax profits of R&M companies | 74 | 96 | 153 | |

Source: Kotak Institutional Equities estimates

Consolidated profit model, balance sheet, cash model of BPCL, March fiscal year-ends, 2004-2011E (Rs mn)

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009E | 2010E | 2011E |
|--|----------------|----------------|-----------------|-----------------|-----------------|-----------------|----------------|----------------|
| Profit model (Rs mn) | | | | | | | | |
| Net sales | 479,840 | 578,774 | 755,333 | 965,569 | 1,102,081 | 1,401,704 | 885,105 | 920,944 |
| EBITDA | 38,686 | 26,231 | 9,407 | 35,362 | 28,472 | 22,119 | 30,767 | 37,094 |
| Other income | 4,348 | 4,015 | 4,653 | 7,332 | 13,954 | 14,852 | 11,761 | 8,081 |
| Interest | (1,447) | (1,748) | (2,474) | (4,774) | (6,725) | (17,769) | (15,780) | (11,646) |
| Depreciation | (6,754) | (7,130) | (7,680) | (9,041) | (10,982) | (10,643) | (10,154) | (11,897) |
| Pretax profits | 34,833 | 21,368 | 3,906 | 28,879 | 24,719 | 8,558 | 16,594 | 21,631 |
| Extraordinary items | (420) | 810 | 176 | (68) | — | — | — | — |
| Tax | (12,026) | (7,250) | (140) | (9,286) | (9,059) | (1,744) | (3,361) | (5,591) |
| Deferred taxation | (805) | (1,230) | (1,025) | (268) | (1,108) | (1,165) | (2,280) | (1,762) |
| Net profits | 21,582 | 13,698 | 2,916 | 18,055 | 15,806 | 5,649 | 10,954 | 14,278 |
| Net profits after minority interests | 19,086 | 11,334 | 2,916 | 18,055 | 15,806 | 5,649 | 10,954 | 14,278 |
| Earnings per share (Rs) | 64.6 | 37.2 | 7.6 | 50.1 | 43.7 | 15.6 | 30.3 | 39.5 |
| Balance sheet (Rs mn) | | | | | | | | |
| Total equity | 69,960 | 82,887 | 91,394 | 102,735 | 116,768 | 122,418 | 126,604 | 132,061 |
| Deferred taxation liability | 11,304 | 12,533 | 13,558 | 13,826 | 14,814 | 15,979 | 18,259 | 20,020 |
| Total borrowings | 32,701 | 46,589 | 83,736 | 108,292 | 150,224 | 204,936 | 150,436 | 112,936 |
| Current liabilities | 95,495 | 104,462 | 94,070 | 112,767 | 145,803 | 117,236 | 95,958 | 100,736 |
| Total liabilities and equity | 209,459 | 246,472 | 282,758 | 337,620 | 427,608 | 460,568 | 391,256 | 365,753 |
| Cash | 9,319 | 6,644 | 4,921 | 8,640 | 9,616 | 7,065 | 5,806 | 3,128 |
| Current assets | 97,729 | 130,393 | 128,208 | 127,698 | 187,457 | 191,472 | 145,575 | 149,151 |
| Goodwill | — | — | — | — | — | — | — | — |
| Total fixed assets | 88,484 | 98,542 | 110,855 | 118,334 | 127,354 | 143,967 | 171,811 | 170,410 |
| Investments | 13,927 | 10,893 | 38,774 | 82,949 | 103,182 | 118,064 | 68,064 | 43,064 |
| Total assets | 209,459 | 246,472 | 282,758 | 337,621 | 427,608 | 460,568 | 391,256 | 365,753 |
| Free cash flow (Rs mn) | | | | | | | | |
| Operating cash flow, excl. working capital | 30,727 | 21,118 | 9,275 | 29,920 | 22,988 | 2,606 | 11,627 | 19,857 |
| Working capital | 1,025 | (18,393) | 1,577 | 11,451 | (25,161) | (43,687) | 25,834 | 2,141 |
| Capital expenditure | (17,001) | (17,120) | (19,945) | (17,908) | (20,665) | (27,257) | (37,998) | (10,497) |
| Investments | 1,278 | 2,992 | (28,146) | (45,481) | (21,684) | (14,882) | 50,000 | 25,000 |
| Other income | 1,985 | 2,445 | 1,785 | 4,337 | 6,434 | 25,956 | 10,546 | 7,142 |
| Free cash flow | 18,015 | (8,957) | (35,455) | (17,682) | (38,088) | (57,263) | 60,009 | 43,644 |
| Ratios (%) | | | | | | | | |
| Debt/equity | 40.2 | 48.8 | 91.6 | 105.4 | 128.7 | 167.4 | 118.8 | 85.5 |
| Net debt/equity | 28.8 | 41.9 | 86.2 | 97.0 | 120.4 | 161.6 | 114.2 | 83.1 |
| RoAE | 28.8 | 14.4 | 3.3 | 16.3 | 12.7 | 4.2 | 7.7 | 9.6 |
| RoACE | 21.2 | 12.0 | 4.1 | 11.0 | 7.9 | 6.7 | 8.1 | 8.8 |
| Key assumptions (standalone until FY2005) | | | | | | | | |
| Crude throughput (mn tons) | 8.8 | 9.1 | 17.2 | 19.8 | 20.9 | 20.0 | 21.2 | 22.7 |
| Effective tariff protection (%) | 7.2 | 4.8 | 2.9 | 1.6 | 1.4 | 2.3 | 2.3 | 2.3 |
| Net refining margin (US\$/bbl) | 4.2 | 3.8 | 2.1 | 3.1 | 5.6 | 5.3 | 3.2 | 3.8 |
| Sales volume (mn tons) | 20.9 | 21.5 | 23.3 | 24.5 | 26.7 | 28.2 | 29.3 | 30.5 |
| Marketing margin (Rs/ton) | 1,893 | 1,732 | (671) | (1,140) | (3,010) | (5,860) | 1,427 | 1,381 |
| Subsidy under-recoveries (Rs mn) | (13,518) | (25,821) | (31,847) | (20,159) | (26,680) | (25,306) | (14,311) | (8,686) |

Source: Kotak Institutional Equities estimates

Profit model, balance sheet, cash model of HPCL, March fiscal year-ends, 2004-2011E (Rs mn)

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009E | 2010E | 2011E |
|--------------------------------|---------------|---------------|--------------|---------------|---------------|----------------|---------------|---------------|
| Profit model (Rs mn) | | | | | | | | |
| Net sales | 512,001 | 597,020 | 708,609 | 889,959 | 1,043,130 | 1,274,207 | 836,403 | 884,414 |
| EBITDA | 31,858 | 20,511 | 8,056 | 24,036 | 15,757 | 26,089 | 30,365 | 39,241 |
| Other income | 3,794 | 3,295 | 3,285 | 6,845 | 11,980 | 7,476 | 7,586 | 4,983 |
| Interest | (557) | (816) | (1,587) | (4,230) | (7,925) | (22,754) | (18,037) | (15,174) |
| Depreciation | (6,054) | (6,584) | (6,902) | (7,040) | (8,508) | (9,844) | (10,731) | (11,597) |
| Pretax profits | 29,042 | 16,406 | 2,851 | 19,611 | 11,303 | 968 | 9,182 | 17,453 |
| Extraordinary items | — | 1,471 | 2,201 | 3,030 | — | — | — | — |
| Tax | (10,225) | (5,897) | (898) | (6,625) | (1,799) | (110) | (1,164) | (3,889) |
| Deferred taxation | (540) | 793 | (97) | (365) | (2,025) | (3,353) | (1,957) | (2,043) |
| Prior period adjustment | 762 | — | — | 61 | 3,870 | — | — | — |
| Net profits | 19,039 | 12,773 | 4,056 | 15,712 | 11,349 | (2,495) | 6,061 | 11,521 |
| Earnings per share (Rs) | 56.2 | 34.8 | 6.6 | 40.0 | 33.5 | (7.4) | 17.9 | 34.0 |

| | | | | | | | | |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Balance sheet (Rs mn) | | | | | | | | |
| Total equity | 77,428 | 84,409 | 87,357 | 95,987 | 105,633 | 103,138 | 104,440 | 106,913 |
| Deferred tax liability | 14,541 | 13,748 | 13,844 | 14,209 | 15,960 | 19,312 | 21,269 | 23,312 |
| Total borrowings | 17,008 | 21,854 | 66,638 | 105,175 | 167,867 | 247,867 | 201,367 | 163,867 |
| Current liabilities | 76,551 | 69,887 | 79,549 | 101,195 | 124,337 | 88,120 | 92,361 | 96,541 |
| Total liabilities and equity | 185,528 | 189,896 | 247,389 | 316,566 | 413,797 | 458,438 | 419,437 | 390,633 |
| Cash | 1,971 | 2,016 | 426 | 868 | 2,940 | 1,395 | 1,464 | 1,313 |
| Current assets | 92,331 | 93,007 | 109,674 | 113,779 | 190,034 | 160,905 | 151,304 | 156,507 |
| Total fixed assets | 70,743 | 77,305 | 97,013 | 130,644 | 152,452 | 165,315 | 175,847 | 181,991 |
| Investments | 20,484 | 17,568 | 40,276 | 71,275 | 68,371 | 130,823 | 90,823 | 50,823 |
| Total assets | 185,528 | 189,896 | 247,389 | 316,566 | 413,796 | 458,438 | 419,437 | 390,634 |

| | | | | | | | | |
|--|--------------|--------------|-----------------|-----------------|-----------------|-----------------|---------------|---------------|
| Free cash flow (Rs mn) | | | | | | | | |
| Operating cash flow, excl. working capital | 29,062 | 15,977 | 10,126 | 23,966 | (18,679) | 2,345 | 10,499 | 20,178 |
| Working capital changes | (13,410) | (3,614) | (5,351) | 8,936 | (6,504) | (13,882) | 15,094 | (68) |
| Capital expenditure | (8,895) | (12,849) | (25,298) | (38,510) | (31,638) | (21,825) | (20,600) | (17,741) |
| Investments | (342) | 2,995 | (22,884) | (31,704) | (1,851) | (62,452) | 40,000 | 40,000 |
| Other income | 1,052 | 800 | 941 | 2,067 | 4,692 | 14,269 | 6,334 | 4,028 |
| Free cash flow | 7,466 | 3,310 | (42,466) | (35,246) | (53,980) | (81,545) | 51,328 | 46,397 |

| | | | | | | | | |
|-------------------|-------------|-------------|------------|------------|------------|------------|------------|------------|
| Ratios (%) | | | | | | | | |
| Debt/equity | 18.5 | 22.3 | 65.8 | 95.4 | 138.1 | 202.4 | 160.2 | 125.8 |
| Net debt/equity | 16.4 | 20.2 | 65.4 | 94.7 | 135.6 | 201.3 | 159.0 | 124.8 |
| RoAE | 22.0 | 13.4 | 4.1 | 14.9 | 9.8 | -2.0 | 4.9 | 9.0 |
| RoACE | 18.9 | 10.1 | 2.5 | 8.8 | 6.4 | 6.4 | 6.8 | 8.2 |

| | | | | | | | | |
|----------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|
| Key assumptions | | | | | | | | |
| Crude throughput (mn tons) | 13.7 | 13.9 | 14.0 | 16.7 | 16.8 | 15.8 | 18.0 | 19.3 |
| Effective tariff protection (%) | 7.4 | 5.6 | 3.1 | 1.4 | 1.3 | 2.3 | 2.4 | 2.4 |
| Net refining margin (US\$/bbl) | 4.4 | 4.5 | 3.9 | 4.3 | 6.6 | 2.5 | 3.0 | 3.1 |
| Sales volume (mn tons) | 20.1 | 20.6 | 20.1 | 23.4 | 26.2 | 25.5 | 26.9 | 28.6 |
| Marketing margin (Rs/ton) | 1,861 | 1,688 | (463) | (710) | (2,345) | (5,458) | 1,451 | 1,404 |
| Subsidy under-recoveries (Rs mn) | (12,870) | (26,708) | (29,671) | (18,899) | (28,549) | (22,626) | (18,893) | (13,426) |

Source: Kotak Institutional Equities estimates

Consolidated profit model, balance sheet, cash model of IOCL, March fiscal year-ends, 2004-2011E (Rs mn)

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009E | 2010E | 2011E |
|---|----------------|-----------------|-----------------|------------------|------------------|------------------|------------------|------------------|
| Profit model (Rs mn) | | | | | | | | |
| Net sales | 1,173,450 | 1,379,018 | 1,729,474 | 2,149,428 | 2,444,378 | 3,445,658 | 2,231,579 | 2,311,885 |
| EBITDA | 114,303 | 86,765 | 82,044 | 110,451 | 120,872 | 70,416 | 108,789 | 107,892 |
| Other income | 17,565 | 16,138 | 21,310 | 27,451 | 43,748 | 36,596 | 31,615 | 19,300 |
| Interest | (5,043) | (7,433) | (12,101) | (17,058) | (17,556) | (37,851) | (35,209) | (16,394) |
| Depreciation | (20,626) | (23,140) | (24,711) | (28,686) | (29,918) | (31,347) | (32,754) | (37,470) |
| Pretax profits | 106,199 | 72,330 | 66,542 | 92,157 | 117,145 | 37,813 | 72,440 | 73,329 |
| Extraordinary items | 3,553 | 4,283 | 5,590 | 24,757 | 5,374 | 5,584 | 5,315 | 5,271 |
| Tax | (25,966) | (13,658) | (19,975) | (25,834) | (38,293) | (11,760) | (23,903) | (28,831) |
| Deferred taxation | (5,157) | (2,335) | (1,282) | (8,040) | (473) | (246) | 218 | 1,801 |
| Net profits | 79,052 | 59,475 | 51,125 | 82,729 | 83,430 | 31,391 | 54,071 | 51,569 |
| Net profits after minority interests | 73,298 | 52,666 | 45,362 | 62,469 | 74,573 | 24,568 | 51,249 | 50,099 |
| Earnings per share (Rs) | 62.8 | 45.1 | 38.8 | 52.4 | 62.5 | 20.6 | 43.0 | 42.0 |
| Balance sheet (Rs mn) | | | | | | | | |
| Total equity | 233,386 | 271,302 | 317,977 | 378,117 | 450,449 | 479,839 | 509,221 | 536,440 |
| Deferred tax liability | 47,934 | 50,367 | 50,602 | 59,859 | 60,331 | 60,578 | 60,360 | 58,559 |
| Total borrowings | 146,147 | 197,809 | 292,395 | 290,215 | 382,818 | 639,549 | 375,971 | 279,007 |
| Current liabilities | 219,522 | 266,430 | 286,716 | 330,791 | 386,724 | 482,225 | 392,812 | 405,160 |
| Total liabilities and equity | 646,988 | 785,907 | 947,691 | 1,058,981 | 1,280,322 | 1,662,190 | 1,338,364 | 1,279,167 |
| Cash | 13,777 | 13,356 | 8,080 | 9,385 | 8,413 | 10,284 | 10,149 | 10,358 |
| Current assets | 278,550 | 368,158 | 413,904 | 437,178 | 599,256 | 839,769 | 625,061 | 635,375 |
| Total fixed assets | 320,647 | 370,003 | 383,717 | 415,014 | 460,307 | 480,593 | 521,611 | 526,890 |
| Investments | 34,013 | 34,391 | 141,990 | 197,403 | 212,345 | 331,543 | 181,543 | 106,543 |
| Total assets | 646,988 | 785,907 | 947,691 | 1,058,981 | 1,280,322 | 1,662,190 | 1,338,364 | 1,279,167 |
| Free cash flow (Rs mn) | | | | | | | | |
| Operating cash flow, excl. working capital | 93,713 | 71,765 | (10,334) | (44,660) | (107,263) | 17,385 | 58,014 | 67,017 |
| Working capital changes | 1,710 | (33,421) | (8,136) | 2,237 | (1,414) | (183,220) | 125,002 | (846) |
| Capital expenditure | (47,179) | (73,626) | (49,042) | (50,969) | (79,586) | (45,207) | (53,562) | (22,620) |
| Investments | (509) | (1,172) | (17,778) | 99,768 | 92,665 | (119,083) | 150,000 | 73,956 |
| Other Income | 5,826 | 7,814 | 10,317 | 13,582 | 18,253 | 91,230 | 24,743 | 14,899 |
| Free cash flow | 53,560 | (28,641) | (74,973) | 19,958 | (77,346) | (238,894) | 304,198 | 132,406 |
| Ratios (%) | | | | | | | | |
| Debt/equity | 52.0 | 61.5 | 79.3 | 66.3 | 74.9 | 118.3 | 66.0 | 46.9 |
| Net debt/equity | 47.1 | 57.3 | 77.1 | 64.1 | 73.3 | 116.4 | 64.2 | 45.2 |
| RoAE | 30.0 | 18.3 | 13.7 | 16.1 | 16.3 | 4.9 | 9.6 | 8.9 |
| RoACE | 20.4 | 13.7 | 9.3 | 11.3 | 11.2 | 5.0 | 6.8 | 6.0 |
| Key assumptions (IOC standalone) | | | | | | | | |
| Crude throughput (mn tons) | 37.7 | 36.6 | 38.5 | 44.0 | 47.4 | 49.2 | 50.2 | 51.2 |
| Effective tariff protection (%) | 7.6 | 5.7 | 3.1 | 1.6 | 1.4 | 2.8 | 2.8 | 2.8 |
| Net refining margin (US\$/bbl) | 5.4 | 6.2 | 4.8 | 4.2 | 8.1 | 4.9 | 4.1 | 4.1 |
| Sales volume (mn tons) | 47.1 | 48.2 | 50.4 | 53.4 | 57.4 | 60.7 | 63.0 | 65.3 |
| Marketing margin (Rs/ton) | 2,092 | 1,982 | 26 | (633) | (2,203) | (5,253) | 1,624 | 1,610 |
| Subsidy under-recoveries (Rs mn) | (28,078) | (64,309) | (95,361) | (34,041) | (64,486) | (42,623) | (44,387) | (34,809) |

Source: Kotak Institutional Equities estimates

Source: Company, Bloomberg, Kotak Institutional Equities estimates

| 21-May-'09 | Company | Rating | Mkt cap. | | O/S (mn) | EPS (Rs) | | | EPS growth (%) | | | PER (X) | | | EV/EBITDA (X) | | | Dividend yield (%) | | | RoE (%) | | | Target | | | | | |
|------------------------------|---------|-----------|------------|---------|-------------|----------|-------|---------|----------------|---------|-------|---------|-------|-------|---------------|-------|-------|--------------------|-------|-------|---------|-------|-------|--------|--------|-------|--------|-------|-----|
| | | | Price (Rs) | (Rs mn) | | 2009E | 2010E | 2011E | 2009E | 2010E | 2011E | 2009E | 2010E | 2011E | 2009E | 2010E | 2011E | 2009E | 2010E | 2011E | 2009E | 2010E | 2011E | price | Upside | 3mo | | | |
| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 960 | SELL | 138,896 | 2,931 | 145 | 48.7 | 65.3 | 73.1 | (6.7) | 34.0 | 12.0 | 19.7 | 14.7 | 13.1 | 11.0 | 8.3 | 8.2 | 7.3 | 5.6 | 4.4 | 2.1 | 2.1 | 2.1 | 40.2 | 42.8 | 36.8 | 780 | (188) | 2.8 | |
| 1,258 | REDUCE | 251,243 | 5,301 | 260 | 64.2 | 83.8 | 91.2 | 32.4 | 30.5 | 8.8 | 19.6 | 15.0 | 13.8 | 11.2 | 8.6 | 7.4 | 6.4 | 5.0 | 3.9 | 1.6 | 1.7 | 1.7 | 36.6 | 37.4 | 31.9 | 1,000 | (205) | 17.6 | |
| 652 | ADD | 172,988 | 3,649 | 265 | 21.6 | 34.7 | 39.1 | (43.2) | 60.4 | 12.8 | 30.2 | 18.8 | 16.7 | 19.9 | 11.7 | 10.2 | 3.6 | 2.8 | 2.5 | 1.4 | 1.4 | 1.4 | 12.2 | 16.9 | 15.8 | 450 | (301) | 14.8 | |
| 968 | SELL | 279,572 | 5,903 | 289 | 42.2 | 58.3 | 63.4 | (29.5) | 38.1 | 8.6 | 22.9 | 16.6 | 15.3 | 12.9 | 8.4 | 7.0 | 2.9 | 2.5 | 2.2 | 0.4 | 0.5 | 0.5 | 13.3 | 16.1 | 15.1 | 780 | (194) | 27.9 | |
| 357 | SELL | 198,898 | 4,197 | 556 | 18.5 | 19.0 | 24.0 | (62.8) | 2.6 | 26.3 | 19.3 | 18.8 | 14.9 | 13.5 | 9.6 | 8.2 | 1.4 | 1.3 | 1.2 | — | — | — | 9.1 | 7.3 | — | 195 | (454) | 32.8 | |
| Automobiles | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cautionous | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1,041,747 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Banks/Financial Institutions | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 89 | ADD | 43,362 | 913 | 485 | 13.5 | 11.1 | 12.6 | 14.0 | (17.9) | 13.6 | 6.6 | 8.0 | 7.1 | — | — | — | 1.3 | 1.3 | 1.3 | 3.5 | 3.1 | 3.5 | 19.0 | 14.0 | 14.4 | 75 | (159) | 1.0 | |
| 735 | BUY | 263,872 | 5,568 | 359 | 50.6 | 55.8 | 64.5 | 56.9 | 10.3 | 15.6 | 14.5 | 13.2 | 11.4 | — | — | — | 2.8 | 2.5 | 2.2 | 1.3 | 1.4 | 1.7 | 19.2 | 18.2 | 18.3 | 700 | (48) | 64.7 | |
| 432 | ADD | 157,908 | 3,332 | 366 | 60.9 | 54.9 | 58.5 | 55.1 | (9.8) | 6.5 | 7.1 | 7.9 | 7.4 | — | — | — | 1.5 | 1.5 | 1.3 | 2.1 | 1.9 | 2.0 | 18.7 | 14.9 | 14.2 | 370 | (144) | 10.7 | |
| 331 | ADD | 174,183 | 3,675 | 526 | 57.2 | 45.6 | 55.1 | 40.7 | (23.6) | 20.7 | 58 | 7.3 | 6.0 | — | — | — | 1.7 | 1.7 | 1.5 | 1.8 | 1.4 | 1.7 | 29.6 | 19.2 | 19.5 | 310 | (64) | 15.1 | |
| 271 | REDUCE | 110,926 | 2,340 | 410 | 50.5 | 38.6 | 41.4 | 32.4 | (20.6) | 7.1 | 5.4 | 7.0 | 6.5 | — | — | — | 1.4 | 1.3 | 1.2 | 3.0 | 3.0 | 3.7 | 18.3 | 12.4 | 12.2 | 220 | (187) | 5.0 | |
| 299 | BUY | 42,845 | 904 | 143 | 62.2 | 51.5 | 55.3 | 21.4 | (17.3) | 7.4 | 4.8 | 5.8 | 5.4 | — | — | — | 0.9 | 0.7 | 0.7 | 4.3 | 3.5 | 3.8 | 19.6 | 14.3 | 13.8 | 310 | 38 | 0.7 | |
| 250 | BUY | 42,758 | 902 | 171 | 32.0 | 34.0 | 39.3 | (6.9) | 6.1 | 15.6 | 7.8 | 7.3 | 6.4 | — | — | — | 1.0 | 0.9 | 0.8 | 2.4 | 2.5 | 2.9 | 13.2 | 12.7 | 13.2 | 280 | 120 | 1.9 | |
| 220 | BUY | 13,909 | 293 | 63 | 4.5 | 28.8 | NA | (188.6) | 546.1 | (100.0) | 49.4 | 7.7 | NA | — | — | — | 1.8 | 1.5 | NA | — | — | — | 3.8 | 21.4 | NA | 440 | 100.0 | 1.1 | |
| 2,087 | SELL | 593,519 | 12,523 | 481 | 80.2 | 93.4 | 109.1 | (6.5) | 16.5 | 16.7 | 26.0 | 22.3 | 19.1 | — | — | — | 4.5 | 4.0 | 3.6 | 1.4 | 1.6 | 1.8 | 18.2 | 18.7 | 19.2 | 1,730 | (171) | 78.9 | |
| 1,367 | ADD | 575,360 | 12,140 | 284 | 55.4 | 64.1 | 75.0 | 20.4 | 15.7 | 17.1 | 24.7 | 21.3 | 18.2 | — | — | — | 3.8 | 3.4 | 2.9 | 0.7 | 0.9 | 1.1 | 16.9 | 16.7 | 17.3 | 1,150 | (159) | 54.6 | |
| 666 | ADD | 741,369 | 15,642 | 1,113 | 33.8 | 32.3 | 38.5 | (15.4) | (4.4) | 19.2 | 19.7 | 20.6 | 17.3 | — | — | — | 1.5 | 1.4 | 1.3 | 1.7 | 1.4 | 1.4 | 7.8 | 7.1 | 8.0 | 475 | (287) | 20.8 | |
| 120 | ADD | 155,316 | 3,277 | 1,294 | 5.8 | 7.0 | 8.0 | 2.3 | 21.0 | 13.3 | 20.7 | 17.1 | 15.1 | — | — | — | 2.5 | 2.3 | 2.0 | 0.8 | 1.0 | 1.1 | 12.9 | 14.1 | 14.2 | 85 | (292) | 25.2 | |
| 147 | ADD | 45,778 | 966 | 311 | 5.0 | 5.8 | 6.5 | (10.0) | 15.5 | 12.3 | 29.2 | 25.3 | 22.5 | — | — | — | 3.6 | 3.2 | 2.9 | 1.8 | 2.3 | 2.7 | 11.7 | 13.5 | 14.6 | 90 | (388) | 6.9 | |
| 134 | BUY | 57,374 | 1,211 | 430 | 28.1 | 26.1 | 30.0 | 24.7 | (7.2) | 15.1 | 4.8 | 5.1 | 4.4 | — | — | — | 1.1 | 1.0 | 0.9 | 3.2 | 2.9 | 3.4 | 22.7 | 17.9 | 17.8 | 165 | 236 | 2.7 | |
| 85 | BUY | 46,390 | 979 | 545 | 24.3 | 16.6 | 22.2 | 10.3 | (31.9) | 33.8 | 3.5 | 5.1 | 3.8 | — | — | — | 0.8 | 0.7 | 0.6 | 6.2 | 4.4 | 4.8 | 24.7 | 14.5 | 17.0 | 110 | 29.2 | 3.4 | |
| 468 | ADD | 22,697 | 479 | 48 | 82.8 | 72.2 | 92.8 | 11.5 | (12.7) | 28.4 | 5.7 | 6.5 | 5.0 | — | — | — | 1.0 | 1.0 | 0.9 | 3.7 | 3.2 | 3.1 | 16.5 | 12.9 | 14.9 | 480 | 2.6 | 0.3 | |
| 432 | BUY | 36,718 | 775 | 85 | 62.5 | 68.8 | 80.3 | 37.3 | 10.0 | 16.8 | 6.9 | 6.3 | 5.4 | — | — | — | 1.5 | 1.3 | 1.1 | 3.2 | 3.5 | 4.1 | 26.2 | 23.9 | 23.4 | 390 | (97) | 7.0 | |
| 237 | ADD | 22,681 | 479 | 96 | 22.4 | 22.4 | 27.0 | 7.5 | 22.9 | 8.7 | 10.6 | 8.6 | 7.9 | — | — | — | 1.6 | 1.4 | 1.2 | 2.3 | 2.9 | 3.2 | 15.4 | 16.9 | 16.3 | 240 | 1.3 | 0.1 | |
| 178 | ADD | 44,696 | 943 | 251 | 36.1 | 27.3 | 34.6 | 51.4 | (24.5) | 26.7 | 4.9 | 6.5 | 5.2 | — | — | — | 0.8 | 0.9 | 0.9 | 4.1 | 3.1 | 3.9 | 14.8 | 10.2 | 11.8 | 150 | (159) | 3.3 | |
| 203 | SELL | 232,997 | 4,916 | 1,148 | 13.0 | 16.5 | 19.3 | 14.3 | 26.7 | 17.6 | 15.6 | 12.3 | 10.5 | — | — | — | 2.1 | 1.9 | 1.7 | 1.3 | 2.4 | 2.2 | 13.8 | 15.8 | 16.7 | 160 | (212) | 4.9 | |
| 665 | BUY | 209,660 | 4,424 | 315 | 98.0 | 97.5 | 115.1 | 50.9 | 15.5 | 16.8 | 6.8 | 6.8 | 5.8 | — | — | — | 1.7 | 1.4 | 1.3 | 2.9 | 3.0 | 3.5 | 23.0 | 19.9 | 20.1 | 760 | (143) | 24.4 | |
| 140 | BUY | 119,961 | 2,529 | 859 | 15.2 | 17.7 | 20.0 | 38.8 | 16.8 | 13.0 | 9.2 | 7.9 | 7.0 | — | — | — | 1.7 | 1.5 | 1.3 | 3.5 | 4.1 | 4.6 | 19.6 | 19.9 | 19.6 | 125 | 10.5 | 2.3 | |
| 300 | ADD | 63,462 | 1,339 | 212 | 30.1 | 32.5 | 36.9 | 56.8 | 7.9 | 13.7 | 10.0 | 9.2 | 8.1 | — | — | — | 2.9 | 2.5 | 2.0 | 2.9 | 3.2 | 3.7 | 29.6 | 27.0 | 25.8 | 300 | - | 2.5 | |
| 71 | ADD | 8,233 | 174 | 116 | 7.7 | 6.9 | 8.2 | (32.8) | (10.1) | 18.6 | 9.2 | 10.2 | 8.6 | — | — | — | 0.8 | 0.7 | 0.7 | 3.2 | 4.0 | 4.5 | 14.0 | 11.5 | 13.0 | 50 | (294) | 2.3 | |
| 1,704 | BUY | 1,082,072 | 22,831 | 635 | 143.6 | 121.1 | 139.2 | 34.8 | (15.7) | 14.9 | 11.9 | 14.1 | 12.2 | — | — | — | 2.2 | 2.3 | 2.0 | 1.7 | 1.8 | 1.9 | 17.1 | 12.7 | 13.3 | 1,600 | (61) | 114.4 | |
| 202 | BUY | 102,034 | 2,153 | 505 | 34.2 | 29.6 | 35.5 | 24.5 | (13.5) | 19.9 | 5.9 | 6.8 | 5.7 | — | — | — | 1.2 | 1.0 | 0.9 | 2.5 | 2.2 | 2.6 | 27.2 | 19.5 | 19.9 | 220 | 8.9 | 5.7 | |
| Banks/Financial Institutions | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Attractive | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 5,009,881 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cement | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 743 | REDUCE | 139,595 | 2,945 | 188 | 56.3 | 55.2 | 42.2 | (12.2) | (1.9) | (23.6) | 13.2 | 13.5 | 17.6 | 6.6 | 6.7 | 7.7 | 2.7 | 2.3 | 2.1 | 3.1 | 3.1 | 3.1 | 24.7 | 21.3 | 15.1 | 625 | (159) | 11.6 | |
| 92 | REDUCE | 140,135 | 2,957 | 1,522 | 7.2 | 6.8 | 5.4 | (5.0) | (4.7) | (20.5) | 12.8 | 13.4 | 16.9 | 6.9 | 7.1 | 8.5 | 2.3 | 2.1 | 1.9 | 3.2 | 2.0 | 2.3 | 19.7 | 16.6 | 12.0 | 70 | (240) | 4.6 | |
| 2,200 | REDUCE | 201,718 | 4,256 | 922 | 238.5 | 235.7 | 239.1 | (16.2) | (1.2) | 1.4 | 9.2 | 9.3 | 9.2 | 5.4 | 4.8 | 4.6 | 1.8 | 1.6 | 1.4 | 1.5 | 1.5 | 1.6 | 21.7 | 18.2 | 16.0 | 1,900 | (136) | 10.2 | |
| 144 | ADD | 40,673 | 858 | 282 | 22.7 | 19.8 | 17.5 | n/a | (12.8) | (11.2) | 6.4 | 7.3 | 8.2 | 4.4 | 4.6 | 4.8 | 1.1 | 0.9 | 0.9 | 1.5 | 1.5 | 1.5 | 22 | 15.7 | 14.7 | 11.7 | (30) | (99) | 5.1 |
| 1,040 | BUY | 36,231 | 764 | 35 | 174.7 | 91.6 | 86.2 | 93.7 | 46.8 | (5.9) | 60 | 11.4 | 12.1 | 4.1 | 4.5 | 4.7 | 3.0 | 2.5 | 2.1 | 1.0 | 1.0 | 1.0 | 65.7 | 24.0 | 18.9 | 950 | (87) | 0.5 | |
| 695 | ADD | 87,049 | 1,837 | 125 | 78.0 | 70.5 | 49.3 | (4.1) | (9.7) | (30.0) | 8.9 | 9.9 | 14.1 | 5.8 | 5.4 | 6.8 | 2.0 | 1.7 | 1.5 | 1.2 | 1.2 | 1.2 | 31.2 | 22.3 | 13.4 | 625 | (10.1) | 1.2 | |
| Cement | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cautionous | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 645,401 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Consumer products | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1,086 | ADD | 104,198 | 2,198 | 96 | 38.4 | 49.1 | 57.5 | (2.2) | 27.9 | 17.1 | 28.3 | 12.1 | 18.9 | 16.4 | 12.9 | 10.8 | 9.2 | 7.5 | 6.2 | 1.6 | 1.8 | 2.1 | 36.3 | 38.5 | 36.8 | 1,000 | (79) | 0.8 | |
| 460 | ADD | 62,557 | 1,320 | 136 | 20.4 | 23.3 | 25.7 | 19.4 | 14.4 | 10.1 | 22.6 | 19.7 | 17.9 | 19.6 | 16.4 | 14.3 | 37.1 | 41.1 | 46.7 | 4.0 | 4.6 | 5.0 | 157.8 | 198.4 | 245.6 | 490 | 6.5 | 2.0 | |
| 831 | ADD | 34,948 | 737 | 42 | 44.8 | 56.1 | 63.6 | 15.8 | 25.2 | 13.5 | 18.6 | 14.8 | 13.1 | 10.2 | 8.2 | 7.2 | 4.6 | 3.9 | 3.4 | 1.8 | 2.5 | 3.6 | 26.8 | 28.5 | 28.0 | 900 | 8.3 | 0.4 | |
| 161 | ADD | 41,555 | 877 | 258 | 6.8 | 8.7 | 9.8 | (3.9) | 27.8 | 12.8 | 23.8 | 18.6 | 16.5 | 20.7 | 15.2 | 12.5 | 6.3 | 5.4 | 4.6 | 2.5 | 2.5 | 2.5 | 42.7 | 42.7 | 33.1 | 200 | (106) | 0.6 | |
| 230 | REDUCE | 501,276 | 10,577 | 2,179 | 92 | 102 | 116 | 12.9 | 11.5 | 13.6 | 25.1 | 21.5 | 19.3 | 22.0 | 17.1 | 15.1 | 32.4 | 30.8 | 27.8 | 3.8 | 4.2 | 4.8 | 134.3 | 139.0 | 146.1 | 235 | 2.2 | 26.3 | |
| 182 | ADD | 685,887 | 14,472 | 3,769 | 8.7 | 9.8 | 11.2 | 4.6 | 12.8 | 14.5 | 21.0 | 18.6 | 16.3 | 12.9 | 11.5 | 10.0 | 48.1 | 43.7 | 37.1 | 2.1 | 2.2 | 2.5 | 25.4 | 25.2 | 25— | 200 | 9.9 | 22.3 | |
| 78 | ADD | 5,660 | 119 | 93 | 7.2 | 10.6 | 13.0 | 10.2 | 47.3 | 22.1 | 10.8 | 7.3 | 6.0 | 6.7 | 4.6 | 3.4 | 1.5 | 1.3 | 1.1 | 3.0 | 3.8 | 4.5 | 13.0 | 16.5 | 18.8 | 127 | 62.8 | 22.3 | |
| 1,676 | ADD | 161,636 | 3,410 | 96 | 58.6 | 70.5 | 82.4 | 31.0 | 20.4 | 16.8 | 28.8 | 23.8 | 20.4 | 18.2 | 15.5 | 13.4 | 34.1 | 28.1 | 23.2 | 2.5 | 3.1 | 3.6 | 126.7 | 129.6 | 124.8 | 1,800 | 7.4 | 1.9 | |
| 694 | BUY | 42,917 | 906 | 62 | 60.1 | 67.7 | 75.8 | 10.9 | 12.7 | 11.9 | 11.6 | 10.3 | 9.2 | 6.2 | 5.0 | 4.3 | 0.9 | 0.8 | 0.8 | 2.5 | 2.8 | 3.1 | 10.3 | 10.8 | 11.3 | 940 | 35.4 | 1.6 | |
| Consumer products | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cautionous | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1,640,635 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Consumer products | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 197 | ADD | 72,778 | 154 | 37 | 19.7 | 27.2 | 31.9 | (18.1) | 38.0 | 17.5 | 10.0 | 7.2 | 6.2 | 6.8 | 4.8 | 4.1 | 1.4 | 1.2 | 1.0 | 1.4 | 2.0 | 2.3 | 15.0 | 18.1 | 18.3 | 190 | (35) | 0.1 | |
| 252 | BUY | 34,109 | 720 | 135 | 14.4 | 16.9 | 19.4 | (7.3) | 17 | | | | | | | | | | | | | | | | | | | | |

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

| | 21-May-09 117.5 | BUY | Company Energy | O/S shares (mn) | Mkt cap. (US\$ mn) | EPS (Rs) | | | EPS growth (%) | | | PER (X) | | | EV/EBITDA (X) | | | Price/BV (X) | | | Dividend yield (%) | | | RoE (%) | | | Target price (Rs) | Upside (%) | 3mo (US\$ mn) |
|-----------------|--------------------|-----------|-------------------|-----------------------|-----------------------|----------|-------|---------|----------------|--------|--------|---------|--------|--------|---------------|-------|-------|--------------|-------|-------|--------------------|-------|-------|---------|-------|-------|-------------------------|---------------|------------------|
| | | | | | | 2009E | 2010E | 2011E | 2009E | 2010E | 2011E | 2009E | 2010E | 2011E | 2009E | 2010E | 2011E | 2009E | 2010E | 2011E | 2009E | 2010E | 2011E | 2009E | 2010E | 2011E | | | |
| Energy | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 441 | SELL | 144,586 | 3,051 | 328 | 16— | 30.3 | 39.5 | (62.2) | 94 | NA | 28 | NA | 11.2 | 6.6 | 5.6 | 5.1 | 1.0 | 1.0 | 1.0 | — | — | 4.0 | 5.2 | 4.2 | 7.0 | 8.8 | 450 | 2.0 | 5.7 |
| 225 | BUY | 418,216 | 8,824 | 1,897 | 4.2 | 4.4 | 28.5 | (3,628) | 5 | 543.2 | 52 | 50 | 7.7 | 31.3 | 22.5 | 6.3 | 1.2 | 1.2 | 1.3 | — | — | 13.6 | 2.5 | 2.5 | 15.9 | 225 | 2.0 | 26.5 | |
| 341 | BUY | 42,656 | 900 | 124 | 21.3 | 25.5 | 26.6 | 20.8 | 19.5 | 43 | 16.2 | 13.5 | 13.0 | 9.1 | 7.8 | 7.4 | 9.5 | 8.6 | 8.0 | 4.3 | 5.2 | 5.8 | 61.2 | 66.5 | 63.7 | 390 | 13.0 | 0.4 | |
| 302 | SELL | 383,079 | 8,083 | 1,268 | 23.3 | 19.7 | 20.7 | 14.2 | (15.6) | 5.1 | 13.0 | 15.4 | 14.6 | 7.1 | 8.7 | 9.1 | 2.4 | 2.2 | 2.0 | 2.4 | 2.2 | 2.2 | 18.3 | 13.8 | 13.3 | 240 | (20.5) | 11.8 | |
| 56 | REDUCE | 31,404 | 663 | 563 | 1.9 | 2.5 | 3.7 | 4.4 | (30.5) | 52.6 | 29.7 | 22.7 | 14.9 | 9.9 | 6.4 | 5.4 | 2.4 | 2.1 | 2.2 | 0.9 | 1.2 | 6.7 | 8.2 | 9.8 | 14.4 | 45 | (19.4) | 3.0 | |
| 320 | SELL | 108,534 | 2,290 | 339 | 7.4 | 17.9 | 34.0 | (122.0) | (343.0) | 90.1 | (43.5) | 17.9 | 9.4 | 7.0 | 6.0 | NA | 0.9 | 0.9 | NA | — | 3.7 | 7.1 | (2.0) | 4.3 | 8.0 | 325 | 1.5 | 6.0 | |
| 526 | REDUCE | 620,027 | 13,082 | 1,179 | 19.1 | 41.5 | 40.3 | (68.8) | 116.8 | (30.1) | 27.5 | 12.7 | 13.1 | 10.0 | 5.7 | 5.6 | 1.3 | 1.2 | 1.2 | — | 3.5 | 3.5 | 4.9 | 9.3 | 8.5 | 500 | (4.9) | 2.7 | |
| 1,074 | ADD | 2,297,592 | 48,478 | 2,139 | 100.3 | 95.3 | 119.2 | 8.1 | (5.0) | 25.1 | 10.7 | 11.3 | 9.0 | 4.1 | 4.0 | 3.3 | 2.0 | 1.8 | 1.6 | 3.2 | 3.7 | 3.9 | 18.9 | 15.9 | 18.2 | 1,000 | (6.9) | 41.6 | |
| 65 | ADD | 48,525 | 1,024 | 750 | 6.9 | 7.7 | 9.0 | — | 10.8 | 17.6 | 9.4 | 8.4 | 7.2 | 7.6 | 6.0 | 5.2 | 2.1 | 1.7 | 1.4 | 2.3 | 2.3 | 3.1 | 24.0 | 21.8 | 20.9 | 57 | (11.9) | 3.5 | |
| 2,110 | REDUCE | 2,897,030 | 61,125 | 1,373 | 103.4 | 127.7 | 175.7 | (1.5) | 23.5 | 37.7 | 20.4 | 16.5 | 12.0 | 12.0 | 7.6 | 5.7 | 2.4 | 2.2 | 1.9 | 0.7 | 0.8 | 0.9 | 15.1 | 15.9 | 19.2 | 1,650 | (21.8) | 224.6 | |
| 132 | NR | 595,125 | 12,557 | 4,500 | — | 8.3 | 13.8 | — | na | na | na | na | na | na | na | na | 4.4 | 3.7 | 2.8 | — | 1.5 | 1.5 | 0.6 | 25.1 | 33.0 | — | — | — | 24.1 |
| Energy | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Industrials | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 614 | REDUCE | 130,122 | 2,745 | 212 | 25.8 | 24.9 | 29.6 | 11.3 | (3.6) | 18.7 | 23.8 | 24.7 | 20.8 | 14.0 | 13.8 | 11.2 | 6.1 | 5.1 | 4.2 | 0.4 | 0.5 | 0.5 | 29.2 | 22.6 | 22.1 | 500 | (18.6) | 7.3 | |
| 326 | REDUCE | 23,501 | 496 | 72 | 15.3 | 20.7 | 24.3 | 26.1 | 35.4 | 17.5 | 21.3 | 15.8 | 13.4 | 11.7 | 9.4 | 8.0 | 4.2 | 3.4 | 2.8 | 0.8 | 1.0 | 1.2 | 21.3 | 23.9 | 23.2 | 165 | (49.4) | 1.4 | |
| 1,305 | REDUCE | 104,400 | 2,203 | 80 | 101.9 | 111.1 | 119.0 | (0.0) | 9.0 | 7.1 | 12.8 | 11.7 | 11.0 | 5.4 | 4.8 | 4.3 | 2.7 | 2.3 | 2.0 | 1.9 | 1.9 | 1.9 | 22.4 | 20.9 | 19.2 | 1,025 | (21.5) | 1.3 | |
| 1,958 | REDUCE | 958,480 | 20,223 | 490 | 59.8 | 89.0 | 105.5 | 2.3 | 48.9 | 18.5 | 32.8 | 22.0 | 18.6 | 17.5 | 12.1 | 10.1 | 7.4 | 5.9 | 4.8 | 0.8 | 1.0 | 1.2 | 24.7 | 30.0 | 28.5 | 1,475 | (24.7) | 60.8 | |
| 244 | ADD | 89,410 | 1,886 | 367 | 15.3 | 17.0 | 20.0 | 37.3 | 11.0 | 17.5 | 15.9 | 14.3 | 12.2 | 9.0 | 8.1 | 6.9 | 5.0 | 3.9 | 3.0 | 0.8 | 0.8 | 1.0 | 36.5 | 30.5 | 27.9 | 300 | 23.0 | 6.0 | |
| 1,255 | ADD | 748,978 | 15,803 | 597 | 49.0 | 54.7 | 63.5 | 29.2 | 11.5 | 16.1 | 25.6 | 23.0 | 19.8 | 15.1 | 13.2 | 11.8 | 4.7 | 3.9 | 3.3 | 0.8 | 0.9 | 1.0 | 20.9 | 18.5 | 18.0 | 1,000 | (20.3) | 79.4 | |
| 245 | BUY | 17,287 | 365 | 71 | 35.9 | 33.0 | 39.6 | 22.2 | (8.1) | 20.3 | 6.8 | 7.4 | 6.2 | 4.6 | 4.7 | 3.7 | 1.3 | 1.1 | 1.0 | 2.2 | 2.0 | 2.9 | 20.3 | 16.0 | 16.8 | 225 | (8.2) | 1.0 | |
| 460 | REDUCE | 155,060 | 3,272 | 337 | 14.2 | 19.8 | 21.1 | (22.2) | 39.7 | 6.4 | 32.4 | 23.2 | 21.8 | 15.3 | 13.2 | 12.6 | 6.9 | 5.8 | 4.8 | 0.7 | 1.4 | 0.9 | 23.3 | 27.1 | 24.2 | 360 | (21.7) | 7.0 | |
| 91 | ADD | 143,012 | 3,017 | 1,571 | 7.0 | 7.1 | 11.4 | 6.0 | 2.1 | 59.7 | 13.1 | 12.8 | 8.0 | 9.4 | 8.3 | 6.7 | 1.4 | 1.2 | 1.0 | 0.5 | 0.5 | 1.1 | 11.3 | 10.1 | 13.9 | 90 | (1.2) | 62.6 | |
| Industrials | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Infrastructure | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 133 | ADD | 44,137 | 931 | 332 | 5.6 | 10.4 | 10.8 | 63.5 | 85.5 | 3.9 | 23.7 | 12.8 | 12.3 | 13.1 | 7.3 | 6.6 | 2.4 | 2.0 | 1.6 | — | — | — | 10.6 | 16.8 | 14.5 | 135 | 1.7 | 5.8 | |
| Media | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 41 | REDUCE | 38,375 | 810 | 946 | (7.3) | (4.1) | (3.2) | na | (44.4) | (22.6) | (5.5) | (9.9) | (12.8) | (24.2) | (147.9) | 47.0 | (5.9) | (18.9) | (7.6) | — | — | — | 86.1 | 91.1 | NA | 22 | (45.7) | 5.4 | |
| 101 | BUY | 23,648 | 499 | 234 | 0.8 | 3.5 | 6.0 | (80.4) | 311.0 | 70.9 | 118.8 | 28.9 | 16.9 | 24.5 | 11.4 | 8.4 | 2.8 | 2.6 | 2.4 | 0.4 | 0.8 | 2.1 | 2.3 | 9.4 | 14.9 | 100 | (0.9) | 0.1 | |
| 21,400 | BUY | 329,462 | 6,951 | 1,54 | 179.7 | 171.6 | 195.4 | 117.2 | (4.5) | 13.9 | 11.9 | 12.5 | 11.0 | 7.8 | 7.6 | 6.4 | 4.6 | 3.3 | 2.6 | — | 0.3 | 0.4 | 48.4 | 31.0 | 26.5 | 1,400 | (34.6) | 26.9 | |
| 494 | SELL | 92,402 | 1,950 | 187 | 13.1 | 24.1 | 53.5 | (84.7) | 83.3 | 121.8 | 37.6 | 20.5 | 9.2 | 8.7 | 6.7 | 6.9 | 0.8 | 0.7 | 0.2 | 1.0 | 1.0 | 1.0 | 11.0 | 4.3 | 8.3 | 340 | (31.2) | 29.4 | |
| 582 | BUY | 245,914 | 5,189 | 423 | 64.6 | 62.9 | 80.9 | (38.0) | (2.6) | 28.7 | 9.0 | 9.3 | 7.2 | 5.2 | 4.6 | 2.8 | 1.6 | 1.4 | 1.2 | 0.7 | 0.9 | 0.9 | 20.1 | 16.5 | 17.9 | 610 | 4.8 | 3.4 | |
| 163 | BUY | 128,320 | 2,707 | 787 | 24.8 | 20.8 | 24.6 | 30.8 | (16.1) | 18.6 | 6.6 | 7.8 | 6.6 | 3.9 | 4.3 | 3.0 | 2.8 | 2.2 | 1.7 | 2.1 | 2.1 | 2.1 | 52.8 | 31.3 | 28.8 | 150 | (8.0) | 21.4 | |
| 530 | ADD | 375,360 | 7,920 | 708 | 49.2 | 41.0 | 50.5 | (23.6) | (16.7) | 23.4 | 10.8 | 12.9 | 10.5 | 6.3 | 6.9 | 5.1 | 1.4 | 1.3 | 1.2 | — | — | — | 14.3 | 10.7 | 11.8 | 490 | (7.5) | 39.9 | |
| 368 | BUY | 302,492 | 6,382 | 822 | 123.9 | 55.5 | 87.0 | 63.6 | (55.2) | 56.7 | 3.0 | 6.6 | 4.2 | 3.7 | 4.9 | 3.8 | 0.7 | 0.6 | 0.6 | 3.5 | 3.5 | 3.5 | 36.8 | 15.7 | 21.3 | 280 | (23.9) | 89.0 | |
| Metals | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Pharmaceutical | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 164 | BUY | 32,800 | 692 | 200 | 4.7 | 13.6 | 19.4 | (80.0) | 192.2 | 42.8 | 35.2 | 12.1 | 8.4 | 14.6 | 6.7 | 4.8 | 2.1 | 1.9 | 1.6 | 0.0 | 0.1 | 0.1 | 6.2 | 16.9 | 20.9 | 225 | 43.3 | 1.0 | |
| 216 | ADD | 167,895 | 3,542 | 777 | 9.9 | 13.9 | 15.5 | 9.5 | 40.6 | 11.9 | 21.9 | 15.6 | 13.9 | 15.8 | 13.1 | 9.9 | 3.9 | 3.3 | 2.8 | 1.2 | 1.4 | 1.6 | 19.1 | 23.0 | 21.8 | 260 | 20.4 | 8.1 | |
| 140 | BUY | 11,387 | 240 | 81 | 11.4 | 24.8 | 28.0 | (22.7) | 118.0 | 13.0 | 12.3 | 5.6 | 5.0 | 9.3 | 5.2 | 4.6 | 1.7 | 1.4 | 1.1 | 0.0 | 0.0 | 0.0 | 15.1 | 21.1 | 24.3 | 280 | 100.0 | 0.4 | |
| 1,170 | BUY | 75,504 | 1,593 | 65 | 64.9 | 75.1 | 89.1 | 21.8 | 15.8 | 18.7 | 18.0 | 15.6 | 13.1 | 14.1 | 11.5 | 9.2 | 6.1 | 4.5 | 3.4 | 0.1 | 0.1 | 0.1 | 40.2 | 33.4 | 29.7 | 1,450 | 24.0 | 4.4 | |
| 640 | BUY | 108,590 | 2,285 | 169 | 32.4 | 45.5 | 47.0 | 24.5 | 40.2 | 3.3 | 19.7 | 14.1 | 13.6 | 9.5 | 7.8 | 7.0 | 3.1 | 2.6 | 2.2 | 0.6 | 0.6 | 0.6 | 13.6 | 19.8 | 17.3 | 740 | 15.6 | 4.5 | |
| 206 | BUY | 54,706 | 1,156 | 266 | 15.8 | 18.2 | 22.5 | (38.7) | 14.7 | 23.6 | 13.0 | 11.3 | 9.2 | 8.7 | 7.5 | 6.5 | 2.5 | 2.1 | 1.7 | 0.0 | 0.0 | 0.0 | 21.9 | 19.8 | 20.2 | 390 | 89.3 | 5.8 | |
| 170 | BUY | 29,104 | 614 | 171 | 16.5 | 18.6 | 21.8 | (26.2) | 12.6 | 1.7 | 10.3 | 9.1 | 7.8 | 12.0 | 7.5 | 5.5 | 2.3 | 1.9 | 1.5 | 0.8 | 0.8 | 1.0 | 18.6 | 22.6 | 21.7 | 250 | 47.1 | 0.5 | |
| 875 | BUY | 77,510 | 1,635 | 89 | 67.7 | 66.0 | 71.3 | 21.9 | 8.7 | 8.0 | 14.4 | 13.3 | 12.3 | 14.2 | 11.8 | 10.0 | 4.5 | 3.6 | 2.9 | 1.3 | 1.5 | 33.7 | 30.3 | 26.1 | 1,075 | 22.9 | 3.3 | | |
| 254 | BUY | 53,086 | 1,935 | 209 | 17.3 | 22.4 | 28.2 | (2.7) | 29.8 | 26.0 | 14.7 | 11.3 | 9.0 | 11.1 | 7.7 | 6.3 | 4.0 | 3.2 | 2.4 | 1.7 | 1.8 | 1.8 | 26.3 | 31.4 | 30.8 | 340 | 33.9 | 2.1 | |
| 282 | REDUCE | 95,621 | 2,018 | 427 | (8.1) | (5.7) | 5.1 | (134.7) | NA | (27.7) | NA | (27.7) | NA | 43.7 | (134.3) | 686.5 | 17.7 | 1.9 | 1.6 | 1.7 | 4.5 | 5.1 | 5.6 | (8.8) | (4.7) | 4.1 | 150 | (33.0) | 14.5 |
| 1,282 | BUY | 295,523 | 5,602 | 2,271 | 86.7 | 85.7 | 94.0 | 16.3 | (1.3) | 9.7 | 14.8 | 15.0 | 13.6 | 11.5 | 10.7 | 9.2 | 3.9 | 3.2 | 2.6 | 0.9 | 1.1 | 31.1 | 24.3 | 21.9 | 1,800 | 40.4 | 17.7 | | |
| Pharmaceuticals | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Property | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 344 | REDUCE | 585,598 | 12,356 | 1,705 | 29.3 | 16.0 | 17.4 | (36.6) | (45.2) | 8.4 | 11.7 | 21.4 | 19.8 | 12.0 | 17.1 | 14.7 | 2.4 | 2.2 | 2.0 | 0.9 | 0.9 | 1.2 | 22.5 | 10.6 | 13.9 | 120 | (64.7) | 120.8 | |
| 302 | REDUCE | 83,226 | 1,756 | 275 | 30.6 | 19.8 | 24.8 | (40.1) | (35.3) | 25.1 | 9.9 | 15.2 | 12.2 | 12.5 | 14.4 | 11.7 | 1.9 | 1.8 | 1.6 | 1.7 | 2.0 | 2.6 | 21.2 | 12.1 | 10.6 | 139 | (40.3) | 70.8 | |
| 286 | ADD | 82,814 | 1,747 | 401 | 3.0 | 3.1 | 7.5 | (81.8) | 3.8 | 141.1 | 68.8 | 66.3 | 27.5 | (208) | 48.5 | 11.5 | 1.2 | 0.9 | 0.9 | 0.0 | 0.0 | 0.0 | 1.3 | 1.6 | 3.2 | 210 | 1.7 | 42.4 | |
| 205 | BUY | 11,986 | 253 | 42 | 10.2 | 10.8 | 15.4 | (39.2) | 5.3 | 42.5 | 27.9 | 26.5 | 18.6 | 43.1 | 25.1 | 12.8 | 1.4 | 1.3 | 1.3 | 1.4 | 1.4 | 1.4 | 4.8 | 4.9 | 6.7 | 401 | 43.9 | 0.6 | |
| 123 | BUY | 17,743 | 374 | 145 | 5.4 | 7.3 | 8.9 | 70.0 | 34.7 | 23.4 | 22.7 | 16.9 | 13.7 | 25.2 | 12.7 | 10.2 | 1.2 | 1.1 | 1.0 | 0.8 | 1.2 | 5.3 | 6.8 | 7.9 | 210 | 71.4 | 0.3 | | |
| 85 | REDUCE | 18,152 | 383 | 213 | 6.8 | 7.0 | 7.4 | (39.8) | 2.8 | 6.9 | 12.6 | 12.2 | 11.4 | 19.1 | 15.6 | 12.6 | 1.4 | 1.3 | 1.2 | — | 2.4 | 2.4 | 11.5 | 10.8 | 10.7 | 55 | (35.3) | 0.3 | |
| 187 | REDUCE | 13,607 | 287 | 73 | 15.9 | 11. | | | | | | | | | | | | | | | | | | | | | | | |

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

| 21-May-09 40.6 | Company | O/S shares (mn) | Mkt cap. (US\$ mn) | EPS (Rs) | | | EPS growth (%) | | | PER (X) | | | EV/EBITDA (X) | | | Price/BV (X) | | | Dividend yield (%) | | | RoE (%) | | | Target price (Rs) | Upside (%) | 3mo (US\$ mn) | | |
|-------------------|--|-----------------------|-----------------------|----------|-------|-------|----------------|--------|--------|---------|-------|-------|---------------|-------|-------|--------------|-------|-------|--------------------|-------|-------|---------|-------|-------|-------------------------|---------------|------------------|-------|-----|
| | | | | 2009E | 2010E | 2011E | 2009E | 2010E | 2011E | 2009E | 2010E | 2011E | 2009E | 2010E | 2011E | 2009E | 2010E | 2011E | 2009E | 2010E | 2011E | 2009E | 2010E | 2011E | | | | | |
| 1,070 | REDUCE | 47,497 | 1,002 | 44 | 45.9 | 50.1 | 56.9 | 30.8 | 9.2 | 13.7 | 23.3 | 21.4 | 18.8 | 15.0 | 13.0 | 11.2 | 8.2 | 6.3 | 5.0 | 0.9 | 1.0 | 1.1 | 38.9 | 33.6 | 29.9 | 850 | (20.6) | 3.9 | |
| | Neutral | 47,497 | 1,002 | | | | | 30.8 | 9.2 | 13.7 | 23.3 | 21.4 | 18.8 | 15.0 | 13.0 | 11.2 | 8.2 | 6.3 | 5.0 | 0.9 | 1.0 | 1.1 | 35.3 | 29.7 | 26.8 | | | | |
| Technology | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 163 | BUY | 113,459 | 2,394 | 695 | 16.2 | 12.5 | 16.7 | 5.8 | (22.6) | 33.4 | 10.1 | 13.0 | 9.8 | 5.7 | 5.4 | 5.3 | 1.8 | 1.7 | 1.6 | 7.4 | 7.4 | 7.4 | 18.3 | 13.0 | 16.8 | 110 | (32.6) | 5.2 | |
| 1,501 | BUY | 861,574 | 18,179 | 574 | 102.4 | 104.1 | 116.1 | 29.6 | 1.6 | 11.5 | 14.7 | 14.4 | 12.9 | 10.4 | 10.0 | 8.3 | 4.7 | 3.8 | 3.2 | 1.6 | 1.7 | 1.9 | 36.7 | 29.3 | 26.8 | 1,500 | (0.1) | 59.4 | |
| 289 | REDUCE | 60,233 | 1,271 | 208 | 14.2 | 38.8 | 30.3 | 15.7 | 173.5 | (21.9) | 20.4 | 7.5 | 9.5 | 15.4 | 5.3 | 5.1 | 4.2 | 2.8 | 2.3 | 1.4 | 1.6 | 1.7 | 22.8 | 45.3 | 26.4 | 240 | (16.9) | 2.6 | |
| 382 | BUY | 15,721 | 332 | 41 | 13.2 | 44.0 | 50.7 | (50.5) | 23.5 | 15.1 | 28.9 | 8.7 | 7.5 | 5.0 | 5.1 | 4.2 | 2.9 | 2.1 | 1.7 | 0.5 | — | — | 1.3 | 5.5 | 20.4 | 18.4 | 400 | 4.7 | 4.5 |
| 180 | REDUCE | 23,134 | 488 | 129 | 26.8 | 23.5 | 26.1 | (19.3) | (12.4) | 11.1 | 6.7 | 7.7 | 6.9 | 1.9 | 1.4 | 1.1 | 0.9 | 0.7 | 0.7 | 1.0 | 2.6 | 2.9 | 16.2 | 10.0 | 10.3 | 150 | (16.7) | 1.7 | |
| 86 | SELL | 8,513 | 180 | 99 | 13.1 | 13.3 | 12.1 | 76.0 | 1.7 | (8.9) | 6.6 | 6.5 | 7.1 | 2.2 | 2.6 | 2.7 | 1.1 | 1.0 | 0.9 | 3.2 | 2.3 | 2.3 | 18.1 | 15.9 | 12.9 | 50 | (42.0) | 2.7 | |
| 651 | REDUCE | 637,075 | 13,442 | 979 | 52.9 | 51.3 | 55.9 | 3.1 | (2.9) | 8.8 | 12.3 | 12.7 | 11.7 | 8.6 | 8.6 | 7.5 | 4.1 | 3.4 | 2.9 | 2.2 | 2.4 | 3.4 | 36.9 | 29.1 | 26.8 | 510 | (21.7) | 27.8 | |
| 417 | ADD | 53,882 | 1,137 | 129 | 70.4 | 38.0 | 37.2 | 19.3 | (46.0) | (2.1) | 5.9 | 11.0 | 11.2 | 3.9 | 7.3 | 6.9 | 2.4 | 2.0 | 1.8 | 0.9 | 1.4 | 1.7 | 52.8 | 20.3 | 17.0 | 360 | (13.7) | 15.5 | |
| 375 | ADD | 548,250 | 11,568 | 1,462 | 25.7 | 27.0 | 29.4 | 15.8 | 4.7 | 9.1 | 14.6 | 13.9 | 12.7 | 10.7 | 9.6 | 8.0 | 3.7 | 3.0 | 2.6 | 1.1 | 2.0 | 2.3 | 26.9 | 23.7 | 21.7 | 325 | (13.3) | 13.2 | |
| | Cautious | 2,327,442 | 48,107 | | | | | 15.0 | 0.3 | 8.6 | 13.0 | 13.0 | 12.0 | 8.9 | 8.4 | 7.3 | 3.7 | 3.0 | 2.6 | 1.9 | 2.2 | 2.7 | 28.1 | 23.3 | 21.9 | | | | |
| Telecom | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 847 | ADD | 1,608,124 | 33,930 | 1,899 | 44.6 | 52.2 | 59.8 | 26.4 | 17.0 | 14.6 | 19.0 | 16.2 | 14.2 | 11.1 | 9.5 | 8.2 | 5.1 | 3.8 | 3.0 | 0.5 | 0.7 | 0.9 | 31.4 | 27.0 | 23.8 | 775 | (8.5) | 79.6 | |
| 69 | REDUCE | 213,390 | 4,502 | 3,104 | 2.9 | 2.9 | 3.2 | (26.5) | (0.1) | 10.9 | 23.7 | 23.7 | 21.4 | 8.9 | 8.1 | 6.8 | 1.5 | 1.5 | 1.4 | — | — | — | 10.4 | 6.4 | 6.8 | 55 | (20.0) | 9.3 | |
| 92 | SELL | 58,212 | 1,288 | 630 | 4.0 | 4.1 | 4.6 | (44.3) | 2.6 | 11.8 | 23.2 | 22.6 | 20.2 | 11.7 | 8.6 | 5.9 | 0.5 | 0.5 | 0.5 | 6.5 | 6.5 | 6.5 | 1.6 | 1.6 | 1.9 | 50 | (45.9) | 1.8 | |
| 321 | SELL | 662,138 | 13,971 | 2,064 | 27.7 | 20.3 | 21.1 | 4.7 | (26.6) | 3.9 | 11.6 | 15.8 | 15.2 | 9.8 | 9.2 | 7.2 | 1.9 | 1.7 | 1.5 | 0.2 | — | — | 18.6 | 11.7 | 10.9 | 180 | (43.9) | 57.0 | |
| 591 | REDUCE | 168,435 | 3,554 | 285 | 13.6 | 14.0 | 15.2 | 24.0 | 3.2 | 8.2 | 43.5 | 42.2 | 39.0 | 18.4 | 16.8 | 15.5 | 2.4 | 2.4 | 2.3 | 0.8 | 1.1 | 1.3 | 5.4 | 5.2 | 5.5 | 400 | (32.3) | 3.5 | |
| | Cautious | 2,710,299 | 57,185 | | | | | 11.5 | (0.5) | 11.3 | 16.8 | 16.9 | 15.2 | 10.7 | 9.4 | 7.9 | 2.7 | 2.4 | 2.1 | 0.5 | 0.6 | 0.8 | 16.3 | 14.0 | 13.6 | | | | |
| Transportation | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 910 | ADD | 118,243 | 2,495 | 130 | 64.4 | 71.4 | 83.3 | 11.6 | 10.8 | 16.6 | 14.1 | 12.7 | 10.9 | 10.0 | 8.4 | 7.0 | 3.1 | 2.6 | 2.2 | 1.6 | 1.8 | 2.1 | 24.0 | 22.5 | 22.2 | 850 | (6.6) | 1.0 | |
| | Cautious | 118,243 | 2,495 | | | | | 11.6 | 10.8 | 16.6 | 14.1 | 12.7 | 10.9 | 10.0 | 8.4 | 7.0 | 3.1 | 2.6 | 2.2 | 1.6 | 1.8 | 2.1 | 22.1 | 20.5 | 20.5 | | | | |
| Utilities | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 350 | BUY | 43,728 | 923 | 125 | 31.2 | 38.0 | 42.1 | 12.3 | 21.8 | 10.8 | 11.2 | 9.2 | 8.3 | 6.0 | 6.7 | 7.0 | 1.2 | 1.1 | 0.9 | 1.3 | 1.6 | 1.7 | 11.4 | 12.2 | 11.9 | 385 | 10.0 | 1.0 | |
| 337 | BUY | 74,848 | 1,579 | 222 | 14.6 | 17.1 | 24.9 | (1.3) | 16.6 | 45.7 | 23.0 | 19.7 | 13.5 | 25.8 | 19.1 | 10.5 | 3.4 | 2.9 | 2.3 | — | — | — | 16.2 | 15.8 | 19.0 | 270 | (19.8) | 12.5 | |
| 214 | REDUCE | 1,763,705 | 37,213 | 8,245 | 8.8 | 10.7 | 12.0 | (5.2) | 20.8 | 12.7 | 24.2 | 20.0 | 17.8 | 16.3 | 14.7 | 13.9 | 3.0 | 2.8 | 2.6 | 1.6 | 1.9 | 2.1 | 12.9 | 14.4 | 15.0 | 180 | (15.8) | 30.6 | |
| 1,119 | BUY | 253,420 | 5,347 | 226 | 64.1 | 58.8 | 62.9 | 70.5 | (8.2) | 6.9 | 17.5 | 19.0 | 17.8 | 18.7 | 19.2 | 14.9 | 1.5 | 1.4 | 1.3 | 0.6 | 0.7 | 0.8 | 6.3 | 7.0 | 9.0 | 970 | (13.3) | 112.2 | |
| 167 | REDUCE | 399,059 | 8,420 | 2,397 | 1.0 | 2.5 | 3.1 | — | 140.3 | 25.3 | 163.2 | 67.9 | 54.2 | — | — | — | 2.9 | 2.8 | 2.6 | — | — | — | 1.8 | 4.2 | 5.0 | 120 | (27.9) | 19.5 | |
| 1,040 | BUY | 231,500 | 4,884 | 223 | 65.2 | 90.2 | 101.5 | 104.6 | 38.4 | 12.5 | 16.0 | 11.5 | 10.2 | 10.7 | 10.0 | 9.4 | 2.2 | 1.9 | 1.6 | 1.1 | 1.2 | 1.3 | 15.0 | 17.5 | 17.0 | 1,000 | (3.8) | 12.8 | |
| | Attractive | 2,766,261 | 58,366 | | | | | 11.2 | 21.8 | 13.5 | 24.8 | 20.4 | 17.9 | 17.0 | 16.5 | 15.0 | 2.6 | 2.4 | 2.2 | 1.2 | 1.4 | 1.5 | 10.6 | 11.8 | 12.3 | | | | |
| Others | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 855 | SELL | 32,387 | 683 | 38 | 87.8 | 148.2 | 277.7 | 21 | 68.8 | 87.4 | 9.7 | 5.8 | 3.1 | 8.9 | 7.0 | 5.5 | 2.3 | 1.7 | 1.1 | 0.5 | 0.6 | 0.6 | 33.7 | 36.9 | 41.2 | 300 | (64.9) | 46.5 | |
| 263 | REDUCE | 15,889 | 335 | 61 | (1.0) | 10.3 | 14.7 | (10.4) | NA | 43.0 | NA | 25.6 | 17.9 | 10.4 | 8.9 | 8.0 | 2.2 | 2.1 | 2.0 | 1.2 | 1.6 | 1.9 | (0.9) | 8.5 | 11.4 | 120 | (54.3) | 2.3 | |
| 174 | ADD | 244,834 | 5,166 | 1,403 | 6.6 | 7.9 | 11.8 | 34 | 20.0 | 49.6 | 26.6 | 22.2 | 14.8 | 15.7 | 12.8 | 11.8 | 4.1 | 3.6 | 3.0 | 0.0 | 0.0 | 0.0 | 16.8 | 17.1 | 21.8 | 140 | (19.7) | 69.9 | |
| 355 | BUY | 19,480 | 411 | 55 | 64.3 | 47.8 | 41.7 | (1) | (25.6) | (12.8) | 5.5 | 7.4 | 8.5 | 3.7 | 3.8 | 3.6 | 0.6 | 0.5 | 0.5 | 1.4 | 1.1 | 1.1 | 10.8 | 7.4 | 6.2 | 300 | (15.5) | 2.7 | |
| 124 | BUY | 5,404 | 114 | 44 | 24.3 | 43.7 | 37.8 | 15 | 79.6 | (13.4) | 5.1 | 2.8 | 3.3 | 5.7 | 5.0 | 4.3 | 0.6 | 0.6 | 0.5 | 6.4 | 6.5 | 6.5 | 10.6 | 14.2 | 12.4 | 145 | 16.9 | 0.2 | |
| 215 | BUY | 29,347 | 619 | 136 | 23.8 | 24.8 | 27.3 | 22 | 4.1 | 10.2 | 9.0 | 8.7 | 7.9 | 6.5 | 5.9 | 5.0 | 1.5 | 1.3 | 1.1 | 0.5 | 0.5 | 0.6 | 16.6 | 14.8 | 14.1 | 175 | (18.6) | 4.0 | |
| 244 | ADD | 57,417 | 1,211 | 235 | 25.5 | 23.4 | 27.5 | (36) | (8.3) | 17.6 | 9.6 | 10.4 | 8.9 | 5.7 | 5.0 | 4.3 | 1.2 | 1.1 | 1.0 | 3.3 | 3.3 | 3.3 | 17.2 | 13.3 | 14.0 | 190 | (22.2) | 2.6 | |
| 147 | REDUCE | 27,693 | 584 | 189 | 20.8 | 21.6 | 16.6 | 1 | 4.1 | (23.5) | 7.1 | 6.8 | 8.9 | 5.4 | 4.7 | 5.0 | 1.3 | 1.1 | 1.0 | 1.3 | 1.0 | 1.0 | 19.9 | 17.8 | 11.7 | 100 | (31.8) | 12.6 | |
| 150 | BUY | 69,300 | 1,462 | 462 | 10.7 | 13.5 | 18.0 | 28 | 25.7 | 33.9 | 14.0 | 11.1 | 8.3 | 9.4 | 6.9 | 5.3 | 2.3 | 2.0 | 1.6 | 0.8 | 1.0 | 1.3 | 18.1 | 18.2 | 20.5 | 140 | (6.7) | 2.5 | |
| | Others | 501,750 | 103,987 | | | | | 14.9 | 10.9 | 30.2 | 13.5 | 12.1 | 9.3 | 9.0 | 7.7 | 7.1 | 2.1 | 1.8 | 1.6 | 0.8 | 0.8 | 0.5 | 15.5 | 15.1 | 16.8 | | | | |
| | KS universe (b) | 30,995,747 | 653,988 | | | | | 3.1 | 3.6 | 22.1 | 15 | 14.7 | 12.0 | 9.8 | 8.7 | 7.4 | 2.4 | 2.1 | 1.9 | 1.4 | 1.6 | 2.0 | 15.6 | 14.4 | 15.7 | | | | |
| | KS universe (b) ex-Energy | 24,908,973 | 493,078 | | | | | 6.3 | (2.3) | 16.7 | 14.0 | 15.0 | 12.9 | 10.5 | 10.1 | 8.8 | 2.5 | 2.2 | 2.0 | 1.4 | 1.5 | 1.7 | 17.0 | 14.8 | 15.3 | | | | |
| | KS universe (d) ex-Energy & ex-Commodities | 20,915,232 | 441,296 | | | | | 7.3 | 4.5 | 15.0 | 16.4 | 15.6 | 13.6 | 12.7 | 11.3 | 9.8 | 2.8 | 2.5 | 2.2 | 1.4 | 1.5 | 1.7 | 17.0 | 15.7 | 16.0 | | | | |

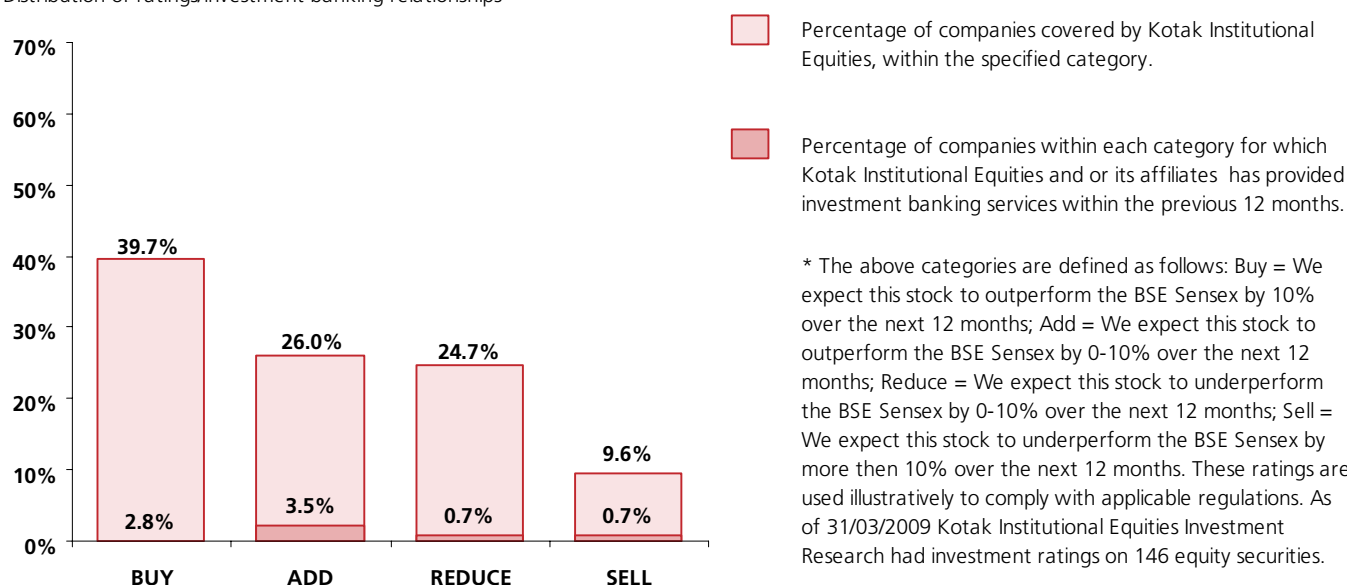
Note:

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

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of March 31, 2009

Ratings and other definitions/identifiers

Rating system

Definitions of ratings

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

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

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

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

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

Other definitions

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

Other ratings/identifiers

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