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#### Daily Alerts

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- 2QFY12 surprised positively due to lower raw material expense and lower rebranding cost

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- Revenues exceed headcount growth once again though it fails to fire up margins
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- Street estimates may be optimistic. SELL

**IndusInd Bank:** Maintaining strong growth

- Strong margins performance can support the risk built in loans; maintain BUY
- Shift in loan composition and better corporate lending yields result in 6 bps qoq NIM decline

**Petronet LNG:** Maintaining a good run rate

- 2QFY12 EBIDTA 1.7% higher versus estimates
- Current stock price reflects optimistic assumptions
- Maintain SELL with a target price of Rs135
- Revised earnings to reflect higher marketing margins

**Patni Computer Systems:** In the price discovery phase; we see value

- 3QCY11 results - robust revenue growth, sharp increase in margins
- Results post iGate transaction have been volatile; volatility could persist for some time
- We would approach the stock with the value focus in this discovery phase

##### Company

**Lupin:** Competition heating up in OCs

- Competition heats up - two-player segment set to become a six-player one
- Teva, Watson enjoy high market shares, Sandoz and Mylan are strong competitors
- Street may be factoring in aggressive OC sales

##### Sector

**Industrials:** Comparing L&T BTG JVs with peers

- Employee, SG&A costs are much lower; contribution margin can scale up on greater indigenization
- Much smaller gross block (esp. boiler) versus other players - a part possibly in L&T standalone
- Sizeable equity investments already made by new players; physical progress may be slow

##### Strategy

**Strategy:** Exploring the money trail, Part 2

- Our observations are based on official data and data of exports of companies
- Exports of copper cannot be explained by domestic production or imports of copper
- Data on passenger cars is not supported by data of industry association
- Tailpiece: Where are Tokelau Islands?

### EQUITY MARKETS

India	Change %			
	18-Oct	1-day	1-mo	3-mo
Sensex	16,748	(1.6)	0.0	(10.2)
Nifty	5,038	(1.6)	0.1	(10.3)
<b>Global/Regional indices</b>				
Dow Jones	11,577	1.6	1.5	(8.0)
Nasdaq Composite	2,657	1.6	1.7	(6.0)
FTSE	5,410	(0.5)	2.9	(6.6)
Nikkie	8,800	0.7	(0.7)	(11.0)
Hang Seng	18,221	0.8	(3.7)	(16.8)
KOSPI	1,844	0.3	1.3	(13.4)
<b>Value traded – India</b>				
Cash (NSE+BSE)	110		129	137
Derivatives (NSE)	1,224		1,502	823
Deri. open interest	1,285		1,391	1,375

#### Forex/money market

	Change, basis points			
	18-Oct	1-day	1-mo	3-mo
Rs/US\$	49.3	(0)	148	480
10yr govt bond, %	8.8	(6)	40	50
<b>Net investment (US\$m)</b>				
	17-Oct		MTD	CYTD
FIs	81		(25)	(175)
MFs	(47)		72	(282)

#### Top movers -3mo basis

Best performers	Change, %			
	18-Oct	1-day	1-mo	3-mo
ACEM IN Equity	152.3	(0.4)	5.5	19.3
IDEA IN Equity	94.5	(2.5)	(2.4)	17.5
MM IN Equity	807.5	(0.6)	1.0	12.7
UTCEM IN Equity	1124.0	0.0	(1.1)	12.7
BJAUT IN Equity	1607.7	(2.8)	0.4	12.1
<b>Worst performers</b>				
IVRC IN Equity	35.4	(4.1)	(15.0)	(48.8)
RCAPT IN Equity	322.4	(4.1)	(19.3)	(45.9)
IBREL IN Equity	70.0	(3.0)	(13.4)	(42.5)
HDIL IN Equity	94.4	(4.3)	(14.9)	(41.3)
ADE IN Equity	461.1	(1.1)	(20.2)	(37.0)

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#### RESULT

Coverage view: **Attractive**

Price (Rs): **515**

Target price (Rs): **595**

BSE-30: **16,748**

**Good show on operational front.** JSP's reported standalone EBITDA of Rs10.9 bn (+12.8% qoq, +27% yoy) was 12.1% ahead of our estimate after adjusting for forex losses. Strong steel and pellet deliveries drove the entire positive surprise. Consolidated EBITDA of Rs17.8 bn adjusted for forex losses was in line with our estimate. The power segment performance was in line with our estimates. JSPL may go up in the near term on strong operational performance though expensive valuations and delay in new projects will weigh in the medium term. We will review estimates post the earnings call.

#### Company data and valuation summary

Jindal Steel and Power

##### Stock data

52-week range (Rs) (high,low) 736-441

Market Cap. (Rs bn) 481.6

##### Shareholding pattern (%)

Promoters 58.4

FIs 23.0

MFs 2.0

##### Price performance (%)

Absolute (5.5) (18.2) (27.5)

Rel. to BSE-30 (4.5) (9.6) (12.7)

##### Forecasts/Valuations

	2011	2012E	2013E
EPS (Rs)	40.2	43.5	52.9
EPS growth (%)	5.1	8.2	21.6
P/E (X)	12.8	11.9	9.8
Sales (Rs bn)	131.1	182.4	201.4
Net profits (Rs bn)	37.5	40.6	49.4
EBITDA (Rs bn)	63.9	71.8	84.9
EV/EBITDA (X)	9.6	8.9	7.7
ROE (%)	30.9	25.5	24.4
Div. Yield (%)	0.3	0.3	0.3

#### Strong steel and pellet sales drive outperformance at the operating level

JSP reported standalone EBITDA of Rs10.9 bn, a 12.8% qoq and 27% yoy growth. JSP indicates that it had Rs1.05 bn of forex losses in standalone and consolidated operations of which 70% is reported in other expenditure and 30% in interest expense line. Adjusted for this, standalone EBITDA was Rs11.6 bn, 12.1% higher than our estimate. Standalone net income of Rs3.9 bn (our estimate was Rs4.8 bn) included write-down of investments in the Congo diamond mining lease.

Positive surprise at the operating level was driven by (1) 29.4% yoy and 30.9% qoq growth in steel deliveries to 598K tonnes and (2) 51.6% qoq increase in pellet sales to 526K tonnes. Captive consumption of pellets declined 22.8% qoq; strong realization has prompted third-party sales of pellets. JSP increased sourcing of lumps (at favorable rates) for raw material feed.

Reported consolidated EBITDA was Rs17 bn (+5% qoq, +13.5% yoy) while adjusted consolidated EBITDA of Rs17.8 bn was in line with our estimate. In-line power business performance and outperformance in standalone business suggest possible losses from other overseas operations. Net income of Rs8.8 bn (-4.7% qoq, -0.3% yoy) was impacted by forex losses and one-off items.

#### Power segment in line with estimates

JSPL's subsidiary Jindal Power (JPL) reported 2QFY12 net sales of Rs7.4 bn (-6% yoy, -2% qoq) and PAT of Rs4.1 bn (-11% yoy, -9% qoq) against our estimates of Rs7.1 bn and Rs4.1 bn, respectively. Reported revenues were ahead of estimates on account of marginally higher-than-estimated realizations of Rs3.9/kwh (against our estimate of Rs3.8/kwh). Gross generation of 2,043 MU implied a PLF of 92.5% (99% in 1QFY12); dip likely on account of scheduled maintenance shutdown in 2QFY12. Total cost per unit jumped 14% qoq to Rs1.8/kwh likely on account of lower PLFs yielding a higher O&M cost during 2QFY12.

#### To review estimates post earnings conference call

We will review estimates and target price post earnings call on October 19. Positive of likely strong near-term performance is balanced by expensive valuations and likely delays in commissioning of new projects. We maintain our REDUCE rating on the stock.

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

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

Karan Durante  
karan.durante@kotak.com  
Mumbai: +91-22-6634-1527

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

### Spike in spot tariffs may be temporary and not necessarily accrue better realizations

We note that the shortage of power (due to cramped coal supply) has led to a sharp spike in merchant tariffs in the spot market. In our view, the sharp spike in the spot markets will likely be short-lived and more importantly, it may not necessarily translate into higher realizations for JPL, which typically trades in the bilateral market (See Exhibit 4) with contracts of a longer duration. We note that spot exchange market is less liquid and exhibits higher volatility while JPL's realizations are more aligned with rates prevalent in bilateral market (see Exhibit 5).

### Other details

- ▶ PLF for three captive power units (10X135 units planned in all) commissioned recently increased marginally. Loss from these units reduced to less than Rs300 mn versus Rs460 mn in the previous quarter.
- ▶ Shaded Iron reported net income of US\$10 mn versus US\$7 mn in the previous quarter.
- ▶ Write-down of investment in diamond mining operations in Congo in standalone books was higher at Rs1.5 bn versus Rs0.7 bn consolidated books. Difference can be attributed to recognition of losses of Congo operations in consolidated books, while this showed as an investment valued at cost in standalone books.
- ▶ JSPL reported steel deliveries growth of 16% in 1HFY12 to 1.2 mn tonnes and is on track to achieve FY2012E guidance of 2.5 mn tonnes.

Exhibit 1: Interim results of Jindal Steel & Power (standalone), March fiscal year-ends (Rs mn)

	2QFY12	2QFY12E	2QFY11	1QFY12	(% chg.)		
					2QFY12E	2QFY11	1QFY12
<b>Net sales</b>	<b>33,338</b>	<b>26,377</b>	<b>22,996</b>	<b>25,265</b>	<b>26.4</b>	<b>45.0</b>	<b>32.0</b>
Total expenditure	(22,471)	(16,028)	(14,436)	(15,631)	40.2	55.7	43.8
Inc/(Dec) in stock	47	—	327	2,130	—	(85.6)	(97.8)
Raw materials	(11,055)	(7,050)	(6,549)	(8,812)	56.8	68.8	25.5
Stores and spares consumed	(3,795)	(2,964)	(2,780)	(2,935)	28.0	36.5	29.3
Power & Fuel	(2,316)	(1,983)	(1,521)	(1,888)	16.8	52.3	22.7
Staff cost	(933)	(916)	(694)	(881)	1.9	34.5	6.0
Other expenditure	(4,419)	(3,116)	(3,219)	(3,246)	41.8	37.3	36.1
<b>EBITDA</b>	<b>10,867</b>	<b>10,349</b>	<b>8,560</b>	<b>9,634</b>	<b>5.0</b>	<b>27.0</b>	<b>12.8</b>
Other income	77	(250)	60	167	(130.9)	28.7	(53.6)
Interest	(1,459)	(1,457)	(781)	(1,325)	0.1	86.9	10.1
Depreciation	(2,139)	(2,272)	(1,638)	(2,066)	(5.9)	30.6	3.5
<b>Pretax profits</b>	<b>7,346</b>	<b>6,369</b>	<b>6,202</b>	<b>6,410</b>	<b>15.3</b>	<b>18.5</b>	<b>14.6</b>
Extraordinaries	(1,478)	—	—	—	—	—	—
Tax	(1,911)	(1,592)	(1,420)	(1,709)	20.0	34.5	11.9
<b>Net income</b>	<b>3,958</b>	<b>4,777</b>	<b>4,782</b>	<b>4,702</b>	<b>(17.1)</b>	<b>(17.2)</b>	<b>(15.8)</b>
<b>Ratios</b>							
ETR (%)	26.0	25.0	22.9	26.7			
EPS (Rs)	5.8	5.1	5.1	5.0			
<b>Volumes (tonnes)</b>							
Pellets	526,331	400,000	21,514	347,104	31.6	2,346.5	51.6
Steel Products	598,209	479,731	462,429	456,887	24.7	29.4	30.9
<b>Per tonne analysis</b>							
Steel revenue/tonne of steel products (Note1)	49,043	48,646	49,380	49,601	0.8	(0.7)	(1.1)
Steel EBITDA/tonne of steel products (Note1)	13,679	17,320	18,278	17,288	(21.0)	(25.2)	(20.9)
<b>Segmental revenue</b>							
Iron & Steel	31,944	25,050	21,967	24,098	27.5	45.4	32.6
Power	3,518	3,885	2,768	3,606	(9.4)	27.1	(2.4)
Others	672	314	444	296	114.1	51.5	127.0
<b>Segmental PBIT</b>							
Iron & Steel	9,741	6,562	6,488	7,671	48.4	50.1	27.0
Power	1,044.2	1,762.7	1,446.9	1,312.8	(40.8)	(27.8)	(20.5)
Others	0.7	1.9	(17.6)	(29.7)	(64.0)	(104.0)	(102.4)

Note:

1. Revenue and EBITDA contribution from sale of pellets have been excluded

Source: Company, Kotak Institutional Equities estimates

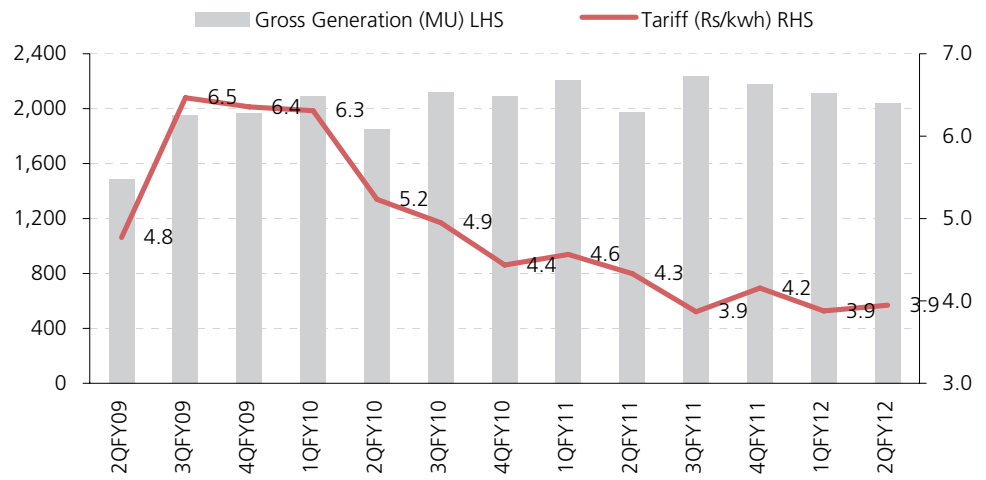
Exhibit 2: Interim results of Jindal Steel &amp; Power (consolidated), March fiscal year-ends (Rs mn)

	2QFY12	2QFY12E	2QFY11	1QFY12	(% chg.)		
					2QFY12E	2QFY11	1QFY12
<b>Net sales</b>	<b>44,232</b>	<b>41,505</b>	<b>30,821</b>	<b>39,441</b>	<b>6.6</b>	<b>43.5</b>	<b>12.1</b>
Total expenditure	(27,194)	(24,027)	(15,804)	(23,184)	13.2	72.1	17.3
Inc/(Dec) in stock	706	—	411	1,345	—	—	(47.5)
Raw materials	(13,552)	(11,863)	(6,424)	(12,620)	14.2	111.0	7.4
Stores and spares consumed	(3,936)	(3,056)	(2,798)	(3,026)	28.8	40.7	30.1
Power & Fuel	(2,377)	(2,932)	(2,063)	(2,793)	(18.9)	15.2	(14.9)
Staff cost	(1,317)	(1,246)	(1,008)	(1,210)	5.7	30.7	8.9
Other expenditure	(6,718)	(4,930)	(3,923)	(4,881)	36.3	71.3	37.6
<b>EBITDA</b>	<b>17,038</b>	<b>17,478</b>	<b>15,017</b>	<b>16,257</b>	<b>(2.5)</b>	<b>13.5</b>	<b>4.8</b>
<b>OPM (%)</b>	<b>38.5</b>	<b>42.1</b>	<b>48.7</b>	<b>41.2</b>			
Other income	253	(250)	37	284	(201.1)	575.7	(11.1)
Interest	(1,255)	(1,116)	(782)	(1,073)	12.5	60.6	17.0
Depreciation	(3,343)	(3,413)	(2,731)	(3,250)	(2.0)	22.4	2.9
<b>Pretax profits</b>	<b>12,693</b>	<b>12,699</b>	<b>11,542</b>	<b>12,218</b>	<b>(0.1)</b>	<b>10.0</b>	<b>3.9</b>
Extraordinaries	(742)	—	—	—	—	—	—
Tax	(3,033)	(3,033)	(2,600)	(2,888)	(0.0)	16.7	5.0
<b>Net income</b>	<b>8,918</b>	<b>9,666</b>	<b>8,942</b>	<b>9,330</b>	<b>(7.7)</b>	<b>(0.3)</b>	<b>(4.4)</b>
Minority interest	38	—	—	42	—	—	—
Share of profit from associates	(203)	(136)	(166)	(184)	48.6	22.4	9.8
<b>PAT after minority interest</b>	<b>8,754</b>	<b>9,530</b>	<b>8,777</b>	<b>9,188</b>	<b>(8.1)</b>	<b>(0.3)</b>	<b>(4.7)</b>
<b>Ratios</b>							
ETR (%)	23.9	23.9	22.5	23.6			
EPS (Rs)	10.4	10.4	9.6	10.0			
<b>Segmental revenue</b>							
Iron & Steel	36,307	—	21,967	30,583	—	65.3	18.7
Power	9,658	—	10,386	10,630	—	(7.0)	(9.1)
Others	1,064	—	651	963	—	63.6	10.6
<b>Segmental PBIT</b>							
Iron & Steel	11,366	—	6,488	8,525	—	75.2	33.3
Power	6,050	—	6,230	7,077	—	(2.9)	(14.5)
Others	(459)	—	29	56	—	(1,705.2)	(927.2)
<b>Segmental PBIT (%)</b>							
Iron & Steel	31.3	—	29.5	27.9			
Power	62.6	—	60.0	66.6			
Others	(43.1)	—	4.4	5.8			

Source: Company, Kotak Institutional Equities estimates

**Exhibit 3: Realizations remained stable sequentially**

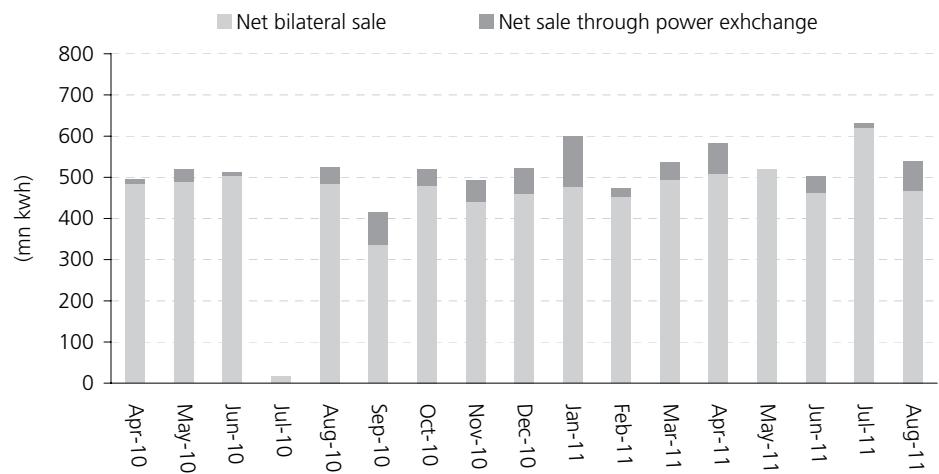
Gross generation and average realizations of JPL, 2QFY09-2QFY12 (MU, Rs/kwh)



Source: Company, Kotak Institutional Equities estimates

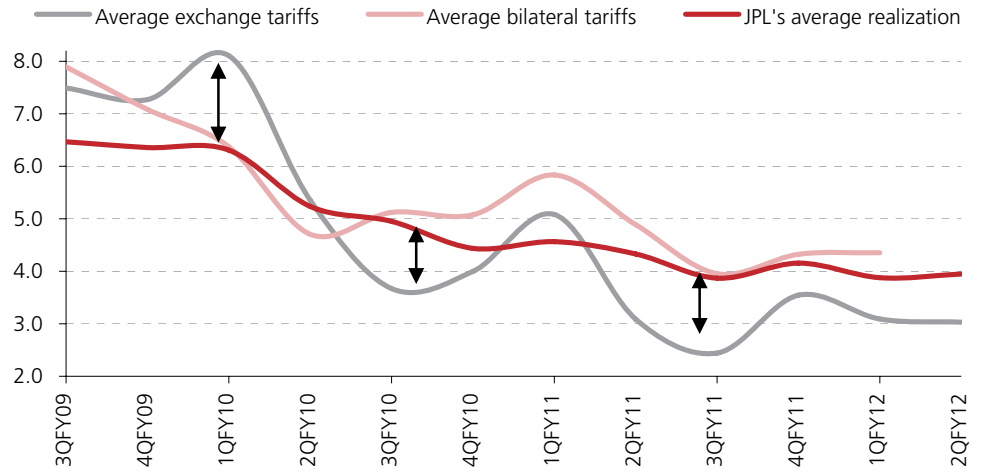
**Exhibit 4: Bulk of JPL's sales are in the bilateral market**

Break up of JPL's merchant sales in bilateral market and exchange (mn kwh)



Source: CERC, Kotak Institutional Equities estimates

**Exhibit 5: JPL's realizations are more aligned with rates prevalent in bilateral market**  
 Comparison of JPL's average realization against bilateral and exchange tariffs (Rs/kwh)



Source: IEX, CERC, Kotak Institutional Equities estimates

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#### RESULT

Coverage view: **Cautious**

Price (Rs): **1,986**

Target price (Rs): **1,800**

BSE-30: **16,748**

**Strong operational performance.** Hero Motocorp's 2QFY12 net profit of Rs6.04 bn (+19.4% yoy, 8.2% qoq) was 11% ahead of our estimates due to 220 bps qoq sequential improvement in gross margins. We believe EBITDA margins are likely to remain strong over the next few quarters until Honda launches affordable 100cc bikes in 1QFY13, which could put pressure on Hero's pricing power in the lower-end segment. We maintain our SELL rating on the stock as we see limited upside triggers.

#### Company data and valuation summary

Hero Motocorp

##### Stock data

52-week range (Rs) (high,low) 2,237-1,376

Market Cap. (Rs bn) 396.6

##### Shareholding pattern (%)

Promoters 52.2

FIs 33.7

MFs 0.7

##### Price performance (%)

Absolute (9.7) 9.3 10.2

Rel. to BSE-30 (8.7) 20.8 32.7

##### Forecasts/Valuations

	2011	2012E	2013E
EPS (Rs)	99.3	111.1	128.2
EPS growth (%)	(11.1)	11.8	15.4
P/E (X)	20.0	17.9	15.5
Sales (Rs bn)	194.0	228.3	262.0
Net profits (Rs bn)	19.8	22.2	25.6
EBITDA (Rs bn)	26.2	25.9	31.1
EV/EBITDA (X)	13.2	13.1	10.7
ROE (%)	56.5	63.5	60.3
Div. Yield (%)	5.3	3.5	3.5

#### 2QFY12 surprised positively due to lower raw material expense and lower rebranding cost

- ▶ Hero Motocorp reported net sales of Rs58.3 bn (+28% yoy, 3% qoq) which were in line with our estimates while EBITDA of Rs7.09 bn (+16.6% yoy, 10.6% qoq) was 14% ahead of our estimates. Gross margins improved by 223 bps qoq driven by – (1) 1% increase in price in June 2011, (2) lower aluminium and rubber cost, (3) slightly improved product mix and (4) higher contribution from the Haridwar plant.
- ▶ Gross average selling prices increased by 1.8% qoq due to increase in prices and slight improvement in product mix.
- ▶ Staff costs increased by 9% qoq due to higher production at the Haridwar plant (which was 1/3<sup>rd</sup> of total volumes sold). Other expenses increased by only 2% qoq (after adding back Rs2.1 bn of fixed royalty paid during the quarter) as the company contained the advertising expenses despite a hit of Rs500 mn due to rebranding expense in this quarter. We expect rebranding cost of Rs500 mn to be incurred in 3QFY12E as well.
- ▶ Depreciation expenses increased by 9% qoq (excluding Rs21 bn of fixed royalty costs) due to increase in production at the Haridwar plant. Royalty expenses have increased from Rs1.86 bn in 1QFY12 to Rs2.1 bn in 2QFY12 due to appreciation of Yen versus Rupee as they had to pay royalty to Honda in Yen and Yen exposure was unhedged. Tax rate remained unchanged at 17% from the last quarter.
- ▶ We maintain our SELL rating on the stock driven by – (1) we expect Hero Motocorp's volume growth to moderate to 6% over 2HFY12E due to high base effect and aggressive competitor launches (Bajaj Auto's Boxer and Pulsar bike launches) and (2) we believe operating margins could come under pressure in FY2013E as Honda launches 100cc bikes in 1QFY13E which could impact market share/pricing of Hero Motocorp in the economy/executive segment. Honda is expanding capacities at an aggressive pace and plans to raise capacity from 2.2 mn to 4 mn by 4QFY13E which is a key risk to the stock performance, in our view. We will review our earnings estimates post the concall on Wednesday.

Hitesh Goel

hitesh.goel@kotak.com

Mumbai: +91-22-6634-1327

Kotak Institutional Equities Research  
kotak.research@kotak.com

Mumbai: +91-22-6634-1100

Hero Motocorp 2QFY12 results bouyed by improvement in gross margins  
2QFY12 results summary, March fiscal year-ends (Rs mn)

	2QFY12	2QFY12E	2QFY11	1QFY12	change (%)		
					Kotak est	yoy	qoq
Volumes (units)	1,544,290	1,544,290	1,285,944	1,529,577	—	20.1	1.0
Gross realisations (Rs/vehicle)	40,132	39,830	37,761	39,436	0.8	6.3	1.8
Gross sales	61,976	61,509	48,559	60,320	0.8	27.6	2.7
Excise duty	4,132	3,998	3,446	3,944	3.4	19.9	4.8
Other operating income	450	475	407	457	(5.3)	10.7	(1.5)
<b>Net sales</b>	<b>58,293</b>	<b>57,986</b>	<b>45,520</b>	<b>56,833</b>	<b>0.5</b>	<b>28.1</b>	<b>2.6</b>
Inc/dec in stock	(402)	33	(757)	33			
Raw materials	42,640	42,700	33,857	42,414	(1.2)	27.6	(0.5)
Staff costs	1,794	1,675	1,498	1,645	7.1	19.7	9.0
Other expenses	7,175	7,333	4,842	6,333	(2.2)	48.2	13.3
Total expenses	51,206	51,741	39,440	50,426	(1.0)	29.8	1.5
<b>EBITDA</b>	<b>7,087</b>	<b>6,245</b>	<b>6,079</b>	<b>6,408</b>	<b>13.5</b>	<b>16.6</b>	<b>10.6</b>
Other income	798	900	784	884	(11.4)	1.8	(9.8)
Interest expense (net)	(45)	(30)	(21)	(32)	49.7	116.9	40.8
Depreciation expense	685	630	608	628	8.7	12.7	9.1
Profit before tax	7,245	6,545	6,276	6,696	10.7	15.4	8.2
Tax expense	1,208	1,113	1,220	1,117	8.6	(1.0)	8.2
<b>Profit after tax</b>	<b>6,036</b>	<b>5,432</b>	<b>5,056</b>	<b>5,579</b>	<b>11.1</b>	<b>19.4</b>	<b>8.2</b>
<b>Ratios (%)</b>							
Raw material cost as % of net sales	72.5	73.7	72.7	74.7			
Staff cost as % of net sales	3.1	2.9	3.3	2.9			
Other expenses as % of net sales	12.3	12.6	10.6	11.1			
EBITDA margin (%)	12.2	10.8	13.4	11.3			
No of shares	200	200	200	200			
EPS	30.2	27.2	25.3	27.9			
Tax rate (%)	16.7	17.0	19.4	16.7			
<b>Volume break up (units)</b>							
Economy	200,811	200,811	175,329	190,479			
Executive	1,102,603	1,102,603	918,643	1,112,542			
Premium	93,475	93,475	75,805	82,357			
<b>Domestic motorcycle</b>	<b>1,396,889</b>	<b>1,396,889</b>	<b>1,169,777</b>	<b>1,385,378</b>			
Scooters	107,556	107,556	81,472	105,784			
Exports	39,845	39,845	34,695	38,415			
<b>Total volumes</b>	<b>1,544,290</b>	<b>1,544,290</b>	<b>1,285,944</b>	<b>1,529,577</b>			
<b>Volume mix (%)</b>							
Economy	13.0	13.0	13.6	12.5			
Executive	71.4	71.4	71.4	72.7			
Premium	6.1	6.1	5.9	5.4			
<b>Domestic motorcycle</b>	<b>90.5</b>	<b>90.5</b>	<b>91.0</b>	<b>90.6</b>			
Scooters	7.0	7.0	6.3	6.9			
Exports	2.6	2.6	2.7	2.5			
<b>Total volumes</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>			

Source: Company, Kotak Institutional Equities estimates



We expect 13% volume CAGR over the next two years  
Volume assumptions, March fiscal year-ends, 2009-2014E (units)

	2009	2010	2011	2012E	2013E	2014E
<b>Motorcycles</b>	<b>3,565,340</b>	<b>4,385,858</b>	<b>5,040,971</b>	<b>5,705,337</b>	<b>6,405,570</b>	<b>7,186,361</b>
Domestic	3,487,164	4,293,991	4,926,390	5,573,568	6,254,037	7,004,521
< 125 cc	3,302,095	4,055,304	4,589,003	5,185,573	5,807,842	6,504,783
> 125 cc	185,069	238,687	337,387	387,995	446,194	499,738
Exports	78,176	91,867	114,581	131,768	151,533	181,840
< 125 cc	69,644	82,824	102,524	117,903	135,588	162,706
> 125 cc	8,532	9,043	12,057	13,866	15,945	19,134
<b>Scooters</b>	<b>156,210</b>	<b>214,272</b>	<b>361,473</b>	<b>432,844</b>	<b>497,770</b>	<b>572,436</b>
Domestic	153,193	208,440	342,991	411,589	473,328	544,327
Exports	3,017	5,832	18,482	21,254	24,442	28,109
<b>Total 2-wheelers</b>	<b>3,721,550</b>	<b>4,600,130</b>	<b>5,402,444</b>	<b>6,138,180</b>	<b>6,903,340</b>	<b>7,758,796</b>
<b>Growth (yoy %)</b>						
<b>Motorcycles</b>	<b>10.3</b>	<b>23.0</b>	<b>14.9</b>	<b>13.2</b>	<b>12.3</b>	<b>12.2</b>
<b>Domestic</b>	<b>10.9</b>	<b>23.1</b>	<b>14.7</b>	<b>13.1</b>	<b>12.2</b>	<b>12.0</b>
< 125 cc	11.3	22.8	13.2	13.0	12.0	12.0
> 125 cc	4.1	29.0	41.4	15.0	15.0	12.0
<b>Exports</b>	<b>(11.4)</b>	<b>17.5</b>	<b>24.7</b>	<b>15.0</b>	<b>15.0</b>	<b>20.0</b>
< 125 cc	(13.6)	18.9	23.8	15.0	15.0	20.0
> 125 cc	12.3	6.0	33.3	15.0	15.0	20.0
<b>Scooters</b>	<b>49.0</b>	<b>37.2</b>	<b>68.7</b>	<b>19.7</b>	<b>15.0</b>	<b>15.0</b>
Domestic	49.5	36.1	64.6	20.0	15.0	15.0
Exports	28.3	93.3	216.9	15.0	15.0	15.0
<b>Total 2-wheelers</b>	<b>11.5</b>	<b>23.6</b>	<b>17.4</b>	<b>13.6</b>	<b>12.5</b>	<b>12.4</b>

Source: Company, Kotak Institutional Equities estimates

We expect 14% earnings CAGR over the next two years  
 Hero Motocorp financial summary, March fiscal year-ends, 2009-2014E (Rs mn)

	2009	2010	2011	2012E	2013E	2014E
<b>Profit model (Rs mn)</b>						
Net sales	123,583	158,605	194,012	228,260	261,993	300,601
<b>EBITDA</b>	<b>17,489</b>	<b>27,643</b>	<b>26,164</b>	<b>25,897</b>	<b>31,131</b>	<b>36,045</b>
Other income	1,830	2,383	2,688	3,335	3,644	3,954
Interest	317	206	19	19	19	19
Depreciation	(1,807)	(1,915)	(4,024)	(2,520)	(2,787)	(2,987)
<b>Profit before tax</b>	<b>17,828</b>	<b>28,317</b>	<b>24,846</b>	<b>26,731</b>	<b>32,008</b>	<b>37,031</b>
Current tax	(4,806)	(5,916)	(3,828)	(4,544)	(6,402)	(8,147)
Deferred tax	(191)	(83)	(940)	—	—	—
<b>Net profit</b>	<b>12,831</b>	<b>22,318</b>	<b>19,279</b>	<b>22,187</b>	<b>25,606</b>	<b>28,884</b>
<b>Earnings per share (Rs)</b>	<b>64.3</b>	<b>111.8</b>	<b>99.3</b>	<b>111.1</b>	<b>128.2</b>	<b>144.6</b>
<b>Balance sheet (Rs mn)</b>						
Equity	38,008	34,650	29,561	35,392	44,643	57,172
Deferred tax liability	1,444	1,528	2,527	2,527	2,527	2,527
Deferred payment credits	—	—	14,585	7,505	425	—
Total Borrowings	785	660	327	327	327	327
Current liabilities	20,528	48,314	61,447	69,896	72,494	75,372
<b>Total liabilities</b>	<b>60,765</b>	<b>85,152</b>	<b>108,447</b>	<b>115,647</b>	<b>120,416</b>	<b>135,398</b>
Net fixed assets	16,943	17,069	42,054	41,454	35,587	34,615
Investments	33,688	39,257	51,288	56,288	61,288	66,288
Cash	2,196	19,072	715	923	4,057	12,158
Other current assets	7,939	9,754	14,331	16,923	19,426	22,279
Miscellaneous expenditure	—	—	59	59	59	59
<b>Total assets</b>	<b>60,765</b>	<b>85,152</b>	<b>108,447</b>	<b>115,647</b>	<b>120,416</b>	<b>135,398</b>
<b>Free cash flow (Rs mn)</b>						
Operating cash flow excl. working capital	12,619	22,210	20,701	21,353	24,730	27,899
Working capital changes	985	4,846	2,181	5,856	96	25
Capital expenditure	(3,135)	(2,101)	(3,610)	(9,000)	(4,000)	(2,440)
<b>Free cash flow</b>	<b>10,469</b>	<b>24,955</b>	<b>19,271</b>	<b>18,209</b>	<b>20,825</b>	<b>25,484</b>
<b>Ratios</b>						
EBITDA margin (%)	14.2	17.4	13.5	11.3	11.9	12.0
PAT margin (%)	10.4	14.1	9.9	9.7	9.8	9.6
Debt/equity (X)	0.0	0.0	0.0	0.0	0.0	0.0
Net debt/equity (X)	(0.9)	(1.6)	(1.6)	(1.5)	(1.4)	(1.3)
Book Value (Rs/share)	197.6	181.2	160.4	189.6	235.9	298.6
RoAE (%)	36.4	59.0	56.5	63.5	60.3	54.1
<b>RoACE (%)</b>	<b>34.8</b>	<b>57.5</b>	<b>55.7</b>	<b>62.9</b>	<b>59.8</b>	<b>53.8</b>

Source: Company, Kotak Institutional Equities estimates

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#### RESULT

Coverage view: **Attractive**

Price (Rs): **402**

Target price (Rs): **400**

BSE-30: **16,748**

**It's revenue growth or profitability.** HCLT's 1QFY12 revenue performance was lower than our estimate. The HCLT story revolves around better-than-peers revenue growth driven by margin sacrifice; this thesis has failed to pass the muster, for the first time in many quarters. HCLT results reinforced our view that aggressive deal pursuit has led to an undesirable either/or situation of revenue growth and profitability. We cut our FY2012/13E revenue growth estimates by 2-3% but raise our EPS estimates by 5-6% to factor in lower Re assumptions. SELL. TP revised up to Rs400/share (from Rs375 earlier).

#### Company data and valuation summary

HCL Technologies

##### Stock data

52-week range (Rs) (high,low) 528-360

Market Cap. (Rs bn) 283.1

##### Shareholding pattern (%)

Promoters 64.4

FIs 21.3

MFs 3.1

##### Price performance (%)

Absolute 4.1 (20.4) (10.0)

Rel. to BSE-30 5.2 (12.0) 8.3

##### Forecasts/Valuations

	2011	2012E	2013E
EPS (Rs)	22.9	31.1	34.3
EPS growth (%)	30.4	36.1	10.2
P/E (X)	17.6	12.9	11.7
Sales (Rs bn)	158.6	199.9	222.2
Net profits (Rs bn)	16.2	22.0	24.4
EBITDA (Rs bn)	26.3	34.8	36.7
EV/EBITDA (X)	10.7	7.8	7.1
ROE (%)	21.0	22.9	22.1
Div. Yield (%)	1.8	2.0	2.0

#### Weak 1QFY12 quarter; FCF burn of US\$20 mn even though it may be a quarterly aberration

HCLT's reported 1QFY12 performance was lower than our estimate. The company reported revenues of US\$1,002 mn, a qoq growth of 4.1%, lower than our estimate of 5.3% growth. EBITDA margin (after stock compensation charge) declined 130 bps qoq to 16.7%; our expectation was 16.8%. Net income of Rs5.1 bn was 6% below our estimate. FCF generation was weak, impacted by decline in current liabilities and sharp increase in unbilled revenues.

#### Revenues exceed headcount growth once again though it fails to fire up margins

HCLT's revenue CQGR of 6% over the past eight quarters is significantly ahead of headcount CQGR of 5%. This has led to increase in per capita revenue productivity by 10% to ~US\$51,000/ person though this has not translated into corresponding increase in per capita EBITDA/EBIT or margins. This could possibly be on account of deal wins (1) with high onsite infra components and (2) involving high degree of employee rebadging. HCLT's 1QFY12 EBITDA margin declined 130 bps qoq to 16.7%; compensation increase for 80% of wage bill impacted margin by 200 bps. This was offset by Rupee depreciation which benefitted margin by 100 bps+.

#### Muted EAS performance raises questions on performance of acquired entities

HCLT's enterprise application services segment declined qoq. Revenue growth from EAS has been muted for the past several quarters indicating little (visible) synergy benefits from the Axon acquisition. We also highlight that HCLT had also made two BPO acquisitions, viz. Liberata and Capital Stream. Benefits of these acquisitions have not reflected in BPO performance, either.

#### Street estimates may be optimistic. SELL

We reduce our below-consensus FY2012/13E revenue growth estimate to 20.6/13.9%. Below EBITDA line adjustments and lower Re assumption lead to 5.6/4.5% increase in EPS though it is still well below consensus. We are not as optimistic as the Street on financial performance. We maintain our SELL rating on the stock with a revised target price of Rs400/share. Our target price implies P/E multiple of 11.7X, a 35% discount to TCS and Infosys.

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

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

Shyam M.  
shyam.m@kotak.com  
Mumbai: +91-22-6634-1470

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

### Weak cash generation

HCLT reported free cash burn of US\$20 mn in 1QFY12. Operating cash generation was US\$26 mn, ~15% of EBITDA (post option expenses). This was on account of an increase of 7 in receivables days (including unbilled revenues) and decline in current liabilities. On the positive side and to HCLT's credit, its working capital cycle is lower than some of the larger peers.

### Details on 1QFY12 performance

Exhibit 1 depicts HCLT's 1QFY12 results versus our estimates. We note that we have translated the company's US\$ P&L into Re at a Re/US\$ rate of 48.8, the same as assumed in our forecasts. The company has stopped publishing convenience translation Rupee financials using end-period rate and has started publishing only translated Rupee financials using average rate for the quarter. We have moved our forecasts to average rate assumptions as well. Key highlights from 1QFY12

- ▶ Revenues at US\$1,002 mn (+4.1% qoq, +24.7% yoy) came in around 1% lower than our estimate. Revenue growth was led by applications and infra segments; BPO revenues declined sequentially. Constant currency revenue growth was 5.1% qoq.
- ▶ EBITDA margin declined 130 bps qoq to 16.7%, broadly in line with our estimate. The company has effected wage hikes for a bulk of its employees. December 2011 quarter will see an incremental margin impact of around 50 bps qoq on account of the balance.
- ▶ HCLT added around 3,500 employees at the consolidated level, similar to the net headcount addition in the previous quarter. The company indicated that 50%+ of its gross hires during the quarter were freshers.
- ▶ Growth was led by Retail/CPG (+12% qoq) and Manufacturing (+8%) verticals. Among service lines, growth was driven by product engineering and infra segments.
- ▶ End-September 2011 hedges outstanding stood at US\$713 mn, up from US\$392 mn at end-June 2011. These include US\$180 mn of balance sheet hedges.
- ▶ HCLT announced a special 'milestone' dividend of Rs2/share in addition to an interim dividend of Rs2/share.

## HCL Technologies (year-ending June) - 1QFY12 financial performance

Rs mn	Sep-10	Jun-11	Sep-11	qoq (%)	yoy (%)	Kotak Estimates	% Deviation
<b>Revenues (US\$ mn)</b>	<b>803.8</b>	<b>962.9</b>	<b>1,002.2</b>	<b>4.1</b>	<b>24.7</b>	<b>1,013.5</b>	<b>(1.1)</b>
<b>Revenues</b>	<b>36,116</b>	<b>43,035</b>	<b>48,907</b>	<b>13.6</b>	<b>35.4</b>	<b>49,457</b>	<b>(1.1)</b>
Cost of Revenues	(24,933)	(29,283)	(33,692)	15.1	35.1	(34,224)	(1.6)
<b>Gross profit</b>	<b>11,183</b>	<b>13,752</b>	<b>15,216</b>	<b>10.6</b>	<b>36.1</b>	<b>15,234</b>	<b>(0.1)</b>
SG&A expenses	(5,549)	(5,998)	(7,037)	17.3	26.8	(6,938)	1.4
<b>EBITDA (including RSU expenses)</b>	<b>5,634</b>	<b>7,754</b>	<b>8,179</b>	<b>5.5</b>	<b>45.2</b>	<b>8,295</b>	<b>(1.4)</b>
<b>EBITDA adjusted for non cash RSU charges</b>	<b>5,877</b>	<b>7,951</b>	<b>8,359</b>	<b>5.1</b>	<b>42.2</b>	<b>8,490</b>	<b>(1.5)</b>
Depreciation	(1,213)	(1,287)	(1,376)	6.9	13.4	(1,404)	(2.0)
<b>EBIT</b>	<b>4,421</b>	<b>6,467</b>	<b>6,803</b>	<b>5.2</b>	<b>53.9</b>	<b>6,891</b>	<b>(1.3)</b>
Interest expense	(404)	(313)	(345)			(363)	
Other Income (net of interest expense)	(229)	469	409			600	
<b>Earnings before tax</b>	<b>3,788</b>	<b>6,624</b>	<b>6,866</b>	<b>3.7</b>	<b>81.3</b>	<b>7,128</b>	<b>(3.7)</b>
Provision for Tax	(804)	(1,703)	(1,820)	6.9	126.3	(1,782)	2.1
<b>Earnings before share of earnings in affiliates</b>	<b>2,983</b>	<b>4,921</b>	<b>5,046</b>	<b>2.5</b>	<b>69.1</b>	<b>5,346</b>	<b>(5.6)</b>
<b>Net Income (before extraordinary)</b>	<b>2,983</b>	<b>4,921</b>	<b>5,046</b>	<b>2.5</b>	<b>69.1</b>	<b>5,346</b>	<b>(5.6)</b>
<b>EPS</b>	<b>4.3</b>	<b>7.1</b>	<b>7.3</b>	<b>2.5</b>	<b>69.1</b>	<b>7.7</b>	<b>(5.6)</b>
No of shares outstanding	690.0	690.0	690.0			690.0	
<b>Margins (%)</b>							
Gross Profit margin	31.0	32.0	31.1			30.8	
<b>EBITDA Margin</b>	<b>15.6</b>	<b>18.0</b>	<b>16.7</b>			<b>16.8</b>	
EBIT Margin	12.2	15.0	13.9			13.9	
NPM	8.3	11.4	10.3			10.8	

Source: Company, Kotak Institutional Equities estimates

## Key changes to our FY2012-13E estimates

US\$ mn	Revised		Old		Change (%)	
	FY2012E	FY2013E	FY2012E	FY2013E	FY2012E	FY2013E
<b>Revenues</b>	<b>4,276</b>	<b>4,871</b>	<b>4,374</b>	<b>5,008</b>	<b>(2.2)</b>	<b>(2.7)</b>
- Software Services	3,018	3,389	3,052	3,451	(1.1)	(1.8)
- BPO	192	204	202	214	(4.7)	(4.7)
- Infrastructure Services	1,065	1,279	1,120	1,344	(4.9)	(4.9)
<b>Revenue growth yoy (%)</b>	<b>20.6</b>	<b>13.9</b>	<b>23.4</b>	<b>14.5</b>		
EBITDA	744	805	722	774	3.0	3.9
EBIT	625	674	602	641	3.7	5.1
<b>Net Income</b>	<b>469</b>	<b>534</b>	<b>462</b>	<b>518</b>	<b>1.6</b>	<b>3.0</b>
EBITDA margin (%)	17.4	16.5	16.5	15.5		
EBIT	14.6	13.8	13.8	12.8		
Re/ US\$ rate	46.7	45.6	45.0	45.0	4.0	1.5
<b>EPS Rs/ share</b>	<b>31.1</b>	<b>34.3</b>	<b>29.5</b>	<b>32.8</b>	<b>5.6</b>	<b>4.5</b>

Source: Kotak Institutional Equities estimates

## HCLT 1QFY12 - headline and segmental performance

	Reported	KIE est.	4QFY11	1QFY11
<b>Headline financials</b>				
<b>Revenues (US\$ mn)</b>	<b>1,002</b>	<b>1,013</b>	<b>963</b>	<b>804</b>
Growth qoq (%)	4.1	5.3		
Growth yoy (%)	24.7	26.1		
versus KIE (%)	(1.1)			
<b>Revenues (Rs mn)</b>				
<b>Revenues (Rs mn)</b>	<b>48,907</b>	<b>49,457</b>	<b>43,035</b>	<b>36,116</b>
Growth qoq (%)	13.6	14.9		
Growth yoy (%)	35.4	36.9		
versus KIE (%)	(1.1)			
<b>EBITDA (Rs mn)</b>				
<b>EBITDA (Rs mn)</b>	<b>8,120</b>	<b>8,295</b>	<b>7,754</b>	<b>5,634</b>
Growth qoq (%)	4.7	7.0		
Growth yoy (%)	44.1	47.2		
versus KIE (%)	(2.1)			
EBITDA margin (%)	16.6	16.8	18.0	15.6
<b>PAT (Rs mn)</b>				
<b>PAT (Rs mn)</b>	<b>4,987</b>	<b>5,346</b>	<b>4,921</b>	<b>2,983</b>
Growth qoq (%)	1.3	8.6		
Growth yoy (%)	67.2	79.2		
versus KIE (%)	(6.7)			
<b>EPS (Rs/share)</b>				
<b>EPS (Rs/share)</b>	<b>7.23</b>	<b>7.75</b>	<b>7.13</b>	<b>4.32</b>
Growth qoq (%)	1.3	8.6		
Growth yoy (%)	67.2	79.2		
versus KIE (%)	(6.7)			
<b>Revenue break-up</b>				
<b>IT services (US\$ mn)</b>				
<b>IT services (US\$ mn)</b>	<b>709</b>	<b>714</b>	<b>679</b>	<b>576</b>
Growth qoq (%)	4.5	5.1		
Growth yoy (%)	23.2	24.0		
versus KIE (%)	(0.6)			
<b>Infrastructure services (US\$ mn)</b>				
<b>Infrastructure services (US\$ mn)</b>	<b>246</b>	<b>253</b>	<b>236</b>	<b>180</b>
Growth qoq (%)	4.3	7.0		
Growth yoy (%)	36.8	40.4		
versus KIE (%)	(2.5)			
<b>BPO (US\$ mn)</b>				
<b>BPO (US\$ mn)</b>	<b>47</b>	<b>47</b>	<b>48</b>	<b>48</b>
Growth qoq (%)	(2.5)	(1.2)		
Growth yoy (%)	(3.3)	(2.1)		
versus KIE (%)	(1.3)			

Source: Company, Kotak Institutional Equities estimates

## HCLT - quarterly balance sheet, June fiscal year-ends (US\$ mn)

	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
<b>Assets</b>									
Cash and cash equivalents	74	73	74	101	95	69	111	116	96
Accounts receivables, net	633	592	638	657	714	738	746	762	821
Investments (treasury)	491	321	432	425	385	404	373	385	319
Other current assets	199	178	185	191	221	262	294	281	264
<b>Total current assets</b>	<b>1,397</b>	<b>1,164</b>	<b>1,329</b>	<b>1,373</b>	<b>1,415</b>	<b>1,472</b>	<b>1,523</b>	<b>1,544</b>	<b>1,500</b>
Current liabilities	655	648	649	675	691	730	765	755	720
<b>Net current assets</b>	<b>742</b>	<b>516</b>	<b>680</b>	<b>698</b>	<b>724</b>	<b>742</b>	<b>758</b>	<b>789</b>	<b>780</b>
Net block	339	362	391	398	424	462	479	496	479
Goodwill and intangible assets	945	973	944	929	946	938	969	937	912
Other assets	196	217	218	223	300	294	297	295	286
<b>Total assets</b>	<b>2,222</b>	<b>2,068</b>	<b>2,234</b>	<b>2,248</b>	<b>2,394</b>	<b>2,436</b>	<b>2,503</b>	<b>2,516</b>	<b>2,456</b>
<b>Liabilities and stockholder's equity</b>									
Borrowings	786	534	621	574	577	582	551	475	442
Other long-term liabilities	182	169	149	159	159	143	148	154	139
<b>Total liabilities</b>	<b>968</b>	<b>703</b>	<b>770</b>	<b>733</b>	<b>737</b>	<b>725</b>	<b>699</b>	<b>629</b>	<b>581</b>
Minority interest	0	-	-	-	-	-	-	-	-
Total stockholder's equity	1,253	1,364	1,463	1,515	1,658	1,711	1,804	1,887	1,875
<b>Total liabilities and stockholder's equity</b>	<b>2,222</b>	<b>2,068</b>	<b>2,234</b>	<b>2,248</b>	<b>2,394</b>	<b>2,436</b>	<b>2,503</b>	<b>2,516</b>	<b>2,456</b>

Source: Company

## Key assumptions driving HCLT earnings model, June fiscal year-ends, 2010-2013E

	2010	2011	2012E	2013E
<b>Key assumptions</b>				
<b>Revenue growth (US\$ terms) (%)</b>	<b>23.6</b>	<b>31.1</b>	<b>20.6</b>	<b>13.9</b>
IT services	20.2	31.5	19.6	12.3
Infrastructure management	60.6	44.6	28.9	20.0
BPO	(9.3)	(8.8)	(1.4)	5.9
<b>Volume growth yoy (%) (IT)</b>	<b>11.4</b>	<b>30.6</b>	<b>19.0</b>	<b>13.6</b>
<b>Pricing change yoy (%)</b>				
Onsite	12.8	1.5	1.6	(1.0)
Offshore	(2.3)	2.1	1.4	(1.0)
Blended	8.0	0.7	0.6	(1.2)
<b>Total employees (#)</b>	<b>64,557</b>	<b>77,046</b>	<b>90,973</b>	<b>103,860</b>
<b>Employee additions</b>	<b>10,341</b>	<b>12,489</b>	<b>13,927</b>	<b>12,888</b>
<b>Utilization rate (%)</b>	<b>80.1</b>	<b>76.6</b>	<b>76.6</b>	<b>76.8</b>
<b>SG&amp;A expense as % of revenues</b>	<b>14.3</b>	<b>14.8</b>	<b>14.2</b>	<b>14.2</b>
<b>Re/US\$ rate</b>	<b>46.5</b>	<b>44.7</b>	<b>46.7</b>	<b>45.6</b>

Source: Kotak Institutional Equities estimates

Condensed consolidated financials for HCL Technologies, June fiscal year-ends, 2010-2013E (Rs mn)

	2010	2011	2012E	2013E
<b>Profit model</b>				
Revenues	125,650	158,551	199,862	222,186
<b>EBITDA</b>	<b>24,779</b>	<b>26,270</b>	<b>34,760</b>	<b>36,705</b>
Depreciation (incl amortization of intangible)	(5,006)	(4,915)	(5,555)	(5,960)
Other income	(5,278)	(541)	342	1,302
<b>Pretax profits</b>	<b>14,496</b>	<b>20,814</b>	<b>29,547</b>	<b>32,047</b>
Tax	(2,402)	(4,812)	(7,596)	(7,691)
<b>Profit after tax</b>	<b>12,094</b>	<b>16,002</b>	<b>21,950</b>	<b>24,356</b>
<b>Diluted earnings per share (Rs)</b>	<b>17.5</b>	<b>22.9</b>	<b>31.1</b>	<b>34.3</b>
<b>Balance sheet</b>				
Total equity	70,381	84,383	103,537	118,762
Deferred taxation liability	1,546	1,489	1,556	1,518
Total borrowings	26,642	21,744	18,050	8,494
Minority interest	14	13	14	14
Other non-current liabilities	6,106	5,165	5,770	5,768
Current liabilities	31,077	33,529	39,786	43,516
<b>Total liabilities and equity</b>	<b>135,767</b>	<b>146,323</b>	<b>168,714</b>	<b>178,072</b>
Cash	16,605	15,993	21,691	23,858
Other current assets	39,348	46,637	57,456	62,962
Goodwill and intangible assets	43,139	41,905	43,345	41,921
Tangible fixed assets	18,493	22,178	26,915	29,556
Investments	8,539	9,213	6,964	6,797
Other non-current assets	9,644	10,398	12,344	12,979
<b>Total assets</b>	<b>135,767</b>	<b>146,323</b>	<b>168,714</b>	<b>178,072</b>
<b>Free cash flow</b>				
Operating cash flow, excl. working capital	21,270	25,244	27,146	29,014
Working capital changes	(4,364)	(6,973)	(5,076)	(2,996)
Capital expenditure	(6,119)	(7,697)	(8,826)	(8,863)
Investment changes/acquisition	(492)	(693)	-	-
<b>Free cash flow</b>	<b>10,297</b>	<b>9,882</b>	<b>13,244</b>	<b>17,155</b>
<b>Ratios (%)</b>				
EBITDA margin	19.7	16.6	17.4	16.5
EBIT margin	15.7	13.5	14.6	13.8
Debt/equity	0.4	0.3	0.2	0.1
Net debt/equity	0.0	(0.0)	(0.1)	(0.2)

Source: Company, Kotak Institutional Equities estimates



## HCL Tech: Quarterly metrics

	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
Revenues (US\$ mn)	607.2	630.1	651.7	685.2	737.6	803.8	864.1	914.5	962.9	1,002.2
Revenues (Rs mn)	29,085	30,314	30,325	30,757	34,254	36,116	38,625	40,779	43,035	48,907
Exchange rate	47.9	48.1	46.5	44.9	46.4	44.9	44.7	44.6	44.7	48.8
<b>Geographical mix</b>										
US	58.9	58.7	57.0	59.5	61.5	58.0	57.1	54.3	54.4	55.8
Europe	28.5	29.0	29.5	26.7	24.6	26.7	26.6	27.0	27.1	26.6
Asia Pacific	12.6	12.3	13.5	13.8	13.9	15.3	16.3	18.7	18.5	17.5
<b>Revenues by service offering</b>										
Enterprise application services	23.6	21.9	22.4	21.4	22.2	21.7	21.3	21.4	20.9	19.8
Engineering and R&D services	19.4	18.7	18.0	19.0	19.6	18.7	18.5	17.7	17.8	18.6
Custom application (Industry solutions)	29.7	30.7	30.5	29.9	29.6	31.3	31.8	32.0	31.8	32.4
Infrastructure services	17.6	19.4	20.3	22.2	22.4	22.3	22.8	23.4	24.5	24.6
BPO services	9.7	9.3	8.8	7.6	6.2	6.0	5.7	5.4	4.9	4.6
<b>Revenue by contract type</b>										
Time and Material	61.5	60.0	60.4	59.5	59.1	58.9	58.5	58.0	57.5	56.0
Fixed price	38.5	40.0	39.6	40.5	40.9	41.1	41.5	42.0	42.5	44.0
<b>Revenue by vertical</b>										
Financial services	24.8	26.3	26.1	25.5	24.9	25.2	24.6	26.2	26.0	25.1
Manufacturing	30.9	27.4	25.6	26.7	27.3	27.2	27.1	27.3	28.0	29.0
Telecom	12.5	13.0	12.5	11.6	10.9	11.0	10.8	10.3	9.1	8.5
Retail & CPG	6.6	7.0	8.0	7.5	8.2	8.5	9.1	8.7	7.9	8.5
Media Publishing and entertainment	5.6	6.8	7.2	7.9	7.4	6.9	6.8	6.6	7.1	6.8
Life sciences	6.4	6.4	7.2	7.5	8.2	8.4	8.4	8.0	7.9	7.6
Energy-utilities-public sector	7.6	6.8	7.3	7.0	6.9	6.8	7.2	7.3	8.3	8.0
Others	5.6	6.3	6.1	6.3	6.2	6.0	5.8	5.6	5.7	6.6
<b>Client metrics (LTM)</b>										
Active client relationships	367	373	399	404	408	426	434	453	467	480
New client relationships	37	28	36	39	51	48	46	58	70	66
<b>Number of million dollar clients (LTM)</b>										
50 Million dollar +	4	4	4	5	5	6	7	8	9	9
10 Million dollar +	43	45	51	55	58	64	67	70	73	79
5 Million dollar +	85	94	104	106	107	112	113	119	126	135
1 Million dollar +	253	264	281	281	283	292	312	324	332	349
<b>Client contribution to revenue</b>										
Top 5 clients	20.6	19.0	18.0	17.8	17.7	17.5	16.8	16.2	15.4	15.3
Top 10 clients	28.9	27.2	26.2	25.8	25.9	25.8	25.6	25.2	24.6	24.1
Top 20 clients	40.2	38.1	36.9	36.6	36.6	36.8	36.6	36.2	35.3	24.2
Repeat business	88.4	93.7	94.4	93.4	91.9	93.7	94.3	94.5	94.7	94.9
<b>Operational metrics - Software services</b>										
<b>Effort mix</b>										
Offshore	71.7	71.9	71.5	72.2	72.1	72.2	72.4	72.9	73.0	72.7
Onsite	28.3	28.1	28.5	27.8	27.9	27.8	27.6	27.1	27.0	27.3
<b>Revenue mix</b>										
Offshore	41.2	41.5	40.9	41.3	41.4	41.7	41.9	42.6	42.7	42.3
Onsite	58.8	58.5	59.1	58.7	58.6	58.3	58.1	57.4	57.3	57.7
<b>Utilization</b>										
Offshore - Including trainees	76.2	76.0	76.4	76.2	72.9	70.1	70.1	71.9	72.5	69.7
Onsite	97.0	97.2	96.7	95.6	95.2	95.7	95.9	96.5	96.2	96.0
Efforts Billed - Offshore	50,640	51,167	51,530	55,769	61,518	66,396	71,090	75,070	77,333	80,171
Efforts Billed - Onsite	20,022	19,950	20,504	21,447	23,777	25,609	27,040	27,843	28,673	30,074
Total Billed Efforts	70,662	71,117	72,034	77,216	85,295	92,005	98,130	102,913	106,006	110,245
<b>Manpower details</b>										
<b>Consolidated manpower</b>										
Total gross addition	54,216	54,443	55,688	58,129	64,557	70,218	72,267	73,420	77,046	80,520
Total net addition	3,391	4,322	5,529	7,136	11,588	11,785	8,379	7,534	9,572	9,311
Total net addition	190	227	1,245	2,441	6,428	5,661	2,049	1,153	3,626	3,474
Attrition - IT services	13.0	12.8	12.8	13.9	15.7	16.7	17.2	17.0	16.5	15.9

Source: Company

OCTOBER 18, 2011

### RESULT

Coverage view: **Attractive**

Price (Rs): **267**

Target price (Rs): **325**

BSE-30: **16,748**

**Maintaining strong growth.** IndusInd Bank delivered another strong quarter with net profits growth of 45% yoy on the back of impressive revenue growth and lower provisions. Slippages were higher but were largely from corporate loan portfolio while trends in retail slippages remained healthy. We note that the bank is building a slightly risky portfolio, especially in retail in the current environment which could result in higher slippages in FY2013E. We retain our BUY rating (TP ₹325), valuing it at 3.0X book and 18X EPS for RoEs of about 18% and over 20% EPS growth for FY2011-13E.

### Company data and valuation summary

IndusInd Bank

#### Stock data

52-week range (Rs) (high,low) 309-181

Market Cap. (Rs bn) 124.6

#### Shareholding pattern (%)

Promoters 19.5

FIs 48.6

MFs 7.6

#### Price performance (%)

Absolute 1M 3M 12M

0.4 (3.8) 2.3

Rel. to BSE-30 1.5 6.3 23.1

#### Forecasts/Valuations

	2011	2012E	2013E
EPS (Rs)	12.4	15.6	18.2
EPS growth (%)	45.2	26.1	16.6
P/E (X)	21.6	17.1	14.7
NII (Rs bn)	13.8	17.1	21.0
Net profits (Rs bn)	5.8	7.3	8.5
BVPS	78.6	90.0	102.8
P/B (X)	3.4	3.0	2.6
ROE (%)	20.8	18.1	17.8
Div. Yield (%)	0.7	0.9	1.1

### QUICK NUMBERS

- NII grew 27% yoy; NIM at 3.4% (flat qoq)
- Slippages at 1.8% primarily from corporate segment
- Maintain BUY with TP of ₹325 (same as previous)

### Strong margins performance can support the risk built in loans; maintain BUY

We maintain our BUY rating with TP of ₹325, giving an upside of about 20% from current levels. We are valuing the bank at 3X book and 18X FY2013 EPS delivering EPS growth of about 20% CAGR and RoEs in the range of 18% for FY2011-13E. The bank has outperformed the broader index highlighting the underlying strength in its retail asset franchise. Aggressive growth in fixed interest vehicle finance portfolio (current yield of 16%) and decline in cost of funds (current costs of 8.2%) sets a base for strong NIM expansion (not factored currently to estimates) in FY2013E, which can offset a rise in provisions if the underlying business environment deteriorates sharply.

Execution of business continues to remain a key strength of the management, especially in the following areas: (1) Loan growth continues to witness diversification with new loans from LAP, used-vehicle finance and credit cards. (2) NIM outlook has improved, especially with improving CASA ratio and higher share of fixed rates loans contracted at current levels. (3) Improved contribution of fee income to overall non-interest income. (4) Cost-income ratio, despite heavy investments, is at about 48% levels. Key risks to the call would be: (1) Sharper-than-expected deterioration in economic environment which would shift focus from growth to strengthening the quality of balance sheet. (2) Interest rates prevailing at current levels resulting in weak NIM.

### Shift in loan composition and better corporate lending yields result in 6 bps qoq NIM decline

NIM declined marginally by about 6 bps qoq to 3.4% levels as cost of funds continued to rise but was cushioned by shift in loan composition (high yielding retail book) and improvement in corporate lending yields. Cost of deposits increased by 45 bps qoq to 8.2%. CASA ratio declined 50 bps qoq. Yields on the corporate loan portfolio improved of 60 bps qoq while investment yields (calc) improved 40 bps qoq. CD ratio declined to 79% from 81% in 1Q.

We are currently building flat NIM for FY2012E but a marginal increase in FY2013E. However, we believe that IndusInd Bank has the potential to surprise positively over the next few quarters on the back of (1) decline in cost of deposits from current levels and (2) higher proportion of high yielding (16% in 2QFY11) fixed retail asset book (46% vehicle finance loans) contracted at current levels.

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

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

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

### Loan growth skewed towards retail primarily in high yielding vehicle loans

Loans grew by 29% yoy (6% qoq) to ₹301 bn—retail loans grew by 50% yoy while the non-retail portfolio grew 18% yoy. The growth in retail loans is primarily in vehicle loan portfolio (despite volume weakness at industry level) which grew by 46% yoy (14% qoq) with all segments growing healthily. Vehicle loan portfolio is now 46% of the overall loans as compared to 40% in FY2010—used-vehicles are about 10% of this portfolio. Loans in the corporate loan segment are primarily in the high yielding segment—loans to small business, which grew 51% yoy.

We broadly maintain our positive outlook on loan growth for the bank at 25% CAGR for FY2011-13E, given the relatively smaller balance sheet size of the bank, the attractiveness of the target segments and new initiatives in used vehicle loans, loans against property and credit cards.

### Slippages at 1.8%—primarily from corporate; gross NPLs increase 16% yoy

Gross NPLs increased by 16% yoy (8% qoq) to ₹3.3 bn (1.1% of loans) from ₹3.1 bn (1% of loans) in June 2011 mainly due to higher slippages from the corporate segment. Despite increasing concern on slippages from the vehicle loan portfolio, the current quarter saw no such signs despite yields in the retail loans being high at about 16% levels over the past eight quarters. Net NPLs increased by 11% yoy (11% qoq) to ₹931 mn. Overall slippages for the quarter were at 1.8% (1.1% in June 2011) with slippages from the corporate segment at 1.8% (led by one-off slippage) and slippages from the retail segment at 1.9% (similar to June 2011). Loan loss provisions (annualized) were at 0.6% for the quarter.

For FY2012-13E, we are building slippages at 1.7% (0.9% in FY2011) and loan-loss provisions to increase to 1.1% from 0.7% in FY2011. While we build slippages rising from a cyclical perspective (high interest rates and slowing economy), we believe that IndusInd Bank has seen a marginal increase in riskiness of the portfolio—new business emerging in higher delinquent portfolios like credit cards (1% of loans) and used vehicle finance (5% of loans).

### Fee income growth impressive at 30% yoy

Non-interest income grew impressively by 36% yoy to ₹2.4 bn while performance on the core fee income was equally strong at 30% yoy to ₹2.1 bn. We note that the improvement in core fee has been driven by almost all sub-verticals like forex, third party, trade fees and processing. Income from investment banking was weak qoq. We are building fee income to grow by 26% CAGR for FY2011-13E.

### Other highlights for the quarter

- ▶ Cost-income ratio at 49% was higher than our estimates mainly due to higher non-staff expenses. Staff costs grew by 21% yoy while non-staff costs grew by 43% yoy. We broadly expect this ratio to be maintained at current levels. The bank opened 24 branches and 33 ATMs for the quarter, taking the total branch network to 350 and ATMs to 666.
- ▶ Capital adequacy ratio stands at 14.3% with Tier-1 currently at 11.4%. Given the current headroom and healthy return ratios, we believe that the current capital position is comfortable for near-term growth.

IndusInd Bank, quarterly performance  
March fiscal year-ends, 2QFY10-2QFY12 (₹ mn)

	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	% change	2QFY12E	Actual Vs KS
Interest income	8,541	9,149	10,488	11,646	13,239	55.0	12,285	7.8
Interest on advances	6,771	7,231	8,297	9,007	10,371	53.2	9,527	8.9
Interest on investments	1,752	1,874	2,062	2,474	2,672	52.5	2,600	2.8
Other interest	18	44	129	165	195	(50.7)	158	(3.9)
Interest expense	5,244	5,519	6,608	7,746	9,047	72.5	8,260	9.5
<b>Net interest income</b>	<b>3,297</b>	<b>3,630</b>	<b>3,881</b>	<b>3,900</b>	<b>4,192</b>	<b>27.1</b>	<b>4,024</b>	<b>4.2</b>
Non-int.income	1,751	1,960	1,816	2,154	2,392	36.6	2,351	1.8
- fee income	1,630	1,719	1,649	1,871	2,119	30.0	-	-
- sale of invts.	130	240	192	278	239	83.8	267	(10.4)
Non treasury income	1,621	1,720	1,624	1,876	2,153	32.8	2,084	3.3
<b>Total income</b>	<b>5,049</b>	<b>5,590</b>	<b>5,697</b>	<b>6,054</b>	<b>6,584</b>	<b>30.4</b>	<b>6,375</b>	<b>3.3</b>
Op. expenses	2,430	2,678	2,717	2,937	3,254	33.9	3,086	5.4
Employee cost	954	980	1,002	1,107	1,152	20.7	1,212	(4.9)
Other cost	1,476	1,698	1,715	1,830	2,102	42.5	1,874	12.2
<b>Operating profit</b>	<b>2,619</b>	<b>2,912</b>	<b>2,980</b>	<b>3,117</b>	<b>3,330</b>	<b>27.2</b>	<b>3,289</b>	<b>1.2</b>
Provisions and cont.	567	562	403	446	470	(17.2)	551	(14.7)
NPLs	331	446	339	387	399	20.5	426	(6.2)
Others	236	116	64	59	71	(37.7)	125	(8.5)
PBT	2,051	2,350	2,578	2,671	2,860	39.4	2,738	4.4
Tax	720	811	860	870	929	29.1	917	1.3
<b>Net profit</b>	<b>1,332</b>	<b>1,539</b>	<b>1,718</b>	<b>1,802</b>	<b>1,931</b>	<b>45.0</b>	<b>1,821</b>	<b>6.0</b>
Tax rate (%)	35.1	34.5	33.4	32.5	32.5	-	33.5	-
<b>Op.profit excl treasury gains</b>	<b>2,489</b>	<b>2,672</b>	<b>2,788</b>	<b>2,839</b>	<b>3,091</b>	<b>(56.6)</b>	<b>3,022</b>	<b>11.7</b>
<b>Key balance sheet items (Rs bn)</b>								
<b>Total deposits</b>	313	307	344	353	384	22.6		
Savings deposits	24	26	31	32	33	39.5		
Current deposits	56	56	63	67	73	31.0		
Term deposits	233	224	250	253	277			
CASA ratio (%)	25.4	26.8	27.2	28.2	27.7			
<b>Loans</b>	235	250	262	284	307	30.8		
Retail credit	98	106	116	127	146	49.5		
Commercial vehicles	49	52	57	62	68	37.4		
Utility vehicles	8	9	8	9	10	25.2		
Cars	6	7	8	9	11	73.7		
2 wheelers	9	10	11	12	13	43.1		
3 wheelers	11	12	14	15	17	49.1		
Equipments	13	14	15	16	17	34.5		
Personal loans	0	0	0	0	0	-		
Home loans/Personal loans	1	2	2	1	3	124.6		
Corporate Advances	76	80	68	86	88	14.8		
SME/Commercial banking	42	45	51	43	45	7.7		
Others	19	19	27	27	28	51.0		

Source: Company, Kotak Institutional Equities estimates

IndusInd Bank-- key parameters and balance sheet  
March fiscal year-ends, 2QFY10-2QFY12

	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
<b>Yield management measures (%)</b>					
Yield on advances	12.1	12.3	12.9	13.5	13.8
- Corporate and commercial banking	9.2	9.5	10.3	11.2	11.8
- Consumer finance division	16.1	16.0	16.3	16.3	16.4
Cost of deposits	6.0	6.2	7.0	7.7	8.2
NIM	3.4	3.6	3.5	3.4	3.4
<b>Asset quality details</b>					
Gross NPL(Rs mn)	2,864	3,060	2,659	3,093	3,326
Net NPLs (Rs mn)	837	910	728	838	931
Gross NPL (%)	1.2	1.2	1.0	1.1	1.1
Net NPL (%)	0.4	0.4	0.3	0.3	0.3
Provision coverage (%)	70.8	70.3	72.6	72.9	72.0
<b>Capital adequacy ratios (%)</b>					
CAR	16.2	15.6	15.9	15.0	14.3
Tier I	12.2	11.7	12.3	11.7	11.4
Tier II	4.1	3.9	3.6	3.3	2.9
<b>Other key details</b>					
Branches	238	258	300	326	350
ATM network	544	565	594	633	666
<b>Balance sheet snapshot (Rs mn)</b>					
<b>Capital and liabilities</b>					
Capital	4,674	4,650	4,739	4,660	4,763
Reserves and surplus	33,455	35,170	35,763	37,650	39,520
Deposits	312,903	306,630	343,654	352,640	383,672
Borrowings	36,321	49,810	55,254	66,420	59,854
Other liabilities and provisions	20,128	18,740	16,949	17,010	16,753
<b>Total</b>	<b>407,481</b>	<b>415,000</b>	<b>456,358</b>	<b>478,380</b>	<b>504,562</b>
<b>Assets</b>					
Cash and bank balance	26,375	22,130	24,560	24,610	32,164
Balance with bank and money at call	8,067	5,570	15,686	7,750	6,185
Investments	120,004	118,680	135,508	142,330	142,855
Advances	234,525	250,010	261,657	283,840	301,355
Fixed Assets	6,512	5,890	5,965	6,130	6,237
Other assets	11,999	12,720	12,983	13,720	15,765
<b>Total</b>	<b>407,481</b>	<b>415,000</b>	<b>456,358</b>	<b>478,380</b>	<b>504,562</b>

Source: Company

## IndusInd Bank—estimate changes

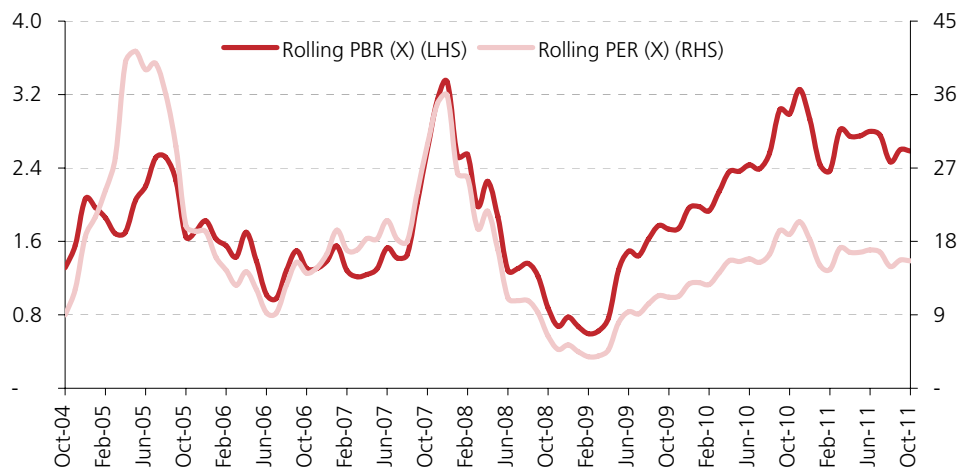
March fiscal year-ends, 2012-2014E (₹ bn)

	New estimates			Old estimates			% change		
	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E
Net loan growth (%)	24.5	24.7	20.5	24.5	24.7	20.5			
Loans (Rs bn)	326	406	490	326	406	490			
Total income	26,617	32,663	40,609	25,770	32,321	40,754	3.3	1.1	(0.4)
Net interest income	17,122	20,969	25,928	16,375	20,626	26,073	4.6	1.7	(0.6)
NIM (%)	3.6	3.6	3.7	3.4	3.5	3.8			
Other income	9,495	11,695	14,681	9,395	11,695	14,681	1.1	—	—
Fee income	3,239	4,076	5,163	3,239	4,076	5,163	—	—	—
Expenses	13,092	15,758	19,376	12,310	15,421	19,652	6.3	2.2	(1.4)
Employee cost	4,777	5,975	7,288	4,735	5,921	7,223	0.9	0.9	0.9
Other cost	8,314	9,783	12,088	7,576	9,499	12,429	9.8	3.0	(2.7)
Loan loss provisions	2,080	3,842	4,702	2,315	3,842	4,702	(10.1)	—	—
PBT	10,945	12,763	15,930	10,645	12,758	15,800	2.8	0.0	0.8
<b>PAT</b>	<b>7,279</b>	<b>8,487</b>	<b>10,593</b>	<b>7,079</b>	<b>8,484</b>	<b>10,507</b>	<b>2.8</b>	<b>0.0</b>	<b>0.8</b>
<b>% growth yoy</b>	<b>26.1</b>	<b>16.6</b>	<b>24.8</b>	<b>22.6</b>	<b>19.9</b>	<b>23.8</b>			
PBT-treasury+provisions	12,626	16,105	20,432	12,660	16,100	20,302	(0.3)	0.0	0.6

Source: Company, Kotak Institutional Equities estimates

## IndusInd Bank- Rolling PBR and PER

March fiscal year-ends, October 2004-October 2011



Source: Company, Kotak Institutional Equities estimates

## IndusInd Bank growth rates and key ratios

March fiscal year-ends, 2009-2014E (%)

	2009	2010	2011	2012E	2013E	2014E
<b>Growth rates (%)</b>						
Net loan	23.3	30.3	27.3	24.5	24.7	20.5
Customer assets	23.0	30.3	27.7	24.4	24.6	20.5
Investments excld. CPs and debentures growth	15.6	35.2	17.5	21.6	18.4	17.3
Net fixed and leased assets	(0.3)	3.5	(7.5)	57.5	26.5	19.6
Cash and bank balance	(11.7)	35.3	54.6	11.2	13.2	12.1
Total Asset	18.4	28.1	29.0	20.5	20.2	17.7
Deposits	16.1	20.8	28.7	23.1	24.7	20.5
Current	64.0	49.1	42.3	32.5	29.7	22.9
Savings	9.6	47.3	59.7	32.8	40.2	31.7
Fixed	11.3	14.2	22.8	19.5	21.1	18.1
Net interest income	52.8	93.1	55.3	24.4	22.5	23.7
Loan loss provisions	93.3	15.2	20.9	13.0	84.7	22.4
Total other income	53.1	21.3	28.9	33.0	23.2	25.5
Net fee income	(3.3)	176.1	39.5	26.0	25.9	26.7
Net exchange gains	148.8	17.5	82.5	30.0	30.0	30.0
Operating expenses	36.0	34.5	37.0	29.8	20.4	23.0
Employee expenses	53.5	55.3	31.7	24.8	25.1	22.0
<b>Key ratios (%)</b>						
Yield on average earning assets	9.8	9.1	9.3	10.7	10.4	10.4
Yield on average loans	12.6	11.6	12.1	13.8	13.3	13.0
Yield on average investments	6.6	6.1	6.1	7.3	7.1	6.9
Average cost of funds	8.0	6.4	6.1	7.8	7.3	7.1
Interest on deposits	7.7	6.4	6.0	7.2	6.9	6.7
<b>Difference</b>	<b>1.8</b>	<b>2.8</b>	<b>3.2</b>	<b>3.0</b>	<b>3.1</b>	<b>3.3</b>
<b>Net interest income/earning assets</b>	<b>1.9</b>	<b>3.0</b>	<b>3.6</b>	<b>3.6</b>	<b>3.6</b>	<b>3.7</b>
<b>New provisions/average net loans</b>	<b>0.9</b>	<b>0.8</b>	<b>0.8</b>	<b>0.7</b>	<b>1.1</b>	<b>1.1</b>
Total provisions/gross loans	0.5	0.7	0.7	1.2	1.9	2.5
Fee income to total income	7.7	13.4	12.3	12.2	12.5	12.7
Net trading income to PBT	41.3	20.9	3.7	6.4	4.7	2.5
Exchange income to PBT	31.6	15.8	17.5	18.3	20.4	21.3
Operating expenses/total income	59.8	51.1	48.2	49.2	48.2	47.7
Operating expenses/assets	2.1	2.3	2.5	2.6	2.6	2.7
Tax rate	34.8	34.3	34.4	33.5	33.5	33.5
Dividend payout ratio	30.1	21.1	16.1	16.1	16.1	16.1
Share of deposits	—	—	—	—	—	—
Current	13.4	16.5	18.3	19.7	20.5	20.9
Fixed	80.8	76.3	72.8	70.7	68.7	67.3
Savings	5.9	7.2	8.9	9.6	10.8	11.8
Loans-to-deposit ratio	71.3	76.9	76.1	77.0	77.0	77.0
Equity/assets (EoY)	6.0	6.8	8.9	8.4	8.0	7.9
<b>Asset quality trends (%)</b>						
Gross NPL	1.6	1.2	1.0	1.5	1.8	2.2
Net NPL	1.1	0.5	0.3	0.5	0.6	0.7
Slippages	1.7	1.4	0.9	1.7	1.7	1.7
Provision coverage	29.8	60.1	72.6	69.2	67.8	67.3
<b>Dupont analysis (%)</b>						
Net interest income	1.8	2.8	3.4	3.4	3.5	3.6
Loan loss provisions	0.5	0.5	0.5	0.4	0.6	0.7
Net other income	1.8	1.8	1.8	1.9	1.9	2.0
Operating expenses	2.2	2.4	2.5	2.7	2.6	2.7
Invnt. depreciation	(0.0)	(0.0)	0.0	0.0	0.0	0.1
(1- tax rate)	65.2	65.7	65.6	66.5	66.5	66.5
<b>ROA</b>	<b>0.6</b>	<b>1.1</b>	<b>1.4</b>	<b>1.4</b>	<b>1.4</b>	<b>1.5</b>
Average assets/average equity	24.6	20.1	14.6	12.5	12.7	13.0
<b>ROE (incl. preference capital)</b>	<b>14.3</b>	<b>22.4</b>	<b>20.8</b>	<b>18.1</b>	<b>17.8</b>	<b>19.1</b>

Source: Company, Kotak Institutional Equities estimates

IndusInd Bank P&L and balance sheet  
March fiscal year-ends, 2009-2014E (₹ mn)

	2009	2010	2011	2012E	2013E	2014E
<b>Income statement</b>						
Total interest income	23,095	27,070	35,894	51,728	60,760	71,865
Loans	17,933	21,129	28,346	40,490	48,516	58,389
Investments	4,832	5,592	7,333	10,601	11,910	13,261
Cash and deposits	329	349	215	638	334	215
Total interest expense	18,504	18,206	22,129	34,606	39,791	45,937
Deposits from customers	15,760	15,601	18,285	27,668	32,726	39,209
<b>Net interest income</b>	<b>4,590</b>	<b>8,864</b>	<b>13,765</b>	<b>17,122</b>	<b>20,969</b>	<b>25,928</b>
Loan loss provisions	1,322	1,523	1,841	2,080	3,842	4,702
Net interest income (after prov.)	3,269	7,341	11,924	15,042	17,127	21,226
Other income	4,563	5,535	7,137	9,495	11,695	14,681
Net fee income	701	1,936	2,570	3,239	4,076	5,163
Net capital gains	909	1,110	404	900	800	800
Net exchange gains	719	845	1,542	2,004	2,605	3,387
Operating expenses	5,470	7,360	10,085	13,092	15,758	19,376
Employee expenses	1,871	2,906	3,826	4,777	5,975	7,288
Depreciation on investments	(31)	(3)	76	200	200	400
Other Provisions	117	189	101	300	100	200
Pretax income	2,275	5,331	8,798	10,945	12,763	15,930
Tax provisions	792	1,827	3,025	3,667	4,276	5,337
<b>Net Profit</b>	<b>1,483</b>	<b>3,503</b>	<b>5,773</b>	<b>7,279</b>	<b>8,487</b>	<b>10,593</b>
% growth	97.7	136.1	64.8	26.1	16.6	24.8
PBT - Treasury + Provisions	2,773	5,929	10,413	12,626	16,105	20,432
% growth	56.3	113.8	75.6	21.3	27.6	26.9
<b>Balance sheet</b>						
Cash and bank balance	19,237	26,032	40,246	44,761	50,670	56,808
Cash	1,419	1,896	2,070	2,484	2,609	2,739
Balance with RBI	10,489	19,096	22,490	23,454	29,239	35,246
Balance with banks	7,329	5,040	15,686	18,823	18,823	18,823
Net value of investments	80,834	104,018	135,508	157,110	179,541	204,538
Govt. and other securities	62,944	85,215	100,219	121,924	144,448	169,529
Shares	357	362	370	370	370	370
Debentures and bonds	143	135	1,034	931	838	754
Net loans and advances	157,706	205,506	261,656	325,762	406,117	489,556
Fixed assets	6,232	6,448	5,965	9,393	11,882	14,205
Net leased assets	—	—	—	—	—	—
Net Owned assets	6,232	6,448	5,965	9,393	11,882	14,205
Other assets	12,138	11,691	12,983	12,983	12,983	12,983
P&L account balance (loss)	2,437	2,235	2,065	—	—	—
<b>Total assets</b>	<b>276,147</b>	<b>353,695</b>	<b>456,358</b>	<b>550,009</b>	<b>661,193</b>	<b>778,089</b>
Deposits	221,103	267,102	343,654	423,015	527,358	635,706
Borrowings and bills payable	30,919	53,173	58,854	67,285	67,285	67,285
Other liabilities	7,493	9,448	13,349	13,349	13,349	13,349
<b>Total liabilities</b>	<b>259,514</b>	<b>329,723</b>	<b>415,856</b>	<b>503,649</b>	<b>607,992</b>	<b>716,340</b>
<b>Preference capital</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
Paid-up capital	3,552	4,106	4,660	4,660	4,660	4,660
Reserves & surplus	13,081	19,866	35,842	41,701	48,541	57,089
<b>Total shareholders' equity</b>	<b>16,632</b>	<b>23,972</b>	<b>40,502</b>	<b>46,361</b>	<b>53,200</b>	<b>61,749</b>

Source: Company, Kotak Institutional Equities estimates



**OCTOBER 18, 2011**
**RESULT**

 Coverage view: **Attractive**

 Price (Rs): **161**

 Target price (Rs): **135**

 BSE-30: **16,748**

**Maintaining a good run rate.** PLNG reported 2QFY12 EBITDA at ₹4.48 bn (+2.3% qoq and +65% yoy), 1.7% above our estimate of ₹4.41 bn led by higher-than-expected re-gasification volumes at 135.1 tn BTU (+1.3% qoq and +35.4% yoy). We maintain our SELL rating on the stock with a revised 12-month DCF-based target price of ₹135 (₹125 previously). We note that we have fairly optimistic assumptions with respect to (1) ramp-up of LNG volumes and (2) re-gasification tariffs. We see the company's guidance of achieving 25 mtpa re-gasification capacity as an uphill task given the current global LNG demand-supply balance.

**Company data and valuation summary**

Petronet LNG

Stock data		Forecasts/Valuations			
		2011	2012E	2013E	
52-week range (Rs) (high,low)	186-105	EPS (Rs)	8.1	13.3	12.8
Market Cap. (Rs bn)	121.1	EPS growth (%)	50.3	64.1	(3.5)
<b>Shareholding pattern (%)</b>		P/E (X)	19.9	12.1	12.6
Promoters	50.0	Sales (Rs bn)	132.0	222.1	273.0
FIs	12.4	Net profits (Rs bn)	6.1	10.0	9.6
MFs	9.1	EBITDA (Rs bn)	12.2	17.5	17.7
<b>Price performance (%)</b>		EV/EBITDA (X)	11.5	8.3	8.7
Absolute	1M 3M 12M	ROE (%)	20.9	28.1	21.9
	(9.1) 10.6 29.5	Div. Yield (%)	1.2	1.9	1.9
Rel. to BSE-30	(8.1) 22.2 56.0				

**2QFY12 EBIDTA 1.7% higher versus estimates**

PLNG's reported net income at ₹2.6 bn (+1.4% qoq and +99% yoy) was 4.2% above our expected ₹2.5 bn. PLNG reported higher-than-expected 2QFY12 EBITDA at ₹4.48 bn versus our estimate of ₹4.41 bn on account of higher-than-expected re-gasification volumes at 135.1 tn BTU versus our estimate of 131.1 tn BTU. The implied re-gasification tariff (blended) increased modestly by 0.7% qoq to ₹37/mn BTU. We note that the company had a foreign exchange loss of ₹530 mn which has been adjusted while computing the blended re-gasification tariffs.

**Current stock price reflects optimistic assumptions**

We highlight that the current stock price is implying (1) full capacity utilization at PLNG's Dahej and Kochi terminals and (2) 5% annual increase in re-gasification tariffs in perpetuity. We assume full capacity utilization for PLNG's terminal despite concerns on the acceptability of high-priced imported LNG by bulk consumers such as power and fertilizer sectors. We model PLNG's re-gasification tariff to increase by 5% yoy in FY2012-14E and remain flat thereafter. We note that higher re-gasification tariffs may sustain in the near term in the absence of any regulations.

**Maintain SELL with a target price of ₹135**

We maintain our SELL rating on PLNG with a revised 12-month DCF-based target price of ₹135 (₹125 previously) noting (1) 16% potential downside to our fair value from current levels and (2) the stock is trading at 12.1X FY2012E EPS and 8.3X FY2012E EV/EBITDA. We rule out any surprise on LNG volumes as we already assume full capacity utilization at 17.5 mtpa from FY2016E onwards. Key upside risk stems from higher-than-expected re-gasification tariffs in the long term.

**Revised earnings to reflect higher marketing margins**

We have revised our EPS estimates for FY2012-14E to ₹13.3, ₹12.8 and ₹11.3 from ₹11.5, ₹11.4 and ₹10.6 to reflect (1) higher marketing margins on spot volumes, (2) higher LNG volumes in FY2012-13E, (3) revised Rupee exchange rate assumptions and (4) other minor changes. We assume total volumes (contracted plus spot) at 10.6 mn tons for FY2012E, 11.3 mn tons for FY2013E and 13 mn tons for FY2014E.

**QUICK NUMBERS**

- **Implied re-gasification tariff at ₹37/mn BTU (+0.7% qoq)**
- **Re-gasification volumes at 135.1 tn BTU (+1.3% qoq)**
- **16% downside to fair value of PLNG from current levels**

 Gundeep Singh  
 gundeep.singh@kotak.com  
 Mumbai: +91-22-6634-1286

 Tarun Lakhotia  
 tarun.lakhotia@kotak.com  
 Mumbai: +91-22-6634-1188

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

## Key highlights from 2QFY12 results

Exhibit 1 gives the details of PLNG's 2QFY12 results and compares the same with 1QFY12 and 2QFY11 results.

## Interim results of Petronet LNG, March fiscal year-ends (₹ mn)

	2QFY12	2QFY12E	2QFY11	1QFY12	(% chg.)			yoy			2012E
					2QFY12E	2QFY11	1QFY12	1HFY12	1HFY11	(% chg.)	
<b>Net sales</b>	<b>53,669</b>	<b>46,481</b>	<b>30,577</b>	<b>46,233</b>	<b>15.5</b>	<b>75.5</b>	<b>16.1</b>	<b>99,902</b>	<b>55,837</b>	<b>78.9</b>	<b>222,093</b>
Total expenditure	(49,185)	(42,071)	(27,861)	(41,852)	16.9	76.5	17.5	(91,037)	(50,643)	79.8	(204,569)
Raw material	(48,668)	(41,552)	(27,547)	(41,331)	17.1	76.7	17.8	(89,999)	(49,880)	80.4	(202,570)
Staff cost	(62)	(60)	(53)	(64)	2.6	16.4	(3.9)	(126)	(126)	(0.5)	(318)
Other expenditure	(456)	(460)	(261)	(457)	(0.8)	74.8	(0.3)	(913)	(637)	43.3	(1,681)
<b>EBITDA</b>	<b>4,484</b>	<b>4,409</b>	<b>2,716</b>	<b>4,381</b>	<b>1.7</b>	<b>65.1</b>	<b>2.3</b>	<b>8,865</b>	<b>5,194</b>	<b>70.7</b>	<b>17,524</b>
Other income	201	225	186	263	(10.6)	8.2	(23.4)	464	312	48.7	889
Depreciation	(463)	(470)	(466)	(458)	(1.5)	(0.7)	1.1	(921)	(927)	(0.7)	(1,860)
Interest	(458)	(467)	(495)	(464)	(1.9)	(7.4)	(1.2)	(922)	(993)	(7.1)	(1,786)
<b>Profit before tax</b>	<b>3,763</b>	<b>3,697</b>	<b>1,941</b>	<b>3,722</b>	<b>1.8</b>	<b>93.9</b>	<b>1.1</b>	<b>7,485</b>	<b>3,585</b>	<b>108.8</b>	<b>14,766</b>
Extraordinary/prior period items	—	—	—	—	—	—	—	—	—	—	—
Current tax	(1,150)	(1,198)	(550)	(1,110)	—	—	—	(2,260)	(1,000)	—	(4,420)
Deferred tax liabilities/assets	(10)	—	(80)	(45)	—	—	—	(55)	(160)	—	(371)
<b>Profit after tax</b>	<b>2,603</b>	<b>2,499</b>	<b>1,311</b>	<b>2,567</b>	<b>4.2</b>	<b>98.5</b>	<b>1.4</b>	<b>5,170</b>	<b>2,425</b>	<b>113.2</b>	<b>9,975</b>
<b>Adj Profit after tax</b>	<b>2,603</b>	<b>2,499</b>	<b>1,311</b>	<b>2,567</b>	<b>4.2</b>	<b>98.5</b>	<b>1.4</b>	<b>5,170</b>	<b>2,425</b>	<b>113.2</b>	<b>9,975</b>
<b>EPS (Rs)</b>	<b>3.5</b>	<b>3.3</b>	<b>1.7</b>	<b>3.4</b>	—	—	—	<b>6.9</b>	<b>3.2</b>	—	<b>13.3</b>
Tax rate (%)	30.8	32.4	32.5	31.0	—	—	—	30.9	32.4	—	32.4
Sales quantity (tn BTU)	135.1	131.1	99.8	133.4	3.1	35.4	1.3	268.5	194.9	37.8	538.3
Implied re-gasification tariff (Rs/mn BTU)	37.0	37.6	30.4	36.8	(1.6)	21.9	0.7	36.9	30.6	20.7	36.3

Notes:

(a) The re-gasification tariff computed here is different from actual tariffs due to inclusion of direct re-gasification and associated costs.

Source: Company, Kotak Institutional Equities estimates

- ▶ **Re-gasification tariffs increase modestly qoq.** We compute implied re-gasification tariff at ₹37/mn BTU in 2QFY12 versus ₹36.8/mn BTU in 1QFY12 and ₹30.4/mn BTU in 2QFY11. The sharp yoy increase in re-gasification tariff reflects significantly higher marketing margins on spot cargoes.
- ▶ **LNG volumes increase further.** PLNG reported qoq increase in re-gasification volumes to 135.1 tn BTU versus 133.4 tn BTU in 1QFY12 and 99.8 tn BTU in 2QFY11 led by increased demand for spot LNG (27.7 tn BTU in 2QFY12 versus 24.7 tn BTU in 1QFY12) arising from lower gas production from RIL's KG D-6 block.
- ▶ **Sharp increase in reported other expenditure.** PLNG reported other expenditure at ₹986 mn for 2QFY12 versus ₹457 mn in 1QFY12. We note that other expenditure in 2QFY12 included foreign exchange loss of ₹530 mn, which has been recovered from the customers.
- ▶ **Qoq decline in other income.** Other income declined 23.4% qoq to ₹201 mn for 2QFY12 versus ₹263 mn in 1QFY12.
- ▶ **Sharp increase in inventory.** PLNG's inventory increased to ₹5.3 bn at end-September 2011 from ₹2.5 bn at end-March 2011. The company has attributed the sharp increase in inventory to four spot LNG cargoes which have been sold to the customers by mid-October 2011.

**Other updates**

- ▶ **Kochi terminal.** The project is expected to be completed by 4QCY12E at a cost of ~₹41 bn. Petronet LNG has achieved 90% mechanical completion of the LNG terminal. The company has incurred ₹26 bn of capex till September 2011.
- ▶ **Second jetty at Dahej.** The second jetty is expected to be completed by 4QCY13E and will likely cost ₹9 bn. Petronet LNG can handle a maximum of 10.5 mtpa of imported cargo till the completion of the second jetty and will be able to handle an additional 2 mtpa post the completion of the same.

**Key assumptions behind our earnings model**

We discuss our key assumptions underlying our earnings assumptions below (see Exhibit 2).

**We model Petronet's volumes ramping up to 16.6 mtpa by FY2015E**

Key volume/price assumptions for Petronet LNG, March fiscal year-ends, 2007-15E

	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E
<b>Volume assumptions (mn tons)</b>										
Contract LNG volumes	4.8	5.1	4.8	4.8	7.1	7.5	7.3	8.4	10.2	13.8
Spot LNG volumes	—	0.6	1.5	1.5	0.4	0.6	2.0	1.6	1.3	1.3
Tolling volumes	—	—	—	—	0.3	0.6	1.3	1.4	1.6	1.6
<b>Total volumes</b>	<b>4.8</b>	<b>5.6</b>	<b>6.3</b>	<b>6.3</b>	<b>7.9</b>	<b>8.7</b>	<b>10.6</b>	<b>11.3</b>	<b>13.0</b>	<b>16.6</b>
<b>Price assumptions (US\$/mn BTU)</b>										
LNG purchase price (FOB)	2.5	3.3	3.7	4.2	4.6	5.6	8.3	10.0	11.3	11.5
Landed cost (incl. import tariff)	2.9	3.8	4.2	4.7	5.2	6.3	9.2	10.9	12.3	12.5
Base re-gasification charges	0.57	0.58	0.69	0.64	0.65	0.71	0.73	0.78	0.83	0.87
Base re-gasification charges (Rs/mn BTU)	25.2	26.5	27.8	29.2	30.6	32.2	33.8	35.5	37.2	38.6
<b>Escalation in re-gasification charges (%)</b>		<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	<b>3.7</b>
Sales price (US\$/mn BTU)	3.5	4.4	4.9	5.4	5.8	7.0	9.9	11.7	13.2	13.4
<b>Other assumptions</b>										
Rupee/US dollar exchange rate	44.3	45.3	40.1	45.8	47.4	45.6	46.3	45.6	45.0	44.3

Source: Company, Kotak Institutional Equities estimates

- ▶ **Volumes.** We model contract LNG volumes at 7.3 mn tons, 8.4 mn tons and 10.2 mn tons in FY2012E, FY2013E and FY2014E. We have included the additional contracted volumes of 1.5 mtpa in spot LNG volumes given limited available information on the same. We model spot LNG imports of 3.3 mn tons in FY2012E, 2.9 mn tons in FY2013E and 2.8 mn tons in FY2014E versus 1.2 mn tons in FY2011.
- ▶ **Re-gasification tariffs.** We model PLNG's re-gasification tariff to increase by 5% in each year in FY2012-14E and remain flat thereafter until FY2021E, the terminal year of our DCF model (see Exhibit 3).
- ▶ **Exchange rate.** We now assume exchange rate for FY2012E, FY2013E and FY2014E at ₹46.3/US\$, ₹45.63/US\$ and ₹45/US\$ versus ₹44.75/US\$, ₹45.63/US\$ and ₹45/US\$ previously.

## Our DCF-based fair value for PLNG is ₹135

Calculation of equity value of PLNG using discounted cash flow analysis (₹ mn)

	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
EBITDA	17,524	17,671	20,098	26,627	27,745	27,649	27,547	27,438	27,322	27,191	27,191	27,191
Adjusted tax expense	(4,955)	(3,385)	(3,336)	(6,002)	(6,926)	(7,305)	(7,645)	(8,111)	(8,601)	(8,964)		
Change in working capital	(1,463)	(849)	(1,345)	(1,970)	(595)	(237)	(280)	(332)	(397)	(476)		
<b>Operating cash flow</b>	<b>11,106</b>	<b>13,437</b>	<b>15,417</b>	<b>18,655</b>	<b>20,223</b>	<b>20,108</b>	<b>19,623</b>	<b>18,996</b>	<b>18,325</b>	<b>17,751</b>		
Capital expenditure	(12,000)	(15,821)	(3,150)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(2,500)		
<b>Free cash flow</b>	<b>(894)</b>	<b>(2,384)</b>	<b>12,267</b>	<b>17,655</b>	<b>19,223</b>	<b>19,108</b>	<b>18,623</b>	<b>17,996</b>	<b>17,325</b>	<b>15,251</b>	<b>15,251</b>	<b>15,251</b>
Discounted cash flow-now	(847)	(2,010)	9,190	11,757	11,375	10,050	8,707	7,479	6,398	5,006		
Discounted cash flow-1 year forward		(2,261)	10,338	13,226	12,801	11,307	9,795	8,414	7,200	5,632	5,006	
Discounted cash flow-2 year forward			11,631	14,880	14,401	12,724	11,020	9,466	8,100	6,338	5,632	5,006
	<b>Now</b>	<b>+ 1-year</b>	<b>+ 2-years</b>									
Discount rate (%)	12.5%	12.5%	12.5%									
Total PV of free cash flow	67,106	81,460	99,198									
<b>Terminal value assumption</b>												
Growth in perpetuity	0.0%	0.0%	0.0%									
FCF in 2021E	15,251	15,251	15,251									
Exit FCF multiple (X)	8.0	8.0	8.0									
Exit EV/EBITDA multiple (X)	4.5	4.5	4.5									
Terminal value	122,010	122,010	122,010									
PV of terminal value	40,052	40,052	40,052									
<b>Total company value</b>	<b>107,157</b>	<b>121,511</b>	<b>139,250</b>									
Net debt	18,972	24,633	32,456									
Equity value	88,185	96,878	106,793									
Shares outstanding (mn)	750	750	750									
Equity value of regasification business (Rs)	118	129	142									
Equity value of 26% stake in Dahej Port (Rs)	4	4	4									
<b>Fair value of PLNG (Rs)</b>	<b>122</b>	<b>134</b>	<b>147</b>									
<b>Fiscal Year end (March 31, XXXX)</b>	March-12	March-13	March-14	March-15	March-16	March-17	March-18	March-19	March-20	March-21	March-22	March-23
<b>Today</b>	18-Oct-11	18-Oct-11	18-Oct-11	18-Oct-11	18-Oct-11	18-Oct-11	18-Oct-11	18-Oct-11	18-Oct-11	18-Oct-11	18-Oct-11	18-Oct-11
<b>Days left</b>	165	530	895	1,260	1,626	1,991	2,356	2,721	3,087	3,452	3,817	4,182
<b>Years left</b>	0.45	1.45	2.45	3.45	4.45	5.45	6.45	7.45	8.46	9.46	10.46	11.46
<b>Discount factor at WACC</b>	<b>0.95</b>	<b>0.84</b>	<b>0.75</b>	<b>0.67</b>	<b>0.59</b>	<b>0.53</b>	<b>0.47</b>	<b>0.42</b>	<b>0.37</b>	<b>0.33</b>	<b>0.29</b>	<b>0.26</b>

		Sensitivity of 12-month fair value to WACC and perpetual growth				
		Perpetual growth (%)				
		-1.0%	-0.5%	0.0%	0.5%	1.0%
WACC (%)	11.5%	142	145	148	151	155
	12.0%	135	138	141	143	147
	12.5%	129	131	134	136	139
	13.0%	123	125	127	129	132
	13.5%	117	119	121	123	125

Source: Kotak Institutional Equities estimates

Petronet LNG: Profit model, balance sheet, cash model, March fiscal year-ends, 2007-2014E (₹ mn)

	2007	2008	2009	2010	2011	2012E	2013E	2014E
<b>Profit model (Rs mn)</b>								
Net sales	55,090	65,553	84,287	106,491	131,973	222,093	273,036	349,695
<b>EBITDA</b>	<b>6,481</b>	<b>8,661</b>	<b>9,013</b>	<b>8,465</b>	<b>12,163</b>	<b>17,524</b>	<b>17,671</b>	<b>20,098</b>
Other income	366	536	765	978	563	889	1,025	1,162
Interest	(1,070)	(1,024)	(1,012)	(1,839)	(1,931)	(1,786)	(1,975)	(4,148)
Depreciation	(1,020)	(1,022)	(1,025)	(1,609)	(1,847)	(1,860)	(2,469)	(4,585)
Extraordinary items	—	—	—	—	117	—	—	—
Pretax profits	4,756	7,152	7,740	5,995	9,064	14,766	14,252	12,527
Tax	(6)	(2,185)	(2,526)	(1,410)	(2,650)	(4,420)	(2,973)	(2,506)
Deferred taxation	(1,617)	(220)	(30)	(540)	(218)	(371)	(1,651)	(1,558)
<b>Net profits</b>	<b>3,133</b>	<b>4,747</b>	<b>5,184</b>	<b>4,045</b>	<b>6,196</b>	<b>9,975</b>	<b>9,628</b>	<b>8,463</b>
<b>Earnings per share (Rs)</b>	<b>4.2</b>	<b>6.3</b>	<b>6.9</b>	<b>5.4</b>	<b>8.1</b>	<b>13.3</b>	<b>12.8</b>	<b>11.3</b>
<b>Balance sheet (Rs mn)</b>								
Total equity	12,755	16,185	19,834	22,349	26,802	34,162	41,175	47,023
Deferred taxation liability	2,472	2,692	2,722	3,262	3,480	3,851	5,502	7,060
Total borrowings	13,832	15,776	22,817	24,998	32,161	39,356	50,356	44,356
Current liabilities	5,877	8,588	8,922	9,006	12,134	17,988	21,497	26,659
<b>Total liabilities and equity</b>	<b>34,936</b>	<b>43,242</b>	<b>54,295</b>	<b>59,614</b>	<b>74,577</b>	<b>95,357</b>	<b>118,529</b>	<b>125,098</b>
Cash	3,405	3,586	6,578	3,405	1,540	3,074	6,251	7,396
Current assets	7,478	7,890	11,519	8,811	12,334	19,652	24,009	30,517
Total fixed assets	21,273	26,293	33,156	42,012	49,053	60,982	76,621	75,536
Investments	2,780	5,473	3,043	5,386	11,649	11,649	11,649	11,649
<b>Total assets</b>	<b>34,936</b>	<b>43,242</b>	<b>54,295</b>	<b>59,614</b>	<b>74,577</b>	<b>95,357</b>	<b>118,529</b>	<b>125,098</b>
<b>Free cash flow (Rs mn)</b>								
Operating cash flow, excl. working capital	4,927	6,982	5,378	5,513	8,348	9,528	10,436	13,093
Working capital	(710)	1,589	(3,384)	3,026	(1,079)	(1,463)	(849)	(1,345)
Capital expenditure	(36)	(263)	(27)	(15,757)	(8,889)	(12,000)	(15,821)	(3,150)
Investments	(1,211)	(2,780)	2,462	(2,339)	(6,263)	—	—	—
<b>Free cash flow</b>	<b>2,970</b>	<b>5,528</b>	<b>4,429</b>	<b>(9,556)</b>	<b>(7,882)</b>	<b>(3,935)</b>	<b>(6,234)</b>	<b>8,598</b>
Other income	326	(414)	695	452	386	889	1,025	1,162
<b>Ratios (%)</b>								
Debt/equity	91	84	101	98	106	104	108	82
Net debt/equity	68	65	72	84	101	95	94	68
RoAE	23.6	27.8	25.0	16.8	22.2	29.2	22.7	16.8
<b>RoACE</b>	<b>14.5</b>	<b>17.0</b>	<b>14.7</b>	<b>11.0</b>	<b>13.3</b>	<b>16.0</b>	<b>12.6</b>	<b>11.5</b>
<b>Adjusted CROCI</b>	<b>29.6</b>	<b>33.2</b>	<b>28.7</b>	<b>19.2</b>	<b>25.4</b>	<b>32.0</b>	<b>16.9</b>	<b>17.2</b>
<b>Key assumptions (US\$/mn BTU)</b>								
Contract LNG volumes (mn tons)	5.1	4.8	4.8	7.1	7.5	7.3	8.4	10.2
Total LNG volumes (mn tons)	5.6	6.3	6.3	7.9	8.7	10.6	11.3	13.0
LNG purchase price (FOB)	3.3	3.7	4.2	4.6	5.6	8.3	10.0	11.3
Base re-gasification charges	0.58	0.69	0.64	0.65	0.71	0.73	0.78	0.83
Sales price	4.4	4.9	5.4	5.8	7.0	9.9	11.7	13.2
Rupee/US dollar exchange rate	45.3	40.1	45.8	47.4	45.6	46.3	45.6	45.0

Source: Company, Kotak Institutional Equities estimates

**OCTOBER 18, 2011**
**RESULT**

 Coverage view: **Attractive**

 Price (Rs): **337**

 Target price (Rs): **400**

 BSE-30: **16,748**

**In the price discovery phase; we see value.** We believe the Patni stock is in the price discovery phase post majority stake acquisition by iGate. Views on new normal on revenue growth as well as margins under the new management remain in the formation phase. iGate's stance on potential stake reduction to 75% or de-listing also remains unknown. Nonetheless, strong cash support (37% of market cap) exists and we see value despite building in conservative estimates. Retain ADD. TP raised to Rs400/share from Rs300 earlier. Our TP implies a PE of 11.7X CY2012E earnings.

### Company data and valuation summary

Patni Computer Systems

#### Stock data

52-week range (Rs) (high,low)	510-250
Market Cap. (Rs bn)	44.9

#### Shareholding pattern (%)

Promoters	67.1
FII's	27.3
MFs	1.3

#### Price performance (%)

	1M	3M	12M
Absolute	12.6	(1.3)	(26.6)
Rel. to BSE-30	13.8	9.0	(11.6)

#### Forecasts/Valuations

	2011	2012E	2013E
EPS (Rs)	42.6	30.3	34.3
EPS growth (%)	16.5	(29.0)	13.5
P/E (X)	7.9	11.2	9.8
Sales (Rs bn)	31.7	34.9	38.4
Net profits (Rs bn)	5.7	4.0	4.6
EBITDA (Rs bn)	6.2	5.8	6.9
EV/EBITDA (X)	4.6	4.2	3.0
ROE (%)	18.4	9.6	12.3
Div. Yield (%)	19.6	1.8	2.0

### 3QCY11 results – robust revenue growth, sharp increase in margins

Patni reported revenues of US\$191 mn for 3QCY11, up 4% qoq and 7% yoy; revenues were 0.8% ahead of our estimate. More importantly, the company reported an EBITDA margin expansion of 620 bps qoq led by non-recurrence of integration-related expenses, cost rationalization, increase in utilization and currency benefits. Reported EBITDA margin of 17.6% was 310 bps ahead of our forecast. Net income for the quarter came in at US\$17 mn, down 14% qoq on account of sharp swing in forex line item – the company reported forex loss of US\$6.8 mn for the quarter versus a gain of US\$7 mn in the previous quarter.

### Results post iGate transaction have been volatile; volatility could persist for some time

In the two quarters since iGate acquired a majority stake in Patni, Patni's revenues have shown a sharp decline in one and robust growth in other. Similarly, margins showed a sharp dip in the first quarter post acquisition and have now recovered sharply. In fact, revenues and EBITDA in absolute terms for 3QCY11 are both eerily similar to 1QCY11, the last quarter pre transaction. iGate continues to seek revenue and cost synergies with Patni – these measures could lead to some serious volatility in Patni's quarterly operating performance. The Street would continue to seek more clarity on the 'new normal' till then, in our view.

### We would approach the stock with the 'value' focus in this discovery phase

In the process of discovering the new operating normal, ours and Street's financial forecasts for Patni could see sharp moves, as reflected in the 17/26% upward revision in CY2011/12E EPS estimates for the company. Earnings-based fair value estimation is hence fraught with substantial risk (on either side). Nevertheless, we see value in the stock at current levels, driven by (1) cash comfort; end-September 2011 cash balance of US\$367 mn is around 37% of the current market cap of the company, and (2) our view that Patni's margins can be sustained at or improved from September 2011 levels even if revenue growth trajectory turns out to be slightly lower than our conservative 2.3% CQGR over the next 5 quarters. We retain our ADD rating on the stock with a revised target price of Rs400/share (from Rs300).

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

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

Shyam M.  
shyam.m@kotak.com  
Mumbai: +91-22-6634-1470

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

### Other results, earnings call highlights

- ▶ iGate-Patni integration progressing smoothly. The management indicated that it would take another 12-18 months for delivery integration to complete. We note that the two companies have already moved to a common front-end.
- ▶ The management indicated that new project ramp-ups and better account mining led to the robust 4% qoq revenue growth in 3QCY11.
- ▶ SG&A for the quarter, on a normalized basis, was down US\$4 mn on a qoq basis; the company intends to plough back some of these savings to improving S&M capabilities over the coming quarters.
- ▶ End-September 2011 hedges outstanding stood at US\$397 mn.
- ▶ The company ended the quarter with a headcount of 17,853, a decline of 519 qoq.

### Patni 3QCY11 interim results

US\$ mn	3QCY10	2QCY11	3QCY11	qoq (%)	yoy (%)	3QCY11E	% deviation
<b>Revenues</b>	<b>178.8</b>	<b>183.8</b>	<b>191.0</b>	<b>3.9</b>	<b>6.8</b>	<b>189.5</b>	<b>0.8</b>
Cost of revenues	(113.8)	(123.1)	(121.9)	(1.0)	7.1	(124.1)	(1.8)
<b>Gross profit</b>	<b>65.0</b>	<b>60.7</b>	<b>69.1</b>	<b>13.8</b>	<b>6.3</b>	<b>65.3</b>	<b>5.8</b>
SG&A expenses	(31.2)	(39.7)	(35.6)	(10.4)	13.9	(37.9)	(6.2)
<b>EBITDA</b>	<b>33.8</b>	<b>21.0</b>	<b>33.5</b>	<b>59.5</b>	<b>(0.7)</b>	<b>27.4</b>	<b>22.3</b>
D&A	(6.4)	(10.3)	(11.1)	7.9	72.9	(11.6)	(4.8)
<b>EBIT</b>	<b>27.4</b>	<b>10.8</b>	<b>22.5</b>	<b>108.6</b>	<b>(17.9)</b>	<b>15.8</b>	<b>42.2</b>
Forex gain/ (loss)	4.9	7.0	(6.8)	(197.7)	(240.0)	(2.0)	240.4
Other income	2.5	4.1	3.3	(18.9)	33.0	4.5	(25.7)
<b>PBT</b>	<b>34.8</b>	<b>21.9</b>	<b>19.0</b>	<b>(13.0)</b>	<b>(45.3)</b>	<b>18.3</b>	<b>3.9</b>
Provision for taxes	(6.0)	(2.0)	(2.0)	0.3	(66.8)	(5.2)	(61.3)
<b>Net income</b>	<b>28.7</b>	<b>19.9</b>	<b>17.0</b>	<b>(14.4)</b>	<b>(40.8)</b>	<b>13.2</b>	<b>29.4</b>
Extraordinaries	—	—	—	—	—	—	—
<b>Reported net income</b>	<b>28.7</b>	<b>19.9</b>	<b>17.0</b>	<b>(14.4)</b>	<b>(40.8)</b>	<b>13.2</b>	<b>29.4</b>
# of shares outstanding (fully diluted) (mn)	133.8	135.6	135.6	—	1.4	135.6	—
<b>Fully diluted EPS (Rs/share)</b>	<b>9.6</b>	<b>6.5</b>	<b>5.8</b>	<b>(11.2)</b>	<b>(39.3)</b>	<b>4.5</b>	<b>29.7</b>
Gross margin (%)	36.3	33.0	36.2	—	—	34.5	—
EBITDA margin (%)	18.9	11.4	17.6	—	—	14.5	—
EBIT margin (%)	15.3	5.9	11.8	—	—	8.3	—
ETR (%)	17.3	9.1	10.5	—	—	28.1	—
SG&A as % of revenues (%)	17.5	21.6	18.6	—	—	20.0	—

Source: Company, Kotak Institutional Equities estimates

### Condensed consolidated P&L for Patni Computers, December year-ends, 2009-2012E (US\$ '000)

US\$ '000	2009	2010	2011E	2012E
<b>Profit model</b>				
Total income	655,638	701,698	758,776	834,327
<b>EBITDA</b>	<b>133,405</b>	<b>136,483</b>	<b>125,263</b>	<b>150,838</b>
Depreciation (incl amortization of intangibles)	(24,230)	(25,457)	(39,451)	(42,545)
Other income	10,600	40,133	22,157	18,473
<b>Pretax profits</b>	<b>119,775</b>	<b>151,159</b>	<b>107,971</b>	<b>126,767</b>
Tax	(22,404)	(25,529)	(20,244)	(27,501)
<b>Profit after tax</b>	<b>97,371</b>	<b>125,630</b>	<b>87,727</b>	<b>99,266</b>
<b>Diluted earnings per share (Rs)</b>	<b>36.6</b>	<b>42.6</b>	<b>30.3</b>	<b>34.3</b>

Source: Company, Kotak Institutional Equities estimates



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UPDATE

Coverage view: **Cautious**

Price (Rs): **468**

Target price (Rs): **530**

BSE-30: **16,748**

**Competition heating up in OCs.** We view the OC segment with cautious optimism due to (1) high market shares enjoyed by incumbents, (2) portfolio concentration with small market size for many of the older non-combination OCs and (3) entry of Sandoz in 4 big OCs and impending entry of Mylan with 22 products. We think Lupin's OC target of US\$125 mn by FY2014E is far-fetched. We factor US\$50/75 mn in FY2013/14E. Street estimates, with FY2013E EPS higher than Rs27, are likely to be factoring aggressive OC sales, an optimistic scenario in our view. Retain ADD; PT Rs530.

**Company data and valuation summary**

Lupin

**Stock data**

52-week range (Rs) (high,low)	520-363
Market Cap. (Rs bn)	209.6

**Shareholding pattern (%)**

Promoters	47.0
FIs	23.6
MFs	8.3

Price performance (%)	1M	3M	12M
Absolute	(2.5)	(2.4)	12.6
Rel. to BSE-30	(1.4)	7.8	35.6

**Forecasts/Valuations**

	2011	2012E	2013E
EPS (Rs)	19.2	22.7	26.3
EPS growth (%)	25.6	17.9	15.7
P/E (X)	24.3	20.6	17.8
Sales (Rs bn)	57.1	67.9	82.6
Net profits (Rs bn)	8.6	10.2	11.8
EBITDA (Rs bn)	10.7	12.4	16.4
EV/EBITDA (X)	20.4	17.3	13.0
ROE (%)	29.5	27.5	25.7
Div. Yield (%)	0.6	0.7	1.0

**QUICK NUMBERS**

- Street estimates aggressive
- Teva, Watson enjoy high market shares, Sandoz and Mylan are strong competitors
- We view the OC segment with cautious optimism

**Competition heats up—two-player segment set to become a six-player one**

What was a two-player generic segment in US comprising Teva and Watson will soon become a six-player generic segment—(1) Glenmark was the first Indian company to enter this space in April 2010; however, analysis of quarterly sales shows little success till date, (2) Sandoz entered in early 2011 and is selling 4 OCs with a meaningful size including the biggest combination pills, Yaz/Yasmin, while (3) Lupin got its first 2 approvals in September 2011, (4) Mylan, the 6<sup>th</sup> generic player plans to launch 22 OCs from 2H2011E till 2014, (5) We are also aware of a Para IV filing for Yaz (largest OC in US) by Sun. While Sun has confirmed it has more OC filings, it is not targeting all products as it already foresees heavy competition and commoditization in some of the products.

**Teva, Watson enjoy high market shares, Sandoz and Mylan are strong competitors**

Competition is less than other oral generics, but these reasons make us cautious— (1) **small size of older OCs leading to portfolio concentration.** As per Watson's 10-K, its top 5 OCs account for 50% of its revenues; it markets over 30 OCs, (2) **high market shares enjoyed by Teva, Watson.** As per Watson's 10-K, it enjoys 36% market share in OCs in US; Teva's proprietary OCs sales in US (excluding generics) are US\$400 mn. Ortho Tri-Cyclen is first OC approval with sales higher than US\$100 mn for Glenmark versus earlier 3 approvals, which contained non-combination pills (progestin only); hence size was small in the range of US\$30-45 mn. Teva and Watson enjoy 70% market share in Ortho Tri-Cyclen with sales of US\$115 mn and US\$45 mn, and (3) **price erosion is substantial as seen in Yaz.** Teva, first firm to launch generic Yaz in 2010, led 25% erosion in its market size to US\$578 mn for 12 months ending February 2011 from US\$780 mn for 12 months ending December 2009.

**Street may be factoring in aggressive OC sales**

Street is likely to be factoring aggressive OC sales as (1) Lupin's 26 OCs are likely to be approved over 2.5 years, tracking Mylan timelines. Mylan has 22 filings to be launched from 2H2011E till 1H2014E, and (2) ramp-up in Lupin's sales will not only depend on fast approvals but approvals of combination OCs with meaningful size. We factor OC sales of US\$75 mn in FY2014E (OC market size of US\$2.5 bn excluding Yaz/Yasmin, 75% price erosion and 12% market share).

Priti Arora  
priti.arora@kotak.com  
Mumbai: +91-22-6634-1551

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



## OCs landscape

Brand	Launch date	Innovator	API	Sales (US\$ mn)	Comments
<b>Sandoz</b>					
Yasmin	Jun-11	Bayer	drospirenone 3 mg /ethinyl estradiol 0.03 mg	365	Watson launched generic in Sep 2010
Yaz	May-11	Bayer	drospirenone 3 mg/ethinyl estradiol 0.02 mg	578	Sandoz is only the second company to launch generic Yaz, SUN has an ANDA for Yaz, teva is FTF launched in July 2010
Nordette	Apr-11		levonorgestrel and ethinyl estradiol	57	
Seasonale	Jan-11	Teva	levonorgestrel and ethinyl estradiol	91	
<b>Glenmark</b>					
Ortho Tri-Cyclen	Jun-11	Ortho McNeil	Norgestimate and Ethinyl Estradiol	225	
Ovcon	Mar-11	Warner Chilcott	Norethindrone and Ethinyl Estradiol, USP 0.4 mg/0.035 mg	30	
Micronor	Jul-10	Ortho McNeil	Norethindrone 0.35mg tablets	43	
Nor-QD	Apr-10	Watson	Norethindrone 0.35mg tablets	38	
<b>Lupin</b>					
NOR-QD	Nov-11	Watson	norethindrone	52	
Femcon	Nov-11	Warner Chilcott	norethindrone and ethinyl estradiol tablets	35	
<b>Watson</b>					
Seasonique	Jun-11	Duramed	levonorgestrel/ethinyl estradiol (0.15 mg/0.03 mg) and ethinyl estradiol (0.01 mg)	110	At risk launch by Watson, Teva is AG launched in July 2011 as Duramed is owned by Teva, Watson relaunched post TRP was lifted in July 2011

Source: Kotak Institutional Equities estimates, Company

## Profit and loss statement, March fiscal year-ends, 2008-2014E (Rs mn)

	2008	2009	2010	2011	2012E	2013E	2014E
<b>Net sales</b>	<b>27,064</b>	<b>37,759</b>	<b>47,405</b>	<b>57,068</b>	<b>67,861</b>	<b>82,631</b>	<b>95,663</b>
<b>Operating expenses</b>							
Materials	(12,897)	(17,770)	(21,986)	(25,290)	(30,018)	(35,811)	(41,162)
SG&A	(5,075)	(6,727)	(7,574)	(8,609)	(11,605)	(14,047)	(16,263)
Employee cost	(3,076)	(4,549)	(5,872)	(7,677)	(8,829)	(10,153)	(11,676)
R&D	(1,657)	(2,228)	(3,438)	(4,834)	(5,021)	(6,197)	(7,175)
<b>Total expenditure</b>	<b>(22,705)</b>	<b>(31,274)</b>	<b>(38,869)</b>	<b>(46,410)</b>	<b>(55,472)</b>	<b>(66,208)</b>	<b>(76,275)</b>
<b>EBITDA</b>	<b>4,358</b>	<b>6,485</b>	<b>8,536</b>	<b>10,659</b>	<b>12,389</b>	<b>16,423</b>	<b>19,387</b>
Depreciation	(647)	(880)	(1,239)	(1,712)	(2,000)	(2,300)	(2,550)
<b>EBIT</b>	<b>3,711</b>	<b>5,605</b>	<b>7,297</b>	<b>8,947</b>	<b>10,389</b>	<b>14,123</b>	<b>16,837</b>
Net finance cost	(374)	(499)	(385)	(325)	(213)	(170)	(100)
Other income	2,065	954	1,445	1,341	1,928	1,000	1,000
<b>PBT</b>	<b>5,402</b>	<b>6,060</b>	<b>8,357</b>	<b>9,963</b>	<b>12,105</b>	<b>14,953</b>	<b>17,737</b>
Current tax	(1,137)	(877)	(1,110)	(1,196)	(1,767)	(2,991)	(3,547)
Deferred tax	(181)	(106)	(250)	27	—	—	—
<b>PAT</b>	<b>4,084</b>	<b>5,077</b>	<b>6,997</b>	<b>8,794</b>	<b>10,337</b>	<b>11,962</b>	<b>14,190</b>
Minority interests/share of loss in ass	1	62	180	168	171	196	226
<b>PAT after MI</b>	<b>4,083</b>	<b>5,015</b>	<b>6,816</b>	<b>8,626</b>	<b>10,167</b>	<b>11,766</b>	<b>13,964</b>

Source: Kotak Institutional Equities estimates, Company

## Balance sheet, cash model, March fiscal year-ends, 2008-2014E (Rs mn)

	2008	2009	2010	2011	2012E	2013E	2014E
<b>Balance sheet</b>							
Total equity	12,797	14,249	25,678	32,811	41,150	50,566	61,657
Total debt	12,029	12,232	11,399	11,624	5,670	5,495	3,142
Current liabilities	7,470	13,331	11,892	14,518	16,561	19,034	21,056
Minority Interests	95	143	254	515	686	882	1,108
Deferred tax liabilities	1,107	1,164	1,435	1,411	1,411	1,411	1,411
<b>Total equity and liabilities</b>	<b>33,497</b>	<b>41,119</b>	<b>50,658</b>	<b>60,879</b>	<b>65,478</b>	<b>77,388</b>	<b>88,374</b>
Cash and cash equivalents	2,742	778	2,015	4,201	500	1,500	2,000
Current assets	17,699	22,700	25,739	30,766	36,566	45,776	54,812
<b>Net fixed assets</b>	<b>10,161</b>	<b>12,012</b>	<b>15,865</b>	<b>17,313</b>	<b>19,813</b>	<b>21,513</b>	<b>22,963</b>
Intangible assets	1,872	3,174	3,197	3,255	3,255	3,255	3,255
Capital -WIP	964	2,240	3,579	5,312	5,312	5,312	5,312
Investments	58	216	264	32	32	32	32
<b>Total assets</b>	<b>33,497</b>	<b>41,119</b>	<b>50,659</b>	<b>60,879</b>	<b>65,478</b>	<b>77,388</b>	<b>88,374</b>
<b>Free cash flow</b>							
Operating cash flow, excl. working capital	3,453	5,576	7,348	9,609	10,872	13,598	16,020
Working capital	(4,157)	610	(4,697)	(2,625)	(3,931)	(7,259)	(7,537)
Capital expenditure	(5,469)	(4,617)	(6,076)	(5,185)	(4,500)	(4,000)	(4,000)
Investments	(59)	(157)	(49)	233	—	—	—
<b>Free cash flow</b>	<b>(6,232)</b>	<b>1,411</b>	<b>(3,473)</b>	<b>2,032</b>	<b>2,441</b>	<b>2,339</b>	<b>4,483</b>

Source: Kotak Institutional Equities estimates, Company

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UPDATE

BSE-30: 16,748

**Comparing L&T BTG JVs with peers.** We compare L&T-MHI BTG JVs with peers and highlight key takeaways (1) L&T MHI JVs operate at very low overhead costs ( employee, and SG&A being 6-7% of sales versus 18-20%), providing a strong competitive base, (2) currently, the contribution margin is negligible (1.6% in FY2011 versus 37-39%) but it can scale up as indigenization and learning curve benefits come through and (3) total gross block at Rs8.2 bn (Rs2.8 bn for boiler) is much smaller than capex envisaged by others, though a part of it may be with the parent.

**Employee, SG&A costs are much lower; contribution margin can scale up on greater indigenization**

We compare the business performance of L&T- MHI equipment JVs (L&T-MHI Boilers Private Limited, L&T-MHI Turbine Generators Private Limited) with industry peers. We highlight that L&T-MHI JVs operate at significantly lower employee and SG&A cost as a proportion of sales. The JVs reported FY2011 employee cost of 4% versus 14-16%. Their SG&A cost in FY2011 amounted to 2.7% of sales versus 4-5%. Lower overhead costs can be a foundation for competitiveness going forward. However, the JVs reported contribution margin (ex variable expenses) of 1.6% only versus 37-39%, probably due to high outsourcing, suboptimal scale etc. We expect the difference in contribution margin to narrow as L&T scales up, gains on the learning curve and reaches higher levels of indigenization while on the other hand, keen competitors drag down contribution margin for competition. We do understand the difficulties in concluding from the above comparison as L&T-MHI JVs' revenues and margin may have not stabilized, and the peers may have other lines of business such as EPC execution, exports and other equipment etc.

**Much smaller gross block (esp. boiler) versus other players - a part possibly in L&T standalone**

We highlight that the L&T-MHI BTG JVs operate at a relatively lower gross block versus the capex envisaged by other new players. The JVs reported a gross block of Rs8 bn (end-Mar-11) skewed towards the turbine/generator JV (Rs2.8 bn gross block for boiler JV). This is relatively lower versus the Rs44 bn capex highlighted by BGR (for full BTG) and Rs7 bn for Thermax (only for boilers). We believe that a part of the L&T's capital expenditure (facilities for manufacturing auxiliaries such as forgings, piping, fans etc) for BTG venture could be included within the parent/other subsidiaries and are being built in separate subsidiaries or in the standalone entity.

**Sizeable equity investments already made by new players; physical progress may be slow**

We also cite the infusion of considerable equity by new players into equipment ventures. The L&T-Hitachi combine has itself invested about Rs4.7 bn of equity as of end-Mar-11. BGR and Hitachi have also invested Rs1.8 bn in their BTG JVs with Thermax/Babcock, having put in Rs965 mn in their supercritical boiler JV. Despite such investments, physical progress may be slow based on delays in the award of NTPC bulk tenders.

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

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

Aditya Mongia  
aditya.mongia@kotak.com  
Mumbai: +91-22-6634-1453

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

L&T operates t significantly lower employee and SG&A cost (as percent of sales)

Profit and loss account for L&T's boiler and turbine/generator subsidiaries, March fiscal year-ends, 2010-11(Rs mn)

	<u>Turbine/Generator</u>	<u>Boilers</u>	<u>BTG (L&amp;T)</u>
	<b>2011</b>	<b>2011</b>	<b>2011</b>
<b>Profit and loss statement</b>			
<b>Total operating income</b>	<b>11,257</b>	<b>10,085</b>	<b>21,342</b>
Variable expenses	(11,099)	(9,906)	(21,005)
Employee expenses	(256)	(555)	(812)
SG & A expenses	(207)	(374)	(581)
<b>Total operating costs</b>	<b>(11,562)</b>	<b>(10,835)</b>	<b>(22,398)</b>
<b>EBITDA</b>	<b>(306)</b>	<b>(750)</b>	<b>(1,056)</b>
Other income	154	380	534
<b>PBDIT</b>	<b>(151)</b>	<b>(369)</b>	<b>(521)</b>
Financial charges	(40)	(43)	(82)
Depreciation	(94)	(112)	(206)
<b>Pre-tax profit</b>	<b>(285)</b>	<b>(523)</b>	<b>(809)</b>
Taxation	-	0	0
<b>Adjusted PAT</b>	<b>(285)</b>	<b>(523)</b>	<b>(809)</b>
<b>Margin analysis</b>			
Variable expenses/sales (%)	98.6	98.2	98.4
Imported goods/sales		74.5	
<b>Contribution margin (%)</b>	<b>1.4</b>	<b>1.8</b>	<b>1.6</b>
Employee cost to sales (%)	2.3	5.5	3.8
SG & A expenses to sales (%)	1.8	3.7	2.7
<b>EBITDA margin (%)</b>	<b>(2.7)</b>	<b>(7.4)</b>	<b>(4.9)</b>

Source: Company, Kotak Institutional Equities

Balance sheet for L&T's boiler and turbine/generator subsidiaries, March fiscal year-ends, 2010-11 (Rs mn)

	<u>Turbine/Generator</u>	<u>Boilers</u>	<u>BTG (L&amp;T)</u>
	2011	2011	2011
<b>Shareholders funds</b>	<b>2,524</b>	<b>2,174</b>	<b>4,698</b>
<b>Loan funds</b>	<b>5,268</b>	<b>2,108</b>	<b>7,376</b>
<b>Total source of funds</b>	<b>7,792</b>	<b>4,281</b>	<b>12,074</b>
<b>Net block</b>	<b>5,127</b>	<b>2,675</b>	<b>7,802</b>
CWIP	2,053	1,149	3,202
<b>Net fixed assets</b>	<b>7,179</b>	<b>3,824</b>	<b>11,004</b>
Investments	312	3,298	3,610
<b>Current assets</b>	<b>13,894</b>	<b>15,803</b>	<b>29,697</b>
Inventories	51	2,157	2,208
Sundry debtors	1,447	2,778	4,226
Cash balances	129	1,436	1,565
Loans and advances	4,356	3,866	8,222
Other Current Assets	7,911	5,566	13,476
<b>Current liabilities and provisions</b>	<b>(14,572)</b>	<b>(19,662)</b>	<b>(34,235)</b>
Current liabilities	(14,559)	(19,631)	(34,189)
Provisions	(14)	(32)	(45)
<b>Net current assets excluding cash</b>	<b>(807)</b>	<b>(5,295)</b>	<b>(6,102)</b>
<b>Total application of funds</b>	<b>7,792</b>	<b>4,281</b>	<b>12,073</b>
<b>Ratios</b>			
Debt-equity (X)	2.1	1.0	1.6
<b>Per share (Rs)</b>			
# of shares	250	220	NA
Book value	10	10	NA
<b>Working capital requirement (days of sales)</b>			
<b>Net working capital excl. cash</b>	<b>(279)</b>	<b>(340)</b>	<b>(308)</b>
Gross capex	4,449	1,906	6,356

Source: Company, Kotak Institutional Equities

Investment into supercritical ventures as of Mar-2011 (Rs mn)

	<b>Equity invested</b>
L&T-MHI Boiler and TG JVs	4,702
Thermax-Babcock & Wilcox JV	965
Hitachi – BGR Boiler and TG JVs	1,811
<b>Total</b>	<b>7,719</b>

Source: Company, Kotak Institutional Equities

## Recent NTPC bulk tender awards, comparison with previous bids

Project		Price (Rs bn)	Capacity (MW)	Realization (Rs mn/MW)	Order	Date
<b>NTPC bulk tender</b>						
9X800 MW boiler	Doosan (winning bid)	70	4,000	17.5	Boiler	Sep-11
	BGR Energy (L2)			18.2		
	L&T (L3)			18.9		
9X800 MW turbine	BGR (winning bid)	35	4,000	8.8	Turbine	Sep-11
	L&T			10.4		
	BHEL			12.5		
11X660 MW turbine	Bharat Forge	43	3,300	13	Turbine	Nov-10
<b>BTG component in bulk tender</b>				<b>26</b>	<b>BTG</b>	
<b>BHEL supercritical orders</b>						
Bajaj Hindustan, Lalitpur Power Gen Co.		55	1,980	28	BTG	Mar-11
NTPC Mouda		16	1,320	12	Turbine	4QFY11
Bara project, Jaiprakash		56	1,980	28	BTG	Nov-09
Krishnapatnam, AP Power Dev Co.		25	1,600	16	Boiler	Aug-08
Barh II, NTPC Ltd		44	1,320	33	BTG	FY2009

Source: Company, Kotak Institutional Equities

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UPDATE

BSE-30: 16,748

**Exploring the money trail, Part 2.** We discuss a few points raised by investors as plausible explanations for the observed gaps between official data on exports and our bottom-up analysis of exports of companies. Investors and other observers have offered explanations such as—(1) re-exports of imported materials, (2) difference between fob and cif data, (3) exports by small unlisted entities, among others. However, publicly available data does not seem to support the same.

### Our observations are based on official data and data of exports of companies

Investors desirous of doing more research into India's exports and imports can visit the Export Import Data Section on the website of the Department of Commerce under the Ministry of Industry and Commerce. The data is quite extensive and covers exports and imports of 99 categories (broken down further into several levels of sub-categories) and is available by countries.

### Exports of copper cannot be explained by domestic production or imports of copper

As highlighted in our October 10 report titled *Exploring the money trail*, exports of copper went up sharply in FY2011 to US\$8.1 bn from US\$1.8 bn with a bulk of the increase coming from copper cathodes (US\$7 bn in FY2011 compared to US\$1.2 bn in FY2010). (1) Exports of the three copper producers increased by less than US\$0.5 bn and (2) imports of copper (all types) increased by 60% to US\$1.9 bn in FY2011; imports of copper cathodes declined by 12% to US\$29 mn.

### Data on passenger cars is not supported by data of industry association

As per Government data on exports, exports (value) of passenger cars increased by 74% to US\$5.5 bn in FY2011 from US\$3.2 bn in FY2010. As per data of Society of Indian Automobile Manufacturers (SIAM), exports of cars (units) increased by 1.6% to 453,479 units in FY2011 from 446,145 units in FY2010. We had noted the sharp decline in exports of Hyundai and Maruti in FY2011 in our October 10 report. Other unlisted companies have picked up the slack but the 1.6% increase in number of units does not reconcile with the 74% increase in value of exports.

### Tailpiece: Where are Tokelau Islands?

We are quite puzzled by the destination of India's exports of passenger cars. Exports to several small countries (in terms of size of car market) such as Algeria (US\$576 mn), Chile (US\$234 mn), Indonesia (US\$640 mn), Swaziland (US\$58 mn) and Tokelau Islands (US\$15 mn) have jumped several fold in FY2011 while exports to the traditional markets of Europe declined due to the removal of the scrappage/incentive scheme introduced by various countries in Europe in CY2008/CY2009 to boost consumption of cars.

### QUICK NUMBERS

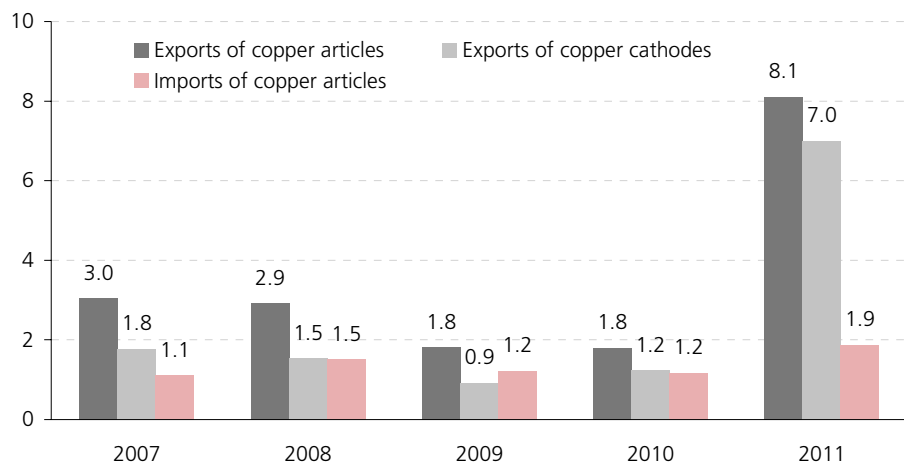
- **Copper exports increased 4.5X (or US\$6.3 bn) in FY2011**
- **Exports of major copper producers increased by around US\$0.5 bn**
- **SIAM data shows exports of cars (units) increased 1.6% in FY2011; Government data of value of exports increased 74%**

Sanjeev Prasad  
sanjeev.prasad@kotak.com  
Mumbai: +91-22-6634-1229

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

Sunita Baldawa  
sunita.baldawa@kotak.com  
Mumbai: +91-22-6634-1325

Exports of copper articles increased 4.5X in FY2011 to US\$8.1 bn from US\$1.8 bn  
Exports and imports of copper articles, March fiscal year-ends, 2007-11 (US\$ bn)



Source: Department of Commerce, Kotak Institutional Equities

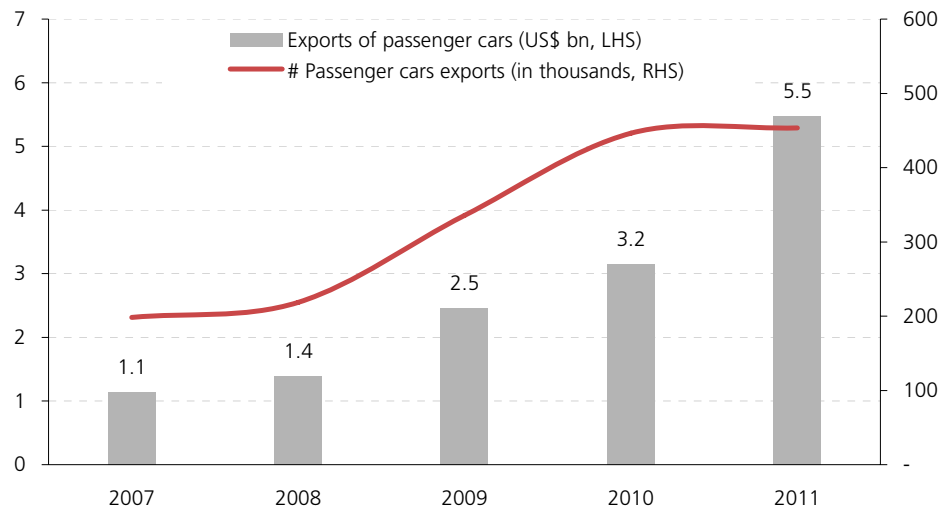
Breakdown of exports of metals companies in BSE-500 Index, March fiscal year-ends, 2006-11 (Rs bn)

Company	Sector	2006	2007	2008	2009	2010	2011
<b>Hindalco Industries</b>	<b>Non-ferrous metals</b>	<b>36</b>	<b>70</b>	<b>64</b>	<b>51</b>	<b>53</b>	<b>71</b>
<b>Sterlite Industries</b>	<b>Non-ferrous metals</b>	<b>42</b>	<b>72</b>	<b>70</b>	<b>46</b>	<b>59</b>	<b>63</b>
Hindustan Zinc	Non-ferrous metals	9	42	23	20	28	37
JSW Steel	Steel	20	33	32	41	27	33
Tata Steel	Steel	21	20	21	33	20	23
National Aluminium	Non-ferrous metals	23	26	21	21	21	21
Jindal Saw	Steel	6	10	23	23	26	16
Uttam Galva	Steel	10	14	15	22	14	16
JSL Stainless	Steel	11	23	17	12	11	14
Bhushan Steel	Steel	10	15	13	15	12	12
Jindal Steel	Steel	4	6	7	10	4	11
S A I L	Steel	11	12	12	8	8	10
JSW ISPAT	Steel	17	8	15	9	7	4
Usha Martin	Steel	3	4	4	6	5	4
Tinplate Company	Non-ferrous metals	1	2	2	3	3	3
Adhunik Metal	Steel	—	0	1	1	0	1
<b>Hindustan Copper</b>	<b>Non-ferrous metals</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>1</b>
Maharashtra Seamless	Steel	—	—	5	9	3	1
Jai Corp	Steel	1	1	1	0	0	0
Jai Balaji Inds.	Steel	—	—	0	1	1	0
Ess Dee Aluminium	Non-ferrous metals	0	0	0	0	0	0
Prakash Industries	Steel	0	0	0	0	—	—
Monnet Ispat	Steel	—	—	—	1	0	NA
<b>Total</b>		<b>226</b>	<b>357</b>	<b>344</b>	<b>333</b>	<b>303</b>	<b>340</b>

Source: Capitaline, Kotak Institutional Equities



Exports of passenger car in value increased by 74% and in units increased by 1.6% in FY2011  
Exports data (value and units) of passenger cars, March fiscal year-ends, 2007-11



Source: Department of Commerce, SIAM, Kotak Institutional Equities

Exports to several small countries have jumped sharply in FY2011  
Country-wise data on exports of cars, March fiscal year-ends, 2007-11 (US\$ mn)

Country	2007	2008	2009	2010	2011
Indonesia	5	27	15	28	640
Algeria	121	135	248	99	576
South Africa	133	69	89	181	369
Sri Lanka	95	69	68	64	349
U K	47	40	161	476	345
Netherland	27	43	142	201	270
Israel	—	—	9	67	235
Chile	21	44	38	28	234
Spain	53	60	39	132	232
Italy	103	149	164	407	180
Australia	1	2	—	25	179
Germany	83	46	293	231	164
Egypt	51	101	100	85	147
Belgium	6	9	65	92	141
Peru	8	19	26	23	99
Denmark	5	10	37	42	88
Colombia	58	60	45	47	72
Russia	—	—	14	22	60
Malaysia	2	2	6	6	59
Swaziland	—	—	—	—	58
Other countries	316	500	897	897	983
<b>Total</b>	<b>1,135</b>	<b>1,386</b>	<b>2,458</b>	<b>3,156</b>	<b>5,480</b>

Source: Department of Commerce, Kotak Institutional Equities

## September 2011: Results calendar

Mon	Tue	Wed	Thu	Fri	Sat
<b>17-Oct</b>	<b>18-Oct</b>	<b>19-Oct</b>	<b>20-Oct</b>	<b>21-Oct</b>	<b>22-Oct</b>
		Bajaj Finance	Bajaj Auto	3I Infotech	Axis Bank
		Bajaj Finserv	Bajaj Holding & Investments	Akzo Nobel	Binani Industries
		Biocon	Cairn India	Asian Paints	Grasim Industries
		Crompton Greaves	DB Corp	Federal Bank	Jagran Prakashan
		Dish TV	Deepak Fertilisers	GCPL	Kalpataru Power Transmission
		Eclerx Services	Dewan Housing Finance	Godrej Properties	Polaris
		HDFC Bank	Dhanlaxmi Bank	HCC	Syndicate Bank
		Hindustan Zinc	Exide Industries	HT Media	
		Indraprastha Gas	Hexaware Technologies	Idea	
		Mastek	HMVL	Indiabulls Financial Services	
		Rallis India	IDBI Bank	JSW Steel	
		Torrent Power	Indiabulls Power	Kansai Nerolac	
		Zee News	Indiabulls Real Estate	L&T	
			Indiabulls Securities	NIIT	
			MRF	PVR	
			Piramal Healthcare	Shoppers Stop	
			SREI	Texmaco	
			Thermax	United Phosphorus	
			Ultratech Cement		
			Yes Bank		
<b>24-Oct</b>	<b>25-Oct</b>	<b>26-Oct</b>	<b>27-Oct</b>	<b>28-Oct</b>	<b>29-Oct</b>
Container Corp	Dr Reddy's Laboratories	Muthoot Finance		NHPC	LIC Housing Finance
ITC	Engineers India			BEML	Maharashtra Seamless
JM Financial	KEC International			Bharat Electronics	Mahindra Holidays & Resorts
MMFSL	Kotak Mahindra Bank			Redington India	Maruti Suzuki
Pfizer	NTPC				Tata Global Beverages
Sterlite Industries	Sesa Goa				
Tata Coffee					
Titan Industries					
Union Bank of India					
<b>31-Oct</b>	<b>1-Nov</b>	<b>2-Nov</b>	<b>3-Nov</b>	<b>4-Nov</b>	<b>5-Nov</b>
Bata India	ACC		Welspun Corp	Apollo Hospital Enterprises	
BPCL	Aditya Birla Nuvo			Gloxosmithkline Consumers	
Castrol India	Ambuja Cements			Marico	
Central Bank of India	Bajaj Electricals				
Century Textiles	Central Bank of India				
Colgate Palmolive					
Corporation Bank					
Dabur India					
EIH					
Gujarat Pipavav Port					
Hindustan Unilever					
ICICI Bank					
Jammu & Kashmir Bank					
Karnataka Bank					
Wipro					
<b>7-Nov</b>	<b>8-Nov</b>	<b>9-Nov</b>	<b>10-Nov</b>	<b>11-Nov</b>	<b>12-Nov</b>
Madras Cement	ABB	Ranbaxy Laboratories	Cadila Healthcare	Dishman Pharma	
Punjab Llyod	Godrej Industries		Hindalco Industries		
	IDFC		VA Tech Wabag		
<b>14-Nov</b>	<b>15-Nov</b>	<b>16-Nov</b>	<b>17-Nov</b>	<b>18-Nov</b>	<b>19-Nov</b>
India Cements	Tata Power				
Mahindra & Mahindra					

Source: BSE, NSE, Kotak Institutional Equities

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

Company	18-Oct-11		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target Price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E			
<b>Automobiles</b>																													
Apollo Tyres	54	BUY	27,422	556	504	8.7	7.7	9.6	(26.1)	(11.7)	24.3	6.2	7.0	5.7	5.1	4.4	3.8	1.0	0.9	0.8	0.9	0.8	1.0	20.1	15.0	16.1	85	56.3	4.0
Ashok Leyland	24	SELL	63,590	1,290	2,661	2.4	2.1	2.4	68.1	(11.9)	12.8	10.1	11.4	10.1	7.1	7.5	6.8	1.4	1.3	1.3	4.2	4.2	4.2	21.8	17.4	18.2	26	8.8	3.8
Bajaj Auto	1,608	SELL	465,254	9,438	289	90.4	103.3	113.0	43.9	14.3	9.4	17.8	15.6	14.2	13.5	12.3	11.5	9.4	7.1	5.5	2.5	2.5	84.9	51.9	43.4	1,585	(1.4)	14.5	
Bharat Forge	282	ADD	66,800	1,355	237	12.5	16.0	20.2	1,402.1	27.9	25.8	22.4	17.5	14.0	10.5	8.6	7.2	3.0	2.6	2.2	1.2	—	—	8.2	14.0	15.1	320	13.7	2.4
Exide Industries	134	SELL	114,028	2,313	850	7.5	6.8	7.9	18.0	(8.9)	17.0	18.0	19.8	16.9	13.0	14.1	12.3	4.2	3.6	3.0	1.1	1.0	1.0	25.5	19.4	19.5	120	(10.5)	6.6
Hero Motocorp	1,986	SELL	396,574	8,045	200	99.3	111.1	128.2	(11.1)	11.8	15.4	20.0	17.9	15.5	13.2	13.1	10.7	8.5	8.7	8.3	5.3	3.5	3.5	56.5	63.5	60.3	1,800	(9.4)	23.2
Mahindra & Mahindra	808	ADD	495,805	10,058	614	41.7	46.9	52.2	22.7	12.5	11.2	19.4	17.2	15.5	14.8	12.6	11.1	4.6	3.8	3.2	1.4	1.2	1.2	27.3	24.5	22.6	900	11.5	33.2
Maruti Suzuki	1,052	ADD	304,009	6,167	289	79.2	66.0	90.3	(8.4)	(16.7)	36.8	13.3	15.9	11.6	8.0	9.0	6.2	2.2	1.9	1.7	0.7	0.7	17.6	12.9	15.5	1,240	17.8	14.5	
Tata Motors	181	ADD	602,656	12,226	3,325	27.2	23.1	23.9	737.9	(15.0)	3.6	6.7	7.8	7.6	4.9	5.5	5.3	3.1	2.3	1.8	2.1	1.6	1.6	66.1	34.2	27.3	180	(0.7)	57.1
<b>Automobiles</b>																													
<b>Cautious</b>																													
			<b>2,536,139</b>	<b>51,448</b>					<b>82.8</b>	<b>(4.5)</b>	<b>11.7</b>	<b>12.4</b>	<b>13.0</b>	<b>11.6</b>	<b>8.2</b>	<b>8.4</b>	<b>7.5</b>	<b>3.8</b>	<b>3.2</b>	<b>2.7</b>	<b>2.3</b>	<b>1.9</b>	<b>1.9</b>	<b>31.1</b>	<b>24.7</b>	<b>23.0</b>			
<b>Banks/Financial Institutions</b>																													
Andhra Bank	118	BUY	66,282	1,345	560	22.6	24.2	27.5	5.0	6.9	13.5	5.2	4.9	4.3	—	—	—	1.0	0.9	0.8	4.6	5.0	5.6	23.2	19.4	19.2	190	60.4	1.6
Axis Bank	1,098	BUY	450,595	9,141	411	82.5	98.9	119.7	33.0	19.8	21.1	13.3	11.1	9.2	—	—	—	2.4	2.0	1.7	1.3	1.5	1.9	19.3	19.7	20.3	1,700	54.9	55.0
Bajaj Finserv	528	ADD	76,340	1,549	145	78.2	62.7	61.4	102.3	(19.8)	(2.1)	6.7	8.4	8.6	—	—	—	2.2	1.6	1.3	2.4	2.4	2.4	37.2	21.8	16.4	650	23.2	2.5
Bank of Baroda	746	BUY	293,074	5,945	393	108.0	109.5	129.1	29.1	1.4	17.9	6.9	6.8	5.8	—	—	—	1.5	1.3	1.1	2.6	2.6	3.1	25.9	20.4	20.5	1,250	67.5	7.4
Bank of India	335	BUY	183,401	3,720	547	45.5	54.0	70.7	37.4	18.7	30.9	7.4	6.2	4.7	—	—	—	1.1	1.0	0.9	2.4	2.9	3.8	17.3	17.2	19.5	470	40.2	5.8
Canara Bank	453	BUY	200,812	4,074	443	90.9	86.3	108.7	23.3	(5.0)	25.9	5.0	5.2	4.2	—	—	—	1.1	0.9	0.8	2.4	2.6	2.6	23.2	17.7	19.0	600	32.4	7.0
Corporation Bank	413	BUY	61,111	1,240	148	95.4	93.4	114.1	16.3	(2.1)	22.2	4.3	4.4	3.6	—	—	—	0.9	0.7	0.6	4.8	4.7	5.8	21.9	18.1	19.2	630	52.7	0.7
Federal Bank	376	BUY	64,374	1,306	171	34.3	44.5	55.4	26.3	29.8	24.3	11.0	8.4	6.8	—	—	—	1.3	1.2	1.0	2.3	2.9	3.6	12.0	14.2	15.8	500	32.9	3.2
HDFC	674	REDUCE	988,397	20,051	1,467	24.1	27.8	31.6	22.4	25.4	13.7	28.0	24.2	21.3	—	—	—	5.7	5.0	3.9	1.3	1.5	1.8	21.7	22.1	21.3	725	7.6	36.4
HDFC Bank	478	ADD	1,112,238	22,563	2,326	16.9	21.9	27.6	31.0	29.5	26.5	28.3	21.9	17.3	—	—	—	4.4	3.8	3.2	0.7	0.9	1.1	16.7	18.6	20.2	560	17.1	35.5
ICICI Bank	877	BUY	1,009,570	20,480	1,152	44.7	58.0	63.1	23.9	29.7	8.8	19.6	15.1	13.9	—	—	—	1.8	1.7	1.6	1.6	2.0	2.2	9.7	11.7	11.8	1,100	25.5	79.7
IDFC	123	BUY	185,039	3,754	1,509	8.8	9.9	12.0	4.6	12.8	21.6	14.0	12.4	10.2	—	—	—	1.8	1.5	1.3	1.8	1.6	2.0	14.7	13.1	13.9	150	22.3	20.0
India Infoline	71	SELL	23,292	472	327	7.4	4.8	6.5	(9.3)	(34.5)	33.8	9.7	14.8	11.0	—	—	—	1.4	1.2	1.1	4.3	1.4	1.9	12.9	8.7	10.3	70	(1.8)	1.0
Indian Bank	204	BUY	87,738	1,780	430	38.8	42.0	50.9	10.5	8.2	21.2	5.3	4.9	4.0	—	—	—	1.1	0.9	0.8	3.7	3.9	4.7	22.3	20.4	21.0	300	47.0	1.4
Indian Overseas Bank	97	BUY	60,297	1,223	619	17.3	21.1	27.3	33.6	22.0	29.1	5.6	4.6	3.6	—	—	—	0.7	0.6	0.6	5.1	4.3	4.8	12.7	13.3	15.3	190	95.0	1.6
IndusInd Bank	267	BUY	124,576	2,527	466	12.4	15.2	17.7	45.2	22.6	16.4	21.6	17.6	15.1	—	—	—	3.4	3.0	2.6	0.7	0.9	1.1	20.8	17.7	17.4	325	21.6	3.4
J&K Bank	814	ADD	39,473	801	48	126.9	141.8	152.8	20.1	11.8	7.7	6.4	5.7	5.3	—	—	—	1.1	1.0	0.9	3.2	3.6	3.8	19.0	18.4	17.3	950	16.7	#N/A
LIC Housing Finance	229	ADD	108,764	2,206	475	20.5	22.9	27.5	47.2	11.4	20.4	11.2	10.0	8.3	—	—	—	2.8	2.3	1.9	1.9	2.1	2.6	25.8	23.7	23.9	260	13.5	18.7
Mahindra & Mahindra Financial	625	BUY	64,033	1,299	102	45.2	56.4	69.2	26.1	24.8	22.7	13.8	11.1	9.0	—	—	—	2.6	2.3	1.9	1.6	2.0	2.4	22.0	21.4	22.3	825	32.0	0.9
Muthoot Finance	166	BUY	61,803	1,254	371	15.7	21.6	26.7	108.4	37.1	23.7	10.6	7.7	6.2	—	—	—	4.6	2.0	1.5	—	—	—	51.5	36.7	28.1	230	38.2	—
Oriental Bank of Commerce	296	BUY	86,478	1,754	292	51.5	55.6	65.4	13.7	8.0	17.6	5.8	5.3	4.5	—	—	—	0.8	0.8	0.7	3.5	3.8	4.5	15.5	13.9	14.7	430	45.1	3.5
PFC	144	BUY	189,543	3,845	1,320	22.8	23.4	28.3	11.1	2.4	21.3	6.3	6.1	5.1	—	—	—	1.3	0.9	0.8	2.8	3.3	3.9	18.4	17.0	16.7	225	56.7	12.1
Punjab National Bank	965	BUY	305,850	6,204	317	140.0	163.0	201.5	13.0	16.5	23.6	6.9	5.9	4.8	—	—	—	1.5	1.3	1.1	2.3	3.4	4.3	24.4	23.5	24.2	1,500	55.4	7.4
Reliance Capital	322	REDUCE	79,362	1,610	246	9.3	16.5	24.8	(25.3)	77.0	50.4	34.6	19.6	13.0	—	—	—	1.1	1.1	1.1	1.2	2.0	3.1	3.3	5.7	8.3	470	45.8	28.3
Rural Electrification Corp.	173	BUY	170,424	3,457	987	26.0	29.0	32.5	28.1	11.5	12.3	6.6	6.0	5.3	—	—	—	1.3	1.2	1.0	4.3	4.8	5.4	21.5	20.8	20.4	240	39.0	9.4
Shriram Transport	596	REDUCE	132,991	2,698	223	55.1	65.6	75.3	40.8	19.0	14.8	10.8	9.1	7.9	—	—	—	2.8	2.3	2.0	1.1	2.2	2.5	28.1	26.8	25.2	700	17.4	7.1
SKS Microfinance	203	RS	14,952	303	74	15.7	(39.1)	3.9	(41.8)	(349.4)	(109.9)	12.9	(5.2)	52.3	—	—	—	0.8	1.0	0.9	—	—	—	8.3	(17.4)	1.9	—	—	4.9
State Bank of India	1,867	BUY	1,185,257	24,044	635	130.2	195.6	256.1	(9.9)	50.3	30.9	14.3	9.5	7.3	—	—	—	1.8	1.6	1.3	1.8	1.9	2.0	12.6	17.8	20.0	2,750	47.3	129.4
Union Bank	244	BUY	127,780	2,592	524	39.5	50.2	60.4	(3.9)	27.1	20.5	6.2	4.9	4.0	—	—	—	1.2	1.0	0.8	3.8	4.8	5.8	20.9	21.9	22.5	425	74.4	5.3
Yes Bank	280	BUY	97,166	1,971	347	21.5	26.2	32.3	43.2	22.1	23.3	13.0	10.7	8.7	—	—	—	2.6	2.1	1.8	0.9	1.1	1.3	21.7	21.7	22.2	420	50.1	16.7
<b>Banks/Financial Institutions</b>																													
<b>Attractive</b>																													
			<b>7,651,011</b>	<b>155,209</b>					<b>20.1</b>	<b>20.0</b>	<b>22.6</b>	<b>12.5</b>	<b></b>																

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

Company	18-Oct-11		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E			
<b>Consumer products</b>																													
Asian Paints	3,103	SELL	297,644	6,038	96	80.8	94.6	111.4	13.0	17.1	17.7	38.4	32.8	27.9	25.6	20.9	17.1	14.5	11.2	9.0	1.0	0.9	1.1	43.9	40.0	36.8	2,900	(6.5)	4.4
Colgate-Palmolive (India)	999	SELL	135,911	2,757	136	29.6	34.1	38.8	(4.9)	15.0	14.1	33.8	29.3	25.7	29.4	25.6	21.5	35.4	36.0	28.7	2.2	3.0	2.7	113.4	121.6	124.2	900	(9.9)	1.7
Dabur India	97	SELL	169,426	3,437	1,740	3.3	3.7	4.4	12.8	14.1	18.8	29.8	26.1	22.0	24.1	19.8	16.7	12.9	10.0	7.9	1.2	1.3	1.6	51.2	43.8	40.6	110	13.0	2.7
GlaxoSmithkline Consumer (a)	2,325	ADD	97,758	1,983	42	71.3	83.2	104.0	28.8	16.7	25.0	32.6	27.9	22.4	23.4	20.1	16.9	10.5	8.9	7.5	2.2	1.6	2.0	32.2	33.5	35.5	2,900	24.8	1.1
Godrej Consumer Products	397	ADD	128,303	2,603	324	14.9	18.4	22.7	31.3	23.4	23.8	26.6	21.6	17.4	22.8	15.9	12.1	7.4	5.3	4.2	1.3	0.8	0.8	35.9	28.7	27.0	510	28.6	2.4
Hindustan Unilever	329	ADD	711,426	14,432	2,159	9.9	11.3	13.3	4.8	14.1	17.7	33.4	29.2	24.8	28.3	24.7	20.2	27.0	23.4	20.2	2.3	2.9	3.4	66.3	85.9	87.5	370	12.3	19.2
ITC	204	ADD	1,568,778	31,824	7,681	6.4	8.0	9.1	20.7	24.9	13.1	31.9	25.5	22.6	21.1	17.2	15.0	9.4	8.0	7.0	2.2	1.8	2.2	33.2	35.5	34.4	230	12.6	34.7
Jubilant Foodworks	886	SELL	57,974	1,176	65	11.2	16.6	24.1	99.6	48.6	45.1	79.1	53.2	36.7	48.3	29.5	20.6	30.2	19.3	12.6	—	—	—	46.6	44.2	41.6	750	(15.4)	29.6
Jyothy Laboratories	139	ADD	11,240	228	81	10.5	9.4	11.8	(5.0)	(10.1)	25.2	13.3	14.8	11.8	10.4	9.1	7.5	1.7	1.6	1.5	4.2	3.4	4.2	12.3	11.1	12.9	220	57.8	0.4
Manco	151	ADD	93,079	1,888	615	3.9	5.1	6.7	(12.8)	31.2	32.0	39.0	29.7	22.5	24.0	20.8	15.7	9.9	7.8	6.0	0.4	0.5	0.6	30.3	29.8	30.5	175	15.7	1.2
Nestle India (a)	4,137	SELL	398,824	8,091	96	86.8	103.6	123.2	16.7	19.3	18.9	47.6	39.9	33.6	31.7	26.0	21.4	46.6	33.9	25.6	1.2	1.5	1.7	116.5	98.3	86.8	3,500	(15.4)	1.9
Tata Global Beverages	88	ADD	54,141	1,098	618	4.0	6.0	7.1	(34.6)	52.6	17.6	22.1	14.5	12.3	8.6	7.2	6.0	1.1	1.0	1.0	2.3	3.5	4.1	6.5	9.6	10.8	120	37.1	3.9
Titan Industries	221	ADD	196,334	3,983	888	4.9	7.4	8.8	71.7	51.5	17.8	45.0	29.7	25.2	32.9	20.7	17.0	18.1	12.8	9.7	0.6	1.0	1.4	47.8	50.5	44.0	240	8.5	17.5
United Spirits	880	ADD	110,548	2,243	126	29.5	39.2	50.6	8.3	32.8	29.0	29.8	22.4	17.4	15.5	11.9	10.2	2.5	2.3	2.1	0.4	0.3	0.4	9.1	10.7	12.5	1,100	25.0	5.1
<b>Consumer products</b>		<b>Neutral</b>	<b>4,031,386</b>	<b>81,781</b>					<b>15.6</b>	<b>21.9</b>	<b>17.1</b>	<b>33.7</b>	<b>27.7</b>	<b>23.6</b>	<b>23.5</b>	<b>19.1</b>	<b>16.0</b>	<b>10.4</b>	<b>8.8</b>	<b>7.6</b>	<b>1.8</b>	<b>1.8</b>	<b>2.1</b>	<b>30.7</b>	<b>31.9</b>	<b>32.0</b>			
<b>Constructions</b>																													
IVRCL	35	BUY	9,452	192	267	5.9	5.7	6.6	(25.2)	(4.1)	15.6	6.0	6.2	5.4	5.6	5.4	5.3	0.5	0.4	0.4	1.1	1.1	1.1	8.2	7.3	7.9	75	111.9	5.0
Nagarjuna Construction Co.	56	BUY	14,356	291	257	6.4	5.9	7.7	(29.7)	(7.8)	30.8	8.8	9.5	7.3	7.8	7.3	6.8	0.6	0.6	0.6	3.6	3.6	3.6	7.1	6.3	7.8	100	78.7	1.3
Punj Lloyd	54	REDUCE	18,321	372	340	(1.5)	5.5	7.4	(56.6)	(467.8)	34.9	(36.3)	9.9	7.3	12.5	5.6	4.9	0.6	0.6	0.5	(0.1)	0.9	1.2	(1.7)	6.1	7.7	65	20.5	5.2
Sadbhav Engineering	131	BUY	19,611	398	150	7.8	10.8	11.9	51.0	38.9	10.6	16.9	12.1	11.0	10.1	8.1	7.4	3.1	2.5	2.0	0.5	0.5	0.5	18.1	20.4	18.6	180	37.6	0.3
<b>Construction</b>		<b>Attractive</b>	<b>61,740</b>	<b>1,252</b>					<b>(1.1)</b>	<b>67.6</b>	<b>23.4</b>	<b>15.9</b>	<b>9.5</b>	<b>7.7</b>	<b>8.6</b>	<b>6.3</b>	<b>5.8</b>	<b>0.8</b>	<b>0.7</b>	<b>0.7</b>	<b>1.1</b>	<b>1.4</b>	<b>1.5</b>	<b>4.8</b>	<b>7.6</b>	<b>8.7</b>			
<b>Energy</b>																													
Aban Offshore	392	BUY	17,076	346	44	134.2	99.1	102.6	25.9	(26.1)	3.5	2.9	4.0	3.8	6.5	6.8	6.4	0.8	0.8	0.7	0.9	1.0	1.1	33.3	21.9	17.9	670	70.8	7.2
Bharat Petroleum	642	ADD	232,091	4,708	362	38.9	54.0	55.1	(32.5)	38.9	1.9	16.5	11.9	11.7	10.6	7.5	7.1	1.5	1.4	1.3	2.2	2.8	2.8	9.2	11.8	11.2	780	21.5	5.7
Cairn India	296	REDUCE	563,443	11,430	1,902	33.3	40.4	49.3	501.1	21.2	22.2	8.9	7.3	6.0	6.5	4.6	3.8	1.4	1.2	1.1	—	1.7	5.1	16.9	17.7	19.5	295	(0.4)	12.0
Castrol India (a)	474	SELL	117,137	2,376	247	19.8	21.9	22.3	28.5	10.8	1.6	23.9	21.6	21.2	15.3	14.4	14.0	22.7	20.7	19.6	3.2	3.6	3.8	100.2	100.2	94.7	425	(10.3)	1.0
GAIL (India)	414	BUY	524,897	10,648	1,268	28.2	34.3	36.0	13.8	21.8	4.9	14.7	12.1	11.5	9.3	8.9	7.9	2.5	2.2	1.9	1.8	2.2	2.4	17.5	18.4	16.5	560	35.3	9.5
GSPL	97	SELL	54,458	1,105	563	8.9	8.5	8.4	21.7	(4.0)	(1.2)	10.9	11.3	11.5	7.0	6.7	6.6	2.4	2.0	1.8	1.0	1.8	2.6	25.2	19.3	16.4	92	(5.0)	4.8
Hindustan Petroleum	343	ADD	116,297	2,359	339	40.8	20.3	33.9	(20.8)	(50.4)	67.3	8.4	16.9	10.1	3.8	4.6	3.3	0.7	0.7	0.7	4.1	1.8	3.0	9.0	4.1	6.5	430	25.3	6.6
Indian Oil Corporation	292	BUY	709,447	14,392	2,428	32.4	28.4	32.1	(34.0)	(12.5)	12.9	9.0	10.3	9.1	8.6	7.5	6.5	1.2	1.1	1.0	3.3	3.0	3.4	13.3	10.8	11.3	385	31.8	3.8
Oil India	1,275	BUY	306,562	6,219	240	120.0	171.7	190.1	4.2	(4.3)	10.7	10.6	7.4	6.7	5.3	2.9	2.4	1.8	1.6	1.4	2.9	4.3	4.7	16.2	20.1	19.4	1,750	37.3	2.0
Oil & Natural Gas Corporation	264	BUY	2,256,090	45,767	8,556	24.7	37.2	40.8	7.4	50.8	9.7	10.7	7.1	6.5	4.0	3.0	2.4	1.5	1.3	1.2	3.3	4.6	5.3	14.3	19.1	18.3	380	44.1	25.2
Petronet LNG	161	SELL	121,088	2,456	750	8.1	11.5	11.4	50.3	41.3	(0.7)	19.9	14.1	14.2	11.5	9.3	9.5	4.0	3.3	2.7	1.2	1.9	1.9	20.9	24.6	20.2	125	(22.6)	12.8
Reliance Industries	820	ADD	2,444,122	49,582	2,981	62.0	70.3	71.1	24.8	13.5	1.1	13.2	11.7	11.5	7.2	6.0	5.7	1.5	1.3	1.2	1.0	1.1	1.2	13.0	13.3	12.0	1,000	22.0	90.8
<b>Energy</b>		<b>Attractive</b>	<b>7,462,707</b>	<b>151,389</b>					<b>11.6</b>	<b>25.5</b>	<b>6.8</b>	<b>11.1</b>	<b>8.9</b>	<b>8.3</b>	<b>6.2</b>	<b>4.9</b>	<b>4.3</b>	<b>1.5</b>	<b>1.4</b>	<b>1.2</b>	<b>2.1</b>	<b>2.7</b>	<b>3.3</b>	<b>13.8</b>	<b>15.4</b>	<b>14.8</b>			
<b>Industrials</b>																													
ABB	665	SELL	140,866	2,858	212	3.0	21.1	27.3	(82.2)	606.1	29.6	222.8	31.5	24.3	161.0	21.2	15.8	5.8	5.1	4.3	0.3	0.5	0.5	2.6	17.1	19.1	700	5.3	1.7
BGR Energy Systems	326	Reduce	23,519	477	72	44.8	40.4	39.0	60.0	(9.7)	(3.5)	7.3	8.1	8.4	4.9	4.4	4.2	2.5	2.0	1.7	3.1	2.5	2.4	39.0	27.4	21.9	400	22.7	5.1
Bharat Electronics	1,521	ADD	121,692	2,469	80	107.3	121.7	135.5	11.6	13.5	11.3	14.2	12.5	11.2	6.3	5.2	3.8	2.4	2.1	1.8	1.4	1.6	1.6	18.2	17.6	17.1	1,875	23.3	1.1
Bharat Heavy Electricals	322	REDUCE	787,393	15,973	2,448	24.6	25.3	27.5	39.7	3.0	8.5	13.1	12.7	11.7	8.7	8.0	7.3	3.9	3.2	2.6	1.9	1.7	1.8	33.3	27.6	24.6	360	11.9	29.3
Crompton Greaves	164	BUY	105,110	2,132	642	14.3	10.3	12.7	11.5	(28.0)	23.2	11.4	15.9	12.9	7.4	9.2	7.3	3.2	2.7	2.3	1.5	1.0	1.0	31.7	18.6	19.5	200	22.1	17.2
Larsen & Toubro	1,349	REDUCE	821,156	16,658	609	67.7	79.2	91.7	18.1	16.9	15.9	19.9	17.0	14.7	14.5	11.0	9.9	3.1	2.6	2.2	1.1	1.0	1.0	17.0	16.5	16.2	1,625	20.5	64.6

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

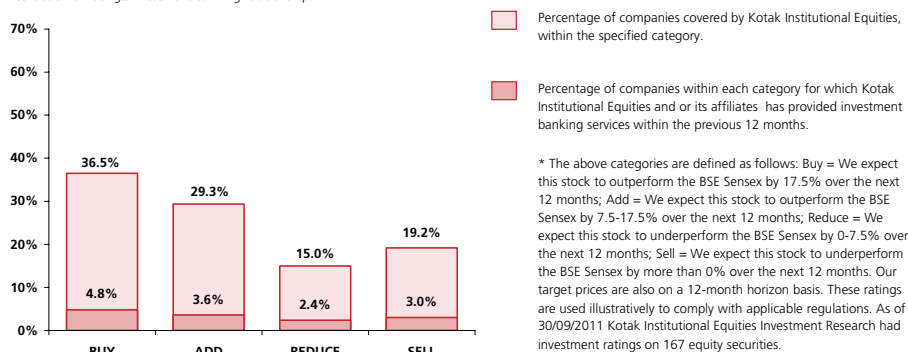
Company	18-Oct-11		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E			
<b>Media</b>																													
DB Corp	219	BUY	40,193	815	183	14.1	13.0	15.5	32.7	(8.1)	19.9	15.5	16.9	14.1	10.1	9.9	8.3	4.8	4.3	3.8	1.8	2.7	3.6	35.0	26.9	28.6	330	50.5	0.8
DishTV	77	ADD	81,569	1,655	1,062	(1.8)	0.0	1.3	(27.5)	(101.9)	3,944.0	(42.9)	2,318.7	57.3	38.1	17.5	11.8	38.8	38.2	22.9	—	—	—	(62.3)	1.7	49.9	100	30.2	7.1
Eros International	271	ADD	26,242	532	97	11.8	15.8	19.9	19.0	34.0	25.9	23.0	17.1	13.6	16.1	12.2	8.8	3.9	3.1	2.5	—	—	—	24.9	20.2	20.5	270	(0.3)	2.7
Hindustan Media Ventures	134	BUY	9,856	200	73	7.3	9.1	10.9	198.0	24.0	20.1	18.4	14.8	12.3	8.8	7.8	6.0	2.6	2.2	2.0	0.7	0.7	1.5	23.3	16.1	16.9	210	56.4	0.1
HT Media	139	ADD	32,700	663	235	7.6	8.5	10.4	24.8	11.7	22.2	18.3	16.3	13.4	8.4	7.3	5.7	2.3	2.2	2.1	1.4	2.9	4.3	14.9	13.8	15.9	190	36.5	0.5
Jagran Prakashan	100	BUY	31,720	643	316	6.8	6.7	8.0	16.7	(1.4)	18.7	14.7	14.9	12.6	8.8	8.6	7.2	4.5	4.0	3.7	3.5	3.5	5.0	32.8	28.5	30.8	160	59.5	0.3
Sun TV Network	271	BUY	106,796	2,166	394	19.5	21.0	25.1	48.1	7.7	19.2	13.9	12.9	10.8	8.3	7.4	6.2	4.4	3.8	3.4	3.2	3.7	5.2	36.5	33.4	34.8	440	62.4	6.8
Zee Entertainment Enterprises	113	BUY	110,898	2,250	978	5.8	6.2	7.7	10.0	6.4	23.3	19.4	18.2	14.8	12.9	11.8	9.4	2.6	2.5	2.4	1.2	1.2	1.4	14.2	14.3	16.9	160	41.2	5.2
		<b>Neutral</b>	<b>439,974</b>	<b>8,925</b>					<b>50.8</b>	<b>17.2</b>	<b>27.0</b>	<b>22.3</b>	<b>19.0</b>	<b>15.0</b>	<b>11.9</b>	<b>10.2</b>	<b>8.1</b>	<b>4.1</b>	<b>3.7</b>	<b>3.4</b>	<b>1.6</b>	<b>1.9</b>	<b>2.6</b>	<b>18.2</b>	<b>19.4</b>	<b>22.4</b>			
<b>Metals &amp; Mining</b>																													
Coal India	330	ADD	2,084,716	42,291	6,316	17.3	24.1	29.3	13.6	39.1	21.9	19.1	13.7	11.2	11.1	8.0	6.6	6.0	4.7	3.7	1.2	2.2	2.7	35.1	38.2	36.7	454	37.6	35.9
Hindalco Industries	125	ADD	240,128	4,871	1,915	12.8	18.3	17.6	(36.0)	43.3	(4.0)	9.8	6.8	7.1	5.7	5.5	5.9	0.8	0.7	0.7	1.2	1.2	1.2	9.7	11.4	10.0	175	39.6	27.2
Hindustan Zinc	119	BUY	501,296	10,169	4,225	11.6	13.1	14.7	21.8	12.7	11.8	10.2	9.0	8.1	6.4	4.8	3.5	2.2	1.8	1.5	0.8	0.8	0.8	24.3	22.2	20.4	160	34.9	2.8
Jindal Steel and Power	515	REDUCE	481,585	9,769	934	40.2	43.5	52.9	5.1	8.2	21.6	12.8	11.9	9.8	9.6	8.9	7.7	3.4	2.7	2.1	0.3	0.3	0.3	30.9	25.5	24.4	595	15.4	24.0
JSW Steel	574	SELL	129,679	2,631	226	78.6	70.2	107.5	(2.2)	(10.7)	53.1	7.3	8.2	5.3	5.9	6.3	5.4	0.8	0.7	0.7	2.1	2.1	2.1	13.6	9.3	12.9	660	15.0	39.5
National Aluminium Co.	60	SELL	155,150	3,147	2,577	4.1	5.0	4.8	36.3	20.5	(4.1)	14.5	12.0	12.6	6.6	5.2	4.9	1.4	1.3	1.2	2.5	2.5	2.5	9.9	11.1	10.0	65	8.0	0.5
Sesa Goa	219	SELL	195,626	3,968	895	47.0	40.1	41.6	59.8	(14.6)	3.7	4.7	5.5	5.3	3.8	4.1	3.2	1.5	1.2	1.0	1.8	1.8	1.9	36.8	22.1	17.9	230	5.2	17.2
Sterlite Industries	117	BUY	392,252	7,957	3,361	15.2	17.0	19.0	26.2	12.0	11.5	7.7	6.9	6.2	4.8	3.6	3.0	0.9	0.8	0.7	1.0	1.0	1.0	13.0	13.0	12.8	185	58.5	18.1
Tata Steel	429	BUY	416,978	8,459	971	75.3	68.7	76.9	(2,258.1)	(8.8)	12.0	5.7	6.2	5.6	5.7	5.9	5.0	1.2	0.9	0.8	2.8	1.8	1.8	24.7	15.5	15.7	625	45.6	49.6
		<b>Attractive</b>	<b>4,597,410</b>	<b>93,263</b>					<b>39.1</b>	<b>13.9</b>	<b>15.0</b>	<b>11.1</b>	<b>9.7</b>	<b>8.5</b>	<b>7.0</b>	<b>6.1</b>	<b>5.2</b>	<b>2.1</b>	<b>1.8</b>	<b>1.5</b>	<b>1.3</b>	<b>1.7</b>	<b>1.9</b>	<b>19.0</b>	<b>18.2</b>	<b>17.8</b>			
<b>Pharmaceutical</b>																													
Apollo Hospitals	506	ADD	70,280	1,426	139	13.2	17.8	21.4	21.0	34.5	19.9	38.2	28.4	23.7	17.4	13.2	10.9	3.7	2.8	2.4	—	—	—	9.8	10.7	10.5	650	28.5	1.2
Biocon	345	BUY	69,070	1,401	200	18.4	19.4	21.4	23.9	5.6	10.3	18.8	17.8	16.1	10.8	10.3	9.3	3.3	3.0	2.6	—	—	—	19.4	17.9	17.4	445	28.9	2.6
Cipla	286	REDUCE	229,636	4,658	803	12.3	14.5	16.5	(10.0)	17.5	13.7	23.2	19.7	17.4	20.1	14.3	11.8	3.4	3.1	2.7	1.0	1.0	1.2	15.4	16.0	16.5	310	8.4	8.2
Cadila Healthcare	755	REDUCE	154,606	3,136	205	34.7	38.2	45.1	40.6	10.0	18.1	21.7	19.8	16.7	18.9	16.1	12.7	7.1	5.6	4.5	0.8	1.0	1.2	37.5	31.7	29.6	900	19.2	2.3
Dishman Pharma & chemicals	56	REDUCE	4,559	92	81	9.8	8.0	8.7	(31.8)	(18.3)	8.0	5.7	7.0	6.5	7.9	6.0	5.5	0.5	0.5	0.5	—	—	—	9.6	7.2	7.3	70	24.9	0.2
Divi's Laboratories	724	ADD	96,098	1,949	133	32.4	36.7	45.0	25.7	13.5	22.4	22.4	19.7	16.1	18.4	14.1	11.6	5.3	4.6	3.9	—	—	—	25.9	25.0	26.2	830	14.6	2.1
Dr Reddy's Laboratories	1,498	REDUCE	254,540	5,164	170	64.9	80.0	98.5	932.5	23.2	23.2	23.1	18.7	15.2	16.3	12.3	10.0	5.5	4.4	3.5	0.7	0.9	0.9	24.8	26.3	25.9	1,650	10.2	11.0
GlaxoSmithkline Pharmaceuticals (a)	2,071	REDUCE	175,441	3,559	85	68.3	78.2	88.6	15.5	14.6	13.3	30.3	26.5	23.4	20.1	17.8	15.3	9.0	8.3	7.6	1.9	2.4	2.8	30.9	32.6	33.9	2,220	7.2	1.5
Glenmark Pharmaceuticals	289	ADD	78,068	1,584	270	17.0	26.2	23.5	33.6	54.5	(10.3)	17.0	11.0	12.3	19.3	12.8	10.9	3.8	2.9	2.4	—	—	—	20.6	29.8	21.2	395	36.8	4.3
Jubilant Life Sciences	196	REDUCE	31,231	634	159	14.4	16.5	22.7	(45.6)	14.5	37.6	13.6	11.9	8.6	10.9	8.8	7.4	1.4	1.3	1.1	1.0	1.0	1.5	12.3	11.7	14.2	205	4.6	0.8
Lupin	468	ADD	209,552	4,251	448	19.2	20.6	26.3	25.6	7.2	27.5	24.3	22.7	17.8	20.4	17.6	13.0	6.3	5.1	4.1	0.6	0.7	1.0	29.5	25.3	26.2	530	13.4	9.6
Ranbaxy Laboratories	503	SELL	212,677	4,314	423	40.6	16.9	20.8	475.0	(58.3)	22.7	12.4	29.7	24.2	15.2	25.7	20.0	3.8	3.3	2.9	—	—	—	34.5	11.9	12.8	435	(13.5)	7.1
Sun Pharmaceuticals	466	ADD	483,004	9,798	1,036	17.5	20.4	24.3	34.4	16.3	19.2	26.6	22.9	19.2	22.5	18.1	14.6	4.7	4.0	3.3	0.8	0.9	1.1	21.0	20.2	20.7	560	20.1	11.3
		<b>Cautious</b>	<b>2,143,698</b>	<b>43,487</b>					<b>43.1</b>	<b>5.3</b>	<b>18.6</b>	<b>22.4</b>	<b>21.3</b>	<b>18.0</b>	<b>17.4</b>	<b>14.4</b>	<b>11.6</b>	<b>3.6</b>	<b>3.1</b>	<b>2.7</b>	<b>0.7</b>	<b>0.8</b>	<b>1.0</b>	<b>16.0</b>	<b>14.4</b>	<b>14.7</b>			
<b>Property</b>																													
DLF	230	BUY	393,837	7,989	1,715	9.1	11.9	15.7	(14.5)	31.3	31.8	25.3	19.3	14.6	16.5	13.0	9.9	1.5	1.4	1.3	0.9	1.1	1.3	5.4	7.5	9.2	270	17.5	35.7
Housing Development & Infrastructure	94	BUY	42,008	852	445	19.8	28.7	34.3	24.0	44.8	19.7	4.8	3.3	2.7	5.0	3.5	3.0	0.4	0.4	0.3	—	1.1	1.6	10.0	12.3	12.7	150	58.9	20.1
Indiabulls Real Estate	70	RS	28,157	571	402	4.0	8.5	15.4	(1,095.5)	114.1	81.5	17.6	8.2	4.5	12.7	10.2	4.4	0.2	0.2	0.2	—	0.7	1.0	1.4	2.9	5.0	—	—	8.6
Mahindra Life Space Developer	290	BUY	11,839	240	41	24.9	30.8	37.5	30.2	23.7	21.6	11.6	9.4	7.7	8.8	6.3	4.6	1.2	1.0	0.9	1.7	1.6	1.7	10.4	11.6	12.7	450	55.1	0.2
Oberoi Realty	231	BUY	76,073	1,543	330	15.7	17.2	27.4	14.8	9.7	59.3	14.7	13.4	8.4	10.8	9.3	5.0	2.3	2.0	1.6	0.4	0.6	1.1	19.9	15.8	21.4	310	34.3	0.3
Phoenix Mills	195	BUY	28,252	573	145	6.3	7.4	10.7	53.0	17.2	44.1	30.8	26.3	18.3	22.8	19.0	14.3	1.8	1.7	1.6	0.9	1.0	1.0	5.8	6.6	8.9	300	53.8	0.1
Puravankara Projects	72	ADD	15,303	310	213	5.5	9.0	10.9	(18.9)	62.8	21.5	13.0	8.0																



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#### Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of September 30, 2011

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

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

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

Our target prices are also on a 12-month horizon basis.

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### Corporate Office

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

### Overseas Offices

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

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

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