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Updates

Reliance Industries: One more option

Banks/Financial Institutions: Base rate; Seeking transparency in pricing loans

Telecom: 3G spectrum auctions update

News Round-up

- ▶ Reliance Ind. (RIL IN) is likely to rope in Japanese firm Mitsui as an investor in its SEZ project in Haryana. Mitsui has given a letter of intent to Reliance to pick up 350-400 acres of land in the SEZ. *(ECNT)*
- ▶ Reliance Industries Ltd (RIL IN) to invest USD 1.7 bn in shale gas in US. Reliance is very pleased to enter one of the fastest growing opportunities emerging in the US unconventional gas business. *(BSTD-Sat)*
- ▶ Reliance Ind. (RIL IN) has informed oil regulator DGH that four smaller gas finds surrounding the D-1 & D-3 fields in the KG basin can be commercially exploited. *(ECNT-Sat)*
- ▶ SAIL (SAIL IN) and South Korea's Posco may seal a deal by the end of next month to set up an estimated USD 3.33 bn steel plant in Jharkhand with the government offering all support to expedite the project. *(BSTD)*
- ▶ BHEL (BHEL IN) and Karnataka State Electricity Board are likely announce a USD 2 bn joint venture project to set up a 1,600 Mw power plant in the state within a month. *(BSTD)*
- ▶ National Aluminum (NACL IN) has received investment approvals from the Indonesian govt. for its proposed USD 3.58bn offshore aluminum smelter-cum-power project in that country. *(ECNT)*
- ▶ Tata Motors (TTMT IN) is planning to sell part of its shareholding in Tata Cummins JV , as it explores options to divest non-core assets to reduce debt. *(ECNT)*
- ▶ Reliance Infrastructure Ltd (RELI IN) says it expects the governments in Andhra Pradesh and Gujarat to invite bids to develop regional airports, which it is interested in taking up. *(BSTD)*
- ▶ MTNL (MTNL IN) is targeting revenue of USD 1.16 bn in 2010-11, banking on its growth drivers like broadband and mobile services. *(BSTD)*
- ▶ The battle between 2 financial regulators, SEBI & IRDA, on oversight of an investment product, unit linked insurance products (Ulips) may prompt the govt. to step in to resolve the issue. *(ECNT)*
- ▶ Tata Tea-PepsiCo JV may look at low cost beverages, alliance likely to be a 50:50 JV may initially consider wellness packaged water. *(ECNT)*
- ▶ GMR Infrastructure (GMRI IN) plans to raise up to USD 111 mn through the issue of unsecured non-convertible debentures on private placement basis. *(BSTD-Sun)*

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

EQUITY MARKETS

India	Change %			
	9-Apr	1-day	1-mo	3-mo
Sensex	17,933	0.4	7.8	2.1
Nifty	5,303	0.4	7.7	2.6
Global/Regional indices				
Dow Jones	10,896	0.4	5.5	3.3
Nasdaq Composite	2,404	0.4	7.4	4.9
FTSE	5,711	0.1	6.7	5.8
Nikkei	11,046	0.5	9.1	4.7
Hang Seng	21,231	(0.0)	3.0	(1.2)
KOSPI	1,700	0.5	6.6	1.0
Value traded - India				
Cash (NSE+BSE)	169.7	181.6	178.3	
Derivatives (NSE)	570.5	1,169.8	743	
Deri. open interest	917.2	884	1,260	

Forex/money market

	Change, basis points			
	29-Mar	1-day	1-mo	3-mo
Rs/US\$	44.8	(12)	(127)	(198)
10yr govt bond, %	7.8	(5)	(7)	20
Net investment (US\$m)				
	26-Mar		MTD	CYTD
FII	238		3,481	(230)
MFs	(16)		(688)	(282)

Top movers -3mo basis

Best performers	Change, %			
	29-Mar	1-day	1-mo	3-mo
MSEZ IN Equity	774.7	4.5	15.0	40.9
SIEM IN Equity	749.2	0.8	9.5	29.3
JSTL IN Equity	1258.9	(2.0)	17.6	24.2
BOB IN Equity	636.8	(0.5)	9.1	23.3
AXSB IN Equity	1199.0	0.5	6.6	22.2
Worst performers				
NMDC IN Equity	285.2	(4.6)	(34.2)	(33.2)
IBREL IN Equity	152.4	(0.4)	(4.9)	(30.8)
HDIL IN Equity	286.2	0.7	(5.3)	(21.7)
SUEL IN Equity	72.7	(0.2)	1.1	(19.0)
DLFU IN Equity	299.0	1.5	0.2	(18.3)

One more option. RIL's JV with Atlas Energy provides it with an option to participate in the growing area of shale gas. However, we believe it is too early to ascribe meaningful value to the announcement. We note that RIL's stock price is already factoring in large option value of (1) new gas discoveries in India or (2) overseas acquisitions with a large gap (equal to US\$16.5 bn) between the current stock price and our Rs880 fair valuation (without value for yet-to-be-made gas discoveries).

Company data and valuation summary

Reliance Industries

Stock data				Forecasts/Valuations			
52-week range (Rs) (high,low)				2010			
1,268-835				2011E			
Market Cap. (Rs bn)				2012E			
3,337.0				EPS (Rs)			
Shareholding pattern (%)				(2.5)			
Promoters				34.9			
FILs				22.4			
MFs				P/E (X)			
2.4				22.8			
Price performance (%)				Sales (Rs bn)			
1M				2,148.8			
3M				2,469.3			
12M				2,592.7			
Absolute				Net profits (Rs bn)			
13.6				162.0			
2.0				EBITDA (Rs bn)			
29.6				305.3			
Rel. to BSE-30				EV/EBITDA (X)			
8.0				12.0			
(0.3)				ROE (%)			
(21.9)				10.9			
				Div. Yield (%)			
				0.5			
				0.7			
				0.9			

RIL ventures into shale gas through JV with Atlas Energy

RIL has announced that it has entered into definitive agreements with Atlas Energy to form a 40-60 JV for a portion of Atlas' Marcellus shale acreage. RIL has agreed to pay (1) US\$339 mn in cash and (2) US\$1.36 bn drilling carry to (1) be a 40% partner in 300,000 net acres (120,000 net to RIL) of undeveloped Marcellus shale area with a resource potential of 13.3 tcf (5.3 tcf net to RIL) and (2) acquire certain other options. Atlas' stock price increased 20% following the announcement; it would appear that the US market considers the deal to be a major positive for Atlas.

US\$14 bn of free cash over FY2011-12E would require more avenues for deployment

We expect RIL to generate US\$14 bn in gross cash in FY2011-12E. The announced JV with Atlas Energy would entail an upfront payment of US\$339 mn and the additional US\$1.36 bn will be deployed over the next 5-7 years. Thus, we believe that RIL would have to look at more avenues with significantly higher cash deployment to effectively utilize its likely large cash flow generation. RIL has historically used its cash flows to fund new projects. However, its new initiatives in India haven't been very successful and it is looking at overseas acquisitions to drive future growth.

Gap between stock price and fair value of extant business persists

We find it difficult to bridge the large valuation gap between Reliance's current stock price and our estimated fair valuation of extant businesses (chemicals, refining, 'old' E&P) and new initiatives (retailing, 'new' E&P). Exhibit 1 gives our valuation model for Reliance and Exhibit 2 gives our reverse valuation exercise. We note that we already ascribe meaningful value (Rs144/share) for new or potential discoveries in NEC-25, CBM, KG D-3, KG D-9 and MN D-4 blocks. We note that the 'implied' gap between RIL's current EV and fair valuation is 54 tcf (in terms of proven gas reserves), well ahead of the aforementioned resource potential of 5.3 tcf (see Exhibit 3).

SELL

APRIL 12, 2010

UPDATE

Coverage view: **Cautious**

Price (Rs): **1,125**

Target price (Rs): **950**

BSE-30: **17,933**

QUICK NUMBERS

- **US\$1.7 bn entry price for shale gas**
- **Atlas JV small in the context of US\$14 bn of gross cash flow in FY2011-12E**
- **US\$16.5 bn of valuation gap between market value and our fair value of extant assets**

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SOTP valuation of Reliance is Rs950 per share on FY2011E estimates

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

	Valuation base (Rs bn)		Multiple (X)		EV (Rs bn)	Valuation (Rs/share)
	Other	EBITDA	Multiple	EV/EBITDA		
Chemicals		100		7.0	700	235
Refining & Marketing		138		7.5	1,032	347
Oil and gas—producing (PMT and Yemen)		18		5.0	92	31
Gas—producing and developing (DCF-based) (a)	809				809	272
KG D-6	381				381	128
NEC-25	141				141	47
CBM	75				75	25
KG D-3	59				59	20
KG D-9	86				86	29
MN D-4	67				67	22
Oil—KG-DWN-98/3 (b)	83				83	28
Investments other than valued separately	49				49	17
Loans & advances to affiliates	4				4	1
Retailing	40		80%		32	11
SEZ development	75		80%		60	20
Total enterprise value					2,860	961
Net debt adjusted for 50% of C-WIP of E&P assets					26	9
Implied equity value					2,834	952

Note:

(a) We value KG D-6, NEC-25, CBM, KG D-3, KG D-9 and MN D-4 blocks on DCF.

(b) 180 mn bbls of recoverable reserves based on gross OOIP of 0.5 bn bbls.

(c) We use 2.976 bn shares (excluding treasury shares) for per share computations.

Source: Kotak Institutional Equities estimates

RIL stock price is implying US\$23 bn of new discoveries of hydrocarbons in the future

Estimation of implied valuation of new businesses of Reliance Industries (US\$ bn)

		Comments
1. Valuation of extant businesses	Chemicals, RIL refinery, extant oil and gas	
FY2009 EPS of Reliance (standalone) (Rs)	51	FY2009 EPS
FY2009 EPS adjusted for treasury shares (Rs)	53	Adjusted for 368 mn treasury shares and shares issued on merger of RPET
Effective tax rate in FY2009 (%)	16.9	
FY2009 EPS adjusted for tax rate	43	Normalized for 33.2% tax rate for extant earnings
Appropriate P/E multiple (X)	7	Reasonable given near peak-cycle margins, earnings in FY2009 and cost of equity of 12.5%
Valuation of extant businesses excluding RPET (Rs)	301	
Valuation of extant businesses excluding RPET	19	Reasonable in the context of replacement value, returns
FY2011E earnings of RPET (US\$ bn)	1	
FY2011E EPS of RPET (Rs)	14	
Appropriate P/E multiple (X)	9	
Valuation of RPET refinery (Rs)	126	
Valuation of extant businesses (including RPET) (Rs)	427	
Valuation of extant businesses	28	
2. Valuation of investments	Others (without Reliance Retail)	
Other investments (Rs)	11	
Valuation of RIL ex-new E&P, retailing, SEZs (Rs)	438	
Current stock price (Rs)	1,125	
3. Valuation of new businesses	Emerging E&P business, retailing, SEZs	
Market-ascribed value of new businesses (Rs)	687	
Market-ascribed value of new businesses (US\$ bn)	44	
Estimated valuation of retailing (US\$ bn)	0.7	Valued at 0.8X of amount invested (Rs40 bn) at end-FY2009E
Estimated valuation of SEZs (US\$ bn)	1.3	Value will take time to emerge
Market-ascribed value of emerging E&P business	42	Seems high based on official reserves, announced discoveries
Estimated value of Reliance's stake in KG D-6 (gas)	9.6	Based on gas production of 18.3 tcf, US\$8.8 bn capex and sale of 40 mcm/d of gas to RNRL and NTPC at US\$2.34/mn BTU
Estimated value of Reliance's stake in KG D-6 (oil)	1.8	0.5 bn bbls of OOIP assumed versus current announced reserves of 180 mn bbls
Estimated value of Reliance's stakes in NEC-25	2.7	Based on 5.3 tcf of production, US\$1.5 bn capex, US\$4.5/mn BTU
Estimated value of Reliance's stakes in KG D-3	1.1	Based on 9.6 tcf of production, US\$4.7 bn capex, US\$4.5/mn BTU
Estimated value of Reliance's stakes in MN D-4	1.2	Based on 10.2 tcf of production, US\$4.9 bn capex, US\$4.5/mn BTU
Estimated value of Reliance's stakes in KG D-9	1.6	Based on 10.9 tcf of production, US\$4.9 bn capex, US\$4.5/mn BTU
Estimated value of Reliance's stakes in CBM	1.6	Based on 2.8 tcf of production
Implied value of new discoveries	23	

Source: Company, Kotak Institutional Equities estimates

Reliance's current stock price is implying additional recoverable reserves of ~54 tcf of gas today

Valuation of Reliance's E&P segment and implied valuation for potential discoveries (US\$ bn)

		Comments
DCF valuation of KG D-6 block, gas for D1 & D3 fields	11.3	15.4 tcf of net recoverable gas reserves
Valuation of KG D-6 block, oil for MA-1 field	1.8	450 mn bbls of net proved oil reserves at EV/bbl of US\$10
Valuation of Reliance's stakes in NEC-25	2.7	4.6 tcf of net recoverable gas reserves
Valuation of Reliance's stakes in KG D-3, MN D-4 and KG D-9	3.9	27.1 tcf of net recoverable gas reserves
Valuation of Reliance's stakes in CBM blocks	1.6	2.8 tcf of net recoverable gas reserves
Total valuation of extant announced reserves	21	
Total recoverable reserves (tcf)	51	
Implied valuation of new E&P discoveries	23	
Implied additional recoverable reserves in stock price (tcf)	54	This is what Reliance needs to announce today
# of years from discovery to production	6	KG D-6 first gas discovered in Oct-02, production in 2HFY09
Cost of capital (%)	12	
Additional gas reserves required to be added in six years (tcf)	107	This is what Reliance needs to bring in production in six years

Note:

(a) The above exercise assumes that all future gas and oil discovery would have similar PSC terms as the KG D-6 block.

Source: Company, Kotak Institutional Equities estimates

Key details of the agreement between RIL and Atlas Energy

- ▶ RIL will pay US\$339 mn in cash and an additional US\$1.36 bn in the form of drilling carry cost for a 40% stake in a JV which will hold 300,000 acres of Atlas' Marcellus Shale acreage. This area is outside of Atlas' core drilling area in southwestern Pennsylvania.
- ▶ RIL will fund 75% of Atlas' portion of drilling and completion costs until the US\$1.36 bn of aforementioned carry cost is fully utilized. Atlas has 5.5 years to utilize the drilling carry, subject to a two-year extension under certain conditions. Atlas and Reliance have agreed upon a five-year development plan that calls for the drilling of 45 horizontal Marcellus Shale wells for the joint venture during the remainder of CY2010, 108 wells in CY2011, 178 wells in CY2012, and 300 wells in CY2013 and CY2014.
- ▶ RIL will have the option to acquire a 40% stake in new acreage (area of mutual interest) in the Marcellus share area under terms comparable to those agreed with Atlas with each party paying its share of acquisition costs.
- ▶ RIL will have the right to purchase all or part of 280,000 acres of Appalachian acres controlled by Atlas currently (excluded from the JV) at a price of US\$8,000/acre if Atlas decides to sell all or part of the balance acreage. This is outside Atlas' core Marcellus area of southwestern Pennsylvania.

A brief about Atlas Energy

Atlas Energy has an EV of US\$5.6 bn with a total net acreage of 1.27 mn in the shale gas areas of Appalachia and Michigan/Indiana. Its main asset is 519,000 net acres in the Marcellus Shale with 266,000 acres in southwestern Pennsylvania. Atlas Energy had proved reserves of 1 tcf as of December 31, 2009 and produced 101 mcf/d of natural gas (net to the company) in CY2009. It has successfully drilled approximately 200 Marcellus shale wells as of December 31, 2009.

Exhibit 4 gives details on the acreage and reserves of the company broken down by key areas as of December 31, 2009 and Exhibit 5 gives key P&L and B&S items of the company over the past three years (CY2007-09). However, we note that the financials may not be material from RIL's perspective since (1) it has formed a JV for new undeveloped acreage, (2) Atlas Energy's financials include contributions from other businesses and (3) Atlas' selling price for gas is boosted by hedges entered by it.

Key details of reserves, production and acreage of Atlas Energy, December 31, 2009

	Appalachian basin	Michigan	Total
Acreage			
Gross developed acreage	313,654	326,883	640,537
Gross undeveloped acreage Marcellus Shale	383,551	—	383,551
Gross undeveloped acreage Other	219,805	267,777	487,582
Total acreage	917,010	594,660	1,511,670
Reserves (bcf)			
Proved developed reserves (bcf)	150	385	535
Proved undeveloped reserves (bcf)	348	137	485
Total proves reserves (bcf)	498	522	1,020
Production			
Natural gas (bcf)	15	21	36
Oil ('000 bbls)	194	5	199
Total in gas equivalent (bcf)	16	21	37
Drilling			
Operated wells (#)	7,930	1,938	9,868

Source: Company, Kotak Institutional Equities

Key financial details of Atlas Energy, calendar year-ends 2007-2009 (US\$ mn)

	2007	2008	2009
Income statement			
Segment revenues			
Gas and oil production	206	312	278
Well construction and completion	321	415	372
Other partnership management	22	20	40
Atlas Pipeline	578	1,308	775
Others	34	44	122
Total revenues	1,162	2,099	1,588
Segment income			
Gas and oil production	128	172	(28)
Well construction and completion	42	55	56
Other partnership management	10	6	(0)
Atlas Pipeline	(49)	(561)	141
Total income	131	(328)	169
Balance sheet			
Cash	146	104	21
Other current assets	287	441	327
Property, plant and equipment	3,442	3,745	3,556
Intangibles (including goodwill)	969	233	206
Other assets	61	368	297
Total assets	4,904	4,890	4,406
Current liabilities	500	571	558
Long-term debt	1,994	2,413	2,041
Other long-term liabilities	401	376	104
Minority interests	1,596	—	—
Shareholder equity	413	1,530	1,704
Total liabilities	4,904	4,890	4,406

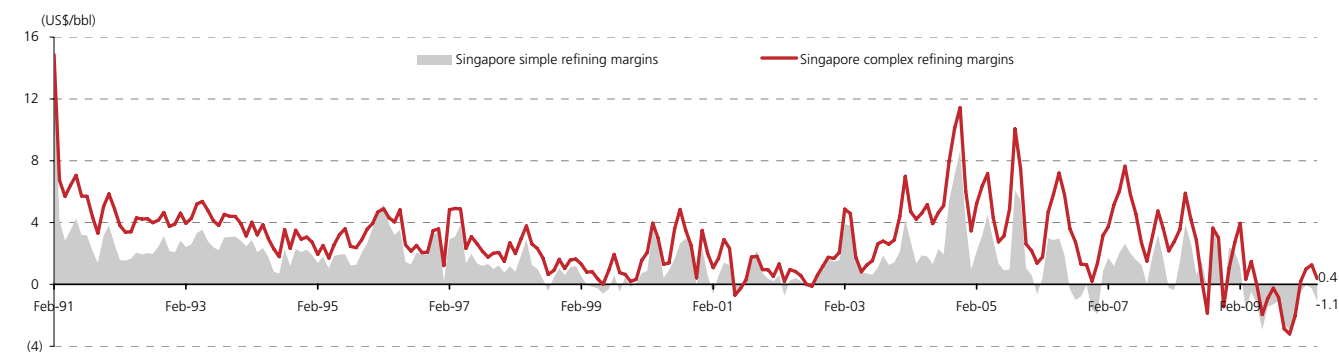
Source: Company, Kotak Institutional Equities

Overseas acquisition strategy finally working but don't overlook weakening fundamentals

We would advise investors to not lose focus of the weakening business environment for RIL with the recent dip in refining and chemical margins (see our note '*More a play on global cycles than on India*' released on April 7, 2010). The strengthening rupee poses additional risks to earnings of RIL. We note that a significant portion of RIL's earnings (~60% of EBIT in FY2012E) comes from its chemical and refining segments. Exhibit 6 gives Singapore refining margins and Exhibit 7 shows global chemical margins.

Refining margins have declined in recent weeks

Singapore refining margins (US\$/bbl)



Simple refining margins, March fiscal year-ends (US\$/bbl)											
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 YTD
1Q	1.3	0.5	0.3	1.0	1.7	3.0	2.5	2.3	2.4	(1.5)	(1.1)
2Q	2.5	0.4	0.1	1.2	3.1	2.8	(0.7)	1.0	1.7	(1.3)	
3Q	1.7	1.1	1.4	1.6	6.5	2.2	(1.2)	2.3	1.3	(2.5)	
4Q	0.2	(0.0)	3.0	2.9	2.1	1.1	1.2	0.2	0.7	(0.3)	
Average	1.4	0.5	1.2	1.7	3.3	2.3	0.5	1.5	1.5	(1.4)	(1.1)

Weekly margins				
Current	-1 Wk	-2 Wk	-3 Wk	-4 Wk
(1.0)	(1.2)	(0.5)	(0.1)	(0.3)

Complex refining margins, March fiscal year-ends (US\$/bbl)											
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 YTD
1Q	1.9	1.3	0.8	1.2	4.6	4.9	6.2	6.6	4.3	(0.1)	0.4
2Q	4.0	0.6	0.1	2.3	5.8	6.1	2.5	2.9	0.7	(0.7)	
3Q	2.3	1.2	1.6	3.2	9.0	3.9	1.0	3.9	1.0	(2.7)	
4Q	1.6	0.6	3.7	5.4	5.0	2.8	4.1	2.8	2.4	0.8	
Average	2.4	0.9	1.5	3.1	6.1	4.4	3.4	4.0	2.1	(0.7)	0.4

Weekly margins				
Current	-1 Wk	-2 Wk	-3 Wk	-4 Wk
0.5	0.3	0.8	1.5	1.3

Source: Bloomberg, Kotak Institutional Equities

Chemical margins have declined sharply in recent months

Asia chemical margins, calendar year-ending (US\$/ton)

	Annual average prices					Quarterly average					1Q10 vs 4Q09 (%)	Monthly average				Recent		
	2006	2007	2008	2009	2010	2Q09	3Q09	4Q09	1Q10	Jan		Feb	Mar	Apr	Mar 19	Mar 26	Apr 2	Apr 9
Ethylene chain																		
Ethylene – naphtha	549	441	336	274	476	232	349	312	497	59.2	542	556	394	413	404	417	408	418
HDPE – 1.015 x ethylene	88	171	258	270	48	380	219	177	48	(72.7)	(19)	43	121	48	122	42	42	54
LLDPE – 1.015 x ethylene	87	185	317	307	157	367	286	252	168	(33.5)	131	146	226	126	182	192	147	104
LDPE – 1.015 x ethylene	94	291	422	331	282	396	301	319	287	(10.1)	249	279	332	269	287	274	274	264
HDPE – naphtha	655	629	611	556	542	624	583	504	564	11.8	542	617	532	479	543	476	467	490
LLDPE – naphtha	654	643	670	594	651	611	650	579	683	18.0	692	720	637	556	603	626	572	540
LDPE – naphtha	660	749	775	618	776	640	664	646	802	24.2	809	854	743	700	708	708	700	700
Propylene chain																		
Propylene – naphtha	509	373	353	336	509	327	415	362	506	39.9	476	524	519	519	533	526	512	525
PP – 1.01 x propylene	125	244	265	151	48	218	119	89	59	(33.7)	73	87	16	17	(3)	13	23	12
PP – naphtha	645	628	630	495	570	554	544	461	577	25.2	561	624	548	549	543	551	547	550
Styrene chain																		
Benzene – naphtha	278	325	153	126	249	140	206	174	247	42.1	310	246	185	257	202	231	258	255
Styrene – 0.81 x benzene	139	163	131	157	139	203	130	84	143	70.0	76	182	172	125	159	145	129	121
– 0.29 x ethylene																		
Polystyrene – 0.98 styrene	90	132	161	132	142	110	152	128	147	15.3	132	154	155	127	125	146	128	126
PS – naphtha	649	730	571	508	668	527	590	490	681	38.9	663	739	640	629	613	646	632	625
Vinyl chain																		
EDC – (0.3 x ethylene)	11	85	35	109	141	138	179	99	130	31.9	76	137	177	174	178	183	178	170
PVC – 1.025 (0.235 x ethylene	249	294	405	283	291	250	264	293	290	(1.2)	282	273	314	293	310	300	295	292
+ 0.864 x EDC)																		
PVC – naphtha	250	249	199	244	300	235	298	203	303	49.3	265	337	307	291	308	316	297	284
Polyester/intermediates																		
PSF – 0.85 x PTA – 0.34 x MEG	240	324	347	269	286	328	264	233	286	22.7	225	282	352	—	355	—	—	—
PFY – 0.85 x PTA – 0.34 x MEG	391	541	578	425	578	438	454	475	578	21.7	550	567	617	—	620	—	—	—
PTA – 0.67 x PX	124	123	126	179	271	151	199	219	264	20.4	207	292	292	295	279	300	304	285
PX – naphtha	572	435	337	422	311	534	402	322	320	(0.6)	379	315	266	281	287	283	276	287
MEG – naphtha	270	419	105	77	235	37	93	107	246	129.2	257	296	186	202	175	213	206	197
MEG – 0.6 x ethylene	174	433	235	135	239	105	128	192	235	22.0	223	237	244	250	227	252	254	246

Source: Platts, Kotak Institutional Equities

RIL: Profit model, balance sheet, cash model, March fiscal year-ends, 2005-2012E (Rs mn)

	2005	2006	2007	2008	2009	2010E	2011E	2012E
Profit model (Rs mn)								
Net sales	656,223	809,113	1,114,927	1,334,430	1,418,475	2,148,806	2,469,314	2,592,677
EBITDA	123,820	139,991	198,462	233,056	233,139	301,692	382,071	433,116
Other income	14,498	6,829	4,783	8,953	20,599	24,658	25,193	24,993
Interest	(14,687)	(8,770)	(11,889)	(10,774)	(17,452)	(20,625)	(21,656)	(7,254)
Depreciation & depletion	(37,235)	(34,009)	(48,152)	(48,471)	(51,953)	(98,551)	(109,476)	(113,749)
Pretax profits	86,397	104,041	143,205	182,764	184,332	207,175	276,132	337,106
Extraordinary items	4,290	3,000	2,000	47,335	—	—	—	—
Tax	(7,050)	(9,307)	(16,574)	(26,520)	(12,634)	(30,661)	(52,766)	(70,922)
Deferred taxation	(7,920)	(7,040)	(9,196)	(8,999)	(18,605)	(14,492)	(4,817)	1,305
Net profits	75,717	90,693	119,434	194,580	153,093	162,022	218,549	267,489
Adjusted net profits	72,135	88,152	117,789	152,605	153,093	162,022	218,549	267,489
Earnings per share (Rs)	26	32	41	52	51	49	67	81
Balance sheet (Rs mn)								
Total equity	404,033	430,543	673,037	847,853	1,263,730	1,496,844	1,684,774	1,914,839
Deferred taxation liability	42,668	49,708	69,820	78,725	97,263	111,755	116,572	115,267
Minority interest	—	—	33,622	33,622	—	—	—	—
Total borrowings	187,846	218,656	332,927	493,072	739,045	611,876	370,910	117,736
Current liabilities	171,315	164,545	192,305	251,427	357,019	336,850	381,275	396,890
Total liabilities and equity	805,863	863,452	1,301,712	1,704,700	2,457,057	2,557,324	2,553,530	2,544,731
Cash	36,087	21,461	18,449	42,822	221,765	202,877	182,070	197,881
Current assets	248,438	224,283	286,566	402,721	325,358	455,367	496,662	509,344
Total fixed assets	350,823	626,745	899,403	1,081,638	1,693,869	1,683,015	1,658,733	1,621,441
Investments	170,515	(9,038)	97,294	177,519	216,065	216,065	216,065	216,065
Deferred expenditure	—	—	—	—	—	—	—	—
Total assets	805,863	863,452	1,301,712	1,704,700	2,457,057	2,557,324	2,553,530	2,544,730
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	107,002	119,520	164,285	180,718	174,508	240,636	301,176	346,647
Working capital	46,875	(32,188)	(13,075)	(31,071)	(37,983)	(150,179)	3,130	2,933
Capital expenditure	(52,440)	(94,273)	(247,274)	(239,691)	(247,128)	(140,702)	(73,025)	(71,990)
Investments	(48,192)	(32,364)	(105,760)	(78,953)	(10,392)	—	—	—
Other income	3,032	5,159	4,143	6,132	16,195	24,658	25,193	24,993
Free cash flow	56,276	(34,146)	(197,681)	(162,865)	(104,800)	(25,587)	256,474	302,583
Ratios (%)								
Debt/equity	42.1	45.5	44.8	53.2	54.3	38.0	20.6	5.8
Net debt/equity	34.0	41.1	42.3	48.6	38.0	25.4	10.5	(3.9)
RoAE	17.6	19.9	20.3	18.9	13.6	11.3	13.2	14.4
RoACE	13.0	13.8	13.9	12.7	11.2	9.2	11.2	12.9

Source: Company, Kotak Institutional Equities estimates

APRIL 12, 2010**UPDATE****BSE-30: 17,933**

Base rate: Seeking transparency in pricing loans. RBI has finally decided to apply the 'base-rate' concept from July 2010, in lieu of the existing BPLR system. It has given some flexibility to the banks to set the base rate, choose any deposit rate and can charge a tenor premium. We believe that the base-rate concept will result in (1) greater transparency in the pricing of loans, (2) faster response to monetary policy (3) less leeway for banks to lend below their base rates, which in turn could happen through bonds or mutual fund investments from banks. Overall positive for banks, somewhat negative for AAA borrowers.

Base rate finally from July 2010

RBI has decided to introduce the base-rate concept from July 2010 onwards. The final guidelines allow banks to choose their deposit rate, rather than fixing it at a one-year deposit rate or cost of deposits, as in the earlier draft guidelines. Thus, a bank can choose its base rate depending on its liability tenure, but has to be transparent in its pricing structure. We see banks using shorter tenor deposit rates for the purpose of base rate, to make it attractive and competitive. The loan pricing would be formula driven: Base rate (deposit costs) + negative carry for CRR & SLR + un-allocable costs + risk premium + tenor premium + targeted profit (RoE). As we understand, banks would be free to decide their risk premium and targeted profit.

Market rates to respond faster to monetary policy

We believe the base-rate concept would result in swifter changes in market interest rates and banks would be forced to review their interest rates quickly while lowering—and while increasing lending rates. Also, the impact of the base rate would be applicable to both new as well as existing borrowers, removing the earlier distortion where the benefit was largely to corporates.

Reduce competitive pressures to grow balance sheet—positive for public banks

We believe many banks resort to offering lower interest rates in order to grow their balance sheets at quarter/year ends. The base-rate system would mean that banks will not be able to offer loans below their overall costs, which include deposit costs, negative carry on SLR and CRR, operating costs and credit costs and also targeted returns. Thus, the competitive pressures to increase balance sheets are likely to reduce and credit pricing, especially for top-rated companies, is likely to be rational in the market place.

Positive for banks, somewhat negative for AAA rated entities

While the lending rates are likely to be market determined, we believe that as greater transparency comes in, the extreme rates are likely to get corrected—AAA rated borrowers are unlikely to get money at very cheap rates and there could be some correction in borrowers availing money at very high rates as well. Over a period of time, we see top-rated companies raising their short-term borrowings primarily through commercial paper. NBFCs which are largely AAA rated, could see their borrowing costs rise over time too.

Investments in bonds and commercial papers could pick up

We also believe that short term lending (especially at times of high liquidity) could move away from banks loan book to investment portfolio, as it largely done at the relative marginal rate – base rate is unlikely to capture this aspect

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APRIL 12, 2010

UPDATE

BSE-30: 17,933

3G spectrum auctions update. We would read the slower-than-expected bidding pace at the start the 3G spectrum auction as strategic rather than as a sign of lack of aggression. The operators appear to be using the technical nuances of 'activity computation' in each round to keep the bid increments low. This may protract the auction process, but the pan-India clearing price should be in the range of our estimate of US\$2.5 bn. We remain Cautious.

Status update – two days, 10 rounds, pan-India bid price up to Rs40.9 bn (1.17X reserve price)

Exhibit 1 (on the next page) depicts the slot demand status in various circles at the end of day 1 (or round 5) and day 2 (or round 10). Key auction details at the end of day 1 and 2:

- ▶ Day 1: Five rounds completed on Day 1. In the fifth round, there was excess demand in 5/22 circles (Mumbai, Maharashtra, Gujarat, AP, and TN), equal demand in eight circles, while negative excess demand in the other nine circles (mostly C circles). Bid prices had moved up to Rs39.2 bn (pan-India).
- ▶ Day 2: Another five rounds completed on Day 2. In the 10th round, there was excess demand in 3/22 circles (Gujarat, AP, and Delhi), equal demand in 11 circles, with negative excess demand in the other nine circles (mostly C circles). Bid prices had moved up to Rs40.9 bn (pan-India).

Operator bidding behavior appears designed to keep the bid increment pace slow

We would caution against reading the slow bid movements in the first 2 days as an indication that bids may not be very aggressive. The slow pace of bid increments at this juncture surprised us as well to begin with. With excess demand in the positive zone in only a few circles (even among the metros), we did start fearing the possibility of collusion between operators. But, a deeper reading of the auction document (notice inviting applications) has allayed that fear.

We will get a little technical and discuss some fine prints of the auction process, but it is important to understand these to better appreciate the slow pace of bid increments, in our view.

- ▶ The bid price increments for the next round depend on the excess demand in the current round - (1) if excess demand is negative (demand < slots being auctioned), the price in the next round remains the same, (2) if excess demand is 0 or 1, the price in the next round price by 1%, (3) if it is 2, the price goes up by 5%, and (3) if it is > 2, the price goes up by 10%. Exhibit 2 details this.
- ▶ Now also consider the way the activity points for an operator are computed for a particular round—it is the **sum of eligibility points** in (1) circles where the operator was determined the provisional winner in the previous round and (2) circles where the operator has put in a bid (essentially ticked that he is interested) in the current round. Note that an operator's actions are likely to be governed by the activity requirements for that round—given a choice, an operator would like to sit on the fence and see what the other are doing before jumping in at a late stage. It is the minimum activity requirement that makes the operator bid in each round.

In sum, we believe operators are alternating their bids between rounds. For example, if an operator is declared a provisional winner in circle 'abc' in round X, he does not bid for it in round X + 1, still meeting the activity requirements. Real underlying demand should thus be looked at as aggregate demand over two consecutive rounds, in our view.

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Just to illustrate the point a little further, consider the interesting movement in demand between rounds 5-9 in the Rajasthan circle: the Round 5 price in Rajasthan (3 slots being auctioned) was Rs1,336 mn, increasing to Rs1,445 mn in Round 10. This suggests that out of 5 rounds from 5-9 - (1) the demand was either 3 or 4 in three rounds, (2) demand was 5 in one of the rounds, and (3) demand was 2 in one of the rounds. So, for this circle, demand oscillated between 2 and 5 within a space of 5 rounds—which is in no way reflective of the real underlying demand for 3G spectrum in the circle, in our view.

We expect the real underlying demand for spectrum to show up once the activity requirement is increased to 100%. Our analysis suggests that the activity requirements, which was kept at 80% in round 1, has likely been increased to 90%.

3G auctions - status update

	# of slots being auctioned	Reserve price (Rs mn)	Eligibility points	Initial interest expressed	9-Apr Round 5			10-Apr Round 10		
					Slots demand (#)	Round price (Rs mn)	Activity points	Slots demand (#)	Round price (Rs mn)	Activity points
Delhi	3	3,200	32	7	3	3,733	96	4	3,923	128
Mumbai	3	3,200	32	7	4	3,627	128	3	3,774	96
Maharashtra	3	3,200	32	7	4	3,627	128	3	3,811	96
Gujarat	3	3,200	32	7	4	3,627	128	5	3,774	160
Andhra Pradesh	3	3,200	32	7	4	3,627	128	4	3,811	128
Karnataka	3	3,200	32	7	3	3,627	96	3	3,774	96
Tamil Nadu	3	3,200	32	7	4	3,627	128	3	3,811	96
Kolkata	3	1,200	12	6	3	1,360	36	3	1,429	36
Kerala	3	1,200	12	7	3	1,347	36	3	1,415	36
Punjab	4	1,200	12	7	4	1,212	48	1	1,236	12
Haryana	3	1,200	12	7	2	1,347	24	1	1,373	12
Uttar Pradesh (east)	3	1,200	12	7	3	1,360	36	3	1,429	36
Uttar Pradesh (west)	3	1,200	12	7	3	1,360	36	3	1,429	36
Rajasthan	3	1,200	12	7	2	1,336	24	3	1,445	36
Madhya Pradesh	3	1,200	12	7	3	1,336	36	3	1,404	36
West Bengal	4	1,200	12	6	3	1,212	36	4	1,224	48
Himachal Pradesh	4	300	3	8	1	303	3	1	303	3
Bihar	4	300	3	8	1	318	3	3	318	9
Orissa	3	300	3	8	0	303	—	0	303	—
Assam	3	300	3	8	0	303	—	0	303	—
North East	3	300	3	8	1	303	3	1	303	3
J&K	4	300	3	7	0	303	—	0	303	—
TOTAL		35,000	350			39,195	1,153		40,896	1,103
% eligibility points used							47.2			45.2

	Demand > slots
	Demand = slots
	Demand < slots

Source: DOT, Kotak Institutional Equities

Bid increment rules

Excess Demand	Price Increment (%)
Negative	0
0	1
1	1
2	5
3	10

Source: DOT, Kotak Institutional Equities

Retain our estimate of pan-India auction clearing price of >US\$2.5 bn

Barring a scenario of collusion among operators, we do not see the 3G spectrum auctions clearing lower than our estimated US\$2.5 bn (please see our detailed report released on March 15, for more). Slow pace of increments will only make the process a longer-than-expected affair, but we would be surprised if the auctions closed meaningfully lower than our estimate.

Auctions good for the fisc, negative for the sector, we remain Cautious

We continue to believe that the ongoing 3G spectrum auction will be negative for the winners as well as the losers. We expect the winning operators to end up paying more than the potential 'tangible' value creation from rollout of 3G services, even as the tangible 'value accretion' for the winners happens (at least partially) at the expense of the losers. We continue to remain Cautious on the sector and reiterate REDUCE on Bharti and Idea, and SELL on RCOM.

Indicative timeline of the 3G/BWA auction process

Process	Timeline
Notice Inviting applications	25-Feb-10
Final date for submission of applications	19-Mar-10
Publication of ownership details of applicants	23-Mar-10
Bidder ownership compliance certificate	26-Mar-10
Pre-qualification of bidders	30-Mar-10
Mock auction	05/06-Apr-10
Start of the 3G auction	9-Apr-10
Start of the BWA auction	2 days from the day of close of the 3G auction
Payment of the successful bid amount	Within 10 calendar days of close of relevant auction

Source: DoT

List of 3G and BWA spectrum auction applicants

3G (3 slots being auctioned in 17 circles, 4 in the other 5)

#	Applicant	Remarks
1	Bharti Airtel	Incumbent pan-India 2G operator
2	Vodafone Essar	Incumbent pan-India 2G operator
3	RCOM	Incumbent pan-India 2G operator
4	TTSL	Incumbent pan-India 2G operator
5	Idea	Incumbent pan-India 2G operator
6	Aircel	Incumbent pan-India 2G operator
7	Etisalat DB Telecom	New 2G operator; yet to roll out services. Has applied in 15 circles.
8	Videocon	New 2G operator; yet to roll out services.
9	S Tel	New 2G operator; has rolled out services in 3 of the 7 circles it has UAS license for. Has applied in 6 C circles.

BWA (2 slots being auctioned in all the 22 circles)

#	Applicant	Remarks
1	Bharti Airtel	Incumbent operator; Has a fixed broadband offering in 95 cities; does not have a wireless BB offering
2	Vodafone Essar	Incumbent operator; Does not have a fixed/wireless BB offering
3	RCOM	Incumbent operator; Has fixed and wireless (EVDO) BB offering in select cities
4	TCOM	Has limited Wimax network rollout in select cities
5	Idea	Incumbent operator; Does not have a fixed/wireless BB offering
6	Aircel	Incumbent operator; Does not have a fixed/wireless BB offering
7	Qualcomm	US-based chipset-maker
8	Tikona networks	Has a wireless BB offering in select cities (in unlicensed spectrum band)
9	Infotel Broadband	Likely a subsidiary of the HFCL group; offers BB services in the Punjab circle
10	Spice ISP	Likely a part of B K Modi's Spice group
11	Augere	An international player running Wimax BB operations in Bangladesh and Pakistan; promoted by Sanjiv Ahuja, the ex-CEO of Orange

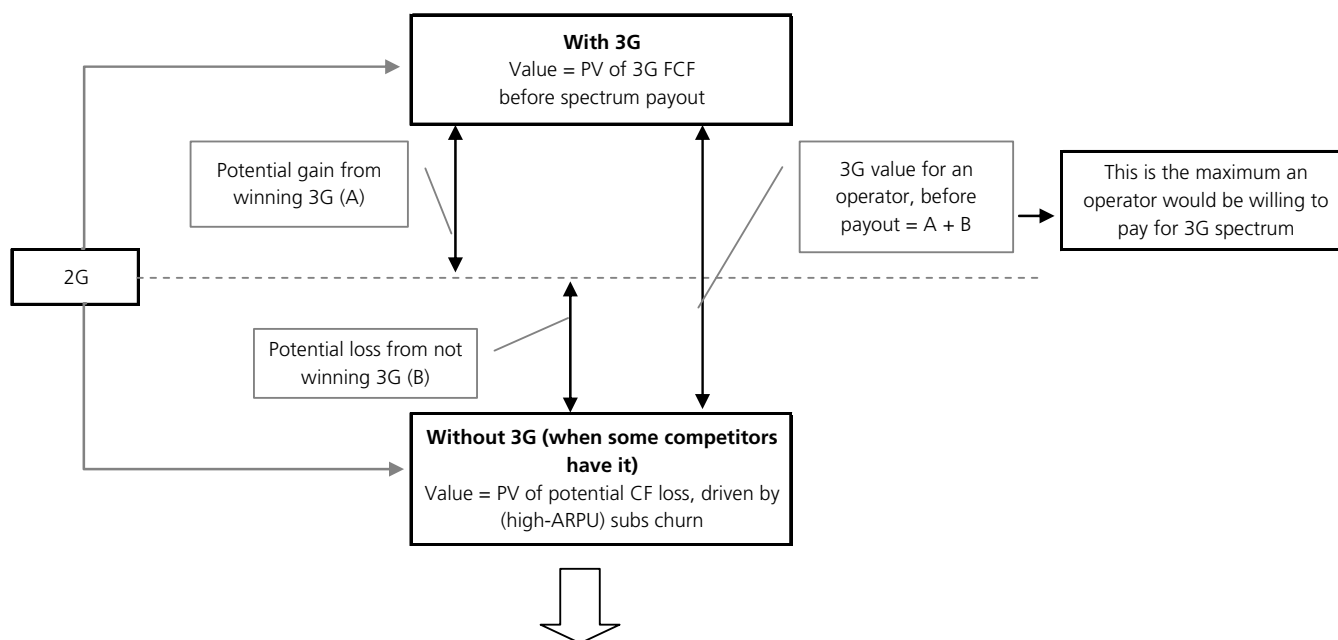
Note:

(a) BB: Broadband.

(b) Applications yet to be processed. This is a list of applicants and does not represent the list of eligible bidders.

Source: DoT, Kotak Institutional Equities

Fear of value loss from 'not winning 3G' to drive aggressive bids, in our view
3G spectrum bid drivers for an operator



Payoff scenarios for an operator

Wins spectrum, pays P

- (a) $P < A$, tangible value creation = $A - P$
- (b) $P = A$, tangible value created = 0
- (c) $A < P \leq B$, tangible value destruction, but still a better choice than not winning 3G spectrum
- (d) $P > (A+B)$, tangible value destruction, would have been better off losing 3G spectrum

Loses spectrum

Tangible value loss = B

Source: Kotak Institutional Equities

We estimate pan-India 3G spectrum clearing price of US\$2.5 bn

Circle	Reserve price	# of private slots	Likely clearing price	GOI Proceeds
Delhi	69.6	3	280.0	1,120
Mumbai	69.6	3	260.0	1,040
Andhra Pradesh	69.6	3	230.0	920
Gujarat	69.6	3	160.0	640
Karnataka	69.6	3	210.0	840
Maharashtra	69.6	3	310.0	1,240
Tamil Nadu	69.6	3	290.0	1,160
Haryana	26.1	3	40.0	160
Kerala	26.1	3	80.0	320
Madhya Pradesh	26.1	3	100.0	400
Punjab	26.1	4	55.0	275
Rajasthan	26.1	3	80.0	320
Uttar Pradesh (east)	26.1	3	100.0	400
Uttar Pradesh (west)	26.1	3	100.0	400
West Bengal	26.1	4	45.0	225
Kolkata	26.1	3	75.0	300
Assam	6.5	3	18.0	72
Bihar	6.5	4	52.5	263
Himachal Pradesh	6.5	4	6.5	33
North East	6.5	3	6.5	26
Orissa	6.5	3	24.0	96
J&K	6.5	4	6.5	33
Total	761	71	2,529	10,282

Source: Kotak Institutional Equities estimates

3G WCDMA (GSM, 2.1GHz band) spectrum availability in various circles

	Reserve price for 3G spectrum (Rs mn)	2X5 MHz blocks available (#)	Blocks allotted to MTNL/BSNL (#)	Blocks available for auction to private players (#)
Metro				
Calcutta	1,200	4	1	3
Chennai	Clubbed with Tamil Nadu			
Delhi	3,200	4	1	3
Mumbai	3,200	4	1	3
Circle A				
Andhra Pradesh	3,200	4	1	3
Gujarat	3,200	4	1	3
Karnataka	3,200	4	1	3
Maharashtra	3,200	4	1	3
Tamil Nadu	3,200	4	1	3
Circle B				
Haryana	1,200	4	1	3
Kerala	1,200	4	1	3
Madhya Pradesh	1,200	4	1	3
Punjab	1,200	5	1	4
Rajasthan	1,200	4	1	3
Uttar Pradesh (east)	1,200	4	1	3
Uttar Pradesh (west)	1,200	4	1	3
West Bengal	1,200	5	1	4
Circle C				
Assam	300	4	1	3
Bihar	300	5	1	4
Himachal Pradesh	300	5	1	4
North East	300	4	1	3
Orissa	300	4	1	3
J&K	300	5	1	4
Pan-India	35,000			

Source: DoT

BWA spectrum (in 2.3 GHz band) availability in various circles

	Reserve price for BWA spectrum (Rs mn)	No of blocks of 20 MHz available	Blocks allotted to MTNL/BSNL	Blocks available for private players
Metro				
Calcutta	600	3	1	2
Chennai		Clubbed with Tamil Nadu		
Delhi	1,600	3	1	2
Mumbai	1,600	3	1	2
Circle A				
Andhra Pradesh	1,600	3	1	2
Gujarat	1,600	3	1	2
Karnataka	1,600	3	1	2
Maharashtra	1,600	3	1	2
Tamil Nadu	1,600	3	1	2
Circle B				
Haryana	600	3	1	2
Kerala	600	3	1	2
Madhya Pradesh	600	3	1	2
Punjab	600	3	1	2
Rajasthan	600	3	1	2
Uttar Pradesh (east)	600	3	1	2
Uttar Pradesh (west)	600	3	1	2
West Bengal	600	3	1	2
Circle C				
Assam	150	3	1	2
Bihar	150	3	1	2
Himachal Pradesh	150	3	1	2
North East	150	3	1	2
Orissa	150	3	1	2
J&K	150	3	1	2
Pan-India	17,500			

Source: DoT

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

	9-Apr-10		Mkt cap.		O/S	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)	shares (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)		
Energy																															
Bharat Petroleum	506	RS	182,903	4,129	362	58.1	61.7	65.3	181.9	6.2	5.8	8.7	8.2	7.7	4.7	4.2	4.1	1.3	1.2	1.1	4.6	4.9	5.2	14.1	13.7	13.3	—	—	10.0		
Cairn india	307	SELL	582,751	13,156	1,897	6.0	20.3	37.9	—	237	86.9	51	15	8.1	38.6	9.3	5.6	1.7	1.7	1.6	—	4.9	8.1	3.4	11.0	19.9	250	(18.6)	20.0		
Castrol India (a)	364	REDUCE	45,042	1,017	124	30.8	39.7	40.6	44.7	28.8	2.3	11.8	9.2	9.0	7.1	5.6	5.4	9.8	8.8	7.8	6.9	8.2	8.2	83.8	101.0	92.5	640	75.7	3.2		
GAIL (India)	425	REDUCE	538,597	12,159	1,268	22.7	23.5	31.4	2.3	3.7	33.4	18.7	18.1	13.5	10.9	11.3	8.9	3.0	2.7	2.4	1.9	1.9	2.6	15.9	15.0	17.8	370	(12.9)	16.7		
GSPL	94	REDUCE	52,651	1,189	563	7.6	10.0	10.4	244.2	31.8	4.7	12.4	9.4	9.0	6.6	5.1	4.6	3.2	2.7	2.4	2.8	5.3	5.6	28.8	31.7	28.8	80	(14.5)	5.6		
Hindustan Petroleum	309	RS	104,669	2,363	339	46.3	49.7	54.8	173.1	7.2	10.4	6.7	6.2	5.6	2.3	2.1	1.8	0.8	0.8	0.7	8.4	9.0	10.0	11.2	11.4	11.8	—	—	9.3		
Indian Oil Corporation	290	RS	703,374	15,879	2,428	33.0	32.1	33.4	235.4	(2.7)	3.9	8.8	9.0	8.7	5.7	4.7	4.1	1.3	1.2	1.0	2.2	2.2	2.2	15.3	13.1	12.3	—	—	5.6		
Oil India	1,147	REDUCE	275,789	6,226	240	112.2	110.6	115.0	—	(1.5)	4.0	10.2	10.4	10.0	4.0	3.4	2.9	1.9	1.7	1.5	3.1	3.2	3.3	16.5	15.5	14.6	1,150	0.3	3.2		
Oil & Natural Gas Corporation	1,064	REDUCE	2,275,348	51,368	2,139	89.9	107.1	132.3	(1.0)	19.1	23.5	11.8	9.9	8.0	4.2	3.5	2.9	1.8	1.6	1.4	3.4	4.1	4.7	14.4	15.7	17.7	1,200	12.8	23.7		
Petronet LNG	86	ADD	64,613	1,459	750	5.2	7.8	9.0	—	50.2	15.2	16.5	11.0	9.5	9.8	6.9	6.3	2.5	2.1	1.8	1.7	2.9	3.5	15.5	19.9	19.5	85	(1.3)	4.7		
Reliance Industries	1,125	SELL	3,336,985	75,335	2,967	49.3	66.5	81.4	(2.5)	34.9	22.4	22.8	16.9	13.8	11.2	8.4	6.9	2.1	1.9	1.6	0.6	0.8	1.0	10.9	12.8	14.0	950	(15.5)	138.5		
Energy		Cautious	8,162,722	184,281					22.0	23.9	22.9	15.0	12.1	9.8	7.0	5.7	4.7	1.8	1.7	1.5	1.9	2.6	3.1	12.3	13.8	15.3					
Industrials																															
ABB	848	SELL	179,656	4,056	212	16.7	27.6	34.9	(35.2)	65.0	26.2	50.7	30.7	24.3	28.9	17.5	13.6	7.5	6.2	5.1	0.3	0.4	0.4	15.7	22.2	23.1	690	(18.6)	6.6		
BGR Energy Systems	542	ADD	39,046	881	72	23.6	30.2	37.7	47.4	27.8	25.0	23.0	18.0	14.4	12.9	10.0	8.1	5.6	4.5	3.6	0.7	1.0	1.2	26.9	27.6	27.7	500	(7.8)	2.8		
Bharat Electronics	1,968	REDUCE	157,440	3,554	80	117.7	126.2	140.1	13.4	7.2	10.9	16.7	15.6	14.1	8.2	7.4	6.4	3.4	2.9	2.5	1.3	1.3	1.3	22.0	20.1	19.1	1,870	(5.0)	5.2		
Bharat Heavy Electricals	2,564	ADD	1,254,982	28,332	490	92.0	115.8	136.2	44.1	25.8	17.7	27.9	22.1	18.8	15.6	12.2	10.0	7.7	6.1	4.9	0.8	1.0	1.1	30.8	30.7	28.9	2,500	(2.5)	37.1		
Crompton Greaves	271	BUY	173,539	3,918	642	11.9	13.6	15.8	35.6	14.0	16.6	22.8	20.0	17.1	12.5	10.9	9.2	6.8	5.3	4.2	0.6	0.7	0.8	34.7	29.8	27.3	290	7.2	8.4		
Larsen & Toubro	1,641	BUY	986,069	22,261	601	53.7	64.5	78.7	7.2	20.2	22.0	30.6	25.4	20.8	16.7	14.2	12.1	4.5	3.8	3.3	0.7	0.7	0.9	17.4	16.3	17.0	1,750	6.7	61.6		
Maharashtra Seamless	375	BUY	26,473	598	71	40.2	41.1	46.7	12.0	2.3	13.8	9.3	9.1	8.0	4.8	4.5	3.6	1.7	1.4	1.3	1.6	2.0	2.5	19.2	16.9	16.8	400	6.6	1.4		
Siemens	749	REDUCE	252,600	5,703	337	25.0	29.6	34.3	55.2	18.6	16.0	30.0	25.3	21.8	17.8	14.6	12.3	7.4	6.1	5.0	0.7	0.8	0.9	27.3	26.3	25.1	635	(15.2)	8.3		
Suzlon Energy	75	REDUCE	126,212	2,849	1,679	(2.2)	2.9	7.2	(130.8)	(231.4)	145.2	(33.8)	25.7	10.5	12.5	7.9	5.4	1.1	1.1	1.0	—	—	0.3	(3.4)	4.2	9.7	80	6.5	44.0		
Thermax	704	ADD	83,882	1,894	119	21.4	29.8	38.7	(11.7)	39.2	29.7	32.9	23.6	18.2	17.6	13.1	10.1	7.7	6.3	5.1	0.5	1.2	1.6	24.5	29.4	31.1	725	3.0	2.2		
Volta	186	BUY	61,467	1,388	331	9.4	10.3	11.6	36.2	9.0	12.9	19.8	18.1	16.1	11.0	9.7	8.2	6.0	4.9	4.0	1.4	1.5	1.6	34.1	29.8	27.6	185	(0.5)	4.5		
Industrials		Attractive	3,341,366	75,434					7.6	30.5	23.0	29.6	22.7	18.5	15.2	12.2	9.9	5.0	4.2	3.6	0.7	0.8	1.0	16.8	18.5	19.3					
Infrastructure																															
GMRI Infrastructure	62	ADD	226,459	5,113	3,667	0.6	0.6	0.5	(24.5)	(3.1)	(16.6)	106.6	110.1	131.9	20.7	15.3	14.7	2.3	2.1	2.0	—	—	—	3.2	3.0	2.5	68	10.1	6.8		
GVK Power & Infrastructure	46	ADD	72,644	1,640	1,579	0.8	1.1	1.4	6.7	33.5	32.4	56.5	42.3	32.0	19.0	17.3	17.7	2.3	2.2	2.1	—	0.7	0.7	4.7	5.3	6.7	50	8.7	8.8		
IRB Infrastructure	283	RS	93,959	2,121	332	9.7	12.6	12.1	83.8	29.2	(3.7)	29.1	22.5	23.4	13.6	12.1	11.2	4.1	3.1	2.5	—	—	—	15.6	15.7	11.9	—	—	5.6		
Mundra Port and SEZ	743	ADD	299,672	6,765	403	15.1	24.1	35.7	40.8	59.5	48.4	49.2	30.9	20.8	31.6	20.3	14.5	8.2	6.4	4.7	—	—	—	18.5	23.2	26.1	725	(2.4)	17.7		
Infrastructure		Attractive	692,734	15,639					28.0	38.7	27.0	54.4	39.2	30.9	21.7	16.3	14.3	3.6	3.1	2.8	—	—	—	0.1	6.6	8.0	9.0				
Media																															
DishTV	38	ADD	40,197	907	1,063	(2.5)	(1.2)	0.6	(61.6)	(52.4)	(146.5)	(15.0)	(31.5)	67.7	58.9	19.2	10.4	9.8	14.3	11.8	—	—	—	248.6	(37.1)	19.1	45	19.0	5.5		
HT Media	141	NR	33,147	748	235	5.7	7.3	9.1	57.2	29.5	23.9	24.9	19.2	15.5	12.0	10.1	8.1	3.4	3.1	2.8	0.7	1.4	2.5	14.6	17.0	18.9	—	—	0.5		
Jagran Prakashan	122	ADD	36,758	830	301	5.8	6.6	7.9	90.9	14.3	18.5	21.0	18.4	15.5	12.7	10.7	9.0	6.0	5.5	5.0	2.9	3.3	3.9	29.8	31.2	33.5	130	6.5	1.9		
Sun TV Network	426	REDUCE	167,977	3,792	394	12.1	14.6	17.8	33.3	21.0	21.6	35.2	29.1	23.9	20.3	16.4	13.5	8.2	7.1	6.3	0.9	1.4	1.9	25.4	26.4	28.0	295	(30.8)	5.0		
Zee Entertainment Enterprises	282	REDUCE	122,388	2,763	434	10.6	12.8	15.5	25.9	20.3	21.0	26.5	22.0	18.2	20.5	16.1	12.8	3.2	2.9	2.7	0.9	1.1	1.4	13.0	14.2	15.7	245	(13.1)	6.2		
Zee News	72	NR	17,194	388	240	2.6	3.1	4.3	38.4	20.1	39.9	27.8	23.2	16.6	13.6	11.5	8.9	5.8	4.8	3.9	0.6	1.0	1.4	23.3	23.2	26.9	—	—	1.2		
Media		Neutral	417,659	9,429					145.8	39.4	36.9	40.1	28.8	21.0	19.2	14.9	11.6	5.1	4.7	4.2	1.0	1.3	1.8	12.8	16.3	20.0					
Metals																															
Hindalco Industries	179	ADD	342,214	7,726	1,914	4.2	12.4	14.9	(74.0)	197.9	20.7	43.0	14.4	12.0	9.1	9.1	9.2	1.6	1.4	1.3	0.8	0.8	0.8	9.1	10.3	11.3	190	6.3	46.2		
National Aluminium Co.	409	SELL	263,362	5,946	644	10.1	28.0	27.7	(49.0)	178.6	(1.2)	40.6	14.6	14.8	17.8	7.0	6.4	2.4	2.1	1.9	0.5	0.5	0.5	6.1	15.4	13.3	320	(21.7)	4.0		
Jindal Steel and Power	720	SELL	668,285	15,087	928	40.6	47.0	48.9	23.7	15.9	3.9	17.7	15.3	14.7	11.3	9.3	8.4	5.8	4.2	3.2	0.1	0.1	0.1	39.2	31.8	27.7	530	(26.4)	41.4		
JSW Steel	1,228	SELL	229,649	5,185	187	68.1	93.7	131.7	363.6	37.5	40.6	18.0	13.1	9.3	9.0	7.9	6.5	2.0	1.6	1.2	0.2	0.4	0.4	12.4	13.3	14.6	850	(30.8)	49.4		
Hindustan Zinc	1,245	BUY	526,200	11,879	423	93.5	105.4	127.6	44.8	12.8	21.0	13.3	11.8	9.8	9.2	6.8	4.5	2.8	2.3	1.8	0.4	0.4	0.4	23.5	21.3	20.9	1,400	12.4	5.4		
Sesa Goa	469	REDUCE	417,048	9,415	890	25.9	38.9	49.4	2.5	50.5	26.9	18.1																			

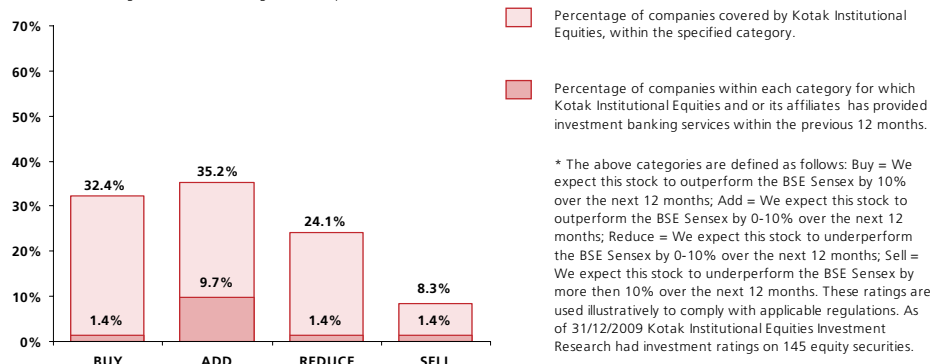
Kotak Institutional Equities: Valuation summary of key Indian companies

Company	9-Apr-10		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target		
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	shares	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	price	Upside	ADVT-3mo
(Rs)					(mn)																					(Rs)	(%)	(US\$ mn)	
Retail																													
Titan Industries	1,906	REDUCE	84,584	1,910	44	60.4	68.1	85.1	36.3	12.7	25.0	31.6	28.0	22.4	21.7	18.4	14.4	10.6	8.1	6.3	0.5	0.6	0.7	39.1	32.9	31.7	1,300	(31.8)	4.4
Retail		Neutral	84,584	1,910					36.3	12.7	25.0	31.6	28.0	22.4	21.7	18.4	14.4	10.6	8.1	6.3	0.5	0.6	0.7	33.7	29.1	28.1			
Sugar																													
Bajaj Hindustan	136	SELL	25,958	586	191	23.7	17.6	10.2	—	(25.6)	(42.2)	5.7	7.7	13.3	5.0	4.6	5.6	1.0	0.9	0.8	0.4	0.4	0.4	19.3	11.9	6.3	150	10.6	19.8
Balrampur Chini Mills	89	ADD	22,800	515	257	14.0	13.9	11.0	—	(0.6)	(21.1)	6.3	6.4	8.1	4.1	3.8	3.7	1.5	1.2	1.1	0.5	1—	0.5	25.3	20.8	14.3	140	57.7	10.1
Shree Renuka Sugars	68	BUY	45,814	1,034	670	14.8	11.5	8.0	329.4	(22.2)	(30.7)	4.6	5.9	8.6	3.1	3.2	3.6	1.6	1.2	1.1	0.6	0.5	0.5	43.9	23.1	13.2	130	90.1	29.5
Sugar		Attractive	94,572	2,135					342.8	(18.8)	(31.0)	5.2	6.4	9.3	3.9	3.8	4.2	1.3	1.1	1.0	0.5	0.5	0.5	25.3	17.0	10.5			
Technology																													
HCL Technologies	344	REDUCE	238,802	5,391	695	17.8	25.1	27.1	1.7	41.2	7.8	19.3	13.7	12.7	9.7	8.5	7.2	3.7	3.1	2.5	1.2	1.2	1.2	20.6	24.7	21.9	350	1.9	8.9
Hexaware Technologies	68	REDUCE	9,718	219	144	9.4	7.5	11.2	127.7	(19.5)	48.3	7.2	9.0	6.1	2.7	3.2	1.8	1.2	1.1	1.0	1.5	1.5	1.5	18.6	13.1	17.0	80	18.3	1.2
Infosys Technologies	2,676	BUY	1,536,139	34,680	574	108.5	124.2	150.1	5.9	14.4	20.9	24.7	21.6	17.8	17.5	14.1	11.6	6.8	5.6	4.6	1.0	1.3	1.6	30.4	28.4	28.3	3,000	12.1	69.0
Mphasis BFL	642	REDUCE	133,924	3,023	208	43.6	48.7	47.9	207.5	11.7	(1.5)	14.7	13.2	13.4	11.7	10.4	9.0	5.7	4.1	3.2	0.5	0.6	0.7	48.1	36.2	26.9	570	(11.3)	12.8
Mindtree	581	BUY	23,903	540	41	49.4	55.1	63.2	273.2	11.6	14.7	11.8	10.5	9.2	9.4	6.7	5.2	3.2	2.5	2.0	0.4	0.9	1.1	31.1	26.3	24.0	825	42.0	2.1
Patni Computer Systems	544	REDUCE	69,928	1,579	129	36.6	44.2	40.9	36.4	20.9	(7.6)	14.9	12.3	13.3	7.8	7.3	6.4	2.2	2.1	1.8	1.3	1.6	1.5	19.7	17.9	14.6	450	(17.3)	3.8
Polaris Software Lab	171	SELL	16,863	381	99	15.6	16.1	14.8	18.3	3.7	(8.2)	11.0	10.6	11.5	5.5	5.4	5.0	1.9	1.7	1.5	1.8	1.9	2.0	18.5	16.7	13.7	160	(6.4)	4.3
TCS	792	BUY	1,549,320	34,977	1,957	34.5	41.0	45.9	30.6	18.8	11.8	22.9	19.3	17.3	17.1	14.2	11.8	7.6	6.3	5.3	1.1	2.1	2.3	37.5	35.6	33.1	900	13.7	40.2
Wipro	711	ADD	1,038,824	23,452	1,462	31.5	37.6	42.7	22.4	19.5	13.4	22.6	18.9	16.7	16.8	13.6	11.3	5.5	4.5	3.8	1.2	1.5	1.8	27.1	26.3	24.8	830	16.8	20.3
Technology		Attractive	4,617,420	104,242					22.3	18.0	13.5	22.2	18.8	16.6	15.7	13.1	10.9	6.0	5.0	4.2	1.1	1.6	1.8	27.2	26.6	25.1			
Telecom																													
Bharti Airtel	308	REDUCE	1,169,096	26,393	3,797	23.8	20.6	23.5	6.6	(13.5)	13.8	12.9	14.9	13.1	7.5	7.8	6.6	2.9	2.5	2.1	1.0	1.3	1.6	25.3	18.0	17.4	300	(2.6)	51.7
IDEA	67	REDUCE	222,193	5,016	3,304	2.5	1.2	1.9	(13.9)	(51.2)	54.2	26.9	55.1	35.8	8.7	9.1	7.9	1.5	1.5	1.4	—	—	—	5.5	2.8	4.2	50	(25.7)	6.9
MTNL	76	SELL	47,723	1,077	630	(15.6)	(10.4)	(9.1)	(750.8)	(33.7)	(11.9)	(4.8)	(7.3)	(8.3)	(1.2)	(1.5)	(2.0)	0.4	0.5	0.5	—	—	—	(8.5)	(6.1)	(5.7)	50	(34.0)	3.5
Reliance Communications	179	SELL	369,253	8,336	2,064	18.5	13.4	18.6	(41.4)	(27.8)	38.8	9.7	13.4	9.6	8.2	8.6	5.6	0.8	0.8	0.6	—	—	—	8.9	6.0	7.3	150	(16.2)	17.3
Tata Communications	289	REDUCE	82,337	1,859	285	14.0	15.2	15.7	3.2	8.2	3.5	20.6	19.1	18.4	8.4	7.8	7.4	1.2	1.1	1.1	2.2	2.6	2.9	5.2	5.5	5.5	400	38.5	2.3
Telecom		Cautious	1,890,601	42,682					(20.2)	(17.0)	22.8	14.1	16.9	13.8	8.2	8.4	6.7	1.6	1.5	1.3	0.7	0.9	1.1	11.3	8.7	9.3			
Transportation																													
Container Corporation	1,409	ADD	183,161	4,135	130	63.9	76.6	89.0	5.0	19.9	16.1	22.0	18.4	15.8	15.5	12.8	10.7	4.2	3.6	3.1	1.0	1.3	1.5	20.4	21.0	21.0	1,250	(11.3)	2.4
Transportation		Cautious	183,161	4,135					5.0	19.9	16.1	22.0	18.4	15.8	15.5	12.8	10.7	4.2	3.6	3.1	1.0	1.3	1.5	19.0	19.5	19.5			
Utilities																													
CESC	407	ADD	50,905	1,149	125	33.1	42.8	46.3	2.6	29.5	8.0	12.3	9.5	8.8	6.8	6.5	7.2	1.2	1.1	1.0	1.0	1.3	1.4	10.4	12.0	11.6	410	0.6	2.1
Lanco Infratech	59	BUY	140,813	3,179	2,405	1.8	3.7	4.1	25.4	105.7	8.1	32.1	15.6	14.4	22.6	9.4	9.4	4.1	3.3	2.7	—	—	—	14.7	21.5	18.9	60	2.5	11.9
Reliance Infrastructure	1,102	BUY	249,446	5,631	226	63.7	68.6	91.7	1.6	7.8	33.7	17.3	16.1	12.0	20.2	16.1	11.2	1.4	1.3	1.2	0.8	0.8	0.9	6.1	7.8	10.1	1,250	13.5	34.8
Reliance Power	158	REDUCE	377,489	8,522	2,397	2.5	3.1	5.7	—	24.4	86.0	63.9	51.4	27.6	—	—	—	2.6	2.5	2.3	—	—	—	4.2	5.0	8.7	160	1.6	7.0
Tata Power	1,367	BUY	337,386	7,617	247	57.7	67.0	86.2	15.0	16.2	28.6	23.7	20.4	15.8	14.1	13.0	11.0	2.7	2.4	2.2	0.9	1.0	1.1	12.6	12.4	14.4	1,485	8.6	15.9
Utilities		Attractive	2,901,603	65,506					15.8	15.5	23.6	21.6	18.7	15.1	17.6	14.9	12.2	2.5	2.3	2.1	1.4	1.5	1.8	11.5	12.2	13.6			
Others																													
Aban Offshore	1,252	BUY	54,472	1,230	43	114.8	265.5	204.2	18.4	131.3	(23.1)	10.9	4.7	6.1	9.0	6.1	6.1	1.5	1.2	1.0	0.3	0.3	0.3	15.0	27.1	16.9	1,500	19.8	56.6
Havells India	649	SELL	39,037	881	60	22.6	30.2	32.8	343.8	33.8	8.5	28.7	21.5	19.8	13.6	10.7	9.8	10.3	7.0	5.2	0.4	0.4	0.4	27.7	39.0	30.4	350	(46.1)	15.6
Jaiprakash Associates	152	BUY	319,929	7,223	2,107	4.3	7.1	10.1	115.0	65.5	42.2	35.3	21.3	15.0	17.4	15.1	10.6	3.9	3.4	2.8	—	—	—	12.3	17.1	20.5	170	12.0	39.1
Jindal Saw	219	ADD	64,432	1,455	294	26.5	19.3	17.9	113.8	(27.2)	(7.3)	8.3	11.4	12.2	5.9	6.5	6.3	1.7	1.4	1.3	0.4	0.4	0.4	19.8	13.0	11.1	235	7.3	14.0
PSL	145	BUY	7,736	175	53	29.8	25.4	24.1	34.1	(14.8)	(5.1)	4.9	5.7	6.0	3.0	2.9	3.0	0.8	0.8	0.7	4.5	4.5	4.8	13.6	11.7	10.8	175	20.9	0.9
Sintex	315	BUY	42,982	970	136	22.2	28.1	32.7	(7.6)	26.7	16.4	14.2	11.2	9.6	10.0	7.6	6.3	2.0	1.7	1.4	0.4	0.4	0.4	14.1	15.0	14.8	310	(1.6)	5.5
Tata Chemicals	324	ADD	78,849	1,780	243	27.3	31.0	36.1	2.5	13.4	16.5	11.9	10.5	9.0	6.3	5.5	4.9	1.5	1.4	1.2	2.7	2.7	2.7	15.6	15.7	16.0	340	5.0	4.5
Welspun Gujarat Stahl Rohren	283	REDUCE	58,148	1,313	205	25.1	23.0	24.4	44.9	(8.1)	5.8	11.3	12.3	11.6	6.1	6.3	5.6	2.0	1.7	1.5	0.7	0.7	0.8	20.6	14.8	13.5	245	(13.4)	11.5
United Phosphorus	153	BUY	70,745	1,597	463	11.8	14.7	18.5	17.2	24.6	25.7	13.0	10.4	8.3	8.2	6.4	5.0	2.1	1.8	1.5	1.0	1.3	1.3	17.4	18.0	19.0	195	27.5	3.2
Others			736,331	16,623					44.5	32.6	12.4	16.7	12.6	11.2	10.0	8.8	7.5	2.4	2.0	1.8	0.6	0.6	0.6	14.4	16.2	15.7			
KS universe (b)			42,482,474	959,081					11.2	20.0	19.8	18.5	15.5	12.9	11.3	9.4	7.9	2.7	2.4	2.1	1.2	1.5	1.8	14.5	15.4	16.1			
KS universe (b) ex-Energy			34,319,753	774,800					8.2	18.7	18.8	19.7	16.6	13.9	13.6	11.3	9.5	3.0	2.6	2.3	1.1	1.2	1.4	15.4	16.0	16.4			
KS universe (d) ex-Energy & ex-Commodities			29,637,724	669,099					15.5	14.0	19.3	19.8	17.4	14.5	14.6	12.6	10.5	3.1	2.7	2.4	1.1	1.3	1.6	15.8	15.8	16.4			

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