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#### Results

**Axis Bank:** Steady quarter; no big deviations

**LIC Housing Finance:** Strong quarter; some concerns given demanding valuations

#### Update

**Technology:** Tier-II companies - margin pressure showing up

### News Round-up

- ▶ GMR GMRI IN) has put in an aggressive bid to emerge as a frontrunner for the controlling stake in CIC Energy, the Canadian resources company. The bid, if successful, could value the acquisition at a little over USD 500 mn, which many believe could well see another bidding war among Indian and Chinese mining and power companies. (BSTD)
- ▶ Sadbhav Engineering (SADE IN) has bagged USD 317 mn highway projects from National Highways Authority of India for widening and maintenance of roads in Madhya Pradesh and Maharashtra. (BSTD)
- ▶ Honda Motor says it is evaluating proposals for a deal which could even see it exiting from its joint venture with the Munjals of the Hero Honda Group in Hero Honda (HH IN). The proposal was made by the Munjals to Honda Motor. The latter's technology licensing agreement for the JV is to end only in 2014. (BSTD)
- ▶ Godrej CP (GCPL IN) board approves merger of Godrej Household Products (GHPL) with itself. The merger subsequent to GCPL's acquisition of 51% stake in Godrej Sara Lee (GSLL) from erstwhile partner Sara Lee Corp. (FNLE)
- ▶ Bharti Enterprises is in talks with Bank of India (BOI IN) to sell its 25% stake in the domestic asset management JV with AXA Investment Managers, paving the way for Bank of India's re-entry into the 41 member local mutual fund industry. (ECNT)
- ▶ Reliance Infrastructure (RELI IN) has tied-up loans to the tune of USD 1.57 bn for the development of Mumbai Metro Phase-II. (BSTD)
- ▶ Mahindra Satyam's (SCS IN) ADR were delisted from the New York Stock Exchange after the co. expressed its inability to comply with US securities rules for filing restated US-GAAP financial statements for the period ended March 31, 2009. (ECNT)
- ▶ GlaxoSmithKline (GLXO IN) is making India a major manufacturing hub for its free global drug supply to treat neglected diseases. (BSTD)
- ▶ Godrej Consumers (GCPL IN) will introduce air freshener products from its Indonesian acquisition. (BSTD)
- ▶ ONGC (ONGC IN) may join hands with the energy firm that get the rights to develop Russia's largest discovered fields Trebs & Titov. (ECNT)
- ▶ Cement companies have intimated dealers & stockists about another INR 15-20 per bag hike almost across the country from Dussehra, Oct 17. (ECNT)
- ▶ Trai to frame rules to clear tariff plan haze, regulator also examines the possibility of imposing cap on Upper-tariff limit from premium SMSes. (ECNT)

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

### EQUITY MARKETS

India	Change %			
	14-Oct	1-day	1-mo	3-mo
Sensex	20,498	(0.9)	5.1	14.5
Nifty	6,177	(0.9)	5.4	14.8
<b>Global/Regional indices</b>				
Dow Jones	11,095	(0.0)	4.9	7.1
Nasdaq Composite	2,435	(0.2)	5.8	8.3
FTSE	5,727	(0.4)	3.1	9.9
Nikkei	9,514	(0.7)	(0.0)	(1.8)
Hang Seng	23,852	1.7	9.8	17.8
KOSPI	1,898	(0.1)	4.1	8.4
<b>Value traded – India</b>				
Cash (NSE+BSE)	249		220	196
Derivatives (NSE)	1,393		1,564	849
Deri. open interest	1,759		1,973	1,471

### Forex/money market

	Change, basis points			
	14-Oct	1-day	1-mo	3-mo
Rs/US\$	44.1	(2)	(226)	(251)
10yr govt bond, %	8.0	3	9	40
<b>Net investment (US\$m)</b>				
	13-Oct		MTD	CYTD
FII	697		2,578	21,832
MFs	(76)		(569)	(282)

### Top movers -3mo basis

	Change, %			
	14-Oct	1-day	1-mo	3-mo
<b>Best performers</b>				
TTMT IN Equity	1183.3	0.6	15.5	46.2
HNDL IN Equity	215.9	(0.3)	13.7	43.1
BOI IN Equity	553.0	(0.5)	10.9	41.6
BOB IN Equity	979.1	1.1	12.7	36.6
KMB IN Equity	514.8	(1.3)	8.6	35.3
<b>Worst performers</b>				
FTECH IN Equity	1162.7	(2.0)	(18.1)	(13.8)
IVRC IN Equity	161.7	(2.1)	2.4	(13.8)
RNR IN Equity	40.1	(2.0)	1.8	(11.9)
Z IN Equity	276.8	(1.2)	(6.0)	(9.2)
RPWR IN Equity	163.0	(2.0)	3.4	(6.9)

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#### RESULT

Coverage view: **Attractive**

Price (Rs): **1,564**

Target price (Rs): **1,700**

BSE-30: **20,498**

**Steady quarter; no big deviations.** Axis Bank reported strong earnings for 2Q, with better-than-expected margins at 3.7% (flat qoq with higher investment yields), but slower loan growth. Slippages were maintained at 1.6% qoq but trends appear comfortable with gross NPL being flat qoq. We maintain our positive bias on the stock. Valuations at 2.9XFY2012E PBR, however, remain expensive and do not leave much room for upside. Retain ADD with a TP of ₹1,700 (from ₹1,600 earlier).

#### Company data and valuation summary

Axis Bank

##### Stock data

52-week range (Rs) (high,low)	1,609-888
Market Cap. (Rs bn)	633.7

##### Shareholding pattern (%)

Promoters	37.7
FIs	44.0
MFs	4.9

Price performance (%)	1M	3M	12M
Absolute	9.6	19.0	51.5
Rel. to BSE-30	3.5	4.1	27.3

##### Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	62.1	78.6	99.9
EPS growth (%)	22.7	26.6	27.2
P/E (X)	25.2	19.9	15.7
NII (Rs bn)	50.0	65.5	80.0
Net profits (Rs bn)	25.1	31.8	40.5
BVPS	396.0	456.8	534.2
P/B (X)	3.9	3.4	2.9
ROE (%)	19.2	18.4	20.2
Div. Yield (%)	0.8	1.0	1.2

#### Retain positive bias, but upside is limited

We maintain our positive view on the stock, given the strong macro environment prevailing for the banking system. While valuations are expensive, they are still reasonable compared to other large private banks. Further, we believe that asset quality trends are likely to get better from next quarter onwards and this should result in lower provisioning requirement for the bank.

We increase our earnings estimates marginally (1-2%) for FY2011E and FY2012E. Loan loss provisions are likely to decline to 1.2% of average loans in FY2011E and 1% in FY2012E, down from 1.5% in FY2010. We expect Axis Bank to deliver earnings CAGR of 26% over FY2010-13E. Lower margins and fees going forward are likely to be compensated by lower provisioning requirement. We expect loan growth momentum to continue at 25% CAGR in FY2011-12E. We have revised our target price to ₹1,700, giving an upside of 9%. At our target price, the stock will trade at 3.1XFY2012E PBR. ADD.

#### Sequential loan growth in line with industry trends; focus remains on large companies

Sequential loan book growth was muted at 2% to ₹ 1,106 bn (37% yoy). Focus continues to remain on the large corporate segment which grew by 59% yoy to ₹637 bn. Infrastructure and finance sectors saw healthy growth during the quarter. Retail loans (19% of loans) grew by 17% yoy driven mainly by housing (27% yoy growth) and auto. SME loans were flat during the quarter but agriculture loans declined 14% qoq, as priority sector loans run off. We see limited concern on the ability of the bank to grow loans at 1.3X system growth and we build a 25% CAGR for FY2010-12E.

Deposits increased by 36% yoy (6% qoq) to ₹1,569 bn. CASA deposit growth remained strong (savings deposit grew 35% yoy). CASA proportion to total deposits improved by 130 bps qoq to 41.5%.

#### QUICK NUMBERS

- NII growth of 41% yoy and net profit growth of 38% yoy
- Fresh slippages at 1.6% annualized
- Revised TP to ₹1,700 (from ₹1,600)

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### NIMs stable at 3.7%; higher investment yields provide comfort

Axis Bank's net interest margin (NIM) was 3.7% in 2QFY11—flat qoq but higher than our expectations. Sharp rise in investment yields (driven by higher re-pricing of investment book) and partial rise in lending yields offset the rise in deposit costs and lower CD ratio for the quarter. Cost of funds increased by 14 bps qoq to 4.8% while lending yields increased by 18 bps (KS calc.). CD ratio for the quarter declined to 71% from 74% in 1QFY11. NII grew by 41% yoy, 6% ahead of our expectations to ₹16.1 bn.

### Reported asset quality stable but slippages remain high

Axis Bank reported higher slippages at 1.6% (annualized and similar to 1QFY11) for the quarter mainly from the SME segment. Retail and the large corporate segment continue to remain healthy with lower slippages. There have been upgrades in the loan portfolio offering higher comfort to our assumptions. However, in line with its policy, it chose to write off NPLs (1.1%) aggressively during the quarter—resulting in stable absolute NPLs for the quarter. Gross NPLs were at ₹13.6 bn (1.1% of loans) while net NPLs were at ₹4.1 bn (0.35% of loans) compared to ₹13.4 bn and ₹4.1 bn in the previous quarter. Loan loss provisions for the quarter were at 1.2% (annualized). We are building loan loss provisions at 1.2% for FY2011E and 1% for FY2012E.

### Other highlights

- ▶ Growth in fee income was slower at 18% yoy. Contribution of fee income from large companies (54% yoy) has increased to 32% from nearly 23% in 2QFY10. Most of the other line items of fee income have been under pressure due to subdued loan growth/pricing. Treasury profits were at ₹1.1 bn compared to ₹2 bn in 1QFY11.
- ▶ Capital adequacy ratio stands comfortable at 13.7% with tier-1 ratio at 9.8% (excludes the profits for 1HFY11, else would be 10.7%).
- ▶ Cost-income ratio increased by 160 bps qoq to 44% mainly due to sharp increase in non-staff expenses. The bank opened another 53 branches and 372 ATMs, taking the total branch network to 1,103 and ATMs to 4,846. Management highlighted that they are likely to open over 200 branches during the current fiscal. We have maintained our cost-income ratio at about 42% levels.

Axis Bank quarterly results—key parameters  
March fiscal year-ends, 2QFY10-2QFY11

	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	yoy growth (%)	2QFY11E	Actual Vs KS
Interest income	28,604	28,837	29,885	33,256	36,243	26.7	34,271	6
Advances	19,502	19,879	20,750	23,109	24,290	24.6	24,020	1
Investments	8,596	8,454	8,560	9,353	11,235	30.7	9,691	16
Balance with RBI	300	274	272	325	384	27.8	325	18
Interest expenses	17,107	15,345	15,284	18,118	20,092	17.4	19,090	5
<b>Net interest income</b>	<b>11,497</b>	<b>13,491</b>	<b>14,601</b>	<b>15,138</b>	<b>16,151</b>	<b>40.5</b>	<b>15,181</b>	<b>6</b>
Non-interest income	10,656	9,881	9,335	10,008	10,332	(3.0)	10,062	3
Treasury income	2,240	1,700	1,030	1,960	1,080	(51.8)	980	10
Income excl treasury	8,416	8,181	8,305	8,048	9,252	9.9	9,082	2
<b>Total income</b>	<b>22,153</b>	<b>23,372</b>	<b>23,936</b>	<b>25,146</b>	<b>26,483</b>	<b>19.5</b>	<b>25,243</b>	<b>5</b>
Operating expenses	9,095	9,626	10,098	10,645	11,620	27.8	10,826	7
Employee cost	3,042	3,085	3,338	4,164	4,053	33.2	4,168	(3)
Other operating cost	6,053	6,540	6,761	6,481	7,567	25.0	6,658	14
Pre-prov profit	13,058	13,746	13,838	14,501	14,864	13.8	14,417	3
Provisions	4,989	3,731	2,019	3,330	3,787	(24.1)	3,648	4
Loan loss	4,989	3,580	1,797	3,050	3,210	(35.7)	3,508	(8)
Investment depreciation	(55)	110	206	280	577	—	140	—
<b>Profit before tax</b>	<b>8,069</b>	<b>10,015</b>	<b>11,819</b>	<b>11,171</b>	<b>11,077</b>	<b>37.3</b>	<b>10,770</b>	<b>3</b>
Tax	2,752	3,455	4,171	3,752	3,725	35.3	3,739	(0)
<b>Profit after tax</b>	<b>5,316</b>	<b>6,560</b>	<b>7,649</b>	<b>7,419</b>	<b>7,352</b>	<b>38.3</b>	<b>7,031</b>	<b>5</b>
Tax rate (%)	34.1	34.5	35.3	33.6	33.6			
<b>PBT- treasury gains</b>	<b>5,829</b>	<b>8,315</b>	<b>10,789</b>	<b>9,211</b>	<b>9,996</b>	<b>71.5</b>	<b>9,790</b>	<b>2</b>
<b>PBT- treasury gains+provisions</b>	<b>10,818</b>	<b>12,046</b>	<b>12,808</b>	<b>12,541</b>	<b>13,784</b>	<b>27.4</b>	<b>13,437</b>	<b>3</b>
<b>Key balance sheet items (Rs bn)</b>								
Deposits	1,156	1,139	1,413	1,475	1,569	35.7		
Demand deposits	495	519	660	592	652	31.8		
Savings	280	296	339	347	378	35.0		
Current	215	223	322	245	274	27.6		
Term deposits	661	619	753	882	917	38.7		
CASA ratio (%)	42.8	45.6	46.7	40.2	41.5			
Customer assets	926	934	1,164	1,181	1,204	30.0		
Loans	810	848	1,043	1,086	1,106	36.5		
Retail loans	180	189	208	211	210	16.8		
Non-retail loans	631	659	835	875	896	42.1		
SME loans	159	165	195	168	168	6.0		
Agricultural loans	71	78	115	106	91	27.8		
Retail excld CVs	178	187	208	211	210	18.0		
Housing	120	134	147	150	153	27.2		
Auto	18	26	27	27	27	51.8		
CV	2	2	1	—	—			
Others	11	8	9	8	8			
Investments	521	493	560	560	619	19.0		
Total assets	1,517	1,505	1,806	1,895	1,998	31.7		
<b>Asset quality</b>								
Gross NPA	11.3	11.7	13.2	13.4	13.6			
Net NPA	4.2	4.3	4.2	4.1	4.1			
Gross NPA (%)	1.21	1.23	1.13	1.13	1.12			
Net NPA (%)	0.45	0.46	0.36	0.35	0.34			
Slippage ratio (%)			1.2	1.6	1.6			
Provision coverage (calc, %)	63.2	63.4	68.2	69.2	70.0			

Source: Kotak Institutional Equities

## Axis Bank—estimate changes

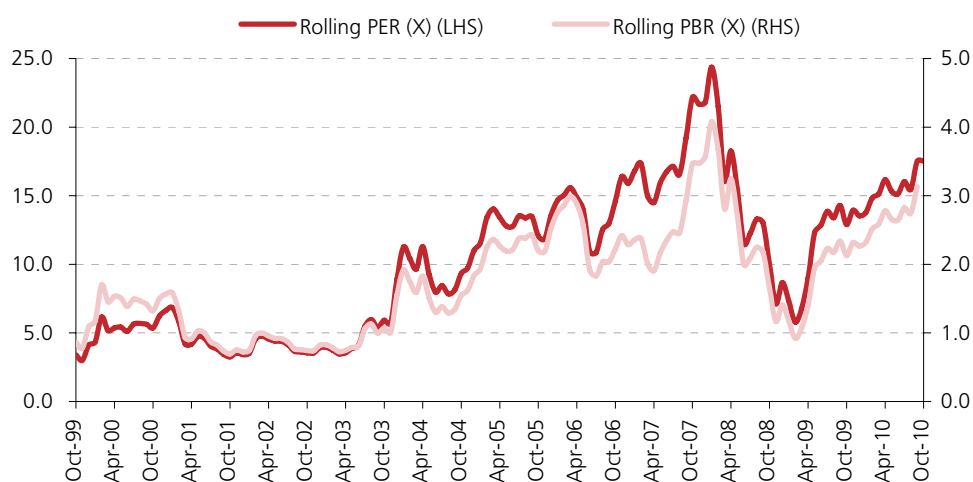
March fiscal year-ends, 2011-2013E, Rs mn

	Old estimates			New estimates			% change		
	FY2011E	FY2012E	FY2013E	FY2011E	FY2012E	FY2013E	FY2011E	FY2012E	FY2013E
Net interest income	62,607	77,600	92,851	65,501	79,991	96,710	4.6	3.1	4.2
NIM (%)	3.2	3.2	3.2	3.4	3.3	3.3	5.1	3.4	3.7
Customer assets	1,445,546	1,778,779	2,156,962	1,433,095	1,763,154	2,137,736	(0.9)	(0.9)	(0.9)
Loan loss provisions	14,104	14,739	16,467	13,445	14,599	16,310	(4.7)	(1.0)	(1.0)
Other income	45,912	54,292	64,199	44,629	52,753	62,352	(2.8)	(2.8)	(2.9)
Fee income	33,348	40,017	48,021	32,065	38,478	46,174	(3.8)	(3.8)	(3.8)
Treasury income	5,000	5,500	6,000	5,000	5,500	6,000	—	—	—
Operating expenses	45,428	55,429	66,048	46,628	55,441	65,505	2.6	0.0	(0.8)
Employee expenses	15,313	19,043	23,148	16,528	19,055	22,584	7.9	0.1	(2.4)
PBT	48,487	61,024	73,836	48,757	62,004	76,547	0.6	1.6	3.7
Tax	16,833	21,185	25,633	16,927	21,526	26,574	0.6	1.6	3.7
<b>Net profit</b>	<b>31,654</b>	<b>39,838</b>	<b>48,202</b>	<b>31,830</b>	<b>40,478</b>	<b>49,972</b>	<b>0.6</b>	<b>1.6</b>	<b>3.7</b>

Source: Company, Kotak Institutional Equities estimates

## Rolling PER and PBR for Axis Bank

March fiscal year-ends, Oct 1999-Oct 2010 (X)



Source: Bloomberg, Kotak Institutional Equities

Balance sheet and RoE decomposition of Axis Bank  
March fiscal year-ends, 2QFY10-2QFY11 (₹ bn)

	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11
<b>Balance sheet</b>					
Capital	4	4	4	4	4
Reserves	147	154	156	165	173
Deposits	1,156.0	1,138.5	1,413.0	1,474.8	1,568.9
Borrowings	84	88	172	196	190
Other Liab & prov	126	120	61	55	62
<b>Total liabilities</b>	<b>1,517</b>	<b>1,505</b>	<b>1,806</b>	<b>1,895</b>	<b>1,998</b>
Cash	130	114	152	171	208
Investments	521	493	560	575	619
Loans	810	848	1,043	1,086	1,106
Fixed Assets	12	12	12	17	19
Other Assets	44	38	39	45	46
<b>Total assets</b>	<b>1,517</b>	<b>1,505</b>	<b>1,806</b>	<b>1,895</b>	<b>1,998</b>
<b>RoE decomposition (%)</b>					
NIM	3.1	3.6	3.5	3.3	3.3
Non interest income	2.9	2.6	2.3	2.2	2.1
Total income	6.1	6.2	5.8	5.4	5.4
Opex	2.5	2.5	2.4	2.3	2.4
Provisions	1.4	1.0	0.5	0.7	0.8
PBT	2.2	2.7	2.9	2.4	2.3
Tax	0.8	0.9	1.0	0.8	0.8
RoA	1.5	1.7	1.8	1.6	1.5
Leverage	11.3	9.8	10.4	11.2	11.3
RoE	16.4	17.0	19.2	18.0	17.0

Source: Company, Kotak Institutional Equities

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

	2008	2009	2010	2011E	2012E	2013E
<b>Growth rates (%)</b>						
Net loan	61.8	36.7	27.9	24.1	25.5	23.1
Total Asset	49.6	34.8	22.3	22.2	22.5	20.7
Deposits	49.1	33.9	20.4	24.1	24.3	21.9
Current	77.3	23.8	29.6	19.9	13.0	21.9
Savings	64.8	29.2	31.1	31.1	23.5	20.7
Fixed	34.6	40.2	12.8	22.7	29.4	22.5
Net interest income	65.0	42.6	35.8	30.9	22.1	20.9
Loan loss provisions	151.4	81.6	56.4	(4.8)	8.6	11.7
Total other income	78.7	60.0	36.2	13.1	18.2	18.2
Net fee income	69.5	64.6	18.0	25.0	20.0	20.0
Net capital gains	261.8	31.0	147.6	(30.0)	10.0	9.1
Net exchange gains	66.2	73.3	30.2	15.0	16.0	16.0
Operating expenses	77.4	32.6	29.8	25.7	18.9	18.2
Employee expenses	75.8	48.8	25.9	31.6	15.3	18.5
<b>Key ratios (%)</b>						
Yield on average earning assets	8.0	8.7	7.3	7.6	7.9	8.1
Yield on average loans	9.8	10.6	8.6	8.5	8.9	9.1
Yield on average investments	7.1	7.7	6.8	7.3	7.6	7.7
Average cost of funds	5.3	6.1	4.5	4.6	4.9	5.2
Interest on deposits	5.1	6.1	4.4	4.5	4.8	5.0
<b>Difference</b>	<b>2.7</b>	<b>2.6</b>	<b>2.9</b>	<b>3.0</b>	<b>3.0</b>	<b>3.0</b>
Net interest income/earning assets	2.9	3.0	3.1	3.4	3.3	3.3
New provisions/average net loans	1.0	1.3	1.5	1.2	1.0	0.9
Interest income/total income	58.8	56.0	55.9	59.5	60.3	60.8
Fee income/total income	30.0	33.0	28.7	29.1	29.0	29.0
Operating expenses/total income	49.0	43.4	41.4	42.3	41.8	41.2
Tax rate	35.0	34.8	34.7	34.7	34.7	34.7
Dividend payout ratio	19.0	19.8	19.3	19.3	19.3	19.3
Share of deposits						
Current	22.9	21.1	22.8	22.0	20.0	20.0
Fixed	54.3	56.9	53.3	52.7	54.8	55.1
Savings	22.8	22.0	24.0	25.3	25.2	24.9
Loans-to-deposit ratio	68.1	69.5	73.8	73.8	74.5	75.2
Equity/assets (EoY)	8.0	6.9	8.9	8.4	8.0	7.8
<b>Dupont analysis (%)</b>						
Net interest income	2.8	2.9	3.0	3.3	3.3	3.2
Loan loss provisions	0.5	0.7	0.9	0.7	0.6	0.5
Net other income	2.0	2.3	2.4	2.2	2.1	2.1
Operating expenses	2.4	2.2	2.3	2.4	2.3	2.2
Invnt. depreciation	—	—	(—)	—	—	—
(1- tax rate)	65.0	65.2	65.3	65.3	65.3	65.3
ROA	1.2	1.4	1.5	1.6	1.6	1.7
Average assets/average equity	15.0	13.6	12.5	11.6	12.2	12.7
ROE	17.6	19.1	19.2	18.4	20.2	21.2

Source: Company, Kotak Institutional Equities estimates

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

	2008	2009	2010	2011E	2012E	2013E
<b>Income statement (Rs mn)</b>						
Total interest income	70,053	108,355	116,380	148,554	189,540	236,707
Loans	47,457	74,659	79,866	99,581	130,258	165,201
Investments	21,023	30,515	34,283	45,225	56,489	68,317
Total interest expense	44,200	71,493	66,335	83,053	109,549	139,998
Deposits from customers	37,425	62,089	57,145	70,694	94,195	121,594
Net interest income	25,853	36,862	50,045	65,501	79,991	96,710
Loan loss provisions	4,975	9,032	14,126	13,445	14,599	16,310
Net interest income (after prov.)	20,879	27,830	35,919	52,056	65,392	80,400
Other income	18,107	28,969	39,458	44,629	52,753	62,352
Net fee income	13,207	21,733	25,652	32,065	38,478	46,174
Net capital gains	2,203	2,884	7,140	5,000	5,500	6,000
Net exchange gains	2,075	3,595	4,681	5,383	6,244	7,243
Operating expenses	21,549	28,582	37,097	46,628	55,441	65,505
Employee expenses	6,702	9,977	12,558	16,528	19,055	22,584
Depreciation on investments	65	1,078	(222)	—	—	—
Other provisions	754	(716)	(15)	1,300	700	700
Pretax income	16,465	27,855	38,517	48,757	62,004	76,547
Tax provisions	5,755	9,701	13,372	16,927	21,526	26,574
<b>Net Profit</b>	<b>10,710</b>	<b>18,154</b>	<b>25,145</b>	<b>31,830</b>	<b>40,478</b>	<b>49,972</b>
% growth	62.5	69.5	38.5	26.6	27.2	23.5
PBT+provisions-treasury	20,208	34,364	45,265	58,502	71,803	87,557
% growth	52.4	75.1	25.7	39.5	29.1	24.9

<b>Balance sheet (Rs mn)</b>						
Cash and bank balance	125,042	150,169	152,064	173,804	198,683	226,578
Cash	15,203	15,415	19,007	20,908	22,998	25,298
Balance with RBI	57,853	78,777	75,732	95,571	118,359	143,954
Balance with banks	11,181	5,406	7,916	7,916	7,916	7,916
Net value of investments	337,051	463,304	559,748	683,488	820,179	975,397
Govt. and other securities	201,788	284,182	341,959	464,003	598,574	751,142
Shares	5,856	4,201	5,296	5,296	5,296	5,296
Debentures and bonds	108,212	133,797	138,233	138,233	138,233	138,233
Net loans and advances	596,611	815,568	1,043,431	1,294,863	1,624,922	1,999,503
Fixed assets	9,229	10,729	12,224	14,966	17,488	18,422
Net owned assets	8,864	10,729	12,224	14,966	17,488	18,422
Other assets	27,845	37,451	39,011	40,634	42,325	44,086
<b>Total assets</b>	<b>1,095,778</b>	<b>1,477,220</b>	<b>1,806,478</b>	<b>2,207,755</b>	<b>2,703,597</b>	<b>3,263,986</b>
Deposits	876,262	1,173,741	1,413,002	1,753,488	2,180,075	2,657,793
Borrowings and bills payable	111,556	174,566	200,800	236,943	274,854	318,831
Other liabilities	20,253	26,765	32,230	32,230	32,230	32,230
<b>Total liabilities</b>	<b>1,008,072</b>	<b>1,375,072</b>	<b>1,646,032</b>	<b>2,022,661</b>	<b>2,487,160</b>	<b>3,008,854</b>
Paid-up capital	3,577	3,590	4,052	4,052	4,052	4,052
Reserves & surplus	84,130	98,558	156,394	181,042	212,385	251,080
<b>Total shareholders' equity</b>	<b>87,707</b>	<b>102,148</b>	<b>160,446</b>	<b>185,093</b>	<b>216,437</b>	<b>255,132</b>

Source: Company, Kotak Institutional Equities estimates



**Strong quarter; some concerns given demanding valuations.** LIC Housing Finance reported PAT of Rs2.34 bn, up 37% yoy and 3% above estimates. Strong loan growth (36%) and yoy margin improvement have driven growth in earnings. However, incremental trends (13% yoy growth disbursements in retail segment) and contraction in NIMs (qoq) raise some concerns. We revise estimates to factor lower NPLs and stable margins, retain REDUCE rating with price target of Rs1,325. Stock trades at 2.9X FY2012E PBR.

### Company data and valuation summary

LIC Housing Finance

#### Stock data

52-week range (Rs) (high,low)	1,497-687
Market Cap. (Rs bn)	138.6

#### Shareholding pattern (%)

Promoters	36.5
FIs	32.1
MFs	14.1

Price performance (%)	1M	3M	12M
Absolute	19.1	45.7	81.7
Rel. to BSE-30	12.4	27.5	52.8

#### Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	69.7	109.0	119.0
EPS growth (%)	11.5	56.3	9.2
P/E (X)	20.9	13.4	12.3
NII (Rs bn)	9.5	13.7	17.0
Net profits (Rs bn)	6.6	10.3	11.3
BVPS	341.0	415.4	496.4
P/B (X)	4.3	3.5	2.9
ROE (%)	23.6	27.4	24.6
Div. Yield (%)	1.0	1.6	1.8

### A strong quarter supported by lower provision

LIC Housing Finance (LICHF) maintained its growth traction during 2QFY11—PAT of Rs2.34 bn, up 37% yoy, loan growth of 36% (37% in 1QFY11) and NIM of 2.9% (3% in 1QFY11). Strong recoveries during the quarter and lower slippages pulled down the gross NPL ratio to 0.7% from 0.9% in 1QFY11, thereby reducing the provision cost as well.

### However, incremental trends raise some concerns

- ▶ LICHF reported disbursement growth of 13% yoy in the retail loan segments as compared to 32% in 1QFY11. This might be a one-off, but the high base is also catching up for them.
- ▶ Incremental spreads were down 10 bps qoq to 2.1% despite a sharp rise in developer lending (which has significantly higher yields)—25% of overall disbursements in 2QFY11 as compared to 11% in 1QFY11.
- ▶ The five-year fixed rate home loan product at 9.25% contributed to more than 70% of its retail disbursements. We believe that this product could put pressure on financials of the company as the interest rates rise.

### Revising estimates, retain REDUCE; competitive intensity remains high in mortgages

We are revising up our core earnings estimates by 6% for FY2011E and 5% for FY2012E to factor somewhat better margin traction and asset quality performance. We are revising our price target to Rs1,325 from Rs1,250 to factor higher earnings.

## REDUCE

OCTOBER 14, 2010

### RESULT

Coverage view: **Attractive**

Price (Rs): **1,459**

Target price (Rs): **1,325**

BSE-30: **20,498**

### QUICK NUMBERS

- **PAT up 37% yoy and 3% above estimates**
- **Loan book up 36% yoy**
- **Disbursements up 36%, retail disbursements up 13%**

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We believe that rising competition in the home loan segment will likely affect the margins of LICHF. Despite a rise in interest rates across the system, home loan rates have not moved up significantly. SBI has raised PLR for all existing loans but continues to offer its (discounted) dual-rate home loan scheme. LICHF has raised lending rates for existing borrowers from October 2010—this will buoy margins in the near term. The company will likely find it challenging to further raise interest rates for existing borrowers and may be compelled to raise home loan rates for new business as well—this will likely put pressure on growth.

#### **NPL ratio improves**

LICHF reported gross NPLs of 0.7% in September 2010 versus 0.9% in June 2010 and 1.3% in September 2009. NPLs typically rise in 1Q and start declining from 4Q.

#### **Income from MF sale likely in 3QFY11E**

LICHF expects to realize capital gains of Rs1.4 bn from 17% stake sale in LIC MF. The deal, signed last year, was pending regulatory approvals. Notably, most approvals have been obtained and LIC MF will now issue 30-day intimation to its investors before executing the deal.

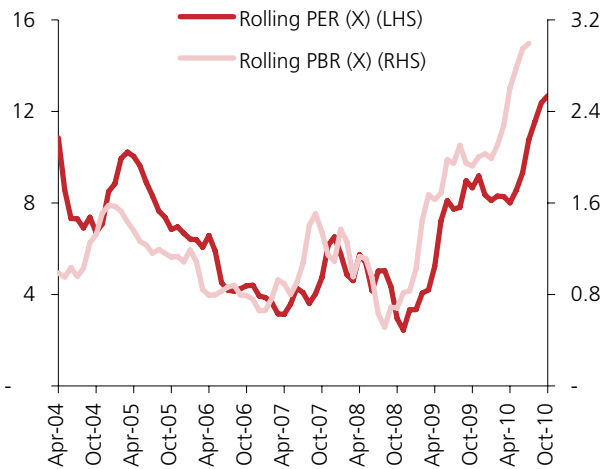
LIC Housing Finance  
Quarterly data (Rs mn)

	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	YoY (%)	2Q11E	Actual vs KS (%)
Operating income	7,819	8,391	8,805	9,682	10,149	11,074	32	10,789	3
Interest on loans	7,451	7,854	8,336	9,193	9,716	10,429	33	10,289	1
Fees and other charges	225	337	369	343	300	420	25	350	20
Other income	143	200	100	146	134	225	13	150	50
Interest expenses	5,709	5,979	6,057	6,214	6,772	7,378	23	7,234	2
<b>Net operating income</b>	<b>2,110</b>	<b>2,413</b>	<b>2,748</b>	<b>3,469</b>	<b>3,377</b>	<b>3,696</b>	<b>53</b>	<b>3,555</b>	<b>4</b>
Total Fund based income	7,594	8,054	8,436	9,339	9,849	10,654	32	10,439	2
Net interest income	1,742	1,876	2,279	2,980	2,943	3,051	63	3,055	(0)
Other exp.	408	119	566	471	468	490	313	420	17
Establishment exp.	209	392	285	477	230	322	(18)	250	29
Staff expenses	99	144	123	120	149	165	15	120	38
Provisions	100	(417)	158	(126)	89	3	(101)	50	(95)
<b>PBDT</b>	<b>1,703</b>	<b>2,294</b>	<b>2,182</b>	<b>2,998</b>	<b>2,909</b>	<b>3,206</b>	<b>40</b>	<b>3,135</b>	<b>2</b>
Depreciation	14	16	17	16	15	16	(1)	15	5
PBT	1,688	2,278	2,165	2,982	2,893	3,191	40	3,120	2
Tax	450	566	629	845	773	848	50	842	1
<b>PAT</b>	<b>1,238</b>	<b>1,712</b>	<b>1,536</b>	<b>2,137</b>	<b>2,120</b>	<b>2,342</b>	<b>37</b>	<b>2,278</b>	<b>3</b>
Tax rate (%)	27	25	29	28	27	27	0	27	0
<b>PBT excl. extraordinary item+provisions</b>	<b>1,788</b>	<b>1,999</b>	<b>2,323</b>	<b>2,856</b>	<b>2,983</b>	<b>3,193</b>	<b>60</b>	<b>3,170</b>	<b>1</b>
<b>Other details</b>									
<b>Business growth</b>									
Approval for the quarter (Rs bn)	35	54	45	46	53	77	43		
Disbursements (Rs bn)	24	38	36	51	34	51	36		
Individual (Rs bn)	23	34	30	38	30	38	13		
Others (Rs bn)	2	4	6	13	4	13	246		
Outstanding portfolio (Rs bn)	292	319	342	381	400	434	36	437	(1)
Individual (Rs bn)	267	292	313	339	360	385			
<b>NPLs</b>									
Gross NPLs (Rs mn)	4,416	4,085	4,908	2,632	3,670	3,196			
Gross NPL ratio (%)	1.5	1.3	1.4	0.7	0.9	0.7			
Net NPLs (Rs mn)	1,906	1,982	2,636	464	1,398	902			
Net NPL ratio (%)	0.7	0.0	0.0	0.1	0.4	0.2			
<b>Capital adequacy</b>									
CAR (%)	13	16	15	15	NA	14			
Tier I	10	12	12	12	NA	9			
<b>Spreads/ margins (%)</b>									
NIM( Reported -%)	2.5	2.4	2.8	3.3	3.0	2.9			
NIMs (KS estimate- %)	2.5	2.5	2.8	3.3	3.0	2.9			
Average lending rate (%)	10.5	10.0	10.0	10.2	10.1	10.0			
Average cost of funds (%)	8.7	8.4	8.1	7.8	7.8	7.9			
<b>Average spreads (%)</b>	<b>1.8</b>	<b>1.7</b>	<b>2.0</b>	<b>2.4</b>	<b>2.2</b>	<b>2.1</b>			
Incremental lending rate (%)	9.4	9.5	10.0	10.2	9.6	10.0			
Incremental cost of fund (%)	7.2	7.2	7.0	7.0	7.5	7.9			
<b>Incremental spreads (%)</b>	<b>2.2</b>	<b>2.4</b>	<b>3.0</b>	<b>3.1</b>	<b>2.2</b>	<b>2.1</b>			
<b>Gross NPL movement</b>									
Opening gross NPLs		4,420	4,090	4,910	2,630	3,670			
Upgrades/ Recoveries		1,270	890	2,470	280	1,030			
Slippages		940	1,710	190	1,320	550			
Closing gross NPLs		4,090	4,910	2,630	3,670	3,190			
Loan book (Rs mn)	292,000	318,900	341,660	380,810	400,300	433,840			
<b>Slippage/ ratio (%)</b>		<b>0.32</b>	<b>0.54</b>	<b>0.06</b>	<b>0.35</b>	<b>0.14</b>			

Source: Company, Kotak Institutional Equities estimates

## Valuations reaching new highs

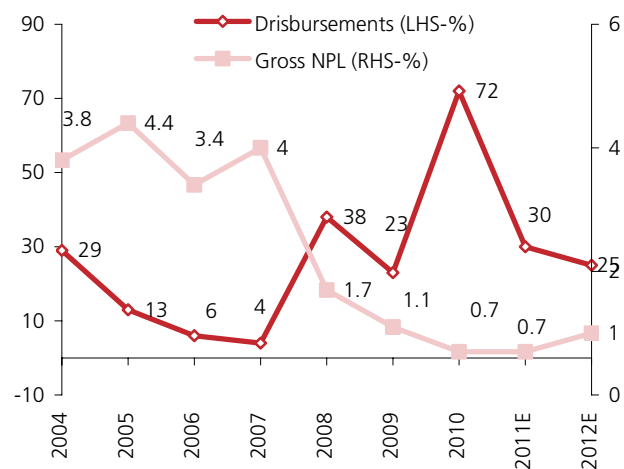
LICHF: Rolling PER and PBR, April 2004-July 2010 (X)



Source: Bloomberg, Company, Kotak Institutional Equities estimates

## But growth peaking out

LICHF: Growth in disbursements (LHS) and gross NPL ratio (RHS), March fiscal year-ends, 2004-2013E (%)



Source: Company, Kotak Institutional Equities estimates

## LIC Housing Finance—old and new estimates

March fiscal year-ends, 2011-2013E (Rs mn)

	Old estimates			New estimates			Old vs New (%)			YoY(%)	
	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2012E	2013E
NIMs(%)	2.8	2.7	2.6	2.9	2.8	2.8					
Loan growth (%)	33.9	29.7	26.4	33.9	29.7	26.4					
Net interest income	12,415	15,752	19,734	13,107	16,414	20,624	5.6	4.2	4.5	25.2	25.6
Other income	3,472	2,427	2,794	3,535	2,536	2,963	1.8	4.5	6.0	(28.3)	16.9
Fee income	1,528	1,834	2,201	1,592	1,942	2,370	4.2	5.9	7.7	22.0	22.0
Other income	1,943	593	593	1,943	593	593	—	—	—	(69.5)	—
Total income	15,886	18,179	22,528	16,642	18,950	23,587	4.8	4.2	4.7	13.9	24.5
Loan loss provisions	445	878	1,497	223	586	1,123	(50.0)	(33.3)	(25.0)	163.0	91.7
Operating expenses	2,355	2,888	3,545	2,355	2,888	3,545	—	—	—	22.6	22.7
Employee expenses	567	664	777	567	664	777	(0.0)	—	—	17.0	17.0
Other expenses	1,788	2,224	2,768	1,788	2,224	2,768	—	—	—	24.4	24.5
PBT	13,086	14,413	17,487	14,064	15,477	18,919	7.5	7.4	8.2	10.0	22.2
Tax	3,518	3,976	5,126	3,715	4,176	5,411	5.6	5.0	5.6	12.4	29.6
<b>PAT</b>	<b>9,568</b>	<b>10,437</b>	<b>12,361</b>	<b>10,350</b>	<b>11,301</b>	<b>13,508</b>	<b>8.2</b>	<b>8.3</b>	<b>9.3</b>	<b>9.2</b>	<b>19.5</b>
<b>PBT bef. Prov, extraordinary</b>	<b>12,181</b>	<b>15,291</b>	<b>18,984</b>	<b>12,937</b>	<b>16,062</b>	<b>20,042</b>	<b>6.2</b>	<b>5.0</b>	<b>5.6</b>	<b>24.2</b>	<b>24.8</b>
<b>EPS (Rs per share)</b>	<b>101</b>	<b>110</b>	<b>130</b>	<b>109</b>	<b>119</b>	<b>142</b>				<b>9.2</b>	<b>19.5</b>

Source: Company, Kotak Institutional Equities estimates

LICHF: Key ratios, March fiscal year-ends 2008-2013E

	2008	2009	2010E	2011E	2012E	2013E
<b>Growth (%)</b>						
Total assets	24	24	37	32	29	26
Housing loans	25	26	38	34	30	26
Total borrowings	24	26	36	35	31	27
Net Income before provision	49	27	19	45	24	25
Fee income	9	55	56	25	22	22
Total expenses	19	16	24	23	23	23
PBT	50	37	25	54	10	22
PAT	39	37	25	56	9	20
<b>Spread calculation (%)</b>					0	0
Average cost of funds	8.0	8.8	8.0	8.1	8.4	8.5
Average yield on assets	10.0	10.7	9.6	10.0	10.3	10.4
Spreads	1.9	1.9	1.6	1.9	1.9	1.9
Difference on housing loan	2.3	2.3	2.0	2.3	2.2	2.1
NIM	3.0	3.0	2.7	2.9	2.8	2.8
<b>Other ratios (%)</b>						
Tax rate	27	27	27	26	27	29
Debt/equity (X)	11	12	10	11	12	13
Total expenses/assets	0.6	0.5	0.5	0.4	0.4	0.4
Total expenses/total income	20	18	18	15	15	15
Divd payout ratio	22	22	22	22	22	22
<b>Du Pont analysis (% of average assets)</b>						
Net interest income	3.0	3.0	2.7	2.9	2.8	2.8
Loan loss provisions and Inv pro	0.1	—	(0.1)	0.0	0.1	0.1
Net other income	0.3	0.3	0.4	0.6	0.3	0.3
Gains on securitization	—	—	—	—	—	—
Operating expenses	0.6	0.6	0.6	0.5	0.5	0.5
(1- tax rate)	72.8	73.2	72.7	73.6	73.0	71.4
<b>ROA</b>	<b>1.8</b>	<b>2.0</b>	<b>1.9</b>	<b>2.2</b>	<b>1.9</b>	<b>1.8</b>
Average assets/average equity (X)	12.5	13.0	12.4	12.4	13.2	14.0
<b>ROE (%)</b>	<b>22.9</b>	<b>26.2</b>	<b>23.6</b>	<b>27.4</b>	<b>24.6</b>	<b>24.5</b>

Source: Company, Kotak Institutional Equities estimates

LICHF: Income statement and balance sheet, March fiscal year-ends 2008- 2013E

	2008	2009	2010E	2011E	2012E	2013E
<b>Income statement</b>						
Total income excluding fee income	20,365	27,476	32,827	46,315	62,074	79,344
Other operating income	127	634	597	593	593	593
Interest payable	14,744	20,155	23,957	33,208	45,660	58,721
Provision	243	53	-283	223	586	1,123
Fee income						
<b>Net total income</b>	<b>6,554</b>	<b>8,716</b>	<b>11,023</b>	<b>15,069</b>	<b>18,365</b>	<b>22,464</b>
<b>Total expenses</b>	<b>1,338</b>	<b>1,552</b>	<b>1,920</b>	<b>2,355</b>	<b>2,888</b>	<b>3,545</b>
Staff expenses	345	447	485	567	664	777
Establishment expenses	182	166	131	164	205	256
Other expenses	774	890	1,241	1,551	1,939	2,424
Depreciation	37	49	64	73	80	88
Other income	105	100	10	1,350	0	0
<b>Profit before tax</b>	<b>5,321</b>	<b>7,264</b>	<b>9,112</b>	<b>14,064</b>	<b>15,477</b>	<b>18,919</b>
Tax	1,450	1,948	2,490	3,715	4,176	5,411
<b>Net profit</b>	<b>3,871</b>	<b>5,316</b>	<b>6,622</b>	<b>10,350</b>	<b>11,301</b>	<b>13,507</b>
EPS (Rs)	46	63	70	109	119	142
BVPS (Rs)	215.5	262.0	356.6	438.2	527.2	633.6
ABVPS (Rs)	184	233	341	415	496	600
<b>Balance sheet</b>						
<b>Disbursements</b>	<b>70,710</b>	<b>86,800</b>	<b>149,000</b>	<b>189,975</b>	<b>227,970</b>	<b>273,564</b>
YoY growth (%)	38	23	72	28	76,479	99,202
<b>Net loans</b>	<b>219,360</b>	<b>276,793</b>	<b>380,814</b>	<b>509,859</b>	<b>661,350</b>	<b>835,711</b>
<b>Total investments</b>	<b>7,746</b>	<b>11,293</b>	<b>13,886</b>	<b>13,886</b>	<b>13,886</b>	<b>13,886</b>
Cash & deposits	3,617	1,353	2,669	2,669	2,669	2,669
Loans and advances and other assets	1,597	3,093	3,803	3,803	3,803	3,803
Deferred tax assets	929	948	890	890	890	890
Fixed assets owned	300	324	356	378	408	410
<b>Total assets</b>	<b>233,549</b>	<b>293,804</b>	<b>402,418</b>	<b>531,484</b>	<b>683,006</b>	<b>857,369</b>
<b>Total liabilities</b>	<b>215,232</b>	<b>271,483</b>	<b>368,540</b>	<b>489,862</b>	<b>632,925</b>	<b>797,179</b>
Share capital	850	850	950	950	950	950
Reserves	17467	21491	32927	40673	49130	59239
<b>Shareholders fund</b>	<b>18,317</b>	<b>22,341</b>	<b>33,877</b>	<b>41,623</b>	<b>50080</b>	<b>60190</b>

Source: Company, Kotak Institutional Equities estimates

OCTOBER 14, 2010

UPDATE

BSE-30: 20,498

**Tier-II companies – margin pressure showing up.** The Sep 2010 quarter earnings reports of Infotech Enterprises and Mastek (both not covered) depict quite clearly the margin pressure facing mid-sized companies, in line with our thesis. This underpins our cautious view on mid-caps within the overall positive thesis on the sector. The valuation gap between Tier-I and Tier-II does merit attention, but we would await the margin risk playing out before taking a constructive view on the mid-caps.

#### Stay with tier-I names to play the demand recovery cycle

We remain positive on demand upturn for the Indian IT services industry. We see demand tailwinds building up in the form of the improving pace of decision making, greater conversion of IT budgets into spends, release of pent-up discretionary spend, gains for offshore players in vendor consolidation instances and improved deal flow across most verticals. We expect the earnings upgrade cycle for the Indian tech companies to sustain over the next few months. However, we would prefer to play the earnings upgrade cycle (driven by greater confidence in IT demand uptick) through the Tier-I names (Infosys, Wipro and TCS). We see several structural flaws in the business model of the Tier-II companies, and some of the business decisions taken by the Tier-II pack in the recent downturn are unlikely to serve them well in the medium to long term, in our view. We elaborate on these issues below.

#### Doing more of the same may not suffice; expect Tier-II players to lag larger peers in growth

We expect the Tier-II Indian IT services companies to lag Tier-I companies on volumes and revenue growth in the current growth phase for the Indian IT services industry. Mid-sized companies had underperformed their larger peers on revenue growth during the last high-growth phase for the industry (FY2004-08, post the dot-com bubble burst). We expect the trend to continue (even exacerbate) in what we expect to be another 3-5 years of high growth (FY2011E onwards).

Indian IT companies need to make substantial investments (in sales and marketing, development of consultative skills, IP creation/ marketing, and in under-penetrated geographies) to capture the next wave of demand. We find the mid-sized companies lacking in strategy and effort in these areas. A cut-back in investments has indeed helped the mid-sized companies report historically high margins and free cash generation during the downturn, but may just have robbed them of the opportunity to gain market share from the larger players in the next phase of growth. Tough personnel decisions taken by some of the mid-sized companies may constrain their ability to attract and retain quality talent, impacting their sales/ delivery engine.

#### Tier-II margins—fewer operating levers, and higher sensitivity to exchange rate movements

We see greater risk to the operating margins of the Tier-II companies as compared to the Tier-I companies for the following reasons—(1) you cannot have your cake and eat it too; the Tier-II companies will have to make up for the under-investment in the sales and delivery organizations (to protect margins during the downturn) if they wish to participate in the revenue growth phase, in our view, (2) utilization lever does not exist—mid-sized companies (with the exception of MindTree) have all cut headcounts aggressively during the downturn and are running at near-peak utilization levels, (3) pricing is their only differentiation—under-investment in creating differentiated offerings and weak positioning in multi-vendor situations leaves ‘pricing’ as the only meaningful volume growth ‘tool’ for the mid-sized companies, (4) greater sensitivity to Re/US\$ movement make the mid-sized companies more vulnerable to the possibility of sharp Re appreciation, and (5) tier-II companies may have to contend with sustained higher wage inflation.

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### Infotech, Mastek results depict clear margin pressure – also provide a good revenue performance contrast

Infotech and Mastek reported quarterly results – a common theme which has been playing out is the weak margin story across midcaps. Mastek's margin challenge is understandable given the weak revenue performance, but Infotech's flat margins on a sequential basis despite the strong 13.5 % sequential revenue growth (ex-Wellsco acquisition) and the wage hike behind them highlights the margin pressure faced by the mid-cap companies. Exhibit 1 highlights the weak positioning of the Tier-II players – (1) most of them have lagged in revenue growth as compared to Tier-I's (2) margins of the Tier-II players have dropped by 350-2500 bps from June 2009 to Sep 2010.

Exhibit 1: Tier II companies have lagged Tier-I in both revenues and margins

	Revenue growth June 09 - Sep 2010E	Change in margins (bps) from June 2009 - Sep 2010
<b>Revenues</b>		
<b>Tier-I</b>		
Infosys	24.6	(40)
TCS	22.7	180
Wipro	21.0	142
<b>Tier-II</b>		
Patni	2.5	(289)
Hexaware	6.8	(1,435)
Polaris	17.1	(358)
Mindtree	23.2	(600)
Infotech	23.4	(651)
Mastek	(35.6)	(2,517)

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Tier-II players face significant margin pressures

	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
<b>Operating margins</b>						
<b>Tier-I</b>						
Infosys	34.1	34.6	35.5	34.0	31.7	33.7
TCS	27.2	28.7	29.7	29.9	29.3	29.0
Wipro	25.4	27.2	26.9	27.2	27.6	26.8
<b>Tier-II</b>						
Patni	21.3	20.7	21.2	21.9	20.2	18.4
Hexaware	21.5	23.7	17.9	8.2	6.8	7.2
Polaris	17.0	15.9	16.2	16.6	13.4	13.4
Mindtree	16.6	20.9	19.8	18.4	12.1	10.6
Infotech	22.5	21.7	21.7	21.6	16.0	16.0
Mastek	17.8	15.5	12.9	14.3	7.7	(7.3)

Note:

- (a) Actuals for Infotech and Mastek, KIE estimates for others
- (b) Global IT services margins for Wipro
- (c) Infotech financials exclude Wellsco acquisition
- (d) EBITDA margins ex-forex gains for Patni

Source: Company, Kotak Institutional Equities estimates



Exhibit 3: Tier-II players have lagged the Tier-I's in revenue growth

	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10E
<b>Revenues</b>						
<b>Tier-I</b>						
Infosys	54,720	55,850	57,410	59,440	61,980	68,172
TCS	72,070	74,351	76,503	77,365	82,173	88,403
Wipro	48,266	49,981	51,648	52,596	55,002	58,407
<b>Tier-II</b>						
Patni	7,755	8,040	7,896	7,745	7,776	7,951
Hexaware	2,591	2,632	2,520	2,220	2,512	2,768
Polaris	3,255	3,383	3,389	3,510	3,606	3,812
Mindtree	3,048	3,150	3,318	3,444	3,487	3,756
Infotech	2,326	2,374	2,391	2,441	2,529	2,870
Mastek	2,311	1,894	1,909	1,703	1,632	1,489
<b>Revenue growth (%)</b>						
<b>Tier-I</b>						
Infosys		2.1	2.8	3.5	4.3	10.0
TCS		3.2	2.9	1.1	6.2	7.6
Wipro		3.6	3.3	1.8	4.6	6.2
<b>Tier-II</b>						
Patni		3.7	(1.8)	(1.9)	0.4	2.2
Hexaware		1.6	(4.3)	(11.9)	13.2	10.2
Polaris		3.9	0.2	3.6	2.7	5.7
Mindtree		3.3	5.4	3.8	1.3	7.7
Infotech		2.1	0.7	2.1	3.6	13.5
Mastek		(18.0)	0.8	(10.8)	(4.2)	(8.8)

Note:

(a) Actuals for Infotech and Mastek, KIE estimates for others

(b) Global IT services revenues for Wipro

(c) Infotech financials exclude Wellsco acquisition

Source: Company, Kotak Institutional Equities estimates

Exhibit 4: Mastek consolidated quarterly financials, June fiscal year ends (Rs mn)

	Sep-09	Jun-10	Sep-10	Change (%)	
				qoq	yoy
<b>Revenues</b>	<b>1,894</b>	<b>1,632</b>	<b>1,489</b>	<b>(8.8)</b>	<b>(21.4)</b>
Staff costs	(1,159)	(1,132)	(1,235)	9.1	6.5
Travelling expense	(92)	(88)	(74)		
Other expense	(349)	(286)	(290)		
Total expenditure	(1,600)	(1,506)	(1,598)	6.1	(0.1)
<b>EBITDA</b>	<b>294</b>	<b>126</b>	<b>(109)</b>	<b>(187)</b>	<b>(137)</b>
Depreciation and ammortisation	(71)	(66)	(61)		
EBIT	224	60	(170)	(383)	(176)
Other Income	20	19	25		
Forex loss / (gain)	1	49	(36)		
Interest expense	(10)	(4)	(4)		
<b>Profit before tax</b>	<b>233</b>	<b>26</b>	<b>(113)</b>	<b>(540)</b>	<b>(149)</b>
Provision for tax	32	(1)	(21)		
<b>Profit after tax</b>	<b>264</b>	<b>25</b>	<b>(135)</b>	<b>(636)</b>	<b>(151)</b>
EPS (Rs/share)	9.8	0.9	(5.0)	(636)	(151)
<b>Margins (%)</b>					
<b>EBITDA margin</b>	<b>15.5</b>	<b>7.7</b>	<b>(7.3)</b>		
EBIT margin	11.8	3.7	(11.4)		
PBT margin	12.3	1.6	(7.6)		
PAT margin	13.9	1.5	(9.0)		

Source: Company, Kotak Institutional Equities

Exhibit 5: Infotech Enterprises consolidated quarterly financials, March year ends (Rs mn)

	Sep-09	Jun-10	Sep-10	Change (%)	
				qoq	yoy
<b>Revenues</b>	<b>2,374</b>	<b>2,529</b>	<b>2,955</b>	<b>16.8</b>	<b>24.5</b>
Personnel Expenses	(1,337)	(1,567)	(1,845)	17.7	38.0
Travel expenditure	(136)	(164)	(188)		
Purchase of services/ products	(68)	(86)	(104)		
Other operating costs	(318)	(308)	(361)		
Total Expenses	(1,859)	(2,125)	(2,497)		
<b>EBITDA</b>	<b>515</b>	<b>404</b>	<b>457</b>	<b>13.2</b>	<b>(11.2)</b>
Depreciation	(114)	(117)	(124)	6.3	8.9
<b>EBIT</b>	<b>401</b>	<b>287</b>	<b>333</b>	<b>16.0</b>	<b>(16.9)</b>
Interest	(2)	(2)	(6)		
Other Income	45	58	66		
<b>Profit Before Tax</b>	<b>443</b>	<b>343</b>	<b>394</b>	<b>14.9</b>	<b>(11.1)</b>
Provision for Tax	(124)	(74)	(80)		
Net Profit	320	269	314		
Share of profit/loss in associates	34	37	16		
Net profit before extraordinaries	353	306	330		
Extraordinaries	-	23	-		
<b>Net Profit- Reported</b>	<b>353</b>	<b>329</b>	<b>330</b>	<b>0.3</b>	<b>(6.6)</b>
<b>EPS (Rs/ share)</b>	<b>3.2</b>	<b>3.0</b>	<b>3.0</b>	<b>0.3</b>	<b>(6.6)</b>
<b>Margins (%)</b>					
<b>EBITDA margin</b>	<b>21.7</b>	<b>16.0</b>	<b>15.5</b>		
EBIT Margin	16.9	11.4	11.3		
NPM	14.9	13.0	11.2		
Tax rate (as % of PBT)		21.6	20.2		

Source: Company, Kotak Institutional Equities

Exhibit 6: Kotak Institutional Equities: Valuation summary of key Indian technology companies

Company	14-Oct-10		Mkt cap.		EPS (Rs)			PER (X)			EV/EBITDA (X)			EV/Sales (X)		
	Price (Rs)	Rating	(Rs m)	(US\$ m)	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E
HCL Technologies	439	REDUCE	302,807	6,862	17.5	24.5	30.1	25.0	17.9	14.6	12.2	10.7	8.8	2.4	1.9	1.6
Hexaware Technologies	84	REDUCE	12,095	274	9.3	5.0	9.4	9.0	16.8	8.9	4.6	10.7	5.5	0.9	0.9	0.7
Infosys Technologies	3,185	BUY	1,828,334	41,435	108.3	124.1	150.0	29.4	25.7	21.2	21.7	17.8	14.5	7.5	6.0	4.8
Mindtree	521	REDUCE	21,428	486	52.2	32.6	51.6	10.0	16.0	10.1	8.6	9.1	6.0	1.6	1.3	1.0
Mphasis BFL	641	SELL	135,105	3,062	43.6	50.3	45.6	14.7	12.7	14.0	11.8	10.2	9.6	3.1	2.6	2.1
Patni Computer Systems	469	REDUCE	62,431	1,415	36.6	41.3	37.5	12.8	11.4	12.5	6.4	5.5	4.6	1.3	1.1	0.9
Polaris Software Lab	178	SELL	17,767	403	15.4	19.1	18.8	11.6	9.3	9.5	5.7	7.4	6.3	0.9	1.0	0.8
Satyam Computer Services	87	REDUCE	102,136	2,315	2.5	5.0	5.4	34.9	17.3	16.1	17.7	11.3	8.4	1.5	1.6	1.3
TCS	986	BUY	1,929,897	43,737	35.1	42.1	48.2	28.1	23.4	20.5	21.3	17.2	14.3	6.2	5.1	4.1
Tech Mahindra	777	REDUCE	96,208	2,180	65.1	68.9	67.8	11.9	11.3	11.4	9.5	11.7	10.4	2.3	2.1	1.8
Wipro	490	ADD	1,199,968	27,195	18.9	22.3	25.7	26.0	22.0	19.1	19.8	16.0	13.3	4.3	3.6	3.0
<b>Technology</b>		<b>Attractive</b>	<b>5,708,174</b>	<b>129,364</b>				<b>25.9</b>	<b>21.9</b>	<b>19.0</b>	<b>18.8</b>	<b>15.7</b>	<b>13.0</b>	<b>4.8</b>	<b>4.0</b>	<b>3.3</b>
<b>KS universe (b)</b>			<b>51,222,513</b>	<b>1,160,850</b>				<b>21.5</b>	<b>17.7</b>	<b>14.6</b>	<b>12.5</b>	<b>10.5</b>	<b>8.7</b>	<b>2.2</b>	<b>1.8</b>	<b>1.6</b>

Company	Target Price	O/S shares (mn)	EPS growth (%)			Net Profit (Rs mn)			EBITDA (Rs mn)			Sales (Rs mn)		
			2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E
HCL Technologies	390	690	0.2	39.7	23.0	13,195	17,553	21,319	24,779	27,627	32,720	125,650	153,552	180,666
Hexaware Technologies	72	144	127.7	(46.3)	87.7	1,343	722	1,355	2,023	858	1,545	10,386	10,310	12,895
Infosys Technologies	3,100	574	5.7	14.5	20.9	62,180	71,217	86,105	78,610	93,362	111,457	227,420	275,997	334,021
Mindtree	550	41	294.3	(37.5)	58.1	2,148	1,343	2,122	2,456	2,279	3,316	12,960	15,554	18,973
Mphasis BFL	550	211	207.5	15.5	(9.3)	9,086	10,607	9,619	11,274	12,674	12,832	42,639	50,466	59,823
Patni Computer Systems	450	133	36.4	12.8	(9.1)	4,700	5,495	4,995	6,439	6,510	7,149	31,646	32,060	37,159
Polaris Software Lab	180	100	16.9	24.3	(1.7)	1,533	1,905	1,873	2,220	2,100	2,330	13,538	15,409	17,673
Satyam Computer Services	80	1,176	(190.7)	102.3	7.0	2,923	5,913	6,326	4,569	7,069	9,229	54,810	49,949	59,782
TCS	965	1,957	32.8	19.8	14.5	68,729	82,337	94,307	86,798	106,313	125,114	300,289	360,438	434,330
Tech Mahindra	735	124	(9.6)	5.7	(1.5)	8,335	9,020	8,886	11,325	9,018	10,027	46,254	49,544	58,097
Wipro	465	2,447	22.1	18.1	15.6	45,935	54,450	62,970	59,056	71,017	83,103	271,242	314,363	371,723
<b>Technology</b>			<b>24.0</b>	<b>18.4</b>	<b>15.1</b>	<b>220,107</b>	<b>260,562</b>	<b>299,876</b>	<b>289,549</b>	<b>338,826</b>	<b>398,821</b>	<b>1,136,834</b>	<b>1,327,642</b>	<b>1,585,141</b>
<b>KS universe (b)</b>			<b>16.2</b>	<b>21.7</b>	<b>21.1</b>									

Note

(a) HCL Technologies is June fiscal year-ending

(b) Patni Computers Systems and Hexaware Technologies are December year-ending.

Source: Kotak Institutional Equities estimates

## September 2010: Results calendar

Mon	Tue	Wed	Thu	Fri	Sat
11-Oct	12-Oct	13-Oct	14-Oct	15-Oct	16-Oct
				Infosys	Godrej Properties
				Karnataka Bank	
				Maharashtra Scooter	
18-Oct	19-Oct	20-Oct	21-Oct	22-Oct	23-Oct
Bajaj Finserv	Bajaj Auto	Canara Bank	ACC	Bank of India	Dr Reddys Laboratories
Essar Oil	Bajaj Holdings	HCL Technologies	Allahabad Bank	Biocon	
HDFC	Cadila Healthcare	Hindustan Zinc	Alstom Projects	Indian Bank	
L&T	Container Corp	Indiabulls Real Estate	Ambuja Cements	Kirloskar Industries	
Sesa Goa	Coromandal International	Jubilant Organosys	Corporation Bank	Piramal Healthcare	
	HDFC Bank	Kotak Mahindra Bank	Indiabulls Financial Services	Vijaya Bank	
	Mindtree	Power Grid Corp	South Indian Bank	Wipro	
	Religare Enterprises	Yes Bank	TCS		
			TVS Motor		
25-Oct	26-Oct	27-Oct	28-Oct	29-Oct	30-Oct
Adani Power	JB Chemicals	Asian Paints	Adani Enterprises	ABB	Aditya Birla Nuvo
Mundra Port & SEZ	NTPC	Dabur India	Bank of Baroda	BPCL	GVK Power
Petronet LNG	Sterlite Industries	Godrej Industries	Cairn India	Federal Bank	Maruti Suzuki
Procter & Gamble	Voltas	Gujarat State Petronet	Colgate Palmolive	Hindustan Construction Co	
Rural Electrification Corp		Hindustan Copper	ElI	ICICI Bank	
Titan Industries		Patni Computer	Glaxosmithkline Pharma	ITC	
Ultratech Cement		Thermax	Grasim Industries	Mahindra & Mahindra	
		Torrent Power	Zee Entertainment Enterprises	Motherson Sumi	
1-Nov	2-Nov	3-Nov	4-Nov	5-Nov	6-Nov
Century Textiles	Jai Corp				
JSW Energy					
8-Nov	9-Nov	10-Nov	11-Nov	12-Nov	13-Nov
			Ranbaxy Laboratories	Tata Power	

Source: BSE, Kotak Institutional Equities

## Kotak Institutional Equities: Valuation summary of key Indian companies

	14-Oct-10		Mkt cap.		O/S shares	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)	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)
Automobiles																																
Ashok Leyland	75	ADD	99,971	2,267	1,330	2.8	4.3	5.9	84.5	52.3	37.5	26.6	17.5	12.7	15.3	11.4	9.0	2.5	2.3	2.0	2.0	1.3	1.3	10.9	13.5	16.7	78	3.8	8.6			
Bajaj Auto	1,524	REDUCE	440,909	9,997	289	117.7	87.8	101.3	160.2	(25.4)	15.4	12.9	17.4	15.0	16.7	12.2	10.4	15.0	9.2	6.3	0.7	1.3	1.3	70.9	65.8	49.5	1,420	(6.8)	23.0			
Bharat Forge	381	REDUCE	90,975	2,063	239	0.7	12.4	19.7	(92.0)	1,705.4	59.1	553.5	30.7	19.3	27.8	13.1	9.2	2.4	2.3	2.1	—	—	—	0.9	0.4	0.1	360	(5.4)	4.9			
Hero Honda	1,862	REDUCE	371,752	8,429	200	111.8	114.9	129.8	74.1	2.8	12.9	16.7	16.2	14.3	10.5	10.3	8.8	10.3	7.2	5.3	1.6	1.7	1.9	59.0	52.1	42.7	1,800	(3.3)	23.8			
Mahindra & Mahindra	718	BUY	427,697	9,697	595	33.9	44.1	51.7	125.8	30.1	17.3	21.2	16.3	13.9	13.9	11.7	9.8	5.3	4.2	3.4	1.3	1.3	1.4	30.0	29.0	27.3	760	5.8	26.1			
Maruti Suzuki	1,557	REDUCE	449,949	10,202	289	86.4	80.6	93.4	105.0	(6.7)	15.8	18.0	19.3	16.7	9.8	10.0	8.3	3.8	3.2	2.7	0.4	0.4	0.4	23.3	17.8	17.5	1,330	(14.6)	22.9			
Tata Motors	1,183	ADD	740,963	16,800	626	27.4	94.8	109.2	(182.5)	246.1	15.2	43.2	12.5	10.8	14.7	7.7	6.7	4.8	3.4	2.5	1.2	0.5	0.5	8.7	11.9	11.1	1,150	(2.8)	98.7			
Automobiles																																
		Cautious	2,622,215	59,454					276.0	58.9	16.9	25.1	15.8	13.5	13.6	9.6	8.2	5.3	4.1	3.2	1.0	0.9	1.0	20.9	25.7	23.7						
Banks/Financial Institutions																																
Andhra Bank	174	BUY	84,172	1,908	485	21.6	22.9	26.7	60.1	6.4	16.4	8.0	7.6	6.5	—	—	—	1.9	1.6	1.4	2.9	3.1	3.6	26.0	23.1	22.7	190	9.5	7.2			
Axis Bank	1,564	ADD	633,652	14,367	405	62.1	78.6	99.9	22.7	26.6	27.2	25.2	19.9	15.7	—	—	—	3.9	3.4	2.9	0.8	1.0	1.2	19.2	18.4	20.2	1,700	8.7	46.8			
Bank of Baroda	979	BUY	357,888	8,114	366	83.7	95.1	115.7	37.3	13.7	21.7	11.7	10.3	8.5	—	—	—	2.6	2.2	1.8	1.5	1.7	2.1	24.4	23.0	23.3	1,000	2.1	8.6			
Bank of India	553	ADD	290,831	6,594	526	33.1	54.5	62.0	(42.1)	64.7	13.6	16.7	10.1	8.9	—	—	—	2.3	1.9	1.7	1.3	2.1	2.4	14.2	20.7	20.1	560	1.3	14.0			
Canara Bank	651	ADD	266,931	6,052	410	73.7	82.2	98.3	45.8	11.6	19.5	8.8	7.9	6.6	—	—	—	2.1	1.7	1.4	1.2	1.5	1.8	22.4	20.8	20.8	580	(10.9)	8.9			
Corporation Bank	731	ADD	104,817	2,377	143	82.0	101.5	118.1	31.8	23.8	16.3	8.9	7.2	6.2	—	—	—	1.8	1.5	1.3	2.3	2.8	3.3	22.0	23.0	22.5	750	2.6	2.0			
Federal Bank	445	ADD	76,135	1,726	171	27.2	36.4	49.0	(7.2)	34.1	34.4	16.4	12.2	9.1	—	—	—	1.6	1.5	1.3	1.1	1.5	2.0	10.3	12.6	15.2	430	(3.4)	7.1			
HDFC	733	REDUCE	1,052,761	23,869	1,436	19.7	23.3	27.9	22.7	18.3	19.9	37.2	31.5	26.3	—	—	—	6.9	6.1	5.4	1.0	1.1	1.3	20.0	20.7	21.8	720	(1.8)	53.0			
HDFC Bank	2,424	REDUCE	1,109,730	25,161	458	64.4	84.9	111.1	22.1	31.7	30.9	37.6	28.6	21.8	—	—	—	5.2	4.5	3.9	0.5	0.7	0.9	16.1	16.9	19.2	2,500	3.1	43.3			
ICICI Bank	1,140	REDUCE	1,270,639	28,809	1,115	36.1	45.2	57.3	6.9	25.3	26.6	31.6	25.2	19.9	—	—	—	2.5	2.3	2.2	1.1	1.3	1.7	8.0	9.5	11.3	1,000	(12.3)	89.5			
IDFC	209	ADD	305,014	6,916	1,458	8.4	9.4	11.2	44.9	12.4	18.7	24.9	22.2	18.7	—	—	—	4.4	2.8	2.4	0.6	0.8	1.1	16.6	15.5	14.3	205	(2.0)	27.3			
India Infoline	118	BUY	36,761	833	312	8.1	7.2	8.7	59.2	(11.9)	21.6	14.5	16.5	13.5	—	—	—	2.3	2.0	1.6	2.7	1.3	1.7	16.4	12.9	14.4	130	10.3	6.3			
Indian Bank	298	ADD	128,050	2,903	430	35.1	32.4	44.1	25.5	(7.7)	36.2	8.5	9.2	6.8	—	—	—	1.9	1.7	1.4	2.2	2.0	2.7	24.1	18.8	21.7	280	(6.0)	5.8			
Indian Overseas Bank	162	BUY	88,121	1,998	545	13.0	16.7	24.8	(46.7)	29.0	48.4	12.5	9.7	6.5	—	—	—	1.4	1.2	1.1	2.2	2.4	2.6	9.6	11.6	15.4	160	(1.1)	5.5			
J&K Bank	762	ADD	36,936	837	48	105.7	119.3	139.6	25.0	12.9	17.1	7.2	6.4	5.5	—	—	—	1.2	1.1	1.0	2.9	3.3	3.8	18.2	17.9	18.3	850	11.6	3.4			
LIC Housing Finance	1,459	REDUCE	138,614	3,143	95	69.7	109.0	119.0	11.5	56.3	9.2	20.9	13.4	12.3	—	—	—	4.3	3.5	2.9	1.0	1.6	1.8	23.6	27.4	24.6	1,325	(9.2)	34.7			
Mahindra & Mahindra Financial	712	REDUCE	68,318	1,549	96	35.9	46.4	56.2	60.0	29.4	21.2	19.8	15.3	12.7	—	—	—	4.0	3.4	2.9	1.1	1.4	1.7	21.5	23.5	23.8	635	(10.8)	4.5			
Oriental Bank of Commerce	494	ADD	123,654	2,804	251	45.3	57.8	66.8	25.3	27.6	15.5	10.9	8.5	7.4	—	—	—	1.7	1.5	1.3	1.8	2.4	2.7	14.5	16.5	16.9	450	(8.8)	9.2			
PFC	374	SELL	429,553	9,739	1,148	20.5	22.9	27.6	53.5	11.9	20.3	18.3	16.3	13.6	—	—	—	3.3	2.9	2.6	1.4	1.5	1.8	18.8	18.3	19.2	275	(26.5)	5.0			
Punjab National Bank	1,328	BUY	418,580	9,491	315	123.9	133.4	163.3	26.4	7.7	22.4	10.7	9.9	8.1	—	—	—	2.5	2.1	1.8	1.7	2.1	2.5	26.2	23.2	23.7	1,450	9.2	9.6			
Reliance Capital	847	NR	208,498	4,727	246	12.9	13.7	9.8	(67.3)	6.5	(28.6)	65.9	61.9	86.7	—	—	—	3.0	3.0	2.9	0.7	0.6	0.5	4.7	4.8	3.4	—	—	34.5			
Rural Electrification Corp.	376	REDUCE	371,654	8,427	987	20.3	25.3	31.2	23.2	24.5	23.4	18.6	14.9	12.1	—	—	—	3.4	2.9	2.5	1.7	2.0	2.5	22.0	21.0	22.5	325	(13.7)	10.6			
Shriram Transport	769	ADD	171,539	3,889	223	39.2	53.3	65.1	30.1	36.2	22.0	19.6	14.4	11.8	—	—	—	4.6	3.9	3.3	1.5	2.1	2.5	28.4	28.2	28.6	800	4.1	8.8			
SREI	109	NR	12,681	288	116	8.3	7.9	9.9	17.8	(4.8)	25.8	13.2	13.8	11.0	—	—	—	1.1	1.0	0.9	1.1	1.1	1.1	11.1	10.5	12.3	—	—	5.3			
State Bank of India	3,261	BUY	2,070,638	46,948	635	144.4	176.8	209.3	0.5	22.4	18.4	22.6	18.4	15.6	—	—	—	3.1	2.8	2.4	0.9	1.0	1.0	14.8	15.9	16.6	3,400	4.2	127.6			
Union Bank	396	BUY	199,926	4,533	505	41.1	48.8	60.2	20.2	18.8	23.5	9.6	8.1	6.6	—	—	—	2.3	1.8	1.5	1.4	1.7	2.0	26.2	25.1	25.1	450	13.7	6.0			
Yes Bank	350	BUY	118,985	2,698	340	15.0	18.7	25.8	46.7	24.5	38.3	23.3	18.7	13.6	—	—	—	3.9	3.3	2.7	0.4	0.5	0.7	20.3	18.8	21.7	375	7.1	15.8			
Banks/Financial Institutions																																
		Attractive	10,264,640	232,732					15.0	21.7	22.3	20.3	16.7	13.7	—	—	—	3.1	2.7	2.4	1.1	1.3	1.5	15.5	16.4	17.4						
Cement																																
ACC	1,019	REDUCE	191,515	4,342	188	83.2	66.0	72.9	47.9	(20.7)	10.4	12.2	15.4	14.0	6.6	7.4	6.0	3.0	2.6	2.3	2.6	2.3	2.3	29.3	20.0	19.3	980	(3.9)	10.9			
Ambuja Cements	142	SELL	215,797	4,893	1,522	8.0	8.4	8.9	11.4	5.3	5.1	17.7	16.8	16.0	9.8	9.3	8.1	3.1	2.7	2.4	1.3	1.4	1.5	19.3	17.8	16.5	108	(23.8)	7.0			
Grasim Industries	2,343	ADD	214,807	4,870	92	301.0	242.3	292.5	26.1	(19.5)	20.7	7.8	9.7	8.0	4.6	4.9	3.7	1.7	1.5	1.3	1.4	1.5	1.5	22.9	16.5	17.2	2,500	6.7	6.6			
India Cements	117	SELL	36,062	818	307	10.0	7.4	9.4	(43.5)	(26.5)	27.5	11.7	15.9	12.5	6.3	8.2	5.9	0.9	0.8	0.8	1.8	2.7	2.7	8.2	5.7	7.0	100	(14.8)	5.4			
Shree Cement	2,048	BUY	71,357	1,618	35	208.0	221.1	242.5	19.0	6.3	9.7	9.8	9.3	8.4	4.8	4.7	3.7	3.9	2.8	2.1	0.5	0.5	0.5	48.0	35.0	28.1	2,550	24.5	1.8			
UltraTech Cement	1,141	ADD	312,564	7,087	274	88.2	66.2	99.5	12.0	(25.0)	50.4	12.9	17.2	11.5	15.1	9.5	6.0	5.7	2.5	2.0	0.2	0.3	0.3	25.9	18.0	22.3	1,100	(3.6)	5.5			
Cement																																
		Neutral	1,042,103	23,628					19.3	(11.5)	22.6	13.6	13.8	11.3	7.2	7.0	5.3	2.8														

## Kotak Institutional Equities: Valuation summary of key Indian companies

	14-Oct-10		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)	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	(Rs)	(%)	(US\$ mn)	
Consumer products																														
Asian Paints	2,699	ADD	258,892	5,870	96	71.5	89.0	104.3	85.3	24.4	17.3	37.7	30.3	25.9		23.3	18.9	15.9	16.1	12.6	10.1	1.0	1.4	1.6	51.8	47.9	44.4	3,000	11.2	9.1
Colgate-Palmolive (India)	851	SELL	115,669	2,623	136	31.1	34.5	39.6	44.2	10.9	14.6	27.3	24.6	21.5		22.4	18.3	15.6	35.5	30.2	25.8	2.4	3.0	3.5	156.1	132.3	129.4	830	(2.4)	3.1
Dabur India	104	ADD	180,478	4,092	1,731	2.9	3.4	4.2	28.2	16.8	23.3	36.0	30.8	25.0		26.7	21.5	17.4	17.1	13.2	11.0	1.5	1.7	2.1	54.3	49.0	48.4	115	10.3	5.7
GlaxoSmithkline Consumer (a)	2,102	ADD	88,388	2,004	42	55.4	68.8	83.9	23.6	24.3	22.0	38.0	30.6	25.0		21.3	18.4	14.7	9.9	8.2	6.8	0.9	1.1	1.3	27.9	29.1	29.6	2,200	4.7	1.1
Godrej Consumer Products	401	ADD	129,905	2,945	324	11.3	13.5	18.0	69.5	18.9	33.4	35.4	29.8	22.3		28.1	21.2	15.9	13.5	7.3	6.6	1.0	0.8	0.8	44.6	31.9	31.1	450	12.1	2.4
Hindustan Unilever	299	SELL	652,652	14,798	2,182	9.4	10.2	12.0	(0.9)	8.4	17.5	31.7	29.3	24.9		21.9	21.0	17.2	25.3	21.8	18.9	2.5	2.8	3.3	71.1	80.2	81.3	250	(16.4)	14.9
ITC	175	ADD	1,339,228	30,365	7,651	5.3	6.4	7.5	22.6	20.5	17.8	33.0	27.4	23.2		20.1	17.3	14.4	9.0	7.6	6.5	2.9	1.6	1.7	29.2	31.6	31.3	175	(0.0)	27.9
Jubilant Foodworks	515	SELL	32,895	746	64	5.5	10.0	13.1	340.6	79.9	31.4	93.0	51.7	39.3		49.5	29.5	19.8	28.0	18.2	12.4	—	—	—	46.6	42.6	37.5	400	(22.4)	25.9
Jyothy Laboratories	284	ADD	21,789	494	77	11.0	14.3	17.0	99.6	30.1	18.2	25.8	19.8	16.8		20.9	13.2	10.5	5.3	3.5	3.0	1.6	1.3	1.7	16.0	18.4	19.6	320	12.5	0.8
Marico	132	ADD	80,573	1,827	612	4.4	5.3	6.4	32.9	20.2	20.4	29.6	24.6	20.5		20.2	16.5	13.7	12.1	8.7	6.5	0.5	0.7	0.9	48.9	41.6	36.7	140	6.3	1.9
Nestle India (a)	3,261	REDUCE	314,455	7,130	96	74.4	90.7	109.8	27.0	22.0	21.0	43.8	35.9	29.7		29.0	24.0	20.3	54.1	40.9	31.4	1.5	1.9	2.2	136.0	129.7	119.5	3,100	(5.0)	4.0
Tata Global Beverages	133	ADD	82,278	1,866	618	6.1	7.3	8.7	14.5	20.7	19.0	22.0	18.2	15.3		10.6	8.0	6.8	1.7	1.6	1.5	1.5	1.8	2.2	10.2	11.7	12.9	130	(2.3)	4.8
Consumer products	Cautious		3,297,201	74,758					23.8	18.4	19.0	33.7	28.5	23.9		21.6	18.5	15.3	11.4	9.4	8.1	2.2	1.8	2.1	33.8	33.1	33.7			
Constructions																														
IVRCL	162	BUY	43,162	979	267	7.9	9.1	11.6	(6.7)	15.0	27.9	20.5	17.8	13.9		10.4	9.9	7.8	2.1	1.9	1.7	0.2	0.2	0.2	11.0	11.3	12.9	205	26.8	7.8
Nagarjuna Construction Co.	150	BUY	38,385	870	257	7.1	8.9	11.6	6.1	24.3	31.1	21.0	16.9	12.9		10.7	9.3	7.8	1.7	1.6	1.4	0.9	1.3	1.3	9.3	9.8	11.8	205	37.0	4.4
Punj Lloyd	131	REDUCE	44,495	1,009	339	(12.9)	9.8	12.0	79.2	(175.4)	22.4	(10.1)	13.4	11.0		36.7	7.2	6.6	1.5	1.3	1.2	(0.1)	0.3	0.8	(15.8)	10.3	11.4	140	6.6	13.7
Sadbhav Engineering	1,538	BUY	23,072	523	15	42.8	61.8	87.2	(16.3)	44.3	41.0	35.9	24.9	17.6		19.6	13.1	10.1	5.7	3.8	3.1	0.2	0.4	0.4	15.8	15.1	17.8	1,750	13.8	0.4
Construction	Attractive		149,115	3,381					(91.1)	4,479	28.0	764.0	16.7	13.0		15.6	8.8	7.5	1.9	1.7	1.5	0.3	0.6	0.7	0.3	10.3	11.8			
Energy																														
Aban Offshore	867	ADD	37,742	856	44	94.5	151.1	129.7	(2.5)	59.9	(14.2)	9.2	5.7	6.7		8.4	7.0	6.7	1.7	1.6	1.4	0.4	0.4	0.5	21.7	32.9	21.9	915	5.5	36.9
Bharat Petroleum	723	ADD	261,448	5,928	362	58.6	57.0	65.4	230	(3)	14.8	12	13	11.0		6.9	6.6	6.2	1.9	1.7	1.5	1.9	2.6	3.0	14.9	13.3	13.8	855	18.2	29.5
Cairn India	337	RS	639,660	14,503	1,897	5.5	20.5	36.6	29.0	270.1	78.3	60.9	16.4	9.2		47.8	9.8	6.0	1.9	1.7	1.5	—	—	4.4	3.1	10.7	17.2	—	—	32.1
Castrol India (a)	489	SELL	120,945	2,742	247	15.4	21.0	21.7	45	36	3.5	32	23	22.5		18.9	14.5	13.8	26.3	25.0	23.7	2.6	3.5	3.6	83.8	109.9	107.9	390	(20.3)	2.4
GAIL (India)	504	BUY	638,870	14,485	1,268	24.8	26.8	40.3	11.7	8.2	50.4	20.3	18.8	12.5		11.5	11.3	8.8	3.5	3.1	2.6	1.5	1.7	2.5	17.4	16.6	21.7	550	9.2	18.3
GSPL	118	SELL	66,510	1,508	562	7.3	7.1	8.0	233	(3)	12.6	16	17	14.9		8.1	8.0	6.7	3.9	3.2	2.9	0.8	1.5	2.7	27.1	21.2	20.6	83	(29.8)	5.5
Hindustan Petroleum	498	BUY	168,827	3,828	339	51.6	52.1	58.5	204.2	1.0	12.4	9.7	9.6	8.5		3.5	3.2	2.9	1.3	1.1	1.0	2.4	3.3	3.7	13.1	11.9	12.1	625	25.5	31.3
Indian Oil Corporation	409	ADD	993,881	22,534	2,428	49.1	37.9	41.9	399	(23)	10.7	8	11	9.8		6.0	6.2	5.4	1.8	1.7	1.5	3.2	2.8	3.1	22.4	15.3	15.4	480	17.3	13.9
Oil India	1,445	REDUCE	347,372	7,876	240	115.2	131.9	149.0	13.9	14.6	12.9	12.5	10.9	9.7		5.8	4.3	3.7	2.3	2.1	1.8	2.4	3.0	3.5	16.8	17.9	17.9	1,550	7.3	4.0
Oil & Natural Gas Corporation	1,355	BUY	2,898,299	65,714	2,139	90.3	116.4	136.7	(1)	29	17.5	15	12	9.9		5.3	4.6	4.0	2.2	2.0	1.8	2.4	3.1	3.5	14.4	16.8	17.7	1,500	10.7	33.7
Petronet LNG	117	SELL	87,825	1,991	750	5.4	6.5	7.9	(22.0)	20.5	21.8	21.7	18.0	14.8		12.3	10.5	9.1	3.4	3.0	2.6	1.5	1.7	2.3	15.9	16.7	17.6	88	(24.9)	9.1
Reliance Industries	1,059	REDUCE	3,151,584	71,456	2,976	49.6	57.7	74.4	(2)	16	28.9	21	18	14.2		10.7	8.6	7.1	2.1	1.9	1.7	0.7	0.8	0.9	11.4	12.1	13.9	1,015	(4.2)	131.1
Energy	Cautious		9,412,962	213,422					36.6	15.9	23.9	15.7	13.6	11.0		7.7	6.5	5.5	2.2	1.9	1.7	1.6	1.9	2.6	13.7	14.3	15.8			
Industrials																														
ABB	927	REDUCE	196,407	4,453	212	16.7	18.3	33.1	(35.2)	9.3	80.7	55.4	50.7	28.0		31.8	29.2	16.4	8.1	7.2	5.9	0.2	0.3	0.4	15.6	15.0	23.0	725	(21.8)	5.7
BGR Energy Systems	766	BUY	55,138	1,250	72	16.0	28.0	41.1	32.2	74.4	46.9	47.8	27.4	18.6		26.8	15.7	11.2	9.8	7.8	5.9	0.4	0.9	1.1	22.3	31.7	36.1	950	24.1	4.3
Bharat Electronics	1,840	REDUCE	147,236	3,338	80	96.1	105.9	120.3	(7.4)	10.2	13.6	19.1	17.4	15.3		9.1	8.0	6.7	3.3	2.9	2.5	1.0	1.4	1.4	17.5	17.7	17.6	1,800	(2.2)	3.4
Bharat Heavy Electricals	2,563	REDUCE	1,254,517	28,444	490	87.9	114.3	135.5	37.7	30.0	18.5	29.2	22.4	18.9		16.4	12.7	10.5	7.9	6.2	5.0	0.7	1.0	1.1	29.8	31.1	29.3	2,600	1.5	31.3
Crompton Greaves	325	REDUCE	208,295	4,723	642	12.8	14.0	16.3	46.5	9.0	16.6	25.3	23.2	19.9		14.7	13.0	11.0	8.3	6.4	5.0	0.4	0.6	0.7	37.9	31.1	28.2	320	(1.4)	9.4
Larsen & Toubro	2,012	ADD	1,211,657	27,472	602	57.9	74.7	90.2	15.6	29.0	20.7	34.7	26.9	22.3		19.2	14.1	11.7	5.4	4.5	3.8	0.6	0.6	0.7	18.6	18.3	18.5	2,150	6.9	54.0
Maharashtra Seamless	439	BUY	30,980	702	71	40.2	43.6	49.8	12.1	8.5	14.2	10.9	10.1	8.8		6.0	5.2	4.2	1.9	1.7	1.5	1.4	1.8	2.3	19.3	17.9	17.7	450	2.4	0.7
Siemens	828	REDUCE	279,185	6,330	337	25.2	27.0	31.9	56.4	7.3	18.0	32.9	30.7	26.0		20.3	18.5	15.4	8.2	6.8	5.7	0.6	0.6	0.8	27.6	24.2	23.8	635	(23.3)	9.0
Suzlon Energy	58	REDUCE	92,834	2,105	1,594	(6.2)	(0.8)	3.3	(185.4)	(86.8)	(504.1)	(9.4)	(71.8)	17.8		14.9	12.5	8.3	1.4	1.2	1.2	—	—	0.3	(11.4)	(1.8)	6.9	55	(5.6)	23.9
Thermax	801	ADD	95,397	2,163	119	21.7	29.5	39.7	(10.4)	35.9	34.4	36.8	27.1	20.2		19.1	14.9	11.1	8.8	7.3	5.9	0.6	1.1	1.4	25.0	29.5	32.2	865	8.0	1.5
Voltas	239	REDUCE	78,963	1,790	331	10.9	11.8	13.4	57.4	8.2	14.3	22.0	20.3	17.8		13.2	11.5	9.7	7.4	6.0	4.9	1.3	1.4	1.6	38.3	32.5	30.2	225	(5.8)	6.0
Industrials	Attractive		3,650,610	82,771					1.3	34.8	25.8	34.5	25.6	20.3		17.2	13.6	11.0	5											

## Kotak Institutional Equities: Valuation summary of key Indian companies

	14-Oct-10		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)	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	(Rs)	Upside	ADVT-3mo	
Infrastructure																														
Container Corporation	1,315	REDUCE	170,898	3,875	130	61.1	74.3	85.9	0.3	21.7	15.6	21.5	17.7	15.3	15.2	12.3	10.3	3.9	3.4	2.9	1.1	1.3	1.5	19.6	20.6	20.5	1,250	(4.9)	2.7	
GMR Infrastructure	58	ADD	211,403	4,793	3,667	0.4	0.2	0.1	(43.8)	(48.9)	(40.0)	133.8	261.9	436.1	23.5	15.2	14.2	2.0	1.7	1.7	—	—	—	2.4	1.2	0.7	65	12.7	6.7	
GVK Power & Infrastructure	45	BUY	70,433	1,597	1,579	0.8	1.1	1.4	6.7	33.5	32.4	54.8	41.1	31.0	18.6	17.0	17.4	2.2	2.1	2.0	—	0.7	0.7	4.7	5.3	6.7	54	21.1	6.9	
IRB Infrastructure	258	RS	85,717	1,943	332	9.7	12.6	12.1	83.8	29.2	(3.7)	26.5	20.5	21.3	12.7	11.4	10.6	3.7	2.8	2.3	—	—	—	15.6	15.7	11.9	—	—	15.1	
Mundra Port and SEZ	167	REDUCE	336,712	7,634	2,017	3.3	4.3	7.0	55.7	28.9	63.7	50.0	38.8	23.7	37.1	24.4	17.1	9.5	7.9	6.2	—	—	—	20.8	22.3	29.3	150	(10.1)	7.2	
Infrastructure																														
		Attractive	875,162	19,843					16.3	20.5	28.4	42.1	35.0	27.2	22.0	16.3	14.0	3.7	3.1	2.8	—	0.3	0.3	8.7	9.0	10.4				
Media																														
DB Corp	275	BUY	49,974	1,133	182	10.6	13.0	15.7	286.5	22.4	21.0	25.9	21.1	17.5	14.4	11.9	9.8	7.7	6.2	5.4	0.7	1.1	1.5	40.3	32.6	33.2	290	5.4	0.6	
DishTV	57	ADD	60,826	1,379	1,063	(2.5)	(1.8)	0.1	(62.0)	(28.8)	(107.4)	(22.9)	(32.2)	437.3	74.8	29.9	15.8	14.8	27.4	25.8	—	—	—	249.3	(59.7)	6.1	47	(17.8)	3.7	
HT Media	162	NR	38,094	864	235	6.1	7.7	9.2	623.3	25.9	19.8	26.5	21.1	17.6	13.3	11.1	9.2	3.9	3.5	3.2	0.6	1.2	2.5	15.6	17.5	18.9	—	—	0.4	
Jagran Prakashan	137	BUY	41,212	934	301	5.8	6.6	7.7	92.0	13.4	17.0	23.4	20.7	17.7	14.1	12.0	10.2	6.7	6.1	5.6	2.6	2.9	3.7	30.0	31.1	33.3	145	6.0	1.8	
Sun TV Network	513	REDUCE	202,301	4,587	394	13.1	18.0	22.5	44.8	36.9	25.2	39.0	28.5	22.8	22.2	16.5	13.3	10.4	8.8	7.3	1.5	1.5	1.8	28.4	33.7	35.1	420	(18.2)	3.6	
Zee Entertainment Enterprises	277	REDUCE	120,303	2,728	435	10.6	11.8	14.8	25.7	11.0	25.2	26.1	23.5	18.8	19.0	15.3	11.8	3.1	3.0	2.9	0.9	1.1	1.4	12.8	13.2	16.0	300	8.4	14.3	
Media																														
		Neutral	512,710	11,625					186.0	35.6	38.2	42.1	31.1	22.5	20.2	15.5	12.1	6.1	5.6	5.1	1.1	1.3	1.6	14.4	18.1	22.7				
Metals																														
Hindalco Industries	216	ADD	413,233	9,369	1,914	20.0	14.5	16.3	25.0	(27.4)	12.7	10.8	14.9	13.2	6.2	8.3	8.5	1.9	1.7	1.5	0.6	0.6	0.6	20.4	12.2	12.3	225	4.2	32.2	
Hindustan Zinc	1,219	BUY	515,130	11,680	423	95.6	102.5	116.0	48.2	7.2	13.1	12.7	11.9	10.5	8.5	6.9	5.0	2.7	2.2	1.8	0.5	0.5	0.5	24.1	20.8	19.4	1,240	1.7	4.9	
Jindal Steel and Power	719	REDUCE	669,697	15,184	931	38.4	50.9	56.0	17.3	32.7	9.9	18.7	14.1	12.8	12.9	9.3	7.8	5.9	4.2	3.1	0.2	0.3	0.3	37.8	34.9	28.0	625	(13.1)	23.6	
JSW Steel	1,348	REDUCE	340,014	7,709	252	80.4	71.9	112.2	481.1	(10.6)	56.1	16.8	18.8	12.0	12.0	9.8	6.7	3.1	1.9	1.4	0.5	0.7	0.7	16.0	12.5	13.6	1,150	(14.7)	40.8	
National Aluminium Co.	408	SELL	262,814	5,959	644	12.6	14.3	17.3	(34.9)	13.3	20.5	32.3	28.5	23.6	15.4	12.7	10.5	2.5	2.4	2.3	0.6	1.2	1.2	8.1	8.6	9.8	260	(36.3)	1.8	
Sesa Goa	375	REDUCE	333,549	7,563	890	29.6	58.6	46.3	23.5	98.4	(21.0)	12.7	6.4	8.1	10.5	4.5	4.5	4.2	2.6	2.0	0.9	0.9	0.9	35.8	41.5	23.7	340	(9.3)	45.2	
Sterite Industries	182	ADD	612,494	13,887	3,362	12.0	13.7	18.7	2.8	13.6	36.7	15.2	13.3	9.8	9.7	8.4	5.1	1.7	1.5	1.3	0.5	0.5	0.5	12.9	11.7	14.2	200	9.8	36.6	
Tata Steel	653	REDUCE	596,653	13,528	914	(3.6)	66.5	70.0	(103.6)	(1,968.8)	5.2	(183.3)	9.8	9.3	11.6	6.2	5.9	2.6	1.9	1.6	1.2	1.2	—	(1.5)	22.4	18.8	650	(0.4)	108.4	
Metals																														
		Cautious	3,743,583	84,879					(19.7)	50.9	11.5	18.5	12.3	11.0	10.0	7.6	6.4	2.7	2.1	1.8	0.6	0.7	0.5	14.3	17.2	16.0				
Pharmaceutical																														
Apollo Hospitals	550	BUY	70,809	1,605	129	10.9	14.1	17.8	28.8	28.4	26.5	50.2	39.1	30.9	24.2	17.7	14.8	4.2	4.0	3.5	—	—	—	8.3	9.8	11.4	72	(86.9)	1.9	
Biocon	403	BUY	80,550	1,826	200	14.8	17.8	22.0	216.4	19.8	23.7	27.1	22.7	18.3	15.7	13.2	11.0	4.5	3.9	3.3	—	—	—	17.9	18.8	20.0	400	(0.7)	7.0	
Cipla	334	REDUCE	268,497	6,088	803	13.7	14.0	16.6	38.1	1.9	19.2	24.4	24.0	20.1	17.5	16.1	13.7	4.5	4.0	3.4	0.6	0.7	0.7	21.1	17.6	18.2	295	(11.8)	11.4	
Cadila Healthcare	695	REDUCE	142,280	3,226	205	24.7	33.2	37.7	66.9	34.2	13.7	28.1	21.0	18.4	18.2	14.0	12.4	8.7	6.5	5.1	0.7	1.0	1.1	36.0	35.8	31.3	580	(16.5)	1.9	
Dishman Pharma & chemicals	179	ADD	14,555	330	81	14.4	17.8	22.8	(19.7)	23.7	28.0	12.4	10.0	7.8	9.5	7.7	6.0	1.8	1.6	1.3	—	—	—	15.5	16.8	18.3	230	28.5	0.8	
Divi's Laboratories	724	REDUCE	94,616	2,145	131	26.1	34.0	44.9	(18.2)	30.4	32.1	27.8	21.3	16.1	20.6	15.7	11.3	6.2	5.1	4.2	—	—	—	24.7	26.4	28.5	800	10.4	3.1	
Dr Reddy's Laboratories	1,575	REDUCE	266,782	6,049	169	48.1	66.7	70.8	48.3	38.8	6.1	32.8	23.6	22.2	18.0	13.7	12.7	7.1	5.6	4.6	0.4	0.5	0.6	22.2	26.3	22.6	1,150	(27.0)	17.0	
GlaxoSmithkline Pharmaceuticals (a)	2,305	REDUCE	195,249	4,427	85	59.1	69.7	79.2	8.1	18.0	13.5	39.0	33.1	29.1	22.7	19.3	16.7	10.9	9.3	7.9	—	—	—	29.8	30.4	29.4	1,880	(18.4)	2.1	
Glenmark Pharmaceuticals	310	NR	84,950	1,926	274	12.7	19.2	20.3	14.7	50.6	5.6	24.3	16.2	15.3	15.3	10.0	9.6	3.6	3.0	2.5	0.0	0.0	0.0	16.7	19.9	17.6	—	—	6.1	
Jubilant Organosys	317	BUY	50,275	1,140	159	26.5	31.8	38.9	49.0	19.8	22.4	11.9	10.0	8.1	8.9	8.1	6.5	2.3	1.9	1.5	0.6	0.8	0.9	26.3	21.7	21.1	400	26.3	1.8	
Lupin	432	ADD	191,048	4,332	442	15.4	19.8	25.5	27.9	28.7	28.7	28.0	21.8	16.9	23.7	17.2	13.6	8.2	7.8	6.8	3.0	3.4	3.6	36.6	37.2	43.6	400	(7.4)	9.0	
Piramal Healthcare	518	REDUCE	108,279	2,455	209	22.4	13.3	9.5	29.7	(40.4)	(28.9)	23.1	38.8	54.6	16.7	7.5	5.9	6.4	1.2	1.0	1.0	1.2	0.7	30.7	140.7	16.5	490	(5.4)	27.3	
Ranbaxy Laboratories	596	SELL	255,498	5,793	428	7.1	27.5	14.8	(128.4)	289.4	(46.0)	84.4	21.7	40.2	20.3	12.4	20.6	6.5	4.7	4.3	—	0.7	0.7	6.9	22.9	10.5	340	(43.0)	15.0	
Sun Pharmaceuticals	2,103	REDUCE	435,594	9,876	207	65.2	90.4	87.4	(25.7)	38.6	(3.3)	32.2	23.3	24.1	24.9	17.5	17.0	5.2	4.4	3.8	0.6	0.6	0.6	17.8	21.0	17.3	1,835	(12.7)	9.4	
Pharmaceuticals																														
		Attractive	2,258,982	51,218					45.2	33.9	4.8	30.6	22.9	21.8	19.0	14.2	13.4	5.7	4.1	3.5	0.6	0.8	0.8	18.6	18.0	16.1				
Property																														
DLF	384	ADD	656,285	14,880	1,708	10.7	16.3	25.1	(60.0)	53.1	53.8	36.0	23.5	15.3	23.9	15.3	11.5	2.4	2.3	2.0	0.8	0.8	1.3	7.1	9.9	13.8	378	(1.6)	51.0	
Housing Development & Infrastructure	274	ADD	105,543	2,393	385	12.4	14.2	16.7	(41.2)	14.2	17.9	22.1	19.4	16.4	10.9	12.4	8.2	1.5	1.3	1.2	1.0	1.8	1.8	10.0	9.3	9.9	311	13.4	37.1	
Indiabulls Real Estate	195	RS	78,360	1,777	401	0.3	2.5	7.4	(62.7)	777.3	195.3	685.8	78.2	26.5	(34.0)	(360.6)	15.5	0.8	0.8	0.8	—	—	—	0.1	1.1	3.2	285	45.9	18.7	
Mahindra Life Space Developer	489	ADD	20,655	468	42	20.1	23.6	35.8	77.8	17.6	51.5	24.3	20.7	13.7	21.6	15.6	7.8	2.2	2.0	1.8	0.8	0.8	0.8	8.9	9.7	13.4	540	10.5	0.9	
Phoenix Mills	250	BUY	36,161	820	145	4.1	6.6	7.6	(16.7)	59.0	15.6	60.4	38.0	32.8	48.3	26.6	22.3	2.3	2.2	2.1	0.4	0.6	0.8	3.9	6.0	6.7	303	21.4	0.7	
Puravankara Projects	129	REDUCE	27,542	624	213	6.8	8.2	8.0	0.6	20.1	(1.9)	19.0	15.8	16.1	21.0	16.0	15.5	1.9	1.8	1.6	1.5	1.5	1.5	10.5	11.6	10.5	122	(5.5)	0.7	
Sobha Developers	380	ADD	37,274	845	98	14.1	17.0	26.2	(7.1)	20.8	54.0	27.0	22.4	14.5	19.4	15.1	10.0	2.2	2.0	1.8	0.3	0.4	0.7	9.2	9.2	12.8	414	8.9	3.0	
Unitech	94	SELL	251,432	5,701	2,666	3.0	3.8	5.1	(58.8)	25.0	34.0	31.1	24.9	18.6	29.9	21.6	14.1	2.4	2.0	1.9	—	—	—	1.6	9.0	8.7	10.6	74	(21.5)	54.6
Property																														
		Cautious	1,213,252	27,508					(48.8)	44.8	45.7	34.6	2																	

## Kotak Institutional Equities: Valuation summary of key Indian companies

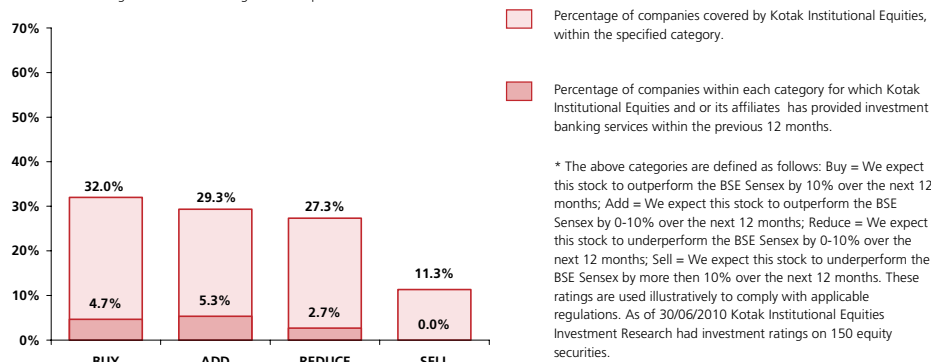
Company	14-Oct-10		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target			
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	shares (mn)	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	(Rs)	Upside (%)	ADVT-3mo (US\$ mn)	
<b>Retail</b>																														
Titan Industries	3,320	ADD	147,386	3,342	44	57.3	83.9	110.9	29.3	46.5	32.2	58.0	39.6	29.9	36.9	26.7	20.3	20.0	14.0	9.9	0.5	0.4	0.4	38.7	41.7	38.8	3,600	8.4	13.3	
<b>Retail</b>		<b>Neutral</b>	<b>147,386</b>	<b>3,342</b>					<b>29.3</b>	<b>46.5</b>	<b>32.2</b>	<b>58.0</b>	<b>39.6</b>	<b>29.9</b>	<b>36.9</b>	<b>26.7</b>	<b>20.3</b>	<b>20.0</b>	<b>14.0</b>	<b>9.9</b>	<b>0.5</b>	<b>0.4</b>	<b>0.4</b>	<b>34.5</b>	<b>35.4</b>	<b>33.2</b>				
<b>Sugar</b>																														
Bajaj Hindustan	131	SELL	25,058	568	191	4.9	9.9	8.9	52.3	101.0	(9.9)	26.6	13.2	14.7	8.7	6.3	6.0	1.1	1.0	0.9	0.5	0.5	0.5	4.2	7.9	6.5	99	(24.4)	4.8	
Balrampur Chini Mills	92	ADD	23,557	534	257	4.3	10.4	7.0	(43.2)	140.4	(32.7)	21.2	8.8	13.1	9.6	5.9	6.4	1.7	1.5	1.4	0.5	0.5	0.5	8.2	17.9	10.9	93	1.4	4.7	
Shree Renuka Sugars	82	BUY	54,991	1,247	670	9.9	7.7	8.1	195.3	(21.9)	4.7	8.3	10.7	10.2	5.1	6.0	5.2	1.9	1.6	1.4	0.5	0.4	0.4	22.4	17.0	14.8	76	(7.4)	14.0	
<b>Sugar</b>		<b>Cautious</b>	<b>103,606</b>	<b>2,349</b>					<b>80.0</b>	<b>12.4</b>	<b>(8.4)</b>	<b>12.0</b>	<b>10.7</b>	<b>11.6</b>	<b>6.9</b>	<b>6.1</b>	<b>5.7</b>	<b>1.6</b>	<b>1.4</b>	<b>1.2</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>13.1</b>	<b>12.8</b>	<b>10.5</b>				
<b>Technology</b>																														
HCL Technologies	439	REDUCE	302,807	6,866	690	17.5	24.5	30.1	0.2	39.7	23.0	25.0	17.9	14.6	12.2	10.7	8.8	4.3	3.6	3.2	0.9	0.9	1.4	19.3	22.0	21.2	390	(11.1)	9.4	
Hexaware Technologies	84	REDUCE	12,095	274	144	9.3	5.0	9.4	127.7	(46.3)	87.7	9.0	16.8	8.9	4.6	10.7	5.5	1.4	1.3	1.2	1.2	1.2	1.2	17.8	8.2	14.0	72	(14.5)	1.7	
Infosys Technologies	3,185	BUY	1,828,334	41,454	574	108.3	124.1	150.0	5.7	14.5	20.9	29.4	25.7	21.2	21.7	17.8	14.5	7.9	6.6	5.4	0.8	1.1	1.3	30.1	28.0	28.0	3,100	(2.7)	62.0	
Mphasis BFL	641	SELL	135,105	3,063	211	43.6	50.3	45.6	207.5	15.5	(9.3)	14.7	12.7	14.0	11.8	10.2	9.6	5.8	4.1	3.2	0.5	0.6	0.7	48.1	37.5	25.8	550	(14.2)	6.7	
Mindtree	521	REDUCE	21,428	486	41	52.2	32.6	51.6	294.3	(37.5)	58.1	10.0	16.0	10.1	8.6	9.1	6.0	3.2	2.7	2.2	0.4	0.6	1.0	35.2	19.2	23.7	550	5.6	1.0	
Patni Computer Systems	469	REDUCE	62,431	1,416	133	36.6	41.3	37.5	36.4	12.8	(9.1)	12.8	11.4	12.5	6.4	5.5	4.6	1.7	1.6	1.5	1.5	1.8	1.6	18.2	15.1	12.4	450	(4.0)	14.1	
Polaris Software Lab	178	SELL	17,767	403	100	15.4	19.1	18.8	16.9	24.3	(1.7)	11.6	9.3	9.5	5.7	7.4	6.3	2.0	1.7	1.5	2.0	2.1	2.2	18.6	20.1	17.2	180	1.0	3.6	
Satyam Computer Services	87	REDUCE	102,136	2,316	1,176	2.5	5.0	5.4	(190.7)	102.3	7.0	34.9	17.3	16.1	17.7	11.3	8.4	5.4	5.7	4.2	—	—	—	58.5	32.2	30.0	80	(7.9)	37.7	
TCS	986	BUY	1,929,897	43,757	1,957	35.1	42.1	48.2	32.8	19.8	14.5	28.1	23.4	20.5	21.3	17.2	14.3	9.2	7.6	6.4	2.0	1.7	2.0	37.6	35.6	33.9	965	(2.1)	37.2	
Tech Mahindra	777	REDUCE	96,208	2,181	124	65.1	68.9	67.8	(9.6)	5.7	(1.5)	11.9	11.3	11.4	9.5	11.7	10.4	3.3	2.8	2.2	0.4	0.3	0.3	29.5	20.3	16.2	735	(5.3)	8.7	
Wipro	490	ADD	1,199,968	27,207	2,447	18.9	22.3	25.7	22.1	18.1	15.6	26.0	22.0	19.1	19.8	16.0	13.3	6.1	5.0	4.1	0.7	0.9	1.1	26.5	25.0	23.7	465	(5.2)	13.9	
<b>Technology</b>		<b>Attractive</b>	<b>5,708,174</b>	<b>129,422</b>					<b>24.0</b>	<b>18.4</b>	<b>15.1</b>	<b>25.9</b>	<b>21.9</b>	<b>19.0</b>	<b>18.8</b>	<b>15.7</b>	<b>13.0</b>	<b>6.8</b>	<b>5.7</b>	<b>4.7</b>	<b>1.2</b>	<b>1.2</b>	<b>1.4</b>	<b>26.3</b>	<b>25.9</b>	<b>24.8</b>				
<b>Telecom</b>																														
Bharti Airtel	345	REDUCE	1,310,362	29,710	3,798	23.6	20.0	20.7	5.8	(15.6)	3.9	14.6	17.3	16.6	8.3	8.9	7.3	3.1	2.6	2.3	—	—	—	24.4	16.5	14.7	305	(11.6)	43.1	
IDEA	73	REDUCE	242,040	5,488	3,300	2.7	2.2	1.5	(5.8)	(19.7)	(30.8)	26.8	33.4	48.3	9.1	9.8	8.4	2.1	2.0	1.9	—	—	—	7.2	6.2	4.2	55	(25.0)	10.3	
MTNL	67	SELL	42,336	960	630	(15.6)	(10.4)	(9.1)	(750.8)	(33.7)	(11.9)	(4.3)	(6.5)	(7.3)	(0.6)	(0.8)	(1.0)	0.4	0.4	0.4	—	—	—	(8.5)	(6.1)	(5.7)	50	(25.6)	2.4	
Reliance Communications	181	SELL	385,133	8,732	2,133	22.1	6.0	9.4	(30.2)	(72.8)	56.1	8.2	30.1	19.3	7.4	10.0	8.3	1.0	1.0	0.9	0.4	—	—	—	11.7	3.2	4.9	125	(30.8)	21.1
Tata Communications	332	REDUCE	94,720	2,148	285	14.0	15.2	15.7	3.2	8.2	3.5	23.7	21.9	21.2	9.6	8.9	8.5	1.3	1.3	1.3	2.0	2.3	2.6	5.2	5.5	5.5	225	(32.3)	3.2	
<b>Telecom</b>		<b>Cautious</b>	<b>2,074,591</b>	<b>47,038</b>					<b>(15.9)</b>	<b>(33.1)</b>	<b>9.5</b>	<b>14.6</b>	<b>21.9</b>	<b>20.0</b>	<b>8.5</b>	<b>9.4</b>	<b>7.8</b>	<b>1.9</b>	<b>1.7</b>	<b>1.6</b>	<b>0.2</b>	<b>0.1</b>	<b>0.1</b>	<b>12.8</b>	<b>7.9</b>	<b>8.0</b>				
<b>Utilities</b>																														
Adani Power	135	ADD	293,210	6,648	2,180	0.8	4.8	19.1	NM	510.9	298.8	171.7	28.1	7.0	140.4	23.5	6.5	5.1	4.3	2.7	—	—	—	4.2	16.6	46.7	143	6.3	5.4	
CESC	390	ADD	48,719	1,105	125	35.2	37.3	44.3	9.3	5.7	18.9	11.1	10.5	8.8	7.0	5.9	6.3	1.2	1.0	0.9	1.1	1.2	1.4	11.1	10.4	11.3	466	19.5	2.5	
Lanco Infratech	68	BUY	163,300	3,703	2,405	2.1	4.1	5.4	46.6	92.8	30.4	31.9	16.5	12.7	16.8	9.2	7.8	4.9	3.8	2.9	—	—	—	17.4	23.9	24.2	83	22.2	6.3	
NHPC	32	SELL	399,159	9,050	12,301	1.9	1.4	1.7	74.9	(25.2)	19.7	17.5	23.4	19.6	11.1	11.7	9.1	1.6	1.5	1.4	1.7	1.1	1.4	9.7	6.6	7.6	28	(13.7)	7.9	
NTPC	203	REDUCE	1,670,119	37,867	8,245	10.8	12.5	14.7	9.6	16.2	17.4	18.8	16.2	13.8	14.4	12.6	10.5	2.6	2.4	2.2	2.0	2.3	2.7	14.5	15.4	16.6	210	3.7	13.0	
Reliance Infrastructure	1,076	ADD	264,762	6,003	246	61.8	65.0	84.5	(1.5)	5.3	30.0	17.4	16.6	12.7	18.7	16.5	11.6	1.4	1.3	1.2	0.8	0.9	1.0	6.3	7.3	10.1	1,160	7.8	27.8	
Reliance Power	163	SELL	390,551	8,855	2,397	2.9	3.1	5.3	179.7	9.8	70.0	57.1	52.0	30.6	(528.6)	231.9	36.1	2.7	2.6	2.4	—	—	—	4.8	5.1	8.1	135	(17.2)	8.5	
Tata Power	1,431	ADD	353,331	8,011	247	60.2	69.2	88.5	20.1	15.0	27.8	23.8	20.7	16.2	14.5	13.1	11.2	2.7	2.5	2.2	0.8	1.0	1.0	12.9	12.5	14.3	1,420	(0.8)	12.3	
<b>Utilities</b>		<b>Attractive</b>	<b>3,583,150</b>	<b>81,241</b>					<b>23.8</b>	<b>16.9</b>	<b>38.3</b>	<b>22.6</b>	<b>19.4</b>	<b>14.0</b>	<b>17.7</b>	<b>14.9</b>	<b>10.7</b>	<b>2.4</b>	<b>2.2</b>	<b>2.0</b>	<b>1.3</b>	<b>1.4</b>	<b>1.6</b>	<b>10.6</b>	<b>11.4</b>	<b>14.1</b>				
<b>Others</b>																														
Havells India	412	SELL	24,786	562	60	5.3	31.6	45.0	3.7	497.9	42.6	78.0	13.0	9.1	12.2	7.5	6.0	6.8	4.5	3.0	0.6	0.6	0.7	6.6	41.6	39.7	497	20.6	9.5	
Jaiprakash Associates	133	BUY	283,347	6,424	2,129	1.5	5.5	7.4	(27.2)	279.8	34.1	91.4	24.1	17.9	22.4	16.4	11.7	3.3	2.9	2.5	—	—	—	4.1	12.8	14.9	170	27.7	26.9	
Sintex	427	REDUCE	58,270	1,321	136	24.1	29.3	33.7	0.5	21.6	14.9	17.7	14.6	12.7	14.4	9.5	8.3	2.7	2.3	1.9	0.3	0.3	0.3	15.5	15.8	15.3	420	(1.6)	8.2	
Tata Chemicals	434	REDUCE	105,658	2,396	243	26.4	35.1	39.2	(27.1)	32.9	11.7	16.4	12.4	11.1	7.9	6.3	5.4	2.2	1.9	1.7	2.1	2.2	2.2	16.0	19.6	18.9	370	(14.8)	7.0	
United Phosphorus	197	BUY	91,011	2,064	463	11.9	13.8	17.4	18.8	15.8	25.9	16.5	14.2	11.3	9.4	8.6	6.9	2.7	2.3	2.0	0.8	1.0	1.0	17.7	17.2	18.3	225	14.4	6.1	
<b>Others</b>			<b>563,072</b>	<b>12,767</b>					<b>(13.2)</b>	<b>74.7</b>	<b>24.8</b>	<b>30.2</b>	<b>17.3</b>	<b>13.8</b>	<b>14.8</b>	<b>11.7</b>	<b>9.1</b>	<b>2.9</b>	<b>2.5</b>	<b>2.2</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>9.7</b>	<b>14.6</b>	<b>15.6</b>				
<b>KS universe (b)</b>			<b>51,222,513</b>	<b>1,161,377</b>					<b>16.2</b>	<b>21.7</b>	<b>21.1</b>	<b>21.5</b>	<b>17.7</b>	<b>14.6</b>	<b>12.5</b>	<b>10.5</b>	<b>8.7</b>	<b>3.2</b>	<b>2.8</b>	<b>2.4</b>	<b>1.1</b>	<b>1.2</b>	<b>1.5</b>	<b>15.0</b>	<b>15.8</b>	<b>16.6</b>				
<b>KS universe (b) ex-Energy</b>			<b>41,809,551</b>	<b>947,955</b>					<b>10.6</b>	<b>23.7</b>	<b>20.3</b>	<b>23.4</b>	<b>19.0</b>	<b>15.8</b>	<b>15.2</b>	<b>12.5</b>	<b>10.2</b>	<b>3.6</b>	<b>3.1</b>	<b>2.7</b>	<b>1.0</b>	<b>1.1</b>	<b>1.2</b>	<b>15.5</b>	<b>16.3</b>	<b>16.9</b>				
<b>KS universe (d) ex-Energy &amp; ex-Commodities</b>			<b>37,023,866</b>	<b>839,448</b>					<b>16.1</b>	<b>21.3</b>	<b>21.7</b>	<b>24.6</b>	<b>20.3</b>	<b>16.7</b>	<b>17.3</b>	<b>14.2</b>	<b>11.5</b>	<b>3.8</b>	<b>3.3</b>	<b>2.9</b>	<b>1.0</b>	<b>1.1</b>	<b>1.3</b>	<b>15.4</b>	<b>16.2</b>	<b>17.1</b>				



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As of June 30, 2010

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**ADD.** We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months.

**REDUCE.** We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months.

**SELL.** We expect this stock to underperform the BSE Sensex by more than 10% over the next 12 months.

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

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