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Corporate

- **Anil Dhirubhai Ambani Group** (ADAG) is once again warming up to aviation entrepreneur Capt GR Gopinath after losing out on acquiring **Air Deccan** last year. ADAG's private equity arm, **Reliance Equity Advisors**, is holding talks to invest over $50 million (Rs 250 crore) in Gopinath's new venture — **Deccan Cargo** — in return for a significant minority stake in the start-up airline. *(ET)*
- **Tata Motors** is feeling the heat of slowing demand. It has decided to keep its Jamshedpur plant closed for three days from November 6 to 8. At the same time, UK-based **Jaguar Land Rover** (JLR) said it was extending its voluntary redundancy offer scheme to eliminate 400 more jobs. **Hyundai Motor India**, India's second largest car manufacturer, has also admitted that it has started feeling the impact of global financial meltdown, which has hit its distributors. Meanwhile, freed of capacity constraints, **General Motors** (GM) India plans to beef up its product portfolio with two new models next year. *(ET)*

Economic and political

- Within India's IT industry, reactions to Barack Obama's historic victory have not been as pessimistic as expected. IT firms have been worried because Obama, as Senator, introduced the Patriot Employer Act of 2007 that gave tax credits for companies that maintain or increase the number of full-time workers in America relative to those outside the US. Industry body Nasscom has been quick to play down these apprehensions. Meanwhile, N R Narayana Murthy, chief mentor of Infosys Technologies, said, "We believe President-Elect Obama to be a pragmatic leader who understands that American industry needs to be competitive not just in America but in third countries as well." *(BS)*
- Airline companies under the Federation of Indian Airlines (FIA) plan to make a presentation to the civil aviation ministry saying they will be forced to axe 8,000 employees if the government implements the new ground handling policy from January 1, 2009. About 29 per cent of the 28,000-odd employees working in the private carriers are involved in ground handling. *(BS)*

Source: ET = Economic Times, BS = Business Standard, FE0 = Financial Express, BL = Business Line.

EQUITY MARKETS

		Change, %		
India	**5-Nov**	**1-day**	**1-mo**	**3-mo**
Sensex	10,120	(4.8)	(14.3)	(32.9)
Nifty	2,995	(4.7)	(16.9)	(33.7)
Global/Regional indices				
Dow Jones	9,139	(5.0)	(8.2)	(21.6)
FTSE	4,531	(2.3)	(1.3)	(17.4)
Nikkie	8,980	(5.7)	(14.3)	(32.3)
Hang Seng	13,908	(6.3)	(17.2)	(36.6)
KOSPI	1,111	(6.0)	(18.2)	(29.6)

Value traded - India

			Moving avg, Rs bn	
	5-Nov		**1-mo**	**3-mo**
Cash (NSE+BSE)	179.5		146.1	161.3
Derivatives (NSE)	385.5		449.8	527
Deri. open interest	494.3		675	664

Forex/money market

		Change, basis points		
	5-Nov	**1-day**	**1-mo**	**3-mo**
Rs/US$	47.5	0	(36)	545
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	7.7	9	(60)	(133)

Commodity market

		Change, %		
	5-Nov	**1-day**	**1-mo**	**3-mo**
Gold (US$/OZ)	740.2	(0.0)	(13.9)	(15.9)
Silver (US$/OZ)	10.3	(0.6)	(7.1)	(38.0)
Crude (US$/BBL)	60.8	(1.0)	(27.1)	(47.5)

Net investment (US$mn)

	4-Nov		**MTD**	**CYTD**
FIIs	(23)		-	(12,758)
MFs	(36)		-	3,591

Top movers -3mo basis

		Change, %		
Best performers	**5-Nov**	**1-day**	**1-mo**	**3-mo**
Financial Techn (Ind	-	-	-	-
Hindustan Unilever	239	(3.4)	(4.3)	(2.8)
Union Bank Of India	148	(0.1)	2.6	0.8
Punjab National Bar	495	1.9	1.5	(0.2)
Bharat Petroleum C	317	(2.4)	(16.6)	(5.3)
Worst performers				
Housing Developme	123	(15.0)	(11.2)	(67.2)
Suzlon Energy Limit	59	5.9	(53.8)	(75.8)
Bajaj Finserv Ltd	125	2.2	(60.1)	(74.1)
Unitech Limited	50	(11.6)	(50.8)	(71.9)
Tata Steel Limited	216	(10.0)	(38.3)	(66.6)

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Metals

NALU.BO, Rs151	
Rating	BUY
Sector coverage view	Cautious
Target Price (Rs)	230
52W High -Low (Rs)	566 - 105
Market Cap (Rs bn)	97.5

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	49.9	50.7	57.7
Net Profit (Rs bn)	16.3	13.2	13.7
EPS (Rs)	25.3	20.4	21.2
EPS gth	*(31.5)*	*(19.4)*	*3.9*
P/E (x)	6.0	7.4	7.1
EV/EBITDA (x)	2.3	3.0	2.4
Div yield (%)	4.0	4.0	4.0

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	87.1	-	-
FIIs	4.1	0.2	(0.5)
MFs	0.2	0.0	(0.6)
UTI	-	-	(0.7)
LIC	3.1	0.5	(0.1)

Nalco : Current stock price factors weak earnings; reinitiate coverage with BUY rating and TP of Rs230/share

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- **Net income at Rs4.4 bn flat yoy but down 15.4% qoq; lower than our expectation of Rs4.7 bn**
- **Recent sharp correction in aluminium and alumina prices to impact near-term earnings**
- **Reinitiate coverage with a BUY rating and target price of Rs230/share**

2QFY09 net income at Rs4.4 bn was flat yoy but down 15.4% qoq. 2QFY09 EBITDA at Rs6.4 bn grew 12.7% yoy but declined 13% on a qoq basis. EBITDA margins declined mainly on account of (a) higher prices for crude oil derivatives and (b) short supply of imported coal resulting in higher coal prices. Aluminium prices have fallen by more than 30% to US$2,000 per ton from the average realizations of 2QFY09. We believe that this will likely result in sharp margin erosion in the coming quarters. The Rs50 bn capacity expansion program to increase smelting capacity to 460,000 tones (from 360,000 tons currently) is well on track—we expect NALCO to achieve full production in FY2010. We expect FY2009E EBITDA and net income to drop by 9% and 19% to Rs20 bn and Rs13 bn, respectively. We have factored average alumina prices of US$300/ton and US$292/ton for FY2009E and FY2010E, respectively, and aluminium prices of US$2,500/ton and US$2,200/ton for FY2009 and FY2010, respectively. Given strong backward linkages with captive bauxite mines, alumina refinery and power plants, NALCO would continue to remain profitable even as 2/3rd of all aluminium smelters are making losses (as per CRU estimates). We value NALCO at 5X FY2010E EBITDA which is at a slight premium to its global peers factoring in the strong backward linkages. We reinitiate coverage with a BUY rating and a target price of Rs230/share.

Results in line with expectations

Net income at Rs4.4 bn was flat yoy but down 15.4% qoq. 2Q net profit was marginally lower than our expectation of Rs4.7 bn mainly on account of higher power and fuel costs. The non-availability of domestic coal from Mahanadi Coalfields led to higher coal imports which impacted margins negatively. The cost of imported coal was Rs8,046/ton as against the domestic coal price of Rs763/ton which has a lower calorific value. 2QFY09 EBITDA at Rs6.4 bn grew 12.7% yoy but declined 13% qoq while. EBITDA margin at 41.7% declined 200 bps yoy and 850 bps qoq on account of higher prices for key raw materials such as CP Coke and Coal Tar Pitch—prices were up 66% and 40%, respectively. We expect coke and coal Tar Pitch prices to fall in 2HFY09 as these are linked to crude prices and international crude prices have corrected 50% in recent times.

Alumina and aluminium prices weaken sharply

Alumina prices have seen a sharp correction of over 25% to US$250 per ton over the last few months following weak aluminium prices. NALCO sells 40% of its alumina at spot rates and the remaining is sold on a long-term basis; prices of which are set at 13% of the LME aluminium prices. The average cost of production for alumina has gone up 17% to US$192/ton over the last year due to higher input costs. NALCO has recently concluded a contract for 240,000 tons of alumina at 13.39% of LME Aluminium and a spot sale of 30,000 tons at US$287/ton.

Aluminium prices haven fallen by over 30% over the last few months and are now quoting at US$2,050/ton. The average cost of production for aluminium is US$1,650/ton—up 5% as compared to last year. Aluminium production has been impacted by lower availability of coal from Mahanadi Coal fields and higher cost of imported coal.

Alumina and aluminium market outlook

Spot alumina markets have seen a sharp correction on the back of weak aluminium prices and closures of aluminium smelters. The recent alumina price cuts have led to an idling of 7.8mn tons of Chinese refining capacities and would limit further downside to pricing.

Aluminium markets have also seen a sharp correction—current LME prices are 20% below their peak. According to CRU, aluminium would continue to be in surplus leading to weak aluminium prices. The aluminium price is currently trading lower than the Chinese marginal cost—we expect a price floor to be set at current levels.

Capacity expansion on track

NALCO's Rs50 bn capacity expansion is on track and would increase aluminium smelting capacity to 450,000 tons from 360,000 tons. The additional capacity would be fully operational during FY2010. The expansion in aluminium smelting would be accompanied by similar expansion in bauxite mining, alumina refining and captive power plant. NALCO

Valuations

We expect FY2009E EBITDA and net income to drop by 9% and 19% to Rs20 bn and Rs13 bn, respectively, on the back of lower alumina and aluminium prices. Given its low cost of operations, we expect NALCO to remain profitable even as two-thirds of all aluminium smelters in the world would be incurring cash losses (as per CRU estimates). We value NALCO at 5X FY2010E EBITDA which is at a slight premium to its global peers factoring in the strong backward linkages. The company has net cash of Rs53/share. We reinitiate coverage with a BUY rating and a target price of Rs230/share.

NALCO, Interim results, March fiscal year-ends (Rs mn)

	2Q 2009	1Q 2009	2Q 2008	% change qoq	% change yoy
Earnings drivers					
Average LME aluminium prices (US$/ton)	2,837	3,004	2,603	(5.6)	9.0
Average alumina spot prices (US$/ton)	385	423	331	(9.0)	16.3
Average INR:USD	43.8	41.6	40.5	5.1	8.0
Interim results					
Net revenues	**15,364**	**14,675**	**13,082**	**4.7**	**17.4**
Expenditure	**(8,957)**	**(7,307)**	**(7,397)**		
Stock adjustment	81	364	(525)	(77.7)	(115.5)
Raw materials	(1,739)	(1,554)	(1,392)	11.9	24.9
Employee cost	(1,579)	(1,530)	(1,193)	3.2	32.4
Other costs	(5,720)	(4,586)	(4,287)	24.7	33.4
EBITDA	**6,408**	**7,368**	**5,685**	**(13.0)**	**12.7**
Other income	1,181	1,262	1,644	(6.4)	(28.2)
Depreciation	(694)	(679)	(683)	2.2	1.6
EBIT	**6,895**	**7,952**	**6,646**	**(13.3)**	**3.7**
Interest	(1)	(4)	(6)		
Profit before tax	**6,894**	**7,948**	**6,639**	**(13.3)**	**3.8**
Taxes	(2,447)	(2,694)	(2,242)	(9.2)	9.2
Reported profits - as reported	**4,447**	**5,253**	**4,397**	**(15.4)**	**1.1**
Ratios					
Costs as % of revenue (%)	58.3	49.8	56.5		
EBITDA margin (%)	41.7	50.2	43.5		
ETR (%)	35.5	33.9	33.8		
EPS (Rs/share)	6.9	8.2	6.8		
Segmental results					
Chemicals	6,944	6,379	4,474	8.9	55.2
Aluminium	11,267	10,823	10,556	4.1	6.7
Electricity	2,118	2,176	1,966	(2.7)	7.7
Total	**20,329**	**19,377**	**16,996**	4.9	19.6
Less: Inter segment revenue	4,960	4,702	3,914		
Net sales from operations	**15,369**	**14,675**	**13,082**		
Segmental PBIT					
Chemicals	3,643	3,413	1,808	6.7	101.5
Aluminium	2,904	3,524	3,615	(17.6)	(19.7)
Electricity	(119)	383	310	(131.2)	(138.6)
Less: Interest & financing charges	1	4	6		
Less: Other unallocated expenditure	(465)	(633)	(914)		
Total Profit before tax	**6,892**	**7,948**	**6,639**	(13.3)	3.8
Segmental PBIT (%)					
Chemicals	52.5	53.5	40.4		
Aluminium	25.8	32.6	34.2		
Capital employed					
Chemicals	13,853	21,368	13,828		
Aluminium	20,545	30,320	20,017		
Electricity	4,587	11,815	5,529		
Unallocated common assets	65,903	37,282	52,311		
Total	**104,888**	**100,784**	**91,684**		

Source: Company data, Kotak Institutional Equities estimates.

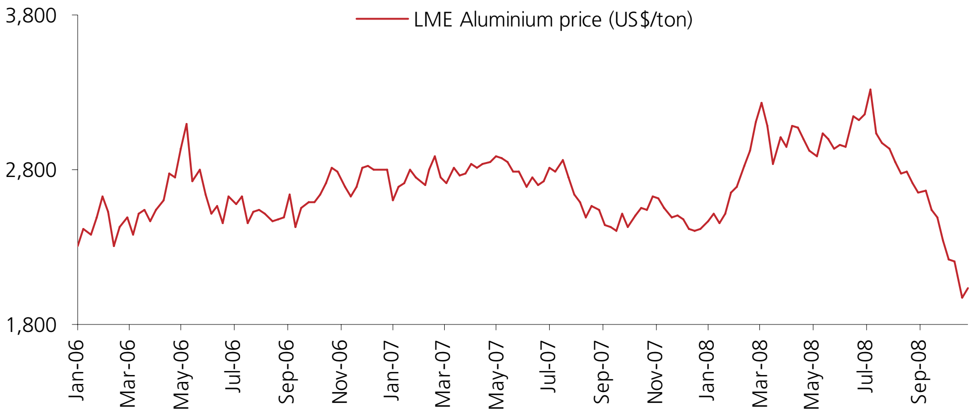
Nalco, Valuation details, (Rs mn)

	EBITDA (Rs mn)	EV/EBITDA (X)	EV (Rs mn)	Value (Rs/share)	Comments
FY2010E	23,394	5.0	116,970	182	
Net debt			(33,911)	(53)	FY2010E net debt
Market capitalization			**150,881**	**234**	
Target price				**230**	

Source: Kotak Institutional Equities estimates.

Aluminum prices have declined sharply from the peak in mid-CY2008

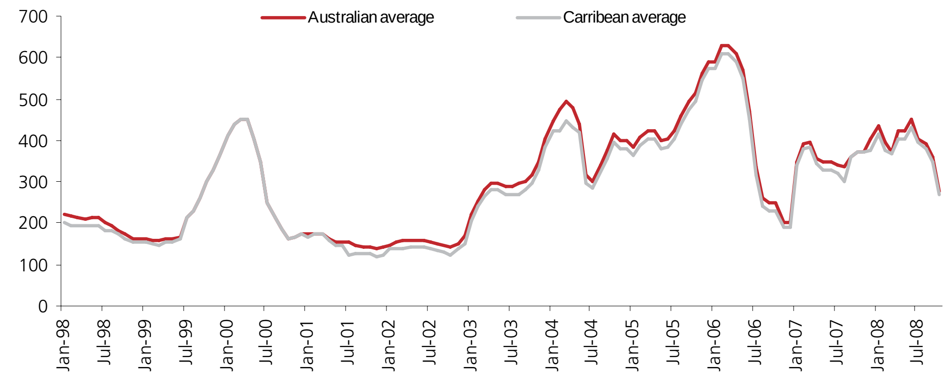
LME Aluminum price chart (US$/ton)



Source: Bloomberg

Alumina prices has started softening on account of reduced consumption demand

Alumina prices, December fiscal year-ends, 1999-2008 (US$/ton)



Source: CRU, Kotak Institutional Equities.

NALCO, Profit model, balance sheet and cash flow model, March fiscal year-ends, 2007-2010E (Rs mn)

	2007	2008E	2009E	2010E	2011E
Profit model (Rs mn)					
Net sales	59,402	49,888	50,724	57,653	57,703
EBITDA	**36,265**	**23,067**	**20,905**	**23,394**	**20,521**
Other income	3,110	4,410	3,582	3,615	3,682
Interest	-	-	-	-	-
Depreciaiton	(3,171)	(2,811)	(4,595)	(6,339)	(6,497)
Profit before tax	**36,204**	**24,666**	**19,893**	**20,670**	**17,707**
Current tax	(12,563)	(8,404)	(6,829)	(7,096)	(6,079)
Deferred tax	173	53	94	98	84
Net profit	**23,814**	**16,315**	**13,158**	**13,672**	**11,712**
Earnings per share (Rs)	**37.0**	**25.3**	**20.4**	**21.2**	**18.2**
Balance sheet (Rs mn)					
Equity	76,952	88,745	97,380	106,529	113,718
Deferred tax liability	6,127	6,074	5,980	5,882	5,798
Total Borrowings	-	-	-	-	-
Current liabilities	12,186	15,409	16,544	18,380	19,659
Total liabilities	**95,266**	**110,228**	**119,903**	**130,791**	**139,175**
Net fixed assets	45,525	58,664	79,024	77,685	73,188
Investments	-	1,150	1,150	1,150	1,150
Cash	36,865	35,165	23,578	33,911	45,844
Other current assets	12,876	15,249	16,152	18,045	18,993
Miscellaneous expenditure	-	-	-	-	-
Total assets					
Free cash flow (Rs mn)					
Operating cash flow excl. working capital	26,809	18,719	14,076	16,298	14,443
Working capital changes	417	300	232	(57)	331
Capital expenditure	(6,419)	(15,441)	(24,955)	(5,000)	(2,000)
Free cash flow	**20,806**	**3,578**	**(10,646)**	**11,241**	**12,773**
Ratios					
Debt/equity (%)	-	-	-	-	-
Net debt/equity (X)	(0.4)	(0.4)	(0.2)	(0.3)	(0.4)
RoAE (%)	32.1	18.3	13.3	12.7	10.1
RoACE (%)	**32.1**	**18.3**	**13.3**	**12.7**	**10.1**

Source: Company, Kotak Institutional Equities estimates.

Energy

RELI.BO, Rs1269	
Rating	REDUCE
Sector coverage view	Neutral
Target Price (Rs)	1,325
52W High -Low (Rs)	3298 - 930
Market Cap (Rs bn)	1,742

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	1,334	1,831	2,557
Net Profit (Rs bn)	142.5	150.9	236.9
EPS (Rs)	101.7	99.7	150.6
EPS gth	*23.0*	*(2.0)*	*51.0*
P/E (x)	12.5	12.7	8.4
EV/EBITDA (x)	8.1	7.0	3.9
Div yield (%)	0.9	1.1	1.6

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	37.6	-	-
FIIs	21.1	9.1	1.3
MFs	2.7	6.4	(1.3)
UTI	-	-	(7.8)
LIC	5.4	10.8	3.1

Reliance Industries : Cyclical downturn turning out to be worse than expected; Downgrade to REDUCE on increased risk to earnings

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- **Sharp contraction in refining and chemical margins in recent weeks**
- **Increasing risk to earnings with cyclical downturn in chemical and refining turning out to be worse than expected**
- **Downgrade to REDUCE; do not rule out further contraction in multiples on global economic woes**

The recent weakness in refining and chemical margins has been led by (1) implosion in demand, (2) reduced operating rates and (3) ample supply as indicator of weaker-than-expected commodity cycle. Refining margins have turned negative in the current week and chemical margins have declined by US$100-200/ton in recent weeks. We are downgrading RIL to REDUCE (ADD previously) as we see significant risks to earnings of RIL given its high exposure to the global commodity business. We have been concerned about the deterioration in global supply-demand balance for the past few months but the deterioration in the recent weeks has been worse than expected. We do not rule out further contraction in multiples of RIL's cyclical commodity businesses given increasing concerns about global GDP growth, which would determine the strength of global commodity prices and margins over the next two years. We retain our earnings estimates and 12-month price target of Rs1,325 based on the median value of our base-case (Rs1,500) and trough-case (Rs1,150) scenarios.

Increased risk to earnings and valuations. We see increased downside risks to our earnings estimates and valuation of RIL given its high exposure to global cyclical commodity business and the recent sharp deterioration seen in refining and chemical margins. We highlight that we had reinstated coverage on RIL with ADD rating on October 27, 2008 and the stock has given absolute returns of 20% since then. However, we find the risk-reward balance unfavorable at the current juncture given increased risk to earnings and valuations and have downgraded the stock to REDUCE. We maintain our 12-month price target of Rs1,325 for RIL stock based on the median value of our base-case (Rs1,500) and trough-case (Rs1,150) scenarios (Exhibit 1 & 2). We use (1) US$100/ton lower margin versus our base-case assumptions for the chemical segment and (2) US$2/bbl lower refining margin versus our base-case assumption of US$12.5/bbl for the refining segment in FY2010E to arrive at our trough-case valuation. However, we do not rule out downside to our trough case assumptions given the recent sharp deterioration in chemical and refining margins.

Steep contraction in refining cracks. Refining margins have declined sharply and plunged into negative territory in the recent week led by (1) demand weakness and (2) sharp contraction in product (naphtha and gasoline) cracks. We compute Singapore complex gross refining margins at -US$1.8/bbl in the latest week versus US$2/bbl in the previous week (week ended October 31, 2008) (Exhibit 3). The sharp decline in the refining margins has been led by implosion in naphtha and gasoline cracks. Naphtha cracks were at -US$26.7/bbl and gasoline cracks have also declined sharply to US$0.5/bbl in the recent week (Exhibit 4).

We see downside risks to our earnings estimates of RIL given that its earnings are highly sensitive to refining margins and weaker-than-expected margins could significantly impact its earnings. A US$1/bbl decline in refining margins impacts RIL's FY2009E and FY2010E (standalone) EPS by 7% and 4%, respectively (Exhibit 5). The current weak refining margins and more important, likely continued weakness in refining margins do not augur well for earnings of RIL. We could see a short-term rebound from current very low levels but we believe that refining margins will likely remain weak for the next 12 months at least led by (1) demand weakness and (2) large refining capacity additions from 2HCY08 (1.6 mb/d).

Downturn in chemical cycle is nigh. We believe that the recent sharp contraction in chemical margins is due to (1) global overcapacity and (2) global economic slowdown resulting in demand implosion. Exhibit 7 gives the current chemical margins. Asia plastics margins have declined by US$100-200/ton in the recent month led by (1) weak demand, (2) high inventories and (3) ample supply. Margins for HDPE, LLDPE and LDPE have declined by 25%, 27% and 22% in the last three weeks. PP margins plummeted 27% mom led by a sharp decline in PP prices (-37%) due to suppliers' eagerness to reduce inventories.

There has been a sharp slowdown in demand for polyesters over the past few months as reflected by decline in global utilization rates. Exhibit 8 shows the utilization rates for polyester filament yarn and polyester stable. Current global operating rates for polyesters have declined to around 65-70%. Operating rates have declined to historical lows in China and Taiwan with several producers shutting down operations or delaying start of new plants. We are increasingly of the view that the global demand environment will deteriorate further which could likely result in steeper-than-expected contraction in margins.

We are quite concerned about a sharp slowdown in demand for chemicals over the next 1-2 years. In contrast, we continue to see significant addition to global chemical capacity in CY2008-10E. We expect incremental global capacity/supply to be 2X of incremental global demand assuming reasonable global GDP growth of around 3%. However, weaker-than-expected global GDP growth rate may lead to a bigger imbalance versus our current forecasts.

SOTP valuation of Reliance is Rs1,500 per share on FY2010E estimates

Sum-of-the-parts valuation of Reliance Industries, FY2010E basis (Rs)

	Valuation base (Rs bn)		Multiple (X)		EV	Value share
	Other	EBITDA	Muliple	EV/EBITDA	(Rs bn)	(Rs)
Chemicals		63		5.0	313	228
Refining & Marketing (a)		104		5.0	519	378
Oil and gas—producing		33		3.0	100	73
Gas—developing (DCF-based) (b)	575	—	100%	—	575	418
Oil—KG-DWN-98/3 (c)	107	—	100%	—	107	78
Investments						
RPL (3.167 bn shares at Rs100)	317	—	100%	—	317	230
Others	27	—	100%	—	27	20
Loans & advances to affiliates less accounts payables to affiliate:	46	—	100%	—	46	34
Retailing	40	—	1.5	—	60	44
SEZ development	75	—	80%	—	60	43
Total					**2,018**	**1,546**
PV of refining division's future sales tax incentives					2	2
Total value					**2,020**	**1,547**
Net debt					63	46
Implied equity value					**1,957**	**1,502**

Note:

(a) We value the KG D-6 gas find on DCF and offshore Orissa (NEC-25) and CBM discoveries based on KG D-6's valuation.

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

(c) Net debt reflects is for standalone (without RPL); however, we consolidate for RPL otherwise as it a 71% subsidiary.

(d) We use 1.374 bn shares (excluding treasury shares) for per share computations.

Source: Kotak Institutional Equities estimates

SOTP valuation of Reliance is around Rs1,150 per share assuming trough-margin scenario

Sum-of-the-parts valuation of Reliance Industries, FY2010E basis (Rs)

	Valuation base (Rs bn)		Multiple (X)		EV	Value share
	Other	EBITDA	Muliple	EV/EBITDA	(Rs bn)	(Rs)
Chemicals (a)		29		7.0	203	148
Refining & Marketing (b)		83		5.5	454	331
Oil and gas—producing		33		3.0	100	73
Gas—developing (DCF-based) (c)	377	—	100%	—	377	274
Oil—KG-DWN-98/3 (d)	92	—	100%	—	92	67
Investments						
RPL (3.167 bn shares at Rs100)	317	—	100%	—	317	230
Others	27	—	100%	—	27	20
Loans & advances to affiliates less accounts payables to affiliates	46	—	100%	—	46	34
Retailing	40	—	1.0	—	40	29
SEZ development	75	—	50%	—	37	27
Total					**1,602**	**1,232**
PV of refining division's future sales tax incentives					2	2
Total value					**1,604**	**1,234**
Net debt					116	84
Implied equity value					**1,488**	**1,150**

Note:

(a) We reduce chemical margins by US$100/ton versus our base-case margins.

(b) We reduce refining margin by US$2/bbl versus our base-case assumption.

(c) We value the KG D-6 gas find on DCF and offshore Orissa (NEC-25) and CBM discoveries based on KG D-6's valuation.

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

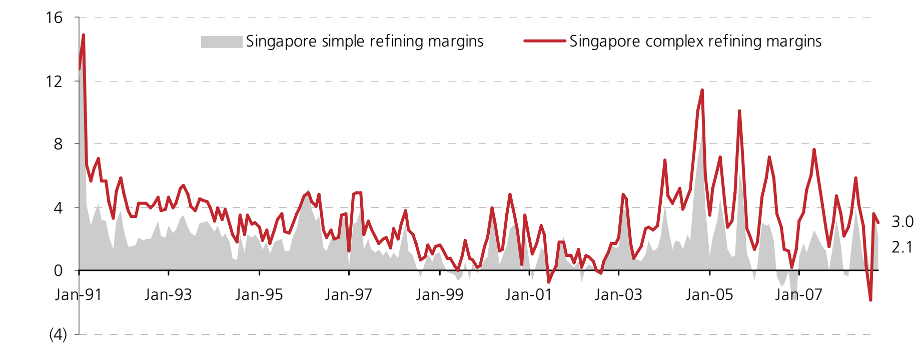
(e) Net debt reflects a standalone (without RPL) scenario; however, we consolidate for RPL otherwise as it a 71% subsidiary.

(f) We use 1.374 bn shares (excluding treasury shares) for per share computations.

Source: Kotak Institutional Equities estimates

Singapore refining margins have declined sharply in the recent weeks

Singapore refining margins (US$/bbl)



Simple refining margins, March fiscal year-ends (US$/bbl)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 YTD
1Q	(0.32)	1.29	0.51	0.30	1.05	1.69	3.02	2.52	2.25	2.40
2Q	(0.08)	2.47	0.45	0.07	1.20	3.13	2.78	(0.70)	0.99	1.71
3Q	0.14	1.74	1.06	1.44	1.57	6.46	2.22	(1.25)	2.32	1.37
4Q	1.86	0.21	(0.03)	2.98	2.88	2.08	1.09	1.25	0.25	
Average	**0.40**	**1.43**	**0.50**	**1.20**	**1.67**	**3.34**	**2.28**	**0.45**	**1.45**	**1.93**

Complex refining margins, March fiscal year-ends (US$/bbl)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 YTD
1Q	0.43	1.86	1.34	0.79	1.24	4.57	4.93	6.24	6.58	4.31
2Q	1.19	3.96	0.58	0.14	2.35	5.80	6.11	2.46	2.91	0.66
3Q	0.41	2.25	1.22	1.56	3.23	9.04	3.94	0.98	3.91	2.22
4Q	2.64	1.60	0.65	3.70	5.44	5.02	2.77	4.11	2.78	
Average	**1.17**	**2.42**	**0.95**	**1.55**	**3.06**	**6.10**	**4.44**	**3.45**	**4.05**	**2.44**

Weekly margins (simple)

Current	-1 Wk	-2 Wk	-3 Wk	-4 Wk
(2.35)	**1.21**	**2.84**	2.12	2.41

Weekly margins (complex)

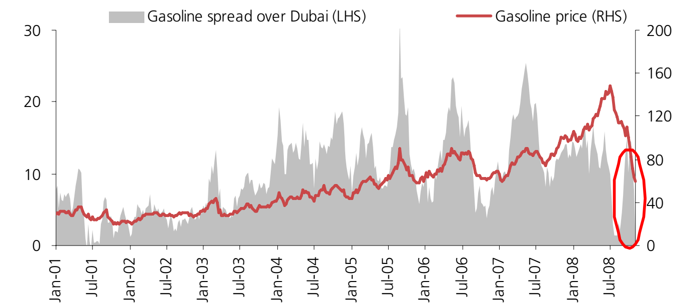
Current	-1 Wk	-2 Wk	-3 Wk	-4 Wk
(1.79)	**1.99**	**3.74**	3.97	3.66

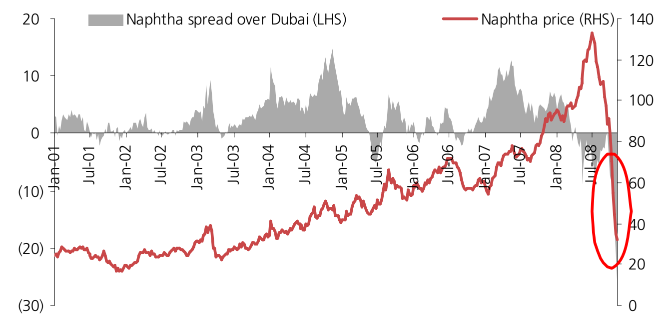
Singapore refining margins, March fiscal year-ends (US$/bbl)

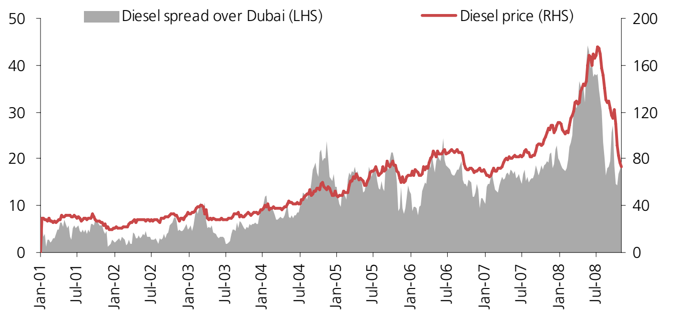
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 YTD
Simple	0.40	1.43	0.50	1.20	1.67	3.34	2.28	0.45	1.45	1.93
Complex	0.43	1.86	1.34	0.79	1.24	4.57	4.93	3.45	4.05	2.44

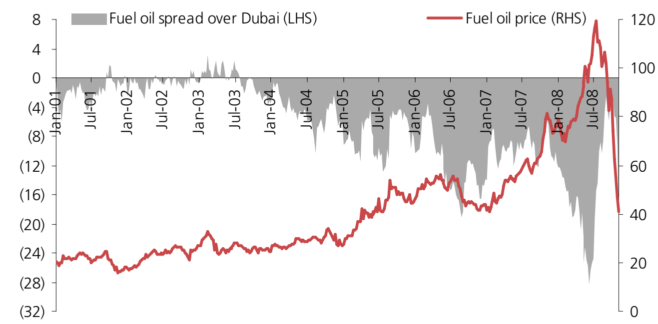
Source: Bloomberg, Kotak Institutional Equities

Product cracks have declined sharply in recent weeks
Spread between Arab Gulf product prices and Dubai crude (US$/bbl)









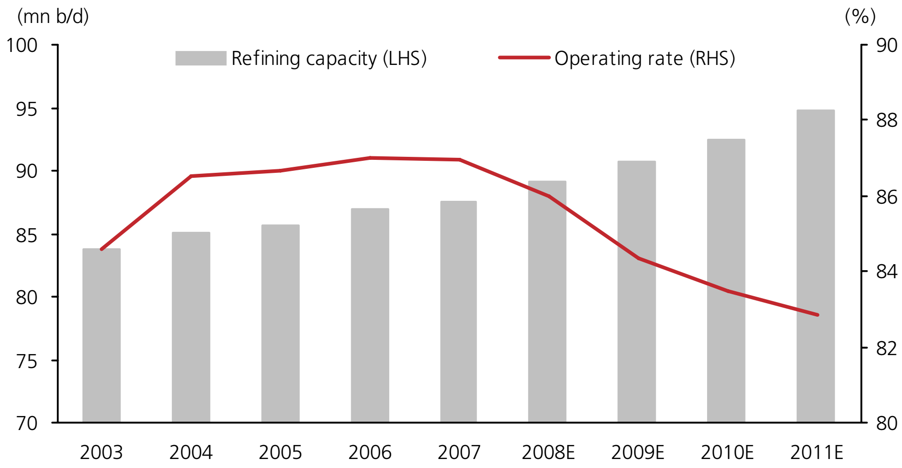
Reliance's earnings have high leverage to refining margins
Sensitivity of RIL's standalone (without RPET) earnings to key variables

	Fiscal 2009E			Fiscal 2010E			Fiscal 2011E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
Rupee-dollar exchange rate									
Rupee-dollar exchange rate	44.0	45.0	46.0	44.0	45.0	46.0	43.0	44.0	45.0
Net profits (Rs mn)	137,895	143,146	148,397	177,320	183,065	188,805	176,729	182,575	188,409
EPS (Rs)	91.1	94.6	98.1	112.7	116.4	120.0	112.3	116.0	119.7
% upside/(downside)	**(3.7)**		**3.7**	**(3.1)**		**3.1**	**(3.2)**		**3.2**
Chemical prices									
Change in prices (%)	(5.0)		5.0	(5.0)		5.0	(5.0)		5.0
Net profits (Rs mn)	139,122	143,146	147,169	179,361	183,065	186,770	179,373	182,575	185,776
EPS (Rs)	91.9	94.6	97.2	114.0	116.4	118.7	114.0	116.0	118.1
% upside/(downside)	**(2.8)**		**2.8**	**(2.0)**		**2.0**	**(1.8)**		**1.8**
Refining margins (US$/bbl)									
Margins (US$/bbl)	12.3	13.3	14.3	11.5	12.5	13.5	11.3	12.3	13.3
Net profits (Rs mn)	133,336	143,146	152,956	176,037	183,065	190,093	175,703	182,575	189,447
EPS (Rs)	88.1	94.6	101.1	111.9	116.4	120.8	111.7	116.0	120.4
% upside/(downside)	**(6.9)**		**6.9**	**(3.8)**		**3.8**	**(3.8)**		**3.8**

Source: Kotak Institutional Equities estimates

We expect global refining operating rates to decline sharply led by significant capacity addition

Global refining capacity versus operating rate, calendar year ends, 2003-2011E



Source: IEA, BP Statistical Review of World Energy, 2007, Kotak Institutional Equities estimates.

Chemical margins have declined in the recent weeks

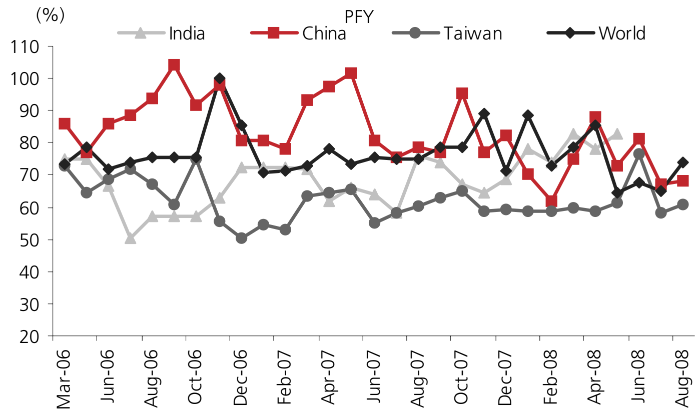
Asia chemical margins, calendar year-ends (US$/ton)

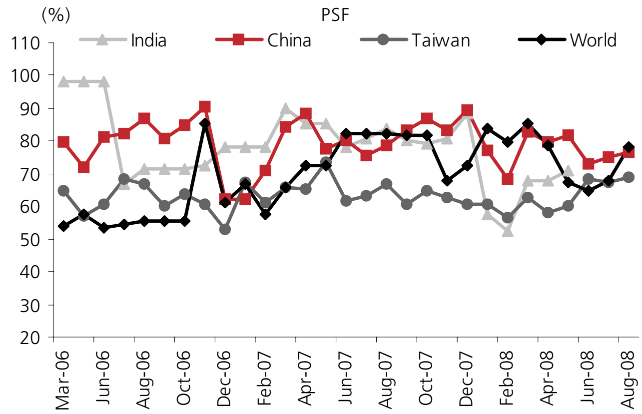
	Annual average prices					Quarterly average					Monthly average				Recent			
	2004	2005	2006	2007	2008	4Q07	1Q08	2Q08	3Q08	3Q08 vs. 2Q08 (%)	June	July	Aug	Sep	Oct 10	Oct 17	Oct 24	Oct 31
Ethylene chain																		
Ethylene – naphtha	515	389	549	441	406	385	458	401	359	(10)	429	481	359	239	156	227	111	43
HDPE – 1.015 x ethylene	28	147	88	171	233	207	208	237	252	6	220	135	276	346	489	410	442	445
LLDPE – 1.015 x ethylene	53	175	87	185	279	198	262	223	352	58	177	184	405	467	639	550	542	545
LDPE – 1.015 x ethylene	181	243	94	291	388	378	364	335	464	39	267	279	522	592	779	690	692	695
HDPE – naphtha	**556**	**548**	**655**	**629**	**660**	**609**	**687**	**660**	**632**	**(4)**	**673**	**640**	**656**	**601**	**656**	**647**	**561**	**493**
LLDPE – naphtha	**582**	**577**	**654**	**643**	**706**	**601**	**740**	**646**	**732**	**13**	**631**	**689**	**785**	**722**	**806**	**787**	**661**	**593**
LDPE – naphtha	**710**	**644**	**660**	**749**	**815**	**781**	**843**	**758**	**844**	**11**	**720**	**784**	**901**	**847**	**946**	**927**	**811**	**743**
Propylene chain																		
Propylene – naphtha	414	424	509	373	423	276	330	471	468	(1)	606	557	502	346	301	172	71	(7)
PP – 1.01 x propylene	142	154	125	244	241	292	265	192	264	38	164	291	252	250	341	534	450	482
PP – naphtha	**564**	**587**	**645**	**628**	**678**	**579**	**607**	**678**	**748**	**10**	**788**	**865**	**769**	**609**	**651**	**712**	**526**	**478**
Styrene chain																		
Benzene – naphtha	435	339	278	325	180	191	175	184	183	(1)	171	155	164	229	282	283	131	45
Styrene – 0.81 x benzene	142	131	139	163	128	178	136	114	133	17	106	88	142	171	187	133	197	135
– 0.29 x ethylene																		
Polystyrene – 0.98 styrene	124	125	90	132	123	130	90	107	173	61	144	164	180	174	297	381	442	478
PS – naphtha	786	670	649	730	584	629	561	560	630	13	596	600	630	659	796	837	801	683
Vinyl chain																		
EDC – (0.3 x ethylene)	186	99	11	85	44	58	35	24	73	200	18	38	85	96	71	74	49	21
PVC – 1.025 (0.235 x ethylene	258	281	249	294	404	321	349	435	428	(2)	405	414	483	388	460	457	496	437
+ 0.864 x EDC)																		
PVC – naphtha	**492**	**326**	**250**	**249**	**167**	**163**	**181**	**145**	**174**	**20**	**72**	**120**	**240**	**163**	**306**	**407**	**401**	**323**
Polyester/intermediates																		
PSF – 0.85 x PTA – 0.34 x MEG	**157**	**247**	**240**	**324**	**340**	**303**	**333**	**278**	**409**	**47**	**217**	**355**	**361**	**511**	—	—	**723**	—
PFY – 0.85 x PTA – 0.34 x MEG	**398**	**398**	**391**	**541**	**611**	**535**	**651**	**553**	**629**	**14**	**502**	**615**	**586**	**686**	—	—	**788**	—
PTA – 0.67 x PX	225	201	124	123	113	110	127	103	110	8	89	97	128	106	197	155	183	196
PX – naphtha	418	414	572	435	346	271	290	389	359	(8)	463	418	371	289	364	380	333	280
MEG – naphtha	564	384	270	419	94	708	308	59	(84)	(243)	(12)	(94)	(98)	(60)	106	42	84	93
MEG – 0.6 x ethylene	410	345	174	433	242	805	383	235	106	(55)	189	80	93	146	252	93	175	192

Source: Platts, Kotak Institutional Equities

Operating rates have declined reflecting the sharp slow-down in demand over the past few months

Global operating rates for PSF and PFY (%)





Source: Tecnon OrbiChem

RIL consolidated with RPL: Profit model, balance sheet, cash model, March fiscal year-ends, 2003-2012E (Rs mn)

	2003	2004	2005	2006	2007	2008	2009E	2010E	2011E	2012E
Profit model (Rs mn)										
Net sales	451,133	510,715	656,223	809,113	1,114,927	1,334,430	1,830,781	2,556,588	2,538,100	2,525,548
EBITDA	**75,808**	**91,148**	**123,820**	**139,991**	**198,462**	**233,056**	**251,826**	**437,900**	**415,099**	**426,767**
Other income	10,012	11,381	14,498	6,829	4,783	8,953	10,818	11,176	15,654	22,999
Interest	(15,552)	(14,347)	(14,687)	(8,770)	(13,247)	(15,509)	(22,785)	(28,104)	(18,031)	(7,407)
Depreciation & depletion	(28,371)	(32,470)	(37,235)	(34,009)	(48,152)	(48,471)	(57,433)	(89,220)	(95,505)	(102,732)
Pretax profits	41,897	55,711	86,397	104,041	141,846	178,028	182,426	331,752	317,217	339,628
Extraordinary items	7,845	7,300	4,290	3,000	2,000	47,335	—	—	—	—
Tax	(2,459)	(3,510)	(7,050)	(9,307)	(16,574)	(26,520)	(28,000)	(73,440)	(77,605)	(88,328)
Deferred taxation	(6,240)	(7,900)	(7,920)	(7,040)	(9,196)	(8,999)	(299)	1,253	5,816	9,542
Minority interest	—	—	—	—	—	—	(3,253)	(22,659)	(18,617)	(19,306)
Net profits	41,043	51,601	75,717	90,693	118,076	189,844	150,875	236,906	226,811	241,536
Adjusted net profits	**34,570**	**45,623**	**72,135**	**88,152**	**116,434**	**147,869**	**150,875**	**236,906**	**226,811**	**241,536**
Earnings per share (Rs)	**24.8**	**32.7**	**51.7**	**63.3**	**80.1**	**101.7**	**99.7**	**150.6**	**144.2**	**153.5**
Balance sheet (Rs mn)										
Total equity	303,744	344,525	404,033	430,543	673,037	847,853	1,128,140	1,328,523	1,518,182	1,692,549
Deferred taxation liability	26,848	34,748	42,668	49,708	69,820	78,725	79,024	77,771	71,955	62,413
Minority interest	—	—	—	—	33,622	33,622	36,368	52,860	65,942	71,706
Total borrowings	197,583	209,447	187,846	218,656	332,927	493,072	367,382	286,181	204,988	164,660
Currrent liabilities	109,666	122,855	171,315	164,545	192,305	251,427	323,134	326,797	327,106	321,247
Total liabilities and equity	**637,842**	**711,574**	**805,863**	**863,452**	**1,301,712**	**1,704,700**	**1,934,048**	**2,072,132**	**2,188,172**	**2,312,576**
Cash	1,472	2,242	36,087	21,461	18,449	42,822	17,812	30,734	108,075	177,379
Current assets	227,809	218,159	248,438	224,283	286,566	402,721	516,001	601,441	599,628	594,357
Total fixed assets	340,863	351,460	350,823	626,745	899,403	1,081,638	1,190,216	1,192,438	1,192,950	1,238,320
Investments	67,227	139,714	170,515	(9,038)	97,294	177,519	210,019	247,519	287,519	302,519
Deferred expenditure	472	—	—	—	—	—	—	—	—	—
Total assets	**637,842**	**711,574**	**805,863**	**863,452**	**1,301,712**	**1,704,700**	**1,934,048**	**2,072,132**	**2,188,172**	**2,312,576**
Free cash flow (Rs mn)										
Operating cash flow, excl. working cap	67,072	83,301	107,002	119,520	164,285	180,718	191,538	330,888	310,797	318,420
Working capital	(17,614)	20,265	46,875	(32,188)	(13,075)	(31,071)	(41,573)	(81,778)	2,122	(589)
Capital expenditure	(37,043)	(43,191)	(52,440)	(94,273)	(247,274)	(239,691)	(140,397)	(85,975)	(87,350)	(135,489)
Investments	(34,204)	(68,430)	(48,192)	(32,364)	(105,760)	(78,953)	(32,500)	(37,500)	(40,000)	(15,000)
Other income	5,219	5,902	3,032	5,159	4,143	6,132	10,818	11,176	15,654	22,999
Free cash flow	**(16,569)**	**(2,153)**	**56,276**	**(34,146)**	**(197,681)**	**(162,865)**	**(12,114)**	**136,811**	**201,223**	**190,341**
Ratios (%)										
Debt/equity	59.8	55.2	42.1	45.5	44.8	53.2	30.4	20.4	12.9	9.4
Net debt/equity	59.3	54.6	34.0	41.1	42.3	48.6	29.0	18.2	6.1	(0.7)
RoAE	10.7	12.7	17.6	19.9	20.1	18.3	14.5	18.5	15.3	14.5
RoACE	**8.8**	**9.7**	**13.0**	**13.8**	**13.9**	**12.6**	**11.2**	**16.7**	**14.4**	**13.9**

Source: Kotak Institutional Equities estimates

Media

DSTV.BO, Rs18	
Rating	REDUCE
Sector coverage view	Attractive
Target Price (Rs)	20
52W High -Low (Rs)	106 - 12
Market Cap (Rs bn)	11.3

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	4.1	7.8	12.3
Net Profit (Rs bn)	(4.1)	(5.0)	(4.0)
EPS (Rs)	(9.6)	(7.8)	(4.2)
EPS gth	-	-	-
P/E (x)	(1.8)	(2.3)	(4.2)
EV/EBITDA (x)	(7.2)	(4.0)	(15.8)
Div yield (%)	-	-	-

Shareholding, June 2008

	Pattern	% of Portfolio	Over/(under) weight
Promoters	57.9	-	-
FIIs	10.1	0.0	(0.0)
MFs	3.7	0.0	0.0
UTI	-	-	(0.0)
LIC	2.9	0.0	(0.0)

Dish TV : Strong volume growth with 431,000 subscribers in October 2008, but at what cost?

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- **Dish TV added 431,000 subs in October 2008 due to festive season, new schemes**
- **Strong subscriber volumes but cost of addition/retention becoming prohibitive**
- **Retain REDUCE with 12-month DCF-based TP of Rs20 (Rs18 previously)**

Dish TV reported subscriber addition of 431,000 subscribers in the month of October 2008 led by introduction of new schemes (more channels and value-added services at lower prices) for the festive season; we highlight that subscriber addition remains robust even with the launch of new platforms (Reliance Big TV, Airtel Digital TV) and competition has only served to expand the DTH market (DTH platforms are expected to add 1 mn subscribers during the festive season). However, we note the impact of increasing competitive intensive on pricing (subsidies, ARPUs) and churn; Dish TV reported 10% qoq decline in DTH ARPUs to Rs170 in 2QFY09 from Rs188 in 1QFY09 and churn of 1.5% in 2QFY09 versus negligible churn in 1QFY09. In our view, industry dynamics have taken a turn for the worse and strong subscriber addition at lower price points will put addition pressure on Dish TV's balance sheet (and near term profitability). We retain our REDUCE rating with revised 12-month DCF-based target price of Rs20 (Rs18 previously).

Strong subscriber addition in October 2008. Dish TV reported its best ever month of subscriber volume with gross addition of 0.43 mn subscribers in October 2008 versus 0.53 mn in 2QFY09 (net addition at 0.48 mn subscribers) and 0.4 mn in 1QFY09 (net addition at 0.41 mn). Dish TV’s subscriber addition picked-up considerably due to introduction of new schemes for the festive season (October 2008) with more number of channels and value-added services at lower price points; we highlight that subscriber addition has remained strong for Dish TV even with the entry of new platforms (Reliance Big TV, Airtel Digital TV) and competition has served to expand the DTH market (DTH platforms are expected to add 1 mn subscribers during the festive season). We now model Dish TV to add 2.0 mn (1.5 mn previously), 1.5 mn (1.2 mn) and 1.2 mn (1.0 mn) gross subscribers in FY2009E, FY2010E and FY2011E.

Prohibitive cost of subscriber addition/retention. Rising competitive intensity in the DTH market with the entry of new platforms and renewed efforts by extant platforms has led to significant expansion of the DTH market with monthly run-rate rising to 0.8-1.0 mn subscribers from 0.3-0.5 mn previously. However, the market expansion has come at a significant cost—(1) increased marketing and promotion expenditure, (2) higher subsidies to new subscribers and (3) lower realizations from existing subscribers. We highlight the sensitivity of Dish TV valuation to ARPUs (see Exhibit 2) and discuss the impact of rising competitive intensity in the DTH (and C&S) market on the profitability of individual DTH operators.

1. **Downtrading.** DTH operators have introduced new packages (more channels and value-added services at lower price) to drive penetration. However, the payback period of subscribers on the new packages is much longer (Exhibit 3) versus existing packages. Thus, even a modest down-trading of existing high-value subscribers to new low-value packages will result in lower profitability and longer breakeven period for the DTH operator.

2. **High churn.** We note that the strong subscriber addition will only be value accretive for a DTH operator if it is able to control its churn rate. As per trade sources, local cable operators have significantly reduced ARPUs to Rs70-100 from Rs150-200 post the introduction of new packages by DTH operators. We highlight that given the levels of under-declaration (80-85%) in analog cable in India, local cable operators are better placed than DTH at the low end of the market (see Exhibit 4). DTH operators will likely find it hard to retain their low-value subscriber base and may witness churn out of subscribers to cable over time.

Key financial and operating data of Dish TV, March fiscal year-ends, 2007-2018E

	2007	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
Revenues (Rs bn)	1.9	4.1	7.8	12.3	15.6	18.7	21.2	23.3	25.8	28.0	29.7	31.7
EBITDA (Rs bn)	(1.9)	(2.2)	(2.6)	(0.9)	0.2	1.6	2.5	3.2	4.1	5.0	5.6	6.4
EBITDA margin (%)	**(97.0)**	**(52.1)**	**(33.6)**	**(7.6)**	**1.6**	**8.5**	**11.8**	**13.8**	**15.8**	**18.0**	**18.9**	**20.2**
Year-end # of paying subscribers (mn)	**1.6**	**2.5**	**4.3**	**5.5**	**6.3**	**6.9**	**7.3**	**7.7**	**8.1**	**8.2**	**8.3**	**8.4**
Increase/(decrease) in # of paying subs (mn)	0.9	0.9	1.8	1.2	0.8	0.6	0.4	0.4	0.3	0.1	0.1	0.1
Average # of paying subscribers (mn)	1.2	2.1	3.4	4.9	5.9	6.6	7.1	7.5	7.9	8.1	8.2	8.3
Subscription fees per month (Rs/sub/month)	98	130	160	173	187	200	213	226	240	254	268	283
Gross ARPU (Rs/sub/month)	**114**	**153**	**173**	**189**	**207**	**221**	**233**	**244**	**258**	**273**	**286**	**302**

Source: Kotak Institutional Equities estimates

Sensitivity of Dish TV's valuation to number of subscribers, ARPUs and content costs

	DCF value (Rs/share)	Change from base case (%)
Change in monthly subscription fees (%)		
10%	39	95
5%	29	48
Base case	**20**	
-5%	10	(48)
Change in average content costs (%)		
-10%	31	58
-5%	26	29
Base case	**20**	
5%	14	(29)
10%	8	(59)
Change in # of paying subscribers (%)		
20%	23	15
10%	21	7
Base case	**20**	
-10%	18	(7)
-20%	17	(15)

Source: Kotak Institutional Equities estimates

Analysis of payback period of Dish TV's low-end and high-end subscribers

	Low-end	High-end	Comments
Average realization (Rs/month)	**125**	**275**	
Content cost (%)	**45**	**55**	
Content cost (Rs/month)	56	151	
Gross margin (Rs/month)	69	124	
Subscriber management cost (Rs/month)	25	25	
EBITDA margin (Rs/month)	**44**	**99**	
Subscriber acquisition cost (Rs)	**2,600**	**2,600**	Dish TV's average acquisition cost in 2QFY09
Simple payback period (months)	**59**	**26**	

Source: Kotak Institutional Equities estimates

Comparison of channel bouquets offered by Dish TV (low-end) and analog cable

	Dish TV	Cable	Comments
Bouquet offered	Silver	NA	
Hindi general entertainment channels included	partial	yes	
Hindi movies channels included	partial	yes	
Hindi news channels included	yes	yes	
Kids channels included	no	yes	
Sports channels included	no	yes	
Regional channels included	yes	partial	
ARPU realized (Rs/month)	**100**	**100**	**After recent cuts by local cable operators**
Number of free-to-air (FTA) channels	60-65	45-50	
Number of pay-TV channels	20-25	45-50	
Pay-TV channels rate (Rs/month)	50	150	
Declaration of subscriber base (%)	**100**	**20**	**Large under-declaration by LCOs**
Content cost (Rs/month)	50	30	
Gross margin (Rs/month)	**50**	**70**	
Subscriber acquisition cost (Rs)	2,600	—	

Source: Industry, Kotak Institutional Equities estimates

Discounted cash flow analysis of Dish TV (Rs mn)

	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E
EBITDA	**(2,610)**	**(931)**	**242**	**1,585**	**2,494**	**3,218**	**4,075**	**5,029**	**5,621**	**6,390**
Tax expense	—	—	—	—	—	—	—	(301)	(393)	(495)
Working capital changes	(1,459)	509	(897)	(276)	(897)	418	505	(124)	258	291
Cash flow from operations	**(4,069)**	**(422)**	**(655)**	**1,309**	**1,598**	**3,636**	**4,580**	**4,604**	**5,487**	**6,187**
Capital expenditure	(4,876)	(3,503)	(2,686)	(3,201)	(2,734)	(2,653)	(2,571)	(2,159)	(2,087)	(2,017)
Free cash flow to the firm	**(8,945)**	**(3,925)**	**(3,341)**	**(1,892)**	**(1,136)**	**983**	**2,009**	**2,445**	**3,400**	**4,170**

	Now	+ 1-year	+ 2-years
Total PV of free cash flow (a)	**(11,334)**	**(1,772)**	**3,760**
FCF one-year forward	4,795	5,083	5,388
Terminal value	63,934	67,770	71,836
PV of terminal value (b)	**19,403**	**20,567**	**21,801**
Total PV (a) + (b)	**8,069**	**18,796**	**25,562**
Net debt	5,067	6	4,318
Equity value	3,002	18,789	21,244
Equity value (US$ mn)	**66**	**467**	**472**
Shares outstanding (mn)	428	946	946
Equity value/per share (Rs)	**7**	**20**	**22**

Discount rate (%)	13.5
Growth from 2017 to perpetuity (%)	6.0
Exit free cash multiple (X)	13.3
Exit EBITDA multiple (X)	10.0

Source: Kotak Institutional Equities estimates

Profit model of Dish TV, March fiscal year-ends, 2007-2017E (Rs mn)

	2007	2008	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Net revenues	**1,909**	**4,127**	**7,778**	**12,282**	**15,619**	**18,737**	**21,184**	**23,347**	**25,773**	**27,957**	**29,741**
Transponder costs	(338)	(345)	(496)	(614)	(647)	(655)	(677)	(677)	(700)	(722)	(722)
License fees	(156)	(407)	(710)	(670)	(880)	(1,053)	(1,197)	(1,324)	(1,467)	(1,596)	(1,700)
Content costs	(1,556)	(2,533)	(4,456)	(6,462)	(7,926)	(9,048)	(10,198)	(11,219)	(12,256)	(13,153)	(13,904)
Direct operating costs	(197)	(350)	(523)	(645)	(716)	(806)	(864)	(926)	(1,001)	(1,070)	(1,143)
Employee costs	(149)	(295)	(471)	(615)	(736)	(841)	(948)	(1,073)	(1,203)	(1,305)	(1,402)
SG&A costs	(1,364)	(2,350)	(3,732)	(4,206)	(4,472)	(4,750)	(4,805)	(4,909)	(5,071)	(5,083)	(5,249)
EBITDA	**(1,852)**	**(2,152)**	**(2,610)**	**(931)**	**242**	**1,585**	**2,494**	**3,218**	**4,075**	**5,029**	**5,621**
Other income	34	30	164	186	60	80	87	70	69	81	86
Interest (expense)/income	(118)	(513)	(579)	(579)	(827)	(1,267)	(1,597)	(1,762)	(1,789)	(1,752)	(1,604)
Depreciation	(565)	(1,480)	(2,016)	(2,791)	(3,258)	(2,982)	(3,119)	(2,688)	(2,515)	(2,452)	(2,241)
Amortization	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(5)	—	—	—
Pretax profits	**(2,511)**	**(4,126)**	**(5,052)**	**(4,124)**	**(3,792)**	**(2,594)**	**(2,144)**	**(1,167)**	**(159)**	**907**	**1,861**
Extraordinary inc/(chrg)	—	—	—	—	—	—	—	—	—	—	—
Prior Period Adjustments	(5)	—	—	—	—	—	—	—	—	—	—
Tax-cash	(3)	(6)	—	—	—	—	—	—	—	(103)	(211)
Tax-deferred	—	—	26	118	236	114	144	6	(40)	(28)	(56)
Net income	**(2,519)**	**(4,132)**	**(5,026)**	**(4,006)**	**(3,556)**	**(2,481)**	**(2,000)**	**(1,161)**	**(199)**	**776**	**1,594**
Shares outstanding year-end (mn)	428	428	946	946	946	946	946	946	946	946	946
Shares primary (mn)	428	428	644	946	946	946	946	946	946	946	946
Shares fully diluted (mn)	428	428	644	946	946	946	946	946	946	946	946
EPS primary (Rs)	**(5.9)**	**(9.6)**	**(7.8)**	**(4.2)**	**(3.8)**	**(2.6)**	**(2.1)**	**(1.2)**	**(0.2)**	**0.8**	**1.7**
EPS fully diluted (Rs)	**(5.9)**	**(9.6)**	**(7.8)**	**(4.2)**	**(3.8)**	**(2.6)**	**(2.1)**	**(1.2)**	**(0.2)**	**0.8**	**1.7**
Cash flow per share (Rs)	(4.2)	(6.0)	(5.0)	(1.6)	(0.6)	0.3	0.9	1.5	2.4	3.4	4.0
Growth (%)											
Net income	—	64	22	(20)	(11)	(30)	(19)	(42)	(83)	(490)	105
EPS	—	64	(19)	(46)	(11)	(30)	(19)	(42)	(83)	(490)	105
Gross cash flow	—	41	25	(53)	(61)	(154)	182	62	57	39	20
Tax rate-cash (%)	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**11**	**11**
Tax rate-effective (%)	**—**	**—**	**1**	**3**	**6**	**4**	**7**	**1**	**(25)**	**14**	**14**
Dividend per share (Rs)	—	—	—	—	—	—	—	—	—	—	—
Dividend pay-out ratio (%)	—	—	—	—	—	—	—	—	—	—	—

Source: Kotak Institutional Equities estimates.

Profit model, balance sheet, cash model of Dish TV, March fiscal year-ends, 2006-2012E (Rs mn)

	2006	2007	2008	2009E	2010E	2011E	2012E
Profit model							
Net revenues	315	1,909	4,127	7,778	12,282	15,619	18,737
EBITDA	**(830)**	**(1,852)**	**(2,152)**	**(2,610)**	**(931)**	**242**	**1,585**
Other income	—	34	30	164	186	60	80
Interest (expense)/income	(17)	(118)	(513)	(579)	(579)	(827)	(1,267)
Depreciation	(18)	(565)	(1,480)	(2,016)	(2,791)	(3,258)	(2,982)
Amortization	(10)	(10)	(10)	(10)	(10)	(10)	(10)
Pretax profits	**(875)**	**(2,511)**	**(4,126)**	**(5,052)**	**(4,124)**	**(3,792)**	**(2,594)**
Extraordinary items	(1,203)	(5)	—	—	—	—	—
Tax	—	(3)	(6)	—	—	—	—
Deferred taxation	—	—	—	26	118	236	114
Net income	**(2,078)**	**(2,519)**	**(4,132)**	**(5,026)**	**(4,006)**	**(3,556)**	**(2,481)**
Earnings per share (Rs)	**—**	**(5.9)**	**(9.6)**	**(7.8)**	**(4.2)**	**(3.8)**	**(2.6)**
Balance sheet							
Total equity	1,915	(395)	(4,527)	1,847	(2,160)	(5,716)	(8,197)
Deferred taxation liability	—	—	—	(26)	(144)	(380)	(494)
Total borrowings	84	1,751	5,266	5,266	5,266	9,766	13,266
Current liabilities	1,820	8,596	11,376	13,101	13,936	13,147	13,359
Total liabilities and equity	**3,819**	**9,952**	**12,116**	**20,188**	**16,898**	**16,817**	**17,935**
Cash	59	113	199	5,260	948	1,041	1,613
Other current assets	1,528	2,271	3,276	3,438	3,757	4,165	4,502
Total fixed assets	1,067	6,107	7,190	10,050	10,762	10,191	10,409
Intangible assets	75	516	506	496	486	476	466
Investments	1,089	945	945	945	945	945	945
Total assets	**3,819**	**9,952**	**12,116**	**20,188**	**16,898**	**16,817**	**17,935**
Free cash flow							
Operating cash flow, excl. working capital	(850)	(1,814)	(2,552)	(3,189)	(1,510)	(584)	318
Working capital changes	599	3,507	2,129	1,563	515	(1,196)	(125)
Capital expenditure	(1,025)	(2,921)	(2,579)	(4,876)	(3,503)	(2,686)	(3,201)
Investments	185	(451)	(293)	—	—	—	—
Other income	3	5	9	164	186	60	80
Free cash flow	**(1,088)**	**(1,674)**	**(3,287)**	**(6,339)**	**(4,312)**	**(4,407)**	**(2,928)**
Ratios (%)							
Debt/equity	4.4	(443.6)	(116.3)	285.2	(243.9)	(170.9)	(161.8)
Net debt/equity	1.3	(414.9)	(111.9)	0.3	(199.9)	(152.7)	(142.2)
ROAE (%)	(217.0)	(331.3)	167.9	371.4	1,659.3	84.7	33.6
ROACE (%)	**(89.6)**	**(283.2)**	**(345.3)**	**(113.7)**	**(68.5)**	**(83.9)**	**(30.8)**

Source: Kotak Institutional Equities estimates.

Banking

Sector coverage view	Attractive

Company	Rating	Price, Rs 5-Nov	Target
SBI	BUY	1,273	1,600
HDFC	ADD	1,750	2,200
HDFC Bank	BUY	1,098	1,350
ICICI Bank	ADD	451	450
Corp Bk	BUY	223	310
BoB	ADD	280	330
PNB	BUY	495	650
OBC	ADD	140	200
Canara Bk	REDUCE	180	220
LIC Housing	ADD	236	325
Axis Bank	REDUCE	604	750
IOB	BUY	83	130
Shriram Transp	ADD	217	305
SREI	BUY	55	100
MMFSL	SELL	199	190
Andhra	REDUCE	50	65
IDFC	ADD	70	85
PFC	ADD	113	140
Federal Bank	BUY	148	300
J&K Bank	ADD	365	500
India Infoline	ADD	54	70
Indian Bank	ADD	129	160
Union Bank	BUY	148	220
Central Bank c	SELL	39	55
Future Capital	BUY	183	440

Strong bargaining power drives earnings

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- **Liquidity scenario increased bargaining power of banks, this may moderate gradually**
- **RBI measures to boost earnings in the near term**
- **Increase in NPLs is the key risk**
- **Valuations remain reasonable, reiterate preference on public banks**

The tight liquidity conditions, along with the recent monetary measures of Reserve Bank of India (RBI), are positive for the immediate earnings of banks. These trends were visible in the 2QFY09 results – net interest income (NII) increased by over 20% yoy and PAT growth was around 15-30% yoy for most banks. The key risk for banks over the next 2-3 quarters could be the likely rise in NPLs as the economy slows down. We believe that large public banks are likely at an advantage in the current environment to access low-cost deposits and also book higher treasury profits (on their Gsec portfolio), which could buffer some of the likely stress on asset quality. We reiterate our preference for SBI, PNB, Union Bank, BoB and BoI among public banks as valuations continue to remain reasonable at 0.7-1.3X APBR FY2009E; HDFC Bank and Federal Bank among private banks.

Net interest income growth was strong across banks in 2QFY09, likely to moderate

Most of the public banks reported net interest income (NII) growth of over 20% yoy in 2QFY09, which was a significant improvement over the last four quarters (see Exhibit 4). The key trends discernible from the results were: (1) incremental loan growth was higher than the deposit mobilization in 2QFY09 (see Exhibit 5), (2) net interest margin (NIM) improved smartly as banks had increased their prime lending rate (PLR) by 125-150 bps in 2QFY09, (3) deposit costs for banks also saw an increase in line with the hardening of rates in the market (see Exhibit 6), (4) CASA ratio for banks declined given the attractive term deposit rates of 10-10.5% offered on term deposits (see Exhibit 8).

We note that since most of the advances are linked to the PLR, any change in this benchmark rate (PLR) has an immediate impact on bank earnings, while the changes in deposit rates have an impact on funding costs over a period of time. Growth in NII will likely moderate in the next few quarters for two reasons: (1) most banks are expected to reduce their PLR by 50-75 bps and also announce reduction in deposit rates in the next few days, (2) loan growth will likely moderate as financial markets stabilize and reliance on banking sector credit comes off from the current high levels. We conservatively model a decline in NIM for most banks in FY2010E compared to FY2009E to factor a faster repricing of advances compared to deposits.

Non-interest income remained robust

The non-interest revenues (ex-treasury) growth was in excess of 30% yoy for most of the large public banks and in excess of 50% yoy for Axis Bank and HDFC Bank (see Exhibit 9). These revenues were driven by higher fee income (aided by higher loan growth) and recoveries from written-off accounts. There was an extraordinary income for IOB of Rs672 mn (16% of PBT) from sale of property, which boosted the earnings in 2QFY09.

We believe that there could be moderation in the fee income for banks given the volatile capital markets and moderation in loan growth from the current 29% yoy to 20-22% yoy over the next 12 months.

Public banks made ad-hoc provisions for their likely wage hike

Most of the public banks made provisions for their likely liabilities on account of the wage negotiations that are currently underway between the IBA and employee unions. These provisions have been based on an assumption of 13-13.5% hike in wages for employees. We currently model a 15% increase in per employee wage costs in our financial estimates.

Asset quality remains healthy

BoB, BoI and PNB were the large banks that reported a decline in gross NPLs in absolute levels on a sequential basis in 2QFY09. SBI, HDFC Bank, Axis Bank and ICICI Bank reported a 10-11% increase in gross NPLs on a sequential basis. The overall asset quality of banks remained healthy as of September 2008 (see Exhibit 10)—(1) gross NPL ratio ranged between 1-2.5% for public banks and 0.9-4.6% for private banks, (2) net NPL ratio ranged between 0.1-1.4% for public banks and 0.4-1.9% for private banks. We currently model an increase in NPL provisions of over 1X in FY2010E compared to FY2009E to factor in the likely deterioration in asset quality.

Details on NPL drivers of key banks

- The increase in NPLs of ICICI Bank was largely on account of the slippage in the non-collateralized retail book.
- HDFC Bank had a larger than expected increase in NPLs (of Rs1.8 bn in 2QFY09) on account of slippage in the CBOP book.
- SBI's reported loan quality was impacted by the merger of State Bank of Saurastra (SBS) with itself— led to Rs2.2 bn (20% of incremental gross NPLs) increase in gross NPLs.

Increase in NPLs at IOB concern us

IOB was the only bank that reported a sharp increase in gross NPLs in 2QFY09—increased to Rs17.3 bn as of September 2008 from Rs11 bn as of June 2008. The management indicated that this slippage in asset quality were due to one-off developments: (1) repayment of a Rs3 bn of a real estate loan got delayed, (2) Rs1 bn of exposure to an electricity project (classified as infrastructure loan) was declared as NPL due to delay in project implementation. IOB has received the amount from the real estate company in October 2008 and this development is likely to be reflected in future periods. On the infrastructure loan, IOB has been receiving interest repayments on time. However, we remain concerned on the sharp rise in delinquent assets.

Recent RBI measures could be positive for bank earnings

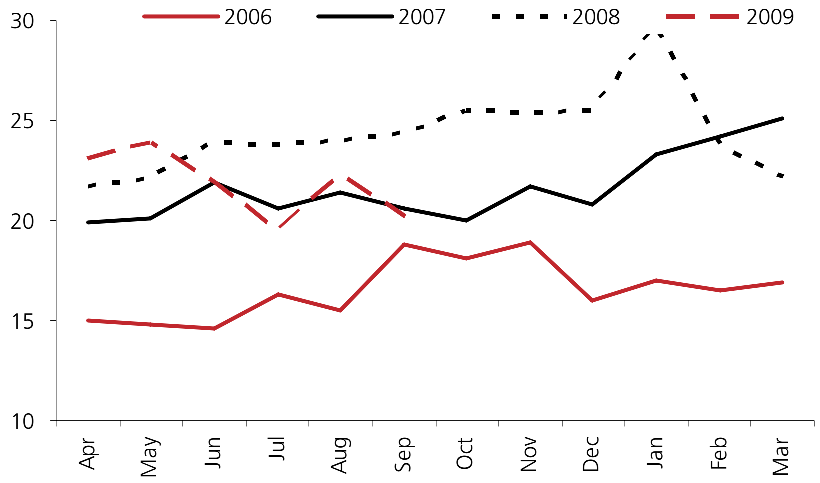
While the spreads in lending will moderate, RBI has announced a series of measures to ease the liquidity scenario in the economy, which are likely to be positive for bank earnings in the near term.

- The reduction in cash reserve ratio (CRR) for banks by 350 bps to 5.5% from 9.0% will enable banks to deploy the additional resources in interest earnings assets (currently banks do not receive interest on balances with RBI).
- The reduction in statutory liquidity ratio (SLR) by 1% to 24% will enable banks to fund advances rather than park its resources in lower yielding government securities. Both these measures are likely to be positive for the NIM of banks.
- The RBI has also announced its intention to buy back bonds issued under the market stabilization scheme (MSS) to further enhance liquidity in the system. This measure will likely exert a downward pressure on Gsec yields and help banks book treasury income. Our economist, Dr Mridul Saggar, expects the benchmark 10-year Gsec to be at 7.5% as of March 2008 compared to 8.63% as of September 2008. The moderation in inflationary pressures is supportive of this trend of lower Gsec yields.

- RBI has also relaxed some of the asset recognition norms for the restructured accounts pertaining to housing, SSI and certain specified loans (notification issued on August 27, 2008 and November 3, 2008). This relaxation in norms is likely to be positive for bank earnings.

Exhibit 1: Deposit growth in FY2009 has been lower than FY2008 until September 2008

yoy growth in deposits (%)



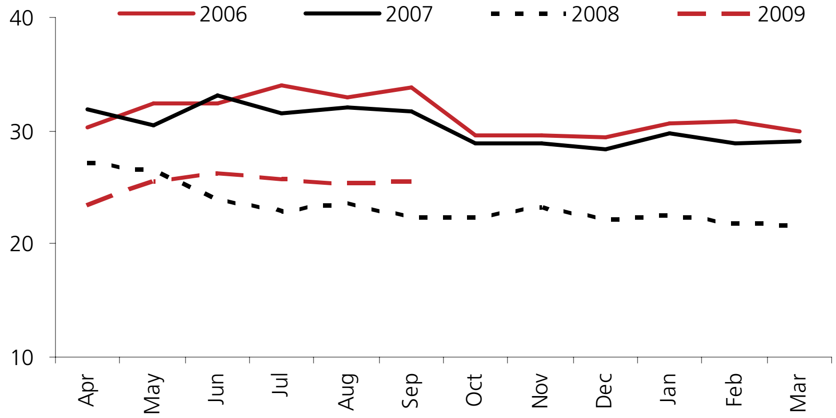
Note:

Deposit growth in January 2008 impact by IPO flows.

Source: RBI.

Exhibit 2: While loan growth continues to remain strong

yoy growth in advances, March fiscal year-ends (%)



Source: RBI.

Exhibit 3: Industrial sector is the key driver of advances demand for the banking sector
yoy growth in credit (%)

	22-Dec-06	30-Mar-07	25-May-07	17-Aug-07	23-Nov-07	18-May-08	29-Aug-08
Non-food bank credit	31.1	24.5	22.6	20.2	22.4	24.1	26.8
Agriculture	31.2	33.6	32.2	24.4	21.4	19.3	18.5
Industry	**27.8**	**25.9**	**26.4**	**24.6**	**25.3**	**26.9**	**30.6**
Real estate	**66.7**	**69.9**	**69.7**	**52.9**	**33.0**	**31.9**	**17.4**
Retail	**34.9**	**28.8**	**23.9**	**19.8**	**20.0**	**15.9**	**13.9**
Housing	30.3	23.7	21.6	16.6	15.1	13.8	(7.9)
Consumer durables	23.3	4.2	23.2	4.1	(4.4)	(6.0)	86.3
Credit cards	43.2	45.1	45.0	45.9	43.7	87.0	38.3
Education loans	49.2	49.3	46.5	43.7	44.6	31.9	46.3

Source: RBI.

Exhibit 4: NII growth was strong for most banks in 2QFY09, NIM also showed a smart improvement
NIM and yoy growth in NII (%)

	NIM (%)						NII yoy growth (%)					
	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09
Public banks												
Andhra Bank	3.5	3.0	3.2	2.9	2.9	3.4	8.0	4.2	1.8	(11.6)	1.2	25.8
Bank of Baroda	3.2	3.1	3.0	2.9	2.9	2.8	19.6	9.4	11.6	(2.0)	11.0	21.1
Bank of India	2.7	2.7	2.7	2.9	2.6	2.8	22.7	49.6	71.9	13.2	48.6	22.9
Canara Bank	2.5	2.4	2.4	2.4	2.6	2.7	(5.7)	(19.8)	(10.0)	(13.0)	14.0	46.0
Corporation Bank	2.9	2.9	2.7	2.7	2.4	2.4	14.6	18.2	6.1	3.7	6.9	8.7
Indian Bank	3.4	3.2	3.7	3.3	3.2	3.9	19.8	7.9	28.8	(10.4)	10.0	46.4
IOB	3.7	3.4	3.3	3.3	3.1	3.2	23.2	3.3	8.4	(11.2)	2.4	24.2
OBC	2.7	2.4	2.4	2.3	2.1	2.4	7.8	(3.2)	(4.5)	(2.1)	0.8	30.6
PNB	3.6	3.7	3.7	3.7	3.3	3.8	6.6	0.3	3.7	11.9	10.3	32.1
State Bank of India	3.1	3.0	2.8	3.1	3.0	3.2	25.9	6.3	23.5	6.3	14.7	45.0
Union Bank	3.1	2.6	2.8	2.8	2.7	3.0	21.6	7.2	14.9	(0.3)	9.2	49.7
Old private banks												
Federal Bank	3.2	3.2	3.2	3.8	3.9	4.4	21.5	23.2	16.5	21.5	46.4	60.8
J&K Bank	2.9	3.0	3.0	3.2	3.1	3.4	6.2	0.9	3.2	10.9	19.3	33.9
New private banks												
Axis Bank	2.7	3.3	3.9	3.9	3.4	3.5	38.8	61.2	79.7	78.5	87.0	59.4
HDFC Bank	4.2	4.2	4.3	4.4	4.1	4.2	27.5	44.5	62.6	56.0	65.4	52.8
ICICI Bank	2.3	2.5	2.3	2.4	2.4	2.4	16.2	26.6	27.1	23.7	34.7	16.3

Source: Companies, Kotak Institutional Equities.

Exhibit 5: Incremental loan growth was higher than the incremental deposit mobilization for most banks in 2QFY09
Incremental loans and deposits (Rs bn)

	Incremental loans						Incremental deposits					
	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09
Andhra Bank	(5)	28	8	32	(5)	24	(7)	37	(5)	55	(3)	13
Bank of Baroda	(54)	120	53	112	45	83	(25)	89	55	151	29	62
Bank of India	17	73	78	111	81	64	24	73	62	142	92	50
Canara Bank	(38)	7	37	79	29	94	7	21	(15)	103	23	152
Corporation Bank	4	23	18	47	(2)	46	9	25	34	62	(7)	55
Indian Bank	6	26	40	35	43	36	27	39	(4)	77	12	24
IOB	7	27	33	64	24	63	15	81	5	55	7	58
OBC	(3)	18	44	41	7	51	5	47	50	37	54	41
PNB	(10)	58	1	180	(51)	160	27	74	26	138	66	132
State Bank of India	25	190	315	265	264	502	141	345	260	273	245	579
Union Bank	1	49	57	16	-	107	18	78	44	46	34	87

Source:Companies, Kotak Institutional Equities.

Exhibit 6: Cost of deposits have also increased in line with the hardening of interest rates
In %

	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09
Andhra Bank	5.0	5.1	5.1	5.9	6.2	6.6	6.5	7.1	6.5	NA
Bank of Baroda	4.4	4.4	4.6	4.8	5.4	5.5	5.6	5.7	5.6	5.6
Bank of India	4.3	4.4	4.5	4.6	4.9	5.5	5.5	5.6	5.5	5.8
Canara Bank	4.7	4.8	4.9	5.1	6.1	6.3	6.1	6.2	5.9	6.1
Corporation Bank	4.7	5.0	5.2	5.3	6.6	6.4	6.4	6.5	6.4	6.8
Indian Bank	4.9	5.0	NA	5.2	5.6	5.8	5.9	5.8	6.2	6.1
IOB	4.8	5.0	5.3	5.2	5.9	6.4	6.7	NA	6.4	6.5
OBC	5.3	5.6	5.7	6.1	6.6	6.9	7.0	7.1	7.1	7.3
PNB	4.4	4.4	4.4	4.5	5.5	5.6	5.6	5.6	NA	6.1
State Bank of India	4.5	4.5	4.6	4.8	5.4	5.5	5.6	5.6	5.7	5.9
Union Bank	4.8	5.0	5.1	5.2	5.4	6.0	6.0	NA	6.1	6.3

Source:Companies, Kotak Institutional Equities.

Exhibit 7: Loan growth remained strong for most banks in 2QFY09
yoy growth in loans (%)

	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09
Public banks						
Andhra Bank	27.1	29.2	22.4	22.4	23.0	19.5
Bank of Baroda	27.5	27.1	23.0	27.6	42.1	32.4
Bank of India	26.8	30.0	29.9	32.3	38.8	35.0
Canara Bank	18.0	15.5	9.2	8.6	16.1	25.1
Corporation Bank	17.5	16.6	19.4	30.8	28.3	33.3
Indian Bank	22.0	22.5	33.6	36.4	48.1	47.0
IOB	28.3	24.8	23.9	27.4	30.4	35.8
OBC	23.8	21.3	23.5	21.9	24.2	30.4
PNB	23.3	23.2	15.8	23.7	19.6	28.6
State Bank of India	29.4	26.7	26.1	23.6	30.4	37.5
Union Bank	14.2	11.6	27.4	19.2	19.1	26.2
Old private banks						
Federal Bank	22.9	23.5	28.2	26.9	38.3	31.6
J&K Bank	32.2	29.1	23.3	10.6	15.7	17.5
New private banks						
Axis Bank	59.8	53.5	50.4	61.8	48.1	54.0
HDFC Bank	32.7	45.6	48.7	35.1	79.8	64.1
ICICI Bank	34.7	33.3	24.7	15.2	13.0	7.2

Source: Companies.

Exhibit 8: CASA ratio declined on a sequential basis for most banks reflecting the higher interest rate scenario

yoy deposit growth and CASA ratio of banks (%)

	Deposit growth						CASA ratio					
	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09
Public banks												
Andhra Bank	23.3	36.7	21.6	19.3	20.6	13.7	33.4	32.0	34.1	33.6	33.0	34.1
Bank of Baroda	22.7	22.0	21.9	21.7	26.5	22.6	38.8	37.5	37.3	36.0	36.9	35.9
Bank of India	27.7	25.5	27.4	25.1	30.2	26.7	30.4	29.6	30.2	29.4	28.2	27.1
Canara Bank	16.4	18.9	9.0	8.2	9.2	18.1	31.0	31.0	32.0	32.1	34.2	32.0
Corporation Bank	27.4	20.3	24.0	30.9	26.6	31.8	28.7	28.7	30.0	35.0	27.4	-
Indian Bank	19.6	21.8	18.1	19.1	19.1	19.1	35.4	34.3	36.2	33.2	33.8	33.1
IOB	31.9	37.3	33.1	22.7	21.1	16.0	32.8	31.8	30.9	33.5	30.5	29.3
OBC	18.4	15.7	22.2	21.7	29.1	26.3	28.0	27.0	26.3	27.7	26.4	25.2
PNB	21.7	16.8	17.2	19.0	21.4	24.2	44.0	43.0	43.0	43.0	41.3	38.8
State Bank of India	19.0	23.3	26.2	23.4	25.0	28.0	41.1	39.5	41.1	43.1	41.2	39.7
Union Bank	13.7	20.7	28.4	29.4	29.4	29.4	33.3	32.5	33.1	34.9	34.8	33.1
Old private banks												
Federal Bank	13.2	31.9	25.7	20.1	28.7	9.6	25.0	25.0	25.8	25.0	25.0	25.0
J&K Bank	19.5	27.3	30.7	13.5	15.2	19.4	35.8	35.2	36.0	39.2	38.9	36.8
New private banks												
Axis Bank	45.1	30.9	34.6	49.1	45.6	60.5	37.8	45.4	45.3	45.7	39.8	40.3
HDFC Bank	34.6	43.5	48.9	47.5	60.4	46.9	51.5	52.5	50.9	54.5	44.9	44.0
ICICI Bank	26.1	20.5	16.7	6.0	1.6	(2.1)	22.6	25.3	27.2	26.0	27.6	29.9

Source: Companies, Kotak Institutional Equities.

Exhibit 9: Fees and recoveres both driving non interest income (ex-treasury)

yoy growth in non -interest income (ex-treasury) (%)

	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09
Public banks						
Andhra Bank	15.4	15.7	(4.9)	17.7	2.7	10.1
Bank of Baroda	8.7	30.5	40.2	12.3	44.0	17.2
Bank of India	22.0	33.1	64.3	12.1	57.7	56.6
Canara Bank	32.4	23.2	77.3	7.2	14.2	(9.6)
Corporation Bank	10.0	8.5	3.3	15.4	28.8	5.6
Indian Bank	51.4	19.0	48.3	(20.3)	33.3	15.9
IOB	27.4	(15.5)	46.5	57.6	16.0	87.9
OBC	12.0	0.9	4.7	(3.6)	6.5	118.1
PNB	24.7	21.1	1.9	11.4	17.8	64.2
State Bank of India	1.6	12.7	36.9	6.4	38.5	35.7
Union Bank	33.4	47.1	29.8	14.9	17.2	41.6
Old private banks						
Federal Bank	NA	42.6	78.7	76.7	26.3	63.8
J&K Bank	62.6	41.1	70.3	(24.7)	9.1	(13.6)
New private banks						
Axis Bank	47.1	76.3	78.0	77.8	89.2	105.8
HDFC Bank	49.3	15.7	38.8	16.9	27.3	51.0
ICICI Bank	47.5	42.6	28.4	32.8	21.5	7.0

Source: Companies, Kotak Institutional Equities.

Exhibit 10: Asset quality of banks continues to remain healthy. ICICI Bank reported a deterioration in asset quality largely on account of its retail portfolio, IOB reported the sharpest rise in NPLs amongst public banks

Gross NPL, Net NPL of banks

	Gross NPLs (Rs bn)					Gross NPLs (%)					Net NPLs (Rs bn)					Net NPLs (Rs %)				
	4QFY07	2QFY08	4QFY08	1QFY09	2QFY09	4QFY07	2QFY08	4QFY08	1QFY09	2QFY09	4QFY07	2QFY08	4QFY08	1QFY09	2QFY09	4QFY07	2QFY08	4QFY08	1QFY09	2QFY09
Public banks																				
Andhra Bank	4.0	4.1	3.7	3.9	3.7	1.4	1.4	1.1	1.2	1.0	0.5	0.6	0.5	0.3	0.9	0.2	0.2	0.2	0.1	0.2
Bank of Baroda	20.9	21.3	19.8	20.9	19.5	2.5	2.3	1.8	1.9	1.6	5.0	5.0	5.0	5.9	5.1	0.6	0.6	0.5	0.5	0.4
Bank of India	21.0	19.8	19.3	20.2	19.8	2.4	2.1	1.7	1.6	1.5	6.4	7.2	6.0	6.4	6.2	0.7	0.8	0.5	0.5	0.5
Canara Bank	14.9	15.9	14.2	14.5	15.7	1.5	1.7	1.3	1.3	1.3	9.3	9.4	9.0	9.3	10.6	0.9	0.8	0.8	0.9	0.9
Corporation Bank	6.2	6.2	5.8	5.8	6.0	2.1	1.9	1.5	1.5	1.4	1.4	1.1	1.3	1.4	1.7	0.5	1.0	0.3	0.4	0.4
Indian Bank	5.5	5.2	4.9	4.2	4.7	1.9	1.6	1.2	1.0	1.0	1.0	0.9	1.0	0.8	0.9	0.4	0.4	0.2	0.2	0.2
IOB	11.2	10.8	10.0	11.0	17.3	2.3	2.1	1.6	1.7	2.5	2.6	1.8	3.7	4.8	10.0	0.6	0.3	0.6	0.8	1.4
OBC	14.5	13.9	12.8	12.2	11.8	3.2	3.0	2.3	2.2	1.9	2.2	3.0	5.5	5.4	5.3	0.5	0.4	1.0	1.0	0.9
PNB	33.9	47.2	33.2	32.6	31.2	3.5	4.6	2.7	2.8	2.4	7.3	18.9	7.6	7.2	5.5	0.8	0.6	0.6	0.6	0.4
State Bank of India	100.0	106.3	136.0	114.1	125.5	2.9	2.9	3.0	2.5	2.5	52.6	58.5	74.2	62.9	66.1	1.6	1.9	1.8	1.4	1.3
Union Bank	18.7	16.6	16.6	15.8	16.7	2.9	2.4	2.2	2.1	1.9	6.1	4.5	1.3	1.1	1.2	1.0	1.6	0.2	0.2	0.1
Old private banks																				
Federal Bank	4.5	4.7	4.7	5.5	5.7	3.0	2.9	2.4	2.6	2.6	0.7	0.7	0.4	0.9	0.9	0.4	0.4	0.2	0.5	0.4
J&K Bank	5.0	4.8	4.9	4.8	4.9	2.9	2.6	2.5	2.3	2.3	1.9	1.6	2.0	1.9	2.0	1.1	0.9	1.1	1.0	1.0
New private banks																				
Axis Bank	4.2	4.9	4.9	6.4	7.1	1.0	1.0	0.7	0.9	0.9	2.2	2.5	2.1	2.9	2.9	0.6	0.6	0.4	0.5	0.4
HDFC Bank	6.6	7.7	9.1	15.0	16.8	1.3	1.2	1.3	1.5	1.6	1.9	2.4	3.2	4.8	6.1	0.4	0.4	0.5	0.5	0.6
ICICI Bank	48.5	66.9	83.5	92.8	102.7	2.5	3.0	3.7	4.1	4.6	20.2	29.7	35.6	41.0	43.0	1.0	0.4	1.6	1.8	1.9

Source: Companies.

Exhibit 11: PAT growth was strong for most banks under coverage

yoy growth in PAT (%)

	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09
Public banks										
Andhra Bank	36.7	10.2	5.8	0.1	21.2	3.2	16.7	(10.5)	(45.0)	6.8
Bank of Baroda	4.1	11.3	62.8	17.7	102.6	13.5	52.2	12.5	12.1	20.8
Bank of India	21.6	60.5	78.0	75.9	51.0	100.4	101.2	69.1	78.3	79.4
Canara Bank	2.2	18.1	1.9	2.3	26.0	11.0	26.4	(8.3)	(49.0)	31.8
Corporation Bank	16.8	20.3	27.2	18.1	22.8	27.1	30.4	73.7	4.1	18.7
Indian Bank	20.7	60.1	54.6	69.2	28.7	46.3	61.4	2.7	2.6	14.3
IOB	21.2	25.9	25.1	41.7	20.9	28.0	24.9	5.6	(4.7)	12.3
OBC	116.0	51.0	27.1	(73.2)	48.0	(29.9)	(24.0)	(281.3)	58.4	79.9
PNB	2.6	19.7	16.0	(17.7)	15.7	6.6	26.0	128.8	20.5	31.3
State Bank of India	(34.7)	(2.5)	(4.5)	75.0	78.5	36.0	69.8	26.1	15.1	40.2
Union Bank	(30.6)	218.1	11.7	53.6	34.9	42.0	38.8	134.7	1.4	31.1
Old private banks										
Federal Bank	(17.5)	28.2	17.0	95.6	66.6	37.2	22.8	3.6	1.8	19.9
J&K Bank	28.8	52.8	65.6	98.6	33.4	28.3	30.1	32.1	13.6	7.5
New private banks										
Axis Bank	30.2	30.2	40.2	39.6	45.2	60.5	66.2	70.6	88.7	76.9
HDFC Bank	30.4	31.7	31.7	30.5	34.2	40.1	45.2	37.1	44.6	43.3
ICICI Bank	17.0	30.2	42.2	4.5	25.0	32.8	35.2	39.4	(6.1)	1.2

Source: Companies, Kotak Institutional Equities.

Exhibit 12: Valuations of key banks, March fiscal year-ends

		Traget price	Price (Rs)	Market cap.	EPS (Rs)				PER (X)				ABVPS (Rs)				APBR (X)				RoE (%)				Dividend yield (%)			
	Reco.	(Rs)	(Rs)	US $bn	2007	2008	2009E	2010E	2007	2008	2009E	2010E	2007	2008	2009E	2010E	2007	2008	2009E	2010E	2007	2008	2009E	2010E	2007	2008	2009E	2010E
Public banks																												
Andhra Bank	REDUCE	65	50	0.5	10.0	11.9	11.6	12.1	4.5	4.2	4.3	4.1	61	63	72	80	0.8	0.8	0.7	0.6	17.8	18.0	16.3	15.3	7.6	8.0	5.8	6.1
BoB	ADD	330	280	2.1	22.6	39.3	40.9	43.7	10.0	7.1	6.8	6.4	213	237	274	305	1.3	1.2	1.0	0.9	12.4	14.6	13.0	12.7	2.5	2.9	3.0	3.2
BoI	BUY	370	278	3.1	14.4	40.6	48.0	46.3	12.1	6.9	5.8	6.0	99	150	199	238	2.8	1.9	1.4	1.2	21.2	27.6	25.4	20.1	1.4	1.4	1.8	1.7
Canara Bank	REDUCE	210	180	1.6	32.8	38.2	40.0	38.3	5.2	4.7	4.5	4.7	172	175	218	249	1.0	1.0	0.8	0.7	16.3	15.0	14.7	12.6	3.9	4.4	3.3	3.3
Corporation Bank	BUY	310	223	0.7	31.0	51.2	51.3	51.5	6.0	4.3	4.3	4.3	243	274	311	354	0.9	0.8	0.7	0.6	15.0	18.4	16.3	14.6	4.0	4.7	4.7	4.7
Indian Bank	ADD	160	129	1.2	6.8	22.5	22.8	23.5	7.6	5.7	5.7	5.5	70	101	122	141	1.8	1.3	1.1	0.9	26.4	24.8	19.5	17.2	2.3	2.3	2.3	2.3
IOB	BUY	130	83	1.0	14.4	22.1	21.9	20.1	4.5	3.8	3.8	4.1	63	76	96	101	1.3	1.1	0.9	0.8	28.1	27.2	22.5	17.7	4.2	4.7	5.1	5.6
OBC	ADD	200	140	0.7	32.0	23.9	44.0	30.0	4.2	5.9	3.2	4.7	188	195	241	271	0.7	0.7	0.6	0.5	10.9	6.2	17.8	10.9	3.4	3.4	6.3	4.3
PNB	BUY	650	495	3.3	45.6	65.0	81.5	86.0	10.1	7.6	6.1	5.8	289	304	370	442	1.7	1.6	1.3	1.1	15.5	18.0	19.5	18.0	2.6	2.6	3.3	3.5
SBI	BUY	1,600	1,273	17.0	83.7	106.6	116.5	105.2	14.7	11.9	10.9	12.1	503	671	750	839	2.5	1.9	1.7	1.5	15.4	16.8	14.2	11.6	1.1	2.0	1.7	1.8
SBI incl. banking subs	BUY	1,143	988	13.2	105.8	157.7	108.8	140.0	8.6	6.3	9.1	7.1	664	812	904	1,011	1.5	1.2	1.1	1.0	15.5	16.7	11.0	11.0				
SBI standalone	BUY	1,101	816	10.9	77.7	122.1	110.2	98.3	10.9	6.7	7.4	8.3	454	602	681	770	1.8	1.4	1.2	1.1	14.6	19.5	14.6	11.7				
Union Bank	BUY	250	148	1.6	14.6	27.5	30.9	31.0	8.9	5.4	4.8	4.8	82	105	132	156	1.8	1.4	1.1	0.9	19.2	26.8	24.9	20.7	2.4	2.7	3.1	3.1
Old private banks																												
Federal Bank	BUY	300	148	0.5	24.4	34.4	26.6	29.8	4.3	4.3	5.6	4.9	161	222	245	268	0.9	0.7	0.6	0.6	21.2	13.6	11.1	11.4	2.7	2.7	3.3	3.3
J&K Bank	ADD	500	365	0.4	36.5	74.2	76.3	72.8	6.5	4.9	4.8	5.0	371	416	492	556	1.0	0.9	0.7	0.7	14.4	16.8	15.3	13.1	3.1	4.1	4.4	4.4
New private banks																												
Axis Bank	ADD	750	604	4.6	17.4	32.2	39.7	51.8	25.8	18.7	15.2	11.7	106	229	264	300	5.7	2.6	2.3	2.0	21.0	17.6	15.2	17.5	0.9	1.0	1.3	1.6
HDFC Bank	BUY	1,350	1,098	9.8	27.8	46.0	55.6	68.9	30.7	23.9	19.8	15.9	201	324	350	475	5.5	3.4	3.1	2.3	19.5	17.7	17.9	17.1	0.6	0.8	1.1	1.2
ICICI Bank	ADD	450	451	10.6	32.8	39.9	36.2	39.2	13.0	11.3	12.4	11.5	270	418	443	471	1.7	1.1	1.0	1.0	13.4	11.7	8.4	8.6	2.2	2.6	2.0	2.2
ICICI standalone	ADD	293	181	4.3	18.7	28.9	31.3	33.8	6.1	6.3	5.8	5.4	225	341	278	301	0.8	0.5	0.7	0.6	13.4	10.2	10.1	11.7				

Source: Bloomberg, Companies, Kotak Institutional Equities estimates.

Exhibit 13: Stock price performance—absolute and relative (%)

	Price		Change in price (%)					Relative performance to sensex (%)					52 week	52 week	% change
	5-Nov-08	Rating	1 month	3 month	6 month	12 month	Ytd	1 month	3 month	6 month	12 month	Ytd	high	low	from high
Public banks															
Andhra Bank	50	REDUCE	(9.3)	(19.0)	(40.9)	(44.8)	(52.9)	8.3	10.1	0.9	2.4	(1.8)	130	35	(61.5)
Bank of Baroda	280	ADD	(5.6)	(6.5)	(12.6)	(26.9)	(39.1)	11.5	19.6	20.8	14.5	7.3	501	188	(44.2)
Bank of India	278	BUY	(3.4)	(9.5)	(23.2)	(27.2)	(23.9)	13.3	17.3	13.3	14.2	17.5	466	189	(40.2)
Canara Bank	180	REDUCE	(1.8)	(15.9)	(26.7)	(37.4)	(45.7)	14.6	12.5	10.9	7.4	3.0	421	135	(57.3)
Corporation Bank	223	BUY	(15.0)	(21.9)	(35.9)	(52.8)	(48.2)	3.6	7.9	4.4	(3.0)	1.3	490	177	(54.5)
Indian Bank	129	ADD	0.7	9.0	(15.2)	(21.6)	(33.8)	16.7	31.3	19.0	18.0	10.9	256	77	(49.7)
IOB	83	BUY	(10.8)	(13.5)	(44.1)	(41.8)	(53.6)	7.1	14.3	(1.3)	4.4	(2.3)	229	66	(63.7)
OBC	140	ADD	(11.1)	(16.2)	(36.6)	(42.2)	(50.0)	6.8	12.2	3.9	4.1	0.1	321	108	(56.4)
PNB	495	BUY	1.2	(3.1)	(6.7)	(11.2)	(25.5)	17.1	22.1	24.9	25.1	16.4	721	330	(31.4)
SBI	1,273	BUY	(14.2)	(19.4)	(28.5)	(39.8)	(43.1)	4.2	9.8	9.6	5.8	4.7	2,429	966	(47.6)
Union Bank	148	BUY	2.1	(0.6)	(12.2)	(20.0)	(27.9)	17.9	24.0	21.0	19.1	14.8	250	96	(40.6)
Old private banks															
Federal Bank	148	BUY	(27.3)	(31.2)	(43.4)	(51.5)	(56.0)	(6.8)	0.9	(0.9)	(2.2)	(3.9)	407	110	(63.7)
J&K Bank	365	ADD	(17.7)	(29.1)	(44.6)	(51.4)	(57.4)	1.3	2.5	(1.7)	(2.1)	(4.8)	1,005	362	(63.6)
New private banks															
Axis Bank	604	REDUCE	(14.0)	(20.6)	(36.2)	(37.9)	(37.8)	4.4	8.9	4.2	7.0	8.2	1,292	474	(53.2)
HDFC Bank	1,098	BUY	(13.9)	(7.3)	(28.1)	(36.0)	(36.5)	4.4	19.0	9.8	8.3	9.1	1,825	862	(39.8)
ICICI Bank	451	ADD	(10.6)	(35.0)	(51.7)	(64.5)	(63.6)	7.2	(2.0)	(6.7)	(10.9)	(9.0)	1,465	282	(69.2)

Source: Bloomberg, Kotak Institutional Equities estimates.

Technology

Sector coverage view			Cautious

		Price, Rs	
Company	**Rating**	**5-Nov**	**Target**
TCS	REDUCE	506	650
Wipro	ADD	272	360
Infosys	BUY	1,322	1,600
Satyam Comp	BUY	277	400
HCL Tech	REDUCE	156	200
Patni	SELL	138	160
Hexaware	SELL	21	25
Polaris Softwa	SELL	47	70
Tech Mahindra	BUY	339	700
Mphasis BFL	REDUCE	159	190
MindTree	BUY	257	450

Cognizant results reaffirm our observations on the sector post other tier-I results

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- **CTSH's cautious revenue outlook in line with expectations; commentary on demand environment echoes that of peers**
- **CTSH 3QCY08 results—deceleration in yoy revenue growth trajectory continues**
- **We focus on implied FCF growth and FCF yield of the tier-I stocks; Infosys remains our top pick**

Cognizant (CTSH) management's earnings commentary and the company's operational performance reaffirmed our observations on the Indian IT services industry post the Sep 2008 quarter results (*please refer to our sector update dated Nov 4, 2008 for details*). In particular, we highlight (1) lack of near-term revenue visibility with the cross-currency fluctuations a further risk to any near-term US$ revenue forecast; CTSH management offered no insights into CY2009E revenue outlook citing delays in clients' IT budget finalization; cautious outlook on demand also reflected in the company not raising its CY2008E revenue guidance despite a surpassing its 1.6% guidance in 3QCY08 (2) IT companies' focus on driving operational efficiencies through multiple levers like utilization, higher FPP contracts, etc. (3) strong deal signings and new client wins continue; CTSH' number strategic clients increased by 6 during the quarter and the company won 63 new clients, (4) individual company performance across verticals and geographies will vary significantly in the near-term depending on specific client exposure, and (5) hiring decisions of individual companies are a function of the company's focus on managing margins or taking a near-term hit on margins while maintaining bench at historical levels; CTSH's focus on driving its (historically low) utilization up reflected in zero net hiring of technical staff during the quarter. With demand uncertainty likely to persist for some time, we continue to focus on the implied FCF growth in the current market prices, and FCF yield of the IT services names. Infosys (BUY, TP Rs1,600) stands out on both these counts and remains our top pick in the sector.

CTSH's cautious revenue outlook in-line with expectations; commentary on demand environment resonates peers. CTSH' management maintained its caution on the near-term revenue outlook citing challenging external environment, further delays in decision-making and finalization of CY2009 IT budgets by clients, and sustained volatility in cross-currency exchange rate movements. The company's caution on the above factors reflected in its maintaining its CY2008E revenue guidance at 'at least US$2.81 mn' despite 1.6% (US$11.7 mn in absolute terms) revenue guidance beat in the September quarter. The company indicated that it expects further delays in CY2009E IT budget finalizations, which may get pushed back to late-Jan/early-Feb 2009.

Operational and segmental performance validates our recent observations post earnings releases of other tier-I companies. We discuss our thoughts on CTSH's operational and segmental performance for the Sep 2008 quarter below:

1. In line with the peers, strong focus on driving operational efficiencies reflected in several of CTSH's 3QCY08 metrics—offshore utilization improved 600 bps qoq, the company had zero net hiring of technical staff, DSO reduced by two days and FPP contribution to revenues increased.

2. Vertical-wise, BFSI revenue growth (8% sequentially) surprised; CTSH indicated that it continues to see stable revenues from some of its 'impacted' clients (primarily Indymac, Wamu, Wachovia, and HBOS together contributing ~5% of company's 1HCY08 revenues). The company also mentioned that it works for both the acquirer and the acquiree in the recent M&A transactions in the BFS industry and that would likely mitigate some of the likely negative impact on revenues from the acquired entities.
3. Among other verticals, revenue decline from a top healthcare client (among top-5 clients for the company) was compensated by strong ramp-ups from some of the recent contract extensions from other large accounts. The vertical grew 6% qoq.
4. Europe revenue grew 4% qoq in US$ terms and 7% in constant currency. Similar to peers, North America revenue growth (~7.7% qoq) surprise on the positive side.
5. Pricing commentary was also in-line with the tier-I peer group. The company indicated a stable pricing environment and has not witnesses any breakdown of pricing discipline in the market.

CTSH 3QCY08 results—deceleration in yoy revenue growth trajectory continues. Exhibit 1 depicts the financial performance of CTSH for the quarter. Revenues of US$734.7 mn for the quarter were ahead of the company guidance of US$723 mn. More importantly though, deceleration in yoy revenue growth continued with yoy growth at 31.5% the lowest in six years. OPM (EBIT margin) improved 190 bps qoq on the back of improved utilization (offshore utilization up 600 bps qoq to 61%), and rupee depreciation. Net income growth (a weak 17.3% yoy) was impacted by US$14.8 mn of forex losses for the quarter. The company has guided for 'at least US$746.7 mn' revenues for 4QCY08, a qoq growth of 1.6% in US$ terms (constant currency growth of 3.6%).

We focus on implied FCF growth and FCF yield; Infosys remains our top pick. While we continue to believe that the demand environment will recover for the Indian IT companies (the offshore model is still very much alive), we would rather abstain from hazarding a guess into the pace and timing of the same (our best estimate at this time would be a demand recovery starting 2HCY09 assuming no further systemic shocks). Instead, we would focus on the implied FCF growth (in the current market prices) and the FCF yield of the tier-I names; implied FCF growth to perpetuity stands at 1.2-4.5% and FCF yield at 8-12% for the tier-I companies at CMP (see Exhibit 2). We find Infosys attractive on both these counts; the company's relentless focus on FCF generation (as reflected in a consistent 27-28% operating cash-to-revenue ratio over the past several years, see Exhibit 3) makes FCF growth for Infosys more predictable and fraught with lower risks, in our view.

Cognizant interim results (US$ mn)

	3QCY07	2QCY08	3QCY08	% qoq	% yoy
Revenues	**558.8**	**685.4**	**734.7**	**7.2**	**31.5**
Cost of revenues	(317.3)	(380.9)	(405.9)	6.6	27.9
SG&A expenses	(126.6)	(167.1)	(166.7)	(0.3)	31.7
EBITDA	**115.0**	**137.5**	**162.1**	**17.9**	**41.0**
Depreciation and amortization	(13.9)	(17.8)	(19.5)	9.5	40.4
EBIT	**101.1**	**119.7**	**142.6**	**19.2**	**41.0**
Other income	10.6	4.4	(9.4)		
PBT	**111.7**	**124.1**	**133.2**	**7.4**	**19.3**
Provision for taxes	(15.5)	(20.2)	(20.4)	0.8	31.1
PAT	**96.2**	**103.9**	**112.8**	**8.6**	**17.3**
Margins (%)					
EBITDA	20.6	20.1	22.1		
EBIT	18.1	17.5	19.4		
Net income	17.2	15.2	15.4		
Tax rate (%)	13.9	16.3	15.3		

Source: Company

We focus on implied FCF growth to perpetutity and FCF yield of the tier-I Indian tech names; like Infosys and Satyam on these counts

	CMP	Enterprise value	FY2010E FCF (a)	FY2010E FCF yield	Assumed WACC	Implied FCF growth to perpetuity (b)	Risk to FCF estimates
	(Rs)	(Rs mn)	(Rs mn)	(%)	(%)	(%)	
Infosys	1,322	621,027	52,060	8.4	12.5	4.1	Low
TCS (d)	506	436,807	38,200	8.7	12.5	3.8	Medium
Satyam	277	120,666	15,262	12.6	13.5	0.9	Medium
Wipro	272	337,062	36,499	10.8	12.5	1.7	Low to medium

Note:
(a) Defined as operating cash flow post working capital changes less capex (normalized for tax rate increase starting FY2011E)
(b) Assuming FY2010E as the terminal year
(c) HCLT is June fiscal year-end; March fiscal year-end for others
(d) CGSL acquisition not factored in

Source: Bloomberg, Kotak Institutional Equities estimates

Infosys--operating cash flow as % of revenues, March fiscal year-ends, 2003-2008 (US$ mn)

	2003	2004	2005	2006	2007	2008
Cash generated from operating activities	206	371	344	599	862	1,149
Growth yoy (%)		80	(7)	74	44	33
Revenues	754	1,063	1,592	2,152	3,090	4,176
Operating cash flow as % of revenues (%)	**27.4**	**34.9**	**21.6**	**27.8**	**27.9**	**27.5**

Note
(a) Cash generated includes other income.

Source: Company, Kotak Institutional Equities

Industrials

Sector coverage view			Attractive

		Price, Rs	
Company	Rating	5-Nov	Target
BHEL	BUY	1,378	1,475
BGR	ADD	165	275
L&T	ADD	866	1,050
BEL	ADD	677	950
ABB	REDUCE	529	500
Suzlon	BUY	59	125
Siemens	REDUCE	319	370

Construction

Sector coverage view			Attractive

		Price, Rs	
Company	Rating	5-Nov	Target
Punj Lloyd	BUY	195	260
NCCL	BUY	70	150
IVRCL	BUY	123	270
Sadbhav Engin	BUY	410	820
Consolidated C	BUY	296	425

Industrials and Construction 2QFY09 results review

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- **Revenue growth remains strong riding on the strong order backlog, however, margins reflect pressure of commodity prices with a lag, as expected**
- **Recent decline in commodity prices would alleviate margin pressures again with a lag, probably from 4QFY09E**
- **Cyclical slowdown in capital expenditure already visible from forward indicators since FY2008, to exacerbate, particularly for global commodity linked sectors**
- **Would prefer companies leveraged to public sector spending versus private sector spending and avoid companies having exposure to global commodities related capex**
- **Top picks are BHEL, IVRCL Infrastructure and Nagarjuna Construction**

Industrials sector reported strong 2QFY09 revenues growth, primarily led by BHEL and L&T, led by execution of strong order backlog built up over the last three years. Operating margins witnessed the effect of high commodity prices during the quarter with margins declining by 350 bps yoy. The decline in margins was also contributed by higher employee and other expenditure during the quarter. We believe that the recent decline in commodity prices would help ease margin pressures in the future but only with a lag from 4QFY09E onwards. The higher interest costs and tight liquidity situation in the markets are causes of concern, especially for construction companies. However, the recent measures taken by RBI to infuse liquidity into the market should help alleviate these issues. We prefer companies leveraged to public sector spending (such as BHEL, IVRCL Infrastructure and Nagarjuna Construction) and would avoid companies leveraged to private sector corporate expenditure (such as L&T), particularly capital expenditure related to global commodities. We believe that corporate capital expenditure that is showing cyclical weakness already would weaken further based on (a) tough credit situation, (b) sharp correction in global commodities, (c) absence of ECB financing and equity raising (contributing 20% of spending in FY2008). Consequently, we have cut our rating on L&T to ADD from BUY earlier and have retained our REDUCE rating on ABB and Siemens. Our top picks are BHEL, IVRCL Infrastructure and Nagarjuna Construction.

Revenue growth remains strong riding on the back of strong order book positions

Industrials deliver strong growth led by bellwether stocks, L&T and BHEL. We highlight that revenue growth remained strong for the industrial and construction sector, led by execution of strong order backlog with revenues up 33% for the coverage stocks (Exhibits 1 & 2). The revenue growth was mainly driven by (1) BHEL - management upped its FY2009E revenue growth guidance to 25%-30% from 25% earlier), (2) Larsen & Toubro – up 39.7% yoy to Rs76.9 bn (revenue growth driven by Engineering and Construction segment). ABB disappointed with a low revenue growth of 11%, probably be led by shift of revenues towards longer execution cycle projects as well as relative lack of momentum in order booking in the last three-four quarters. Other companies outside our coverage universe such as Crompton (up 32.8% yoy), Voltas (up 30.3% yoy), Areva T&D (up 35.6% yoy) and Cummins (up 49.7% yoy) reported strong revenue growth during the quarter.

Construction: Construction sector also reported strong revenue growth of 52.5% yoy to Rs57.1 bn during this quarter versus our estimate of 45% revenue growth (Exhibits 3 & 4). This strong growth was driven by (1) Punj Lloyd – up 54.5% yoy led by strong execution during the quarter and also partially helped by a yoy average Rupee depreciation of 8%, (2) IVRCL – up 65.1% yoy probably aided by Rs1 bn of revenues booked based on escalation in commodity prices and (3) Nagarjuna Construction – up 55.9% yoy. CCCL and Sadbhav Engineering delivered revenues below expectations due to order cancellations and lower revenue booking due to certification issues. Other companies (outside our coverage universe) such as HCC (revenues up 18% yoy) and Gammon (revenues up 11.5%) yoy delivered moderate execution growth.

We believe that the near-term revenue growth for the industrials and construction sector would continue to remain strong due to a healthy order backlog.

Effect of commodity price increase visible in margins of the quarter; increases in wage and administrative costs add to margin compression

Industrials: We highlight that the effect of the rise in commodity prices was seen in the margins of this quarter with most companies reporting a decline in contribution margins. Contribution margins for the sector as a whole declined by 240 bps yoy mainly driven by (1) BHEL – down 500 bps yoy, (2) L&T – down 250 bps yoy, (3) ABB – down 100 bps yoy.

Margin pressure was exacerbated by increase in employee and other SG&A expenses for the quarter (with operating margins declining 340 bps for the sector) led by (1) ABB – Rupee depreciation, SAP implementation and unabsorbed employee costs may have contributed to margin pressures, (2) L&T – higher-than-expected employee expenses due to a 20% rise in employee strength during the quarter and (3) Suzlon Energy – higher other expenditure due to increase in shipping cost led by larger export quantum in sales.

Construction: The construction sector also felt the pressure of the increased commodity prices during this quarter with contribution margin declining by 90 bps yoy for this quarter. The decline in margins was mainly driven by (1) Nagarjuna Construction – 230 bps yoy margin decline due to increase in construction and material costs. Among uncovered companies margins for Gammon declined by 180 bps yoy due to higher material and employee cost as a percentage of sales.

Recent decline in commodity prices would help ease margin pressures but probably only from 4QFY09E onwards

We believe that the recent decline in commodity prices should help alleviate margin pressures in the future quarters. Average steel prices (Spot HR Coil Price) for October 2008 declined to US$993/ton compared to an average of US$1124/ton in 2QFY09. Even copper prices (LME copper) declined to US$4895/ton average for October 2008 versus US$7672/ton for 2QFY09 (Exhibit 5). However, the effect of this decline would probably be seen with a lag i.e. from 4QFY09E onwards as was the case for the increase in commodity prices.

Higher interest rates and credit availability issues are a cause of concern; however recent measures to infuse liquidity would help alleviate these issues

Higher interest costs put pressure on the bottom line of the companies especially for the construction sector. Additionally the liquidity crunch witnessed in the market during 2QFY09 also threatens the revenues of the companies with potential order cancellations due to delays in financial closures for projects (Orders worth Rs2.4 bn cancelled for CCCL). Companies such as Areva, also reported increase in receivables period for some companies.

The current delays faced in achieving financial closure for new projects is likely to alleviate given the recent measures taken by RBI to improve the liquidity situation. The key measures announced by RBI on November 1, 2008 are: (1) cut in cash reserve ratio (CRR) by a further 100 bps in two stages of 50 bps each to 5.5%, (2) reduction in statutory liquidity ratio (SLR) by 100 bps to 24% and (3) cut in repo rate by 50 bps to 7.5% (effective November 3, 2008). This was preceded by a 250 bps CRR cut and 100 bps cut in repo rate by the RBI. These moves are likely to signal a softening of interest rates in the credit markets. Our economist, Dr Mridul Saggar, believes there could be a further cut of 50 bps in the repo rate to 7.0% by end of CY2008E. The 10-year benchmark Gsec yields have been declining over the past few months from 9.32% at end of July 2008 to 7.54% on November 3, 2008 (Exhibit 6). Dr Saggar expects the 10-year benchmark Gsec yield to soften to 7.5% by the end of fiscal 2009E.

Order booking so far remains strong; private industrial capital expenditure is likely to run into cyclical slowdown; however government spending would keep pace

Order booking growth for industrial sector companies has been 30.8% yoy for KIE coverage universe and 29.9% including other companies as well. For ABB, the order booking growth has been consistently slowing down since the last five-six quarters. We highlight that yoy order booking growth has been strong for non-coverage companies like Crompton (up 41.2% yoy), Areva (up 85.9% yoy) and Thermax (up 76.4% yoy) (Exhibit 7).

In our construction coverage universe, Punj Lloyd and IVRCL had a strong order booking growth of 198.2% and 100.8% yoy respectively. Order booking for Nagarjuna declined about 30.8% yoy (Exhibit 8).

Cyclical slowdown in capital expenditure already visible from forward indicators since FY2008 would exacerbate, particularly for global commodity linked sectors

We highlight that financial closure activity had slowed down substantially in FY2008 itself and that slowdown would have got exacerbated by during FY2009E (Exhibit 9). We believe slowdown in financial closure activity is leading indicator of slowdown in capital expenditure activity in the country and may imply lower growth for engineering and EPC companies over the next two to three years. We believe that financial closures in FY2009E may be lower than the financial closures achieved in FY2008 levels as well led by (a) higher interest costs, (b) credit crisis, (c) decline in attractiveness of investment in sectors such as metals, downstream petrochemicals where price correction has been very sharp and (c) deepening of macroeconomic demand concerns since end of FY2008.

ECBs and equity issuance contributing to about 20% of private corporate spending would be absent

We note that two key sources for financing private sector corporate expenditure (contributing about 18% of spending in FY2008) may not be open in the near term i.e. (a) external commercial borrowings (contributed to capital spending of Rs0.37 tn in FY2008 – 15% of total spending) and (d) equity issuances (contributed to capital spending of Rs0.1 tn in FY2008 – 3.5% of total spending).

We believe that in such an environment government spending may remain relatively unaffected led by the fact that (a) government spending is unaffected by credit availability and interest costs to a very large extent and (b) government spending may increase to counter the slowdown in private spending.

Prefer companies leveraged to public sector spending versus private sector spending; Avoid companies with exposure to global commodities related capex

As an investment theme, we would prefer companies that are leveraged to public sector spending as this segment faces less risk of delays and cancellations related to credit availability, higher interest rates and near-term demand growth concerns. In the same vein, we would avoid E&C companies that are dependant on spending in sectors aligned to global commodities such as metals, downstream petrochemicals etc. Our top picks ,therefore, are BHEL, IVRCL Infrastructure and Nagarjuna Construction. (Exhibit 16)

Maintain BUY on BHEL, as we believe BHEL is relatively very well positioned with (a) strong order backlog, (b) works in public sector ecosystem that is relatively better insulated on credit concerns as well as do not face risk of client related order execution delays or cancellations. Execution growth would remain strong with a higher number of projects entering a phase of strong revenue booking while margins would have support from operating leverage post FY2009E, (very high employee cost as % of sales shall deliver operating leverage) in an environment of strong top-line growth.

Revise rating on L&T to ADD from BUY based on concerns related to slowdown in capital expenditure and thus order booking

We have revised our rating on L&T to ADD from BUY as we believe that order booking is unlikely to sustain its pace given the cyclical slowdown in private corporate expenditure.

Highlight certain orders that may face execution issues. We highlight that even existing orders may face issues related to execution delays, instigated by client related to developments in global markets post placement of orders. We highlight certain projects (accounting for about 10% of order backlog) that may face execution issues, based on our discussion with corresponding sector analysts (Exhibit 10). We also highlight that 37% of order booking happened in real estate and metals related sector recently which is unlikely to keep pace going forward (Exhibit 11). However, a counter point is that orders equivalent to about 12% of order backlog have not been recognized in the order book as they have not been financially closed etc. This analysis is limited by the following points (a) we have used announced orders for analysis and are unable to account for execution that may have taken place already, (b) certain orders may not be recognized fully in the order book and (c) order may have been categorized differently by L&T in its order booking data.

Revise estimates based on lower order booking estimates. We have revised our standalone EPS estimates for FY2010E to Rs55 from Rs58 earlier based on our assumption of lower yoy growth in order booking. We are now building in a 4% decline in order booking in FY2010E after 24% growth in order booking in FY2009E (based on reported growth of 42% in 1HFY09). Our order booking assumptions are still lower than management guidance for FY2009E. We have revised our SOTP based target price to Rs1,050 from Rs1,225 earlier based on (a) lower value of core business to Rs880 from Rs950 earlier (Exhibit 12).

We retain REDUCE rating on ABB with marginal changes in estimates. We maintain our REDUCE rating on ABB based on the slowdown in the industrial side of business (about 40% of business) and relatively expensive valuations of 25.5X CY2009E. We highlight that deceleration in earnings growth has to be priced in the P/E multiple as well - earnings growth being significantly lower now (17% CAGR over CY2009-12E) versus what prevailed during the last five year period (40% CAGR between CY2004-2008E) is apparently not priced even now as the stock trades at close to five year average P/E multiple on one-year-rolling-forward basis.

Retain REDUCE rating on Siemens with a revised target price of Rs370. We have revised our earnings estimates for the year-ended September 2008 and September 2009E to Rs18.8 and Rs23.4 respectively from Rs18.8 and Rs25.9 earlier. We have revised our target price to Rs370 from Rs570 earlier based on (a) lower valuation of standalone business (implying 18.1 times of September 2009 year-end earnings) and (b) lower valuation of SISL implying 6.6 times September 2009 year-end earnings based on 25% discount to average IT sector FY2010E earnings multiple. We have retained our REDUCE rating on Siemens, particularly after the recent run-up. However, we highlight that the risk reward ratio is far better in this case versus ABB in terms of valuations (13.6X September 2009 year end earnings) (Exhibit 13).

Remain positive on Construction based on (a) a near-term growth is visible from order backlog, (b) valuations are very cheap so risk is low, (c) more than 80% of business originates from government which is unlikely to face any delay/cancellation etc and (c) there is visibility on lower interest rate regime which would lighten up interest cost pressure on P&L as well as funding pressure from balance sheet perspective. Our top pick would be IVRCL (despite the strong run up in the past two days) based on (a) consistent track record in execution in last two years and (b) no incremental commitment to invest in any BOT/real estate project lowering the balance sheet pressure (Exhibit 14 &15).

Exhibit1. Industrials sector 2QFY09 results - Key takeaways (Rs mn)

	Sep-07	Jun-08	Sep-08E	Sep-08A	Change (%) yoy	Change (%) qoq	Comments
Industrials - Covered companies							
ABB							
Net sales	13,775	16,163	16,232	15,191	10.3	(6.0)	Lower-than-expected execution in the power systems segment which has reported flat revenues in this segment probably led by shift of revenues towards longer execution cycle projects
Operating profit	1,724	1,902	1,988	1,348	(21.8)	(29.1)	
PAT-reported	1,157	1,318	1,418	1,048	(9.4)	(20.5)	Rupee depreciation, SAP implementation and unabsorbed employee costs may have contributed to margin pressures
Operating profit margin	12.5	11.8	12.3	8.9			
BGR Energy Systems							
Net sales	3,111	3,068	4,427	4,246	36.5	38.4	Revenues below expectation driven by lower-than-expected execution; BGR has executed only about 29.6% of our 2009E full year projections in 1HFY09; margins remain relatively flat yoy
Operating profit	325	312	465	438	34.8	40.4	
PAT-reported	160	172	235	237	47.7	37.5	PAT broadly inline with our expectation led by (a) higher other income and (b) lower depreciation
Operating profit margin	10.4	10.2	10.5	10.3			
Bharat Electronics							
Net sales	7,089	3,839	8,467	7,877	11.1	105.2	Revenues dissapoint led by lower-than-expected execution
Operating profit	1,534	(326)	1,693	1,696	10.6	(620.8)	Operating margins surprise positively; the sharp rise in employee cost was offset by a decline in raw material cost and other expenses as a percentage of sales
PAT-reported	1,228	25	1,433	1,308	6.4	5,090.9	
Operating profit margin	21.6	(8.5)	20.0	21.5			
Bharat Heavy Electricals							
Net sales	39,654	43,292	52,868	53,426	34.7	23.4	Revenues slightly above expectations and management upped its revenue guidance to 25%-30% growth in FY09 from 25% earlier
Operating profit	6,952	3,737	8,062	7,107	2.2	90.2	
PAT-reported	5,219	3,844	7,041	6,158	18.0	60.2	Decline in margins mainly driven by a steep rise in material costs as a percentage of sales increasing by about 500 bps yoy
Operating profit margin	17.5	8.6	15.3	13.3			
Larsen & Toubro							
Net sales	55,009	69,014	75,799	76,864	39.7	11.4	Revenue growth broadly in line with expectations primarily driven by Engineering and Construction segment
Operating profit	5,873	6,574	7,769	7,368	25.5	12.1	
PAT-reported	3,480	5,024	5,692	4,603	32.3	(8.4)	110 bps margin decline mainly led by higher-than-expected employee expenses due to a 20% rise in employee strength during the quarter
Operating profit margin	10.7	9.5	10.3	9.6			
Suzlon Energy							
Net sales	31,375	20,866	43,788	41,818	33.3	100.4	Lower-than-expected wind business sales of 727 MW; margin decline driven by higher other expenditure due to increase in shipping cost led by larger export quantum in sales
Operating profit	5,404	3,022	7,006	4,126	(23.6)	36.5	
PAT-reported	3,748	(889)	3,497	(1,305)	(134.8)	46.9	Loss after tax of Rs1.3 bn due to one-off items to the tune of Rs2.8 bn which included (1) a foreign exchange loss, (2) WTG restoration costs and (3) MTM losses on foreign exchange forward/option contracts
Operating profit margin	17.2	14.5	16.0	9.9			
Industrials - Unovered companies							
Crompton							
Net sales	15,756	20,348		20,927	32.8	2.8	Strongrevenue growth on a consolidated and stand alone basis - backed by strong order backlog of Rs27.3 bn (standalone) and Rs68.2 bn (consolidated)
Operating profit	1,561	2,083		2,318	48.5	11.3	
PAT-reported	920	1,227		1,209	31.4	(1.4)	Margin improvement attributed to value engineering; management guided for a 15-20% revenue growth with stable margins in FY2010E
Operating profit margin	9.9	10.2		11.1			
Voltas							
Net sales	7,127	10,067		9,285	30.3	(7.8)	Strong revenue growth driven by Engineering agency & services and Electromechanical Projects segments
Operating profit	636	776		808	27.0	4.1	
PAT-reported	536	851		622	16.1	(26.9)	Margins decline 20 bps yoy; decline in raw material costs offset by increase increase in employee and other expenses
Operating profit margin	8.9	7.7		8.7			
Thermax							
Net sales	7,701	7,170		8,041	4.4	12.1	Low revenue growth led by slowdown in order booking momentum visible for Thermax for last several quarters
Operating profit	1,011	911		932	(7.8)	2.3	
PAT-reported	692	637		570	(17.7)	(10.6)	Decline in operating profit driven by lower margins in the environment segment and higher other expenses
Operating profit margin	13.1	12.7		11.6			
Areva T&D							
Net sales	4,326	6,218		5,865	35.6	(5.7)	Strong revenue growth help achieve market leader position in T&D domain
Operating profit	787	1,101		953	21.1	(13.5)	Margins decline due to higher employee cost (increased recruitment of engineers) and other expenses (new technology + traning and recruitment costs of new employees)
PAT-reported	480	647		523	9.0	(19.1)	
Operating profit margin	18.2	17.7		16.3			
Cummins							
Net sales	5,401	7,070		8,084	49.7	14.3	Strong revenue driven by strong volume growth in the domestic and international segment
Operating profit	845	938		1,232	45.8	31.4	
PAT-reported	665	882		939	41.3	6.4	Operating margins declined by about 40 bps yoy driven by higher raw material costs
Operating profit margin	15.6	13.3		15.2			
EMCO							
Net sales	1,842	1,833		2,306	25.2	25.8	Strong order book growth of 29.4% yoy in this quarter to Rs13 bn from Rs10.05 bn last year
Operating profit	251	239		307	22.3	28.4	
PAT-reported	104	100		113	9.2	12.5	30 bps yoy decline in margins mainly driven by increase in raw material and employee cost as percentage of sales
Operating profit margin	13.6	13.0		13.3			
Tata Robin Fraser							
Net sales	686	597		909	32.6	52.4	Management maintained their guidance of Rs80 bn revenues for the whole year on a consolidated basis
Operating profit	100	65		139	39.6	115.5	
PAT-reported	166	39		111	(33.3)	186.2	Decline in EBIT margins for Products & Services segment was offset by a strong increase in the margins in the Projects & Service segment
Operating profit margin	14.5	10.8		15.3			
Kotak Industrial sector coverage universe							
Net sales	150,012	156,243	201,581	199,422	32.9	27.6	Revenue growth; though mostly below expectations; continues to remain relatively strong backed by strong order backlogs
Operating profit	21,810	15,221	26,984	22,084	1.3	45.1	
PAT-reported	14,993	9,495	19,316	12,047	(19.6)	26.9	Higher raw material costs and employee expenses lead to lower-than-expected operating margins
Operating profit margin	14.5	9.7	13.4	11.1			
Industrial sector total (incl. uncovered companies)							
Net sales	192,851	209,545		254,839	32.1	21.6	
Operating profit	27,001	21,333		28,773	6.6	34.9	
PAT-reported	18,555	13,879		16,134	(13.0)	16.3	
Operating profit margin	14.0	10.2		11.3			

Source: Company, Kotak Institutional Equities estimates

Exhibit 2. Industrials - 2QFY09 result - key numbers (Rs mn)

	yoy			qoq			yoy		
	2QFY09	2QFY08	*% change*	1QFY09	1QFY08	*% change*	1HFY09	1HFY08	*% change*
Income from operations	**199,422**	**150,012**	***32.9***	**199,422**	**156,243**	***27.6***	**371,018**	**275,922**	***34.5***
Expenditure	(177,338)	(128,202)	*38.3*	(177,338)	(141,022)	*25.8*	(332,586)	(242,363)	*37.2*
COGS	(133,319)	(96,629)	*38.0*	(133,319)	(105,337)	*26.6*	(249,685)	(181,832)	*37.3*
Staff cost	(20,338)	(14,076)	*44.5*	(20,338)	(17,801)	*14.3*	(39,108)	(27,394)	*42.8*
Other expenditure	(23,681)	(17,498)	*35.3*	(23,681)	(17,885)	*32.4*	(43,793)	(33,136)	*32.2*
Operating profit	**22,084**	**21,810**	***1.3***	**22,084**	**15,221**	***45.1***	**38,431**	**33,560**	***14.5***
Other income	5,205	4,552	*14.3*	5,205	6,231	*(16.5)*	12,221	8,723	*40.1*
EBIDTA	**27,289**	**26,363**	***3.5***	**27,289**	**21,452**	***27.2***	**50,653**	**42,283**	***19.8***
Interest & finance charges	(2,879)	(1,447)	*99.0*	(2,879)	(1,697)	*69.6*	(4,605)	(2,669)	*72.5*
Depreciation	(2,462)	(1,874)	*31.4*	(2,462)	(2,213)	*11.3*	(4,758)	(3,701)	*28.6*
PBT	**21,947**	**23,041**	***(4.7)***	**21,947**	**17,542**	***25.1***	**41,290**	**35,912**	***15.0***
Tax	(7,122)	(6,983)		(7,122)	(5,749)	*23.9*	(13,494)	(11,330)	*19.1*
PAT	**14,825**	**16,058**	***(7.7)***	**14,825**	**11,793**	***25.7***	**27,796**	**24,583**	***13.1***
One-time items included in PAT	(2,778)	(1,065)	*160.8*	(2,778)	(2,298)	*20.9*	(5,076)	(391)	*1,198.2*
Adjusted PAT	**12,047**	**14,993**	***(19.6)***	**12,047**	**9,495**	***26.9***	**22,720**	**24,192**	***(6.1)***
Key ratios									
COGS/ sales	66.9	64.4		66.9	67.4		67.3	65.9	
Staff cost/ sales	10.2	9.4		10.2	11.4		10.5	9.9	
Other expenditure/ sales	11.9	11.7		11.9	11.4		11.8	12.0	
Operating profit margin	**11.1**	**14.5**		**11.1**	**9.7**		**10.4**	**12.2**	
EBIDTA margin	13.7	17.6		13.7	13.7		13.7	15.3	
Pre-tax margin	11.0	15.4		11.0	11.2		11.1	13.0	
Tax rate	32.5	30.3		32.5	32.8		32.7	31.5	
PAT margin	7.4	10.7		7.4	7.5		7.5	8.9	
RPAT margin	6.0	10.0		6.0	6.1		6.1	8.8	

Source: Company, Kotak Institutional Equities

Exhibit 3. Construction sector 2QFY09 results - Key takeaways (Rs mn)

	Sep-07	Jun-08	Sep-08E	Sep-08A	Change (%) yoy	Change (%) qoq	Comments
Construction - Covered Companies							
IVRCL							
Net sales	6,885	9,285	9,630	11,366	65.1	22.4	Higher-than-expected revenues probably aided by Rs1 bn of revenues booked based on escalation in commodity prices
Operating profit	553	820	794	913	65.0	11.3	
PAT-reported	353	435	302	571	62.0	31.3	Margin remain flat yoy; decrease in construction costs as a percentage of sales was offset by a corresponding increase in subcontracting and
Operating profit margin	8.0	8.8	8.3	8.0			
Nagarjuna Construction Co.							
Net sales	6,772	9,709	9,269	10,558	55.9	8.7	Management maintaines guidance of Rs45 bn of standalone revenues and Rs50 bn consolidated revenues for FY2009E
Operating profit	848	916	927	1,085	27.9	18.5	
PAT-reported	337	371	313	423	25.7	14.1	Decline in margins was driven by an increase in material and construction expenses
Operating profit margin	12.5	9.4	10.0	10.3			
Punj Lloyd							
Net sales	18,942	26,488	28,956	29,261	54.5	10.5	Strong revenue growth driven by higher execution and also partially helped by a yoy average Rupee depreciation of 8%
Operating profit	1,666	2,116	2,461	2,724	63.6	28.7	
PAT-reported	894	982	1,202	1,429	59.8	45.6	Margins may have been better, but for Rs880 mn loss on account of foreign exchange fluctuations in 1HFY09
Operating profit margin	8.8	8.0	8.5	9.3			
Consolidated Construction Consortium Limited							
Net sales	3,831	3,795	4,923	4,671	21.9	23.1	Revenues miss expectations led by lower-than-expected execution due to order cancellations
Operating profit	332	288	443	317	(4.6)	10.2	
PAT-reported	304	182	282	191	(36.9)	5.1	Lower-than-expected operating margin led by non-recognition of Rs1.3 bn of sales for which expenses have been incurred
Operating profit margin	8.7	7.6	9.0	6.8			
Sadbhav Engineering							
Net sales	1,018	2,630	1,443	1,242	22.0	(52.8)	Revenues below expectations probably lead by lower revenue booking due to certification issues
Operating profit	123	294	166	143	16.9	(51.3)	
PAT-reported	56	149	58	50	(9.1)	(66.1)	Margins in line with expectations; yoy decline in margins mainly due to increase in material and construction costs as a percentage of sales
Operating profit margin	12.0	11.2	11.5	11.5			
Construction - Uncovered companies							
Hindustan Construction Company							
Net sales	5,487	8,659		6,492	18.3	(25.0)	Moderate revenue growth of 18.3%
Operating profit	601	911		837	39.2	(8.1)	Margin expansion driven by decline in construction expenses as a percentage of sales
PAT-reported	116	308		199	71.5	(35.3)	
Operating profit margin	11.0	10.5		12.9			
Gammon India Limited							
Net sales	4,603	5,852		5,132	11.5	(12.3)	
Operating profit	412	492		366	(11.3)	(25.6)	Decline in margins driven by higher material costs and employee costs as a percentage of sales
PAT-reported	171	524		103	(39.9)	(80.4)	
Operating profit margin	9.0	8.4		7.1			
Patel Engineering							
Net sales	3,388	5,584		4,418	30.4	(20.9)	
Operating profit	556	786		735	32.3	(6.4)	Strong revenue growth of 30.4% and relatively flat margins yoy
PAT-reported	395	381		441	11.4	15.6	
Operating profit margin	16.4	14.1		16.6			
Kotak Construction sector coverage universe							
Net sales	37,447	51,906	54,220	57,098	52.5	10.0	Strong revenue growth seen for most players in the sector; margin pressures due to higher raw material and employee costs
Operating profit	3,522	4,434	4,792	5,182	47.1	16.9	
PAT-reported	1,942	2,118	2,157	2,665	37.2	25.8	Higher interest costs put pressure on the botom line of the companies
Operating profit margin	9.4	8.5	8.8	9.1			
				44.8%			
Construction sector total (incl. uncovered companies)							
Net sales	50,925	72,002		73,139	43.6	1.6	
Operating profit	5,091	6,622		7,120	39.9	7.5	
PAT-reported	2,625	3,332		3,408	29.8	2.3	
Operating profit margin	10.0	9.2		9.7			

Source: Company, Kotak Institutional Equities estimates

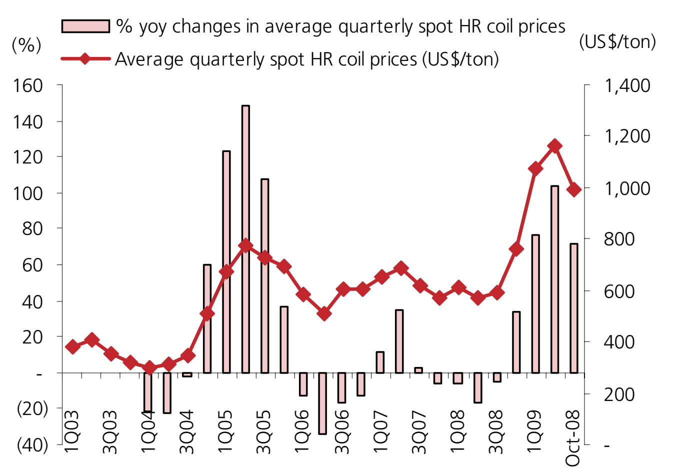
Exhibit 4. Construction - 2QFY09 - key numbers (Rs mn)

	yoy			qoq			yoy		
	2QFY09	2QFY08	*% chg*	2QFY09	1QFY09	*% chg*	1HFY09	1HFY08	*% chg*
Net Sales	**57,098**	**37,447**	***52.5***	**57,098**	**51,906**	***10.0***	**109,004**	**70,272**	***55.1***
Expenditure	**(51,916)**	**(33,925)**	*53.0*	**(51,916)**	**(47,473)**	*9.4*	**(99,388)**	**(63,706)**	*56.0*
COGS	(42,246)	(28,062)	*50.5*	(42,246)	(36,955)	*14.3*	(79,201)	(52,466)	*51.0*
Staff cost	(3,973)	(2,881)	*37.9*	(3,973)	(4,435)	*(10.4)*	(8,408)	(5,295)	*58.8*
Other expenditure	(5,697)	(2,982)	*91.0*	(5,697)	(6,082)	*(6.3)*	(11,779)	(5,944)	*98.2*
Operating Profit	**5,182**	**3,522**	***47.1***	**5,182**	**4,434**	***16.9***	**9,616**	**6,566**	***46.5***
Other Income	484	351	*38.0*	484	152	*217.5*	637	608	*4.7*
PBIDT	**5,666**	**3,873**	***46.3***	**5,666**	**4,586**	***23.6***	**10,253**	**7,174**	***42.9***
Interest	(1,135)	(768)	*47.8*	(1,135)	(859)	*32.2*	(1,995)	(1,318)	*51.3*
Depreciation	(761)	(571)	*33.2*	(761)	(690)	*10.3*	(1,452)	(1,143)	*27.0*
Profit before Tax	**3,770**	**2,533**	***48.8***	**3,770**	**3,037**	***24.1***	**6,807**	**4,713**	***44.4***
Tax	(1,105)	(591)	*87.1*	(1,105)	(919)	*20.3*	(2,024)	(1,307)	*54.8*
Profit after Tax	**2,665**	**1,942**	***37.2***	**2,665**	**2,118**	***25.8***	**4,783**	**3,406**	***40.4***
Key ratios									
COGS/sales	74.0	74.9		74.0	71.2		72.7	74.7	
Staff cost/sales	7.0	7.7		7.0	8.5		7.7	7.5	
Other expenditure/sales	10.0	8.0		10.0	11.7		10.8	8.5	
Operating margin (%)	**9.1**	**9.4**		**9.1**	**8.5**		**8.8**	**9.3**	
PBT Margin	6.6	6.8		6.6	5.9		6.2	6.7	
Net Profit margin (%)	4.7	5.2		4.7	4.1		4.4	4.8	
Effective tax rate (%)	29.3	23.3		29.3	30.2		29.7	27.7	

Source: Company, Kotak Institutional Equities

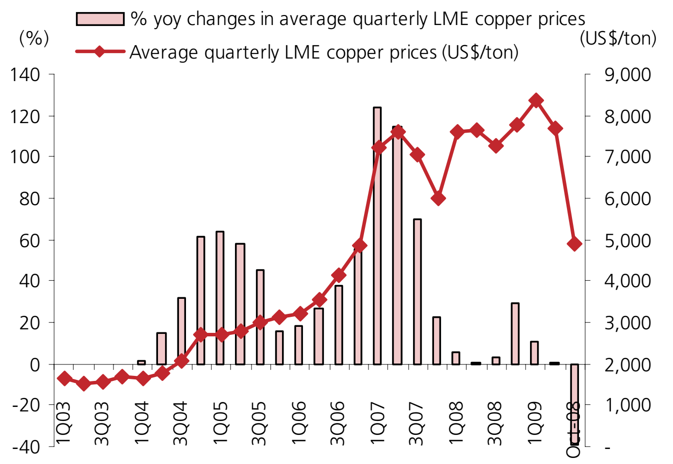
Exhibit 5. Commodity Prices have been declining from beginning of October 2008

Average quarterly spot HR coil prices on LME and yoy changes



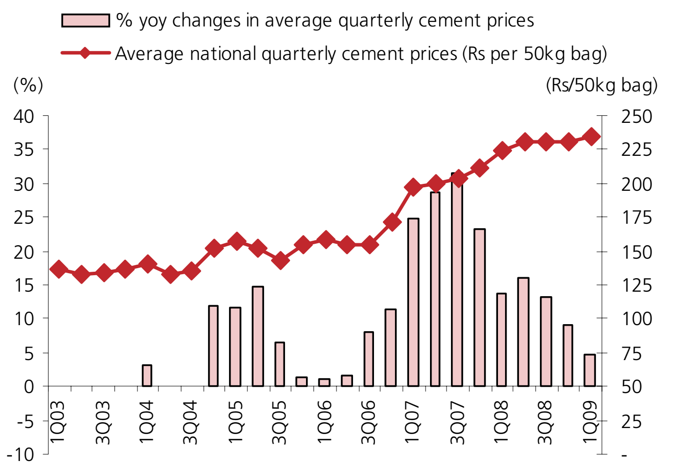
Source: LME, Kotak Institutional Equities

Average quarterly copper prices on LME and yoy changes



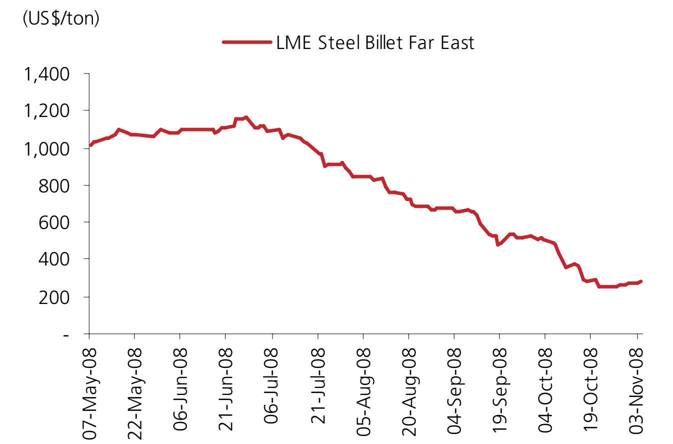
Source: LME, Kotak Institutional Equities

Average quarterly cement prices and yoy changes



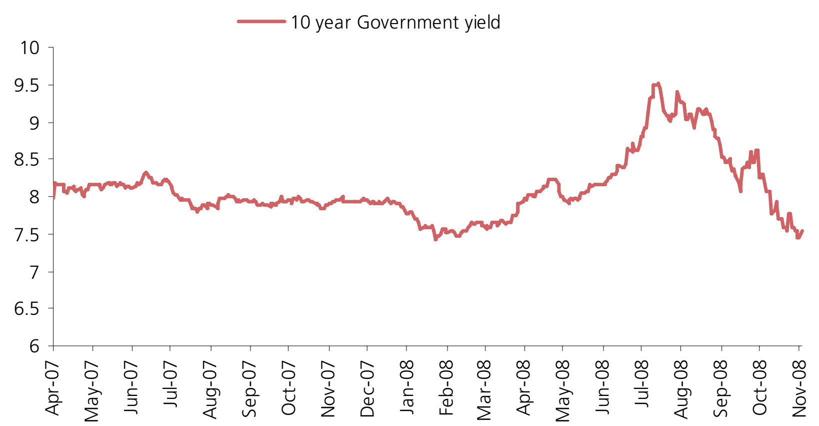
Source: CMA, Kotak Institutional Equities.

LME Steel Billet Far East 3 Months Official prices, May 2008 - Nov 2008 (US$/ton)



Source: Bloomberg

Exhibit 6. 10 year Government yield trend, Apr-07 to Oct-07



Source: Bloomberg

Exhibit 7. Industrials sector order inflow and backlog for 2QFY09

	Sep-07	Jun-08	Sep-08A	Change (%) yoy	Change (%) qoq	Comments
Industrials - Covered companies (Rs mn)						
ABB						
Order booking	16,683	22,086	18,891	13.2	(14.5)	Order booking facing pressure of industrial capital expenditure slowdown; keeps the sliding trend
Order backlog	49,270	67,769	71,469	45.1	5.5	
Bharat Heavy Electricals						
Order booking	141,654	134,297	143,426	1.3	6.8	Strong order backlog provides a visibility of 3.6 years for the company based on future four quarter revenues
Order backlog	726,000	950,000	1,040,000	43.3	9.5	
Larsen & Toubro						
Order booking	75,190	122,000	124,530	65.6	2.1	Order inflow momentum continues to remain strong, forward visibility remains unchanged at 1.6 years
Order backlog	440,000	582,000	629,667	43.1	8.2	
Suzlon Energy						
Order booking	59,655	2,690	23,516	(60.6)	774.1	Order inflows remain bleak versus strong order inflows for international competitors; component business takes shape with independent orders
Order backlog	163,280	164,910	146,608	(10.2)	(11.1)	
Industrials - Unovered companies (Rs mn)						
Crompton Standalone						
Order booking	10,225	13,789	14,441	41.2	4.7	
Order backlog	21,700	24,240	26,964	24.3	11.2	
Voltas						
Order booking	14,007	20,577	8,275	(40.9)	(59.8)	
Order backlog	26,950	59,230	58,220	116.0	(1.7)	
Thermax						
Order booking	12,621	7,290	22,261	76.4	205.4	
Order backlog	29,270	26,490	40,710	39.1	53.7	
Areva T&D						
Order booking	4,734		8,802	85.9		
Order backlog	20,810	20,500	42,472	104.1	107.2	
Kotak Industrial sector coverage universe (Rs bn)						
Order booking	318	281	416	30.8	48.2	Order booking momentum slackens for Suzlon and ABB
Order backlog	1,379	1,765	1,888	36.9	7.0	
Industrial sector total (Including uncovered companies) (Rs bn)						
Order booking	355	323	461	29.9	43.0	
Order backlog	1,456	1,875	2,014	38.3	7.4	

Source: Company, Kotak Institutional Equities

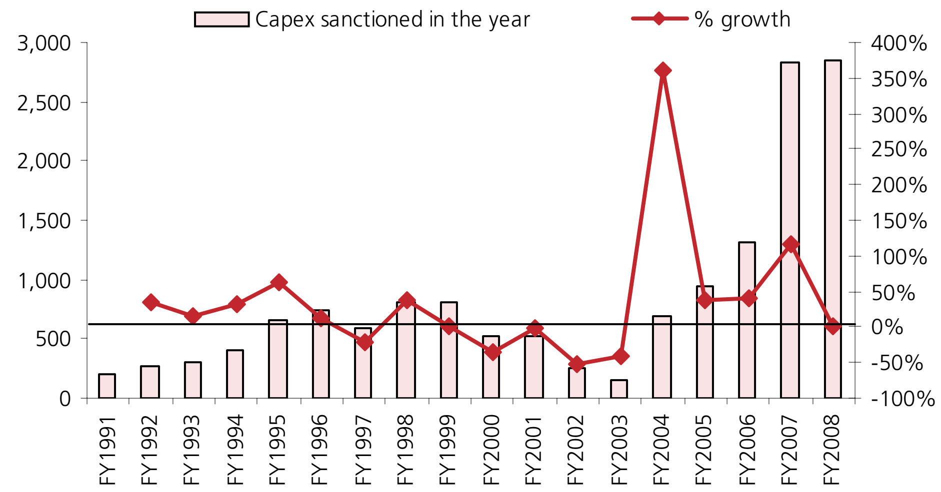
Exhibit 8. Construction sector order inflow and backlog for 2QFY09

	Sep-07	Jun-08	Sep-08A	Change (%) yoy	Change (%) qoq
Contruction - Covered companies (Rs mn)					
Punj Lloyd					
Order booking	15,220	31,309	45,387	198.2	45.0
Order backlog	148,520	200,621	216,747	45.9	8.0
IVRCL					
Order booking	12,885	10,370	25,866	100.8	149.4
Order backlog	96,000	123,500	138,000	43.8	11.7
Nagarjuna Construction Co.					
Order booking	19,071	17,449	13,198	(30.8)	(24.4)
Order backlog	90,000	121,540	124,180	38.0	2.2
Construction sector (Rs mn)					
Order booking	47,176	59,127	84,451	79.0	42.8
Order backlog	334,520	445,661	478,927	43.2	7.5

Source: Company, Kotak Institutional Equity

Exhibit 9. Financial closure during FY2008 flat over FY2007, halting an exceptionally strong run - cyclical slowdown?

Capital expenditure sanctioned assistance by commercial banks/ term lending institutions - FY1991 to FY2008 (Rs bn)



Source: Reserve Bank of India

Exhibit 10. Order equivalent to about 9.5% of order backlog at the end of 2QFY09, may face delays in execution as per our assessment, not counting Mumbai airport order

Review of real estate and metal related orders announced by L&T in last one and a half years

Date	Customer	Domestic/ International	Sector	Size of Order (Rs bn)	Nature of Work	Comments/background
	Dubai Lifestyle city	International	Others	3.13	Residential Villa at Dubai	
	Bramhani Industries Limited	Domestic	Power	2.6	Power distribution system	Proposes a Rs250 bn (Rs45 bn in first phase) integrated steel plant at Kadapa district. Brahmani Industries is promoted by Obulapuram Mining Company and Mr. G. J. Reddy is CMD. BIL has awarded blast furnace and sinter plant contracts to Chinese contractor
24-Sep-08	Godrej Properties Ltd (Hyderabad property),	Domestic	Infrastructure	17.6	Construction of IT parks	Our real estate analyst believes that the Godrej's Hyderabad project may take five to seven year to develop. Prima-facie this is Godrej propertes first development at Hyderabad.
24-Sep-08	L&T Arun Excello Infrastructure Pvt. Ltd	Domestic	Infrastructure	4.5	Construction of IT parks	Subsidiary of L&T Urban Infrastructure. Developing 3 mn sq. ft IT space a Chennai
24-Sep-08	PBEL Property Development Pvt Ltd, Hyderabad	Domestic	Infrastructure	4.8	Construction of residetial buildings in Hyderabad	Promoters of PBEL are Israel based IDB group and some NRIs and this is prima-facie their first development project at Hyderabad.
12-Aug-08	SAIL-RSP expansion	Domestic	Process	5.9	EPC order for 360 SqM sinter plant	
12-Aug-08	Tata Steel	Domestic	Process	8.4	Pellet plant at Jamshedpur	
12-Aug-08	Tata Steel	Domestic	Process	7.4	Blast furnace at Jamshedpur	
17-Jul-07	Tata Steel	Domestic	Process	9.8	Blast furnace at Kalinga Nagar, Orissa	Kalinga Nagar, Orissa facility which is greenfield venture may have lower priority versus Jamshedpur expansion plan, a brownfield expansion
16-Jul-07	Tata Steel		Process	6.2	Supply & installation of sinter plant and other packages	
12-Aug-08	Hindustan Zinc	Domestic	Process	5.2	EPC order for leaching, purification and zinc electrolysis plant	
15-Apr-08	Bombay Dyeing	Domestic	Others	2.0	Development of 9 mn Sq. ft at the textile mills and Spring Mills complexes at Worli and Wadala regions of Mumbai	Only 10% has been recognised in the order book
8-Apr-08	Bhushan Steel-Orissa, SAIL Bokaro Steel Plant	Domestic	Others	9.9	Sinter plant and cold roll mill	Progressing as per plan
8-Feb-08	SAIL, IISCO Steel Plant, Burnpur	Domestic	Process	11.1	Construction of Coal & Coke Handling Plant and Base Mix	
10-Jan-08	Kingston Properties Pvt. Ltd	Domestic	Infrastructure	20.0	Construction of various office & residential buildings in Mumbai	Promoted by Oberoi Constructions, project at Mumbai and may face delays related to slowdown in Mumbai real estate market
10-Jan-08	Cognizant Technology Ltd	Domestic	Infrastructure	6.7	Design & build contract for development centres in	
10-Jan-08	ITC Hotels Ltd	Domestic	Infrastructure	1.9	Construction of 1.52 million sq ft area to house 600 rooms	
10-Jan-08	ICICI Bank	Domestic	Infrastructure	4.1	Construction of their office building at Hyderabad	
10-Jan-08	CSJ Infrastructure Pvt. Ltd	Domestic	Others	3.0	Construction of 3 million sq ft building at Chandigarh for development of malls, office space & hotel	Subsidiary of L&T Urban Infrastructure. Land cost for 20 acre parcel is Rs4.8 bn including conversion fees
26-Dec-07	Muscat Golf Course Project LLC		Infrastructure	4.3	Township development	
15-Nov-07	SAIL - Bokaro Steel Plant		Process	3.6	Blast Furnace Rebuild in consortium with Paul Wurth	
1-Nov-07	Mumbai international Airport Pvt Ltd		Infrastructure	55.0	Integrated passenger terminal, airside and landside works at Mumbai airport	Uncertainity related to slum clearance and real estate deposit transaction, lower passenger numbers and resistance to hike passenger charges may affect execution
14-Sep-07	Steel Authority of India Limited		Process	7.6	Turnkey sinter plant project in consortium with Outotec	
5-Sep-07	Bhushan Steel Limited		Process	12.1	2.5 mn TPA blast furnace in Orissa in consortium with Paul Wurth, Italy	Progressing as per plan
19-Jun-07	Victory Heights Golf Residential and Development LLC, UAE		Infrastructure	6.1	Residential building project in Dubai, in JV with Eastern Contracting LLC	
12-Jun-07	Steel Authority of India Limited		Power	1.1	Turnkey construction of substation and associated transmission networks	
25-Apr-07	Nakheel, UAE		Infrastructure	2.0	Residential project in Dubai	

Source: Company Data

Exhibit 11. As per our analysis, real estate and metals related orders contributed 37% of order booking in the last one and a half year

Segment-wise and Geographical breakup of major order inflows for L&T for the 18 month period ending September 2008

Segment	Domestic/ International	Size of order (Rs bn)	% share
Infrastructure			
Real Estate	Domestic	59	12.7
	International	16	3.3
	Total	**75**	**16.0**
Infrastructure others	Domestic	98	20.9
	International	-	-
	Total	**98**	**20.9**
Infrastructure + Real estate		**173**	**36.8**
Process			
Metals	Domestic	97	20.6
	International	-	-
	Total	**97**	**20.6**
Process others	Domestic	24	5.0
	International	30	6.4
	Total	**54**	**11.4**
Process total		**151**	**32.1**
Power			
	Domestic	41	8.7
	International	30	6.4
Power total		**71**	**15.1**
Oil & gas			
	Domestic	53	11.3
	International	12	2.6
Oil & gas total		**65**	**13.9**
Others			
	Domestic	3	0.7
	International	7	1.4
Others total		**10**	**2.1**
Total		**470**	**100.0**

Source: Company, Kotak Institutional Equities

Exhibit 12: SOTP valuation results in a target price of Rs1,225/share

	Original invt (Rs mn)	Mkt value (Rs mn)	Implied val on FY10 estimates (X) P/E	P/B	EV/EBIDTA	L&T's stake %	Value of L&T's stake (Rs mn)	Value per share of L&T (Rs)	Basis of valuation
Core company valuation			**16.3**	**3.7**	**11.7**		**565,274**	**954**	**FY10 based DCF**
Key subsidiaries - services	5,792	33,394					33,394	56	
L&T Finance	4,910	10,037	7.4	1.0	NA	100	10,037	17	Relative P/E
L&T Infotech	883	23,357	6.8	2.0	3.9	100	23,357	39	Relative P/E
Key subsidiaries - manufacturing	1,079	37,411					19,089	62	
Tractor Engineers	3	766	8.7	1.2	6.5	100	766	1	Relative P/E
Associate companies*	1,076	36,644	8.7	NA	NA	50	18,322	31	Relative P/E
Power equipment JVwth MHI	7,500	34,448	NA	NA	NA	51	17,569	30	DCF of the JV
Infrastructure SPVs	10,989	43,954				79	34,724	59	P/B
Other subsidiaries	11,087						16,630	28	P/B
Total subsidiaries	**23,134**						**103,836**	**205**	
UltraTech Cement	143	6,093					5,179	9	15% discount to market value
Other associate companies	76	153					153	0	2X investment
Integrated JVs	759	1,517					1,517	3	2X investment
Total associates and IJVs	**978**	**7,763**					**6,849**	**12**	
Financial investments	**34,731**	**34,731**					**34,731**	**59**	

Source: Company, Kotak Institutional Equities estimates

Exhibit 13. We have a sum of the parts target price of Rs370/share

Sum of the Parts (SOTP) valuation of Siemens based on y/e Sep 2009E (Rs mn)

	Earnings est. 2009E	Valuation (Rs mn)	Per share (Rs)	Methodolgy
Consolidated PAT of Siemens	6,158			
Consolidated PAT of Siemens excluding SISL + SIPSL dividend	6,007	108,969	214	DCF - Implies P/E of 18.1X Sep 2009E earnings
SISL + SIPSL PAT	2,152	14,207	42	P/E Multiple of 6.6X September 2009E earnings
Siemesn Industrial Turbomachinery	56	671	2	P/E multiple of 12X September 2009E earnigns
Siemens Building Technologies	98	1,175	3	P/E multiple of 12X September 2009E earnigns
Total valuation	**96,259**	**125,022**	**371**	
Target price			**370**	

Source: Kotak Institutional Equities estimates

Exhibit 14. Construction stocks currently trade at an average P/E of about 7X and EV/EBITDA of 5X based on FY2010E earnings

Comparison of valuation of various construction companies in India, March fiscal year-ends 2008-10E (Rs bn)

	Revenues			EBITDA			EPS (Rs)			P/E (X)			EV/EBITDA (X)			EV/SALES (X)		
Company	**2008**	**2009E**	**2010E**	**2008**	**2009E**	**2010E**	**2008**	**2009E**	**2010E**	**2008**	**2009E**	**2010E**	**2008**	**2009E**	**2010E**	**2008**	**2009E**	**2010E**
Nagarjuna Construction Company	35	46	59	3.6	4.5	5.7	7.2	8.1	10.8	6.8	6.0	4.5	6.3	5.7	5.1	0.7	0.6	0.5
Punj Lloyd Ltd.	78	121	139	6.9	11.5	13.2	9.9	17.9	20.5	19.6	10.9	9.5	10.4	6.6	5.7	0.9	0.6	0.5
IVRCL Infrastructure	37	51	69	3.5	5.0	6.8	15.6	16.8	21.9	5.8	5.4	4.1	5.9	5.3	4.2	0.6	0.5	0.4
Larsen & Toubro standalone	249	345	456	28.3	38.5	51.4	37.1	45.3	58.0	18.1	14.9	11.6	15.2	11.6	8.7	1.7	1.3	1.0
Sadbhav Engineering	9	13	16	1.0	1.5	1.8	40.5	62.6	78.1	5.8	3.7	3.0	4.0	2.2	1.3	0.4	0.2	0.1
Consolidated Construction Company	15	20	26	1.4	1.7	2.3	24.7	28.1	36.9	12.1	10.7	8.1	8.2	6.2	4.7	0.8	0.5	0.4

Note:

(1) For Nagarjuna - we have adjusted Rs21/share comprised of book value of infrastructural investments and 30% discount to book value of real estate investments

(2) For Punj Lloyd & CCCL estimates are based on consolidated estimates as they do not have any BOT projects

(3) For IVRCL we have adjusted value of IVR Prime (Rs11/share) and other BOT projects for a total adjustment of Rs32/share

(4) For L&T we have deducted about Rs193/share based on 30% discount to our total valuation of Rs270/share for the value of subsdiaries/associates/JVs/investments

(5) For Sadbhav Engineering we have deducted Rs170 per share based on 30% discount to Rs245/share value of BOT projects

Source: Bloomberg, Kotak Institutional Equities estimates

Exhibit 15. Comparison of valuation of various industrial companies in India, (Rs bn)

	5-Nov-08	P/E			EV/EBIDTA			P/B			EPS			EBITDA (Rs mn)		
	Price (Rs/share)	**2008**	**2009E**	**2010E**	**2008**	**2009E**	**2010E**	**2008**	**2009E**	**2010E**	**2008**	**2009E**	**2010E**	**2008**	**2009E**	**2010E**
BHEL	1,378	23.6	19.1	14.1	12.4	10.2	7.5	6.3	5.0	4.0	58.4	72.2	98.0	47,626	58,187	78,425
Suzlon	59	8.9	8.2	5.6	5.4	4.9	3.9	1.0	0.9	0.8	6.6	7.2	10.5	22,539	25,078	31,369
ABB	529	22.8	20.7	17.8	13.2	11.8	10.0	6.9	5.4	4.3	23.2	25.5	29.8	7,957	8,893	10,470
Siemens	319	17.5	17.0	13.6	9.9	9.5	7.8	5.8	4.6	3.5	18.2	18.8	23.4	9,837	10,211	12,518
Larsen & Toubro	866	22.8	16.5	13.6	15.1	10.0	8.1	4.3	3.2	2.7	37.9	52.4	63.4	41,201	62,277	76,802
BGR Energy Systems	165	13.6	9.4	7.1	8.9	5.7	4.3	2.5	2.1	1.7	12.1	17.6	23.2	1,553	2,414	3,230
Bharat Electronics	677	6.6	6.4	6.1	2.3	2.2	2.1	1.6	1.4	1.2	102.0	105.5	111.8	12,671	13,561	14,377

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Exhibit 16. Change in earnings estimates of ABB,L&T and Siemens (Rs mn)

	ABB				LnT				Siemens			
	New estimates		Old estimates		New estimates		Old estimates		New estimates		Old estimates	
	CY2009E	CY2010E	CY2009E	CY2010E	FY2009E	FY2010E	FY2009E	FY2010E	FY2008E*	FY2009E*	FY2008E*	FY2009E*
Revenues	67,634	80,708	68,402	83,943	396,315	498,644	399,498	524,478	97,703	113,182	97,703	114,763
Operating profit	7,899	9,400	8,012	9,842	54,948	69,383	55,621	72,950	10,821	13,219	10,821	14,554
PAT	5,410	6,310	5,482	6,592	31,052	37,858	32,226	41,077	6,332	7,886	6,332	8,738
Net debt	(7,136)	(9,754)	(7,136)	(9,754)	141,693	169,274	101,555	123,172	(10,067)	(15,825)	(10,067)	(16,232)
EPS	25.5	29.8	25.9	31.1	52.4	63.4	54.4	68.8	18.8	23.4	18.8	25.9
Revenue growth	*14.0*	*19.3*	*15.3*	*22.7*	*35.0*	*25.8*	*36.1*	*31.3*	*3.7*	*15.8*	*3.7*	*17.5*
PAT growth	*10.0*	*16.6*	*11.5*	*20.2*	*36.7*	*21.9*	*41.9*	*27.5*	*(8.8)*	*24.5*	*(8.8)*	*38.0*
EPS growth	*10.0*	*16.6*	*11.5*	*20.2*	*34.9*	*21.1*	*40.0*	*26.6*	*(8.8)*	*24.5*	*(8.8)*	*38.0*
Operating profit margin	*11.7*	*11.6*	*11.7*	*11.7*	*13.9*	*13.9*	*13.9*	*13.9*	*11.1*	*11.7*	*11.1*	*12.7*
RoE	*29.4*	*27.0*	*29.7*	*28.0*	*22.6*	*21.8*	*23.2*	*23.0*	*30.3*	*29.4*	*30.3*	*32.1*
RoCE	*29.6*	*27.2*	*30.0*	*28.1*	*18.9*	*13.4*	*19.2*	*14.3*	*28.3*	*27.8*	*28.3*	*30.5*

*Fiscal year-ends September 2008 and 2009

Source: Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

Company	5-Nov-08 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2008	EPS (Rs) 2009E	EPS (Rs) 2010E	EPS growth (%) 2008	EPS growth (%) 2009E	EPS growth (%) 2010E	PER (X) 2008	PER (X) 2009E	PER (X) 2010E	EV/EBITDA (X) 2008	EV/EBITDA (X) 2009E	EV/EBITDA (X) 2010E	Price/BV (X) 2008	Price/BV (X) 2009E	Price/BV (X) 2010E	Dividend yield (%) 2008	Dividend yield (%) 2009E	Dividend yield (%) 2010E	RoE (%) 2008	RoE (%) 2009E	RoE (%) 2010E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Automobiles																													
Bajaj Auto	445	ADD	64,312	1,357	145	59.3	65.9	69.8	(53.4)	11.0	5.9	7.5	6.7	6.4	5.4	5.1	4.7	4.0	3.2	2.6	4.5	4.5	4.5	21.0	42.6	36.5	610	37.2	—
Hero Honda	746	REDUCE	148,876	3,141	200	48.5	56.8	63.2	12.8	17.2	11.3	15.4	13.1	11.8	9.7	8.7	8.1	4.8	3.9	3.3	2.5	2.7	2.7	34.0	33.1	30.4	770	3.3	10.0
Mahindra & Mahindra	376	ADD	96,930	2,045	258	38.1	27.5	25.3	(2.0)	(27.7)	(8.0)	9.9	13.6	14.8	7.5	10.7	9.5	2.2	1.8	1.5	2.9	2.5	2.6	27.8	18.2	14.0	410	9.2	6.3
Maruti Suzuki	616	REDUCE	177,981	3,755	289	59.9	50.3	57.5	10.8	(16.0)	14.4	10.3	12.2	10.7	5.9	6.5	5.6	2.1	1.8	1.6	0.8	0.8	0.8	22.2	15.7	15.6	650	5.5	16.6
Tata Motors	182	SELL	115,048	2,428	631	32.1	27.2	20.0	(31.6)	(15.3)	(26.4)	5.7	6.7	9.1	4.4	6.1	6.8	1.3	0.6	0.7	5.0	7.7	7.7	24.7	13.8	7.8	180	(1.2)	11.3
Automobiles		**Cautious**	**603,146**	**12,726**					**(0.8)**	**(8.6)**	**(2.0)**	**9.2**	**10.1**	**10.3**	6.1	7.0	6.7	**2.3**	**1.6**	**1.5**	**2.8**	**3.2**	**3.3**	**24.6**	**16.2**	**14.1**			
Banks/Financial Institutions																													
Andhra Bank	50	REDUCE	24,250	512	485	11.9	11.6	12.1	7.0	(2.4)	4.7	4.2	4.3	4.1	—	—	—	0.8	0.7	0.6	8.0	5.8	6.1	18.0	16.3	15.3	65	30.0	0.9
Axis Bank	604	REDUCE	216,057	4,559	358	32.2	39.7	51.8	37.7	23.2	30.5	18.7	15.2	11.7	—	—	—	2.6	2.3	2.0	0.9	1.3	1.6	17.6	15.2	17.5	750	24.2	71.6
Bank of Baroda	280	ADD	102,275	2,158	366	39.3	40.9	43.7	39.8	4.1	6.8	7.1	6.8	6.4	—	—	—	1.2	1.0	0.9	2.9	3.0	3.2	14.6	13.0	12.7	330	17.9	9.5
Bank of India	278	BUY	146,441	3,090	526	40.6	48.0	46.3	76.6	18.2	(3.6)	6.9	5.8	6.0	—	—	—	1.9	1.4	1.2	1.4	1.8	1.7	27.6	25.4	20.1	370	32.9	23.2
Canara Bank	180	REDUCE	73,821	1,558	410	38.2	40.0	38.3	10.1	4.8	(4.3)	4.7	4.5	4.7	—	—	—	1.0	0.8	0.7	4.4	3.3	3.3	15.0	14.7	12.6	220	22.2	4.2
Central Bank of India	39	SELL	15,842	334	404	11.6	9.4	17.1	(24.6)	(18.6)	81.0	3.4	4.2	2.3	—	—	—	0.8	0.5	0.4	5.1	—	—	15.3	11.6	16.7	55	40.3	0.4
Corporation Bank	223	BUY	31,958	674	143	51.3	51.3	51.5	37.2	0.2	0.3	4.3	4.3	4.3	—	—	—	0.8	0.7	0.6	4.7	4.7	4.7	18.4	16.3	14.6	310	39.1	0.5
Federal Bank	148	BUY	25,244	533	171	34.4	26.6	29.8	0.5	(22.7)	12.2	4.3	5.6	4.9	—	—	—	0.7	0.6	0.5	2.7	3.3	3.8	13.6	11.1	11.4	300	103.3	1.5
Future Capital Holdings	183	BUY	11,576	244	63	(4.5)	4.5	28.8	(689.8)	(198.6)	546.1	(40.6)	41.1	6.4	—	—	—	1.6	1.5	1.2	—	—	—	(6.7)	3.8	21.4	440	140.3	0.9
HDFC	1,750	ADD	502,245	10,597	287	85.8	78.0	97.1	38.2	(9.0)	24.5	20.4	22.4	18.0	—	—	—	4.2	3.6	3.2	1.4	1.3	1.7	27.8	17.4	18.9	2,200	25.7	81.1
HDFC Bank	1,098	BUY	464,918	9,810	423	46.0	55.6	68.9	28.7	20.9	23.9	23.9	19.8	15.9	—	—	—	4.0	3.1	2.2	0.6	0.9	1.1	17.7	17.9	17.1	1,350	22.9	54.6
ICICI Bank	451	ADD	501,651	10,585	1,113	39.9	36.2	39.2	15.4	(9.3)	8.2	11.3	12.4	11.5	—	—	—	1.1	1.0	1.0	2.4	2.0	2.2	11.7	8.4	8.6	450	(0.2)	176.4
IDFC	70	ADD	90,018	1,899	1,294	5.7	6.4	7.2	3.0	13.3	11.8	12.2	10.8	9.7	—	—	—	1.6	1.4	1.3	1.7	1.6	1.8	17.6	14.2	14.2	85	22.2	22.4
India Infoline	54	ADD	15,519	327	287	5.6	6.3	6.2	85.6	12.0	(1.2)	9.6	8.6	8.7	2.1	4.0	3.6	1.3	1.2	1.1	2.2	2.5	2.5	20.7	14.1	12.9	70	29.6	3.3
Indian Bank	129	ADD	55,290	1,167	430	22.5	22.8	23.5	33.9	1.0	3.1	5.7	5.7	5.5	—	—	—	1.3	1.1	0.9	2.3	2.3	2.3	23.4	18.8	16.7	160	24.4	2.8
Indian Overseas Bank	83	BUY	45,218	954	545	22.1	21.9	20.1	19.2	(0.6)	(8.5)	3.8	3.8	4.1	—	—	—	0.9	0.8	0.7	4.5	6.0	6.6	27.2	22.5	17.7	130	56.6	1.1
J&K Bank	365	ADD	17,717	374	48	74.2	76.3	72.8	31.2	2.8	(4.7)	4.9	4.8	5.0	—	—	—	0.9	0.7	0.7	4.2	4.4	4.2	16.8	15.3	13.1	500	36.9	0.3
LIC Housing Finance	236	ADD	20,068	423	85	45.5	54.6	56.2	38.7	19.8	2.9	5.2	4.3	4.2	—	—	—	1.1	0.9	0.7	4.2	5.1	5.2	—	—	—	325	37.7	3.0
Mahindra & Mahindra Financial	199	SELL	18,927	399	95	20.8	16.8	22.3	32.6	(19.5)	33.3	9.5	11.8	8.9	—	—	—	1.5	1.3	1.2	2.3	2.1	2.8	16.9	11.7	14.2	190	(4.3)	0.1
Oriental Bank of Commerce	140	ADD	35,038	739	251	23.9	44.0	30.0	(27.6)	84.3	(31.8)	5.9	3.2	4.7	—	—	—	0.7	0.6	0.5	3.4	6.3	4.3	6.2	17.8	10.9	200	43.0	2.1
PFC	113	ADD	130,157	2,746	1,148	11.4	12.6	15.7	2.4	10.7	24.9	10.0	9.0	7.2	—	—	—	1.3	1.2	1.0	3.1	1.5	1.9	13.5	13.3	14.8	140	23.5	2.5
Punjab National Bank	495	BUY	156,027	3,292	315	65.0	81.5	86.0	33.0	25.4	5.5	7.6	6.1	5.8	—	—	—	1.6	1.3	1.1	2.6	3.3	3.5	18.0	19.5	18.0	650	31.4	11.4
Shriram Transport	217	ADD	44,079	930	203	19.2	28.4	29.7	85.7	48.2	4.5	11.3	7.6	7.3	—	—	—	2.5	2.1	1.8	2.3	3.9	4.3	26.9	28.6	25.8	305	40.5	0.9
SREI	55	BUY	6,379	135	116	11.4	7.6	7.6	57.4	(33.5)	(0.2)	4.8	7.2	7.2	—	—	—	1.0	0.6	0.6	2.2	4.2	5.1	23.1	13.9	12.8	100	82.3	0.5
State Bank of India	1,273	BUY	803,546	16,955	631	106.6	116.5	105.2	23.5	9.4	(9.7)	11.9	10.9	12.1	—	—	—	1.9	1.7	1.5	1.7	1.7	1.8	16.8	14.2	11.6	1,600	25.7	107.3
Union Bank	148	BUY	74,959	1,582	505	27.5	30.9	31.0	64.1	12.6	0.2	5.4	4.8	4.8	—	—	—	1.0	0.9	0.8	2.7	3.1	3.1	26.8	24.9	20.7	220	48.2	4.9
Banks/Financial Institutions		**Attractive**	**3,629,219**	**76,577**					**36.9**	**12.3**	**5.7**	**11.0**	**9.8**	**9.3**	**—**	**—**	**—**	**1.7**	**1.5**	**1.3**	**2.0**	**1.9**	**2.1**	**15.4**	**15.0**	**13.9**			
Cement																													
ACC	468	REDUCE	88,331	1,864	189	64.1	56.2	44.5	13.0	(12.3)	(20.8)	7.3	8.3	10.5	3.7	3.8	5.2	2.0	1.7	1.6	5.0	5.0	5.0	33.3	23.5	16.7	550	17.5	5.7
Ambuja Cements	57	REDUCE	87,308	1,842	1,522	7.6	7.8	5.4	(11.2)	2.8	(30.0)	7.6	7.4	10.5	3.8	3.8	5.0	1.7	1.4	1.3	4.5	5.2	3.7	26.6	21.0	12.8	60	4.6	3.0
Grasim Industries	1,051	ADD	96,325	2,032	92	284.6	230.8	197.7	32.6	(18.9)	(14.3)	3.7	4.6	5.3	2.6	3.1	3.0	0.8	0.7	0.6	2.9	3.2	3.2	25.0	16.3	12.1	1,700	61.8	4.6
India Cements	89	BUY	25,100	530	282	24.5	22.7	20.2	n/a	(7.3)	(10.8)	3.6	3.9	4.4	3.4	2.9	3.1	0.7	0.6	0.6	2.0	2.4	2.4	25.8	18.6	14.6	145	62.8	2.0
Shree Cement	440	BUY	15,332	324	35	90.2	109.1	71.3	99.5	21.0	(34.6)	4.9	4.0	6.2	2.8	3.2	3.0	2.3	1.6	1.3	1.8	1.8	1.8	56.9	46.6	22.9	850	93.1	0.3
UltraTech Cement	358	BUY	44,780	945	125	81.4	71.0	54.7	28.5	(12.8)	(22.9)	4.4	5.0	6.5	3.4	3.6	3.9	1.4	1.1	1.0	2.1	2.3	2.3	45.2	28.8	18.2	550	53.8	1.0
Cement		**Cautious**	**357,176**	**7,536**					**19.3**	**(10.3)**	**(20.5)**	**5.1**	**5.7**	**7.2**	**3.2**	**3.4**	**3.7**	**1.2**	**1.0**	**0.9**	**3.6**	**3.9**	**3.5**	**24.3**	**18.2**	**12.9**			
Consumer (Discretionary)																													
Radico Khaitan	60	REDUCE	6,158	130	102	2.2	1.7	3.3	(41.4)	(24.7)	93.1	26.8	35.6	18.4	10.7	11.6	9.4	2.5	2.3	2.0	1.0	-	-	11.7	6.7	11.7	65	8.2	0.4
United Breweries	94	REDUCE	22,565	476	240	2.1	2.2	2.7	(2.2)	2.5	24.4	44.6	43.5	35.0	13.8	10.8	8.9	3.7	2.1	2.0	—	—	—	8.0	4.4	5.8	105	11.7	0.2
United Spirits	862	BUY	80,769	1,704	94	40.0	40.1	52.4	50.8	0.1	30.9	21.5	21.5	16.4	12.3	10.8	9.5	3.4	3.4	2.5	0.0	0.0	0.0	18.8	15.9	17.7	1,050	21.8	8.7
Consumer (Discretionary)		**Neutral**	**109,492**	**2,310**					**31.3**	**(1.9)**	**31.9**	**23.6**	**24.0**	**18.2**	**12.4**	**10.9**	**9.4**	**3.4**	**2.7**	**2.4**	**0.1**	**0.0**	**0.0**	**14.4**	**11.2**	**13.0**			
Consumer products																													
Asian Paints	976	ADD	93,623	1,975	96	39.5	45.2	50.9	40.4	14.5	12.6	24.7	21.6	19.2	14.9	13.1	11.1	9.6	7.6	6.2	1.5	1.8	2.0	44.6	40.4	36.9	1,075	10.1	0.9
Colgate-Palmolive (India)	380	REDUCE	51,704	1,091	136	17.1	19.1	21.7	16.8	11.7	13.8	22.2	19.9	17.5	18.5	16.3	13.9	28.2	27.9	27.6	3.4	4.3	4.9	100.4	141.4	159.6	400	5.2	1.0
GlaxoSmithkline Consumer (a)	571	ADD	24,028	507	42	38.7	44.4	49.3	26.9	14.7	11.2	14.8	12.9	11.6	7.5	6.8	5.7	3.6	3.1	2.7	2.1	2.5	2.8	27.4	26.5	25.1	700	22.5	0.2
Godrej Consumer Products	105	ADD	26,998	570	258	7.1	7.3	8.7	18.7	3.0	20.3	14.8	14.4	12.0	13.0	12.9	9.7	15.2	4.0	3.5	3.4	3.8	3.8	109.6	45.0	42.2	140	33.8	0.1
Hindustan Unilever	239	REDUCE	520,087	10,974	2,177	8.1	9.1	10.7	15.4	12.1	17.8	29.4	26.2	22.3	23.8	20.3	17.1	36.1	33.6	31.1	4.5	3.6	4.2	85.2	133.3	145.6	245	2.6	24.9
ITC	170	ADD	639,910	13,502	3,769	8.3	8.8	10.0	15.4	6.2	13.9	20.5	19.3	17.0	13.0	11.9	10.4	5.1	4.5	3.9	2.1	2.2	2.4	27.7	25.7	25.6	200	17.8	26.6
Jyothy Laboratories	235	ADD	3,405	72	15	31.0	42.1	68.3	(12.8)	35.8	62.3	7.6	5.6	3.4	4.8	3.1	1.5	0.9	0.8	0.6	4.0	4.5	5.0	11.5	13.1	17.9	740	215.4	
Nestle India (a)	1,417	ADD	136,592	2,882	96	44.5	56.4	68.1	31.3	26.8	20.7	31.8	25.1	20.8	19.1	15.8	13.3	26.5	20.3	15.8	1.9	2.4	2.9	94.8	91.4	85.4	1,740	22.8	1.6
Tata Tea	537	BUY	33,227	701	62	54.1	63.3	67.3	3.6	17.2	6.2	9.9	8.5	8.0	3.8	3.3	2.8	0.7	0.7	0.6	2.8	3.3	3.5	9.7	9.4	9.4	1,100	104.7	1.3
Consumer products		**Cautious**	**1,529,574**	**32,274**					**17.1**	**11.0**	**15.5**	**23.1**	**20.8**	**18.0**	**15.1**	**13.4**	**11.6**	**7.1**	**6.2**	**5.4**	**2.9**	**2.8**	**3.2**	**30.6**	**29.6**	**30.2**			
Constructions																													
Consolidated Construction Co.	296	BUY	10,948	231	37	24.0	28.1	36.9	67.6	16.8	31.4	12.3	10.5	8.0	8.1	6.1	4.7	2.4	2.0	1.7	0.8	1.4	1.8	27.7	20.9	22.9	425	43.5	0.1
IVRCL	123	BUY	16,642	351	135	15.5	16.7	21.8	27.2	7.4	30.3	7.9	7.4	5.7	7.2	6.2	4.9	1.0	0.9	0.8	1.2	0.6	0.6	14.4	13.2	15.0	270	119.6	6.8
Nagarjuna Construction Co.	70	BUY	15,933	336	229	7.2	8.1	10.6	14.5	13.4	30.2	9.7	8.6	6.6	7.6	6.6	5.9	1.0	1.9	0.8	1.6	1.9	2.3	12.6	11.3	13.3	150	115.7	4.5

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

	5-Nov-08		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)	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	(Rs)	(%)	(US$ mn)
Energy																													
Bharat Petroleum	317	REDUCE	103,788	2,190	328	41.3	30.4	42.8	(21.2)	(26.4)	41.0	7.7	10.4	7.4	3.8	4.3	3.2	0.8	0.8	0.7	1.4	1.0	1.4	11.8	7.9	10.1	370	16.9	7.4
Cairn india	142	BUY	264,686	5,585	1,868	(0.1)	3.9	16.7	(105)	(3,332)	334	(1,189)	37	8.5	33.2	18.1	5.8	0.9	0.8	0.7	—	—	—	(0.1)	2.3	9.1	240	69.4	19.5
Castrol India (a)	287	ADD	35,478	749	124	20.1	23.1	25.2	64.6	15.1	8.8	14.3	12.4	11.4	8.2	7.0	6.5	8.6	8.2	7.9	4.9	6.3	7.0	59.5	67.8	70.7	380	32.4	0.5
GAIL (India)	200	REDUCE	253,822	5,356	1,268	20.4	27.5	27.9	21.0	35.1	1.4	9.8	7.3	7.2	4.9	4.3	5.4	1.8	1.5	1.3	3.3	4.0	4.0	18.1	21.4	18.5	240	19.9	15.4
GSPL	30	BUY	16,771	354	563	1.8	2.7	3.7	10.1	47.6	37.7	16.5	11.2	8.1	6.1	5.8	4.2	1.4	1.2	1.1	1.7	2.5	3.4	8.8	11.5	14.2	60	101.3	2.3
Hindustan Petroleum	204	REDUCE	69,107	1,458	339	33.5	26.0	33.6	(16.4)	(22.3)	29.0	6.1	7.8	6.1	6.4	5.0	3.5	0.6	0.5	0.5	1.5	1.1	1.5	9.6	6.8	8.0	270	32.5	6.1
Indian Oil Corporation	353	REDUCE	415,946	8,776	1,179	61.3	32.4	53.8	31.0	(47.2)	66.0	5.7	10.9	6.6	3.7	7.7	6.1	0.9	0.9	0.8	1.6	0.9	1.6	17.4	8.1	12.1	450	27.6	4.0
Oil & Natural Gas Corporation	755	BUY	1,615,181	34,080	2,139	92.7	129.8	141.7	9.1	40.0	9.2	8.1	5.8	5.3	2.9	2.2	1.9	1.6	1.4	1.2	4.2	5.3	6.0	19.6	24.0	22.3	1,125	49.0	50.0
Petronet LNG	41	ADD	30,525	644	750	6.3	6.0	7.1	—	(5.7)	18.7	6.4	6.8	5.7	4.3	5.7	4.5	1.6	1.3	1.1	3.7	3.7	3.7	26.7	20.6	20.3	60	47.4	1.4
Reliance Industries	1,269	REDUCE	1,742,406	36,765	1,373	101.7	99.7	150.6	23.0	(2.0)	51.0	12.5	12.7	8.4	8.1	7.0	3.9	2.0	1.6	1.3	0.9	1.1	1.6	18.5	14.7	19.1	1,325	4.4	251.7
Reliance Petroleum	85	REDUCE	382,275	8,066	4,500	(1.1)	2.4	17.0	n/a	n/a	596.6	n/a	34.8	5.0	n/a	19.6	4.7	2.8	2.6	1.8	—	—	2.4	(3.5)	7.8	42.9	100	17.7	50.0
Energy		**Neutral**	**4,929,986**	**104,023**					**11.5**	**17.2**	**43.1**	**10.5**	**9.0**	**6.3**	**5.3**	**4.9**	**3.6**	**1.5**	**1.3**	**1.1**	**2.1**	**2.5**	**3.2**	**14.6**	**14.4**	**17.9**			
Industrials																													
ABB	529	REDUCE	112,068	2,365	212	23.2	25.5	29.8	44.5	10.0	16.6	22.8	20.7	17.8	13.2	11.8	9.8	6.9	5.4	4.3	0.4	0.5	0.6	34.8	29.2	26.9	500	(5.5)	7.7
BGR Energy Systems	165	ADD	11,909	251	72	12.1	17.6	23.2	(67.4)	45.3	31.9	13.6	9.4	7.1	8.9	6.3	5.6	2.5	2.1	1.7	1.2	1.7	2.3	31.4	24.2	26.0	275	66.3	0.7
Bharat Electronics	677	ADD	54,176	1,143	80	102.0	105.5	111.8	11.2	3.4	6.0	6.6	6.4	6.1	2.3	1.7	1.4	1.6	1.4	1.2	3.1	3.7	3.7	27.7	23.1	20.8	950	40.3	1.2
Bharat Heavy Electricals	1,378	BUY	674,559	14,233	490	58.4	72.2	98.0	22.9	23.7	35.6	23.6	19.1	14.1	12.4	9.7	7.3	6.3	5.0	4.0	1.1	1.1	1.5	29.2	29.2	31.5	1,475	7.0	79.3
Larsen & Toubro	866	ADD	513,130	10,827	593	37.9	52.4	63.4	20.8	38.1	21.1	22.8	16.5	13.6	15.1	10.5	8.9	4.3	3.2	2.7	1.0	2.3	2.3	22.7	22.4	21.6	1,050	21.3	99.6
Maharashtra Seamless	189	BUY	13,316	281	71	29.4	37.4	37.9	(23.5)	27.6	1.2	6.4	5.0	5.0	4.0	3.2	3.1	1.2	1.0	0.8	2.6	3.0	3.0	19.7	21.1	18.0	250	32.4	0.8
Siemens	319	REDUCE	107,402	2,266	337	18.2	18.8	23.4	60.4	3.1	24.5	17.5	17.0	13.6	9.9	9.3	7.2	5.8	4.6	3.5	0.8	0.9	0.9	39.9	30.2	29.3	370	16.2	6.4
Suzlon Energy	59	BUY	91,902	1,939	1,567	6.6	7.2	10.5	9.5	9.0	46.4	8.9	8.2	5.6	5.4	7.7	6.0	1.0	0.9	0.8	1.6	1.7	1.7	16.3	11.8	15.3	125	113.1	42.4
Industrials		**Neutral**	**1,578,461**	**33,306**					**24.6**	**21.9**	**27.5**	**18.9**	**15.5**	**12.2**	**10.9**	**9.0**	**7.3**	**3.9**	**3.2**	**2.6**	**1.1**	**1.6**	**1.8**	**20.8**	**20.6**	**21.5**			
Infrastructure																													
IRB Infrastructure	80	BUY	26,622	562	332	3.4	5.8	12.5	150.9	68.9	116.3	23.4	13.8	6.4	9.6	9.6	4.6	1.6	1.4	1.1	—	—	—	10.7	10.9	19.6	145	81.0	0.5
Media																													
DishTV	18	REDUCE	11,336	239	644	(9.6)	(7.8)	(4.2)	n/a	(19.1)	(45.7)	(1.8)	(2.3)	(4.2)	(7.2)	(4.0)	(15.8)	(2.5)	6.1	(5.2)	—	—	—	167.9	375.0	NA	20	13.6	4.0
HT Media	75	BUY	17,569	371	234	4.3	3.1	6.0	4.7	(28.8)	94.1	17.3	24.4	12.5	9.6	10.7	6.1	2.0	1.9	1.7	0.5	0.5	1.1	12.2	8.1	14.4	130	73.3	0.2
Jagran Prakashan	51	BUY	15,224	321	301	3.3	3.2	4.6	33.5	(2.8)	45.2	15.5	16.0	11.0	8.4	8.9	6.2	2.8	2.7	2.4	4.0	3.8	4.5	18.7	17.2	23.2	84	66.2	0.3
Sun TV Network	153	BUY	60,314	1,273	394	8.3	9.4	11.1	30.7	13.1	18.9	18.5	16.3	13.7	9.4	8.2	7.0	4.0	3.5	3.2	1.6	2.6	3.6	24.8	23.8	25.0	205	33.9	0.6
Zee Entertainment Enterprises	150	BUY	64,862	1,369	434	8.9	9.7	12.0	62.6	9.1	24.0	16.9	15.5	12.5	12.4	10.3	8.4	2.2	1.9	1.8	1.3	1.6	2.1	14.2	13.8	15.3	205	37.0	6.2
Media		**Attractive**	**169,305**	**3,572**					**24.0**	**(10.2)**	**87.3**	**33.9**	**37.8**	**20.2**	**13.5**	**11.9**	**8.4**	**3.1**	**2.5**	**2.4**	**1.5**	**1.9**	**2.6**	**9.2**	**6.7**	**12.0**			
Metals																													
Hindalco Industries	61	SELL	107,523	2,269	1,753	13.8	9.5	7.3	(10.0)	(30.9)	(23.8)	4.4	6.4	8.4	5.9	5.3	5.7	0.5	0.3	0.4	—	—	—	14.4	10.6	7.1	40	(34.8)	14.2
National Aluminium Co.	151	BUY	97,549	2,058	644	25.3	20.4	21.2	(31.5)	(19.4)	3.9	6.0	7.4	7.1	2.3	3.0	2.4	1.0	0.9	0.9	4.0	4.0	4.0	18.3	13.3	12.7	230	51.9	4.5
Jindal Steel and Power	764	BUY	117,573	2,481	154	91.1	87.5	77.7	101.5	(3.9)	(11.2)	8.4	8.7	9.8	6.6	6.0	6.5	2.8	2.1	1.7	0.6	0.8	1.0	43.8	27.2	19.1	1,250	63.7	21.7
JSW Steel	338	ADD	62,793	1,325	186	92.0	103.1	146.8	35.7	12.0	42.4	3.7	3.3	2.3	3.7	4.1	3.0	0.6	0.5	0.4	5.5	5.5	5.5	21.2	18.1	21.0	1,040	207.7	11.7
Hindustan Zinc	312	ADD	131,640	2,778	423	104.0	77.2	55.9	(1.0)	(25.8)	(27.6)	3.0	4.0	5.6	2.2	2.7	3.9	1.1	0.9	0.8	1.6	2.4	3.2	43.6	23.5	14.3	400	28.4	2.3
Sesa Goa	81	ADD	63,885	1,348	787	18.9	22.0	13.3	145.9	16.3	(39.8)	4.3	3.7	6.1	2.9	2.3	3.4	2.2	1.6	1.4	4.3	8.6	8.6	67.7	50.5	24.4	100	23.2	27.4
Sterlite Industries	267	BUY	189,451	3,997	708	64.3	45.7	38.1	(22.6)	(28.9)	(16.7)	4.2	5.8	7.0	3.5	4.7	5.8	0.8	0.8	0.7	—	—	—	26.1	13.3	10.3	415	55.2	34.0
Tata Steel	216	ADD	177,427	3,744	822	75.7	89.7	74.6	43.8	18.5	(16.9)	2.8	2.4	2.9	3.8	3.9	4.2	0.5	0.4	0.4	6.7	6.0	6.0	46.3	29.9	22.6	285	32.0	56.2
Metals		**Cautious**	**947,839**	**19,999**					**13.2**	**(8.3)**	**(14.0)**	**4.0**	**4.3**	**5.0**	**3.9**	**4.1**	**4.4**	**0.8**	**0.7**	**0.6**	**2.6**	**2.9**	**3.0**	**19.9**	**15.3**	**11.9**			
Pharmaceutical																													
Biocon	118	BUY	23,570	497	200	23.3	9.5	16.4	126.0	(59.0)	71.7	5.1	12.3	7.2	6.4	5.9	4.6	1.6	1.5	1.4	0.1	0.1	0.1	17.6	15.7	19.6	260	120.6	0.7
Cipla	183	REDUCE	142,244	3,001	777	9.0	10.3	12.7	4.9	13.8	23.3	20.3	17.8	14.5	14.9	13.2	11.0	3.8	3.3	2.8	1.1	1.4	1.6	20.1	19.7	21.0	220	20.2	7.5
Dishman Pharma & chemicals	146	BUY	11,899	251	81	14.7	15.4	28.1	30.5	4.6	82.8	9.9	9.5	5.2	9.0	8.5	5.2	2.1	1.7	1.3	0.0	0.0	0.0	26.8	19.9	29.0	400	173.4	0.4
Divi's Laboratories	1,260	BUY	81,304	1,716	65	53.2	80.1	101.4	85.8	50.5	26.7	23.7	15.7	12.4	19.2	12.5	9.5	9.5	6.0	4.2	0.1	0.1	0.1	49.8	47.4	40.0	1,980	57.2	5.0
Dr Reddy's Laboratories	407	BUY	68,835	1,452	169	26.1	26.4	36.6	(57.2)	1.2	38.7	15.6	15.4	11.1	7.8	6.8	5.6	1.5	1.4	1.3	0.9	1.0	1.0	10.3	9.5	12.0	675	65.9	5.8
Glenmark Pharmaceuticals	301	BUY	80,128	1,691	266	25.8	36.5	44.3	98.4	41.3	21.2	11.7	8.3	6.8	10.4	6.3	5.2	5.3	2.8	2.1	0.0	0.0	0.1	57.4	44.1	35.5	725	140.5	6.7
Jubilant Organosys	174	BUY	31,538	665	181	22.1	11.0	29.6	69.9	(50.4)	170.2	7.9	15.9	5.9	7.9	12.3	6.1	2.5	1.8	1.6	0.7	1.0	1.2	37.0	14.9	32.2	475	172.9	0.4
Lupin	694	BUY	61,463	1,297	89	49.8	48.9	59.7	30.2	(1.9)	22.2	13.9	14.2	11.6	16.2	11.5	9.4	4.8	3.0	2.6	1.3	1.4	1.7	37.9	28.4	24.2	950	36.9	2.8
Piramal Healthcare	235	BUY	49,084	1,036	209	17.7	18.3	25.9	66.8	3.3	41.1	13.2	12.8	9.1	10.0	9.2	6.8	4.5	3.6	2.7	1.8	1.7	1.9	30.9	30.0	34.1	410	74.6	1.3
Ranbaxy Laboratories	209	ADD	87,544	1,847	419	23.3	(0.9)	12.2	70.4	NA	NA	9.0	NA	17.1	8.4	23.3	5.3	2.9	1.5	0.9	3.6	5.0	6.4	29.8	(0.9)	8.0	340	62.8	32.7
Sun Pharmaceuticals	1,166	BUY	241,467	5,095	207	74.7	90.9	86.4	78.9	21.7	(5.0)	15.6	12.8	13.5	13.1	9.7	9.5	4.7	3.5	2.8	0.9	0.9	1.2	38.3	32.3	24.2	1,870	60.4	27.8
Pharmaceuticals		**Attractive**	**879,076**	**18,548**					**34.1**	**(1.2)**	**34.7**	**14.7**	**14.8**	**11.0**	**11.1**	**10.1**	**7.4**	**3.6**	**2.7**	**2.0**	**1.1**	**1.3**	**1.6**	**24.5**	**17.9**	**18.4**			
Property																													
DLF	266	BUY	452,879	9,556	1,705	46.1	44.6	47.4	263.2	(3.2)	6.2	5.8	6.0	5.6	5.7	5.9	4.8	2.3	1.7	1.4	1.9	2.6	2.6	66.5	33.4	27.6	440	65.6	64.3
Housing Development & Infrastruc	123	BUY	33,899	715	275	51.2	44.8	42.1	118.6	(12.5)	(5.9)	2.4	2.7	2.9	3.6	4.2	3.9	0.9	0.7	0.6	3.1	4.1	4.9	64.5	29.5	22.3	380	208.8	43.1
Indiabulls Real Estate	150	BUY	40,963	864	273	16.4	6.8	7.5	2,383.9	(58.6)	10.4	9.1	22.1	20.0	(1,425.7)	42.9	12.4	0.7	0.6	0.6	0.2	0.0	0.0	10.6	2.9	2.8	275	83.0	37.4
IVR Prime Urban Developers	44	BUY	2,848	60	64	27.0	2.9	9.7	552.8	(89.4)	238.9	1.6	15.5	4.6	0.4	19.5	7.5	0.3	0.3	0.3	9.0	11.3	15.8	31.9	1.8	6.3	170	282.9	0.1
Mahindra Life Space Developer	191	BUY	8,047	170	42	16.8	13.1	17.1	307.7	(22.2)	30.9	11.4	14.6	11.2	20.8	14.4	7.3	0.9	0.9	0.9	1.4	2.0	2.0	8.4	6.1	7.6	500	161.3	0.5
Phoenix Mills	54	BUY	7,836	165	145	12.4	5.5	12.0	89.5	(55.9)	119.9	4.4	9.9	4.5	5.6	8.3	3.0	0.5	0.5	0.5	—	—	—	22.1	5.4	10.9	280	417.6	0.8
Puravankara Projects	54	ADD	11,514	243	213	11.2	10.1	10.8	67.3	(10.6)	7.6	4.8	5.4	5.0	8.3	11.2	10.5	1.0	0.9	0.8	3.7	3.7	5.6	34.2	17.0	16.2	120	122.4	0.4

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

Company	5-Nov-08 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2008	EPS (Rs) 2009E	EPS (Rs) 2010E	EPS growth (%) 2008	EPS growth (%) 2009E	EPS growth (%) 2010E	PER (X) 2008	PER (X) 2009E	PER (X) 2010E	EV/EBITDA (X) 2008	EV/EBITDA (X) 2009E	EV/EBITDA (X) 2010E	Price/BV (X) 2008	Price/BV (X) 2009E	Price/BV (X) 2010E	Dividend yield (%) 2008	Dividend yield (%) 2009E	Dividend yield (%) 2010E	RoE (%) 2008	RoE (%) 2009E	RoE (%) 2010E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Property		Cautious	646,710	13,646					193.3	(7.7)	5.0	5.3	5.7	5.5	5.9	5.8	5.0	1.7	1.3	1.1	1.9	2.7	3.3	32.1	23.2	20.4			
Retail																													
Pantaloon Retail	237	BUY	40,701	859	172	8.0	12.1	18.4	93.1	50.4	52.2	29.5	19.6	12.9	11.3	7.7	6.3	2.4	1.5	1.4	0.2	0.3	0.4	8.5	9.1	10.8	370	56.3	1.7
Titan Industries	946	BUY	41,999	886	44	35.1	49.8	56.6	55.2	42.1	13.6	27.0	19.0	16.7	18.2	11.9	10.0	8.9	6.4	4.9	0.8	1.0	1.2	37.7	39.3	33.2	1,280	35.3	3.0
Vishal Retail	84	ADD	1,876	40	22	18.1	21.6	35.6	37.2	19.2	65.2	4.6	3.9	2.4	5.4	4.3	3.6	0.7	0.6	0.5	—	—	—	20.2	16.2	22.1	485	479.1	0.1
Retail			**84,575**	**1,785**					**31.8**	**48.2**	**35.6**	**26.3**	**17.7**	**13.1**	**12.4**	**8.3**	**6.7**	**3.5**	**2.3**	**2.0**	**0.5**	**0.7**	**0.8**	**13.2**	**13.1**	**15.3**			
Technology																													
HCL Technologies	156	REDUCE	108,490	2,289	695	15.3	20.6	21.7	(19.0)	35.0	5.4	10.2	7.6	7.2	5.3	3.8	3.5	2.2	1.7	1.5	5.1	5.1	5.1	21.4	23.8	22.7	200	28.1	3.9
Hexaware Technologies	21	SELL	2,921	62	142	7.7	2.9	3.8	(13.7)	(62.4)	32.1	2.7	7.1	5.4	(0.2)	0.9	0.6	0.4	0.4	0.4	4.4	7.8	7.8	15.1	5.8	7.4	25	21.7	0.2
Infosys Technologies	1,322	BUY	758,828	16,011	574	79.1	100.8	108.8	18.0	27.5	7.9	16.7	13.1	12.2	12.9	9.7	8.6	5.5	4.2	3.4	2.5	1.9	2.0	36.1	36.4	30.9	1,600	21.0	74.4
Mphasis BFL	159	REDUCE	33,192	700	208	12.2	22.3	23.4	67.6	81.7	5.0	13.0	7.2	6.8	7.7	4.5	3.7	2.9	0.4	1.7	2.2	2.5	2.8	23.6	34.6	28.4	190	19.3	1.6
Mindtree	257	BUY	6,692	141	26	26.7	30.7	39.6	12.3	14.7	29.0	9.6	8.4	6.5	5.6	3.1	2.8	1.3	1.0	0.8	1.5	—	—	—	17.2	17.8	450	75.2	0.4
Patni Computer Systems	138	SELL	17,723	374	129	33.2	26.3	30.8	29.2	(20.8)	16.9	4.1	5.2	4.5	0.9	1.0	0.0	0.6	0.6	0.5	1.6	1.9	2.2	19.2	14.1	12.0	160	16.1	1.4
Polaris Software Lab	47	SELL	4,635	98	98	7.4	12.8	11.6	(27.6)	71.6	(9.6)	6.3	3.7	4.1	2.4	1.3	1.0	0.7	0.6	0.5	3.7	3.7	3.7	11.7	17.8	14.1	70	48.5	2.8
Satyam Computer Services	277	BUY	189,226	3,993	682	25.2	33.7	35.5	17.7	33.3	5.3	11.0	8.2	7.8	8.0	5.2	4.4	2.6	2.1	1.7	3.5	4.3	5.0	26.0	28.2	24.2	400	44.2	36.0
TCS	506	REDUCE	495,568	10,456	979	51.3	56.4	63.0	21.5	10.0	11.6	9.9	9.0	8.0	7.8	6.4	5.8	4.0	3.2	2.6	2.8	3.9	5.0	47.0	39.3	35.6	650	28.4	24.8
Tech Mahindra	339	BUY	42,220	891	125	59.1	76.4	85.0	25.7	29.4	11.2	5.7	4.4	4.0	5.0	2.7	1.9	3.4	1.9	1.3	1.6	1.8	1.8	70.7	58.0	40.9	700	106.6	3.3
Wipro	272	ADD	393,675	8,307	1,450	22.2	26.0	28.7	12.6	17.0	10.4	12.2	10.4	9.5	9.7	7.0	6.1	3.0	2.5	2.1	2.3	2.8	3.2	27.9	26.3	24.3	360	32.6	12.3
Technology		**Cautious**	**2,053,168**	**43,322**					**16.1**	**21.4**	**9.2**	**11.9**	**9.8**	**9.0**	**8.9**	**6.6**	**5.8**	**3.5**	**2.8**	**2.3**	**2.7**	**3.0**	**3.4**	**29.4**	**28.3**	**25.6**			
Telecom																													
Bharti Airtel Ltd	685	BUY	1,300,726	27,445	1,898	35.3	45.3	55.1	65.0	28.3	21.7	19.4	15.1	12.4	11.8	8.9	6.8	5.8	4.2	3.1	—	0.6	0.9	39.1	31.9	28.5	800	16.7	90.1
IDEA	48	REDUCE	155,345	3,278	3,236	3.9	3.3	3.4	78.5	(17.6)	5.7	12.2	14.8	14.0	9.4	5.8	5.2	4.4	1.1	1.0	—	—	—	36.4	12.0	8.0	70	45.8	11.3
MTNL	70	REDUCE	44,037	929	630	7.1	5.1	5.5	(11.0)	(28.4)	7.6	9.8	13.7	12.7	1.4	2.1	1.9	0.4	0.4	0.4	5.7	8.6	8.6	3.5	2.2	2.4	80	14.4	2.5
Reliance Communications	226	SELL	466,365	9,840	2,064	26.1	26.3	33.1	84.3	0.5	25.8	8.6	8.6	6.8	7.4	7.2	5.8	1.6	1.4	1.1	0.3	—	—	16.8	18.3	18.7	265	17.3	62.6
Tata Communications	501	REDUCE	142,842	3,014	285	10.9	13.6	14.0	(36.3)	24.0	3.2	45.8	36.9	35.8	19.0	15.7	14.3	2.2	2.1	2.0	0.9	1.0	1.3	4.4	5.4	5.2	370	(26.2)	4.1
Telecom		**Cautious**	**2,109,315**	**44,507**					**65.7**	**16.3**	**21.0**	**14.6**	**12.6**	**10.4**	**9.9**	**8.2**	**6.5**	**2.9**	**2.1**	**1.8**	**0.4**	**0.7**	**0.8**	**19.6**	**17.0**	**17.3**			
Transportation																													
Container Corporation	650	REDUCE	84,487	1,783	130	57.7	69.4	74.2	7.8	20.3	6.8	11.3	9.4	8.8	7.2	5.8	5.1	2.6	2.2	1.8	1.9	2.3	2.4	25.8	25.6	22.8	800	23.1	1.5
Transportation		**Cautious**	**84,487**	**1,783**					**7.8**	**20.3**	**6.8**	**11.3**	**9.4**	**8.8**	**7.2**	**5.8**	**5.1**	**2.6**	**2.2**	**1.8**	**1.9**	**2.3**	**2.4**	**23.5**	**23.3**	**21.0**			
Utilities																													
CESC	224	BUY	28,004	591	125	-	-	-	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#####	4.2	4.9	6.1	0.9	0.8	0.7	1.8	1.8	2.2	12.5	10.6	10.5	450	100.8	1.6
Lanco Infratech	169	BUY	37,502	791	222	14.8	17.5	26.0	75.2	18.2	48.3	11.4	9.6	6.5	9.6	12.7	10.6	2.0	1.7	1.3	—	—	—	19.7	19.2	23.0	370	119.3	9.2
NTPC	148	REDUCE	1,216,206	25,662	8,245	9.3	9.0	9.7	7.9	(3.2)	7.9	15.8	16.3	15.2	11.0	11.9	11.5	2.3	2.1	1.9	2.4	2.4	2.5	14.9	13.2	13.1	160	8.5	32.1
Reliance Infrastructure	521	BUY	120,235	2,537	231	37.6	53.6	56.8	13.9	42.6	6.0	13.8	9.7	9.2	20.5	16.5	16.3	0.7	0.7	0.7	1.2	1.4	1.6	4.3	6.2	6.6	1,250	140.1	77.1
Reliance Power	116	REDUCE	278,029	5,866	2,397	0.4	2.1	2.6	—	443.9	25.2	305.0	56.1	44.8	—	—	—	2.0	1.9	1.9	—	—	—	1.2	3.5	4.3	180	55.2	24.7
Tata Power	745	BUY	173,551	3,662	233	29.7	38.1	39.9	11.6	28.5	4.6	25.1	19.5	18.7	18.6	16.8	17.6	2.3	1.8	1.6	1.2	1.3	1.3	10.0	10.3	9.0	1,230	65.1	21.6
Utilities		**Attractive**	**1,853,527**	**39,109**					**12.1**	**7.9**	**9.7**	**18.5**	**17.2**	**15.6**	**12.9**	**14.7**	**15.5**	**1.9**	**1.8**	**1.6**	**1.7**	**1.8**	**1.8**	**10.4**	**10.3**	**10.4**			
Others																													
Aban Offshore	999	BUY	38,613	815	39	72.3	211.1	456.6	(1,066)	192.1	116.3	13.8	4.7	2.2	12.8	6.9	4.0	4.4	1.9	1.0	0.4	1.0	1.5	51.7	49.3	53.1	1,700	70.2	19.0
Educomp Solutions	2,690	BUY	51,155	1,079	19	35.2	63.9	108.1	114	81.7	69.2	76.5	42.1	24.9	40.5	17.4	10.9	16.6	7.0	5.6	0.1	0.2	0.4	33.5	23.3	24.3	2,550	(5.2)	30.8
Havells India	178	BUY	10,778	227	61	26.6	19.7	34.5	40	(25.9)	75.1	6.7	9.0	5.2	6.1	6.1	4.3	1.6	1.3	1.0	1.3	1.8	2.3	33.7	16.5	22.2	365	104.9	0.4
Jaiprakash Associates	80	BUY	95,453	2,014	1,188	4.9	7.3	11.0	7	49.5	50.9	16.4	11.0	7.3	11.5	8.8	8.2	1.9	1.6	1.4	0.0	0.0	0.0	15.4	16.1	20.5	205	155.1	47.2
Jindal Saw	434	BUY	26,596	561	61	66.6	86.9	82.9	(43)	30.6	(4.7)	6.5	5.0	5.2	4.8	2.9	2.7	0.9	0.7	0.7	1.7	3.0	3.4	12.5	14.4	12.3	500	15.3	1.8
PSL	108	BUY	4,718	100	44	21.1	43.6	58.3	4	106.9	33.7	5.1	2.5	1.9	3.8	3.2	2.3	0.9	0.6	0.5	4.7	5.5	6.9	11.3	15.0	17.5	280	158.7	0.2
Sintex	199	BUY	32,371	683	163	19.5	23.4	31.2	58	19.6	33.5	10.2	8.5	6.4	9.4	6.7	4.7	2.0	1.3	1.1	0.4	0.7	0.9	14.0	14.8	15.9	460	130.9	1.9
Welspun Gujarat Stahl Rohren	125	BUY	23,559	497	189	20.6	25.9	36.6	94	25.9	41.6	6.1	4.8	3.4	7.0	4.2	2.8	1.4	1.0	0.8	1.5	3.0	3.2	27.1	23.9	26.6	220	76.3	4.3
Others			**283,242**	**5,976**					**28.6**	**81.0**	**51.6**	**14.4**	**8.0**	**5.3**	**10.2**	**6.8**	**5.3**	**2.1**	**1.6**	**1.2**	**0.5**	**0.9**	**1.2**	**14.4**	**19.7**	**23.1**			
KS universe (b)			**21,986,809**	**463,922**					**25.6**	**9.9**	**17.3**	**11.2**	**10.2**	**8.7**	**7.1**	**6.6**	**5.6**	**2.0**	**1.7**	**1.4**	**1.9**	**2.1**	**2.5**	**17.9**	**16.4**	**16.7**			
KS universe (b) ex-Energy			**17,056,823**	**359,899**					**30.8**	**7.6**	**8.5**	**11.4**	**10.6**	**9.7**	**8.1**	**7.6**	**7.0**	**2.2**	**1.8**	**1.6**	**1.8**	**2.0**	**2.2**	**19.3**	**17.2**	**16.2**			
KS universe (d) ex-Energy & ex-Commodities			**15,751,807**	**332,363**					**35.8**	**11.8**	**13.6**	**13.2**	**11.8**	**10.4**	**10.2**	**9.0**	**7.8**	**2.5**	**2.1**	**1.8**	**1.8**	**1.9**	**2.2**	**18.9**	**17.5**	**17.1**			

Note:
(a) 2007 means calendar year 2006, similarly for 2008 and 2009 for these particular companies.
(b) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.
(c) Rupee-US Dollar exchange rate (Rs/US$)= 47.39

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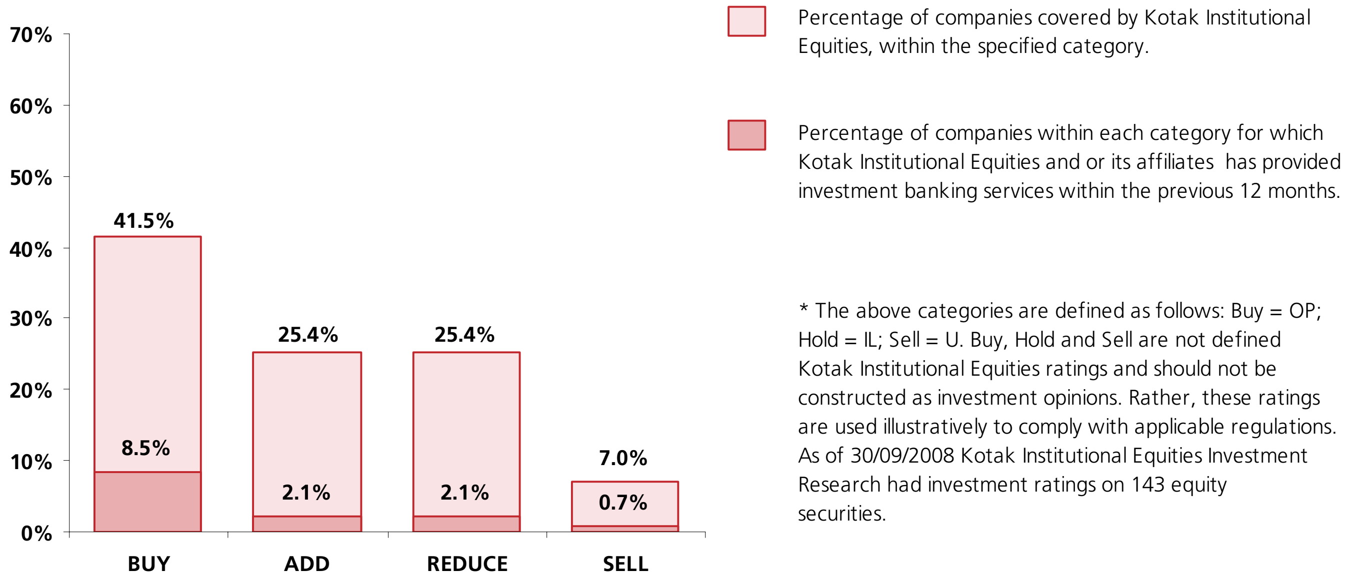
Source: Company, Bloomberg, Kotak Institutional Equities estimates

"Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Sanjeev Prasad, Rahul Jain, Amit Kumar, Ramnath Venkateswaran, Kawaljeet Saluja, Lokesh Garg."

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



* The above categories are defined as follows: Buy = OP; Hold = IL; Sell = U. Buy, Hold and Sell are not defined Kotak Institutional Equities ratings and should not be constructed as investment opinions. Rather, these ratings are used illustratively to comply with applicable regulations. As of 30/09/2008 Kotak Institutional Equities Investment Research had investment ratings on 143 equity securities.

Source: Kotak Institutional Equities As of September 30, 2008

Ratings and other definitions/identifiers

Rating system

Definitions of ratings

BUY. We expect this stock to outperform the BSE Sensex by 10% over the next 12 months.
ADD. We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months.
REDUCE: We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months.
SELL: We expect this stock to underperform the BSE Sensexby more than 10% over the next 12 months.

Our target price are also on 12-month horizon basis.

Other definitions

Coverage view. The coverage view represents each analyst's overall fundamental outlook on the Sector. The coverage view will consist of one of the following designations: Attractive (A), Neutral (N), Cautious (C).

Other ratings/identifiers

NR = Not Rated. The investment rating and target price, if any, have been suspended temporarily. Such suspension is in compliance with applicable regulation(s) and/or Kotak Securities policies in circumstances when Kotak Securities or its affiliates is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.
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