

Strategy

INDIA

August 3, 2009

BSE-30:15,924

Time for a good break. We see very little value in most large-cap. Indian stocks and do not rule out a 15-20% market correction in case of (1) weak monsoons and (2) global economic weakness. Our last tactical move in mid-June 2009 to a defensive portfolio (select PSU banks, consumers, technology) has also played out with those names having run up over the past 4-6 weeks. In our view, the predominance of macro factors and rich valuations across sectors precludes stock picking currently.

Continue to recommend defensive portfolio but even there valuations are rich

We see limited scope for absolute returns in the market until more clarity emerges on (1) earnings and (2) global economic recovery. Thus, we continue to recommend a defensive stance (and a few aggressive intra-sector positions), which we adopted from mid-June 2009, for 'relative' investors. For absolute investors, we see more money to be made in shorting richly valued stocks than going long currently.

Minor changes to composite market earnings following 1QFY10 results

We now estimate FY2010E and FY2011E BSE-30 Index 'EPS' at Rs885 and Rs1,073 versus Rs910 and Rs1,086 in early July, 2009 before the start of 1QFY10 results season. A cut in the earnings of the dominant energy sector has offset (1) large upgrades in auto and cement sectors and (2) smaller upgrades in consumers and technology sectors.

1QFY10 results better than expected on an ex-energy basis

1QFY10 net income of BSE-30 Index companies decreased 4.9% yoy versus our expected decline of 6.8%. Excluding the energy sector, BSE-30 Index 1QFY10 net income grew 2.6% yoy versus our expected -4.9%. 1QFY10 results have broadly confirmed the trends in earnings revisions over the past six months. Our research team has increased earnings of auto, banking and cement sectors significantly and earnings of consumer and technology sectors moderately.

Valuations—little room to grow with most sectors at around 20X FY2010E earnings

The recent round of earnings upgrades notwithstanding, we note that most high-growth sectors trade at around 20X FY2010E earnings, leaving limited scope for further re-rating, in our view. Commodity sectors may look cheaper but large earnings risks exist in cement, energy and metals and the nature of the business precludes high multiples (except at trough prices or margins). Our fair valuation for the BSE-30 Index comes to 15,000 based on our fair valuations of BSE-30 Index stocks although we do not rule out the market trading at a premium for some time on strong global liquidity.

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Important disclosures appear at the back

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The prices in this report are based on the market close of August 3, 2009

PORTFOLIO: VERY FEW IDEAS LEFT

We find very little value in most large-cap. names and thus, are not very comfortable with the Indian market. We do not rule out a market correction of the order of 15-20% over the next few months led by (1) normalization of expensive valuations in several sectors and stocks, (2) the street's realization of limited scope for earnings upgrades for FY2010E, (3) possible weak monsoons and debilitating impact on rural consumption and (4) continued weak global macro-economic conditions.

Where is the value? Nowhere

Exhibit 1 shows the valuations of BSE-30 stocks and compares our 12-month fair valuation of the stocks (either one-year forward DCF or based on FY2011E EBITDA/EPS estimates) with current stock prices. As can be seen, most stocks are trading above our 12-month fair valuations and/or are trading at very high multiples. We have also remarked about the quality of earnings and issues against certain stocks. We believe the market may be largely ignoring underlying negatives in several large-cap. stocks, perhaps disarmed by easy global liquidity conditions and expectations of their continuance.

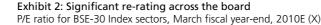
Exhibit 1: Many stocks in BSE-30 Index are trading near or above our fair valuations Valuation summary of BSE-30 Index stocks, March fiscal year-ends, 2010E-11E

	P/E	(X)	P/B	(X)	Price	(Rs)	Upside	
	2010E	2011E	2010E	2011E	Current	Target	(%)	Comments
Maruti Suzuki	21.0	20.2	3.7	3.1	1,472	1,100	(25)	Sustainability of current EBITDA margin key to stock price
Tata Motors	18.2	16.6	1.6	1.5	431	335	(22)	Balance sheet and poor financial condition of overseas units
DLF	27.6	23.2	2.6	2.4	406	320	(21)	No evidence of sustainable pick-up in demand for real estate
Reliance Industries	19.6	13.6	2.1	1.9	2,017	1,600	(21)	Stock discounting 31 tcf of additional gas reserves
Hero Honda	18.6	17.1	6.3	5.0	1,624	1,330	(18)	Weak monsoons and competition from BJAT key to stock price
Sterlite Industries	22.5	17.7	1.5	1.4	671	550	(18)	Stock discounting aggressive value for upcoming power business
Reliance Communications	13.7	12.6	1.3	1.2	290	240	(17)	Several issues on reporting and financials, quality of balance sheet
NTPC	20.0	17.8	2.8	2.6	216	180	(17)	Expensive valuations at 3.7X core BV on ROE of 22%
Jaiprakash Associates	37.3	21.9	5.3	4.4	251	220	(12)	Stock discounting flawless execution in power and real estate
ICICI Bank	22.5	19.2	1.7	1.6	774	685	(11)	Valuations rich given low growth and low ROEs
Bharat Heavy Electricals	25.2	22.0	7.0	5.7	2,347	2,100	(11)	Expensive valuations with limited scope for earnings surprise
Infosys Technologies	20.3	18.4	5.3	4.5	2,076	1,900	(8)	Fully valued
Grasim Industries	11.1	10.5	1.9	1.6	2,792	2,560	(8)	Reasonable valuations but price competition in the cement sector an issue
Tata Power	18.2	16.1	2.4	2.2	1,354	1,250	(8)	Stock discounting all future power projects
Larsen & Toubro	25.3	21.2	4.4	3.7	1,520	1,425	(6)	Pick-up in order book in 2HFY10 critical to justify current valuations
HDFC	27.1	24.0	4.9	4.4	2,534	2,400	(5)	Loan growth primarily from loans to real estate developers
HDFC Bank	23.6	20.3	3.2	2.8	1,493	1,430	(4)	Recent profits supported by treasury income
Tata Steel	11.8	6.2	1.0	0.9	485	465	(4)	Financial health of Corus may act as an overhang on the stock
TCS	17.4	15.7	5.3	4.5	532	510	(4)	Reasonably valued in the context of earnings growth
ACC	12.0	15.6	2.6	2.3	892	875	(2)	Deterioration in pricing given emerging supply-demand imbalance
Mahindra & Mahindra	18.0	17.3	3.7	3.1	919	915	(0)	Weak monsoons may hurt demand for tractors and Uvs
State Bank of India	14.2	12.4	1.8	1.7	1,847	1,870	1	Reasonably valued at 1.5X core P/B versus ROE of 14%
Oil & Natural Gas Corporation	12.3	10.3	2.0	1.8	1,179	1,200	2	Fairly valued without upside from deregulation, favorable subsidy system
Reliance Infrastructure	19.2	17.8	1.5	1.4	1,222	1,250	2	Unfavorable outcome of ongoing gas dispute with RIL will be negative
ITC	24.0	21.0	5.6	4.9	248	255	3	Fully valued after recent run-up in stock price
Bharti Airtel	15.2	13.4	3.7	2.9	410	425	4	Reasonable valuations but price competition, MNP are issues
Wipro	17.9	15.3	3.9	3.3	491	520	6	Reasonably valued in the context of earnings growth
Sun Pharmaceuticals	24.6	18.3	3.2	2.8	1,173	1,250	7	Several outstanding issues (FDA, Caraco, low tax rate) to act as overhang
Hindustan Unilever	27.0	23.4	27.0	24.1	285	320	12	Fairly valued after recent run-up in stock price
Hindalco Industries	31.2	9.8	0.5	0.5	108	135	25	Earnings will depend on the strength of global economic recovery

Source: Bloomberg, Kotak Institutional Equities estimates

We see several following factors that may trigger a possible correction in the Indian market.

Normalization of current expensive valuations. We see this true across the board, particularly in the private banking, consumer, real estate and utilities sectors. A 15-20% correction in multiples of several richly-valued stocks would bring down their valuations to normal levels, even at which, we would not find them a bargain. Exhibit 2 shows the expansion in multiples of all sectors over the past seven months, from end-CY2008 to end-July 2009. Finally, any disappointment in the earnings of sectors could lead to a swift de-rating of multiples.



Dec-08 Aug-09 30 25 25 25 20 20 19 18 15 14 13 11 10 BSE-30 Energy Metals Property Telecom Utilities Banking Automobiles **Fechnology** Cement Consumers Industrials **Pharmaceuticals** 3SE-30 ex-Energy

Source: Kotak Institutional Equities estimates

- ▶ Street's realization about limited scope for earnings upgrades for FY2010E. Notwithstanding the results of several sectors beating expectations in 1QFY10, we do not see a case for large upgrades to our FY2010E and FY2011E earnings estimates. We now model FY2010E and FY2011E BSE-30 Index 'EPS' at Rs885 and Rs1,073 versus Rs910 and Rs1,086, respectively, at the start of the 1QFY10 results season. We discuss this in more detail in the next section.
- ▶ Weak monsoons. In our view, the market has largely ignored any potential negative fallout of weak monsoons. The cumulative deficit as of July 24, 2009 was 19% (see Exhibit 3) but more worryingly, the deficit is much higher at 30-60% for the northern states in the Indo-Gangetic plains (see Exhibit 4). These regions account for 50% of total food grain and sugarcane production in India.

Exhibit 3: Rainfall deficiency persists
Rainfall till date specified, Calendar year-ends, 2006-09 YTD (#)

		2006			2007			2008			2009	
Rainfall till date	28-Jun	26-Jul	30-Sep	4-Jul	1-Aug	30-Sep	2-Jul	30-Jul	30-Sep	1-Jul	22-Jul	29-Jul
Normal/Excess	23	22	26	31	31	30	28	26	32	6	17	17
Excess	7	1	6	20	11	13	18	8	2	2	4	3
Normal	16	21	20	11	20	17	10	18	30	4	13	14
Deficient/Scanty	13	14	10	5	5	6	8	10	4	30	19	19
Deficient	10	14	10	5	5	6	8	10	4	22	17	18
Sacnty/no rain	3	_	_	_	_	_	_	0	_	8	2	1
Total	36	36	36	36	36	36	36	36	36	36	36	36
Rainfall deviation from normal (%)			(1)			5			(2)	(46)	(19)	(19)
Foodgrains output (in mt)			217			231			230	•		
Kharif foodgrains (in mt)			111			121			119			
Foodgrains growth (%)			4			6			(0)			
All crops index growth (%)			14			1			3.0E			_
Growth in GDP in agriculture & allied(%)			4			5			2			
Growth in GDP(%)			10			9			7			

Note:

(1) Output/growth data relates to corresponding agricultural year (July-June). As such, for CY2004 monsoon, relate to FY2005 and so on.

Source: Indian Meteorological Department, Kotak Institutional Equities

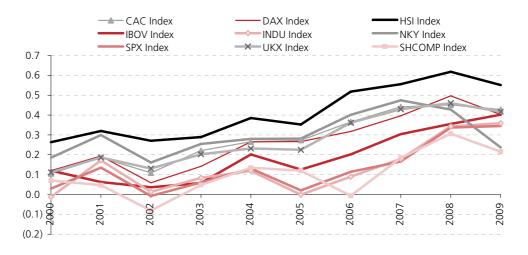
Exhibit 4: Northern States—deficiency remains acute despite some rain in end-July Rainfall deficiency (+)/excess (-) in sub-divisions of Northern/Indo-Gangetic Plain (%)

as on:	1-Jul	8-Jul	15-Jul	22-Jul	29-Jul
Bihar	52	54	63	64	49
East Uttar Pradesh	66	89	56	58	46
Gangetic West Bengal	62	50	47	41	37
Haryana, Chandigarh & Delhi	42	62	59	65	58
Himachal Pradesh	55	69	59	53	47
Jharkhand	55	42	40	42	45
Punjab	38	71	56	49	30
Uttarakhand	58	65	57	42	35
West Uttar Pradesh	74	50	60	58	60
All India	46	36	27	19	19

Source: Indian Meteorological Department, Kotak Institutional Equities

▶ Dominance of macro factors and reversal in the same. In our view, the high correlation seen of late across markets, stocks in a market and equity and commodity markets makes the Indian market susceptible to any negative global development. Exhibit 5 shows the increasing correlation between Indian and other markets. Macro factors appear to have become the most important driver of stock prices rather than individual drivers of stocks. We will look at this issue in more detail in a separate report.

Exhibit 5: Correlation of Indian markets with global markets has increased significantly since 2007 Correlation of Indian markets with global indices, Calendar year-ends, 2000-09 YTD



Source: Bloomberg

Largely market-neutral and defensive portfolio

Exhibit 6 gives our Model Portfolio. Our underlying investment theme currently is preservation of capital and thus, we continue to recommend a defensive portfolio. However, valuations of defensive stocks have also become quite rich and thus, are not really defensives from a standpoint of valuations; they are so only with respect to earnings. Our last tactical move of moving to a defensive portfolio and taking aggressive overweight positions on consumer and technology stocks in mid-June 2009 has also largely played out. We are uncomfortable with the valuations of 'embedded' asset stocks and we admittedly lack the imagination to value these stocks beyond a certain level.

Exhibit 6: Overweight banking, consumers, industrials and technology Kotak Institutional Equities Model Portfolio

	03-Aug		Weight	age (%)	Diff.
Company	Price (Rs)	Rating	BSE-30	KS reco.	(bps)
Bajaj Auto	1,302	ADD		1.0	100
Hero Honda	1,624	REDUCE	1.4	_	(140)
Mahindra & Mahindra	919	ADD	1.7	2.2	50
Maruti Suzuki	1,472	SELL	1.8	1.3	(50)
Tata Motors	431	SELL	1.1	_	(114)
Automobiles			6.1	4.6	(153)
Bank of Baroda	438	ADD	_	1.0	100
Corporation Bank	347	BUY		1.0	100
Punjab National Bank	705	BUY		1.0	100
State Bank of India	1,847	BUY	4.5	6.5	200
Union Bank	234	BUY		1.0	100
PSU Banking			4.5	10.5	600
HDFC	2,534	NR	5.6	2.6	(300)
HDFC Bank	1,493	REDUCE	4.9	2.4	(250)
ICICI Bank	774	REDUCE	7.4	5.9	(150)
Rural Electrification Corp.	201	BUY	_	1.0	100
Pvt. Banking/Financing			17.9	11.9	(600)
ACC	892	REDUCE	8.0		(79)
Grasim Industries	2,792	REDUCE	1.7	1.7	
Jaiprakash Associates	251	REDUCE	1.5	1.0	(50)
Ultratech Cement	802	BUY		1.0	100
Cement			4.0	3.7	(29)
Hindustan Unilever	285	BUY	2.7	4.7	200
ITC	248	BUY	5.6	7.1	150
Consumers			8.3	11.8	350
CAN (1. 1)	25-				
GAIL (India)	329	ADD		1.0	100
Oil & Natural Gas Corporation	1,179	BUY	4.3	5.8	150
Reliance Industries	2,017	SELL	11.9	5.8	(614)
Energy			16.3	12.6	(364)

	03-Aug		Weight	age (%)	Diff.
Company	Price (Rs)	Rating	BSE-30	KS reco.	(bps)
Bharat Heavy Electricals	2,347	REDUCE	3.5	2.0	(150)
IVRCL	334	BUY	_	0.5	50
Larsen & Toubro	1,520	ADD	7.0	7.5	50
Nagarjuna Construction	145	NR	_	0.5	50
Punj Lloyd	254	BUY	_	1.0	100
Industrials/Construction			10.5	11.5	100
Hindalco Industries	108	BUY	1.1	1.6	50
Hindustan Zinc	738	BUY	1.1	2.0	200
Sterlite Industries	671	REDUCE	1.9	2.0	(194)
Tata Steel	485	BUY	2.6	2.1	(50)
Metals	465	DUT	5.6	5.7	(30)
ivietais			5.0	5.7	0
Sun Pharmaceuticals	1,173	ADD	0.8	0.8	_
Pharmaceuticals			0.8	0.8	_
DI F	40.5	6511			(4.40)
DLF	406	SELL	1.5		(148)
Real estate			1.5	_	(148)
Infosys Technologies	2,076	BUY	8.7	10.2	150
TCS	532	ADD	2.2	2.2	
Wipro	491	ADD	1.2	2.7	150
Technology			12.2	15.2	300
Bharti Airtel	410	ADD	4.7	5.7	100
Reliance Communications	290	SELL	1.8	J.7	(180)
Telecom	250	JLLL	6.5	5.7	(80)
					, ,
Lanco Infratech	420	ADD		1.0	100
NTPC	216	SELL	2.3		(230)
Reliance Infrastructure	1,222	BUY	1.5	3.0	150
Tata Power	1,354	ADD	1.9	1.9	
Utilities			5.8	6.0	20
BSE-30	15,924		100.0	100.0	
B2E-30	15,924		100.0	100.0	

Note:

Source: Bloomberg, Kotak Institutional Equities estimates

Exhibit 7 is our Top-10 list. We have removed Axis Bank, Jaiprakash Associates, Sun Pharmaceuticals and Tata Power from our Top-10 list and included (1) a basket of PSU banks (Bank of Baroda, Corporation Bank, Punjab National Bank and Union Bank), (2) Hindustan Zinc, (3) L&T and (4) Reliance Infrastructure.

^{1.} Weights are with respect to August 3, 2009 prices.

Exhibit 7: Biased towards solid long-term stocks

Kotak Institutional Equities Top-10 List

ITC Consume	r products BUY	(US\$ mn) 24,608 52,933 25,012 13,040	(Rs) 1,847 1,179 2,076	(Rs) 1,870 1,200	2009E 144 91	2010E 130 96	2011E 149 115	2009E 12.9 12.9	2010E 14.2 12.3	2011E 12.4	2009E	2010E	2011E
Oil & Natural Gas Corporation Energy Infosys Technologies Technologies Consume ITC Consume	BUY gy BUY r products BUY	52,933 25,012	1,179	1,200									
Infosys Technologies Technologies Hindustan Unilever Consume ITC Consume	gy BUY or products BUY	25,012			91	96	115	12 9	12.2	10.2			
Hindustan Unilever Consume ITC Consume	r products BUY		2,076	1 000			115	12.5	12.5	10.3	4.7	4.4	3.8
ITC Consume	1	13.040		1,900	102	103	113	20.3	20.3	18.4	15.0	14.3	12.2
	r products BLIY	,	285	320	9.5	10.6	12.2	30.0	27.0	23.4	23.0	20.2	17.5
	i products DOT	19,625	248	255	8.7	10.3	11.8	28.7	24.0	21.0	17.6	14.8	13.0
Reliance Infrastructure Utilities	BUY	5,807	1,222	1,250	63	64	69	19.5	19.2	17.8	24.5	22.2	17.7
Hindustan Zinc Metals	BUY	6,547	738	825	65	57	74	11.4	12.9	10.0	7.5	7.6	5.0
Bharti Airtel Telecom	ADD	32,705	410	425	22	27	31	18.4	15.2	13.4	10.7	9.1	7.8
Larsen & Toubro Industrials	s ADD	19,030	1,520	1,425	53	60	72	28.9	25.3	21.2	17.2	14.8	12.6
PSU bank basket													
Bank of Baroda Banking	ADD	3,360	438	480	61	61	62	7.2	7.2	7.1	_	_	
Corporation Bank Banking	BUY	1,044	347	420	62	58	57	5.6	6.0	6.1	_		
Punjab National Bank Banking	BUY	4,661	705	800	98	101	115	7.2	7.0	6.1	_	_	_
Union Bank Banking	BUY	2,481	234	280	34	32	35	6.8	7.2	6.6	_	_	
BSE-30			15,924										

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Market target of 15,000 for BSE-30 Index, but fundamentals aren't everything

We had stopped setting a target for the BSE-30 Index some time ago given the dominance of macro factors such as liquidity and risk appetite (manifesting itself through rapid changes in perceived cost of equity) in the short term over earnings and valuations. Our fair valuation for BSE-30 Index comes to 15,000 based on bottom-up aggregation of the 12-month fair valuation of individual stocks in the BSE-30 stocks. However, we do not rule out the market trading higher on the back of high global liquidity and high risk-appetite.

We see this problem of rapid changes in fair valuations/target prices of stocks (see Exhibit 8) without major changes to earnings. The street appears to be using the most recent stock prices to determine fair valuations/target prices rather than using their understanding of fair valuations of companies and businesses.

Exhibit 8: Target prices of many companies in BSE-30 Index stocks are higher but no meaningful change in earnings as yet EPS and target prices of BSE-30 Index companies, March fiscal year-ends, 2010E-11E

		2010E EPS (Rs)		2011E EPS ((Rs)		Target pri	ce
	Current	May-09	Change (%)	Current	May-09	Change (%)	Current	May-09	Change (%)
Hindalco Industries	3	2	47	11	8	34	135	55	145
Larsen & Toubro	60	52	17	72	55	31	1,425	650	119
Mahindra & Mahindra	51	35	47	53	34	55	915	450	103
TCS	30	26	19	34	28	21	510	255	100
Tata Motors	24	19	25	26	17	56	335	195	72
Grasim Industries	252	188	34	266	193	38	2,560	1,500	71
DLF	15	16	(8)	18	17	1	320	190	68
Tata Steel	41	56	(26)	79	87	(9)	465	280	66
Wipro	27	27	2	32	29	9	520	325	60
Jaiprakash Associates	7	8	(15)	11	12	(3)	220	140	57
ICICI Bank	34	33	5	40	38	5	685	475	44
Bharat Heavy Electricals	93	89	5	107	105	1	2,100	1,475	42
Maruti Suzuki	70	58	21	73	64	15	1,100	780	41
ACC	74	55	34	57	42	35	875	625	40
Hindustan Unilever	11	10	3	12	12	5	320	235	36
Reliance Communications	21	20	4	23	21	9	240	180	33
Hero Honda	87	84	4	95	91	4	1,330	1,000	33
Reliance Infrastructure	64	59	8	69	63	9	1,250	970	29
ITC	10	10	6	12	11	6	255	200	28
Infosys Technologies	103	104	(2)	113	116	(3)	1,900	1,500	27
Oil & Natural Gas Corporation	96	104	(8)	115	138	(17)	1,200	950	26
Tata Power	75	90	(17)	84	101	(17)	1,250	1,000	25
HDFC Bank	63	64	(1)	73	75	(2)	1,430	1,150	24
State Bank of India	130	124	5	149	145	3	1,870	1,600	17
Sterlite Industries	30	41	(27)	38	51	(25)	550	490	12
Bharti Airtel	27	26	3	31	30	2	425	388	10
NTPC	11	11	1	12	12	1	180	180	_
HDFC	93	93	_	105	109	(3)	_	1,730	
Reliance Industries	103	128	(19)	148	176	(16)	1,600	1,650	(3)
Sun Pharmaceuticals	48	86	(44)	64	94	(32)	1,250	1,800	(31)

Source: Kotak Institutional Equities estimates

Best sells and shorts

We list our best sells and discuss the rationale for our negative view on the stocks below.

▶ Cairn India (REDUCE, Rs244, TP: Rs225). Our reverse valuation exercise shows that Cairn stock price is currently discounting US\$79/bbl crude price (Dated Brent) in perpetuity based on 1.15 bn bbls of recoverable crude reserves and long-term rupee dollar rate of Rs47/US\$ (from FY2012E). Exhibit 9 gives our 12-month fair valuation of Cairn and also shows its fair valuation at various levels of long-term (from FY2013E) crude oil prices. We rule out oil prices rising significantly from current levels on a sustainable basis given the comfortable global supply-demand balance (see Exhibit 10) and large spare OPEC capacity.

Exhibit 9: Cairn's fair valuation has moderate leverage to crude prices

Enterprise value sensitivity of Cairn to key variables (US\$ bn)

	Sensiti	ivity of current	valuation	Sensitivity of +1-year valuation				
	Enterprise	Equity	Change from	Enterprise	Equity	Change from		
	value	value	base case	value	value	base case		
	(US\$ bn)	(Rs/share)	(%)	(US\$ bn)	(Rs/share)	(%)		
Average crude prices (FY2013 and beyond)								
Dated Brent price (US\$100/bbl)	10.9	261	42	11.7	278	25		
Dated Brent price (US\$90/bbl)	9.8	238	29	10.6	251	13		
Dated Brent price (US\$80/bbl)	9.0	218	19	9.7	230	3		
Dated Brent price (US\$75/bbl)	8.6	184		9.3	223			
Dated Brent price (US\$60/bbl)	6.9	173	(6)	7.5	179	(20)		
Dated Brent price (US\$50/bbl)	6.0	151	(18)	6.6	155	(30)		
Dated Brent price (US\$40/bbl)	4.9	128	(31)	5.5	129	(42)		
Dated Brent price (US\$30/bbl)	3.8	104	(44)	4.3	102	(54)		
Cess, royalty								
Royalty (Rs0/ton), Cess (Rs0/ton)	8.6	184		9.3	223			
Royalty (RsO/ton), Cess (Rs927/ton)	8.1	200	9	8.9	209	(6)		
Royalty (Rs0/ton), Cess (Rs2,575/ton)	7.3	182	(1)	8.1	189	(15)		

Source: Kotak Institutional Equities estimates

Exhibit 10: We expect a sharp deterioration in global-supply demand balance over the next few years Estimated global crude demand, supply and prices, Calendar year-ends, 2007-14E

	2007	2008	2009E	2010E	2011E	2012E	2013E	2014E
Demand (mb/d)								
Total demand	86.5	86.2	83.8	85.2	86.4	87.6	88.8	89.8
Yoy growth	1.3	(0.3)	(2.5)	1.4	1.3	1.2	1.1	1.1
Supply (mb/d)								
Non-OPEC	50.8	50.6	50.8	51.2	51.7	51.3	51.0	50.9
Yoy growth	0.4	(0.2)	0.2	0.4	0.5	(0.4)	(0.3)	(0.2)
OPEC								
Crude	30.5	31.2	27.7	27.9	28.1	29.4	30.6	31.7
NGLs	4.5	4.7	5.2	6.1	6.6	6.9	7.1	7.3
Total OPEC	35.0	35.9	32.9	34.0	34.7	36.3	37.7	39.0
Total supply	85.7	86.5	83.7	85.2	86.4	87.6	88.8	89.8
Total stock change								
OPEC crude capacity	34.4	34.2	34.7	35.5	35.0	34.8	35.5	35.8
Implied OPEC spare capacity	3.9	2.9	7.0	7.6	6.9	5.5	4.9	4.2
Demand growth (yoy, %)	1.5	(0.3)	(2.9)	1.7	1.5	1.4	1.3	1.2
Supply growth (yoy, %)								
Non-OPEC	0.8	(0.3)	0.4	0.8	1.0	(0.8)	(0.6)	(0.4)
OPEC	0.3	2.6	(8.4)	3.2	2.2	4.6	4.0	3.4
Total	0.1	1.0	(3.3)	1.8	1.5	1.4	1.3	1.2
Dated Brent (US\$/bbl)	72.7	102.0	60.0	65.0	70.0	75.0	75.0	75.0

Source: IEA, BP Statistical Review of World Energy, and various government and industry sources

Our 12-month forward fair valuation of Rs223 does not factor in (1) potential downside of Rs34/share from the imposition of cess of Rs2,575/ton on crude produced by Cairn; Cairn has recently agreed to pay the cess and then try and recover it through a dispute mechanism and (2) additional downside from likely imposition of VAT of 4% on crude oil by the local state government. We are not sure if Cairn would be able to recover the same from refineries or will have to provide a larger discount on crude price to absorb the impact of VAT.

▶ DLF (SELL, Rs406, TP: Rs320). DLF stock offers 21% potential downside to our FY2011-based NAV of Rs320. DLF stock trades at 27.6X FY2010 EPS and 2.6X FY2010E BV on ROE of 9.8%. We have seen limited progress in launches and sales in all the major segments in FY2010E, which would limit earnings momentum over the next few quarters. Exhibit 11 gives the progress of new launches by segment for DLF.

Exhibit 11: Slow progress in new launches and sales Sales booked during the quarter (mn sq. ft)

	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10
Residential									
Opening balance	4.8	5.3	5.4	6.8	14.6	16.7	19.5	20.2	20.9
Add: Booked during quarter	0.5	0.1	1.4	8.0	2.1	2.8	0.7	0.7	2.7
Handed over				0.2	_	_	_	_	_
Closing balance	5.3	5.4	6.8	14.6	16.7	19.5	20.2	20.9	23.6
Office									
Opening balance	8.3	11.3	11.5	13.4	16.0	15.4	16.8	17.0	17.0
Add: Lease booked during quarter	1.4	0.9	0.9	1.5	0.7	0.3	0.2	(0.1)	0.1
Add: Sales booked during quarter	2.9	1.6	2.3	1.9	1.8	1.8	8.0	0.4	
Less: Handed over	1.3	2.3	1.4	0.7	3.1	0.8	8.0	0.4	0.6
Closing balance	11.3	11.5	13.4	16.0	15.4	16.8	17.1	17.0	16.5
Retail									
Opening balance	3.2	3.9	5.0	5.1	6.4	7.3	7.7	7.7	7.8
Add: Sales booked during quarter	0.1	1.1	0.1	1.8	0.9	0.3	(0.0)	0.1	_
Add: Lease booked during quarter	0.6	(0.0)	0.1	0.1	_	0.2	0.0	0.0	_
Handing over				0.6	_	0.2	_	_	0.8
Closing balance	3.9	5.0	5.1	6.4	7.3	7.7	7.7	7.8	7.0

Source: Company, Kotak Institutional Equities

▶ Maruti (SELL, Rs1,472; TP: Rs1,100): Maruti trades at 21X FY2010E EPS and 20X FY2011E EPS factoring in continuation of current positive volume and margin trends. Our FY2010E EPS may carry upside risk if Maruti continues to outperform on volumes and EBITDA margin. However, we factor in benign assumptions with FY2010E volume growth at 17.3% versus 21.4% FYTD (see Exhibit 12) and EBITDA margin at 12.3% versus 12.5% in 1QFY10. We expect volume growth to taper down in 2HFY10E. Also, we see risks to profitability from higher commodity prices once Maruti renegotiates steel contracts for 2HFY10E. Exhibit 13 gives the breakdown of improvement in 1QFY10 EBITDA margin on yoy and qoq basis.

We believe Maruti may have largely seen the benefits of (1) excise reduction of 6 ppts in 3Q-4QFY09, (2) one-off boost to demand from upward revisions to salaries of and payment of arrears to central government (Sixth Pay Commission award), state government and quasi-government employees and (3) sharp decline in commodity (steel) prices. We find Maruti's valuations stretched in the context of potential risks to volumes and earnings from (1) likely increase in prices of auto fuels in case oil prices sustain above US\$70/bbl, (2) likely increase in interest rates from 4QFY10 given large government borrowing and limited flexibility to raise revenues and (3) weak monsoons.

Exhibit 12: We model Maruti's volumes to increase by 17% in FY2010E Volume assumptions for Maruti Suzuki, March fiscal year-ends, 2007-11E (# vehicles)

	2007	2008	2009	2010E	2011E
Segment-wise sales ('000)					
Entry (A) segment	79	70	49	40	40
Van-Segment	83	90	78	76	76
Compact (B) segment	440	499	511	613	670
Mid-size (C) segment	30	49	76	75	80
MUV	3	4	7	6	7
Domestic	636	712	722	809	873
Exports	39	53	70	120	150
Total	675	765	792	929	1,023
yoy sales growth (%)					
Entry (A) segment	(11.0)	(12.2)	(29.0)	(19.0)	
Van-Segment	24.0	8.0	(13.1)	(3.1)	_
Compact (B) segment	31.5	13.4	2.4	19.8	9.4
Mid-size (C) segment	(7.3)	66.1	53.9	(1.4)	7.2
MUV	(19.5)	21.7	91.0	(17.2)	7.5
Domestic	20.6	12.0	1.5	12.1	7.8
Exports	13.0	34.9	32.1	71.4	25.0
Total	20.1	13.3	3.6	17.3	10.0

Source: Company, Kotak Institutional Equities

Exhibit 13: Margin benefits could start reversing in 2HFY10E 1QFY10 EBITDA margin walk (%)

	yoy	qoq
Beginning EBITDA margin	10.7	7.1
Commodity costs in raw material	(1.1)	2.3
Currency in raw material	(1.2)	_
Labor	0.2	
Exchange variation	0.2	2.2
SG&A	0.7	0.3
Other operating income	1.0	0.5
Ending EBITDA margin	10.5	12.5

Source: Company, Kotak Institutional Equities

▶ RCOM (SELL, Rs290, TP: Rs240). We do not see valuations as material in the case of RCOM stock until the company address key outstanding issues on its financials—reported revenues and balance sheet. We note the large and rising gap between revenues reported to shareholder and the regulator and highlight that the gap for the access segment has increased to 69% in the March 2009 quarter, from 10% in the June 2007 quarter (see Exhibit 14). We find several issues with the balance sheet of RCOM (see Exhibit 15) such as (1) high C-WIP, (2) continuous revaluation of assets and reserves and (3) convenient changes to accounting policies on foreign currency-related gains or losses, which render financials somewhat meaningless.

Exhibit 14: Gap between revenues reported to the TRAI and the investor community continues to be high Comparison of revenues reported by RCOM to investors and regulator (Rs mn)

	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09
Gross revenues	41,259	39,409	43,076	43,187	41,786	45,535	44,553	43,198
UASL	31,382	29,063	32,883	33,146	31,608	34,182	32,984	31,323
NLD	5,334	5,464	5,673	5,804	5,914	6,736	7,240	7,797
ILD	4,543	4,882	4,521	4,238	4,265	4,618	4,328	4,078
Adjusted gross revenues	28,571	27,337	30,297	29,148	30,185	28,535	30,809	29,976
UASL	24,654	22,329	25,662	25,589	24,778	22,902	24,149	22,266
NLD	2,660	2,761	2,917	3,014	3,421	4,000	4,444	4,880
ILD	1,257	2,246	1,718	545	1,986	1,633	2,216	2,830
License rees	2,411	2,254	2,495	2,429	2,500	2,347	2,517	2,395
UASL	2,176	1,954	2,217	2,216	2,175	2,009	2,117	1,933
NLD	160	166	175	181	205	240	267	293
ILD	75	135	103	33	119	98	133	170
Spectrum charges	507	495	518	509	491	446	475	452
UASL	507	495	518	509	491	446	475	452
Gross wireless revenues reported to investors	33,730	37,230	39,567	41,608	41,187	43,356	44,119	45,015
Net wireless revenues reported to investors	24,244	27,722	28,892	31,757	31,280	33,626	34,445	33,683
Reported Interconnection & access charges	9,486	9,508	10,675	9,851	9,907	9,730	9,674	11,332
Difference between revenues disclosed to the investor co	mmunity and	the TRAI (%)					
Gross revenues	7	28	20	26	30	27	34	44
Net revenues	10	39	26	39	41	64	60	69

Source: TRAI reports, Company

Exhibit 15: RCOM's balance sheet shows certain odd movements over the past few quarters RCOM's balance sheet for the most recent quarters (Rs mn)

	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09
Equity										
Share capital	10,220	10,223	10,223	10,314	10,320	10,320	10,320	10,320	10,320	10,320
Reserves and surprlus	193,708	204,940	206,456	229,822	246,107	253,877	271,278	280,329	359,683	366,845
Equity	203,928	215,163	216,679	240,136	256,427	264,197	281,598	290,649	370,003	377,165
Minority interest	59	63	23,419	23,223	24,311	18,707	11,621	11,014	8,228	7,001
Debt	155,438	171,514	158,029	179,664	215,681	207,542	240,735	266,722	335,520	314,631
Current liabilities	136,016	134,619	168,401	220,988	199,267	238,240	251,144	272,944	225,980	224,206
Provisions	43,173	46,207	44,109	43,793	42,420	44,011	40,680	36,954	39,162	39,312
Total capital	538,614	567,566	610,637	707,804	738,106	772,697	825,778	878,283	978,893	962,315
Assets										
Cash	137,200	148,669	124,306	112,494	115,981	77,654	88,478	80,747	109,577	93,001
Inventories	4,821	4,182	3,122	3,768	4,059	4,330	4,408	5,111	5,427	5,390
Debtors	18,316	18,683	22,988	29,708	27,224	26,617	33,803	47,441	54,785	53,797
Other current assets	3,264	15,967	14,849	20,750	23,058	26,121	29,346	32,167	16,912	21,679
Loans and advances	32,662	26,478	49,226	72,466	42,834	56,118	53,368	64,911	59,859	71,071
Gross block	349,456	356,144	374,339	408,870	463,640	503,993	540,804	582,120	756,489	775,079
Less: Depreciation	55,940	60,717	70,000	80,825	89,814	102,050	115,352	128,634	141,069	162,527
Depreciation for the quarter	6,378	6,192	6,754	7,252	7,856	8,638	9,180	10,069	11,426	11,144
Net block	293,516	295,427	304,339	328,045	373,826	401,943	425,452	453,486	615,420	612,552
Capital work in progress	36,907	46,214	79,505	139,228	148,327	178,381	189,309	191,602	114,056	103,527
Investments	11,925	11,946	11,942	1,345	2,797	1,533	1,614	2,818	2,857	1,318
Total assets	538,611	567,566	610,277	707,804	738,106	772,697	825,778	878,283	978,893	962,335

Source: Company

We also do not rule out further deterioration in pricing in the Indian wireless market led by (1) aggressive expansion plans of all players, incumbents and entrants and (2) introduction of mobile number portability (MNP) from December 2009; this may get delayed further and may provide some breathing space to telecom operators. Also, we see a sharp increase in taxation rate for RCOM (and other operators) in the next two years as its various circles emerge from their respective exemptions (100% or 30% depending on the year of start of operations).

▶ RIL (SELL, Rs2,017, TP: Rs1,600). We expect RIL stock to continue its underperformance (-25% over the past three months) in the absence of any positive catalysts and weak fundamentals of chemicals and refining businesses. RIL stock offers 24% potential downside to our 12-month fair valuation of Rs1,600 (see Exhibit 16). Our reverse valuation exercise suggests that the stock is discounting 31 tcf of additional gas reserves compared to 25 tcf assumed by us between KG D-6, NEC-25 and CBM blocks.

Exhibit 16: SOTP valuation of Reliance is Rs1,600 per share on FY2011E estimates

Sum-of-the-parts valuation of Reliance Industries, FY2011E basis (Rs)

						Value
	Valuation b	ase (Rs bn)	Mul	tiple (X)	EV	share
	Other	EBITDA	Muliple	EV/EBITDA	(Rs bn)	(Rs)
Chemicals		74		6.5	483	334
Refining & Marketing		163		6.5	1,058	733
Oil and gas—producing		27		5.0	133	92
Gas—developing (DCF-based) (a)	429	_	100%	_	429	297
Oil—KG-DWN-98/3 (b)	86	_	100%	_	86	60
Investments						
Others	27	_	100%	_	27	19
Loans & advances to affiliates less accounts payables to affiliates	83	_	100%	_	83	58
Retailing	60	_	80%	_	48	33
SEZ development	62	_	80%	_	50	34
Total enterprise value					2,397	1,661
Net debt					174	121
Implied equity value					2,223	1,540

Note:

- (a) We value the KG D-6 and NEC-25 gas discoveries on DCF and CBM discoveries based on KG D-6's valuation.
- (b) 180 mn bbls of recoverable reserves based on gross OOIP of 0.5 bn bbls.
- (c) Net debt is for 'merged' entity.
- (d) We use 1.443 bn shares post merger of RPET with RIL (excluding treasury shares) for per share computations.

Source: Kotak Institutional Equities estimates

Also, we see potential large risks to FY2010E consensus earnings of Rs122 from (1) provision of taxation on gas production and (2) weaker-than-expected chemical and refining margins. We highlight that RIL may find it difficult to reach even our estimate of Rs103 unless refining margins were to improve significantly from current levels. RIL's reported 1QFY10 EPS (standalone) of Rs23 was boosted by (1) forex gains of Rs5.5 bn and (2) interest capitalization of Rs3.3 bn.

We model blended refining margin at US\$7.8/bbl compared to 1QFY10 refining margin of US\$7.5/bbl for RIL refinery and US\$5.4/bbl for RPL refinery. We note that a US\$1/bbl change in refining margin impacts consolidated EPS by Rs4.6 for FY2010E and about Rs9 for FY2011E and FY2012E, respectively.

EARNINGS: BIG FISH ATE THE SMALL

Notwithstanding 1QFY10 earnings surpassing expectations in a few sectors such as automobiles, banking and cement notwithstanding, we have reduced FY2010E BSE-30 'EPS' to Rs885 from Rs910 before the start of 1QFY10 results season on the back of lower earnings in the energy sector. On an ex-energy basis, we expect BSE-30 Index earnings to decline by 0.1% versus -4.5% previously. We advocate a segregated approach to earnings since a top-down view of earnings does not truly capture the different growth prospects of various sectors.

Little change in overall earnings after 1QFY10 results

Exhibit 17 shows the change in earnings of the BSE-30 Index, broken down across sectors over the past eight months. We have seen major upgrades in the automobiles, cement and technology sectors but lower earnings in the energy sector. As such, our overall earnings estimate for the BSE-30 Index is largely unchanged despite significant upgrades and downgrades in the recently concluded results season. However, our ex-energy earnings have seen upward revisions with current estimate of -0.1% growth in earnings in FY2010E versus -4.5% in early-July 2009. Exhibit 18 tracks changes to BSE-30 Index (ex-energy) earnings.

Exhibit 17: No major upgrades except in automobiles and cement sector Earnings growth of BSE-30 Index sectors, March fiscal year-end, 2010E (%)

			Earni	ngs growth	າ (%)			
	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09
Automobiles	(5.3)	18.5	21.0	20.1	25.0	30.9	29.9	52.0
Banking	5.4	2.9	0.4	0.1	(1.3)	(4.1)	(4.3)	1.0
Cement	(21.1)	(21.9)	(21.9)	(21.2)	(21.2)	(11.5)	(1.4)	14.0
Consumers	14.7	14.4	14.4	14.4	14.4	12.3	13.0	16.2
Diversified	30.8	33.4	33.4	33.4	33.4	20.0	126.3	123.8
Energy	21.2	12.4	6.9	17.7	17.7	7.1	18.0	4.2
Industrials	26.4	29.4	29.4	26.0	28.5	30.7	26.9	30.1
Metals	(19.1)	(33.8)	(49.3)	(46.3)	(44.5)	(47.5)	(47.7)	(48.0)
Pharmaceuticals	NA	48.6	44.5	47.6	47.6	4.7	7.7	(45.8)
Property	6.2	(26.3)	(24.4)	(24.4)	(24.4)	(45.2)	(44.5)	(49.9)
Technology	5.9	4.6	4.6	9.0	5.7	8.0	0.1	7.0
Telecom	22.5	2.9	2.9	(4.4)	(4.4)	(1.1)	(1.1)	3.0
Utilities	13.7	11.2	17.6	18.5	19.6	19.2	14.1	17.8
BSE-30 Index	10.8	3.5	_	3.0	3.2	(1.7)	1.4	1.0
BSE-30 ex-Energy	6.7	0.1	(2.6)	(2.6)	(2.5)	(5.1)	(4.7)	(0.1)

Source: Kotak Institutional Equities estimates

Exhibit 18: BSE-30 Index (ex-Energy) earnings growth has declined sharply in the past few months Expected growth in BSE-30 Index (ex-Energy) earnings for FY2008-11E (%)



We discuss sectors where we see scope for earnings upgrades or downgrades but restrict the discussion to sectors that have a disproportionate share (see Exhibit 19) of earnings and market capitalization in the BSE-30 Index.

Exhibit 19: A significant portion of earnings growth in FY2011E comes from the energy sector Break-up of earnings of BSE-30 Index across sectors, March fiscal year-ends, 2008-11E

								Incremental profits				
		Net profit (Rs bn)				Contrib	ution (%))	FY201	0E	FY201	1E
	2008	2009	2010E	2011E	2008	2009	2010E	2011E	(Rs bn)	(%)	(Rs bn)	(%)
Automobiles	57	43	66	70	4	3	5	4	22	165	4	1
Banking	149	174	176	203	12	13	13	13	2	13	27	10
Cement	38	32	37	35	3	2	3	2	5	33	(2)	(1)
Consumers	49	53	62	71	4	4	5	4	9	63	9	3
Diversified	6	4	9	16	0	0	1	1	5	38	7	2
Energy	346	352	367	478	27	27	28	30	15	108	111	39
Reliance Industries	147	157	162	233	12	12	12	14	5	38	71	25
Industrials	51	63	81	95	4	5	6	6	19	138	14	5
Metals	130	130	68	121	10	10	5	8	(62)	(457)	54	19
Pharmaceuticals	15	18	10	13	1	1	1	1	(8)	(61)	3	1
Property	79	50	25	30	6	4	2	2	(25)	(182)	5	2
Technology	128	148	159	178	10	11	12	11	10	76	19	7
Telecom	127	146	151	169	10	11	11	10	4	32	18	6
Utilities	93	103	121	136	7	8	9	8	18	134	15	5
BSE-30	1,266	1,318	1,332	1,615	100	100	100	100	14	100	283	100
BSE-30 change (%)		4.1	1.0	21.3								
BSE-30 ex-energy change (%)		4.9	(0.1)	17.9								

Source: Kotak Institutional Equities estimates

▶ Banking, financial services and insurance (BFSI). We see scope for earnings upgrades due to likely lower NPLs and loan-loss provisions for banks and NBFCs in FY2010E and FY2011E versus our assumptions. Exhibit 20 compares NPLs and restructured loans of banks under our coverage at end-1QFY10 with our expected NPLs at end-FY2010E and end-FY2011E.

Exhibit 20: We assume a sharp increase in gross NPLs of banks

Comparison of restructured loans with gross NPLs of Indian banks, March fiscal year-ends, 2010-11E (Rs bn)

		Jun-09		Gross N	PLs
	Restructured	Gross NPLs	Total	2010E	2011E
Public banks					
Andhra Bank	24	4	27	10	15
ВоВ	42	21	63	43	66
Bol	67	28	95	67	111
Canara Bank	55	25	80	59	85
Corporation Bank	24	6	30	17	26
Indian Bank	41	5	46	18	31
IOB	70	23	93	53	71
OBC	55	11	66	31	47
PNB	94	33	127	71	115
SBI	210	153	363	318	393
Union Bank	56	19	75	34	51
New private banks					
Axis Bank	25	9	34	29	43
HDFC Bank	1	22	23	32	46
ICICI Bank	34	97	131	127	152

1QFY10 net income of banks and NBFCs beat our estimates in general although the quality of earnings in case of larger names such as HDFC, HDFC Bank and ICICI Bank were disappointing with treasury income largely driving net income. Exhibit 21 compares 1QFY10 results with our expectations on key parameters for large banks under our coverage.

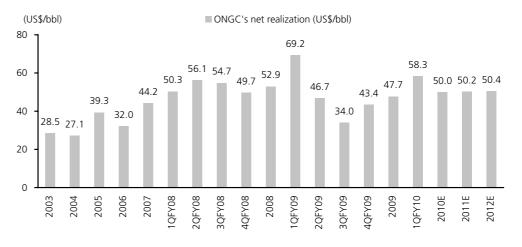
Exhibit 21: Quality of earnings of larger banks fell short of estimates with a high proportion of treasury income and low provisions Performance of Indian banks, June 2009 (Rs bn)

		NII			Other income		Treasury profits		Provisions			Net income			
	Actual	Estimate	Chg. (%)	Actual	Estimate	Chg. (%)	Actual	Estimate	Chg. (%)	Actual	Estimate	Chg. (%)	Actual	Estimate	Chg. (%)
Axis Bank	10.5	9.9	5	9.6	7.3	32	3.3	1.6	110	3.2	3.5	(10)	5.6	4.2	35
Bank of Baroda	12.0	13.5	(11)	7.0	6.5	8	2.6	6.5	(61)	(0.4)	2.5	(116)	3.6	2.6	38
HDFC Bank	18.6	19.1	(3)	10.4	8.5	22	2.6	1.0	156	6.6	4.8	39	6.1	5.9	3
ICICI Bank	19.9	21.3	(7)	20.9	17.7	18	7.1	3.0	138	13.2	11.0	20	8.8	7.9	11
Punjab National Bank	18.6	17.9	4	9.7	6.1	59	3.6	1.0	258	3.0	2.8	8	8.3	6.3	32
SBI	50.2	46.2	9	35.7	29.9	19	7.1	5.0	42	1.7	8.5	(80)	23.3	20.2	15
Total	129.8	127.9	1	93.3	76.0	23	26.2	18.1	45	27.3	33.1	(17)	55.7	47.2	18

Source: Company, Kotak Institutional Equities

- ▶ Energy. We see possibility of large surprises (positive or negative) in this sector given (1) the global cyclical commodity nature of the sector and (2) large government influence on pricing and subsidy-sharing. 1QFY10 net incomes of companies were below our expectations.
 - Reliance Industries (RIL). Our FY2010E EPS estimate of Rs103 is well below the consensus estimate of Rs122. Our EPS estimate would increase to Rs109 but will still be below consensus estimates even if we assume availability of income tax exemption on gas production from KG D-6 block. We note that RIL reported standalone EPS of Rs23 in 1QFY10 and that too was supported by forex gains of Rs5.5 bn and interest capitalization of Rs3.3 bn.
 - ONGC. We see upside risks to our earnings estimates in case ONGC's net realized crude price for FY2010E is closer to 1QFY10's US\$59/bbl compared to our assumed US\$55/bbl (see Exhibit 22). A US\$1/bbl increase in net realized price of crude oil adds about Rs3-3.3/share to ONGC's EPS. We note that ONGC's 1QFY10 standalone EPS was Rs22.7 versus our FY2010E consolidated EPS estimate of Rs96. 1QFY10 net income was impacted negatively by large DD&A costs including Rs10.7 bn (Rs3.3 of EPS) of expenses on dry wells.

Exhibit 22: ONGC's net realization has hovered around US\$50/bbl for the past few years ONGC's net crude price realization, March fiscal year-ends, 2003-2012E (US\$/bbl)



▶ Metals. We see possibility of large changes in earnings in metals sectors given the nature of the industry. Metals' prices and margins would depend on the pace of global recovery; metal pries have seen a surge over the past few weeks have seen driven by positive economic news in the US (likely bottoming-out of house prices and slowdown in decline in unemployment figures), which has boosted hopes about a faster-than-expected recovery in global GDP. Exhibit 23 compares our FY2010E and FY2011E assumptions of metals prices with long-term average prices and current spot prices. We see scope for large earnings upgrades in case of zinc.

Exhibit 23: Our commodity price assumptions are conservative versus long-term averages Our metals price assumptions versus historical average, March fiscal year-ends, 2010-11E (US\$/ton)

		2010)E	_		201	1E	
	Our	Current	5-year	10-year	Our	Current	5-year	10-year
	assumption	spot prices	average	average	assumption	spot prices	average	average
Prices								
Aluminium	1,700	1,807	2,273	1,880	1,900	1,807	2,273	1,880
Zinc	1,400	1,692	2,195	1,582	1,500	1,692	2,195	1,582
Copper	5,000	5,522	5,532	3,684	5,000	5,522	5,532	3,684
Lead	1,300	1,745	1,602	1,064	1,300	1,745	1,602	1,064
EBITDA margin (%)								
Sterlite	21	24	31	26	24	26	32	24
Hindustan Zinc	45	53	60	48	49	55	61	49

Source: Bloomberg, Kotak Institutional Equities estimates

1QFY10 results analysis

Exhibit 24 compares growth in net income of BSE-30 Index and compares the same with growth in previous quarters. 1QFY10 BSE-30 Index net income declined 4.9% yoy versus our expected 6.8% decline. The stronger-than-expected performance reflects strong results in automobiles, banking and cement sectors that offset weaker-than-expected results of energy and metals sectors (see Exhibit 25). On an ex-energy basis, overall net income increased 2.6% yoy versus our expected decline of 4.9% yoy.

Exhibit 24: Earnings growth of BSE-30 Index (%)

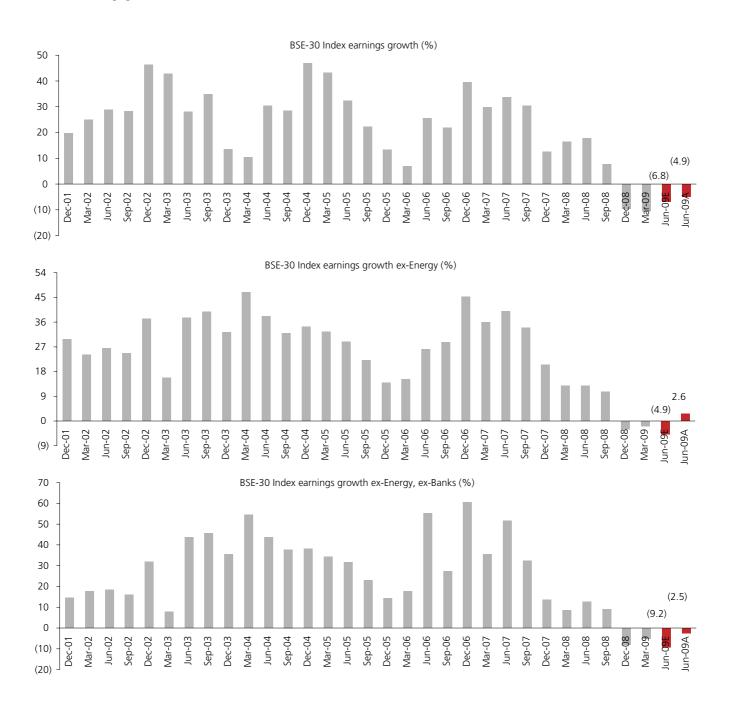


Exhibit 25: Energy sector underperformed expectations while automobiles, cement and technology beat estimates

Comparison of net income for BSE-30 stocks, actual versus expected, 1QFY10

	Adj	usted net	profit (Rs	bn)	Change	Growth	(%)
	Jun-08	Mar-09	Jun-09A	Jun-09E	A versus E	yoy	qoq
Hero Honda	3	4	5	5	10	83	24
Mahindra & Mahindra	2	4	4	3	39	130	(4)
Maruti Suzuki	4	2	6	4	30	44	140
Tata Motors	4	(2)	2	(0)	(1,666)	(51)	(182)
HDFC	5	7	6	6	(1)	21	(23)
HDFC Bank	5	6	6	6	3	31	(4)
ICICI Bank	7	7	9	8	11	21	18
State Bank of India	16	27	23	20	15	42	(15)
ACC	3	4	5	4	30	87	20
Grasim Industries	5	4	5	5	3	3	38
Hindustan Unilever	5	5	5	6	(8)	(1)	7
ITC	7	8	9	8	5	17	9
Jaiprakash Associates	1	4	2	2	23	71	(43)
Oil & Natural Gas Corporation	66	19	48	52	(7)	(26)	150
Reliance Industries	41	39	36	44	(17)	(12)	(7)
Bharat Heavy Electricals	4	13	5	7	(35)	22	(65)
Larsen & Toubro	5	11	6	6	(2)	15	(49)
Hindalco Industries	7	3	5	3	83	(31)	79
Sterlite Industries	12	6	7	9	(23)	(42)	12
Tata Steel	15	15	8	12	(33)	(47)	(46)
Sun Pharmaceuticals	5	4	2	4	(59)	(67)	(59)
DLF	19	2	4	5	(23)	(79)	133
Infosys Technologies	13	16	15	14	10	20	(4)
TCS	12	13	15	13	18	22	16
Wipro	9	10	10	9	5	11	2
Bharti Airtel	21	23	25	23	9	24	11
Reliance Communications	16	14	17	11	64	6	27
NTPC	17	23	22	19	13	27	(3)
Reliance Infrastructure	3	2	3	3	25	5	32
Tata Power	2	1	2	2	(9)	3	230
BSE-30 Index	334	295	317	311	2.0	(4.9)	7.7
BSE-30 Index (ex Energy)	227	236	233	216	7.8	2.6	(1.5)

Source: Company, Kotak Institutional Equities estimates

Exhibit 26 gives net income of sectors/stocks under our coverage for 1QFY10 and compares the same with our estimates and on yoy and qoq basis. Out of 138 stocks under our coverage, 62 (45%) beat our EBITDA estimates and 81 (59%) beat our net income estimates. As can be seen, automobiles, banking and cement did much better versus our expectations while energy, industrials and metals sectors disappointed. Exhibit 27 presents sectors that outperformed or underperformed most on revenues, EBITDA and net income.

Exhibit 26: Better-than-expected earnings growth in 1QFY10 Comprehensive sector-wise PAT analysis of 1QFY10 earnings season (Rs bn)

					A versus E	Growt	:h (%)
	Jun-08	Mar-08	Jun-09A	Jun-09E	(%)	Yoy	Qoq
Automobiles	14	10	20	14	39	39	94
Banking	74	114	108	91	19	47	(5)
Cement	16	18	22	19	15	33	22
Construction	2	(1)	2	2	(1)	11	(367)
Consumers	17	19	20	19	4	19	8
Energy	112	220	146	149	(2)	31	(34)
Industrials	15	38	11	18	(39)	(25)	(71)
Media	1.6	1.7	2.5	1.9	30	50	44
Metals	60	38	37	39	(5)	(38)	(2)
Others	12	9	12	11	12	5	34
Pharmaceuticals	16	12	10	13	(24)	(36)	(13)
Property	28	6	7	9	(21)	(74)	28
Retail	0.3	0.4	0.5	0.3	37	44	10
Technology	36	42	45	41	12	24	7
Telecom	42	38	46	36	26	9	20
Utilities	24	28	28	26	9	18	0
KIE universe	469	594	519	491	5.7	10.5	(12.6)
KIE universe (ex-Energy)	358	373	373	342	8.9	4.2	(0.2)
KIE universe (ex-Energy, Banks)	284	259	264	251	5.3	(7.0)	2.0
BSE-30 Index	334	295	317	311	2.0	(4.9)	7.7
BSE-30 Index (ex-Energy)	227	236	233	216	7.8	2.6	(1.5)
BSE-30 Index (ex-Energy, Banks)	194	188	189	176	7.3	(2.5)	0.6

Source: Company, Kotak Institutional Equities estimates

Exhibit 27: Automobile, Banking and Telecom 1QFY10 net income outperformed most expectations Performance of sectors versus expectations (KIE universe) in 1QFY10/2QCY09 (Rs bn)

	Companies	Key financ	ials (Rs bn)	Change
	(#)	Actual	Expected	(%
Revenues: Sectors posting positive surprises				
Cement	6	108	103	5.2
Consumers	8	126	122	4.0
Automobiles	5	231	222	3.7
Utilities	5	183	178	3.1
Banking	23	229	223	2.6
Revenues: Sectors posting negative surprises				
Metals	8	231	264	(12.6
Property	8	28	32	(12.5
Industrials	8	210	232	(9.8
Pharmaceuticals	10	89	95	(7.0
Construction	5	58	61	(5.8
EBITDA: Sectors posting positive surprises				
Automobiles	5	31	23	34.8
Retail	1	1	1	30.0
Cement	6	35	31	13.1
Others	11	29	26	11.4
Consumers	7	28	25	11.3
EBITDA: Sectors posting negative surprises				
Industrials	8	19	28	(32.5
Pharmaceuticals	10	16	21	(23.4
Energy	10	244	273	(10.6
Metals	8	57	64	(10.5
Property	8	13	14	(6.9
PAT: Sectors posting positive surprises				
Automobiles	5	20	14	39.2
Retail	1	0	0	37.3
Media	6	2	2	29.7
Telecom	5	46	36	25.6
Banking	23	108	91	18.8
PAT: Sectors posting negative surprises				
Industrials	8	11	18	(39.1
Pharmaceuticals	10	10	13	(24.2
Property	8	7	9	(21.0
Metals	8	37	39	(5.2
Energy	10	146	149	(1.8

Source: Kotak Institutional Equities

Exhibit 28 shows change in 1QFY10 sales, operating costs and EBITDA of sectors under our coverage on qoq and yoy bases. As can be seen, the positive surprise in many sectors has largely come from the sharp reduction to costs relative to revenues. In particular, we highlight the automobiles, cement, consumers and technology sectors, where yoy growth in incremental EBITDA is disproportionately high compared to yoy increase in revenues.

Exhibit 28: Incremental EBITDA is driven by cost rationalization rather than big increases in revenues Yoy and qoq change in revenue, EBITDA and cost for 1QFY10/2QCY09 (Rs bn)

	Revenue	chg.	Cost cl	ng.	EBITDA (DA chg.			
	Yoy	Qoq	Yoy	Qoq	Yoy	Qoq			
Automobiles	30	12	17	2	13	10			
Cement	19	5	9	(1)	9	6			
Construction	6	(10)	4	(14)	1	4			
Consumers	12	8	6	5	6	2			
Energy	(665)	21	(703)	96	39	(75)			
Industrials	15	(154)	16	(122)	(1)	(33)			
Media	1	0	0	(0)	1	1			
Metals	(42)	(7)	(8)	(25)	(34)	18			
Others	29	1	23	(2)	5	3			
Pharmaceuticals	6	(2)	10	(2)	(4)	(0)			
Property	(32)	9	(9)	0	(23)	8			
Retail	1	0	0	(0)	0	0			
Technology	24	(6)	13	(6)	11	0			
Telecom	29	0	21	(4)	8	4			
Utilities	29	4	19	(6)	10	9			
KIE universe	(539)	(120)	(581)	(79)	42	(41)			

VALUATIONS: VERY LITTLE TO CHOOSE FROM

We see limited scope for further re-rating of the market in light of rich valuations of the market and of its constituents. The broad market (BSE-30 Index) may look relatively inexpensive at 14.8X FY2011E earnings but we note that 58% of earnings growth in FY2011E comes from the energy and metals sectors. Adjusted for energy and metals sectors, the market is trading at a relatively full valuation of 16.4X FY2011E earnings.

Very little to choose between sectors

Exhibit 29 gives earnings and valuations across sectors for the BSE-30 Index while Exhibit 30 shows P/E multiples of sectors. It is remarkable that so many sectors are trading at such high multiples, around 20X FY2010E earnings. It would appear that the stocks are factoring strong earnings growth over FY2010-12E or are plain overvalued. We do expect earnings to pick up strongly in FY2011E (21.3% for BSE-30 Index and 17.9% for BSE-30 Index on an ex-energy and ex-metals basis). Nonetheless, the earnings growth is far smaller in the more expensive sectors (see Exhibit 31).

Exhibit 29: Valuation summary of BSE-30 sectors, March fiscal year-ends, 2009E-11E

	Mkt cap. Adj mkt cap.			growth	(%)		PER (X)		EV/	EBITDA	(X)	Pri	ce/BV (X)	Div. y	ield (%)	RoE (%)				
	(US\$ mn)	(US\$ mn)	2009	2010E	2011E	2009	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2009E	2010E	2011E		
Automobiles	26,391	14,853	(23.5)	52.0	6.4	29.1	19.1	18.0	17.3	11.3	10.2	3.9	3.2	2.8	0.9	0.9	13.4	17.0	15.6		
Banking	71,978	54,806	16.7	1.0	15.4	19.7	19.5	16.9	_	_	_	2.5	2.3	2.1	1.3	1.4	12.8	11.6	12.2		
Cement	8,890	5,964	(15.0)	14.0	(5.0)	13.1	11.4	12.0	7.0	5.6	5.7	2.5	2.1	1.9	1.8	1.8	19.3	18.6	15.4		
Consumers	32,665	20,257	8.6	16.2	14.5	29.2	25.1	21.9	19.4	15.7	13.7	9.3	8.2	7.1	2.1	2.3	32.0	32.6	32.6		
Diversified	7,381	3,690	(30.8)	123.8	70.2	83.5	37.3	21.9	24.0	15.1	13.7	6.4	5.3	4.4	0.0	0.0	7.6	14.3	19.9		
Energy	111,048	39,644	2.0	4.2	30.2	15.0	14.4	11.1	7.1	6.0	4.8	2.3	2.1	1.8	1.7	1.9	15.3	14.3	16.7		
Industrials	43,137	25,564	23.3	30.1	17.0	32.8	25.2	21.6	18.5	14.5	12.3	7.1	5.6	4.6	0.7	0.8	21.7	22.0	21.2		
Metals	24,849	13,646	0.3	(48.0)	79.1	9.1	17.5	9.8	6.5	7.8	5.9	1.2	1.0	0.9	1.1	1.2	12.8	5.8	9.5		
Pharmaceuticals	5,098	2,039	22.2	(45.8)	34.9	13.4	24.6	18.3	10.0	16.8	11.9	3.6	3.2	2.8	1.2	1.2	26.8	13.1	15.5		
Property	14,460	3,615	(36.6)	(49.9)	19.2	13.8	27.6	23.2	13.0	18.0	15.7	2.8	2.6	2.4	0.7	0.7	20.3	9.4	10.4		
Technology	61,911	29,732	15.9	7.0	12.0	19.9	18.6	16.6	14.3	12.3	10.4	6.0	4.9	4.1	1.1	1.5	30.3	26.2	24.8		
Telecom	45,219	15,827	15.3	3.0	12.1	14.7	14.3	12.8	9.2	8.1	7.0	3.0	2.5	2.1	0.4	0.5	20.3	17.4	16.4		
Utilities	49,981	14,111	10.9	17.8	12.0	23.1	19.6	17.5	13.8	12.5	12.1	2.8	2.5	2.3	1.4	1.6	12.0	12.7	13.1		
BSE-30	503,005	243,748	4.1	1.0	21.3	18.2	18.0	14.8	10.4	9.3	7.9	3.0	2.6	2.3	1.2	1.4	16.3	14.4	15.6		
BSE-30 ex-Energy	391,957	204,104	4.9	(0.1)	17.9	19.3	19.4	16.4	12.0	11.0	9.6	3.2	2.8	2.5	1.1	1.2	16.8	14.5	15.1		
BSE-30 ex-Energy, Com.	358,219	184,495	6.7	7.1	14.0	21.3	19.9	17.4	14.0	12.0	10.7	3.7	3.2	2.8	1.1	1.2	17.6	16.2	16.3		

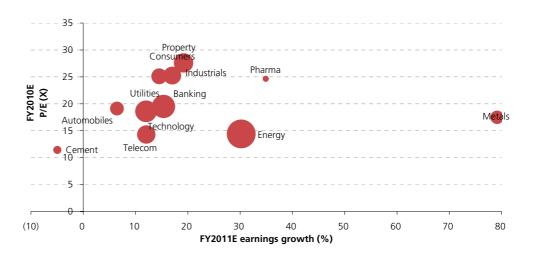
Note:

(a) EV/EBITDA excludes Banking sector.

Exhibit 30: BSE-30 Index sectors trading at high multiples P/E ratio for BSE-30 Index sectors, March fiscal year-ends, 2010-11E (X) 28 30 25 25 25 ■ 2010E ■ 2011E 25 20 19 18 20 14 15 10 5 Utilities Banking BSE-30 Energy **Technology** Metals **Pharmaceuticals** Automobiles Property ndustrials Consumers _elecom Cement

Exhibit 31: Limited opportunities to invest in sectors/stocks with high earnings growth and cheap valuations

BSE-30 sectors FY2011E earnings growth (%) and FY2010E P/E (X)



Source: Kotak Institutional Equities estimates

Exhibit 32 shows the valuations of the BSE-30 Index on various parameters.

Exhibit 32: 1-year rolling forward P/E of BSE-30 Index is trading at full valuations

1-year rolling forward P/E, P/B, ROE, EV/EBITDA and M3 growth rate adjusted valuations for BSE-30 Index

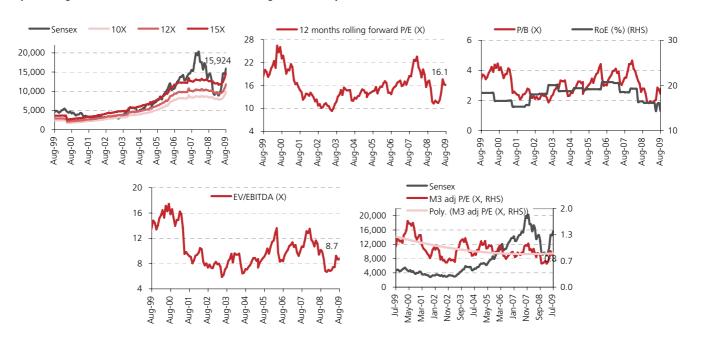


Exhibit 33: Kotak Institutional Equities: Valuation summary of key Indian companies

					O/S																						Target	I	ADVT-
C	3-Aug-09	D. 4'	Mkt		shares		EPS (Rs) 2010E	20445		growth (PER (X)	20445		/EBITDA			rice/BV (nd yield (%)		RoE (%)		price l	•	3mo
Company Automobiles	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E 2	011E	(Rs)	(%) (US	IS\$ mn)
Ashok Leyland	38	ADD	49,888	1,048	1,330	1.5	2.3	2.4	(57.8)	50.3	5.8	24.5	16.3	15.4	112	0.2	7.0	4.2	4.2	4.2	2.7	2.7	2.7		0.4	0.2	27	(4.2)	4.2
Bajaj Auto	1,302	ADD	188,327	3,956	145	45.2	85.0	100.9	(13.4)	87.9	18.7	28.8	15.3	12.9	14.3	9.2	7.6	1.3	1.3	1.2	2.7	2.7	2.7	6.2		8.2	37	(1.3)	4.2
Hero Honda	1,624	REDUCE	324,363	6,814	200	64.2	87.5	94.9	32.5	36.3	8.5	25.3	18.6	17.1	15.4 15.0	9.0	8.0	10.1	6.9	5.0	1.5	1.5	1.5	37.7		44.0	1,260	(3.2)	6.2 19.2
Mahindra & Mahindra	919	ADD	267,998	5,630	292	28.7	51.1	53.3	(23.3)	78.1	4.2	32.0	18.0	17.3	21.5	12.0	9.9	5.1	6.3	5.0	1.2	1.4	1.4	36.6 17.4		32.6 19.4	915	(18.1)	22.6
Maruti Suzuki	1,472	SELL	425,379	8,937	289	42.2	70.0	73.0	(29.6)	65.9	4.3	34.9	21.0	20.2	20.8	11.0	10.6	4.4	3.7	3.1	0.3	0.2	0.3	13.4		16.8	1,100	(25.3)	21.4
Tata Motors	431	SELL	239,879	5,039	556	20.8	23.7	26.0	(58.3)	14.1	9.6	20.8	18.2	16.6	14.2	10.6	9.5	1.8	1.6	1.5	1.3	1.3	1.3	9.0	9.3	10.0	335	(22.3)	44.0
Automobiles Banks/Financial Institutions		Cautious	1,495,834	31,425					(24.8)	56.4	8.3	28.8	18.4	17.0	16.9	10.9	9.8	3.9	3.3	2.8	1.0	1.0	1.1	13.6		16.7	333	(22.3)	44.0
Andhra Bank	92	BUY	44,693	939	485	13.5	13.3	15.2	13.5	(1.5)	14.4	6.8	6.9	6.1				1.2	1 1	1.0	4.9	3.6	4 1	18 9	16.6	16.9	105	13.9	1.9
Axis Bank	922	BUY	330,913	6,952	359	50.6	59.1	68.2	56.9	16.8	15.6	18.2	15.6	13.5				3.6	3.2	2.7	1.1	1.3	1.5	19.1		19.2	850	(7.8)	73.7
Bank of Baroda	438	ADD	160,119	3,364	366	60.9	60.9	62.1	55.1	0.0	1.9	7.2	7.2	7.1	_	_	_	1.4	1.2	1.1	2.1	2.1	2.1	18.7		14.7	480	9.6	10.1
Bank of India	337	ADD	177,207	3,723	526	57.2	51.5	56.2	40.7	(9.9)	9.1	5.9	6.5	6.0	_	_	_	1.5	1.3	1.1	2.4	2.1	2.3	29.2		19.3	370	9.8	15.9
Canara Bank	287	ADD	117,855	2,476	410	50.5	41.4	51.1	32.4	(18.1)	23.3	5.7	6.9	5.6	_	_	_	1.2	1.0	0.9	2.8	2.8	3.5	18.3		14.7	295	2.6	5.6
Corporation Bank	347	BUY	49,737	1,045	143	62.3	58.0	57.1	21.5	(6.8)	(1.6)	5.6	6.0	6.1	_	_	_	1.0	0.9	0.8	3.6	3.4	3.3	19.6		14.0	420	21.1	0.9
Federal Bank	242	BUY	41,381	869	171	27.8	34.3	39.9	(19.2)	23.6	16.1	8.7	7.0	6.1	_	_	_	1.0	0.9	0.8	2.1	2.6	3.1	11.5		13.5	320	32.3	3.2
HDFC	2,534	NR	720,739	15,142	284	80.2	93.4	105.4	(6.4)	16.4	12.9	31.6	27.1	24.0	_	_	_	5.5	4.9	4.4	1.2	1.3	1.5	18.2		18.6	_	_	65.7
HDFC Bank	1,493	REDUCE	675,127	14,183	452	52.8	63.3	73.5	17.6	20.0	16.0	28.3	23.6	20.3	_	_	_	4.5	3.2	2.8	0.6	0.8	0.9	16.9	15.8	14.7	1,430	(4.2)	51.2
ICICI Bank	774	REDUCE	861,408	18,097	1,113	33.8	34.3	40.4	(15.4)	1.7	17.6	22.9	22.5	19.2	_	_	_	1.7	1.7	1.6	1.4	1.5	1.7	7.8		8.4	685	(11.5)	188.7
IDFC	139	ADD	180,561	3,793	1,295	5.8	7.7	8.7	1.9	33.9	12.6	24.1	18.0	16.0	_	_	_	2.9	2.6	2.3	0.9	0.9	1.0	12.9		15.3	120	(13.9)	51.5
India Infoline	144	ADD	45,024	946	312	5.1	7.7	8.2	(8.7)	50.5	7.3	28.3	18.8	17.5	_	_	_	3.7	3.0	2.6	1.8	2.3	2.7	11.9		17.2	145	0.4	16.4
Indian Bank	149	BUY	64,186	1,348	430	28.0	27.6	30.2	24.1	(1.4)	9.7	5.3	5.4	4.9	_	_	_	1.2	1.0	0.9	3.3	3.2	3.5	22.9	19.2	18.2	185	23.9	2.9
Indian Overseas Bank	90	BUY	49,032	1,030	545	24.3	19.7	25.4	10.3	(18.9)	28.6	3.7	4.6	3.5	_	_	_	0.8	0.7	0.6	5.8	4.2	4.6	22.1		16.1	140	55.6	4.3
J&K Bank	457	BUY	22,149	465	48	84.5	86.6	96.3	13.8	2.4	11.2	5.4	5.3	4.7	_	_	_	0.9	0.9	0.8	3.7	3.8	4.2	16.7	15.1	14.9	550	20.4	0.5
LIC Housing Finance	631	NR	53,616	1,126	85	62.5	68.8	80.3	37.3	10.0	16.8	10.1	9.2	7.9	_	_	_	2.3	1.9	1.5	2.2	2.4	2.8	26.2	23.9	23.4	_	_	20.7
Mahindra & Mahindra Financial	246	ADD	23,513	494	96	22.4	26.7	28.8	7.5	19.0	8.1	11.0	9.2	8.5	_	_	_	1.7	1.4	1.3	2.2	2.7	2.9	15.4	16.4	15.8	270	9.9	1.0
Oriental Bank of Commerce	176	REDUCE	44,145	927	251	36.1	29.1	31.5	51.4	(19.4)	8.3	4.9	6.1	5.6	_	_	_	0.9	0.8	0.8	4.1	3.3	3.6	13.7	9.6	9.7	190	7.8	3.1
PFC	234	SELL	268,118	5,633	1,148	13.0	18.0	20.0	14.3	38.6	11.1	18.0	13.0	11.7	_	_	_	2.4	2.2	1.9	1.2	2.3	2.6	13.8	17.3	17.2	185	(20.8)	6.3
Punjab National Bank	705	BUY	222,131	4,667	315	98.0	100.7	115.2	50.9	2.7	14.4	7.2	7.0	6.1	_	_	_	1.7	1.4	1.2	2.8	2.9	3.3	23.0	20.3	20.1	800	13.6	18.3
Reliance Capital	902	ADD	222,098	4,666	246	39.3	29.0	28.9	(5.6)	(26.2)	(0.5)	22.9	31.1	31.3	_	_	_	3.3	3.0	2.8	0.7	0.5	0.5	15.3	10.2	9.3	875	(3.0)	158.0
Rural Electrification Corp.	201	BUY	172,922	3,633	859	16.5	19.6	21.3	50.7	19.1	8.8	12.2	10.3	9.4	_	_	_	2.4	2.0	1.7	1.0	1.8	1.9	21.2	21.5	19.9	190	(5.7)	6.0
Shriram Transport	310	ADD	65,599	1,378	212	30.1	32.5	36.9	56.8	7.9	13.7	10.3	9.6	8.4	_	_	_	3.0	2.6	2.1	2.8	3.1	3.6	29.6	27.0	25.8	350	12.9	2.5
SREI	69	ADD	8,076	170	116	7.0	7.5	6.8	(38.4)	6.1	(9.5)	9.9	9.3	10.3	_	_	_	0.8	0.7	0.6	1.4	1.7	1.7	12.5	10.3	10.2	90	29.6	4.1
State Bank of India	1,847	BUY	1,172,655	24,636	635	143.7	129.8	149.1	34.8	(9.6)	14.9	12.9	14.2	12.4	_	_	_	2.0	1.8	1.7	1.6	1.6	1.7	17.1	13.5	14.0	1,870	1.2	113.9
Union Bank	234	BUY	118,223	2,484	505	34.2	32.4	35.4	24.5	(5.1)	9.2	6.8	7.2	6.6	_	_	_	1.7	1.4	1.2	2.1	2.0	2.2	27.2	21.2	19.5	280	19.6	7.8
Banks/Financial Institutions		Attractive	5,911,228	124,185					26.7	1.2	13.1	13.6	13.4	11.9	_	_	_	2.2	1.9	1.7	1.5	1.7	1.8	16.1	14.4	14.6			
Cement																													
ACC	892	REDUCE	167,589	3,521	188	56.3	74.0	57.1	(12.2)	31.6	(22.8)	15.9	12.0	15.6	8.0	6.1	7.1	3.2	2.6	2.3	2.6	2.6	2.6	24.7		18.4	875	(1.9)	13.4
Ambuja Cements	108	REDUCE	164,797	3,462	1,522	7.2	7.9	6.6	(5.0)	10.2	(16.8)	15.1	13.7	16.4	8.1	7.6	8.5	2.7	2.4	2.1	2.8	1.7	2.0	19.7		14.1	85	(21.5)	7.5
Grasim Industries	2,792	REDUCE ADD	256,021	5,379	92 282	238.6 17.8	251.9 19.4	266.5	(16.2)	5.6 9.1	5.8	11.7 8 1	7.4	10.5	6.6	5.4	5.2	2.2	1.9	1.6	1.2	1.2	1.2	21.1		16.8	2,560	(8.3)	12.0
India Cements Shree Cement	1,729	BUY	40,557 60,235	852 1,265	35	174.7	209.9	15.2 195.6	n/a 93.7	20.1	(21.8)	9.9	8.2	8.8	5.6	4.4	5.0	1.1	1.0	0.9	1.3	1.5	2.2	14.8		10.4	155	7.9	9.7
UltraTech Cement	802	BUY	99,779	2,096	124	78.8	90.2	73.8	(3.1)	14.5	(18.2)	10.2	8.9	10.9	6.7	4.7	4.4	5.0	3.0	2.3	0.6	0.6	0.6	65.7		29.4	2,000	15.7	0.8
Cement	802	Neutral	788,979	16,575	124	/0.0	90.2	/3.0	(8.0)	13.6	(10.4)	12.3	10.8	12.1	6.1	4.7	5.3	2.3	1.9	1.6	0.7	1.0	1.0	31.1		18.3	900	12.3	6.0
Consumer products		Neutrai	766,575	10,373					(0.0)	13.0	(10.4)	12.3	10.6	12.1	6.9	5.6	5.9	2.5	2.1	1.8	1.7	1.6	1.7	20.0	19.0	14.9			
Asian Paints	1,414	ADD	135,659	2,850	96	38.6	56.1	65.6	(1.7)	45.4	16.9	36.6	25.2	21.6	21.9	15.2	12.9	11.9	9.8	8.2	1.2	1.9	2.2	36.6	44.4	42.8	1,400	(1.0)	1.0
Colgate-Palmolive (India)	659	REDUCE	89,572	1,882	136	21.6	28.0	31.0	26.3	29.7	10.7	30.5	23.5	21.3	25.2	19.8	16.6	41.4	37.5	41.7	2.3	3.4	4.2	155.1		85.2	620	(5.9)	3.0
GlaxoSmithkline Consumer (a)	1,097	ADD	46,139	969	42	44.8	60.9	68.5	15.8	36.0	12.4	24.5	18.0	16.0	14.0	10.5	9.3	6.0	5.1	4.4	1.4	2.0	2.8	26.8		29.6	1,200	9.4	0.9
Godrej Consumer Products	224	ADD	57,919	1,217	258	6.7	8.7	10.0	(5.3)	30.3	14.9	33.6	25.8	22.4	23.2	16.2	13.9	10.1	6.3	5.4	1.8	1.8	1.8	46.9	30.2	26.0	210	(6.4)	0.8
Hindustan Unilever	285	BUY	621,365	13,054	2,179	9.5	10.6	12.2	19.0	11.1	15.0	30.0	27.0	23.4	23.0	20.2	17.5	30.1	27.0	24.1	3.1	3.3	3.8	112.4	105.9 1	08.9	320	12.2	26.3
ITC	248	BUY	935,181	19,647	3,769	8.7	10.3	11.8	2.8	19.3	14.3	28.7	24.0	21.0	17.6	14.8	13.0	6.4	5.6	4.9	1.5	1.6	1.8	25.3		26.0	255	2.8	37.0
Jyothy Laboratories	106	ADD	7,685	161	73	5.5	10.0	12.1	(12.9)	80.6	21.7	19.2	10.6	8.7	12.1	6.5	4.8	2.1	1.8	1.6	2.2	2.8	3.3	10.7		19.0	145	36.9	
Nestle India (a)	2,158	ADD	208,036	4,371	96	58.6	73.0	85.6	31.0	24.6	17.3	36.8	29.6	25.2	23.5	19.7	16.7	43.9	35.9	29.5	2.0	2.5	2.9	126.7		28.5	2,400	11.2	1.7
Tata Tea Consumer products	909	BUY Attractive	56,225 2,157,781	1,181 45,332	62	57.0	62.8	69.2	5.3 9.9	10.1 19.7	10.2 14.5	15.9 29.5	14.5 24.6	13.1 21.5	8.4	7.6 16.1	6.3 13.9	1.2 8.6	1.1	1.0	1.9	2.1	2.3	9.8		10.4 30.9	900	(1.0)	3.3
Consumer products Constructions		Attractive	2,157,781	45,332					9.9	19.7	14.5	29.5	24.6	21.5	19.2	16.1	13.9	8.6	7.5	6.6	2.0	2.3	2.7	29.3	30.6	30.9			
IVRCL	334	BUY	45,181	949	135	16.7	18.2	22.4	7.4	9.3	22.9	20.0	18 3	14.9	13.7	10.7	8.8	2.5	2.2	1.9	0.2	0.2	0.2	13.2	12.8	13.8	360	7.8	32.7
Nagarjuna Construction Co.	145	NR	33,275	699	229	6.7	7.5	9.1	(6.3)	12.0	21.2	21.6	19.3	15.9	11.9	9.9	8.8	2.3	1.8	1.5	0.2	1.1	1.4	9.4		11.0		7.0	8.8
Punj Lloyd	254	BUY	78,927	1,658	311	(6.9)	16.9	19.8	(169.6)	(343.2)	17.2	(36.5)	15.0	12.8	24.2	8.4	7.5	3.2	2.6	2.2	0.1	0.3	0.4	(8.6)		19.4	300	18.2	44.3
Sadbhav Engineering	769	BUY	9,612	202	13	50.6	55.6	77.9	25.0	9.8	40.2	15.2	13.8	9.9	10.6	8.0	6.6	2.7	2.3	1.9	0.7	0.8	0.9	18.0		19.4	830	7.9	0.2
Construction		Attractive	166,995	3,508					(70.7)	373.9	20.8	76.4	16.1	13.4	16.4	9.2	8.0	2.6	2.3	2.0	0.3	0.5	0.6	3.4		14.8			

Kotak Institutional Equities: Valuation summary of key Indian companies

	3-Aug-09		Mkt	ар.	shares		EPS (Rs)		EPS	growth ((%)		PER (X)		EV/EBITDA (X)		Price/BV (X)			Divida	nd yield ((%)	RoE (%)			Target price I	Upside	ADVT- 3mo		
Company	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E		2010E	. ,			<u> </u>		2010E		2009E	2010E	2011E	(Rs)			
Energy																											()	(,-, (-		
Bharat Petroleum	465	SELL	152,290	3,199	328	20.4	38.2	41.8	(50.7)	87.6	9.5	22.8	12.2	11.1	5.2	5.2	4.8	1.1	1.0	1.0	1.7	3.6	3.9	5.2	9.1	9.4	475	2.2	10.9	
Cairn india	244	REDUCE	462,408	9,714	1,897	4.3	8.8	30.8	(3,703)	105	249.9	57	28	7.9	39.9	13.9	5.5	1.4	1.3	1.3	_	_	8.2	2.5	4.9	16.2	225	(7.7)	35.3	
Castrol India (a)	439	BUY	54,290	1,141	124	21.3	31.1	32.0	20.8	45.9	3.0	20.6	14.1	13.7	11.7	8.4	8.0	12.1	10.6	9.6	3.4	5.0	5.2	61.2	80.2	73.5	480	9.3	1.0	
GAIL (India)	329	ADD	417,392	8,769	1,268	22.1	20.6	22.1	8.4	(6.8)	7.2	14.9	16.0	14.9	7.9	9.0	9.1	2.5	2.3	2.0	1.4	1.6	1.6	17.6	14.4	13.9	330	0.3	17.6	
GSPL Detectors	72	REDUCE	40,380	848	563	2.2	3.5	6.7	21.7	58.3	92.7	32.7	20.7	10.7	11.5	6.7	4.3	3.0	2.7	2.8	1.0	1.7	9.3	9.6	13.9	25.7	65	(9.4)	7.8	
Hindustan Petroleum	348	REDUCE	117,823	2,475	339	17.0	41.4	38.6 43.5	(49.3)	144.0 236.9	(6.8)	20.5	8.4	9.0	6.3	5.0	NA	0.9	0.9	NA	1.5	4.6	4.3	4.4	10.1	8.8	375	7.9	14.0	
Indian Oil Corporation	535 1,179	BUY	630,818 2,522,389	13,252	1,179 2.139	18.9 91.4	63.8 95.8	114.6	(69.1)	4 9	19.6	12.9	12.3	12.3	10.3	4.6	5.2	1.4	1.2	1.1	1.4	3.4	2.4	4.6	14.6	9.1	550	2.8	9.	
Oil & Natural Gas Corporation		REDUCE		52,991			7.2		(1.5)				9.9		4.7	4.4	3.8	2.2	2.0	1.8	2.7	3.1	3.6	17.3	16.2	17.5	1,200	1.8	62.0	
Petronet LNG Reliance Industries	71 2,017	SELL	53,400 2,769,341	1,122 58,179	750 1,373	6.9 103.4	103.1	8.6 148.2	(1.5)	3.6	19.6 43.6	10.3 19.5	19.6	8.3 13.6	7.4	6.7	5.7	2.4	2.0	1.6	2.5	2.8	3.2	23.9	20.6	20.6	64	(10.1)	8.	
Reliance Petroleum	125	NR	564.525	11,860	4,500	103.4	3.1	10.0	(1.5) n/a	(0.2) n/a	43.6 n/a	n/a	n/a	12.5	11.5	8.2	6.0	2.3	2.1	1.9	0.7	8.0	1.0	15.1	13.0	16.6	1,600	(20.7)	237.	
Energy	123	Cautious	7,785,056	163,552	4,500		5.1	10.0	(10.6)	27.0	30.4	18.2	14.4	11.0	n/a	n/a	9.5	4.2	4.1	3.3	_	1.6	1.6	0.6	10.1	29.0	_	_	24.	
Industrials		Cautious	7,703,030	103,332					(10.0)	27.0	30.4	10.2	14.4	11.0	8.5	6.5	5.3	2.1	1.9	1.7	1.4	2.0	2.6	11.5	13.3	15.6				
ABB	724	REDUCE	153,496	3,225	212	25.8	23.3	30.0	11.3	(9.8)	28.6	28.0	31.1	24.2	16.6	17.5	13.4	7.2	6.1	5.0	0.3	0.4	0.4	29.2	21.3	22.7	565	(22.0)	0	
BGR Energy Systems	349	ADD	25,110	528	72	15.6	25.9	30.9	29.0	65.4	19.2	22.3	13.5	11.3	12.4	8.3	6.9	4.4	3.5	2.8	0.3	1.3	1.5	21.6	28.8	27.4	400	14.7	9.: 1.	
Bharat Electronics	1,470	REDUCE	117,628	2,471	80	101.9	113.7	121.2	(0.0)	11.5	6.6	14.4	12.9	12.1	6.4	5.7	5.1	3.0	2.6	2.2	1.7	1.7	1.7	22.4	21.3	19.5	1,450	(1.4)	3.	
Bharat Heavy Electricals	2,347	REDUCE	1,148,732	24,133	490	64.1	93.1	106.8	9.8	45.1	14.8	36.6	25.2	22.0	20.1	14 1	12.1	8.9	7.0	5.7	0.7	0.8	1.0	26.4	31.0	28.5	2,100	(10.5)	58.	
Crompton Greaves	292	ADD	107,194	2,252	367	15.3	17.7	20.3	37.3	15.3	15.0	19.1	16.5	14.4	10.2	8.8	7.5	5.9	4.5	3.5	0.7	0.8	0.9	35.9	30.8	27.6	315	7.7	5.	
Larsen & Toubro	1,520	ADD	906,835	19,051	597	52.6	60.1	71.7	38.7	14.3	19.3	28.9	25.3	21.2	17.2	14.8	12.6	5.7	4.4	3.7	0.7	0.8	0.8	22.5	19.7	19.0	1,425	(6.2)	110.	
Maharashtra Seamless	249	BUY	17,569	369	71	35.9	33.0	35.3	22.2	(7.9)	6.9	6.9	7.5	7.1	3.9	4.0	3.5	1.3	1.1	1.0	2.2	2.0	2.5	20.3	16.0	15.0	285	14.4	1.	
Siemens	488	REDUCE	164,585	3,458	337	14.2	22.8	22.7	(22.2)	61.0	(0.5)	34.4	21.4	21.5	16.4	12.2	12.4	7.3	6.0	4.9	0.6	1.5	0.9	23.3	30.8	25.2	450	(7.8)	7.	
Suzlon Energy	96	ADD	160,492	3,372	1,678	7.4	3.9	6.1	12.8	(47.2)	54.7	12.9	24.4	15.8	10.4	12.2	10.2	1.7	1.4	1.3	-	-	0.3	12.5	6.2	8.3	110	15.0	164.	
Industrials		Neutral	2,801,641	58,858					16.4	18.2	17.4	27.5	23.3	19.8	15.6	13.1	11.2	5.6	4.4	3.7	0.7	0.8	0.9	20.2	19.0	18.8	110	.5.0	.04.	
Infrastructure															15.0			5.0		5.7	0.7	0.0	0.5	20.2	13.0	10.0				
GVK Power & Infrastructure	44	BUY	69,643	1,463	1,579	8.0	0.7	1.0	(20.6)	(13.6)	54.9	57.8	66.9	43.2	52.4	17.4	16.0	3.0	2.2	2.1	_	_	0.7	4.8	3.8	5.0	50	13.4	22.	
IRB Infrastructure	184	BUY	60,989	1,281	332	5.3	10.7	13.6	54.3	101.7	27.5	34.7	17.2	13.5	18.4	9.6	8.8	3.3	2.7	2.2	0.6	_	_	10.1	17.4	18.1	200	9.0	10.	
Infrastructure		Attractive	130,632	2,744					13.7	62.1	33.8	46.2	28.5	21.3	29.0	12.7	11.6	3.1	2.4	2.2	0.3	_	0.4	6.8	8.5	10.2				
Media																														
DishTV	46	REDUCE	43,296	910	946	(8.8)	(3.2)	(1.3)	n/a	(63.4)	(60.8)	(5.2)	(14.2)	(36.3)	(31.0)	66.9	15.5	(7.0)	(8.5)	(20.4)	_	_	_	84.4	54.0	NA	35	(23.5)	15.2	
HT Media	105	ADD	24,643	518	234	0.9	4.8	6.6	(78.8)	422.4	37.4	114.8	22.0	16.0	26.3	10.8	8.7	2.9	2.7	2.5	0.4	8.0	2.4	2.5	12.8	16.3	125	18.8	0.6	
Jagran Prakashan	93	ADD	28,024	589	301	3.0	4.8	5.8	(6.6)	58.0	20.0	30.6	19.4	16.1	17.4	11.2	9.3	5.0	4.6	4.2	2.1	3.1	3.4	16.7	24.9	27.4	105	12.8	1.	
Sun TV Network	271	REDUCE	106,973	2,247	394	9.1	11.3	13.3	9.3	24.4	18.4	30.0	24.1	20.4	15.7	13.4	11.2	6.1	5.4	4.8	0.9	1.5	2.2	22.5	24.0	24.9	235	(13.4)	2.	
Zee Entertainment Enterprises	200	REDUCE	86,778	1,823	434	8.3	10.0	12.0	(6.5)	20.6	19.5	24.1	20.0	16.7	17.1	14.3	11.6	2.6	2.4	2.2	1.1	1.3	1.6	11.9	13.0	14.4	160	(20.1)	8.3	
Zee News	41	ADD	9,806	206	240	1.9	2.2	2.7	21.3	14.7	23.4	21.8	19.0	15.4	11.3	9.2	7.8	4.0	3.4	2.9	1.0	1.0	1.5	20.1	19.6	20.7	45	10.0	1.	
Media		Neutral	299,521	6,292					(22.3)	112.2	49.0	72.0	33.9	22.8	22.5	14.8	11.1	4.9	4.4	3.8	0.9	1.3	1.8	6.8	12.9	16.7				
Metals	100	BUY	189 808	2.000	4.752	2.0	3.5	11.1	(77.9)	25.5	218.4	20.4	31.2	0.0																
Hindalco Industries	108		,	3,988	1,753	2.8						39.1		9.8	11.9	8.8	6.8	0.5	0.5	0.5	_			10.3	5.2	6.5	135	24.7	26.	
National Aluminium Co. Jindal Steel and Power	324 2,965	SELL SELL	208,982 456,426	4,390 9,589	644 154	19.7 198.0	13.7 247 1	20.4	(22.0) 139.3	(30.6)	48.8 (4.3)	16.4 15.0	23.7	15.9 12.5	8.4	8.9	6.0	2.0	1.9	1.7	1.1	0.6	0.6	12.7	8.1	11.1	290	(10.6)	3.	
JSW Steel	745	SELL	139,276	2,926	187	13.1	36.8	65.9	(84.7)	180.1	79.1	56.6	12.0	11.3	9.8	7.9	7.5	6.0	4.0	3.0	_	0.2	0.2	51.9	40.3	27.6	2,150	(27.5)	50.	
Hindustan Zinc	745	BUY	311,998	6,555	423	64.6	57.3	74.1	(38.0)	(11.2)	29.3	11.4	12.9	10.0	10.1	9.6	7.2	1.5	1.3	1.1	0.1	0.4	0.7	11.7	5.1	10.7	440	(40.9)	57.	
Sesa Goa	738 242	BUY	190,551	4,003	787	25.1	25.5	34.1	32.6	1.3	34.3	9.6	9.5	7.1	7.5	7.6	5.0	2.1	1.8	1.5	0.5	0.7	0.7	20.1	15.1	16.7	825	11.7	6	
Sterlite Industries	671	REDUCE	563 719	11 843	787 840	49.2	29.8	34.2	(23.6)	(39.3)	27.2	13.6	22.5	17.7	6.3	5.9	3.7	4.2	3.0	2.2	1.4	1.4	1.4	53.3	36.9	35.9	240	(8.0)	50.	
Tata Steel	485	BUY	430.567	9.046	887	110.0	41.2	78.8	45.3	(62.6)	91.6	4.4	11.8	6.2	9.8	9.7	7.3	2.2	1.5	1.4	_	_	_	14.3	8.1	8.4	550	(18.0)	65.0	
Metals	403	Cautious	2,491,328	52,339	007	110.0	41.2	70.0	(0.8)	(29.0)	47.3	10.8	15.2	10.3	5.1	7.8	5.8	1.1	1.0	0.9	3.0	3.3	3.3	36.3	15.5	25.7	465	(4.2)	146.	
Pharmaceutical		Cautious	2,491,320	32,339					(0.6)	(25.0)	47.3	10.6	13.2	10.5	7.6	8.2	6.3	1.7	1.4	1.3	0.8	0.9	0.9	15.5	9.4	12.3				
Biocon	241	BUY	48,270	1,014	200	47	14.4	18.6	(79.9)	206.8	29.3	51.5	16.8	13.0	20.7	9.7	7.7	3.1	2.8	2.4	0.0	0.0	0.1	6.2	17.8	20.0	270	11.9	6.	
Dishman Pharma & chemicals	190	BUY	15,478	325	81	18.0	21.2	27.3	22.1	17.9	28.7	10.6	9.0	7.0	8.7	6.9	5.4	2.2	1.8	1.4	0.0	0.0	0.0	22.8	21.9	22.9	280	47.1	0.	
Divi's Laboratories	512	BUY	33,030	694	65	31.9	36.8	43.3	19.9	15.2	17.7	16.0	13.9	11.8	6.3	4.8	3.6	5.6	4.2	3.3	0.0	0.0	0.0	40.4	34.4	31.1	565	10.4	3.1	
Dr Reddy's Laboratories	814	BUY	137,905	2,897	169	32.4	49.3	52.5	24.3	52.2	6.4	25.1	16.5	15.5	10.9	8.6	7.7	3.9	3.3	2.8	0.8	0.9	1.0	13.6	21.4	19.2	860	5.6	8.3	
Glenmark Pharmaceuticals	251	BUY	66,636	1,400	266	11.1	11.6	15.7	(57.0)	4.2	35.1	22.5	21.6	16.0	13.3	12.5	10.0	3.2	2.8	2.4	0.0	0.0	0.0	15.9	13.8	16.2	315	25.7	11.5	
Jubilant Organosys	222	BUY	38,037	799	171	16.6	24.5	32.9	(26.1)	48.2	34.2	13.4	9.1	6.8	13.7	8.6	6.8	2.9	2.3	1.9	0.6	0.6	0.8	16.2	28.7	30.8	250	12.4	0.6	
Lupin	940	BUY	83,228	1,748	89	60.2	67.1	72.3	21.0	11.4	7.8	15.6	14.0	13.0	14.6	12.0	10.3	5.8	3.7	3.0	1.2	1.4	1.5	37.1	32.9	26.1	1,180	25.6	3.7	
Piramal Healthcare	332	BUY	69,482	1,460	209	17.3	22.1	28.5	(1.9)	28.0	29.0	19.3	15.0	11.7	13.9	9.9	8.0	5.2	4.1	3.2	1.3	1.4	1.4	26.2	30.9	31.1	390	17.3	2.1	
Ranbaxy Laboratories	284	REDUCE	121,480	2,552	427	(8.1)	4.7	5.1	(134.7)	NA	NA	(35.2)	NA	56.3	(164.8)	20.9	22.7	2.9	2.9	2.9	-	1.4	1.4	(9.6)	4.9	5.3	165	(42.0)	16.9	
Sun Pharmaceuticals	1,173	ADD	242,906	5,103	207	87.8	47.6	64.2	17.6	(45.8)	34.9	13.4	24.6	18.3	10.0	16.8	11.9	3.6	3.2	2.8	1.2	1.2	1.2	31.6	14.3	17.1	1,250	6.6	23.0	
Property		Attractive	1,076,310	22,612					(19.8)	19.3	21.4	22.4	18.8	15.5	14.6	11.9	10.0	3.8	3.3	2.8	0.7	1.0	1.0	16.9	17.3	18.1				
Property DIF	406	SELL	689,032	14,475	1,699	29.3	14.7	17.5	(36.6)	(49.8)	19.2	13.9	27.6	23.2	13.7	19.7	16.8	2.8	2.6	2.4	0.7	0.7	1.0	22.5	9.8	10.8	320	(21.1)	176.4	
Housing Development & Infrastructur	284	ADD	98,206	2,063	345	26.0	12.0	23.3	(49.2)	(53.9)	94.8	10.9	23.8	12.2	13.7	20.4	7.6	2.8	1.4	1.2	0.7	1.1	1.0	22.5	9.8	14.9	295	(21.1) NA	125.	
Indiabulis Real Estate	261	ADD	104,661	2,199	401	3.0	3.1	7.5	(81.8)	3.8	141.1	87.0	83.8	34.7	(283)	78.2	18.9	1.6	1.1	1.1		-	-	1.3	1.6	3.2	235	(9.9)	73.	
Mahindra Life Space Developer	328	BUY	13,796	2,199	42	10.4	10.8	15.4	(38.5)	4.1	42.5	31.7	30.5	21.4	48.6	29.3	15.2	1.6	1.5	1.4	1.2	1.2	1.2	4.8	4.9	6.7	410	25.0	1.	
Phoenix Mills	129	BUY	18,721	393	145	5.2	6.0	8.5	63.1	15.8	41.3	25.0	21.6	15.3	27.9	15.7	10.8	1.3	1.2	1.1	0.8	0.8	1.2	5.1	5.7	7.6	210	62.5	0.	
Puravankara Projects	97	REDUCE	20,627	433	213	6.8	7.0	7.4	(39.8)	3.6	6.0	14.3	13.8	13.0	20.9	16.2	13.2	1.5	1.4	1.3	_	2.1	2.1	11.5	10.8	10.7	85	(12.1)	0.4	
Sobha	217	ADD	21,314	448	98	15.1	14.3	16.1	(52.3)	(5.6)	12.5	14.4	15.2	13.5	14.5	11.5	10.6	1.9	1.2	1.2	1.4	1.8	1.8	10.4	9.8	8.8	215	(1.1)	2.0	
Unitech	95	SELL	225,849	4,745	2,389	7.7	4.4	4.6	(25.7)	(42.8)	3.7	12.3	21.5	20.8	16.4	16.3	14.9	4.7	2.2	2.0	_	_	_	29.5	13.2	10.1	60	(36.5)	171.8	
		Neutral	1,192,207	25,046					(36.3)	(39.9)	31.0	15.7	26.1	19.9	15.4	19.1	14.6	2.6	2.0	1.9	0.5	0.6	0.8	16.7	7.8	9.4				

Kotak Institutional Equities: Valuation summary of key Indian companies

					O/S																					Target		ADVT-
	3-Aug-09		Mkt	ар.	shares		EPS (Rs)	E	PS growth	(%)		PER (X)		EV	/EBITDA	(X)	Pı	rice/BV ()	()	Divide	nd yield	(%)		RoE (%)	1	price	Upside	3mo
Company	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2009E	2010E 20	11E 2009	E 2010I	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	(Rs)	(%) (l	JS\$ mn)
Retail																												
Titan Industries	1,206	REDUCE	53,545	1,125	44	44.3	49.4 5	8.5 26.4			27.2	24.4		16.4	15.0	12.5	9.3	7.1	5.6	0.8	0.8	1.0	37.5	33.1	30.5	1,040	(13.8)	2.2
Retail		Neutral	53,545	1,125				26.4	11.6	18.4	27.2	24.4	20.6	16.4	15.0	12.5	9.3	7.1	5.6	0.8	0.8	1.0	34.1	29.3	27.3			
Technology																												
HCL Technologies	254	REDUCE	176,808	3,714	695	16.2		7.0 6.0			15.7	19.4	15.0	8.7	8.6	8.2	2.8	2.7	2.5	4.7	4.7	4.7	18.6	14.4	17.7	135	(46.9)	6.5
Infosys Technologies	2,076	BUY	1,191,882	25,040	574	102.4	102.5 11			10.1	20.3	20.3	18.4	15.0	14.3	12.2	6.5	5.3	4.5	1.1	1.2	1.6	36.7	28.9	26.3	1,900	(8.5)	70.2
Mphasis BFL	514	REDUCE	107,206	2,252	208	14.2	38.9 3	3.5 15.7	174.5	(13.9)	36.3	13.2	15.4	27.6	9.5	9.0	7.5	5.0	4.0	8.0	0.9	1.0	22.8	45.4	28.8	335	(34.9)	5.7
Mindtree	455	BUY	18,728	393	41	13.2	37.0 4	3.9 (50.5) 179.5	18.5	34.4	12.3	10.4	5.9	8.5	6.5	3.4	2.6	2.1	0.4	_	1.0	5.5	24.0	22.5	500	9.9	4.1
Patni Computer Systems	381	REDUCE	48,934	1,028	129	26.8	33.8 3	6.7 (19.3) 26.1	8.6	14.2	11.3	10.4	6.9	5.1	4.9	1.9	1.6	1.4	0.5	1.8	1.9	16.2	14.8	14.6	320	(16.0)	4.0
Polaris Software Lab	125	SELL	12,298	258	99	13.1	13.8 1	2.9 76.0	5.4	(6.4)	9.5	9.0	9.6	3.8	4.6	4.8	1.6	1.4	1.2	2.2	1.6	1.6	18.1	16.4	13.6	80	(35.8)	3.9
TCS	532	ADD	1,040,545	21,860	1,957	26.4	30.5 3	3.8 3.1	15.2	10.8	20.1	17.4	15.7	14.0	12.4	11.0	6.6	5.3	4.5	1.3	1.7	2.5	36.9	33.9	31.1	510	(4.1)	39.5
Wipro	491	ADD	717,769	15,079	1,462	25.7	27.5 3	2.0 15.8	6.6	16.6	19.1	17.9	15.3	14.0	12.5	10.3	4.8	3.9	3.3	0.8	1.6	1.9	26.9	24.0	23.3	520	5.9	16.4
Technology		Neutral	3,324,728	69,847				14.7	9.4	11.3	19.6	18.0	16.1	13.6	12.2	10.6	5.4	4.5	3.8	1.3	1.6	2.1	27.7	24.8	23.6			
Telecom																												
Bharti Airtel	410	ADD	1,558,479	32,741	3,797	22.3	26.9 3	0.6 26.4	20.5	13.8	18.4	15.2	13.4	10.7	9.1	7.8	5.0	3.8	2.9	0.5	0.7	1.0	31.4	28.0	24.6	425	3.5	89.0
IDEA	80	REDUCE	247,067	5,190	3,104	2.9	3.4	3.6 (26.5) 15.8	7.3	27.4	23.7	22.1	10.1	8.4	7.5	1.8	1.7	1.5	_	_	_	10.4	7.4	8.0	65	(18.3)	22.4
MTNL	99	SELL	62,654	1,316	630	3.1	(4.8)	3.9) (57.1) (256.5	(18.1)	32.4	(20.7)	(25.3)	13.6	(17.1)	(58.9)	0.5	0.6	0.6	6.0	-	-	1.1	(2.6)	(2.2)	50	(49.7)	5.1
Reliance Communications	290	SELL	598,566	12,575	2,064	27.7	21.2 2	3.0 4.7	(23.3	8.3	10.5	13.7	12.6	8.8	8.7	6.9	1.5	1.3	1.2	0.3	_	_	17.0	10.6	10.3	240	(17.2)	81.1
Tata Communications	503	REDUCE	143,241	3,009	285	13.6	14.0 1	5.2 24.0	3.2	8.2	37.0	35.9	33.2	15.7	14.3	13.2	2.1	2.0	2.0	1.0	1.3	1.5	5.4	5.2	5.5	400	(20.4)	8.9
Telecom		Cautious	2,610,006	54,832				11.1	1.1	12.8	16.3	16.1	14.3	10.2	9.2	7.7	2.5	2.2	1.9	0.5	0.5	0.7	15.4	13.5	13.3			
Transportation																												
Container Corporation	1,112	ADD	144,577	3,037	130	64.4	67.8 8	0.3 11.6	5.3	18.5	17.3	16.4	13.8	12.6	11.3	9.4	3.8	3.3	2.8	1.3	1.4	1.6	24.0	21.4	21.7	1,125	1.1	1.3
Transportation		Cautious	144,577	3,037				11.6	5.3	18.5	17.3	16.4	13.8	12.6	11.3	9.4	3.8	3.3	2.8	1.3	1.4	1.6	22.1	19.9	20.1			
Utilities																												
CESC	321	ADD	40,154	844	125	32.3	37.9 4	2.0 16.2	17.4	11.0	10.0	8.5	7.6	5.5	5.6	5.9	1.1	0.9	0.8	1.2	1.5	1.6	11.7	11.9	11.6	345	7.3	3.2
Lanco Infratech	420	ADD	93,455	1,963	222	14.5	20.8 3	6.6 (2.5) 43.8	76.2	29.1	20.2	11.5	24.3	16.4	8.0	4.3	3.3	2.6	_	_	_	16.1	18.7	25.2	440	4.7	30.0
NTPC	216	SELL	1,783,494	37,468	8,245	9.5	10.8 1	2.2 1.6	14.1	12.6	22.8	20.0	17.8	18.0	14.7	13.9	3.0	2.8	2.6	1.7	1.9	2.1	13.8	14.5	15.0	180	(16.8)	40.9
Reliance Infrastructure	1,222	BUY	276,711	5,813	226	62.7	63.7 6	8.6 66.7	1.6	7.8	19.5	19.2	17.8	24.5	22.2	17.7	1.6	1.5	1.4	0.6	0.7	0.8	4.9	6.1	7.8	1,250	2.3	116.3
Reliance Power	170	REDUCE	408,287	8,577	2,397	1.0	2.5	3.1 —	141.5	24.4	167.0	69.1	55.6	_	_	_	3.0	2.8	2.7	_	_	_	1.8	4.2	5.0	160	(6.1)	37.7
Tata Power	1,354	ADD	321,498	6,754	237	47.7	74.6 8	4.1 49.7	56.5	12.7	28.4	18.2	16.1	12.3	12.1	11.5	3.3	2.4	2.2	0.8	0.9	1.0	11.4	15.4	14.3	1,250	(7.7)	15.4
Utilities		Attractive	2,923,599	61,420				12.3	21.2	14.7	25.9	21.4	18.7	19.2	17.1	15.2	2.8	2.5	2.3	1.2	1.3	1.5	10.7	11.7	12.3			
Others																												
Aban Offshore	1,142	SELL	43,268	909	38	95.7	152.5 20	7.1 32	59.4	35.7	11.9	7.5	5.5	11.8	9.5	8.4	2.4	1.8	1.4	0.3	0.3	0.3	26.5	29.9	29.1	400	(65.0)	93.3
Havells India	301	REDUCE	18,195	382	61	4.9	12.3 1	9.1 (82) NA	56.2	NA	24.5	15.7	10.3	8.4	7.3	2.8	3.3	2.8	0.8	0.8	0.8	4.5	12.4	19.3	175	(41.8)	2.7
Jaiprakash Associates	251	REDUCE	351,707	7,389	1,403	3.0	6.7 1	1.4 (39) 123.8	70.2	83.5	37.3	21.9	26.6	16.0	14.3	6.4	5.3	4.4	_	_	_	8.0	15.5	21.9	220	(12.2)	106.0
Jindal Saw	509	ADD	29,336	616	58	74.3	61.5 6	1.1 20	(17.2	(0.7)	6.9	8.3	8.3	4.8	5.1	4.4	0.8	0.8	0.7	0.9	0.8	0.8	11.6	8.9	8.6	430	(15.6)	4.3
PSL	125	BUY	5,434	114	44	22.2	37.6 3	0.1 5	69.2	(19.8)	5.6	3.3	4.1	6.3	6.5	5.2	0.6	0.6	0.6	7.0	7.0	7.0	11.9	13.4	11.3	160	28.3	1.1
Sintex	224	BUY	30,541	642	136	23.8	25.2 2	7.6 22	5.6	9.6	9.4	8.9	8.1	6.7	6.1	5.1	1.6	1.3	1.1	0.5	0.5	0.5	16.6	15.0	14.2	275	22.9	4.8
Tata Chemicals	257	ADD	62,609	1,315	243	26.6	17.8 2	6.8 (33) (33.0	50.4	9.7	14.4	9.6	6.3	6.5	5.2	1.3	1.3	1.2	3.4	3.4	3.4	17.9	11.0	14.7	260	1.1	5.9
Welspun Gujarat Stahl Rohren	231	REDUCE	43,532	915	189	17.3	24.0 1	7.8 (16) 38.7	(25.8)	13.3	9.6	12.9	7.5	5.4	6.3	2.4	1.9	1.6	0.9	0.7	0.7	17.8	21.7	13.4	145	(37.1)	27.1
United Phosphorus	184	BUY	84,777	1,781	462	10.7	13.9 1	8.0 28	29.7	29.6	17.1	13.2	10.2	11.2	8.1	6.5	2.8	2.4	2.0	0.7	0.8	1.1	18.1	19.1	20.8	160	(12.8)	6.4
Others			669,399	14,063				(8.1) 28.1	30.2	21.4	16.7	12.9	11.9	9.7	8.8	2.8	2.5	2.1	0.6	0.6	0.6	13.2	14.7	16.3			
KS universe (b)			35,953,721	755,330				1.4	8.5	20.4	18	16.5	13.7	11.5	9.9	8.4	2.7	2.4	2.1	1.2	1.4	1.7	15.1	14.3	15.3			
KS universe (b) ex-Energy			28,168,665	591,779				5.2	3.6	17.1	17.8	17.2	14.7	13.1	11.7	10.1	2.9	2.5	2.2	1.1	1.3	1.4	16.5	14.7	15.2			
KS universe (d) ex-Energy & ex-Com	modities		24,888,359	522,865				7.1	8.9	15.1	19.4	17.8	15.5	15.3	13.1	11.4	3.2	2.8	2.4	1.1	1.3	1.5	16.5	15.5	15.7			

Note:

(1) For banks we have used adjusted book values.

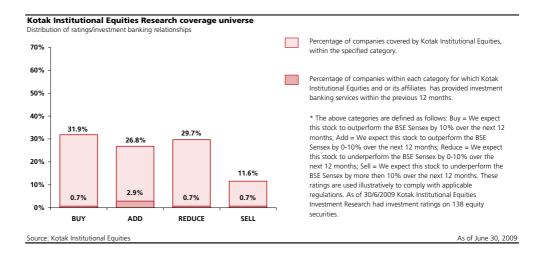
(2) 2009 means calendar year 2008, similarly for 2010 and 2011 for these particular companies.

(3) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.

(4) Rupee-US Dollar exchange rate (Rs/US\$)= 47

Source: Bloomberg, Company, Kotak Institutional Equities estimates

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Castrol India	CAST.BO
GAIL (India)	GAIL.BO
Gujarat State Petronet	GSPT.BO
Hindustan Petroleum	HPCL.BO
Indian Oil Corp.	IOC.BO
Oil & Natural Gas Corporation	ONGC.BO
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Reliance Industries	RELI.BO
Reliance Petroleum	RPET.BO

Source: Kotak Institutional Equities Research

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