INDIA DAILY

October 7, 2011

kotak Institutional Equities

Contents

News Round-up

- Grappling with high input costs and sluggish market demand, domestic steel companies have resorted to price hike to maintain their margins. All the major integrated steel producers have raised the prices by INR 1000- INR 2000 per tonne for various grades of steel beginning this month. (FNLE-THU)
- 3G roaming agreements of Bharti Airtel (BHARTI IN), Vodafone, Idea (IDEA IN) under DoT scanner, telecom dept. seeks legal wing, regulators view on pact. (ECNT)
- SBI (SBIN IN) expects USD 2 bn government infusion in FY12. (FNLE-THU)
- SBI (SBIN IN) will cut govt. bond holdings & insure trade credit in a bid to optimize capital after rating firm Moody's downgraded it citing its inability to raise funds & the scope for higher bad loans due to high interest rates. (ECNT)
- After SBI's (SBIN IN) rating cut, government takes stock of its banks. Asks banks to furnish capital, ratings and NPA details. (BSTD-FRI)
- SBI (SBIN IN) targets higher deposits, eyes more high-networth customers. (FNLE-FRI)
- ICICI Bank (ICICIBC IN) and Axis Bank's (AXSB IN) financial positions received the thumbs-up from rating agencies Moody's and Ftch, respectively. Their ratings were retained, a day after the SBI (SBIN IN), was downgraded by Moody's. (BSTD-THU)
- CBI may file FIR in Reliance-DGH case. CBI is likely to frame charges on RIL (RIL IN) having been allowed to retain entire KG-D6 acreage. (BSTD-THU)
- After threatening to cut supplies, Reliance Industries (RIL IN) withdrew the notice for suspension of natural gas supplies to four fertiliser plants in Uttar Pradesh, saying it will work with urea manufacturers to resolve outstanding issues. (BSTD-FRI)
- US private equity giant Carlye Group has bought 9 per cent of Indian Financial services firm India Infoline (IIFL IN) on the open market. (THBL FRI)

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

EQUITY MARKETS

		Change %		
India	**5-Oct**	**1-day**	**1-mo**	**3-mo**
Sensex	15,792	(0.5)	(6.3)	(15.7)
Nifty	4,751	(0.4)	(6.2)	(15.5)
Global/Regional indices				
Dow Jones	11,123	1.7	(0.1)	(11.9)
Nasdaq Composite	2,507	1.9	1.3	(11.5)
FTSE	5,291	3.7	2.6	(11.9)
Nikkie	8,620	1.1	(1.6)	(14.4)
Hang Seng	17,172	5.7	(14.3)	(23.8)
KOSPI	1,748	2.2	(4.6)	(19.8)
Value traded – India				
Cash (NSE+BSE)	125		134	137
Derivatives (NSE)	963		821	613
Deri. open interest	1,069		1,194	1,070

Forex/money market

		Change, basis points		
	5-Oct	**1-day**	**1-mo**	**3-mo**
Rs/US$	49.3	(1)	318	491
10yr govt bond, %	8.6	3	27	23
Net investment (US$mn)				
	4-Oct		**MTD**	**CYTD**
FIIs	(196)		(355)	(504)
MFs	(19)		(69)	(282)

Top movers -3mo basis

		Change, %		
Best performers	**5-Oct**	**1-day**	**1-mo**	**3-mo**
IDEA IN Equity	94.6	(2.8)	(5.1)	17.0
ACEM IN Equity	149.1	0.2	1.2	15.2
UTCEM IN Equity	1106.0	0.5	(1.0)	12.3
ACC IN Equity	1107.0	0.6	3.8	11.7
MM IN Equity	784.3	1.0	(0.1)	8.2
Worst performers				
IVRC IN Equity	34.9	(0.6)	(22.1)	(52.7)
RCAPT IN Equity	316.0	(2.2)	(26.2)	(47.6)
HDIL IN Equity	90.7	0.9	(16.6)	(45.9)
CRG IN Equity	147.6	2.0	(2.0)	(43.7)
ESOIL IN Equity	74.5	0.9	(21.5)	(41.1)

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INDIA

OCTOBER 05, 2011

NEW RELEASE

BSE-30: 15,792

September 2011 quarter earnings preview. We expect the earnings of the KIE universe to grow 3.5% yoy on an ex-Energy basis, but decline 24.2% yoy on an overall basis; yoy comparisons of financial performance of R&M companies are not meaningful due to fluctuations in timing and in the quantum of compensation/subsidy from the government. We expect the earnings of the Energy and Telecom sectors to decline yoy while the earnings of Cement, Consumers, Industrials and Technology will likely improve yoy. We expect the earnings of the BSE-30 Index to grow 11.7% yoy and 6% qoq. On an ex-Energy basis, we expect the earnings of the BSE-30 Index to grow 4.6% yoy.

We expect earnings of KIE universe to grow by 3.5% yoy on an ex-Energy basis

Sector-wise earnings of Kotak coverage companies

	Sales growth (%)		EBITDAM (%)			PAT growth (%)	
	yoy	qoq	Sep-10	Jun-11	Sep-11 (E)	yoy	qoq
Automobiles	18.0	4.3	14.1	12.7	12.7	(2.7)	1.9
Banking	14.0	3.0	—	—	—	8.5	10.0
Cement	21.4	(10.9)	14.1	26.0	16.0	57.2	(56.4)
Construction	19.1	4.8	9.7	8.8	9.1	(11.8)	89.5
Consumers	20.2	0.8	20.3	18.7	19.7	14.6	8.1
Energy	39.0	7.5	16.3	6.6	6.3	(82.8)	(26.9)
Industrials	14.7	17.5	12.0	10.8	12.3	21.6	31.5
Infrastructure	31.1	(1.3)	35.8	33.6	34.4	25.4	2.1
Media	13.2	2.7	32.2	31.3	31.3	5.4	(5.6)
Metals & Mining	19.5	(4.3)	18.4	23.6	18.0	(1.5)	(38.8)
Others	2.8	(9.9)	12.9	10.1	7.1	(134.9)	(156.0)
Pharmaceuticals	15.3	8.9	20.7	20.5	21.4	15.7	8.5
Property	(2.2)	(3.8)	39.9	40.2	42.5	(8.2)	5.9
Sugar	(9.5)	(9.9)	11.1	18.1	19.8	(159.6)	(94.9)
Technology	21.3	8.8	24.6	23.6	23.8	17.0	4.9
Telecom	11.9	2.7	29.8	29.8	30.4	(69.9)	(31.3)
Utilities	11.0	(7.6)	19.7	24.7	25.3	(0.2)	(13.3)
Kotak coverage	**25.4**	**4.0**	**16.7**	**13.2**	**12.2**	**(24.2)**	**(10.1)**
Kotak coverage ex-Energy	**16.1**	**1.4**	**16.9**	**18.3**	**16.9**	**3.5**	**(8.5)**

Source: Company, Kotak Institutional Equities estimates

Earnings of BSE-30 Index likely to grow by 11.7% yoy on an overall basis

Sector-wise earnings of BSE-30 companies

	Sales growth (%)		EBITDAM (%)			PAT growth (%)	
	yoy	qoq	Sep-10	Jun-11	Sep-11 (E)	yoy	qoq
Automobiles	18.3	4.0	14.0	12.7	12.7	(1.8)	1.9
Banking	19.6	3.7	—	—	—	19.8	34.9
Consumers	15.5	(0.1)	24.1	22.7	24.6	15.9	8.0
Diversified	13.0	5.8	8.3	9.6	9.2	14.1	0.0
Energy	46.7	14.3	27.3	19.9	22.6	32.0	39.6
Industrials	17.5	25.0	14.0	12.6	13.9	11.9	31.6
Metals	18.3	(3.8)	16.8	21.5	16.6	(3.4)	(39.4)
Pharmaceuticals	19.4	10.6	27.7	27.5	28.7	6.2	10.3
Property	(12.0)	(14.8)	39.2	45.4	50.2	(6.7)	2.7
Technology	21.1	8.1	28.0	25.9	26.5	11.9	5.9
Telecom	15.0	3.0	33.7	33.6	34.5	(38.2)	(15.6)
Utilities	6.9	(7.0)	12.9	22.6	22.5	3.5	(10.9)
BSE-30 Index	**25.0**	**6.0**	**20.2**	**19.2**	**19.3**	**11.7**	**6.0**
BSE-30 Index (Ex-Energy)	**17.1**	**2.6**	**17.7**	**19.0**	**17.9**	**4.6**	**(4.1)**

Source: Company, Kotak Institutional Equities estimates

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We expect yoy decline in profits for Energy and Telecom stocks

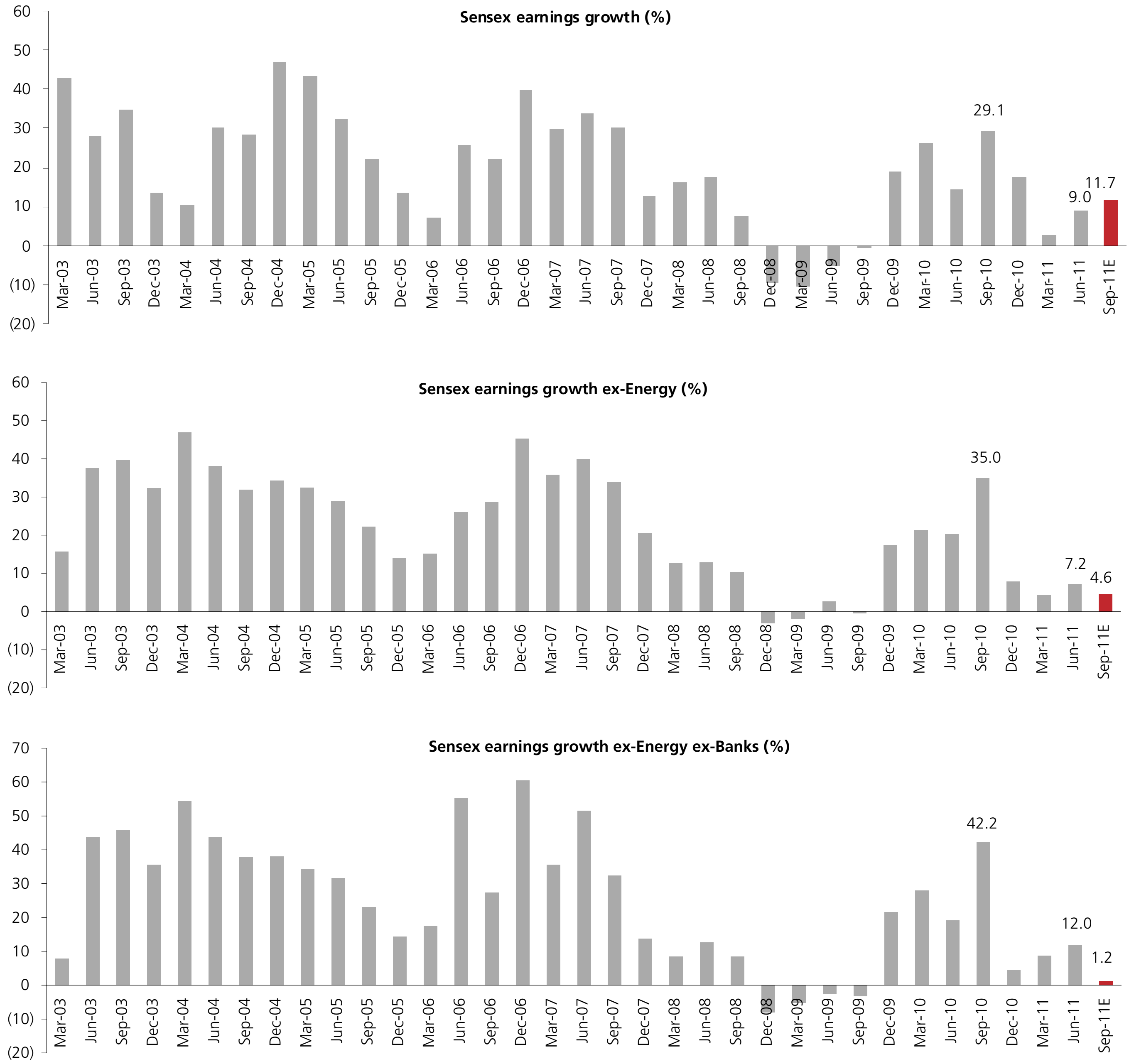
Sector-wise expectations for September 2011 quarter results

	Key points	Key points
Automobiles	We expect a weak quarter for auto companies driven by raw material cost pressures. We estimate revenues to increase by 18% yoy and 4% qoq for companies under our coverage but expect EBITDA margins to decline by 140 bps yoy due to raw material cost pressures and adverse product mix. For our coverage universe we expect adjusted earnings (excluding forex translation losses on foreign debt) to decline by 3% yoy but improve by 2% qoq.	We expect Bajaj Auto, Hero Motocorp, M&M and Bharat Forge to report positive yoy earnings growth while Ashok Leyland, Maruti Suzuki, Tata Motors and Exide Industries are likely to report a decline in earnings. Raw material costs will likely decline from 3QFY12E as current contracts for steel expire (by October) and tyre prices soften with a quarter's lag. Decline in aluminum prices will likely more than offset impact of rise in tyre prices this quarter for Bajaj Auto, Hero Motocorp and Maruti Suzuki.
Banking	We expect banks to deliver 10% yoy earnings growth. Qoq growth will be similar as 1QFY12 saw one-off provisioning pertaining to revised NPL provisioning norms. NII growth to be 12% yoy. Overall NIM to remain flat qoq as banks have taken a disproportionate hike in lending rates while wholesale rates have been stable. Slippages to remain at elevated levels for public banks as they complete the final leg of transition to the stringent NPL platform while private banks would see limited impact. Provisions would remain high on the back of higher specific provisions.	We expect NBFCs to report a stable quarter. NIM to remain flat qoq. Loan growth trends to remain healthy. We see limited deterioration in asset quality in the current quarter. We expect higher forex losses to tamper earnings growth for PFC and REC.
Cement	Our coverage universe will register a 7.7% yoy growth in volumes in 2QFY12E primarily driven by (1) strong volume growth of ACC and Jaiprakash and (2) first signals of a potential demand revival with industry volumes registering a strong 11% and 8% yoy growth in July and August. Cement prices declined by Rs14-15/bag sequentially due to seasonal impact of monsoon months. However, post the weakness witnessed in monsoon (months of July and August), cement prices are already showing signs of revival in several pockets—especially those of West and North India.	We estimate a 38% sequential dip in profitability driven primarily by (1) 6% qoq decline in average realizations on account of pricing weakness in the months of July and August and (2) 4% qoq decline in volumes. We, however, see an abatement of input cost inflation factoring a modest 5% sequential increase in operating costs driven primarily by freight and raw material costs.
Chemicals	Decline in global chemical margins qoq will be negative for the profitability of the chemical segment of Reliance Industries.	
Consumers	We expect good sales growth for staples driven by modest volume growth and high price increases. Discretionary products sales likely benefited from festive season sales. Gross margin pressure will continue on a yoy basis although it will likely ease off sequentially. Savings in adspends will likely help manage EBITDA margins. HUL, ITC, Jubilant Foodworks, Nestle will likely deliver strong results.	We expect 13% yoy sales growth in ITC's cigarette segment, led by mix of pricing and volume growth. We expect HUL to report sales growth of 14% yoy, driven by volume growth of 7%. Increase in material cost will likely be offset by adspends savings and we expect HUL's overall EBITDA margin to be flat on a yoy basis. Asian Paints will likely report ~34% yoy sales growth led by mix of pricing (~15%) and volume growth driven by a low base and festive season sales.
Energy	Upstream oil: ONGC and OIL will likely report a strong yoy increase in revenues and net income due to sharply higher net crude price realizations. We assume that upstream companies will bear 33.33% of the overall subsidy burden. GAIL will likely report a qoq increase in EBITDA due to a lower subsidy burden.	Downstream oil: Performance of R&M companies will depend on contributions from government and upstream companies. We estimate gross under-recoveries of Rs234 bn for the industry for 2QFY12E. We assume nil compensation from the government in 2QFY12E. We expect refining margins for OMCs to improve qoq led by higher tariff protection; this will be partly mitigated by inventory/adventitious losses.
Industrials	Industrials: Order inflows and commentary on investment scenario would be the key factors to focus on. We may see execution slippage as some of the projects slow down based on weak investment scenario as well as structural issues such as coal availability etc. We see risks to margins from higher commodity prices, competition as well as mix changes. Industrial capex activity remains weak and woud reflect in performance of companies such as Thermax, Voltas and Crompton. Continued high competition in the domestic T&D sector would continue to pressure power segment margins. We expect Suzlon to report sales of about 450 MW in this quarter but high interest and depreciation will likely lead to a net loss.	Construction: Existing order backlog to drive moderate revenue growth for IVRCL and Nagarjuna although higher interest expense may impact net profits (expect yoy decline in net profits). Execution of large BOT projects in the backlog to drive revenues of Sadbhav Engineering. Infrastructure: Stronger port volumes to drive revenue growth for MPSEZ and GPPL.
Media	Television: We expect the weak advertising environment to continue on the back of rising interest rates and weak economic environment (and sentiment) in 2QFY12E. However, the advertising uptick characterized by the festival season seems to be coming through. Zee will likely report reduced sports losses. Sun TV will likely report reduced domestic subscription revenues. Dish TV will likely report continued positive operating leverage even as operating metrics (subscriber addition, ARPU and churn) will likely be under pressure.	Print: We expect the weak advertising environment to continue on the back of rising interest rates and weak economic environment (and sentiment) in 2QFY12E. However, >50% of regional print media advertising comes from local advertisers, largely unaffected by economic slowdown and likely to report uptick given the festival season. HT Media will likely report pressure on English print advertising from real estate and BFSI sectors.
Metals	Ferrous: We expect the profitability of steel companies to decline sequentially in 2QFY12E due to lagged impact of increase in coking coal prices. Steel companies may have used higher-priced coking coal during the quarter having exhausted their cheaper coking coal in the previous quarter. We forecast a decline in EBITDA/ton for all steel companies. Tata Steel's profitability is likely to be impacted by weak performance of its European operations where demand still remains subdued. JSW Steel and Sesa Goa's performance would be impacted by the ban on mining iron ore in Karnataka. Besides, this is a seasonally weak quarter for Sesa Goa due to monsoons. Sharp depreciation of Re against US$ will also result in forex losses for players with FCCBs.	Non-ferrous: Performance of all the non-ferrous companies is likely to be affected by the softening of commodity prices during 2QFY12E. LME zinc, aluminum, copper and lead prices have each fallen 2-8% sequentially over the last quarter. STLT's profits will likely decline sequentially on the back of decline in commodity prices. Hindalco's performance is expected to be impacted by bi-annual shutdown in the early part of the quarter at its copper plant and sequential decline in aluminum prices. Sharp depreciation of Re against US$ will also result in forex losses for Sterlite.
Pharmaceuticals	Generics: We expect a muted quarter for generics in general with the exception of certain companies such as (1) Cipla driven by export sales and (2) Lupin and Glenmark, driven by India sales growth and one-time licensing fees from Medicis and Sanofi, respectively. We expect Ranbaxy's results to be subdued due to large MTM losses on forex loans and outstanding derivatives position. We expect Cipla, Cadila and DRL to report poor India sales growth.	CMO/CROs: We expect muted results for Jubilant, Dishman, Biocon. We expect Divis to report 30% PAT growth due to low base last year. We expect Jubilant and Dishman to report yoy PAT decline. We expect Jubilant's results to be offset by large MTM losses on its huge forex loans.
Property	For 2QFY12E, we expect varied growth trends depending on launches and sales in 2HFY11 and 1HFY12E. Overall, we expect real estate companies to have a subdued-to-moderate growth in 2QFY12E due to (1) marginally weaker-than-expected launches over the past four quarters, (2) lower-than-expected execution and (3) increase in interest rates, which will impact demand. Demand is worst hit in Mumbai while Bengaluru remains the most resilient market.	Demand for India-wide office space/commercial property has bounced back post a dip in CY2009 and is expected to grow a further 20% in CY2011E. However, with supply continuing to outstrip demand, we believe it is unlikely that lease rates will appreciate meaningfully. A slowdown in SEZ supply (28% of potential supply to CY2013E) due to tax uncertainty could result in a potential favorable impact on demand-supply balance.
Technology	We expect robust sequential volume growth (4-7%) for most players in the industry barring Wipro among the Tier-Is and Mphasis/Tech Mahindra among the Tier-II names. We see TCS and Cognizant once again leading the Tier-I pack on volume growth with Infosys and HCLT also reporting robust numbers. Wipro is likely to lag although on expected lines. Among Tier-IIs, we expect MindTree and Satyam to lead the pack. Adverse cross-currency movements will hit reported US$ revenue growth by 50-80 bps across companies. Overall, we expect 3.5-6% US$ revenue growth across Tier-I names and 0.5-6.5% growth across Tier-IIs.	Margin expansion would primarily be led by benefits from sharp Re depreciation during the quarter (3-4% across companies, difference being on account of cash-flow hedging for some companies and also different average spot computation methodologies). Among the Tier-I names, we expect Infosys and TCS to report strong margin expansion; we build in 140 bps and 90 bps qoq improvement, respectively. HCLT faces wage hike headwinds and so does Wipro (two-month impact). We also note that Wipro benefits only marginally from Re depreciation on account of its cash-flow hedges at lower levels. We build in 140 bps qoq decline in Wipro's global IT margins and 120 bps decline for HCLT.
Telecom	We expect a weak quarter for the Indian wireless players. September is typically a weak quarter for wireless volume growth and 2QFY12E is unlikely to be any different. In addition, sharp Re depreciation during the quarter is likely to result in substantial forex losses, especially for Bharti. We do note that it is a tad early to assess the impact of recent tariff hikes on volume or realization given (1) the hike was implemented for new subs to begin with; extant subs will move to revised base tariffs gradually, and (2) Setpember quarter seasonality will make it difficult to isolate the impact of price increases on volumes.	We expect the Indian wireless companies to post 2-3% consolidated revenue growth qoq, with volumes registering a muted 0.9-2.5% growth in a seasonally weak quarter. RPMs are expected to be marginally up at 0.5-0.7% over 1QFY12, even though it is too early to assess the impact of the recent tariff hikes. Forex impact of the sharp depreciation in Re versus the US$ in 2QFY12 will exacerbate the impact of weak operational results, driving sharp decline in net income for both Bharti and Idea. We expect incremental forex losses of Rs6.3 bn for Bharti and Rs400 mn for Idea.
Utilities	Expect merchant tariffs to remain subdued due to monsoons and players with significant merchant exposure such as JSW Energy, JSPL, Adani Power and Lanco Infratech will likely take a hit on their realizations.	Seasonally strong quarter for NHPC (hydro generation). Generation growth remains subdued for NTPC despite capacity addition on account of lower demand from SEBs during monsoons and strong hydro generation. Revenues to decline for Mumbai distribution utilities (Reliance Infrastructure and Tata Power) on account of lower demand in 2QFY12.

Source: Kotak Institutional Equities estimates

Exhibit 1: We expect earnings of BSE-30 Index to grow by 11.7% yoy in 2QFY12E

Earnings growth of BSE-30 Index (%)



Source: Kotak Institutional Equities estimates

kotak Institutional Equities

Bharat Petroleum (BPCL)

Energy

ADD

OCTOBER 05, 2011

UPDATE

Coverage view: Attractive

Price (Rs): 670

Target price (Rs): 780

BSE-30: 15,792

E&P to hedge R&M. We are encouraged by the announcement of potential gas resources of over 10 tcf in Area 1, Mozambique, wherein BPCL holds a 10% stake. We highlight that Anadarko (operator of the block) is contemplating an option of two 5 mtpa trains for the LNG project to commercialize the gas discoveries. We believe visibility on the development of BPCL's E&P discoveries will likely boost sentiment for the stock which has been muted on account of a lack of clarity on the subsidy-sharing arrangement. We maintain our ADD rating on the stock with a target price of ₹780; we do not ascribe any value to BPCL's E&P portfolio at the current juncture.

Company data and valuation summary

Bharat Petroleum

Stock data				Forecasts/Valuations	2011	2012E	2013E
52-week range (Rs) (high,low)			797-529	EPS (Rs)	38.9	54.0	55.1
Market Cap. (Rs bn)			242.1	EPS growth (%)	(32.5)	38.9	1.9
Shareholding pattern (%)				P/E (X)	17.2	12.4	12.2
Promoters			54.9	Sales (Rs bn)	1,508.4	1,881.4	1,780.8
FIIs			6.7	Net profits (Rs bn)	14.1	19.5	19.9
MFs			9.6	EBITDA (Rs bn)	32.7	46.7	47.0
Price performance (%)	1M	3M	12M	EV/EBITDA (X)	10.9	7.7	7.3
Absolute	0.7	1.6	(12.4)	ROE (%)	9.2	11.8	11.2
Rel. to BSE-30	6.6	20.6	13.1	Div. Yield (%)	2.1	2.6	2.7

QUICK NUMBERS

- 10 tcf of recoverable natural gas resources in Area 1, Mozambique
- 16% potential upside from current levels

Contiguity of discoveries indicates more than 10 tcf of resource potential

An Anadarko-led consortium with BPCL as a 10% partner has announced a new gas discovery (Camarao) in Area 1, which has more than 380 feet of net gas pay, including 140 feet of net gas pay in shallower Miocene and Oligocene sand packages which was not encountered in the previous wells. Anadarko has also confirmed the static pressure connectivity of Camarao discovery with Windjammer and Lagosta discoveries. We note that the Camarao well is (1) 5 miles south of the Windjammer discovery having more than 555 feet of net gas pay and (2) 10 miles north of the Lagosta discovery having more than 550 feet of net gas pay (see Exhibit 1). The operator has indicated a recoverable resource potential of more than 10 tcf of natural gas in the Windjammer, Barquentine, Lagosta and Camarao complex.

10 mtpa LNG project to commercialize gas discoveries

We are encouraged by Anadarko's recent press release, which highlights the possibility of building two 5 mtpa trains for the proposed LNG terminal to commercialize the gas discoveries. We note that LNG is the only viable option to evacuate the gas given (1) low demand potential in Mozambique and (2) limited infrastructure to evacuate gas to South Africa. However, resource potential of over 10 tcf from the block would make LNG a viable option. Anadarko expects to commence gas production from Area 1 in Mozambique by CY2018 and plans to move second drillship to Rovuma basin to drill seven exploration/appraisal wells over the next 12 months.

BPCL's E&P portfolio could be meaningful

Exhibit 2 details the discoveries in BPCL's E&P assets. Preliminary estimates put gross resource potential of over 300 mn bbls of oil in BM-C-30 block in the Campos basin in Brazil (BPCL's stake: 12.5%) and over 10 tcf of gas in Area 1 in the Rovuma basin in Mozambique (BPCL's stake: 10%). We would await development plans before ascribing any value to BPCL's E&P assets. However, the value of the E&P portfolio could be meaningful in the context of BPCL's current market capitalization of US$4.9 bn. We note that BPCL has also reported new oil and gas discoveries at (1) Nunukan PSC in Indonesia and (2) BM-SEAL-11 block in Brazil, over the past year.

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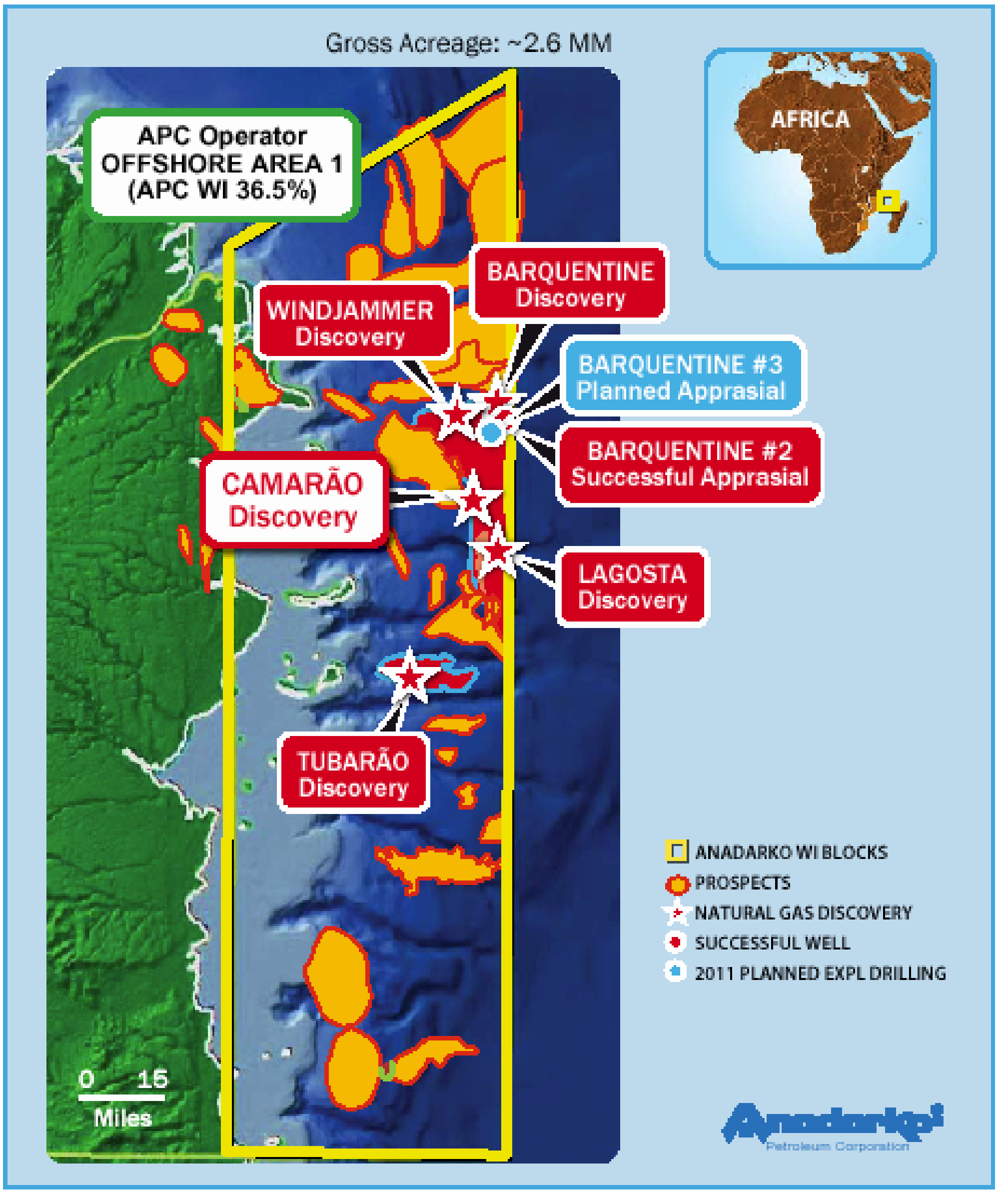
Discoveries in Area 1, Mozambique



Source: Company, Kotak Institutional Equities

BPCL has reported spate of discoveries in the recent years
Details of BPCL's discoveries

Block	BPCL's stake (%)	Discovery	Discovery details	Resource	Consortium
BM-C-30, Campos basin, Brazil	12.5	Oil (Oct-2008)	>195 ft of net oil pay	Estimated gross resource potential >300 mn bbls	Anadarko (30%), Devon Energy (25%), SK Energy (20%), Videocon (12.5%)
		Oil (Nov-2009)	>90 ft of net oil pay		
Area 1, Rovuma basin, Mozambique	10	Gas (Feb-2010)	>555 ft of net gas pay	Estimated gross resource potential >10 tcf	Anadarko (36.5%), Cove Energy (8.5%), Mitsui (20%), Videocon (10%), ENH (15%)
		Gas (Oct-2010)	>416 ft of net gas pay		
		Gas (Nov-2010)	>550 ft of net gas pay		
		Gas (Feb-2011)	>110 ft of net gas pay		
		Gas (Aug-2011)	>230 ft of net gas pay		
		Gas (Oct-2011)	>380 ft of net gas pay		
Nunukan PSC, Indosnesia	12.5	Oil & gas (Oct-2010)	>133 ft of net oil & gas pay		Anadarko (35%), PT Medco E&P (40%), Videocon (12.5%)
BM-SEAL-11, Brazil	20	Oil & gas (Sep-2011)			Petrobras (60%), Videocon (20%)

Source: Company, Kotak Institutional Equities

Fair valuation of BPCL (₹)

Valuation based on P/E multiple	
Profit after tax (Rs mn)	19,905
Less: income from investments valued separately (Rs mn)	1,793
Adjusted profit after tax (Rs mn)	18,112
Adjusted EPS	50
P/E multiple (X)	10
Fair value on P/E (without value of investments) (A)	**501**
Add: Value of investments (Rs mn)	100,636
KRL treasury shares	*26,308*
Numaligarh	*13,606*
Indraprastha Gas	*10,962*
Oil India Ltd	*9,363*
Petronet LNG	*9,375*
Other equity	*31,022*
Value of investments (Rs) (B)	**278**
Total equity value (A) + (B)	**779**
Current stock price	670
Potential upside (%)	**16**

Source: Company, Kotak Institutional Equities estimates

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

	2007	2008	2009	2010	2011	2012E	2013E	2014E
Profit model (Rs mn)								
Net sales	965,569	1,102,081	1,340,734	1,202,170	1,508,382	1,881,380	1,780,793	1,765,678
EBITDA	**35,362**	**28,472**	**27,507**	**32,635**	**32,737**	**46,680**	**47,042**	**50,029**
Other income	7,332	13,954	15,087	22,402	17,550	14,125	12,794	11,468
Interest	(4,774)	(6,725)	(22,699)	(10,110)	(11,008)	(12,894)	(11,083)	(8,351)
Depreciation	(9,041)	(10,982)	(10,755)	(12,423)	(16,554)	(18,991)	(19,287)	(20,325)
Pretax profits	28,879	24,719	9,141	32,505	22,724	28,920	29,466	32,821
Extraordinary items	(68)	—	—	(8,290)	1,503	—	—	—
Tax	(9,286)	(9,059)	(5,103)	(11,317)	(7,177)	(9,585)	(9,221)	(9,949)
Deferred taxation	(268)	(1,108)	2,421	3,033	(1,482)	202	(339)	(700)
Adjusted net profits	**18,100**	**15,806**	**6,324**	**20,830**	**14,602**	**19,537**	**19,905**	**22,172**
Earnings per share (Rs)	**50.1**	**43.7**	**17.5**	**57.6**	**40.4**	**54.0**	**55.1**	**61.3**
Balance sheet (Rs mn)								
Total equity	102,735	116,768	121,281	130,867	140,576	152,682	165,017	178,756
Deferred taxation liability	13,826	14,814	12,392	8,593	10,075	9,873	10,212	10,912
Total borrowings	108,292	150,224	211,714	221,952	189,719	171,719	138,219	104,638
Currrent liabilities	112,767	145,803	128,313	171,312	219,583	242,031	237,809	236,826
Total liabilities and equity	**337,620**	**427,608**	**473,701**	**532,724**	**559,954**	**576,305**	**551,257**	**531,132**
Cash	8,640	9,616	4,416	3,424	3,800	4,372	4,989	5,515
Current assets	127,698	187,457	148,469	232,416	272,259	301,462	289,758	285,940
Goodwill	—	—	—	—	—	—	—	—
Total fixed assets	118,334	127,354	140,033	161,871	170,116	176,691	182,729	185,897
Investments	82,949	103,182	180,784	135,013	113,780	93,780	73,780	53,780
Total assets	**337,621**	**427,608**	**473,701**	**532,724**	**559,954**	**576,305**	**551,257**	**531,132**
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	29,920	22,988	19,717	22,972	16,688	23,230	25,774	31,289
Working capital	11,451	(25,161)	20,585	(48,542)	14,758	(10,377)	9,967	2,835
Capital expenditure	(17,908)	(20,665)	(23,323)	(33,698)	(24,813)	(24,596)	(24,361)	(23,053)
Investments	(45,481)	(21,684)	(82,456)	35,270	20,872	20,000	20,000	20,000
Other income	4,337	6,434	6,655	13,694	10,146	17,747	10,309	11,468
Free cash flow	**(17,682)**	**(38,088)**	**(58,822)**	**(10,304)**	**37,651**	**26,003**	**41,688**	**42,540**
Ratios (%)								
Debt/equity	105.4	128.7	174.6	169.6	135.0	112.5	83.8	58.5
Net debt/equity	97.0	120.4	170.9	167.0	132.3	109.6	80.7	55.5
RoAE	16.3	12.7	4.8	11.3	10.7	12.5	11.8	12.2
RoACE	**10.9**	**7.3**	**7.2**	**7.9**	**6.2**	**8.4**	**8.5**	**9.2**
Key assumptions (standalone until FY2005)								
Crude throughput (mn tons)	19.8	20.9	20.0	20.4	21.8	22.1	22.7	22.7
Effective tariff protection (%)	1.6	1.4	2.4	2.2	0.7	1.8	2.2	2.2
Net refining margin (US$/bbl)	3.2	5.6	5.2	2.9	4.5	4.3	4.6	4.9
Sales volume (mn tons)	24.5	26.7	27.8	29.5	31.3	32.4	33.8	35.5
Marketing margin (Rs/ton)	(1,140)	(3,010)	(5,944)	573	(1,933)	(3,856)	(196)	724
Subsidy under-recoveries (Rs mn)	(10,400)	(33,354)	2,728	(12,375)	(15,841)	(17,246)	(16,803)	(16,725)

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Tata Communications (TCOM)

Telecom

REDUCE

OCTOBER 05, 2011

UPDATE

Coverage view: Neutral

Price (Rs): 179

Target price (Rs): 180

BSE-30: 15,792

Difficult to build an upside case despite recent correction. We do not see near-term upside to any of three value drivers of TCOM stock – (1) surplus land monetization remains in limbo, (2) TTSL's financial performance and outlook remain weak, and (3) core business faces increasingly challenging global macro environment. We introduce our consolidated estimates for FY2012-14E and reduce our SOTP-based target price to Rs180/share from Rs205 earlier. Reiterate REDUCE.

Company data and valuation summary

Tata Communications

Stock data			
52-week range (Rs) (high,low)			343-170
Market Cap. (Rs bn)			51.0
Shareholding pattern (%)			
Promoters			76.2
FIIs			8.4
MFs			0.6
Price performance (%)	1M	3M	12M
Absolute	(11.4)	(18.5)	(44.5)
Rel. to BSE-30	(6.2)	(3.3)	(28.3)

Forecasts/Valuations	2011	2012E	2013E
EPS (Rs)	(24.9)	(28.8)	(34.0)
EPS growth (%)	(13.0)	15.6	18.1
P/E (X)	(7.2)	(6.2)	(5.3)
Sales (Rs bn)	119.3	142.8	150.8
Net profits (Rs bn)	(7.1)	(8.2)	(9.7)
EBITDA (Rs bn)	12.3	14.6	15.3
EV/EBITDA (X)	10.4	9.1	9.0
ROE (%)	(17.5)	(27.0)	(50.2)
Div. Yield (%)	0.0	0.0	0.0

Core business faces global economic slowdown challenges; balance sheet stretched

TCOM's core business (wholesale voice and data services to global carriers and enterprises) prospects are highly sensitive to the health of the global economy. A recession or slowdown could lead to a sharp slowdown in global voice volume growth and also exacerbate the already prevalent pricing pressure in the voice business. The company's data revenue growth, a bright spot in recent years, could get hit as well. Our estimates and those of the Street face downside risks should such a recessionary scenario materialize.

Potential P&L headwinds could further pressure the company's already stretched balance sheet. TCOM ended FY2011 with a net debt of Rs76.6 bn, implying a net debt/ TTM EBITDA ratio of 6.3X. We note that the company has since taken a stake in its South African investee company Neotel to >50%. Full consolidation of loss-making (at the EBITDA level) and highly leveraged Neotel dents leverage ratios even further.

Do not see upside risks to other drivers, surplus land and TTSL stake, either

Core business valuation forms only about 20% of our SOTP valuation for TCOM. The balance 80% comes from the company's stake in TTSL (22%) and surplus real estate assets (58%). We present our SOTP-based fair valuation for the company in Exhibit 1. Our SOTP break up is –

- Core business valued at Rs35/share – based on 6X FY2013E estimated consolidated EBITDA of Rs15.3 bn less net debt of Rs82 bn
- 9% stake in TTSL (post the recent rights issue) valued at Rs39/share (no holdco discount)
- Surplus land assets valued at Rs105/share – at 50% discount to the fair value

Introduce consolidated estimates

We have incorporated the full consolidation of Neotel into our estimates. Exhibit 3 gives our condensed consolidated financial forecasts for TCOM.

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Exhibit 1: Our sum-of-the-parts FY2013E target price for TCOM is Rs180/share

	Estimated value		Value in SOTP		
	(Rs bn)	(Rs/share)	(Rs bn)	(Rs/share)	Comments
1. Core business					
Enterprise value (EV)	92	323	92	323	Based on 6X EV/EBITDA multiple on FY2013E EBITDA
Net cash/(debt)	(82)	(288)	(82)	(288)	
Equity value	**10**	**35**	**10**	**35**	
2. Investments					
TATA Teleservices (TTSL)	11	39	11	39	9% stake at Rs125 bn equity value
Total	**11**	**39**	**11**	**39**	
3. Others					
Surplus real estate	60	210	30	105	50% of estimated market value of surplus land
Total	**60**	**210**	**30**	**105**	
Grand total [1]+[2]+[3]	**81**	**285**	**51**	**180**	**12-month forward target price is Rs180/share**

Source: Kotak Institutional Equities estimates

Exhibit 2: Sensitivity of TCOM fair value estimate to land valuation and % net realization

	Rs/share	Land value (Rs bn)				
		50	**55**	**60**	**65**	**70**
% monetization (net of taxes, and adjusted for time value)	**50**	162	171	**180**	189	197
	55	171	181	190	200	210
	60	180	190	201	211	222
	65	189	200	211	223	234
	70	197	210	222	234	247

Source: Kotak Institutional Equities estimates

Exhibit 3: Condensed consolidated financials for TATA Communications, March fiscal year ends, 2010-2017E (Rs mn)

	2010	2011	2012E	2013E	2014E	2015E	2016E	2017E
Profit and loss statement								
Revenues	110,256	119,320	142,810	150,815	167,552	184,292	200,643	216,182
EBITDA	10,124	12,253	14,643	15,344	18,870	22,877	26,811	30,480
EBIT	(4,984)	(3,230)	(2,901)	(3,544)	(864)	2,261	5,293	8,060
PBT	(8,995)	(6,396)	(10,006)	(10,686)	(8,357)	(5,312)	(2,156)	940
Recurring PAT	(7,571)	(6,308)	(11,006)	(11,220)	(8,775)	(5,578)	(2,264)	940
PAT after extraordinaries	(5,388)	(6,979)	(11,006)	(11,220)	(8,775)	(5,578)	(2,264)	940
Reported PAT	(5,977)	(7,769)	(8,206)	(9,695)	(7,550)	(4,653)	(1,639)	1,265
Reported EPS (Rs/share)	**(21.0)**	**(27.3)**	**(28.8)**	**(34.0)**	**(26.5)**	**(16.3)**	**(5.7)**	**4.4**
Balance sheet								
Total Equity	45,349	35,918	24,912	13,692	4,918	(660)	(2,924)	(1,984)
Borrowings	73,144	84,722	89,722	94,722	97,722	97,722	95,722	90,722
Other liabilities	77,270	77,109	90,960	95,741	105,887	115,966	125,737	134,938
Total equity and liabilities	**195,763**	**197,749**	**205,594**	**204,155**	**208,526**	**213,028**	**218,535**	**223,676**
Net fixed assets	120,745	123,155	119,892	115,935	112,621	109,881	107,625	105,743
Net intangibles	559	786	786	786	786	786	786	786
Cash and equivalents	7,360	8,131	7,696	6,979	8,258	9,002	10,318	11,100
Other assets	67,100	65,677	77,220	80,455	86,860	93,358	99,806	106,047
Total assets	**195,763**	**197,749**	**205,594**	**204,155**	**208,526**	**213,028**	**218,535**	**223,676**
Cash flow statement								
Operating cash flow	20,479	12,312	15,950	16,356	22,193	26,193	30,025	33,441
Capex	(27,738)	(17,100)	(14,281)	(14,931)	(16,420)	(17,876)	(19,262)	(20,537)
Free cash flow	**(7,259)**	**(4,788)**	**1,669**	**1,425**	**5,773**	**8,317**	**10,764**	**12,904**
Acquisitions	(435)	(575)	-	-	-	-	-	-
Borrowings	6,004	11,578	5,000	5,000	3,000	-	(2,000)	(5,000)
Others	(4,229)	(1,837)	(6,192)	(7,142)	(7,493)	(7,573)	(7,449)	(7,121)
Total change in cash balances	**(5,918)**	**4,378**	**477**	**(717)**	**1,279**	**744**	**1,315**	**783**

Source: Kotak Institutional Equities estimates

Apollo Tyres (APTY)
Automobiles

BUY

OCTOBER 07, 2011

UPDATE

Coverage view: Cautious

Price (Rs): 53

Target price (Rs): 85

BSE-30: 15,792

Positives from policy changes in the Chinese tire industry . China's Ministry of Industry and Information Technology announced a new policy for the tire industry in the beginning of this year (CY2011), with the stated aim of preventing overcapacity in the industry. Key features : (1) Permission for new capacity only for large projects; no new building permits before 2012, (2) sets forth requirements for modern tire materials, environmental constraints and waste tire disposal, and, (3) No tires to be sold without appropriate certification. The policy if followed in letter and spirit could dramatically change the Chinese tire industry (truck/bus tire segment) and in the long term curtail exports of low priced/low quality tires, thereby improving prospects for the Indian tire industry.

Company data and valuation summary

Apollo Tyres

Stock data			
52-week range (Rs) (high,low)			86-44
Market Cap. (Rs bn)			26.6
Shareholding pattern (%)			
Promoters			44.3
FIIs			26.7
MFs			8.9
Price performance (%)	**1M**	**3M**	**12M**
Absolute	(16.0)	(33.6)	(35.9)
Rel. to BSE-30	(10.4)	(21.3)	(16.6)

Forecasts/Valuations	2011	2012E	2013E
EPS (Rs)	8.7	7.7	9.6
EPS growth (%)	(26.1)	(11.7)	24.3
P/E (X)	6.0	6.8	5.5
Sales (Rs bn)	88.7	105.8	115.8
Net profits (Rs bn)	4.4	3.9	4.8
EBITDA (Rs bn)	9.8	11.2	12.9
EV/EBITDA (X)	5.1	4.3	3.8
ROE (%)	20.1	15.0	16.1
Div. Yield (%)	0.9	0.8	1.0

New tire industry policy of Chinese government – main features

The Chinese Ministry of Industry and Information Technology published a strategic policy document in the beginning of CY2011, the aim of which is to prevent overcapacity in the Chinese tire industry, making the industry more efficient and more quality conscious. We highlight the main features:

- The Chinese government will not issue building permits for creating new tire capacities till 2012. Thereafter, permission would be given only to large projects which are defined as: any project with capacity greater than 6 mn units per annum in the passenger car segment and a capacity of more than 1.2 mn units per annum in the truck/bus tire segment
- Accelerate the adoption of international standards in both new tires and the retreading sector. To support this, the government aims to establish a national testing and evaluation center
- Any tires exported from China must exceed the quality requirements of the destination market and meet any relevant national standards and regulations
- All new China-based projects must use energy saving equipment. For example: the document specifies large capacity internal mixers as opposed to open mills. Also, the curing process needs to be nitrogen powered. Also, there are limits on energy and water consumption in new factories. All existing factories must meet these restrictions by 2012.
- All tires must be certified as meeting minimum standards and no tires would be sold without proper certification. A system of certification and approval will be introduced to ensure the effective use of retreaded tires in China.

The new policy insists on an effective plan for the disposal of reject/used tires. It calls for tire makers to participate in this process and develop means of recycling used tires.

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Implications for tire companies in China

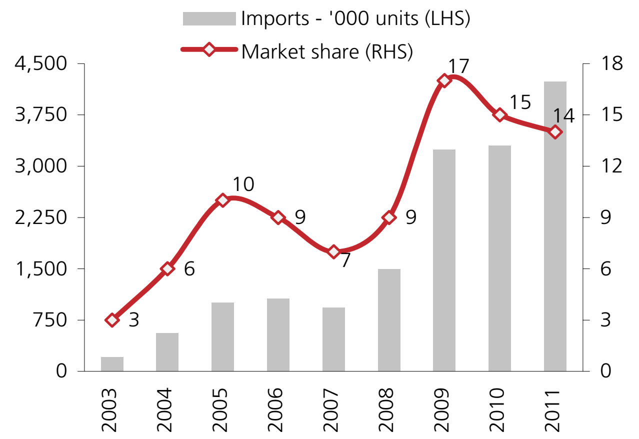
As per our discussion with the industry, Chinese companies are able to manufacture tires (mostly truck/bus radials) at a much lower costs compared to Indian companies. In addition to the export incentives provided by the government, other reasons for the competiveness are:

- Chinese manufactured tires score lower on quality parameters compared to similar tires manufactured by Indian companies. Our view has been reinforced by our conversations with various Indian truck operators who don't use Chinese tires (despite of them being available at discounts of ~40% after paying anti-dumping duties) on their trucks operating on long routes on account of the fear of tires bursting mid-way (which means substantial loss for them).
- News articles suggest that Chinese tire companies engaged in the manufacturing of truck/bus radials might not be adhering to quality norms. We would like to highlight the recent case of tire recalls in China by Kumho tires. On March 15, 2011 China Central Television (CCTV) revealed shoddy production processes at the company which was found to be using excess amounts of recycled rubber that could lead to safety problems. As a result, the company has lost a considerable market share in the Chinese market. For more on this, do go to http://www.globaltimes.cn/NEWS/tabid/99/ID/673967/Kumho-under-fire-again.aspx

We strongly believe that it is the lack of adherence to quality norms that allows China's companies to manufacture cheaper tires. The new norms therefore underpin our confidence:

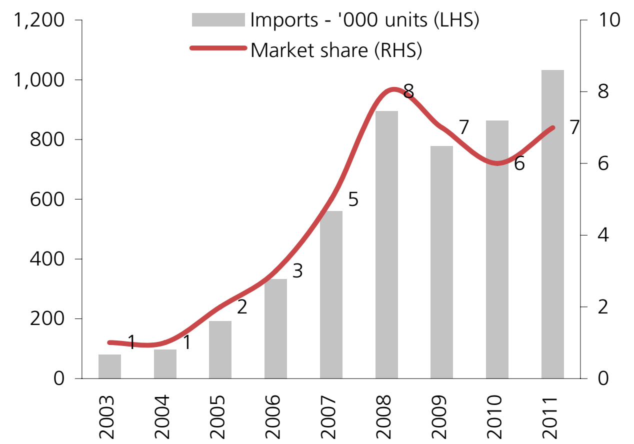
- The pricing of passenger radials (PCRs) in the Chinese replacement market is almost at par (or a little discount) with that in developed markets. Had it been possible to manufacture tires cheaper in China, the passenger car market would have been at a substantial discount to the developed markets, which is not the case.
- Imports of Chinese passenger car radials have not been able to increase market share in the domestic market despite the absence of anti dumping duties on the same. Also, most of the imports of passenger radials are done by global majors (Michelin, Bridgestone etc) who sell at a premium/parity to domestic prices.

Imports haven't been able to increase market share in the domestic market in the past three years despite there being no anti-dumping duties
Trend in imports in the domestic PCR market, March fiscal year-ends. 2003-2011



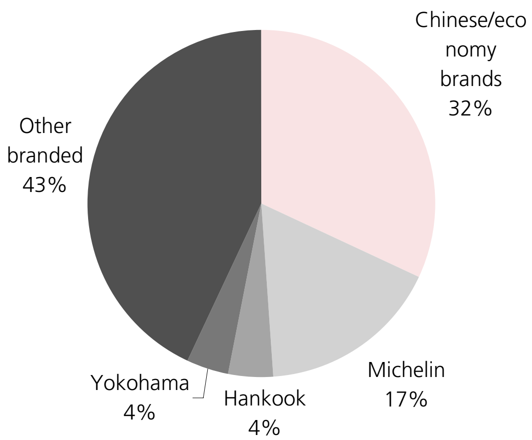
Source: Company, Kotak Institutional Equities

Imports haven't been able to gain market share in the domestic market in the past three years
Trends in imports in the domestic TBR market, March fiscal year-ends, 2003-2011



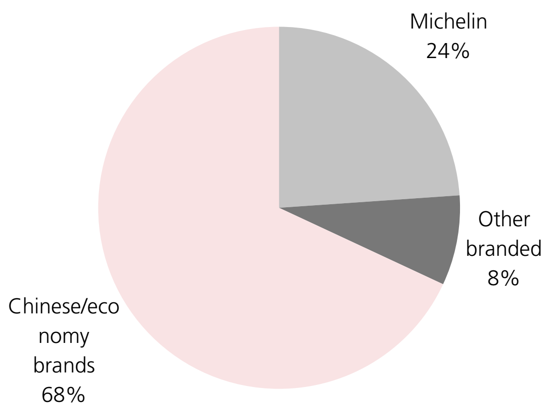
Source: Company, Kotak Institutional Equities

Most of the imports in the PCR segment are from global companies which sell at a parity/premium to domestic price
Break-up of imports in PCRs for FY2011 (%)



Source: Company, Kotak Institutional Equities

Chinese/economy brands which sell cheaper than the Indian brands form 68% of imports in TBRs
Break-up of imports in TBRs in FY2011 (%)



Source: Company, Kotak Institutional Equities

In case, the above government policy is implemented in letter and spirit it could mean a substantial increase in the manufacturing cost of truck and bus radials (TBRs) as the companies would need to adhere to quality and environment norms specified by the government.

Implications for tire companies in India

Chinese imports in TBRs have the potential to be a cause of worry for the domestic industry, particularly in light of a recent decision by the Customs, Excise and Service Tax Apellate Tribunal to remove anti dumping duty on Chinese tires. Even though final approval from the finance ministry is awaited, this is a worry for the industry.

If the policy proposed by the Chinese government is implemented; it might not be possible for Chinese companies to export TBRs at a substantial discount to the domestic prices (discounts will shrink substantially). We are unable to comment on the status of implementation of the above policy due to a lack of data though the new articles suggest that the Chinese government is serious on the implementation front.

Implementation would be gradual

We are not suggesting an immediate shift in the Chinese tire industry. The implications that we have highlighted above could unfold in the next five years and have the potential to change the dynamics of the tire industry in China, particularly in the product segment of TBRs. If the policy is able to achieve its stated aims, it could also prove to be positive in the longer term for the Indian tire industry -- the price of imported tires from China would increase in the long term as Chinese companies try to confirm with the new quality and environment norms.

Summary financials: Apollo Tyres
Profit and loss statement, balance sheet and cash flow model for Apollo Tyres, consolidated, March fiscal year-ends, 2007-14E

	2008	2009	2010	2011	2012E	2013E	2014E
Profit model (Rs mn)							
Net Sales	46,912	49,841	81,207	88,677	105,785	115,812	126,209
EBITDA	**5,924**	**4,161**	**11,749**	**9,780**	**11,201**	**12,924**	**14,181**
Other income	212	230	214	263	270	260	355
Interest	(785)	(973)	(1,154)	(1,852)	(2,480)	(2,430)	(2,330)
Depreciation	(1,299)	(1,285)	(2,542)	(2,719)	(3,185)	(3,534)	(3,774)
Profit before tax	**4,053**	**2,134**	**8,266**	**5,471**	**5,806**	**7,219**	**8,432**
Tax expense	(1,356)	(742)	(2,607)	(1,063)	(1,916)	(2,382)	(2,783)
Exceptional items	—	—	874	—	—	—	—
PAT	**2,697**	**1,392**	**6,534**	**4,408**	**3,890**	**4,837**	**5,650**
EPS	5.4	2.8	13.0	8.7	7.7	9.6	11.2
Balance sheet (Rs mn)							
Equity	11,825	13,496	19,678	24,125	27,757	32,273	37,547
Total borrowings	6,461	8,907	17,072	24,802	24,802	23,802	22,802
Deferred tax liability/minority interest	1,756	1,942	2,514	3,170	3,170	3,170	3,170
Current liabilities	8,035	6,999	15,459	21,131	20,760	22,334	23,955
Total liabilites	**28,077**	**31,345**	**54,723**	**73,228**	**76,490**	**81,579**	**87,474**
Net fixed assets	13,001	16,833	29,786	38,971	43,786	48,252	47,478
Goodwill	215	235	1,175	1,250	1,250	1,250	1,250
Investments	52	48	59	112	112	112	112
Cash	2,847	3,621	3,490	1,909	3,333	1,575	5,679
Other current assets	11,963	10,609	20,214	30,987	28,009	30,391	32,955
Total assets	**28,077**	**31,345**	**54,723**	**73,228**	**76,490**	**81,579**	**87,474**
Free cash flow (Rs mn)							
Operating cash flow	4,441	2,668	9,860	7,553	6,805	8,111	9,069
Working capital changes	(916)	467	1,992	(5,192)	2,683	(808)	(944)
Capital expenditure	(1,400)	(5,412)	(12,177)	(10,958)	(8,000)	(8,000)	(3,000)
Free cash flow	**2,125**	**(2,277)**	**(324)**	**(8,596)**	**1,488**	**(697)**	**5,125**
Ratios							
EBITDA margin (%)	12.6	8.3	14.5	11.0	10.6	11.2	11.2
Net debt/equity (X)	0.31	0.39	0.69	0.95	0.77	0.69	0.46
Book value (Rs/share)	23.5	26.8	39.0	47.9	55.1	64.0	74.5
ROAE (%)	25.5	11.0	39.4	20.1	15.0	16.1	16.2
ROACE (%)	15.7	8.5	19.8	12.5	10.0	10.9	11.4

Source: Kotak Institutional Equities

kotak Institutional Equities

Metals & Mining

India

ATTRACTIVE

OCTOBER 05, 2011

UPDATE

BSE-30: 15,792

2QFY12E to be a weak quarter. We expect a weak quarter for all steel companies as the lag impact of increase in raw material costs will eat into profitability. Performance of non-ferrous companies will also be impacted sequentially by softening of commodity prices. Besides sharp depreciation of the Re against the US$ will result in losses for companies with unhedged forex loans. We expect 8-75% qoq decline in earnings for various companies in our coverage. We are still cautious on the space though non-ferrous stocks appear to have reached distressed levels. Sterlite and Tata Steel are our top BUY ideas.

EBITDA/tonne sequential decline for all steel names

We expect a weak quarter for all steel companies as the lag impact of increase in raw material costs will eat into profitability. Note that contract coking coal prices increased to US$330/tonne for the June quarter (from US$225 in the March quarter); full impact of this increase will be felt in the September quarter. Steel prices have increased marginally in 2QFY12. As a result, we expect sequential contraction in EBITDA margin. Steel deliveries volumes will show a modest growth on a yoy basis and will be flattish on a quarterly basis.

We expect Tata Steel's domestic operations to continue to be robust and factor in an EBITDA of US$382/tonne while European operations will continue to disappoint as weak demand and global uncertainty plays spoilsport. We expect JSW to report EBITDA of US$130 (down 28.7% sequentially) as the impact of the mining ban in Karnataka led to a spike in input costs.

Softening of commodity prices to impact profitability of non-ferrous companies

We expect the performance of non-ferrous companies to be impacted by sequential decline in commodity prices. LME zinc, lead and aluminium prices have each declined by around 2-8% sequentially. Hindalco's operating profit will likely decline qoq owing to decline in commodity prices, input cost escalation and bi-annual shutdown of the copper plant towards the start of the quarter. Sterlite's earnings will also decline sequentially on weakness in zinc and aluminium prices.

Losses on unhedged forex exposure to hurt net income of all but HZ and Nalco

The sharp depreciation of the Rupee versus the US Dollar will result in forex losses for most of the companies in the sector. Rupee has depreciated by 9% from the previous quarter end rate of Rs44.6. While most companies hedge overseas borrowings, FCCBs and other convertibles are unhedged. Accordingly, we forecast forex losses of Rs0.9-4.4 bn with Tata Steel and Sterlite likely to report the highest forex losses.

Lots of more pain left in steel stocks; value in non-ferrous names

Steel stocks have corrected by 19-25% in the past one month and 37-55% CYTD. Steel stocks currently trade at a 12-month rolling forward P/B band of 0.6-1.3X, lower than their historical band. However, in the face of apparent negatives on overcapacity, further decline in steel prices and slowdown in the domestic markets, stocks have not reached distressed levels with the exception of Tata Steel. We maintain our negative view on the rest of the steel names.

Non-ferrous names have corrected significantly with Sterlite reaching distressed levels. Aluminium prices have already corrected below the 90^{th} percentile of cash cost of production and does not have a further scope for downside. Zinc prices have also corrected materially with low probability of further correction. We recommend buying Sterlite at the current levels—a relatively strong balance sheet and distressed valuations are the positives.

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Exhibit 1: Commodity price trend (US$/tonne)

	2QFY11	1QFY12	2QFY12	Change (%) yoy	Change (%) qoq
Aluminium	2,090	2,600	2,398	14.7	(7.8)
Zinc	2,015	2,251	2,221	10.2	(1.3)
Lead	2,039	2,548	2,450	20.2	(3.8)
Copper	7,260	9,147	8,973	23.6	(1.9)

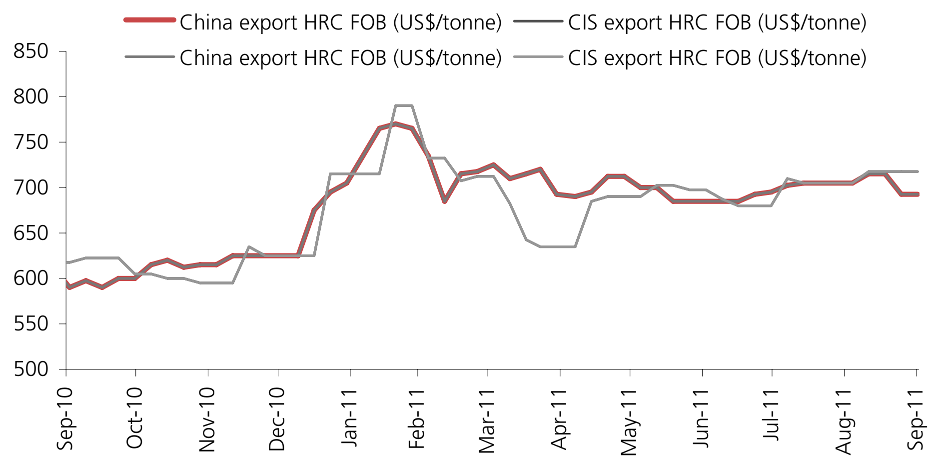
Source: Bloomberg, Kotak Institutional Equities estimates

Exhibit 2: Metal price assumptions, March fiscal year-ends, 2012-13E (US$/tonne)

	Price assumptions 2012E	Price assumptions 2013E	Current prices (US$/tonne) Spot	Current prices (US$/tonne) FYTD
Aluminium	2,400	2,450	2,133	2,492
Zinc	2,150	2,200	1,836	2,234
Lead	2,250	2,300	1,961	2,493
Steel	792	770	789	799
Benchmark Iron ore price	157	140	169	170

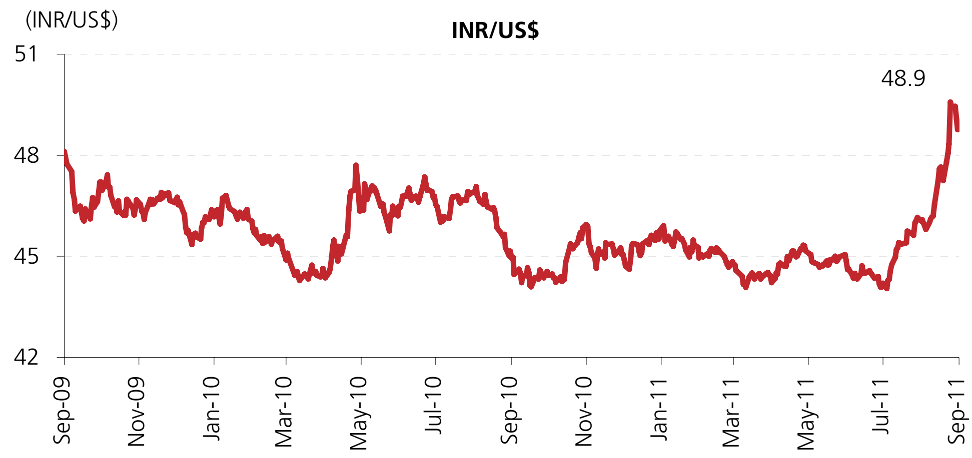
Source: Bloomberg, Kotak Institutional Equities estimates

Exhibit 3: CIS export and China export FOB HRC price trend over the last year (US$/tonne)



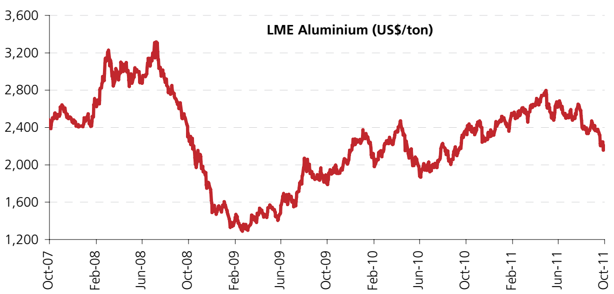
Source: Bloomberg, Kotak Institutional Equities estimates

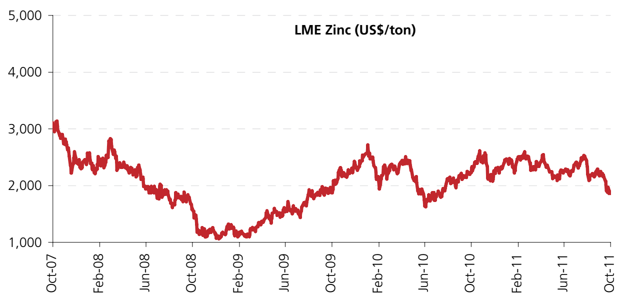
Exhibit 4: Rupee has depreciated by 6% in the past three weeks
Re/US$ rate trend, December year-ends, 2009-11

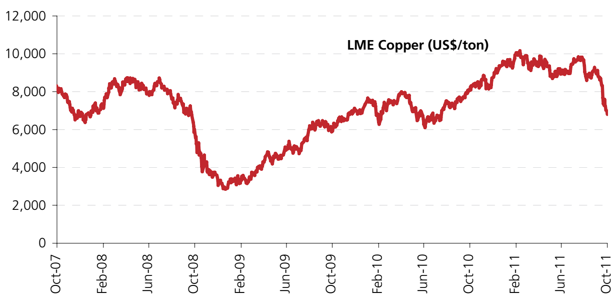


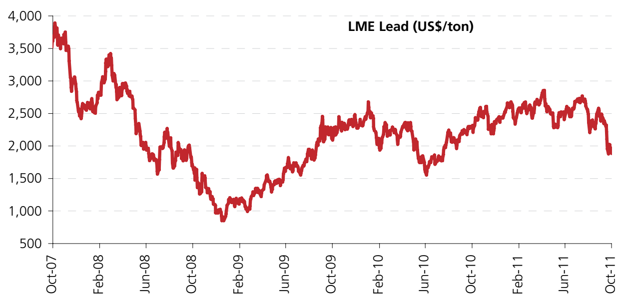
Source: Bloomberg, Kotak Institutional Equities estimates

Exhibit 5: Non-ferrous metal price trend, December year-ends, 2007-11 (US$/tonne)









Source: Bloomberg, Kotak Institutional Equities estimates

Exhibit 6: Results preview for non-ferrous companies (Rs mn)

	2QFY11	1QFY12	2QFY12E	Change (%) yoy	Change (%) qoq	
NON - FERROUS						
Hindalco Industries						
Net Sales	58,599	60,309	60,302	2.9	(0.0)	Input cost escalations and sequential fall in LME prices to weigh on aluminium segment performance partly negated by increased aluminium deliveries. Copper segment performance to be driven by strong TC/RC margins. However, bi-annual shutdown of plant in the early part of the quarter is likely to result in lower copper deliveries for the quarter
EBITDA	6,984	8,671	8,189	17.3	(5.6)	
EBIT	6,087	8,696	7,493	23.1	(13.8)	
Reported profits	4,338	6,440	5,429	25.1	(15.7)	
Aluminium EBITDA/tonne (US$)	967	1,167	962	(0.5)	(17.6)	
Primary aluminium ('000 tonnes)	123	140	144	17.1	2.9	1QFY12 other income included Rs690 mn of dividend received from ABML and unlikley to recur in 2QFY12E. This will result in qoq decline in other income
Copper cathodes ('000 tonnes)	94	73	74	(21.2)	1.3	
Hindustan Zinc						
Net Sales	22,010	28,471	28,815	30.9	1.2	Refined lead volumes to improve from 3QFY12E from ramp-up of recently commissioned lead smelter. We model zinc, lead and silver sales of 191kt, 15kt and 40 tonnes, respectively
EBITDA	11,253	15,923	15,390	36.8	(3.3)	
EBIT	11,935	18,131	17,215	44.2	(5.1)	
Reported profits	9,487	14,949	13,730	44.7	(8.2)	
Refined Zinc ('000 tonnes)	175	192	191	9.1	(0.2)	
Refined Lead ('000 tonnes)	14	15	15	2.2	0.4	Expect sharp yoy jump in EBITDA on the back of increase in volumes and LME zinc prices
Silver (kg)	35,341	39,586	39,982	13.1	1.0	
National Aluminium Co.						
Net Sales	14,792	17,625	15,908	7.5	(9.7)	Sequential decline in EBITDA to be led by a combination of lower commodity prices and lower aluminium deliveries
EBITDA	3,477	5,298	3,073	(11.6)	(42.0)	
Aluminium EBITDA/tonne (US$)	687	1,083	652	(5.0)	(39.8)	We forecast aluminium deliveries of 106kt in 2QFY12E as against 110kt in 1QFY12. We forecast lower deliveries due to partial shutdown of 120 out of 960 available pots towards the end of the quarter owing to shortage in availability of coal
EBIT	3,379	5,545	3,331	(1.4)	(39.9)	
Reported profits	2,240	3,768	2,310	3.1	(38.7)	
Aluminium deliveries ('000 tonnes)	109	110	106	(2.4)	(3.7)	
Sterlite Industries						
Net Sales	60,844	98,607	98,350	61.6	(0.3)	Previous quarter other income includes MTM derivative gains of Rs1.34 bn. Forex loss on FCCBs of Rs1.8 bn likely in 2QFY12E. Other income to decline materially qoq and yoy as a result
EBITDA	15,289	27,583	24,491	60.2	(11.2)	
EBIT	13,166	23,383	19,955	51.6	(14.7)	
Reported profits	10,080	16,397	10,563	4.8	(35.6)	
Copper cathodes ('000 tonnes)	68	74	81	18.6	9.0	
Aluminum ('000 tonnes)	68	61	61	(9.9)	0.5	EBITDA to decline qoq on the back of decline in zinc and aluminium prices. Sterlite Energy unlikely to contribute much to EBITDA
Power wheeled units (mn tonnes)	414	1,652	2,140	416.9	29.5	
Refined Zinc ('000 tonnes)	175	192	191	9.1	(0.2)	
Refined Lead ('000 tonnes)	14	15	15	2.2	0.4	
Silver (kg)	35,341	39,586	39,982	13.1	1.0	

Source: Company, Kotak Institutional Equities estimates

Exhibit 7: Results preview for ferrous companies (Rs mn)

	2QFY11	1QFY12	2QFY12E	Change (%) yoy	Change (%) qoq	
FERROUS						
Jindal Steel and Power						
Net Sales	30,821	39,441	41,505	34.7	5.2	Steel business performance to be aided by higher pellet volumes and realization. JPL EBITDA to decline sequentially due to seasonality and planned shutdown of 2 units for 15 days
EBITDA	15,017	16,257	17,478	16.4	7.5	
EBIT	12,324	13,291	13,815	12.1	3.9	
Reported profits	8,777	9,188	9,530	8.6	3.7	Rupee depreciation to hurt as the company has unhedged overseas borrowings. We forecast forex losses of Rs910 mn
Steel deliveries ('000 tonnes)	462	457	480	3.7	5.0	
Power (mn units)	2,813	2,863	2,926	4.0	2.2	
JSW Steel						
Net Sales	59,081	74,324	76,395	29.3	2.8	EBITDA/tonne to decline sequentially to US$130/tonne (from US$182/tonne in 1QFY12) due to full impact of higher coking coal costs and increased iron ore costs following ban on mining in Karnataka
EBITDA	10,227	14,348	11,452	12.0	(20.2)	
Average realisation/tonne (US$)	809	986	979	21.0	(0.8)	
EBITDA/tonne (US$)	135	182	130	(3.9)	(28.7)	
EBIT	8,070	10,117	5,467	(32.2)	(46.0)	Depreciation of Re against US$ will increase FCCB liability and result in forex loss of Rs1.15 bn
Reported profits	3,733	4,852	1,853	(50.4)	(61.8)	
Steel deliveries ('000 tonnes)	1,571	1,684	1,703	8.4	1.1	
Sesa Goa						
Net Sales	9,068	20,947	10,996	21.3	(47.5)	Iron ore shipments to be impacted by ban on mining in Karnataka. Besides, the September quarter is a seasonally weak quarter on account of the monsoons. We forecast volumes of 1.5dmt in 2QFY12E
EBITDA	3,034	11,474	3,124	3.0	(72.8)	
Average realisation/tonne (US$)	76	91	100	31.7	10.4	
EBIT	4,208	12,710	3,591	(14.7)	(71.8)	
Reported profits	3,849	8,406	2,195	(43.0)	(73.9)	We forecast forex losses of Rs910 mn MTM of FCCBs following depreciation of the Re against US$
Saleable ore ('000 wmt)	2,019	4,778	1,715	(15.1)	(64.1)	
Tata Steel - Standalone						
Net Sales	71,068	78,603	80,552	13.3	2.5	Standalone EBITDA/tonne likely to decrease marginally to US$391/tonne versus US$435/tonne reported in 1QFY12 on full quarter impact of higher coking coal costs
EBITDA	26,290	31,032	29,174	11.0	(6.0)	
Average realisation/tonne (US$)	912	1,093	1,069	17.2	(2.2)	
EBITDA/tonne (US$)	332	426	382	15.0	(10.4)	
EBIT	30,802	33,705	21,835	(29.1)	(35.2)	Net income to be impacted from forex loss arising from MTM of US$930 mn+ of unhedged overseas convertible instruments. We forecast forex loss of Rs4.4 bn
Reported profits	20,651	22,194	13,646	(33.9)	(38.5)	
Steel deliveries ('000 tonnes)	1,660	1,593	1,630	(1.8)	2.3	
Tata Steel						
Net Sales	286,462	330,002	315,170	10.0	(4.5)	1QFY12 EBITDA of Corus included one-offs equivalent to US$153 mn (US$44/tonne). 2QFY12E EBITDA will be low at US$5/tonne (adjusted EBITDA of US$78/tonne in 1QFY12). EBITDA would be impacted by lag impact of coking coal and iron ore price increase
EBITDA	36,723	44,229	32,558	(11.3)	(26.4)	
Average realisation/tonne (US$)	1,059	1,209	1,190	12.3	(1.6)	
EBITDA/tonne (US$)	136	162	123	(9.5)	(24.1)	Previous quarter financials included extraordinary income of Rs39.2 bn from (1) Rs28.8 bn from sale of stake in Riversdale Mining, (2) Rs4.4 bn from sale of shares in Tata Refractories and (3) Rs5.9 bn from TCP arbitration settlement. 2QFY12E net income will be hit by forex loss Rs4.4 bn due to MTM of unhedged convertible instruments
EBIT	34,085	38,652	16,213	(52.4)	(58.1)	
Reported profits	19,788	53,466	6,289	(68.2)	(88.2)	
Steel deliveries ('000 tonnes)	5,820	6,100	5,780	(0.7)	(5.3)	

Source: Company, Kotak Institutional Equities estimates

Exhibit 8: Metals comparative valuation summary, March fiscal year-ends, 2010-13E

	Market cap.	CMP (Rs)	Target		EPS (Rs)				P/E (X)			
Company	(US$ mn)	05-Oct	price (Rs)	Rating	2010	2011	2012E	2013E	2010	2011	2012E	2013E
Hindalco Industries	4,656	120	175	ADD	20.0	12.8	18.3	17.6	6.0	9.4	6.6	6.8
Hindustan Zinc	9,670	113	160	BUY	9.6	11.6	13.1	14.7	11.8	9.7	8.6	7.7
Jindal Steel and Power	8,430	446	595	REDUCE	38.2	40.2	43.5	52.9	11.7	11.1	10.2	8.4
JSW Steel	2,530	553	660	SELL	80.4	78.6	70.2	107.5	6.9	7.0	7.9	5.1
National Aluminium Co.	3,193	61	65	SELL	3.2	4.1	5.0	4.8	19.4	14.8	12.2	12.8
Sesa Goa	3,495	193	230	SELL	29.4	47.0	40.1	41.6	6.6	4.1	4.8	4.6
Sterlite Industries	7,111	105	185	BUY	12.0	15.2	17.0	19.0	8.7	6.9	6.2	5.5
Tata Steel	7,878	401	625	BUY	(3.5)	75.3	63.9	76.9	NM	5.3	6.3	5.2

	EV/EBITDA (X)				Price/BV (X)				RoE (%)			
Company	2010	2011	2012E	2013E	2010	2011	2012E	2013E	2010	2011	2012E	2013E
Hindalco Industries	4.0	5.3	5.2	5.5	1.1	0.8	0.7	0.7	20.4	9.7	11.4	10.0
Hindustan Zinc	7.7	6.0	4.5	3.2	2.6	2.1	1.7	1.4	24.9	24.1	22.1	20.4
Jindal Steel and Power	8.6	8.6	8.1	7.1	4.0	3.0	2.3	1.8	40.8	30.6	25.3	24.2
JSW Steel	6.8	5.8	6.2	5.3	1.2	0.7	0.7	0.6	18.7	13.6	9.3	12.9
National Aluminium Co.	10.7	6.7	5.3	5.1	1.5	1.4	1.3	1.2	7.8	9.9	11.1	10.0
Sesa Goa	3.6	1.5	3.2	2.4	2.2	1.4	1.1	0.8	41.6	40.7	24.9	20.5
Sterlite Industries	6.6	5.1	3.5	2.6	0.9	0.8	0.8	0.7	12.9	13.0	13.0	12.8
Tata Steel	10.4	5.4	5.7	4.9	1.6	1.1	0.9	0.8	(1.5)	24.7	15.5	15.7

Note:
1. EV/EBITDA for Sterlite Industries is proportionate EV/EBITDA

Source: Company, Bloomberg, Kotak Institutional Equities estimates

kotak Institutional Equities

Pharmaceuticals

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OCTOBER 05, 2011

UPDATE

BSE-30: 15,792

2QFY12E preview. We expect a muted quarter for companies in our coverage with less than 15% yoy PAT growth for most. We expect PAT to decline/remain flat yoy for DRL, Jubilant, Dishman and Ranbaxy while expect only Divis to report strong yoy PAT growth at 30%. We expect DRL, Ranbaxy, Cadila, Glaxo Pharma and Cipla to report below-industry growth in India. Divis is most likely to spring positive surprise while Ranbaxy and DRL are most likely to disappoint versus our estimates on the operational front. Our preferred sector picks are SUN, Lupin and Divis.

Lower India growth to impact sales growth in 2QFY12E (see Exhibit 1)

We expect most of the generic companies to continue to report muted India sales growth, a trend witnessed in 1QFY12. We expect Cadila, Cipla, DRL, Glaxo and Ranbaxy to report below-industry growth in India due to (1) high base last year and (2) poor underlying growth. We also think Glenmark will report lower India growth qoq although above industry. We believe Lupin and SUN will report higher qoq growth rates in India at 18% and 20% versus 17% and 18% reported in 1QFY12, respectively. On a reported basis, however, SUN will report 12% growth in India in 2QFY12E.

We estimate higher-than-20% sales growth only for Sun Pharma, Divis in 2QFY12E

We expect Cipla and Glaxo Pharma to report total sales growth at less than 14% due to poor India growth. However, we expect a sequential pick-up in US sales for DRL, Cadila and Glenmark and in international sales for Ranbaxy to help them report sales growth between 14% and 20%. We estimate higher-than-20% sales growth for Sun and Divis at 33-35% and believe a lower sales growth in 2QFY12E for Sun could lead to revision in its FY2012E sales growth guidance of 28-30%.

Qoq improvement in margin likely though still expected to remain down/flat yoy

We expect qoq improvement in EBITDA margin for most companies except Glenmark (see Exhibit 2). We expect Glenmark to report EBITDA margin of 21% versus 24.5% in 1QFY12. We believe (1) a pick-up in US sales and (2) higher proportion of sales from India in 2QFY12E than in 1QFY12 will result in better margin sequentially for most companies. However, yoy margin is expected to be either down or flat for most companies except Ranbaxy and Divis due to their low base last year.

We expect lower-than-15% PAT growth on operational front for most companies except Divis

We expect most companies except Divis to report less-than-15% PAT growth due to (1) muted sales growth, (2) margin flat or marginally down yoy, (3) higher yoy interest cost for some such as Ranbaxy, DRL, Glenmark, and (4) higher tax rates. We expect Divis to report 30% PAT growth even after factoring in 20% tax rates this year due to (1) low base of sales last year and (2) lower margin last year. We expect PAT to remain flat yoy for DRL due to sales growth of 14% being counteracted by (1) higher SG&A spend leading to EBITDA margin remaining flat yoy, (2) higher interest cost, and (3) higher tax rates.

Lupin + Glenmark to report licensing income this quarter

We expect Glenmark and Lupin to report high PAT growth yoy (before exceptionals) driven by licensing income of US$25 mn from Sanofi Aventis and US$20 mn from Medicis, respectively, which we include in other income. Excluding this income, we expect PAT growth to be muted at 11% and 7%, respectively. Glenmark will also report payment of US$29 mn to Paul Partners as extraordinary expense this quarter.

QUICK NUMBERS

- Lower India growth to impact sales growth
- We expect lower-than-15% PAT growth on operational front for most companies except Divis
- Lupin + Glenmark to report licensing income this quarter
- Qoq improvement in margin likely though still expected to remain down/flat yoy

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Ranbaxy and Jubilant likely to report substantial translational losses

Since the average USD/INR rate in 2QFY12 was between 45.5 and 46 which remains lower than average rate in 2QFY11, we expect limited operational gains from Rupee depreciation this quarter. However, we expect Ranbaxy and Jubilant to report substantial translational losses on their forex loans and hedges (only for Ranbaxy) as Rupee closed at 49 as of end-2QFY12 versus 44.7 as of end-1QFY12.

India sales growth (%)

	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12E
Cadila	12.7	14.7	12.0	17.7	8.9	12.0
Cipla	3.6	19.8	11.3	14.7	10.1	10.0
DRL	16.1	25.4	14.5	7.0	5.7	10.0
Glaxo	8.9	13.7	10.4	11.4	12.8	13.5
Glenmark	13.2	21.5	29.7	(11.2)	20.0	17.0
Lupin	23.2	15.6	16.2	20.0	17.1	18.0
Ranbaxy	(13.6)	18.0	(20.1)	9.1	0.0	10.0
SUN (adj.)	17.0	26.6	20.2	20.2	18.0	20.0

Source: Kotak Institutional Equities estimates, Company

EBITDA margin (%)

	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12E
Hospitals						
Apollo	16.9	17.0	15.7	15.2	16.5	16.6
Pharma-generics						
Cadila	20.7	21.2	19.7	20.1	19.6	19.7
Cipla	21.0	22.2	17.7	15.4	21.2	23.1
DRL*	21.4	22.6	23.4	24.3	21.0	22.6
Glaxo	38.4	37.1	32.1	36.1	35.5	37.2
Glenmark	23.6	23.5	22.2	3.4	24.5	21.3
Lupin	20.3	19.2	18.5	17.8	17.5	19.2
Ranbaxy**	17.5	4.7	9.1	17.0	7.0	7.5
SUN	45.1	34.1	27.5	30.3	33.5	33.8
Pharma-CRAMS						
Biocon (adj.)	20.9	20.8	22.5	20.0	29.6	31.4
Divis	38.0	33.8	39.7	41.2	36.7	37.4
Dishman	22.0	17.4	10.9	16.1	18.4	17.3
Jubilant	17.2	18.5	15.0	14.4	19.3	18.7

Notes:
* For DRL, EBITDA is adding back depreciation, amortization, non-recurring charges to reported EBIT
** Ranbaxy EBITDA margin excludes other income from operations

Source: Kotak Institutional Equities estimates, Company

Key calls

	Price (INR)	Mcap (US$ mn)	Target price (INR)	Rating	P/E (X) 2012E	P/E (X) 2013E
Apollo	516	1,379	650	ADD	29.0	24.2
Biocon	335	1,362	445	BUY	16.5	15.6
Cadila Healthcare	769	3,200	900	REDUCE	20.1	17.0
Cipla	281	4,578	310	REDUCE	18.7	17.0
Dishman	58	95	70	REDUCE	6.7	6.7
Divis Laboratories	719	1,938	830	ADD	18.9	16.0
GSK Pharma	2,116	3,643	2,220	REDUCE	27.1	23.9
Glenmark	303	1,665	395	ADD	11.4	13.3
Jubilant Lifesciences	188	610	205	REDUCE	10.6	8.3
Lupin	465	4,223	530	ADD	20.4	17.6
Ranbaxy	520	4,451	435	SELL	29.4	24.8
Sun Pharma	460	9,630	560	ADD	23.0	18.6

Source: Kotak Institutional Equities estimates, Company

2QFY12E preview

	Sep-10	Jun-11	Sep-11E	Change (%) yoy	Change (%) qoq	Comments
Apollo Hospitals						
Net sales	5,864	6,410	7,374	25.7	15.0	We expect sales growth at 26% yoy
EBITDA	996	1,059	1,223	22.7	15.4	
EBIT	818	862	1,033	26.3	19.9	
PBT	747	759	888	18.8	17.0	EBITDA margin, expected at 16.6%, same as in 1QFY12
PAT	496	513	595	20.0	16.0	
Extraordinaries	—	—	—	—	—	
PAT-reported	496	513	595	20.0	16.0	
Biocon						
Net sales	6,788	4,417	5,150	(24.1)	16.6	We expect EBITDA margin at 31% versus 30% in 1QFY12
EBITDA	1,399	1,204	1,522	8.8	26.4	
EBIT	1,008	753	1,072	6.3	42.3	
PBT	1,032	819	1,182	14.5	44.3	We have included US$10 mn of technology licensing income in our revenue estimate
PAT	882	700	922	4.6	31.7	
Extraordinaries	10	—	—	(100.0)	—	
PAT-reported	892	700	922	3.4	31.7	
Cadila Healthcare						
Net sales	11,063	11,735	12,990	17.4	10.7	We expect India pharma and consumer growth to remain poort at 12% yoy
EBITDA	2,344	2,302	2,557	9.1	11.1	
EBIT	2,040	1,955	2,182	7.0	11.6	
PBT	2,003	2,551	2,297	14.7	(10.0)	EBITDA margin expected at 19.7%, same as in 1QFY12
PAT	1,691	2,230	1,825	7.9	(18.1)	
Extraordinaries	16	69	—	(100.0)	(100.0)	
PAT-reported	1,708	2,298	1,825	6.9	(20.6)	
Cipla						
Net sales	15,799	15,503	16,791	6.3	8.3	Revenues estimated at Rs17 bn, up 6% yoy in rupee terms
EBITDA	3,511	3,285	3,871	10.2	17.8	
EBIT	2,872	2,582	3,141	9.4	21.6	
PBT	3,390	3,199	3,701	9.2	15.7	
PAT	2,795	2,533	2,961	5.9	16.9	We estimate India sales growth at 10% yoy due to high base effect and poor growth
Extraordinaries	(165)	—	—	(100.0)	—	
PAT-reported	2,630	2,533	2,961	12.6	16.9	
Divi's Laboratories						
Net sales	2,553	3,648	3,388	32.7	(7.1)	We expect sales at US$75 mn in 2QFY12 versus US$55 mn reported in 2QFY11
EBITDA	907	1,340	1,268	39.8	(5.3)	
EBIT	774	1,200	1,118	44.4	(6.8)	
PBT	817	1,299	1,216	48.8	(6.4)	
PAT	740	1,026	973	31.5	(5.2)	EBITDA margin estimated at 37%
Extraordinaries	—	—	—	—	—	
PAT-reported	740	1,026	973	31.5	(5.2)	
Dishman Pharma & Chemicals						
Net sales	2,128	2,372	2,673	25.6	12.7	We expect sales to grow 26% yoy to Rs2.7 bn in 1QFY12E
EBITDA	369	437	462	25.2	5.8	
EBIT	201	250	262	30.4	4.8	
PBT	309	169	174	(43.5)	3.3	Forex income/loss not included in estimates
PAT	295	151	139	(52.6)	(7.8)	
Extraordinaries	(11)	—	—	(100.0)	—	
PAT-reported	283	151	139	(50.7)	(7.8)	
Dr Reddy's Laboratories						
Net sales	18,704	19,784	21,277	13.8	7.5	We estimate yoy sales growth of 14% driven by US
EBITDA	3,542	3,194	4,006	13.1	25.4	
EBIT	3,225	2,789	3,606	11.8	29.3	
PBT	3,193	2,747	3,385	6.0	23.2	Forex income/loss not included in estimates
PAT	2,866	2,627	2,844	(0.8)	8.3	
Extraordinaries	—	—	—	—	—	
PAT-reported	2,866	2,627	2,844	(0.8)	8.3	

Source: Kotak Institutional Equities estimates, Company

2QFY12E preview

	Sep-10	Jun-11	Sep-11E	Change (%) yoy	Change (%) qoq	Comments
GlaxoSmithkline (India)						
Net sales	5,820	5,615	6,608	13.5	17.7	Sales growth expected at 13.5% yoy
EBITDA	2,160	1,993	2,456	13.7	23.2	
EBIT	2,119	1,944	2,411	13.8	24.1	
PBT	2,374	2,242	2,711	14.2	20.9	
PAT	1,583	1,517	1,817	14.8	19.8	EBITDA margin expected at 37%, flat y oy
Extraordinaries	(4)	(41)	—	(100.0)	(100.0)	
PAT-reported	1,578	1,475	1,817	15.1	23.1	
Glenmark Pharmaceuticals						
Net sales	7,243	7,570	8,426	16.3	11.3	We expect lower margin at 21% versus 24% in 1QFY12
EBITDA	1,579	1,854	1,793	13.5	(3.3)	
EBIT	1,236	1,590	1,543	24.8	(3.0)	
PBT	1,281	2,420	2,543	98.5	5.1	
PAT	1,021	2,101	2,187	114.2	4.1	
Extraordinaries	96	—	(1,301)	(1,460.5)	—	We include US$25 mn from Sanofi deal on GBR 500 in our estimates in other income
PAT-reported	1,116	2,101	886	(20.7)	(57.9)	
Jubilant Life Sciences						
Net sales	8,500	9,443	9,582	12.7	1.5	We expect Jubilant to report MTM losses on forex loans
EBITDA	1,578	1,850	1,792	13.6	(3.1)	
EBIT	1,089	1,352	1,292	18.6	(4.5)	
PBT	941	997	892	(5.2)	(10.5)	Sales growth estimated at 13% yoy
PAT	899	841	749	(16.6)	(10.9)	
Extraordinaries	(8)	(70)	5	(162.6)	(107.2)	
PAT-reported	891	771	754	(15.3)	(2.2)	
Lupin						
Net sales	14,051	15,432	15,855	12.8	2.7	Our estimates include US$20 mn income from Medicis in other income
EBITDA	2,698	2,698	3,041	12.7	12.7	
EBIT	2,263	2,227	2,561	13.2	15.0	
PBT	2,478	2,427	3,660	47.7	50.8	
PAT	2,150	2,101	3,071	42.8	46.2	EBITDA margin expected at 19%, flat yoy
Extraordinaries	—	—	—	—	—	
PAT-reported	2,150	2,101	3,071	42.8	46.2	
Ranbaxy Laboratories						
Net sales	18,838	20,545	22,581	19.9	9.9	We expect margin to be subdued at 9%, at same levels as last quarter
EBITDA	1,387	1,817	2,100	51.5	15.6	
EBIT	399	1,081	1,300	225.7	20.3	We expect Ranbaxy to report MTM losses on forex loans and derivatives position. Forex losses not included in our estimates
PBT	1,221	1,706	1,820	49.0	6.7	
PAT	1,068	1,587	1,456	36.3	(8.2)	
Extraordinaries	2,011	845	(15)	(100.7)	(101.8)	
PAT-reported	3,079	2,432	1,441	(53.2)	(40.7)	
Sun Pharmaceuticals						
Net sales	13,701	16,357	18,439	34.6	12.7	We estimate EBITDA margin of 33.8%
EBITDA	4,670	5,474	6,239	33.6	14.0	
EBIT	4,319	4,827	5,589	29.4	15.8	
PBT	5,242	5,796	6,189	18.1	6.8	Net sales estimated at Rs18.4bn, up 35% yoy
PAT	5,037	5,010	5,356	6.3	6.9	
Extraordinaries	—	—	—	—	—	
PAT-reported	5,037	5,010	5,356	6.3	6.9	

Source: Kotak Institutional Equities estimates, Company

Kotak Institutional Equities: Valuation summary of key Indian companies

	5-Oct-11		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US$ mn)	(mn)	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	(Rs)	(%)	(US$ mn)
Automobiles																													
Apollo Tyres	53	BUY	26,641	540	504	8.7	7.7	9.6	(26.1)	(11.7)	24.3	6.0	6.8	5.5	5.1	4.3	3.8	1.0	0.9	0.8	0.9	0.8	1.0	20.1	15.0	16.1	85	60.8	4.2
Ashok Leyland	25	SELL	65,453	1,326	2,661	2.4	2.1	2.4	68.1	(11.9)	12.8	10.4	11.8	10.4	7.3	7.7	7.0	1.5	1.4	1.3	4.1	4.1	4.1	21.8	17.4	18.2	26	5.7	4.0
Bajaj Auto	1,498	SELL	433,507	8,785	289	90.4	103.3	113.0	43.9	14.3	9.4	16.6	14.5	13.3	12.6	11.4	10.7	8.8	6.6	5.1	2.7	2.7	2.7	84.9	51.9	43.4	1,585	5.8	14.2
Bharat Forge	254	ADD	60,250	1,221	237	12.5	16.0	20.2	1,402.1	27.9	25.8	20.2	15.8	12.6	9.7	7.9	6.6	2.7	2.3	2.0	1.4	—	—	8.2	14.0	15.1	320	26.0	2.6
Exide Industries	131	SELL	111,350	2,257	850	7.5	6.8	7.9	18.0	(8.9)	17.0	17.6	19.3	16.5	12.7	13.8	12.0	4.1	3.5	3.0	1.1	1.0	1.0	25.5	19.4	19.5	120	(8.4)	6.6
Hero Honda	1,950	SELL	389,365	7,891	200	99.3	111.1	128.2	(11.1)	11.8	15.4	19.6	17.5	15.2	12.9	12.8	10.4	8.3	8.6	8.2	5.4	3.6	3.6	56.5	63.5	60.3	1,800	(7.7)	22.2
Mahindra & Mahindra	784	ADD	481,530	9,758	614	41.7	46.9	52.2	22.7	12.5	11.2	18.8	16.7	15.0	14.4	12.2	10.8	4.5	3.7	3.1	1.5	1.2	1.2	27.3	24.5	22.6	900	14.8	32.6
Maruti Suzuki	1,086	ADD	313,615	6,356	289	79.2	66.0	90.3	(8.4)	(16.7)	36.8	13.7	16.4	12.0	8.4	9.4	6.4	2.2	2.0	1.7	0.7	0.7	0.7	17.6	12.9	15.5	1,240	14.2	12.7
Tata Motors	147	ADD	490,105	9,932	3,325	27.2	23.1	23.9	737.9	(15.0)	3.6	5.4	6.4	6.2	4.2	4.8	4.6	2.5	1.9	1.5	2.6	2.0	2.0	66.1	34.2	27.3	180	22.1	52.5
Automobiles		**Cautious**	**2,371,816**	**48,066**					**82.8**	**(4.5)**	**11.7**	**11.6**	**12.1**	**10.8**	**7.7**	**7.9**	**7.0**	**3.6**	**3.0**	**2.5**	**2.5**	**2.0**	**2.0**	**31.1**	**24.7**	**23.0**			
Banks/Financial Institutions																													
Andhra Bank	116	BUY	64,687	1,311	560	22.6	24.2	27.5	5.0	6.9	13.5	5.1	4.8	4.2	—	—	—	1.0	0.9	0.8	4.8	5.1	5.8	23.2	19.4	19.2	190	64.4	1.7
Axis Bank	952	BUY	390,840	7,921	411	82.5	98.9	119.7	33.0	19.8	21.1	11.5	9.6	8.0	—	—	—	2.1	1.8	1.5	1.5	1.8	2.1	19.3	19.7	20.3	1,700	78.6	51.0
Bajaj Finserv	501	ADD	72,485	1,469	145	78.2	62.7	61.4	102.3	(19.8)	(2.1)	6.4	8.0	8.2	—	—	—	2.1	1.5	1.2	2.5	2.5	2.5	37.2	21.8	16.4	650	29.7	2.9
Bank of Baroda	729	BUY	286,199	5,800	393	108.0	109.5	129.1	29.1	1.4	17.9	6.7	6.7	5.6	—	—	—	1.5	1.3	1.1	2.6	2.7	3.1	25.9	20.4	20.5	1,250	71.6	7.2
Bank of India	307	BUY	167,777	3,400	547	45.5	54.0	70.7	37.4	18.7	30.9	6.7	5.7	4.3	—	—	—	1.1	0.9	0.8	2.6	3.1	4.1	17.3	17.2	19.5	470	53.3	5.9
Canara Bank	422	BUY	186,990	3,789	443	90.9	86.3	108.7	23.3	(5.0)	25.9	4.6	4.9	3.9	—	—	—	1.0	0.9	0.7	2.6	2.8	2.8	23.2	17.7	19.0	600	42.1	7.4
Corporation Bank	403	BUY	59,660	1,209	148	95.4	93.4	114.1	16.3	(2.1)	22.2	4.2	4.3	3.5	—	—	—	0.8	0.7	0.6	5.0	4.9	5.9	21.9	18.1	19.2	630	56.4	0.7
Federal Bank	342	BUY	58,472	1,185	171	34.3	44.5	56.2	26.3	29.8	26.1	10.0	7.7	6.1	—	—	—	1.2	1.1	0.9	2.5	3.2	4.1	12.0	14.2	16.0	500	46.3	3.5
HDFC	625	REDUCE	916,739	18,578	1,467	24.1	27.8	31.9	22.4	15.6	14.6	25.9	22.4	19.6	—	—	—	5.3	4.7	3.6	1.4	1.7	2.0	21.7	22.1	21.5	730	16.8	36.3
HDFC Bank	439	ADD	1,020,473	20,680	2,326	16.9	21.9	27.6	31.0	29.5	26.5	26.0	20.1	15.9	—	—	—	4.0	3.5	3.0	0.8	1.0	1.2	16.7	18.6	20.2	560	27.6	35.1
ICICI Bank	779	BUY	897,556	18,189	1,152	44.7	58.0	63.1	23.9	29.7	8.8	17.4	13.4	12.4	—	—	—	1.6	1.5	1.4	1.8	2.2	2.4	9.7	11.7	11.8	1,100	41.2	77.7
IDFC	110	BUY	166,331	3,371	1,509	8.8	9.9	12.0	4.6	12.8	21.6	12.6	11.1	9.2	—	—	—	1.6	1.3	1.2	2.0	1.8	2.2	14.7	13.1	13.9	150	36.1	20.7
India Infoline	71	SELL	23,324	473	327	7.4	4.8	6.5	(9.3)	(34.5)	33.8	9.7	14.8	11.0	—	—	—	1.4	1.2	1.1	4.3	1.4	1.9	12.9	8.7	10.3	70	(1.9)	1.1
Indian Bank	192	BUY	82,494	1,672	430	38.8	42.0	50.9	10.5	8.2	21.2	4.9	4.6	3.8	—	—	—	1.0	0.9	0.7	3.9	4.1	5.0	22.3	20.4	21.0	300	56.3	1.5
Indian Overseas Bank	89	BUY	54,914	1,113	619	17.3	21.1	30.8	33.6	22.0	45.4	5.1	4.2	2.9	—	—	—	0.7	0.6	0.5	5.6	4.8	5.2	12.7	13.3	17.0	190	114.1	1.6
IndusInd Bank	240	BUY	111,692	2,263	466	12.4	15.2	18.2	45.2	22.6	19.9	19.3	15.8	13.2	—	—	—	3.0	2.7	2.3	0.8	1.0	1.2	20.8	17.7	17.9	325	35.6	3.4
J&K Bank	757	ADD	36,694	744	48	126.9	141.8	152.8	20.1	11.8	7.7	6.0	5.3	5.0	—	—	—	1.1	0.9	0.8	3.4	3.8	4.1	19.0	18.4	17.3	950	25.5	0.6
LIC Housing Finance	213	ADD	100,974	2,046	475	20.5	22.9	27.5	47.2	11.4	20.4	10.4	9.3	7.7	—	—	—	2.6	2.2	1.8	2.1	2.3	2.8	25.8	23.7	23.9	260	22.3	20.3
Mahindra & Mahindra Financial	620	BUY	63,546	1,288	102	45.2	56.4	69.2	26.1	24.8	22.7	13.7	11.0	9.0	—	—	—	2.6	2.2	1.9	1.6	2.0	2.5	22.0	21.4	22.3	825	33.0	1.0
Muthoot Finance	159	BUY	59,222	1,200	371	15.7	21.6	26.7	108.4	37.1	23.7	10.1	7.4	6.0	—	—	—	4.4	2.0	1.5	—	—	—	51.5	36.7	28.1	230	44.2	—
Oriental Bank of Commerce	283	BUY	82,510	1,672	292	51.5	55.6	65.4	13.7	8.0	17.6	5.5	5.1	4.3	—	—	—	0.8	0.7	0.6	3.7	4.0	4.7	15.5	13.9	14.7	430	52.1	3.8
PFC	134	BUY	176,211	3,571	1,320	22.8	23.4	28.3	11.1	2.4	21.3	5.9	5.7	4.7	—	—	—	1.2	0.9	0.8	3.0	3.5	4.2	18.4	17.0	16.7	225	68.5	14.8
Punjab National Bank	909	BUY	287,966	5,836	317	140.0	163.0	201.5	13.0	16.5	23.6	6.5	5.6	4.5	—	—	—	1.4	1.2	1.0	2.4	3.7	4.5	24.4	23.5	24.2	1,500	65.0	7.2
Reliance Capital	316	REDUCE	77,774	1,576	246	9.3	16.5	24.8	(25.3)	77.0	50.4	33.9	19.2	12.8	—	—	—	1.1	1.1	1.0	1.2	2.1	3.1	3.3	5.7	8.3	470	48.8	26.4
Rural Electrification Corp.	156	BUY	153,687	3,115	987	26.0	29.0	32.5	28.1	11.5	12.3	6.0	5.4	4.8	—	—	—	1.2	1.0	0.9	4.8	5.3	6.0	21.5	20.8	20.4	240	54.2	10.8
Shriram Transport	596	REDUCE	132,991	2,695	223	55.1	65.6	75.3	40.8	19.0	14.8	10.8	9.1	7.9	—	—	—	2.8	2.3	1.9	1.1	2.2	2.5	28.1	26.8	25.2	700	17.4	7.0
SKS Microfinance	211	RS	15,541	315	74	15.7	(39.1)	3.9	(41.8)	(349.4)	(109.9)	13.4	(5.4)	54.4	—	—	—	0.9	1.0	1.0	—	—	—	8.3	(17.4)	1.9	—	—	8.8
State Bank of India	1,718	BUY	1,091,182	22,113	635	130.2	195.6	256.1	(9.9)	50.3	30.9	13.2	8.8	6.7	—	—	—	1.7	1.5	1.2	2.0	2.1	2.2	12.6	17.8	20.0	2,750	60.0	119.6
Union Bank	225	BUY	117,844	2,388	524	39.5	50.2	60.4	(3.9)	27.1	20.5	5.7	4.5	3.7	—	—	—	1.1	0.9	0.8	4.1	5.2	6.3	20.9	21.9	22.5	425	89.1	5.2
Yes Bank	246	BUY	85,416	1,731	347	21.5	26.2	32.3	43.2	22.1	23.3	11.5	9.4	7.6	—	—	—	2.3	1.9	1.5	1.0	1.2	1.5	21.7	21.7	22.2	420	70.7	16.3
Banks/Financial Institutions		**Attractive**	**7,042,194**	**142,713**					**20.1**	**20.0**	**22.9**	**11.5**	**9.6**	**7.8**	—	—	—	**1.8**	**1.6**	**1.4**	**1.9**	**2.2**	**2.6**	**16.0**	**16.6**	**17.5**			
Cement																													
ACC	1,107	SELL	207,983	4,215	188	55.6	60.1	72.7	(33.2)	8.2	20.9	19.9	18.4	15.2	12.2	10.3	8.1	3.0	2.8	2.5	3.2	2.1	2.1	17.5	17.3	18.1	980	(11.5)	6.6
Ambuja Cements	149	SELL	226,910	4,598	1,522	7.9	7.8	9.8	(1.5)	(0.5)	25.5	18.9	19.0	15.1	11.5	10.5	8.1	2.9	2.6	2.4	1.4	1.5	1.6	16.6	14.8	16.9	135	(9.4)	6.2
Grasim Industries	2,324	BUY	213,144	4,319	92	232.0	254.6	277.2	(22.9)	9.7	8.9	10.0	9.1	8.4	6.2	4.8	4.2	1.5	1.3	1.1	0.8	1.5	1.5	15.7	15.0	14.4	2,900	24.8	3.7
India Cements	70	ADD	21,579	437	307	1.9	8.3	9.2	(81.2)	339.0	10.4	37.2	8.5	7.7	14.0	5.6	5.0	0.5	0.5	0.5	2.3	4.5	4.5	1.4	6.2	6.5	82	16.7	1.6
Shree Cement	1,838	REDUCE	64,046	1,298	35	57.2	83.1	132.9	(72.5)	45.5	59.8	32.2	22.1	13.8	7.2	6.7	4.7	3.3	3.1	2.7	0.6	0.6	0.6	10.7	14.5	20.7	1,730	(5.9)	1.1
UltraTech Cement	1,106	ADD	303,088	6,142	274	44.9	73.1	85.9	(49.2)	63.0	17.5	24.7	15.1	12.9	12.0	8.0	6.7	2.4	2.1	1.8	0.5	0.5	0.5	16.7	17.3	17.3	1,220	10.3	3.7
Cement		**Neutral**	**1,036,751**	**21,010**					**(23.7)**	**23.0**	**18.0**	**17.7**	**14.4**	**12.2**	**9.4**	**7.2**	**6.0**	**2.2**	**1.9**	**1.7**	**1.3**	**1.3**	**1.4**	**12.2**	**13.4**	**14.1**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

	5-Oct-11		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
Company	**Price (Rs)**	**Rating**	**(Rs mn)**	**(US$ mn)**	**(mn)**	**2011E**	**2012E**	**2013E**	**2011E**	**2012E**	**2013E**	**2011E**	**2012E**	**2013E**	**2011E**	**2012E**	**2013E**	**2011E**	**2012E**	**2013E**	**2011E**	**2012E**	**2013E**	**2011E**	**2012E**	**2013E**	**(Rs)**	**(%)**	**(US$ mn)**
Consumer products																													
Asian Paints	3,028	SELL	290,483	5,887	96	80.8	94.6	111.4	13.0	17.1	17.7	37.5	32.0	27.2	25.0	20.4	16.7	14.2	11.0	8.8	1.1	0.9	1.2	43.9	40.0	36.8	2,900	(4.2)	4.7
Colgate-Palmolive (India)	997	SELL	135,517	2,746	136	29.6	34.1	38.8	(4.9)	15.0	14.1	33.7	29.3	25.7	29.3	25.6	21.4	35.3	35.9	28.7	2.2	3.0	2.7	113.4	121.6	124.2	900	(9.7)	1.7
Dabur India	100	SELL	174,038	3,527	1,740	3.3	3.7	4.4	12.8	14.1	18.8	30.6	26.8	22.6	24.7	20.4	17.1	13.3	10.3	8.1	1.2	1.3	1.6	51.2	43.8	40.6	110	10.0	2.7
GlaxoSmithkline Consumer (a)	2,402	ADD	101,022	2,047	42	71.3	83.2	104.0	28.8	16.7	25.0	33.7	28.9	23.1	24.2	20.9	17.5	10.8	9.2	7.7	2.1	1.5	1.9	32.2	33.5	35.5	2,900	20.7	1.1
Godrej Consumer Products	402	ADD	130,083	2,636	324	14.9	18.4	22.7	31.3	23.4	23.8	27.0	21.9	17.7	23.1	16.1	12.3	7.5	5.4	4.3	1.3	0.8	0.8	35.9	28.7	27.0	510	26.9	2.4
Hindustan Unilever	322	ADD	695,123	14,087	2,159	9.9	11.3	13.3	4.8	14.1	17.7	32.6	28.6	24.3	27.6	24.1	19.7	26.4	22.9	19.8	2.4	2.9	3.4	66.3	85.9	87.5	370	14.9	18.9
ITC	194	ADD	1,490,819	30,212	7,681	6.4	8.0	9.1	20.7	24.9	13.1	30.3	24.2	21.4	20.0	16.3	14.2	8.9	7.6	6.6	2.3	1.9	2.3	33.2	35.5	34.4	230	18.5	33.9
Jubilant Foodworks	658	SELL	43,078	873	65	11.2	16.6	24.1	99.6	48.6	45.1	58.8	39.6	27.3	35.8	21.8	15.1	22.5	14.3	9.4	—	—	—	46.6	44.2	41.6	750	13.9	27.5
Jyothy Laboratories	151	ADD	12,155	246	81	10.5	9.4	11.8	(5.0)	(10.1)	25.2	14.4	16.0	12.8	11.6	10.3	8.5	1.8	1.7	1.6	3.9	3.1	3.9	12.3	11.1	12.9	220	45.9	0.4
Marico	144	ADD	88,248	1,788	612	4.2	5.4	7.1	10.9	27.3	32.6	34.2	26.9	20.3	22.8	18.4	14.0	9.4	7.4	5.7	0.5	0.7	0.9	32.8	31.3	32.2	185	28.2	1.3
Nestle India (a)	4,199	SELL	404,840	8,204	96	86.8	103.6	123.2	16.7	19.3	18.9	48.4	40.5	34.1	32.2	26.4	21.8	47.3	34.4	25.9	1.2	1.4	1.7	116.5	98.3	86.8	3,500	(16.6)	2.1
Tata Global Beverages	81	ADD	50,152	1,016	618	4.0	6.0	7.1	(34.6)	52.6	17.6	20.5	13.4	11.4	7.9	6.6	5.5	1.0	1.0	0.9	2.5	3.8	4.4	6.5	9.6	10.8	120	48.0	4.1
Titan Industries	197	ADD	175,293	3,552	888	4.9	7.4	8.8	71.7	51.5	17.8	40.2	26.5	22.5	29.3	18.4	15.0	16.1	11.5	8.7	0.6	1.1	1.5	47.8	50.5	44.0	240	21.5	18.1
United Spirits	779	ADD	97,787	1,982	126	29.5	39.2	50.6	8.3	32.8	29.0	26.4	19.9	15.4	14.4	11.0	9.5	2.2	2.0	1.8	0.4	0.3	0.5	9.1	10.7	12.5	1,100	41.3	4.9
Consumer products		**Neutral**	**3,888,638**	**78,805**					**16.3**	**21.8**	**17.2**	**32.5**	**26.7**	**22.8**	**22.7**	**18.4**	**15.4**	**10.0**	**8.5**	**7.3**	**1.8**	**1.8**	**2.2**	**30.8**	**31.9**	**32.0**			
Constructions																													
IVRCL	35	BUY	9,305	189	267	5.9	5.7	6.6	(25.2)	(4.1)	15.6	5.9	6.1	5.3	5.6	5.4	5.2	0.5	0.4	0.4	1.1	1.1	1.1	8.2	7.3	7.9	75	115.2	5.1
Nagarjuna Construction Co.	58	BUY	14,805	300	257	6.4	5.9	7.7	(29.7)	(7.8)	30.8	9.1	9.8	7.5	7.8	7.4	6.9	0.6	0.6	0.6	3.5	3.5	3.5	7.1	6.3	7.8	100	73.3	1.3
Punj Lloyd	53	REDUCE	17,981	364	340	(1.5)	5.5	7.4	(56.6)	(467.8)	34.9	(35.7)	9.7	7.2	12.5	5.6	4.9	0.6	0.6	0.5	(0.1)	0.9	1.2	(1.7)	6.1	7.7	65	22.8	6.2
Sadbhav Engineering	126	BUY	18,839	382	150	7.8	10.8	11.9	51.0	38.9	10.6	16.2	11.7	10.5	9.7	7.8	7.1	2.9	2.4	2.0	0.5	0.5	0.5	18.1	20.4	18.6	180	43.2	0.2
Construction		**Attractive**	**60,931**	**1,235**					**(1.1)**	**67.6**	**23.4**	**15.7**	**9.4**	**7.6**	**8.6**	**6.2**	**5.7**	**0.8**	**0.7**	**0.7**	**1.1**	**1.4**	**1.5**	**4.8**	**7.6**	**8.7**			
Energy																													
Aban Offshore	338	BUY	14,700	298	44	134.2	99.1	102.6	25.9	(26.1)	3.5	2.5	3.4	3.3	6.4	6.7	6.3	0.7	0.7	0.6	1.1	1.2	1.3	33.3	21.9	17.9	670	98.4	7.7
Bharat Petroleum	670	ADD	242,123	4,907	362	38.9	54.0	55.1	(32.5)	38.9	1.9	17.2	12.4	12.2	10.9	7.7	7.3	1.6	1.5	1.4	2.1	2.6	2.7	9.2	11.8	11.2	780	16.5	6.3
Cairn india	267	REDUCE	508,382	10,303	1,902	33.3	40.4	49.3	501.1	21.2	22.2	8.0	6.6	5.4	5.8	4.2	3.4	1.2	1.1	1.0	—	1.9	5.6	16.9	17.7	19.5	295	10.4	11.7
Castrol India (a)	448	SELL	110,819	2,246	247	19.8	21.9	22.3	28.5	10.8	1.6	22.6	20.4	20.1	14.4	13.6	13.2	21.5	19.5	18.6	3.3	3.8	4.0	100.2	100.2	94.7	425	(5.2)	1.5
GAIL (India)	405	BUY	514,242	10,421	1,268	28.2	34.3	36.0	13.8	21.8	4.9	14.4	11.8	11.3	9.1	8.7	7.8	2.5	2.1	1.8	1.9	2.2	2.5	17.5	18.4	16.5	560	38.1	9.7
GSPL	105	SELL	58,846	1,193	563	8.9	8.5	8.4	21.7	(4.0)	(1.2)	11.8	12.2	12.4	7.4	7.2	7.0	2.6	2.2	1.9	1.0	1.6	2.4	25.2	19.3	16.4	92	(12.0)	5.1
Hindustan Petroleum	371	ADD	125,773	2,549	339	40.8	20.3	33.9	(20.8)	(50.4)	67.3	9.1	18.3	10.9	4.1	5.0	3.5	0.8	0.8	0.7	3.8	1.7	2.8	9.0	4.1	6.5	430	15.9	6.7
Indian Oil Corporation	317	BUY	768,932	15,583	2,428	32.4	28.4	32.1	(34.0)	(12.5)	12.9	9.8	11.2	9.9	9.0	7.9	6.9	1.3	1.2	1.1	3.0	2.7	3.1	13.3	10.8	11.3	385	21.6	3.8
Oil India	1,303	BUY	313,258	6,348	240	120.0	171.7	190.1	4.2	43.1	10.7	10.9	7.6	6.9	5.4	3.0	2.5	1.9	1.6	1.4	2.9	4.2	4.6	16.2	20.1	19.4	1,750	34.3	1.8
Oil & Natural Gas Corporation	264	BUY	2,258,229	45,764	8,556	24.7	37.2	40.8	7.4	50.8	9.7	10.7	7.1	6.5	4.0	3.0	2.4	1.5	1.3	1.2	3.3	4.5	5.3	14.3	19.1	18.3	380	44.0	25.7
Petronet LNG	158	SELL	118,350	2,398	750	8.1	11.5	11.4	50.3	41.3	(0.7)	19.5	13.8	13.9	11.3	9.1	9.3	3.9	3.2	2.7	1.3	1.9	1.9	20.9	24.6	20.2	125	(20.8)	11.5
Reliance Industries	767	BUY	2,286,427	46,336	2,981	62.0	69.2	71.1	24.8	11.7	2.7	12.4	11.1	10.8	6.8	6.0	5.4	1.4	1.2	1.1	1.0	1.2	1.3	13.0	13.1	12.0	1,000	30.4	90.4
Energy		**Attractive**	**7,320,081**	**148,345**					**11.6**	**25.0**	**7.2**	**10.9**	**8.7**	**8.1**	**6.1**	**4.9**	**4.2**	**1.5**	**1.3**	**1.2**	**2.1**	**2.7**	**3.4**	**13.8**	**15.3**	**14.8**			
Industrials																													
ABB	671	SELL	142,106	2,880	212	3.0	21.1	27.3	(82.2)	606.1	29.6	224.7	31.8	24.6	162.4	21.4	16.0	5.9	5.1	4.3	0.3	0.5	0.5	2.6	17.1	19.1	700	4.4	1.8
BGR Energy Systems	303	Reduce	21,834	442	72	44.8	40.4	39.0	60.0	(9.7)	(3.5)	6.8	7.5	7.8	4.6	4.1	3.9	2.3	1.9	1.6	3.3	2.7	2.6	39.0	27.4	21.9	400	32.2	5.0
Bharat Electronics	1,502	ADD	120,180	2,436	80	107.3	121.7	135.5	11.6	13.5	11.3	14.0	12.3	11.1	6.1	5.0	3.6	2.3	2.0	1.8	1.4	1.7	1.7	18.2	17.6	17.1	1,875	24.8	1.2
Bharat Heavy Electricals	314	REDUCE	767,323	15,550	2,448	24.6	25.3	27.5	39.7	3.0	8.5	12.8	12.4	11.4	8.5	7.7	7.0	3.8	3.1	2.6	2.0	1.7	1.9	33.3	27.6	24.6	360	14.8	31.1
Crompton Greaves	148	BUY	94,653	1,918	642	14.3	10.3	12.7	11.5	(28.0)	23.2	10.3	14.3	11.6	6.7	8.2	6.4	2.9	2.5	2.1	1.6	1.1	1.1	31.7	18.6	19.5	200	35.5	16.9
Larsen & Toubro	1,343	REDUCE	817,716	16,571	609	67.7	79.2	91.7	18.1	16.9	15.9	19.8	17.0	14.6	14.4	11.0	9.9	3.1	2.6	2.2	1.1	1.0	1.0	17.0	16.5	16.2	1,625	21.0	64.3
Maharashtra Seamless	341	BUY	24,072	488	71	46.1	41.6	46.7	19.3	(9.7)	12.3	7.4	8.2	7.3	3.8	3.9	3.1	0.9	0.9	0.8	2.4	2.4	2.7	13.3	11.1	11.5	460	34.8	0.2
Siemens	827	SELL	278,730	5,649	337	22.4	28.9	32.5	39.5	28.8	12.3	36.8	28.6	25.5	21.7	18.3	15.9	8.6	7.0	5.8	0.6	0.7	0.8	25.2	26.9	24.8	830	0.4	3.1
Suzlon Energy	35	SELL	60,832	1,233	1,746	(6.0)	1.8	3.2	(4.6)	(129.2)	80.6	(5.8)	19.8	11.0	19.2	7.2	6.2	0.9	0.9	0.8	—	0.6	0.6	(15.8)	4.4	7.7	40	14.8	18.5
Tecpro Systems	208	ADD	10,496	213	50	27.0	29.4	32.7	24.2	8.9	11.4	7.7	7.1	6.4	5.0	5.2	4.6	1.6	1.3	1.2	—	—	—	26.8	20.5	19.6	300	44.3	0.2
Thermax	410	ADD	48,869	990	119	31.6	31.9	31.7	44.3	0.8	(0.6)	13.0	12.9	12.9	8.4	7.9	7.9	3.7	3.1	2.7	2.2	2.3	2.3	31.5	26.4	22.3	515	25.6	1.9
Voltas	103	BUY	33,918	687	331	9.8	8.8	9.5	(14.3)	(9.9)	7.5	10.5	11.6	10.8	6.1	6.4	5.4	2.5	2.2	1.8	2.0	2.7	(0.0)	26.1	19.8	18.3	135	31.6	3.5
Industrials		**Cautious**	**2,420,728**	**49,057**					**25.5**	**19.9**	**13.4**	**18.4**	**15.3**	**13.5**	**11.7**	**9.6**	**8.5**	**3.3**	**2.7**	**2.4**	**1.3**	**1.3**	**1.3**	**17.7**	**17.9**	**17.4**			
Infrastructure																													
Container Corporation	907	ADD	117,944	2,390	130	67.6	70.0	77.7	11.7	3.6	11.0	13.4	13.0	11.7	9.5	8.2	7.1	2.4	2.1	1.8	1.7	1.8	2.0	18.9	17.1	16.8	1,150	26.7	0.8
GMR Infrastructure	26	RS	95,352	1,932	3,667	(0.0)	(0.4)	0.5	(102.0)	3,980.8	(243.5)	(2,999.6)	(73.5)	51.2	12.4	10.7	8.6	0.9	0.9	0.9	—	—	—	(0.0)	(2.0)	2.8	—	—	2.5
Gujarat Pipavav Port	65	BUY	27,489	557	424	(1.2)	1.2	2.6	(65.8)	(201.6)	115.2	(54.0)	53.2	24.7	27.8	16.4	11.0	3.7	3.5	3.1	—	—	—	(9.1)	9.4	13.6	78	20.2	0.6
GVK Power & Infrastructure	15	RS	23,688	480	1,579	1.0	1.0	0.3	(0.6)	1.6	(73.4)	15.3	15.0	56.5	17.4	16.1	19.0	0.7	0.7	0.7	—	2.0	2.3	4.7	4.6	1.2	—	—	3.2
IRB Infrastructure	162	ADD	53,860	1,091	332	13.6	11.3	11.0	17.4	(16.9)	(2.6)	11.9	14.3	14.7	8.0	8.1	6.9	2.1	1.6	1.3	0.9	—	—	19.3	12.6	9.6	185	14.2	6.3
Mundra Port and SEZ	151	ADD	303,929	6,159	2,017	4.6	6.8	10.5	36.3	50.3	53.2	33.1	22.0	14.4	26.7	17.9	12.7	7.0	5.5	4.3	—	—	—	23.2	28.0	33.5	175	16.2	5.8
Infrastructure		**Cautious**	**622,262**	**12,610**					**14.7**	**16.8**	**39.5**	**26.5**	**22.7**	**16.2**	**15.1**	**12.3**	**10.0**	**2.3**	**2.1**	**1.9**	**0.4**	**0.4**	**0.5**	**8.7**	**9.2**	**11.6**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	5-Oct-11 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2011E	EPS (Rs) 2012E	EPS (Rs) 2013E	EPS growth (%) 2011E	EPS growth (%) 2012E	EPS growth (%) 2013E	PER (X) 2011E	PER (X) 2012E	PER (X) 2013E	EV/EBITDA (X) 2011E	EV/EBITDA (X) 2012E	EV/EBITDA (X) 2013E	Price/BV (X) 2011E	Price/BV (X) 2012E	Price/BV (X) 2013E	Dividend yield (%) 2011E	Dividend yield (%) 2012E	Dividend yield (%) 2013E	RoE (%) 2011E	RoE (%) 2012E	RoE (%) 2013E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Media																													
DB Corp	198	BUY	36,271	735	183	14.1	13.0	15.5	32.7	(8.1)	19.9	14.0	15.3	12.7	9.1	9.0	7.5	4.4	3.9	3.4	2.0	3.0	4.0	35.0	26.9	28.6	330	66.8	0.8
DishTV	73	ADD	77,852	1,578	1,062	(1.8)	0.0	1.3	(27.5)	(101.9)	3,944.0	(41.0)	2,213.0	54.7	36.5	16.8	11.3	37.0	36.4	21.9	—	—	—	(62.3)	1.7	49.9	100	36.4	6.7
Eros International	232	ADD	22,534	457	97	11.8	15.8	19.9	19.0	34.0	25.9	19.7	14.7	11.7	13.7	10.4	7.5	3.3	2.7	2.2	—	—	—	24.9	20.2	20.5	270	16.2	2.6
Hindustan Media Ventures	126	BUY	9,262	188	73	7.3	9.1	10.9	198.0	24.0	20.1	17.3	13.9	11.6	8.1	7.2	5.6	2.4	2.1	1.8	1—	1—	1.6	23.3	16.1	16.9	210	66.4	0.1
HT Media	145	ADD	34,028	690	235	7.6	8.5	10.4	24.8	11.7	22.2	19.0	17.0	13.9	8.9	7.6	6.0	2.4	2.3	2.2	1.4	2.8	4.1	14.9	13.8	15.9	190	31.2	0.5
Jagran Prakashan	105	BUY	33,270	674	316	6.8	6.7	8.0	16.7	(1.4)	18.7	15.4	15.7	13.2	9.2	9.0	7.6	4.7	4.2	3.9	3.3	3.3	4.8	32.8	28.5	30.8	160	52.1	0.4
Sun TV Network	231	BUY	91,151	1,847	394	19.5	21.0	25.1	48.1	7.7	19.2	11.8	11.0	9.2	7.0	6.2	5.2	3.8	3.3	2.9	3.8	4.3	6.1	36.5	33.4	34.8	440	90.2	7.8
Zee Entertainment Enterprises	113	BUY	110,555	2,240	978	5.8	6.2	7.7	10.0	6.4	23.3	19.3	18.2	14.7	12.8	11.8	9.3	2.6	2.5	2.4	1.2	1.2	1.4	14.2	14.3	16.9	160	41.6	5.5
Media		**Neutral**	**414,922**	**8,409**					**50.8**	**17.2**	**27.0**	**21.0**	**18.0**	**14.1**	**11.2**	**9.6**	**7.6**	**3.8**	**3.5**	**3.2**	**1.7**	**2.0**	**2.8**	**18.2**	**19.4**	**22.4**			
Metals & Mining																													
Coal India	325	ADD	2,050,924	41,563	6,316	17.3	24.1	29.3	13.6	39.1	21.9	18.8	13.5	11.1	10.9	7.8	6.4	5.9	4.6	3.6	1.2	2.2	2.7	35.1	38.2	36.7	454	39.8	34.4
Hindalco Industries	120	ADD	229,979	4,661	1,915	12.8	18.3	17.6	(36.0)	43.3	(4.0)	9.4	6.6	6.8	5.5	5.4	5.8	0.8	0.7	0.7	1.2	1.2	1.2	9.7	11.4	10.0	175	45.7	26.7
Hindustan Zinc	113	BUY	477,636	9,680	4,225	11.6	13.1	14.7	21.8	12.7	11.8	9.7	8.6	7.7	6.0	4.5	3.2	2.1	1.7	1.4	0.9	0.9	0.9	24.3	22.2	20.4	160	41.5	2.9
Jindal Steel and Power	446	REDUCE	416,418	8,439	934	40.2	43.5	52.9	5.1	8.2	21.6	11.1	10.2	8.4	8.6	8.0	6.9	3.0	2.3	1.8	0.3	0.4	0.4	30.9	25.5	24.4	595	33.5	22.3
JSW Steel	553	SELL	124,989	2,533	226	78.6	70.2	107.5	(2.2)	(10.7)	53.1	7.0	7.9	5.1	5.8	6.2	5.3	0.8	0.7	0.6	2.2	2.2	2.2	13.6	9.3	12.9	660	19.3	37.7
National Aluminium Co.	61	SELL	157,727	3,196	2,577	4.1	5.0	4.8	36.3	20.5	(4.1)	14.8	12.2	12.8	6.7	5.3	5.1	1.4	1.3	1.2	2.5	2.5	2.5	9.9	11.1	10.0	65	6.2	0.5
Sesa Goa	193	SELL	172,632	3,498	895	47.0	40.1	41.6	59.8	(14.6)	3.7	4.1	4.8	4.6	3.4	3.6	2.8	1.3	1.1	0.8	2.0	2.1	2.1	36.8	22.1	17.9	230	19.2	17.3
Sterlite Industries	105	BUY	351,245	7,118	3,361	15.2	17.0	19.0	26.2	12.0	11.5	6.9	6.2	5.5	4.3	3.2	2.7	0.8	0.8	0.7	1.1	1.1	1.1	13.0	13.0	12.8	185	77.0	17.7
Tata Steel	401	BUY	389,147	7,886	971	75.3	68.7	76.9	(2,258.1)	(8.8)	12.0	5.3	5.8	5.2	5.5	5.7	4.8	1.1	0.9	0.8	3.0	2.0	2.0	24.7	15.5	15.7	625	56.0	49.2
Metals & Mining		**Attractive**	**4,370,697**	**88,574**					**39.1**	**13.9**	**15.1**	**10.6**	**9.3**	**8.1**	**6.7**	**5.9**	**5.0**	**2.0**	**1.7**	**1.4**	**1.3**	**1.7**	**2.0**	**19.0**	**18.2**	**17.8**			
Pharmaceutical																													
Apollo Hospitals	510	ADD	70,829	1,435	139	13.2	17.8	21.4	21.0	34.5	19.9	38.5	28.6	23.9	17.6	13.3	11.0	3.7	2.8	2.5	—	—	—	9.8	10.7	10.5	650	27.5	1.0
Biocon	337	BUY	67,480	1,368	200	18.4	19.4	21.4	23.9	5.6	10.3	18.4	17.4	15.8	10.5	10.1	9.1	3.3	2.9	2.6	—	—	—	19.4	17.9	17.4	445	31.9	2.8
Cipla	281	REDUCE	225,741	4,575	803	12.3	14.5	16.5	(10.0)	17.5	13.7	22.8	19.4	17.1	19.7	14.1	11.6	3.4	3.0	2.7	1.0	1.1	1.2	15.4	16.0	16.5	310	10.3	7.7
Cadila Healthcare	771	REDUCE	157,871	3,199	205	34.7	38.2	45.1	40.6	10.0	18.1	22.2	20.2	17.1	19.2	16.4	12.9	7.3	5.7	4.5	0.8	1.0	1.2	37.5	31.7	29.6	900	16.7	2.4
Dishman Pharma & chemicals	59	REDUCE	4,766	97	81	9.8	8.0	8.7	(31.8)	(18.3)	8.0	6.0	7.3	6.7	8.0	6.1	5.6	0.5	0.5	0.5	—	—	—	9.6	7.2	7.3	70	19.5	0.2
Divi's Laboratories	717	ADD	95,103	1,927	133	32.4	36.7	45.0	25.7	13.5	22.4	22.1	19.5	15.9	18.2	14.0	11.4	5.3	4.5	3.9	—	—	—	25.9	25.0	26.2	830	15.8	2.4
GlaxoSmithkline Pharmaceuticals (a)	2,092	REDUCE	177,173	3,591	85	68.3	78.2	88.6	15.5	14.6	13.3	30.6	26.7	23.6	20.3	18.0	15.5	9.1	8.4	7.7	1.9	2.4	2.7	30.9	32.6	33.9	2,220	6.1	1.4
Glenmark Pharmaceuticals	298	ADD	80,651	1,634	270	17.0	26.2	23.5	33.6	54.5	(10.3)	17.6	11.4	12.7	19.8	13.2	11.2	4.0	3.0	2.4	—	—	—	20.6	29.8	21.2	395	32.5	4.2
Jubilant Life Sciences	188	REDUCE	29,940	607	159	14.4	16.5	22.7	(45.6)	14.5	37.6	13.0	11.4	8.3	10.7	8.6	7.2	1.4	1.2	1.1	1.1	1.1	1.6	12.3	11.7	14.2	205	9.1	1.0
Lupin	470	ADD	210,516	4,266	448	19.2	20.6	26.3	25.6	7.2	27.5	24.4	22.8	17.9	20.4	17.7	13.1	6.3	5.1	4.2	0.6	0.7	1.0	29.5	25.3	26.2	530	12.8	9.5
Ranbaxy Laboratories	520	SELL	220,166	4,462	423	40.6	16.9	20.8	475.0	(58.3)	22.7	12.8	30.7	25.0	15.7	26.6	20.7	3.9	3.4	3.0	—	—	—	34.5	11.9	12.8	435	(16.4)	7.4
Sun Pharmaceuticals	461	ADD	477,463	9,676	1,036	17.5	20.4	24.3	34.4	16.3	19.2	26.3	22.6	19.0	22.2	17.8	14.4	4.6	3.9	3.3	0.8	0.9	1.1	21.0	20.2	20.7	560	21.5	11.0
Pharmaceuticals		**Cautious**	**2,143,869**	**43,447**					**30.2**	**3.2**	**3.4**	**22.3**	**21.6**	**20.9**	**16.9**	**14.5**	**13.8**	**3.6**	**3.1**	**2.9**	**0.7**	**0.8**	**0.8**	**16.0**	**14.2**	**13.9**			
Property																													
DLF	206	BUY	353,973	7,173	1,715	9.1	11.9	15.7	(14.5)	31.3	31.8	22.7	17.3	13.2	15.5	12.2	9.3	1.3	1.3	1.2	1.0	1.2	1.4	5.4	7.5	9.2	270	30.8	34.8
Housing Development & Infrastructure	91	BUY	40,362	818	445	19.8	28.7	34.3	24.0	44.8	19.7	4.6	3.2	2.6	4.9	3.4	3.0	0.4	0.4	0.3	—	1.1	1.7	10.0	12.3	12.7	150	65.4	20.4
Indiabulls Real Estate	70	RS	28,137	570	402	4.0	8.5	15.4	(1,095.5)	114.1	81.5	17.6	8.2	4.5	12.7	10.2	4.4	0.2	0.2	0.2	—	0.7	1.0	1.4	2.9	5.0	—	—	8.7
Mahindra Life Space Developer	283	BUY	11,555	234	41	24.9	30.8	37.5	30.2	23.7	21.6	11.4	9.2	7.5	8.6	6.1	4.5	1.1	1.0	0.9	1.8	1.6	1.8	10.4	11.6	12.7	450	58.9	0.2
Oberoi Realty	224	BUY	73,831	1,496	330	15.7	20.0	28.0	14.8	27.6	39.7	14.3	11.2	8.0	10.4	7.2	4.4	2.2	1.9	1.6	0.4	0.7	1.1	19.9	18.2	21.3	315	40.7	0.3
Phoenix Mills	199	BUY	28,868	585	145	6.3	7.4	10.7	53.0	17.2	44.1	31.5	26.9	18.7	23.3	19.5	14.6	1.8	1.7	1.6	0.9	1.0	1.0	5.8	6.6	8.9	300	50.5	0.2
Puravankara Projects	62	ADD	13,296	269	213	5.5	9.0	10.9	(18.9)	62.8	21.5	11.3	6.9	5.7	16.5	9.0	7.6	0.9	0.8	0.7	1.6	2.4	3.2	8.0	12.0	13.1	80	28.4	0.0
Sobha Developers	203	BUY	19,932	404	98	18.8	20.6	27.2	33.8	9.2	32.2	10.8	9.9	7.5	10.1	9.2	6.4	1.1	1.0	0.9	1.5	1.7	2.0	10.2	10.3	12.4	370	82.0	0.7
Unitech	25	RS	65,800	1,333	2,616	2.3	2.6	2.7	(23.4)	12.8	4.9	10.8	9.6	9.2	13.0	10.5	8.6	0.6	0.5	0.5	—	0.8	1.2	5.4	5.7	5.4	—	—	17.2
Property		**Cautious**	**669,602**	**13,570**					**5.3**	**44.3**	**29.6**	**15.6**	**10.8**	**8.4**	**12.7**	**9.1**	**6.8**	**1.0**	**0.9**	**0.8**	**0.8**	**1.1**	**1.4**	**6.1**	**8.1**	**9.5**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	5-Oct-11 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2011E	EPS (Rs) 2012E	EPS (Rs) 2013E	EPS growth (%) 2011E	EPS growth (%) 2012E	EPS growth (%) 2013E
Sugar											
Bajaj Hindustan	37	REDUCE	8,554	173	228	1.9	3.7	1.6	(28.7)	90.5	(57.3)
Balrampur Chini Mills	45	BUY	11,014	223	247	6.7	4.0	7.7	111.0	(40.5)	94.0
Shree Renuka Sugars	50	BUY	33,821	685	670	10.5	6.4	5.0	214.7	(39.4)	(21.0)
Sugar		**Cautious**	**53,388**	**1,082**					**122.4**	**(24.7)**	**(7.4)**
Technology											
HCL Technologies	395	SELL	278,722	5,648	705	22.9	29.5	32.8	30.4	28.9	11.3
Hexaware Technologies	80	ADD	23,247	471	290	3.0	7.5	7.3	(36.8)	154.4	(3.4)
Infosys Technologies	2,447	BUY	1,404,549	28,464	574	119.7	134.3	160.3	10.5	12.1	19.4
Mahindra Satyam	64	SELL	75,499	1,530	1,176	4.2	6.7	7.0	68.9	58.4	4.7
Mindtree	339	ADD	13,943	283	41	24.7	35.2	37.2	(52.7)	42.4	5.8
Mphasis BFL	316	SELL	66,609	1,350	211	51.8	38.6	30.0	18.8	(25.5)	(22.2)
Patni Computer Systems	288	ADD	38,309	776	133	42.6	25.9	27.2	16.5	(39.3)	5.2
Polaris Software Lab	124	REDUCE	12,368	251	100	19.3	18.8	19.0	25.7	(2.6)	0.7
TCS	1,044	ADD	2,042,436	41,391	1,957	44.5	52.8	61.1	26.8	18.6	15.6
Tech Mahindra	532	SELL	67,026	1,358	126	48.8	72.1	75.5	(25.2)	47.8	4.7
Wipro	328	ADD	804,789	16,309	2,454	21.6	22.4	24.5	14.5	3.9	9.1
Technology		**Attractive**	**4,827,497**	**97,832**					**17.1**	**13.1**	**13.0**
Telecom											
Bharti Airtel	366	ADD	1,390,301	28,175	3,798	15.9	18.2	28.0	(32.6)	14.5	53.7
IDEA	95	ADD	312,492	6,333	3,303	2.7	2.7	5.1	(0.5)	(1.4)	89.2
MTNL	29	SELL	18,459	374	630	(10.4)	(9.1)	(8.4)	(33.7)	(11.9)	(8.1)
Reliance Communications	73	SELL	154,928	3,140	2,133	6.3	2.6	5.2	(71.1)	(59.4)	103.2
Tata Communications	180	REDUCE	51,172	1,037	285	(24.9)	(28.8)	(34.0)	(13.0)	15.6	18.1
Telecom		**Neutral**	**1,927,352**	**39,059**					**(45.8)**	**0.6**	**71.4**
Utilities											
Adani Power	80	REDUCE	192,174	3,894	2,393	2.4	11.0	15.0	200.7	368.5	35.8
CESC	258	BUY	32,190	652	125	37.7	42.5	51.3	9.1	12.7	20.8
JSW Energy	49	REDUCE	80,934	1,640	1,640	5.1	4.8	4.7	12.9	(6.2)	(1.8)
Lanco Infratech	15	BUY	33,123	671	2,223	2.0	3.0	3.4	(5.8)	47.2	16.6
NHPC	23	ADD	283,532	5,746	12,301	1.3	1.8	2.1	(27.2)	36.0	16.3
NTPC	164	REDUCE	1,351,432	27,387	8,245	11.0	11.2	12.0	5.3	1.4	6.8
Reliance Infrastructure	377	BUY	99,948	2,025	265	58.0	64.1	76.3	(6.5)	10.5	19.0
Reliance Power	79	SELL	222,583	4,511	2,805	2.7	2.9	2.9	(5.0)	7.6	(0.5)
Tata Power	98	BUY	242,391	4,912	2,468	7.6	8.5	9.2	21.5	10.7	8.8
Utilities		**Cautious**	**2,538,306**	**51,440**					**5.1**	**20.2**	**12.8**
Others											
Carborundum Universal	145	SELL	13,577	275	93	18.3	18.9	21.0	67.7	3.7	10.6
Havells India	342	REDUCE	42,704	865	125	24.5	25.8	28.8	334.1	5.1	11.5
Jaiprakash Associates	71	BUY	151,616	3,073	2,126	6.0	6.3	7.2	230.2	3.9	15.6
Jet Airways	230	BUY	19,882	403	86	(10.1)	(69.1)	7.0	(91.0)	588	(110.1)
SpiceJet	21	BUY	9,445	191	441	2.5	(3.0)	3.3	(1.8)	(220.2)	(210.4)
Tata Chemicals	295	REDUCE	75,153	1,523	255	26.2	32.9	38.8	(0.7)	25.4	17.9
United Phosphorus	125	BUY	57,518	1,166	462	12.3	15.9	19.8	3.9	28.8	24.3
Others			**369,894**	**7,496**					**233.8**	**(5.8)**	**57.1**
KS universe (b)			**42,078,928**	**852,750**					**18.2**	**17.1**	**16.1**
KS universe (b) ex-Energy			**34,758,847**	**704,405**					**20.4**	**14.7**	**18.9**
KS universe (d) ex-Energy & ex-Commodities			**29,351,399**	**594,820**					**18.9**	**14.7**	**19.8**

Company	PER (X) 2011E	PER (X) 2012E	PER (X) 2013E	EV/EBITDA (X) 2011E	EV/EBITDA (X) 2012E	EV/EBITDA (X) 2013E	Price/BV (X) 2011E	Price/BV (X) 2012E	Price/BV (X) 2013E	Dividend yield (%) 2011E	Dividend yield (%) 2012E	Dividend yield (%) 2013E	RoE (%) 2011E	RoE (%) 2012E	RoE (%) 2013E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Sugar																		
Bajaj Hindustan	19.4	10.2	23.8	16.8	5.6	5.3	0.3	0.3	0.3	1.6	1.6	1.6	1.7	2.7	1.1	60	60.2	1.8
Balrampur Chini Mills	6.7	11.2	5.8	10.4	8.2	5.4	0.7	0.7	0.7	1.7	1.7	1.7	11.6	6.5	11.9	80	79.4	1.4
Shree Renuka Sugars	4.8	7.9	10.0	7.9	6.2	5.1	1.4	1.2	1.1	2.0	2.0	2.0	34.4	16.1	11.4	75	48.7	8.8
Sugar	**6.6**	**8.8**	**9.5**	**10.2**	**6.2**	**5.2**	**0.8**	**0.7**	**0.7**	**1.9**	**1.9**	**1.9**	**11.6**	**8.1**	**7.0**			
Technology																		
HCL Technologies	17.3	13.4	12.1	10.5	8.1	7.2	3.3	2.8	2.4	1.9	2.0	2.0	21.0	22.6	21.7	375	(5.1)	10.2
Hexaware Technologies	27.1	10.7	11.0	20.3	9.2	7.8	2.4	2.1	2.0	1.9	3.7	4.1	9.3	21.3	18.6	80	(0.1)	3.5
Infosys Technologies	20.4	18.2	15.3	13.8	12.2	10.0	5.4	4.6	3.8	2.4	1.7	2.0	28.0	27.1	27.2	2,900	18.5	78.9
Mahindra Satyam	15.3	9.6	9.2	10.6	5.4	4.1	4.4	3.0	2.3	—	—	—	27.6	37.1	28.2	70	9.0	10.0
Mindtree	13.7	9.6	9.1	7.6	5.9	4.7	1.8	1.5	1.4	0.7	1.0	3.3	14.4	17.2	16.1	375	10.7	1.5
Mphasis BFL	6.1	8.2	10.5	5.2	6.1	6.5	2.0	1.7	1.5	1.3	1.4	1.6	38.6	22.3	14.8	300	(5.1)	3.6
Patni Computer Systems	6.8	11.1	10.6	3.6	3.8	2.6	1.2	1.1	1.0	22.9	1.8	1.9	18.4	8.2	10.2	300	4.3	1.2
Polaris Software Lab	6.4	6.6	6.5	3.4	2.6	2.2	1.2	1.0	0.9	3.0	3.1	3.3	20.2	16.8	14.8	130	4.8	2.2
TCS	23.4	19.8	17.1	17.7	14.5	12.1	8.1	6.6	5.5	1.7	2.0	2.3	37.8	36.9	35.2	1,160	11.2	46.1
Tech Mahindra	10.9	7.4	7.0	7.6	7.6	6.6	2.0	1.7	1.5	0.8	0.8	1.9	20.5	26.0	23.8	600	12.8	3.6
Wipro	15.2	14.6	13.4	11.1	9.8	8.6	3.4	2.9	2.4	1.3	1.4	1.6	24.3	21.1	19.7	370	12.8	11.9
Technology	**18.8**	**16.6**	**14.7**	**13.5**	**11.5**	**9.8**	**4.9**	**4.1**	**3.5**	**2.0**	**1.8**	**2.1**	**26.2**	**24.9**	**23.8**			
Telecom																		
Bharti Airtel	23.0	20.1	13.1	10.0	7.8	5.9	2.9	2.5	2.1	—	—	—	13.3	13.3	17.4	460	25.6	45.4
IDEA	34.8	35.3	18.6	11.1	8.4	6.4	2.5	2.4	2.1	—	—	—	7.6	7.0	12.0	115	21.6	18.2
MTNL	(2.8)	(3.2)	(3.5)	1.1	1.5	1.8	0.2	0.2	0.2	—	—	—	(6.1)	(5.7)	(5.5)	35	19.5	0.8
Reliance Communications	11.5	28.4	14.0	5.8	6.3	5.4	0.4	0.4	0.4	—	—	—	3.2	1.3	2.7	80	10.1	18.8
Tata Communications	(7.2)	(6.2)	(5.3)	10.4	9.1	9.1	1.4	2.1	3.7	-	-	-	(17.5)	(27.0)	(50.2)	205	14.2	1.3
Telecom	**27.9**	**27.7**	**16.2**	**9.3**	**7.7**	**6.0**	**1.7**	**1.6**	**1.4**	**-**	**-**	**-**	**6.0**	**5.7**	**8.9**			
Utilities																		
Adani Power	34.1	7.3	5.4	35.3	7.4	4.8	3.1	2.0	1.5	—	—	—	8.5	33.5	31.8	100	24.5	3.4
CESC	6.8	6.1	5.0	5.1	5.5	5.3	0.7	0.6	0.5	1.9	2.1	2.3	10.5	10.7	11.5	440	70.8	1.8
JSW Energy	9.6	10.3	10.4	11.2	7.4	5.8	1.4	1.3	1.1	(2.0)	—	—	16.1	13.0	11.3	60	21.6	1.8
Lanco Infratech	7.4	5.0	4.3	8.2	7.7	7.3	0.8	0.7	0.6	—	—	—	12.2	15.0	14.6	45	202.0	6.4
NHPC	17.1	12.6	10.8	12.8	9.7	7.7	1.0	1.0	0.9	1.8	2.1	2.5	6.3	8.0	8.8	30	30.2	2.1
NTPC	14.8	14.6	13.7	12.4	12.0	11.3	2.0	1.8	1.7	2.3	2.0	2.2	13.7	12.8	12.6	180	9.8	9.6
Reliance Infrastructure	6.5	5.9	4.9	6.3	3.3	2.3	0.4	0.4	0.4	2.5	2.7	3.0	6.4	11.2	12.2	920	144.1	14.3
Reliance Power	29.3	27.2	27.3	159.9	68.5	14.4	1.4	1.3	1.2	—	—	—	4.9	4.9	4.7	88	10.9	6.4
Tata Power	12.8	11.6	10.7	10.4	8.3	8.5	1.7	2.0	2.5	14.3	15.3	17.3	13.8	15.5	20.8	135	37.5	8.7
Utilities	**14.7**	**12.3**	**10.9**	**13.5**	**10.1**	**8.5**	**1.5**	**1.4**	**1.3**	**2.8**	**2.9**	**3.2**	**10.1**	**11.3**	**11.8**			
Others																		
Carborundum Universal	7.9	7.7	6.9	6.4	5.5	4.9	1.6	1.4	1.2	2.6	2.7	3.0	20.7	18.4	17.8	290	99.7	0.1
Havells India	13.9	13.3	11.9	9.4	8.6	7.5	6.0	4.3	3.2	0.7	0.8	0.9	53.9	37.6	30.9	370	8.1	2.8
Jaiprakash Associates	11.8	11.4	9.9	11.8	10.1	9.7	1.4	1.3	1.2	—	—	—	13.3	11.7	12.3	115	61.3	25.4
Jet Airways	(22.9)	(3.3)	33.0	9.6	11.5	7.4	1.2	2.0	1.9	—	—	—	(5.0)	—	—	500	117.1	10.3
SpiceJet	8.6	(7.1)	6.5	12.5	(17.2)	9.2	2.9	3.0	2.0	—	—	—	(961)	(41.6)	37.7	50	133.6	2.2
Tata Chemicals	11.2	9.0	7.6	7.1	4.9	4.2	1.4	1.2	1.1	3.4	4.1	5.1	16.9	18.6	19.5	365	23.7	2.8
United Phosphorus	10.1	7.8	6.3	6.2	4.3	3.6	1.5	1.3	1.1	1.6	2.4	2.8	18.0	18.5	19.8	220	76.6	3.9
Others	**13.0**	**13.8**	**8.8**	**9.8**	**8.7**	**7.5**	**1.6**	**1.4**	**1.3**	**1.1**	**1.4**	**1.7**	**12.1**	**10.4**	**14.4**			
KS universe (b)	**14.3**	**12.3**	**10.6**	**9.4**	**7.9**	**6.7**	**2.2**	**1.9**	**1.7**	**1.7**	**1.9**	**2.2**	**15.4**	**15.8**	**16.2**			
KS universe (b) ex-Energy	**15.4**	**13.4**	**11.3**	**10.9**	**9.2**	**7.8**	**2.4**	**2.1**	**1.9**	**1.7**	**1.7**	**2.0**	**15.9**	**16.0**	**16.7**			
KS universe (d) ex-Energy & ex-Commodities	**16.4**	**14.3**	**11.9**	**12.4**	**10.4**	**8.8**	**2.5**	**2.2**	**2.0**	**1.7**	**1.7**	**2.0**	**15.5**	**15.7**	**16.5**			

Notes:
(a) For banks we have used adjusted book values.
(b) 2010 means calendar year 2009, similarly for 2011 and 2012 for these particular companies.
(c) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.
(d) Rupee-US Dollar exchange rate (Rs/US$)= 49.35

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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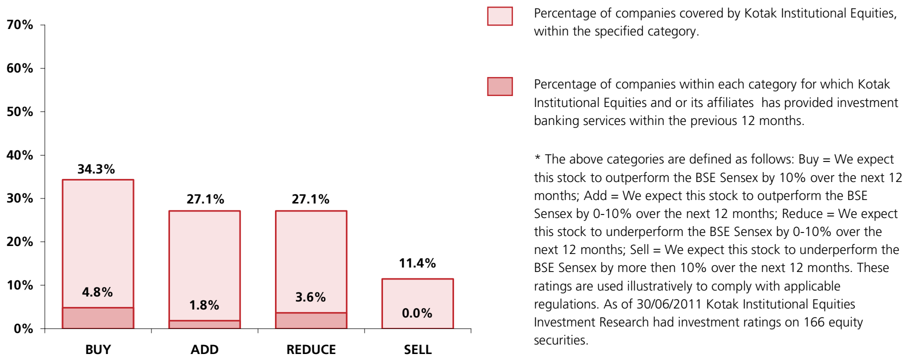

* The above categories are defined as follows: Buy = We expect this stock to outperform the BSE Sensex by 10% over the next 12 months; Add = We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months; Reduce = We expect this stock to underperform the BSE Sensex by 0-10% over the 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 30/06/2011 Kotak Institutional Equities Investment Research had investment ratings on 166 equity securities.

Source: Kotak Institutional Equities

As of June 30, 2011

Ratings and other definitions/identifiers

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