kotak® Institutional Equities

INDIA DAILY

November 1, 2011

Contents

Daily Alerts

Results

Results, Change in Reco

Economy

News Round-up

- Reliance Industries (RIL IN) plans to invest up to USD 2.33 bn to produce about 15 million standard cubic metres per day of gas from the R-series gas field in its eastern offshore Krishna Godavari D6 block. (BSTD)
- After the international media went abuzz last week over Reliance Industries Ltd (RIL IN) looking to buy Valero Energy Corp, the Indian petrochem major today categorically denied the move. (BSTD)
- In a bid to strengthen its presence in the European market, Wipro Technologies opened a data center in Meerbusch, Germany, with an investment of USD 20 mn. (BSTD)
- Tata Motors (TTMT IN) will challenge the Calcutta High Court order upholding the validity of the Singur Land and Rehabilitation and Development Act. (BSTD)
- Sterlite Ind. (STLT IN) plans to convert all its loans in loss-making group firm Vedanta Aluminum into equity. (ECNT)

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

EQUITY MARKETS

		Change %		
India	**31-Oct**	**1-day**	**1-mo**	**3-mo**
Sensex	17,705	(0.6)	7.6	(3.3)
Nifty	5,327	(0.6)	7.8	(3.4)
Global/Regional indices				
Dow Jones	11,955	(2.3)	9.5	(1.5)
Nasdaq Composite	2,684	(1.9)	11.1	(2.2)
FTSE	5,544	(2.8)	8.1	(4.0)
Nikkie	8,902	(1.0)	2.3	(10.7)
Hang Seng	19,515	(1.8)	10.9	(13.9)
KOSPI	1,907	(0.1)	7.7	(12.2)
Value traded – India				
Cash (NSE+BSE)	129		126	134
Derivatives (NSE)	732		939	998
Deri. open interest	1,126		954	1,035

Forex/money market

		Change, basis points		
	31-Oct	**1-day**	**1-mo**	**3-mo**
Rs/US$	48.7	0	(46)	465
10yr govt bond, %	8.8	1	34	38
Net investment (US$mn)				
	28-Oct		**MTD**	**CYTD**
FIIs	483		-	(315)
MFs	(32)		-	(282)

Top movers -3mo basis

		Change, %		
Best performers	**31-Oct**	**1-day**	**1-mo**	**3-mo**
ACEM IN Equity	155.3	(3.2)	4.3	20.2
ACC IN Equity	1195.1	(2.4)	8.8	18.5
MM IN Equity	865.4	(0.6)	7.5	18.4
BJAUT IN Equity	1729.9	(1.5)	12.6	16.4
HUVR IN Equity	375.8	7.1	10.3	16.4
Worst performers				
RCAPT IN Equity	370.2	(0.5)	17.5	(33.1)
IVRC IN Equity	41.5	1.7	18.1	(31.8)
HDIL IN Equity	99.8	0.3	1.8	(30.7)
WLCO IN Equity	107.7	(1.0)	(3.7)	(29.8)
SUEL IN Equity	38.6	0.1	5.8	(29.0)

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kotak Institutional Equities

ICICI Bank (ICICIBC)

Banks/Financial Institutions

BUY

OCTOBER 31, 2011

RESULT

Coverage view: Attractive

Price (Rs): 931

Target price (Rs): 1,100

BSE-30: 17,705

Stable quarter. ICICI Bank reported earnings growth of 22% yoy largely driven by lower provisions on the back of healthy asset quality. Strong liability franchise has enabled the bank to deliver steady margins while loan growth was broadly in line with the industry. Lower fee income growth and lack of growth in retail loans were the primary weaknesses. We have marginally revised earnings downwards to factor weak corporate fees. International subsidiaries continue to remain a drag on profitability. Stock trades at 1.6X FY2013E book and 16X EPS for the parent banking business.

Company data and valuation summary

ICICI Bank

Stock data			
52-week range (Rs) (high,low)			1,279-761
Market Cap. (Rs bn)			1,072.5
Shareholding pattern (%)			
Promoters			0.0
FIIs			64.7
MFs			8.0
Price performance (%)	**1M**	**3M**	**12M**
Absolute	6.4	(10.2)	(19.9)
Rel. to BSE-30	(1.1)	(7.7)	(9.4)

Forecasts/Valuations	2011	2012E	2013E
EPS (Rs)	44.7	56.9	60.0
EPS growth (%)	23.9	27.2	5.4
P/E (X)	20.8	16.4	15.5
NII (Rs bn)	90.2	103.4	124.9
Net profits (Rs bn)	51.5	65.5	69.1
BVPS	478.3	515.2	554.1
P/B (X)	1.9	1.8	1.7
ROE (%)	9.7	11.5	11.2
Div. Yield (%)	1.5	1.8	1.9

QUICK NUMBERS

- NIM at 2.6%; NII grew 14% yoy
- Gross NPLs decline 30 bps qoq to 4.1%
- Maintain BUY with TP of ₹1,100

On course towards consistent performance

ICICI Bank reported another steady quarter: (1) Margins were flat at 2.6%, NII growth at 14% yoy in 2QFY12, (2) CASA ratio steady at 42% (flat qoq), (3) loan growth was strong at 20% yoy, 6% qoq growth (primarily driven by corporate and international), (4) asset quality improved further with net NPLs at 0.9% (1% in June 2011), provision coverage was 78% with negligible net slippages, and (5) international business continued to increase balance sheet liquidity. We expect NIMs to improve during the course of the year on the back of its liability profile as well as improving international margins (currently at 90 bps). Weak loan growth in retail segment and slow fee income growth are the main concern areas.

We maintain our BUY rating on the stock but low RoEs will limit upsides. We expect RoEs to improve to about 15% by FY2013E. The international subsidiaries are a big drag on profitability as they are generating RoEs of only 5%. We are valuing the bank at ₹1,100—standalone bank at 1.9X FY2013E book (adjusted) and the subsidiaries at ₹235 (UK and Canada continue to be valued below book—0.6X).

Retail loan growth weak though overall loan growth in line with industry

ICICI Bank's loans grew in line with industry average at 20% yoy and 6% qoq primarily driven by corporate and international loans. The management expects loan book to grow at 18% in FY2012E mainly in secured retail lending, infrastructure (from projects under execution) and corporate working capital. Retail loan growth continues to remain well below industry average (1% qoq decline, 5% yoy growth) despite serious attempts from the management to boost disbursements. During 2QFY12, corporate loans grew by 40% yoy, SME loans by 42% yoy while international loans grew by 22% yoy and retail loans by 13% yoy. Within retail, housing loans grew by 9% yoy, commercial vehicles by 15% yoy and auto loans by 10% yoy.

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Power exposure is about 5% of loans (7% of exposure) with (1) working capital being 30-35% levels, (2) commissioned projects would be about 50%, (3) 65% of this exposures are backed by projects that have power purchasing agreements (unlike merchant plants), (4) most plants with break-even at about 61% PLF. We note that the above does provide some clarity on the underlying loan exposures but it would still be difficult to take informed decisions as slippages or restructuring would be project-specific.

NIM stable at 2.6% with scope for improvement

NIM was stable for the quarter at 2.6% but we see scope for improvement from current levels. Domestic margins are at 2.9% while the international margins are at 1.1%. As per our estimates, cost of deposits increased by 30 bps qoq; lending yields improved by 50 bps while investment yields was relatively flat for the quarter. Investments in low yielding RIDF bonds continue to act as a drag in the overall margin improvement for the bank.

Deposits grew by 10% yoy (6% qoq) to ₹2.5 tn. We are building NIMs to expand by about 10 bps in FY2012-13E as we still see scope for the bank to leverage the underlying low-cost liability franchise (CASA ratio for the quarter was stable at 42% levels) which currently is stabilizing at 40% levels. Focus of the bank to improve international margins and non-linear re-pricing of loans to changes in lending rates will act as a strong support for NIM improvement.

Fee income growth weakens to 7% yoy; treasury reports a loss

Non-interest income increased by 10% yoy as fee income growth was weak (7% yoy) and the bank reported losses in treasury business. While the previous quarter saw the impact emerging from the retail business, the current quarter saw corporate business showing a very subdued performance—a trend likely to continue as corporate activity is slowing down. The bank reported a treasury loss of ₹800 mn during the quarter. We expect fee income to grow by 14% CAGR in FY2011-13E, lower than the overall balance sheet growth.

Limited concern on asset quality; provision coverage healthy at 77%

Asset quality showed further improvement as gross and net NPL declined qoq. Gross NPL and net NPL were at ₹100.2 bn (4.1% of loans) and ₹22 bn (0.9% of loans) compared to ₹99.8 bn and ₹ 23 bn in June 2011, respectively. Slippages for the current quarter were about 1.4% and retail continues to deliver a strong performance, especially with the proportion of unsecured loans declining.

In its international business, the bank has further attempted to de-risk business with (1) exposure to financial institution reduced to US$300 mn from US$600 mn in June 2011, (2) ALM positions are being carefully monitored in light with the liquidity conditions in global markets, (3) UK and Canada balance sheet contribution continues to shrink further.

Loan-loss provisions for the quarter were about 60 bps (₹3 bn). Provision coverage ratio improved marginally by about 100 bps to 78%. Given the underlying slippages trends, we are building loan-loss provisions at 1% in FY2011-14E.

NPLs likely to fall due to lower slippages and high provisions
Net NPLs, March fiscal year-ends (%)

Source: Kotak Institutional Equities

Cost-income ratio flat at 45%; limited expansion over the past few quarters

Cost-income ratio was flat at 45% on the back of higher staff costs while growth in non-staff expenses was on the back of expansion taken by the bank in FY2011 and the acquisition of the business of Bank of Rajasthan. Salary expenses have increased by 35% yoy (15% yoy decline) as the bank took about 11% average hike in salaries and the balance from increase in employees. Non-staff expenses increased 11% yoy. We expect the bank to keep overall cost-structures at closer to current levels as the bank has decelerated its pace of expansion. Opex to assets was flat at 1.8% in 1Q. We, however, expect costs to grow by 17% CAGR over next few years on back of higher business activity and rising wage levels.

ICICI Prudential Life: Strong earnings even as operating trends yet to pick up

ICICI Prudential Life reported profits of ₹3.5 bn as compared to ₹0.15 bn reported in 2QFY11. Notably, the company did not consolidate the surplus in non-participating policyholder's funds (Rs2.5 bn) in the previous period. However, the core insurance business trends are yet to improve, new business premium was down 33% yoy and renewal premium was down 9% yoy. The management highlighted that 13-month persistency was stable qoq; the decline in value of equity investments and lower traction in new business pulled down AUM qoq to Rs648 bn. We expect new business premium to report pick-up in second half of the year when the low base effects (post new IRDA regime) play out.

Consolidated profits up 42% yoy mainly due to profits from insurance business

Consolidated net profits growth grew by 42% yoy to ₹19.9 bn on the back of strong profits in the life insurance business (1QFY11 did not include policy surplus) and core banking business. Earnings from other domestic subsidiaries, excluding home finance, were under pressure in the current quarter. Assets in the Canadian subsidiary were flat for the quarter while the UK division continued to show a decline. Reporting in the Canadian subsidiary has moved to IFRS from GAAP earlier. Profits in these businesses continue to remain below par.

Improvement in contribution from life insurance subsidiaries
Consolidated profit for ICICI Bank, March fiscal year-ends (₹ mn)

	2QFY11	2QFY12	yoy growth	1QFY12	qoq growth
ICICI Bank PAT	12,363	15,032	21.6	13,322	12.8
Subsidiaries (profits)	1,587	4,885	207.9	3,278	49.0
ICICI Securities	290	160	(44.8)	100	60.0
ICICI Ventures	220	30	(86.4)	50	(40.0)
ICICI Prudential	150	3,500		3,390	3.2
ICICI Lombard	1,040	560	(46.2)	400	40.0
ICICI Home	540	561	3.9	704	(20.2)
ICICI UK	378	245	(35.2)	223	10.1
ICICI Canada	331	603	81.9	554	8.9
ICICI AMC	140	200	42.9	250	(20.0)
ICICI PD	2	170		230	(26.1)
Consolidated PAT	**13,949**	**19,917**	**42.8**	**16,600**	**20.0**

Source: Kotak Institutional Equities, Company

Proportion of UK and Canada to overall loans has dropped to 8% from a peak of 13% in 2QFY10
Contribution of international loans to total loans, March fiscal year-ends, 2QFY09-2QFY12

	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
Balance sheet (Rs bn)													
Domestic	3,850	3,744	3,793	3,674	3,664	3,563	3,634	3,597	3,900	3,929	4,062	4,152	4,407
UK	409	370	370	398	385	349	333	321	324	313	285	268	228
Canada	243	259	258	260	261	256	252	227	218	210	207	236	236
Eurasia			22	21	22	21	18	16	12	16	14	15	12
Total	4,501	4,373	4,443	4,353	4,331	4,189	4,237	4,161	4,455	4,469	4,569	4,671	4,883
International loans/assets (Rs bn)													
Domestic	577	553	546	515	515	466	453	479	486	504	552	558	592
UK	311	311	315	334	339	311	276	282	275	261	225	213	174
Canada	187	207	222	216	232	223	199	198	184	178	182	209	213
Eurasia			18	15	14	16	11	10	10	9	10	9	8
Total	1,075	1,070	1,100	1,080	1,100	1,016	939	969	954	953	969	989	986
Proportion of international loans (%)													
Domestic	12.8	12.6	12.3	11.8	11.9	11.1	10.7	11.5	10.9	11.3	12.1	12.0	12.1
UK	6.9	7.1	7.1	7.7	7.8	7.4	6.5	6.8	6.2	5.8	4.9	4.5	3.6
Canada	4.2	4.7	5.0	5.0	5.4	5.3	4.7	4.7	4.1	4.0	4.0	4.5	4.4
Eurasia	-	-	0.4	0.3	0.3	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Total	**23.9**	**24.5**	**24.8**	**24.8**	**25.4**	**24.2**	**22.2**	**23.3**	**21.4**	**21.3**	**21.2**	**21.2**	**20.2**

Notes:
(1) Period ending currency rates have been used for translation of the balance sheet of UK and Canada.
(2) Canada has seen an increase in total loans in FY2012 due to a change in accounting policy.
(3) Loans for UK and Canada only excludes cash and cash equivalents

Source: Company, Bloomberg, Kotak Institutional Equities

UK has witnessed significant shift towards less risky assets in the past few quarters
Break-up of assets in UK, Canada and Eurasia, March fiscal year-ends, 2QFY09-2QFY12 (%)

	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
ICICI Bank - UK													
Advances	29.0	36.0	45.0	46.0	50.0	52.0	52.0	57.0	55.0	56.5	56.4	57.4	58.0
Bank bonds/ FI	30.0	31.0	28.0	25.0	27.0	25.0	19.0	18.0	18.0	16.1	10.6	10.7	5.6
Asset backed securities	7.0	6.0	4.0	2.0	2.0	2.0	2.0	2.0	2.0	1.7	1.9	2.0	1.8
Cash and liquid investments	24.0	16.0	15.0	16.0	12.0	11.0	17.0	12.0	15.0	16.5	21.0	20.6	23.7
India linked investments	6.0	6.0	4.0	5.0	5.0	6.0	5.0	5.0	4.0	4.1	4.0	3.3	3.9
Others	4.0	5.0	4.0	6.0	4.0	4.0	5.0	6.0	6.0	5.1	6.1	6.0	7.0
ICICI Bank - Canada													
Loans to customers	46.0	55.0	64.0	60.0	61.0	61.0	58.0	68.0	68.0	66.1	66.0	54.1	51.9
Federally insured mortgages	22.0	17.0	14.0	13.0	15.0	15.0	10.0	7.0	4.0	6.7	6.9	21.5	25.9
Asset backed securities	3.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	1.7	1.7	1.4	1.4
Cash and liquid securities	23.0	20.0	14.0	17.0	11.0	13.0	21.0	13.0	16.0	15.2	11.9	11.6	10.0
India linked investments	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	2.5	1.8	0.8	0.8
Others	3.0	3.0	3.0	5.0	8.0	6.0	6.0	7.0	7.0	7.8	11.7	10.6	10.0
ICICI Bank - Eurasia													
Loans to corporates			51.0	45.0	39.0	54.0	34.0	38.0	44.0	32.7	38.0	39.0	38.4
Corporate bonds			8.0	8.0	7.0	4.0	4.0	4.0	3.5	1.7	2.0	2.1	2.2
Retail loans			18.0	17.0	16.0	15.0	16.0	18.0	22.0	15.7	17.4	16.0	18.6
Cash and cash equivalents			20.0	28.0	37.0	24.0	40.0	37.0	17.5	46.0	31.2	38.7	35.1
Others			3.0	2.0	1.0	3.0	6.0	3.0	13.0	3.9	11.4	4.2	5.7

Notes
(1) Canada has seen increase in total loans in FY2012 due to a change in accounting policy.

Source: Company, Bloomberg, Kotak Institutional Equities

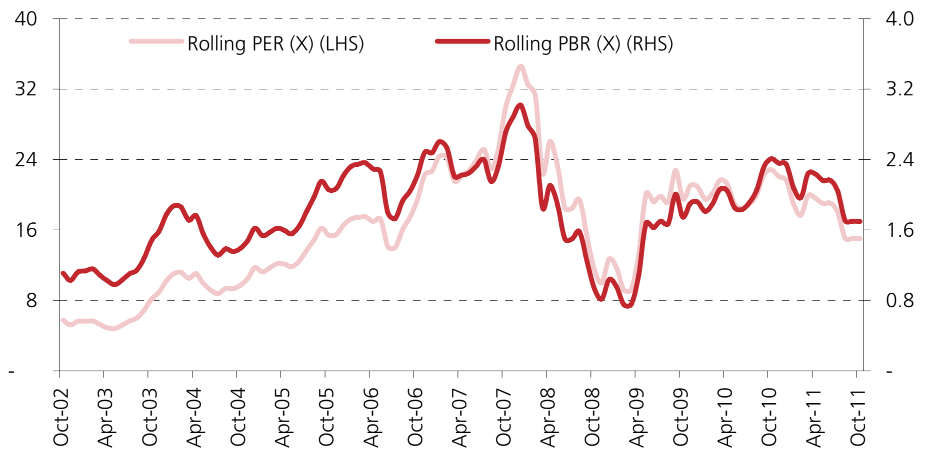
Indian corporate-related credit derivatives have declined to negligible levels across all geographies
Credit derivative exposure (including off balance sheet exposure), March fiscal year-ends (₹ bn)

	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
Standalone	57.1	54.1	54.1	51.9	48.3	49.4	45.1	42.4	38.8	21.3	20.2
UK	7.8	7.6	7.9	7.9	7.4	6.4	5.4	5.5	4.4	0.6	0.6
Canada	6.0	5.9	6.3	5.8	4.9	4.5	3.8	3.6	3.0	1.3	1.5
Total	70.9	67.6	68.3	65.6	60.6	60.4	54.3	51.5	46.1	23.3	22.3
% of balance sheet	6.6	6.3	6.3	6.6	6.5	6.3	5.8	5.5	4.8	2.4	2.3

Notes:
(1) Balance sheet of only these three entities has been taken.

Source: Company, Bloomberg, Kotak Institutional Equities

Rolling PER and PBR for ICICI Bank
March fiscal year-ends, 2002-2011 (X)



Source: Company, Kotak Institutional Equities

ICICI Bank quarterly results and key balance sheet items
March fiscal year-ends, 2QFY11-2QFY12 (₹ mn)

	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	% change	2QFY12E	Actual Vs KS
Interest income	63,091	66,960	71,565	76,185	81,576	29	80,167	2
Interest on advances	39,492	41,620	45,351	49,351	53,807	36	51,470	5
Interest on investments	19,161	21,212	22,093	22,510	23,450	22	24,134	(3)
Balance with RBI	4,438	4,128	4,120	4,324	4,319	(3)	4,562	(5)
Interest expenses	41,047	43,842	46,467	52,076	56,512	38	54,805	3
Net interest income	**22,044**	**23,117**	**25,097**	**24,109**	**25,064**	**14**	**25,362**	**(1)**
Non-interest income	15,779	17,488	16,407	16,429	17,396	10	19,816	(12)
Commission and fees	15,900	16,250	17,910	15,780	17,000	7	17,967	(5)
Investment income	(1,440)	210	(1,960)	(250)	(800)	2	700	(214)
Other income	1,319	1,028	457	899	1,196	(9)	1,149	4
Total income	**37,823**	**40,605**	**41,504**	**40,538**	**42,460**	**12**	**45,179**	**(6)**
Total income excluding treasury	39,263	40,395	43,464	40,788	43,260	10	44,479	(3)
Operating expenses	15,704	17,179	18,455	18,198	18,922	20	19,207	(1)
Salary	6,243	7,605	8,566	7,329	8,427	35	7,928	6
Other costs	9,106	9,170	9,436	10,533	10,133	11	10,928	(7)
DMA cost	355	405	453	336	362	2	352	3
Preprovision profit	22,119	23,426	23,049	22,340	23,538	6	25,971	(9)
Provisions	6,411	4,643	3,836	4,539	3,188	(50)	4,600	(31)
Loan loss provisions	6,411	4,643	3,836	4,539	3,188	(50)	4,600	(31)
Profit before tax	15,708	18,783	19,213	17,802	20,350	30	21,371	(5)
Tax	3,345	4,413	4,692	4,480	5,318	59	5,557	(4)
Profit after tax	**12,363**	**14,370**	**14,521**	**13,322**	**15,032**	**22**	**15,815**	**(5)**
Effective tax rate(%)	21	23	24	25	26			
PBT-invt inc+dep	17,148	18,573	21,173	18,052	21,150	23		
PBT-Invt income+NPL provisions	**23,559**	**23,216**	**25,009**	**22,590**	**24,338**	**3**	**25,271**	**(4)**
Key balance sheet items (Rs bn)								
Deposits	**2,231**	**2,177**	**2,256**	**2,307**	**2,451**	**10**		
Savings	632	646	669	669	701	11		
Current	349	317	349	298	330	(5)		
CASA ratio (%)	44	44	45	42	42	14		
Loans	**1,942**	**2,067**	**2,164**	**2,207**	**2,340**	20		
Retail loans	781	790	837	828	819	5		
Retail loans to total loans (%)	40	38	39	38	35			
Housing loans	508	517	539	546	551	9		
Auto loans	70	71	77	78	77	10		
Two wheelers	16	13	0	0	0			
Personal loans	31	25	23	20	12	(61)		
Credit cards	31	32	28	26	25	(19)		
Commercial vehicles	117	121	148	137	135	15		
Corporate and International	1,161	1,277	1,326	1,379	1,521	31		
International lending	486	504	552	558	592	22		
Rural (incl agri)	136	153	210	188	175	29		

Source: Company, Kotak Institutional Equities estimates

ICICI Bank—key analytical parameters
March fiscal year-ends, 2QFY11-2QFY12

	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
KS calculations					
Yield on Loans	8.3	8.3	8.6	9.0	9.5
Yield on Investments	5.8	6.3	6.6	6.6	6.5
Yield on funds	7.9	8.0	8.3	8.6	8.8
Cost of funds	5.3	5.5	5.6	6.1	6.4
Spread	2.5	2.5	2.6	2.4	2.4
NIM	2.7	2.7	2.8	2.7	2.6
NIM as per the mgmt	**2.6**	**2.6**	**2.7**	**2.6**	**2.6**
Asset quality details					
Gross NPLs to advances (%)	5.3	4.9	4.7	4.6	4.3
Net NPLs to advances (%)	1.6	1.4	1.1	1.1	1.0
Provision Coverage (%)	68.8	71.9	75.7	76.6	77.9
Gross NPLs (Rs bn)	102	102	101	101	101
Provisions and w/off (Rs bn)	70	74	77	77	79
Net NPLs (Rs bn)	32	29	25	24	22
Restructured assets (Rsbn)	26	26	20	20	25
Total rest. And NPLs	58	54	44	43	47
Gross NPLs in retail (Rs bn)	68	67	66	64	63
Non collateral accounts (Rs bn)					
Retail ratio (%) excld non-collateral	9	9	8	8	8
Net NPLs in retail (Rs bn)	17.1	14.3	12.5	11.2	9.8
Net NPLs in non retail	14.8	14.4	12.1	12.3	12.6
Capital adequacy details					
CAR (%)	20.2	20.0	19.5	19.6	19.0
Tier I (%)	13.8	13.7	13.2	13.4	13.1

Source: Company, Kotak Institutional Equities estimates

ICICI Bank balance sheet snapshot and key details of ICICI Prudential
March fiscal year-ends, 2QFY11-2QFY12

	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
Balance sheet snapshot (Rs bn)					
Cash, balances with banks, SLR	1,045	982	982	1,074	1,123
Cash advances	348	315	341	349	362
SLR Investments	697	667	641	725	761
Advances	1,942	2,067	2,164	2,207	2,340
Retail	781	790	837	828	819
Housing loans	508	517	539	546	551
Other assets	247	210	211	201	229
Total assets	**3,900**	**3,929**	**4,062**	**4,152**	**4,407**
Networth	540	554	551	565	586
Equity capital	12	12	12	12	12
Reserves and surplus	528	543	539	553	574
Deposits	2,231	2,177	2,256	2,307	2,451
Savings	0	0	0	0	0
Domestic	482	510	545	548	547
- Other borrowings	148	176	193	201	194
- Preference shares	**4**	**4**	**4**	**4**	**4**
ICICI Pru Life					
ICICI AMC	140	60	200	250	200
ICICI PD	2	18	170	230	170
APE (Rs bn)	13	6	9	4	7

Source: Company, Kotak Institutional Equities estimates

Retail loans have been running off sharply since the past few quarters
March fiscal year-ends, 2QFY10-2QFY12 (₹ bn)

	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	1QFY12
Retail Loans	859	807	790	763	781	790	837	828	819
qoq change (%)	(11)	(6)	(2)	(3)	2	1	6	(1)	(1)
Secured Loans	713	686	687	671	711	722	764	761	763
Unsecured Loans	146	121	103	92	70	67	73	67	56
Retail % of total loans	45	45	44	41	40	38	39	38	35

Source: Company

International portfolio still constitutes a large proportion of the loan book
Movement in non-retail and international loan book, March fiscal year-ends, 2QFY10-2QFY12 (₹ bn)

	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	1QFY12
Non retail loans	1,050	986	1,022	1,081	1,161	1,277	1,326	1,379	1,521
of which International	515	466	453	479	486	504	552	558	592
International % of total parent loans	27	26	25	26	25	24	26	25	25

Source: Company

ICICI Bank—change in estimates
March fiscal year-ends, 2012-2014E (₹ mn)

	New estimates			Old estimates			% change in estimates		
	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E
Net interest income	103,372	124,872	148,287	107,043	128,059	153,295	(3.4)	(2.5)	(3.3)
Spread	2.1	2.2	2.3	2.2	2.2	2.3			
NIM (%)	2.6	2.7	2.7	2.7	2.7	2.8			
Customer assets (Rs bn)	3,078	3,566	4,185	3,078	3,566	4,185	0.0	0.0	0.0
Loan loss provisions	15,352	30,842	40,282	18,895	30,842	40,282	(18.8)	0.0	0.0
Other income	78,537	93,308	108,257	81,018	96,188	111,599	(3.1)	(3.0)	(3.0)
Fee income	60,937	71,041	82,834	63,418	73,920	86,176	(3.9)	(3.9)	(3.9)
Treasury income	2,000	4,000	4,000	2,000	4,000	4,000	0.0	0.0	0.0
Operating expenses	76,998	90,901	105,818	77,905	92,011	107,150	(1.2)	(1.2)	(1.2)
Employee expenses	33,556	41,038	49,282	34,463	42,147	50,614	(2.6)	(2.6)	(2.6)
PBT	88,558	95,937	109,944	90,261	100,894	116,962	(1.9)	(4.9)	(6.0)
Tax	23,025	26,862	30,784	23,468	28,250	32,749	(1.9)	(4.9)	(6.0)
Net profit	**65,533**	**69,075**	**79,160**	**66,793**	**72,644**	**84,213**	**(1.9)**	**(4.9)**	**(6.0)**
PBT-treasury+provisions	**101,910**	**122,779**	**146,226**	**107,156**	**127,736**	**153,244**	**(4.9)**	**(3.9)**	**(4.6)**

Source: Company, Kotak Institutional Equities estimates

ICICI Bank SOTP (FY2013E) valuation

	ICICI Share (%)	FY2013	Valuation methodoly adopted
Value of ICICI standalone	**100**	**855**	Based on Residual growth model
Subsidiaries			
ICICI Financial Services	**94**	**144**	
ICICI Prudential Life	74*	107	16X NBAP, margin assumed is 11%
General Insurance	74*	20	1.5X FY2013 PBR
Mutual Fund	51*	17	3% of AUMs
Other subsidiaries/associates			
ICICI Securities Ltd	100	12	10X FY2013 PER
ICICI Securities Primary Dealer	100	6	1X FY2013 PBR
ICICI Homes Ltd	100	20	1.5X FY2013 PBR
ICICI Bank UK	100	17	0.6XFY2013 PBR
ICICI Bank Canada	100	23	0.6XFY2013 PBR
Venture capital/MF	100	13	10% of AUM of US$2 bn
Value of subsidiaries		**235**	`
Value of company		**1,090**	

Source: Company, Kotak Institutional Equities estimates

ICICI Bank—forecasts and valuation
March fiscal year-ends, 2009-2014E

	PAT	EPS	P/E	BVPS	P/B	RoE	Core RoE	P/E (standalone)	BVPS (standalone)	P/B (standalone)
	(Rs bn)	(Rs)	(X)	(Rs)	(X)	(%)	(%)	(X)	(Rs)	(X)
2009	37.6	33.8	27.6	445	2.1	7.8	9.2	22.6	331	2.1
2010	40.2	36.1	25.8	463	2.0	8.0	9.7	21.2	348	2.0
2011	51.5	44.7	20.8	478	1.9	9.7	11.5	16.9	365	1.9
2012E	65.5	56.9	16.4	515	1.8	11.5	13.8	13.1	402	1.7
2013E	69.1	60.0	15.5	554	1.7	11.2	13.2	12.5	441	1.6
2014E	79.2	68.7	13.5	599	1.6	11.9	13.8	10.9	485	1.4

Source: Company, Bloomberg, Kotak Institutional Equities estimates

ICICI Bank, growth rates, key ratios and Du Pont analysis
March fiscal year-ends, 2009-2014E

	2009	2010	2011	2012E	2013E	2014E
Growth rates (%)						
Net loan growth	(3.2)	(17.0)	19.4	18.3	19.0	20.3
Customer assets growth	(2.9)	(10.4)	24.4	14.8	15.8	17.3
Corporate loans	(4.3)	(9.3)	29.8	19.5	20.8	21.6
Total retail loans	(2.2)	(24.6)	7.2	16.7	16.5	18.2
Deposits growth	(10.7)	(7.5)	11.7	18.1	19.0	20.2
Borrowings growth	5.9	2.1	16.5	18.2	10.1	12.4
Net interest income	14.5	(3.0)	11.1	14.6	20.8	18.8
Loan loss provisions	38.8	16.3	(54.7)	(22.3)	100.9	30.6
Non-interest income	(13.7)	(1.7)	(11.1)	18.1	18.8	16.0
Net fee income	0.4	(14.1)	14.2	10.5	16.6	16.6
Net capital gains	(29.0)	(43.1)	(133.3)	(182.2)	100.0	-
Total income	(0.9)	(2.4)	0.5	16.1	19.9	17.6
Operating expenses	(13.6)	(16.8)	12.9	16.4	18.1	16.4
Employee expenses	(5.2)	(2.3)	46.3	19.1	22.3	20.1
DMA	(65.7)	(76.3)	25.1	(10.4)	33.1	33.6
Asset management measures (%)						
Yield on average earning assets	8.9	7.8	7.5	8.4	8.0	8.1
Interest on advances	10.0	8.7	8.2	9.3	9.0	9.0
Interest on investments	7.6	6.4	6.8	7.3	6.8	7.1
Average cost of funds	7.0	5.7	5.3	6.3	5.8	5.9
Interest on deposits	6.8	5.5	4.7	5.9	5.3	5.4
Other interest	7.5	6.3	6.6	7.2	6.9	6.9
Difference	**1.8**	**2.0**	**2.2**	**2.1**	**2.2**	**2.3**
Net interest income/earning assets	2.4	2.4	2.6	2.6	2.7	2.7
New provisions/average net loans	1.7	2.2	1.0	0.7	1.1	1.2
Loans-to-deposit ratio	69.7	60.6	63.9	64.0	65.7	67.1
Share of deposits						
Current	9.9	15.3	15.4	14.3	13.5	12.7
Fixed	71.3	58.3	54.9	56.1	58.6	60.9
Savings	18.8	26.3	29.6	29.6	28.0	26.4
Tax rate	26.6	24.7	23.8	26.0	28.0	28.0
Dividend payout ratio	32.6	33.2	31.3	30.0	30.0	30.0
Asset quality metrics (%)						
Gross NPL	4.3	4.9	4.3	3.8	3.7	3.5
Net NPL	2.1	2.1	1.1	1.1	1.0	0.9
Slippages	2.2	2.9	1.6	1.1	1.4	1.5
Provision coverage (ex write-off)	51.7	57.0	74.3	72.0	73.0	74.3
ROA decomposition - % of average assets						
Net interest income	2.1	2.2	2.3	2.4	2.5	2.5
Loan loss provisions	1.0	1.2	0.5	0.3	0.6	0.7
Net other income	2.0	2.0	1.7	1.8	1.8	1.8
Operating expenses	1.8	1.6	1.7	1.8	1.8	1.8
Invt. Depreciation	—	(—)	—	—	—	—
(1- tax rate)	73.4	75.3	76.2	74.0	72.0	72.0
ROA	**1.0**	**1.1**	**1.3**	**1.5**	**1.4**	**1.4**
Average assets/average equity	8.1	7.3	7.2	7.7	8.2	8.8
ROE	**7.8**	**8.0**	**9.7**	**11.5**	**11.2**	**11.9**

Source: Company, Kotak Institutional Equities estimates

ICICI Bank income statement and balance sheet
March fiscal year-ends, 2009-2014E

	2009	2010	2011	2012E	2013E	2014E
Total interest income	310,925	257,069	259,741	336,197	375,766	443,836
Interest on advances	223,238	173,727	164,248	220,572	253,886	301,818
Interest on investments	74,031	64,663	79,052	97,376	104,103	122,161
Total interest expense	227,259	175,926	169,572	232,825	250,894	295,549
Deposits from customers	157,852	115,135	100,709	144,206	153,807	187,825
Net interest income	83,666	81,144	90,169	103,372	124,872	148,287
Loan loss provisions	37,500	43,622	19,769	15,352	30,842	40,282
Net interest income (after prov.)	**46,166**	**37,522**	**70,400**	**88,020**	**94,030**	**108,005**
Other income	76,037	74,777	66,479	78,537	93,308	108,257
Net fee income	56,259	48,308	55,146	60,937	71,041	82,834
Net capital gains	12,864	7,316	(2,434)	2,000	4,000	4,000
Miscellaneous income	3,306	3,054	73	73	87	105
Operating expenses	70,451	58,598	66,172	76,998	90,901	105,818
Employee expense	19,717	19,258	28,169	33,556	41,038	49,282
DMA	5,289	1,255	1,570	1,407	1,873	2,503
Pretax income	51,170	53,453	67,607	88,558	95,937	109,944
Tax provisions	13,588	13,203	16,093	23,025	26,862	30,784
Net Profit	**37,581**	**40,250**	**51,514**	**65,533**	**69,075**	**79,160**
% growth	(9.6)	7.1	28.0	27.2	5.4	14.6
PBT+provision-treasury gains	**76,388**	**90,005**	**92,909**	**102,910**	**123,279**	**146,726**
% growth	24.2	17.8	3.2	10.8	19.8	19.0
Balance sheet (Rs mn)						
Cash and bank balance	299,666	388,737	340,901	374,799	415,302	467,221
Cash	28,557	33,410	37,844	44,691	53,173	63,932
Balance with RBI	146,806	241,733	171,226	198,277	230,298	271,458
Balance with banks	44,016	45,742	56,014	56,014	56,014	56,014
Outside India	80,286	67,852	75,817	75,817	75,817	75,817
Net value of investments	1,030,583	1,208,928	1,346,860	1,570,605	1,728,653	1,934,620
Investments in India	934,784	1,117,553	1,252,941	1,472,255	1,623,656	1,819,653
Govt. and other securities	633,775	683,991	641,287	860,927	1,012,328	1,208,325
Shares	17,031	27,557	28,134	28,134	28,134	28,134
Subsidiaries	61,195	62,227	64,797	64,797	64,797	64,797
Debentures and bonds	26,001	36,354	161,463	161,463	161,463	161,463
Net loans and advances	2,183,108	1,812,056	2,163,659	2,560,032	3,047,550	3,666,111
Corporate loans	1,080,908	980,866	1,272,919	1,520,860	1,837,224	2,234,979
Total retail loans	1,102,200	831,190	890,740	1,039,172	1,210,325	1,431,132
Fixed assets	38,016	32,127	47,443	56,210	61,983	67,044
Net leased assets	4,623	3,534	2,570	4,161	3,537	3,006
Net owned assets	33,393	28,593	44,872	52,049	58,446	64,038
Other assets	241,636	192,149	163,475	163,475	163,475	163,475
Total assets	**3,793,010**	**3,633,997**	**4,062,337**	**4,725,121**	**5,416,962**	**6,298,470**
Deposits	2,183,478	2,020,166	2,256,021	2,664,218	3,169,898	3,811,262
Borrowings and bills payable	949,806	969,705	1,129,848	1,335,623	1,470,362	1,652,207
Preference capital	3,500	3,500	3,500	3,500	3,500	3,500
Other liabilities	164,395	127,943	125,559	131,837	138,428	145,350
Total liabilities	**3,297,679**	**3,117,813**	**3,511,427**	**4,131,678**	**4,778,688**	**5,608,819**
Paid-up capital	11,133	11,149	11,518	11,518	11,518	11,518
Reserves & surplus	484,197	505,035	539,391	581,924	626,756	678,133
Total shareholders' equity	**495,330**	**516,184**	**550,909**	**593,442**	**638,274**	**689,651**

Source: Company, Kotak Institutional Equities estimates

Wipro (WPRO)

Technology

ADD

OCTOBER 31, 2011

RESULT

Coverage view: Attractive

Price (Rs): 367

Target price (Rs): 410

BSE-30: 17,705

Mixed bag – volumes beat, margins and cash flows disappoint. Wipro's 2QFY12 earnings report threw a mixed set of numbers – revenue growth beat expectations on strong volume uptick but margin decline and poor cash-flow generation disappointed. Wipro's turnaround (which aims at bridging relative performance gap versus peers) remains a work in progress – mixed 2Q report does little to aid a decisive verdict. Nonetheless, FY2013E EPS sees a currency-led upgrade while valuation support prevents a downgrade. Maintain ADD. Revise TP to Rs410 (from Rs370 earlier).

Company data and valuation summary

Wipro

Stock data			
52-week range (Rs) (high,low)			497-310
Market Cap. (Rs bn)			899.6
Shareholding pattern (%)			
Promoters			79.2
FIIs			7.1
MFs			0.9
Price performance (%)	1M	3M	12M
Absolute	7.6	(5.8)	(12.7)
Rel. to BSE-30	(0.0)	(3.2)	(1.2)

Forecasts/Valuations	2011	2012E	2013E
EPS (Rs)	21.6	22.6	26.4
EPS growth (%)	14.5	4.7	16.9
P/E (X)	17.0	16.2	13.9
Sales (Rs bn)	311.0	374.0	430.8
Net profits (Rs bn)	53.0	55.5	64.8
EBITDA (Rs bn)	67.4	75.7	86.6
EV/EBITDA (X)	12.5	10.8	9.1
ROE (%)	24.3	21.2	21.0
Div. Yield (%)	1.2	1.3	1.6

2QFY12 earnings a mixed bag – volume beat negated by margin miss and poor cash flows

Wipro beat the upper-end of its revenue guidance for the first time in many quarters. Reported IT services revenues of US$1,473 mn (+4.6% qoq, +15.7% yoy) came in 1% ahead of our expectations and 1.5% above the upper-end of company's constant currency revenue guidance. Revenue growth was driven by a strong 6% volume growth even as reported offshore pricing was down 4.1% qoq on account of effort overflow in certain fixed price contracts (this may have aided volume growth to some extent as well). Revenue growth was aided to an extent of 2.5% from full quarter consolidation of SAIC; organic revenue growth was 2.1% qoq (2.9% in constant currency).

IT services EBIT margins declined 200 bps qoq versus our expectation of 130 bps; margin decline was driven by (1) full quarter impact of wage hikes effected from June 1, 2011, and (2) acquisition consolidation impact. We were also disappointed by poor cash-flow generation during the quarter – Wipro has seen sustained balance sheet deterioration for the past few quarters. At a consolidated level, DSO (including unbilled) has expanded to 107 days from a low of 81 days as late as Sep 2009; working capital cycle has increased to 77 days from 29 in the same timeframe.

True turnaround demands bridging revenue growth gap without margin or ROCE sacrifices

Wipro faces a tough challenge turning around its revenue performance relative to peers, in our view. Even as the company has taken aggressive personnel decisions and made changes to the organization structure, turnaround in revenue growth trajectory faces challenges from (1) potential demand softening, and (2) increased aggression from competitors. More importantly, revenue turnaround needs to be delivered without a structural hit on margin profile. Also, Wipro needs to meet the P&L turnaround challenge while keeping an eye on the balance sheet and return ratios – both of these have weakened meaningfully in recent quarters.

We do like Wipro's vertical-centric, client-mining-focused turnaround strategy, however. The company may not be able to deliver a perfect quarter during the turnaround phase. However, valuations at 13.8X our revised FY2013E EPS (16% discount to Infosys) do not demand a perfect quarter, either. We retain ADD. Our TP stands revised to Rs410/share (from 370 earlier).

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2QFY12 highlights

- Consolidated revenues of Rs91 bn came in 0.7% ahead of our estimate driven by revenue beat in the IT services segment. Reported EBIT of Rs15 bn, however, fell 1.1% short of our estimate as IT services margins disappointed. Consolidated net income of Rs13 bn was 1% lower than our estimate.
- Reported IT services revenues of US$1,473 mn (+4.6% qoq) came in 1% higher than our estimate and was driven by strong 6% qoq volume growth. Wipro's revenue growth guidance for the quarter was 2-4%.
- IT services revenues included US$46 mn from SAIC O&G acquisition. Contribution in June 2011 quarter was US$10 mn. Ex-acquisition-kicker, organic revenue growth was 2.1% qoq in US$ terms.
- IT services EBIT margin declined 200 bps qoq and 220 bps yoy to 20%. Our expectation was 20.7%. Margin decline was driven by acquisition consolidation impact, and partial impact of wage hikes effected from June 1, 2011.
- Wipro has guided for 2-4% qoq growth in IT services US$ revenues for the December 2011 quarter. Guidance is robust in light of December quarter seasonality and clearly suggests that the demand environment continues to be fine.
- Client metrics continues to improve – we note that improvement in client mining is one of the key focus areas in Wipro's turnaround plans. Initial signs are encouraging – 2QFY12 saw improvement across client buckets and robust growth from top accounts.
- Free cash generation at US$50 mn was insignificant when compared to net income. DSO (consolidated, including unbilled revenues) increased significantly to 107 days from 102 days in the previous quarter.

Exhibit 1: Wipro: Key changes in FY2012-13E estimates

	Revised		Earlier		Change (%)	
Rs mn	**FY2012**	**FY2013**	**FY2012**	**FY2013**	**FY2012**	**FY2013**
IT Services revenues (US$ mn)	**5,977**	**6,759**	**5,971**	**6,731**	**0.1**	**0.4**
- Wipro Technologies	5,441	6,170	5,411	6,115	0.6	0.9
- Wipro BPO	535	589	560	616	(4.4)	(4.4)
Revenue growth (%)	**14.5**	**13.1**	**14.4**	**12.7**		
Rupee/ US$ rate	47.5	49.1	44.9	45.6	*5.7*	*7.5*
EBITDA margin (%)	24.1	23.7	24.5	23.2		
EBIT margin (%) (ex forex gains)	**21.0**	**20.7**	**21.4**	**20.2**		
Total EBITDA (Rs mn)	75,735	86,584	72,635	78,989	*4.3*	*9.6*
Total EBITDA margin (%)	20.2	20.1	20.4	19.5		
EPS (Rs/share)	**22.6**	**26.4**	**22.4**	**24.5**	**0.7**	**7.9**
EPS/share (ex intangible amortization)	**22.6**	**26.4**	**22.4**	**24.5**	**0.7**	**7.9**

Source: Kotak Institutional Equities estimates

Exhibit 2: Wipro 2QFY12 Results (IFRS)

Rs mn	2QFY11	1QFY12	2QFY12	% chg. qoq	yoy	Kotak estimates	% deviation
IT services revenues (US$ mn)	**1,273**	**1,408**	**1,473**	**4.6**	**15.7**	**1,458**	**1.0**
- IT Services	57,471	64,046	68,294	6.6	18.8	67,251	1.6
- IT Products	10,693	10,058	10,008	(0.5)	(6.4)	11,762	(14.9)
- Consumer Care and Lighting	6,651	7,545	8,002	6.1	20.3	7,715	3.7
- Others	2,490	3,991	4,641	16.3	86.4	3,611	28.5
Total revenues	**77,305**	**85,640**	**90,945**	6.2	17.6	**90,339**	**0.7**
Operating Income	**14,033**	**14,952**	**14,878**	(0.5)	6.0	**15,047**	**(1.1)**
- IT Services	12,746	14,067	13,640	(3.0)	7.0	13,915	(2.0)
- IT Products	533	423	451	6.6	(15.4)	495	(8.8)
- Consumer Care and Lighting	832	895	882	(1.5)	6.0	926	(4.7)
- Others	(78)	(433)	(95)	(78.1)	21.8	(289)	(67.1)
Other income/ (expense)	955	1,432	863			1,040	(17.0)
Pre-tax profits (pre-extraordinary)	**14,988**	**16,384**	**15,741**	(3.9)	5.0	**16,086**	(2.1)
Income taxes	(2,183)	(3,096)	(2,841)	(8.2)	30.1	(3,003)	(5.4)
Net income	**12,805**	**13,288**	**12,900**	(2.9)	0.7	**13,083**	**(1.4)**
Equity in earnings of affiliates	192	110	99	(10.0)	(48.4)	110	-
Minority interest	(148)	(49)	10			(54)	
Income from continuing operations	**12,849**	**13,349**	**13,009**	(2.5)	1.2	**13,139**	**(1.0)**
EPS- Continuing Operations	5.3	5.5	5.3	(2.5)	1.2	5.4	(1.0)
MARGINS							
Operating margin							
IT Services	**22.2**	**22.0**	**20.0**			**20.7**	
IT Products	5.0	4.2	4.5			4.2	
Consumer care & Lighting	12.5	11.9	11.0			12.0	
Others	(3.1)	(10.8)	(2.0)			(8.0)	
Net Income Margin	16.6	15.6	14.3			14.5	
Tax rates (%)	14.6	18.9	18.0			18.7	

Wipro has guided for US$1,500-US$1,530 mn of IT services revenues for 3QFY12, up 2-4% qoq.

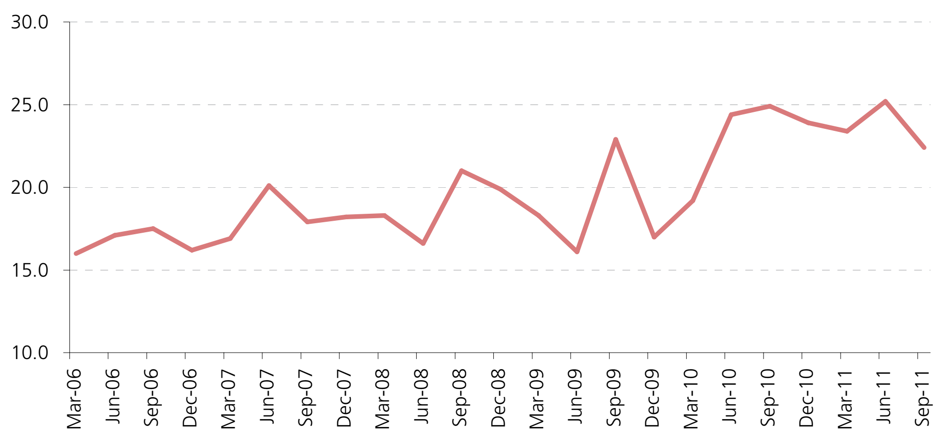
Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Growth rates across verticals, geographies and service lines

	Sep-11	Growth (qoq)	Growth (yoy)
Revenues (US$ mn)	**1,473**	**4.6**	**15.7**
Service line split of revenues (%)			
Technology Infrastructure practices	325	6.5	21.2
Analytics and Information management	97	7.9	31.6
Business Application Services	449	5.0	16.5
BPO	130	(1.0)	3.9
Product engineering and mobility	124	5.9	11.7
ADM	348	3.3	12.4
R&D	184	4.6	1.1
Consulting	47	8.0	27.7
Vertical split of revenues (%)			
Global Media and Telecom	231	(2.2)	7.5
Finance Solutions	399	6.2	16.5
Manufacturing and hi-tech	280	0.9	5.2
Healthcare, life sciences and services	144	0.5	4.0
Retail & trasnportation	216	2.5	9.7
Energy & Utilities	202	23.6	78.1
Geographical split of revenues (%)			
US	761	2.1	7.0
Europe	424	5.3	25.7
Japan	19	23.6	0.3
India and Middle east business	137	8.1	20.9
Other emerging markets	131	12.2	43.0
Customer concentration (%)			
Top customer	54	17.3	47.6
Top 5 customers	171	11.3	25.4
Top 10 customers	295	7.9	20.5

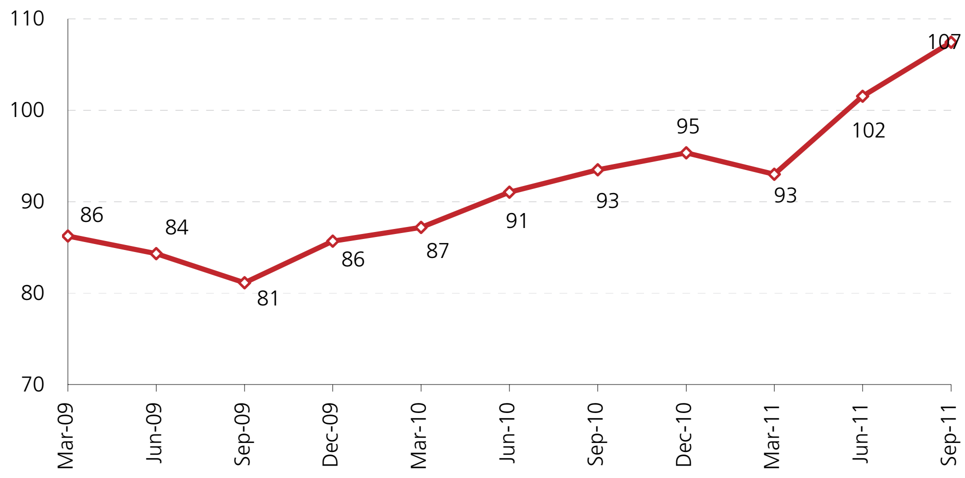
Source: Company, Kotak Institutional Equities

Exhibit 4: Quarterly annualized attrition remains high despite sharp correction in 2QFY12



Source: Company, Kotak Institutional Equities

Exhibit 5: DSO (including unbilled revenues) has increased significantly



Source: Company, Kotak Institutional Equities

Exhibit 6: Key assumptions driving Wipro earnings model, March fiscal year-ends, 2010-2013E

	2010	2011	2012E	2013E
Key assumptions				
Revenue growth (US$ terms) (%)	**1.5**	**18.9**	**14.5**	**13.1**
Volume growth yoy (%)	**1.8**	**16.8**	**13.7**	**16.0**
Pricing change yoy (%)				
Onsite	3.7	(2.7)	0.7	(1.0)
Offshore	(1.4)	0.7	(0.9)	(1.0)
Blended	(3.1)	1.5	1.1	(2.2)
Total employees (#)	**100,503**	**116,904**	**137,978**	**158,202**
Employee additions	**13,472**	**16,401**	**21,074**	**20,224**
Utilization rate (%)	**78.8**	**77.0**	**76.7**	**77.1**
SG&A expense as % of revenues	**11.0**	**11.6**	**11.0**	**11.7**
Re/US$ rate	**46.1**	**45.0**	**47.5**	**49.1**

Source: Kotak Institutional Equities estimates

Exhibit 7: Profit model, balance sheet, cash model of Wipro Limited, March fiscal year-ends, 2009-2013E (Rs mn)

	2009	2010	2011	2012E	2013E
Profit model					
Revenues	**254,564**	**271,242**	**310,986**	**374,024**	**430,782**
Cost of revenues (incl. deprn)	(178,368)	(186,299)	(212,850)	(263,950)	(302,741)
Revenues	**76,196**	**84,943**	**98,136**	**110,074**	**128,041**
SG&A expenses (incl. deprn)	(32,458)	(33,430)	(40,469)	(46,061)	(54,441)
EBITA	**43,738**	**51,513**	**57,667**	**64,013**	**73,600**
Amortization of intangibles	(1,488)	—	—	—	—
EBIT	**42,250**	**51,513**	**57,667**	**64,013**	**73,600**
Other income	369	3,369	4,718	4,237	6,795
Pre-tax profits	**42,619**	**54,882**	**62,385**	**68,249**	**80,395**
Provision for tax	(5,247)	(9,293)	(9,714)	(13,185)	(15,991)
PAT	**37,372**	**45,589**	**52,671**	**55,064**	**64,404**
Equity in earnings of affiliates	362	530	648	407	427
Reported PAT	**37,734**	**46,119**	**53,319**	**55,471**	**64,831**
EPS (Rs)	**15.4**	**18.9**	**21.6**	**22.6**	**26.4**
Balance Sheet					
Shareholders funds	150,182	196,112	239,680	282,740	333,929
Borrowings	27,563	26,009	30,454	12,863	14,815
Minority interest	235	437	691	707	724
Total liabilities	**177,980**	**222,558**	**270,825**	**296,310**	**349,468**
Net fixed assets	49,862	53,458	55,094	60,618	67,713
Cash and bank balances	65,297	95,298	110,423	80,133	114,015
Net current assets excluding cash	(13,143)	2,846	21,273	61,419	69,302
Other assets	75,964	70,956	84,035	94,141	98,438
Total assets	**177,980**	**222,558**	**270,825**	**296,310**	**349,468**
Cashflow statement					
Operating profit before working capital changes	52,193	59,056	67,434	75,735	86,584
Tax paid	(5,247)	(9,293)	(9,714)	(13,185)	(15,991)
Change in working capital/other adjustments	(11,753)	(9,709)	(14,948)	(9,151)	(9,802)
Capital expenditure	(16,234)	(12,979)	(12,211)	(17,246)	(20,079)
Free cash flow	**12,194**	**21,362**	**30,639**	**30,753**	**40,712**

Note:
(1) US GAAP financials till FY2009; IFRS starting FY2010.

Source: Company, Kotak Institutional Equities estimates

Exhibit 8: Wipro - operating metrics pertaining to IT Services segment

	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
IT services revenues (US$ mn)	1,166	1,204	1,273	1,344	1,400	1,408	1,473
Service line split of revenues (%) - new							
Technology Infrastructure practices		21.0	21.1	21.4	21.6	21.7	22.1
Analytics and Information management		5.6	5.8	5.9	6.0	6.4	6.6
Business Application Services		30.4	30.3	29.8	29.7	30.4	30.5
BPO		10.1	9.8	9.3	9.8	9.3	8.8
Product engineering and mobility		8.6	8.7	8.5	8.2	8.3	8.4
ADM		24.3	24.3	25.1	24.7	23.9	23.6
Total		**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
R&D		15.0	14.3	13.5	13.0	12.5	12.5
Consulting		2.6	2.9	3.1	3.1	3.1	3.2
Vertical split of revenues (%) - new							
Global Media and Telecom		17.1	16.9	17.0	17.2	16.8	15.7
Finance Solutions		26.9	26.9	27.3	26.7	26.7	27.1
Manufacturing and hi-tech		21.5	20.9	20.0	19.7	19.7	19.0
Healthcare, life sciences and services		10.7	10.9	10.4	10.5	10.2	9.8
Retail & trasnportation		14.9	15.5	15.4	15.7	15.0	14.7
Energy & Utilities		8.9	8.9	9.9	10.2	11.6	13.7
Geographical split of revenues (%)							
US	56.7	57.3	55.9	54.2	53.9	53.0	51.7
Europe	26.3	25.4	26.5	28.3	28.0	28.6	28.8
Japan	1.5	1.5	1.5	1.5	1.5	1.1	1.3
India and Middle east business	8.8	9.0	8.9	8.9	9.1	9.0	9.3
Other emerging markets	6.7	6.8	7.2	7.1	7.5	8.3	8.9
Client metrics							
Customer size distribution (TTM)							
Million dollar clients of which	406	434	425	433	429	438	462
> US$50 mn	16	17	20	21	22	24	24
US$20 mn - US$50 mn	40	41	43	43	46	45	46
US$10 mn - US$20 mn	40	42	43	49	49	49	50
US$5 mn - US$10 mn	70	65	58	63	63	77	72
US$3 mn - US$5 mn	60	73	80	78	75	63	75
US$1 mn - US$3 mn	180	196	181	179	174	180	195
Repeat business (%)	96.5	99.6	99.0	97.6	96.9	99.3	98.6
New client additions	27	22	29	36	68	49	44
Total active customers	845	858	890	880	904	937	930
Customer concentration (%)							
Top customer	2.5	2.9	2.9	3.0	3.1	3.3	3.7
Top 5 customers	10.5	10.9	10.7	10.7	11.4	10.9	11.6
Top 10 customers	19.3	19.8	19.2	19.2	19.7	19.4	20.0
Employees (IT services)	108,701	112,925	115,900	119,491	122,385	126,490	131,730
Utilization (%)							
Global IT Services excl IFOX-Gross (a) (b)	72.1	71.3	70.9	68.6	68.9	69.7	69.3
Global IT Services excl IFOX-Net	79.3	78.4	78.0	75.6	76.1	76.9	76.1
Attrition (%)							
Global IT Services - Voluntary - Qtrly annualized	17.1	23.0	23.5	21.7	20.9	23.2	18.5
Global IT Services - Involuntary Qtrly annualized	2.1	1.4	1.4	2.2	2.5	2.0	1.3
Revenues by project type (%)							
Fixed price	44.3	44.6	44.0	46.3	47.8	47.0	45.2
Time and material	55.7	55.4	56.0	53.7	52.2	53.0	54.8
Onsite-offshore revenue split (%)							
Onsite	49.4	52.2	51.7	51.8	51.2	52.4	54.3
Offshore	50.6	47.8	48.3	48.2	48.8	47.6	45.7
Price realization							
- Onsite	12,254	11,654	11,774	11,845	12,074	11,960	11,914
- Offshore	4,352	4,291	4,296	4,455	4,510	4,492	4,308
Person manmonths billed							
Onsite	34,396	40,011	41,786	43,474	43,315	45,820	49,942
Offshore	99,067	99,698	107,082	107,642	110,639	110,858	116,059
Total	133,463	139,709	148,868	151,116	153,954	156,678	166,001

Source: Company, Kotak Institutional Equities

kotak Institutional Equities

Hindustan Unilever (HUVR)

Consumer products

ADD

OCTOBER 31, 2011

RESULT

Coverage view: Neutral

Price (Rs): 376

Target price (Rs): 420

BSE-30: 17,705

Diwali festival gift arrives a week late! HUL's 2QFY12 results beat line-by-line our highest-on-the-Street earnings estimates. Its strategy of strong focus on competitive growth is paying off—volumes +10% (on a base of +14%) and sharp improvement in soaps and detergent margins due to likely return of rational competition in detergents. Reiterate our thesis of (1) continuing good growth in personal products and (2) likely bottoming out of detergents margins as key drivers for FY2011-13E. We upgrade our EPS estimates by 5% and 7% for FY2012E and FY2013E, respectively. HUL remains our preferred pick; reiterate ADD with a revised target price of Rs420 (Rs370 previously).

Company data and valuation summary

Hindustan Unilever

Stock data			
52-week range (Rs) (high,low)			378-264
Market Cap. (Rs bn)			811.5
Shareholding pattern (%)			
Promoters			52.5
FIIs			18.4
MFs			2.9
Price performance (%)	**1M**	**3M**	**12M**
Absolute	10.3	16.0	27.5
Rel. to BSE-30	2.5	19.2	44.3

Forecasts/Valuations	2011	2012E	2013E
EPS (Rs)	9.9	11.8	14.2
EPS growth (%)	4.8	19.7	19.7
P/E (X)	38.0	31.8	26.5
Sales (Rs bn)	194.0	223.2	257.1
Net profits (Rs bn)	21.6	25.5	30.6
EBITDA (Rs bn)	27.3	32.8	39.6
EV/EBITDA (X)	28.2	22.9	18.4
ROE (%)	66.3	89.8	92.4
Div. Yield (%)	2.0	2.6	3.1

QUICK NUMBERS

- 10% volume growth on a base of 14%
- Market shares—likely getting better
- Can irrational competition impact more categories? Unlikely, in our view
- Moderation in adspends is not a worry

Results beat line-by-line our highest-on-the-Street earnings estimates

HUL reported net sales of Rs55 bn (+18%, KIE Rs53.4 bn), EBITDA of Rs7.4 bn (+31%, KIE Rs6.3 bn) and PAT of Rs6.5 bn (+22%, KIE Rs6.0 bn) in 2QFY12.

- Sales growth was driven by volume growth of +10%. Good volume growth was likely aided by continuing momentum in personal products (PP) as well as benefits of product relaunches and new launches of FY2011. Realization/mix growth during the quarter was ~8%.

- Input cost inflation not neutralized by commensurate price hikes led to gross margin contraction of 340 bps (lower than 490 bps in 1QFY12). Most of the gross margin contraction is likely in the soaps and detergents category, in our view. Palm prices have increased by 17% yoy and LAB increased by 28% yoy in 2QFY12. However, flat 'Other expenditure' and adspends (200 bps) aided EBITDA margin expansion of 140 bps to 13.4%. The company had implemented selective price increases in 1QFY12 in detergents, which, in our view could help mitigate gross margin pressure in rest of FY2012E. Flat other income in 2Q is due to phasing of innovation centre billings and likely investment of surplus cash in fixed maturity plans (wherein interest income is accounted on receipt and not accounted on accrual basis).

- Segment-wise, soaps and detergents sales growth of 22% indicates good volume growth in detergents. Personal care sales growth of 18% is volume-led (~12%, in our view). Soaps and detergents PBIT margin at 12.4% (70 bps higher yoy) likely indicates that detergents margins have bottomed out. Personal products PBIT margin expanded by ~140 bps yoy to 24.4% (base quarter had one-off mould costs of ~Rs400-500 mn, in our view). PP PBIT growth was 25%.

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What next? The needle movers

Rural slowdown and sustainability of volume growth

In a tough environment for volume growth (articulated below), we believe that HUL's volume growth is aided significantly by continued expansion in direct coverage reach (the company has increased direct distribution coverage to 1.5 mn from 1.0 mn over the last couple of years). While, this tailwind has likely benefited HUL over the last few quarters, we note that it could possibly help it significantly when industry growth has likely moderated.

We continue to believe that in the backdrop of sustaining high food inflation incremental rural spends, including NREGA, have likely plateaud for the time being—an incremental negative for rural spends and for the sector. The past three years have seen a confluence of factors which have likely aided incremental spends on consumer products (1) higher outlay on NREGA, (2) wealth effect due to higher land prices, (3) benefits of farm loan waiver, (4) benefits from the Sixth Pay Commission. As we look into medium term, we highlight that most of these positive factors are in the base and lower incremental spends have the potential to hurt demand for consumer products. Dabur in their concall today alluded to food inflation impacting consumer demand and that rural demand growth being marginally lower than last few quarters.

Market share—likely getting better

The company commented that its growth is better than market growth. While, HUL has stopped disclosing market shares since CY2010, our industry sources also suggest that it is gaining shares in key personal products categories of skincare and shampoo. HUL's category outperformance likely explains its high-than-expected volume growth performance, to some extent.

Volatility in input costs and margin outlook

The company has likely benefited from lower consumption costs in palm oil sequentially, in our view (palm oil, a key input cost for its soaps business accounts for ~20% of input costs, in our view). However, the costs are still higher yoy which explains the gross margin contraction yoy and improvement qoq. It is yet to have any meaningful benefit accruing from other inputs like LAB, soda ash etc., which are still higher yoy. Considering the price increases implemented by it in CY2011, gross margins are likely to decline at a lower rate in 2HFY12E, in our view. Rupee depreciation poses a big risk to HUL's gross margins in 2HFY12E.

We revisit couple of our positive arguments from our HUL upgrade note of May 2011 and August 2011

Moderation in adspends is not a worry

Contrary to Street, moderation in adspends does not worry us as the company is maintaining competitive spends (measured as share of voice/share of market), in our view. Lower category spends in soaps and detergents (which are anyway highly penetrated categories) may not impact its market growth. Moreover, HUL is likely to focus on consolidation of FY2011 new launches in FY2012E, in our view (implying relatively lower adspends). HUL spent ~Rs4-5 bn on new launches in FY2011, in our view (out of total adspends of Rs28 bn) (Exhibit 6). It is pertinent to note that the industry-level adspends in soaps and detergents have been calibrated as commodity inflation hits these categories the most, whereas adspends in the other consumer categories have increased in 1HFY12.

Can irrational competition impact more categories? Unlikely, in our view

Considering that the competitive activity levels in many categories are dictated by the MNCs' attempt to build a stronger business in India (P&G, L'Oreal, Beiersdorf etc.) and entry of players with deep pockets (ITC), one of the key worries for HUL is whether competitive activity can turn irrational in many of its categories.

The scenario of irrational competitive activity spreading beyond detergents and shampoo is unlikely in our view—the category dynamics would dictate the same (Exhibit 9). For example, categories like skincare could likely see elevated marketing spends for a long period, however, HUL could potentially benefit as (1) market development expenses now gets shared by many players, (2) relatively underpenetrated categories could grow faster, and (3) HUL could potentially improve gross margins (GM) as the skincare category and its sub-segments has higher GM than the blended GM for the company. However, we believe that oralcare category is exposed to irrational competition, if any, in the event of P&G's entry (it accounts for ~6% of HUL's sales and profits, in our view).

Retain ADD; HUL remains a preferred pick

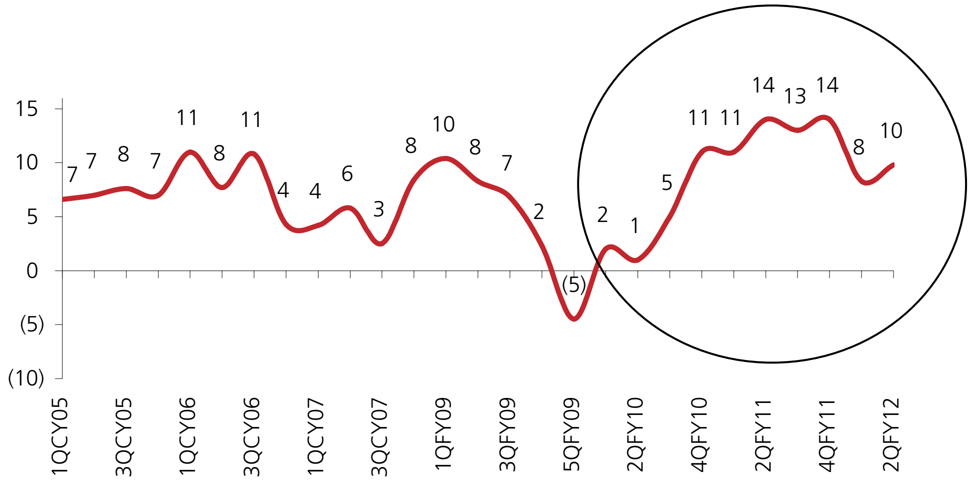
We reiterate that our confidence on FY2012-13E earnings estimates continues to be high as we believe, (1) continuing good growth in PP, (2) likely bottoming out of detergents margins and (3) adspends moderation. We have upgraded our earnings estimates by 5% and 7% for FY2012E and FY2013E, respectively. We retain ADD rating with a revised target price of Rs420 (Rs370 previously); we continue to value HUL at a 10% premium to last 3-year average P/E (valued at 29X FY2013E for EPS estimate of Rs11.8 (+19.6% yoy growth) and FY2013E EPS of Rs14.2 (+19.7% growth yoy). Key risk is acceleration in input cost inflation and further price hikes could potentially hurt sector demand growth and HUL's volume growth.

Exhibit 1: Interim results of Hindustan Unilever, March fiscal year-ends (Rs mn)

	2QFY12	2QFY12E	2QFY11	1QFY12	(% chg.) 2QFY12E	2QFY11	1QFY12
Net sales	**55,222**	**53,425**	**46,809**	**55,039**	**3**	**18**	**0**
Total expenditure	(47,838)	(47,134)	(41,178)	(48,251)	1	16	(1)
Material cost	(30,010)	(29,742)	(23,830)	(30,742)	1	26	(2)
Employee cost	(2,873)	(2,900)	(2,450)	(2,862)	(1)	17	0
Advertising and promotion	(6,514)	(6,232)	(6,465)	(6,330)	5	1	3
Other expenditure	(8,441)	(8,260)	(8,433)	(8,318)	2	0	1
EBITDA	**7,384**	**6,291**	**5,631**	**6,788**	**17**	**31**	**9**
OPM (%)	13.4	11.8	12.0	12.3			
Other income	1,660	1,951	1,606	1,261		3	32
Interest	(5)	0	(1)	(0)			
Depreciation	(571)	(581)	(554)	(562)		3	2
Pretax profits	**8,467**	**7,661**	**6,683**	**7,487**	**11**	**27**	**13**
Tax	(1,942)	(1,662)	(1,346)	(1,702)		44	14
PAT	**6,525**	**5,999**	**5,337**	**5,784**	**9**	**22**	**13**
Extraordinary items	364		325	488			
Net profit (reported)	**6,889**	**5,999**	**5,661**	**6,272**	**15**	**22**	**10**
Income tax rate (%)	22.9	21.7	20.1	22.7			
Costs as a % of sales							
Material cost	54.3	55.7	50.9	55.9			
Employee cost	5.2	5.4	5.2	5.2			
Advertising and promotion	11.8	11.7	13.8	11.5			
Other expenditure	15.3	15.5	18.0	15.1			
Segment results of Hindustan Unilever							
Revenues							
Soaps and detergents	25,926		21,294	25,550		22	1
Personal products	16,126		13,649	16,307		18	(1)
Beverages	6,533		5,700	6,086		15	7
Packaged foods	3,318		2,744	3,721		21	(11)
Exports	2,909		2,647	3,063		10	(5)
Others	1,161		1,527	1,066		(24)	9
Total segment revenue	**55,973**		**47,560**	**55,793**			
Segment PBIT margins							
Soaps and detergents	3,212		2,501	2,361		28	36
Personal products	3,940		3,140	4,133		25	(5)
Beverages	877		876	754		0	16
Packaged foods	165		155	174		6	(5)
Exports	240		189	237		27	1
Others	(78)		(183)	(26)		(57)	205
Total segment EBIT	**8,357**		**6,678**	**7,632**			
Segment PBIT margins, %							
Soaps and detergents	12.4		11.7	9.2			
Personal products	24.4		23.0	25.3			
Beverages	13.4		15.4	12.4			
Packaged foods	5.0		5.7	4.7			
Exports	8.3		7.1	7.7			
Others	(6.7)		(12.0)	(2.4)			
Capital employed							
Soaps and detergents	(3757)		(5671)	(2635)		(34)	43
Personal products	643		(1708)	169		(138)	281
Beverages	1248		350	2567		256	(51)
Packaged foods	1470		245	1117		500	32
Exports	1545		2195	1885		(30)	(18)
Others	(505)		(612)	(617)		(18)	(18)
Unallocated corporate	39124		42084	30346		(7)	29
Total	**39,768**		**36,884**	**32,832**		8	21

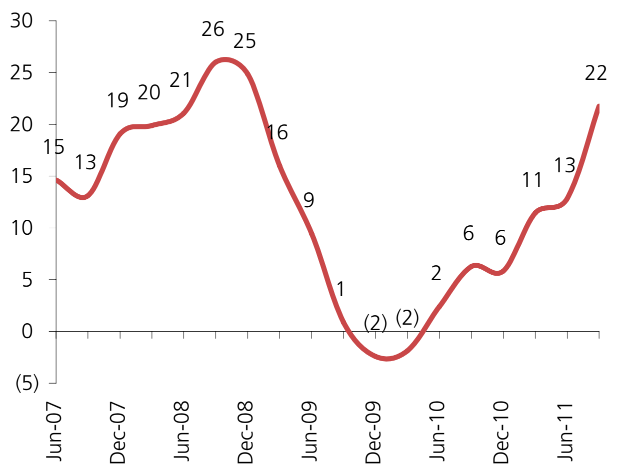
Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Volume growth of 10% in 2QFY12 aided by double-digit growth in personal products
HUL FMCG volume growth (%)



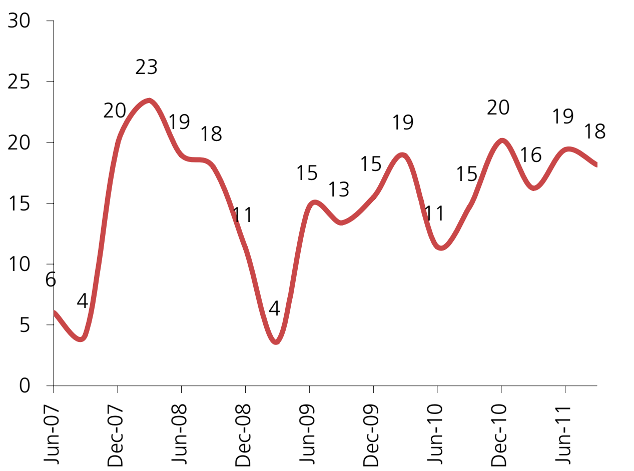
Source: Company, Kotak Institutional Equities

Exhibit 3: 2QFY12 - Sales growth driven by volumes and pricing
HUL soaps and detergents sales growth (%)



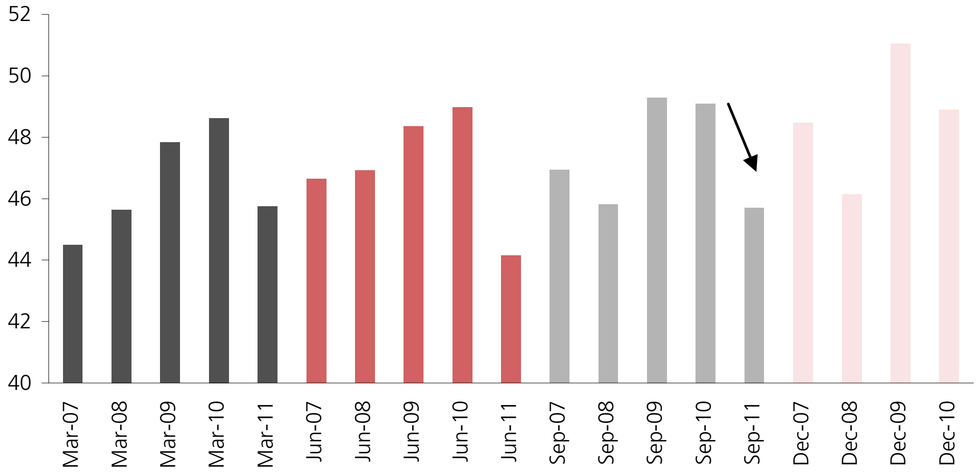
Source: Company, Kotak Institutional Equities

Exhibit 4: Strong momentum in personal products sales growth
HUL personal products sales growth (%)



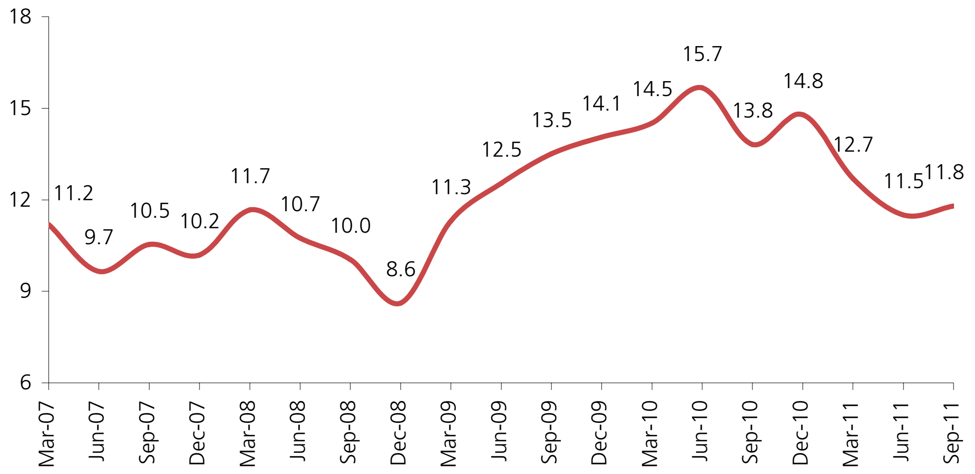
Source: Company, Kotak Institutional Equities

Exhibit 5: Gross margin pressure primarily on soaps and detergents category
HUL gross margins, %



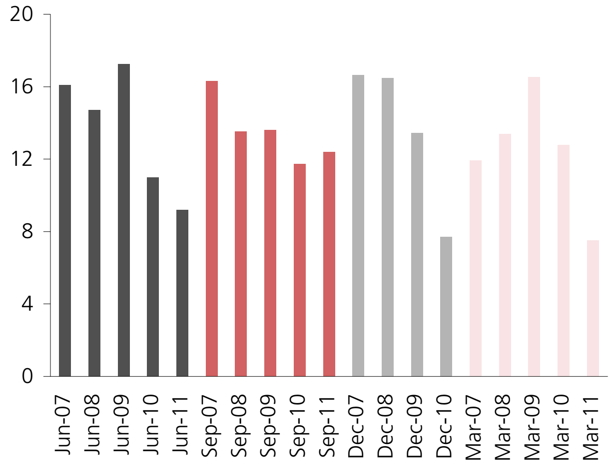
Source: Company, Kotak Institutional Equities

Exhibit 6: Moderation in adspends is not a concern
HUL adspends as % of sales



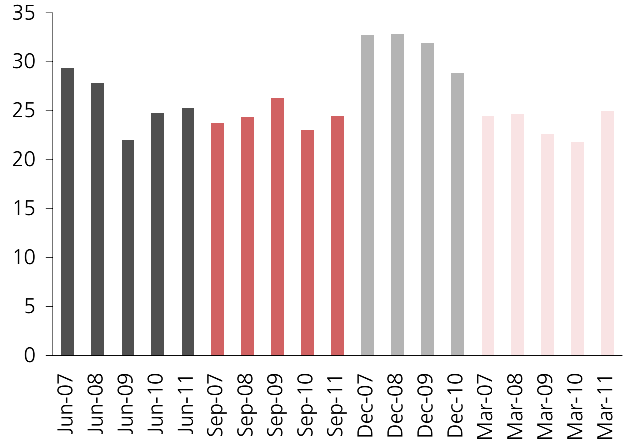
Source: Company, Kotak Institutional Equities

Exhibit 7: Soaps and detergent margins have improved sequentially
HUL soaps and detergents PBIT margins (%)



Source: Company, Kotak Institutional Equities

Exhibit 8: Personal products margins on an uptick
HUL personal products PBIT margins (%)



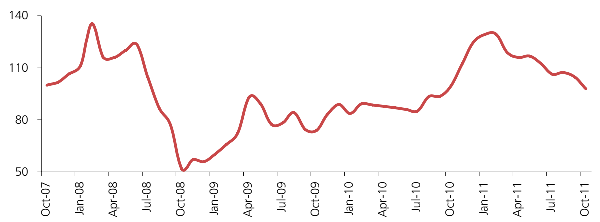
Source: Company, Kotak Institutional Equities

Exhibit 9: Competitive intensity in HUL's key categories

Category	% of sales	Competitive activity	Intensity
Detergents	24	Irrational	↓
Soaps	22	Rational	↑
Skin care	12	Rational	—
Tea	10	Rational	—
Shampoo	9	Irrational	↑
Oral care	4	Rational	—
Foods	4	Rational	—
Coffee	3	Rational	—

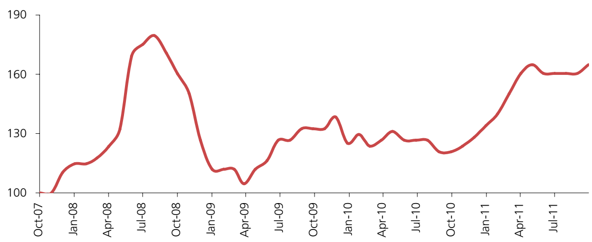
Source: Kotak Institutional Equities

Exhibit 10: Trend in palm oil price (Indexed to base)



Source: Bloomberg, Kotak Institutional Equities

Exhibit 11: Trend in LAB price (Indexed to base)



Source: Bloomberg, Kotak Institutional Equities

Exhibit 12: Relative P/E of HUL versus BSE 30 index (X)

Source: Kotak Institutional Equities

Exhibit 13: HUL: Profit model, balance sheet, cash model, calendar year-ends 2007, March fiscal year-ends 2009-13E (Rs mn)

	2007	15 months 2009 (a)	2010	2011	2012E	2013E	2014E
Profit model (Rs mn)							
Net sales	136,754	202,393	175,238	194,011	223,174	257,123	294,885
EBITDA	**18787**	**26560**	**25484**	**23652**	**28844**	**35262**	**40517**
Other income	4,315	5,897	3,496	5,860	6,928	7,834	9,935
Interest	(255)	(253)	(70)	(2)	0	0	0
Depreciation	(1,384)	(1,953)	(1,840)	(2,208)	(2,259)	(2,338)	(2,429)
Pretax profits	21,463	30,251	27,071	27,302	33,513	40,757	48,023
Tax	(4,049)	(5,729)	(6,484)	(5,739)	(7,977)	(10,186)	(12,478)
Net profit	**17415**	**24523**	**20587**	**21563**	**25535**	**30572**	**35545**
Earnings per share (Rs)	**7.9**	**11.3**	**9.4**	**9.9**	**11.8**	**14.2**	**16.3**
Balance sheet (Rs mn)							
Total equity	14,392	20,615	25,835	26,339	30,602	35,706	41,639
Total borrowings	885	4,219	0	0	0	0	0
Currrent liabilities	51,110	57,838	67,332	73,999	85,403	97,778	112,284
Total liabilities and equity	**66387**	**82673**	**93167**	**100338**	**116005**	**133484**	**153923**
Cash	2,009	17,773	18,922	16,400	26,821	37,975	50,687
Current assets	30,765	38,236	34,756	44,552	50,857	58,107	66,623
Total fixed assets	17,081	20,789	24,361	24,682	23,621	22,663	21,817
Investments	14,408	3,326	12,641	12,607	12,607	12,607	12,607
Deferred tax asset	2,124	2,548	2,488	2,097	2,099	2,132	2,190
Total assets	**66387**	**82673**	**93167**	**100338**	**116005**	**133484**	**153923**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	20,674	26,581	24,640	24,736	27,792	32,877	37,915
Working capital	3,091	(2,592)	13,473	(2,467)	2,865	3,194	4,083
Capital expenditure	(3,355)	(5,660)	(5,412)	(2,530)	(1,198)	(1,380)	(1,583)
Free cash flow	**20410**	**18329**	**32700**	**19739**	**29459**	**34691**	**40415**
Key assumptions							
Revenue Growth (%)	13.0	48.0	(13.4)	10.7	15.0	15.2	14.7
EBITDA Margin(%)	13.7	13.9	14.2	12.1	12.9	13.7	13.7
EPS Growth (%)	12.1	42.7	(16.2)	4.8	19.6	19.7	15.3

Source: Kotak Institutional Equities estimates

kotak Institutional Equities

Maruti Suzuki (MSIL)

Automobiles

ADD

OCTOBER 31, 2011

RESULT

Coverage view: Cautious

Price (Rs): 1,125

Target price (Rs): 1,240

BSE-30: 17,705

Conference call takeaways. We attended the conference call hosted by the management on the company's 2Q performance. Even as we expect one more quarter of pain, we believe volumes and margins are likely to trend higher from 2Q levels driven by new model launches and cost-cutting actions (lower ad spends). We maintain our ADD rating as we believe volumes are likely to revive from 1QFY13E and profitability is likely to improve from current depressed levels.

Company data and valuation summary

Maruti Suzuki

Stock data			
52-week range (Rs) (high,low)			1,600-1,010
Market Cap. (Rs bn)			325.1
Shareholding pattern (%)			
Promoters			54.2
FIIs			18.7
MFs			3.4
Price performance (%)	**1M**	**3M**	**12M**
Absolute	3.9	(6.7)	(27.5)
Rel. to BSE-30	(3.4)	(4.1)	(17.9)

Forecasts/Valuations	2011	2012E	2013E
EPS (Rs)	79.2	60.3	90.5
EPS growth (%)	(8.4)	(23.9)	50.1
P/E (X)	14.2	18.7	12.4
Sales (Rs bn)	363.0	350.0	411.2
Net profits (Rs bn)	22.9	17.4	26.1
EBITDA (Rs bn)	28.2	24.2	36.6
EV/EBITDA (X)	9.1	10.3	6.6
ROE (%)	17.6	11.8	15.7
Div. Yield (%)	0.7	0.7	0.7

Conference call takeaways

- The management indicated that inventory levels have corrected to normal levels due to strike and company plans to boost volume growth by increasing diesel engine capacity, increasing Swift volumes and launching new models. The company currently has 20,000 units/month diesel capacity and is likely to increase it to 25,000 units by January 2012. The company is also about to finalize a diesel engine sourcing deal with Fiat India by January 2012 which will increase diesel engine capacity further.

- The company had two one-time impacts in this quarter – (1) marked to market loss of Rs260 mn due to commodity hedging and (2) Rs500 mn due to mark to market on royalty related to 1QFY12. Hence, EBITDA margins excluding this one-off would have been 7.3%.

- The company indicated that impact of forex on indirect imports is likely to be felt in 3QFY12E, which we believe could be ~100-150 bps negative impact on margins, direct imports have been hedged for 2HFY12E at a little favorable rate than 2QFY12 after today's fall in Yen. Royalty will remain unhedged but expense will go down in 3QFY12E.

- We believe this quarter was the trough of margins and we expect EBITDA margins to move up on account of improvement in product mix, lower advertising costs, lower average discounts (higher sales of Swift and Dzire) and localization benefits which will more than offset the negative impact of appreciation of Yen on indirect imports in 2HFY12E, in our view.

We maintain our ADD rating on the stock and keep our target price unchanged

We maintain our ADD rating on the stock and keep our target price unchanged at Rs1,240. Our target price is based on 13X multiple of FY2013E consolidated EPS. We have revised our consolidated earnings downwards by 8% in FY2012E and keep our FY2013 estimates unchanged. Our FY2012E earnings revision factors in 60 bps downward revision in our EBITDA margin estimates on account of higher royalty expense, higher-than-estimated discounts and higher advertising expense.

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Conference call takeaways

We attended the conference call hosted by the management to discuss the 2QFY12 results. **Key takeaways are as follows:**

- **Average selling prices were flat qoq** due to (1) 8.4% qoq improvement in export ASPs and (2) marginal increase in diesel volumes to 22% of volumes from 21% of volumes in 1QFY12. Discounts, however, increased by Rs13,500/ vehicle in 2QFY12 versus Rs9,700/ vehicle in 1QFY12 due to lower Swift and Dzire sales in the quarter which have no discounts.

- Inventory levels have come down to 2-3 weeks from 4-5 weeks now due to strike.

- The company currently has 20,000 units/month diesel capacity and is likely to increase it to 25,000 units by January 2012. The company is also about to finalize a diesel engine sourcing deal with Fiat India by January 2012, which will increase the diesel engine capacity further.

- Rural volumes continue to remain buoyant. Interestingly, the company indicated there is not much difference between rural and urban India product mix.

- Other operating income was boosted by write-back of certain provisions which were around Rs600 mn and hence, other operating income is likely to come down in 3QFY12E.

- **The company had two one-time impacts in this quarter** – (1) marked to market loss of Rs260 mn due to commodity hedging and (2) Rs500 mn due to mark to market on royalty related to 1QFY12. Hence, EBITDA margins excluding this one-off would have been 7.3%.

- The company indicated that impact of forex on indirect imports is likely to be felt in 3QFY12E, which we believe could be ~100-150 bps negative impact on margins, direct imports have been hedged for 2HFY12E at a little favorable rate than 2QFY12 after today's fall in Yen. Royalty will remain unhedged but expense will go down in 3QFY12E because Yen has depreciated since 2QFY12 levels.

- Selling and distribution expenses will come down in 2HFY12E from 2QFY12 levels due to lower advertising expense on Swift. Raw material costs will remain at current levels over 2HFY12E.

- The company expects sales of petrol model to remain sluggish and expects modest growth in volumes in 2HFY12E. Addition of plant capacity at Manesar of around 0.25 mn, which was supposed to come in October 2012, has been delayed till March 2013. Diwali retail volumes were up by 3% yoy as compared to last year.

- Localization program has kicked in October onwards and is expected to help save costs in 2HFY12E. The company expects 7-8% reduction in import content as % of sales over the next 3 years.

We believe this quarter was the trough of margins and we expect EBITDA margins to move up on account of improvement in product mix, lower advertising costs, lower average discounts (higher sales of Swift and Dzire) and localization benefits, which will more than offset negative impact of appreciation of Yen on indirect imports in 2HFY12E, in our view.

We maintain our ADD rating on the stock and keep our target price unchanged at Rs1,240. Our target price is based on 13X multiple of FY2013E consolidated EPS. We have revised our consolidated earnings downwards by 8% in FY2012E and keep our FY2013 estimates unchanged. Our FY2012E earnings revision factors in 60 bps downward revision in our EBITDA margin estimates on account of higher royalty expense, higher-than-estimated discounts and higher advertising expense.

We revise our FY2012E earnings downwards by 8% but keep our FY2013E unchanged
Earnings revision table, March fiscal year-ends (Rs mn)

	Old		New		change (%)	
	2012E	**2013E**	**2012E**	**2013E**	**2012E**	**2013E**
Volumes (units)	1,173,461	1,342,838	1,173,461	1,342,838	—	—
Net ASPs	304,506	311,704	305,187	312,289	0.2	0.2
Net sales	**357,327**	**418,568**	**358,125**	**419,353**	**0.2**	**0.2**
EBITDA	**31,437**	**42,221**	**29,231**	**42,277**	**(7.0)**	**0.1**
Margin (%)	8.8	10.1	8.2	10.1		
EBITDA/vehicle	26,790	31,442	24,910	31,483		
Net Profit	19,072	26,096	17,418	26,137	(8.7)	0.2
Standalone EPS	**66.0**	**90.3**	**60.3**	**90.5**	**(8.7)**	**0.2**
Subs EPS	5.0	5.0	5.0	5.0		
Consol EPS	**71.0**	**95.3**	**65.3**	**95.5**	**(8.1)**	**0.2**

Source: Company, Kotak Institutional Equities estimates

We expect a 8% yoy decline in volume growth in FY2012E
Volume mix, March fiscal year-ends (units)

	2009	2010	2011	2012E	2013E	2014E
Segment-wise sales (units)						
Maruti 800	49,383	33,028	26,485	22,512	20,261	18,235
Omni/Eeco	77,948	101,325	160,626	179,569	211,479	237,839
Compact (B) segment	511,396	633,190	808,552	718,978	826,982	951,478
Dezire/SX4	75,928	99,315	131,282	122,819	141,242	162,428
Kizashi	—	—	128	300	900	1,200
Gypsy/Vitara	7,489	3,932	5,666	4,843	5,091	5,351
Domestic	**722,144**	**870,790**	**1,132,739**	**1,049,021**	**1,205,955**	**1,376,532**
Exports	70,023	147,575	138,266	124,439	136,883	150,572
Total	**792,167**	**1,018,365**	**1,271,005**	**1,173,461**	**1,342,838**	**1,527,103**
Segment-wise sales growth (yoy %)						
Maruti 800	(29.0)	(33.1)	(19.8)	(15.0)	(10.0)	(10.0)
Omni/Eeco	(13.1)	30.0	58.5	11.8	17.8	12.5
Compact (B) segment	2.4	23.8	27.7	(11.1)	15.0	15.1
Dezire/SX4	53.9	30.8	32.2	(6.4)	15.0	15.0
Kizashi					200.0	33.3
Gypsy/Vitara	88.6	(47.5)	44.1	(14.5)	5.1	5.1
Domestic	**1.5**	**20.6**	**30.1**	**(7.4)**	**15.0**	**14.1**
Exports	32.1	110.8	(6.3)	(10.0)	10.0	10.0
Total	**3.6**	**28.6**	**24.8**	**(7.7)**	**14.4**	**13.7**
Volume Mix (%)						
Maruti 800	6.2	3.2	2.1	1.9	1.5	1.2
Omni/Eeco	9.8	9.9	12.6	15.3	15.7	15.6
Compact (B) segment	64.6	62.2	63.6	61.3	61.6	62.3
Dezire/SX4	9.6	9.8	10.3	10.5	10.5	10.6
Kizashi	—	—	0.0	0.0	0.1	0.1
Gypsy/Vitara	0.9	0.4	0.4	0.4	0.4	0.4
Domestic	**91.2**	**85.5**	**89.1**	**89.4**	**89.8**	**90.1**
Exports	8.8	14.5	10.9	10.6	10.2	9.9
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Company, Kotak Institutional Equities estimates

We expect a 7% earnings CAGR over FY2011-2013E
Profit and loss, balance sheet and cash flow statement, March fiscal year-ends, 2009-2014E (Rs mn)

	2009	2010	2011	2012E	2013E	2014E
Profit model (Rs mn)						
Net sales	204,553	290,989	362,997	350,038	411,170	477,137
EBITDA	**18,321**	**39,543**	**35,442**	**29,231**	**42,277**	**51,876**
Other income	6,013	4,967	4,824	4,996	5,633	6,834
Interest	(510)	(335)	(244)	(186)	(201)	(217)
Depreciation	(7,065)	(8,250)	(10,135)	(10,818)	(12,859)	(14,949)
Profit before tax	**16,758**	**35,925**	**29,887**	**23,224**	**34,850**	**43,544**
Current tax	4,689	11,230	8,101	5,806	8,712	10,886
Deferred tax	(118)	(281)	101	—	—	—
Adj Net profit	**12,187**	**24,976**	**22,886**	**17,418**	**26,137**	**32,658**
Earnings per share (Rs)	**42.2**	**86.4**	**79.2**	**60.3**	**90.5**	**113.0**
Balance sheet (Rs mn)						
Equity	93,449	118,351	138,481	153,364	176,966	207,090
Deferred tax liability	1,551	1,370	1,644	1,644	1,644	1,644
Total Borrowings	6,989	8,214	3,093	3,093	3,093	3,093
Current liabilities	33,976	35,678	40,760	40,838	45,169	50,579
Total liabilities	**135,965**	**163,613**	**183,978**	**198,939**	**226,872**	**262,405**
Net fixed assets	49,321	54,123	69,580	78,276	90,417	90,468
Investments	31,733	71,766	51,067	46,067	61,067	81,067
Cash	19,390	982	25,085	35,789	31,052	39,348
Other current assets	35,521	36,742	38,246	38,806	44,336	51,522
Miscellaneous expenditure	—	—	—	—	—	—
Total assets	**135,965**	**163,613**	**183,978**	**198,939**	**226,872**	**262,405**
Free cash flow (Rs mn)						
Operating cash flow excl. working capital	12,933	28,991	26,332	23,425	33,564	40,990
Working capital changes	(1,000)	1,327	4,171	(482)	(1,199)	(1,776)
Capital expenditure	(16,136)	(14,593)	(24,114)	(19,514)	(25,000)	(15,000)
Free cash flow	**(4,203)**	**15,725**	**6,389**	**3,429**	**7,366**	**24,214**
Ratios						
EBITDA margin (%)	8.8	13.3	9.6	8.2	10.1	10.7
PAT margin (%)	6.0	8.6	6.3	5.0	6.4	6.8
Net debt/equity (X)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.6)
Book value (Rs/share)	328.7	414.4	485.0	536.5	618.2	722.5
RoAE (%)	13.5	23.3	17.6	11.8	15.7	16.9
RoACE (%)	**14.4**	**34.4**	**26.4**	**13.5**	**19.0**	**22.0**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Bank of Baroda (BOB)

Banks/Financial Institutions

BUY

OCTOBER 31, 2011

RESULT

Coverage view: Attractive

Price (Rs): 771

Target price (Rs): 1,100

BSE-30: 17,705

Strong topline performance. Bank of Baroda (BoB) delivered strong net interest income on the back of healthy (24%) loan growth and almost stable NIM (qoq improvement of 20 bps). Lower treasury income and higher loan-loss provisions moderated growth in net earnings. We revise estimates downwards to factor somewhat lower loan growth, fees and higher provisions. Retain BUY with price target of ₹1,100 (₹1,250 earlier). The stock is trading at 1.2X PBR and 6X PER FY2013E.

Company data and valuation summary

Bank of Baroda

Stock data			
52-week range (Rs) (high,low)			1,052-681
Market Cap. (Rs bn)			302.9
Shareholding pattern (%)			
Promoters			57.0
FIIs			16.1
MFs			8.7
Price performance (%)	**1M**	**3M**	**12M**
Absolute	1.2	(12.2)	(24.0)
Rel. to BSE-30	(6.0)	(9.8)	(14.0)

Forecasts/Valuations	2011	2012E	2013E
EPS (Rs)	108.0	110.1	127.0
EPS growth (%)	29.1	1.9	15.4
P/E (X)	7.1	7.0	6.1
NII (Rs bn)	88.0	99.2	112.1
Net profits (Rs bn)	42.4	43.2	49.9
BVPS	492.8	580.0	680.7
P/B (X)	1.6	1.3	1.1
ROE (%)	25.9	20.5	20.2
Div. Yield (%)	2.5	2.5	2.9

QUICK NUMBERS

- NII grew 27% yoy; NIMs improved 20 bps qoq
- Slippages stable at 1% levels
- Maintain BUY with TP of ₹1,100

Strong margin expansion and stable asset quality trends positive

BoB delivered another strong quarter with NIM expanding 20 bps qoq (loan re-pricing) and impressive asset quality trends with very negligible slippages (1% annualized). NII grew 27% yoy (12% qoq) while operating expenses grew by 9% yoy. Loan-loss provisions were high as the bank chose to write off loans to the tune of 0.7%, resulting in a marginal decline in gross NPLs qoq. Fee income trends were weak as the corporate loan activity has slowed.

We maintain our BUY recommendation but revise our TP to ₹1,100 (₹1,250 earlier) to factor lower growth, slower fee income growth and higher provisions. We expect the bank to deliver 8% earnings CAGR and RoEs in the range of 19-20% levels for FY2011-13E. Sharper-than-expected deterioration in the underlying macro environment remains a key risk as loan-loss provisions are at 70 bps levels for FY2011-13E.

Loan growth strong at 24%, CASA ratio stable

BoB reported loan growth of 24% in September 2011—this compares with 25% growth in June 2011 and 30% in March 2011. The domestic business showed signs of moderation (domestic loans grew by 19% yoy as compared to 24% in June 2011) while international business remained buoyant (loans growth of 37% yoy) aided by currency movement. The share of retail loans has declined by 200 bps over the last one year largely replaced by SME and international loans.

Overall deposits grew by 22% yoy with domestic deposits growing by 19% yoy. CASA in the domestic business was flat qoq at 34%. CD ratio for the quarter moderated to 73% from 74% in June 2011.

NIM remains strong at 3.1% led by stable cost of funds

BoB reported 10 bps yoy and 20 bps qoq rise in NIM to 3.1% (KS calculated NIM was 2.8%). NIM in the domestic business was strong at 3.7% (30 bps improvement qoq) led by loan re-pricing (90 bps qoq) while the international business reported flat margins for the quarter. We build some moderation in our overall NIMs (25 bps in FY2012E) as ability to pass lending yields (12%) from current levels would be limited.

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Non-interest income moderate, treasury income down

Non-interest income was up 8% yoy to ₹7.7 bn largely due to fees from forex loans and recoveries from bad loans. Core fees income was down 7% yoy due to weakness in corporate activity. Treasury income which had 16% contribution to fees in 2QFY11 was negligible during the quarter, largely pulling down growth in overall fee income. On a low base, we are modeling 14% growth in core fees over the next two years.

Slippages at 1%, NPL write-offs pull down reported earnings

BoB reported slippage of 1%—stable qoq. Write-offs in 2QFY12 were of 0.7% of advances (as compared to 0.2% in 1QFY12) thereby driving its credit cost (up 125% yoy). After the write-off, gross NPL ratio was stable at 1.4% and net NPL at about 0.45%. We note that the NPLs in the SME (segment where the bank has increased loan growth in recent quarters) and agriculture portfolios have increased sharply over the past few quarters. About 12% of the restructured loans slipped into NPLs; whole sale loans continued to have large (57%) contribution to restructured loans (3% of advances).

In light of the challenges in the operating environment, we are raising our loan-loss provision estimates from 0.6% to 0.8% loans for FY2012-14E (as compared to 0.6% for last five years) and 0.5% estimated earlier. We are building slippages at 1.4% levels in FY2012E.

Agriculture and SME have shown higher NPLs
Break-up of gross NPLs, March fiscal year-ends, 2QFY10-2QFY12 (%)

	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
Agriculture	2.1	3.5	3.3	3.4	3.4	3.2	3.4	4.1	4.6
Corporate	1.2	1.2	1.4	1.7	1.6	1.4	1.8	1.8	1.4
Retail	2.4	2.3	2.1	2.4	2.1	1.9	1.8	2.1	2.2
Housing	2.7	2.5	2.3	2.4	2.1	2.0	1.9	2.0	1.9
SME	1.7	2.9	2.6	2.9	2.9	2.9	2.7	2.5	3.1
Overseas	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.7
Gross NPL	1.3	1.4	1.4	1.4	1.4	1.3	1.4	1.5	1.4
Net NPL	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.5
Slippages	0.9	1.2	1.2	1.5	0.7	0.6	1.2	1.0	1.0
Coverage	79.3	78.5	74.9	73.0	73.1	73.1	74.9	70.1	67.1
Coverage (write-off)	-	-	74.9	85.7	85.6	85.5	85.0	82.5	82.0
Restructured loans	3.1	3.1	2.9	2.8	2.8	2.9	2.9	3.1	3.3

Source: Company, Kotak Institutional Equities

Other highlights for the quarter

- The bank has made a provision of ₹1.5 bn for investment depreciation.
- Capital adequacy ratios declined to 12.7% from 13.8% in June 2011; tier-1 was 8.8%.

Bank of Baroda, Quarterly results
March fiscal year-ends, 2QFY11-2QFY12 (₹ mn)

	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	% chg	2QFY12E	Actval Vs KS
Interest income	51,417	56,662	63,342	66,318	72,514	41	69,566	4
Interest on advances	38,383	42,122	45,872	50,772	54,824	43	52,607	4
Income from invts	11,565	12,774	13,184	13,525	15,461	34	15,140	2
Bal with RBI	1,469	1,766	4,285	2,021	2,230	52	1,819	23
Interest expenses	31,205	33,739	37,203	43,346	46,845	50	46,210	1
Net interest income	**20,212**	**22,923**	**26,139**	**22,972**	**25,669**	**27**	**23,356**	**10**
Non-interest income	6,813	6,762	8,345	6,409	7,343	8	7,157	3
Other income (excld treasury)	5,712	5,914	7,136	5,669	7,343	29	6,157	19
Other income (excld treasury and recoveries)	5,020	5,299	6,277	5,381	7,343	46	5,396	
Forex income	1,000	1,471	1,461	1,400	-	(100)	1,500	
Treasury income	1,101	848	1,209	740	-	(100)	1,000	(100)
Total income	**27,025**	**29,684**	**34,484**	**29,381**	**33,013**	**22**	**30,513**	**8**
Operating expenses	10,627	11,172	15,026	11,068	11,613	9	12,221	(5)
Employee expenses	6,562	6,942	9,897	6,454	6,466	(1)	7,546	(14)
Other operating expenses	4,065	4,230	5,129	4,614	5,147	27	4,675	10
Operating profit	16,398	18,512	19,458	18,313	21,400	31	18,292	17
Provisions	1,855	3,041	5,904	4,041	4,964	168	4,158	19
Loan loss	1,423	2,064	4,244	1,320	1,320	(7)	2,243	(41)
Invt. depreciation	(201)	535	346	1,385	1,385	(789)	1,000	39
PBT	14,543	15,471	13,554	14,272	16,436	13	14,134	16
Taxation	4,520	4,783	611	3,944	4,775	6	4,245	13
Net profit	**10,024**	**10,689**	**12,944**	**10,329**	**11,661**	**16**	**9,890**	**18**
PBT-invt gains/losses	13,241	15,158	12,691	14,918	17,822	35	14,134	26
PBT-invt gains + provisions	14,664	17,222	16,935	16,237	19,141	31	16,377	17
Tax rate	31.1	30.9	4.5	27.6	29.1		30.0	

Source: Company, Kotak Institutional Equities estimates

Bank of Baroda, Key metrics, March fiscal year-ends (%)

	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	% chg
Key balance sheet items (Rs bn)						
Deposits	2,697	2,815	3,054	3,129	3,292	22
Domestic	2,060	2,154	2,333	2,365	2,447	19
CASA ratio (%)	35.9	35.1	34.4	33.9	34.0	-
Foreign	637	661	721	764	845	33
Advances	1,930	2,072	2,287	2,323	2,391	24
Domestic	1,417	1,520	1,694	1,686	1,690	19
Retail loans	272	296	324	309	299	10
Home loans	113	119	125	129	133	17
SME	235	253	274	284	301	28
Farm credit	216	231	245	232	226	5
Foreign	512	552	593	637	701	37
Investments	661.9	718	713	827	883	33.5
Domestic	630.8	686	680	798	850	34.8
International	31.9	33	33	31	36	13.9
AFS	119	130	99	108	139	17
Duration (years)	2.5	2.5	2.8	2.5	2.8	
Yield management measures (%)						
Average cost of deposits	4.5	4.5	4.8	5.4	5.6	
Avg. cost of deposits (domestic)	5.3	5.3	5.6	6.4	6.8	
Avg. cost of deposits (international)	2.0	1.9	1.8	1.8	1.8	
Yield on advances (total)	8.4	8.6	8.7	9.1	9.6	
Yield on advances (domestic)	10.2	10.3	10.7	11.2	12.1	
Yield on advances (international)	3.8	3.7	3.5	3.4	3.4	
Yield on investments (total)	7.1	7.4	6.8	7.5	7.6	
Yield on investments (domestic)	7.2	7.6	7.0	7.6	7.7	
Yield on investments (international)	3.7	3.9	3.9	4.9	4.2	
NIM	3.0	3.2	3.5	2.9	3.1	
NIMs (domestic)	3.6	3.8	4.2	3.4	3.7	
NIMs (international)	1.3	1.4	1.4	1.4	1.4	
Asset quality details						
Gross NPLs (Rs bn)	27.2	27.7	31.5	34.3	34.0	25.1
Gross NPLs (%)	1.4	1.3	1.4	1.5	1.4	
Net NPLs (Rs bn)	7.3	7.4	7.9	10.2	11.2	53.0
Net NPLs (%)	0.4	0.4	0.4	0.4	0.5	-
Provision Coverage	73.1	73.1	74.9	70.1	67.1	
Provision Coverage (ex write off)	85.6	85.5	85.0	82.5	82.0	
Slippages (Rs bn)	3.2	2.8	6.1	5.8	5.8	
Slippages (%)	0.7	0.6	1.2	1.0	1.0	
Restructured Loans	54.3	60.5	67.1	71.7	79.3	46.0
% of loans	2.8	2.9	2.9	3.1	3.3	
Capital adequacy details (%)						
CAR	13.2	12.5	14.5	13.1	12.7	
Tier I	8.2	7.7	10.0	9.1	8.8	
Tier II	5.1	4.8	4.5	4.0	3.9	

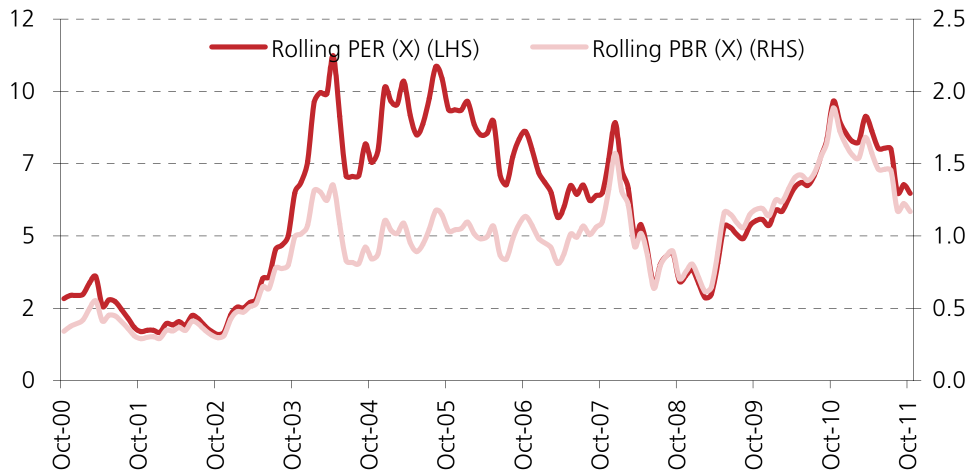
Source: Company, Kotak Institutional Equities estimates

We marginally increase our near-term estimates
Old and new estimates, March fiscal year-ends, 2012-2014E (₹ mn)

	New Estimates			Old Estimates			% change		
	2012E	**2013E**	**2014E**	**2012E**	**2013E**	**2014E**	**2012E**	**2013E**	**2014E**
NII	99,160	112,070	128,375	95,121	110,557	126,264	4.2	1.4	1.7
Loan growth	16.9	17.2	18.2	16.9	18.2	18.2			
NIM	2.6	2.5	2.5	2.5	2.5	2.4			
Non-treasury other income	25,841	29,576	33,856	26,657	30,507	34,917	(3.1)	(3.1)	(3.0)
Fee income	10,411	11,868	13,529	11,227	12,799	14,591	(7.3)	(7.3)	(7.3)
Operating expenses	48,077	55,365	63,738	49,914	57,521	66,268	(3.7)	(3.7)	(3.8)
Employee expenses	27,940	32,544	37,908	30,343	35,344	41,169	(7.9)	(7.9)	(7.9)
Provisions and contingencies									
Loan loss provisions	13,642	18,878	25,643	12,402	14,590	17,245	10.0	29.4	48.7
PBT	61,802	71,324	76,972	61,484	72,474	81,189	0.5	(1.6)	(5.2)
PAT	**43,243**	**49,906**	**53,858**	**43,020**	**50,710**	**56,808**	**0.5**	**(1.6)**	**(5.2)**
PBT- invt gains + provisions	76,923	86,281	98,494	71,864	83,543	94,913	7.0	3.3	3.8

Source: Company, Kotak Institutional Equities estimates

Bank of Baroda - Rolling PER and PBR
October 2000-October 2011 (X)



Source: Kotak Institutional Equities

Bank of Baroda, Key ratios and growth rates
March fiscal year-ends, 2009-2014E (%)

	2009	2010	2011	2012E	2013E	2014E
Growth rates (%)						
Net loan	34.9	21.6	30.6	16.9	17.2	18.2
Total Asset	26.6	22.4	28.8	18.9	16.7	16.8
Deposits	26.5	25.3	26.7	21.2	18.2	18.2
Current	23.6	30.9	22.3	13.2	14.9	14.7
Savings	18.8	23.7	22.7	15.4	17.1	17.0
Fixed	29.5	25.2	28.5	23.7	18.9	18.8
Net interest income	31.0	15.9	48.2	12.7	13.0	14.5
Loan loss provisions	(34.9)	157.1	20.0	7.0	38.4	35.8
Total other income	29.8	5.4	0.1	(0.9)	24.2	12.4
Net fee income	38.0	20.4	13.7	2.0	14.0	14.0
Net capital gains	69.1	(19.7)	(38.6)	(54.9)	150.0	0.0
Net exchange gains	33.6	3.6	33.4	15.0	15.0	15.0
Operating expenses	20.0	6.6	21.5	3.8	15.2	15.1
Employee expenses	27.0	0.1	24.1	(4.2)	16.5	16.5
Key ratios (%)						
Yield on average earning assets	7.7	6.8	7.0	7.7	7.5	7.5
Yield on average loans	8.9	7.9	8.0	9.0	8.7	8.5
Yield on average investments	7.1	6.7	7.5	7.6	7.4	7.7
Average cost of funds	5.4	4.7	4.5	5.4	5.2	5.3
Interest on deposits	5.3	4.6	4.3	5.3	5.2	5.2
Difference	**2.3**	**2.1**	**2.6**	**2.3**	**2.3**	**2.3**
Net interest income/earning assets	2.6	2.4	2.9	2.6	2.5	2.5
New provisions/average net loans	0.3	0.7	0.6	0.6	0.7	0.8
Interest income/total income	73.7	74.3	79.0	79.5	79.3	79.3
Fee income to total income	9.6	10.3	8.8	8.2	8.1	8.1
Operating expenses/total income	51.5	47.7	41.6	38.6	39.2	39.4
Tax rate	34.4	27.8	24.9	30.0	30.0	30.0
Dividend payout ratio	14.8	17.9	17.8	17.8	17.8	17.8
Share of deposits						
Current	7.5	7.9	7.6	7.1	6.9	6.7
Fixed	70.4	70.4	71.3	72.8	73.2	73.6
Savings	22.1	21.8	21.1	20.1	19.9	19.7
Loans-to-deposit ratio	74.8	72.6	74.9	72.3	71.6	71.6
Equity/assets (EoY)	5.6	5.4	5.9	5.7	5.6	5.5
Asset quality trends (%)						
Gross NPL	1.3	1.3	1.4	1.9	2.1	2.2
Net NPL	0.3	0.3	0.3	0.5	0.7	0.8
Slippages	0.9	1.2	1.1	1.4	1.4	1.3
Provision coverage (ex writeoff)	75.6	74.9	74.9	71.3	68.7	65.4
Dupont analysis (%)						
Net interest income	2.5	2.3	2.8	2.5	2.4	2.4
Loan loss provisions	0.2	0.4	0.4	0.3	0.4	0.5
Net other income	1.3	1.1	0.9	0.7	0.7	0.7
Operating expenses	1.8	1.5	1.5	1.2	1.2	1.2
Invt. depreciation	0.3	(0.2)	0.0	0.1	0.0	0.0
(1- tax rate)	66.6	72.2	75.1	70.0	70.0	70.0
ROA	1.1	1.2	1.3	1.1	1.1	1.0
Average assets/average equity	19.6	20.4	19.4	18.6	18.7	18.7
ROE	21.4	24.7	25.9	20.5	20.2	18.7

Source: Company, Kotak Institutional Equities estimates

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

	2009	2010	2011	2012E	2013E	2014E
Income statement						
Total interest income	150,916	166,983	218,859	293,100	336,428	391,576
Loans	111,974	125,412	162,035	223,454	251,228	289,891
Investments	33,107	36,559	47,748	62,156	77,458	93,391
Cash and deposits	5,836	5,012	9,077	7,489	7,742	8,293
Total interest expense	99,682	107,589	130,837	193,940	224,358	263,200
Deposits from customers	91,875	98,807	118,626	178,842	209,260	248,102
Net interest income	51,234	59,395	88,023	99,160	112,070	128,375
Loan loss provisions	4,131	10,621	12,745	13,642	18,878	25,643
Net interest income (after prov.)	47,104	48,774	75,278	85,517	93,192	102,732
Other income	26,626	28,064	28,092	27,841	34,576	38,856
Net fee income	7,455	8,973	10,206	10,411	11,868	13,529
Net capital gains	9,001	7,232	4,437	2,000	5,000	5,000
Net exchange gains	3,724	3,860	5,148	5,920	6,808	7,829
Operating expenses	35,761	38,106	46,298	48,077	55,365	63,738
Employee expenses	23,481	23,509	29,168	27,940	32,544	37,908
Depreciation on investments	5,368	(3,807)	90	3,000	600	400
Other Provisions	123	159	478	478	478	478
Pretax income	32,479	42,381	56,503	61,802	71,324	76,972
Tax provisions	11,157	11,797	14,086	18,559	21,419	23,115
Net Profit	**22,272**	**30,583**	**42,417**	**43,243**	**49,906**	**53,858**
% growth	55	37	39	2	15	8
PBT - treasury gains + provisions	33,098	42,120	65,379	76,923	86,281	98,494
% growth	35	27	55	18	12	14
Balance sheet						
Cash and bank balance	240,871	354,671	499,341	499,255	533,012	572,734
Cash	9,990	11,731	13,571	13,571	13,571	13,571
Balance with RBI	95,974	123,669	185,111	185,025	218,783	258,505
Balance with banks	14,034	9,143	17,676	17,676	17,676	17,676
Net value of investments	524,459	611,824	712,606	976,429	1,157,414	1,329,708
Govt. and other securities	401,347	494,425	592,889	862,075	1,043,060	1,215,354
Shares	6,061	12,319	13,252	13,252	13,252	13,252
Debentures and bonds	30,140	23,518	23,561	23,561	23,561	23,561
Net loans and advances	1,439,859	1,750,353	2,286,764	2,674,127	3,134,523	3,703,623
Fixed assets	23,468	22,848	22,997	23,713	23,243	22,694
Net leased assets	—	—	—	—	—	—
Net Owned assets	23,468	22,848	22,997	23,713	23,243	22,694
Other assets	45,781	43,472	62,264	89,179	127,728	182,942
Total assets	**2,274,438**	**2,783,167**	**3,583,971**	**4,262,702**	**4,975,920**	**5,811,701**
Deposits	1,923,970	2,410,443	3,054,395	3,700,503	4,375,657	5,170,095
Borrowings and bills payable	139,713	147,950	239,596	239,596	239,596	239,596
Other liabilities	82,400	73,710	80,049	80,049	80,049	80,049
Total liabilities	**2,146,082**	**2,632,103**	**3,374,040**	**4,020,148**	**4,695,302**	**5,489,741**
Paid-up capital	3,655	3,655	3,928	3,928	3,928	3,928
Reserves & surplus	124,700	147,409	206,003	238,626	276,690	318,032
Total shareholders' equity	**128,355**	**151,064**	**209,931**	**242,554**	**280,618**	**321,960**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Bharat Petroleum (BPCL)

Energy

ADD

OCTOBER 31, 2011

RESULT

Coverage view: Attractive

Price (Rs): 623

Target price (Rs): 720

BSE-30: 17,705

Results marred by refining margins and forex losses. BPCL reported 2QFY12 net loss at ₹32.3 bn versus net loss of ₹25.6 bn in 1QFY12; our estimated loss was ₹34.1 bn. We note that the quarterly results are not comparable given the fluctuation in timing and quantum of government compensation. We maintain our ADD rating on BPCL given 16% potential upside to our revised target price of ₹720 (₹780 previously).

Company data and valuation summary

Bharat Petroleum

Stock data			
52-week range (Rs) (high,low)			797-529
Market Cap. (Rs bn)			225.1
Shareholding pattern (%)			
Promoters			54.9
FIIs			6.7
MFs			9.6
Price performance (%)	1M	3M	12M
Absolute	(3.9)	(5.4)	(14.7)
Rel. to BSE-30	(10.7)	(2.7)	(3.5)

Forecasts/Valuations	2011	2012E	2013E
EPS (Rs)	38.9	33.0	49.5
EPS growth (%)	(32.5)	(15.2)	49.9
P/E (X)	16.0	18.9	12.6
Sales (Rs bn)	1,508.4	1,920.3	1,888.1
Net profits (Rs bn)	14.1	11.9	17.9
EBITDA (Rs bn)	32.7	34.5	42.0
EV/EBITDA (X)	10.4	10.0	8.0
ROE (%)	9.2	7.3	10.4
Div. Yield (%)	2.2	1.7	2.6

Earnings impacted by large net under-recovery, forex losses and lower refining margins

BPCL reported 2QFY12 net income at –₹32.3 bn versus –₹25.6 bn in 1QFY12 and ₹21.4 bn in 2QFY11. Reported 2QFY12 EBITDA was at –₹26.9 bn versus –₹21.6 bn in 1QFY12 and ₹24.9 bn in 2QFY11; our estimate was at –₹28.8 bn. The qoq swing in earnings reflects (1) lower refining margins at US$1.6/bbl versus US$3/bbl in 1QFY12 and (2) foreign exchange loss of ₹8 bn. This was partly compensated by (1) lower net under-recovery of ₹32.2 bn in 2QFY12 versus ₹33.6 bn in 1QFY12, (2) higher crude throughput at 5.6 mn tons versus 5.2 mn tons in 1QFY12 and (3) lower staff cost at ₹4.4 bn (-33% qoq).

Refining margins decline qoq; domestic sales volumes increase 6.7% yoy

BPCL's 2QFY12 refining margins were at US$1.6/bbl versus US$3/bbl in 1QFY12 and US$3.6/bbl in 2QFY11. The refining margins were impacted by adventitious/inventory loss. BPCL's crude throughput stood at 5.6 mn tons (-0.4% yoy and +7.3% qoq) in 2QFY12. 2QFY12 sales volumes (domestic) increased 6.7% yoy to 7 mn tons. The yoy growth in sales was led by strong growth in diesel, LPG and ATF sales which was partially offset by decline in sales of fuel oil and naphtha.

Stock performance will depend on (1) oil prices and (2) government action

We maintain an ADD rating on BPCL given 16% upside to our target price of ₹720 based on 10X FY2013E adjusted EPS of ₹45 plus value of investments. However, we highlight that the near-term stock performance will depend on (1) crude oil prices, (2) exchange rate, (3) government's willingness and ability to increase diesel prices at current levels and (4) subsidy-sharing mechanism formulated by the government. We note that the situation with regards to the overall gross under-recoveries is reaching precarious levels led by (1) weakening of the Rupee and (2) sharp expansion in product cracks. Exhibit 2 gives the marketing losses for the recent week and compares the same with the losses before the announcement of price hikes and duty rejig in June 2011.

Revised earnings; maintain ADD with a target price of ₹720

We have revised our FY2012-14E EPS to ₹33 (-39%), ₹49.5 (-10%) and ₹58.3 (-5%) to reflect (1) lower refining margins, (2) revised exchange rate assumptions, (3) 2QFY12 results and (4) other minor changes. Key downside risk stems from higher-than-expected net under-recoveries.

QUICK NUMBERS

- Net under-recovery of ₹65.8 bn in 1HFY12 versus ₹15.8 bn in FY2011
- 2QFY12 refining margin at US$1.6/bbl versus US$3/bbl in 1QFY12
- 16% potential upside to target price from current levels

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Key financial and operating details of 2QFY12 results

Exhibit 1 gives key highlights of BPCL's 2QFY12 results and compares the same on a yoy and qoq basis. We do not see significant merit in comparison of quarterly results given high volatility in the timing and quantum of compensation from the government of India and contribution from upstream companies.

Interim results of Bharat Petroleum, March fiscal year-ends (₹ mn)

					(% chg.)			yoy			
	2QFY12	2QFY12E	2QFY11	1QFY12	2QFY12E	2QFY11	1QFY12	1HFY12	1HFY11	(% chg.)	2012E
Net sales	423,019	419,526	354,348	461,396	0.8	19.4	(8.3)	884,415	696,673	26.9	1,920,278
Increase/(decrease) in stock	5,367		21,187	6,317				11,685	24,417		
Raw material	(204,005)	(219,089)	(156,616)	(192,444)	(6.9)	30.3	6.0	(396,449)	(309,941)	27.9	(891,659)
Trading purchase	(219,959)	(205,154)	(166,127)	(276,334)	7.2	32.4	(20.4)	(496,293)	(346,320)	43.3	(930,258)
Staff cost	(4,381)	(6,417)	(4,526)	(6,574)	(31.7)	(3.2)	(33.4)	(10,955)	(9,939)	10.2	(22,533)
Other expenses	(26,990)	(17,669)	(23,401)	(14,003)	52.8	15.3	92.7	(40,992)	(44,085)	(7.0)	(41,332)
Total expenditure	(449,967)	(448,328)	(329,483)	(483,038)	0.4	36.6	(6.8)	(933,005)	(685,867)	36.0	(1,885,782)
EBITDA	**(26,948)**	**(28,802)**	**24,865**	**(21,642)**	**(6.4)**	**(208.4)**	**24.5**	**(48,590)**	**10,806**	**(549.7)**	**34,495**
Other income	3,787	3,531	5,336	4,273	7.2	(29.0)	(11.4)	8,061	8,545	(5.7)	16,551
Interest	(4,532)	(4,124)	(2,780)	(3,349)	9.9	63.0	35.3	(7,881)	(5,103)	54.4	(14,407)
Depreciation	(4,600)	(4,748)	(4,019)	(4,901)	(3.1)	14.5	(6.1)	(9,501)	(8,026)	18.4	(18,979)
Pretax profits	**(32,293)**	**(34,142)**	**23,402**	**(25,619)**	**(5.4)**	**(238.0)**	**26.1**	**(57,912)**	**6,221**	**(1,030.9)**	**17,661**
Extraordinary item	—	—	—	—				—	—		—
Tax	—	—	(1,980)	—				—	(1,980)		(5,930)
Deferred tax	—	—	—	—				—	—		200
Net income	**(32,293)**	**(34,142)**	**21,422**	**(25,619)**	**(5.4)**	**(250.7)**	**26.1**	**(57,912)**	**4,241**	**(1,465.5)**	**11,931**
Adjusted net income	**(32,293)**	**(34,142)**	**21,422**	**(25,619)**	**(5.4)**	**(250.7)**	**26.1**	**(57,912)**	**4,241**	**(1,465.5)**	**11,931**
EPS (Rs)	**(89.3)**	**(94.4)**	**59.3**	**(70.9)**				**(160.2)**	**11.7**		**33.0**
Tax rate (%)	0.0	0.0	8.5	0.0				0.0	31.8		32.4
Volume data											
Crude throughput (mn tons)	5.6	5.7	5.6	5.2		(0.4)	7.3	10.8	11.2	(3.5)	22.1
Domestic sales volume (mn tons)	7.0	7.1	6.6	7.8		6.7	(10.1)	14.9	13.9	6.7	29.6
Exports sales volume (mn tons)	0.9		0.9	0.7		9.3	34.3	1.6	1.5	12.3	3.1
Refining margin (US$/bbl)	1.6	4.2	2.8	3.0		(41.4)	(45.4)	2.3	3.2	(27.6)	3.2
Inventory gain/(loss)	(240)	(2,975)	(780)	12,120				11,880	3,930		11,880
Gross subsidy gain/(loss)	(48,650)	(52,117)	(24,630)	(102,895)				(151,545)	(71,130)		(274,977)
Receipt from upstream companies	16,418	17,372	8,214	34,091				50,509	23,709		123,740
Receipt of oil bonds/cash from govt	—	—	29,479	35,245				35,245	29,479		139,551
Net over-recovery/(under-recovery)	(32,232)	(34,745)	13,062	(33,560)				(65,792)	(17,942)		(11,687)
Exchange gain/(loss)	(8,011)	(8,650)	2,989	(1,060)				(9,071)	(394)		(9,966)

Source: Company, Kotak Institutional Equities estimates

Under-recoveries on diesel and kerosene remain high

Current marketing margins versus marketing margins before price hikes on June 24, 2011

1. Marketing margins for the week before price hikes	
Dated Brent crude price (US$/bbl)	111
Exchange rate (Rs/US$)	44.9
LPG (Rs/cylinder)	(344.2)
Kerosene (Rs/liter)	(25.7)
Diesel (Rs/liter)	(10.2)
2. Marketing margins for the recent week	
Dated Brent crude price (US$/bbl)	112
Exchange rate (Rs/US$)	49.4
LPG (Rs/cylinder)	(298.9)
Kerosene (Rs/liter)	(28.3)
Diesel (Rs/liter)	(7.6)

Source: Bloomberg, Kotak Institutional Equities estimates

- **Compensation (cash) from the government and discounts from the upstream oil companies.** BPCL did not receive any compensation from the government in 2QFY12 versus ₹35.2 bn in 1QFY12 and ₹29.5 bn in 2QFY11. BPCL received ₹16.4 bn of discounts from the upstream companies in 2QFY12 compared to ₹34.1 bn in 1QFY12 and ₹8.2 bn in 2QFY11. BPCL's net under-recovery was ₹32.2 bn compared to net under-recovery of ₹33.6 bn in 1QFY12 and net over-recovery of ₹13.1 bn in 2QFY11.

- **Refining margins decline sharply qoq.** BPCL's 2QFY12 refining margin was US$1.6/bbl versus US$3/bbl in 1QFY12 and US$2.8/bbl in 2QFY11. This reflects adventitious/inventory losses in 2QFY12.

- **Crude throughput increases qoq.** BPCL's two refineries processed 5.6 mn tons of crude in 2QFY12 compared to 5.2 mn tons in 1QFY12 and 5.6 mn tons in 2QFY11. The increase in crude throughput reflects ramp-up in production at the Kochi refinery post the shutdown in 1QFY12. BPCL's Mumbai refinery processed 3.12 mn tons (-9.2% yoy and -7.1% qoq) of crude and Kochi refinery processed 2.46 mn tons (+13.5% yoy and +33.7% qoq) in 2QFY12.

- **Sales volume increases yoy.** BPCL's sales volume (domestic) was 7 mn tons for 2QFY12 (+6.7% yoy and -10.1% qoq). The company reported 6.7% yoy growth in domestic sales to 14.9 mn tons in 1HFY12. This reflects growth in sales of gasoline (+4.9%), diesel (+11.4%), ATF (+10.7%) and LPG (10.8%), which was partially offset by decline in sales of fuel oil (-35.6%) and naphtha (-28.4%).

- **Other expenditure increases sharply qoq led by foreign-exchange loss.** BPCL's other expenditure for 2QFY12 increased to ₹27 bn (+93% qoq) led by foreign exchange loss of ₹8 bn versus ₹1 bn in 1QFY12.

- **Employee cost declines.** BPCL's employee cost declined sharply in 2QFY12 to ₹4.4 bn (-3.2% yoy and -33.4% qoq).

Earnings revisions and key assumptions behind earnings model

We have revised our FY2012E, FY2013E and FY2014E EPS estimates to ₹33, ₹49.5 and ₹58.3 from ₹54, ₹55.1 and ₹61.3. We discuss key assumptions (see Exhibit 3) behind our earnings model below.

BPCL earnings model assumptions, March fiscal year-ends, 2007-2014E

	2007	2008	2009	2010	2011	2012E	2013E	2014E
Rs/US$	45.3	40.3	45.8	47.4	45.6	47.3	49.8	48.5
Weighted average duty on products (%)	6.7	6.6	3.3	2.6	5.8	3.0	2.2	2.2
Import tariff on crude (%)	5.1	5.2	0.9	0.4	5.2	1.2	—	—
Import 'tariff' on domestic crude (%)	2.6	2.6	0.5	0.2	2.6	0.6	—	—
Effective duty protection (%)	**1.6**	**1.4**	**2.4**	**2.2**	**0.7**	**1.8**	**2.2**	**2.2**
Refinery yield (US$/bbl)	71.5	89.6	97.5	73.2	93.9	116.0	105.5	101.0
Cost of crude (US$/bbl)								
-Imported	64.0	78.8	90.0	69.8	84.7	110.7	100.7	95.7
-Domestic	68.7	84.1	94.9	70.8	88.0	114.0	104.0	99.0
Landed cost of crude (US$/bbl)	68.3	84.0	92.4	70.3	89.4	112.8	101.7	96.7
Net refining margin (US$/bbl)	**3.2**	**5.6**	**5.2**	**2.9**	**4.5**	**3.2**	**3.8**	**4.3**
Crude throughput (mn tons)	**19.8**	**20.9**	**20.0**	**20.4**	**21.8**	**22.1**	**22.7**	**22.7**
-Imported	13.5	13.9	13.1	14.1	14.8	15.1	15.7	15.7
-Domestic	6.3	7.0	6.8	6.3	7.0	7.0	7.0	7.0
Production of main products	17.9	19.0	18.1	18.6	19.9	20.2	20.7	20.7
Production of other products	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.7
Fuel and loss	1.3	1.4	1.3	1.2	1.2	1.3	1.3	1.3
Fuel and loss (%)	6.6	6.6	6.6	5.9	5.7	5.7	5.7	5.7
Sales volume (mn tons)	**24.5**	**26.7**	**27.8**	**29.5**	**31.3**	**32.7**	**34.1**	**35.8**
Marketing margins (Rs/ton)	**(1,140)**	**(3,010)**	**(5,944)**	**573**	**(1,933)**	**(4,980)**	**(2,223)**	**(757)**

Source: Company, Kotak Institutional Equities estimates

- **Compensation from government and discount from upstream companies.** We model BPCL to receive compensation of ₹140 bn, ₹120 bn and ₹90 bn from the government in FY2012E, FY2013E and FY2014E. We assume BPCL to receive discount of ₹124 bn for FY2012E, ₹91 bn for FY2013E and ₹71 bn for FY2014E from the upstream companies. We assume net under-recoveries at ₹11.7 bn, ₹17.2 bn and ₹17.1 bn for FY2012E, FY2013E and FY2014E against ₹15.8 bn in FY2011.

  We have revised our assumption of net under-recoveries to be borne by downstream companies in FY2012E to ₹50 bn versus ₹74 bn given the high losses expected to be incurred on account of (1) forex losses and (2) lower-than-expected refining margins. We assume total net under-recoveries of the downstream oil companies at ₹50 bn in FY2012E and ₹74 bn in FY2013E compared to ₹69 bn in FY2011.

- **Refining margins.** We model refining margin for BPCL at US$3.2/bbl in FY2012E, US$3.8/bbl in FY2013E and US$4.3/bbl in FY2014E compared to US$2.3/bbl in 1HFY12 and US$4.5/bbl in FY2011. We have accounted for 1HFY12 adventitious gains of ₹11.9 bn in FY2012E earnings. We assume no gains or losses for FY2013-15E versus adventitious gains of ₹10 bn (US$1.4/bbl) in FY2011.

- **Crude throughput.** We model crude throughput at 22.1 mn tons, 22.7 mn tons and 22.7 mn tons in FY2012E, FY2013E and FY2014E versus 21.8 mn tons in FY2011.

- **Marketing margins.** We model marketing margin on gasoline and diesel at –₹675/ton and –₹10,128/ton in FY2012E and ₹1,350/ton and –₹5,445/ton in FY2013E compared to –₹2,984/ton and –₹3,243/ton in FY2011. We do not assume any increase in diesel, LPG and kerosene retail prices throughout our forecast period.

- **Crude oil price assumption.** We have assumed crude oil (Dated Brent) prices for FY2012E, FY2013E and FY2014E at US$110/bbl, US$100/bbl and US$95/bbl.

- **Rupee-dollar exchange rate.** We have revised our exchange rate assumption for FY2012E, FY2013E and FY2014E to ₹47.27/US$, ₹49.75/US$ and ₹48.5/US$ versus ₹45.75/US$, ₹45.63/US$ and ₹45/US$ previously.

Fair valuation of BPCL (₹)

	2013E
Valuation based on P/E multiple	
Profit after tax (Rs mn)	17,883
Less: income from investments valued separately (Rs mn)	1,793
Adjusted profit after tax (Rs mn)	16,090
Adjusted EPS	45
P/E multiple (X)	10
Fair value on P/E (without value of investments) (A)	**445**
Add: Value of investments (Rs mn)	98,859
KRL treasury shares	*24,285*
Numaligarh	*13,606*
Indraprastha Gas	*10,458*
Oil India Ltd	*9,363*
Petronet LNG	*10,125*
Other equity	*31,022*
Value of investments (Rs) (B)	**273**
Total equity value (A) + (B)	**718**

Source: Kotak Institutional Equities estimates

Profit model, balance sheet, cash model of BPCL, March fiscal year-ends, 2007-2014E (₹ mn)

	2007	2008	2009	2010	2011	2012E	2013E	2014E
Profit model (Rs mn)								
Net sales	965,569	1,102,081	1,340,734	1,202,170	1,508,382	1,920,278	1,888,121	1,857,789
EBITDA	**35,362**	**28,472**	**27,507**	**32,635**	**32,737**	**34,495**	**42,015**	**45,399**
Other income	7,332	13,954	15,087	22,402	17,550	16,551	15,590	14,932
Interest	(4,774)	(6,725)	(22,699)	(10,110)	(11,008)	(14,407)	(11,881)	(8,864)
Depreciation	(9,041)	(10,982)	(10,755)	(12,423)	(16,554)	(18,979)	(19,253)	(20,283)
Pretax profits	28,879	24,719	9,141	32,505	22,724	17,661	26,471	31,184
Extraordinary items	(68)	—	—	(8,290)	1,503	—	—	—
Tax	(9,286)	(9,059)	(5,103)	(11,317)	(7,177)	(5,930)	(8,277)	(9,436)
Deferred taxation	(268)	(1,108)	2,421	3,033	(1,482)	200	(311)	(682)
Adjusted net profits	**18,100**	**15,806**	**6,324**	**20,830**	**14,602**	**11,931**	**17,883**	**21,066**
Earnings per share (Rs)	**50.1**	**43.7**	**17.5**	**57.6**	**40.4**	**33.0**	**49.5**	**58.3**
Balance sheet (Rs mn)								
Total equity	102,735	116,768	121,281	130,867	140,576	147,969	159,050	172,104
Deferred taxation liability	13,826	14,814	12,392	8,593	10,075	9,875	10,187	10,868
Total borrowings	108,292	150,224	211,714	221,952	189,719	176,719	144,719	111,638
Currrent liabilities	112,767	145,803	128,313	171,312	219,583	247,189	250,124	246,714
Total liabilities and equity	**337,620**	**427,608**	**473,701**	**532,724**	**559,954**	**581,753**	**564,079**	**541,324**
Cash	8,640	9,616	4,416	3,424	3,800	4,341	4,716	4,769
Current assets	127,698	187,457	148,469	232,416	272,259	307,429	303,641	297,600
Goodwill	—	—	—	—	—	—	—	—
Total fixed assets	118,334	127,354	140,033	161,871	170,116	176,203	181,943	185,176
Investments	82,949	103,182	180,784	135,013	113,780	93,780	73,780	53,780
Total assets	**337,621**	**427,608**	**473,701**	**532,724**	**559,954**	**581,753**	**564,079**	**541,324**
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	29,920	22,988	19,717	22,972	16,688	13,400	21,231	26,633
Working capital	11,451	(25,161)	20,585	(48,542)	14,758	(7,565)	6,722	2,631
Capital expenditure	(17,908)	(20,665)	(23,323)	(33,698)	(24,813)	(24,308)	(24,368)	(23,050)
Investments	(45,481)	(21,684)	(82,456)	35,270	20,872	20,000	20,000	20,000
Other income	4,337	6,434	6,655	13,694	10,146	16,551	15,590	14,932
Free cash flow	**(17,682)**	**(38,088)**	**(58,822)**	**(10,304)**	**37,651**	**18,079**	**39,177**	**41,147**
Ratios (%)								
Debt/equity	105.4	128.7	174.6	169.6	135.0	119.4	91.0	64.9
Net debt/equity	97.0	120.4	170.9	167.0	132.3	116.5	88.0	62.1
RoAE	16.3	12.7	4.8	11.3	10.7	7.7	10.9	12.0
RoACE	**10.9**	**7.3**	**7.2**	**7.9**	**6.2**	**6.4**	**8.0**	**8.9**
Key assumptions (standalone until FY2005)								
Crude throughput (mn tons)	19.8	20.9	20.0	20.4	21.8	22.1	22.7	22.7
Effective tariff protection (%)	1.6	1.4	2.4	2.2	0.7	1.8	2.2	2.2
Net refining margin (US$/bbl)	3.2	5.6	5.2	2.9	4.5	3.2	3.8	4.3
Sales volume (mn tons)	24.5	26.7	27.8	29.5	31.3	32.7	34.1	35.8
Marketing margin (Rs/ton)	(1,140)	(3,010)	(5,944)	573	(1,933)	(4,980)	(2,223)	(757)
Subsidy under-recoveries (Rs mn)	(10,400)	(33,354)	2,728	(12,375)	(15,841)	(11,687)	(17,155)	(17,071)

Source: Company, Kotak Institutional Equities estimates

Kotak Institutional Equities

Canara Bank (CBK)

Banks/Financial Institutions

BUY

OCTOBER 31, 2011

RESULT

Coverage view: Attractive

Price (Rs): 467

Target price (Rs): 550

BSE-30: 17,705

Completes the migration with limited impact. Canara Bank completed the last leg of migration with relatively lesser-than-expected impact on asset quality. Slippages were at 2.3% (50% migration-related) and the bank has chosen to aggressively write off these loans resulting in higher provisions. Risks from the infrastructure exposure remain a key risk, driving our earnings revision. We maintain BUY but believe that near-term price performance will be muted despite inexpensive valuations of 1X FY2012E book and 5X FY2012E EPS delivering 6% earnings growth for FY2011-13E and 18% RoEs.

Company data and valuation summary

Canara Bank

Stock data			
52-week range (Rs) (high,low)			844-401
Market Cap. (Rs bn)			206.8
Shareholding pattern (%)			
Promoters			67.7
FIIs			15.5
MFs			0.9
Price performance (%)	1M	3M	12M
Absolute	5.1	1.7	(35.3)
Rel. to BSE-30	(2.3)	4.6	(26.8)

Forecasts/Valuations	2011	2012E	2013E
EPS (Rs)	90.9	80.9	101.5
EPS growth (%)	23.3	(10.9)	25.4
P/E (X)	5.1	5.8	4.6
NII (Rs bn)	78.2	80.9	94.5
Net profits (Rs bn)	40.3	35.9	45.0
BVPS	405.0	471.9	559.4
P/B (X)	1.2	1.0	0.8
ROE (%)	23.2	16.7	18.1
Div. Yield (%)	2.4	2.6	2.6

Migration-related hurdle cleared; earnings lower on the back of higher provisions

The bank completed the last leg of migration resulting in slippages of 2.3% with nearly 50% coming from migration-related exercise. With the migration exercise largely completed, we believe that the focus would shift to infrastructure exposure (17% of loans) where NPLs or restructuring are likely to occur in FY2013-14E. We take a cautious approach and build higher loan-loss provisions (0.8% levels). Canara Bank reported 15% yoy decline in earnings as provisions increased 250% yoy while NII declined 2% yoy (income de-recognition) on the back of higher slippages. Healthy growth in non-interest income led by recoveries (doubled yoy) and a stable operating expenses growth (9% yoy) cushioned the sharp rise in provisions. The bank wrote off 0.8% of loans primarily from these slippages.

Margins expand 22 bps qoq despite de-recognition of interest income

NIMs expanded 22 bps qoq (after reporting a decline of 40 bps in 1QFY12) primarily on the back of stable cost of funds and loan re-pricing. We note that the impact of higher slippages on NIMs was about 15 bps for the quarter; unlikely to be repeated at this scale from 3QFY12E. We build 35 bps compression in NIMs for FY2012E and flat margins in FY2013E but believe that a stable cost environment can result in upward revisions to our current estimates.

Slippages 2.3% for the quarter; aggressive write-off continues

Gross NPLs increased marginally by 5% qoq to ₹38 bn (1.7% of loans) while net NPLs increased 9% qoq to ₹31 bn (1.4% of loans). Slippages were high at 2.3% for the quarter. However, increased in underlying gross NPLs were lower as the bank has made aggressive provisions and writing off these loans from their portfolio. Loan write-offs were at 0.8% for the quarter while loan-loss provisions were high at 90 bps. Hence, provision coverage is at 69% (flat qoq) though coverage ratio (ex write-off) has declined further to 18%, one of the lowest among banks.

QUICK NUMBERS

- NIMs improve 22 bps qoq to 2.6%
- Slippages at 2.3%; gross NPLs increase 5% qoq
- Maintain BUY with TP of ₹550 (from ₹600 earlier)

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Loan growth remained strong at 24% yoy

Loan growth for the quarter was healthy at 24% yoy (similar growth trends for the past three quarters). Nearly all segments have shown robust growth with retail at 23% yoy, agriculture at 37% yoy and large corporate at 20% yoy. Infrastructure loan grew 37% yoy while SME loans grew by 21% yoy. The bank continues to have a relatively higher share of its loan to fund working capital of SEBs (6% of loans). We are broadly building loan growth of about 16% CAGR in FY2011-13E for the bank.

Higher recoveries and treasury income boost non-interest income

Non-interest income was at ₹8.3 bn (decline of 65% yoy) on the back of strong growth in recoveries and strong treasury income. Income from recoveries doubled to ₹1.4 bn. Fee income growth was strong at 17% yoy. The bank reported a treasury gain of ₹1.5 bn during the quarter. We expect income from recoveries to remain strong in 2HFY12E due to the higher slippages reported over the past few quarters.

Other highlights for the quarter

- Overall capital adequacy is comfortable at 12.8% with tier-1 capital at 9.2%.
- Cost-income ratio was at 42% for the quarter.
- Tax rate for the quarter was at 19%—one of the lowest as the bank continues to take benefit from aggressive write-offs.

Key changes to our estimates
Old and new estimates, March fiscal year-ends, 2012-2014E (₹ mn)

	New estimates			Old estimates			% change		
	2012E	**2013E**	**2014E**	**2012E**	**2013E**	**2014E**	**2012E**	**2013E**	**2014E**
Net interest income	80,911	94,522	114,766	79,336	94,684	113,480	2.0	(0.2)	1.1
Loan growth (%)	17	16	18	17	18	18			
NIM (%)	2.3	2.3	2.5	2.3	2.3	2.4			
Loan loss provisions	16,814	21,460	28,293	13,820	16,249	19,199	21.7	32.1	47.4
Other income	29,377	35,260	40,147	30,749	34,544	39,989	(4.5)	2.1	0.4
Fee income	8,616	9,823	11,198	8,616	9,823	11,198	—	—	—
Treasury income	2,200	3,000	3,200	2,000	2,500	3,000			
Operating expenses	46,096	50,919	56,385	45,191	50,324	56,086	2.0	1.2	0.5
Employee expenses	29,838	32,849	36,163	28,934	32,169	35,765	3.1	2.1	1.1
Depreciation on investments	2,000	500	500	2,000	900	900			
PBT	45,329	56,853	69,686	48,974	61,655	77,184	(7.4)	(7.8)	(9.7)
Net profit	**35,856**	**44,973**	**55,123**	**38,250**	**48,154**	**60,283**	**(6.3)**	**(6.6)**	**(8.6)**
PBT-treasury	43,129	53,853	66,486	46,974	59,155	74,184	(8.2)	(9.0)	(10.4)
PBT-treasury + loan loss provisions	59,943	75,313	94,778	60,794	75,404	93,382	(1.4)	(0.1)	1.5

Source: Company, Kotak Institutional Equities estimates

Canara Bank- Rolling PER and PBR
April 2004-October 2011 (X)

					(% chg.)			yoy			
	3QCY11	3QCY11E	3QCY10	2QCY11	3QCY11E	3QCY10	2QCY11	9MCY11	9MCY10	(% chg.)	2011E
Net sales	**6,741**	**7,507**	**6,430**	**7,932**	***(10.2)***	***4.8***	***(15.0)***	**22,205**	**20,448**	***8.6***	**30,178**
Raw materials	3,948	4,366	3,367	4,378	*(9.6)*	*17.3*	*(9.8)*	12,291	10,212	*20.4*	17,094
Employees	318	270	269	297	*17.8*	*18.2*	*7.1*	874	729	*19.9*	1,153
Others	1,147	1,240	1,097	1,269	*(7.5)*	*4.6*	*(9.6)*	3,905	3,745	*4.3*	5,177
Advertisement	433	525	290	534	*(17.5)*	*49.3*	*(18.9)*	1,475	1,115	*32.3*	1,950
CIF costs	193	210	184	213	*(8.2)*	*4.9*	*(9.4)*	629	631	*(0.3)*	838
Other exp	521	505	623	522	*3.2*	*(16.4)*	*(0.2)*	1,801	1,999	*(9.9)*	2,390
Total expenditure	5,413	5,876	4,733	5,944	*(7.9)*	*14.4*	*(8.9)*	17,070	14,686	*16.2*	23,424
EBITDA	**1,328**	**1,631**	**1,697**	**1,988**	***(18.6)***	***(21.7)***	***(33.2)***	**5,135**	**5,762**	***(10.9)***	**6,755**
EBITDA margin (%)	**19.7**	**21.7**	**26.4**	**25.1**				**23.1**	**28.2**		**22.4**
Other income	145	80	72	194	*81.3*	*101.4*	*(25.3)*	617	226	*173.0*	725
Interest	9	6	6	2	*50.0*	*50.0*	*350.0*	15	17	*(11.8)*	22
Depreciation	62	63	63	63	*(1.6)*	*(1.6)*	*(1.6)*	188	181	*3.9*	250
Pre-tax profits	**1,402**	**1,642**	**1,700**	**2,117**	***(14.6)***	***(17.5)***	***(33.8)***	**5,549**	**5,790**	***(4.2)***	**7,207**
Tax	451	532	531	692	*(15.2)*	*(15.1)*	*(34.8)*	1,807	1,946	*(7.1)*	2,375
Deferred tax	—	—	—	—				—	—		(36)
Adjusted net income	**951**	**1,110**	**1,169**	**1,425**	***(14.3)***	***(18.6)***	***(33.3)***	**3,742**	**3,844**	***(2.7)***	**4,869**
Effective tax rate (%)	32.2	32.4	31.2	32.7				32.6	33.6		32.4
EPS (Rs)	**3.8**	**4.5**	**4.7**	**5.8**	***(14.3)***	***(18.6)***	***(33.3)***	**15.1**	**15.5**	***(2.7)***	**19.7**
Other details											
Sales volumes (mn lt)	46.0	51.2	50.4	54.1	*(10.2)*	*(8.7)*	*(15.0)*	156.0	165.2	*(5.6)*	210.4
Gross realization (Rs/lt)	146.5	146.6	127.6	146.6	*(0.1)*	*14.9*	*(0.1)*	142.3	123.8	*15.0*	143.4
Raw material (Rs/lt)	85.8	85.3	66.8	80.9	*0.7*	*28.5*	*6.1*	78.8	61.8	*27.5*	81.3
Net realization (Rs/lt)	**60.7**	**61.3**	**60.8**	**65.7**	***(1.0)***	***(0.1)***	***(7.6)***	**63.6**	**62.0**	***2.6***	**62.2**
Segment details											
Revenues											
Automotive	5,652		5,484	6,729		*3.1*	*(16.0)*	18,888	17,655	*7.0*	
Non-automotive	1,064		925	1,171		*15.0*	*(9.1)*	3,235	2,734	*18.3*	
Total	**6,716**		**6,409**	**7,900**		***4.8***	***(15.0)***	**22,123**	**20,389**	***8.5***	
EBIT											
Automotive	1,042		1,402	1,645		*(25.7)*	*(36.7)*	4,333	4,845	*(10.6)*	
Non-automotive	257		246	292		*4.5*	*(12.0)*	815	788	*3.4*	
Total	**1,299**		**1,648**	**1,937**		***(21.2)***	***(32.9)***	**5,148**	**5,633**	***(8.6)***	
EBIT margin (%)											
Automotive	18.4		25.6	24.4				22.9	27.4		
Non-automotive	24.2		26.6	24.9				25.2	28.8		
Total	**19.3**		**25.7**	**24.5**				**23.3**	**27.6**		
Capital employed											
Automotive	2,445		1,723	1,997		*41.9*	*22.4*	2,445	1,723	*41.9*	
Non-automotive	1,174		982	1,138		*19.6*	*3.2*	1,174	982	*19.6*	
Unallocable assets less liabilities	3,653		4,078	3,179		*(10.4)*	*14.9*	3,653	4,078	*(10.4)*	
Total	**7,272**		**6,783**	**6,314**		***7.2***	***15.2***	**7,272**	**6,783**	***7.2***	

Source: Kotak Institutional Equities

Canara Bank quarterly results
March fiscal year-ends, 2QFY11-2QFY12 (₹ mn)

	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	% change	2QFY12E	Actual Vs KS
Interest income	55,774	59,079	64,178	71,808	76,145	36.5	74,951	1.6
Interest on advances	41,096	43,259	48,228	54,828	58,256	41.8	56,934	2.3
Income from investments	14,165	15,308	15,214	16,334	17,300	22.1	17,307	(0.0)
Others	514	513	736	645	589	14.6	710	(17.1)
Interest expense	35,741	37,887	44,449	53,877	56,528	58.2	56,761	(0.4)
Net interest income	**20,033**	**21,192**	**19,729**	**17,931**	**19,617**	**(2.1)**	**18,190**	**7.8**
Non-int.income	**4,996**	**5,366**	**9,328**	**5,268**	**8,283**	**65.8**	**7,120**	**16.3**
Sale of investments	20	290	(180)	(770)	1,490	7,350.0	1,000	49.0
Fee income	1,742	1,690	2,490	1,739	2,040	17.1	1,916	6.5
Recoveries	650	720	3,270	663	1,350	107.7	780	73.1
Other income excl treasury	4,976	5,076	9,508	6,038	6,793	36.5	6,120	11.0
Total income	**25,029**	**26,558**	**29,057**	**23,199**	**27,900**	**11.5**	**25,310**	**10.2**
Op. expenses	10,872	11,428	12,109	10,495	11,846	9.0	10,796	9.7
Employee cost	7,274	7,838	7,825	6,677	7,670	5.4	6,911	11.0
Other cost	3,597	3,591	4,284	3,818	4,177	16.1	3,885	7.5
Profit pre provisions	14,158	15,130	16,949	12,704	16,053	13.4	14,515	10.6
Provisions and cont.	1,579	1,573	5,460	3,446	5,531	250.3	4,860	13.8
Investment depreciation	(429)	100	(130)	850	664	(254.6)	200	231.8
NPL provisions	2,060	2,000	5,410	2,850	4,768	131.4	4,560	4.6
PBT	**12,579**	**13,557**	**11,489**	**9,259**	**10,522**	**(16.3)**	**9,655**	**9.0**
Tax	2,500	2,500	2,500	2,000	2,000	(20.0)	1,921	4.1
Net profit	**10,079**	**11,057**	**8,989**	**7,259**	**8,522**	**(15.4)**	**7,734**	**10.2**
Tax rate (%)	19.9	18.4	21.8	21.6	19.0	-	19.9	-
PBT-invt gains+/-extra. item								
PBT-gains+ prov - ex ordry	**12,726**	**14,261**	**15,231**	**11,676**	**12,331**			
Key balance sheet items (Rs bn)								
Deposits	2,492	2,635	2,940	3,000	3,126	25.4		
CASA ratio (%)	28.9	29.0	28.3	25.4	25.8			
Advances	1,761	1,899	2,125	2,150	2,179	23.8		
Total retail loans	203	289	316	240	251	23.4		
Priority sector	607	659	708	710	755	24.4		
Agriculture advances	239	271	297	305	328	37.3		
SME	328	353	377	370	398	21.2		
Investments	767	787	832	861	991			
AFS (%)	20	21	26	29	29			
Yield management measures (%)								
Yield on advances	9.6	9.7	9.7	10.5	10.7			
Cost of deposits	5.7	5.7	5.8	7.1	7.1			
Cost of funds	5.3	5.3	5.4	6.5	6.6			
Net interest margin	3.3	3.2	3.1	2.4	2.6			
Asset quality details								
Gross NPLs (Rs bn)	26.4	27.5	30.9	36.1	37.9	43.9		
Gross NPL ratio (%)	1.5	1.4	1.5	1.7	1.7			
Net NPLs (Rs bn)	18.6	19.9	23.5	28.7	31.2	67.6		
Net NPL ratio (%)	1.1	1.1	1.1	1.3	1.4			
Provision Coverage (%)	29.5	27.7	24.0	20.4	17.8			
Restructured assets -Rs bn	83.0	87.4	80.8	85.0	85.2			
% of loans	4.8	5.0	4.3	4.0	4.0			
Capital adequacy details (%)								
CAR	13.9	13.0	15.4	13.4	12.8			
Tier I	8.8	8.3	10.9	9.6	9.2			

Source: Company, Kotak Institutional Equities

Canara Bank growth rates and key ratios
March fiscal year-ends, 2009-2014E (%)

	2009	2010	2011	2012E	2013E	2014E
Growth rates (%)						
Net loan	28.9	22.5	25.5	16.8	16.2	18.1
Customer assets	27.7	22.1	25.1	16.7	16.0	18.0
Investments excld. CPs and debentures	18.0	21.6	20.8	15.7	8.9	17.7
Net fixed assets	0.4	(2.4)	(0.5)	5.7	6.2	5.8
Cash and bank balance	(6.8)	18.0	56.2	11.8	10.3	13.7
Total Asset	21.7	20.5	26.9	15.6	13.4	17.2
Deposits	21.3	25.6	25.3	16.8	14.1	18.1
Current	8.3	28.1	33.3	16.8	14.1	18.1
Savings	18.6	19.3	17.5	13.9	11.1	15.0
Fixed	23.8	27.3	26.7	17.6	14.9	18.9
Net interest income	33.4	20.4	37.7	3.4	16.8	21.4
Loan loss provisions	1.7	68.7	(21.9)	41.8	27.6	31.8
Total other income	0.1	23.7	(5.4)	8.7	20.0	13.9
Net fee income	(14.3)	13.3	4.4	14.0	14.0	14.0
Net capital gains	28.4	30.6	(84.6)	95.8	36.4	6.7
Net exchange gains	13.1	23.9	77.2	10.0	12.0	12.0
Operating expenses	9.8	13.5	27.1	4.3	10.5	10.7
Employee expenses	13.0	16.9	34.7	1.0	10.1	10.1
Key ratios (%)						
Yield on average earning assets	8.9	8.0	7.9	8.9	8.7	8.8
Yield on average loans	10.4	9.1	8.9	10.4	10.1	10.1
Yield on average investments	7.8	7.3	7.7	7.9	7.9	7.9
Average cost of funds	6.8	5.9	5.5	6.9	6.8	6.7
Interest on deposits	6.7	5.8	5.4	6.9	6.7	6.7
Difference	**2.1**	**2.1**	**2.4**	**1.9**	**2.0**	**2.1**
Net interest income/earning assets	2.5	2.4	2.7	2.3	2.3	2.5
New provisions/average net loans	0.7	1.0	0.6	0.7	0.8	0.9
Interest income/total income	67.1	66.5	74.3	73.4	72.8	74.1
Other income / total income	32.9	33.5	25.7	26.6	27.2	25.9
Fee income to total income	9.1	8.5	7.2	7.8	7.6	7.2
Net trading income to PBT	5.9	27.7	1.4	0.4	4.4	3.9
Exchange inc./PBT	6.8	5.6	7.6	9.3	8.3	7.6
Operating expenses/total income	43.6	40.7	42.0	41.8	39.2	36.4
Operating expenses/assets	1.5	1.4	1.5	1.3	1.2	1.2
Operating profit /AWF	1.0	1.3	1.7	1.2	1.3	1.4
Tax rate	19.4	20.9	19.9	20.9	20.9	20.9
Dividend payout ratio	15.8	13.6	12.1	14.8	11.8	9.6
Share of deposits						
Current	7.7	7.8	8.3	8.3	8.3	8.3
Fixed	69.9	70.9	71.7	72.2	72.7	73.2
Savings	22.4	21.3	19.9	19.4	18.9	18.4
Loans-to-deposit ratio	74.0	72.2	72.3	72.3	73.6	73.6
Equity/assets (EoY)	5.6	5.5	6.0	5.9	6.1	6.1
Asset quality trends						
Gross NPL	1.6	1.5	1.4	1.8	2.2	2.3
Net NPL	1.1	1.1	1.1	1.3	1.5	1.6
Slippages	2.2	2.4	2.1	2.2	2.1	1.9
Provision coverage	30.5	30.5	24.0	31.8	30.2	32.2
Dupont analysis (%)						
Net interest income	2.4	2.3	2.6	2.2	2.3	2.4
Loan loss provisions	0.4	0.6	0.4	0.5	0.5	0.6
Net other income	1.2	1.2	0.9	0.8	0.9	0.8
Operating expenses	1.6	1.5	1.4	1.3	1.2	1.2
(1- tax rate)	80.6	79.1	80.1	79.1	79.1	79.1
ROA	1.0	1.2	1.3	1.0	1.1	1.2
Average assets/average equity	17.6	18.0	17.3	16.8	16.7	16.4
ROE	18.3	22.5	23.2	16.7	18.1	18.9

Source: Company, Kotak Institutional Equities estimates

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

	2009	2010	2011E	2012E	2013E	2014E
Income statement						
Total interest income	171,191	187,520	230,640	312,943	353,340	411,597
Total interest expense	124,012	130,714	152,407	232,032	258,818	296,831
Net interest income	47,178	56,805	78,233	80,911	94,522	114,766
Loan loss provisions	9,000	15,180	11,855	16,814	21,460	28,293
Net interest income (after prov.)	38,178	41,625	66,378	64,097	73,062	86,473
Other income	23,104	28,579	27,030	29,377	35,260	40,147
Net fee income	6,388	7,239	7,558	8,616	9,823	11,198
Net capital gains	5,588	7,295	1,124	2,200	3,000	3,200
Net exchange gains	1,737	2,152	3,814	4,195	4,698	5,262
Operating expenses	30,652	34,776	44,193	46,096	50,919	56,385
Employee expenses	18,772	21,937	29,548	29,838	32,849	36,163
Depreciation on investments	4,074	(3,287)	426	2,000	500	500
Other Provisions	840	501	(1,470)	50	50	50
Pretax income	25,724	38,214	50,259	45,329	56,853	69,686
Tax provisions	5,000	8,000	10,000	9,472	11,881	14,562
Net Profit	20,724	30,214	40,259	35,856	44,973	55,123
% growth	32.4	45.8	33.2	(10.9)	25.4	22.6
Operating profit	29,137	46,099	60,990	59,943	75,313	94,778
% growth	15.5	58.2	32.3	(1.7)	25.6	25.8
Balance sheet						
Cash and bank balance	166,598	196,532	307,081	343,254	378,668	430,380
Cash	4,932	6,176	7,181	7,540	7,917	8,313
Balance with RBI	95,436	151,019	212,967	248,780	283,817	335,134
Net value of investments	577,770	696,770	836,999	965,542	1,049,292	1,231,373
Govt. and other securities	508,318	627,804	711,493	842,420	926,170	1,108,251
Shares	8,209	11,848	10,780	10,780	10,780	10,780
Debentures and bonds	21,971	20,695	20,346	20,346	20,346	20,346
Net loans and advances	1,382,194	1,693,346	2,124,672	2,481,965	2,883,001	3,404,269
Fixed assets	29,295	28,594	28,444	30,078	31,934	33,793
Other assets	40,603	32,169	63,591	63,591	63,591	63,591
Total assets	**2,196,459**	**2,647,411**	**3,360,788**	**3,884,430**	**4,406,487**	**5,163,408**
Deposits	1,868,925	2,346,514	2,939,727	3,434,083	3,917,730	4,626,086
Borrowings and bills payable	152,782	96,124	154,049	154,049	154,049	154,049
Other liabilities	52,673	58,055	66,613	66,613	66,613	66,613
Total liabilities	**2,074,380**	**2,500,693**	**3,160,389**	**3,654,745**	**4,138,393**	**4,846,748**
Paid-up capital	4,100	4,100	4,430	4,430	4,430	4,430
Reserves & surplus	117,978	142,618	195,968	225,255	263,664	312,229
Total shareholders' equity	**122,078**	**146,718**	**200,398**	**229,685**	**268,094**	**316,659**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Dabur India (DABUR)

Consumer products

SELL

OCTOBER 31, 2011

RESULT

Coverage view: Neutral

Price (Rs): 101

Target price (Rs): 110

BSE-30: 17,705

Low volume growth; margin management through adspends may not continue.

Domestic volume growth at 5% was below expectations. Gross margin pressure continued and EBITDA margin was managed through cut in adspends. The company's commentary on (1) slowdown in rural sales growth and (2) higher adspends in 2HFY12E indicates likely pressure on sales and margins, going forward. Retain SELL.

Company data and valuation summary

Dabur India

Stock data			
52-week range (Rs) (high,low)			123-87
Market Cap. (Rs bn)			176.3
Shareholding pattern (%)			
Promoters			68.7
FIIs			18.7
MFs			0.8
Price performance (%)	**1M**	**3M**	**12M**
Absolute	(1.7)	(2.6)	1.6
Rel. to BSE-30	(8.6)	0.1	14.9

Forecasts/Valuations	2011	2012E	2013E
EPS (Rs)	3.3	3.7	4.4
EPS growth (%)	12.8	12.7	20.6
P/E (X)	31.0	27.5	22.8
Sales (Rs bn)	40.8	50.1	57.0
Net profits (Rs bn)	5.7	6.4	7.7
EBITDA (Rs bn)	7.8	9.5	10.9
EV/EBITDA (X)	23.6	19.2	16.2
ROE (%)	51.2	43.3	40.8
Div. Yield (%)	1.1	1.3	1.5

Low volume growth; adspends cut to manage margins

Dabur reported consolidated sales of Rs12.6 bn (+30%, KIE estimate Rs12.5 bn), EBITDA of Rs2.4 bn (+16%, KIE estimate Rs2.2 bn), and PAT of Rs1.7 bn (+8%, KIE estimate Rs1.7 bn). At standalone level, it reported sales of Rs8,755 mn (+10%), EBITDA of Rs1,720 mn (+5%) and PAT of Rs1,387 mn (+10%).

- Consolidated sales growth of 30% consists of organic growth of 13% (10% volume, 4% pricing and 1% translation loss). Hobi and Namaste reported sales of Rs314 mn and Rs1,311 mn, respectively. At a standalone level, sales growth is 10% which is almost equally split between pricing and volume growth.

- At a consolidated and standalone level, gross margin declined significantly by 287 bps and 238 bps, respectively due to higher raw material cost – likely higher prices of light liquid paraffin oil (LLPO), menthol, edible oil etc. Other expenditure increased by 160 bps and180 bps, respectively due to higher fuel and freight cost. However, EBITDA margin decline was limited to 213 bps and 91 bps, respectively due to moderation in adspends (237 bps and 363 bps of sales, in consolidated and standalone, respectively).

Key highlights—lower adspends have hurt sales growth

- The company indicated that it is witnessing deceleration in rural growth as a result of which growth rate in urban and rural areas is almost equal now. Such a trend is disturbing given that Dabur's products have higher rural salience and other companies in the sector have not commented on similar trend, as yet.

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- During the quarter the company restructured its distribution network such that it now operates across four verticals – (1) Home and personal care which includes hair care, oral care, skin care, (2) Health care which includes health supplements, digestives and OTC products, (3) Foods which includes Real, Activ and Hommade and (4) Ethicals which is a specialized business with large portfolio of SKUs. Annualized cost impact of this restructuring is estimated to be Rs200 mn in FY2012E.
- Average adspends in 1HFY12 was 8% of sales. The company indicated that in 2HFY12E adspends will likely be higher. There will be new product launches across hair oil, beverages and health supplements. The adspends moderation in 1HFY12 has likely hurt its sales growth and the company is left with no choice than increase it in 2HFY12E.
- Dabur Lanka Pvt. Ltd, a wholly owned subsidiary of Dabur International, was set up for establishing a new fruit juice facility near Colombo. The company plans to invest Rs700 mn over 2 years and the plant will be operational from FY2013E. This will likely help reduce freight cost as south India was so far being serviced by the plant at Nepal.
- Foreign currency debt (of ~Rs10 bn) is repayable from February 2012 onwards over a 5-year period. Effective interest burden works out to 2.2%. Dabur also (similar to Godrej Consumer) follows the practice of routing the changes to foreign currency debt (due to INR fluctuation) through the Balance Sheet.
- Hobi (Turkish acquisition) has EBIT margin of 10.5% and Namaste (US and Africa) had 13.5% in 2QFY12. According to the company, (1) Namaste's scalability potential is higher than Hobi (2) Hobi's margin's could likely remain under pressure and it could likely get impacted due to local currency movement (3) Hobi products likely to be introduced in MENA and India in 2HFY12 and (4) local manufacturing for Namaste products has started in UAE and a new manufacturing facility will likely be set up in Nigeria.

Key category analysis—hair oil performs well

- Overall hair care sales growth of 16% driven by 27% growth in hair oil (mix of volume and pricing) and 25% sales decline in shampoo (17% tonnage volume growth in shampoo). Brand-wise, Vatika would have likely reported stronger growth than Dabur Amla, in our view. Shampoo segment continued to reel under pressure of high competitive intensity (19% decline in 1QFY12, 32% decline in 4QFY11, 30% decline in 3QFY11, 14% decline in 2QFY11, 17% decline in 1QFY11). While the company has improved the value proposition of Vatika shampoo by offering 40% extra millage, we believe that micro-marketing initiatives by HUL, P&G and aggressive trade-spend driven growth strategy of ITC is likely hurting Dabur.
- Oral care sales grew by 6% yoy with toothpaste sales growth of 8% and toothpowder sales growth of 2%. The quarter was impacted due to supply constraint of a key ingredient for Red Toothpaste which resulted in loss of sales for the July month.
- Health supplement sales grew by 8% yoy. In our view, Dabur Glucose sales likely declined due to weak summer whereas Chyawanprash and Honey likely had double digit sales growth. Extended monsoon would have likely benefitted Chyawanprash sales.
- Skin care sales declined by 2% during the quarter with Fem bleaches reporting flat sales due to impact of distribution realignment. Uveda brand has been expanded to anti-ageing cream and face scrub. The brand has been extended to south India.
- OTC and Ethicals portfolio declined by 6% and 12%, respectively in 2QFY12 due to disruption on account of distribution realignment. According to the management, sales growth is likely to recover from 2HFY12E onwards.
- Foods grew by 28% with strong growth in the juice segment. In our view, early festive season sales would have likely aided growth.
- Organic international sales growth was 23% with constant currency growth being 26%. GCC, Egypt and Nigeria performed well.

Retain SELL

We tweak estimates marginally and retain SELL rating with TP of Rs110. Our FY2012E and FY2013E EPS estimates are Rs3.7 and Rs4.4. Our key worries are (1) slowdown in rural sales growth, (2) limited pricing power of the company, which makes it vulnerable to input cost inflation, (2) Dabur is not a market leader in many categories, (3) any prolonged unrest in its key international markets could impact operations (sales as well as margins). Key risk to our rating is any steep correction in input cost which would lead to margin expansion.

Interim consolidated results of DIL, March fiscal year-ends (Rs mn)

						(% chg)	
	2QFY12	2QFY12E	2QFY11	1QFY12	2QFY12E	2QFY11	1QFY12
Net sales	**12,623**	**12,488**	**9,728**	**12,046**	**1**	**30**	**5**
Total expenditure	(10,258)	(10,313)	(7,697)	(10,338)		33	(1)
Material cost	(6,309)	(6,300)	(4,582)	(6,290)		38	0
Staff cost	(1,014)	(968)	(779)	(951)		30	7
Advertising and sales promotion	(1,278)	(1,461)	(1,215)	(1,515)		5	(16)
Other expenditure	(1,657)	(1,584)	(1,121)	(1,583)		48	5
EBITDA	**2,366**	**2,175**	**2,031**	**1,708**	**9**	**16**	**39**
OPM (%)	**18.7**	**17.4**	**20.9**	**14.2**			
Other income	189	241	165	231		15	(18)
Interest	(172)	(131)	(46)	(126)		276	36
Depreciation	(217)	(225)	(190)	(211)		15	3
Pretax profits	**2,166**	**2,061**	**1,960**	**1,602**	**5**	**10**	**35**
Tax	(427)	(314)	(356)	(323)		20	32
Net income	**1,739**	**1,747**	**1,604**	**1,279**	**(0)**	**8**	**36**
Income tax rate (%)	19.7	15.2	18.2	20.1			
Cost as a % of sales							
Material cost	50.0	50.5	47.1	52.2			
Staff cost	8.0	7.8	8.0	7.9			
Advertising and sales promotion	10.1	11.7	12.5	12.6			
Other expenditure	13.1	12.7	11.5	13.1			
Segment results of DIL							
Revenue							
Consumer care	10,003		7,525	9,500		33	5
Consumer health	721		788	770		(8)	(6)
Foods	1,499		1,244	1,567		21	(4)
Retail	95		48	84		98	13
Others	380		200	242		90	57
PBIT							
Consumer care	2,268		2,138	1,922		6	18
Consumer health	205		163	185			
Foods	333		272	248		22	34
Retail	(27)		(26)	(26)		4	4
Others	28		22	4		26	578
Capital employed							
Consumer care	8,739		7,319	8,719		19	0
Consumer health	895		829	863			
Foods	1,900		2,063	1,727		(8)	10
Retail	83		90	11		(8)	666
Others	336		282	340		19	(1)

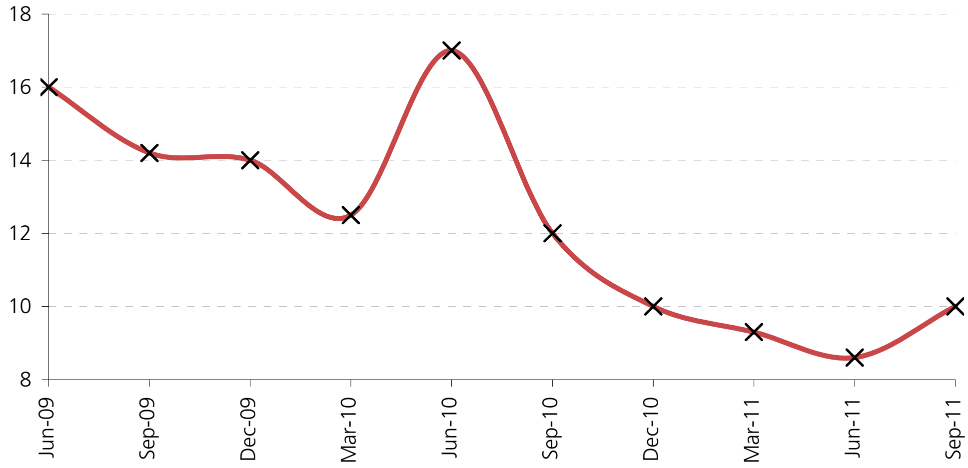
Source: Company, Kotak Institutional Equities estimates

Interim standalone results of DIL, March fiscal year-ends (Rs mn)

				(% chg)	
	2QFY12	2QFY11	1QFY12	2QFY11	1QFY12
Net sales	**8,755**	**7,949**	**8,430**	**10**	**4**
Total expenditure	(7,035)	(6,315)	(7,265)	11	(3)
Material cost	(4,603)	(3,990)	(4,714)	15	(2)
Staff cost	(651)	(563)	(632)	16	3
Advertising and sales promotion	(725)	(947)	(929)	(23)	(22)
Other expenditure	(1,055)	(815)	(990)	29	7
EBITDA	**1,720**	**1,634**	**1,165**	**5**	**48**
OPM (%)	**19.6**	**20.6**	**13.8**		
Other income	180	123	197	47	(8)
Interest	(14)	(26)	(66)	(47)	(79)
Depreciation	(124)	(142)	(141)	(13)	(12)
Pretax profits	**1,762**	**1,588**	**1,155**	**11**	**53**
Tax	(376)	(327)	(244)	15	54
Net income	**1,387**	**1,262**	**911**	**10**	**52**
Income tax rate (%)	21.3	20.6	21.1		
Cost as a % of sales					
Material cost	52.6	50.2	55.9		
Staff cost	7.4	7.1	7.5		
Advertising and sales promotion	8.3	11.9	11.0		
Other expenditure	12.1	10.3	11.7		
Segment results of DIL					
Revenue					
Consumer care	6,440	5,961	6,160	8	5
Consumer health	721	788	770	(8)	(6)
Foods	1,287	1,084	1,378	19	(7)
Others	369	189	234	95	58
PBIT					
Consumer care	1,692	1,759	1,441	(4)	17
Consumer health	205	163	185	26	11
Foods	300	229	194	31	54
Others	23	14	4	62	456
PBIT (%)					
Consumer care	26.3	29.5	23.4		
Consumer health	28.4	20.7	24.0		
Foods	23.3	21.1	14.1		
Others	6.2	7.5	1.7		
Capital employed					
Consumer care	5,529	5,436	5,203	2	6
Consumer health	895	829	863	8	4
Foods	1,316	1,343	1,156	(2)	14
Others	280	282	280	(1)	-

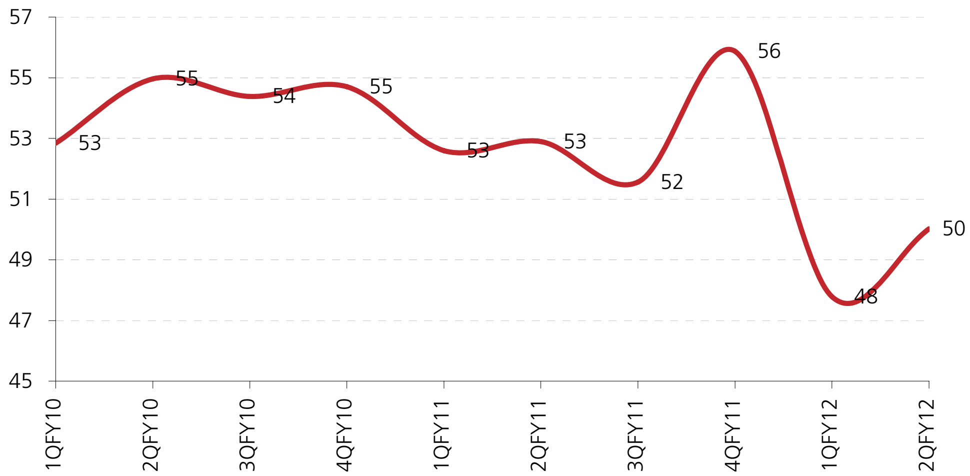
Source: Company, Kotak Institutional Equities

Moderation in adspends hurting volume growth
Quarterly organic volume growth (%)



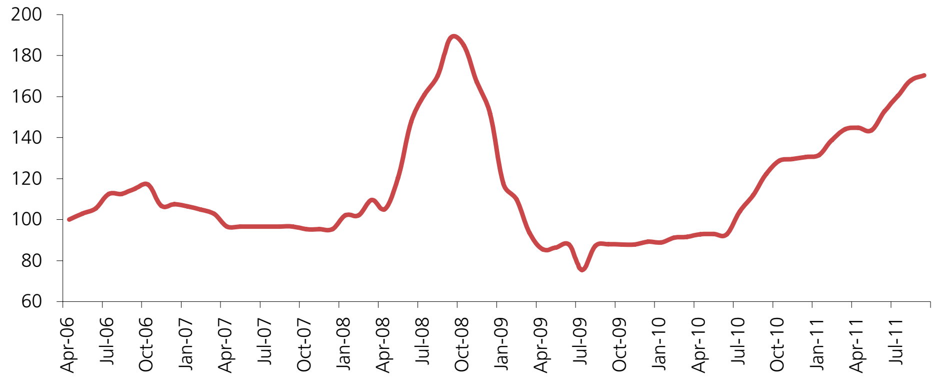
Source: Company, Kotak Institutional Equities

Gross margin under pressure
Quarterly gross margin (%)



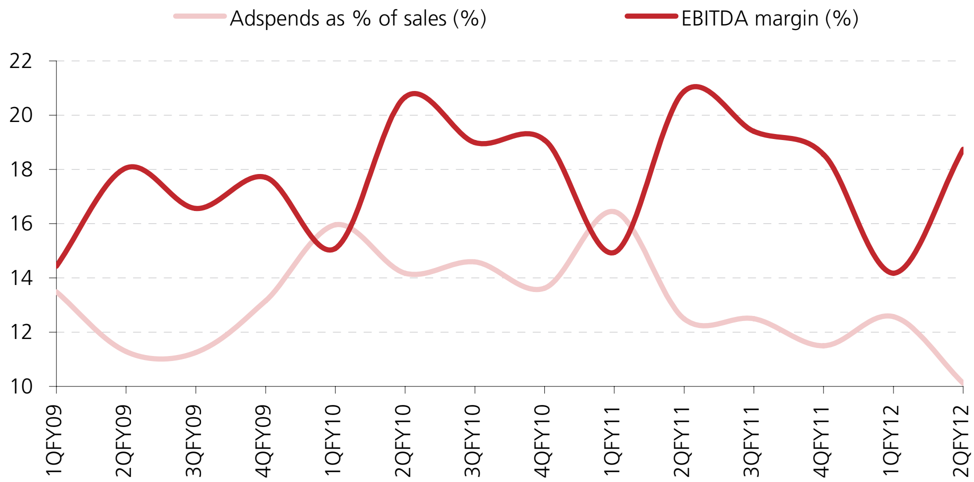
Source: Kotak Institutional Equities

LLPO remains inflationary
Trend in LLPO price (indexed to base)



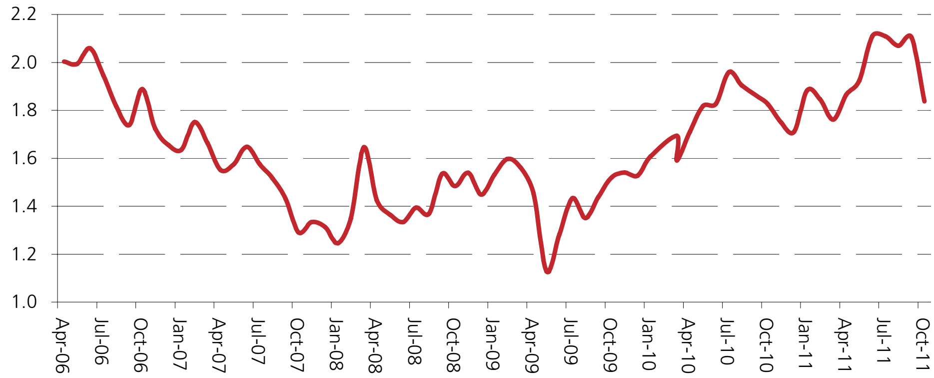
Source: Marico, Kotak Institutional Equities

Adspends are 'managed' to protect EBITDA margins
Quarterly adspends as % of sales and EBITDA margins (%)



Source: Kotak Institutional Equities

Relative P/E of Dabur versus Sensex (X)



Source: Bloomberg, Kotak Institutional Equities

Profit model, balance sheet, cash model of Dabur India, March fiscal year-ends, 2008-2014E

	2008	2009	2010	2011	2012E	2013E	2014E
Profit model							
Net revenues	23,611	28,054	33,905	40,774	50,127	56,996	64,655
EBITDA	**4,037**	**4,661**	**6,232**	**7,355**	**8,767**	**10,237**	**11,612**
Other income	339	468	403	448	686	707	824
Interest (expense)/income	(167)	(232)	(123)	(100)	(439)	(226)	(156)
Depreciation	(364)	(449)	(503)	(624)	(1,014)	(1,069)	(1,132)
Pretax profits	**3,844**	**4,448**	**6,009**	**7,079**	**8,001**	**9,648**	**11,148**
Tax	(507)	(540)	(1,005)	(1,390)	(1,595)	(1,923)	(2,222)
Net income	**3,338**	**3,908**	**5,005**	**5,689**	**6,406**	**7,725**	**8,926**
Earnings per share (Rs)	1.9	2.3	2.9	3.3	3.7	4.4	5.1
Balance sheet							
Total shareholder's equity	6,036	8,102	9,327	12,901	16,666	21,207	26,453
Total borrowings	992	2,300	1,793	10,510	8,210	4,210	1,210
Deferred tax liability	33	70	107	189	200	213	218
Minority interest	48	46	38	41	41	41	41
Total liabilities and equity	**7,108**	**10,517**	**11,264**	**23,641**	**25,117**	**25,671**	**27,922**
Net fixed assets	4,653	5,592	6,767	15,417	15,414	15,555	15,738
Investments	2,037	3,470	2,641	4,274	4,270	4,270	4,270
Cash	766	1,484	1,923	2,724	2,652	3,094	4,949
Net current assets	(347)	(29)	(68)	1,225	2,781	2,752	2,966
Total assets	**7,108**	**10,517**	**11,264**	**23,641**	**25,117**	**25,671**	**27,922**
Key assumptions							
Revenue growth	15.6	18.8	20.9	20.3	22.9	13.7	13.4
EBITDA margin	17.1	16.6	18.4	18.0	17.5	18.0	18.0
EPS growth	17.6	17.0	28.1	12.8	12.7	20.6	15.6

Source: Kotak Institutional Equities estimates

Kotak Institutional Equities

Colgate-Palmolive (India) (CLGT)

Consumer products

SELL

OCTOBER 31, 2011

RESULT

Coverage view: Neutral

Price (Rs): 1,002

Target price (Rs): 900

BSE-30: 17,705

Robust sales growth; adspends at elevated levels triggered by competition.

2QFY12 highlights – (1) 13% volume growth, (2) flat gross margins yoy and (3) high adspends (+309 bps) leading to 220 bps decline in EBITDA margin, and (4) lower effective tax rate at 21%. Colgate's consistent double-digit volume growth is commendable and is a testimony to its market development activities and consistency in approach. Our SELL rating is predicated on expensive valuations (for weak profit performance) and the event risk of P&G's likely entry into oral care.

Company data and valuation summary

Colgate-Palmolive (India)

Stock data			
52-week range (Rs) (high,low)			1,057-716
Market Cap. (Rs bn)			136.3
Shareholding pattern (%)			
Promoters			51.0
FIIs			18.9
MFs			1.0
Price performance (%)	**1M**	**3M**	**12M**
Absolute	2.0	2.7	13.9
Rel. to BSE-30	(5.2)	5.5	28.8

Forecasts/Valuations	2011	2012E	2013E
EPS (Rs)	29.6	32.5	39.1
EPS growth (%)	(4.9)	9.9	20.3
P/E (X)	33.9	30.8	25.6
Sales (Rs bn)	22.2	26.0	30.1
Net profits (Rs bn)	4.0	4.4	5.3
EBITDA (Rs bn)	5.3	5.9	7.0
EV/EBITDA (X)	25.2	22.6	18.5
ROE (%)	113.4	116.1	124.9
Div. Yield (%)	2.2	2.8	2.7

Good volume growth; higher adspends lead to sharp decline in EBITDA margin

Colgate reported net sales of Rs6,755 mn (+19%, KIE estimate Rs6,675 mn), EBITDA of Rs1,390 mn (+7%, KIE estimate Rs1,532 mn) and PAT of Rs1,079 mn (+8%, KIE estimate Rs1,182 mn).

- Sales growth of 19% yoy was driven by volume growth of 13% with toothpaste volume growth likely being ~14%. The quarter likely benefitted from 'Oral Health Month' marketing program as well as slow growth in oral care for Dabur due to supply constraint of a key ingredient in Red Toothpaste which led to no sales in the month of July.
- EBITDA margin declined 220 bps to 20.6% primarily due to higher adspends (increase of 309 bps yoy to 17.4% of sales) – likely front-ended investments in series of new launches like 'Colgate Sensitive Pro-relief toothpaste', 'Colgate Plax mouthwash' etc. We expect adspends to remain at ~16% for full year FY2012E. Gross margins were flat (price increases to offset likely higher sorbitol prices). Staff costs were lower yoy (171 bps).
- Effective tax rate was significantly lower at 21% for the quarter. The management guides for ETR of ~25% in FY2012E and ~27% in FY2013E.
- Extraordinary expense of Rs82 mn is towards voluntary retirement scheme offered to employees of the Hyderabad toothpowder factory. The company has likely merged its Hyderabad operations with its erstwhile contract manufacturer (acquired by Colgate in FY2011), CC Healthcare Products Pvt. Ltd.

Retain SELL on expensive valuations (for weak profit performance) and the event risk of P&G entry

In our view, Colgate's consistent double-digit volume growth is commendable and is a testimony to Colgate's market development activities and consistency in approach (preference for volumes over short-term profits). Unlike Street, we are not overtly worried about the single-product nature of Colgate's business.

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However we maintain our SELL rating on the back of the following:

- Colgate has been a leader in the oral care category with >50% market share but has not played the role of the market leader in terms of premiumising the category and driving innovations – e.g., it stepped up market development activity in Colgate Plax mouthwash after witnessing strong activity in this segment by Johnson & Johnson (Listerine), Colgate Sensitive Pro Relief was introduced after GSK's Sensodyne. We find Colgate in a similar position as Nestle (in the instant noodles category). Spurred to action by competitive pressures after a fairly benign competitive environment in the past five years, Colgate has increased its market development activities and is expanding its product portfolio.

- Oral care is a highly competitive category. Colgate could be hit on the margin given HUL's aggressive stance and focus and likely new launches in this segment by Dabur.

- Potential entry of P&G in the segment continues to be a looming threat for Colgate.

We have revised our FY2012E estimates downwards by ~5%. Our EPS estimates are Rs32.5 and Rs39.1 for FY2012E and FY2013E, respectively. Retain TP of Rs900. Key worries are (1) questionable amount of incremental penetration-led growth, (2) deterioration in competitive position as effective excise rate increases, (3) limited pricing power, (4) premium valuations for sub-par earnings growth.

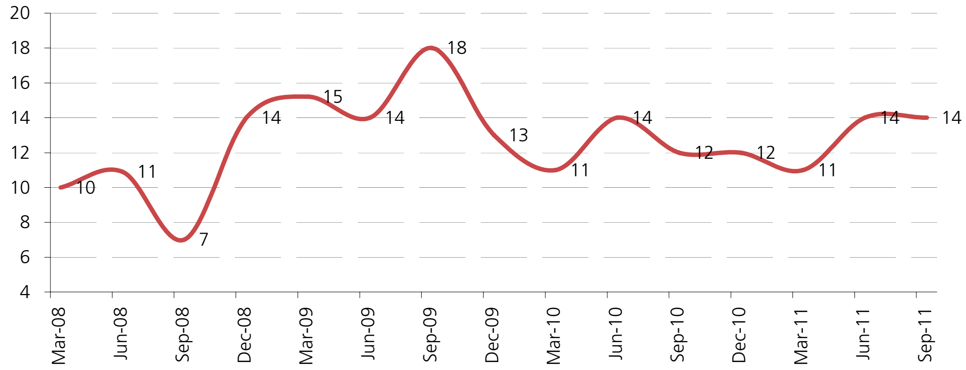
Key risks are (1) muted competitive activity which would provide pricing power to Colgate, (2) any inorganic activity or expansion of capacity in tax-exempt locations (particularly North-East), and (3) higher-than-expected volume growth.

Interim results of Colgate Palmolive India Ltd, March fiscal year-ends (Rs mn)

					(% chg)		
	2QFY12	2QFY12E	2QFY11	1QFY12	2QFY12E	2QFY11	1QFY12
Net sales	**6,572**	**6,458**	**5,518**	**6,111**	**2**	**19**	**8**
Operational other income	183	218	175	183		5	0
Net revenue	**6,755**	**6,675**	**5,693**	**6,294**	**1**	**19**	**7**
Total expenditure	5,365	5,143	4,396	4,938		22	9
Material cost	2,637	2,614	2,201	2,467		20	7
Staff cost	523	546	533	498		(2)	5
Advertising & promotion	1,143	968	789	988		45	16
Other expenditure	1,063	1,015	872	985		22	8
EBITDA	**1,390**	**1,532**	**1,297**	**1,356**	**(9)**	**7**	**3**
OPM (%)	**20.6**	**23.0**	**22.8**	**21.5**			
EBITDA excl other oper income	**1,207**	**1,315**	**1,122**	**1,173**	**(8)**	**8**	**3**
Other income	95	159	81	120		17	(21)
Interest	8	7	6	6		23	23
Depreciation	106	92	84	88		26	20
Pretax profits	**1,372**	**1,591**	**1,288**	**1,381**	**(14)**	**7**	**(1)**
Tax	293	409	285	377		3	(22)
Net income	**1,079**	**1,182**	**1,003**	**1,004**	**(9)**	**8**	**7**
Extraordinary items	(82)		-	-			
Reported PAT	**997**	**1,182**	**1,003**	**1,004**	**(16)**	**(1)**	**(1)**
Income tax rate (%)	21.3	25.7	22.1	27.3			
Cost as a % of sales							
Material cost	40.1	40.5	39.9	40.4			
Staff cost	8.0	8.5	9.7	8.2			
Advertising & promotion	17.4	15.0	14.3	16.2			
Other expenditure	16.2	15.7	15.8	16.1			

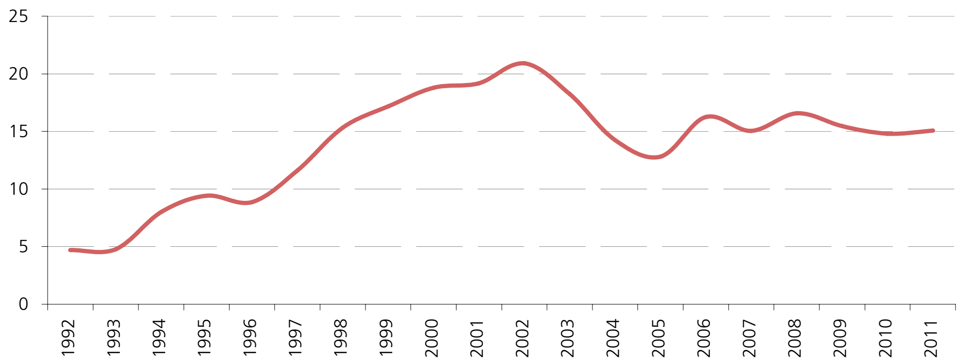
Source: Company, Kotak Institutional Equities estimates

Continued strong double-digit growth
Volume growth in toothpaste (%)



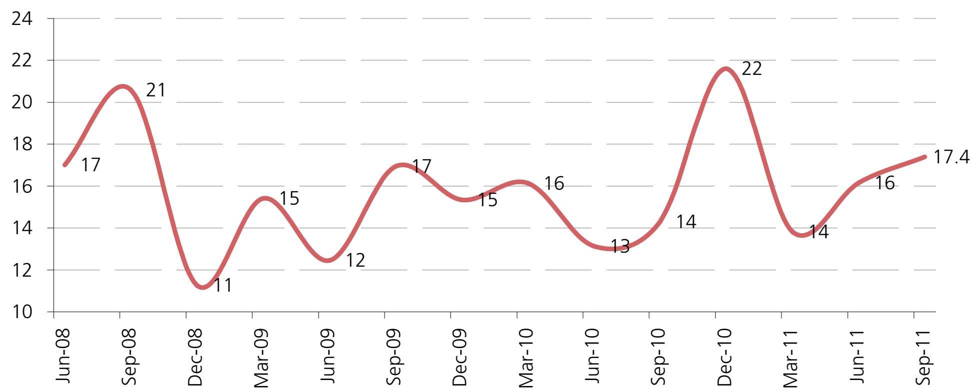
Source: Kotak Institutional Equities

Colgate's adspends to sales has been volatile when faced with significant competition
Colgate's annual adspends to sales (%)



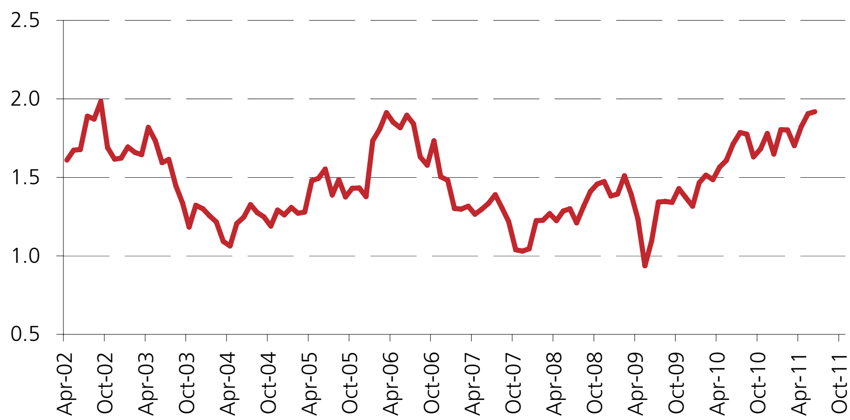
Source: Company, Kotak Institutional Equities

Colgate's adspends to sales has been volatile
Colgate's quarterly adspends to sales (%)



Source: Company

Relative P/E of Colgate versus Sensex (X)



Source: Kotak Institutional Equities

Colgate: Profit model, balance sheet, cash model, March fiscal year-ends, 2008-2014E (Rs mn)

	2008	2009	2010	2011	2012E	2013E	2014E
Profit model (Rs mn)							
Net sales	**14,683**	**16,942**	**19,622**	**22,194**	**25,995**	**30,126**	**34,773**
EBITDA	**2,295**	**2,665**	**4,254**	**4,507**	**5,006**	**6,116**	**6,949**
Other income	848	1,078	985	1,068	1,311	1,618	1,678
Interest	(14)	(11)	(15)	(33)	(30)	(8)	(8)
Depreciation	(198)	(229)	(376)	(342)	(405)	(452)	(496)
Pretax profits	2,930	3,502	4,848	5,199	5,882	7,274	8,123
Tax	(607)	(567)	(615)	(1,174)	(1,457)	(1,953)	(2,132)
PAT	**2,324**	**2,935**	**4,233**	**4,026**	**4,425**	**5,322**	**5,991**
Earnings per share (Rs)	**17.1**	**21.6**	**31.1**	**29.6**	**32.5**	**39.1**	**44.1**
Balance sheet (Rs mn)							
Total equity	1,622	2,163	3,261	3,841	3,777	4,737	5,465
Total borrowings	47	47	46	2	2	2	2
Currrent liabilities	5,342	5,513	5,521	6,432	7,722	8,847	9,974
Total liabilities and equity	**7,011**	**7,723**	**8,828**	**10,274**	**11,501**	**13,585**	**15,440**
Cash	1,443	2,511	3,476	3,956	4,744	6,746	7,776
Current assets	2,574	2,866	2,426	3,088	3,433	3,457	4,193
Total fixed assets	1,990	1,786	2,531	2,673	2,768	2,826	2,916
Investments	1,004	560	389	556	556	556	556
Total assets	**7,011**	**7,723**	**8,822**	**10,273**	**11,500**	**13,585**	**15,440**
Key assumptions, growth %							
Revenue growth	13.9	15.4	15.8	13.1	17.1	15.9	15.4
EBITDA margin(%)	15.6	15.7	21.7	20.3	19.3	20.3	20.0
EPS growth	16.7	26.3	44.2	(4.9)	9.9	20.3	12.6

Source: Kotak Institutional Equities estimates

kotak Institutional Equities

Castrol India (CSTRL)

Energy

SELL

OCTOBER 31, 2011

RESULT

Coverage view: Attractive

Price (Rs): 493

Target price (Rs): 410

BSE-30: 17,705

Disappointments galore; be watchful of quarter number four. Castrol reported 3QCY11 EBITDA at ₹1.33 bn (-21.7% yoy and -33.2% qoq), significantly below our estimate of ₹1.63 bn. The sharp yoy decline in earnings was led by slump in volumes at 46 mn liters (-8.7% yoy, -15% qoq); our expectation was 51.2 mn liters. We find the stock valuations expensive at 22.8X CY2012E EPS, especially in light of 10.9% yoy decline in 9MCY11 EBITDA. We maintain our SELL rating with a target price of ₹410.

Company data and valuation summary

Castrol India (a)

Stock data			
52-week range (Rs) (high,low)			588-369
Market Cap. (Rs bn)			121.8
Shareholding pattern (%)			
Promoters			71.0
FIIs			7.4
MFs			1.7
Price performance (%)	1M	3M	12M
Absolute	3.2	(8.3)	4.0
Rel. to BSE-30	(4.1)	(5.7)	17.7

Forecasts/Valuations	2011	2012E	2013E
EPS (Rs)	19.8	19.7	21.6
EPS growth (%)	28.5	(0.6)	9.9
P/E (X)	24.9	25.0	22.8
Sales (Rs bn)	27.3	30.2	31.7
Net profits (Rs bn)	4.9	4.9	5.4
EBITDA (Rs bn)	7.6	7.5	8.2
EV/EBITDA (X)	15.1	15.4	14.0
ROE (%)	100.2	91.0	93.0
Div. Yield (%)	3.0	3.1	3.5

No respite from plunging volumes; 10.9% yoy decline in EBITDA in 9MCY11

Castrol reported 3QCY11 net income at ₹951 mn (-18.6% yoy, -33.3% qoq), 14% below our expected ₹1.11 bn. The company reported 21.7% yoy decline in EBITDA to ₹1.33 bn despite stable net realizations qoq reflecting 8.7% decline in volumes to 46 mn liters. We note that Castrol has reported sharp 10.9% yoy decline in EBITDA in 9MCY11 led by (1) 5.6% decline in volumes and (2) lower EBITDA margins at 23.1% versus 28.2% in 9MCY10.

Volumes have been sluggish and will likely remain so

We highlight that Castrol has reported weak sales volumes for the past five quarters (see Exhibit 2). This reflects (1) structural slowdown in the industry and (2) loss of market share due to significant pricing premium for Castrol products. We have long-highlighted that volumes growth will be modest given (1) increase in oil-drain intervals and (2) lower lubricants consumption at the time of oil-drain. The recent slowdown in the economy will further accentuate the problem given (1) slowdown in sales of passenger cars and commercial vehicles and (2) slower industrial activity.

4QCY11E may be a difficult quarter; expectations of better volumes but pressure on margins

We expect margins to remain under pressure in 4QCY11E as the sharp depreciation in the Rupee has completely offset the decline in LOBS prices. We note that the Rupee has depreciated by ~6% versus the average exchange rate of ₹45.8/US$. In comparison, LOBS prices have declined by 4-5% (across various categories) over the same period. We expect the volumes to pick up in 4QCY11E as the difference in pricing of Castrol's products and competition subsides. The management has guided flat yoy sales volumes in 4QCY11E.

Current valuations expensive given likely volume de-growth and peak margins

We maintain our SELL rating on the stock given 17% potential downside to our revised target price of ₹410 (₹425 previously) based on 19X CY2012E EPS of ₹21.6. We note that the stock is currently trading at 22.8X CY2012E EPS which is above its historical P/E band of 14-18X (see Exhibit 3). We currently assume a net realization (gross realization less raw material cost) of ₹62.2/liter for CY2011E and ₹66.4/liter for CY2012E versus ₹63.4 in CY2010.

Revised earnings

We have revised our CY2011-13E EPS estimates to ₹19.7, ₹21.6 and ₹22.7 from ₹21.9, ₹22.3 and ₹22.7 to reflect (1) weaker Rupee assumptions, (2) lower volumes, and (3) 3QCY11 results.

QUICK NUMBERS

- 8.7% yoy decline in volumes to 46 mn liters
- 9MCY11 EBITDA margin at 23.1% versus 28.2% in 9MCY10
- 17% downside from current levels

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Interim results of Castrol, calendar year-ends (₹ mn)

					(% chg.)			yoy			
	3QCY11	3QCY11E	3QCY10	2QCY11	3QCY11E	3QCY10	2QCY11	9MCY11	9MCY10	(% chg.)	2011E
Net sales	**6,741**	**7,507**	**6,430**	**7,932**	**(10.2)**	**4.8**	**(15.0)**	**22,205**	**20,448**	**8.6**	**30,178**
Raw materials	3,948	4,366	3,367	4,378	(9.6)	17.3	(9.8)	12,291	10,212	20.4	17,094
Employees	318	270	269	297	17.8	18.2	7.1	874	729	19.9	1,153
Others	1,147	1,240	1,097	1,269	(7.5)	4.6	(9.6)	3,905	3,745	4.3	5,177
Advertisement	433	525	290	534	(17.5)	49.3	(18.9)	1,475	1,115	32.3	1,950
CIF costs	193	210	184	213	(8.2)	4.9	(9.4)	629	631	(0.3)	838
Other exp	521	505	623	522	3.2	(16.4)	(0.2)	1,801	1,999	(9.9)	2,390
Total expenditure	5,413	5,876	4,733	5,944	(7.9)	14.4	(8.9)	17,070	14,686	16.2	23,424
EBITDA	**1,328**	**1,631**	**1,697**	**1,988**	**(18.6)**	**(21.7)**	**(33.2)**	**5,135**	**5,762**	**(10.9)**	**6,755**
EBITDA margin (%)	**19.7**	**21.7**	**26.4**	**25.1**				**23.1**	**28.2**		**22.4**
Other income	145	80	72	194	81.3	101.4	(25.3)	617	226	173.0	725
Interest	9	6	6	2	50.0	50.0	350.0	15	17	(11.8)	22
Depreciation	62	63	63	63	(1.6)	(1.6)	(1.6)	188	181	3.9	250
Pre-tax profits	**1,402**	**1,642**	**1,700**	**2,117**	**(14.6)**	**(17.5)**	**(33.8)**	**5,549**	**5,790**	**(4.2)**	**7,207**
Tax	451	532	531	692	(15.2)	(15.1)	(34.8)	1,807	1,946	(7.1)	2,375
Deferred tax	—	—	—	—				—	—		(36)
Adjusted net income	**951**	**1,110**	**1,169**	**1,425**	**(14.3)**	**(18.6)**	**(33.3)**	**3,742**	**3,844**	**(2.7)**	**4,869**
Effective tax rate (%)	32.2	32.4	31.2	32.7				32.6	33.6		32.4
EPS (Rs)	**3.8**	**4.5**	**4.7**	**5.8**	**(14.3)**	**(18.6)**	**(33.3)**	**15.1**	**15.5**	**(2.7)**	**19.7**
Other details											
Sales volumes (mn lt)	46.0	51.2	50.4	54.1	(10.2)	(8.7)	(15.0)	156.0	165.2	(5.6)	210.4
Gross realization (Rs/lt)	146.5	146.6	127.6	146.6	(0.1)	14.9	(0.1)	142.3	123.8	15.0	143.4
Raw material (Rs/lt)	85.8	85.3	66.8	80.9	0.7	28.5	6.1	78.8	61.8	27.5	81.3
Net realization (Rs/lt)	**60.7**	**61.3**	**60.8**	**65.7**	**(1.0)**	**(0.1)**	**(7.6)**	**63.6**	**62.0**	**2.6**	**62.2**
Segment details											
Revenues											
Automotive	5,652		5,484	6,729		3.1	(16.0)	18,888	17,655	7.0	
Non-automotive	1,064		925	1,171		15.0	(9.1)	3,235	2,734	18.3	
Total	**6,716**		**6,409**	**7,900**		**4.8**	**(15.0)**	**22,123**	**20,389**	**8.5**	
EBIT											
Automotive	1,042		1,402	1,645		(25.7)	(36.7)	4,333	4,845	(10.6)	
Non-automotive	257		246	292		4.5	(12.0)	815	788	3.4	
Total	**1,299**		**1,648**	**1,937**		**(21.2)**	**(32.9)**	**5,148**	**5,633**	**(8.6)**	
EBIT margin (%)											
Automotive	18.4		25.6	24.4				22.9	27.4		
Non-automotive	24.2		26.6	24.9				25.2	28.8		
Total	**19.3**		**25.7**	**24.5**				**23.3**	**27.6**		
Capital employed											
Automotive	2,445		1,723	1,997		41.9	22.4	2,445	1,723	41.9	
Non-automotive	1,174		982	1,138		19.6	3.2	1,174	982	19.6	
Unallocable assets less liabilities	3,653		4,078	3,179		(10.4)	14.9	3,653	4,078	(10.4)	
Total	**7,272**		**6,783**	**6,314**		**7.2**	**15.2**	**7,272**	**6,783**	**7.2**	

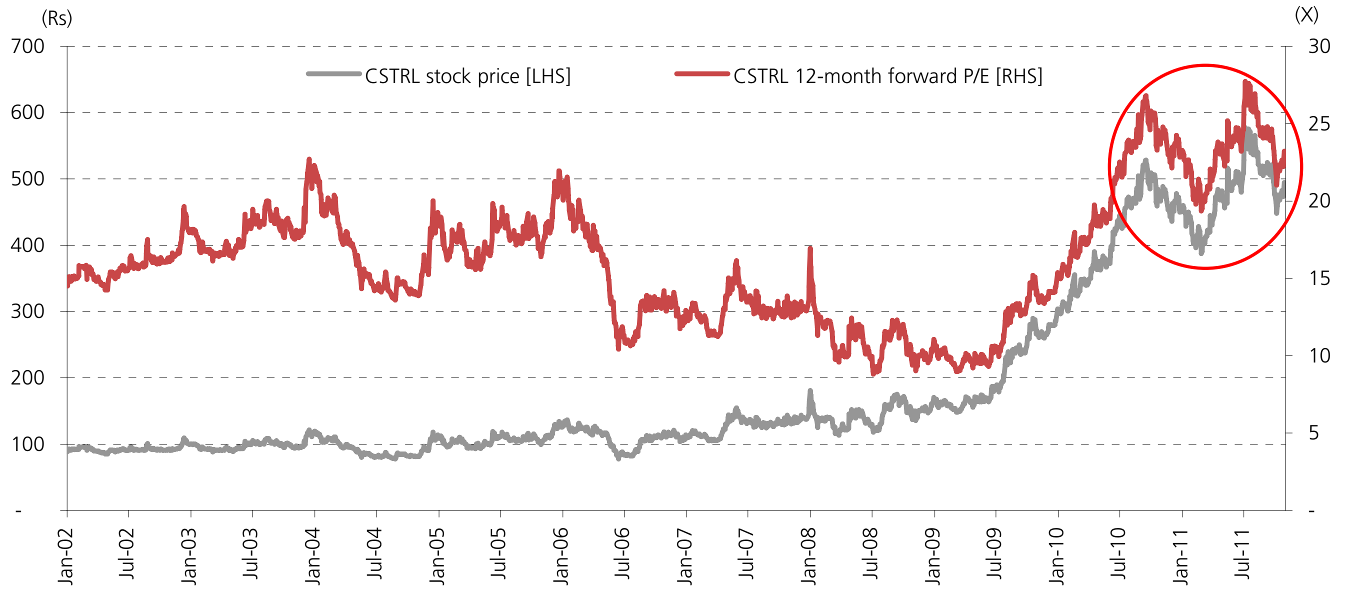
Source: Company, Kotak Institutional Equities estimates

Castrol has reported weak volumes over the past five quarters
Quarterly volumes, Calendar year-ends, 2007-11YTD (mn liters)

	1Q	2Q	3Q	4Q
Sales volumes (mn liters)				
2007	51.4	62.2	50.0	55.6
2008	54.3	63.9	50.6	46.0
2009	45.2	56.0	50.7	53.7
2010	54.6	60.2	50.4	53.8
2011	55.9	54.1	46.0	
Growth (% yoy)				
2008	6%	3%	1%	-17%
2009	-17%	-12%	0%	17%
2010	21%	8%	-1%	0%
2011	2%	-10%	-9%	

Source: Company, Kotak Institutional Equities

Castrol stock has historically traded at 14-18X forward earnings
12-month forward P/E for Castrol India



Source: Bloomberg, Company, Kotak Institutional Equities estimates

Key details of 3QCY11 results

- **Sharp decline in volumes yoy.** Castrol's volumes declined 8.7% yoy to 46 mn liters versus 50.4 mn liters in 3QCY10. The management has attributed sharp decline in volumes to delay in price hikes taken by followers/challengers, which resulted in huge price differential between products of Castrol and its competitors.

  The management highlighted that the competitors had started effecting a price hike from 2QCY11. However, the sales volumes in 3QCY11 were impacted by large inventory pile-up of cheaper products. The management has stated that the situation has improved and it expects to achieve flat yoy volumes in 4QCY11E.

- **Realization steady qoq.** Castrol's 3QCY11 gross realization was flat qoq at ₹146.5/liter versus ₹146.6/liter in 2QCY11 and ₹127.6/liter in 3QCY10.

- **Increase in raw material cost.** Castrol reported 6.1% increase in unit raw material cost to ₹85.8/liter versus ₹80.9/liter in 2QCY11. The qoq increase in raw material cost reflects (1) ~5% increase in global LOBS prices and (2) weaker Rupee.

- **Advertisement costs and other expenditure.** Castrol reported advertisement costs at ₹433 mn (-18.9% qoq, +49.3% yoy) and other expenditure at ₹521 mn (-0.2% qoq, -16.4% yoy). The management attributed the decline in advertising to more focus on direct sales and promotional activities to bolster sales.

- **Other income.** Castrol reported other income at ₹145 mn (+101% yoy, -25.3% qoq). The yoy increase in other income reflects higher cash balance and higher interest rates.

Automotive segment reports sharp decline in volumes yoy

Castrol's 3QCY11 automotive lubes segment's revenues increased 3.1% yoy to ₹5.65 bn despite 23% higher realizations reflecting sharp decline in volumes. EBIT declined 25.7% yoy to ₹1.04 bn. The automotive segment's EBIT margin declined sharply to 18.4% in 3QCY11 compared to 25.6% in 3QCY10 and 24.4% in 2QCY11.

Industrial segment reports revenue growth but margins contract yoy

Castrol's industrial lubes segment reported 15% yoy growth in revenues to ₹1.06 bn. EBIT increased 4.5% yoy to ₹257 mn. Industrial segment's EBIT margin was lower at 24.2% in 3QCY11 compared to 26.6% in 3QCY10 and 24.9% in 2QCY11.

Key assumptions

Exhibit 4 gives our key assumptions for our earnings. We discuss the same in detail below.

Castrol: Key assumptions, calendar year-ends, 2007-13E

	2007	2008	2009	2010	2011E	2012E	2013E
Volume (Kilo litres)							
Industrial grades	43,773	31,928	27,394	28,870	32,624	33,929	34,607
Automotive grades	175,093	180,927	175,528	188,201	175,591	180,420	184,028
Traded items	1,114	1,723	1,614	2,063	2,166	2,274	2,388
Total	**219,980**	**214,578**	**204,536**	**219,134**	**210,381**	**216,623**	**221,024**
Growth (%)	**(2.6)**	**(2.5)**	**(4.7)**	**7.1**	**(4.0)**	**3.0**	**2.0**
Raw material prices (US$/ton)							
LOBS prices	**786**	**1,041**	**721**	**920**	**1,240**	**1,170**	**1,130**
Macro assumptions							
INR/US$	41.3	43.6	48.4	45.7	46.3	49.5	48.5
Realization (Rs/lt)							
Gross realization	85.8	102.8	113.3	124.8	143.4	146.5	145.8
Raw material cost	48.5	63.2	53.6	64.1	81.3	80.1	77.2
Net realization	**37.3**	**39.6**	**59.8**	**60.7**	**62.2**	**66.4**	**68.7**
EBITDA margin (%)	**17.5**	**18.1**	**24.8**	**26.5**	**22.4**	**23.8**	**24.5**

Source: Company, Kotak Institutional Equities estimates

- **Volumes.** We model 4% yoy decline in sales volumes in CY2011E. We note that the company achieved a volume growth of 7.1% yoy in CY2010 due to base effect of CY2009. However, the company has reported a decline of 5.6% yoy in volumes for 9MCY11. We model ~2-3% yoy increase in sales volumes in CY2012-13E.

- **Lubes prices.** We model lube realization to increase by ~15% in CY2011E and 2% in CY2012E and decline by modest 0.4% in CY2013E. The company has reported a 15% increase in gross realizations in 9MCY11 led by price hikes of 6-7% effected in mid-December 2010 and 10% in end-March 2011.

- **LOBS prices.** We model CY2011E LOBS prices at US$1,240/ton (+US$320/ton yoy) to reflect sharply higher crude prices yoy. We model yoy decline of US$70/ton in LOBS prices for CY2012E and US$40/ton in CY2013E to reflect our assumption of lower crude oil prices.

- **Net realization.** We model Castrol's net realization at ₹66.4/liter in CY2012E and ₹68.7/liter in CY2013E versus ₹60.7/liter in CY2010 and ₹63.6/liter in 9MCY11. The increase in net realization reflects expansion in margins from potential yoy decline in LOBS prices.

- **Exchange rate assumption.** We have revised our exchange rate assumptions for CY2011E, CY2012E and CY2013E to ₹46.3/US$, ₹49.5/US$ and ₹48.5/US$ from ₹44.8/US$, ₹45.5/US$ and ₹45.6/US$ previously.

Castrol has high leverage to exchange rate and raw material prices

Sensitivity of Castrol's earnings to key variables

	CY2011E			CY2012E			CY2013E		
	Downside	**Base case**	**Upside**	**Downside**	**Base case**	**Upside**	**Downside**	**Base case**	**Upside**
Exchange rate									
Rupee dollar	47.3	46.3	45.3	50.5	49.5	48.5	49.5	48.5	47.5
Net profits (Rs mn)	4,707	4,869	5,031	5,196	5,350	5,504	5,465	5,617	5,769
EPS (Rs)	19.0	19.7	20.3	21.0	21.6	22.3	22.1	22.7	23.3
% upside/(downside)	**(3.3)**		**3.3**	**(2.9)**		**2.9**	**(2.7)**		**2.7**
Raw material price									
Raw material price (US$/ton)	1,265	1,240	1,215	1,195	1,170	1,145	1,155	1,130	1,105
Net profits (Rs mn)	4,718	4,869	5,020	5,188	5,350	5,513	5,454	5,617	5,780
EPS (Rs)	19.1	19.7	20.3	21.0	21.6	22.3	22.1	22.7	23.4
% upside/(downside)	**(3.1)**		**3.1**	**(3.0)**		**3.0**	**(2.9)**		**2.9**

Source: Kotak Institutional Equities estimates

Castrol: Profit model, balance sheet, cash model, calendar year-ends, 2007-13E (₹ mn)

	2007	2008	2009	2010	2011E	2012E	2013E
Profit model (Rs mn)							
Net sales	18,883	22,057	23,182	27,348	30,178	31,730	32,235
EBITDA	**3,296**	**3,997**	**5,754**	**7,251**	**6,755**	**7,545**	**7,909**
Other income	348	418	361	395	725	650	680
Interest	(38)	(37)	(35)	(24)	(22)	(20)	(20)
Depreciation	(208)	(257)	(272)	(243)	(250)	(255)	(254)
Pretax profits	3,398	4,122	5,808	7,378	7,207	7,920	8,315
Tax	(1,455)	(1,568)	(2,075)	(2,511)	(2,375)	(2,614)	(2,744)
Deferred taxation	236	86	78	25	36	44	47
Net profits	**2,184**	**2,624**	**3,811**	**4,903**	**4,869**	**5,350**	**5,617**
Earnings per share (Rs)	**8.8**	**10.7**	**15.4**	**19.8**	**19.7**	**21.6**	**22.7**
Balance sheet (Rs mn)							
Total equity	4,302	4,756	4,950	5,535	5,949	6,414	6,858
Deferred taxation liability	(182)	(268)	(346)	(371)	(408)	(452)	(498)
Total borrowings	28	28	—	—	—	—	—
Currrent liabilities	5,116	4,690	6,812	7,692	8,062	8,140	8,044
Total liabilities and equity	**9,264**	**9,205**	**11,416**	**12,856**	**13,604**	**14,102**	**14,403**
Cash	3,179	2,556	5,258	6,193	6,361	6,764	7,116
Current assets	4,546	5,199	4,778	5,294	5,974	6,175	6,227
Total fixed assets	1,333	1,445	1,375	1,369	1,269	1,163	1,059
Investments	206	5	5	—	—	—	—
Total assets	**9,264**	**9,205**	**11,416**	**12,856**	**13,604**	**14,102**	**14,403**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	2,046	2,772	3,834	4,988	4,358	4,911	5,144
Working capital	1,484	(1,193)	1,792	135	(309)	(123)	(149)
Capital expenditure	(243)	(371)	(344)	(257)	(150)	(150)	(150)
Free cash flow	**3,287**	**1,208**	**5,281**	**4,867**	**3,898**	**4,638**	**4,846**
Investments	224	201	—	5	—	—	—
Other income	151	210	188	244	725	650	680
Ratios (%)							
Debt/equity	0.7	0.6	—	—	—	—	—
Net debt/equity	0.7	0.6	—	—	—	—	—
RoAE	52.3	61.0	83.8	100.4	91.0	93.0	91.2
RoACE	**52.4**	**61.4**	**84.1**	**100.6**	**91.2**	**93.3**	**91.4**
Assumptions							
Volume (mn litres)	220.0	214.6	204.5	219.1	210.4	216.6	221.0
Gross realization (Rs/lt)	85.8	102.8	113.3	124.8	143.4	146.5	145.8
Net realization (Rs/lt)	**37.3**	**39.6**	**59.8**	**60.7**	**62.2**	**66.4**	**68.7**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Indian Bank (INBK)

Banks/Financial Institutions

BUY

OCTOBER 31, 2011

RESULT

Coverage view: Attractive

Price (Rs): 218

Target price (Rs): 300

BSE-30: 17,705

Few one-offs drive NPLs upwards. Indian Bank's earnings growth of 13% yoy was driven by healthy revenue growth (NIM expansion and strong non-interest income). However, slippages were marginally higher-than-trend levels primarily due to few lumpy SME loans. Post the transition, slippages have been around comfortable levels of 1.5%, which is impressive. Valuations are attractive at 1X FY2012E book and 5X EPS for RoEs at 19-20% levels. Maintain BUY with TP of ₹300.

Company data and valuation summary

Indian Bank

Stock data			
52-week range (Rs) (high,low)			311-185
Market Cap. (Rs bn)			93.5
Shareholding pattern (%)			
Promoters			80.0
FIIs			9.9
MFs			2.1
Price performance (%)	1M	3M	12M
Absolute	1.8	(3.4)	(25.4)
Rel. to BSE-30	(5.4)	(0.7)	(15.6)

Forecasts/Valuations	2011	2012E	2013E
EPS (Rs)	38.8	40.9	48.3
EPS growth (%)	10.5	5.5	18.1
P/E (X)	5.6	5.3	4.5
NII (Rs bn)	40.4	43.4	49.3
Net profits (Rs bn)	17.1	18.0	21.1
BVPS	184.4	216.4	254.0
P/B (X)	1.2	1.0	0.9
ROE (%)	22.3	19.9	20.1
Div. Yield (%)	3.4	3.5	4.2

Strong business performance with slippages normalizing under the new regime; maintain BUY

We expect Indian Bank to deliver RoEs in the range of 19-20% for FY2011-13E and earnings growth of 11% CAGR (factoring reasonably higher provisions). Asset quality continues to remain impressive with gross NPLs 1.2% and coverage ratio (including technically written-off portfolio) of about 80%. Slippages over the past few quarters have been normalizing at 1.5% levels, especially with no manual intervention firmly in practice. NIMs improvement of 33 bps provides some comfort against any sharper-than-expected deterioration in loan book or adverse impact emerging from higher deposit rates (savings rate de-regulation). We believe that the bank is inexpensive at current levels of 1X FY2012E book and 5X EPS. We maintain our BUY rating with TP of ₹300.

Growth marginally ahead of industry average; CASA ratio stable at 30%

Indian Bank's loans grew marginally ahead of industry average at 24% yoy qoq primarily driven by large corporate segment (30% yoy, large-tickets loans like infrastructure and select one-off opportunities). Retail and SME grew by 8-9% yoy, a cautious and positive approach in the current environment. Deposits grew by 19% yoy (5% qoq) with CASA ratio stable qoq at 30% levels.

Slippages higher at 1.8% levels primarily from select lumpy SME loans

As compared to the previous quarter, where slippages declined below 1%, 2QFY12 saw higher slippages of 1.8% primarily from select SME loans. Increase in slippages and relatively lower upgradation/recoveries resulted in gross NPLs increasing 30% qoq to ₹10.5 bn (1.2% of loans) while net NPL increased 42% qoq ₹6 bn (0.7% of loans).

Discussions with the management indicate that nearly 40% of the fresh slippages were from less than 6-7 accounts (steel, sugar and textiles). Other slippages were from agriculture and retail (education loans). Provision coverage ratio declined marginally to 79% from 84% in June 2011 while loan-loss provisions were at 0.6%.

QUICK NUMBERS

- NIMs improve 33 bps qoq
- Slippages at 1.8%; gross NPLs increase 30% qoq
- Maintain BUY with TP of ₹300

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NIMs improve 33 bps as loan re-pricing continues

Indian Bank reported a net interest income (NII) of ₹11.3 bn (up 16% yoy, 10% qoq increase) as the bank benefitted from better loan re-pricing and marginal increase in cost of deposits. NIMs improved 33 bps qoq to 3.8%. Lending yields improved by 90 bps to 12.1% while cost of deposits increased by 20 bps qoq. Investment yields improved 60 bps qoq.

We expect margins to decline from current levels as scope to improve loan re-pricing has greatly reduced while costs of funds, especially retail, would see increase qoq. Risks on NIMs would remain high, especially if savings rate would see steep hikes over the next few quarters. We expect FY2012E margins to decline by 33 bps yoy.

Other operational highlights of the quarter

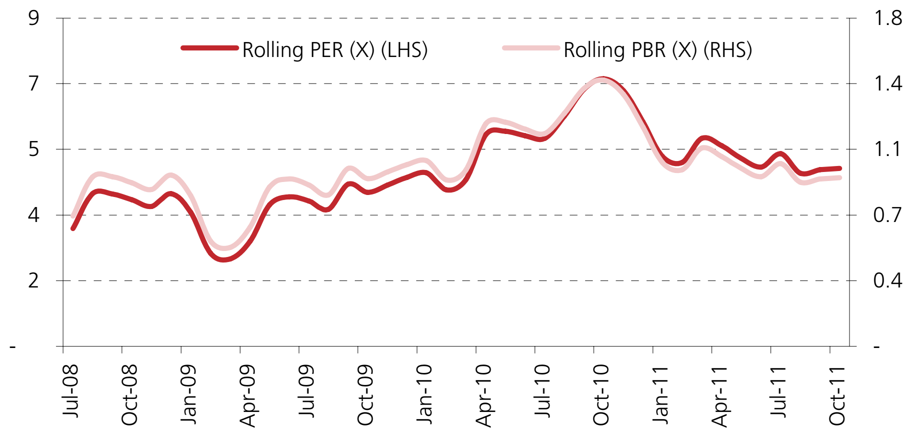
- Non-interest income increased 21% yoy to ₹3.4 bn on the back of strong fee income growth. Treasury gains for the quarter were at ₹210 mn (decline of 64% yoy).
- Cost-income ratio for the quarter was at 38% (flat qoq).
- Tier-1 capital stands comfortable at 9.6% with overall capital adequacy ratio at 12.2%. Qoq tier-1 capital has declined 90 bps well above balance sheet growth probably indicating some marginal deterioration of loan rating. However, the bank has adequate headroom to grow for the next few quarters.

Changes to our estimates for FY2012-14E
Old and new estimates, March fiscal year-ends, 2012-14E (₹ mn)

	New estimates			Old estimates			% change			
	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E	
Net interest income	43,365	49,299	58,235	43,574	49,609	59,791	(0.5)	(0.6)	(2.6)	
Loan growth	16.5	16.7	17.4	17.7	17.7	17.4				
Spread	2.9	2.8	2.9	2.9	2.8	2.9				
NIM	3.4	3.4	3.4	3.4	3.3	3.4				
Loan loss provisions	5,701	8,069	10,002	5,732	6,746	7,930	(0.6)	19.6	26.1	
Other income	13,335	15,166	16,877	13,335	15,166	16,677	-	-	1.2	
Fee income	3,859	4,399	4,971	3,859	4,399	4,971	-	-	-	
Treasury income	1,800	2,000	2,000	1,800	2,000	1,800	-	-	11.1	
Operating expenses	22,190	24,800	27,830	22,190	24,821	27,891	-	(0.1)	(0.2)	
Employee expenses	14,985	16,847	18,937	14,985	16,847	18,937	-	-	-	
PBT	26,410	31,097	36,480	27,087	32,709	39,847	(2.5)	(4.9)	(8.4)	
Tax	8,451	9,951	11,674	8,668	10,467	12,751	(2.5)	(4.9)	(8.4)	
Net profit	17,958	21,146	24,806	18,419	22,242	27,096	(2.5)	(4.9)	(8.4)	
PBT before treasury and invest. depn	26,910	29,397	34,980	26,687	31,009	38,547	0.8	(5.2)	(9.3)	#
PBT - treasury + invest. deprn + LLP	32,610	37,465	44,982	32,420	37,755	46,477	0.6	(0.8)	(3.2)	#

Source: Company, Kotak Institutional Equities estimates

Rolling PBR and PER for Indian Bank
March fiscal year-ends, 2008-2011



Source: Company, Kotak Institutional Equities

Indian Bank quarterly results
March fiscal year-ends, 2QFY11-2QFY12 (₹ mn)

	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	% change	2QFY12E	Actual Vs KS
Interest Earned	22,756	23,919	25,942	27,814	30,348	33	29,449	3
Interest/Discount on Advances/Bills	17,259	18,029	19,843	21,600	23,562	37	22,845	3
Interest on Investment	5,388	5,825	6,052	6,171	6,752	25	6,494	4
Interest on bal. with RBI & other inter bank funds	109	65	48	43	34	(69)	111	(69)
Interest expense	12,924	13,542	14,832	17,514	18,994	47	18,713	2
Net interest income	**9,832**	**10,377**	**11,110**	**10,300**	**11,354**	**15**	**10,736**	**6**
Other Income	2,837	2,487	2,716	2,493	3,423	21	2,513	36
Other Income exld treasury	2,251	2,217	2,662	2,043	3,213	43	2,063	56
Treasury	586	270	54	450	210	(64)	450	(53)
Recovery	380	230	890	190	400	5	500	(20)
Total Income	**12,669**	**12,864**	**13,826**	**12,793**	**14,777**	**17**	**13,250**	**12**
Operating Expenses	**5,279**	**4,745**	**4,796**	**4,982**	**5,568**	**5**	**5,438**	**2**
Payments to / Provisions for employees	3,692	3,328	3,092	3,588	3,667	(1)	3,692	(1)
Other operating expenses	1,587	1,417	1,704	1,394	1,901	20	1,746	9
Operating Profit Before Prov. & Cont.	7,389	8,119	9,030	7,811	9,209	25	7,811	18
Provisions & Contingencies	1,330	536	1,268	1,770	2,203	66	2,210	(0)
Loan loss provisions	1,145	280	1,845	1,250	1,170	2	1,875	(38)
Investment depreciation	180	210	150	670	960	-	335	-
Profit before tax	**6,060**	**7,583**	**7,762**	**6,042**	**7,005**	**16**	**5,601**	**25**
Provision for Taxes	1,902	2,671	3,374	1,972	2,318	22	1,957	18
Net Profit	**4,158**	**4,913**	**4,389**	**4,069**	**4,687**	**13**	**3,645**	**29**
Tax rate	31	35	43	33	33			
Key balance sheet items (Rs bn)								
Deposits	980	1,010	1,058	1,104	1,162	19		
CASA	316	323	326	337	352			
CASA (%)	32.2	32.0	30.8	30.5	30.3			
Advances	694	739	757	825	858	24		
Others (export)	26	32	31	34	39			
Agriculture	103	108	110	116	127			
Investments	324	324	348	330	358	11		
Yield management measures (%)								
Yield on advances	10.2	10.4	10.3	11.1	12.1			
Cost of deposits	5.4	5.4	5.4	6.4	6.6			
NIM	3.8	3.8	3.9	3.4	3.8			
Asset quality measures								
Gross NPL (Rs bn)	9.0	7.5	7.4	8.1	10.5			
Gross NPL (%)	1.3	1.0	1.0	1.0	1.2			
Net NPL (Rs bn)	5.1	4.2	3.9	4.2	6.0			
Net NPL (%)	0.7	0.6	0.5	0.5	0.7			
Provision coverage ratio (%)	44.1	44.4	47.3	47.9	43.1			
Provision coverage ratio (w/o) (%)	83.3	83.0	84.3	84.1	79.4			
Slippages (Rs bn)	3.3	2.5	2.8	1.7	3.8			
Slippages ratio (%)	1.9	1.4	1.5	0.9	1.8			
Restructured loans (Rs bn)	53.1	58.0	52.0	52.5	51.3			
Restructured loans (%)	7.6	7.8	6.9	6.4	6.0			
Capital adequacy details								
CAR (%)	13.0	12.4	13.6	13.0	12.2			
Tier I (%)	10.2	9.7	11.0	10.5	9.6			
Tier II (%)	2.8	2.7	2.5	2.5	2.6			

Source: Company, Kotak Institutional Equities estimates

Indian Bank key ratios and growth rates
March fiscal year-ends, 2009-2014E (%)

	2009	2010	2011	2012E	2013E	2014E
Growth rates (%)						
Net loan	29.2	20.8	21.1	16.5	16.7	17.4
Total Asset	19.3	20.5	20.1	15.3	14.8	15.6
Deposits	18.9	21.6	19.9	15.9	15.6	16.4
Current	11.8	25.2	(2.8)	15.9	15.6	16.4
Savings	17.7	23.3	20.6	11.3	13.2	16.4
Fixed	20.2	20.5	22.2	17.6	16.4	16.4
Net interest income	26.1	26.7	22.2	7.4	13.7	18.1
Loan loss provisions	(81.7)	478.7	54.7	(22.0)	41.5	24.0
Total other income	(3.1)	13.4	0.7	12.8	13.7	11.3
Net fee income	29.5	(3.8)	50.1	15.0	14.0	13.0
Net capital gains	(19.3)	11.7	(31.8)	21.3	11.1	-
Net exchange gains	20.0	20.0	20.0	20.0	20.0	20.0
Operating expenses	13.4	8.9	11.3	15.2	11.8	12.2
Employee expenses	19.2	5.2	9.9	12.4	12.4	12.4
Key ratios (%)						
Yield on average earning assets	9.2	8.8	8.7	9.4	9.2	9.1
Yield on average loans	11.1	10.2	10.3	11.3	10.7	10.5
Yield on average investments	7.7	8.0	7.2	7.3	7.5	7.4
Average cost of funds	6.2	5.6	5.4	6.5	6.4	6.2
Interest on deposits	6.1	5.6	5.3	6.5	6.4	6.2
Difference	**3.0**	**3.2**	**3.3**	**2.9**	**2.8**	**2.9**
Net interest income/earning assets	3.5	3.7	3.7	3.4	3.4	3.4
New provisions/average net loans	0.2	0.8	1.1	0.7	0.9	0.9
Interest income/total income	71.6	73.8	77.3	76.5	76.5	77.5
Fee income to total income	6.4	5.0	6.4	6.8	6.8	6.6
Operating expenses/total income	43.6	38.6	36.9	39.1	38.5	37.1
Tax rate	30.3	33.9	34.9	32.0	32.0	32.0
Dividend payout ratio	17.3	18.0	18.8	18.8	18.8	18.8
Share of deposits						
Current	24.3	24.7	24.8	23.8	23.3	23.3
Fixed	68.4	67.8	69.1	70.1	70.6	70.6
Savings	24.3	24.7	24.8	23.8	23.3	23.3
Loans-to-deposit ratio	70.9	70.4	71.1	71.4	72.1	72.7
Equity/assets (EoY)	8.0	7.8	7.5	7.5	7.5	7.5
Asset quality trends (%)						
Gross NPL	0.9	0.8	1.0	1.2	1.4	1.6
Net NPL	0.2	0.2	0.5	0.6	0.7	0.8
Slippage	0.6	1.1	1.5	1.5	1.3	1.2
Provision coverage (ex write-off)	79.6	71.6	46.4	48.7	50.2	49.0
Dupont analysis (%)						
Net interest income	3.4	3.6	3.6	3.3	3.3	3.4
Loan loss provisions	0.1	0.5	0.7	0.4	0.5	0.6
Net other income	1.3	1.3	1.1	1.0	1.0	1.0
Operating expenses	2.0	1.9	1.6	1.7	1.7	1.6
Invt. depreciation	—	(—)	—	—	—	—
(1- tax rate)	69.7	66.1	65.1	68.0	68.0	68.0
ROA	**1.6**	**1.7**	**1.5**	**1.4**	**1.4**	**1.4**
Average assets/average equity	14.2	14.4	14.5	14.5	14.3	14.1
ROE (incl. preference capital)	**22.9**	**24.1**	**22.3**	**19.9**	**20.1**	**20.2**
ROE (ex- preference capital)	**23.9**	**24.9**	**22.9**	**20.4**	**20.5**	**20.6**

Source: Company, Kotak Institutional Equities estimates

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

	2009	2010	2011	2012E	2013E	2014E
Income statement						
Total interest income	68,303	78,571	93,610	119,779	135,085	154,919
Loans	50,867	57,998	70,976	91,823	101,508	117,029
Investments	16,873	19,974	22,303	27,564	33,048	37,296
Cash and deposits	563	599	332	392	530	594
Total interest expense	42,218	45,532	53,249	76,414	85,786	96,684
Deposits from customers	40,614	44,742	51,332	74,727	84,099	94,997
Net interest income	**26,085**	**33,039**	**40,361**	**43,365**	**49,299**	**58,235**
Loan loss provisions	816	4,722	7,305	5,701	8,069	10,002
Net interest income (after prov.)	25,269	28,317	33,056	37,664	41,230	48,233
Other income	10,354	11,737	11,819	13,335	15,166	16,877
Net fee income	2,322	2,235	3,355	3,859	4,399	4,971
Net capital gains	1,948	2,176	1,484	1,800	2,000	2,000
Net exchange gains	1,052	1,148	1,472	1,767	2,120	2,544
Operating expenses	15,881	17,302	19,263	22,190	24,800	27,830
Employee expenses	11,528	12,124	13,327	14,985	16,847	18,937
Depreciation on investments	2,027	(960)	557—	2,300—	300—	500—
Other Provisions	(145)	195	(1,290)	100	200	300
Pretax income	17,853	23,516	26,345	26,410	31,097	36,480
Tax provisions	5,408	7,966	9,204	8,451	9,951	11,674
Net Profit	**12,453**	**15,550**	**17,141**	**17,958**	**21,146**	**24,806**
% growth	23.4	24.9	10.2	4.8	17.7	17.3
PBT - Treasury + Provisions	18,603	25,297	31,433	32,710	37,665	45,282
% growth	31.2	35.9	24.3	4.1	15.1	20.2
Preference Dividend	375	400	400	320	320	320
Balance sheet						
Cash and bank balance	66,838	81,132	85,623	71,780	80,074	90,118
Cash	2,480	3,038	2,497	2,622	2,753	2,891
Balance with RBI	59,635	67,569	66,282	52,314	60,477	70,383
Balance with banks	1,590	593	563	563	563	563
Net value of investments	228,006	282,682	347,838	423,184	476,071	538,780
Govt. and other securities	188,226	230,861	263,198	340,960	395,067	458,875
Shares	3,069	5,203	5,460	5,460	5,460	5,460
Debentures and bonds	18,295	11,890	13,561	12,204	10,984	9,886
Net loans and advances	514,653	621,461	752,499	876,296	1,022,240	1,200,406
Fixed assets	15,942	15,796	16,060	16,894	17,147	17,348
Net leased assets	—	—	—	—	—	—
Net Owned assets	15,942	15,796	16,060	16,894	17,147	17,348
Other assets	15,779	12,811	15,163	15,163	15,163	15,163
Total assets	**841,217**	**1,013,882**	**1,217,183**	**1,403,317**	**1,610,694**	**1,861,815**
Deposits	725,818	882,277	1,058,042	1,226,699	1,418,108	1,650,402
Borrowings and bills payable	9,960	16,861	28,116	28,116	28,116	28,116
Other liabilities	38,080	36,023	39,814	43,814	43,814	43,814
Total liabilities	**773,858**	**935,161**	**1,125,972**	**1,298,629**	**1,490,039**	**1,722,332**
Preference capital	**4,000**	**4,000**	**4,000**	**4,000**	**4,000**	**4,000**
Paid-up capital	4,298	4,298	4,298	4,298	4,298	4,298
Reserves & surplus	63,061	74,423	86,913	100,390	116,358	135,185
Total shareholders' equity	**67,359**	**78,721**	**91,211**	**104,688**	**120,655**	**139,483**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Oriental Bank of Commerce (OBC)

Banks/Financial Institutions

BUY

OCTOBER 31, 2011

RESULT

Coverage view: Attractive

Price (Rs): 290

Target price (Rs): 430

BSE-30: 17,705

Disappointing quarter. OBC's net earnings were down 58% yoy and 52% below our estimates primarily on the back of higher provisions (loan loss and taxation). While loan growth accelerated to 20% yoy (from 12% in 1QFY12), weaker NIM and high provisions on the back of 6% slippages (2.5% excluding the impact of the migration exercise) pulled down reported earnings. We find valuations attractive at 0.7X book and 4.8X FY2013E EPS. Maintain BUY owing to its inexpensive valuations with TP of ₹430 (no change).

Company data and valuation summary

Oriental Bank of Commerce

Stock data			
52-week range (Rs) (high,low)			546-274
Market Cap. (Rs bn)			84.6
Shareholding pattern (%)			
Promoters			58.0
FIIs			11.3
MFs			4.7
Price performance (%)	1M	3M	12M
Absolute	(0.8)	(17.4)	(41.9)
Rel. to BSE-30	(7.8)	(15.1)	(34.3)

Forecasts/Valuations	2011	2012E	2013E
EPS (Rs)	51.5	48.0	59.5
EPS growth (%)	13.7	(6.9)	23.9
P/E (X)	5.6	6.0	4.9
NII (Rs bn)	41.8	40.9	47.8
Net profits (Rs bn)	15.0	14.0	17.3
BVPS	350.0	386.6	432.0
P/B (X)	0.8	0.7	0.7
ROE (%)	15.5	12.1	13.6
Div. Yield (%)	3.6	3.3	4.1

Attractive valuations; migration-led NPLs well ahead of expectations resulting in weak earnings

We like OBC at current levels given our view on interest rates and inexpensive valuations. We expect earnings to grow by 7% CAGR in FY2011-13E and deliver RoEs in the range of 13-14% levels. We maintain our BUY recommendation as we find valuations attractive for the bank at 0.7X book value and 4.8X FY2012E EPS. We see NIM headwinds to remain over the next few quarters as the full impact of steep increase in deposit rates (wholesale and retail) and lower CASA ratio profile flows into earnings, before the recent decline of wholesale funds starts benefitting positively. We believe that savings bank deregulation will have relatively lesser impact on public banks (which have relatively more inelastic customer base) as compared to private banks. We believe that our 40 bps decline in NIM assumptions factors the pressure on margins.

However, NPLs during 2QFY12 was significantly higher than expectation (2.5% slippage even after excluding the impact of migration to system-based NPL recognition). Migration-related slippages have been higher than expected for small-ticket loans given that the bank's performance on slippages in the initial transition period was substantially lower. We are accordingly raising our estimates for loan-loss provisions to 0.9% of loans (from 0.6-0.7% earlier).

NIMs decline 30 bps qoq on the back of higher income de-recognition

NIM for the quarter declined 30 bps to 2.64% in 2QFY12 from 2.94% in 1QFY12 due to higher income de-recognition (30 bps impact on NIMs) and sharp rise in cost of deposits (up 40 bps qoq). Yield on advances increased by 25 bps qoq to 11.7% (adjusted for NPLs was 12.4%). Yield on investments improved by 30 bps qoq. We believe that OBC is well-positioned from a margin perspective post moderation in wholesale funds and lower slippages in 2HFY12E. However, we remain conservative and factor 40 bps decline in NIMs in FY2012E.

QUICK NUMBERS

- NIMs decline 30 bps qoq to 2.6%
- Slippages high at 6% - migration related
- Maintain BUY with TP of ₹430

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Slippages high at 6%; gross NPL increase over 50% qoq

Gross NPLs of OBC were ₹31.1 bn (3% of loans) as of September 2011, 53% qoq growth over June 2011 levels as the transition exercise towards NPL recognition without manual intervention continued during the quarter. Net NPLs increased by 87% qoq to ₹19.8 bn (1.9% of loans). Loan-loss provisions (annualized) were at 1.4% (versus 0.6% in 1QFY12).

Slippages for the quarter increased to 6.1% of loans (primarily from agriculture and retail) as compared to 1.6% of loans in June 2011 and 2.9% in March 2011. The management highlighted that the last set of NPL (for assets below ₹0.1 mn) were recognized during 2QFY12 and the overhang of transition to system-based transition is behind us. Expect recoveries to show improved trends as the bank increases focuses on improving asset quality. The core slippages (excluding the transition) were 2.5% of advances. The company made write-off of 0.8% of assets- these were largely the small-ticket NPL recognized during the quarter. Restructured loans were 4% of advances as of September 2011

Loan growth increased to 20%; deposits grow by 19% yoy

Loan growth for the quarter was at 20% yoy and at 6.5% qoq to ₹1,045 bn. Deposits grew by 19% yoy (3% qoq) to ₹1,496 bn. CASA ratio for the quarter was flat at 23%. The bank indicated that its overall loans to infrastructure would be maintained at current levels (about 20% levels). We are building loan growth at 17% CAGR for FY2011-13E.

Other highlights for the quarter

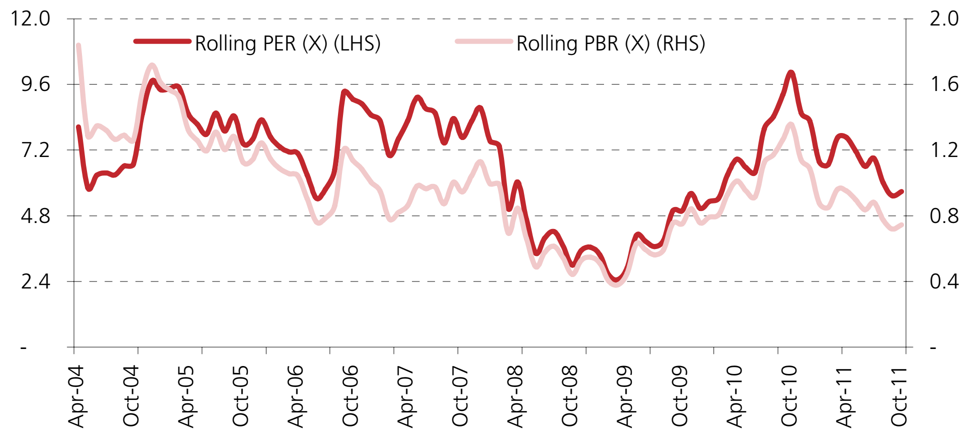
- OBC's non-interest income grew by 30% yoy mainly due to better fee income, somewhat better exchange income and recovery. Treasury income was at ₹183 mn compared to ₹717 mn in 1QFY12.
- Cost-income ratio was at 40% for the quarter. Staff expenses were stable yoy while other expenses increased by 10% yoy.

We revise our earnings for FY2012E on the back of higher provisions
Old and new estimates, March fiscal year-ends, 2012-2013E (₹ mn)

	New Estimates			Old Estimates			% change		
	2012E	2013E	2014E	2012E	2013E	2014E	2012E	2013E	2014E
Net interest income	40,876	47,832	54,295	41,943	48,174	54,603	(2.5)	(0.7)	(0.6)
Advances (Rs bn)	1,114	1,293	1,507	1,125	1,317	1,535	(0.9)	(1.8)	(1.8)
NIM (%)	2.5	2.5	2.5	2.5	2.5	2.5			
Loan loss provisions	9,330	10,230	11,898	7,293	7,324	8,555	27.9	39.7	39.1
Other income	12,060	13,339	15,031	12,060	13,339	15,031	-	-	-
Fee income	7,301	8,397	9,656	7,301	8,397	9,656	-	-	-
Treasury income	1,700	1,500	1,500	1,700	1,500	1,500	-	-	-
Operating expenses	21,601	24,818	28,754	21,767	25,213	29,427	(0.8)	(1.6)	(2.3)
Employee expenses	11,741	13,306	15,346	11,848	13,546	15,760	(0.9)	(1.8)	(2.6)
Investment dep/amortization	1,800	1,200	1,200	1,200	1,200	1,200			
PBT	**19,705**	**24,423**	**26,975**	**22,844**	**26,875**	**29,552**	**(13.7)**	**(9.1)**	**(8.7)**
Net profit	**13,995**	**17,345**	**19,157**	**16,224**	**19,087**	**20,988**	**(13.7)**	**(9.1)**	**(8.7)**

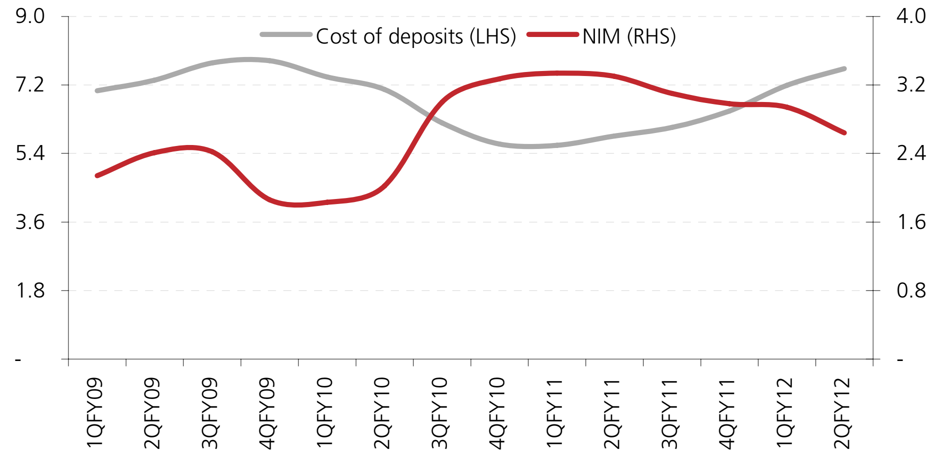
Source: Company, Kotak Institutional Equities estimates

Oriental Bank of Commerce - Rolling PBR and PER
April 2004-October 2011 (X)



Source: Company, Kotak Institutional Equities

NIM has remained flat qoq building pressure on NIMs going forward
NIM and cost of deposits, March fiscal year-ends, 2QFY09-2QFY12 (%)



Source: Kotak Institutional Equities

OBC, quarterly results
March fiscal year-ends, 2QFY10-2QFY12 (₹ mn)

	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	% chg	2QFY12E	Actual Vs KS
Interest income	29,919	30,328	32,323	35,965	38,009	27	36,668	4
Loans	22,091	22,447	24,158	26,837	28,731	30	28,103	2
Investments	7,021	7,011	6,999	7,686	8,291	18	8,242	1
Balance with RBI & banks	807	870	923	1,101	980	21	300	227
Others	1	0	243	342	7	1,360	23	(68)
Interest expense	19,148	20,029	22,190	25,782	28,116	47	26,769	5
Net interest income	**10,771**	**10,299**	**10,134**	**10,183**	**9,893**	**(8)**	**9,899**	**(0)**
Non-int.income	**2,141**	**2,314**	**2,998**	**3,238**	**2,774**	**30**	**2,995**	**(7)**
Other income ex treasury	2,133	2,000	2,737	2,522	2,591	21	2,595	(0)
Sale of invts.	8	314	262	717	183	2,158	400	(54)
Total income	**12,912**	**12,613**	**13,132**	**13,421**	**12,667**	**(2)**	**12,894**	**(2)**
Op. expenses	**4,853**	**4,873**	**4,702**	**5,408**	**5,087**	**5**	**5,304**	**(4)**
Employee cost	2,764	2,771	2,418	3,196	2,783	1	2,902	(4)
Other cost	2,089	2,103	2,284	2,212	2,304	10	2,402	(4)
Operating profit	8,060	7,739	8,430	8,014	7,581	(6)	7,590	(0)
Provisions and cont.	2,263	1,918	5,605	3,143	4,853	114	2,700	80
Investment depreciation	0	1	780	1,336	801	-	800	0
NPLs	2,196	1,781	3,930	1,354	3,422	56	1,500	128
PBT	**5,796**	**5,822**	**2,825**	**4,871**	**2,727**	**(53)**	**4,890**	**(44)**
Tax	1,820	1,739	(512)	1,324	1,051	(42)	1,417	(26)
Net profit	**3,977**	**4,083**	**3,337**	**3,547**	**1,676**	**(58)**	**3,473**	**(52)**
Tax rate (%)	31.4	29.9	(18.1)	27.2	38.5	22.7	29.0	33.0
Key balance sheet items (Rs bn)								
Deposits	1,258	1,293	1,391	1,446	1,496	18.9		
CASA	319	326	341	338	342	7.3		
CASA ratio (%)	25.4	25.4	24.6	23.4	22.9			
Advances	875	908	968	982	1,056	20.7		
Total retail loans	107	82	-	118	115			
Investments	372	390	421	450	443	18.9		
Other details								
Asset quality details								
Gross NPLs (Rs bn)	15.0	17.6	19.2	20.3	31.1	108.0		
Gross NPLs (%)	1.7	1.9	2.0	2.1	3.0			
Net NPLs (Rs bn)	6.1	8.2	9.4	10.6	19.8	226.1		
Net NPLs (%)	0.7	0.9	1.0	1.1	1.9			
Provision coverage (%)	59.4	53.7	51.2	47.9	36.4			
Provision coverage (%, w/o)	81.4	77.4	76.8	75.1	63.8			
Restructured Assets (Rs bn)	52.6	51.3	52.7	36.6	41.2			
% of loan book	6.0	5.7	5.4	3.7	3.9			
Yield management measures (%)								
Yield on advances	10.3	10.3	10.6	11.4	11.7			
Yield on investments	7.3	7.3	7.1	7.4	7.5			
Cost of deposits	5.9	6.1	6.5	7.2	7.6			
Net interest margin	3.3	3.1	3.0	2.9	2.6			

Notes:
(1) Outstanding restructured loans represent loans only for those which are less than 2 years and are standard. Revise d from 1QFY12.

Source: Company, Kotak Institutional Equities

OBC, growth rates and key ratios
March fiscal year-ends, 2009-2014E (%)

	2009	2010	2011	2012E	2013E	2014E
Growth rates (%)						
Net loan	25.5	21.9	14.9	16.2	16.0	16.5
Customer assets	24.7	20.5	14.4	15.9	15.8	16.3
Investments excld. CPs and debentures growth	20.4	29.8	18.9	10.8	10.8	11.0
Net fixed assets	257.2	0.7	0.3	11.6	10.5	9.5
Cash and bank balance	19.7	19.4	30.7	2.6	2.3	2.2
Total Asset	24.1	22.1	17.4	12.7	12.8	13.4
Deposits	26.3	22.3	15.6	14.0	13.9	14.4
Current	(0.7)	32.5	(8.0)	14.0	22.3	22.3
Savings	12.1	26.6	25.0	7.6	17.3	17.7
Fixed	33.6	20.3	16.3	15.5	12.4	12.9
Net interest income	18.7	45.6	43.7	(2.2)	17.0	13.5
Loan loss provisions	(274.7)	159.0	72.0	(3.8)	9.6	16.3
Total other income	71.4	12.0	(20.0)	25.6	10.6	12.7
Net fee income	22.5	42.5	11.0	15.0	15.0	15.0
Net capital gains	213.3	(12—)	(82.2)	125.5	(11.8)	-
Net exchange gains	55.8	(29.2)	62.4	25.0	15.0	15.0
Operating expenses	28.1	21.9	12.2	14.1	14.9	15.9
Employee expenses	37.6	28.5	7.9	12.0	13.3	15.3
Key ratios (%)						
Yield on average earning assets	9.0	8.5	8.3	9.2	9.0	8.8
Yield on average loans	10.6	10.0	10.0	11.3	11.0	10.7
Yield on average investments	8.3	7.8	7.2	7.6	7.5	6.9
Average cost of funds	7.4	6.5	5.8	7.2	6.9	6.7
Interest on deposits	7.4	6.4	5.8	7.2	6.9	6.6
Difference	**1.6**	**2.0**	**2.5**	**1.9**	**2.1**	**2.1**
Net interest income/earning assets	2.0	2.4	2.9	2.5	2.5	2.5
New provisions/average net loans	0.4	0.7	1.1	0.9	0.9	0.9
Interest income/total income	65.1	70.8	81.3	77.2	78.2	78.3
Fee income to total income	13.1	13.9	12.4	13.8	13.7	13.9
Fees income to PBT	34.6	35.6	31.1	37.1	34.4	35.8
Net trading income to PBT	35.1	10.6	(3.2)	6.1	4.1	3.7
Exchange inc./PBT	9.2	4.7	6.0	7.8	7.3	7.6
Operating expenses/total income	45.1	41.0	36.8	40.8	40.6	41.5
Operating expenses/assets	1.4	1.3	1.3	1.3	1.3	1.3
Operating profit /AWF	0.9	1.0	1.4	1.2	1.3	1.3
Tax rate	21.9	29.3	26.3	29.0	29.0	29.0
Dividend payout ratio	20.2	20.1	20.2	20.2	20.2	20.2
Share of deposits						
Current	7.8	8.5	6.8	6.8	7.3	7.8
Fixed	76.3	75.0	75.4	76.4	75.4	74.4
Savings	15.9	16.5	17.8	16.8	17.3	17.8
Loans-to-deposit ratio	69.6	69.4	69.0	70.3	71.6	72.9
Equity/assets (EoY)	6.6	6.0	6.9	6.7	6.5	6.4
Asset quality trends (%)						
Gross NPL	1.5	1.7	2.0	2.9	3.0	3.0
Net NPL	0.6	0.9	1.0	1.8	1.9	1.8
Slippages	0.9	1.7	1.9	2.6	2.0	1.8
Provision coverage	58.2	50.7	51.2	38.7	37.9	42.1
Dupont analysis (%)						
Net interest income	2.0	2.3	2.8	2.4	2.5	2.5
Loan loss provisions	0.2	0.5	0.6	0.5	0.5	0.5
Net other income	1.1	1.0	0.6	0.7	0.7	0.7
Operating expenses	1.4	1.6	1.4	1.3	1.3	1.3
(1- tax rate)	78.1	70.7	73.7	71.0	71.0	71.0
ROA	0.9	0.9	1.0	0.8	0.9	0.9
Average assets/average equity	15.4	16.0	15.5	14.8	15.2	15.5
ROE	13.7	14.5	15.5	12.1	13.6	13.6

Source: Company, Kotak Institutional Equities estimates

OBC, income statement and balance sheet
March fiscal year-ends, 2009-2014E (₹ mn)

	2009	2010	2011	2012E	2013E	2014E
Income statement						
Total interest income	88,565	102,571	120,878	153,034	169,606	187,217
Loans	65,197	75,675	89,539	116,657	132,214	149,132
Investments	21,410	24,618	27,744	32,958	35,871	36,936
Cash and deposits	1,957	2,279	3,595	3,418	1,520	1,149
Deposits from customers	65,319	70,282	74,744	107,508	117,124	128,150
Net interest income	19,965	29,074	41,775	40,876	47,832	54,295
Loan loss provisions	2,176	5,636	9,694	9,330	10,230	11,898
Net interest income (after prov.)	17,789	23,438	32,082	31,546	37,602	42,397
Other income	10,715	12,000	9,601	12,060	13,339	15,031
Net fee income	4,015	5,721	6,349	7,301	8,397	9,656
Net capital gains	4,814	4,236	754	1,700	1,500	1,500
Net exchange gains	1,072	759	1,233	1,542	1,773	2,039
Operating expenses	13,828	16,860	18,925	21,601	24,818	28,754
Employee expenses	7,562	9,713	10,485	11,741	13,306	15,346
Depreciation on investments	2,336	(5)	963—	1,800—	1,200—	1,200—
Other Provisions	738	2,529—	1,409—	500—	500—	500—
Pretax income	11,601	16,055	20,386	19,705	24,423	26,975
Tax provisions	2,546	4,708	5,357	5,710	7,078	7,817
Net Profit	9,054	11,347	15,029	13,995	17,345	19,157
% growth	156.3	25.3	32.4	(6.9)	23.9	10.4
Operating profit	9,122	11,814	20,595	19,805	24,123	26,675
% growth	31.1	29.5	74.3	(3.8)	21.8	10.6
Balance sheet						
Balance with banks	44,069	64,776	83,044	83,044	83,044	83,044
Net value of investments	284,890	357,853	420,748	464,043	512,044	566,369
Govt. and other securities	249,245	327,530	365,997	410,306	458,306	512,632
Shares	4,477	5,207	6,571	6,571	6,571	6,571
Debentures and bonds	23,988	19,256	18,036	18,036	18,036	18,036
Net Owned assets	13,839	13,940	13,978	15,600	17,235	18,879
Other assets	19,843	21,624	28,739	28,739	28,739	28,739
Total assets	**1,125,826**	**1,374,310**	**1,613,434**	**1,818,614**	**2,051,298**	**2,325,404**
Deposits	983,688	1,202,576	1,390,543	1,585,654	1,805,667	2,065,678
Borrowings and bills payable	31,391	53,283	60,898	60,898	60,898	60,898
Other liabilities	36,712	36,071	51,021	51,021	51,021	51,021
Total liabilities	**1,051,791**	**1,291,930**	**1,502,462**	**1,697,574**	**1,917,586**	**2,177,597**
Paid-up capital	2,505	2,505	2,918	2,918	2,918	2,918
Reserves & surplus	71,529	79,874	108,054	118,122	130,794	144,889
Total shareholders' equity	**74,034**	**82,379**	**110,971**	**121,040**	**133,711**	**147,807**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Havells India (HAVL)

Others

REDUCE

OCTOBER 31, 2011

RESULT

Coverage view:

Price (Rs): 364

Target price (Rs): 370

BSE-30: 17,805

India business outperforms on margins front. Havells consolidated (adjusted) EBITDA for 2QFY12 at Rs1.70 bn was 18% higher than our estimates led by India business which reported adjusted EBITDA margin at 13.5% (+280 bps qoq; +180 bps yoy), 280 bps above our estimates. Apportioning advertising expenses (Rs560 mn in 1HY2012) equally in the first two quarters, EBITDA margins have declined by 70 bps qoq (from 12.5% in 1QFY12 to 11.8% in 2QFY12).Even after adjusting for lower advertising expenses qoq, results are at large variance to industry trends visible till now—Crompton, V-Guard reported large qoq decline (>200 bps) in EBITDA margins in 2QFY12. Increase in working capital (Rs1 bn) is our only other concern. We will adjust our estimates post concall. Retain REDUCE.

Company data and valuation summary

Havells India

Stock data			
52-week range (Rs) (high,low)			451-290
Market Cap. (Rs bn)			44.4
Shareholding pattern (%)			
Promoters			61.6
FIIs			16.2
MFs			2.6
Price performance (%)	**1M**	**3M**	**12M**
Absolute	(2.7)	(2.1)	(14.2)
Rel. to BSE-30	(9.6)	0.6	(2.9)

Forecasts/Valuations	2011	2012E	2013E
EPS (Rs)	24.5	25.8	28.8
EPS growth (%)	334.1	5.1	11.5
P/E (X)	14.5	13.8	12.4
Sales (Rs bn)	56.1	62.5	68.3
Net profits (Rs bn)	3.1	3.2	3.6
EBITDA (Rs bn)	5.6	6.0	6.6
EV/EBITDA (X)	9.6	8.9	7.7
ROE (%)	53.9	37.6	30.9
Div. Yield (%)	0.7	0.8	0.8

India business outperforms; Sylvania in line

Havells' consolidated revenue in 2QFY12 at Rs15.85 bn (+19% yoy; +6% qoq) was exactly in line with our estimates. Reported PAT at Rs808 mn (+16% yoy; +2% qoq) was in line with our estimates as forex losses at Rs301 mn subdued the otherwise strong operating performance. Outperformance was led by India business which reported adjusted EBITDA margin at 13.5% (+280 bps qoq; +180 bps yoy) which was 280 bps higher than our estimates. While the reported numbers are good, we make the following observations:

- Apportioning advertising expenses in1HY2012 (Rs560 mn; Rs420 mn in 1QFY12 and Rs140 mn in 2QFY12) equally in the first two quarters EBITDA margins have declined 70bps qoq (from 12.5% in 1QFY12 to 11.8% in 2QFY12). Decline in margins is much lower than our expectations and is at variance with the industry trends —Crompton, V-Guard have reported large (>200 bps) sequential de-growth in EBITDA margins in 2QFY12. As per our understanding from channel checks and recent conference calls (V-Guard), there was lot of pressure on pricing, particularly in the fans segment, in 2QFY12, as companies reduced prices to clear inventories. This is not reflected in the segmental results of consumer appliance division as contribution margins at ~27.7% are flat yoy. 1QFY12 contribution margins in the same segment were higher (at 31%) than normalized on account of sale of low priced inventory.

- Working capital increased by Rs1 bn qoq at the standalone level even as the quarterly run rate of revenues increased by Rs500 mn from 1QFY12. In the post result conference call (1QFY12), management had indicated a sequential improvement in working capital position in 2QFY12 on reduction of inventories.

Maintain REDUCE with an unchanged target price of Rs370

We will adjust our estimates post conference call scheduled for Tuesday. Maintain REDUCE.

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Above estimates; led by the domestic business
Interim results of Havells, consolidated, March fiscal year-ends (Rs mn)

	2QFY12	2QFY12E	2QFY11	1QFY12	(% change) KIE est.	yoy	qoq	6 months FY2012	FY2011	Chng. (%)
Net revenues	**15,850**	**15,832**	**13,347**	**14,959**	**0**	**19**	**6**	**30,809**	**26,384**	**16.8**
Total expenditure	(14,145)	(14,382)	(12,118)	(13,526)	**(2)**	**17**	**5**	**(27,671)**	**(23,993)**	**15.3**
EBITDA	**1,705**	**1,450**	**1,229**	**1,433**	**18**	**39**	**19**	**3,138**	**2,391**	**31.2**
Margins (%)	10.8	9.2	9.2	9.6				10.2	9.1	
Other income	135	51	8	51				154	25	516.0
Depreciation	(214)	(210)	(201)	(211)				(424)	(393)	7.9
EBIT	**1,626**	**1,291**	**1,036**	**1,273**	**26**	**57**	**28**	**2,868**	**2,023**	**41.8**
Margins (%)	10.3	8.2	7.8	8.5				9.3	7.7	
Net Interest	(277)	(270)	(184)	(271)				(548)	(373)	46.9
PBT	**1,349**	**1,021**	**852**	**1,002**	**32**	**58**	**35**	**2,320**	**1,650**	**40.6**
Extraordinaries	(301)	0	92	-				(265)	79	
Reported PBT	**1,048**	**1021**	**944**	**1,002**	**3**	**11**	**5**	**2,055**	**1,729**	**NM**
Tax	(240)	(225)	(248)	(206)				(445)	(471)	(5.5)
Reported PAT	808	796	**696**	**796**	**1**	**16**	**2**	**1,610**	**1,258**	**28.0**

Source: Company, Kotak Institutional Equities

Sylvania numbers were in line
Interim results of Sylvania, Standalone, March fiscal year-ends (Rs mn)

	2QFY12	2QFY12E	2QFY11	1QFY12	(% chg.) KIE est.	yoy	qoq	6 months (Euro mn) FY2012	FY2011
Net sales	**7,461**	**7,542**	**7,061**	**6,878**	**-1%**	**6%**	**8%**	**222**	**217**
Total expenditure	**(6,906)**	**(6,976)**	**(6,727)**	**(6,374)**	**-1%**	**3%**	**8%**	**(206)**	**(205)**
EBITDA	**555**	**566**	**334**	**504**	**-2%**	**66%**	**10%**	**16**	**12**
OPM (%)	**7.4**	**7.5**	**4.7**	**7.3**	0%	0%	—	7.4	5.7
Other income	119	21	76	21	0%	0%	—	2	1
Interest	(206)	(185)	(132)	(186)	0%	56%	11%	(9)	(5)
Depreciation	(122)	(125)	(126)	(125)	0%	-3%	-2%	(4)	(4)
Pretax profits	**346**	**277**	**152**	**214**	**25%**	**128%**	**62%**	**6**	**3**
Extraordinaries	(170)	—	—	—				—	—
Tax	(74)	(76)	(71)	(59)				(2)	(2)
Net income	**102**	**200**	**81**	**155**	NM	NM	NM	**4**	**1**

Source: Company, Kotak Institutional Equities

Sales growth trend improved for Sylvania in Europe
Geographical revenue break-up for Sylvania, March fiscal year-ends (Euro mn)

	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	(% change) yoy	qoq
Europe	77.3	75.0	65.7	65.6	74.1	73.2	64	69	5%	8%
Americas	27.5	29.7	33.4	37.6	35.6	35.5	36.1	39.7	6%	10%
Others	1.6	5.4	6.3	6.5	6.2	4.8	5.9	6.8	5%	15%
Total	**106.4**	**110.1**	**105.4**	**109.6**	**115.9**	**113.5**	**106**	**116**	**5%**	**9%**

Source: Company, Kotak Institutional Equities

India business outperforms led by higher-than-estimated margins (adjusted for forex)

Interim results of Havells, standalone, March fiscal year-ends (Rs mn)

					Change (%)			6 months		
	2QFY12	2QFY12E	2QFY11	1QFY12	KIE est	yoy	qoq	FY2012	FY2011	(% chg)
Net revenues	**8,504**	**8,290**	**6,613**	**8,000**	2.6	28.6	6.3	**16,728**	**13,501**	**23.9**
Total expenditure	**(7,358)**	**(7,406)**	**(5,837)**	**(7,142)**	—	—	—	**(14,649)**	**(11,932)**	
EBITDA	**1,146**	**885**	**776**	**857**	29.6	47.7	33.8	**2,079**	**1,569**	**32.5**
Margins (%)	13.5	10.7	11.7	10.7	—			12.4	11.6	
Other income	16	30	19	28	—	—	—	29	27	
Depreciation	(91)	(85)	(72)	(83)	—	—	—	(177)	(140)	
EBIT	**1,071**	**830**	**723**	**802**	29.1	48.2	33.5	**1,931**	**1,456**	**32.6**
Margins (%)	12.6	10.0	10.9	10.0	—	—	—	11.5	10.8	
Net Interest	(71)	(85)	(31)	(84)	—	—	—	(155)	(51)	
PBT	**1,000**	**745**	**692**	**718**	34.3	44.4	39.2	1,776	1,405	
Extraordinaries	**(131)**	**-**	**69**	—	—			(113)	53	
Reported PBT	**868**	**745**	**761**	**718**	16.6	14.1	20.9	**1,663**	**1,458**	**14.1**
Tax	(166)	(149)	(175)	(143)	—	—	—	(313)	(339)	
Reported PAT	**702**	**596**	**586**	**575**	17.9	19.9	22.2	**1,350**	**1,119**	**20.7**
Segmental										
Revenues										
Switchgear	2,218	1,890	1,747	1,883	17.3	26.9	17.7	4,325	3,605	20
Cable and Wires	3,692	3,600	2,839	3,564	2.6	30.0	3.6	7,256	5,674	28
Lighting and fixtures - India	1,374	1,400	1,053	1,210	(1.8)	30.6	13.6	2,584	2,055	26
Electrical consumer durables	1,220	1,400	972	1,342	(12.9)	25.6	(9.1)	2,562	2,151	19
Others	-	-	3	-	—	—	—	—	16	
Total	**8,504**	**8,290**	**6,613**	**8,000**	**3**	**29**	**6**	**16,728**	**13,501**	
Contribution										
Switchgear	839	662	646	724	26.9	30.0	15.9	1,645	1,370	20
Cable and Wires	342	288	272	310	18.7	25.6	10.2	652	470	39
Lighting and fixtures - India	336	280	189	302	20.1	77.9	11.5	638	355	80
Electrical consumer durables	338	350	271	418	(3.5)	24.5	(19.2)	756	605	25
Others	-	-	1	-	—	—	—	—	6	
Unallocable	(915)	(750)	(593)	(951)	22.0	54.4	(3.8)	(1,873)	(1,302)	
Total	**940**	**830**	**787**	**802**	**13**	**19**	**17**	**1,818**	**1,504**	
Contribution margin (%)										
Switchgear	37.8	35.0	37.0	38.4				38.0	38.0	
Cable and Wires	9.3	8.0	9.6	8.7				9.0	8.3	
Lighting and fixtures - India	24.5	20.0	18.0	24.9				24.7	17.3	
Electrical consumer durables	27.7	25.0	27.9	31.1				29.5	28.1	
Others			38.7					—	37.4	
Total	**11.1**	**10.0**	**11.9**	**10.0**				**10.9**	**11.1**	

Note:

The numbers are not comparable yoy as Standard (sub earlier) has been merged with the company from 1st April' 2011 onwards.

Source: Company, Kotak Institutional Equities

Working capital increased by Rs1 bn qoq
Interim balance sheet of Havells, Standalone, March fiscal year-ends (Rs mn)

	March'11	June'11	Sept ' 11
Shareholders fund	624	624	624
Reserves and surpluses	12,784	13,361	14,698
Total equity capital	**13,408**	**13,985**	**15,322**
Loan funds	1,336	1,323	1,733
Deferred income tax	536	536	550
Total sources of funds	**15,280**	**15,844**	**17,605**
Fixed assets	7,303	7,412	7,941
Investments	7,150	7,269	7,269
Inventories	4,698	5,810	6,218
Debtors	1,121	1,098	1,432
Others	933	1,004	1,027
Cash and cash balances	492	553	703
Less:			
Sundry creditors	4,725	5,293	5,183
Others	1,692	2,009	1,802
Total uses of funds	**15,280**	**15,844**	**17,605**

Source: Company, Kotak Institutional Equities

Working capital increased further in 2QFY12 from elevated levels in 1QFY12

Working capital in the standalone business increased by Rs1 bn qoq from already elevated levels in 1QFY12. In the conference call post 1QFY12 results, the management had guided for an improvement in the working capital position. As a result, free cash-flow generation in the standalone business in 1HFY12 has been only Rs227 mn (adjusted for Rs110 mn investment in Sylvania) even as capex was only Rs612 mn which is only 32% of the full-year capex guidance of Rs1.9 bn. Hence, if the working capital position doesn't improve going forward, there would not be much improvement in the cash position considering bulk of the capex is due for 2HFY12E.

Other highlights

- The company generated free cash of Rs227 mn (adjusted for Rs110 mn investment in Sylvania) in 1HY2012 even as capex was only Rs612 mn, which is 32% of the full-year capex guidance of Rs1.9 bn. Hence, if the working capital position doesn't improve going forward, there would not be much improvement in the cash position considering that bulk of the capex would be done in the second half.

- Sylvania's EBITDA margin improved qoq in Europe (6.5% in 2QFY12 versus 6.1% in 1QFY12) as sales improved on account of seasonality. EBITDA margins improved to 10.3% (9.9% in 1QFY12) in the Americas (LATAM+US) division. Sales growth trend improved in Europe after three quarters of de-growth, as sales grew 5% yoy in 2QFY12. Sales growth in Americas has slowed down to 6% yoy in Euro terms (~10% yoy in 1QFY12). Even in USD terms, sales in Americas grew only 10% yoy in 2QFY12.

- Investment of Rs110 mn was made in Sylvania towards scheduled repayment of recourse loan. Also, during October additional investment of Euro3.8 mn was made towards the same.

- Forex loss of Rs131 mn in the standalone entity was mainly on account of MTM losses on foreign currency loans of US$32.7 mn outstanding as of September 30, 2011.

- In the switchgear segment, domestic revenues grew by 13% yoy in 2QFY12 (10% yoy in 1QFY12) on a like-to-like basis (excluding Standard). Fan division sales grew by 11% yoy (10% yoy in 1QFY12). 2QFY12 sales in consumer appliance segment include Rs180 mn revenue from water heater and domestic appliances (recently launched).

Maintain REDUCE with a target price of Rs370

We would take a relook at our earning estimates post conference call scheduled for 4:00pm on Tuesday. We maintain our REDUCE rating on the company.

Summary financials: Havells
Profit and loss statement, balance sheet and cash flow model for Havells, consolidated, March fiscal year-ends (Rs mn)

	2007	2008	2009	2010	2011E	2012E	2013E	2014E
Profit model								
Total income	15,472	50,022	54,775	54,256	56,126	62,533	68,301	74,500
EBITDA	**1,458**	**3,466**	**2,885**	**3,206**	**5,571**	**5,972**	**6,621**	**7,255**
Interest (expense)/income	(209)	(1,036)	(1,253)	(979)	(902)	(843)	(767)	(748)
Depreciation	(97)	(694)	(905)	(837)	(804)	(936)	(1,029)	(1,119)
Other income	54	250	86	222	237	204	134	246
Pretax profits	**1,205**	**1,986**	**814**	**1,611**	**4,102**	**4,396**	**4,959**	**5,634**
Extra-ordinary items	—	—	(1,986)	—	(36)	—	—	—
Reported PBT	**1,205**	**1,986**	**(1,172)**	**1,611**	**4,066**	**4,396**	**4,959**	**5,634**
Tax	(161)	(321)	(435)	(600)	(1,008)	(1,072)	(1,290)	(1,496)
Deferred taxation	(23)	(56)	6	(332)	(23)	(106)	(79)	—
Profit after tax	1,021	1,610	(1,602)	680	3,035	3,219	3,590	4,139
Adjusted PAT	**1,021**	**1,610**	**297**	**680**	**3,061**	**3,219**	**3,590**	**4,139**
Diluted earnings per share (Rs)	9.5	13.3	2.5	5.7	24.5	25.8	28.8	33.2
Balance sheet								
Total equity	2,603	6,901	6,147	4,004	6,543	9,360	12,512	16,176
Deferred taxation liability	118	(76)	(97)	266	559	664	743	743
Total borrowings	561	12,962	12,278	10,666	11,173	9,516	9,177	8,886
Current liabilities	2,818	15,142	14,501	15,876	17,363	17,126	18,373	19,759
Total liabilities and equity	**6,100**	**34,929**	**32,829**	**30,813**	**35,637**	**36,667**	**40,805**	**45,565**
Cash	365	2,429	2,473	1,484	1,779	727	2,326	3,712.8
Other current assets	3,281	20,800	17,935	16,907	20,299	21,194	22,761	25,047
Goodwill	—	3,346	3,579	3,212	3,354	3,354	3,354	3,354
Tangible fixed assets	2,423	8,323	8,842	9,210	10,206	11,392	12,364	13,451
Investments	32	32	—	—	—	—	—	—
Total assets	**6,100**	**34,929**	**32,829**	**30,813**	**35,637**	**36,667**	**40,805**	**45,565**
Free cash flow								
Operating cash flow, excl. working capital	1,156	2,320	(1,054)	(518)	3,769	4,022	4,564	5,012
Working capital changes	753	(3,498)	2,168	2,543	(2,013)	(1,131)	(321)	(900)
Capital expenditure	(1,001)	(7,725)	(1,676)	(1,077)	(1,727)	(2,123)	(2,001)	(2,207)
Investment changes	—	578	33	—	—	—	—	—
Other income	13	32	18	16	8	204	134	246
Free cash flow	**920**	**(8,294)**	**(512)**	**964**	**36**	**971**	**2,376**	**2,152**
Ratios (%)								
EBITDA margin	9.4	6.9	5.3	5.9	9.9	9.5	9.7	9.7
Debt/equity	20.6	189.9	203.0	249.9	157.5	95.0	69.3	52.6
Net debt/equity	7.2	154.3	162.1	215.2	132.5	87.8	51.8	30.6
RoAE	44.6	33.7	4.6	13.2	53.9	37.6	30.9	27.4
RoACE	**38.4**	**21.3**	**10.4**	**6.6**	**22.5**	**20.3**	**19.8**	**19.4**

Source: Company, Kotak Institutional Equities

kotak Institutional Equities

Gujarat Pipavav Port (GPPV)

Infrastructure

REDUCE

OCTOBER 31, 2011

RESULT, CHANGE IN RECO.

Coverage view: Cautious

Price (Rs): 72

Target price (Rs): 75

BSE-30: 17,705

Containers continue to deliver strong growth, but bulk and margins disappoint.

GPPL reported strong 3QCY11 revenue growth of 21% yoy (primarily on strong container volume growth and higher average realization) and net PAT of Rs133 mn. EBITDA margin expansion to 46% was below par (partly attributed to higher equipment hire and fuel costs). Containers continued to record strong volume growth (up 30%) but bulk cargo recorded sharp yoy and qoq decline. Downgrade to REDUCE (TP: Rs75).

Company data and valuation summary

Gujarat Pipavav Port

Stock data			
52-week range (Rs) (high,low)			75-48
Market Cap. (Rs bn)			30.3
Shareholding pattern (%)			
Promoters			43.0
FIIs			23.1
MFs			3.3
Price performance (%)	1M	3M	12M
Absolute	9.5	0.8	0.0
Rel. to BSE-30	1.7	3.6	0.0

Forecasts/Valuations	2011	2012E	2013E
EPS (Rs)	(1.2)	1.2	2.6
EPS growth (%)	(65.8)	(195.8)	129.7
P/E (X)	(59.6)	62.2	27.1
Sales (Rs bn)	2.8	3.9	5.0
Net profits (Rs bn)	(0.5)	0.5	1.1
EBITDA (Rs bn)	1.2	1.8	2.6
EV/EBITDA (X)	30.2	20.1	13.3
ROE (%)	(9.1)	8.9	13.7
Div. Yield (%)	0.0	0.0	0.0

Strong volume growth continues; however, margin expansion remains below par

GPPL reported strong 3QCY11 revenues of Rs979 mn, up 21% yoy, about 5% below our estimate. Growth was primarily led by very strong container volume growth (up 30% yoy) and higher average realization (up 19% yoy on favourable mix). Reported EBITDA margin of 46.1%, up 280 bps yoy, was lower-than-expected on higher equipment hire and fuel charges. GPPL reported a net PAT of Rs133 mn for 3QCY11, versus a loss of Rs98 mn reported in 3QCY10.

Containers continue on strong growth path but see sharp dip in bulk partly on spillover to 2Q

- **Container - strong volume growth on addition of new lines.** Container volumes at the port continued to record a strong volume growth, up 30% yoy to 169,000 TEUs from 130,000 TEUs in 3QCY10. The container volume growth was led by addition of a new container service – added a new line, CIX Service (APL/OOCL), in the previous quarter (this is further to two new container services added in 1QCY11).

- **Bulk - sharp dip in volumes partly on advance arrival of some volumes in 2Q (versus 3Q).** GPPL reported a sharp decline in bulk volumes both on a yoy (down 35% yoy) as well as a sequential basis (down 42.6% qoq) primarily attributed to some customers advancing the volumes to the previous quarter versus 3QCY11. For 9MCY11, bulk volumes have recorded a moderate growth of 8.5% yoy. We believe that in the near future, container cargo would continue to drive volume growth while bulk would record only a moderate growth.

Marginally revise estimates and target price to Rs75/share; downgrade to REDUCE

We revise our estimates to Rs1.15 and Rs2.6 from Rs1.2 and Rs2.6 for CY2011E and CY2012E. Key changes in assumptions include (1) lower bulk cargo volume estimate in CY2011E (to 3.7 mn tons from 4.2 mn tons earlier), (2) lower EBITDA margin assumption for CY2011E based on lower-than-expected expansion in CY2011E so far - estimate full-year margin of 45.5% (versus 49.5% earlier), (3) lower interest cost for the year on repayment of Rs895 mn of loans and (4) marginally higher average realizations in CY2011E. We downgrade our rating to REDUCE (from ADD) with a TP of Rs75 (from Rs78) on recent outperformance and limited upside to our estimates.

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Strong revenue growth primarily on higher realizations; volume declines yoy

GPPL reported strong 3QCY11 revenues of Rs979 mn, up 21% yoy from Rs808 mn in 3QCY10, about 5% below our estimate. Growth was primarily led by very strong container volumes during the quarter (up 30% yoy) and higher average realization (up 19% yoy on favourable cargo mix). Bulk volumes recorded a sharp dip both on a yoy as well as sequential basis. Reported EBITDA margin of 46.1%, up 280 bps yoy, was lower than our estimate (of about 47%) as we had expected a strong expansion on volume rise (ports is a high fixed cost business). GPPL reported a net PAT of Rs133 mn for 3QCY11, versus a loss of Rs98 mn reported in 3QCY10.

For the nine months ending September 30, 2011, the company has reported revenues of Rs2.8 bn, up 43% yoy. EBITDA margin has expanded to 44% (from 37.8%) leading to a net PAT of Rs303 mn in 9MCY11 versus a loss of Rs623 mn in 9MCY10.

GPPL - 3QCY11 - key numbers (Rs mn)

					% change					
	3QCY11	3QCY11E	3QCY10	2QCY11	vs est.	yoy	qoq	9MCY11	9MCY10	% change
Net operating income	**979**	**1,035**	**808**	**999**	**(5.4)**	**21.2**	**(2.0)**	**2,809**	**1,964**	**43.0**
Total expenditure	(528)	(548)	(459)	(589)	(3.7)	15.2	(10.3)	(1,566)	(1,222)	28.2
Operating expenses	(372)		(339)	(407)		9.9	(8.6)	(1,099)	(809)	35.8
Employee costs	(80)		(59)	(110)		36.7	(27.3)	(260)	(196)	32.7
Admin and other exp.	(76)		(61)	(72)		23.8	5.9	(207)	(216)	(4.3)
EBITDA	**451**	**486**	**349**	**410**	**(7.3)**	**29.2**	**9.9**	**1,243**	**743**	**67.4**
Other income	24	40	38	45	(40.0)	(36.7)	(46.5)	101	94	6.6
Interest expense	(211)	(221)	(362)	(214)	(4.6)	(41.7)	(1.4)	(644)	(1,096)	(41.2)
Depreciation	(131)	(130)	(123)	(131)	1.1	6.4	(0.3)	(397)	(365)	8.8
PBT	**133**	**175**	**(98)**	**110**	**(24.2)**	**NA**	**20.9**	**303**	**(623)**	**NA**
Tax expense	—	—	—	—				—	—	NA
PAT	**133**	**175**	**(98)**	**110**	**(24.2)**	**NA**	**20.9**	**303**	**(623)**	**NA**
Extraordinary items	—	—	—	—				—	(35)	
Reported PAT	133	175	(98)	110	(24.2)	NA	20.9	303	(659)	NA
Key ratios (%)										
Operating exp./sales	38.0		41.9	40.7				39.1	41.2	
Employee costs/sales	8.2		7.2	11.0				9.3	10.0	
Admin and other exp./sales	7.8		7.6	7.2				7.4	11.0	
EBITDA margin	**46.1**	**47.0**	**43.2**	**41.1**				**44.2**	**37.8**	
PBT margin	13.6	17.0	(12.2)	11.0				10.8	(31.7)	
PAT margin	13.6	17.0	(12.2)	11.0				10.8	(31.7)	
Volumes										
Bulk ('000 tons)	780		1,200	1,360		(35.0)	(42.6)	2,790	2,571	8.5
Container ('000 TEUs)	169		130	134		29.7	25.8	440	324	35.8
Total ('000 tons)	**2,808**		**2,763**	**2,972**		**1.6**	**(5.5)**	**8,068**	**6,457**	**24.9**
Avg. realization (Rs/ton)	**349**		**292**	**336**		**19.3**	**3.7**	**348**	**304**	**14.4**

Source: Company, Kotak Institutional Equities estimates

EBITDA margin expansion remained below par on higher equipment hire and fuel charges

GPPL reported lower-than-expected EBITDA margin expansion to 46% in 3QCY11. This is against similar margin levels in 1QCY11, while volumes as well as revenues were up 17% versus 1QCY11. The lower-than-expected margins were attributed to (1) additional equipment rental for increased container volumes in ICDs and (2) increased fuel costs (partly inflation-linked). We build in full-year EBITDA margin of about 45.5% versus 44% recorded in 9MCY11.

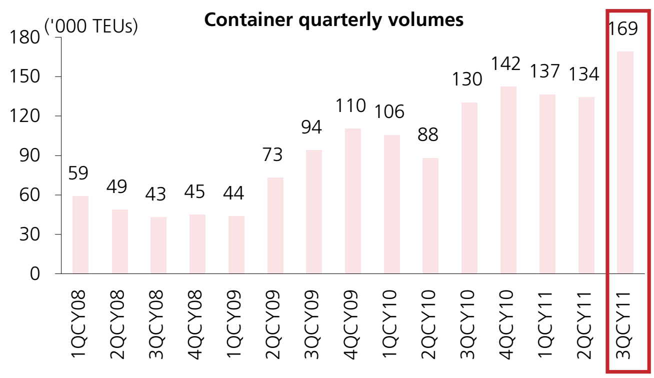
Container continues on strong growth path; but sharp dip in bulk partly on spillover to 2Q

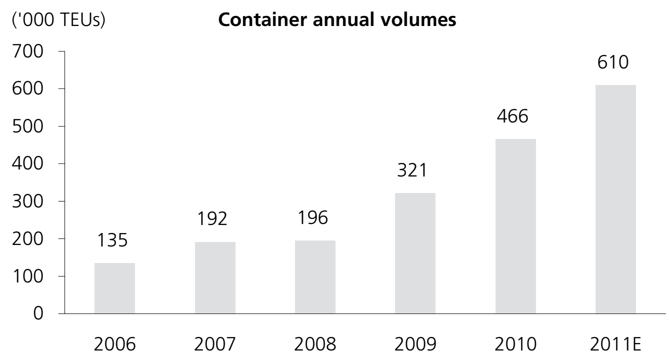
Container business: Strong yoy volume growth continues

Container volumes at the port continued to record a strong volume growth, up 30% yoy to 169,000 TEUs from 130,000 TEUs in 3QCY10. The container volume growth was led by addition of a new container service – added a new line, CIX Service (APL/OOCL), in the previous quarter (this is further to two new container services added in 1QCY11).

The management cited that the closure of JNPT port in 2QCY11 (was closed for 6 weeks for change of clearance systems) did not have any direct material impact on Pipavav's container volumes (either positive or negative). The strong volume pick-up at the port is more structural in nature and they expect this traction to continue.

Pipavav port quarterly and annual container volumes, December calendar year-ends, 2008-3QCY11



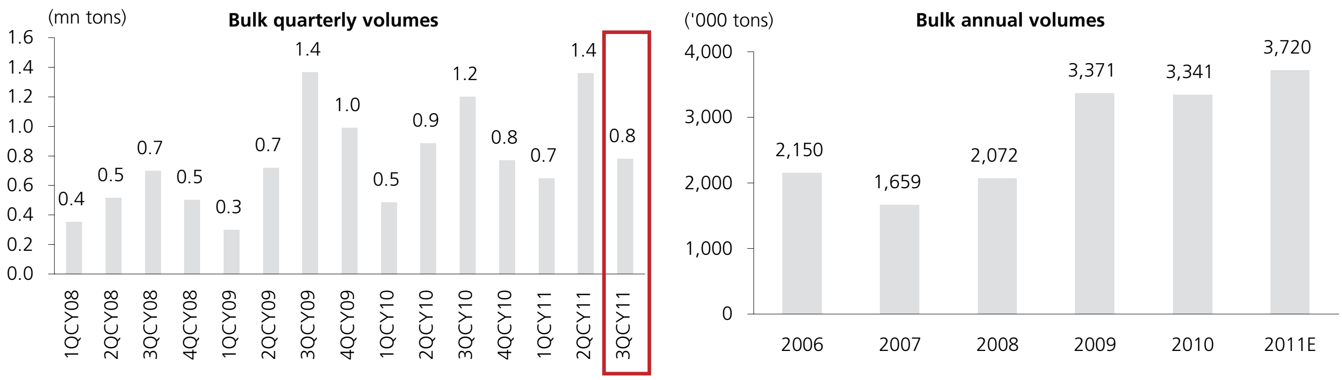


Source: Company, Kotak Institutional Equities estimates

Bulk business: Sharp dip in volumes partly driven by advance arrival of some volumes in 2Q (versus 3Q) partly

GPPL reported a sharp decline in bulk volumes both on a yoy (down 35% yoy) as well as a sequential basis (down 42.6% qoq); reported bulk volumes of 0.78 mn tons versus 1.2 mn tons in 3QCY10. The sharp decline in volume was primarily attributed to some customers advancing the volumes to the previous quarter versus 3QCY11. For the nine-month period, bulk volumes have recorded a moderate growth of 8.5% yoy to 2.8 mn tons from 2.6 mn tons in 9MCY10. We believe that in the near future, container cargo would continue to drive volume growth while bulk would record only a moderate growth. Note that the company is already operating at about 80-85% of its bulk capacity (of 4-5 MMT). The next quantum leap in bulk volumes are likely to come through only if certain key events (such as progress in upcoming power plant etc.) pan out.

Pipavav port quarterly and annual bulk cargo volumes, December calendar year-ends, 2008-3QCY11



Source: Company, Kotak Institutional Equities estimates

Port has outperformed the sector in terms of volume growth

In 9MCY11, Pipavav port recorded a total cargo growth of 25%. This is versus marginal growth of just 3% for major ports in India. In the container segment, Pipavav port recorded growth of 35.8% yoy versus a yoy growth of 4.7% in the average container volumes handled at major ports.

Volumes handled at Pipavav port in 9MCY11 versus major ports of the country

	Total cargo (MMT)			Container ('000 TEUs)			Total cargo (MMT)			Container ('000 TEUs)		
	3QCY11	3QCY10	% chg.	3QCY11	3QCY10	% chg.	9MCY11	9MCY10	% chg.	9MCY11	9MCY10	% chg.
Kolkata	3.1	3.5	(11.6)	106	97	9.3	9.2	9.8	(5.6)	301	277	8.7
Haldia	8.3	9.0	(8.4)	33	37	(10.8)	26.4	25.3	4.2	109	109	-
Paradip	13.4	12.9	3.8	2	1	100.0	43.0	41.8	3.0	3	4	NA
Visakhapatnam	17.5	16.8	4.0	60	31	93.5	54.4	48.7	11.6	149	85	75.3
Ennore	3.4	2.4	40.6	—	—	NA	10.3	7.3	41.1	—	—	NA
Chennai	14.2	16.3	(13.3)	382	384	(0.5)	45.0	47.2	(4.7)	1,201	1,088	10.4
Tuticorin	6.8	6.3	9.3	122	115	6.1	21.3	18.4	16.1	366	347	5.5
Cochin	5.4	4.5	18.7	95	87	9.2	14.4	14.3	0.4	270	242	11.6
New Mangalore	7.5	7.1	6.4	11	9	22.2	24.0	23.6	1.7	33	29	13.8
Mormugao	4.3	5.0	(13.1)	4	3	33.3	34.0	35.3	(3.8)	14	9	55.6
Mumbai	13.1	13.2	(0.7)	17	19	(10.5)	40.6	41.5	(2.4)	48	54	(11.1)
J.N.P.T	15.9	14.9	6.8	1,066	1,019	4.6	48.6	46.9	3.6	3,214	3,214	-
Kandla	20.4	20.4	0.2	41	35	17.1	62.0	60.1	3.2	125	113	10.6
Major ports	**133.2**	**132.2**	**0.8**	**1,939**	**1,837**	**5.6**	**433.0**	**420.1**	**3.1**	**5,833**	**5,571**	**4.7**
Pipavav	**2.8**	**2.8**	**1.6**	**169**	**130**	**29.7**	**8.1**	**6.5**	**24.9**	**440**	**324**	**35.8**

Source: Indian Ports Association, Company

Has already met PRCL's minimum guaranteed volumes for FY2012E

GPPL management cited a 78% increase in the number of rakes handled at the port and an 86% yoy increase in MMT terms. The company has already met the FY2012E minimum guaranteed volumes of 3 mn tons to PRCL in the past two quarters itself (June-end and Sept-end).

Revise estimates primarily on lower bulk volumes and EBITDA margins

We have revised our estimates to Rs1.15 and Rs2.6 from Rs1.2 and Rs2.6 for CY2011E and CY2012E, respectively. Key changes in assumptions include (1) lower bulk cargo volume estimate in CY2011E (to 3.7 mn tons from 4.2 mn tons earlier), (2) lower EBITDA margin assumption for CY2011E based on lower-than-expected expansion in CY2011E so far - estimate full-year margin of 45.5% (versus 49.5% earlier), (3) lower interest cost for the year on repayment of Rs895 mn of loans and (4) marginally higher average realizations in CY2011E.

Estimates build in continued strong performance in 4QCY11 as well

Our full-year estimates imply a revenue growth requirement of 20% yoy in 4QCY11 (to Rs1 bn) primarily driven by volume growth (20% for containers and 16-17% for bulk). Our full-year EBITDA assumption of 45.5% implies a strong margin expansion (both yoy as well as sequentially) to 49% in 4QCY11 (versus 44% recorded in 9MCY11). We expect the company to record a net PAT of Rs487 mn in CY2011E, implying a net PAT of Rs184 mn in 4QCY11 (versus Rs111 mn in 4QCY10 and Rs133 mn in 3QCY11).

GPPL - 4QCY11E - implied key numbers (Rs mn)

	9MCY11	9MCY10	% change	4QCY11E-implied	4QCY10	% chg.	CY2011E	CY2010	% change
Net operating income	**2,809**	**1,964**	**43.0**	**1,049**	**875**	**19.9**	**3,858**	**2,839**	**35.9**
Total expenditure	(1,566)	(1,222)	28.2	(535)	(491)	9.0	(2,101)	(1,713)	22.7
Operating expenses	(1,099)	(809)	35.8	(395)	(331)	19.3	(1,494)	(1,140)	31.0
Employee costs	(260)	(196)	32.7	(66)	(73)	(8.9)	(326)	(269)	21.4
Admin and other exp.	(207)	(216)	(4.3)	(74)	(87)	(15.1)	(281)	(304)	(7.4)
EBITDA	**1,243**	**743**	**67.4**	**514**	**384**	**33.9**	**1,757**	**1,126**	**56.0**
Other income	101	94	6.6	18	31	(41.4)	119	126	(5.4)
PBDIT	**1,344**	**837**	**60.5**	**532**	**415**	**28.2**	**1,876**	**1,252**	**49.8**
Interest expense	(644)	(1,096)	(41.2)	(204)	(176)	16.0	(848)	(1,271)	(33.3)
Depreciation	(397)	(365)	8.8	(144)	(128)	12.5	(541)	(493)	9.8
PBT	**303**	**(623)**	**NA**	**184**	**111**	**65.5**	**487**	**(512)**	**NA**
Tax expense	—	—	NA	—	—		—	—	NA
PAT	**303**	**(623)**	**NA**	**184**	**111**	**65.5**	**487**	**(512)**	**NA**
Key ratios (%)									
Operating exp./sales	39.1	41.2		37.6	37.9		38.7	40.2	
Employee costs/sales	9.3	10.0		6.3	8.3		8.5	9.5	
Admin and other exp./sales	7.4	11.0		7.1	10.0		7.3	10.7	
EBITDA margin	**44.2**	**37.8**		**49.0**	**43.9**		**45.5**	**39.7**	
PBT margin	10.8	(31.7)		17.6	12.7		12.6	(18.0)	
PAT margin	10.8	(31.7)		17.6	12.7		12.6	(18.0)	
Volumes									
Bulk ('000 tons)	2,790	2,571	8.5	900	770	16.9	3,690	3,341	10.4
Container ('000 TEUs)	440	324	35.8	170	142	19.6	610	466	30.9
Total ('000 tons)	**8,068**	**6,457**	**24.9**	**2,942**	**2,477**	**18.7**	**11,010**	**8,935**	**23.2**
Avg. realization (Rs/ton)	**348**	**304**	**14.4**	**357**	**353**	**1.0**	**350**	**318**	**10.3**

Source: Company, Kotak Institutional Equities estimates

Downgrade to REDUCE with a SOTP-based revised target price to Rs75/share

We have correspondingly revised our target price to Rs75/share (from Rs78 earlier). The target price of Rs75/share is comprised of (1) Rs65/share for the core port business (FCFE valuation), (2) Rs2.6/share for its with Pipavav Rail Corporation Ltd (PRCL, 1.5X book value) and (3) Rs6.4 from 50% of the calculated depreciated replacement value receivable at the end of the concession period.

SOTP-based target price of Rs75/share
Sum-Of-Total-Parts valuation of GPPL

	Value (Rs bn)	Stake (%)	GPPL stake value (Rs bn)	Per share (Rs)	Method of valuation
Pipavav port	27,696	100	27,696	65.4	1-year forward FCFE valuation
Pipavav Rail Corporation Ltd (PRCL)	2,940	38	1,117	2.6	1.5X book value
DRV/ extension of concession agreement	2,884	100	2,884	6.8	50% of calculated DRV/ agreement extn
Total value for GPPL	**33,520**		**31,698**	**75**	

Source: Company, Kotak Institutional Equities estimates

We downgrade our rating to the company to REDUCE (from ADD earlier) as (1) stock outperformance leaves limited upside, (2) trading at relatively expensive valuation of 13X CY2013E EV/EBITDA, and (3) limited potential for upside to strong near-term as well as long-term estimates.

Profit, balance sheet and cash model of GPPL, December calendar year ends, 2009-15E (Rs mn)

	2009	2010	2011E	2012E	2013E	2014E	2015E
Profit model							
Net sales	**2,207**	**2,839**	**3,858**	**4,979**	**6,147**	**7,354**	**8,122**
Total operating costs	(1,831)	(1,665)	(2,101)	(2,360)	(2,737)	(3,220)	(3,722)
EBITDA	**376**	**1,174**	**1,757**	**2,619**	**3,411**	**4,134**	**4,400**
EBITDA margin (%)	**17.0**	**41.3**	**45.5**	**52.6**	**55.5**	**56.2**	**54.2**
Other income	133	81	119	63	56	51	71
Financial charges	(1,157)	(1,271)	(848)	(739)	(689)	(647)	(577)
Depreciation	(458)	(493)	(541)	(603)	(681)	(775)	(852)
Pre-tax profit	**(1,105)**	**(509)**	**487**	**1,340**	**2,097**	**2,763**	**3,042**
Taxation	(1)	—	—	(221)	(418)	(551)	(606)
Adjusted PAT	**(1,106)**	**(547)**	**487**	**1,119**	**1,679**	**2,213**	**2,436**
EPS (Rs)	**(3.5)**	**(1.3)**	**1.15**	**2.6**	**4.0**	**5.2**	**5.8**
Balance sheet							
Shareholders' funds	**3,111**	**7,359**	**7,846**	**8,965**	**10,644**	**12,857**	**15,292**
Equity share capital	3,149	4,236	4,236	4,236	4,236	4,236	4,236
Reserves and surplus	(38)	3,123	3,610	4,730	6,408	8,621	11,057
Loan funds	**10,891**	**7,973**	**6,759**	**6,669**	**6,459**	**5,859**	**5,139**
Total sources of funds	**14,002**	**15,332**	**14,605**	**15,635**	**17,103**	**18,716**	**20,432**
Total fixed assets	**12,986**	**12,907**	**13,143**	**13,769**	**15,695**	**16,754**	**18,178**
Investments	830	830	830	830	830	830	830
Cash and bank balances	798	1,949	854	1,240	790	1,261	1,585
Net current assets excl. cash	(612)	(354)	(221)	(204)	(212)	(129)	(161)
Total application of funds	**14,002**	**15,332**	**14,605**	**15,635**	**17,103**	**18,716**	**20,432**

Strong FY2010-12E revenue CAGR of 32% led by container volume growth

Operating leverage-led margin expansion; port business (esp. containers) has high proportion of fixed costs

Lower interest cost on debt repayment from IPO proceeds

Lower balance sheet leverage post recent IPO

Source: Company, Kotak Institutional Equities estimates

INDIA

OCTOBER 31, 2011

UPDATE

BSE-30: 17,705

USD/INR—worsening fundamentals to weigh on the Rupee. The rapidity with which the USD/INR has depreciated over the past 2 months has been surprising. More recent trends in the Indian Rupee indicate that the domestic currency continues to react strongly to negative news flows, while moving only modestly to positive news. We expect the ongoing global uncertainty as well as worsening domestic growth fundamentals to weigh on the Rupee in the coming year. The USD/INR is likely to trade in the 48.00-51.00 range in 2HFY12E, averaging 49.25 during this time. We expect USD/INR to remain under pressure and average 49.75 in FY2013E.

Rupee lags behind its Asian peers

The Indian Rupee has been the worst performer within the Asian currency block, depreciating by a sharp 11.7% since August. To an extent, the domestic unit's weakness is a result of safe-haven flows into the Dollar. The greenback has gained sharply during this time on its safe-haven appeal, as first global growth slowdown fears and then Greek default worries led to the heightened risk aversion. To add to the weak global cues, the deteriorating domestic fundamentals further accentuated the upward move in USD/INR. Besides the fragile global risk appetite, concerns of a hard landing for the Indian economy have affected capital inflows. This together with import-related Dollar demand created a cash Dollar shortage in the onshore FX market, and pushed USD/INR above the 50.00 levels.

Domestic fundamentals to remain weak in the coming year

In FY2011, the Indian economy was hailed for its resilience and strong domestic fundamentals. However, FY2012E is turning out to be a completely different story for the Indian economy. The lack of progress on key reforms, the numerous scams and a worsening fiscal-monetary policy mix have dented the confidence in the Indian economy. We do not expect the policy environment in India to improve materially in the coming year. We believe that FY2013E could continue to be a challenging year for the Indian economy. This would manifest itself in lower capital inflows and a depreciated currency as confidence in the Indian economy remains poor.

Balance of payments risks shifting to the capital account

In FY2012E, we expect the current account deficit to remain in excess of 3% of GDP as a weaker Rupee drives up the import bill while exports lose their shine on waning global demand. On the capital account side, both pull and push factors appear to be missing given the deteriorating domestic and global fundamentals. We expect the overall balance of payments for FY2012E at US$4.5 bn. We do not expect any drastic change in BoP dynamics in FY2013E, and expect the overall surplus on the BoP at US$6.7 bn in FY2013E. The modest BoP surplus would manifest itself in a locked range for USD/INR with limited scope of any appreciation.

Dollar to gain from its safe-haven appeal

The EU Summit on October 26, 2011 addressed some of the key issues facing the Euro zone, but fell short on details. While the Euro bounced off sharply following the Summit, we expect these gains to be temporary. Going forward, we expect the Euro to come under renewed pressure on narrowing interest rate differentials. ECB will have to cut its policy rate down the road as the current sovereign debt crisis and the risk of a banking crisis pose the risk of a mild recession in the region. In the last ECB policy review, some ECB governing council members were in favor of a rate cut. Additionally, we do not expect the latest measures to be a panacea for the ongoing sovereign debt problems in the region. Thus sovereign and banking sector stress would be another source of weakness for the Euro. We expect EUR/USD to head lower and average 1.32 in 2HFY12E.

QUICK NUMBERS

- USD/INR to remain under pressure, average 49.25 in 2HFY12E and 49.75 in FY2013E
- BoP to see modest surplus in FY2012E and FY2013E; risks on the capital account increasing
- Dollar to gain on safe-haven appeal as Euro sovereign and banking sector-related stresses to persist

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Indian Rupee—worsening fundamentals to weigh on the currency

Since our last currency report on September 22 (‘*INR could witness further depreciation bias*‘), the Indian Rupee has definitely shown depreciation bias with negative global news and also in line with the global FX trends during these times. However, it has significantly failed to show any bias for appreciation in situations of improving risk environment and a consequent depreciation of the USD. In light of this, it is becoming more apparent that besides the global uncertainty, which has and will continue to play a major role in determining INR trends, the worsening domestic growth fundamentals have also been weighing on the domestic currency.

We expect that the bias for Dollar appreciation as a safe-haven currency and also due to ECB rate cuts is building up strongly. This and headwinds from the weakening domestic fundamentals are expected to keep the USD/INR on a depreciation bias. We thus expect USD/INR to trade in the 48.00-51.00 range in 2HFY12E. Further, we expect the USD/INR to remain under pressure in FY2013E and average 49.75 for the year.

We had highlighted in the September 22 comment the possibility of USD/INR breaching the 50.00 mark in the near term and thereafter testing the previous high of 52.20. Our view has played out as USD/INR touched an intra-day high of 50.32 on October 21, 2011 before ending the day at 50.03. However, at the time of our last report, we were also of the view that this upside to USD/INR would prove to be temporary and USD/INR would eventually settle in the 46.00-49.00 range in 2HFY12E. This was based on our expectations that Greece default concerns would ease boosting global risk appetite.

Exhibit 1: We expect USD/INR to average 47.27 in FY2012E and remain under pressure in FY2013E averaging 49.75
Quarterly estimates of USD/INR (average), March fiscal year-ends

	2010	2011	2012E	2013E	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12E	4QFY12E
Average Rate												
USD/INR	**47.41**	**45.57**	**47.27**	**49.75**	**45.68**	**46.51**	**44.85**	**45.26**	**44.74**	**45.78**	**49.50**	**49.00**
EUR/USD	1.41	1.32	1.38	1.28	1.27	1.29	1.36	1.37	1.44	1.41	1.35	1.30
GBP/USD	1.60	1.56	1.59	1.49	1.49	1.55	1.58	1.60	1.63	1.61	1.57	1.53
USD/JPY	92.88	85.66	78.13	77.50	92.1	85.8	82.6	82.3	81.6	77.7	76.3	77.0
Average depreciation (-)/appreciation (+)												
USD/INR	**(3.0)**	**3.9**	**(3.7)**	**(5.3)**	**0.5**	**(1.8)**	**3.6**	**(0.9)**	**1.2**	**(2.3)**	**(8.1)**	**1.0**
EUR/USD	(0.7)	(6.4)	4.0	(7.0)	(8.0)	1.6	5.0	0.9	5.1	(1.9)	(4.5)	(3.7)
GBP/USD	(7.1)	(2.5)	1.9	(6.0)	(4.3)	3.9	1.9	1.5	1.8	(1.3)	(2.5)	(2.5)
USD/JPY	6.2	7.8	8.8	0.8	(1.5)	6.8	3.8	0.4	0.8	4.8	1.9	(1.0)

Source: Bloomberg, Kotak Economic Research estimates

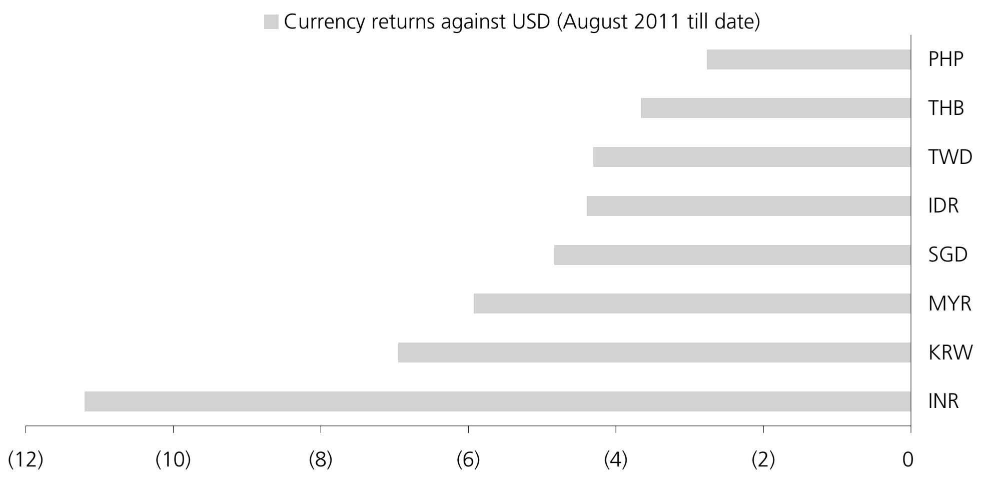
USD/INR move—a rewind

The Indian Rupee has been the worst performer within the Asian currency block, depreciating by a sharp 11.7% since August with the swiftness and the rapidity of the depreciation especially surprising. The Rupee weakness in early August was largely in line with the trends in the global FX markets, as first the US debt ceiling impasse and then the US downgrade led to a marked deterioration in risk appetite. With investors flocking into safe-haven assets such as Dollar, Swiss Franc and Yen, emerging market asset classes declined, and their currencies weakened.

In the latter part of August, INR depreciated sharply, in contrast to the appreciation trends in the other Asian currencies. This was in part due to the bunching up of Dollar demand in relation to the Iran oil payments. Thus, despite the rally in domestic equities as also global Dollar weakness during this time, the Rupee remained under pressure. Though it was anticipated that as this demand eases out, USD/INR would return to its earlier levels, the domestic currency pair not only remained at elevated levels but headed further north. The sustenance of this upward pressure on USD/INR came after a key support level (45.80) was broken, also coinciding with news of Dollar demand by Indian corporate in onshore market.

Since the beginning of September, the trends in the Indian Rupee have fallen in line with those in the global FX markets. Fears of a Greece default came back on the radar after the country missed its deficit target and put to jeopardy the release of the EU/IMF bailout tranche. However, Rupee moves have been more exaggerated, as INR depreciated sharply on negative news flows but appreciated only modestly on positive news flows. This was possibly on account of deteriorating domestic fundamentals, and concerns of a sharp slowdown and a brewing fiscal problem, which pushed USD/INR above the 50.00 levels.

Exhibit 2: The Indian Rupee has lagged behind the Asian peers
Currency returns against the USD (August 2011 till date), %



Source: Bloomberg, Kotak Economic Research

Waning domestic fundamentals a risk for USD/INR

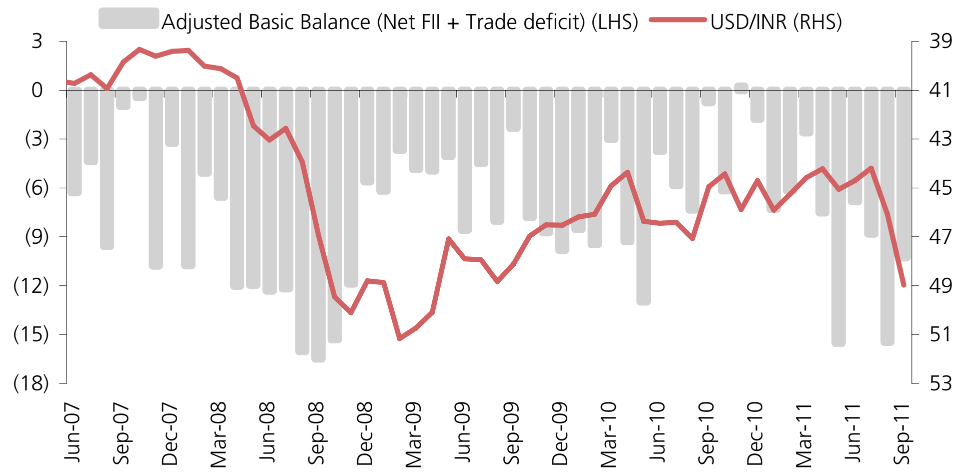
In FY2012E confidence in the Indian economy has been waning. Initially, scams and corruption issues dented sentiment. Further, the lack of progress on key reforms and a worsening fiscal-monetary policy mix have dented the confidence in the Indian economy and led to fears of a hard landing. We do not expect the policy environment in India to improve in any material fashion in the coming year. Even as the domestic policy interest rates have peaked, a downward trend looks unlikely until mid-FY2013E as we expect inflation to remain above RBI's comfort zone (4-6%) until then. Additionally, progress on fiscal consolidation is likely to be far from desirable, as we do not expect any progress on key reforms such as the GST and administered fuel prices deregulation. All this could manifest in lower capital inflows and a depreciated currency as confidence in the Indian economy remains poor.

Balance of payments to be in surplus but risks shifting to the capital account

In our view, the overall balance of payments trends in FY2012E are also unlikely to be supportive of the domestic currency. In 1QFY12, capital inflows were healthy at US$20.9 bn, which after covering the US$14.2 bn deficit on the current account, led to a US$5.4 bn surplus on the BoP. However, we do not expect the remaining quarters of FY2012E to show significant strengths on the capital flows, thereby leading to a bias for the USD/INR to depreciate.

India's merchandise trade deficit has widened from an average of US$10.5 bn in 1QFY12 to US$11.6 bn in 2QFY12 as per DGCI&S data. However, FII inflows have slowed, with total flows since July at US$1.5 bn against US$1.8 bn in 1QFY12. Given the heightened risk aversion from August onwards and the Dollar shortage in the domestic FX market, it is quite likely that capital inflows from other sources have also been subdued during this period.

Exhibit 3: The widening of the monthly basic balance has exerted upward pressure on USD/INR
Adjusted Basic balance (net FII + trade deficit), (US$ bn, LHS); USD/INR (RHS)



Source: Bloomberg, Kotak Economic Research

In the remaining of FY2012E, we expect the recent strong momentum in exports to give way as global demand weakens. There is already evidence of this, with monthly merchandise exports coming down to US$24.9 bn in September 2011 from around US$29 bn in June-July 2011. Further, the close to 12.6% depreciation in INR on a FYTD basis is likely to drive up the import bill. We thus see the trade balance widen to 8.3% of GDP in FY2012E from 7.6% of GDP in FY2011. On the capital account side, both pull and push factors appear to be missing given the deteriorating domestic and global fundamentals. We expect the overall balance of payments for FY2012E at US$4.5 bn. In FY2013E, we expect the BoP to exhibit more or less similar trends and look for the total surplus on the BoP at US$6.7 bn.

The risks to the BoP for FY2013E, in our view, are mainly on the capital account. This is a marked departure from FY2012E where the risks were mainly concentrated on the current account in the form of a widening trade gap on account of rising crude oil prices. Going forward, there is no clarity on the effectiveness of the current policy directions to save Greece from defaulting. In the event of a default, the risk aversion is likely to aggravate significantly, leading to safe-haven demand for USD. The other risk could be in the form of lower FDI and ECB, mainly due to the waning fundamentals of the domestic and global economy.

Exhibit 4: CAD/GDP likely to widen to above 3%; funding CAD could become a concern as risks increasingly emerging on capital flows
Components of balance of payments, March fiscal year-ends (in US$ bn)

	2009	2010	2011	2012E	2013E	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12
Current account	**(27.9)**	**(38.4)**	**(44.3)**	**(61.0)**	**(52.3)**	**(12.1)**	**(16.8)**	**(10.0)**	**(5.4)**	**(14.2)**
GDP	1,218	1,381	1,727	1,931	2,092	388	396	476	474	461
CAD/GDP (%)	**(2.3)**	**(2.8)**	**(2.6)**	**(3.2)**	**(2.5)**	**(3.1)**	**(4.2)**	**(2.1)**	**(1.1)**	**(3.1)**
Trade balance	(119.5)	(118.4)	(130.6)	(160.0)	(159.3)	(31.9)	(37.3)	(31.5)	(29.9)	(35.5)
Trade balance/GDP (%)	**(9.8)**	**(8.6)**	**(7.6)**	**(8.3)**	**(7.6)**	**(8.2)**	**(9.4)**	**(6.6)**	**(6.3)**	**(7.7)**
- Exports	189	182	250	319	367	55	52	66	77	80.6
- Imports	309	301	381	479	526	87	89	97	107	116.1
o/w Oil imports	94	87	101	148	136	26	22	24	29	31
o/w Non-oil imports	215	213	280	331	391	62	67	74	78	86
Invisibles (net)	92	80	86	99	107	20	20	21	24	21.3
- Services	54	36	48	57	64	10	12	12	15	12.1
o/w Software	44	48	57	65	72	13	13	15	17	14.2
o/w Non-software	10.2	(12.5)	(9.1)	(8.0)	(8.0)	(3.0)	(0.9)	(3.1)	(2.2)	(2.1)
- Transfers	45	52	53	55	57	13	13	14	14	13.6
- Other invisibles	(7.1)	(8.0)	(15)	(13.0)	(14.0)	(2.9)	(4.2)	(4.0)	(3.9)	(4.3)
Capital account	**6.8**	**53.4**	**59.8**	**68.5**	**59.0**	**16.8**	**21.4**	**13.4**	**8.2**	**20.9**
% of GDP	0.6	3.9	3.5	3.6	2.8	4.3	5.4	2.8	1.7	4.5
Foreign investment	5.8	51.2	37.4	29.5	27.0	7.5	22.2	6.9	0.8	9.7
- FDI	19.8	18.8	7.1	20.0	15.0	2.9	3.0	0.6	0.6	7.2
- FII	(15.0)	29.0	28.2	8.0	10.0	3.5	18.7	6.1	(0.0)	2.3
- ADRs/GDRs	1.2	3.3	2.0	1.5	2.0	1.1	0.5	0.2	0.2	0.3
Banking capital	(3.2)	2.1	5.0	16.0	6.0	4.0	(3.2)	4.9	(0.8)	12.7
- NRI deposits	4.3	2.9	3.2	3.0	3.0	1.1	1.0	0.2	0.9	1.2
Short-term credit	(2.0)	7.6	11.0	13.0	11.0	4.3	2.6	1.3	2.7	3.1
ECBs	7.9	2.8	11.9	15.0	12.0	2.2	3.4	3.8	2.4	2.9
External assistance	2.4	2.9	4.9	3.0	3.0	2.5	0.6	1.2	0.8	0.4
Other capital account items	(4.1)	(13.1)	(10.4)	(8.0)	0.0	(3.8)	(4.3)	(4.8)	2.4	(7.8)
E&O	1.1	(1.6)	(2.4)	(3.0)	0.0	(0.9)	(1.3)	0.6	(0.8)	(1.3)
Overall balance	**(20.1)**	**13.4**	**13.1**	**4.5**	**6.7**	**3.7**	**3.3**	**4.0**	**2.0**	**5.4**
memo items:				0.0						
Average exchange rate (US$/Rs)	45.82	47.41	45.63	47.27	49.75	45.68	46.51	44.85	45.25	44.74
Average Indian crude (US$/bbl)	84.0	70.0	85.1	110.0	100.0	78.3	74.9	85.3	102.0	112.7

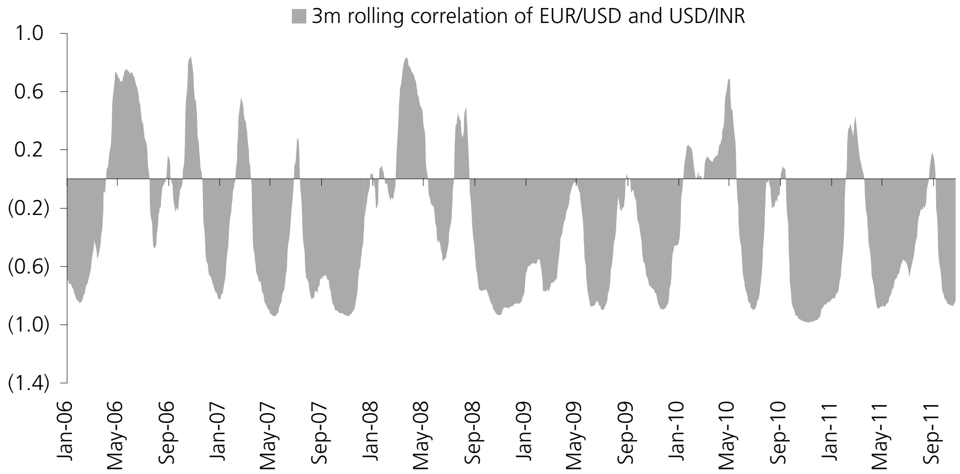
Source: RBI, Kotak Economic Research estimates

Dollar to show appreciation bias as global uncertainties persist

At the time of our last currency note, beginning July, we were bullish on the Euro despite the lurking sovereign risks as we viewed the interest rate differentials to favor the common currency. The ECB had signaled an exit from its crisis-level interest rates in response to the increasing inflationary pressures in the region, while the Fed maintained its zero interest rate policy stance in view of the fledgling recovery. Moreover, we expected that European policymakers would take the necessary steps to prevent sovereign tail risks from materializing, thereby making interest rate differentials as the key driver of global FX markets.

Since the beginning of August, the Dollar has appreciated sharply, benefiting from its safe-haven status. To begin with, the heightened risk aversion was a result of renewed global slowdown and recession fears after economic indicators, particularly from the US, deteriorated sharply. The risk-off mode continued as the European sovereign debt crisis escalated and threatened to spread to the bigger Euro-zone member states such as Italy, and risks of a Greece default increased. Thus, EUR/USD tumbled from around 1.43-1.44 levels at the beginning of August to a low of 1.31-1.32 at the beginning of October, a decline of more than 8.0%.

Exhibit 5: INR is likely to weaken on the back of Euro weakness
3-month rolling correlation of EUR/USD and USD/INR



Source: Bloomberg, Kotak Economic Research

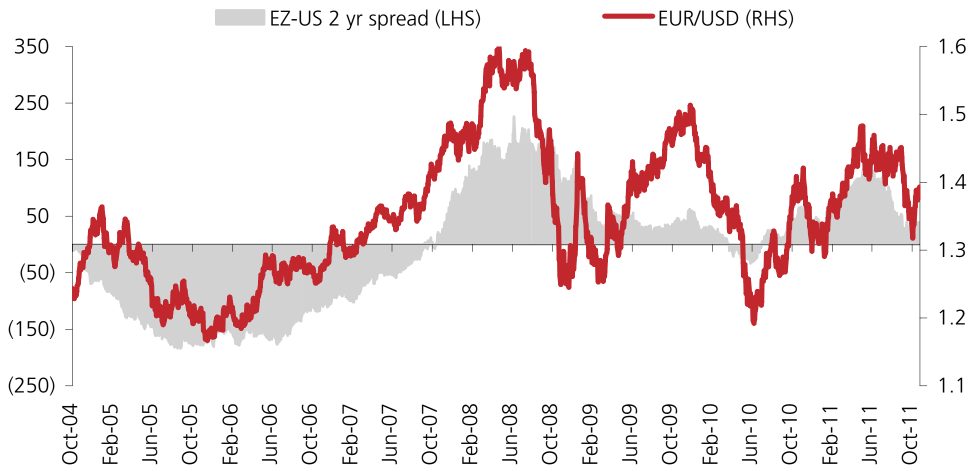
Financial markets have been in a euphoric mode after the EU Summit on October 26, 2011 delivered a comprehensive plan to address the sovereign crisis (see below for details). The Euro in response to these announcements (see below for details) bounced off sharply and touched a high of 1.4247, before settling at 1.4150. We, however, believe that these gains could prove to be temporary and the Euro could come under renewed pressure going forward.

Our Euro bearish view is based on our expectation of an ECB rate cut down the road. Economic activity in the Euro area had already been decelerating; the ongoing sovereign debt crisis and the risk of a banking crisis have increased the risk of a mild recession in the region. In fact, in the October policy review, the ECB softened its stance on inflation and instead highlighted the growth risks. Additionally, the decision to hold interest rates at 1.50% was a consensus decision (not unanimous), implying that some ECB governing council members were in favor of a rate cut in the October meeting itself.

We thus expect the ECB to lower its policy interest rates from the current 1.50% in the coming months. An eventual reversal in ECB policy stance will turn interest rate differentials against the Euro and weigh on the common currency. We thus expect EUR/USD to head lower and average 1.32 in 2HFY12E.

Additionally, we do not expect the latest measures agreed upon by European policymakers to be a panacea for the ongoing sovereign debt problems in the region. We expect Europe to remain a source of volatility for the global financial markets and global economy in the foreseeable future, and impart news-based and data-based volatility. This would be another source of weakness for the Euro in the coming months.

Exhibit 6: Rate cut by the ECB may see Euro under pressure on narrowing interest rate differentials
EU-US 2-year bond spread (bps, LHS); EUR/USD (RHS)



Source: Bloomberg, Kotak Economic Research

EU Summit falls short on details

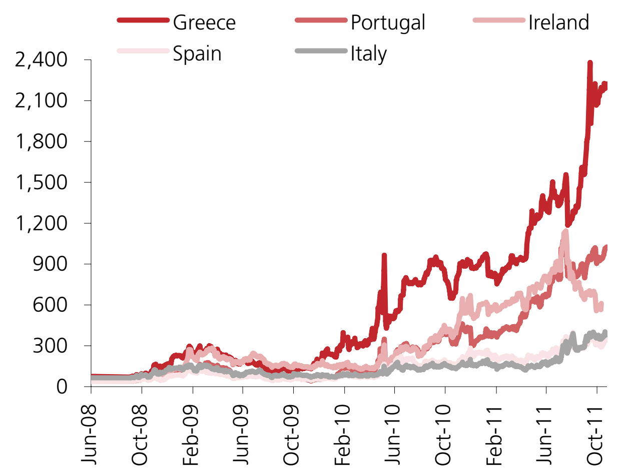
The EU Summit has addressed some of the most pressing issues of the ongoing European crisis. However, the Summit was strong on intent, but fell short on details. The proposed measures are sketchy and it would take time to work out the fine print. Additionally, there is little clarity on the timeline for the implementation of some of these measures. Some of the highlights at the Summit were

- To improve the debt sustainability of Greek debt, EU leaders proposed to increase haircut on Greek debt to 50% (against the 21% agreed upon in July 2011). The debt restructuring would be voluntary in nature in order to avoid triggering CDS-related payments. As per the officials, the higher haircut would help to reduce the Greek debt to around 120% of GDP by 2020 from around 143% in CY2010 (gross debt/GDP is expected to peak at 189% in CY2012 as per IMF estimates).
  - There is a possibility that the actual participation in the Greek debt restructuring is lower than that envisaged currently. As a result, the 120% of debt/GDP target by 2020 may not be achieved.
- Greece could be provided with additional aid by EU/IMF of EUR100 bn until 2014, which would include the cost of refinancing Greek banks. The new bailout package would be finalized before the end of the year.
- The EFSF would be leveraged by around 4-5 times, which would increase the EFSF's firepower to around EUR1 tn. This would be done by (1) providing credit enhancements to the new debt issued by the Euro-zone member states (would help to reduce the borrowing costs) and (2) increasing the funding arrangements through a combination of resources from public and private financial institutions and investors via SPVs (would boost the EFSF's capacity to extend loans, recapitalize banks and purchase bonds in the primary and secondary market).
  - The plan to leverage the EFSF is dependent on investment by private investors and financial institutions. However, there is no clarity on how much private investor and funds are ready to commit.

- Banks are required to boost their capital ratios to 9.0% and take into account the market valuation of sovereign debt exposures, both as of September 30, 2011. Banks are expected to achieve this by June 30, 2012. As per EBA estimates, the European banks would require approximately EUR106 bn to meet this requirement. The additional capital requirement would first have to be met through private sources. In case this proves to be insufficient, national governments can provide the requisite support and if this means is also not available, the recapitalization can be funded via loans from the EFSF.
    - The recapitalization process could push banks to deleverage, which would lower the supply of credit and further impede the recovery

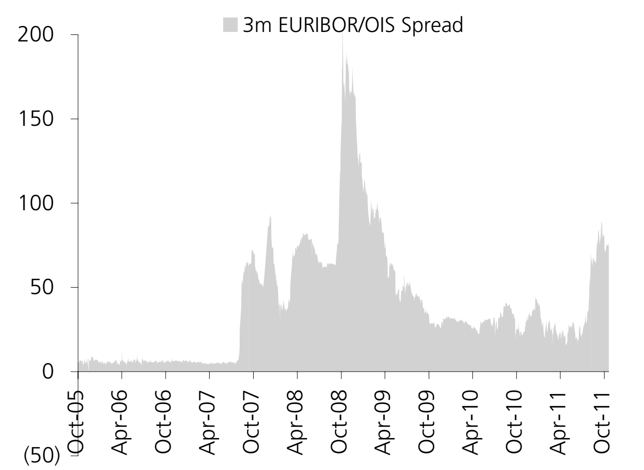
Despite the recent proposals, the road ahead for Europe is still fraught with several risks and challenges. To begin with, even if Greece is successful in reducing its debt to GDP to 120% by 2020, this is still very high and it does not guarantee a return to a sustainable debt trajectory. The deepening recession and severe austerity measures imposed on Greece as a part of the bailout agreement have seen Greece miss its deficit targets in the past, and these factors could create obstacles in the future as well. Additionally, the Euro-zone economy is decelerating, including the core economies of Germany and France. However, the slowdown notwithstanding, governments across the region are being compelled to undertake fiscal austerity to rein in the ballooning budget deficits. This could put growth under further pressure and risks tipping some of the member states into a recession. This is especially true of the periphery economies such as Greece where the burden of fiscal austerity is deepening the recession, which in turn is worsening the fiscal balances.

Exhibit 7: Peripheral bond markets are experiencing stress…
Spread over 10-year German bund (in bps)



Source: Bloomberg, Kotak Economic Research

Exhibit 8: …and has spilled over to the banking sector as well
3-month EURIBOR/OIS spread (bps)



Source Bloomberg, Kotak Economic Research

September 2011: Results calendar

Mon	Tue	Wed	Thu	Fri	Sat
31-Oct	**1-Nov**	**2-Nov**	**3-Nov**	**4-Nov**	**5-Nov**
	ACC	Allahabad Bank	Ashok Leyland	Apollo Hospital Enterprises	Carborudum Universal
	Aditya Birla Nuvo	Andhra Bank	Jubilant foodworks	Bharti Airtel	City Union Bank
	Ambuja Cements	Hindustan Motors	Manappuram Finance	Glaxosmithkline Consumers	India Infoline
	Bajaj Electricals	Karur Vysya Bank	Prestige Estates	Glaxosmithkline Pharmaceuticals	Motherson Sumi
	Central Bank of India	L&T Finance Holding	SAIL	Marico	MTNL
	Divi's Laboratories	Onmobile Global	SunTV Network	ONGC	
	Essar Oil	Piramal Life Sciences	Tata Teleservices		
	HPCL	Taj GVK Hotels & Resorts	TVS Motor Co.		
	Jubilant Life Sciences	Uflex	Welspun Corp		
	Punjab National Bank				
	Rolta India				
7-Nov	**8-Nov**	**9-Nov**	**10-Nov**	**11-Nov**	**12-Nov**
Future Capital Holding	Aban Offshore	Ansal Properties & Infra	Cadila Healthcare	Adani Power	Bharati Shipyard
Jain Irrigation	ABB	Apollo Tyres	Cummins	Anant Raj Industries	Coal India
Madras Cement	Aurobindo Pharma	Bharat Forge	GVK Power & Infra	Dishman Pharma	DB Realty
Parsvnath Developers	Bank of India	CESC	Hindalco Industries	Jet Airways	REC
Punj Llyod	Bosch	Glenmark Pharmaceuticals	IRB Infrastructure Developers	JK Cement	Shipping Corp of India
SKS Microfinance	Firstsource Solutions	GMR Infra	Pantaloon Retail	Lanco Infratech	
United Spirits	Godrej Industries	IOCL	Shree Cements	MOIL	
	IDFC	JSW Energy	Tata Steel	Mundra Port & SEZ	
	Reliance Power	Jyothy Laboratories	Tecpro Systems	Nitesh Estates	
		Keynote Corporate Services	VA Tech Wabag	REI Agro	
		Lupin		Tata Chemicals	
		Power Finance Corp			
		Ranbaxy Laboratories			
		Tata Communications			
		Voltas			
14-Nov	**15-Nov**				
Adani Enterprises	Tata Power				
Aventis Pharma					
BGR Energy Systems					
GSPL					
India Cements					
LIC Housing Finance					
Mahindra & Mahindra					
Money Matters Financial Services					
Oil India					
Tata Motors					

Source: BSE, NSE, Kotak Institutional Equities

Kotak Institutional Equities: Valuation summary of key Indian companies

	31-Oct-11		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US$ mn)	(mn)	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	(Rs)	(%)	(US$ mn)
Automobiles																													
Apollo Tyres	58	BUY	29,036	596	504	8.7	7.5	9.7	(26.1)	(13.7)	28.5	6.6	7.6	5.9	5.3	4.7	4.0	1.1	0.9	0.8	0.9	0.7	1.0	20.1	14.7	16.3	85	47.6	3.6
Ashok Leyland	27	SELL	72,770	1,494	2,661	2.4	2.1	2.4	68.1	(11.9)	12.8	11.5	13.1	11.6	7.9	8.3	7.5	1.6	1.5	1.5	3.7	3.7	3.7	21.8	17.4	18.2	26	(4.9)	3.4
Bajaj Auto	1,730	SELL	500,633	10,281	289	90.4	109.2	119.0	43.9	20.8	9.0	19.1	15.8	14.5	14.6	12.3	11.3	10.1	7.4	5.7	2.3	2.3	2.3	84.9	54.1	44.2	1,665	(3.8)	16.6
Bharat Forge	299	ADD	71,024	1,459	237	12.5	16.0	20.2	1,402.1	27.9	25.8	23.9	18.7	14.8	11.1	9.1	7.6	3.2	2.7	2.3	1.1	—	—	8.2	14.0	15.1	320	6.9	2.3
Exide Industries	121	SELL	103,020	2,116	850	7.5	4.5	6.1	18.0	(39.5)	35.6	16.3	26.9	19.8	11.7	18.0	13.7	3.8	3.4	3.0	1.2	1.1	1.1	25.5	13.4	16.3	100	(17.5)	6.9
Hero Motocorp	2,181	SELL	435,616	8,946	200	99.3	120.5	135.4	(11.1)	21.3	12.4	22.0	18.1	16.1	14.7	13.2	11.1	9.3	8.0	6.7	4.8	3.2	3.2	56.5	67.0	60.0	1,900	(12.9)	24.5
Mahindra & Mahindra	865	ADD	531,325	10,911	614	41.7	46.9	52.2	22.7	12.5	11.2	20.7	18.4	16.6	15.8	13.4	11.9	5.0	4.1	3.4	1.3	1.1	1.1	27.3	24.5	22.6	900	4.0	34.5
Maruti Suzuki	1,125	ADD	325,099	6,676	289	79.2	60.3	90.5	(8.4)	(23.9)	50.1	14.2	18.7	12.4	8.8	11.8	7.0	2.3	2.1	1.8	0.7	0.7	0.7	17.6	11.8	15.7	1,240	10.2	16.6
Tata Motors	198	ADD	659,846	13,551	3,325	27.2	23.1	23.9	737.9	(15.0)	3.6	7.3	8.6	8.3	5.2	5.9	5.6	3.4	2.5	2.0	1.9	1.4	1.4	66.1	34.2	27.3	180	(9.3)	60.6
Automobiles		**Cautious**	**2,728,368**	**56,030**					**82.8**	**(4.5)**	**12.6**	**13.3**	**13.9**	**12.4**	**8.8**	**9.1**	**8.0**	**4.1**	**3.4**	**2.8**	**2.2**	**1.7**	**1.7**	**31.1**	**24.5**	**22.8**			
Banks/Financial Institutions																													
Andhra Bank	119	BUY	66,478	1,365	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	4.9	5.6	23.2	19.4	19.2	190	59.9	1.5
Axis Bank	1,159	BUY	491,945	10,103	424	82.5	96.1	111.8	33.0	16.4	16.3	14.0	12.1	10.4	—	—	—	2.6	2.2	1.9	1.2	1.4	1.6	19.3	19.8	19.6	1,500	29.4	57.1
Bajaj Finserv	542	ADD	78,402	1,610	145	78.2	62.7	61.4	102.3	(19.8)	(2.1)	6.9	8.6	8.8	—	—	—	2.2	1.6	1.3	2.3	2.3	2.3	37.2	21.8	16.4	650	19.9	2.8
Bank of Baroda	771	BUY	302,913	6,221	393	108.0	110.1	127.0	29.1	1.9	15.4	7.1	7.0	6.1	—	—	—	1.6	1.3	1.1	2.5	2.5	2.9	25.9	20.5	20.2	1,100	42.6	7.4
Bank of India	333	BUY	182,087	3,739	547	45.5	54.0	70.7	37.4	18.7	30.9	7.3	6.2	4.7	—	—	—	1.1	1.0	0.9	2.4	2.9	3.8	17.3	17.2	19.5	470	41.2	4.7
Canara Bank	467	BUY	206,837	4,248	443	90.9	80.9	101.5	23.3	(10.9)	25.4	5.1	5.8	4.6	—	—	—	1.2	1.0	0.8	2.4	2.6	2.6	23.2	16.7	18.1	550	17.8	7.0
Corporation Bank	426	BUY	63,074	1,295	148	95.4	94.0	109.2	16.3	(1.5)	16.1	4.5	4.5	3.9	—	—	—	0.9	0.8	0.7	4.7	4.6	5.4	21.9	18.2	18.4	630	48.0	0.7
Federal Bank	416	BUY	71,070	1,459	171	34.3	43.1	55.1	26.3	25.7	27.7	12.1	9.6	7.5	—	—	—	1.4	1.3	1.2	2.0	2.6	3.3	12.0	13.7	15.8	500	20.3	3.2
HDFC	689	REDUCE	1,010,474	20,751	1,467	24.1	27.8	31.6	22.4	15.4	13.7	28.6	24.8	21.8	—	—	—	5.8	5.2	3.9	1.3	1.5	1.8	21.7	22.1	21.3	725	5.2	39.9
HDFC Bank	490	ADD	1,139,803	23,407	2,326	16.9	22.0	28.1	31.0	30.2	27.8	29.0	22.3	17.4	—	—	—	4.5	3.9	3.3	0.7	0.9	1.1	16.7	18.7	20.5	560	14.3	38.2
ICICI Bank	931	BUY	1,072,517	22,025	1,152	44.7	56.9	60.0	23.9	27.2	5.4	20.8	16.4	15.5	—	—	—	1.9	1.8	1.7	1.5	1.8	1.9	9.7	11.5	11.2	1,100	18.1	82.6
IDFC	133	BUY	199,899	4,105	1,509	8.8	9.9	12.0	4.6	12.8	21.6	15.1	13.4	11.0	—	—	—	1.9	1.6	1.5	1.6	1.5	1.8	14.7	13.1	13.9	150	13.2	18.3
India Infoline	74	SELL	24,223	497	327	7.4	4.8	6.5	(9.3)	(34.5)	33.8	10.0	15.3	11.5	—	—	—	1.5	1.2	1.1	4.2	1.4	1.9	12.9	8.7	10.3	70	(5.5)	1.0
Indian Bank	217	BUY	93,260	1,915	430	38.8	40.9	48.3	10.5	5.5	18.1	5.6	5.3	4.5	—	—	—	1.2	1.0	0.9	3.5	3.5	4.2	22.3	19.9	20.1	300	38.2	1.3
Indian Overseas Bank	102	BUY	63,360	1,301	619	17.3	20.1	29.1	33.6	15.8	45.1	5.9	5.1	3.5	—	—	—	0.8	0.7	0.6	4.9	4.1	4.5	12.7	12.7	16.3	160	56.3	1.6
IndusInd Bank	287	BUY	133,592	2,743	466	12.4	15.6	18.2	45.2	26.1	16.6	23.1	18.4	15.7	—	—	—	3.6	3.2	2.8	0.7	0.9	1.0	20.8	18.1	17.8	325	13.4	3.6
J&K Bank	814	ADD	39,473	811	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	0.6
LIC Housing Finance	234	ADD	111,138	2,282	475	20.5	22.9	27.5	47.2	11.4	20.4	11.4	10.2	8.5	—	—	—	2.8	2.4	2.0	1.9	2.1	2.5	25.8	23.7	23.9	260	11.1	18.4
Mahindra & Mahindra Financial	674	BUY	69,053	1,418	102	45.2	55.7	70.7	26.1	23.2	26.9	14.9	12.1	9.5	—	—	—	2.8	2.5	2.1	1.5	1.8	2.3	22.0	21.1	22.8	825	22.4	1.0
Muthoot Finance	184	BUY	68,303	1,403	371	15.7	21.6	26.7	108.4	37.1	23.7	11.7	8.5	6.9	—	—	—	5.1	2.3	1.7	—	—	—	51.5	36.7	28.1	230	25.1	—
Oriental Bank of Commerce	290	BUY	84,567	1,737	292	51.5	48.0	59.5	13.7	(6.9)	23.9	5.6	6.0	4.9	—	—	—	0.8	0.7	0.7	3.6	3.3	4.1	15.5	12.1	13.6	430	48.4	3.4
PFC	150	BUY	197,924	4,065	1,320	22.8	23.4	28.3	11.1	2.4	21.3	6.6	6.4	5.3	—	—	—	1.3	1.0	0.9	2.6	3.1	3.8	18.4	17.0	16.7	225	50.1	10.2
Punjab National Bank	976	BUY	309,288	6,352	317	140.0	163.0	201.5	13.0	16.5	23.6	7.0	6.0	4.8	—	—	—	1.5	1.3	1.1	2.3	3.4	4.2	24.4	23.5	24.2	1,500	53.6	7.4
Reliance Capital	370	REDUCE	91,116	1,871	246	9.3	16.5	24.8	(25.3)	77.0	50.4	39.8	22.5	14.9	—	—	—	1.3	1.3	1.2	1.0	1.8	2.7	3.3	5.7	8.3	470	27.0	30.2
Rural Electrification Corp.	181	BUY	178,273	3,661	987	26.0	29.0	32.5	28.1	11.5	12.3	7.0	6.2	5.5	—	—	—	1.4	1.2	1.1	4.2	4.6	5.2	21.5	20.8	20.4	240	32.9	8.4
Shriram Transport	614	REDUCE	136,896	2,811	223	55.1	65.6	75.3	40.8	19.0	14.8	11.1	9.4	8.2	—	—	—	2.8	2.4	2.0	1.1	2.1	2.5	28.1	26.8	25.2	700	14.1	7.0
SKS Microfinance	202	RS	14,867	305	74	15.7	(39.1)	3.9	(41.8)	(349.4)	(109.9)	12.9	(5.2)	52.1	—	—	—	0.8	1.0	0.9	—	—	—	8.3	(17.4)	1.9	—	—	2.4
State Bank of India	1,906	BUY	1,210,499	24,859	635	130.2	195.6	256.1	(9.9)	50.3	30.9	14.6	9.7	7.4	—	—	—	1.9	1.6	1.4	1.8	1.9	2.0	12.6	17.8	20.0	2,750	44.3	138.6
Union Bank	226	BUY	118,447	2,432	524	39.5	43.0	56.1	(3.9)	9.0	30.3	5.7	5.3	4.0	—	—	—	1.1	0.9	0.8	3.5	3.8	5.0	20.9	19.0	21.2	340	50.5	5.5
Yes Bank	314	BUY	109,108	2,241	347	20.9	26.2	31.9	39.6	25.3	21.5	15.0	12.0	9.9	—	—	—	2.9	2.4	2.0	0.8	1.0	1.2	21.1	21.8	21.9	420	33.6	17.8
Banks/Financial Institutions		**Attractive**	**7,938,889**	**163,033**					**20.0**	**18.3**	**22.5**	**13.0**	**11.0**	**8.9**	**—**	**—**	**—**	**2.1**	**1.8**	**1.5**	**1.7**	**1.9**	**2.2**	**16.0**	**16.4**	**17.3**			
Cement																													
ACC	1,195	SELL	224,526	4,611	188	55.6	60.1	72.7	(33.2)	8.2	20.9	21.5	19.9	16.4	13.3	11.2	8.8	3.3	3.0	2.6	3.0	2.0	2.0	17.5	17.3	18.1	980	(18.0)	7.0
Ambuja Cements	155	SELL	236,425	4,855	1,522	7.9	7.8	9.8	(1.5)	(0.5)	25.5	19.7	19.8	15.8	12.0	11.0	8.5	3.0	2.8	2.5	1.3	1.4	1.5	16.6	14.8	16.9	135	(13.1)	6.9
Grasim Industries	2,480	BUY	227,507	4,672	92	232.0	254.4	271.5	(22.9)	9.7	6.7	10.7	9.7	9.1	6.5	5.1	4.4	1.6	1.4	1.2	0.8	1.4	1.4	15.7	15.0	14.1	2,900	16.9	3.8
India Cements	81	ADD	24,728	508	307	1.9	8.3	9.2	(81.2)	339.0	10.4	42.6	9.7	8.8	15.0	6.0	5.4	0.6	0.5	0.5	2.0	4.0	4.0	1.4	6.2	6.5	82	1.9	1.8
Shree Cement	1,896	REDUCE	66,051	1,356	35	57.2	83.1	132.9	(72.5)	45.5	59.8	33.2	22.8	14.3	7.4	6.9	4.9	3.5	3.2	2.8	0.6	0.6	0.6	10.7	14.5	20.7	1,730	(8.8)	0.9
UltraTech Cement	1,153	ADD	315,859	6,486	274	44.9	75.7	89.7	(49.2)	68.7	18.5	25.7	15.2	12.9	12.5	8.1	6.7	2.5	2.2	1.9	0.4	0.5	0.5	16.7	17.8	17.9	1,220	5.8	3.8
Cement		**Neutral**	**1,095,095**	**22,489**					**(23.7)**	**24.2**	**17.6**	**18.7**	**15.1**	**12.8**	**9.8**	**7.6**	**6.2**	**2.3**	**2.0**	**1.8**	**1.3**	**1.3**	**1.3**	**12.2**	**13.6**	**14.1**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	31-Oct-11 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2011E	EPS (Rs) 2012E	EPS (Rs) 2013E	EPS growth (%) 2011E	EPS growth (%) 2012E	EPS growth (%) 2013E	PER (X) 2011E	PER (X) 2012E	PER (X) 2013E	EV/EBITDA (X) 2011E	EV/EBITDA (X) 2012E	EV/EBITDA (X) 2013E	Price/BV (X) 2011E	Price/BV (X) 2012E	Price/BV (X) 2013E	Dividend yield (%) 2011E	Dividend yield (%) 2012E	Dividend yield (%) 2013E	RoE (%) 2011E	RoE (%) 2012E	RoE (%) 2013E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Consumer products																													
Asian Paints	3,160	SELL	303,063	6,224	96	80.8	97.0	111.8	13.0	20.1	15.2	39.1	32.6	28.3	26.1	22.3	17.6	14.8	11.3	9.1	1.0	0.9	1.1	43.9	40.8	36.6	2,900	(8.2)	4.4
Colgate-Palmolive (India)	1,002	SELL	136,285	2,799	136	29.6	32.5	39.1	(4.9)	9.9	20.3	33.9	30.8	25.6	29.5	26.4	21.3	35.5	36.1	28.8	2.2	2.8	2.7	113.4	116.1	124.9	900	(10.2)	1.5
Dabur India	101	SELL	176,300	3,620	1,740	3.3	3.7	4.4	12.8	12.7	20.6	31.0	27.5	22.8	25.0	20.7	17.3	13.4	10.4	8.2	1.1	1.3	1.5	51.2	43.3	40.8	110	8.6	2.9
GlaxoSmithkline Consumer (a)	2,357	ADD	99,108	2,035	42	71.3	83.2	104.0	28.8	16.7	25.0	33.1	28.3	22.7	23.7	20.4	17.1	10.6	9.0	7.6	2.1	1.6	2.0	32.2	33.5	35.5	2,900	23.1	1.0
Godrej Consumer Products	437	ADD	141,522	2,906	324	14.9	17.6	22.5	31.3	18.6	27.6	29.4	24.8	19.4	24.9	19.0	14.4	8.2	6.0	4.9	1.2	0.7	0.7	35.9	28.6	29.1	510	16.6	2.3
Hindustan Unilever	376	ADD	811,516	16,665	2,159	9.9	11.8	14.2	4.8	19.7	19.7	38.0	31.8	26.5	32.5	26.0	20.7	30.8	26.5	22.7	2.0	2.6	3.1	66.3	89.8	92.4	420	11.8	20.0
ITC	213	ADD	1,637,136	33,620	7,681	6.4	7.9	9.0	20.7	22.5	14.1	33.3	27.1	23.8	22.1	18.5	16.0	9.8	8.4	7.4	2.1	1.8	2.1	33.2	34.9	34.3	230	7.9	34.6
Jubilant Foodworks	807	SELL	52,803	1,084	65	11.2	16.6	24.1	99.6	48.6	45.1	72.0	48.5	33.4	44.0	26.8	18.7	27.5	17.6	11.5	—	—	—	46.6	44.2	41.6	750	(7.1)	31.0
Jyothy Laboratories	143	ADD	11,551	237	81	10.5	9.4	11.8	(5.0)	(10.1)	25.2	13.7	15.2	12.1	10.8	9.5	7.9	1.7	1.6	1.5	4.1	3.3	4.1	12.3	11.1	12.9	220	53.6	0.4
Marico	155	ADD	95,110	1,953	615	3.9	5.1	6.7	(12.8)	31.2	32.0	39.9	30.4	23.0	24.5	21.2	16.0	10.1	7.9	6.2	0.4	0.5	0.6	30.3	29.8	30.5	175	13.2	1.0
Nestle India (a)	4,244	SELL	409,174	8,403	96	86.8	103.6	123.2	16.7	19.3	18.9	48.9	41.0	34.5	32.5	26.7	22.0	47.8	34.8	26.2	1.1	1.4	1.7	116.5	98.3	86.8	3,500	(17.5)	1.9
Tata Global Beverages	93	ADD	57,264	1,176	618	4.0	5.6	6.6	(34.6)	42.6	16.8	23.4	16.4	14.0	9.1	9.4	7.4	1.1	1.1	1.1	2.2	3.1	3.6	6.5	8.9	10.0	110	18.8	3.8
Titan Industries	217	ADD	192,916	3,962	888	4.8	6.8	8.3	69.1	40.4	22.0	44.9	32.0	26.2	32.8	22.2	17.7	17.7	13.1	10.1	0.6	1.0	1.4	47.1	47.2	43.5	240	10.4	17.5
United Spirits	878	ADD	110,265	2,264	126	29.5	39.2	50.6	8.3	32.8	29.0	29.7	22.4	17.3	15.5	11.9	10.2	2.5	2.3	2.0	0.4	0.3	0.4	9.1	10.7	12.5	1,100	25.3	5.2
Consumer products		**Neutral**	**4,234,013**	**86,950**					**15.6**	**21.2**	**18.5**	**35.4**	**29.3**	**24.7**	**24.7**	**20.3**	**16.8**	**10.9**	**9.3**	**8.0**	**1.7**	**1.7**	**2.0**	**30.7**	**31.8**	**32.4**			
Constructions																													
IVRCL	42	BUY	11,081	228	267	5.9	5.7	6.6	(25.2)	(4.1)	15.6	7.0	7.3	6.3	5.9	5.7	5.5	0.6	0.5	0.5	1.0	1.0	1.0	8.2	7.3	7.9	75	80.7	5.3
Nagarjuna Construction Co.	53	BUY	13,663	281	257	6.4	5.9	7.7	(29.7)	(7.8)	30.8	8.4	9.1	6.9	7.6	7.2	6.7	0.6	0.6	0.5	3.8	3.8	3.8	7.1	6.3	7.8	100	87.8	1.3
Punj Lloyd	59	REDUCE	20,171	414	340	(1.5)	5.5	7.4	(56.6)	(467.8)	34.9	(40.0)	10.9	8.1	13.0	5.8	5.1	0.7	0.6	0.6	(0.1)	0.8	1.1	(1.7)	6.1	7.7	65	9.4	5.1
Sadbhav Engineering	133	BUY	19,874	408	150	7.8	10.8	11.9	51.0	38.9	10.6	17.1	12.3	11.1	10.2	8.2	7.4	3.1	2.5	2.1	0.5	0.5	0.5	18.1	20.4	18.6	180	35.7	0.3
Construction		**Attractive**	**64,789**	**1,331**					**(1.1)**	**67.6**	**23.4**	**16.7**	**10.0**	**8.1**	**8.8**	**6.4**	**5.9**	**0.8**	**0.8**	**0.7**	**1.1**	**1.3**	**1.4**	**4.8**	**7.6**	**8.7**			
Energy																													
Aban Offshore	431	BUY	18,767	385	44	134.2	99.1	102.6	25.9	(26.1)	3.5	3.2	4.4	4.2	6.6	6.9	6.5	0.9	0.9	0.7	0.8	0.9	1.0	33.3	21.9	17.9	670	55.4	7.5
Bharat Petroleum	623	ADD	225,095	4,623	362	38.9	33.0	49.5	(32.5)	(15.2)	49.9	16.0	18.9	12.6	10.4	10.0	8.0	1.5	1.4	1.3	2.2	1.7	2.6	9.2	7.3	10.4	720	15.6	6.0
Cairn india	298	REDUCE	567,342	11,651	1,902	33.3	40.4	49.3	501.1	21.2	22.2	9.0	7.4	6.0	6.5	4.7	3.8	1.4	1.2	1.1	—	1.7	5.0	16.9	17.7	19.5	295	(1.1)	12.3
Castrol India (a)	493	SELL	121,822	2,502	247	19.8	19.7	21.6	28.5	(0.6)	9.9	24.9	25.0	22.8	15.9	17.1	15.2	23.6	22.0	20.4	3.0	3.1	3.5	100.2	91.0	93.0	410	(16.8)	0.8
GAIL (India)	423	BUY	536,440	11,016	1,268	28.2	31.8	33.8	13.8	12.8	6.5	15.0	13.3	12.5	9.5	9.5	8.5	2.6	2.2	1.9	1.8	2.0	2.2	17.5	17.1	15.8	535	26.5	9.4
GSPL	100	SELL	56,118	1,152	563	8.9	8.5	8.4	21.7	(4.0)	(1.2)	11.2	11.7	11.8	7.1	6.9	6.7	2.5	2.1	1.8	1.0	1.7	2.5	25.2	19.3	16.4	92	(7.8)	3.5
Hindustan Petroleum	333	ADD	112,941	2,319	339	40.8	20.3	33.9	(20.8)	(50.4)	67.3	8.2	16.4	9.8	3.7	4.5	3.2	0.7	0.7	0.7	4.2	1.9	3.1	9.0	4.1	6.5	430	29.1	6.7
Indian Oil Corporation	291	BUY	706,533	14,509	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	32.3	4.1
Oil India	1,299	BUY	312,308	6,414	240	120.0	171.7	190.1	4.2	43.1	10.7	10.8	7.6	6.8	5.4	3.0	2.4	1.8	1.6	1.4	2.9	4.2	4.6	16.2	20.1	19.4	1,750	34.7	1.9
Oil & Natural Gas Corporation	278	BUY	2,375,440	48,782	8,556	24.7	37.2	40.8	7.4	50.8	9.7	11.3	7.5	6.8	4.3	3.2	2.6	1.6	1.4	1.2	3.2	4.3	5.0	14.3	19.1	18.3	380	36.9	25.7
Petronet LNG	161	SELL	120,938	2,484	750	8.1	13.3	12.8	50.3	64.1	(3.5)	19.9	12.1	12.6	11.5	8.3	8.7	4.0	3.2	2.6	1.2	1.9	1.9	20.9	28.1	21.9	135	(16.3)	9.6
Reliance Industries	878	ADD	2,615,977	53,722	2,981	62.0	70.3	71.1	24.8	13.5	1.1	14.2	12.5	12.3	7.7	6.4	6.2	1.6	1.4	1.3	0.9	1.0	1.1	13.0	13.3	12.0	1,000	14.0	91.1
Energy		**Attractive**	**7,769,721**	**159,559**					**11.6**	**24.0**	**7.6**	**11.6**	**9.3**	**8.7**	**6.4**	**5.2**	**4.5**	**1.6**	**1.4**	**1.3**	**2.0**	**2.5**	**3.2**	**13.8**	**15.2**	**14.7**			
Industrials																													
ABB	710	SELL	150,444	3,090	212	3.0	17.1	26.4	(82.2)	473.2	54.5	237.9	41.5	26.9	172.4	27.8	17.3	6.2	5.6	4.7	0.3	0.5	0.5	2.6	14.1	19.0	660	(7.0)	1.8
BGR Energy Systems	331	REDUCE	23,865	490	72	44.8	40.4	39.0	60.0	(9.7)	(3.5)	7.4	8.2	8.5	5.0	4.5	4.2	2.5	2.0	1.7	3.0	2.4	2.4	39.0	27.4	21.9	400	21.0	4.9
Bharat Electronics	1,566	ADD	125,276	2,573	80	107.3	127.2	134.5	11.6	18.6	5.7	14.6	12.3	11.6	6.7	6.1	4.7	2.4	2.1	1.8	1.4	1.6	1.6	18.2	18.3	16.9	1,850	18.1	0.9
Bharat Heavy Electricals	318	REDUCE	777,847	15,974	2,448	24.6	25.3	27.5	39.7	3.0	8.5	12.9	12.6	11.6	8.6	7.9	7.2	3.9	3.1	2.6	2.0	1.7	1.8	33.3	27.6	24.6	360	13.3	24.9
Crompton Greaves	140	ADD	89,553	1,839	642	14.3	9.3	11.2	11.5	(34.8)	20.1	9.7	14.9	12.4	6.3	9.0	7.2	2.7	2.4	2.0	1.7	1.1	1.2	31.7	17.0	17.7	160	14.6	9.4
Larsen & Toubro	1,413	REDUCE	860,396	17,669	609	67.7	78.3	87.5	18.1	15.6	11.8	20.9	18.1	16.1	15.0	11.6	10.6	3.3	2.7	2.3	1.0	1.0	1.0	17.0	16.3	15.5	1,425	0.8	72.1
Maharashtra Seamless	337	BUY	23,744	488	71	46.1	41.6	46.7	19.3	(9.7)	12.3	7.3	8.1	7.2	3.8	3.8	3.1	0.9	0.9	0.8	2.5	2.5	2.8	13.3	11.1	11.5	460	36.6	0.3
Siemens	855	SELL	288,238	5,919	337	22.4	28.9	32.5	39.5	28.8	12.3	38.1	29.6	26.3	22.5	18.9	16.5	8.9	7.2	6.0	0.6	0.7	0.8	25.2	26.9	24.8	830	(2.9)	2.7
Suzlon Energy	39	REDUCE	67,290	1,382	1,746	(6.0)	1.9	3.8	(4.6)	(132.4)	96.6	(6.4)	19.8	10.1	20.0	7.3	6.1	1.0	1.0	0.9	—	0.5	0.5	(15.8)	4.9	9.2	40	3.8	16.0
Tecpro Systems	222	ADD	11,180	230	50	27.0	29.4	32.7	24.2	8.9	11.4	8.2	7.5	6.8	5.3	5.4	4.8	1.7	1.4	1.2	—	—	—	26.8	20.5	19.6	300	35.4	0.1
Thermax	465	ADD	55,357	1,137	119	31.6	33.9	33.7	44.3	7.2	(0.7)	14.7	13.7	13.8	9.7	9.0	8.6	4.2	3.5	3.0	1.9	2.0	2.0	31.5	27.8	23.2	515	10.8	1.5
Voltas	100	BUY	33,008	678	331	9.8	8.8	9.5	(14.3)	(9.9)	7.5	10.2	11.3	10.5	5.9	6.2	5.1	2.4	2.1	1.8	2.0	2.7	(0.0)	26.1	19.8	18.3	135	35.3	3.3
Industrials		**Cautious**	**2,506,200**	**51,467**					**25.5**	**19.1**	**12.6**	**19.0**	**16.0**	**14.2**	**12.1**	**10.1**	**8.9**	**3.4**	**2.8**	**2.4**	**1.3**	**1.2**	**1.3**	**17.7**	**17.8**	**17.3**			
Infrastructure																													
Container Corporation	985	ADD	128,030	2,629	130	67.6	71.7	77.9	11.7	6.1	8.7	14.6	13.7	12.6	10.5	9.2	8.1	2.6	2.3	2.0	1.6	1.7	1.8	18.9	17.5	16.8	1,150	16.8	1.0
GMR Infrastructure	28	RS	101,770	2,090	3,667	(0.0)	(0.4)	0.5	(102.0)	3,980.8	(243.5)	(3,201.5)	(78.5)	54.7	12.8	11.1	8.9	0.9	0.9	0.9	—	—	—	(0.0)	(2.0)	2.8	—	—	2.7
Gujarat Pipavav Port	72	REDUCE	30,306	622	424	(1.2)	1.2	2.6	(65.8)	(195.8)	129.7	(59.6)	62.2	27.1	30.2	20.1	13.3	4.1	3.9	3.4	—	—	—	(9.1)	8.9	13.7	75	4.8	0.9
GVK Power & Infrastructure	14	RS	22,425	461	1,579	1.0	1.0	0.3	(0.6)	1.6	(73.4)	14.5	14.2	53.5	17.2	15.8	18.7	0.7	0.6	0.6	—	2.1	2.5	4.7	4.6	1.2	—	—	3.4
IRB Infrastructure	164	BUY	54,624	1,122	332	13.6	12.1	15.7	30.4	(10.7)	29.1	12.1	13.5	10.5	8.1	8.3	6.3	2.1	1.6	1.3	0.9	—	—	19.3	13.4	13.4	200	21.7	7.0
Mundra Port and SEZ	164	ADD	330,761	6,792	2,017	4.6	6.8	10.5	36.3	50.3	53.2	36.0	24.0	15.6	28.8	19.4	13.8	7.6	6.0	4.6	—	—	—	23.2	28.0	33.5	175	6.7	5.5
Infrastructure		**Cautious**	**667,916**	**13,716**					**16.9**	**18.8**	**42.9**	**28.4**	**23.9**	**16.7**	**15.9**	**13.1**	**10.4**	**2.5**	**2.2**	**2.0**	**0.4**	**0.4**	**0.4**	**8.7**	**9.4**	**12.1**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	31-Oct-11 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2011E	EPS (Rs) 2012E	EPS (Rs) 2013E	EPS growth (%) 2011E	EPS growth (%) 2012E	EPS growth (%) 2013E	PER (X) 2011E	PER (X) 2012E	PER (X) 2013E	EV/EBITDA (X) 2011E	EV/EBITDA (X) 2012E	EV/EBITDA (X) 2013E	Price/BV (X) 2011E	Price/BV (X) 2012E	Price/BV (X) 2013E	Dividend yield (%) 2011E	Dividend yield (%) 2012E	Dividend yield (%) 2013E	RoE (%) 2011E	RoE (%) 2012E	RoE (%) 2013E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Media																													
DB Corp	221	BUY	40,459	831	183	14.1	11.6	14.2	32.7	(18.0)	22.9	15.7	19.1	15.5	10.2	11.2	9.2	4.9	4.4	4.0	1.8	2.7	3.6	35.0	24.4	27.2	320	45.0	0.7
DishTV	76	ADD	80,560	1,654	1,062	(1.7)	0.3	1.2	(32.4)	(119.5)	282.3	(45.5)	233.7	61.1	37.6	16.6	11.9	36.1	31.3	20.7	—	—	—	(56.9)	14.3	40.8	95	25.2	6.2
Eros International	255	ADD	24,691	507	97	11.8	15.8	19.9	19.0	34.0	25.9	21.6	16.1	12.8	15.1	11.4	8.3	3.7	3.0	2.4	—	—	—	24.9	20.2	20.5	270	6.0	2.6
Hindustan Media Ventures	132	BUY	9,721	200	73	7.3	10.1	12.2	198.0	39.0	20.6	18.1	13.1	10.8	8.7	7.4	5.5	2.5	2.2	1.9	0.8	0.8	1.5	23.3	17.9	18.4	220	66.1	0.1
HT Media	143	ADD	33,687	692	235	7.6	8.5	10.4	24.8	11.7	22.2	18.8	16.8	13.8	8.8	7.5	5.9	2.4	2.3	2.1	1.4	2.8	4.2	14.9	13.8	15.9	190	32.5	0.2
Jagran Prakashan	109	BUY	34,440	707	316	6.8	6.7	8.0	16.7	(1.4)	18.7	16.0	16.2	13.7	9.5	9.3	7.9	4.9	4.4	4.0	3.2	3.2	4.6	32.8	28.5	30.8	160	46.9	0.2
Sun TV Network	260	BUY	102,520	2,105	394	19.5	21.0	25.1	48.1	7.7	19.2	13.3	12.4	10.4	8.0	7.0	5.9	4.2	3.7	3.3	3.4	3.8	5.4	36.5	33.4	34.8	440	69.1	6.3
Zee Entertainment Enterprises	122	BUY	119,263	2,449	978	5.8	6.2	7.7	10.0	6.4	23.3	20.9	19.6	15.9	14.0	12.9	10.2	2.8	2.7	2.6	1.1	1.1	1.3	14.2	14.3	16.9	160	31.3	3.9
Media		**Neutral**	**445,340**	**9,145**					**51.8**	**17.1**	**25.2**	**22.4**	**19.2**	**15.3**	**12.1**	**10.4**	**8.3**	**4.1**	**3.7**	**3.4**	**1.6**	**1.9**	**2.6**	**18.3**	**19.5**	**22.2**			
Metals & Mining																													
Coal India	332	ADD	2,097,033	43,065	6,316	17.3	24.1	29.3	13.6	39.1	21.9	19.2	13.8	11.3	11.2	8.1	6.6	6.0	4.7	3.7	1.2	2.2	2.7	35.1	38.2	36.7	454	36.7	36.9
Hindalco Industries	136	ADD	260,331	5,346	1,915	12.8	18.3	17.6	(36.0)	43.3	(4.0)	10.6	7.4	7.7	5.9	5.8	6.1	0.9	0.8	0.7	1.1	1.1	1.1	9.7	11.4	10.0	175	28.7	29.1
Hindustan Zinc	126	ADD	530,660	10,898	4,225	11.6	12.6	13.8	21.8	8.0	9.4	10.8	10.0	9.1	6.9	5.9	4.5	2.4	2.0	1.7	0.8	2.0	2.0	24.3	21.7	20.2	140	11.5	2.7
Jindal Steel and Power	563	REDUCE	525,590	10,794	934	40.2	41.5	47.9	5.1	3.3	15.5	14.0	13.5	11.7	10.3	9.6	8.7	3.7	2.9	2.4	0.3	0.3	0.3	30.9	24.5	22.6	565	0.4	26.7
JSW Steel	654	SELL	147,691	3,033	226	78.6	43.9	92.2	(2.2)	(44.2)	110.1	8.3	14.9	7.1	6.3	7.2	6.1	0.9	0.9	0.8	1.9	1.5	1.5	13.6	8.9	11.5	560	(14.3)	39.8
National Aluminium Co.	64	SELL	164,943	3,387	2,577	4.1	5.0	4.8	36.3	20.5	(4.1)	15.4	12.8	13.4	7.2	5.7	5.4	1.5	1.4	1.3	2.3	2.3	2.3	9.9	11.1	10.0	65	1.6	0.4
Sesa Goa	207	REDUCE	185,516	3,810	895	47.0	39.3	39.4	59.8	(16.4)	0.2	4.4	5.3	5.3	3.6	4.3	3.5	1.4	1.2	0.9	1.9	1.9	2.0	36.8	19.5	17.6	215	3.7	16.9
Sterlite Industries	127	BUY	428,049	8,790	3,361	15.2	12.9	13.9	26.2	(14.6)	7.6	8.4	9.8	9.1	5.2	4.5	3.7	1.0	0.9	0.9	0.9	1.0	1.0	13.0	10.0	9.9	165	29.6	19.2
Tata Steel	483	BUY	468,997	9,631	971	75.3	68.7	76.9	(2,258.1)	(8.8)	12.0	6.4	7.0	6.3	6.0	6.2	5.3	1.3	1.1	0.9	2.5	1.6	1.6	24.7	15.5	15.7	625	29.5	52.2
Metals & Mining		**Attractive**	**4,808,810**	**98,754**					**39.1**	**9.4**	**13.0**	**11.6**	**10.6**	**9.4**	**7.3**	**6.6**	**5.7**	**2.2**	**1.9**	**1.6**	**1.2**	**1.7**	**1.9**	**19.0**	**17.7**	**17.2**			
Pharmaceutical																													
Apollo Hospitals	520	ADD	72,204	1,483	139	13.2	17.8	21.4	21.0	34.5	19.9	39.3	29.2	24.3	17.9	13.6	11.2	3.8	2.8	2.5	—	—	—	9.8	10.7	10.5	650	25.0	1.6
Biocon	351	BUY	70,220	1,442	200	18.4	19.4	21.4	23.9	5.6	10.3	19.1	18.1	16.4	11.0	10.4	9.3	3.4	3.1	2.8	—	—	—	19.4	17.9	17.4	445	26.7	2.0
Cipla	295	REDUCE	237,183	4,871	803	12.3	15.0	16.5	(10.0)	21.8	9.8	24.0	19.7	17.9	20.7	14.3	12.2	3.6	3.1	2.8	0.9	1.0	1.2	15.4	16.6	16.4	310	4.9	8.0
Cadila Healthcare	765	REDUCE	156,715	3,218	205	34.7	38.2	45.1	40.6	9.9	18.2	22.0	20.0	17.0	19.1	16.3	12.8	7.2	5.7	4.5	0.8	1.0	1.2	37.5	31.7	29.6	900	17.6	1.8
Dishman Pharma & chemicals	52	REDUCE	4,225	87	81	9.8	8.0	8.7	(31.8)	(18.3)	8.0	5.3	6.5	6.0	7.7	5.8	5.3	0.5	0.5	0.4	—	—	—	9.6	7.2	7.3	70	34.7	0.1
Divi's Laboratories	771	ADD	102,287	2,101	133	32.4	36.7	45.0	25.7	13.5	22.4	23.8	21.0	17.1	19.7	15.1	12.4	5.7	4.9	4.2	—	—	—	25.9	25.0	26.2	830	7.7	2.0
Dr Reddy's Laboratories	1,671	REDUCE	283,961	5,831	170	64.9	82.8	98.9	932.5	27.5	19.4	25.7	20.2	16.9	18.0	13.5	11.2	6.2	4.9	3.9	0.7	0.8	0.8	24.8	27.1	25.8	1,660	(0.6)	10.7
GlaxoSmithkline Pharmaceuticals (a)	2,058	REDUCE	174,285	3,579	85	68.3	78.2	88.6	15.5	14.6	13.3	30.1	26.3	23.2	20.0	17.7	15.2	8.9	8.2	7.6	1.9	2.4	2.8	30.9	32.6	33.9	2,220	7.9	1.4
Glenmark Pharmaceuticals	309	ADD	83,599	1,717	270	17.0	26.2	23.5	33.6	54.5	(10.3)	18.2	11.8	13.2	20.4	13.6	11.6	4.1	3.1	2.5	—	—	—	20.6	29.8	21.2	395	27.8	3.6
Jubilant Life Sciences	196	REDUCE	31,271	642	159	14.4	16.5	22.7	(45.6)	14.5	37.6	13.6	11.9	8.6	11.0	8.8	7.4	1.4	1.3	1.1	1.0	1.0	1.5	12.3	11.7	14.2	205	4.4	0.7
Lupin	470	ADD	210,740	4,328	448	19.2	22.3	26.3	25.6	15.9	18.0	24.4	21.1	17.9	20.5	17.7	13.0	6.3	5.0	4.1	0.6	0.7	1.0	29.5	27.5	25.7	530	12.7	8.8
Ranbaxy Laboratories	502	SELL	212,423	4,362	423	40.6	16.9	20.8	475.0	(58.3)	22.7	12.4	29.6	24.2	15.1	25.7	20.0	3.8	3.3	2.9	—	—	—	34.5	11.9	12.8	435	(13.4)	7.2
Sun Pharmaceuticals	504	ADD	522,408	10,728	1,036	17.5	20.1	24.3	34.4	14.8	20.8	28.8	25.1	20.7	24.5	19.7	16.0	5.1	4.3	3.6	0.7	0.8	1.0	21.0	20.2	20.7	560	11.0	11.6
Pharmaceuticals		**Cautious**	**2,161,521**	**44,389**					**43.1**	**7.1**	**16.7**	**22.6**	**21.1**	**18.1**	**18.2**	**15.0**	**12.2**	**3.6**	**3.1**	**2.7**	**0.7**	**0.8**	**1.0**	**16.0**	**14.6**	**14.7**			
Property																													
DLF	242	BUY	415,184	8,526	1,715	9.1	11.9	15.7	(14.5)	31.3	31.8	26.7	20.3	15.4	17.1	13.5	10.2	1.6	1.5	1.4	0.8	1.0	1.2	5.4	7.5	9.2	270	11.5	34.6
Housing Development & Infrastructure	100	BUY	44,389	912	445	19.8	28.7	34.3	24.0	44.8	19.7	5.0	3.5	2.9	5.2	3.6	3.1	0.5	0.4	0.3	—	1.0	1.5	10.0	12.3	12.7	150	50.4	19.6
Indiabulls Real Estate	75	RS	30,148	619	402	4.0	8.5	15.4	(1,095.5)	114.1	81.5	18.9	8.8	4.9	13.4	10.7	4.7	0.3	0.2	0.2	—	0.7	0.9	1.4	2.9	5.0	—	—	8.2
Mahindra Life Space Developer	306	BUY	12,504	257	41	24.9	30.8	37.5	30.2	23.7	21.6	12.3	9.9	8.2	9.3	6.7	5.0	1.2	1.1	1.0	1.6	1.5	1.6	10.4	11.6	12.7	450	46.9	0.2
Oberoi Realty	234	BUY	77,227	1,586	330	15.7	17.2	27.4	14.8	9.7	59.3	14.9	13.6	8.5	11.0	9.5	5.1	2.3	2.0	1.7	0.4	0.6	1.1	19.9	15.8	21.4	310	32.3	0.3
Phoenix Mills	201	BUY	29,128	598	145	6.3	7.4	10.7	53.0	17.2	44.1	31.8	27.1	18.8	23.5	19.6	14.7	1.8	1.7	1.6	0.9	1.0	1.0	5.8	6.6	8.9	300	49.2	0.2
Puravankara Projects	80	ADD	17,074	351	213	5.5	9.0	10.9	(18.9)	62.8	21.5	14.5	8.9	7.3	19.1	10.5	8.8	1.1	1.0	0.9	1.3	1.9	2.5	8.0	12.0	13.1	80	-	0.0
Sobha Developers	254	BUY	24,943	512	98	18.8	20.6	27.2	33.8	9.2	32.2	13.5	12.4	9.4	11.7	10.6	7.5	1.3	1.2	1.1	1.2	1.4	1.6	10.2	10.3	12.4	370	45.5	0.6
Unitech	30	RS	78,358	1,609	2,616	2.3	2.6	2.7	(23.4)	12.8	4.9	12.9	11.4	10.9	14.3	11.6	9.5	0.7	0.6	0.6	—	0.7	1.0	5.4	5.7	5.4	—	—	14.4
Property		**Cautious**	**766,608**	**15,743**					**5.3**	**42.1**	**31.3**	**17.9**	**12.6**	**9.6**	**13.9**	**10.1**	**7.5**	**1.1**	**1.0**	**0.9**	**0.7**	**1.0**	**1.2**	**6.1**	**8.0**	**9.5**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	31-Oct-11	Rating	Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
	Price (Rs)		(Rs mn)	(US$ mn)	(mn)	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	(Rs)	(%)	(US$ mn)
Sugar																													
Bajaj Hindustan	38	REDUCE	8,771	180	228	1.9	3.7	1.6	(28.7)	90.5	(57.3)	19.9	10.4	24.4	16.8	5.6	5.4	0.3	0.3	0.3	1.5	1.5	1.5	1.7	2.7	1.1	60	56.3	1.9
Balrampur Chini Mills	54	BUY	13,224	272	247	6.7	4.0	7.7	111.0	(40.5)	94.0	8.0	13.5	6.9	11.1	8.8	5.9	0.9	0.9	0.8	1.5	1.4	1.4	11.6	6.5	11.9	80	49.4	1.8
Shree Renuka Sugars	57	BUY	38,346	787	670	10.5	6.4	5.0	214.7	(39.4)	(21.0)	5.5	9.0	11.4	8.3	6.5	5.4	1.5	1.4	1.2	1.7	1.7	1.7	34.4	16.1	11.4	75	31.1	7.8
Sugar		**Cautious**	**60,340**	**1,239**					**122.4**	**(24.7)**	**(7.4)**	**7.5**	**9.9**	**10.7**	**10.6**	**6.5**	**5.4**	**0.9**	**0.8**	**0.8**	**1.7**	**1.6**	**1.6**	**11.6**	**8.1**	**7.0**			
Technology																													
HCL Technologies	444	REDUCE	312,844	6,425	705	22.9	33.0	38.7	30.4	44.2	17.3	19.4	13.5	11.5	11.8	8.2	7.0	3.7	2.9	2.4	1.7	1.8	1.8	21.0	23.2	22.8	450	1.4	12.0
Hexaware Technologies	89	ADD	25,962	533	290	3.0	8.4	8.8	(36.8)	186.0	3.8	30.3	10.6	10.2	23.1	8.8	6.9	2.7	2.3	2.1	1.7	3.4	3.6	9.3	23.7	21.6	100	11.9	3.2
Infosys Technologies	2,878	BUY	1,651,714	33,920	574	119.7	145.6	175.0	10.5	21.6	20.2	24.0	19.8	16.4	16.5	13.4	10.7	6.4	5.3	4.4	2.1	1.6	1.9	28.0	29.2	29.2	3,300	14.7	91.7
Mahindra Satyam	71	SELL	83,496	1,715	1,176	4.2	6.7	7.0	68.9	58.4	4.7	16.9	10.7	10.2	12.4	6.3	4.9	4.8	3.3	2.5	—	—	—	27.6	37.1	28.2	70	(1.4)	8.3
Mindtree	400	ADD	16,477	338	41	24.7	42.0	45.4	(52.7)	70.2	8.1	16.2	9.5	8.8	9.0	6.3	4.9	2.1	1.8	1.6	0.6	1.0	3.4	14.4	20.3	18.9	460	14.9	0.7
Mphasis BFL	344	SELL	72,425	1,487	211	51.8	38.6	30.0	18.8	(25.5)	(22.2)	6.6	8.9	11.5	5.6	6.7	7.2	2.2	1.8	1.6	1.2	1.3	1.5	38.6	22.3	14.8	300	(12.7)	3.2
Patni Computer Systems	337	ADD	44,902	922	133	42.6	30.3	34.3	16.5	(29.0)	13.5	7.9	11.1	9.8	4.6	4.2	3.0	1.4	1.3	1.2	19.6	1.8	2.0	18.4	9.6	12.3	400	18.7	2.4
Polaris Software Lab	147	REDUCE	14,606	300	100	19.3	20.3	20.8	25.7	5.0	2.8	7.6	7.2	7.0	4.5	3.3	2.7	1.4	1.2	1.1	2.5	2.7	2.8	20.2	18.0	16.0	145	(1.0)	2.1
TCS	1,116	BUY	2,183,844	44,847	1,957	44.5	54.5	66.6	26.8	22.4	22.1	25.1	20.5	16.8	18.9	14.5	11.7	8.7	7.1	5.8	1.6	2.0	2.4	37.8	38.0	37.9	1,260	12.9	50.1
Tech Mahindra	586	SELL	73,773	1,515	126	48.8	72.1	75.5	(25.2)	47.8	4.7	12.0	8.1	7.8	8.3	8.3	7.3	2.2	1.9	1.7	0.7	0.7	1.7	20.5	26.0	23.8	600	2.5	3.2
Wipro	367	ADD	899,636	18,475	2,454	21.6	22.6	26.4	14.5	4.7	16.9	17.0	16.2	13.9	12.5	10.8	9.1	3.8	3.2	2.7	1.2	1.3	1.6	24.3	21.2	21.0	410	11.8	12.0
Technology		**Attractive**	**5,379,678**	**110,477**					**17.1**	**18.6**	**17.7**	**20.9**	**17.7**	**15.0**	**15.1**	**12.1**	**10.0**	**5.5**	**4.5**	**3.8**	**1.8**	**1.7**	**2.0**	**26.2**	**25.7**	**25.3**			
Telecom																													
Bharti Airtel	392	ADD	1,487,900	30,555	3,798	15.9	18.2	28.0	(32.6)	14.5	53.7	24.6	21.5	14.0	10.5	8.1	6.2	3.1	2.7	2.2	—	—	—	13.3	13.3	17.4	460	17.4	42.2
IDEA	95	ADD	312,492	6,417	3,303	2.7	2.3	5.0	(0.5)	(16.9)	120.0	34.8	41.8	19.0	11.1	8.6	6.4	2.5	2.4	2.1	—	—	—	7.6	5.9	11.9	115	21.6	14.8
MTNL	31	SELL	19,751	406	630	(10.4)	(9.1)	(8.4)	(33.7)	(11.9)	(8.1)	(3.0)	(3.4)	(3.7)	0.9	1.2	1.5	0.2	0.2	0.2	—	—	—	(6.1)	(5.7)	(5.5)	35	11.6	0.7
Reliance Communications	80	SELL	170,282	3,497	2,133	6.3	2.6	5.2	(71.1)	(59.4)	103.2	12.7	31.2	15.3	6.0	6.5	5.6	0.4	0.4	0.4	—	—	—	3.2	1.3	2.7	80	0.2	16.8
Tata Communications	189	REDUCE	53,894	1,107	285	(24.9)	(28.8)	(34.0)	(13.0)	15.6	18.1	(7.6)	(6.6)	(5.6)	10.6	9.3	9.2	1.5	2.2	3.9	—	—	—	(17.5)	(27.0)	(50.2)	180	(4.8)	0.9
Telecom		**Neutral**	**2,044,318**	**41,982**					**(45.8)**	**(1.4)**	**74.4**	**29.6**	**30.0**	**17.2**	**9.6**	**8.0**	**6.2**	**1.8**	**1.7**	**1.5**	—	—	—	**6.0**	**5.6**	**8.9**			
Utilities																													
Adani Power	88	REDUCE	210,961	4,332	2,393	2.4	11.0	15.0	200.7	368.5	35.8	37.4	8.0	5.9	36.8	7.7	5.0	3.4	2.2	1.6	—	—	—	8.5	33.5	31.8	100	13.4	2.8
CESC	276	BUY	34,507	709	125	37.7	42.5	51.3	9.1	12.7	20.8	7.3	6.5	5.4	5.4	5.7	5.5	0.7	0.7	0.6	1.8	1.9	2.2	10.5	10.7	11.5	440	59.3	1.0
JSW Energy	52	REDUCE	85,362	1,753	1,640	5.1	4.8	4.7	12.9	(6.2)	(1.8)	10.1	10.8	11.0	11.5	7.6	6.0	1.5	1.3	1.2	(1.9)	—	—	16.1	13.0	11.3	60	15.3	1.3
Lanco Infratech	16	BUY	36,457	749	2,223	2.0	3.0	3.4	(5.8)	47.2	16.6	8.2	5.6	4.8	8.4	7.8	7.4	0.9	0.8	0.6	—	—	—	12.2	15.0	14.6	45	174.4	5.1
NHPC	25	ADD	308,134	6,328	12,301	1.3	2.1	2.2	(27.2)	52.4	5.4	18.6	12.2	11.6	12.8	9.8	8.6	1.2	1.1	1.0	2.4	2.2	2.3	6.4	9.2	9.1	29	15.8	2.0
NTPC	179	REDUCE	1,477,999	30,352	8,245	10.9	11.5	12.7	4.2	5.2	10.2	16.4	15.6	14.2	12.4	12.8	11.2	2.1	2.0	1.8	2.1	1.9	2.1	13.6	13.2	13.3	180	0.4	9.4
Reliance Infrastructure	464	BUY	123,142	2,529	265	58.0	64.1	76.3	(6.5)	10.5	19.0	8.0	7.2	6.1	7.9	4.1	3.1	0.5	0.5	0.5	2.0	2.2	2.4	6.4	11.2	12.2	920	98.1	14.4
Reliance Power	96	SELL	267,885	5,501	2,805	2.7	2.9	2.9	(5.0)	7.6	(0.5)	35.2	32.7	32.9	177.7	75.4	15.7	1.6	1.6	1.5	—	—	—	4.9	4.9	4.7	88	(7.9)	6.8
Tata Power	100	BUY	247,945	5,092	2,468	7.6	8.5	9.2	21.5	10.7	8.8	13.1	11.9	10.9	10.5	8.2	7.9	1.7	1.5	1.4	1.4	1.5	1.7	13.8	13.6	13.3	135	34.4	9.6
Utilities		**Cautious**	**2,792,392**	**57,345**					**4.5**	**23.9**	**13.0**	**16.3**	**13.2**	**11.6**	**13.9**	**10.6**	**8.7**	**1.6**	**1.5**	**1.4**	**1.6**	**1.5**	**1.7**	**10.1**	**11.3**	**11.6**			
Others																													
Carborundum Universal	158	SELL	14,740	303	93	18.3	18.9	21.0	67.7	3.7	10.6	8.6	8.3	7.5	6.8	5.9	5.2	1.7	1.5	1.3	2.4	2.5	2.8	20.7	18.4	17.8	290	83.9	0.1
Havells India	355	REDUCE	44,351	911	125	24.5	25.8	28.8	334.1	5.1	11.5	14.5	13.8	12.4	9.6	8.9	7.7	6.3	4.4	3.3	0.7	0.8	0.8	53.9	37.6	30.9	370	4.1	1.7
Jaiprakash Associates	77	BUY	164,694	3,382	2,126	6.0	6.3	7.2	230.2	3.9	15.6	12.9	12.4	10.7	12.0	10.4	9.9	1.5	1.4	1.3	—	—	—	13.3	11.7	12.3	115	48.5	27.2
Jet Airways	258	BUY	22,234	457	86	(10.1)	(69.1)	7.0	(91.0)	588	(110.1)	(25.6)	(3.7)	36.9	9.7	11.7	7.5	1.4	2.2	2.1	—	—	—	(5.0)	—	—	500	94.1	9.2
SpiceJet	24	BUY	10,504	216	441	2.5	(3.0)	3.3	(1.8)	(220.2)	(210.4)	9.5	(7.9)	7.2	14.1	(18.1)	9.5	3.3	3.3	2.3	—	—	—	(961)	(41.6)	37.7	50	110.1	1.8
Tata Chemicals	333	REDUCE	84,783	1,741	255	26.2	32.9	38.8	(0.7)	25.4	17.9	12.7	10.1	8.6	7.6	5.4	4.6	1.6	1.4	1.2	3.0	3.6	4.5	16.9	18.6	19.5	365	9.7	2.6
United Phosphorus	147	BUY	67,654	1,389	462	12.3	15.8	20.0	3.9	28.3	26.3	11.9	9.3	7.3	7.2	5.0	4.2	1.8	1.6	1.3	1.4	2.0	2.4	18.0	18.3	19.9	220	50.2	3.7
Others			**408,961**	**8,398**					**233.8**	**(5.9)**	**57.7**	**14.4**	**15.3**	**9.7**	**10.2**	**9.0**	**7.7**	**1.7**	**1.6**	**1.4**	**1.0**	**1.3**	**1.5**	**12.1**	**10.4**	**14.4**			
KS universe (b)			**45,872,958**	**942,047**					**18.5**	**16.6**	**16.7**	**15.6**	**13.4**	**11.5**	**10.1**	**8.5**	**7.2**	**2.4**	**2.1**	**1.9**	**1.5**	**1.7**	**2.0**	**15.4**	**15.8**	**16.2**			
KS universe (b) ex-Energy			**38,103,237**	**782,488**					**20.7**	**14.4**	**19.7**	**16.9**	**14.7**	**12.3**	**11.7**	**10.0**	**8.3**	**2.7**	**2.3**	**2.0**	**1.4**	**1.5**	**1.7**	**15.9**	**15.9**	**16.6**			
KS universe (d) ex-Energy & ex-Commodities			**32,199,332**	**661,245**					**19.3**	**15.3**	**21.2**	**18.0**	**15.6**	**12.9**	**13.3**	**11.1**	**9.2**	**2.8**	**2.5**	**2.1**	**1.5**	**1.5**	**1.7**	**15.5**	**15.7**	**16.6**			

Notes:
(a) For banks we have used adjusted book values.
(b) 2010 means calendar year 2009, similarly for 2011 and 2012 for these particular companies.
(c) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.
(d) Rupee-US Dollar exchange rate (Rs/US$)= 48.70

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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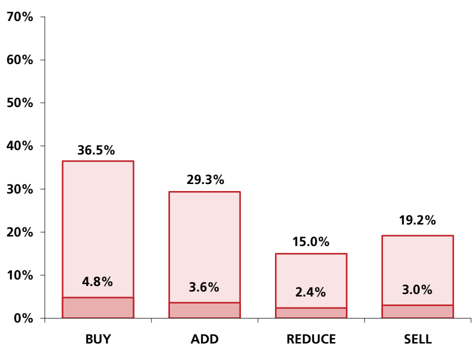

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Source: Kotak Institutional Equities

As of September 30, 2011

Ratings and other definitions/identifiers

Definitions of ratings

BUY. We expect this stock to deliver more than 17.5% returns over the next 12 months.

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

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

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

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