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News Round-up

- ▶ ONGC's (ONGC IN) FPO is likely to hit markets between June & July this year, according to top official. (ECNT)
- ▶ The global war between miners & steelmakers that pushed up coking coal prices by 52% has put Indian steel cos. in a dilemma. While steelmakers may not be able to raise prices due to resistance from users such as car makers, the sector could instead explore options of production cuts to protect margins. (ECNT)
- ▶ Jyothy Laboratories (JYL IN) is likely to rope in Apax Partners for a USD 100 mn funding to buy Henkel's India business. (BSTD)
- ▶ Tata Power (TPWR IN) announced the price of its USD 450 mn bond issue at 8.5% per annum, payable semi-annually. (BSTD)
- ▶ Tata Steel (TATA IN) may not have accepted Rio Tinto's ongoing share as yet, but it has signed a licensing agreement with the global miner to support technological and commercial development of the environmentally friendly process called HIsarna. (BSTD)
- ▶ Power Grid (PWGR IN) has signed a MoU with Kenya for providing consulting service to develop their power transmission network. (BSTD)
- ▶ After one prior failed attempt to acquire Australian coal miner Rocklands Richfield, Jindal Steel and Power (JSP IN) is at it again with a second try. The company has launched an open offer to acquire all shares of the company at USD 0.25 per share valuing it at USD 88 mn. (BSTD)
- ▶ Yes Bank (YES IN) set to raise up to USD 500 mn in FY12. The fund would be raised either through GDRs, ADRs or QIPs. (BSTD)
- ▶ VIP Industries (VIP IN) is likely to sell its stake in Windsor Machines Ltd, to Renaissance Equipment Pvt Ltd, along with other promoters. (BSTD)
- ▶ Lupin (LPC IN) gets tentative FDA nod for diabetic drug. (FNLE)
- ▶ Wednesday for the first time ever as worries over the outlook for the US economy boosted the metal as a safe haven, while rising inflation lifted Asian demand. (THBL)

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

EQUITY MARKETS

India	Change %			
	20-Apr	1-day	1-mo	3-mo
Sensex	19,471	1.8	9.1	2.4
Nifty	5,852	1.9	9.1	2.7
Global/Regional indices				
Dow Jones	12,454	1.5	3.5	4.9
Nasdaq Composite	2,803	2.1	4.1	4.2
FTSE	6,022	2.1	4.1	2.1
Nikkei	9,666	0.6	5.0	(5.9)
Hang Seng	24,038	0.6	6.0	0.7
KOSPI	2,189	0.9	9.3	5.8
Value traded – India				
Cash (NSE+BSE)	167		160	160
Derivatives (NSE)	1,555		1,284	1,480
Deri. open interest	1,490		1,450	1,551

Forex/money market

	Change, basis points			
	20-Apr	1-day	1-mo	3-mo
Rs/US\$	44.3	(16)	(68)	(121)
10yr govt bond, %	8.1	1	9	(7)
Net investment (US\$m)				
	19-Apr		MTD	CYTD
FIs	462		1,398	740
MFs	16		(161)	298

Top movers -3mo basis

Change, %				
Best performers	20-Apr	1-day	1-mo	3-mo
WLCO IN Equity	203.7	(2.2)	3.8	26.2
YES IN Equity	331.1	2.4	20.7	22.8
FTECH IN Equity	869.6	0.7	15.1	22.3
ACEM IN Equity	154.4	2.6	19.8	22.0
ABNL IN Equity	890.6	0.1	16.0	21.2
Worst performers				
UT IN Equity	40.5	(5.6)	12.0	(29.2)
RCOM IN Equity	105.8	(1.9)	2.8	(22.4)
UNSP IN Equity	1024.6	1.6	(0.3)	(20.6)
POWF IN Equity	237.0	(3.5)	7.0	(17.0)
RBXY IN Equity	465.9	2.0	6.8	(16.6)

Good quarter; positives in the price. HCLT reported solid but in-line performance for March 2011 quarter. With few headwinds, HCLT may improve margin in the June 2011 quarter though still end 320 bps lower for FY2011E. HCLT faces similar challenges on margin protection in FY2012E—limited operational levers, weak business mix and aggressive drive for scale. We do not share the Street's optimism and this reflects in our below-consensus EPS forecast of Rs30.8/Rs36.4 for FY2012/13E and TP of Rs490.

Company data and valuation summary

HCL Technologies

Stock data

52-week range (Rs) (high,low) 526-344

Market Cap. (Rs bn) 368.6

Shareholding pattern (%)

Promoters 64.8

FIs 21.6

MFs 3.1

Price performance (%)

Absolute 1M 3M 12M

Rel. to BSE-30 6.6 0.1 35.8

Forecasts/Valuations

	2011	2012E	2013E
EPS (Rs)	23.1	30.8	36.4
EPS growth (%)	31.9	33.4	18.1
P/E (X)	22.6	17.0	14.4
Sales (Rs bn)	160.1	200.6	234.9
Net profits (Rs bn)	16.3	21.8	25.8
EBITDA (Rs bn)	26.4	33.7	38.7
EV/EBITDA (X)	13.8	10.6	8.8
ROE (%)	22.1	25.4	25.5
Div. Yield (%)	1.4	1.5	1.5

Solid but in-line 3QFY11 results

HCLT reported solid performance with sequential revenue growth of 5.8% and EBITDA margin expansion of 110 bps. Software services revenues grew 5.4% qoq, led by volume growth of 5%. Infrastructure services remained strong delivering 8.5% qoq. EBITDA margin expansion was driven by (1) higher utilization rates, (2) cross-currency benefits, and (3) decline in SG&A as percentage of revenue by 50 bps. Net income of Rs4.4 bn (+18% qoq) was 2% higher than our estimate and led by a combination of marginal surprise at and below EBITDA line items.

4QFY11E margin expansion is known, true test is in FY2012E

HCLT, in our view, may increase margin in 4QFY11 by 100 bps; the company may have a couple of levers in the form of utilization rate and further SG&A leverage to pull that off. However, we do highlight that March/June quarter sequential margin analysis can be a bit misleading. Margin comparison is more relevant on a yoy basis given the seasonality of cost movements; HCLT ended 3QFY11 with 220 bps yoy margin decline and will end FY2011E with 320 bps decline. The true test of protecting profitability without sacrificing growth will be in FY2012E, where HCLT will have to contend with limited visible levers (high utilization rates, low SG&A as percentage of revenues) and weak business mix. Clearly, we are not as sanguine as the rest of the Street and this reflects in our below-consensus EPS of Rs30.8 and Rs36.4 for FY2012E and FY2013E, respectively.

Relative valuation expensive in light of inferior FCF profile

Adjusting net income to March fiscal year-end, HCLT trades at 18X FY2012E and 15X FY2013E earnings. Contrary to the Street, we do not find HCLT inexpensive relative to larger peers. Even as the PE discount to TCS at ~20% on consensus estimates may appear attractive to some, we note that the discount on EV/FCF (we use EV and not market cap to adjust for differences in excess cash) for HCLT versus TCS is just 5%. We believe that the margin and working capital management differential between the two companies (which will inevitably lead to inferior FCF/EBITDA profile for HCLT) demands a 35-40% PE discount – this is based on assumption of identical growth rates for both the companies. Our target price of Rs490 is based on 14X FY2013E earnings, a 35% discount to our target multiple for the sector leader, TCS.

REDUCE

APRIL 20, 2011

RESULT

Coverage view: **Attractive**

Price (Rs): **523**

Target price (Rs): **490**

BSE-30: **19,471**

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Highlights from 3QFY11 results announcement/ management commentary

- ▶ Revenue growth was aided to the extent of 100 bps on favorable cross currency movement
- ▶ Revenue growth was led by IT services, which grew 6.2% qoq. Software services grew 5.4% qoq to US\$651 mn led by volume growth of 4.9% and the balance through cross currency changes. Infrastructure services revenues grew 8.6% qoq to US\$214 mn
- ▶ BPO revenues were flat. BPO reported EBITDA loss of US\$1.6 mn. Contribution from BPO segment has declined to 5.4% to revenues from 11.7% two years back
- ▶ Revenues from the ROW geography grew 21.4% qoq and contributed to 60% of incremental revenues. Financial services revenues grew 13% qoq
- ▶ Net hiring was a weak 1,153, impacted a headcount decline of 464 in the BPO segment. IT services hiring at 1,617 was also modest for the quarter
- ▶ Offshore utilization rates in the IT services business increased 180 bps qoq. Utilization rate in infrastructure growth would have also improved given the large gap in sequential revenue growth and net hiring
- ▶ Client metrics were steady—number of US\$50 mn customers increased by 1, US\$20 mn by 3. However, revenue contribution from top 5, 10 and 20 customers declined further reflecting modest growth in large accounts
- ▶ Hedges outstanding were nearly flat qoq at US\$265 mn
- ▶ The company acquired software assets from Citibank in a carve-out for a consideration of US\$26 mn to be paid in two tranches of US\$13 mn each, one already paid and the other to be paid at end-March 2012. The carve-out comes with assured revenues of US\$135 mn over the next 10 years with revenue flow starting in mid-June 2011 quarter.

Some benefit of doubt given on margins; raise earnings and target price

We raise our FY2012E and FY2013E EPS estimates by 4.3% and 6.8% to Rs30.8 and Rs36.4, respectively led by (1) a modest 1% increase in our revenue assumption for both the years, (2) 40 bps and 60 bps upgrade in our operating margin assumption, and (3) below EBITDA line adjustments viz lower depreciation and RSU charge. We have given some benefit of doubt on potential S&M leverage and assumed that utilization rate can be sustained at elevated levels. We raise our target price to Rs490 from Rs440 earlier. Our target price is based on 15X FY2013E earnings normalized for March fiscal year-end and builds in 35% discount to the sector leader. Maintain REDUCE rating.

HCL Technologies (year-ending June) - 3QFY11 financial performance

Rs mn	Mar-10	Dec-10	Mar-11	qoq (%)	yoy (%)	Kotak Estimates	% Deviation
Revenues (US\$ mn)	685.2	864.1	914.5	5.8	33.5	913.7	0.1
Revenues	30,757	38,625	40,779	5.6	32.6	40,887	(0.3)
Cost of Revenues	(20,617)	(26,690)	(27,934)	4.7	35.5	(27,996)	(0.2)
Gross profit	10,140	11,935	12,845	7.6	26.7	12,892	(0.4)
SG&A expenses	(4,305)	(5,887)	(6,008)	2.1	39.6	(6,186)	(2.9)
EBITDA (including RSU expenses)	5,835	6,048	6,837	13.0	17.2	6,706	2.0
EBITDA adjusted for non cash RSU charges	6,073	6,303	7,061	12.0	16.3	6,983	1.1
Depreciation	(1,100)	(1,229)	(1,181)	(3.9)	7.4	(1,270)	(7.0)
EBIT	4,736	4,819	5,656	17.4	19.4	5,435	4.1
Interest expense	(449)	(358)	(357)			(361)	
Other Income (net of interest expense)	(319)	277	372			365	
Earnings before tax	3,968	4,738	5,671	19.7	42.9	5,440	4.2
Provision for Tax	(768)	(1,024)	(1,281)	25.1	66.9	(1,170)	9.5
Earnings before share of earnings in affiliates	3,200	3,715	4,390	18.2	37.2	4,270	2.8
Net Income (before extraordinary)	3,200	3,715	4,390	18.2	37.2	4,270	2.8
EPS	4.6	5.4	6.4	18.2	37.2	6.2	2.8
No of shares outstanding	690.0	690.0	690.0			690.0	
Margins (%)							
Gross Profit margin	33.0	30.9	31.5			31.5	
EBITDA Margin	19.0	15.7	16.8			16.4	
EBIT Margin	15.4	12.5	13.9			13.3	
NPM	10.4	9.6	10.8			10.4	

Source: Company, Kotak Institutional Equities estimates

Key changes to our FY2011-13E estimates

US\$ mn	Revised			Old			Change (%)		
	FY2011E	FY2012E	FY2013E	FY2011E	FY2012E	FY2013E	FY2011E	FY2012E	FY2013E
Revenues	3,552	4,467	5,338	3,548	4,429	5,290	0.1	0.9	0.9
- Software Services	2,532	3,145	3,716	2,530	3,130	3,697	0.1	0.5	0.5
- BPO	198	214	238	198	215	238	(0.1)	(0.2)	(0.2)
- Infrastructure Services	821	1,108	1,385	820	1,084	1,355	0.1	2.2	2.2
Revenue growth yoy (%)	31.3	25.8	19.5	31.2	24.8	19.5			
EBITDA	586	750	880	580	726	843	1.1	3.3	4.4
EBIT	478	631	746	468	600	699	2.0	5.0	6.8
Net Income	359	484	585	353	464	547	1.8	4.3	6.8
EBITDA margin (%)	16.5	16.8	16.5	16.3	16.4	15.9			
EBIT	13.5	14.1	14.0	13.2	13.6	13.2			
Re/ US\$ rate	45.1	44.9	44.0	45.3	44.9	44.0	(0.5)	(0.0)	(0.0)
EPS Rs/ share	23.1	30.8	36.4	22.8	29.6	34.1	1.3	4.3	6.8

Source: Kotak Institutional Equities estimates

HCLT 3QFY11 - headline and segmental performance

	Reported	KIE est.	2QFY11	3QFY10
Headline financials				
Revenues (US\$ mn)	915	914	864	685
Growth qoq (%)	5.8	5.7		
Growth yoy (%)	33.5	33.3		
versus KIE (%)	0.1			
Revenue (Rs mn)				
Revenue (Rs mn)	40,779	40,887	38,625	30,757
Growth qoq (%)	5.6	5.9		
Growth yoy (%)	32.6	32.9		
versus KIE (%)	(0.3)			
EBITDA (Rs mn)				
EBITDA (Rs mn)	6,837	6,706	6,048	5,835
Growth qoq (%)	13.0	10.9		
Growth yoy (%)	17.2	14.9		
versus KIE (%)	2.0			
EBITDA margin (%)	16.8	16.4	15.7	19.0
PAT (Rs mn)				
PAT (Rs mn)	4,390	4,270	3,715	3,200
Growth qoq (%)	18.2	15.0		
Growth yoy (%)	37.2	33.4		
versus KIE (%)	2.8			
EPS (Rs/share)				
EPS (Rs/share)	6.36	6.19	5.38	4.64
Growth qoq (%)	18.2	15.0		
Growth yoy (%)	37.2	33.4		
versus KIE (%)	2.8			
Revenue break-up				
IT services (US\$ mn)	651	650	618	481
Growth qoq (%)	5.4	5.3		
Growth yoy (%)	35.2	35.1		
versus KIE (%)	0.1			
Infrastructure services (US\$ mn)				
Infrastructure services (US\$ mn)	214	214	197	152
Growth qoq (%)	8.5	8.5		
Growth yoy (%)	40.8	40.7		
versus KIE (%)	0.0			
BPO (US\$ mn)				
BPO (US\$ mn)	50	50	50	52
Growth qoq (%)	0.6	0.8		
Growth yoy (%)	(4.2)	(4.0)		
versus KIE (%)	(0.2)			

Source: Company, Kotak Institutional Equities estimates

HCLT - quarterly balance sheet, June fiscal-year ends (US\$ mn)

	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
Assets									
Cash and cash equivalents	104	88	74	73	74	101	95	69	111
Accounts receivables, net	521	565	633	592	638	657	714	738	746
Investments (treasury)	308	309	491	321	432	425	385	404	373
Other current assets	279	223	199	178	185	191	221	262	294
Total current assets	1,212	1,185	1,397	1,164	1,329	1,373	1,415	1,472	1,523
Current liabilities	741	682	655	648	649	675	691	730	765
Net current assets	471	503	742	516	680	698	724	742	758
Net block	324	331	339	362	391	398	424	462	479
Goodwill and intangible assets	858	946	945	973	944	929	946	938	969
Other assets	154	187	196	217	218	223	300	294	297
Total assets	1,808	1,968	2,222	2,068	2,234	2,248	2,394	2,436	2,503
Liabilities and stockholder's equity									
Borrowings	680	622	786	534	621	574	577	582	551
Other long-term liabilities	149	159	182	169	149	159	159	143	148
Total liabilities	829	781	968	703	770	733	737	725	699
Minority interest	1	0	0	—	—	—	—	—	—
Total stockholder's equity	978	1,187	1,253	1,364	1,463	1,515	1,658	1,711	1,804
Total liabilities and stockholder's equity	1,808	1,968	2,222	2,068	2,234	2,248	2,394	2,436	2,503

Source: Company

Key assumptions driving HCLT earnings model, 2010-2013E, June fiscal year-ends

	2010	2011E	2012E	2013E
Key assumptions				
Revenue growth (US\$ terms) (%)	23.6	31.3	25.8	19.5
IT services	20.2	32.0	24.2	18.1
Infrastructure management	60.6	43.7	34.8	25.0
BPO	(9.3)	(7.4)	8.1	11.1
Volume growth yoy (%) (IT)	11.4	31.3	22.9	14.5
Pricing change yoy (%)				
Onsite	12.8	1.3	2.5	0.2
Offshore	(2.3)	1.9	2.5	0.5
Blended	8.0	0.5	1.0	3.2
Total employees (#)	64,557	77,382	94,463	111,060
Employee additions	10,341	12,825	17,081	16,597
Utilization rate (%)	80.1	76.8	78.5	78.5
SG&A expense as % of revenues	14.3	15.0	14.4	14.3
Re/US\$ rate	46.5	45.1	44.9	44.0

Source: Kotak Institutional Equities estimates

Condensed consolidated financials for HCL Technologies, 2010-2013E, June fiscal year-ends (Rs mn)

	2010	2011E	2012E	2013E
Profit model				
Revenues	125,650	160,110	200,622	234,941
EBITDA	24,779	26,422	33,687	38,725
Depreciation (incl amortization of intangible)	(5,006)	(4,882)	(5,369)	(5,889)
Other income	(5,278)	(553)	663	1,249
Pretax profits	14,496	20,987	28,981	34,085
Tax	(2,402)	(4,805)	(7,245)	(8,351)
Profit after tax	12,094	16,183	21,735	25,734
Diluted earnings per share (Rs)	17.5	23.1	30.8	36.4
Balance sheet				
Total equity	70,382	78,332	93,175	110,427
Deferred taxation liability	2,098	2,036	2,028	1,988
Total borrowings	24,229	19,002	14,440	5,349
Minority interest	16	15	15	15
Other non-current liabilities	5,277	9,566	11,929	13,828
Current liabilities	33,766	37,067	45,129	52,017
Total liabilities and equity	135,769	146,019	166,716	183,624
Cash	16,604	15,936	19,939	24,024
Other current assets	39,359	51,845	63,873	73,702
Goodwill and intangible assets	43,141	41,216	40,522	39,228
Tangible fixed assets	18,495	21,186	25,463	29,157
Investments	8,525	7,785	7,756	7,601
Other non-current assets	9,645	8,051	9,162	9,913
Total assets	135,769	146,019	166,716	183,624
Free cash flow				
Operating cash flow, excl. working capital	27,437	21,616	26,442	30,374
Working capital changes	(1,964)	(3,597)	(2,765)	(2,111)
Capital expenditure	(6,119)	(7,477)	(9,186)	(9,608)
Investment changes/acquisition	(7,943)	487	-	-
Other income	(5,278)	(553)	663	1,249
Free cash flow	6,134	10,475	15,153	19,903
Ratios (%)				
EBITDA margin	19.7	16.5	16.8	16.5
EBIT margin	15.7	13.5	14.1	14.0
Debt/equity	0.3	0.2	0.2	0.0
Net debt/equity	(0.0)	(0.1)	(0.1)	(0.2)

Source: Company, Kotak Institutional Equities estimates

HCL Tech: Quarterly metrics

	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
Revenues (US\$ mn)	564.5	607.2	630.1	651.7	685.2	737.6	803.8	864.1	914.5
Revenues (Rs mn)	28,615	29,085	30,314	30,325	30,757	34,254	36,116	38,625	40,779
Exchange rate	50.7	47.9	48.1	46.5	44.9	46.4	44.9	44.7	44.6
Geographical mix									
US	61.0	58.9	58.7	57.0	59.5	61.5	58.0	57.1	54.3
Europe	27.6	28.5	29.0	29.5	26.7	24.6	26.7	26.6	27.0
Asia Pacific	11.4	12.6	12.3	13.5	13.8	13.9	15.3	16.3	18.7
Revenues by service offering									
Enterprise application services	37.3	23.6	21.9	22.4	21.4	22.2	21.7	21.3	21.4
Engineering and R&D services	25.4	19.4	18.7	18.0	19.0	19.6	18.7	18.5	17.7
Custom application (Industry solutions)	10.6	29.7	30.7	30.5	29.9	29.6	31.3	31.8	32.0
Infrastructure services	15.0	17.6	19.4	20.3	22.2	22.4	22.3	22.8	23.4
BPO services	11.7	9.7	9.3	8.8	7.6	6.2	6.0	5.7	5.4
Revenue by contract type									
Time and Material	62.4	61.5	60.0	60.4	59.5	59.1	58.9	58.5	58.0
Fixed price	37.6	38.5	40.0	39.6	40.5	40.9	41.1	41.5	42.0
Revenue by vertical									
Financial services	23.6	24.8	26.3	26.1	25.5	24.9	25.2	24.6	26.2
Manufacturing	30.3	30.9	27.4	25.6	26.7	27.3	27.2	27.1	27.3
Telecom	12.1	12.5	13.0	12.5	11.6	10.9	11.0	10.8	10.3
Retail & CPG	6.9	6.6	7.0	8.0	7.5	8.2	8.5	9.1	8.7
Media Publishing and entertainment	5.0	5.6	6.8	7.2	7.9	7.4	6.9	6.8	6.6
Life sciences	6.3	6.4	6.4	7.2	7.5	8.2	8.4	8.4	8.0
Energy-utilities-public sector	8.9	7.6	6.8	7.3	7.0	6.9	6.8	7.2	7.3
Others	6.9	5.6	6.3	6.1	6.3	6.2	6.0	5.8	5.6
Client metrics (LTM)									
Active client relationships	353	367	373	399	404	408	426	434	453
New client relationships	68	37	28	36	39	51	48	46	58
Number of million dollar clients (LTM)									
50 Million dollar +	4	4	4	4	5	5	6	7	8
10 Million dollar +	40	43	45	51	55	58	64	67	70
5 Million dollar +	81	85	94	104	106	107	112	113	119
1 Million dollar +	256	253	264	281	281	283	292	312	324
Client contribution to revenue									
Top 5 clients	22.7	20.6	19.0	18.0	17.8	17.7	17.5	16.8	16.2
Top 10 clients	31.9	28.9	27.2	26.2	25.8	25.9	25.8	25.6	25.2
Top 20 clients	43.6	40.2	38.1	36.9	36.6	36.6	36.8	36.6	36.2
Repeat business	90.0	88.4	93.7	94.4	93.4	91.9	93.7	94.3	94.5
Operational metrics - Software services									
Effort mix									
Offshore	71.6	71.7	71.9	71.5	72.2	72.1	72.2	72.4	72.9
Onsite	28.4	28.3	28.1	28.5	27.8	27.9	27.8	27.6	27.1
Revenue mix									
Offshore	41.1	41.2	41.5	40.9	41.3	41.4	41.7	41.9	42.6
Onsite	58.9	58.8	58.5	59.1	58.7	58.6	58.3	58.1	57.4
Utilization									
Offshore - Including trainees	74.1	76.2	76.0	76.4	76.2	72.9	70.1	70.1	71.9
Onsite	96.4	97.0	97.2	96.7	95.6	95.2	95.7	95.9	96.5
Efforts Billed - Offshore	50,539	50,640	51,167	51,530	55,769	61,518	66,396	71,090	75,070
Efforts Billed - Onsite	20,049	20,022	19,950	20,504	21,447	23,777	25,609	27,040	27,843
Total Billed Efforts	70,588	70,662	71,117	72,034	77,216	85,295	92,005	98,130	102,913
Manpower details									
Consolidated manpower	54,026	54,216	54,443	55,688	58,129	64,557	70,218	72,267	73,420
Total gross addition	2,298	3,391	4,322	5,529	7,136	11,588	11,785	8,379	7,534
Total net addition	(992)	190	227	1,245	2,441	6,428	5,661	2,049	1,153
Attrition - IT seervices	13.2	13.0	12.8	12.8	13.9	15.7	16.7	17.2	17.0

Source: Company, Kotak Institutional Equities

APRIL 20, 2011

RESULT

Coverage view: **Attractive**

Price (Rs): **331**

Target price (Rs): **420**

BSE-30: **19,471**

Strong results in a tough environment. Yes Bank delivered strong earnings with PAT growth of 45% and an impressive loan growth of 55%. Yes Bank has been able to sustain its margins qoq at about 2.8%, as loan repricing was strong to take care of higher deposit costs. The bank is looking to raise US\$500 mn to fund the next phase of growth. Valuations are attractive at 2.5X FY2012E PBR and 13X PER for 20%+ RoE business. Increasing liability focus in its next leg of growth will be crucial to sustain its high valuations. Retain BUY with a TP of ₹420 (₹370), moving our TP on FY2013E.

Company data and valuation summary

Yes Bank

Stock data

52-week range (Rs) (high,low) 388-234

Market Cap. (Rs bn) 112.5

Shareholding pattern (%)

Promoters 26.6

FIs 53.4

MFs 3.0

Price performance (%)

Absolute 1M 3M 12M 20.7 21.1 29.1

Rel. to BSE-30 10.9 18.4 15.7

Forecasts/Valuations

	2011	2012E	2013E
EPS (Rs)	21.1	26.3	33.1
EPS growth (%)	49.8	24.7	25.9
P/E (X)	15.7	12.6	10.0
NII (Rs bn)	12.4	16.5	20.9
Net profits (Rs bn)	7.2	8.9	11.2
BVPS	109.6	132.8	162.0
P/B (X)	3.0	2.5	2.0
ROE (%)	21.0	21.7	22.4
Div. Yield (%)	0.6	0.8	1.0

QUICK NUMBERS

- **NIMs maintained qoq at 2.8%**
- **Loans grew by 55% yoy. Stable asset quality ratios**
- **Revising TP to ₹420 from ₹370 earlier**

Impressive performance in a tight liquidity environment

With better repricing environment for lending and commensurate hike in deposit rates—focus shifted back to growth with 10% qoq loan growth for the quarter. Margins remaining stable despite rising interest rates is positive. We maintain our loan growth expectation for Yes Bank at 32% CAGR over FY2011-13E with a marginal compression in margins. Post the results, we also revise our earnings for FY2012-13E. Valuations at 2.5X FY2012E book and 12X FY2012E EPS are attractive for consistently maintained RoA of ~1.4% and RoEs of about 20%. The management is looking to raise US\$500 mn as new capital, which has not been factored in our estimates and may provide upsides to our BV. Retain BUY with a revised price target of ₹420, as we move on to FY2013E-based multiples. At our TP the stock will trade at 2.1X FY2013E book and 10X EPS.

Better lending yields in the market give opportunity to re-focus on growth

Yes Bank reported a stronger loan growth for the quarter at 10.5% qoq and 55% yoy to ₹344 bn, excluding loan sold. The bank has increased exposure to SME/commercial loans (23% of loans compared to 22% in December 2010) on the back of improved confidence in asset quality and better pricing power. Food and agriculture showed sharp improvement qoq (mainly to build its priority sector portfolio). Telecom (TMT) exposure has reduced to 10% of loans from 23% in June 2010 largely due to runoff of 3G/broadband exposure. We expect loan growth to remain higher than industry average at about 32% CAGR for FY2011-13E. Increased ability to pass on higher rates also allowed the bank to grow fast during the quarter, despite a higher reliance on expensive wholesale borrowing.

Margins maintained at 2.8% qoq

Sharp improvement in lending yields offset the increase in cost of funds and decline in CD ratio to maintain margins at 2.8% for the quarter. Cost of deposits increased by 70 bps qoq to 7.8% while lending yields improved sharply by 70 bps qoq to 10.7%. CD ratio declined to 75% from 79% for the quarter. Net interest income grew by 43% yoy and 8% qoq to ₹3.5 bn.

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Deposit growth strong at 71%; CASA at 10.3%

Deposits grew by 71% yoy (16% qoq) primarily led by CASA deposits which grew by 69% yoy (18% qoq). However, strong balance sheet growth continues to result in flat CASA ratio (10.3% of deposits). The management targets to reach CASA ratio of industry average by FY2015E, which will be a big scale-up from current CASA levels. Investments continue with the bank opening another 29 branches in 4Q and 64 branches in FY2011, taking the total branch network to 214. The bank is looking to open another 100 branches in FY2012 but currently has licenses to open 46 branches.

Transaction banking fee income boosts non-interest income

Despite overall non-interest income growing only by 17% yoy, growth from transaction banking fees was impressive at 51% yoy. Financial advisory grew by 34% yoy while retail fees grew by 72% yoy (on a lower base). Income from financial markets was weak—declined 49% yoy as the bank booked losses on certain investments. Overall contribution of non-interest income to overall assets is at 1.3% of average assets as compared to 1.9% in March 2010. Contribution of overall fee income continues to remain volatile and importantly, lower than balance sheet growth as the bank shifted focus in the past two years. We are building fee income to grow by 30% CAGR for FY2011-13E.

Equity dilution announced to fund future growth

Tier-1 ratio for the bank declined to 9.7% for the quarter and the bank has announced a capital raising plan of US\$500 mn to fund future growth. We are currently not factoring the expected capital raising plans to our estimates, but expect this raising to be completed in FY2012E.

Other highlights for the quarter

- ▶ Cost-income ratio for the quarter declined to 35% from 36% in December 2010. This is somewhat surprising given fast branch/employee additions and inflation levels. However, we expect this to rise as investments in people and branches increase over time and expect it to be near 40% in FY2012-13E. Non-staff expenses were flat for the quarter while staff expenses increased by 14% qoq and 45% yoy.
- ▶ Asset quality continues to remain in a sweet spot: Ratios were stable for the quarter with gross NPL at 0.2% and net NPLs 0.03% of loans. Restructured assets are flat at ₹829 mn compared to ₹800 mn in December 2010. Asset quality remains comfortable for the bank as of now, but given a strong growth over the last couple of years, we expect gross NPLs to rise to 0.8% by FY2012E.

Yes Bank quarterly results

March fiscal year-ends, 4QFY10-4QFY11 (₹ mn)

	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	Growth yoy (%)	4QFY11E	Vs KIE estimates (%)
Interest income	6,646	7,392	9,538	11,262	12,226	84	12,024	2
Advances	4,900	5,579	7,252	8,178	8,883	81	8,663	3
Investments	1,718	1,766	2,245	2,993	3,269	90	3,271	(0)
Balance with RBI	19	29	28	70	60	222	69	(14)
Interest expenses	4,204	4,771	6,406	8,030	8,741	108	8,647	1
Net interest income	2,442	2,621	3,132	3,232	3,485	43	3,377	3
Non-interest income	1,601	1,438	1,310	1,617	1,868	17	1,770	6
Transaction banking	432	343	383	498	654	51	534	22
Financial advisory	578	761	637	535	772	34	542	42
Total income	4,043	4,059	4,442	4,848	5,353	32	5,147	4
Operating expenses	1,467	1,570	1,628	1,736	1,865	27	2,073	(10)
Employee cost	708	812	878	903	1,030	45	1,177	(12)
Other operating cost	759	758	750	833	835	10	895	(7)
Pre-prov profit	2,576	2,490	2,814	3,113	3,488	35	3,074	13
Provisions	426	126	174	250	433	2	258	68
Loan loss	115	13	174	140	173	50	230	(25)
Others	311	113	-	110	260		77	236
Profit before tax	2,150	2,364	2,640	2,863	3,055	42	2,817	8
Tax	750	800	877	952	1,021	36	896	14
Profit after tax	1,400	1,564	1,763	1,911	2,034	45	1,920	6
Tax rate (%)	34.9	33.9	33.2	33.2	33.4	(4.1)	31.8	5.0
PBT- treasury gains	2,033	2,255	2,492	2,689	2,854	40	2,607	9
PBT- treasury gains+provisions	2,459	2,381	2,666	2,939	3,287	34	2,865	15

Source: Kotak Institutional Equities

Yes Bank quarterly results

Key financial items, March fiscal year-ends, 4QFY10-4QFY11 (%)

	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	Growth yoy (%)
Key balance sheet items (Rs bn)						
Deposits	267,986	302,387	400,137	394,528	459,389	71
Demand deposits	239,847	270,636	359,723	354,286	412,072	
Term deposits	28,139	31,751	40,414	40,242	47,317	
CASA ratio (%)	10.5	10.5	10.1	10.2	10.3	
Branches	150	153	171	185	214	
Customer assets	216,500	277,250	286,000	289,667	305,000	
Loans	221,931	262,568	303,481	311,122	343,636	55
Large coporate	153,354	192,725	211,830	210,318	223,707	
ELC/SME	56,814	57,765	59,482	69,380	78,693	
Retail	11,762	11,816	32,169	31,423	41,236	
Investments	102,099	110,175	144,546	152,223	188,288	84
Total assets	363,825	409,286	517,963	522,447	590,070	62
Yield management measures (%)						
Cost of funds	6.3	6.3	6.7	7.1	7.8	
Yield on advances	9.7	9.6	9.5	10.0	10.7	
NIM	3.0	3.1	3.0	2.8	2.8	
Spread	3.4	3.1	3.3	3.3	3.1	
Asset quality details						
Gross NPLs (Rs mn)	602	597	677	728	805	34
Gross NPL (%)	0.3	0.2	0.2	0.2	0.2	
Net NPLs (Rs mn)	130	111	172	174	92	(30)
Net NPAs (%)	0.1	0.0	0.1	0.1	0.0	
Provisions (Rs mn)	472	486	506	555	714	
Provision Coverage (%)	78.4	81.4	74.7	76.1	88.6	
Restructured Loans (Rs mn)	800	804	690	837	829	4
Restructured Loans (% of cust. assets)	0.4	0.3	0.2	0.3	0.2	
Capital adequacy details (%)						
CAR	20.6	16.6	19.4	18.2	16.5	
Tier I	12.9	10.3	11.0	10.4	9.7	
Tier II	7.8	6.3	8.4	7.8	6.8	
Fee income composition (Rs mn)						
Financial markets	474	226	341	410	241	(49)
Financial advisory	578	761	637	535	772	34
Third party distribution	117	109	148	174	201	72
Treasury trading income	-	(80)	(200)	-	-	
Transaction banking	432	343	383	498	654	51
Others	-	79	1	-	-	
Total	1601	1438	1310	1617	1868	17

Source: Kotak Institutional Equities

Yes Bank—estimate changes

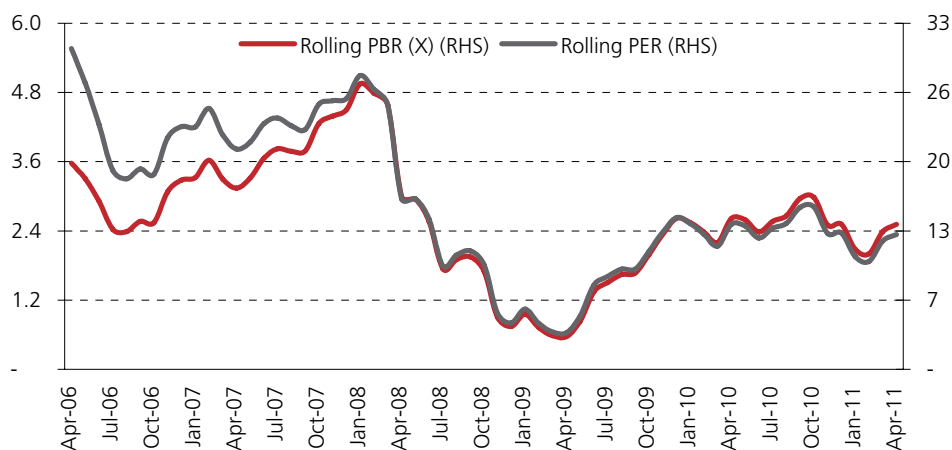
March fiscal year-ends, 2012-2013E (₹ mn)

	Old estimates		New estimates		% change	
	FY2012E	FY2013E	FY2012E	FY2013E	FY2012E	FY2013E
Net interest income	16,520	20,922	17,212	22,562	4.2	7.8
NIM (%)	2.6	2.5	2.6	2.6		
Customer assets	447,806	584,959	462,707	607,227	3.3	3.8
Loan loss provisions	1,548	2,537	1,595	2,630	3.0	3.7
Other income	8,708	11,070	8,724	11,148	0.2	0.7
Fee income	6,186	7,918	6,403	8,196	3.5	3.5
Treasury income	800	1,000	600	800	(25.0)	(20.0)
Operating expenses	9,707	12,080	10,402	13,652	7.2	13.0
Employee expenses	4,973	5,425	5,097	6,174	2.5	13.8
PBT	13,373	16,775	13,639	17,127	2.0	2.1
Tax	4,414	5,536	4,559	5,724	3.3	3.4
Net profit	8,960	11,239	9,081	11,402	1.3	1.5

Source: Kotak Institutional Equities estimates

Rolling PER and PBR (X) for Yes Bank

April 2006-April 2011



Source: Kotak Institutional Equities

Yes Bank, growth rates, key ratios and Du Pont analysis
March fiscal year-ends, 2008-2013E (%)

	2008	2009	2010	2011E	2012E	2013E
Growth rates (%)						
Net loan	49.9	31.5	78.9	54.8	32.1	31.8
Net loan including CPs and debentures	49.5	32.8	71.9	52.7	31.2	31.2
Investments excld. CPs and debentures	69.8	38.0	52.9	92.5	31.5	31.1
Net fixed assets	42.8	29.6	(11.9)	14.7	59.1	63.3
Cash and bank balance	25.9	18.1	39.0	30.8	50.7	41.6
Total Asset	52.9	34.8	58.9	62.2	31.0	30.9
Deposits	61.5	21.8	65.7	71.4	32.1	31.8
Current	136.2	24.2	99.0	62.0	70.6	55.7
Savings	152.7	31.1	103.6	99.7	94.2	58.2
Fixed	56.8	21.5	62.5	71.9	27.2	28.0
Net interest income	96.5	51.3	54.7	58.2	38.0	31.1
Loan loss provisions	-	309.9	51.3	(60.5)	219.0	64.9
Total other income	79.8	21.1	31.7	8.3	40.0	27.8
Net fee income	84.0	10.0	67.9	26.3	33.7	28.0
Net capital gains	455.4	151.3	(34.0)	(79.6)	200.0	33.3
Net exchange gains	(33.5)	27.9	56.9	40.0	25.0	25.0
Operating expenses	54.2	20.5	19.5	35.9	53.0	31.2
Employee expenses	72.3	7.7	17.8	41.0	40.7	21.1
Key ratios (%)						
Yield on average earning assets	9.8	10.7	8.4	8.8	9.2	9.1
Yield on average loans	11.8	13.6	10.2	10.6	11.0	10.8
Yield on average investments	9.0	8.2	6.8	7.1	7.6	7.9
Average cost of funds	7.9	8.4	6.1	6.6	7.1	7.0
Interest on deposits	7.9	8.3	5.8	6.8	6.9	6.9
Difference	1.9	2.2	2.3	2.2	2.1	2.0
Net interest income/earning assets	2.5	2.7	2.8	2.7	2.6	2.6
Spreads on lending business	3.9	5.2	4.1	3.9	3.9	3.7
New provisions/average net loans	0.3	0.8	0.7	0.2	0.4	0.5
Total provisions/gross loans	0.0	0.4	0.2	0.3	0.6	0.9
Interest income/total income	48.3	53.8	57.8	66.7	66.4	66.9
Other income / total income	51.7	46.2	42.2	33.3	33.6	33.1
Fee income to total income	29.4	23.9	27.8	25.6	24.7	24.3
Fees income to PBT	67.0	48.5	52.2	43.9	46.9	47.9
Net trading income to PBT	14.9	36.1	11.4	1.8	4.4	4.7
Exchange inc./PBT	7.2	6.0	6.1	5.7	5.7	5.6
Operating expenses/total income	49.8	44.2	36.7	36.3	40.1	40.5
Operating expenses/assets	2.5	2.1	1.7	1.4	1.5	1.5
Operating profit /AWF	1.8	1.7	2.2	2.3	2.0	1.9
Tax rate	34.7	34.8	34.2	33.4	33.4	33.4
Dividend payout ratio	-	-	10.0	11.9	11.9	11.9
Share of deposits						
Current	7.4	7.5	9.1	8.6	11.1	13.1
Fixed	91.5	91.3	89.5	89.7	86.4	83.9
Savings	1.1	1.2	1.5	1.7	2.5	3.0
Loans-to-deposit ratio	71.0	76.7	82.8	74.8	74.8	74.8
Equity/assets (EoY)	7.8	7.1	8.5	6.4	5.9	5.5
Dupont analysis (%)						
Net interest income	2.4	2.6	2.7	2.6	2.5	2.5
Loan loss provisions	0.1	0.4	0.4	0.1	0.2	0.3
Net other income	2.6	2.2	1.9	1.3	1.3	1.2
Operating expenses	2.5	2.1	1.7	1.5	1.6	1.6
Inv. depreciation	0.1	(0.1)	0.1	-	-	-
(1- tax rate)	65.3	65.2	65.8	66.6	66.6	66.6
ROA	1.4	1.5	1.6	1.5	1.3	1.3
Average assets/average equity	13.3	13.6	12.6	13.9	16.3	17.6
ROE	19.0	20.6	20.3	21.1	21.7	22.5

Source: Company, Kotak Institutional Equities

Yes Bank, income statement and balance sheet
March fiscal year-ends, 2008-2013E (₹ mn)

	2008	2009	2010	2011E	2012E	2013E
Income statement (Rsmn)						
Total interest income	13,108	20,014	23,697	40,417	60,355	79,154
Loans	9,304	14,878	17,715	29,891	43,659	56,551
Investments	3,668	4,996	5,859	10,273	16,368	22,126
Cash and deposits	136	140	123	188	329	477
Total interest expense	9,741	14,921	15,818	27,948	43,143	56,593
Deposits from customers	8,540	12,271	12,534	24,658	36,932	48,518
Net interest income	3,367	5,093	7,880	12,469	17,212	22,562
Loan loss provisions	204	836	1,265	500	1,595	2,630
Net interest income (after prov.)	3,163	4,257	6,615	11,969	15,617	19,931
Other income	3,609	4,369	5,755	6,233	8,724	11,148
Net fee income	2,053	2,258	3,791	4,790	6,403	8,196
Net capital gains	591	1,485	980	200	600	800
Net exchange gains	220	281	441	617	772	965
Operating expenses	3,473	4,185	5,002	6,798	10,402	13,652
Employee expenses	2,024	2,180	2,569	3,623	5,097	6,174
Depreciation on investments	133	(199)	154	-	-	-
Other Provisions	101	(19)	(50)	482	300	300
Pretax income	3,065	4,659	7,265	10,922	13,639	17,127
Tax provisions	1,063	1,621	2,488	3,650	4,559	5,724
Net Profit	2,002	3,038	4,777	7,271	9,081	11,402
% growth	114.2	51.7	57.2	52.2	24.9	25.6
Operating profit	2,912	3,792	7,653	11,704	14,934	19,257
% growth	86	28	98	71	22	25
Balance sheet (Rsmn)						
Cash and bank balance	16,276	19,227	26,732	34,960	52,673	74,579
Cash	84	315	357	7,244	9,912	20,853
Balance with RBI	9,508	12,463	19,596	23,516	34,362	45,327
Balance with banks	41	145	123	4,200	4,200	4,200
Net value of investments	50,937	71,170	102,099	188,288	244,775	318,207
Govt. and other securities	35,964	46,801	67,865	154,054	210,540	283,973
Shares	55	55	827	827	827	827
Debentures and bonds	6,779	10,242	8,915	8,915	8,915	8,915
Net loans and advances	94,303	124,031	221,931	343,636	453,793	598,313
Fixed assets	1,012	1,311	1,155	1,324	2,107	3,442
Net leased assets						
Net Owned assets	1,012	1,311	1,155	1,324	2,107	3,442
Other assets	7,305	13,269	11,907	21,861	19,618	17,605
Total assets	169,832	229,008	363,825	590,070	772,967	1,012,147
Deposits	132,732	161,694	267,986	459,389	606,651	799,853
Borrowings and bills payable	18,166	40,951	48,731	66,909	86,982	113,076
Other liabilities	5,746	10,120	16,213	25,831	33,580	43,654
Total liabilities	156,643	212,766	332,930	552,129	727,213	956,583
Paid-up capital	2,958	2,970	3,397	3,472	3,472	3,472
Reserves & surplus	10,231	13,272	27,499	34,469	42,282	52,092
Total shareholders' equity	13,189	16,242	30,896	37,941	45,753	55,564

Source: Company, Kotak Institutional Equities

Blockbuster 4Q ends a consistent year on a positive note. Sadbhav reported very strong revenues of Rs10.5 bn, up 129% yoy, versus estimate of Rs6.4 bn, likely led by execution of large BOT projects. EBITDA margin declined to 8.7% (11.9% in 4QFY10) due to higher construction expenses. Net PAT of Rs539 mn trebled yoy and significantly surpassed our estimate of Rs364 mn. Strong 4Q added to earlier gains resulted in a full-year sales growth of 76% and net PAT of Rs1.2 bn. Working capital improved likely on higher proportion of in-house BOT projects (66 versus 125 days at end-FY2010). Retain BUY.

Company data and valuation summary

Sadbhav Engineering

Stock data

52-week range (Rs) (high,low)	164-91
Market Cap. (Rs bn)	21.2

Shareholding pattern (%)

Promoters	47.5
FIs	22.9
MFs	17.6

Price performance (%)	1M	3M	12M
Absolute	32.3	36.7	10.5
Rel. to BSE-30	21.5	33.7	(0.9)

Forecasts/Valuations

	2011	2012E	2013E
EPS (Rs)	7.7	8.7	10.0
EPS growth (%)	50.7	12.5	14.4
P/E (X)	18.2	16.2	14.2
Sales (Rs bn)	22.1	25.7	30.9
Net profits (Rs bn)	1.2	1.3	1.5
EBITDA (Rs bn)	2.3	2.9	3.5
EV/EBITDA (X)	10.8	9.4	8.1
ROE (%)	18.1	17.8	17.0
Div. Yield (%)	0.4	0.4	0.4

Strong revenue growth likely led by execution of BOT projects

Sadbhav reported a strong revenue growth of 129% yoy in 4QFY11 to Rs10.5 bn, significantly ahead of our estimates of Rs6.4 bn. The strong growth was likely led by strong execution of large BOT projects in the backlog of the company. The company is likely to have started execution of all the BOT projects in this quarter leading to the strong revenues – only the Rohtak-Panipat project was awaiting appointed date (management had expected to receive it in February 2011).

EBITDA margin contracts on higher construction expenses; net PAT almost trebles yoy

Sadbhav reported an EBITDA margin of 8.7%, down 320 bps yoy and 140 bps on a sequential basis. The lower EBITDA margin was primarily on account of higher construction expenses as a percentage of sales which increased to 87.6% in 4QFY11 from 82.2% in 4QFY10. The fall was partly compensated by lower other expenses as percentage of sales. We had built in a yoy margin compression of 120 bps (10.7%). Net PAT at Rs539 mn was up 197% yoy primarily led by the strong revenue growth. Slightly lower effective tax rate of 29% in 4Q was primarily on account of an adjustment for excess tax provision in the earlier year.

Consistent performance results in strong FY2011; lower working capital improves balance sheet

A very strong last quarter added to earlier gains in the year resulting in FY2011 revenues of Rs22.1 bn (up 76% yoy) and 22% ahead of our estimate. Margins contracted by 80 bps yoy to 10.2% leading to a net PAT of Rs1.2 bn in FY2011, up 122% yoy from Rs538 mn in FY2010.

Sadbhav reported an improved net working capital (excl. cash) of 66 days of sales at end-FY2011 versus about 125 days of sales at end-FY2010 likely on higher revenue proportion from execution of in-house BOT projects. The improvement was primarily led by lower debtors (113 days of sales versus 128 at end-FY2010) and lower loans and advances (97 days versus 136 days a year ago).

Retain BUY with target price of Rs175/share; will revisit estimates post conference call

Maintain estimates of Rs8.7 and Rs10 for FY2012E and FY2013E. Reiterate BUY (TP: Rs175) on (1) attractive valuations, (2) strong order book, and (3) positive outlook for infrastructure investments.

BUY

APRIL 20, 2011

RESULT

Coverage view: **Attractive**

Price (Rs): **141**

Target price (Rs): **175**

BSE-30: **19,471**

QUICK NUMBERS

- 4Q revenues of Rs10.5 bn, up123% yoy
- 4Q PAT trebles yoy to Rs539 mn
- FY2011 PAT of Rs1.2 bn, up 122% yoy

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Strong results continue led by execution of orders in the backlog
Sadbhav, 4QFY11 results (standalone), March fiscal year-ends (Rs mn)

	4QFY11	4QFY11E	4QFY10	3QFY11	% change			FY2011	FY2011E	FY2010	% change	
					vs est.	yoy	qoq				vs est.	yoy
Operational income	10,467	6,436	4,573	4,762	62.6	128.9	119.8	22,092	18,060	12,569	22.3	75.8
Total expenditure	(9,559)	(5,750)	(4,029)	(4,233)	66.2	137.3	125.8	(19,834)	(16,025)	(11,193)	23.8	77.2
Construction expenses	(9,170)		(3,760)	(3,924)		143.8	133.7	(18,669)		(10,535)		77.2
Employee expenses	(121)		(61)	(69)		97.0	76.0	(308)		(188)		63.4
Other expenses	(268)		(207)	(241)		29.7	11.4	(857)		(469)		82.7
EBITDA	908	686	544	529	32.5	66.9	71.8	2,258	2,035	1,377	11.0	64.0
Other income	34	10	(52)	14	236.4	(164.3)	139.3	52	68	45		
Depreciation	(69)	(92)	(75)	(68)	(25.4)	(8.4)	0.5	(269)	(292)	(233)	(8.0)	15.5
EBIT	873	643	417	474	35.8	109.5	84.1	2,042	1,811	1,189	12.7	71.7
Net Interest	(113)	(100)	11	(68)	13.3	(1,094.6)	65.9	(284)	(420)	(209)	(32.4)	35.6
PBT	760	543	428	406	40.0	77.5	87.1	1,758	1,391	980	26.3	79.4
Taxes	(221)	(179)	(247)	(142)	23.4	(10.5)	55.3	(562)	(464)	(441)		
Adjusted PAT	539	364	181	264	48.2	197.3	104.3	1,196	927	538	29.0	122.0
Key ratios (%)												
Construction exp./ sales	87.6		82.2	82.4				84.5		83.8		
Staff cost/ sales	1.2		1.3	1.4				1.4		1.5		
Other exp./ sales	2.6		4.5	5.1				3.9		3.7		
EBITDA margin	8.7	10.7	11.9	11.1				10.2	11.3	11.0		
PBT margin	7.3	8.4	9.4	8.5				8.0	7.7	7.8		
Effective tax rate	29.1	33.0	57.6	35.0				32.0	33.4	45.0		
PAT margin	5.1	5.7	4.0	5.5				5.4	5.1	4.3		
EPS	3.6	2.4	1.2	1.8	#		#	8.0	6.2	3.6		

Source: Company, Kotak Institutional Equities

Balance sheet details for Sadbhav Engineering (Rs mn), March fiscal year ends

	Sep-09	Mar-10	Sep-10	Mar-11
Shareholders funds	3,651	3,915	4,748	6,257
Share capital	125	125	131	150
Reserves & surplus	3,526	3,790	4,617	6,108
Loan funds	3,285	4,242	4,207	3,961
Deferred tax liability	115	141	150	161
Total sources of funds	7,051	8,298	9,105	10,379
Fixed assets	1,537	2,101	2,202	2,298
Investments	1,293	1,441	3,518	3,264
Cash & bank balances	136	448	313	846
Current assets	7,933	9,643	12,036	13,495
Inventories	194	540	513	692
Sundry debtors	3,585	4,408	5,139	6,869
Loans & advances	4,147	4,668	6,357	5,861
Other current assets	7	28	27	73
Current liabilities & provisions	3,851	5,336	8,963	9,524
Current liabilities	3,270	5,273	8,770	8,269
Provisions	581	63	193	1,255
Net working capital (excl. cash)	4,082	4,308	3,073	3,971
Miscellaneous expenditure	4			
Total application of funds	7,051	8,298	9,105	10,379

Source: Company, Kotak Institutional Equities

Improvement in working capital cycle due to lower debtors and L&A

Working capital analysis for Sadbhav Engineering (Rs mn), March fiscal year-ends, 2010-11

As days of sales	FY2010	FY2011
Current assets	280	223
Inventories	16	11
Sundry debtors	128	113
Loans & advances	136	97
Other current assets	1	1
Current liabilities & provisions	155	157
Current liabilities	153	137
Provisions	2	21
Net working capital (excl. cash)	125	66

Source: Company, Kotak Institutional Equities

Our SOTP valuation for Sadbhav is Rs175/share

Sum-Of-Total-Parts valuation of Sadbhav Engineering

Business	Value (Rs mn)	Stake (%)	Per share (Rs)	Comments
Construction business (a)	14,257	100	100	6X FY2012E EBITDA for construction business
BOT projects (b)	16,165	78	78	FY2012E-based DCF valuation of projects
Cash coming in from pvt. equity	4,000			
Existing portfolio of BOT projects	9,915			
Ahmedabad Ring Road	2,929			
Mumbai Nasik	165			
Aurangabad-Jalna	325			
Nagpur-Seoni	127			
Dhule	1,068			
MBCPNL	1,512			
Rohtak-Panipat	1,537			
Hyderabad-Yadgiri	780			
Bijapur-Hungund	1,472			
Value of incremental projects	2,250			
Total (a) + (b)	30,422		178	
Target price			175	

Source: Company, Kotak Institutional Equities

Order list for Sadbhav Engineering, March fiscal year-ends

Date	Client	Segment	Size (Rs mn)	Order details
Mar-11	Narmada Development Division	Irrigation	2,096	Execution of Omkareshwar Right Lift Canal
Mar-11	Narmada Development Division	Irrigation	3,119	Execution of Omkareshwar Right Lift Canal
Oct-10	National Highway Authority of India (NHAI)	Road	14,114	2-laning, improvement Works on NH-69A, B
Aug-10	Road Construction Department, Govt. of Jha	Road	2,299	Improvement Works on Govindpur- Sahibganj State Road Prc
Jun-10	Western Coalfields Ltd (Coal India Ltd)	Mining	921	Material removal and coal evacuation
Total order inflows announced in FY2011 so far			22,549	
Feb-10	NHAI Bijapur - Hungund project	Road (BOT)	12,250	4-laning of 100 km of NH-13 in Karnataka
Feb-10	Northern Coalfields Ltd (Coal India Ltd)	Mining	1,368	Removal of over burden of first dig
Nov-09	NHAI Rohtak-Panipat BOT project	Road (BOT)	13,500	4-laning of 80 km of NH-71A in Haryana
Nov-09	NHAI Hyderabad-Yadgiri BOT project	Road (BOT)	4,900	4-laning of NH-202 in Andhra Pradesh
Sep-09	Jharkhand Road Projects Impl. Co. Ltd	Road (Cash)	2,250	Improvement Works of Ranchi Ring Road - Section V
Sep-09	Jharkhand Road Projects Impl. Co. Ltd	Road (Cash)	2,520	Improvement Works of Ranchi Ring Road - Section III
Sep-09	Mahanadi Coalfields Ltd	Mining	2,254	Mining project
Jul-09	Western Coalfield Ltd (WCL)	Mining	681	Removal of all types of material in all kinds of strata
Total order inflows announced in FY2010			39,723	
Mar-09	Maharashtra State Road Dev. Corp.	Road (BOT)	8,012	Maharashtra Border Check Post Project
Jan-09	National Highways Authority of India	Road (BOT)	11,000	4/6 laning of MP/ Mah Border- Dhule section of NH- 3
Oct-08	Greater Visakhapatnam Municipal Corp.	Road (Cash)	828	BRTS corridor from Pendurthi to DRM via NAD Junction
Oct-08	Surat Municipal Corporation	Road (Cash)	544	Construction of pavement and allied works
Oct-08	Gujarat Industries Power Company Ltd	Mining	2,683	Excavation work at Mangrol lignite mines
Jan-09	Government of Andhra Pradesh	Irrigation	516	Canal network system
Apr-08	Government of Andhra Pradesh	Irrigation	868	Main canal and distributory system
Total order inflows announced in FY2009			24,451	
Nov-07	Government of Chhattisgarh	Road (Cash)	990	Rehabilitation and upgrading of roads
Sep-07	Madhya Pradesh Road Dev. Corp. Ltd	Road (Cash)	1,965	Shivpuri-Sheopur and Seoni-Chiraidongri projects
Jul-07	National Highways Authority of India	Road (Cash)	1,622	Four lane Agra bypass
Jan-08	Western Coalfield Limited	Mining	476	Removal of all types of material in all kinds of strata
Sep-07	Northern Coalfield Ltd	Mining	2,452	Removal of over burden of first dig
Feb-08	Narmada Control Authority	Irrigation	3,102	Omkareshwar Project Canal System (Phase-III)
Jun-07	Government of Andhra Pradesh	Irrigation	905	Canal network system
Total order inflows announced in FY2008			11,512	

Source: Company, Kotak Institutional Equities

Financials of Sadbhav Engg (standalone), March fiscal year-ends, 2007-13E (Rs mn)

	2007	2008	2009	2010	2011	2012E	2013E
Profit model							
Total income	4,886	8,721	10,625	12,569	22,092	25,669	30,884
Expenses	(4,307)	(7,749)	(9,530)	(11,198)	(19,834)	(22,773)	(27,391)
EBITDA	579	972	1,095	1,371	2,258	2,895	3,493
Interest (expense)/income	(54)	(157)	(214)	(331)	(284)	(655)	(906)
Depreciation	(149)	(139)	(157)	(233)	(269)	(363)	(441)
Other income	6	30	108	158	52	81	94
Pretax profits	381	706	832	966	1,758	1,959	2,240
Tax	(129)	(221)	(179)	(297)	(596)	(632)	(722)
Adjusted net income	263	489	639	642	1,162	1,307	1,496
EPS (Rs)	2.4	4.1	5.1	5.1	7.7	8.7	10.0
Balance sheet							
Total equity	1,466	2,861	3,435	3,915	6,257	7,189	8,579
Deferred taxation liability	93	97	110	141	161	174	197
Total borrowings	730	1,503	2,111	4,242	3,961	6,500	8,000
Total liabilities and equity	2,290	4,461	5,656	8,298	10,379	13,863	16,776
Net fixed assets	1,119	1,430	1,545	2,101	2,298	3,246	3,805
Investments	461	1,205	1,246	1,441	3,264	5,033	6,033
Net current assets (excl. cash)	433	1,706	2,756	4,308	3,971	5,128	6,200
Cash	251	103	100	448	846	456	738
Miscl. exp. not written off	26	17	8	-	-	-	-
Total assets	2,290	4,461	5,656	8,298	10,379	13,863	16,776
Free cash flow							
Cash flow from operations	278	(485)	(105)	(521)	2,281	700	1,699
Pre-tax income	381	706	832	966	1,391	1,959	2,240
Depreciation & amortization	149	139	157	233	292	363	441
Taxes paid	(62)	(221)	(235)	(393)	(450)	(632)	(722)
Interest expense	54	121	128	238	422	657	906
Working capital changes	(260)	(1,298)	(999)	(1,569)	696	(1,563)	(1,072)
Cash flow from investing	(588)	(1,195)	(319)	(965)	(2,892)	(2,500)	(2,000)
Capital investment	(232)	(451)	(278)	(770)	(800)	(1,000)	(1,000)
Investment changes	(356)	(744)	(41)	(195)	(2,092)	(1,500)	(1,000)
Free cash flow	(310)	(1,680)	(424)	(1,486)	(611)	(1,800)	(301)
Ratios							
EBITDA margin (%)	11.8	11.1	10.3	10.9	10.2	11.3	11.3
PAT margin (%)	5.4	5.6	6.0	5.1	5.3	5.1	4.8
Debt/equity (X)	46.8	50.8	59.6	104.6	61.7	88.3	91.2
Net debt/equity (X)	30.7	47.4	56.7	93.5	48.5	82.1	82.7
RoAE (%)	16.8	16.5	18.0	15.8	18.1	17.8	17.0
RoACE (%)	(349.7)	36.2	17.7	14.2	51.0	21.1	10.9

Source: Company, Kotak Institutional Equities

Decoding exports data. As per provisionally released data, India's FY2011 exports touched US\$245 bn led by significant growth in engineering goods (export in FY2011 at US\$60 bn, up 85% over FY2010). Our analysis indicates that this growth is driven by a sudden uptick in 4QFY11—which is not corroborated by other data points like IIP and order inflows into capital goods firms. As we highlighted in our recent GameChanger report, *X Factor: Made in India*, India needs to focus on its manufactured goods export and aim for indigenizing production of items (electronics: imports of US\$21 bn in FY2010, for example) where a large internal market exists.

Data on engineering goods export points to strong pick-up in last four months

The provisional data for FY2011 records India's exports at US\$245 bn, up 37.5% yoy led by an 85% yoy rise in engineering goods. We note that the exports of engineering goods had risen by 53% yoy in the period Apr-Nov to US\$38 bn, implying a monthly run-rate of US\$4.8 bn. The last four months of the fiscal-year has seen exports of engineering goods rise 66% yoy to US\$22 bn, implying a monthly run-rate of US\$5.4 bn. We are puzzled by the 14% rise in monthly run-rate and we believe that there will be better clarity when the break-up of the same is released.

Growth not corroborated by other economic indicators

We note that the IIP growth numbers indicate that over the period Dec-Feb in FY2011, capital goods segment has contracted by 15% on an average. According to our capital goods analyst, Lokesh Garg, the order inflows into capital goods companies will be quite low compared to previous quarters. Compared with the 85% growth in engineering goods exports, these facts do not seem to stack up. We await more clarity when the full-year numbers are released by the Department of Commerce.

Increasing difference between DGCI&S and RBI data provides less comfort

The trade deficit number as reported by DGCI&S and RBI has always been at a variance: in the last few quarters, the gap has increased to US\$6.5 bn in 3QFY11 from US\$0.8 bn in 3QFY10. This gap has traditionally been explained as defense imports which are not captured by the DGCI&S data.

Long-term sustainable trade balance improvement strategy should include indigenization

One large import item for India (other than energy and bullion) is electronics. Electronic goods imports rose 10% CAGR for the period FY2006-10 to US\$21 bn in FY2010, serving around 75% of the total consumption. With such a large market, India needs to focus on getting its FDI policy right rather than simply signing pacts providing market access (via regional free-trade agreements, FTAs). Indigenization, either by 100% FDI or JV route, also creates a local knowledge and skill pool, which can help create a stronger manufacturing base in India.

Current account deficit funding requires more FDI

According to a paper released by the Department of Commerce, if current trends continue, India's trade balance could deteriorate to US\$278 bn in FY2014E from US\$104 bn in FY2011 (based on DGCI&S data). India's services export and remittances save the day for its current account as a part of the net invisibles earnings, which is expected to be US\$89 bn in FY2011E and US\$106 bn FY2012E. As noted in our recent GameChanger report, *X Factor: Made in India*, a sustainable way to fund the current account deficit will require (1) closing the trade gap and (2) funding the deficit via more stable net FDI inflow.

INDIA

APRIL 20, 2011

UPDATE

BSE-30: 19,471

QUICK NUMBERS

- Engineering goods exports rise to US\$5.4 bn/month in the last four months of FY2011
- Growth not corroborated by other indicators
- RBI data on trade and Department of Commerce data at odds

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APRIL 20, 2011

UPDATE

BSE-30: 19,471

Competitive pressure in mortgages to ease up as SBI withdraws teaser loans. SBI proposes ceasing its teaser loans for housing and cars from May 2011. The decision is likely driven by a push back from the regulator, who is not in favor of teaser loans. SBI will still remain the most competitive on home loan rates, though the difference between SBI's product and others is likely to reduce, dousing some of the heat in competitive interest rates.

SBI will discontinue teaser loans

SBI proposes to discontinuing its highly successfully teaser (dual-rate) home loan product from May 2011, likely on the back of the regulator's disapproval. As highlighted in Exhibit 1, the bank has reported strong growth in home loan portfolio on the back of this product—over the past two years, SBI has built up a teaser loan book of Rs370 bn.

As per recent RBI regulations, SBI will need to maintain a provision of 2% on teaser loans. The company has made provisions of 0.4% (as in case of other assets) and will need to make provision of additional 1.6% i.e. about Rs5.9 bn.

SBI to increase focus on margins

On Tuesday, SBI raised its base rate by 25 bps to 8.5%. In his first media appearance on Wednesday, the new SBI chairman announced the bank's decision to discontinue teaser loans. The chairman has indicated that the bank will not compete on interest rates in the home loan market. We believe that the new management is inclined to focus on margins (and profitability) over market position, which will augur well for SBI and the system as well.

Competitive intensity to moderate

SBI will now offer home loans at base rate + 1-1.25% i.e. in the range of 9.5-9.75% for loans upto Rs7.5 mn as against previous offer of 8.75 (fixed for one year) This clearly improves the competitiveness of HDFC and other players in the housing finance sector, most of whom offer new home loans at close to 10%. However, most players charge a prepayment penalty of about 2% (for repayments of over 25% of opening loan balance at the beginning of the year). SBI will, however, not charge any prepayment penalty.

Exhibit 2 highlighted the rate of interest charged by various players – HDFC and ICICI Bank offer home loans at about 10%; the gap between the home loan rate offered by HDFC and SBI will now decline considerably. LICHF is now the only large player that offers a dual rate product (loans fixed for 5 years at 10.15%) and will also likely need to migrate to a floating product.

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Exhibit 1: SBI has grown rapidly

Outstanding mortgage loan book of key players, quarterly data (Rs bn)

	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
SBI (Rs bn)	506	521	541	575	624	673	712	747	794	824
QoQ growth (Rs bn)		15	20	35	49	49	39	35	47	30
YoY (%)	23	22	21	25	23	29	32	30	27	22
HDFC (Rs bn)	812	829	894	870	895	908	979	1,016	1,063	1,091
QoQ growth (Rs bn)		17	66	(24)	25	13	71	37	47	28
YoY (%)	31	24	23	20	18	10	9	17	19	20
ICICI Bank (Rs bn)	617	607	573	535	490	484	474	473	503	517
QoQ growth (Rs bn)		(10)	(33)	(39)	(45)	(6)	(10)	(1)	30	14
YoY (%)	(8)	(9)	(14)	(18)	(21)	(20)	(17)	(12)	3	7
LIC Housing Fin (Rs bn)	241	253	277	292	319	342	381	400	434	464
QoQ growth (Rs bn)		12	23	15	27	23	39	19	34	30
YoY (%)	26	26	26	28	32	35	38	37	36	36

Source: Company

Exhibit 2: A comparison of home loan rates for loans upto Rs3 mn

Bank	Interest rate
Bank of India	10.50%
Citibank (for high ticket loans)	10%
HDFC	10%
HSBC (for high ticket loans)	10%
ICICI Bank	10%
Indiabulls	10%
LICHF (5-year, fixed rate loans)	10.15%
SBI	9.5% (base rate + 1%)

Source: Company

March 2011: Results calendar

Mon	Tue	Wed	Thu	Fri	Sat
18-Apr	19-Apr	20-Apr	21-Apr	22-Apr	23-Apr
		Coromandal Engineering	Coromandel International	3I Infotech	Dhanlaxmi Bank
		HCL Technologies	Hindustan Zinc	Axis Bank	Indian Bank
		Infotech Enterprises	IL&FS Investment Managers	Binani Cement	Mahindra Life Space Developers
		ING Vysya Bank	Jindal Steel and Power	Binani Industries	
		Sadbhav Engineering	Mindtree	Indiabulls Financials	
		Sonata Software	Nestle India	Transformers & Rectifiers	
		Yes Bank	Premier Ltd		
			Raymond		
			Reliance Industries		
			TCS		
			Zensar Technologies		
25-Apr	26-Apr	27-Apr	28-Apr	29-Apr	30-Apr
Ballarpur Industries	ACC	Bosch	Bank of Baroda	Bharat Electronics	Sintex Industries
Indiabulls Power	Ambuja Cement	Castrol India	Biocon	CESC	Bank of Maharashtra
Indiabulls Securities	Aventis Pharma	Dabur India	Consolidated Construction	Corporation Bank	Finolex Industries
Mahindra & Mahindra Financial	Gateway Distriparks	Exide Industries	Gujarat Pipavav Port	Hindustan Construction Co.	
Mahindra Holidiays	Petronet LNG	Mangalam Cement	ICICI Bank	IDFC	
Maruti Suzuki	Tata Teleservices	Paper Products	JSW Energy	Kansai Nerolac	
Merk	Ultratech Cement	Patni Computers	Kansai Nerolac	Oriental Bank of Commerce	
P&G		Sasken Communications	LIC Housing Finance	Rallis India	
Sesa Goa		Subex	Nagarjuna Fertilizer & Chemicals	Shopper Stop	
Sterlite Industries		Wipro	Polaris Software	Titan Industries	
Strides Arcolab			Vijaya Bank	TVS Motors	
			Crompton Greaves	UCO Bank	
				United Bank of India	
				United Phosphorus	
				United Spirits	
				SAIL	
				Dena Bank	
2-May	3-May	4-May	5-May	6-May	7-May
CEAT	Finolex Cables	Torrent Power	Andhra Bank		
Century Textiles	SKF India		Bharti Airtel		
Glaxosmithkline Consumer	Thermax		Mirc Electronics		
South indian Bank			Kotak Mahindra Bank		
Tube Investments					
9-May	10-May	11-May	12-May	13-May	14-May
Hindalco Industries	HDFC	ABB	Lanco Infratech		
Zurari Industries	Ranbaxy Laboratories	Apollo Tyres			
		Deepak Fertilisers			

Source: BSE, NSE, Kotak Institutional Equities

Kotak Institutional Equities: Valuation summary of key Indian companies

	20-Apr-11		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	Price (Rs)	(%)	(US\$ mn)
Automobiles																													
Ashok Leyland	55	SELL	72,567	1,637	1,330	4.3	4.7	5.7	53.5	8.1	22.3	12.6	11.7	9.5	8.5	8.0	6.0	1.6	1.5	1.3	1.8	1.8	1.8	13.6	13.4	14.7	56	2.7	7.4
Bajaj Auto	1,474	ADD	426,691	9,625	289	90.3	100.0	111.6	43.8	10.8	11.5	16.3	14.7	13.2	15.6	14.6	13.4	9.2	6.5	4.8	1.7	1.7	1.7	68.5	50.6	40.7	1,500	1.7	15.9
Bharat Forge	357	ADD	84,740	1,912	237	12.9	19.1	24.1	1,349.9	48.2	26.3	27.7	18.7	14.8	11.8	9.0	7.6	3.5	3.0	2.5	—	—	—	8.1	14.5	16.4	395	10.7	3.7
Exide Industries	142	ADD	120,318	2,714	850	7.1	8.4	9.8	12.6	17.9	17.4	19.9	16.9	14.4	14.0	11.5	9.7	4.3	3.5	2.8	0.4	0.4	0.4	24.1	22.8	21.8	160	13.0	5.1
Hero Honda	1,743	REDUCE	347,997	7,850	200	99.9	111.8	128.7	(10.6)	11.9	15.1	17.4	15.6	13.5	12.3	10.5	8.6	10.8	7.3	5.3	1.7	1.7	1.7	56.8	56.2	45.4	1,510	(13.3)	25.8
Mahindra & Mahindra	763	BUY	469,445	10,590	615	42.8	47.7	53.8	22.1	11.6	12.8	17.8	16.0	14.2	13.6	12.1	10.4	4.3	3.6	3.0	1.2	1.3	1.4	27.6	24.5	23.0	800	4.8	35.6
Maruti Suzuki	1,265	BUY	365,471	8,244	289	78.4	91.8	104.7	(9.3)	17.0	14.1	16.1	13.8	12.1	10.6	8.7	6.9	2.6	2.2	1.9	0.4	0.5	0.6	17.4	17.3	16.8	1,460	15.4	13.1
Tata Motors	1,252	ADD	831,801	18,764	665	129.9	133.6	159.2	603.4	2.9	19.1	9.6	9.4	7.9	6.5	6.2	5.3	3.9	2.8	2.1	0.5	0.5	0.5	58.6	34.9	30.5	1,305	4.3	82.6
Automobiles		Cautious	2,719,030	61,336					84.3	9.0	16.4	13.9	12.7	10.9	9.5	8.6	7.3	4.2	3.3	2.6	1.0	1.0	1.0	30.7	26.0	24.0			
Banks/Financial Institutions																													
Andhra Bank	145	BUY	76,325	1,722	526	24.1	26.4	30.6	12.0	9.5	15.9	6.0	5.5	4.7	—	—	—	1.3	1.1	0.9	3.9	4.2	4.9	24.4	21.4	21.2	180	24.1	3.7
Axis Bank	1,448	BUY	586,692	13,235	405	81.7	99.9	122.8	31.6	22.3	22.9	17.7	14.5	11.8	—	—	—	3.2	2.7	2.3	1.1	1.3	1.6	19.1	20.1	21.0	1,600	10.5	50.7
Bank of Baroda	986	BUY	387,265	8,736	393	101.4	114.1	134.3	21.2	12.5	17.7	9.7	8.6	7.3	—	—	—	2.0	1.7	1.4	1.8	2.1	2.4	24.1	21.2	21.1	1,200	21.7	8.5
Bank of India	483	ADD	264,412	5,965	547	49.7	62.7	68.5	50.1	26.1	9.2	9.7	7.7	7.1	—	—	—	1.7	1.4	1.2	2.2	2.7	3.0	19.0	20.0	18.9	560	15.9	9.7
Canara Bank	661	ADD	271,010	6,113	410	98.0	102.2	124.2	33.0	4.2	21.6	6.7	6.5	5.3	—	—	—	1.5	1.2	1.0	1.5	1.8	1.8	23.1	19.1	19.6	700	5.9	16.5
Corporation Bank	622	ADD	92,156	2,079	148	85.5	95.6	113.4	4.3	11.8	18.6	7.3	6.5	5.5	—	—	—	1.3	1.1	1.0	2.8	3.1	3.7	19.8	18.7	19.1	700	12.5	1.1
Federal Bank	448	BUY	76,606	1,728	171	34.0	44.9	57.0	24.9	32.3	26.9	13.2	10.0	7.9	—	—	—	1.5	1.4	1.2	1.4	1.8	2.3	11.8	14.1	15.9	500	11.6	4.8
HDFC	715	REDUCE	1,026,418	23,154	1,436	24.3	27.1	31.7	23.5	11.4	17.1	29.4	26.4	22.5	—	—	—	5.9	5.2	4.0	1.2	1.3	1.6	21.5	21.1	20.9	690	(3.5)	50.6
HDFC Bank	2,372	ADD	1,103,502	24,893	465	84.4	110.7	143.5	31.0	31.2	29.6	28.1	21.4	16.5	—	—	—	4.3	3.8	3.2	0.7	0.9	1.2	16.7	18.8	20.9	2,500	5.4	49.3
ICICI Bank	1,112	ADD	1,280,192	28,879	1,151	45.8	58.0	68.3	26.7	26.8	17.7	24.3	19.2	16.3	—	—	—	2.3	2.1	2.0	1.2	1.6	1.8	9.9	11.6	12.6	1,200	7.9	109.2
IDFC	159	ADD	238,864	5,388	1,506	9.1	10.9	14.1	8.3	19.5	29.5	17.5	14.6	11.3	—	—	—	2.2	1.9	1.7	1.0	1.3	1.7	15.0	13.9	15.5	175	10.3	28.4
India Infoline	73	ADD	23,984	541	327	7.4	8.0	9.4	(9.0)	8.1	17.4	9.9	9.2	7.8	—	—	—	1.4	1.2	1.0	3.9	2.3	2.7	13.2	13.8	14.1	100	36.4	2.5
Indian Bank	239	BUY	102,672	2,316	430	37.9	43.5	53.3	8.1	14.6	22.5	6.3	5.5	4.5	—	—	—	1.3	1.1	0.9	2.9	3.3	4.0	21.7	21.0	21.7	320	33.9	2.5
Indian Overseas Bank	156	BUY	96,416	2,175	619	15.8	21.9	29.5	21.6	38.9	34.7	9.9	7.1	5.3	—	—	—	1.2	1.0	0.9	2.5	2.7	3.0	11.6	13.8	16.4	180	15.6	3.4
IndusInd Bank	279	BUY	129,978	2,932	466	9.1	10.9	14.1	8.3	19.5	29.5	30.7	25.7	19.8	—	—	—	3.5	3.1	2.7	0.7	0.9	1.1	20.0	17.4	18.3	315	12.9	7.5
J&K Bank	819	ADD	39,730	896	48	123.5	136.6	154.0	16.9	10.6	12.8	6.6	6.0	5.3	—	—	—	1.2	1.0	0.9	3.1	3.5	3.9	18.5	17.8	17.6	850	3.7	0.9
LIC Housing Finance	230	ADD	109,239	2,464	475	19.5	21.5	26.2	40.0	10.0	22.2	11.8	10.7	8.8	—	—	—	2.7	2.3	1.9	1.8	2.0	2.5	24.8	22.9	23.5	240	4.3	51.2
Mahindra & Mahindra Financial	800	ADD	81,706	1,843	102	47.5	60.8	71.7	32.4	28.1	17.8	16.8	13.2	11.2	—	—	—	3.4	2.9	2.4	1.3	1.6	1.9	22.8	22.6	22.4	800	(0.0)	2.8
Oriental Bank of Commerce	368	ADD	107,354	2,422	292	51.2	56.8	63.7	13.0	11.0	12.2	7.2	6.5	5.8	—	—	—	1.1	0.9	0.8	2.8	3.1	3.5	15.5	14.2	14.4	450	22.3	5.9
PFC	237	REDUCE	271,964	6,135	1,148	22.8	27.3	32.4	11.0	19.7	19.0	10.4	8.7	7.3	—	—	—	1.8	1.6	1.4	1.9	2.3	2.7	18.3	19.0	19.5	250	5.5	4.0
Punjab National Bank	1,206	BUY	382,139	8,620	317	137.6	165.6	202.2	11.1	20.3	22.1	8.8	7.3	6.0	—	—	—	1.9	1.6	1.3	2.3	2.8	3.4	23.8	23.8	24.2	1,500	24.4	7.6
Reliance Capital	602	ADD	148,201	3,343	246	6.6	17.0	27.9	(49.8)	159.7	63.6	91.8	35.3	21.6	—	—	—	2.1	2.1	2.0	0.4	1.1	1.9	2.3	5.9	9.3	620	3.0	44.0
Rural Electrification Corp.	240	REDUCE	237,023	5,347	987	25.5	29.2	33.3	25.9	14.5	13.8	9.4	8.2	7.2	—	—	—	1.9	1.6	1.4	3.2	3.7	4.2	21.2	21.2	21.0	275	14.6	20.4
Shriram Transport	825	ADD	184,191	4,155	223	56.1	66.8	81.0	43.2	19.1	21.3	14.7	12.4	10.2	—	—	—	4.0	3.3	2.6	1.4	1.6	2.0	28.9	27.7	27.3	800	(3.1)	6.4
SKS Microfinance	519	REDUCE	39,124	883	75	24.2	36.5	62.3	(10.3)	50.9	70.8	21.5	14.2	8.3	—	—	—	2.1	1.8	1.5	—	—	—	12.6	13.5	19.5	700	34.8	5.7
State Bank of India	2,795	BUY	1,774,592	40,031	635	175.2	225.2	272.1	21.3	28.6	20.8	16.0	12.4	10.3	—	—	—	2.4	2.1	1.8	1.1	1.2	1.3	15.8	17.7	18.4	3,300	18.1	157.7
Union Bank	334	BUY	174,917	3,946	524	36.5	48.2	58.4	(11.0)	32.0	21.1	9.1	6.9	5.7	—	—	—	1.6	1.3	1.1	1.5	1.9	2.3	19.3	20.8	21.1	420	25.9	4.4
Yes Bank	331	BUY	112,464	2,537	340	21.1	26.3	33.1	40.4	24.7	25.9	15.7	12.6	10.0	—	—	—	3.0	2.5	2.0	0.6	0.8	1.0	21.0	21.7	22.4	420	26.8	19.9
Banks/Financial Institutions		Attractive	9,419,134	212,478					24.0	21.5	21.0	15.0	12.3	10.2	—	—	—	2.4	2.1	1.8	1.4	1.6	1.9	16.1	17.0	17.7			
Cement																													
ACC	1,107	REDUCE	207,974	4,691	188	51.7	68.4	82.6	(37.9)	32.4	20.7	21.4	16.2	13.4	12.4	8.7	6.9	3.0	2.7	2.3	2.1	2.1	2.1	16.4	19.3	19.9	1,000	(9.7)	8.8
Ambuja Cements	154	SELL	235,055	5,302	1,522	7.9	9.3	11.6	(0.7)	16.6	25.3	19.4	16.7	13.3	12.0	9.1	6.9	3.0	2.7	2.4	1.3	1.4	1.5	16.8	17.4	19.2	130	(15.8)	6.6
Grasim Industries	2,417	BUY	221,607	4,999	92	227.2	294.9	349.4	(24.5)	29.8	18.5	10.6	8.2	6.9	5.8	4.5	3.5	1.6	1.3	1.1	1.4	1.4	1.4	15.6	17.5	17.8	3,000	24.1	5.8
India Cements	102	REDUCE	31,194	704	307	3.6	12.9	14.1	(63.7)	254.3	9.1	27.9	7.9	7.2	11.6	5.1	4.1	0.7	0.7	0.6	3.1	3.1	3.1	2.8	9.8	9.9	100	(2.1)	2.6
Shree Cement	2,020	REDUCE	70,383	1,588	35	66.7	180.8	217.7	(68.0)	171.3	20.4	30.3	11.2	9.3	8.2	4.2	3.0	3.5	2.8	2.2	0.5	0.5	0.5	12.2	27.9	26.			

Kotak Institutional Equities: Valuation summary of key Indian companies

	20-Apr-11		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	shares (mn)	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	(Rs)	(%)	(US\$ mn)
Consumer products																													
Asian Paints	2,569	REDUCE	246,399	5,558	96	82.0	96.3	113.7	14.7	17.4	18.1	31.3	26.7	22.6	20.7	17.2	14.1	12.2	9.9	7.6	1.4	1.6	1.1	44.7	42.0	38.6	2,600	1.2	5.9
Colgate-Palmolive (India)	910	SELL	123,699	2,790	136	29.5	34.3	39.3	(5.2)	16.2	14.7	30.8	26.5	23.1	26.4	22.8	19.1	33.0	28.7	23.4	2.4	2.8	3.0	114.5	115.7	111.5	780	(14.2)	2.7
Dabur India	103	ADD	178,227	4,020	1,731	3.2	3.8	4.3	11.2	17.0	14.4	31.9	27.3	23.9	23.5	19.5	16.6	13.1	10.2	8.1	1.1	1.3	1.5	48.9	42.3	38.1	110	6.8	3.6
GlaxoSmithkline Consumer (a)	2,273	ADD	95,592	2,156	42	71.3	85.0	102.0	28.8	19.2	20.0	31.9	26.7	22.3	22.8	19.4	15.8	10.2	8.3	6.8	2.2	1.2	1.5	32.2	33.4	32.6	2,450	7.8	0.7
Godrej Consumer Products	382	ADD	123,466	2,785	324	13.8	17.1	20.7	21.7	23.7	21.3	27.7	22.4	18.4	20.9	16.5	13.3	6.8	6.3	5.8	0.8	0.8	0.8	32.3	29.4	32.8	440	15.3	1.3
Hindustan Unilever	284	SELL	619,817	13,982	2,182	9.8	11.3	12.8	4.1	15.4	13.3	28.9	25.1	22.1	24.2	20.5	17.7	20.9	18.1	15.8	2.8	3.3	3.7	77.2	77.5	76.4	255	(10.2)	13.8
ITC	191	ADD	1,455,489	32,833	7,636	6.6	8.0	9.1	23.6	21.9	13.7	29.0	23.8	21.0	19.4	16.0	13.6	8.2	7.1	6.2	1.4	2.0	2.4	32.3	33.2	32.8	205	7.6	33.7
Jubilant Foodworks	681	SELL	43,470	981	64	11.8	14.9	19.9	110.1	26.2	33.9	57.7	45.7	34.2	35.2	24.3	18.4	22.6	15.1	10.5	—	—	—	48.6	39.6	36.2	470	(31.0)	11.6
Jyothy Laboratories	218	ADD	17,546	396	81	10.4	12.7	14.7	(5.4)	21.3	15.8	20.9	17.2	14.8	15.2	11.6	9.1	2.5	2.3	2.1	1.6	2.2	2.7	11.8	13.8	—	240	10.3	1.0
Marico	137	ADD	83,539	1,884	612	5.1	5.7	6.6	14.0	12.9	15.0	26.9	23.9	20.8	19.8	16.4	14.0	9.2	7.0	5.5	0.7	0.7	0.8	39.8	33.6	30.0	145	6.1	2.2
Nestle India (a)	3,750	REDUCE	361,520	8,155	96	86.8	101.0	123.8	16.7	16.4	22.6	43.2	37.1	30.3	28.7	24.2	19.9	42.3	35.9	30.4	1.3	1.9	2.4	116.5	104.7	108.7	3,000	(20.0)	3.3
Tata Global Beverages	102	ADD	62,953	1,420	618	5.2	5.9	6.9	(14.6)	14.3	17.0	19.7	17.2	14.7	9.7	8.8	7.4	1.2	1.2	1.1	1.7	1.9	2.2	8.4	9.1	10.0	110	8.1	3.7
Titan Industries	4,058	ADD	180,110	4,063	44	107.1	125.9	145.6	87.1	17.5	15.6	37.9	32.2	27.9	27.6	22.9	18.2	15.6	10.9	8.2	0.3	0.3	0.4	50.3	39.8	33.5	4,700	15.8	35.2
United Spirits	1,025	ADD	128,684	2,903	126	29.9	40.7	53.8	9.5	36.4	31.9	34.3	25.1	19.1	15.6	13.2	11.3	3.1	2.8	2.5	0.2	0.3	0.4	9.5	11.7	13.8	1,300	26.9	11.1
Consumer products		Cautious	3,720,510	83,928					17.3	19.5	16.1	30.7	25.7	22.1	21.1	17.6	14.8	9.2	8.0	6.9	1.5	1.9	2.2	30.1	31.1	31.2			
Constructions																													
IVRCL	90	BUY	24,004	541	267	7.0	8.9	12.6	(11.7)	28.1	40.7	12.9	10.0	7.1	7.9	6.7	5.4	1.2	1.1	0.9	0.4	0.4	0.4	9.6	11.2	13.9	125	39.0	10.2
Nagarjuna Construction Co.	111	BUY	28,596	645	257	7.2	9.7	13.1	1.2	34.3	35.4	15.4	11.5	8.5	9.7	8.0	6.2	1.2	1.1	1.0	1.8	1.8	1.8	8.0	10.1	12.5	160	43.6	2.7
Punj Lloyd	73	REDUCE	24,841	560	340	1.3	8.5	12.6	(137.2)	567.0	48.2	57.4	8.6	5.8	8.4	6.0	4.9	0.8	0.7	0.7	0.1	1.0	1.5	1.4	9.0	12.2	90	23.0	11.3
Sadhav Engineering	141	BUY	21,173	478	150	7.7	8.7	10.0	50.7	12.5	14.4	18.2	16.2	14.2	10.8	9.4	8.1	3.3	2.9	2.4	0.4	0.4	0.4	18.1	17.8	17.0	175	24.0	0.6
Construction		Attractive	98,614	2,225					55.2	70.8	37.8	18.6	10.9	7.9	8.9	7.0	5.7	1.2	1.1	1.0	0.7	1.0	1.1	6.5	10.2	12.5			
Energy																													
Aban Offshore	683	BUY	29,702	670	44	104.6	107.6	116.9	(1.9)	2.9	8.7	6.5	6.3	5.8	6.7	6.6	6.4	1.4	1.2	1.0	0.5	0.6	0.7	26.1	20.4	18.0	815	19.4	18.2
Bharat Petroleum	618	ADD	223,305	5,037	362	51.9	46.5	65.7	(9.9)	(10.4)	41.2	11.9	13.3	9.4	9.1	9.8	7.1	1.5	1.4	1.3	2.6	2.5	3.5	12.2	10.1	13.2	655	6.0	9.1
Cairn India	349	RS	661,759	14,928	1,897	33.3	56.8	58.1	501.7	70.3	2.3	10.5	6.1	6.0	8.1	4.7	4.1	1.7	1.4	1.3	—	4.3	5.7	17.1	25.2	22.7	—	—	60.1
Castrol India (a)	474	SELL	117,087	2,641	247	19.8	20.5	21.1	28.7	3.2	3.1	23.9	23.1	22.5	15.1	14.9	14.5	22.7	21.0	20.1	3.2	3.4	3.6	100.5	94.4	91.5	370	(21.9)	0.7
GAIL (India)	479	REDUCE	607,348	13,701	1,268	29.3	34.7	43.6	18.5	18.4	25.4	16.3	13.8	11.0	10.4	10.0	7.7	2.9	2.5	2.1	1.8	2.1	2.9	18.1	18.6	19.8	510	6.5	12.6
GSPL	100	REDUCE	56,498	1,274	562	8.5	8.6	10.4	16.8	0.9	20.9	11.8	11.7	9.6	7.3	6.8	5.9	2.6	2.3	2.1	2.1	3.4	5.2	24.9	21.1	22.6	90	(10.4)	3.0
Hindustan Petroleum	379	BUY	128,502	2,899	339	46.5	35.0	49.9	(9.9)	(24.8)	42.8	8.2	10.8	7.6	3.3	3.6	2.7	0.9	0.8	0.8	3.9	2.9	4.1	10.6	7.4	9.8	420	10.8	8.0
Indian Oil Corporation	334	BUY	810,571	18,285	2,428	35.1	33.2	39.6	(28.5)	(5.4)	19.1	9.5	10.0	8.4	7.1	7.1	5.5	1.4	1.3	1.1	3.2	3.0	3.6	14.2	12.4	13.5	390	16.8	5.7
Oil India	1,311	BUY	315,320	7,113	240	140.9	151.2	181.7	22.3	7.3	20.2	9.3	8.7	7.2	4.2	3.7	2.9	1.9	1.6	1.4	3.4	3.8	4.6	18.9	17.9	18.9	1,550	18.2	1.9
Oil & Natural Gas Corporation	295	BUY	2,525,598	56,973	8,556	28.6	34.9	39.6	24.5	22.3	13.3	10.3	8.4	7.5	4.2	3.5	3.0	1.8	1.6	1.4	4.7	4.1	4.7	16.5	18.5	18.5	360	22.0	28.9
Petronet LNG	131	SELL	98,025	2,211	750	8.1	8.9	8.6	49.3	10.9	(3.7)	16.2	14.6	15.2	9.7	9.1	9.2	3.2	2.8	2.4	1.9	2.3	2.3	20.4	19.3	16.1	100	(23.5)	4.9
Reliance Industries	1,026	REDUCE	3,055,130	68,918	2,978	62.7	66.3	71.9	26.3	5.8	8.4	16.4	15.5	14.3	8.8	7.5	6.6	1.9	1.7	1.5	0.8	1.0	1.2	13.2	12.6	12.4	1,000	(2.5)	128.5
Energy		Cautious	8,628,845	194,650					20.5	15.2	12.9	11.9	10.3	9.2	6.6	5.6	4.7	1.8	1.6	1.4	2.4	2.7	3.2	15.1	15.5	15.7			
Industrials																													
ABB	833	REDUCE	176,446	3,980	212	9.8	26.0	31.4	(41.6)	165.6	20.7	85.1	32.1	26.6	59.0	21.1	17.2	6.9	5.8	4.9	0.4	0.4	0.4	8.3	19.7	20.0	660	(20.7)	2.6
BGR Energy Systems	569	REDUCE	40,946	924	72	40.9	46.4	46.0	46.3	13.4	(0.9)	13.9	12.2	12.4	8.6	7.4	6.9	4.4	3.4	2.8	1.4	1.6	1.6	36.0	31.6	25.2	600	5.5	7.1
Bharat Electronics	1,861	REDUCE	148,864	3,358	80	101.3	124.9	145.8	5.4	23.2	16.8	18.4	14.9	12.8	10.6	8.0	6.6	2.9	2.5	2.2	1.3	1.3	1.3	17.0	18.3	18.5	1,875	0.8	1.1
Bharat Heavy Electricals	2,151	REDUCE	1,053,153	23,757	490	115.5	140.1	156.2	31.4	21.3	11.5	18.6	15.4	13.8	12.8	10.1	8.7	5.2	4.2	3.4	1.1	1.4	1.6	31.3	30.2	27.1	2,400	11.6	39.8
Crompton Greaves	281	BUY	180,326	4,068	642	14.4	16.2	18.9	12.0	12.5	16.5	19.5	17.4	14.9	12.0	10.2	8.4	5.5	4.3	3.5	0.7	0.7	0.9	31.9	27.8	25.8	310	10.3	7.5
Larsen & Toubro	1,706	REDUCE	1,032,562	23,293	605	73.0	82.0	96.4	26.0	12.3	17.6	23.4	20.8	17.7	14.0	11.9	10.2	3.8	3.3	2.8	0.7	0.8	0.8	17.9	17.0	17.2	1,775	4.0	78.4
Maharashtra Seamless	356	ADD	25,109	566	71	44.2	39.3	43.7	14.3	(10.9)	11.1	8.1	9.1	8.1	3.8	4.0	3.3	1.0	0.9	0.9	2.2	2.2	2.5	12.8	10.5	10.9	418	17.4	0.4
Siemens	856	REDUCE	288,457	6,507	337	22.4	27.4	33.2	39.5	21.9	21.3	38.1	31.3	25.8	22.5	20.2	16.2	8.9	7.3	6.0	0.6	0.6	0.8	25.2	25.6	25.5	735	(14.1)	14.5
Suzlon Energy	57	REDUCE	91,480	2,064	1,594	(3.7)	3.5	7.1	(40.3)	(196.0)	102.1	(15.6)	16.3	8.0	19.4	8.4	6.2	1.3	1.3	1.1	—	—	0.3	(8.6)	7.9	14.8	45	(21.6)	27.8
Thermax	667																												

Kotak Institutional Equities: Valuation summary of key Indian companies

	20-Apr-11		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target		
Company	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)
Media																													
DB Corp	254	BUY	46,067	1,039	182	12.6	14.0	17.0	18.8	10.8	21.6	20.1	18.1	14.9	11.8	10.8	8.8	5.8	5.0	4.3	1.6	2.4	3.2	31.8	29.7	31.2	325	28.2	0.2
DishTV	68	ADD	72,329	1,632	1,062	(1.8)	(0.4)	1.0	(27.3)	(79.2)	(379.6)	(37.9)	(182.4)	65.3	34.2	17.1	11.1	34.5	42.6	25.8	—	—	—	(62.5)	(20.9)	49.2	70	2.8	4.0
Eros International	145	BUY	13,447	303	93	12.6	16.6	20.9	30.1	32.5	25.3	11.5	8.7	7.0	8.0	6.4	4.7	1.9	1.6	1.3	—	—	—	24.7	19.8	20.1	200	37.9	0.5
Hindustan Media Ventures	144	BUY	10,534	238	73	7.9	10.0	13.0	220.4	27.5	29.7	18.3	14.3	11.1	13.8	11.2	9.2	2.4	2.1	1.8	5.2	7.0	9.8	23.7	16.4	18.3	200	39.3	0.1
HT Media	155	ADD	36,460	822	235	7.0	8.5	11.2	15.4	21.0	31.9	22.0	18.2	13.8	10.1	8.1	6.3	2.6	2.5	2.3	1.3	2.6	4.5	13.8	13.9	17.3	170	9.6	0.3
Jagran Prakashan	123	BUY	37,162	838	301	7.0	7.9	9.3	19.2	13.4	18.4	17.7	15.6	13.2	10.3	9.3	7.7	5.5	5.0	4.6	3.2	4.1	4.9	32.4	33.4	36.1	155	25.6	0.5
Sun TV Network	423	REDUCE	166,637	3,759	394	18.3	22.7	27.2	39.7	24.1	20.2	23.2	18.7	15.5	13.8	11.2	9.2	7.2	6.1	5.2	1.8	2.4	3.3	34.2	35.5	36.4	450	6.4	7.3
Zee Entertainment Enterprises	134	ADD	131,101	2,957	978	5.8	7.0	8.1	9.1	21.5	15.7	23.1	19.0	16.4	15.7	12.3	10.5	3.1	3.0	2.9	1.0	1.1	1.3	14.0	16.3	18.2	145	8.2	6.6
Media		Neutral	513,737	11,589					44.0	31.3	26.9	27.4	20.9	16.4	14.3	11.3	9.0	4.8	4.4	3.9	1.3	1.7	2.4	17.5	20.9	23.9			
Metals & Mining																													
Coal India	367	BUY	2,315,263	52,228	6,316	17.0	24.0	28.0	11.7	41.0	16.8	21.5	15.3	13.1	13.6	10.0	8.2	6.8	5.3	4.2	1.4	2.0	2.3	35.1	39.0	36.0	390	6.4	30.8
Hindalco Industries	214	ADD	410,266	9,255	1,914	16.2	16.9	18.6	(18.8)	4.3	9.8	13.2	12.7	11.5	7.6	7.9	7.5	1.7	1.5	1.4	0.6	0.6	0.6	13.6	12.7	12.4	250	16.6	46.7
Hindustan Zinc	147	BUY	622,131	14,034	4,225	10.5	13.1	14.6	9.7	24.9	11.6	14.0	11.2	10.1	8.9	5.8	4.5	2.7	2.2	1.8	0.4	0.4	0.4	22.0	22.3	20.3	160	8.7	5.7
Jindal Steel and Power	677	REDUCE	630,213	14,216	931	41.0	48.0	55.6	7.1	17.3	15.6	16.5	14.1	12.2	11.2	9.2	7.5	4.2	3.2	2.5	0.3	0.3	0.3	29.2	26.0	23.5	640	(5.4)	20.5
JSW Steel	970	REDUCE	240,800	5,432	248	67.1	99.2	110.9	(16.5)	47.9	11.8	14.5	9.8	8.7	8.5	5.7	5.1	1.4	1.1	0.9	0.9	1.0	1.0	11.6	12.1	11.3	1,000	3.1	44.0
National Aluminium Co.	96	SELL	247,286	5,578	2,577	4.6	5.1	6.2	50.5	12.0	20.2	20.9	18.7	15.6	11.7	10.1	8.0	2.2	2.0	1.9	1.3	1.3	1.3	10.9	11.3	12.5	76	(20.8)	1.9
Sesa Goa	308	REDUCE	274,429	6,191	890	53.2	60.6	57.2	79.9	13.9	(5.5)	5.8	5.1	5.4	3.5	5.9	5.7	2.0	1.5	1.1	1.2	1.2	1.2	36.4	34.0	23.7	275	(10.8)	25.0
Sterile Industries	175	BUY	587,449	13,252	3,362	13.7	19.7	22.7	13.8	44.3	14.9	12.8	8.9	7.7	8.1	4.8	3.9	1.4	1.2	1.1	0.5	0.5	0.5	11.8	15.0	14.9	200	14.4	21.1
Tata Steel	625	BUY	632,795	14,275	1,013	64.4	69.7	87.5	(2,051.8)	8.2	25.6	9.7	9.0	7.1	7.0	6.0	5.0	1.8	1.5	1.3	1.2	—	—	22.4	18.4	19.5	710	13.7	89.9
Metals & Mining		Attractive	5,960,633	134,460					37.0	25.7	14.1	14.6	11.6	10.2	9.0	7.2	6.1	2.8	2.3	1.9	1.0	1.1	1.2	18.9	19.6	18.8			
Pharmaceutical																													
Apollo Hospitals	477	BUY	61,436	1,386	129	14.0	19.0	22.1	28.2	35.7	16.0	34.0	25.1	21.6	14.9	11.9	10.4	3.4	3.0	2.6	—	—	—	10.4	12.1	12.2	565	18.4	1.9
Biocon	371	BUY	74,280	1,676	200	18.9	22.7	25.9	27.7	20.0	13.8	19.6	16.3	14.3	11.4	9.9	8.3	3.6	3.0	2.6	—	—	—	19.9	20.4	19.7	445	19.8	4.1
Cipla	322	REDUCE	258,581	5,833	803	12.1	16.0	18.5	(11.9)	32.3	15.6	26.7	20.2	17.4	21.3	15.7	13.1	3.9	3.4	2.9	0.8	0.8	0.8	15.4	17.9	—	300	(6.8)	10.4
Cadila Healthcare	839	ADD	171,825	3,876	205	33.3	38.2	47.7	34.9	14.7	24.7	25.2	22.0	17.6	20.4	16.3	13.2	7.9	6.2	4.9	0.8	0.9	1.1	35.9	31.6	31.0	880	4.9	1.8
Dishman Pharma & chemicals	102	SELL	8,276	187	81	8.8	8.2	9.8	(39.2)	(6.4)	19.1	11.6	12.4	10.4	10.4	7.8	6.9	1.0	0.9	0.9	—	—	—	8.7	7.6	8.5	85	(16.5)	0.4
Divi's Laboratories	692	REDUCE	91,769	2,070	133	26.8	37.1	45.7	3.9	38.6	23.4	25.9	18.7	15.1	20.4	13.6	10.8	5.2	4.4	3.6	—	—	—	21.7	25.6	26.3	700	1.1	2.3
GlaxoSmithkline Pharmaceuticals (a)	2,114	REDUCE	179,075	4,040	85	68.3	79.5	90.4	15.5	16.4	13.8	31.0	26.6	23.4	20.9	17.6	15.2	9.2	8.4	7.7	—	—	—	31.0	33.0	34.4	2,000	(5.4)	1.9
Glenmark Pharmaceuticals	293	REDUCE	82,065	1,851	280	17.6	20.6	25.9	38.3	17.3	25.9	16.7	14.2	11.3	14.9	11.8	9.7	2.9	2.5	2.1	—	—	—	18.4	18.2	19.3	330	12.6	4.4
Jubilant Life Sciences	198	REDUCE	31,486	710	159	14.6	16.9	(0.6)	(45.1)	15.9	(103.4)	13.6	11.7	(348.1)	10.7	8.6	7.4	1.5	1.3	1.2	1.0	1.3	1.8	11.9	12.1	—	220	11.3	0.9
Lupin	417	ADD	185,462	4,184	445	17.6	22.4	25.8	15.0	26.9	15.3	23.7	18.7	16.2	19.5	15.2	12.9	5.8	4.7	3.8	0.8	1.1	1.1	27.3	28.0	—	465	11.5	9.9
Ranbaxy Laboratories	466	SELL	199,592	4,502	428	23.4	20.3	21.9	231.8	(13.3)	7.6	19.9	22.9	21.3	14.6	15.3	14.6	3.6	3.1	2.7	—	—	—	19.5	13.9	13.0	365	(21.7)	9.6
Sun Pharmaceuticals	446	ADD	461,774	10,417	1,036	17.4	19.7	24.1	33.4	13.1	22.6	25.6	22.6	18.5	21.4	17.6	14.0	4.8	4.0	3.3	0.6	0.6	0.6	21.0	19.9	20.5	480	7.6	11.1
Pharmaceuticals		Cautious	2,180,453	49,187					17.5	16.9	4.3	25.2	21.5	20.7	17.0	13.9	13.5	3.7	3.1	3.0	0.5	0.5	0.5	14.5	14.6	14.3			
Property																													
DLF	243	ADD	416,426	9,394	1,714	10.0	13.8	22.4	(5.5)	37.3	62.7	24.2	17.6	10.8	15.1	12.5	7.9	1.3	1.3	1.2	1.2	2.0	2.0	5.5	7.3	11.1	265	9.1	42.0
Housing Development & Infrastructure	184	ADD	81,211	1,832	441	23.0	28.4	34.2	44.0	23.9	20.1	8.0	6.5	5.4	9.0	5.5	3.8	0.9	0.7	0.7	—	—	—	11.8	12.5	13.1	180	(2.3)	26.1
Indiabulls Real Estate	150	RS	60,070	1,355	402	3.1	8.5	15.5	(865.5)	178.9	81.5	49.0	17.6	9.7	64.4	19.2	8.5	0.5	0.5	0.5	—	—	—	1.0	2.9	5.1	—	—	13.4
Mahindra Life Space Developer	393	BUY	16,044	362	41	21.0	29.7	35.0	9.8	41.1	18.0	18.7	13.2	11.2	15.8	9.3	7.1	1.6	1.4	1.3	1.0	1.1	1.3	8.8	11.4	12.2	435	10.6	0.3
Oberoi Realty	253	BUY	83,243	1,878	330	18.7	24.9	44.0	36.9	32.7	77.2	13.5	10.2	5.7	9.4	6.2	3.0	2.4	2.0	1.5	0.4	0.6	1.0	23.3	21.5	29.8	305	20.8	0.4
Phoenix Mills	201	BUY	29,070	656	145	6.1	7.6	11.6	48.6	24.2	51.4	32.7	26.3	17.4	24.4	18.7	13.0	1.8	1.7	1.6	0.7	1.0	1.0	5.7	6.7	9.6	300	49.5	0.5
Puravankara Projects	105	REDUCE	22,463	507	213	7.3	8.8	15.0	7.6	19.9	70.6	14.4	12.0	7.0	16.3	11.7	6.2	1.5	1.3	1.1	1.9	1.9	—	10.5	11.6	17.4	100	(5.0)	0.1
Sobha Developers	300	BUY	29,400	663	98	18.8	24.0	31.9	33.4	27.9	33.0	16.0	12.5	9.4	12.4	9.6	7.0	1.5	1.4	1.2	0.4	0.5	—	10.1	11.7	13.7	380	26.8	2.1
Unitech	40	RS	107,852	2,433	2,666	2.4	3.9	5.3	(21.3)	62.1	37.1	16.9	10.5	7.6	17.8	10.0	6.7	0.9	0.8	0.7	—	—	—	5.6	8.3	10.3	—	—	42.4
Property		Cautious	845,779	19,079					15.2	42.0	51.2	18.6	13.1	8.7	14.7	10.4	6.5	1.1	1.1	1.0	0.8	1.2	1.2	6.1	8.1	11.1			

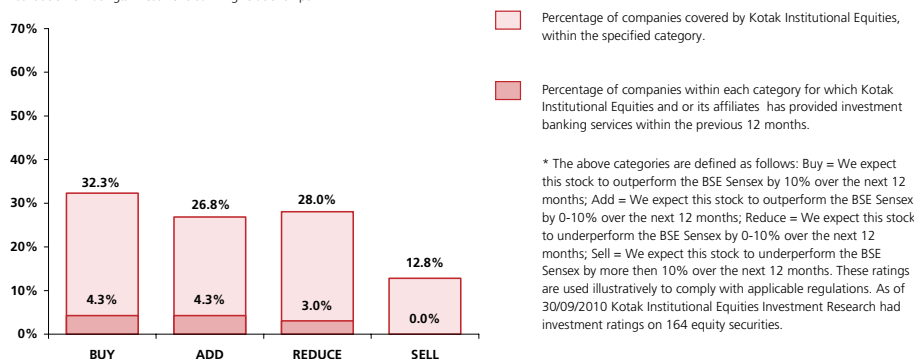
Kotak Institutional Equities: Valuation summary of key Indian companies

	20-Apr-11		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target		
Company	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	shares (mn)	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)
Sugar																													
Bajaj Hindustan	81	SELL	15,567	351	191	(7.9)	0.2	6.4	(343.6)	(102.5)	3,238.8	(10.3)	421.8	12.6	10.7	6.4	4.7	0.7	0.7	0.7	0.9	0.9	0.9	(7.1)	0.2	5.8	80	(1.7)	3.3
Balrampur Chini Mills	76	ADD	19,475	439	257	0.8	8.3	8.4	(89.9)	974.0	1.0	97.9	9.1	9.0	12.8	5.7	4.8	1.5	1.3	1.1	0.6	0.6	0.6	1.5	14.8	13.1	90	18.7	2.8
Shree Renuka Sugars	75	REDUCE	50,268	1,134	670	10.5	4.6	7.0	214.4	(56.2)	53.4	7.2	16.3	10.7	4.9	3.3	2.3	2.0	1.6	1.4	1.3	1.3	1.3	34.4	11.9	16.3	75	(0.1)	15.1
Sugar		Cautious	85,310	1,924					19.1	(8.3)	54.5	14.9	16.2	10.5	7.5	4.5	3.2	1.4	1.3	1.1	1.1	1.1	1.1	9.6	7.8	10.7			
Technology																													
HCL Technologies	523	REDUCE	368,609	8,315	705	23.1	30.8	36.4	31.9	33.4	18.1	22.6	17.0	14.4	13.8	10.6	8.8	4.7	4.0	3.3	1.4	1.5	1.5	22.1	25.4	25.5	490	(6.3)	12.6
Hexaware Technologies	70	BUY	20,341	459	291	3.0	5.7	6.5	(36.5)	90.9	14.4	23.5	12.3	10.8	18.1	9.0	7.3	2.1	1.9	1.7	2.1	1.8	2.1	9.4	16.1	16.3	68	(2.7)	3.9
Infosys Technologies	2,907	BUY	1,668,790	37,645	574	119.7	144.8	172.6	10.5	20.9	19.2	24.3	20.1	16.8	16.7	13.6	11.2	6.4	5.3	4.4	2.1	1.5	1.8	28.0	29.0	28.7	3,450	18.7	98.9
Mahindra Satyam	74	REDUCE	86,965	1,962	1,176	3.1	4.3	5.6	24.7	37.4	32.5	23.9	17.4	13.1	14.7	8.8	6.3	4.1	3.9	3.2	—	—	—	18.5	23.2	26.9	70	(5.3)	10.7
Mindtree	386	REDUCE	15,905	359	41	23.8	33.8	38.4	(54.5)	42.3	13.5	16.3	11.4	10.1	8.2	5.6	4.7	2.1	1.8	1.6	0.6	0.9	3.0	13.6	16.8	16.7	370	(4.3)	0.9
Mphasis BFL	459	SELL	96,722	2,182	211	51.8	37.3	38.1	18.8	(28.0)	2.2	8.9	12.3	12.0	7.5	9.1	7.8	2.9	2.4	2.1	0.9	1.0	1.1	38.6	21.6	18.6	420	(8.5)	11.7
Polaris Software Lab	204	SELL	20,339	459	100	19.5	19.5	21.5	26.8	0.3	9.8	10.5	10.4	9.5	8.5	7.1	6.5	2.0	1.7	1.5	1.8	1.9	2.0	20.5	17.7	17.0	175	(14.2)	5.8
TCS	1,219	BUY	2,385,240	53,806	1,957	44.4	54.0	62.7	26.4	21.6	16.1	27.4	22.6	19.4	20.4	15.9	13.3	9.3	7.6	6.3	1.5	1.8	2.1	37.4	37.2	35.6	1,350	10.8	50.1
Tech Mahindra	724	REDUCE	89,679	2,023	124	65.1	65.9	71.2	(0.1)	1.3	8.1	11.1	11.0	10.2	9.8	9.1	8.4	2.5	2.1	1.9	0.3	0.3	1.4	26.3	22.1	20.8	720	(0.5)	5.4
Wipro	464	ADD	1,134,397	25,590	2,447	21.7	25.6	28.4	15.2	17.7	11.2	21.4	18.1	16.3	15.7	12.7	11.1	4.7	3.9	3.3	0.9	1.2	1.3	24.4	23.7	22.0	525	13.2	16.2
Technology		Attractive	5,966,731	134,598					17.4	18.1	15.5	23.0	19.5	16.9	16.6	13.4	11.3	6.0	5.0	4.2	1.6	1.5	1.8	26.2	25.8	25.0			
Telecom																													
Bharti Airtel	381	REDUCE	1,445,177	32,600	3,798	17.1	21.3	24.9	(27.7)	24.6	16.7	22.3	17.9	15.3	10.3	8.1	6.8	3.0	2.5	2.2	—	—	—	14.3	15.3	15.4	305	(19.9)	36.5
IDEA	68	REDUCE	225,376	5,084	3,300	2.4	1.2	2.6	(11.2)	(48.9)	107.7	28.1	55.0	26.5	9.5	8.3	6.7	1.9	1.8	1.7	—	—	—	6.9	3.5	6.8	55	(19.5)	7.2
MTNL	48	SELL	30,272	683	630	(10.4)	(9.1)	(8.4)	(33.7)	(11.9)	(8.1)	(4.6)	(5.3)	(5.7)	(0.5)	(0.7)	(0.9)	0.3	0.3	0.3	—	—	—	(6.1)	(5.7)	(5.5)	35	(27.2)	1.2
Reliance Communications	106	SELL	225,621	5,090	2,133	6.9	7.9	11.3	(65.2)	15.0	43.6	15.4	13.4	9.3	8.4	7.5	6.3	0.5	0.5	0.5	—	—	—	3.3	3.7	5.1	90	(14.9)	30.4
Tata Communications	259	REDUCE	73,744	1,664	285	15.2	15.7	15.9	8.2	3.5	1.5	17.1	16.5	16.2	7.8	7.4	7.0	1.0	1.0	1.0	2.9	3.3	3.5	5.5	5.5	5.4	225	(13.0)	2.3
Telecom		Cautious	2,000,189	45,120					(38.9)	17.9	25.7	23.4	19.9	15.8	9.9	8.1	6.8	1.6	1.5	1.4	0.1	0.1	0.1	6.9	7.6	8.7			
Utilities																													
Adani Power	117	ADD	254,297	5,736	2,180	2.8	16.5	20.0	252.0	500.1	20.7	42.3	7.0	5.8	35.6	6.6	4.8	4.0	2.5	1.8	—	—	—	9.9	44.1	35.8	140	20.0	3.7
CESC	311	BUY	38,805	875	125	36.6	42.7	51.6	5.8	16.8	20.7	8.5	7.3	6.0	5.4	6.2	5.9	0.8	0.8	0.6	1.5	1.7	1.9	10.2	10.8	11.6	459	47.8	0.8
JSW Energy	77	REDUCE	126,608	2,856	1,640	5.2	10.3	7.9	14.2	97.6	(22.8)	14.9	7.5	9.8	13.0	5.5	5.2	2.2	1.7	1.5	—	—	—	16.3	26.0	16.3	82	6.2	2.0
Lanco Infratech	42	BUY	93,144	2,101	2,223	3.1	4.9	5.1	44.5	59.8	3.1	13.6	8.5	8.3	12.1	7.9	7.7	2.2	1.7	1.4	—	—	—	17.9	22.0	18.1	65	55.1	10.6
NHPC	25	BUY	307,519	6,937	12,301	1.5	1.7	2.1	(19.4)	15.6	20.0	16.7	14.5	12.1	12.5	9.9	8.3	1.2	1.1	1.0	1.6	1.8	2.2	7.1	7.8	8.9	28	12.0	3.6
NTPC	187	REDUCE	1,541,490	34,773	8,245	10.1	11.9	13.5	(3.2)	17.6	12.8	18.4	15.7	13.9	16.8	12.9	11.9	2.2	2.1	1.9	1.9	2.2	2.5	12.6	13.7	14.2	195	4.3	8.6
Reliance Infrastructure	684	BUY	182,990	4,128	267	60.8	70.8	84.0	(1.9)	16.3	18.7	11.2	9.7	8.1	8.5	6.5	4.9	0.8	0.7	0.7	1.4	1.5	1.7	9.1	10.7	12.8	1,030	50.6	47.4
Reliance Power	129	SELL	361,294	8,150	2,805	2.9	4.0	2.5	0.1	38.4	(36.7)	45.1	32.6	51.4	243.9	52.4	20.4	2.2	2.1	2.0	—	—	—	5.2	6.6	4.0	115	(10.7)	12.9
Tata Power	1,326	ADD	327,413	7,386	247	70.7	84.4	110.6	11.3	19.4	31.0	18.8	15.7	12.0	13.0	12.0	8.7	2.3	2.1	1.8	1.1	1.1	1.3	13.0	14.0	16.2	1,415	6.7	8.6
Utilities		Cautious	3,233,559	72,943					3.4	41.2	11.6	19.1	13.5	12.1	17.3	11.4	9.4	1.9	1.7	1.5	1.2	1.4	1.6	10.0	12.7	12.7			
Others																													
Havells India	399	ADD	49,835	1,124	125	23.2	28.9	32.0	278.2	24.5	10.7	17.2	13.8	12.5	11.4	9.1	7.9	7.3	4.9	3.6	0.6	0.7	0.8	52.1	42.4	33.3	425	6.4	2.4
Jaiprakash Associates	101	BUY	223,317	5,038	2,214	5.1	5.6	5.4	188.8	11.6	(4.3)	20.0	17.9	18.7	13.4	11.6	11.2	2.3	2.1	1.9	—	—	—	12.2	12.1	10.6	135	33.9	32.0
Jet Airways	488	BUY	42,125	950	86	0.2	31.6	70.8	(100.3)	16,858	124.2	2,621.4	15.5	6.9	9.1	7.6	6.0	2.4	2.1	1.6	—	—	—	0.1	14.6	26.5	650	33.2	16.8
Sintex	174	SELL	47,410	1,069	272	14.8	16.1	18.1	22.1	9.0	12.6	11.8	10.8	9.6	9.5	8.3	7.5	1.9	1.6	1.4	0.7	0.8	0.8	16.0	14.9	14.4	140	(19.7)	5.5
SpiceJet	46	BUY	18,417	415	403	2.4	4.2	5.9	(4.2)	73.5	39.5	18.8	10.8	7.8	14.6	10.5	7.4	5.9	3.8	2.6	—	—	—	(653)	42.9	39.5	65	42.2	4.4
Tata Chemicals	379	REDUCE	92,255	2,081	243	26.8	35.4	44.2	1.5	31.9	24.8	14.1	10.7	8.6	6.7	5.1	4.1	1.7	1.5	1.3	2.5	2.5	3.2	16.9	19.3	—	370	(2.4)	3.4
United Phosphorus	160	BUY	74,113	1,672	462	12.9	17.6	20.7	8.3	37.3	17.1	12.5	9.1	7.8	6.4	5.2	4.3	1.9	1.6	1.4	1.2	1.2	1.6	17.5	19.4	19.1	220	37.3	4.8
Others			547,471	12,350					118.5	32.0	19.2	17.3	13.1	11.0	10.4	8.9	8.1	2.3	2.0	1.7	0.7	0.7	0.9	13.1	14.9	15.3			
KS universe (b)			50,880,943	1,147,777					20.7	21.7	17.0	16.9	13.9	11.9	10.7	8.7	7.3	2.7	2.3	2.0	1.4	1.5	1.8	15.7	16.7	17.0			
KS universe (b) ex-Energy			42,252,098	953,126					20.7	23.7	18.2	18.5	15.0	12.7	12.7	10.0	8.4	2.9	2.5	2.2	1.1	1.3	1.5	15.9	17.0	17.4			
KS universe (d) ex-Energy & ex-Commodities			35,245,927	795,081					19.7	22.4	19.0	19.4	15.9	13.3	14.1	11.2	9.3	3.0	2.6	2.3	1.2	1.3	1.5	15.5	16.6	17.1			

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