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### EQUITY MARKETS

India	Change %			
	23-Jun	1-day	1-mo	3-mo
Sensex	17,756	0.0	7.8	1.7
Nifty	5,323	0.1	7.7	1.9
<b>Global/Regional indices</b>				
Dow Jones	10,298	0.0	2.3	(5.0)
Nasdaq Composite	2,254	(0.3)	1.8	(6.0)
FTSE	5,179	(1.3)	2.1	(8.8)
Nikkei	9,934	0.1	1.8	(8.1)
Hang Seng	20,797	(0.3)	5.7	(1.0)
KOSPI	1,730	0.3	7.8	2.9
<b>Value traded – India</b>				
Cash (NSE+BSE)	160		166	175
Derivatives (NSE)	1,103		1,207	823
Deri. open interest	1,625		1,473	1,256

#### Forex/money market

	Change, basis points			
	23-Jun	1-day	1-mo	3-mo
Rs/US\$	46.2	(5)	(79)	75
10yr govt bond, %	7.6	-	17	(29)

#### Net investment (US\$mn)

	22-Jun	MTD	CYTD
FIs	225	1,435	6,035
MFs	(50)	104	(282)

#### Top movers -3mo basis

	Change, %			
	23-Jun	1-day	1-mo	3-mo
<b>Best performers</b>				
IBULL IN Equity	141.4	3.0	(1.2)	33.9
BJFIN IN Equity	418.2	0.2	(2.5)	31.2
BJAUT IN Equity	2351.5	0.9	14.6	27.2
TT IN Equity	1190.4	0.9	11.2	26.8
UNTP IN Equity	193.9	(0.4)	19.5	24.7
<b>Worst performers</b>				
ABAN IN Equity	741.3	(1.0)	5.8	(37.8)
GRASIM IN Equity	1791.9	(0.1)	(25.2)	(37.2)
PUNJ IN Equity	126.1	1.4	(3.7)	(29.0)
EDSL IN Equity	540.9	3.8	11.5	(28.9)
TATA IN Equity	497.6	0.7	(0.7)	(22.0)

JUNE 24, 2010

UPDATE

Coverage view: **Cautious**

Price (Rs): **68**

Target price (Rs): **76**

BSE-30: **17,756**

**Fair cut in consideration for Equipav.** We find the 24% reduction in consideration for Equipav, SHRS' Brazilian acquisition, to US\$250 mn for 50% stake in line with stock price decline of peers. We find the nature of the consideration cut more positive with primary investment into Equipav cut by less than 10% while payment to existing shareholders cut to zero versus US\$55 mn earlier. We maintain our BUY rating with target price of Rs76 @ 6x FY2011E EV/EBITDA.

#### Company data and valuation summary

Shree Renuka Sugars

##### Stock data

52-week range (Rs) (high,low)	124-51
Market Cap. (Rs bn)	45.5

##### Shareholding pattern (%)

Promoters	38.0
FIs	21.7
MFs	9.0

##### Price performance (%)

	1M	3M	12M
Absolute	28.1	(5.9)	3.4
Rel. to BSE-30	18.6	(7.6)	(16.6)

##### Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	9.9	7.6	7.8
EPS growth (%)	196.4	(23.2)	3.1
P/E (X)	6.9	8.9	8.7
Sales (Rs bn)	65.9	59.2	63.1
Net profits (Rs bn)	6.6	5.1	5.3
EBITDA (Rs bn)	11.2	9.0	9.1
EV/EBITDA (X)	4.8	5.4	4.7
ROE (%)	32.0	18.1	15.7
Div. Yield (%)	0.6	0.5	0.5

#### Deal sweetened in line with peer group stock price decline

SHRS has revised its agreement to acquire a controlling stake in Equipav by equity value by 24%. From the date of the earlier deal announcement (Feb 21, 2010), stock prices of key Brazilian sugar stocks have declined 8-26% while Indian stocks have corrected by 25-29%.

#### Swing in government policy is key for the near term

We believe government policy changes will remain key for the sector over the next few months as (1) this year's crushing is over and (2) we shall see credible estimates for next year's production only by September 2010, (3) industry sources indicate that sugar traders are still continuing to import and (4) probability of government action has increased post increase in levy price and various press reports indicating that other measures are in the pipeline. We believe (1) a decline in levy quota from current 20% and (2) a re-imposition of import duties (if they happen) are key positives to monitor as they would add support to FY2011E sugar prices/profitability.

#### Maintain target price, need to see progress on execution before ascribing value

We maintain our BUY rating with a target price of Rs76 based on 6x FY2011E EBITDA—a target multiple in line with Brazilian peers. We have factored in zero value for the recently acquired Brazilian entities (VDI and Equipav) as we believe these deals would be value-neutral given that cash break even costs in Brazil are 12-13 cents and 16-18 cents for overall break-even. With raw sugar prices in this range, we would like to see execution in terms of cost cutting, debt restructuring and improvement in EBITDA trend to ascribe any positive value to them. We expect the Equipav acquisition to break-even only post successful restructuring and capacity ramp-up to achieve an EBITDA upwards of US\$10/ton. Our calculation is based on an interest cost + depreciation assumption of US\$100 mn indicating an EBITDA of US\$8.3/ton to break even.

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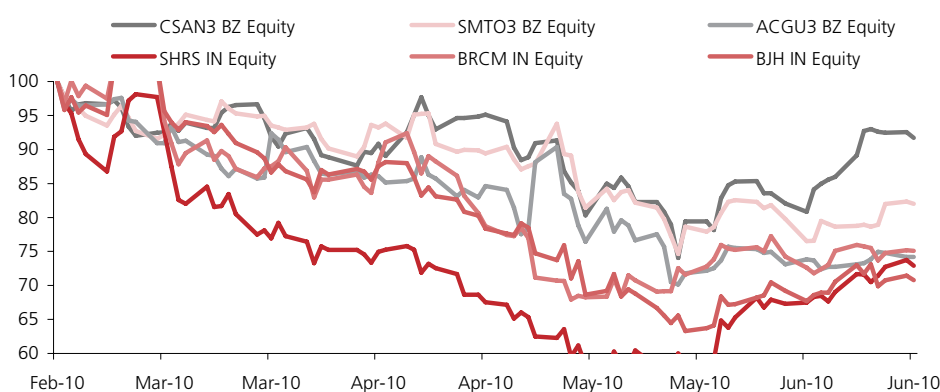
### Equipav price reduction of 24% seems fair relative to peer stock price decline

SHRS has announced a modified deal for Equipav which (1) reduces consideration by 24% to US\$250 mn versus earlier US\$329 mn for a similar stake (50.34% versus 50.79%), (2) deal structure is modified to US\$250 mn primary (invested in the company) from US\$55 mn secondary (paid to selling shareholders) and US\$274 mn primary earlier, (3) enterprise value declines by 6% to US\$1.1 bn with debt at levels similar to end-December 2009 level of US\$822 mn.

From Feb 21, 2010 (date when SHRS announced the earlier acquisition), stock prices of key Brazilian sugar stocks have declined 8-26% while Indian sugar stocks have corrected by 25-29%. We find the 24% reduction in deal price to be fair relative to peer group's stock price correction.

#### Reduction in deal value in line with decline in stock prices of listed entities

Stock price change, listed Indian and Brazilian comparables



Source: Bloomberg

### Revisiting what the deal gives SHRS

- ▶ Annual crushing capacity of 10.5 mn tons across its two units with integrated co-generation facilities (203 MW) in Sao Paulo state in Southeast Brazil. This will increase by 1.5 mn tons (to 12 mn tons) and 92 MW (to 295 MW) after capital expenditure post SHRS's investment.
- ▶ Cane cultivation on approx. 115,000 ha of land of which 2/3rd is farmed by the company.
- ▶ Post Equipav acquisition, SHRS will have raw sugar supply of approx. 50% of its annual requirement of 1.7 mn tons.

Rough estimates indicate 0.7 mn ton of sugar production for Equipav  
Equipav, rough calculation of sugar and ethanol production

	Units	Equipav	VDI	Total	Comments
<b>Crushing capacity</b>	<b>mn tons</b>	<b>10.5</b>	<b>3.1</b>	<b>13.6</b>	
Capacity utilisation	%	85	85	85	Assumed
Cane crushed	mn tons	8.9	2.6	11.6	
ATR/tons of cane	kg/ton	135	135	135	As per average recovery in Brazil
Total ATR	tons	1,204,875	355,725	1,560,600	
<b>ATR usage mix</b>					
Sugar (60%)	tons	722,925	213,435	936,360	Assumed
Ethanol (40%)	tons	481,950	142,290	624,240	Assumed
<b>Yield</b>					
Sugar	%	95	95	95	As per average yield in Brazil
Ethanol	ltr/ton ATR	583	583	583	As per average yield in Brazil
<b>Production</b>					
<b>Sugar</b>	<b>mn tons</b>	<b>0.7</b>	<b>0.2</b>	<b>0.9</b>	
Ethanol	mn ltr	280.8	82.9	363.7	

Source: Kotak Institutional Equities estimates

### We value SHRS at 6x EV/EBITDA, too early to ascribe value to Equipav

We maintain our BUY rating with a target price of Rs76 based on 6x FY2011E EBITDA in line with Brazilian peers. We have factored in zero value for the recently acquired Brazilian entities (VDI and Equipav) as we believe these deals would be value neutral given that cash break even costs in Brazil are 12-13 cents and 16-18 cents for overall break-even. With raw sugar prices in this range, we would like to see execution in terms of cost cutting, debt restructuring and improvement in EBITDA trend to ascribe any positive value to them.

Based on limited data on Equipav's financials, we would expect the acquisition to break even only post successful restructuring and capacity ramp-up to achieve an EBITDA upwards of US\$10/ton. Our calculation is based on an interest cost + depreciation assumption of US\$100 mn indicating an EBITDA of US\$8.3/ton to break even. If SHRS manages to get EBITDA in the range of US\$15/20 (requires raw sugar prices of at least 16-17 cents/pound) and totally restructured operations, we would expect a 16/28% return on investment.

### Potential investment return scenarios for SHRS Equipav, potential return scenarios (US\$ mn)

	With value for tax losses			Excluding value for tax losses		
	10	15	20	10	15	20
EBITDA per ton (US\$)	10	15	20	10	15	20
EBITDA	120	180	240	120	180	240
Interest + Depreciation	100	100	100	100	100	100
Profit before tax	20	80	140	20	80	140
Provision for tax	0	0	0	6	24	42
Profit after tax	20	80	140	14	56	98
Return on investment (%)	4.0	16.1	28.2	2.8	11.3	19.7

Source: Kotak Institutional Equities

## We value SHRS at Rs76/share

SHRS, EV/EBITDA based valuation, September fiscal year-ends (Rs mn)

	2011E
<b>EBITDA</b>	<b>8,524</b>
EV/EBITDA (X)	6.0
<b>EV</b>	<b>51,143</b>
Net debt	2,745
<b>Equity value</b>	<b>48,398</b>
<b>Value per share (Rs)</b>	<b>72</b>
Fully diluted no. of shares	670

Source: Kotak Institutional Equities estimates

## Brazilian peers trading in 4.5-6x EV/EBITDA range

Comparative valuations, listed global peers

Company	23-Jun-10		Year-end	Mkt Cap. (US\$ mn)	EV/EBITDA (X)			PER (X)			EV/Sales (X)		
	Price (local)	Currency			LFY	FY1	FY2	LFY	FY1	FY2	LFY	FY1	FY2
<b>Brazil</b>													
Acucar Guarani	4.0	BRL	Mar	638	5.9	4.7	4.5	NM	10.0	14.1	1.4	1.3	1.2
Cosan	22.3	BRL	Mar	5,033	8.0	5.7	6.1	NM	11.5	15.5	0.9	0.8	0.7
Sao Martinho	14.6	BRL	Mar	917	10.7	6.7	5.9	NM	20.2	18.6	3.3	2.2	2.0
<b>Average Brazil</b>					<b>8.2</b>	<b>5.7</b>	<b>5.5</b>	<b>NM</b>	<b>13.9</b>	<b>16.1</b>	<b>1.9</b>	<b>1.4</b>	<b>1.3</b>
<b>Europe</b>													
Agrana	64.3	EUR	Feb	747	8.1	6.5	6.3	NM	14.2	12.3	0.7	0.6	0.6
Suedzucker	14.6	EUR	Feb	2,253	7.1	5.8	5.8	13.7	11.8	11.0	0.8	0.7	0.7
Tate & Lyle	4.7	GBP	Mar	1,453	20.6	6.6	6.7	111.9	1,095.6	1,004.3	0.8	0.8	0.8
<b>Average Europe</b>					<b>11.9</b>	<b>6.3</b>	<b>6.2</b>	<b>62.8</b>	<b>373.9</b>	<b>342.5</b>	<b>0.8</b>	<b>0.7</b>	<b>0.7</b>
<b>Africa</b>													
Illovo	28.3	ZAR	Mar	1,717	8.0	6.0	5.7	17.5	14.0	12.2	1.5	1.3	1.3
Tongaat Hulett	106.1	ZAR	Dec	1,450	7.3	7.0	6.1	3.8	15.8	13.6	1.6	1.5	1.3
<b>Average Africa</b>					<b>7.6</b>	<b>6.5</b>	<b>5.9</b>	<b>10.7</b>	<b>14.9</b>	<b>12.9</b>	<b>1.5</b>	<b>1.4</b>	<b>1.3</b>
<b>Others</b>													
CSR	1.8	AUD	Mar	3,062	7.9	5.8	5.9	NM	12.3	11.6	0.9	0.9	0.9
Khon Kaen Sugar	12.4	THB	Oct	593	16.8	12.4	10.1	21.4	21.5	17.0	2.3	2.2	1.8
<b>Average Others</b>					<b>12.3</b>	<b>9.1</b>	<b>8.0</b>	<b>21.4</b>	<b>16.9</b>	<b>14.3</b>	<b>1.6</b>	<b>1.5</b>	<b>1.4</b>

Source: Bloomberg

**Operating assumptions**

SHRS, Key operating assumptions, September fiscal year-ends, 2008-11E

	2008	2009	2010E	2011E
<b>Sugar segment</b>				
Sugarcane crushed (mn tons)	4.6	3.5	4.0	5.0
Average recovery ratio (%)	11.4	10.7	10.8	11.0
<b>Sugar produced ('000 tons)</b>				
Sugar produced ('000 tons)	524	378	430	555
Refined sugar ('000 tons)	68	637	1,057	1,249
<b>Total sugar produced (lac tons)</b>	<b>592</b>	<b>1,015</b>	<b>1,487</b>	<b>1,804</b>
<b>Sugar sold ('000 tons)</b>				
Sugar sold ('000 tons)	480	802	1,620	1,750
Average realisation (Rs/kg)	13.4	21.7	28.4	25.7
Sugarcane cost (Rs/ton)	1,097	1,700	2,700	1,900
Raw sugar cost(US\$ c/lb)	11.3	15.2	19.3	19.0
<b>Co-generation segment</b>				
External sales (mn units)	154	231	389	585
Average realisation (Rs/unit)	6.5	6.5	4.8	4.5
<b>Distillery segment</b>				
Alcohol produced (mn ltrs)	47	78	112	126
Alcohol sold (mn ltrs)	51	65	116	128
Average realisation (Rs/ltr)	26.0	25.9	28.0	27.0

Source: Company, Kotak Institutional Equities estimates

**Summary financials**

SHRS, Profit model, balance sheet, cash model, September fiscal year-ends, 2007-11E

	2007	2008	2009	2010E	2011E
<b>Profit model</b>					
Total income	9,506	21,143	28,160	62,610	57,935
<b>EBITDA</b>	<b>1,320</b>	<b>2,526</b>	<b>4,656</b>	<b>10,829</b>	<b>8,524</b>
Interest (expense)/income	(180)	(701)	(1,077)	(1,107)	(735)
Depreciation	(249)	(369)	(675)	(903)	(1,171)
Other income	176	152	64	167	118
<b>Pretax profits</b>	<b>1,066</b>	<b>1,608</b>	<b>2,968</b>	<b>8,986</b>	<b>6,736</b>
Tax	(236)	(427)	(720)	(2,690)	(2,046)
<b>Profit after tax</b>	<b>830</b>	<b>1,181</b>	<b>2,248</b>	<b>6,296</b>	<b>4,690</b>
Minority interest	—	(25)	(5)	(27)	(42)
<b>Consolidated PAT</b>	<b>830</b>	<b>1,156</b>	<b>2,243</b>	<b>6,269</b>	<b>4,649</b>
<b>Diluted earnings per share (Rs)</b>	<b>1.7</b>	<b>2.2</b>	<b>3.3</b>	<b>9.5</b>	<b>7.1</b>
<b>Balance sheet</b>					
Total equity	4,417	8,320	15,274	23,468	28,286
Deferred taxation liability	202	467	821	1,901	2,471
Minority interest	—	533	147	174	216
Total borrowings	6,470	8,595	13,427	8,484	5,484
Current liabilities	1,218	2,786	10,172	4,372	3,838
<b>Total liabilities and equity</b>	<b>12,307</b>	<b>20,701</b>	<b>39,841</b>	<b>38,398</b>	<b>40,294</b>
Cash	917	227	4,912	781	2,954
Other current assets	3,519	7,436	17,719	15,771	15,038
Net fixed assets	7,710	12,728	16,734	21,005	21,460
Investments	161	310	477	842	842
<b>Total assets</b>	<b>12,307</b>	<b>20,701</b>	<b>39,841</b>	<b>38,398</b>	<b>40,294</b>
<b>Free cash flow</b>					
Operating cash flow, excl. working capital	1,321	1,783	3,454	8,496	6,757
Working capital changes	(1,049)	(2,377)	(3,274)	(3,795)	238
Capital expenditure	(3,400)	(5,205)	(4,681)	(5,174)	(1,626)
Investment changes	(160)	(149)	(167)	(365)	—
Other income	27	30	15	167	118
<b>Free cash flow</b>	<b>(3,262)</b>	<b>(5,917)</b>	<b>(4,652)</b>	<b>(670)</b>	<b>5,487</b>
<b>Ratios (%)</b>					
EBITDA margin	13.9	11.9	16.5	17.3	14.7
Net debt/equity	120.2	101.3	53.8	31.1	8.9
Net debt/EBITDA	1.2	1.0	0.5	0.3	0.1
RoAE	21.8	17.2	18.0	32.0	18.1
RoACE	10.9	11.5	12.8	23.3	15.9
CRoCI	10.1	10.7	14.3	23.6	18.6

Source: Company, Kotak Institutional Equities estimates

JUNE 23, 2010

UPDATE

BSE-30: 17,750

**How about trying this for deregulation?** We suggest an alternative approach to deregulation of auto fuels in order to address this long-pending issue—(1) reduction in excise duties on diesel and gasoline in lieu of price increase and (2) divestment in one or more of the oil companies to make up for lower excise revenues. Our calculations suggest that the government can do this quite painlessly in the short term. It can let prices float after a few months, once political opposition and inflation concerns subside.

**Rs2.8/liter and Rs5.4/liter cut in excise duty required at US\$75/bbl to 'free' prices**

We compute that the government will need to cut the excise duty on diesel and gasoline by Rs2.8/liter and Rs5.4/liter at US\$75/bbl (Dated Brent price) to enable oil companies to earn normal marketing margins (about Rs1.4/liter) without price increases. We use the average prices of the previous fortnight for our calculations (see Exhibit 1); average crude price was US\$74.8/bbl (Dated Brent) and exchange rate Rs46.7/US\$.

**Government can forgo revenues for 3-6 months depending on politics and inflation**

We compute that the government will lose about Rs74 bn of revenues over three months and Rs295 bn over 12 months from the aforementioned reduction to excise duties. We note that the government will anyway have to pay a significant portion of the eventual under-recoveries to the downstream companies from the budget. Exhibit 2 gives our computation of under-recoveries at various levels of crude oil prices and the government's likely share of the same.

**Government can make up for 'lost' revenues through stake sales**

As a second step, the government can sell stake in one or more of the six government-owned E&P and R&M companies to recoup its lost revenues. We compute that a 3% stake sale in ONGC at current prices (around Rs1,200) will fetch Rs74 bn; the required stake sale will be even lower as ONGC's market capitalization will increase sharply (we believe 30-40%) from full deregulation of auto fuels and full payment of under-recoveries on cooking fuels from the budget. We see a likely sharp re-rating of all the E&P and R&M companies due to steep increase in earnings under the aforementioned scenario (see Exhibit 3).

**Government can try a few bold measures; nothing ventured, nothing won**

We believe the government can implement bold measures at current levels of crude oil prices—the gap between free-market prices and regulated retail prices are not very high currently. It can also try a combination of moderate price increases, excise duty cuts and stake sales. (1) Political opposition will likely be low for our suggested methodology and will subside over a period of time. Small periodic price increases in the future, if required, will go largely unnoticed. (2) Inflation will start declining over the next three months (see Exhibit 4); current high headline inflation of over 10% may prevent the government from raising prices. We also have a few radical suggestions for deregulation for cooking fuels also but we will keep those for a later date.

**QUICK NUMBERS**

- **Cut in excise duty of Rs2.8/liter and Rs5.4/liter on diesel and gasoline in lieu of price increases for now**
- **Rs74 bn lower revenues for the government from lower excise duty for three months**
- **3% stake sale in ONGC can fetch Rs74 bn**

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**Lower excise duties of Rs74 bn can compensate for under-recoveries**

Computation of loss in revenue from revision in excise duties (Rs bn)

	Gasoline	Diesel	Total
Current under-recovery (Rs/l)	4.0	1.4	NA
Notional margins (Rs/l)	1.4	1.4	NA
Gross under-recovery (Rs/l)	5.4	2.8	NA
Consumption for three months (mn tons)	3.4	14.5	17.8
Current excise duty (Rs/l)	14.8	4.7	NA
Revised excise duty (Rs/l)	9.4	1.9	NA
<b>Loss of revenues for government</b>	<b>24.5</b>	<b>49.2</b>	<b>73.7</b>
Average crude oil price used for calculation (US\$/bbl)	74.8	74.8	74.8
Exchange rate (Rs/US\$)	46.7	46.7	46.7

Source: Kotak Institutional Equities estimates

**Government will have to pay a significant portion of under-recoveries to OMCs**

Share of various participants of under-recoveries, March fiscal year-ends, 2007-2011E (Rs bn)

	2007	2008	2009	2010	2011E
Dated Brent crude oil price (US\$/bbl)	65	79	89	67	75
<b>Gross under-recoveries</b>	<b>521</b>	<b>798</b>	<b>1,061</b>	<b>490</b>	<b>657</b>
Share of upstream companies	205	257	329	144	197
Net under-recovery of R&M companies (BPCL, HPCL, IOCL)	48	161	(10)	56	51
Direct budgetary support	27	27	29	30	32
<b>Payment by government (oil bonds/cash)</b>	<b>241</b>	<b>353</b>	<b>713</b>	<b>260</b>	<b>377</b>

Source: Company, Kotak Institutional Equities estimates

**Earnings of downstream and upstream companies would jump significantly in a blue-sky scenario**  
EPS estimates, March fiscal year-end, 2011E (Rs)

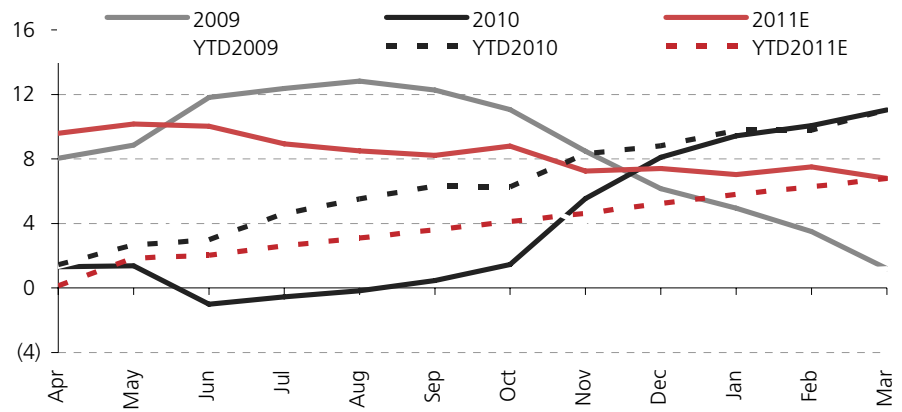
	2011E	2011E (a)	Potential upside (%)
<b>Downstream companies</b>			
BPCL	54	73	36
HPCL	45	68	53
IOCL	34	42	25
<b>Upstream companies</b>			
ONGC	122	166	36
Oil India	127	181	42
GAIL India	26	35	31

Note:

(a) Assuming full deregulation of prices of petroleum products.

Source: Kotak Institutional Equities estimates

**Inflation may fall to 8-8.5% by end-1HFY11E and 6.5-7% by end-FY11E**  
 Headline inflation rate, March fiscal year-ends, 2009-11E(%)



Note:

(a) Inflation is actual data till May, 2010 and Kotak Institutional Equities estimates thereafter.

Source: Government of India, Kotak Institutional Equities estimates

**Select players drive growth in May 2010.** Private insurance companies reported a 15% yoy growth in APE during May 2010; LIC was up 43% driving overall growth to 30% for the sector. A low base and somewhat better traction at the beginning of the year for select players has likely driven the growth – private players were up 22% YTD FY2011.

### Divergent trends amongst private players.

Select private players have reported high growth in APE – HDFC SL up 60% yoy, ICICI Pru Life up 46% yoy, Reliance Life up 30% yoy; but many players have reported declines as well – Bajaj Allianz, Birla SL and SBI Life down 7-9% and Max NY down 5%.

### Will the trend continue?

Improvement in traction in the early part of the year (which is normally sluggish) has likely driven high growth with select players. Private players are likely pushing pension products before the revised regulations are implemented (June 2010). While the YTD trend in APE collections appears strong, it is likely too early to extrapolate the trend for the entire year – typically, the first two months account for just 7-8% of the annual business of private players.

### Regulatory developments encouraging

We believe that the recent regulatory amendments by the Government to clarify its stand on the IRDA-SEBI row will increase confidence of insurance companies and distributors to focus on growth and hence augurs well for the sector. However, IRDA will continue to introduce regulations to make insurance more customer-friendly. Over time, the traction in markets (equity or retail debt) and the pace of regulatory changes will drive the growth in APE collections.

JUNE 24, 2010

UPDATE

BSE-30: 17,756

### QUICK NUMBERS

- Private insurance companies reported 15% growth in APE
- HDFC SL up 60% yoy, ICICI Pru Life up 46%

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## Adjusted life insurance premium income collections (Rs mn)

	May-10				YTD FY2011							
	Individual	yoy growth (%)	Group	yoy growth (%)	Total	yoy growth (%)	Individual	yoy growth (%)	Group	yoy growth (%)	Total	yoy growth (%)
Bajaj Allianz	1,362	(9)	21	82	1,382	(8)	2,567	8	40	(51)	2,607	6
Birla Sunlife	1,126	(8)	47	39	1,172	(7)	1,835	(0)	59	17	1,894	0
HDFC Standard Life	1,967	57	34	1,290	2,000	60	3,141	59	76	246	3,217	61
ICICI Prudential	2,834	47	175	23	3,009	46	5,499	93	211	19	5,711	89
Max NY	1,088	(6)	13	960	1,101	(5)	2,292	(6)	20	605	2,312	(5)
KMOM	450	12	18	120	468	15	777	19	30	149	807	22
Reliance Life	1,688	31	2	(82)	1,691	30	2,805	29	16	(55)	2,820	28
MetLife	350	(27)	5	0	355	(26)	1,835	(0)	59	17	1,894	0
SBI Life	1,432	(17)	264	99	1,695	(9)	2,325	(18)	342	(28)	2,667	(19)
Tata AIG	563	(13)	9	98	571	(12)	1,179	9	12	43	1,191	9
<b>Private sector</b>	<b>15,268</b>	<b>14</b>	<b>606</b>	<b>69</b>	<b>15,873</b>	<b>15</b>	<b>27,524</b>	<b>23</b>	<b>848</b>	<b>(5)</b>	<b>28,371</b>	<b>22</b>
LIC	20,626	42	1,733	59	22,359	43	36,697	63	2,850	41	39,547	61
<b>Total</b>	<b>35,894</b>	<b>28</b>	<b>2,338</b>	<b>61</b>	<b>38,233</b>	<b>30</b>	<b>64,221</b>	<b>43</b>	<b>3,697</b>	<b>27</b>	<b>67,918</b>	<b>42</b>

Source: IRDA

## We value top seven insurance companies at about Rs940 bn

	Embedded value (Rs bn)	Structural value			Appraisal value (Rs bn)
		NBV (Rs bn)	Multiple (X)	Structural value (Rs bn)	
Bajaj Allianz	51.9	4.9	19.1	93.1	145.1
Birla Sun Life	44.3	4.1	19.2	78.1	122.4
HDFC Standard Life	36.3	4.0	19.3	76.9	113.2
ICICI Prudential Life	88.4	8.0	18.7	150.2	238.6
Max Newyork Life	29.9	2.3	20.2	46.5	76.4
Reliance Life	32.7	4.8	18.0	86.3	119.0
SBI Life	39.4	5.4	17.1	91.7	131.2

Source: Kotak Institutional Equities estimates

## Insurance business adds significant value to parent companies

Value addition to parent's SOTP from insurance business (Rs/share of holding co.)

Insurance company	Parent/Holding company	Economic value assumed (%)	Fair value (based on FY2011E) (Rs/share)	% of parents market price (%)
Bajaj Allianz	Bajaj Finserv	38	343	75
Birla Sun Life	Aditya Birla Nuvo	74	717	91
HDFC Standard Life	HDFC Ltd	74	262	10
ICICI Bank	ICICI Bank	74	143	17
Max India	Max India	74	192	118
Reliance Life	Reliance Cap.	100	435	65
SBI Life	SBI Ltd	74	138	7

Source: Kotak Institutional Equities estimates

## Trend in market share for key players in individual premium, adjusted for single premium (%)

	2004	2005	2006	2007	2008	2009	2010	Apr-10	May-10	YTD	YTD private players
Bajaj Allianz	1.2	2.9	6.4	7.8	10.7	8.0	5.8	4.3	3.8	4.0	9.3
Birla Sun Life	2.0	3.3	2.7	1.7	3.3	5.2	4.1	2.5	3.1	2.9	6.7
HDFC Standard Life	1.0	2.3	3.7	3.1	4.2	4.9	4.6	4.1	5.5	4.9	11.4
ICICI Prudential	4.8	8.7	10.1	9.9	12.7	10.9	9.3	9.4	7.9	8.6	20.0
Max NY	1.0	1.4	2.1	1.9	2.5	3.4	2.9	4.3	3.0	3.6	8.3
Reliance Life	0.2	0.2	0.4	1.7	3.6	6.3	5.7	3.9	4.7	4.4	10.2
SBI Life	0.4	0.7	1.5	3.1	5.0	6.1	7.2	3.2	4.0	3.6	8.4
<b>Private sector</b>	<b>13.6</b>	<b>25.3</b>	<b>34.2</b>	<b>35.5</b>	<b>50.5</b>	<b>57.0</b>	<b>52.4</b>	<b>43.3</b>	<b>42.5</b>	<b>42.9</b>	<b>100.0</b>
<b>LIC</b>	<b>86.4</b>	<b>74.7</b>	<b>65.8</b>	<b>64.5</b>	<b>49.5</b>	<b>43.0</b>	<b>47.6</b>	<b>56.7</b>	<b>57.5</b>	<b>57.1</b>	<b>—</b>

Source: IRDA

## Growth in premium income individual business adjusted for single premium (%)

	2005	2006	2007	2008	2009	2010	Apr-10	May-10	YTD
Bajaj Allianz	182	199	136	79	(33)	(15)	37	(9)	8
Birla Sun Life	90	11	24	143	43	(8)	14	(8)	(0)
HDFC Standard Life	164	118	57	80	4	9	62	57	59
ICICI Prudential	114	57	87	68	(23)	(1)	187	47	93
KMOM	103	82	43	88	24	(20)	30	12	19
Max NY	72	103	75	70	22	(0)	(5)	(6)	(6)
Reliance Life	21	160	813	168	59	6	26	31	29
SBI Life	87	206	290	111	9	38	(19)	(17)	(18)
<b>Private sector</b>	<b>122</b>	<b>81</b>	<b>100</b>	<b>86</b>	<b>1</b>	<b>7</b>	<b>38</b>	<b>14</b>	<b>23</b>
LIC	3	18	88	0	(22)	29	101	42	63
<b>Total</b>	<b>19</b>	<b>34</b>	<b>92</b>	<b>31</b>	<b>(10)</b>	<b>17</b>	<b>68</b>	<b>28</b>	<b>43</b>

Source: IRDA

## Market share in group business unadjusted (%)

	2005	2006	Jun-05	2008	2009	2010	Apr-10	May-10	YTD
Bajaj Allianz	0.2	0.5	0.5	1.3	1.6	2.1	1.4	0.9	1.1
Birla Sunlife	2.1	1.7	1.0	1.6	1.9	2.4	0.9	2.0	1.6
HDFC Standard Life	1.1	2.7	2.0	2.3	1.1	1.8	3.1	1.4	2.1
ICICI Prudential	2.5	5.7	6.3	8.7	8.2	4.1	2.7	7.5	5.7
Max NY	0.1	0.0	0.0	0.3	0.2	0.3	0.5	0.6	0.5
Reliance Life	0.1	0.2	0.9	2.9	1.0	1.9	1.0	0.1	0.4
SBI Life	7.2	7.8	5.7	7.3	11.5	9.2	5.8	11.3	9.3
<b>Private sector</b>	<b>15.4</b>	<b>21.2</b>	<b>18.3</b>	<b>26.9</b>	<b>28.0</b>	<b>24.5</b>	<b>17.6</b>	<b>25.7</b>	<b>22.7</b>
LIC	84.6	78.8	81.7	73.1	72.0	75.5	82.4	74.3	77.3

Source: IRDA

## Likely price range based on fair value

Value addition to parents SOTP from insurance business (Rs per share of holding company)

Aditya Birla Nuvo							Bajaj Finserv							ICICI Bank						
Margin (%)							Margin (%)							Margin (%)						
Multiple (X)	11.0	12.0	13.0	15.0	18.0	21.0	Multiple (X)	11.0	12.0	13.0	15.0	18.0	20.0	Multiple (X)	12.0	13.0	14.0	15.0	18.0	20.0
17.2	607	639	670	733	828	923	17.1	290	305	320	350	396	426	16.7	122	127	133	139	156	168
18.2	627	661	694	761	861	961	18.1	299	316	332	364	412	444	17.7	126	132	138	144	162	174
19.2	648	683	718	788	894	1,000	19.1	309	326	343	377	428	462	18.7	130	136	143	149	168	181
20.2	668	705	742	816	927	1,039	20.1	319	337	355	390	444	480	19.7	134	141	148	154	175	188
22.2	708	749	790	871	994	1,116	22.1	339	358	378	417	476	515	21.7	142	150	157	165	187	202

HDFC Ltd.							Max Ltd							Reliance Capital						
Margin (%)							Margin (%)							Margin (%)						
Multiple (X)	11.5	12.5	13.5	15.5	18.5	20.5	Multiple (X)	10.5	11.5	12.5	15.0	18.0	20.0	Multiple (X)	11.0	12.0	13.0	15.5	18.5	20.5
17.3	220	232	244	268	303	327	18.2	164	172	181	202	227	244	16.0	357	379	400	454	519	562
18.3	228	241	253	278	316	341	19.2	169	177	186	209	235	253	17.0	372	395	418	475	544	590
19.3	236	249	262	289	329	355	20.2	173	183	192	216	244	262	18.0	387	411	435	496	569	617
20.3	244	258	272	300	341	369	21.2	178	188	198	222	252	272	19.0	402	427	453	517	594	645
22.3	260	275	290	321	367	397	23.2	188	199	210	236	269	290	21.0	431	460	488	559	644	700

SBI Ltd						
Margin (%)						
Multiple (X)	9.0	10.0	11.0	14.0	17.0	20.0
15.1	111	119	126	150	173	196
16.1	115	124	132	157	181	206
17.1	120	129	138	164	190	216
18.1	125	134	143	171	199	227
20.1	134	144	155	185	216	247

Source: Kotak Institutional Equities estimates

## Sensitivity on valuation of the insurance business

Valuation of entire insurance business (Rs bn)

Aditya Birla Nuvo							Bajaj Finserv							ICICI Bank						
Margin (%)							Margin (%)							Margin (%)						
Multiple (X)	11.0	12.0	13.0	15.0	18.0	21.0	Multiple (X)	11.0	12.0	13.0	15.0	18.0	20.0	Multiple (X)	12.0	13.0	14.0	15.0	18.0	20.0
17.2	103	109	114	125	141	157	17.1	122	129	135	148	167	180	16.7	203	213	223	232	261	280
18.2	107	113	118	130	147	164	18.1	127	133	140	154	174	188	17.7	210	220	231	241	271	292
19.2	110	116	122	134	152	170	19.1	131	138	145	159	181	195	18.7	217	228	239	249	282	303
20.2	114	120	126	139	158	177	20.1	135	142	150	165	188	203	19.7	224	235	247	258	292	314
22.2	121	128	135	148	169	190	22.1	143	151	160	176	201	218	21.7	238	250	263	275	313	337

HDFC Ltd.							Max Ltd							Reliance Capital						
Margin (%)							Margin (%)							Margin (%)						
Multiple (X)	11.5	12.5	13.5	15.5	18.5	20.5	Multiple (X)	10.5	11.5	12.5	15.0	18.0	20.0	Multiple (X)	11.0	12.0	13.0	15.5	18.5	20.5
17.3	95	100	105	115	131	141	18.2	65	68	72	80	90	97	16.0	98	104	109	124	142	154
18.3	98	104	109	120	136	147	19.2	67	71	74	83	94	101	17.0	102	108	114	130	149	161
19.3	102	107	113	125	142	153	20.2	69	73	76	86	97	104	18.0	106	112	119	136	156	169
20.3	105	111	117	129	147	159	21.2	71	75	79	88	100	108	19.0	110	117	124	141	162	176
22.3	112	119	125	138	158	171	23.2	75	79	83	94	107	115	21.0	118	126	133	153	176	191

SBI Ltd						
Margin (%)						
Multiple (X)	9.0	10.0	11.0	14.0	17.0	20.0
15.1	106	113	120	143	165	187
16.1	110	118	126	149	173	196
17.1	114	123	131	156	181	206
18.1	119	128	137	163	190	216
20.1	128	137	147	177	206	236

Source: Kotak Institutional Equities estimates





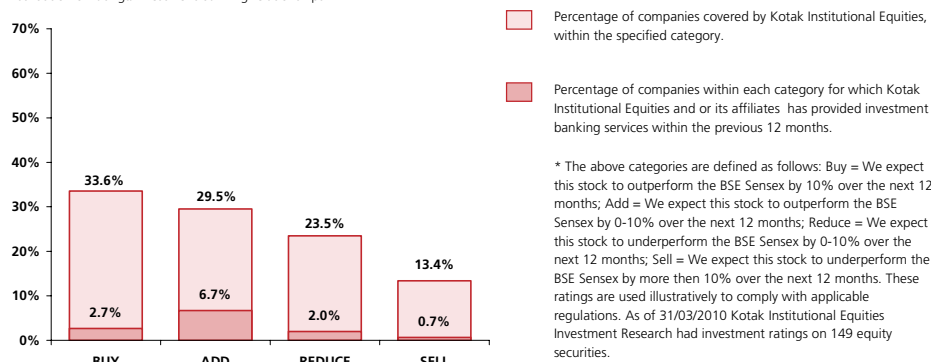




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As of March 31, 2010

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