INDIA DAILY

October 18, 2010

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Infosys Technologies: Focus on growth, not rupee

Updates

Shree Cement: Leveraged to petcoke?

Economy: September WPI inflation: Primary articles inflation accelerates

Energy: Gasoline-powered deregulation

News Round-up

- Bharti Airtel (BHARTI IN) may have to fork out USD 400mn to buy out Telecommunications Consultants of India's (TCIL) 30% stake in it subsidiary Bharti Hexacom, which offers mobile services in six northeastern state (excluding Assam) & Rajasthan. (ECNT) ONGC (ONGC IN) announced two new oil & gas discoveries in the country & said one of the discoveries has put on to production. (ECNT-Sat)
- On Monday, exchange go live with a call-auction mechanism for BSE Sensex and NSE Nifty stocks. (BSTD)
- Oil India Ltd (OINL IN) is looking for tie-ups with shale gas companies in US, Poland and Australia. The government-controlled exploration company has hired seven banks to facilitate completion of at least one overseas acquisition this financial year. (BSTD-Sat)
- Godrej Consumer Products (GCPL IN) is undertaking an integration exercise under which a few of its acquired global brands would be launched in India within six months. (ECNT)
- Dr Reddy's Laboratories (DRRD IN) will launch Lansoprazole delayed-release capsules (15 mg and 30 mg)' a bioequivalent generic version of prevacid delayed-release capsules, in the US market. (THBL)
- Jyothy Labs (JYL IN) which owns brands such as Ujala & Maxo, is in advanced stage of talks with West Bengal based detergents & allied products company Safechem Industries to buy its laundry detergent brand Safed. The deal is expected to be around USD 15.56mn. (ECNT)
- GMR Infrastructure (GMRI IN) said it has got approval from the Gujarat government to set up a 25 Mw solar power plant in the state. (BSTD)
- Lupin (LPC IN) said it had settled its patent dispute with Ireland-based Warner Chilcott regarding two oral contraceptives Loestrin 24 Fe and Femcon Fe. (BSTD-Sat)
- SBI (SBIN IN) sees as rise in its lending rates including the base rate shortly, promoted by tight liquidity conditions and rising cost of funds. (BSTD-Sat)
- State Bank of India will raise USD 227 mn by issuing long-term bonds of 10 and 15 years duration to retail investors. (THBL SAT)
- ABG shipyard (ABFS IN) took control of the beleaguered Western Shipyard ((WISL IN) on Friday by raising its stake to 60.26 per cent from 19.68 per cent. (THBL SAT)

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

EQUITY MARKETS

		Change %		
India	**15-Oct**	**1-day**	**1-mo**	**3-mo**
Sensex	20,125	(1.8)	2.7	12.1
Nifty	6,063	(1.9)	3.0	12.4
Global/Regional indices				
Dow Jones	11,063	(0.3)	4.3	9.6
Nasdaq Composite	2,469	1.4	6.6	13.3
FTSE	5,703	(0.4)	3.5	10.6
Nikkie	9,544	0.5	(0.9)	1.4
Hang Seng	23,693	(0.3)	7.8	17.0
KOSPI	1,896	(0.3)	3.8	9.1
Value traded – India				
Cash (NSE+BSE)	208		221	198
Derivatives (NSE)	1,379		1,360	791
Deri. open interest	1,819		2,035	1,501

Forex/money market

	Change, basis points			
	15-Oct	**1-day**	**1-mo**	**3-mo**
Rs/US$	44.1	(2)	(227)	(251)
10yr govt bond, %	8.1	4	8	43

Net investment (US$mn)

	14-Oct		MTD	CYTD
FIIs	655		3,275	22,529
MFs	(91)		(721)	(282)

Top movers -3mo basis

	Change, %			
Best performers	**15-Oct**	**1-day**	**1-mo**	**3-mo**
HNDL IN Equity	212.6	(1.5)	12.5	41.6
TTMT IN Equity	1156.1	(2.3)	11.6	38.9
BOI IN Equity	532.7	(3.7)	6.9	34.9
TTCH IN Equity	431.4	(0.7)	4.6	32.7
BOB IN Equity	960.4	(1.9)	10.0	32.0
Worst performers				
IVRC IN Equity	153.1	(5.3)	(3.1)	(19.4)
Z IN Equity	270.3	(2.3)	(5.6)	(13.7)
FTECH IN Equity	1160.5	(0.2)	(18.3)	(13.4)
RNR IN Equity	39.6	(1.2)	(0.8)	(12.7)
HH IN Equity	1789.8	(3.9)	2.6	(9.6)

Kotak Institutional Equities Research
kotak.research@kotak.com . Mumbai: +94-22-6634-1100

kotak Institutional Equities

Infosys Technologies (INFO)

Technology

BUY

OCTOBER 15, 2010

RESULT

Coverage view: Attractive

Price (Rs): 3,076

Target price (Rs): 3,400

BSE-30: 20,125

Focus on growth, not rupee. Broad-based double digit sequential revenue growth, increase in realization, further improvement in client metrics and increased off-take for discretionary services once again reaffirm Infosys' execution and significant improvement in demand environment. We increase our FY2012E EPS estimate by 2.2% to Rs153.4 despite an adverse change in our Re/US$ assumption. We maintain our BUY rating with end-FY2012E DCF-based target price of Rs3,400/share.

Company data and valuation summary

Infosys Technologies

Stock data			
52-week range (Rs) (high,low)			3,249-2,127
Market Cap. (Rs bn)			1,765.8
Shareholding pattern (%)			
Promoters			16.0
FIIs			54.5
MFs			4.2
Price performance (%)	**1M**	**3M**	**12M**
Absolute	0.8	11.5	38.7
Rel. to BSE-30	(2.4)	(0.8)	18.5

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	108.3	122.4	153.4
EPS growth (%)	5.7	13.0	25.3
P/E (X)	28.4	25.1	20.1
Sales (Rs bn)	227.4	278.1	339.3
Net profits (Rs bn)	62.2	70.3	88.0
EBITDA (Rs bn)	78.6	93.4	113.3
EV/EBITDA (X)	20.9	17.3	13.9
ROE (%)	30.1	28.7	30.5
Div. Yield (%)	0.8	2.0	1.5

Excellent quarter; meets and, on most parameters, beats expectations

Infosys reported a strong quarter on all parameters beating our higher-than-consensus revenue, EBITDA, and net income estimate for the quarter. Double-digit (10.2%) sequential revenue growth to US$1.5 bn beat our estimate by 0.9%. Even as EBITDA margin came in 30 bps below expectations, absolute EBITDA and net income both beat our estimate by 0.7%. More importantly, several reported operational metrics indicate likely sustenance of demand momentum – we discuss the same below.

Unequivocal verdict on the strength of demand environment

Infosys' Sep 2010 quarter revenue performance validated our thesis on the strong demand environment for offshore IT services (especially the Tier-I players). More important, however, are the underlying demand metrics, which should allay any undue fears on the strength and/or sustainability of the strong demand. Sample these – (1) growth was broad-based across verticals, geographies, and service lines, (2) strong traction in the hitherto pockets of weakness; for example, European revenues grew 15.6% qoq in constant currency, (3) strong mix in discretionary-spend-led service lines (package implementation, consulting, SI), (4) robust large deal signings (transformational as well as global sourcing), (5) six F/G-500 account signings; the company has just come out of its strongest year of 'must have' account signings (24 in FY2010), and (6) robust revision in FY2011E US$ revenue growth guidance (to 25% from 21%).

Strong growth will take care of margin challenges (Re and otherwise); reiterate BUY

Our EPS estimate for FY2012E is up 2.2% to Rs153.4, despite building in a 3.2% stronger Re versus the US$ against our previous estimate. This has been driven by a 4.9% upward revision in our FY2012E US$ revenue estimate. We see upside risks to even our revised revenue growth estimates (27.4%, 24.6%, and 21.3% in FY2011E, 12E, and 13E, respectively) – we reiterate our view that the Indian IT services industry is not in a demand-constrained environment. We raise our end-March 2012E DCF-based target price to Rs3,400/share and reiterate our BUY rating on the stock. Valuation at 20X FY2012E EPS appears rich but has to be viewed in the context of earnings upgrade potential.

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

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

Vineet Thodge
vineet.thodge@kotak.com
Mumbai: +91-22-6634-1225

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

Strong quarter on revenues

Infosys reported 10.2% sequential revenue growth to US$1,496 mn, 0.9% higher than our expectation. Revenue performance was buoyant, whichever way one looks at it. Revenue growth was led by verticals such as retail (+20% qoq), energy and utilities (+16% qoq) and services (+19% qoq). Among geographies, Europe grew 18% qoq, and among service lines, growth was led by package implementation (+14%) and systems integration (+50% qoq). Even the telecom vertical, which continues to drag, grew 4% qoq.

Margins disappoint, just a tad

Margin performance was a tad below expectations, however. In a quarter with 10% US$ revenue growth, 2% Re depreciation benefit, utilization improvement, and benefits from lower visa expenses/ bad debt provisions, a 170 bps qoq EBITDA margin improvement is clearly below par. This reflects the ongoing supply-side challenges facing the industry, also reflected in the 22% quarterly annualized attrition reported by Infosys (an improvement from 28% in 1QFY11, but high, nonetheless). On the positive side, Infosys did indicate sustained improvement on this front through the quarter and expects attrition to trend downwards. The company is also effecting promotions in the Dec 2010 quarter for roughly 12,000 employees out of a total of ~122,000.

Business momentum unmistakable

Infosys' 2Q earnings report presents several indicators of the strong volume momentum for the Indian IT services industry (more for the Tier-I players, in our view) –

- Fourth consecutive quarter of robust sequential volume growth (7.1% consolidated, and 7.2% for IT services in 2QFY11),
- A good 3%pts increase in constant currency FY2011E revenue growth guidance (4%pts in US$ terms to 25% from 21% earlier), after the 4%pts raise in the previous quarter,
- Strong (but conservative, in our view) 3.4-4.4% US$ revenue growth guidance for the seasonally weak December quarter,
- Strong client metrics – number of US$100 mn client relationships increased to 10 from 8 in the previous quarter; it has in fact grown by 4 in the past two quarters,
- Growth was led by discretionary service lines like PI, SI, and consulting – indicates increasing client confidence in committing to longer-term IT investments, and
- Largely broad-based growth (with no apparent weakness except the telecom vertical, which continues to suffer from client-specific issues).

Infosys' 2QFY11 earnings report increases our confidence on the strength of demand environment for the Tier-I Indian IT services companies. It reflects in the 1.9% and 4.9% upward revision in our FY2011E and FY2012E US$ revenue estimates, respectively. We see upside risk to our revenue estimates for TCS and Wipro as well.

FY2011E EPS guidance conservative; conservatism continues to baffle

Infosys has revised its FY2011E EPS guidance to Rs115.1-117.1 from Rs112.2- 116.7 earlier and US$ revenue growth guidance to 24-25% from 19-21% earlier. Revised guidance is based on the assumption of operating margin decline of 130 bps and a Re/US$ rate of 44.5 for the rest of the year (~Rs45.27 for FY2011E). The company has upped its gross hiring guidance to 40,000 from 36,000 earlier.

We have been baffled by the painfully obvious conservatism in Infosys' guidance several times. The 25% US$ revenue growth (upper-end) guidance for FY2011E and 4.4% qoq US$ revenue growth (upper-end) guidance for 3QFY11E implies 1.4% qoq revenue growth in the Mar 2011 quarter. Even better, the lower-ends of FY2011E and 3QFY11E guidance imply a flat March 2011 quarter and we do not even want to talk about what the upper-end of 3QFY11E revenue guidance and the lower-end of FY2011E revenue guidance imply.

Similar conservatism also reflects in the muted 0.3% revision in the upper-end of Re EPS guidance for FY2011E. A simple reverse calculation (based on guided revenue, EBITDA margin, & PAT, and assuming conservative depreciation and other income figures) suggests that the company is building in a 28%+ tax rate for 2HFY11E (see Exhibit 3).

Other details

- The company has announced a special dividend of Rs30/share to celebrate its 30th year of operation (in addition to a normal dividend of Rs10/share).
- Attrition continues to be high, though the trend suggests improvement. Quarterly annualized attrition was 22% versus 29% in 1QFY11.
- Offshore realization declined (in constant currency terms) for the 8th consecutive quarter.
- Subsidiary performance improved substantially qoq; Australia, China, and consulting were strong, in particular.

Exhibit 1: Key changes to estimates, March fiscal year-ends, 2011E-2012E (Rs mn)

	New		Old		Change (%)	
	2011E	2012E	2011E	2012E	2011E	2012E
Revenues	**278,146**	**339,306**	**275,997**	**334,021**	**0.8**	**1.6**
EBITDA	93,392	113,350	93,362	111,457	0.0	1.7
Depreciation	(9,069)	(10,651)	(9,176)	(10,408)	(1.2)	2.3
EBIT	84,323	102,698	84,186	101,049	0.2	1.6
Net Profit	**70,270**	**88,039**	**71,217**	**86,105**	**(1.3)**	**2.2**
EPS (Rs/ share)	**122.4**	**153.4**	**124.1**	**150.0**	**(1.3)**	**2.2**
Revenues (US$ mn)	**6,115**	**7,619**	**6,001**	**7,261**	**1.9**	**4.9**
Revenue growth (%)	**27.4**	**24.6**	**25.0**	**21.0**		
Volume Growth (%)	**28.6**	**24.3**	**26.4**	**17.9**		
Billing Rates (US$/ manmonth)						
Onsite	12,487	12,730	12,268	12,529	1.8	1.6
Offshore	4,403	4,461	4,442	4,580	(0.9)	(2.6)
Margins (%)						
EBITDA	33.6	33.4	33.8	33.4		
EBIT	30.3	30.3	30.5	30.3		
Rs/ US$ rate	45.5	44.5	46.0	46.0	(1.1)	(3.2)

Source: Kotak Institutional Equities estimates

Exhibit 2: Infosys - revision in FY2011E guidance

	Revised			Earlier	
	Lower end	Upper end		Lower end	Upper end
Revenues (US$ mn)	5,950	6,000		5,720	5,810
Growth yoy (%)	24.0	25.0		19.0	21.0
Revenues (Rs bn)	269.5	271.7	#	264.4	268.9
Growth yoy (%)	18.5	19.4		16.3	18.2
EPS (Rs)	115.1	117.1		112.2	116.7
Growth yoy (%)	5.5	7.4		2.9	7.1
EPADS (US$)	2.54	2.58		2.42	2.52
Growth yoy (%)	10.4	12.2		5.9	9.6
Re/US$ rate	44.5			46.45	

Source: Company, Kotak Institutional Equities

Exhibit 3: Full year FY2011E guidance implies tax rate of 28%+ for 2HFY11E

	FY2010	FY2011E	1HFY11	Implied 2HFY11
Revenues (Rs mn)	**227,420**	**271,650**	**131,450**	**140,200**
EBITDA margin (%)	34.6	33.3	32.6	33.9
EBITDA (Rs mn)	**78,610**	**90,367**	**42,790**	**47,577**
Depreciation (Rs mn)	(9,050)	(8,904)	(4,240)	(4,664)
EBIT (Rs mn)	69,560	81,463	38,550	42,913
Other income (Rs mn)	9,430	10,626	5,060	5,566
PBT (Rs mn)	78,990	92,089	43,610	48,479
Tax (Rs mn)	(16,810)	(24,891)	(11,340)	(13,551)
Tax rate (%)	**21.3**	**27.0**	**26.0**	**28.0**
PAT (Rs mn)	62,180	67,198	32,270	34,928
EPS (Rs/share)	108.3	117.1	56.2	60.9
Number of shares outstanding	574.0	574.0	574.0	574.0

Note:
(a) FY2011 revenues, EBITDA and PAT as per company's guidance

Source: Company, Kotak Institutional Equities estimates

Exhibit 4:Infosys Interim Results (consolidated IFRS)

Rs mn	2QFY10	1QFY11	2QFY11	% chg. qoq	% chg. yoy	2QFY11E	% chg.	Comments
Revenues (US$ mn)	**1,154**	**1,358**	**1,496**	**10.2**	**29.6**	**1,482**	**0.9**	
Revenues	**55,850**	**61,980**	**69,470**	**12.1**	**24.4**	**68,172**	**1.9**	Revenues of US$1,496 mn, above our estimate and significantly ahead of the upper end of the company's guidance of US$1,427 mn. Driven by volume growth of 7.2%; constant currency revenue growth was 9.3% qoq
Software Development Costs	(29,630)	(34,410)	(37,520)	9.0	26.6	(36,690)	2.3	
Gross profit	**26,220**	**27,570**	**31,950**	**15.9**	**21.9**	**31,482**	**1.5**	
Selling and marketing exp	(2,760)	(3,390)	(3,800)	12.1	37.7	(3,748)	1.4	
Administration exp	(4,130)	(4,560)	(4,980)	9.2	20.6	(4,732)	5.3	
Total SG&A Expenses	(6,890)	(7,950)	(8,780)	10.4	27.4	(8,480)	3.5	
EBITDA	**19,330**	**19,620**	**23,170**	**18.1**	**19.9**	**23,002**	**0.7**	EBITDA margins improved by 170 bps a tad lower than our expectation of 200 bps improvement
Depreciation	(2,320)	(2,070)	(2,190)	5.8	(5.6)	(2,248)	(2.6)	
EBIT	17,010	17,550	20,980	19.5	23.3	20,754	1.1	
Interest	—	—	—			—		
Other Income	2,360	2,390	2,670	12	13.1	2,176	22.7	Forex gain of Rs55 mn
Provision for investments	—	—	—			—		
Profit Before Tax	19,370	19,940	23,650	18.6	22.1	22,930	3.1	
Provision for Tax	(3,970)	(5,060)	(6,280)	24.1	58.2	(5,677)	10.6	Effective tax rate of 26.5% higher than our expectation of 24.8%
Net Profit	**15,400**	**14,880**	**17,370**	**16.7**	**12.8**	**17,253**	**0.7**	
Minority Interest	—	—	—			—		
Extraordinaries	—	—	—			—		
Net Profit- Reported	**15,400**	**14,880**	**17,370**	**16.7**	**12.8**	**17,253**	**0.7**	
EPS (Rs/ share)	26.8	25.9	30.3	16.7	12.8	30.1	0.7	
No of shares outstanding (mn)	574.0	574.0	574.0			574.0		
As % of revenues								
Gross Profit Margin (%)	46.9	44.5	46.0			46.2		
Operating Margin	34.6	31.7	33.4			33.7		
EBIT Margin		28.3	30.2			30.4		
Selling Expenses	4.9	5.5	5.5			5.5		
Admin Expenses (%)	7.4	7.4	7.2			6.9		
SG&A Expenses (%)	12.3	12.8	12.6			12.4		
Billing Rates (US$/annum)								
Onsite	142,438	146,086	150,669	3.1	5.8			
Offshore	55,974	52,672	52,796	0.2	(5.7)			
Volumes growth	2.3	7.6	7.2					
Revenue Mix (%)								
Onsite	50.9	52.6	54.7					
Offshore	49.1	47.4	45.3					
Total Employees	105,453	114,822	122,468	6.7	16.1			Total gross hiring for 2QFY2011 was 7,646

Guidance (conslidated)	**3QFY11E**		**FY2011E**		Comments
	Lower end	Upper end	Lower end	Upper end	
Revenues (Rs bn)	68.84	69.53	269.5	271.7	
Growth (%)	(0.9)	0.1	18.5	19.4	
Revenues (US$ mn)	1,547	1,562	5,950	6,000	FY2011E revenue growth guidance revised to 24-25% from 19-21% earlier, 3QFY11E qoq revenue growth guidance stands at 3.4-4.4%
Growth (%)	3.4	4.4	24.0	25.0	
EPS (a)	29.37	29.89	115.1	117.0	FY2011E EPS guidance marginally increased by 0.3% at the upper end
Growth (%)	(3.4)	(1.7)	5.5	7.4	
Guidance based on Re/ US$ rate of 44.5					

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: Revenue growth was broad based across verticals and service lines

	Revenues (US$ mn)	Growth (qoq)	Growth (yoy)
Total revenues	**1,496**	**10.2**	**29.6**
Geographical split of revenues			
North America	984	7.7	29.4
Europe	326	18.3	21.8
India	31	36.1	126.9
ROW	154	6.0	37.7
Vertical split of revenues			
Insurance, Banking and Financial services	530	8.0	37.0
Manufacturing	283	6.8	26.9
Retail	215	20.2	32.4
Telecom	199	3.9	6.4
Energy and Utilities	94	15.7	38.4
Transportation & Logistics	27	10.2	1.5
Services	78	19.3	34.8
Others	70	15.1	64.7
Service line split of revenues			
Application development	233	1.7	11.7
Application maintenance	352	8.3	34.2
Business Process Management	84	8.2	17.1
Consulting and Package Implementation	386	14.1	40.5
Infrastructure Management	93	(1.0)	3.0
Product Engineering Services	37	31.1	40.9
System Integration	85	49.5	67.9
Testing Services	114	14.7	58.9
Others	49	6.9	(2.8)
Product revenues	63	10.7	29.5

Source: Company, Kotak Institutional Equities

Exhibit 6: Infosys: Quarterly operating metrics

	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
Revenues (US$ mn)	**1,155**	**1,216**	**1,171**	**1,121**	**1,122**	**1,154**	**1,232**	**1,296**	**1,358**	**1,496**
Revenues (Rs mn)	48,540	54,180	57,860	56,350	54,720	55,850	57,410	59,440	61,980	69,470
Exchange rate (Re/US$)	42.0	44.6	49.4	50.3	48.8	48.4	46.6	45.9	45.6	46.4
Revenue by verticals (%)										
Insurance, Banking and Financial services	34.5	33.4	34.9	33.0	33.0	33.5	34.6	34.8	36.1	35.4
Manufacturing	18.4	20.1	19.6	20.8	20.5	19.3	19.3	20.2	19.5	18.9
Retail	12.2	12.1	12.6	13.5	13.2	14.1	13.1	13.0	13.2	14.4
Telecom	19.7	19.0	16.7	16.7	16.9	16.2	16.2	15.3	14.1	13.3
Energy and Utilities	5.4	5.5	6.2	5.9	5.7	5.9	6.1	5.8	6.0	6.3
Transportation & Logistics	2.4	2.3	2.2	2.3	2.3	2.3	1.8	1.8	1.8	1.8
Services	5.5	5.1	5.4	5.0	4.9	5.0	5.1	4.9	4.8	5.2
Others	1.9	2.5	2.4	2.8	3.5	3.7	3.8	4.2	4.5	4.7
Revenue by service offerings (%)										
ADM	43.4	42.7	42.5	40.9	42.5	40.8	42.3	39.6	40.8	39.1
- Application development	21.4	20.6	20.8	19.2	19.3	18.1	17.8	16.8	16.9	15.6
- Application maintenance	22.0	22.1	21.7	21.7	23.2	22.7	24.5	22.8	23.9	23.5
Business Process Management	6.3	6.0	5.7	6.0	6.1	6.2	5.9	6.2	5.7	5.6
Consulting and Package Implementation	23.7	25.3	25.1	25.4	24.4	23.8	23.3	26.0	24.9	25.8
Infrastructure Management	5.7	5.9	6.5	7.0	6.6	7.8	7.1	7.2	6.9	6.2
Product Engineering Services	2.2	2.1	2.1	2.6	2.4	2.3	2.4	1.8	2.1	2.5
System Integration	3.1	3.5	4.0	3.7	3.8	4.4	4.1	4.5	4.2	5.7
Testing Services	7.4	7.0	6.5	6.3	6.2	6.2	6.5	6.6	7.3	7.6
Others	4.3	3.9	3.4	4.1	4.0	4.4	4.5	3.1	3.4	3.3
Total services	**96.1**	**96.4**	**95.8**	**96.0**	**96.0**	**95.9**	**96.1**	**95.0**	**95.3**	**95.8**
Product revenues	3.9	3.6	4.2	4.0	4.0	4.1	3.9	5.0	4.7	4.2
Total services	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Revenue by geography (%)										
North America	62.6	61.5	64.5	64.6	64.7	65.9	66.6	66.1	67.3	65.8
Europe	27.3	28.1	25.5	24.3	24.7	23.2	21.9	22.5	20.3	21.8
India	1.3	1.3	1.2	1.6	0.9	1.2	1.2	1.4	1.7	2.1
ROW	8.8	9.1	8.8	9.5	9.7	9.7	10.3	10.0	10.7	10.3
Revenue by project type (%)										
Fixed price	35.2	36.2	38.4	40.5	40.7	40.4	40.6	41.9	41.1	42.1
Time and Material	64.8	63.8	61.6	59.5	59.3	59.6	59.4	58.1	58.9	57.9
Client metrics										
Top client contribution to revenues (%)	7.9	7.6	6.2	5.7	4.5	4.6	4.7	4.6	4.9	4.7
Top 5 client contribution to revenues (%)	19.9	18.6	17.3	17.2	16.3	16.5	17.6	15.8	15.4	15.8
Top 10 client contribution to revenues (%)	30.1	28.0	27.2	26.8	25.8	26.2	27.5	25.8	26.1	26.7
Number of active clients	567	586	583	579	569	571	568	575	590	592
New clients added in the period	49	40	30	37	27	35	32	47	38	27
Repeat business %	99.6	99.8	97.1	95.9	98.7	98.0	97.0	95.4	99.4	98.4
Million $ clients	325	325	323	327	330	330	336	338	341	337
5 Million $ clients	146	151	150	151	151	150	152	159	170	173
20 Million $ clients	53	56	58	59	61	59	60	59	60	66
50 Million $ clients	18	20	20	20	19	21	22	26	26	27
100 Million $ clients	6	5	4	4	4	5	6	6	8	10
200 Million $ clients	1	1	1	1	1	1	2	1	1	2
Per-capita productivity (IT Services and Consulting) - Reported (US$)										
Onsite	147,497	148,444	139,784	137,033	140,612	142,438	145,290	144,452	146,086	150,669
Offshore	60,722	60,762	57,958	55,621	55,654	55,974	56,387	54,903	52,672	52,796
Blended	88,008	87,715	82,371	79,883	80,713	81,021	81,889	80,624	79,351	81,864
Currency-wise revenues (%)										
USD	68.4	70.4	72.5	73.4	72.3	73.2	73.9	73.5	74.8	73.1
GBP	16.5	13.3	11.0	9.8	10.0	9.7	8.4	8.7	6.8	7.0
Euro	7.0	7.2	6.7	7.7	7.8	7.3	6.6	6.2	6.0	6.7
AUD	4.9	4.4	4.2	4.8	5.1	5.9	6.3	5.9	5.7	6.5
Utilization measures (IT Services and Consulting)										
Including trainees	68.3	69.2	66.9	65.2	64.3	64.6	66.2	67.4	71.9	73.6
Excluding trainees	70.9	72.8	73.4	72.8	68.3	71.3	74.7	75.8	78.0	81.4
Employee metrics										
Total Employees (Consolidated)	94,379	100,306	103,078	104,850	103,905	105,453	109,882	113,796	114,822	122,468
S/W professionals (IT Services & Consulting)	71,481	77,313	79,890	81,219	80,613	82,533	87,578	89,947	90,926	98,446
Trainees	2,871	7,773	7,418	8,076	5,344	6,798	9,479	8,389	6,772	11,002
Support and sales	5,614	5,666	6,247	6,551	6,622	6,887	5,430	5,917	5,287	5,462
Infosys BPO	17,284	17,327	16,941	17,080	16,670	16,033	16,874	17,932	18,609	18,560
Gross additions	7,182	10,117	5,997	4,935	3,538	6,069	8,719	9,313	8,859	14,264
Net additions	3,192	5,927	2,772	1,772	(945)	1,548	4,429	3,914	1,026	7,646
Laterals hired	2,013	1,736	1,388	659	390	1,064	1,420	2,041	2,942	4,138
LTM Attrition (Standalone)	**13.6**	**12.8**	**11.8**	**11.1**	**11.1**	**10.9**	**11.6**	**13.4**	**15.8**	**17.1**
Attrition quarterly annualized (Standalone)	**17.2**	**17.2**	**12.7**	**12.2**	**17.2**	**17.3**	**15.9**	**19.3**	**27.4**	**22.3**

Source: Company

Exhibit 7: Key assumptions driving Infosys' earnings model, 2010-2013E, March fiscal year-ends

	2010	2011E	2012E	2013E
Key assumptions				
Revenue growth (US$ terms) (%)	**2.9**	**27.4**	**24.6**	**21.3**
Volume growth yoy (%) (IT only)	7.4	28.6	24.3	21.7
Pricing change yoy (%)				
Onsite	0.0	4.6	1.9	—
Offshore	(5.1)	(5.2)	1.3	—
Blended	(4.2)	(0.7)	(0.2)	0.0
Total employees (#)	113,796	132,568	157,151	182,964
Employee additions	8,946	18,772	24,583	25,813
Utilization rate (%)	67.1	75.3	75.6	77.8
SG&A expense as % of revenues	12.4	12.6	13.0	13.1
Re/US$ rate	47.4	45.5	44.5	44.1

Source: Kotak Institutional Equities estimates

Exhibit 8: Profit model, balance sheet, cash model of Infosys Technologies, 2009-2013E, March fiscal year-ends (Rs mn)

	2009	2010	2011E	2012E	2013E
Profit model					
Revenues	**216,930**	**227,420**	**278,146**	**339,306**	**407,408**
Cost of sales	(117,650)	(120,710)	(149,700)	(181,751)	(219,935)
SG&A expenses	(27,330)	(28,100)	(35,054)	(44,205)	(53,535)
EBITDA	**71,950**	**78,610**	**93,392**	**113,350**	**133,938**
Depreciation	(7,610)	(9,050)	(9,069)	(10,651)	(12,463)
EBIT	**64,340**	**69,560**	**84,323**	**102,698**	**121,475**
Other income	4,730	9,430	10,352	12,946	15,532
Pre-tax profits	**69,070**	**78,990**	**94,675**	**115,645**	**137,007**
Provision for tax	(10,270)	(16,810)	(24,405)	(27,605)	(32,677)
Recurring net income	**58,800**	**62,180**	**70,270**	**88,039**	**104,330**
Extraordinaries	1,080	480	—	—	—
Reported net income	**59,880**	**62,660**	**70,270**	**88,039**	**104,330**
EPS (Rs)	**102.4**	**108.3**	**122.4**	**153.4**	**181.8**
Balance Sheet					
Shareholders funds	182,540	230,490	259,637	316,864	384,640
Deferred tax liability/(assets)	(1,260)	(2,000)	(2,000)	(2,000)	(2,000)
Borrowings	—	—	—	—	—
Minority interest	—	—	—	—	—
Total liabilities	**181,280**	**228,490**	**257,637**	**314,864**	**382,640**
Gross block	70,930	78,390	91,574	107,737	125,000
Accumulated depreciation	(24,160)	(28,930)	(37,999)	(48,650)	(61,113)
Net block	46,770	49,460	53,575	59,086	63,887
CWIP	6,770	4,090	4,090	4,090	4,090
Net fixed assets	53,540	53,550	57,665	63,176	67,977
Cash and bank balances	112,460	124,480	147,138	194,734	252,760
Net current assets excluding cash	15,280	50,460	52,834	56,953	61,903
Total assets	**181,280**	**228,490**	**257,637**	**314,864**	**382,640**
Cashflow statement					
Operating profit before working capital changes	71,950	78,610	93,392	113,350	133,938
Change in working capital/other adjustments	(3,390)	(250)	(2,374)	(4,119)	(4,950)
Capital expenditure	(13,270)	(6,750)	(13,184)	(16,163)	(17,263)
Taxes paid	(9,020)	(17,530)	(24,405)	(27,605)	(32,677)
Free cash flow	**46,270**	**54,080**	**53,429**	**65,463**	**79,047**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Shree Cement (SRCM)

Cement

BUY

OCTOBER 18, 2010

UPDATE

Coverage view: Neutral

Price (Rs): 2,034

Target price (Rs): 2,400

BSE-30: 20,125

Leveraged to petcoke? We recently met the management of Shree Cement to get a better perspective of their evolving business structure. The company is investing progressively to build a sizeable power portfolio and faces risks to earnings from higher pet coke prices—coke is currently is the key fuel source for Shree Cement's cement and power businesses. We reiterate our BUY rating on SRCM with a revised target price of Rs2,400/share taking cognizance of the increase in petcoke prices.

Company data and valuation summary

Shree Cement

Stock data			
52-week range (Rs) (high,low)			2,542-1,372
Market Cap. (Rs bn)			70.9
Shareholding pattern (%)			
Promoters			65.5
FIIs			5.1
MFs			6.5
Price performance (%)	1M	3M	12M
Absolute	0.1	4.8	27.2
Rel. to BSE-30	(2.5)	(6.5)	9.5

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	208.0	200.4	265.2
EPS growth (%)	19.0	(3.7)	32.4
P/E (X)	9.8	10.2	7.7
Sales (Rs bn)	36.3	36.9	43.7
Net profits (Rs bn)	7.2	7.7	8.4
EBITDA (Rs bn)	14.5	13.9	15.1
EV/EBITDA (X)	5.0	4.5	3.3
ROE (%)	48.0	32.4	31.6
Div. Yield (%)	0.5	0.5	0.5

Pet coke prices raise concerns, but technology investments offer flexibility

The recent spike in pet coke prices has raised concerns on the fuel security for SRCM given its increased dependence on the fuel for the expanded power capacities. We note that while rising prices of fuel do not augur well for earnings of SRCM, investment in CFB boilers give SRCM the flexibility to switch to alternative fuels (see Exhibit 7). We concede that dependence on market-price for both fuel and power tariffs increases the risk to earnings, however, we like SRCM's strategy of investing in power capacities to (1) de-risk the earnings from the cyclical nature of the cement business, (2) capitalize on tax benefits available to captive power plants, and (3) benefit from lucrative merchant tariffs in the short-term market,.

In this note, we discuss the economics of pet coke versus other fuels in detail. We note that 5% higher pet coke prices in FY2011E could impact SRCM's valuation by ~7% (See Exhibit 2).

Capacity addition targets on track, capex of Rs12 bn incurred in FY2010

SRCM has incurred a capex of Rs12 bn in FY2010 (Rs5.4 bn in FY2009), out of which, Rs6.1 bn was spent on power capacities while the balance Rs5.7 bn was spent on cement business. We believe power will continue to drive the near-term capex of SRCM as the company plans to add another 350 MW by end-FY2012E. During the year, SRCM added ~90 MW of generating capacity including a 46 MW of waste heat recovery plant. SRCM also commissioned 2 grinding units aggregating 3 mtpa during FY2010, taking its total installed cement capacity to 10.2 mtpa.

Maintain BUY with a target price of Rs2,400/share

We reiterate our BUY rating on SRCM with a revised target price of Rs2,400 (previously Rs2,550) as we take into account higher pet coke prices. We rate SRCM as one of our preferred picks in the cement sector as we believe that current valuations are much below the replacement cost. Our SOTP based valuation includes (1) Rs2,066/share for cement business based on 5.5X FY2012E EBITDA and (2) Rs334/share for external power sales based on March 2012 based DCF to equity. We note that CMP implies an EV/EBITDA of 4.6X on FY2012E cement EBITDA. Our valuations do not include the proposed 300 MW capacity, which could further add ~Rs170/share to our target price.

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

Shubham Satyarth
shubham.satyarth@kotak.com
Mumbai: +91-22-6634-1320

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

Exhibit 1: We ascribe 5.5X on adjusted cement EBITDA for FY2012E
SOTP SRCM

Cement	
FY2012E adjusted EBITDA (Rs mn)	14,469
EV/EBITDA (X)	5.5
EV (Rs mn)	79,582
Net Debt (Rs mn)	7,592
Equity value (Rs mn)	**71,989**
Power	
Equity value (Rs mn)	**11,642**
Total (Rs mn)	**83,631**
No. of shares	35
Value (Rs/share)	**2,401**

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: 5% higher pet coke prices I FY2012E could impact SRCM's valuation by ~4%.
Sensitivity of SRCM's fair value to pet coke prices in FY2012 and growth

		Share value (Rs/share)				
		FY2012E pet coke price (Rs/ton)				
		4,419	4,651	**4,896**	5,141	5,398
Fuel price growth (%)	1%	2,506	2,467	**2,426**	2,385	2,342
	2%	2,494	2,455	**2,414**	2,372	2,329
	3%	**2,482**	**2,442**	**2,401**	**2,359**	**2,315**
	4%	2,469	2,429	**2,387**	2,345	2,301
	5%	2,455	2,415	**2,373**	2,330	2,286

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Sustainable merchant tariff of Rs4/kwh could add another Rs60/share to our target price
Sensitivity of SRCM's fair value to pet coke prices in FY2012 and sustainable merchant tariff

		Share value (Rs/share)				
		FY2012E pet coke price (Rs/ton)				
		4,419	4,651	**4,896**	5,141	5,398
Sustainable merchant tariff (Rs/kwh)	2.0	2,286	2,245	**2,202**	2,159	2,113
	3.0	2,421	2,381	**2,339**	2,298	2,254
	3.5	**2,482**	**2,442**	**2,401**	**2,359**	**2,315**
	4.0	2,543	2,504	**2,462**	2,420	2,376
	4.5	2,604	2,565	**2,523**	2,481	2,438

Source: Company, Kotak Institutional Equities estimates

Economics of pet coke versus other alternatives

SRCM chose pet coke as a primary source of fuel as the surplus domestic production of pet coke gave SRCM access to a high quality fuel with sufficient availability at competitive prices. However, the worsening domestic demand-supply scenario has led to a steady increase in the prices of pet coke over the years, leading to an increased dependence on imports.

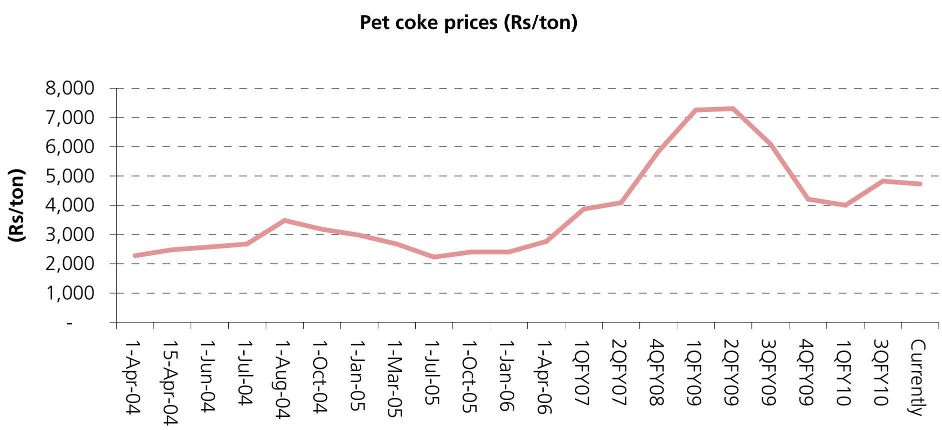
Pet coke is a bye-product of oil refining and can be used as an alternate to coal. The GCV of pet coke is on an average ~7,000 kcal/kg compared to the average GCV of average South African coal at 6,000 kcal/kg. We note that pet coke prices in India have been steadily rising and are currently at ~Rs4,700/ton. SRCM imported ~50% of its pet coke requirement in FY2010. Exhibit 4 highlights the increased dependence on imported pet coke during FY2010.

Exhibit 4: Dependence on imported pet coke increased to ~50% in FY2010
Coal consumption and source breakup of SRCM, March fiscal year-ends, 2007-10

	2007	2008	2009	2010
Coal consumption				
Power (mn tons)	0.2	0.3	0.3	0.4
Kiln (mn tons)	0.4	0.5	0.7	0.9
Total (mn tons)	**0.6**	**0.8**	**1.0**	**1.2**
Coal spending				
Imported (Rs mn)	80	0	253	2,400
Domestic (Rs mn)	2,063	3,612	5,579	3,227
Imported (%)	3.7	0.0	4.3	42.7
Domestic (%)	96.3	100.0	95.7	57.3

Source: Company, Kotak Institutional Equities

Exhibit 5: Pet coke prices have been close to Rs5,000/ton levels
Price trend of petroleum coke, April 2004-4QFY10 (Rs/ton)



Source: Company, Kotak Institutional Equities

Exhibit 6: India has become a net importer of petcoke over the years
Demand-supply of petcoke in India ('000 tons)

	2004	2005	2006	2007	2008	2009	Apr-Nov 2010
Consumption	2,877	3,129	4,928	5,441	5,950	6,166	4,274
Production	2,743	3,162	3,182	3,779	4,129	4,241	

Source: Infraline, Kotak Institutional Equities

Exhibit 7: CFB boilers involves higher capital cost but offers greater degree of flexibility
Comparison of CFB and PC-fired boilers on key parameters

Description	CFB Boiler	PC-fired boiler	Benefits of CFB boiler
Fuel size	6-12 mm x 0	>70%<75 microns	Crushing cost is reduced
Fuel range	Upto 75%	Upto 60%	Accepts wider range
Auxiliary fuel support	Up to 20-30%	Up to 60%	Less oil/gas consumption
Auxiliary power consumption	Slightly higher	Lower	
Boiler efficiency	Same	Same	
O&M cost	5-10% lower	5-10% higher	Lower because of less moving equipment
Capital cost	5-10% higher	5-10% lower	

Source: The Babcock & Wilcox Company Ohio, U.S.A. Kotak Institutional Equities

2QFY11E earnings - expect a significantly weak quarter

We estimate SRCM's revenues and PAT to decline by 18.2% and 71% sequentially, primarily on account of (1) the decline in cement prices in North by ~Rs10/bag during the quarter, (2) higher input cost on account of increasing pet coke prices and (3) sequential decline in power revenues due to weakness in short-term rates of power.

Exhibit 8: Expect a significantly weak 2QFY11 earnings for SRCM
2QFY11E estimates SRCM (Rs mn)

	Sep-09	Jun-10	Sep-10E	Change (%) yoy	Change (%) qoq	Comments
Shree Cement						
Net sales	8,996	9,445	7,724	(14.1)	(18.2)	Decline in cement realizations as pricing in North trended downwards in July and August
EBITDA	4,082	2,895	1,875	(54.1)	(35.2)	
EBIT	3,084	1,386	475	(84.6)	(65.7)	
PBT	3,245	1,253	385	(88.1)	(69.3)	Sequential decline in power revenues due to weakness in short-term rates of power
PAT	2,918	1,068	308	(89.4)	(71.2)	

Source: Kotak Institutional Equities estimates

Exhibit 9: Profit model, balance sheet, cash model of Shree Cement, March fiscal year-ends, 2008-13E (Rs mn)

	2008	2009	2010E	2011E	2012E	2013E
Profit model (Rs mn)						
Net sales	20,650	27,150	36,321	36,934	43,739	46,468
EBITDA	**8,653**	**9,508**	**15,025**	**13,298**	**16,810**	**18,358**
Other income	733	829	1,284	1,507	1,507	1,507
Interest	(527)	(744)	(1,291)	(1,231)	(923)	(667)
Depreciation	(4,788)	(2,054)	(5,704)	(5,547)	(6,074)	(6,601)
Pretax profits	4,072	7,538	9,313	8,027	11,319	12,596
Tax	(930)	(1,449)	(2,066)	(1,046)	(2,080)	(3,023)
Net profits	**3,142**	**6,089**	**7,248**	**6,981**	**9,240**	**9,573**
Extraordinary items	(389)	(309)	(487)	—	—	—
Earnings per share (Rs)	**90.2**	**174.8**	**208.0**	**200.4**	**265.2**	**274.8**
Balance sheet (Rs mn)						
Total equity	6,543	11,996	18,208	24,860	33,527	41,753
Total borrowings	13,307	14,962	21,062	15,062	10,805	6,548
Currrent liabilities	4,799	6,842	9,667	8,211	11,949	16,055
Total liabilities and equity	**24,649**	**33,800**	**48,938**	**48,133**	**56,282**	**64,357**
Cash	4,674	4,723	4,164	7,470	15,628	25,508
Current assets	6,286	9,571	11,545	12,593	14,658	15,454
Total fixed assets	7,779	11,057	17,194	12,148	10,073	7,472
Investments	5,910	8,448	16,035	15,922	15,922	15,922
Total assets	**24,649**	**33,800**	**48,938**	**48,133**	**56,282**	**64,357**
Free cash flow (Rs mn)						
Operating cash flow, excl. working capital	7,631	8,154	12,938	12,369	14,686	14,664
Working capital	(125)	(1,243)	851	(2,504)	1,673	3,310
Capital expenditure	(4,260)	(5,295)	(11,835)	(501)	(4,000)	(4,000)
Investments	500	—	—	—	—	—
Free cash flow	**3,746**	**1,616**	**1,954**	**9,363**	**12,359**	**13,974**

Source: Company, Kotak Institutional Equities estimates

September WPI inflation: Primary articles inflation accelerates. WPI inflation for September came in at 8.62%, marginally higher than consensus expectations of 8.5%. The pressure came from primary articles where the index jumped by 1.53% over the month. The July number on the old base was revised to 10.31% from the prior release of 9.97%.

Primary articles inflation shows no signs of abating

Primary articles inflation accelerated to 17.5% from 15.8% on the back of higher food and non-food article prices. Primary food inflation has belied all expectations of easing and has continued to remain stubbornly high. The food index rose by 1.6% m/m, with the y/y rate rising to 15.7% from 14.6% last month. The stickiness in the food index, however, is stemming from 'milk', 'eggs, meat and fish' category. In recent years, India is likely to have witnessed a shift in consumption towards protein sources from cereals as income levels move up. As a result, demand for these food items is likely to have outstripped their supply, resulting in unrelenting price pressures. On the other hand, prices of cereals have moved lower, possibly reflecting the expectations of a bumper Kharif output. Going forward, food prices may not moderate as significantly as is being anticipated as global food prices have been firming up. On the non-food primary articles side, fibers, particularly cotton and raw silk, are witnessing acute price pressures, with prices of fibers jumping by 9.8% m/m taking the annual inflation rate to 27.6%.

Non-food manufacturing inflation sticky; fuel prices moderate

Non-food manufacturing inflation, which is indicative of demand side pressures in the economy, was unchanged from last month at 5% y/y. Although inflation in non-food manufacturing has come down from its peak of 5.9% in April, prices may not correct significantly from these levels as global liquidity continue to push up commodity prices. In September, all the sub-indices of the manufactured products (excluding food) increased marginally, with the exception of 'leather & leather products' and 'non-metallic mineral products'.

RBI to continue to tighten, likely to stay hawkish on inflation in November 2 meeting

IIP growth fell sharply in August to 5.6% from 15.2% in the previous month. However, this is mainly a result of sharp volatility in capital goods production. However, in the last monetary policy communiqué, RBI had indicated that inflation dynamics are likely to determine future policy trends. With Headline WPI inflation at 8.62%, the real policy interest rate still remains negative and needs to correct if the economy has to soft land.

We do not think that the RBI will be able to relax before inflation is firmly in a lower zone. For October, inflation could continue to stay sticky in the region of 8.3-8.5% and start to moderate significantly from around November owing to favorable base effects. Going forward, upside risks to inflation could come from rise in the global metals and other input prices on account of additional liquidity that could be pumped into the system via unconventional measures in the US. For December, we now expect Headline WPI inflation to be at around 7.0-7.25%, lower than our earlier estimate of 7.8%. This is made possible by the sudden sharp appreciation of the rupee, likely to provide a benefit on the manufactured goods side. Further, food grains and fruits and vegetables inflation has shown the sharpest decline in the last few months.

End-FY2011E inflation is expected to fall to a range of 6.0-6.5%, down from our earlier estimate of 7.0%. Overall, a combination of demand side and cost push factors continues to exert pressures on headline WPI while asset prices have once again started to move higher. We expect RBI to stay hawkish on inflation and increase policy interest rates by 25 bps at both the upper and lower ends of the interest rate corridor on November 2, 2010.

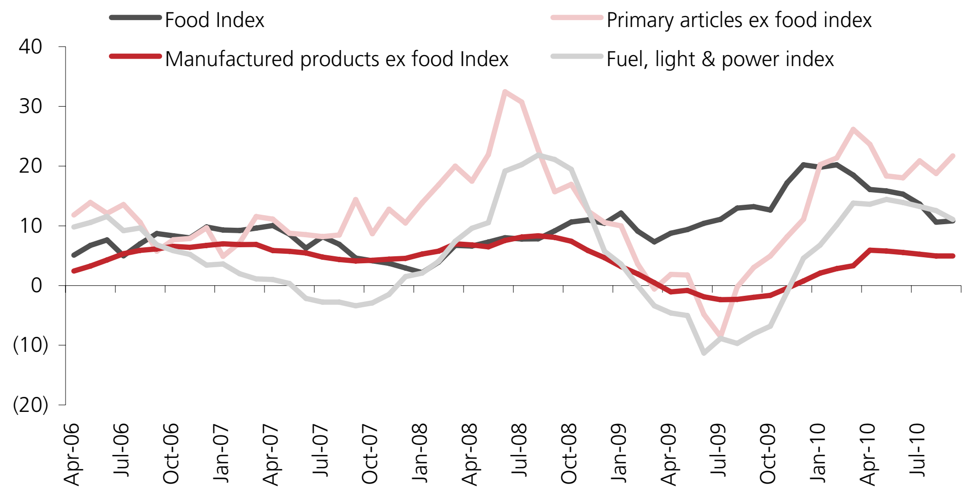
QUICK NUMBERS

- August inflation at 8.62%; July inflation on old base revised up to 10.31% from 9.97%
- Primary articles inflation stays high at 17.45%; Non-food manufacturing inflation sticky at 5%
- End-FY11E inflation likely to be at 6-6.5%; RBI likely to hike repo and reverse repo rates by 25 bps on November 2

Suvodeep Rakshit
suvodeep.rakshit@kotak.com
Mumbai: +91-22-6634-1409

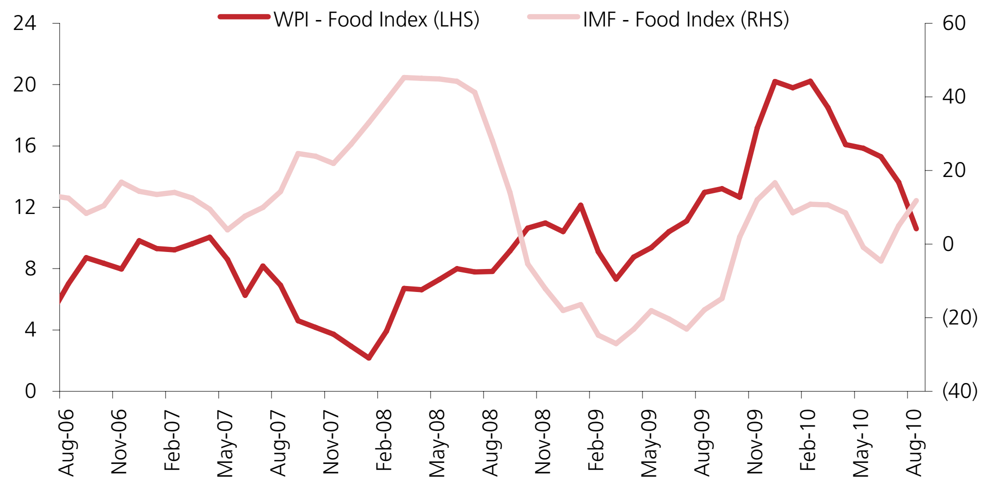
Kotak Institutional Equities Research
kotak.research@kotak.com
Mumbai: +91-22-6634-1100

Exhibit 1: Food prices and non-food articles putting upward pressure on WPI
Inflation rate, y/y change in WPI for major commodity groups, (%)



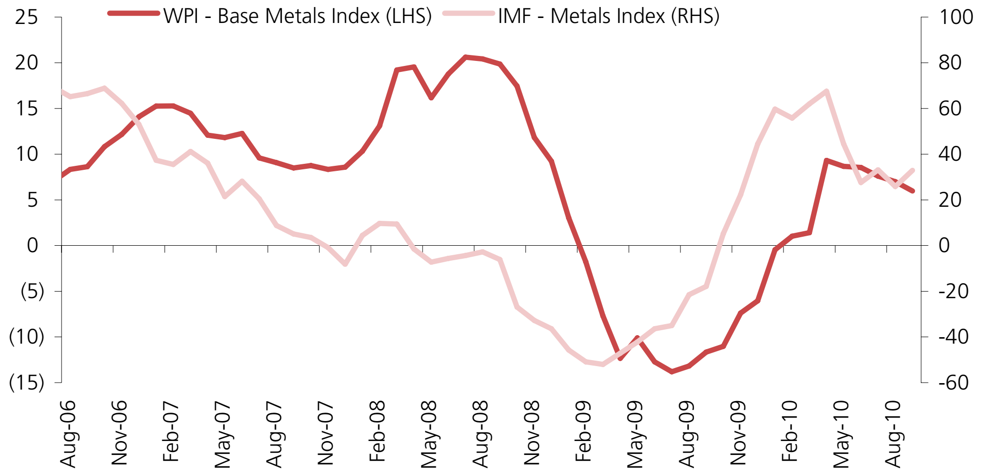
Source: Office of Economic Advisor, Kotak Institutional Equities

Exhibit 2: Global food prices have been firming up; could limit the extent of moderation in domestic food prices
Inflation rate for primary food articles price index and IMF food price index, y/y change, (%)



Source: Office of Economic Advisor, IMF, Kotak Institutional Equities

Exhibit 3: The recent surge in global metal prices could spill over to domestic prices
Inflation rate for base metals index and IMF metals index, y/y change, (%)



Source: Office of Economic Advisor, IMF, Kotak Institutional Equities

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Gasoline-powered deregulation. We expect the ₹0.70-0.72/liter gasoline price hike by BPCL and IOCL to provide further credibility to the deregulation process. The second price hike after the June 25 deregulation announcement should allay investor concerns about the ability of OMCs to increase retail prices at high crude oil prices. We expect the subsidy-sharing to be finalized by end-FY2011E and would ignore media speculation in the interim period. We maintain our positive view on the downstream companies. We upgrade BPCL to BUY, maintain BUY on HPCL and ADD on IOCL.

Deregulation is here to stay

We expect the ₹0.70-72/liter gasoline price hike by BPCL and IOCL to further enhance investor confidence in the deregulation process. The recent price increase will likely allay investor concerns about the credibility of the deregulation process at high crude prices. We note that gasoline prices have been increased by ₹4.5/liter since the announcement of deregulation on June 25, 2010. We note that the under-recovery on gasoline (pre-increase) is ₹2.1/liter at current level of crude prices (US$83.5/bbl Dated Brent for the week ended October 15, 2010). We have assumed that gasoline prices will be market-linked from 3QFY11E in our earnings model.

Don't be swayed by speculation on subsidy-sharing mechanism

We caution investors against media speculation on the potential subsidy-sharing mechanisms for FY2011E. We would not be surprised if the government does not provide any compensation to the downstream companies in 2QFY11E and would not extrapolate the amount, if any, to assess compensation for FY2011E. We believe that it is too early for the government to finalize the subsidy-sharing for FY2011E given the sharp volatility in several key variables—(1) crude oil prices, (2) global product prices and (3) exchange rates. We also note the government's plans to divest stakes in IOCL and ONGC by March 2011 and expect the government to create the right investment environment before their divestment. We work on the philosophy that the government would provide sufficient compensation to the downstream companies to ensure that their FY2011E and FY2012E net under-recoveries are similar to FY2010 levels (₹56 bn).

Recent correction in stock prices provides opportunity to buy

We would recommend that investors take advantage of the recent correction in stock prices of downstream companies driven by (1) sharp increase in crude oil prices and (2) media speculation about an unfavorable subsidy-sharing arrangement. We view the announcement of a hike in gasoline prices as positive for the sector as it will (1) reduce the under-recoveries in the system and (2) show that the policy-makers and downstream companies are serious about deregulation of auto fuel prices. We upgrade BPCL to BUY and see significant potential upside to our 12-month fair valuation for the three stocks—₹855 for BPCL, ₹625 for HPCL and ₹480 for IOCL. Finally, our blue-sky scenario of full deregulation (government compensates entire subsidy loss on cooking fuels) shows 39-72% potential upside from current levels.

Diesel deregulation in practice will likely follow soon

Diesel prices have been left unchanged but we expect the same to be deregulated in 4QFY11E on a likely easing of inflationary concerns. We compute under-recovery of ₹1.5/liter on diesel at crude oil price of US$83.5 in the week ended October 15, 2010. We believe diesel deregulation is critical to address the subsidy issue given that it is the largest product by volumes (60% of total sales of regulated products). We see the pragmatic approach towards deregulation of gasoline providing greater confidence in timely implementation of diesel deregulation.

QUICK NUMBERS

- Gasoline price hike of ₹0.70/liter by BPCL and ₹0.72/liter by IOCL
- 19-28% potential upside to our 12-month fair valuations
- 39-72% upside to fair valuation of OMCs from current levels in blue-sky scenario

Gundeep Singh
gundeep.singh@kotak.com
Mumbai: +91-22-6634-1186

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

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

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

Gasoline prices in four metros post the price hike by IOCL
Retail prices of gasoline, IOCL (₹/liter)

	Old price	New price
Delhi	51.8	52.6
Kolkata	55.7	56.4
Mumbai	56.3	57.0
Chennai	56.3	57.0

Source: Company, Kotak Institutional Equities

Fair valuation of government-owned oil companies
EPS estimates and fair valuation, March fiscal year-ends, 2012E (₹)

	EPS (a) (Rs)	P/E (X)	Value of investments (Rs)	Fair value (Rs)	Current stock price (Rs)	Upside (%)
BPCL	62	10	237	855	695	23
HPCL	57	9	109	625	488	28
IOCL	37	10	112	480	402	19

Note:
(a) EPS adjusted for other income from investments valued separately.

Source: Company, Kotak Institutional Equities estimates

Earnings and valuations of downstream and upstream companies would jump significantly in a blue-sky scenario
EPS estimates and fair valuation, March fiscal year-end, 2012E (₹)

	EPS (Rs)	P/E (X)	Value of investments (Rs)	Fair value (Rs)	Current stock price (Rs)	Upside (%)
BPCL	83	10	237	1,071	695	54
HPCL	81	9	109	840	488	72
IOCL	45	10	112	560	402	39

Note:
(a) EPS adjusted for other income from investments valued separately.

Source: Company, Kotak Institutional Equities estimates

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

	2007	2008	2009	2010	2011E	2012E	2013E	2014E
Profit model (Rs mn)								
Net sales	965,569	1,102,081	1,340,734	1,202,170	1,347,607	1,404,572	1,546,005	1,604,712
EBITDA	**35,362**	**28,472**	**27,507**	**32,635**	**43,152**	**47,424**	**51,116**	**52,289**
Other income	7,332	13,954	15,087	22,402	14,648	12,914	11,205	9,445
Interest	(4,774)	(6,725)	(22,699)	(10,110)	(12,959)	(11,400)	(8,997)	(6,415)
Depreciation	(9,041)	(10,982)	(10,755)	(12,423)	(13,981)	(13,506)	(13,902)	(14,212)
Pretax profits	28,879	24,719	9,141	32,505	30,861	35,433	39,422	41,107
Extraordinary items	(68)	—	—	(8,290)	—	—	—	—
Tax	(9,286)	(9,059)	(5,103)	(11,317)	(7,882)	(11,029)	(12,188)	(13,072)
Deferred taxation	(268)	(1,108)	2,421	3,033	(2,369)	(741)	(908)	(583)
Adjusted net profits	**18,100**	**15,806**	**6,324**	**20,830**	**20,610**	**23,663**	**26,327**	**27,452**
Earnings per share (Rs)	**50.1**	**43.7**	**17.5**	**57.6**	**57.0**	**65.4**	**72.8**	**75.9**
Balance sheet (Rs mn)								
Total equity	102,735	116,768	121,281	130,867	143,566	158,145	174,367	191,281
Deferred taxation liability	13,826	14,814	12,392	8,593	10,962	11,703	12,610	13,194
Total borrowings	108,292	150,224	211,714	221,952	199,450	163,950	125,736	83,736
Currrent liabilities	112,767	145,803	128,313	171,312	162,579	165,977	175,006	178,915
Total liabilities and equity	**337,620**	**427,608**	**473,701**	**532,724**	**516,556**	**499,775**	**487,719**	**467,126**
Cash	8,640	9,616	4,416	3,424	3,561	4,041	4,130	3,762
Current assets	127,698	187,457	148,469	232,416	230,039	234,338	247,786	252,476
Goodwill	—	—	—	—	—	—	—	—
Total fixed assets	118,334	127,354	140,033	161,871	174,180	177,619	177,025	177,112
Investments	82,949	103,182	180,784	135,013	108,777	83,777	58,777	33,777
Total assets	**337,621**	**427,608**	**473,701**	**532,724**	**516,556**	**499,775**	**487,719**	**467,126**
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	29,920	22,988	19,717	22,972	22,311	24,995	29,931	32,802
Working capital	11,451	(25,161)	20,585	(48,542)	(7,799)	(901)	(4,420)	(779)
Capital expenditure	(17,908)	(20,665)	(23,323)	(33,698)	(26,289)	(16,944)	(13,308)	(14,298)
Investments	(45,481)	(21,684)	(82,456)	35,270	26,237	25,000	25,000	25,000
Other income	4,337	6,434	6,655	13,694	16,091	12,914	11,205	9,445
Free cash flow	**(17,682)**	**(38,088)**	**(58,822)**	**(10,304)**	**30,551**	**45,063**	**48,408**	**52,170**
Ratios (%)								
Debt/equity	105.4	128.7	174.6	169.6	138.9	103.7	72.1	43.8
Net debt/equity	97.0	120.4	170.9	167.0	136.4	101.1	69.7	41.8
RoAE	16.3	12.7	4.8	11.3	14.0	14.6	14.8	14.0
RoACE	**10.9**	**7.3**	**7.2**	**7.9**	**8.2**	**9.1**	**10.0**	**10.6**
Key assumptions (standalone until FY2005)								
Crude throughput (mn tons)	19.8	20.9	20.0	20.4	22.3	22.3	22.3	22.3
Effective tariff protection (%)	1.6	1.4	2.4	2.2	0.7	0.7	0.7	0.7
Net refining margin (US$/bbl)	3.2	5.6	5.2	2.9	3.6	4.2	4.7	4.7
Sales volume (mn tons)	24.5	26.7	27.8	29.3	31.3	32.7	34.2	35.9
Marketing margin (Rs/ton)	(1,140)	(3,010)	(5,944)	511	(62)	1,664	1,644	1,643
Subsidy under-recoveries (Rs mn)	(10,400)	(33,354)	2,728	(12,375)	(12,479)	(11,679)	(11,822)	(11,732)

Source: Company, Kotak Institutional Equities estimates

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

	2007	2008	2009	2010	2011E	2012E	2013E	2014E
Profit model (Rs mn)								
Net sales	889,959	1,043,130	1,249,348	1,073,004	1,258,432	1,307,445	1,442,175	1,497,873
EBITDA	**24,036**	**15,757**	**28,707**	**32,469**	**45,131**	**50,197**	**56,292**	**58,754**
Other income	6,845	11,980	9,057	16,462	7,923	7,679	5,964	4,230
Interest	(4,230)	(7,925)	(20,828)	(9,038)	(10,970)	(12,169)	(11,744)	(11,615)
Depreciation	(7,040)	(8,508)	(9,813)	(11,644)	(15,637)	(15,990)	(17,711)	(19,488)
Pretax profits	19,611	11,303	7,122	28,249	26,447	29,717	32,802	31,881
Extraordinary items	3,030	—	—	(6,999)	—	—	—	—
Tax	(6,625)	(1,799)	(2,416)	(5,616)	(5,271)	(8,075)	(6,538)	(8,331)
Deferred taxation	(365)	(2,025)	(343)	(2,046)	(3,514)	(1,796)	(4,358)	(2,259)
Prior period adjustment	61	3,870	1,387	(575)	—	—	—	—
Adjusted net profits	**13,617**	**11,349**	**5,750**	**17,489**	**17,662**	**19,846**	**21,906**	**21,291**
Earnings per share (Rs)	**40.2**	**33.5**	**17.0**	**51.6**	**52.1**	**58.5**	**64.6**	**62.8**
Balance sheet (Rs mn)								
Total equity	95,987	105,633	107,306	115,580	126,803	139,415	153,336	166,866
Deferred tax liability	14,209	15,960	16,034	18,080	21,594	23,390	27,748	30,008
Total borrowings	105,175	167,867	227,552	213,024	204,802	180,302	178,802	136,285
Currrent liabilities	101,195	124,337	117,558	165,551	142,027	149,717	162,125	165,447
Total liabilities and equity	**316,566**	**413,797**	**468,450**	**512,234**	**495,227**	**492,825**	**522,011**	**498,605**
Cash	868	2,940	6,083	2,432	3,297	3,588	3,735	4,136
Current assets	113,779	190,034	153,844	203,988	192,627	199,615	216,423	220,879
Total fixed assets	130,644	152,452	166,558	191,943	203,014	213,333	255,566	247,302
Investments	71,275	68,371	141,965	113,872	96,289	76,289	46,289	26,289
Total assets	**316,566**	**413,796**	**468,450**	**512,234**	**495,227**	**492,825**	**522,012**	**498,605**
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	23,966	(18,679)	(12,139)	28,120	25,574	29,123	36,444	38,683
Working capital changes	8,936	(6,504)	48,461	(6,530)	(13,127)	702	(4,400)	(1,134)
Capital expenditure	(38,510)	(31,638)	(19,275)	(36,180)	(23,393)	(25,479)	(58,376)	(11,100)
Investments	(31,704)	(1,851)	(70,386)	16,521	17,584	20,000	30,000	20,000
Other income	2,067	4,692	3,187	8,037	8,886	7,679	5,964	4,230
Free cash flow	**(35,246)**	**(53,980)**	**(50,151)**	**9,968**	**15,525**	**32,026**	**9,631**	**50,680**
Ratios (%)								
Debt/equity	95.4	138.1	184.5	159.4	138.0	110.7	98.7	69.2
Net debt/equity	94.7	135.6	179.6	157.6	135.8	108.5	96.7	67.1
RoAE	14.9	9.8	4.7	10.1	12.5	12.8	12.7	11.3
RoACE	**8.6**	**5.0**	**5.3**	**6.8**	**7.1**	**8.0**	**8.5**	**8.4**
Key assumptions								
Crude throughput (mn tons)	16.7	16.8	15.8	15.8	16.5	17.9	19.3	19.3
Effective tariff protection (%)	1.4	1.3	2.4	2.5	1.3	1.3	1.3	1.3
Net refining margin (US$/bbl)	4.3	6.6	4.0	2.7	4.1	4.6	5.3	5.3
Sales volume (mn tons)	23.4	26.2	27.0	27.7	28.6	29.8	31.2	32.7
Marketing margin (Rs/ton)	(710)	(2,345)	(5,021)	627	50	1,639	1,611	1,607
Subsidy under-recoveries (Rs mn)	(7,685)	(31,191)	5,587	(12,297)	(12,205)	(12,101)	(12,198)	(12,081)

Source: Company, Kotak Institutional Equities estimates

Consolidated profit model, balance sheet, cash model of IOCL, March fiscal year-ends, 2007-2014E (₹ mn)

	2007	2008	2009	2010	2011E	2012E	2013E	2014E
Profit model (Rs mn)								
Net sales	2,149,428	2,444,378	3,041,265	2,660,338	3,381,393	3,548,521	3,943,119	4,118,991
EBITDA	**110,451**	**120,872**	**61,445**	**146,723**	**185,618**	**198,800**	**208,499**	**211,691**
Other income	27,451	43,748	45,155	68,588	28,367	30,999	32,384	31,482
Interest	(17,058)	(17,556)	(41,758)	(16,638)	(25,031)	(23,537)	(21,307)	(17,025)
Depreciation	(28,686)	(29,918)	(31,389)	(34,943)	(48,084)	(49,672)	(53,467)	(54,988)
Pretax profits	92,157	117,145	33,453	163,729	140,870	156,591	166,110	171,160
Extraordinary items	24,757	5,374	—	(14,995)	—	—	—	—
Tax	(25,834)	(38,293)	(13,316)	(47,193)	(36,198)	(46,134)	(51,533)	(54,967)
Deferred taxation	(8,040)	(473)	1,435	5,556	(10,596)	(5,882)	(3,644)	(2,751)
Net profits	82,729	83,430	25,523	108,238	94,076	104,575	110,932	113,442
Net profits after minority interests	**62,702**	**74,517**	**27,437**	**116,128**	**91,967**	**101,841**	**108,455**	**111,657**
Earnings per share (Rs)	**26.3**	**31.2**	**11.5**	**47.9**	**37.9**	**41.9**	**44.7**	**46.0**
Balance sheet (Rs mn)								
Total equity	378,117	450,449	470,654	547,804	595,318	662,317	733,375	806,018
Deferred tax liability	59,859	60,331	58,876	54,072	63,916	69,798	73,443	76,194
Total borrowings	290,215	382,818	465,250	497,522	515,547	434,357	366,075	302,333
Currrent liabilities	330,791	386,724	376,107	472,991	533,197	556,792	586,296	596,874
Total liabilities and equity	**1,058,981**	**1,280,322**	**1,370,888**	**1,572,389**	**1,707,978**	**1,723,263**	**1,759,189**	**1,781,419**
Cash	9,385	8,413	8,076	13,501	10,480	10,860	11,766	11,428
Current assets	437,178	599,256	473,965	648,895	765,039	791,634	849,302	867,445
Total fixed assets	415,014	460,307	565,545	690,165	717,275	730,585	707,937	712,363
Investments	197,403	212,345	323,301	219,828	215,184	190,184	190,184	190,184
Total assets	**1,058,981**	**1,280,322**	**1,370,888**	**1,572,389**	**1,707,978**	**1,723,263**	**1,759,189**	**1,781,419**
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	(44,660)	(107,263)	(345,677)	138,838	122,374	126,373	138,989	121,971
Working capital changes	2,237	(1,414)	76,881	(163,423)	(70,181)	1,475	(41,723)	13,579
Capital expenditure	(50,969)	(79,586)	(135,923)	(128,974)	(84,591)	(49,980)	(22,015)	(24,284)
Investments	99,768	92,665	299,410	147,320	2,914	25,015	14	849
Other Income	13,582	18,253	16,413	24,515	35,145	30,445	31,709	30,713
Free cash flow	**19,958**	**(77,346)**	**(88,896)**	**18,276**	**5,661**	**133,328**	**106,974**	**142,829**
Ratios (%)								
Debt/equity	66.3	74.9	87.9	82.7	78.2	59.3	45.4	34.3
Net debt/equity	64.1	73.3	86.3	80.4	76.6	57.8	43.9	33.0
RoAE	16.1	16.3	5.5	21.2	15.0	15.0	14.5	13.6
RoACE	**11.2**	**11.4**	**5.1**	**12.4**	**9.7**	**10.3**	**10.7**	**10.6**
Key assumptions (IOC standalone)								
Crude throughput (mn tons)	44.0	47.4	51.3	50.7	52.6	54.6	54.6	54.6
Effective tariff protection (%)	1.6	1.3	2.8	2.2	0.8	0.8	0.8	0.8
Net refining margin (US$/bbl)	4.2	8.2	3.6	4.5	4.9	5.4	6.0	6.0
Sales volume (mn tons)	53.4	57.4	61.0	64.0	67.4	70.3	73.4	76.7
Marketing margin (Rs/ton)	(633)	(2,203)	(5,253)	874	341	1,792	1,776	1,775
Subsidy under-recoveries (Rs mn)	(21,900)	(97,738)	—	(31,588)	(29,636)	(29,516)	(28,959)	(28,311)

Source: Company, Kotak Institutional Equities estimates

September 2010: Results calendar

Mon	Tue	Wed	Thu	Fri	Sat
18-Oct	**19-Oct**	**20-Oct**	**21-Oct**	**22-Oct**	**23-Oct**
Bajaj Finserv	Bajaj Auto	Canara Bank	ACC	Bank of India	Dr Reddys Laboratories
Crisil	Bajaj Holdings	HCL Technologies	Allahabad Bank	Biocon	Bharat Forge
Essar Oil	Cadila Healthcare	Hindustan Zinc	Alstom Projects	D B Corp	
HDFC	Container Corp	Indiabulls Real Estate	Ambuja Cements	Indian Bank	
Indiabulls Securities	Coromandal International	Jubilant Organosys	Corporation Bank	Kirloskar Industires	
ING Vysya Bank	HDFC Bank	Kotak Mahindra Bank	Indiabulls Financial Services	Piramal Healthcare	
L&T	Mindtree	Mahindra Life Space Developers	South Indian Bank	Sobha Developers	
Sesa Goa	Religare Enterprises	Power Grid Corp	TCS	Vijaya Bank	
		Yes Bank	TVS Motor	Wipro	
25-Oct	**26-Oct**	**27-Oct**	**28-Oct**	**29-Oct**	**30-Oct**
Adani Power	Bosch	Asian Paints	Adani Enterprises	ABB	Aditya Birla Nuvo
Crompton Greaves	Central Bank of India	Dabur India	Bank of Baroda	BHEL	Areva T&D
Hindustan Unilver	DishTV India	Godrej Industries	BGR Energy	BPCL	GVK Power
Idea Cellular	JB Chemicals	Gujarat State Petronet	Cairn India	Federal Bank	Maruti Suzuki
Mundra Port & SEZ	NTPC	Hindustan Copper	Colgate Palmolive	Hindustan Construction Co	
Petronet LNG	Sterlite Industries	HPCL	EIH	ICICI Bank	
Procter & Gamble	Tech Mahindra	Patni Computer	Glaxosmithkline Pharma	Indian Oil Corp	
Rural Electrification Corp	Ultratech Cement	Shriram Transport	Grasim Industries	ITC	
Titan Industries	Voltas	Thermax	Monsanto India	Mahindra & Mahindra	
		Torrent Power	Phoenix Mills	Motherson Sumi	
		United Spirits	Tata Communications	Tata Chemicals	
			Tata Global Beverages		
			Zee Entertainment Enterprises		
1-Nov	**2-Nov**	**3-Nov**	**4-Nov**	**5-Nov**	**6-Nov**
Century Textiles	Jai Corp				
JSW Energy					
8-Nov	**9-Nov**	**10-Nov**	**11-Nov**	**12-Nov**	**13-Nov**
IDFC			Ranbaxy Laboratories	Tata Power	
			Shree Cement		

Source: BSE, Kotak Institutional Equities

Kotak Institutional Equities: Valuation summary of key Indian companies

	15-Oct-10		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)	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	(Rs)	(%)	(US$ mn)
Automobiles																													
Ashok Leyland	74	ADD	98,641	2,237	1,330	2.8	4.3	5.9	84.5	52.3	37.5	26.3	17.3	12.5	15.1	11.3	8.9	2.4	2.2	2.0	2.0	1.3	1.3	10.9	13.5	16.7	78	5.2	8.6
Bajaj Auto	1,505	REDUCE	435,468	9,875	289	117.7	87.8	101.3	160.2	(25.4)	15.4	12.8	17.1	14.9	16.5	12.1	10.3	14.9	9.1	6.2	0.7	1.3	1.3	70.9	65.8	49.5	1,420	(5.6)	22.6
Bharat Forge	372	REDUCE	88,823	2,014	239	0.7	12.4	19.7	(92.0)	1,705.4	59.1	540.4	29.9	18.8	27.3	12.8	9.0	2.3	2.3	2.0	—	—	—	0.9	0.4	0.1	360	(3.1)	4.9
Hero Honda	1,790	REDUCE	357,413	8,105	200	111.8	114.9	129.8	74.1	2.8	12.9	16.0	15.6	13.8	10.0	9.9	8.4	9.9	6.9	5.1	1.7	1.7	1.9	59.0	52.1	42.7	1,800	0.6	23.8
Mahindra & Mahindra	711	BUY	423,171	9,596	595	33.9	44.1	51.7	125.8	30.1	17.3	21.0	16.1	13.7	13.8	11.6	9.7	5.2	4.2	3.4	1.3	1.3	1.4	30.0	29.0	27.3	760	6.9	26.0
Maruti Suzuki	1,519	REDUCE	438,825	9,951	289	86.4	80.6	93.4	105.0	(6.7)	15.8	17.6	18.8	16.3	9.6	9.7	8.1	3.7	3.1	2.6	0.4	0.4	0.4	23.3	17.8	17.5	1,330	(12.4)	23.2
Tata Motors	1,156	ADD	723,930	16,416	626	27.4	94.8	109.2	(182.5)	246.1	15.2	42.2	12.2	10.6	14.4	7.5	6.6	4.7	3.3	2.5	1.2	0.5	0.5	8.7	11.9	11.1	1,150	(0.5)	98.7
Automobiles		**Cautious**	**2,566,273**	**58,192**					**276.0**	**58.9**	**16.9**	**24.6**	**15.5**	**13.2**	**13.3**	**9.4**	**8.0**	**5.1**	**4.0**	**3.1**	**1.0**	**0.9**	**1.0**	**20.9**	**25.7**	**23.7**			
Banks/Financial Institutions																													
Andhra Bank	170	BUY	82,329	1,867	485	21.6	22.9	26.7	60.1	6.4	16.4	7.9	7.4	6.4	—	—	—	1.9	1.6	1.3	2.9	3.1	3.6	26.0	23.1	22.7	190	11.9	7.2
Axis Bank	1,502	ADD	608,592	13,800	405	62.1	78.6	99.9	22.7	26.6	27.2	24.2	19.1	15.0	—	—	—	3.8	3.3	2.8	0.8	1.0	1.3	19.2	18.4	20.2	1,700	13.2	47.4
Bank of Baroda	960	BUY	351,035	7,960	366	83.7	95.1	115.7	37.3	13.7	21.7	11.5	10.1	8.3	—	—	—	2.6	2.1	1.8	1.6	1.8	2.2	24.4	23.0	23.3	1,000	4.1	8.6
Bank of India	533	ADD	280,155	6,353	526	33.1	54.5	62.0	(42.1)	64.7	13.6	16.1	9.8	8.6	—	—	—	2.2	1.9	1.6	1.3	2.2	2.5	14.2	20.7	20.1	560	5.1	14.0
Canara Bank	646	ADD	264,696	6,002	410	73.7	82.2	98.3	45.8	11.6	19.5	8.8	7.9	6.6	—	—	—	2.1	1.7	1.4	1.2	1.5	1.9	22.4	20.8	20.8	580	(10.2)	9.0
Corporation Bank	717	ADD	102,909	2,334	143	82.0	101.5	118.1	31.8	23.8	16.3	8.7	7.1	6.1	—	—	—	1.8	1.5	1.3	2.3	2.8	3.3	22.0	23.0	22.5	750	4.5	2.0
Federal Bank	432	ADD	73,818	1,674	171	27.2	36.4	49.0	(7.2)	34.1	34.4	15.9	11.8	8.8	—	—	—	1.6	1.4	1.3	1.2	1.6	2.1	10.3	12.6	15.2	430	(0.4)	7.2
HDFC	727	REDUCE	1,043,860	23,670	1,436	19.7	23.3	27.9	22.7	18.3	19.9	36.9	31.2	26.0	—	—	—	6.9	6.1	5.3	1.0	1.1	1.3	20.0	20.7	21.8	720	(1.0)	52.1
HDFC Bank	2,386	REDUCE	1,092,290	24,768	458	64.4	84.9	111.1	22.1	31.7	30.9	37.0	28.1	21.5	—	—	—	5.1	4.4	3.8	0.5	0.7	0.9	16.1	16.9	19.2	2,500	4.8	42.9
ICICI Bank	1,125	REDUCE	1,253,860	28,432	1,115	36.1	45.2	57.3	6.9	25.3	26.6	31.2	24.9	19.6	—	—	—	2.4	2.3	2.1	1.1	1.3	1.7	8.0	9.5	11.3	1,000	(11.1)	89.5
IDFC	205	ADD	299,400	6,789	1,458	8.4	9.4	11.2	44.9	12.4	18.7	24.5	21.8	18.3	—	—	—	4.3	2.8	2.3	0.7	0.8	1.1	16.6	15.5	14.3	205	(0.1)	26.9
India Infoline	115	BUY	35,888	814	312	8.1	7.2	8.7	59.2	(11.9)	21.6	14.2	16.1	13.2	—	—	—	2.3	1.9	1.6	2.8	1.3	1.8	16.4	12.9	14.4	130	12.9	6.2
Indian Bank	291	ADD	125,256	2,840	430	35.1	32.4	44.1	25.5	(7.7)	36.2	8.3	9.0	6.6	—	—	—	1.9	1.6	1.4	2.2	2.0	2.7	24.1	18.8	21.7	280	(3.9)	5.8
Indian Overseas Bank	160	BUY	87,413	1,982	545	13.0	16.7	24.8	(46.7)	29.0	48.4	12.4	9.6	6.5	—	—	—	1.4	1.2	1.0	2.2	2.4	2.6	9.6	11.6	15.4	160	(0.3)	5.5
J&K Bank	781	ADD	37,877	859	48	105.7	119.3	139.6	25.0	12.9	17.1	7.4	6.5	5.6	—	—	—	1.3	1.1	1.0	2.8	3.2	3.7	18.2	17.9	18.3	850	8.8	3.4
LIC Housing Finance	1,380	REDUCE	131,115	2,973	95	69.7	109.0	119.0	11.5	56.3	9.2	19.8	12.7	11.6	—	—	—	4.0	3.3	2.8	1.1	1.7	1.9	23.6	27.4	24.6	1,325	(4.0)	35.2
Mahindra & Mahindra Financial	709	REDUCE	68,054	1,543	96	35.9	46.4	56.2	60.0	29.4	21.2	19.8	15.3	12.6	—	—	—	4.0	3.4	2.8	1.1	1.4	1.7	21.5	23.5	23.8	635	(10.4)	4.5
Oriental Bank of Commerce	480	ADD	120,259	2,727	251	45.3	57.8	66.8	25.3	27.6	15.5	10.6	8.3	7.2	—	—	—	1.6	1.4	1.2	1.9	2.4	2.8	14.5	16.5	16.9	450	(6.3)	9.2
PFC	364	SELL	418,075	9,480	1,148	20.5	22.9	27.6	53.5	11.9	20.3	17.8	15.9	13.2	—	—	—	3.2	2.9	2.5	1.4	1.6	1.9	18.8	18.3	19.2	275	(24.5)	4.9
Punjab National Bank	1,305	BUY	411,517	9,331	315	123.9	133.4	163.3	26.4	7.7	22.4	10.5	9.8	8.0	—	—	—	2.5	2.1	1.7	1.7	2.1	2.6	26.2	23.2	23.7	1,450	11.1	9.5
Reliance Capital	837	NR	206,048	4,672	246	12.9	13.7	9.8	(67.3)	6.5	(28.6)	65.1	61.1	85.6	—	—	—	3.0	2.9	2.9	0.7	0.7	0.5	4.7	4.8	3.4	—	—	33.8
Rural Electrification Corp.	360	REDUCE	355,855	8,069	987	20.3	25.3	31.2	23.2	24.5	23.4	17.8	14.3	11.6	—	—	—	3.2	2.8	2.4	1.8	2.1	2.6	22.0	21.0	22.5	325	(9.8)	10.7
Shriram Transport	761	ADD	169,899	3,853	223	39.2	53.3	65.1	30.1	36.2	22.0	19.4	14.3	11.7	—	—	—	4.6	3.9	3.2	1.5	2.1	2.6	28.4	28.2	28.6	800	5.1	8.7
SKS Microfinance	1,136	ADD	83,697	1,898	74	26.9	48.9	77.5	61.1	81.3	58.6	42.2	23.3	14.7	—	—	—	8.8	4.1	3.1	-	-	-	21.7	23.9	24.7	1,400	23.3	-
SREI	111	NR	12,897	292	116	8.3	7.9	9.9	17.8	(4.8)	25.8	13.4	14.1	11.2	—	—	—	1.1	1.0	0.9	1.1	1.1	1.1	11.1	10.5	12.3	-	-	5.4
State Bank of India	3,166	BUY	2,009,816	45,574	635	144.4	176.8	209.3	0.5	22.4	18.4	21.9	17.9	15.1	—	—	—	3.0	2.7	2.3	0.9	1.0	1.1	14.8	15.9	16.6	3,400	7.4	127.7
Union Bank	391	BUY	197,501	4,478	505	41.1	48.8	60.2	20.2	18.8	23.5	9.5	8.0	6.5	—	—	—	2.2	1.8	1.5	1.4	1.7	2.1	26.2	25.1	25.1	450	15.1	6.1
Yes Bank	347	BUY	117,882	2,673	340	15.0	18.7	25.8	46.7	24.5	38.3	23.1	18.6	13.4	—	—	—	3.8	3.2	2.7	0.4	0.5	0.7	20.3	18.8	21.7	375	8.1	15.9
Banks/Financial Institutions		**Attractive**	**10,041,993**	**227,710**					**15.0**	**21.7**	**22.3**	**19.9**	**16.3**	**13.4**	**—**	**—**	**—**	**3.1**	**2.7**	**2.3**	**1.1**	**1.3**	**1.6**	**15.5**	**16.4**	**17.4**			
Cement																													
ACC	996	REDUCE	187,166	4,244	188	83.2	66.0	72.9	47.9	(20.7)	10.4	12.0	15.1	13.7	6.4	7.2	5.8	2.9	2.6	2.2	2.7	2.3	2.3	29.3	20.0	19.3	980	(1.6)	10.8
Ambuja Cements	139	SELL	211,230	4,790	1,522	8.0	8.4	8.9	11.4	5.3	5.1	17.3	16.5	15.7	9.6	9.1	7.9	3.0	2.7	2.4	1.4	1.5	1.5	19.3	17.8	16.5	108	(22.2)	7.0
Grasim Industries	2,300	ADD	210,896	4,782	92	301.0	242.3	292.5	26.1	(19.5)	20.7	7.6	9.5	7.9	4.6	4.8	3.7	1.7	1.5	1.3	1.4	1.5	1.5	22.9	16.5	17.2	2,500	8.7	6.6
India Cements	113	SELL	34,834	790	307	10.0	7.4	9.4	(43.5)	(26.5)	27.5	11.3	15.4	12.1	6.1	8.0	5.7	0.8	0.8	0.8	1.9	2.8	2.8	8.2	5.7	7.0	100	(11.8)	5.4
Shree Cement	2,034	BUY	70,855	1,607	35	208.0	221.1	242.5	19.0	6.3	9.7	9.8	9.2	8.4	4.8	4.6	3.7	3.9	2.8	2.1	0.5	0.5	0.5	48.0	35.0	28.1	2,550	25.4	1.8
UltraTech Cement	1,134	ADD	310,660	7,044	274	88.2	66.2	99.5	12.0	(25.0)	50.4	12.8	17.1	11.4	15.0	9.4	6.0	5.7	2.4	2.0	0.2	0.3	0.3	25.9	18.0	22.3	1,100	(3.0)	5.5

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	15-Oct-10 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS (Rs) 2012E	EPS growth (%) 2010E	EPS growth (%) 2011E	EPS growth (%) 2012E	PER (X) 2010E	PER (X) 2011E	PER (X) 2012E	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	EV/EBITDA (X) 2012E	Price/BV (X) 2010E	Price/BV (X) 2011E	Price/BV (X) 2012E	Dividend yield (%) 2010E	Dividend yield (%) 2011E	Dividend yield (%) 2012E	RoE (%) 2010E	RoE (%) 2011E	RoE (%) 2012E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Consumer products																													
Asian Paints	2,658	ADD	254,936	5,781	96	71.5	89.0	104.3	85.3	24.4	17.3	37.2	29.9	25.5	22.9	18.6	15.7	15.9	12.4	9.9	1.0	1.4	1.7	51.8	47.9	44.4	3,000	12.9	9.2
Colgate-Palmolive (India)	845	SELL	114,962	2,607	136	31.1	34.5	39.6	44.2	10.9	14.6	27.2	24.5	21.4	22.2	18.1	15.5	35.3	30.0	25.7	2.4	3.1	3.5	156.1	132.3	129.4	830	(1.8)	3.2
Dabur India	102	ADD	177,361	4,022	1,731	2.9	3.4	4.2	28.2	16.8	23.3	35.3	30.3	24.5	26.2	21.1	17.1	16.8	13.0	10.8	1.5	1.7	2.1	54.3	49.0	48.4	115	12.2	5.7
GlaxoSmithkline Consumer (a)	2,112	ADD	88,800	2,014	42	55.4	68.8	83.9	23.6	24.3	22.0	38.1	30.7	25.2	21.5	18.5	14.7	9.9	8.2	6.9	0.9	1.1	1.3	27.9	29.1	29.6	2,200	4.2	1.1
Godrej Consumer Products	395	ADD	127,689	2,895	324	11.3	13.5	18.0	69.5	18.9	33.4	34.8	29.3	22.0	27.6	20.9	15.7	13.3	7.2	6.5	1.0	0.8	0.8	44.6	31.9	31.1	450	14.0	2.5
Hindustan Unilever	299	SELL	651,452	14,772	2,182	9.4	10.2	12.0	(0.9)	8.4	17.5	31.7	29.2	24.9	21.8	21.0	17.1	25.2	21.8	18.8	2.5	2.8	3.3	71.1	80.2	81.3	250	(16.3)	14.9
ITC	172	ADD	1,315,511	29,830	7,651	5.3	6.4	7.5	22.6	20.5	17.8	32.4	26.9	22.8	19.7	16.9	14.1	8.9	7.4	6.3	2.9	1.6	1.7	29.2	31.6	31.3	175	1.8	27.7
Jubilant Foodworks	509	SELL	32,490	737	64	5.5	10.0	13.1	340.6	79.9	31.4	91.8	51.1	38.9	48.9	29.1	19.5	27.6	17.9	12.3	—	—	—	46.6	42.6	37.5	400	(21.4)	25.9
Jyothy Laboratories	283	ADD	21,686	492	77	11.0	14.3	17.0	99.6	30.1	18.2	25.7	19.7	16.7	20.8	13.1	10.5	5.3	3.5	3.0	1.6	1.3	1.7	16.0	18.4	19.6	320	13.0	0.7
Marico	130	ADD	79,778	1,809	612	4.4	5.3	6.4	32.9	20.2	20.4	29.3	24.4	20.3	20.0	16.4	13.6	12.0	8.6	6.5	0.5	0.7	0.9	48.9	41.6	36.7	140	7.3	1.9
Nestle India (a)	3,198	REDUCE	308,337	6,992	96	74.4	90.7	109.8	27.0	22.0	21.0	43.0	35.2	29.1	28.4	23.5	19.9	53.0	40.1	30.7	1.5	1.9	2.3	136.0	129.7	119.5	3,100	(3.1)	4.0
Tata Global Beverages	130	ADD	80,299	1,821	618	6.1	7.3	8.7	14.5	20.7	19.0	21.5	17.8	14.9	10.3	7.8	6.6	1.7	1.5	1.4	1.5	1.9	2.2	10.2	11.7	12.9	130	0.1	4.8
Consumer products		**Cautious**	**3,253,300**	**73,771**					**23.8**	**18.4**	**19.0**	**33.3**	**28.1**	**23.6**	**21.3**	**18.2**	**15.1**	**11.3**	**9.3**	**7.9**	**2.2**	**1.8**	**2.1**	**33.8**	**33.1**	**33.7**			
Constructions																													
IVRCL	153	BUY	40,866	927	267	7.9	9.1	11.6	(6.7)	15.0	27.9	19.4	16.9	13.2	10.0	9.5	7.5	2.0	1.8	1.6	0.3	0.3	0.3	11.0	11.3	12.9	205	33.9	7.9
Nagarjuna Construction Co.	148	BUY	38,039	863	257	7.1	8.9	11.6	6.1	24.3	31.1	20.8	16.7	12.8	10.6	9.3	7.7	1.7	1.6	1.4	0.9	1.3	1.3	9.3	9.8	11.8	205	38.3	4.4
Punj Lloyd	130	REDUCE	44,055	999	339	(12.9)	9.8	12.0	79.2	(175.4)	22.4	(10.0)	13.3	10.9	36.5	7.2	6.5	1.4	1.3	1.2	(0.1)	0.3	0.8	(15.8)	10.3	11.4	140	7.7	13.7
Sadbhav Engineering	1,496	BUY	22,439	509	15	42.8	61.8	87.2	(16.3)	44.3	41.0	34.9	24.2	17.2	19.1	12.8	9.8	5.5	3.7	3.0	0.2	0.4	0.4	15.8	15.1	17.8	1,750	17.0	0.4
Construction		**Attractive**	**145,398**	**3,297**					**(91.1)**	**4,479**	**28.0**	**745.0**	**16.3**	**12.7**	**15.3**	**8.7**	**7.4**	**1.9**	**1.7**	**1.5**	**0.3**	**0.6**	**0.7**	**0.3**	**10.3**	**11.8**			
Energy																													
Aban Offshore	850	ADD	37,003	839	44	94.5	151.1	129.7	(2.5)	59.9	(14.2)	9.0	5.6	6.6	8.4	7.0	6.6	1.7	1.5	1.3	0.4	0.4	0.5	21.7	32.9	21.9	915	7.6	36.8
Bharat Petroleum	695	ADD	251,325	5,699	362	58.6	57.0	65.4	230	(3)	14.8	12	12	10.6	6.7	6.4	6.0	1.8	1.6	1.5	2.0	2.7	3.1	14.9	13.3	13.8	855	23.0	29.6
Cairn india	338	RS	640,988	14,535	1,897	5.5	20.5	36.6	29.0	270.1	78.3	61.0	16.5	9.2	47.9	9.9	6.0	1.9	1.7	1.5	—	—	4.4	3.1	10.7	17.2	—	—	31.9
Castrol India (a)	465	SELL	114,973	2,607	247	15.4	21.0	21.7	45	36	3.5	30	22	21.4	17.9	13.7	13.1	25.0	23.7	22.5	2.7	3.7	3.8	83.8	109.9	107.9	390	(16.1)	2.4
GAIL (India)	500	BUY	634,050	14,378	1,268	24.8	26.8	40.3	11.7	8.2	50.4	20.2	18.7	12.4	11.4	11.2	8.8	3.5	3.1	2.6	1.5	1.7	2.5	17.4	16.6	21.7	550	10.0	18.5
GSPL	115	SELL	64,738	1,468	562	7.3	7.1	8.0	233	(3)	12.6	16	16	14.5	7.9	7.8	6.6	3.8	3.2	2.8	0.9	1.5	2.8	27.1	21.2	20.6	83	(27.9)	5.5
Hindustan Petroleum	488	BUY	165,556	3,754	339	51.6	52.1	58.5	204.2	1.0	12.4	9.5	9.4	8.3	3.4	3.1	2.9	1.2	1.1	1.0	2.5	3.3	3.7	13.1	11.9	12.1	625	28.0	31.0
Indian Oil Corporation	402	ADD	975,672	22,124	2,428	49.1	37.9	41.9	399	(23)	10.7	8	11	9.6	5.9	6.1	5.3	1.8	1.6	1.5	3.2	2.8	3.1	22.4	15.3	15.4	480	19.4	13.9
Oil India	1,435	REDUCE	344,944	7,822	240	115.2	131.9	149.0	13.9	14.6	12.9	12.5	10.9	9.6	5.7	4.3	3.7	2.3	2.1	1.8	2.4	3.1	3.6	16.8	17.9	17.9	1,550	8.0	3.9
Oil & Natural Gas Corporation	1,340	BUY	2,866,857	65,008	2,139	90.3	116.4	136.7	(1)	29	17.5	15	12	9.8	5.2	4.6	4.0	2.2	2.0	1.7	2.5	3.1	3.6	14.4	16.8	17.7	1,500	11.9	33.5
Petronet LNG	115	SELL	86,400	1,959	750	5.4	6.5	7.9	(22.0)	20.5	21.8	21.4	17.7	14.5	12.1	10.3	9.0	3.4	2.9	2.5	1.5	1.7	2.4	15.9	16.7	17.6	88	(23.6)	9.1
Reliance Industries	1,040	REDUCE	3,096,082	70,206	2,976	49.6	57.7	74.4	(2)	16	28.9	21	18	14.0	10.6	8.4	6.9	2.1	1.9	1.7	0.7	0.8	1.0	11.4	12.1	13.9	1,015	(2.4)	130.7
Energy		**Cautious**	**9,278,585**	**210,399**					**36.6**	**15.9**	**23.9**	**15.5**	**13.4**	**10.8**	**7.6**	**6.4**	**5.4**	**2.1**	**1.9**	**1.7**	**1.7**	**2.0**	**2.6**	**13.7**	**14.3**	**15.8**			
Industrials																													
ABB	913	REDUCE	193,367	4,385	212	16.7	18.3	33.1	(35.2)	9.3	80.7	54.5	49.9	27.6	31.3	28.8	16.1	8.0	7.1	5.8	0.2	0.3	0.4	15.6	15.0	23.0	725	(20.5)	5.7
BGR Energy Systems	745	BUY	53,615	1,216	72	16.0	28.0	41.1	32.2	74.4	46.9	46.5	26.6	18.1	26.1	15.3	10.9	9.5	7.6	5.8	0.4	0.9	1.1	22.3	31.7	36.1	950	27.6	4.3
Bharat Electronics	1,752	REDUCE	140,184	3,179	80	96.1	105.9	120.3	(7.4)	10.2	13.6	18.2	16.5	14.6	8.5	7.4	6.3	3.1	2.7	2.4	1.1	1.4	1.4	17.5	17.7	17.6	1,800	2.7	3.4
Bharat Heavy Electricals	2,525	REDUCE	1,235,965	28,026	490	87.9	114.3	135.5	37.7	30.0	18.5	28.7	22.1	18.6	16.1	12.5	10.4	7.8	6.1	4.9	0.7	1.0	1.1	29.8	31.1	29.3	2,600	3.0	31.2
Crompton Greaves	315	REDUCE	202,169	4,584	642	12.8	14.0	16.3	46.5	9.0	16.6	24.5	22.5	19.3	14.2	12.6	10.6	8.1	6.2	4.9	0.4	0.6	0.7	37.9	31.1	28.2	320	1.5	9.4
Larsen & Toubro	1,989	ADD	1,197,535	27,155	602	57.9	74.7	90.2	15.6	29.0	20.7	34.3	26.6	22.0	19.0	14.0	11.6	5.4	4.4	3.8	0.6	0.6	0.7	18.6	18.3	18.5	2,150	8.1	53.2
Maharashtra Seamless	435	BUY	30,645	695	71	40.2	43.6	49.8	12.1	8.5	14.2	10.8	10.0	8.7	5.9	5.1	4.1	1.9	1.7	1.4	1.4	1.8	2.3	19.3	17.9	17.7	450	3.6	0.6
Siemens	819	REDUCE	276,033	6,259	337	25.2	27.0	31.9	56.4	7.3	18.0	32.5	30.3	25.7	20.0	18.2	15.2	8.1	6.7	5.6	0.6	0.6	0.8	27.6	24.2	23.8	635	(22.4)	8.8
Suzlon Energy	58	REDUCE	91,639	2,078	1,594	(6.2)	(0.8)	3.3	(185.4)	(86.8)	(504.1)	(9.3)	(70.8)	17.5	14.8	12.4	8.3	1.4	1.2	1.2	—	—	0.3	(11.4)	(1.8)	6.9	55	(4.3)	23.7
Thermax	783	ADD	93,342	2,117	119	21.7	29.5	39.7	(10.4)	35.9	34.4	36.0	26.5	19.7	18.6	14.5	10.8	8.7	7.1	5.7	0.6	1.1	1.5	25.0	29.5	32.2	865	10.4	1.5
Voltas	235	REDUCE	77,574	1,759	331	10.9	11.8	13.4	57.4	8.2	14.3	21.6	19.9	17.5	13.0	11.3	9.5	7.3	5.8	4.8	1.3	1.5	1.7	38.3	32.5	30.2	225	(4.1)	6.0

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

	15-Oct-10		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)**	**2010E**	**2011E**	**2012E**	**2010E**	**2011E**	**2012E**	**2010E**	**2011E**	**2012E**	**2010E**	**2011E**	**2012E**	**2010E**	**2011E**	**2012E**	**2010E**	**2011E**	**2012E**	**2010E**	**2011E**	**2012E**	**(Rs)**	**(%)**	**(US$ mn)**
Infrastructure																													
Container Corporation	1,315	REDUCE	170,930	3,876	130	61.1	74.3	85.9	0.3	21.7	15.6	21.5	17.7	15.3	15.2	12.3	10.3	3.9	3.4	2.9	1.1	1.3	1.5	19.6	20.6	20.5	1,250	(4.9)	2.7
GMR Infrastructure	56	ADD	207,002	4,694	3,667	0.4	0.2	0.1	(43.8)	(48.9)	(40.0)	131.0	256.4	427.0	23.2	15.0	14.0	2.0	1.7	1.7	—	—	—	2.4	1.2	0.7	65	15.1	6.6
GVK Power & Infrastructure	44	BUY	68,933	1,563	1,579	0.8	1.1	1.4	6.7	33.5	32.4	53.7	40.2	30.4	18.4	16.8	17.2	2.2	2.1	2.0	—	0.7	0.7	4.7	5.3	6.7	54	23.7	6.8
IRB Infrastructure	257	RS	85,384	1,936	332	9.7	12.6	12.1	83.8	29.2	(3.7)	26.4	20.4	21.2	12.7	11.3	10.6	3.7	2.8	2.3	—	—	—	15.6	15.7	11.9	—	—	14.6
Mundra Port and SEZ	162	REDUCE	326,625	7,406	2,017	3.3	4.3	7.0	55.7	28.9	63.7	48.5	37.6	23.0	36.1	23.7	16.6	9.2	7.7	6.0	—	—	—	20.8	22.3	29.3	150	(7.4)	7.0
Infrastructure		**Attractive**	**858,874**	**19,476**					**16.3**	**20.5**	**28.4**	**41.3**	**34.3**	**26.7**	**21.7**	**16.0**	**13.8**	**3.6**	**3.1**	**2.8**	—	**0.3**	**0.4**	**8.7**	**9.0**	**10.4**			
Media																													
DB Corp	278	BUY	50,455	1,144	182	10.6	13.0	15.7	286.5	22.4	21.0	26.1	21.3	17.6	14.5	12.0	9.9	7.8	6.3	5.5	0.7	1.1	1.4	40.3	32.6	33.2	290	4.4	0.6
DishTV	56	ADD	59,657	1,353	1,063	(2.5)	(1.8)	0.1	(62.0)	(28.8)	(107.4)	(22.5)	(31.6)	428.9	73.4	29.3	15.5	14.5	26.9	25.3	—	—	—	249.3	(59.7)	6.1	47	(16.2)	3.7
HT Media	162	NR	38,105	864	235	6.1	7.7	9.2	623.3	25.9	19.8	26.6	21.1	17.6	13.3	11.1	9.2	3.9	3.5	3.2	0.6	1.2	2.5	15.6	17.5	18.9	—	—	0.4
Jagran Prakashan	135	BUY	40,761	924	301	5.8	6.6	7.7	92.0	13.4	17.0	23.2	20.4	17.5	14.0	11.8	10.1	6.7	6.1	5.6	2.6	3.0	3.7	30.0	31.1	33.3	145	7.1	1.8
Sun TV Network	513	REDUCE	202,045	4,582	394	13.1	18.0	22.5	44.8	36.9	25.2	39.0	28.5	22.7	22.1	16.4	13.3	10.4	8.8	7.3	1.5	1.5	1.8	28.4	33.7	35.1	420	(18.1)	3.6
Zee Entertainment Enterprises	270	REDUCE	117,477	2,664	435	10.6	11.8	14.8	25.7	11.0	25.2	25.4	22.9	18.3	18.5	14.9	11.5	3.0	2.9	2.8	0.9	1.1	1.4	12.8	13.2	16.0	300	11.0	14.5
Media		**Neutral**	**508,500**	**11,531**					**186.0**	**35.6**	**38.2**	**41.8**	**30.8**	**22.3**	**20.1**	**15.4**	**12.0**	**6.0**	**5.6**	**5.1**	**1.1**	**1.3**	**1.6**	**14.4**	**18.1**	**22.7**			
Metals																													
Hindalco Industries	213	ADD	406,916	9,227	1,914	20.0	14.5	16.3	25.0	(27.4)	12.7	10.6	14.7	13.0	6.1	8.2	8.4	1.9	1.7	1.5	0.6	0.6	0.6	20.4	12.2	12.3	225	5.8	31.9
Hindustan Zinc	1,210	BUY	511,179	11,591	423	95.6	102.5	116.0	48.2	7.2	13.1	12.6	11.8	10.4	8.4	6.8	4.9	2.7	2.2	1.8	0.5	0.5	0.5	24.1	20.8	19.4	1,240	2.5	4.9
Jindal Steel and Power	711	REDUCE	661,782	15,006	931	38.4	50.9	56.0	17.3	32.7	9.9	18.5	14.0	12.7	12.7	9.2	7.7	5.9	4.1	3.1	0.2	0.3	0.3	37.8	34.9	28.0	625	(12.1)	23.4
JSW Steel	1,316	REDUCE	331,878	7,526	252	80.4	71.9	112.2	481.1	(10.6)	56.1	16.4	18.3	11.7	11.8	9.7	6.6	3.0	1.8	1.4	0.5	0.7	0.7	16.0	12.5	13.6	1,150	(12.6)	40.5
National Aluminium Co.	405	SELL	260,623	5,910	644	12.6	14.3	17.3	(34.9)	13.3	20.5	32.0	28.3	23.4	15.3	12.6	10.4	2.5	2.4	2.2	0.6	1.2	1.2	8.1	8.6	9.8	260	(35.7)	1.8
Sesa Goa	374	REDUCE	332,927	7,549	890	29.6	58.6	46.3	23.5	98.4	(21.0)	12.7	6.4	8.1	10.4	4.5	4.5	4.1	2.6	2.0	0.9	0.9	0.9	35.8	41.5	23.7	340	(9.1)	45.1
Sterlite Industries	178	ADD	599,551	13,595	3,362	12.0	13.7	18.7	2.8	13.6	36.7	14.8	13.1	9.6	9.5	8.2	5.0	1.6	1.5	1.3	0.5	0.5	0.5	12.9	11.7	14.2	200	12.1	36.5
Tata Steel	636	REDUCE	581,428	13,184	914	(3.6)	66.5	70.0	(103.6)	(1,968.8)	5.2	(178.6)	9.6	9.1	11.4	6.2	5.8	2.5	1.9	1.6	1.2	1.3	—	(1.5)	22.4	18.8	650	2.2	108.2
Metals		**Cautious**	**3,686,284**	**83,589**					**(19.7)**	**50.9**	**11.5**	**18.3**	**12.1**	**10.9**	**9.9**	**7.5**	**6.3**	**2.6**	**2.1**	**1.7**	**0.6**	**0.7**	**0.5**	**14.3**	**17.2**	**16.0**			
Pharmaceutical																													
Apollo Hospitals	533	BUY	68,563	1,555	129	10.9	14.1	17.8	28.8	28.4	26.5	48.6	37.9	30.0	23.4	17.1	14.4	4.1	3.9	3.4	—	—	—	8.3	9.8	11.4	72	(86.5)	1.9
Biocon	400	BUY	80,000	1,814	200	14.8	17.8	22.0	216.4	19.8	23.7	27.0	22.5	18.2	15.6	13.1	10.9	4.5	3.9	3.3	—	—	—	17.9	18.8	20.0	400	-	7.0
Cipla	332	REDUCE	266,329	6,039	803	13.7	14.0	16.6	38.1	1.9	19.2	24.2	23.8	19.9	17.4	16.0	13.6	4.5	3.9	3.4	0.6	0.8	0.8	21.1	17.6	18.2	295	(11.1)	11.4
Cadila Healthcare	685	REDUCE	140,253	3,180	205	24.7	33.2	37.7	66.9	34.2	13.7	27.7	20.7	18.2	18.0	13.8	12.3	8.6	6.4	5.1	0.7	1.0	1.1	36.0	35.8	31.3	580	(15.3)	1.9
Dishman Pharma & chemicals	176	ADD	14,351	325	81	14.4	17.8	22.8	(19.7)	23.7	28.0	12.2	9.9	7.7	9.4	7.6	6.0	1.8	1.5	1.3	—	—	—	15.5	16.8	18.3	230	30.3	0.8
Divi's Laboratories	715	REDUCE	93,362	2,117	131	26.1	34.0	44.9	(18.2)	30.4	32.1	27.4	21.0	15.9	20.3	15.5	11.1	6.2	5.1	4.1	—	—	—	24.7	26.4	28.5	800	11.9	3.1
Dr Reddy's Laboratories	1,585	REDUCE	268,535	6,089	169	48.1	66.7	70.8	48.3	38.8	6.1	33.0	23.8	22.4	18.2	13.8	12.8	7.1	5.6	4.6	0.4	0.5	0.6	22.2	26.3	22.6	1,150	(27.5)	17.2
GlaxoSmithkline Pharmaceuticals (a)	2,301	REDUCE	194,880	4,419	85	59.1	69.7	79.2	8.1	18.0	13.5	38.9	33.0	29.1	22.6	19.3	16.6	10.9	9.3	7.9	—	—	—	29.8	30.4	29.4	1,880	(18.3)	2.0
Glenmark Pharmaceuticals	303	NR	83,004	1,882	274	12.7	19.2	20.3	14.7	50.6	5.6	23.8	15.8	14.9	15.0	9.8	9.4	3.5	2.9	2.5	0.0	0.0	0.0	16.7	19.9	17.6	—	—	6.1
Jubilant Organosys	313	BUY	49,640	1,126	159	26.5	31.8	38.9	49.0	19.8	22.4	11.8	9.8	8.0	8.9	8.0	6.4	2.2	1.8	1.5	0.6	0.8	1.0	26.3	21.7	21.1	400	28.0	1.8
Lupin	426	ADD	188,284	4,269	442	15.4	19.8	25.5	27.9	28.7	28.7	27.6	21.5	16.7	23.4	17.0	13.4	8.1	7.7	6.7	3.1	3.4	3.6	36.6	37.2	43.6	400	(6.0)	9.0
Piramal Healthcare	512	REDUCE	107,109	2,429	209	22.4	13.3	9.5	29.7	(40.4)	(28.9)	22.9	38.4	54.0	16.6	7.3	5.6	6.4	1.2	1.0	1.1	1.2	0.7	30.7	140.7	16.5	490	(4.4)	27.2
Ranbaxy Laboratories	583	SELL	249,629	5,661	428	7.1	27.5	14.8	(128.4)	289.4	(46.0)	82.5	21.2	39.3	19.9	12.1	20.1	6.4	4.5	4.2	—	0.7	0.7	6.9	22.9	10.5	340	(41.7)	15.2
Sun Pharmaceuticals	2,040	REDUCE	422,432	9,579	207	65.2	90.4	87.4	(25.7)	38.6	(3.3)	31.3	22.6	23.3	24.1	16.9	16.4	5.1	4.3	3.7	0.7	0.7	0.7	17.8	21.0	17.3	1,835	(10.0)	9.4
Pharmaceuticals		**Attractive**	**2,226,370**	**50,485**					**45.2**	**33.9**	**4.8**	**30.2**	**22.5**	**21.5**	**18.7**	**14.0**	**13.1**	**5.6**	**4.0**	**3.5**	**0.6**	**0.8**	**0.8**	**18.6**	**18.0**	**16.1**			
Property																													
DLF	374	ADD	638,690	14,483	1,708	10.7	16.3	25.1	(60.0)	53.1	53.8	35.1	22.9	14.9	23.4	15.0	11.3	2.4	2.2	2.0	0.8	0.8	1.3	7.1	9.9	13.8	378	1.1	50.1
Housing Development & Infrastructure	271	ADD	104,273	2,364	385	12.4	14.2	16.7	(41.2)	14.2	17.9	21.8	19.1	16.2	10.8	12.3	8.1	1.5	1.3	1.2	1.0	1.8	1.8	10.0	9.3	9.9	311	14.8	36.8
Indiabulls Real Estate	196	RS	78,521	1,781	401	0.3	2.5	7.4	(62.7)	777.3	195.3	687.2	78.3	26.5	(34.1)	(362.2)	15.5	0.8	0.8	0.8	—	—	—	0.1	1.1	3.2	285	45.6	18.7
Mahindra Life Space Developer	482	ADD	20,386	462	42	20.1	23.6	35.8	77.8	17.6	51.5	24.0	20.4	13.5	21.3	15.3	7.7	2.1	2.0	1.8	0.8	0.8	0.8	8.9	9.7	13.4	540	12.0	0.9
Phoenix Mills	256	BUY	37,044	840	145	4.1	6.6	7.6	(16.7)	59.0	15.6	61.9	38.9	33.6	49.5	27.3	22.8	2.4	2.3	2.2	0.4	0.6	0.8	3.9	6.0	6.7	303	18.5	0.7
Puravankara Projects	128	REDUCE	27,222	617	213	6.8	8.2	8.0	0.6	20.1	(1.9)	18.7	15.6	15.9	20.8	15.8	15.3	1.9	1.7	1.6	1.6	1.6	1.6	10.5	11.6	10.5	122	(4.4)	0.7
Sobha Developers	372	ADD	36,445	826	98	14.1	17.0	26.2	(7.1)	20.8	54.0	26.4	21.9	14.2	19.1	14.9	9.9	2.1	1.9	1.7	0.3	0.3	0.4	9.7	9.2	12.8	414	11.4	3.0
Unitech	94	SELL	251,432	5,701	2,666	3.0	3.8	5.1	(58.8)	25.0	34.0	31.1	24.9	18.6	29.9	21.6	14.1	2.4	2.0	1.9	—	—	1.6	9.0	8.7	10.6	74	(21.5)	53.8

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	15-Oct-10 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS (Rs) 2012E	EPS growth (%) 2010E	EPS growth (%) 2011E	EPS growth (%) 2012E	PER (X) 2010E	PER (X) 2011E	PER (X) 2012E	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	EV/EBITDA (X) 2012E	Price/BV (X) 2010E	Price/BV (X) 2011E	Price/BV (X) 2012E	Dividend yield (%) 2010E	Dividend yield (%) 2011E	Dividend yield (%) 2012E	RoE (%) 2010E	RoE (%) 2011E	RoE (%) 2012E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Retail																													
Titan Industries	3,289	ADD	146,010	3,311	44	57.3	83.9	110.9	29.3	46.5	32.2	57.4	39.2	29.7	36.6	26.4	20.2	19.8	13.9	9.8	0.5	0.4	0.4	38.7	41.7	38.8	3,600	9.4	13.1
Retail		**Neutral**	**146,010**	**3,311**					**29.3**	**46.5**	**32.2**	**57.4**	**39.2**	**29.7**	**36.6**	**26.4**	**20.2**	**19.8**	**13.9**	**9.8**	**0.5**	**0.4**	**0.4**	**34.5**	**35.4**	**33.2**			
Sugar																													
Bajaj Hindustan	129	SELL	24,618	558	191	4.9	9.9	8.9	52.3	101.0	(9.9)	26.2	13.0	14.4	8.6	6.2	5.9	1.1	1.0	0.9	0.5	0.5	0.5	4.2	7.9	6.5	99	(23.0)	4.7
Balrampur Chini Mills	90	ADD	23,121	524	257	4.3	10.4	7.0	(43.2)	140.4	(32.7)	20.8	8.6	12.8	9.4	5.8	6.3	1.7	1.4	1.3	0.5	0.5	0.5	8.2	17.9	10.9	93	3.3	4.7
Shree Renuka Sugars	81	BUY	54,254	1,230	670	9.9	7.7	8.1	195.3	(21.9)	4.7	8.2	10.5	10.0	5.1	5.9	5.1	1.9	1.6	1.3	0.5	0.4	0.4	22.4	17.0	14.8	76	(6.2)	14.0
Sugar		**Cautious**	**101,993**	**2,313**					**80.0**	**12.4**	**(8.4)**	**11.8**	**10.5**	**11.5**	**6.8**	**6.0**	**5.6**	**1.5**	**1.3**	**1.2**	**0.5**	**0.5**	**0.5**	**13.1**	**12.8**	**10.5**			
Technology																													
HCL Technologies	431	REDUCE	297,666	6,750	690	17.5	24.5	30.1	0.2	39.7	23.0	24.6	17.6	14.3	12.0	10.5	8.6	4.2	3.6	3.1	0.9	0.9	1.4	19.3	22.0	21.2	390	(9.6)	9.5
Hexaware Technologies	83	REDUCE	11,952	271	144	9.3	5.0	9.4	127.7	(46.3)	87.7	8.9	16.6	8.8	4.5	10.6	5.4	1.4	1.3	1.2	1.2	1.2	1.2	17.8	8.2	14.0	72	(13.5)	1.7
Infosys Technologies	3,076	BUY	1,765,796	40,041	574	108.3	122.4	153.4	5.7	13.0	25.3	28.4	25.1	20.1	20.9	17.3	13.9	7.7	6.8	5.6	0.8	2.0	1.5	30.1	28.7	30.5	3,400	10.5	64.1
Mphasis BFL	625	SELL	131,723	2,987	211	43.6	50.3	45.6	207.5	15.5	(9.3)	14.3	12.4	13.7	11.5	9.9	9.3	5.6	4.0	3.2	0.6	0.6	0.7	48.1	37.5	25.8	550	(12.0)	6.8
Mindtree	519	REDUCE	21,368	485	41	52.2	32.6	51.6	294.3	(37.5)	58.1	9.9	15.9	10.1	8.6	9.1	5.9	3.2	2.7	2.2	0.4	0.6	1.0	35.2	19.2	23.7	550	5.9	1.0
Patni Computer Systems	462	REDUCE	61,572	1,396	133	36.6	41.3	37.5	36.4	12.8	(9.1)	12.6	11.2	12.3	6.3	5.4	4.5	1.7	1.6	1.5	1.5	1.8	1.6	18.2	15.1	12.4	450	(2.7)	14.1
Polaris Software Lab	174	SELL	17,303	392	100	15.4	19.1	18.8	16.9	24.3	(1.7)	11.3	9.1	9.2	5.5	7.2	6.1	2.0	1.7	1.5	2.0	2.1	2.2	18.6	20.1	17.2	180	3.7	3.5
Satyam Computer Services	84	REDUCE	98,196	2,227	1,176	2.5	5.0	5.4	(190.7)	102.3	7.0	33.6	16.6	15.5	16.8	10.8	8.0	5.2	5.5	4.1	—	—	—	58.5	32.2	30.0	80	(4.2)	37.9
TCS	950	BUY	1,859,927	42,175	1,957	35.1	42.1	48.2	32.8	19.8	14.5	27.1	22.6	19.7	20.5	16.5	13.8	8.9	7.3	6.1	2.1	1.8	2.0	37.6	35.6	33.9	965	1.5	37.9
Tech Mahindra	752	REDUCE	93,204	2,113	124	65.1	68.9	67.8	(9.6)	5.7	(1.5)	11.6	10.9	11.1	9.2	11.4	10.1	3.2	2.7	2.1	0.5	0.3	0.3	29.5	20.3	16.2	735	(2.3)	8.7
Wipro	473	ADD	1,158,374	26,267	2,447	18.9	22.3	25.7	22.1	18.1	15.6	25.1	21.3	18.4	19.1	15.4	12.8	5.9	4.8	4.0	0.8	0.9	1.1	26.5	25.0	23.7	465	(1.8)	14.1
Technology		**Attractive**	**5,517,081**	**125,104**					**24.0**	**18.0**	**16.3**	**25.1**	**21.3**	**18.3**	**18.1**	**15.2**	**12.5**	**6.6**	**5.6**	**4.6**	**1.2**	**1.5**	**1.5**	**26.3**	**26.3**	**25.4**			
Telecom																													
Bharti Airtel	334	REDUCE	1,267,069	28,732	3,798	23.6	20.0	20.7	5.8	(15.6)	3.9	14.1	16.7	16.1	8.0	8.7	7.1	3.0	2.5	2.2	—	—	—	24.4	16.5	14.7	305	(8.6)	42.5
IDEA	72	REDUCE	238,576	5,410	3,300	2.7	2.2	1.5	(5.8)	(19.7)	(30.8)	26.5	33.0	47.6	9.0	9.8	8.3	2.1	2.0	1.9	—	—	—	7.2	6.2	4.2	55	(23.9)	10.0
MTNL	67	SELL	42,273	959	630	(15.6)	(10.4)	(9.1)	(750.8)	(33.7)	(11.9)	(4.3)	(6.5)	(7.3)	(0.6)	(0.8)	(1.0)	0.4	0.4	0.4	—	—	—	(8.5)	(6.1)	(5.7)	50	(25.5)	2.4
Reliance Communications	176	SELL	375,110	8,506	2,133	22.1	6.0	9.4	(30.2)	(72.8)	56.1	8.0	29.3	18.8	7.3	9.9	8.2	1.0	0.9	0.9	0.4	—	—	11.7	3.2	4.9	125	(28.9)	21.0
Tata Communications	329	REDUCE	93,808	2,127	285	14.0	15.2	15.7	3.2	8.2	3.5	23.5	21.7	21.0	9.5	8.8	8.4	1.3	1.3	1.2	2.0	2.3	2.6	5.2	5.5	5.5	225	(31.6)	3.2
Telecom		**Cautious**	**2,016,836**	**45,733**					**(15.9)**	**(33.1)**	**9.5**	**14.2**	**21.3**	**19.4**	**8.3**	**9.3**	**7.6**	**1.8**	**1.7**	**1.6**	**0.2**	**0.1**	**0.1**	**12.8**	**7.9**	**8.0**			
Utilities																													
Adani Power	134	ADD	291,248	6,604	2,180	0.8	4.8	19.1	NM	510.9	298.8	170.5	27.9	7.0	139.7	23.4	6.5	5.0	4.3	2.7	—	—	—	4.2	16.6	46.7	143	7.0	5.4
CESC	384	ADD	47,950	1,087	125	35.2	37.3	44.3	9.3	5.7	18.9	10.9	10.3	8.7	6.9	5.8	6.3	1.1	1.0	0.9	1.2	1.2	1.4	11.1	10.4	11.3	466	21.4	2.6
Lanco Infratech	68	BUY	163,059	3,697	2,405	2.1	4.1	5.4	46.6	92.8	30.4	31.8	16.5	12.6	16.8	9.1	7.8	4.9	3.8	2.9	—	—	—	17.4	23.9	24.2	83	22.4	6.3
NHPC	32	SELL	393,624	8,926	12,301	1.9	1.4	1.7	74.9	(25.2)	19.7	17.3	23.1	19.3	11.0	11.6	9.0	1.6	1.5	1.4	1.7	1.1	1.4	9.7	6.6	7.6	28	(12.5)	7.9
NTPC	204	REDUCE	1,684,548	38,198	8,245	10.8	12.5	14.7	9.6	16.2	17.4	19.0	16.3	13.9	14.5	12.7	10.6	2.6	2.4	2.2	2.0	2.3	2.7	14.5	15.4	16.6	210	2.8	13.2
Reliance Infrastructure	1,066	ADD	262,400	5,950	246	61.8	65.0	84.5	(1.5)	5.3	30.0	17.3	16.4	12.6	18.5	16.4	11.5	1.4	1.3	1.2	0.8	0.9	1.0	6.3	7.3	10.1	1,160	8.8	26.9
Reliance Power	160	SELL	384,200	8,712	2,397	2.9	3.1	5.3	179.7	9.8	70.0	56.2	51.2	30.1	(522.7)	230.0	35.9	2.7	2.5	2.3	—	—	—	4.8	5.1	8.1	135	(15.8)	8.1
Tata Power	1,430	ADD	352,961	8,004	247	60.2	69.2	88.5	20.1	15.0	27.8	23.7	20.7	16.2	14.5	13.1	11.2	2.7	2.5	2.2	0.8	1.0	1.0	12.9	12.5	14.3	1,420	(0.7)	12.4
Utilities		**Attractive**	**3,579,990**	**81,179**					**23.8**	**16.9**	**38.3**	**22.6**	**19.4**	**14.0**	**17.7**	**14.9**	**10.7**	**2.4**	**2.2**	**2.0**	**1.3**	**1.4**	**1.6**	**10.6**	**11.4**	**14.1**			
Others																													
Havells India	416	SELL	25,012	567	60	5.3	31.6	45.0	3.7	497.9	42.6	78.7	13.2	9.2	12.2	7.5	6.0	6.9	4.5	3.1	0.6	0.6	0.7	6.6	41.6	39.7	497	19.6	9.3
Jaiprakash Associates	131	BUY	277,918	6,302	2,129	1.5	5.5	7.4	(27.2)	279.8	34.1	89.6	23.6	17.6	22.2	16.3	11.6	3.3	2.8	2.5	—	—	—	4.1	12.8	14.9	170	30.2	26.9
Sintex	423	REDUCE	57,765	1,310	136	24.1	29.3	33.7	0.5	21.6	14.9	17.6	14.4	12.6	14.3	9.5	8.2	2.7	2.3	1.9	0.3	0.3	0.3	15.5	15.8	15.3	420	(0.8)	8.0
Tata Chemicals	431	REDUCE	104,941	2,380	243	26.4	35.1	39.2	(27.1)	32.9	11.7	16.3	12.3	11.0	7.9	6.3	5.3	2.2	1.9	1.7	2.1	2.2	2.2	16.0	19.6	18.9	370	(14.2)	7.1
United Phosphorus	191	BUY	88,188	2,000	463	11.9	13.8	17.4	18.8	15.8	25.9	16.0	13.8	10.9	9.2	8.3	6.7	2.6	2.2	1.9	0.8	1.0	1.0	17.7	17.2	18.3	225	18.0	6.1
Others			**553,824**	**12,558**					**(13.2)**	**74.7**	**24.8**	**29.7**	**17.0**	**13.6**	**14.7**	**11.5**	**9.1**	**2.9**	**2.5**	**2.1**	**0.6**	**0.6**	**0.6**	**9.7**	**14.6**	**15.6**			
KS universe (b)			**50,293,031**	**1,140,432**					**16.2**	**21.7**	**21.3**	**21.1**	**17.4**	**14.3**	**12.3**	**10.3**	**8.5**	**3.2**	**2.7**	**2.4**	**1.1**	**1.3**	**1.5**	**15.0**	**15.8**	**16.7**			
KS universe (b) ex-Energy			**41,014,446**	**930,033**					**10.6**	**23.6**	**20.4**	**23.0**	**18.6**	**15.4**	**15.0**	**12.3**	**10.0**	**3.6**	**3.0**	**2.6**	**1.0**	**1.1**	**1.2**	**15.5**	**16.3**	**17.0**			
KS universe (d) ex-Energy & ex-Commodities			**36,302,521**	**823,186**					**16.1**	**21.2**	**21.8**	**24.1**	**19.9**	**16.3**	**17.0**	**13.9**	**11.3**	**3.7**	**3.2**	**2.8**	**1.1**	**1.2**	**1.3**	**15.4**	**16.2**	**17.2**			

Note:

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

(2) 2010 means calendar year 2009, similarly for 2011 and 2012 for these particular companies.

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

(4) Rupee-US Dollar exchange rate (Rs/US$)= 44.10

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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Kotak Institutional Equities Research coverage universe

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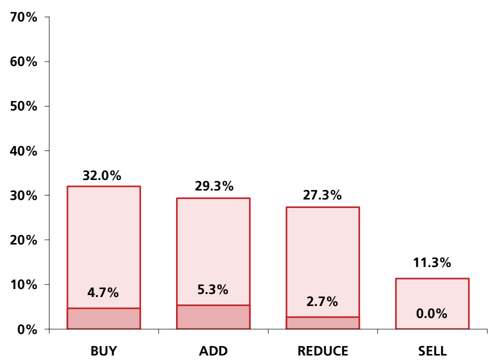

Percentage of companies covered by Kotak Institutional Equities, within the specified category.

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* The above categories are defined as follows: Buy = We expect this stock to outperform the BSE Sensex by 10% over the next 12 months; Add = We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months; Reduce = We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months; Sell = We expect this stock to underperform the BSE Sensex by more then 10% over the next 12 months. These ratings are used illustratively to comply with applicable regulations. As of 30/06/2010 Kotak Institutional Equities Investment Research had investment ratings on 150 equity securities.

Source: Kotak Institutional Equities | As of June 30, 2010

Ratings and other definitions/identifiers

Definitions of ratings

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

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

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

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

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Corporate Office

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

Overseas Offices

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

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

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