

INDIA DAILY

December 2, 2009

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News Round-up

- Fears of an imminent price rise, production spillovers owing to spare parts shortages plus a low base effect saw sales of the country's major car makers grow a record 63% in November. The eight car makers account for over 90% of the country's total domestic car sales. They sold 154,367 in November this year against 94,295 in the same month. (BS)
- **Bike sales vroom 32% in Nov**. Led by market leader Hero Honda, twowheeler manufacturers posted an impressive growth in sales during the month of November. The aggregate two-wheeler sales of Hero Honda, TVS Motor, Yamaha and Suzuki rose 32% to 520,014 units last month, against the 393,604 units sold in the same month last year. (BS)
- SAIL is set to reduce prices of flat steel products sold in the spot market by up to 3% or Rs800/ tonne owing to mounting threat from low-priced imports. Other steel producers, including lspat, Essar and JSW, are likely to follow suit this month. The new prices effective December will bring down raw material costs for car, television and fridge makers. (ET)
- **Taro investor reverses stance, backs Sun.** Sun Pharma's share price jumped 5.62% on the BSE after it gained a new ally in its legal battle to acquire Israel's Taro Pharmaceuticals with minority investor Templeton Asset Management switching sides to support Sun's bid. (Templeton holds 10% in Taro). (BS)
- Areva T&D acquisition may trigger open offer. A combine of Alstom and Schneider Electric have bought the entire stake in it of its majority holder, French nuclear major Areva. Areva today said the combine had won the bid for Areva T&D, beating the combine of GE, Toshiba and INCJ, in a deal valued at EUR2,290 million (about Rs16,000 crore). (BS)
- L&T, HCC India and Simplex Infrastructure are in the race to bag the airport construction mandate for the Rs 10,000-crore upcoming aerotropolis project in West Bengal. The project is being set up by Bengal Aerotropolis Project (BAPL), in which Singapore's Changi Airport holds 26% (ET)
- **Cement dispatches rise in Nov**. ACC and Ambuja Cements reported a 4-5 per cent growth in dispatches while the Aditya Birla Group and Shree Cement saw a 15 per cent growth, according to the numbers provided by the companies. (BL)

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

EQUITY MARKETS

	Change %								
India	1-Dec	1-day1-mo 3-mo							
Sensex	17,198	1.6	8.2	10.6					
Nifty	5,122	1.8	8.7	10.7					
Global/Regional in	dices								
Dow Jones	10,472	1.2	7.8	12.5					
Nasdaq Composite	2,176	1.5	6.4	10.5					
FTSE	5,312	2.3	5.3	10.2					
Nikkie	9,579	0.1	(2.3)	(6.8)					
Hang Seng	22,113	1.3	2.3	13.3					
KOSPI	1,593	1.5	2.2	(1.3)					
Value traded - Ind	ia								
Cash (NSE+BSE)	206.9		220.2	233.8					
Derivatives (NSE)	606.6		783.4	745					
Deri. open interest	958.6	840 78							

Forex/money market

	Change, basis points									
	1-Dec 1-day 1-mo 3-r									
Rs/US\$	46.3	(21)	(87)	(271)						
10yr govt bond, %	7.6	4	24	11						
Net investment (US\$mn)										

	30-Nov	MTD	CYTD
FIIs	152	-	15,330
MFs	81	-	(682)
			•

Top movers -3mo basis

	c	Change, %						
Best performers	1-Dec	1-day	1-mo	3-mc				
SESA IN Equity	368.1	(0.0)	21.7	75.2				
JSTL IN Equity	1015.9	2.3	34.5	53.1				
DRRD IN Equity	1145.0	1.4	13.2	47.0				
RBXY IN Equity	469.4	3.0	20.2	45.7				
TATA IN Equity	581.7	0.4	23.3	40.1				
Worst performers								
IBULL IN Equity	125.8	(1.3)	(26.0)	(36.2				
RCOM IN Equity	176.9	2.9	0.6	(35.9				
IDEA IN Equity	52.0	2.1	(0.1)	(34.8				
BHARTI IN Equity	304.6	1.7	4.0	(26.2				
SCS IN Equity	92.3	2.3	(9.6)	(23.6				



Reliance Industries (RIL)

Energy

We believe the tax holiday is unlikely to be restored. We see the finance ministry's refusal to extend the 7-year tax holiday to gas production, as reported in media, to be negative for RIL's earnings and valuations. We compute EPS impact of 11-14% for FY2010-12E from non-availability of tax exemption. We maintain our SELL rating on RIL in view of (1) a weak business environment, (2) several potential negative developments and (3) lack of positive triggers. We compute an option value of US\$19 bn already being ascribed to future E&P discoveries.

2009

50.6

(3.7)

21.7

1,418.5

153.1

236.7

15.3

13.6

0.5

2010E

48.3

(4.5)

22.7

158.7

301.4

11.8

10.9

0.5

1,737.3 1,900.6

2011E

68.8

42.4

16.0

225.9

394.4

8.5

13.8

0.7

Company data and valuation summary **Reliance Industries**

Stock data										
h,low)	1,	268-513	EPS (Rs)							
		3,202.9	EPS growth (%)							
6)			P/E (X)							
		40.9 Sales (Rs bn)								
	19.8 Net profits (Rs b									
		2.7	EBITDA (Rs bn)							
1M	3M	12M	EV/EBITDA (X)							
13.7	11.4	104.5	ROE (%)							
5.1	0.7	5.1	Div. Yield (%)							
	13.7	6) <u>1M 3M</u> 13.7 11.4	3,202.9 6) 40.9 19.8 2.7 1M 3M 12M 13.7 11.4 104.5							

Denial of tax benefit on gas production would hurt

As per media reports, the ministry of finance has refused to grant tax exemption for gas production from blocks offered during NELP I-VII. We believe that this development, if confirmed, would be negative for RIL's earnings and valuations. Our earnings estimates and fair valuation assume availability of tax holiday for RIL's gas production. Our FY2010E, FY2011E and FY2012E EPS for RIL would drop to Rs44 (-11%), Rs60 (-14%) and Rs70 (-14%) without Section 80 IB tax benefits. Our fair valuation for RIL will also decline by Rs45/share due to removal of tax holiday. We maintain our earnings estimates given that RIL will likely continue to report earnings taking the benefit of availability of tax exemption pending clarity on the matter.

Valuations look expensive given the lack of positive triggers and potential negative developments

We maintain our SELL rating on RIL with a12-month SOTP-based target price of Rs900 (see Exhibit 1). We see downside risks to our fair valuation arising from—(1) removal of tax holiday on gas production (-ve impact of Rs45), (2) potential negative development in RIL-RNRL legal dispute cases with RIL being asked to compensate the government at US\$4.2/mn BTU versus sale price of US\$2.34/mn BTU (-ve impact of Rs56/share) and (3) weaker-than-expected chemical and refining margins. In our view, RIL stock is a SELL at current levels as the stock price already factors in potential favorable developments regarding large E&P discoveries and value-accretive overseas acquisitions. Our reverse valuation analysis suggests that the stock is already implying an option value of US\$19 bn or 50 tcf of additional gas reserves (see Exhibits 2 and 3).

Core business value and earnings at risk

We see downside risks to our earnings estimates and fair valuation from weaker-than-expected refining and chemical margins. Exhibit 4 shows that refining margins have declined sharply from 2QFY10 and is at -US\$2.8/bbl in the recent week. We expect refining margins to remain subdued over FY2010-11E given large supply-demand imbalance. We note that a US\$1/bbl change in refining margin impacts RIL's FY2011E net income by 7%. We expect chemical margins to be very weak due to the large surplus; CY2010E will likely see the lowest rates for global capacity utilization for base polymers in the past 15 years (see Exhibit 5).

SELL

DECEMBER 02, 2009 UPDATE Coverage view: Cautious Price (Rs): 1,098 Target price (Rs): 900 BSE-30: 17,198

QUICK NUMBERS

- Potential downside of Rs45/share if tax holiday is not given
- Negative impact of Rs56/share in case of an unfavorable verdict in the RIL-**RNRL** case
- Current stock price implies 50 tcf in additional gas reserves

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SOTP valuation of Reliance is Rs900 per share on FY2011E estimates Sum-of-the-parts valuation of Reliance Industries, FY2011E basis (Rs)

	Valuation b	ase (Rs bn)	Mul	tiple (X)	EV	Valuation
	Other	EBITDA	Multiple	EV/EBITDA	(Rs bn)	(Rs/share)
Chemicals		83		7.5	625	214
Refining & Marketing		130		7.5	975	334
Oil and gas—producing		18		5.0	92	31
Gas—developing (DCF-based) (a)	735				735	252
KG D-6	359				359	123
NEC-25	132				132	45
CBM	70				70	24
KG D-3	46				46	16
KG D-9	72				72	25
MN D-4	56				56	19
Oil—KG-DWN-98/3 (b)	83				83	28
Investments other than valued separately	49				49	17
Loans & advances to affiliates	4				4	1
Retailing	40		80%		32	11
SEZ development	75		80%		60	21
Total enterprise value					2,655	910
Net debt adjusted for 50% of C-WIP of E&P assets					79	27
Implied equity value					2,576	883

Note:

(a) We value KG D-6, NEC-25, CBM, KG D-3, KG D-9 and MN D-4 blocks on DCF.

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

(c) We use 2.917 bn shares (excluding treasury shares) for per share computations.

Source: Kotak Institutional Equities estimates

RIL stock price is implying US\$19 bn of new discoveries of hydrocarbons in the future Estimation of implied valuation of new businesses of Reliance Industries (US\$ bn)

		Comments
1. Valuation of extant businesses		Chemicals, RIL refinery, extant oil and gas
FY2009 EPS of Reliance (standalone) (Rs)		FY2009 EPS
FY2009 EPS adjusted for treasury shares (Rs)	55	Adjusted for 184 mn treasury shares and shares issued on merger of RPET
Effective tax rate in FY2009 (%)	16.9	
FY2009 EPS adjusted for tax rate	43	Normalized for 34% tax rate for extant earnings
Appropriate P/E multiple (X)	7	Reasonable given near peak-cycle margins, earnings in FY2009 and cost of equity of 12.5%
Valuation of extant businesses excluding RPET (Rs)	304	
Valuation of extant businesses excluding RPET	19	Reasonable in the context of replacement value, returns
FY2011E earnings of RPET (US\$ bn)	1	
FY2011E EPS of RPET (Rs)	14	
Appropriate P/E multiple (X)	9	
Valuation of RPET refinery (Rs)	126	
Valuation of extant businesses (including RPET) (Rs)	430	
Valuation of extant businesses	27	
2. Valuation of investments		Others (without Reliance Retail)
Other investments (Rs)	11	
Valuation of RIL ex-new E&P, retailing, SEZs (Rs)	441	
Current stock price	1,098	
3. Valuation of new businesses		Emerging E&P business, retailing, SEZs
Market-ascribed value of new businesses	657	
Market-ascribed value of new businesses (US\$ bn)	41	
Estimated valuation of retailing (US\$ bn)	0.7	Valued at 0.8X of amount invested (Rs40 bn) at end-FY2009E
Estimated valuation of SEZs (US\$ bn)	1.3	
Market-ascribed value of emerging E&P business	39	Seems high based on official reserves, announced discoveries
Estimated value of Reliance's stake in KG D-6 (gas)	10.5	
Estimated value of Reliance's stake in KG D-6 (oil)	1.8	0.5 bn bbls of OOIP assumed versus current announced reserves of 180 mn bbls
Estimated value of Reliance's stakes in NEC-25	2.5	Based on 5.3 tcf of production, US\$1.5 bn capex, US\$4.5/mn BTU
Estimated value of Reliance's stakes in KG D-3	0.8	Based on 9.6 tcf of production, US\$4.7 bn capex, US\$4.5/mn BTU
Estimated value of Reliance's stakes in MN D-4	1.0	Based on 10.2 tcf of production, US\$4.9 bn capex, US\$4.5/mn BTU
Estimated value of Reliance's stakes in KG D-9	1.3	Based on 10.9 tcf of production, US\$4.9 bn capex, US\$4.5/mn BTU
Estimated value of Reliance's stakes in CBM	1.5	Based on 2.8 tcf of production
Implied value of new discoveries	19	

Source: Company, Kotak Institutional Equities estimates

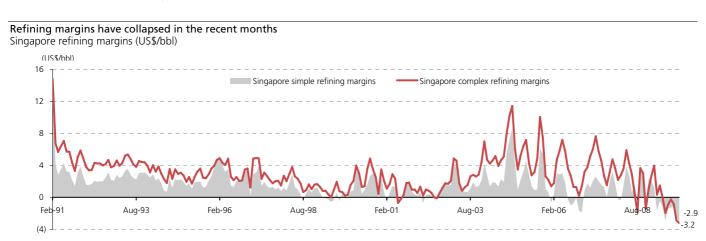
Reliance's current stock price is implying additional recoverable reserves of ~50 tcf of gas today Valuation of Reliance's E&P segment and implied valuation for potential discoveries (US\$ bn)

	Comments
DCF valuation of KG D-6 block, gas for D1 & D3 fields	10.4 15.4 tcf of net recoverable gas reserves
Valuation of KG D-6 block, oil for MA-1 field	1.8 450 mn bbls of net proved oil reserves at EV/bbl of US\$10
Valuation of Reliance's stakes in NEC-25	2.5 4.6 tcf of net recoverable gas reserves
Valuation of Reliance's stakes in KG D-3, MN D-4 and KG D-9	3.2 27.1 tcf of net recoverable gas reserves
Valuation of Reliance's stakes in CBM blocks	1.5 2.8 tcf of net recoverable gas reserves
Total valuation of extant announced reserves	19
Total recoverable reserves (tcf)	51
Implied valuation of new E&P discoveries	19
Implied additional recoverable reserves in stock price (tcf)	50 This is what Reliance needs to announce today
# of years from discovery to production	6 KG D-6 first gas discovered in Oct-02, production in 2HFY09
Cost of capital (%)	12
Additional gas reserves required to be added in six years (tcf)	This is what Reliance needs to bring in production in six
Additional gas reserves required to be added in six years (tci)	years

Note:

(a) The above exercise assumes that all future gas and oil discovery would have similar PSC terms as the KG D-6 block.

Source: Kotak Institutional Equities estimates



Weekly margins

 Current
 -1 Wk
 -2 Wk
 -3 Wk
 -4 Wk

 (2.8)
 (3.0)
 (3.6)
 (3.4)
 (3.0)

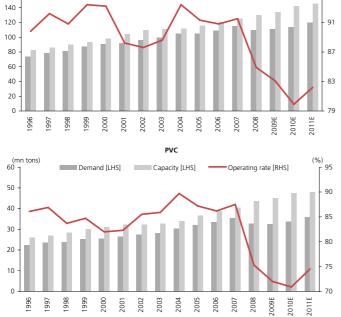
Simple ref	Simple refining margins, March fiscal year-ends (US\$/bbl)											
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 YTD		
1Q	1.3	0.5	0.3	1.0	1.7	3.0	2.5	2.3	2.4	(1.5)		
2Q	2.5	0.4	0.1	1.2	3.1	2.8	(0.7)	1.0	1.7	(1.3)		
3Q	1.7	1.1	1.4	1.6	6.5	2.2	(1.2)	2.3	1.3	(2.8)		
4Q	0.2	(0.0)	3.0	2.9	2.1	1.1	1.2	0.2	0.7			
Average	1.4	0.5	1.2	1.7	3.3	2.3	0.5	1.5	1.5	(1.7)		

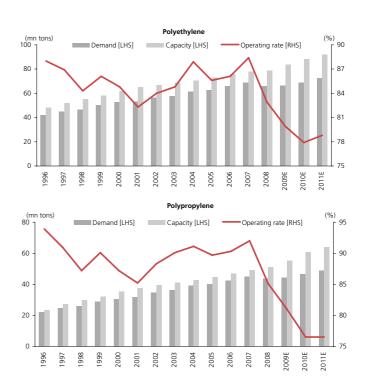
Complex r	Complex refining margins, March fiscal year-ends (US\$/bbl)										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 YTD	
1Q	1.9	1.3	0.8	1.2	4.6	4.9	6.2	6.6	4.3	(0.1)	
2Q	4.0	0.6	0.1	2.3	5.8	6.1	2.5	2.9	0.7	(0.7)	
3Q	2.3	1.2	1.6	3.2	9.0	3.9	1.0	3.9	1.0	(3.0)	
4Q	1.6	0.6	3.7	5.4	5.0	2.8	4.1	2.8	2.4		
Average	2.4	0.9	1.5	3.1	6.1	4.4	3.4	4.0	2.1	(1.1)	

Weekly margins										
Current	-1 Wk	-2 Wk	-3 Wk	-4 Wk						
(2.6)	(2.9)	(3.2)	(3.0)	(2.9)						

Singapore	Singapore refining margins, March fiscal year-ends (US\$/bbl)											
	2001	2002	2003	2004	2005	2006	2007	2008	2009 2	2010 YTD		
Simple	1.4	0.5	1.2	1.7	3.3	2.3	0.5	1.5	1.5	(1.7)		
Complex	1.9	1.3	0.8	1.2	4.6	4.9	6.2	4.0	2.1	(1.1)		

Source: Bloomberg, Kotak Institutional Equities





Source: CMAI, Kotak Institutional Equities estimates

Global demand-supply balance for key chemical products

RIL: Profit model, balance sheet, cash model, March fiscal year-ends, 2006-2012E (Rs mn)

	2006	2007	2008	2009	2010E	2011E	2012E
Profit model (Rs mn)							
Net sales	809,113	1,114,927	1,334,430	1,418,475	1,737,271	1,900,615	1,955,552
EBITDA	139,991	198,462	233,056	233,139	297,817	390,796	423,469
Other income	6,829	4,783	8,953	20,599	28,093	23,414	20,906
Interest	(8,770)	(11,889)	(10,774)	(17,452)	(26,454)	(25,299)	(5,458)
Depreciation & depletion	(34,009)	(48,152)	(48,471)	(51,953)	(96,541)	(110,860)	(115,616)
Pretax profits	104,041	143,205	182,764	184,332	202,913	278,051	323,301
Extraordinary items	3,000	2,000	47,335				
Tax	(9,307)	(16,574)	(26,520)	(12,634)	(28,537)	(63,152)	(74,408)
Deferred taxation	(7,040)	(9,196)	(8,999)	(18,605)	(15,700)	11,004	14,922
Net profits	90,693	119,434	194,580	153,093	158,676	225,902	263,815
Adjusted net profits	88,152	117,789	152,605	153,093	158,676	225,902	263,815
Earnings per share (Rs)	32	41	52	51	48	69	80
Balance sheet (Rs mn)							
Total equity	430,543	673,037	847,853	1,263,730	1,432,093	1,627,275	1,853,543
Deferred taxation liability	49,708	69,820	78,725	97,263	112,963	101,960	87,038
Minority interest	45,700	33,622	33,622		112,505	101,500	07,050
Total borrowings	218,656	332,927	493,072	739,045	623,376	382,410	117,736
Current liabilities	164,545	192,305	251,427	357,019	319,539	332,151	340,235
Total liabilities and equity	863,452	1,301,712	1,704,700	2,457,057	2,487,971	2,443,796	2,398,551
Cash	21,461	18,449	42,822	221,765	164,183	128,187	114,027
Current assets	224,283	286,566	402,721	325,358	386,953	400,667	404,188
Total fixed assets	626,745	899,403	1,081,638	1,693,869	1,720,769	1,698,876	1,664,271
Investments	(9,038)	97,294	177,519	216,065	216,065	216,065	216,065
Deferred expenditure	(5/656/						
Total assets	863,452	1,301,712	1,704,700	2,457,057	2,487,970	2,443,795	2,398,551
Free cash flow (Rs mn)	110 520	164.205	100 710	174 500	222.202	202.000	220 757
Operating cash flow, excl. working capital	119,520	164,285	180,718	174,508	222,282	292,099	330,757
Working capital	(32,188)	(13,075)	(31,071)	(37,983)	(99,076)	(1,101)	4,563
Capital expenditure	(94,273)	(247,274)	(239,691)	(247,128)	(165,675)	(73,025)	(71,990)
Investments	(32,364)	(105,760)	(78,953)	(10,392)			
Other income Free cash flow	5,159 (34,146)	4,143 (197,681)	6,132 (162,865)	16,195 (104,800)	28,093 (14,376)	23,414 241,387	20,906 284,235
Free cash now	(54, 140)	(197,001)	(102,005)	(104,000)	(14,570)	241,307	204,233
Ratios (%)							
Debt/equity	45.5	44.8	53.2	54.3	40.3	22.1	6.1
Net debt/equity	41.1	42.3	48.6	38.0	29.7	14.7	0.2
RoAE	19.9	20.3	18.9	13.6	11.3	14.3	14.8
RoACE	13.8	13.9	12.7	11.2	9.5	11.2	12.5

Source: Company, Kotak Institutional Equities estimates



Wipro (WPRO)

Technology

On track—for 3QFY10 and beyond. Our recent set of meetings with the Wipro management reinforced our positive investment thesis on the stock. We expect Wipro's strong positioning in some of the high-growth verticals and service lines, and changes made to the front-end organization, to drive better-than-peer revenue growth. Strong execution and improved acquisition performance should help margin protection. We reiterate our ADD rating on the stock.

Company data and valuation summary						
Wipro						
Stock data						
52-week range (Rs) (high,low)	665-195					
Market Cap. (Rs bn)	933.0					
Shareholding pattern (%)						

Absolute Rel. to BSE-30

52-week range (Rs) (hig	h,low)	(665-195	_	EPS (Rs)	25.7	30.5
Market Cap. (Rs bn)			933.0	-	EPS growth (%)	15.8	18.6
Shareholding pattern (%	6)			-	P/E (X)	24.8	20.9
Promoters			79.7		Sales (Rs bn)	254.6	267.0
FIIs			8.2	-	Net profits (Rs bn)	37.6	44.6
MFs			0.9		EBITDA (Rs bn)	50.6	57.8
Price performance (%)	1M	3M	12M		ev/ebitda (X)	18.3	15.4
Absolute	5.3	15.1	173.9		ROE (%)	26.9	26.4
Rel. to BSE-30	(2.7)	4.1	40.8		Div. Yield (%)	0.6	1.3

Forecasts/Valuations

Portfolio advantage—we expect the company to deliver better-than-peer revenue growth

We expect Wipro to outperform its Tier-I peers on revenue growth in FY2010E and FY2011E, as it had done in FY2009. Our confidence stems from-

- Wipro's diversified portfolio mix across verticals, service lines and geographies. Just as Wipro's weak positioning in BFSI and TSP verticals impacted the company's relative revenue performance through the previous high-growth phase, we expect the company's leadership position in the growth verticals/ geographies/ service lines (Energy & Utilities, Retail, Asia Pacific, BPO, IMS) for the next growth phase, to work in favor of the company.
- Strong senior management intervention to address the company's account management ► weaknesses-structured mega/gama account structure, reshuffling within the sales and marketing organization, partner-level consulting layer hires from the outside, and efforts to improve competitive intelligence function are all efforts in this direction. We highlight that the gap in top-10 client revenues account for the entire revenue gap between Wipro and Infosys.

Margins likely to remain in a narrow range; levers under-appreciated by the street

Wipro reiterated strong confidence in its ability to maintain its margins within a narrow band, barring a wild currency (Re/US\$) swing scenario. While the obvious margin levers like utilization and SG&A appear well-optimized, we highlight a few not-so-obvious margin levers at Wipro's disposal—(1) employee pyramid—Wipro's technical workforce is skewed towards lateral (more experienced) people as compared to an Infosys or a TCS; a robust volume growth phase is typically the best time to improve the rookie ratio and broaden the pyramid, (2) improvement in profitability of recent acquisitions, especially Infocrossing, and (3) stronger execution on FPP projects.

December quarter could be better than guidance; reiterate ADD

We expect Wipro to outperform the upper end (4.5% goq) of its US\$ revenue growth guidance for 3QFY10. Reiterate our ADD rating on the stock with an end-March 2011 target price of Rs675.

ADD

DECEMBER 02, 2009 UPDATE Coverage view: Attractive Price (Rs): 638 Target price (Rs): 675 BSE-30: 17,198

QUICK NUMBERS

2010E

1.3

2011F

35.4

15.8

18.0

306.4

51.7

66.2

13.0

25.0

1.6

2009

- Expect outperformance of Dec 2009 revenue guidance
- Expect better-thanpeer revenue growth in FY2010/11E

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	3QFY10 reveneus (US\$ mn)	As % of reveneus
Energy and Utilities		
Wipro	96	9.0
Infosys	68	5.9
TCS	39	2.8
Retail		
Wipro	162	15.2
Infosys	163	14.1
TCS	169	12.0
BPO		
Wipro	112	10.5
Infosys	72	6.2
TCS (1)	166	11.8
IMS		
Wipro	219	20.6
Infosys	90	7.8
TCS	112	8.0
Non North America/ Europe		
Wipro	161	15.1
Infosys	126	10.9
TCS	300	19.5

We find Wipro well-positioned across 'growth' verticals, geographies, and service lines

Note:

(1) ~45% of the BPO business comes from the recent e-Serve acquisition.

Source: Companies, Kotak Institutional Equities

Wipro - vertical-wise revenue split (Wipro Global IT), 1QFY09-2QFY10

	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09
Revenues (US\$ mn)						
Technology	127	124	120	104	97	93
Telecom	110	105	106	92	87	86
Communications, Media, and Service Providers	94	94	91	86	92	102
Total TMT	331	324	317	281	276	281
Financial Services	271	292	286	272	272	274
Manufacturing and Healthcare	236	251	249	248	243	252
Retail and Transportation	137	151	160	163	157	162
Energy and Utilities	93	92	89	82	86	96
Total IT Services	1,068	1,110	1,100	1,046	1,033	1,065
Revenue contribution						
Technology	11.9	11.2	10.9	9.9	9.4	8.7
Telecom	10.3	9.5	9.6	8.8	8.4	8.1
Communications, Media, and Service Providers	8.8	8.5	8.3	8.2	8.9	9.6
Total TMT	31.0	29.2	28.8	26.9	26.7	26.4
Financial Services	25.4	26.3	26.0	26.0	26.3	25.7
Manufacturing and Healthcare	22.1	22.6	22.6	23.7	23.5	23.7
Retail and Transportation	12.8	13.6	14.5	15.6	15.2	15.2
Energy and Utilities	8.7	8.3	8.1	7.8	8.3	9.0
Total IT Services	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, Kotak Institutional Equities

Wipro - service-wise revenue split (Wipro Global IT), 1QFY09-2QFY1

	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09
Revenues (US\$ mn)						
Technology Infra services (IMS)	199	216	213	219	216	219
Testing	115	123	127	124	125	128
Package implementation	117	124	129	134	138	142
BPO	100	103	100	100	104	112
Product Engineering	61	67	64	54	47	42
ADM	475	476	468	414	402	423
Total IT Services	1,068	1,110	1,100	1,046	1,033	1,065
Revenue contribution						
Technology Infra services (IMS)	18.6	19.5	19.4	20.9	20.9	20.6
Testing	10.8	11.1	11.5	11.9	12.1	12.0
Package implementation	11.0	11.2	11.7	12.8	13.4	13.3
BPO	9.4	9.3	9.1	9.6	10.1	10.5
Product Engineering	5.7	6.0	5.8	5.2	4.6	3.9
ADM	44.5	42.9	42.5	39.6	38.9	39.7
Total IT Services	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, Kotak Institutional Equities

Size of top 10 clients account for a bulk of difference in revenues between Wipro and Infosys

(US\$ mn)	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09
Wipro						-
Revenues	1,068	1,110	1,100	1,046	1,033	1,065
Of which						
Top client	29	30	28	25	27	29
Top 5 clients	122	128	124	113	118	120
Top 10 clients	223	226	222	206	213	210
ex-top 10 clients	844	883	878	840	820	855
Infosys						
Revenues	1,156	1,218	1,171	1,122	1,122	1,154
Of which						
Top client	91	93	73	64	50	53
Top 5 clients	230	226	203	193	183	190
Top 10 clients	348	341	318	301	289	302
ex-top 10 clients	808	877	852	821	833	852
Difference: Wipro - Infosys						
Revenues	(88)	(108)	(71)	(76)	(89)	(89)
Of which						
Top client	(62)	(63)	(45)	(39)	(24)	(24)
Top 5 clients	(108)	(99)	(78)	(80)	(65)	(70)
Top 10 clients	(125)	(114)	(96)	(95)	(77)	(93)
ex-top 10 clients	37	7	26	19	(13)	4

Source: Kotak Institutional Equities

Profit model, balance sheet, cash model of Wipro Limited, 2008-2012E, March fiscal year-ends (Rs mn)

	2008	2009E	2010E	2011E	2012E
Profit model					
Revenues	197,428	254,564	266,971	306,437	349,533
Cost of revenues (incl. deprn)	(138,872)	(178,368)	(183,469)	(209,646)	(240,140)
Revenues	58,556	76,196	83,502	96,791	109,393
SG&A expenses (incl. deprn)	(24,229)	(32,458)	(33,392)	(38,942)	(44,060)
EBITA	34,327	43,738	50,110	57,849	65,333
Amortization of intangibles	(617)	(1,488)	_	_	
EBIT	33,710	42,250	50,110	57,849	65,333
Other income	2,167	369	2,531	4,933	6,811
Pre-tax profits	35,877	42,619	52,641	62,782	72,144
Provision for tax	(3,873)	(5,247)	(8,231)	(11,289)	(15,518)
PAT	32,004	37,372	44,410	51,493	56,626
Equity in earnings of affiliates	257	362	450	448	448
Reported PAT	32,261	37,734	44,860	51,941	57,074
EPS (Rs)	22.2	25.7	30.5	35.4	38.9
Balance Sheet					
Shareholders funds	129,367	150,182	187,994	225,081	264,378
Deferred tax liability/(assets)	—	—	—	_	
Borrowings	17,281	27,563	19,315	10,692	12,196
Minority interest	114	235	458	690	922
Total liabilities	146,762	177,980	207,767	236,463	277,496
Net fixed assets	39,822	49,862	47,878	49,536	50,630
Cash and bank balances	54,078	65,297	51,112	72,238	105,660
Net current assets excluding cash	(2,274)	(13,143)	32,038	36,465	41,404
Other assets	55,136	75,964	76,740	78,223	79,802
Total assets	146,762	177,980	207,767	236,463	277,496
Cashflow statement					
Operating profit before working capital changes	39,670	52,193	57,762	66,156	74,390
Tax paid	(4,089)	(5,247)	(8,231)	(11,289)	(15,518)
Change in working capital/other adjustments	(13,256)	(11,753)	(7,863)	(4,086)	(4,566)
Capital expenditure	(14,194)	(16,234)	(5,668)	(9,965)	(10,151)
Investments/ acquisitions	(38,068)	(6,764)	_		
Free cash flow	(29,937)	12,194	36,000	40,816	44,155

Note:

(1) US GAAP financials till FY2009; IFRS starting FY2010E.

Source: Company, Kotak Institutional Equities estimates



Hindustan Unilever (HUVR)

Consumer Products

P&G's low-price strategy: Non-event, for now. We see merit in P&G's rational pricing for its lower-mid-segment detergents' launch as category margins are ~8%. The street appears to perceive a long-term threat to HUL from P&G. However, we highlight that P&G's global product portfolio is not fully conducive to India launches. We note that P&G could increase competitive activity in low-end shampoos and oral care or engage in development of skin care category. At ~4% dividend yield, and no material risk to earnings, BUY HUL.

2009

95

19.0

29.3

164.8

20.7

25.7

22.4

112.4

3.1

2010E

10.6

11.1

26.3

186.0

23.1

29.4

19.8

105.9

3.4

2011E

12.2

15.0

22.9

210.5

26.5

33.8

17.1

3.9

108.9

Company data and valuation summary Hindustan Unilever

			Forecasts/Valuations
h,low)		307-211	EPS (Rs)
		607.3	EPS growth (%)
6)			P/E (X)
		52.0	Sales (Rs bn)
		14.7	Net profits (Rs bn)
		3.8	EBITDA (Rs bn)
1M	3M	12M	EV/EBITDA (X)
(1.7)	4.3	19.5	ROE (%)
(9.2)	(5.7)	(38.6)	Div. Yield (%)
	6) 1M (1.7)	6) <u>1M 3M</u> (1.7) 4.3	607.3 52.0 14.7 3.8 1M 3M 12M (1.7) 4.3 19.5

BUY: Our reasons why

HUL volumes have likely turned around and we continue to see potential for double-digit volume growth in CY2010E. We maintain estimates; model EPS of Rs10.6 for FY2010E (+15.1%) and Rs12.2 (+15%) for FY2011E.

- Broad factors favoring HUL are intact (1) likely return of inflation, (2) likely stability in market shares as price cuts take effect, (3) benefits of major relaunches/brand activities will be seen in 2HFY10 and (4) renewed focus on regional jewel brands.
- P&G's new launch is likely to cannibalize Tide core sales and may take away market shares from 'Ghadi' (consumer offer in states where Ghadi is strong)
- Detergent powders account for 12% of HUL sales, the likely impacted brands are mid-end 'Rin' and low-end 'Wheel' detergent powders—accounting for about 9% of sales and 4% of profits
- ▶ While the risk of Rin powder consumers trading down to Tide Naturals is a reality, Rin powder accounts for ~3% of HUL's sales and ~2% of profits
- Wheel consumer uptrading to Tide Naturals is unlikely as Tide Naturals is at a 66% price premium
- Long-term threat from P&G perceived, however, we believe P&G's global product portfolio is not conducive to launches in India currently except low-end shampoos and oral care (unless P&G intends to do market development activities)
- At 22X FY2011E, HUL trades at 5% premium (one of the lowest ever) to consumer sector multiple, stock trades at ~4% dividend yield with no material risk to earnings

BUY

DECEMBER 02, 2009 UPDATE Coverage view: Attractive Price (Rs): 279 Target price (Rs): 320 BSE-30: 17,198

QUICK NUMBERS

- The street perceives a threat to HUL from P&G. We believe P&G's global product portfolio is not fully conducive to India launches
- HUL's likely impacted brands are 'Rin' and 'Wheel' powders accounting for ~9% of sales and ~4% of profits
- P&G launched 'Tide Basic' in US few months back

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P&G's low-price strategy: Non-event, for now

Channel sources indicate that P&G is launching a low-priced variant of mid-segment detergent 'Tide' and another top-end variant in 'Olay' skincare. Launches in mass market skincare, soaps and oral care are unlikely, for now. Key takeaways:

- ▶ 'Tide Naturals' is being launched at ~28% discount to normal Tide
- 'Tide Naturals' 400 gms for Rs20 (effective price of Rs50 for 1 Kg versus current price of Rs70 for Tide, '100gms extra' consumer offer is select states where 'Ghadi' is strong)
- 'Olay Naturals' launch at ~Rs100 is at 4X higher price compared to HUL's Fair & Lovely (this launch to target the high-end 'Garnier' consumer, in our view)

The impact on HUL's detergents portfolio is likely to be very minimal

- Detergent powders account for 12% of HUL sales, the likely impacted brands are midend 'Rin' and low-end 'Wheel' detergent powders—accounting for ~9% of sales and ~4% of profits (Exhibits 1 and 2)
- The new variant might cannibalize Tide core sales
- > The new variant is still at a 66% price premium to HUL's low-end brand 'Wheel'
- P&G's centralized distribution model currently is not conducive for selling high volumelow-value products like mass market detergents

Contribution Contribution to sales to PBIT (%) (%) Detergent powder 5 5 Surf Rin 3 Likely impacted segments 6 Wheel Detergent bar Surf 4 No impact Rin 2 Wheel 4 Total 24 18

Source: Kotak Institutional Equities estimates

Exhibit 1: The impact on HUL's detergents portfolio is likely to be very minimal

Exhibit 2: P&G is likely trying to create a new segment in detergents category Retail prices of HUL and P&G detergents products (Rs/kg)

HUL detergent	Indicative	P&G detergent	Indicative
brands	retail price	brands	retail price
	(Rs/kg)		(Rs/kg)
Surf	150	Ariel	150
Rin	70	Tide	70
Wheel	30	Tide Naturals	50 *

Note: Rs50/kg likely in most markets and promotional offer of Rs40/kg in select markets (dominated by Ghadi)

Source: Kotak Institutional Equities estimates

P&G is taking Tide brand down the ladder in US as well

As per a report in WSJ; P&G has launched a low-end version of Tide in the US market branded as 'Tide Basic'. "It is a traditional powder with fewer of the unique ingredients that set apart the specialized versions of Tide. The trick is to show that Tide Basic is more than "good enough" without making the more expensive Tide sub-brands seem superfluous".

We keenly await the likely launch of 'Tide Naturals' by P&G in Indian markets. Product packaging (for example Tide Basic's dominant color is yellow, an element of the Tide bulls-eye but not the orange color of the main Tide line) for Tide Naturals is important in our view—will likely decide the extent of consumer trading down for Tide core. (Exhibit 3)

Exhibit 3: P&G has launched a low-end version of Tide in the US market branded as 'Tide Basic



Source: www.mypbrand.com, Kotak Institutional Equities

Exhibit 4: HUL: Profit model, balance sheet, cash model, calendar year-ends 2006-07, March fiscal year-ends 2009-11E (Rs mn)

			15 months		
	2006	2007	2009 (a)	2010E	2011E
Profit model (Rs mn)					
Net sales	121,034	136,754	202,393	185,987	210,525
EBITDA	16621	18787	26780	25788	29873
Other income	3,545	4,315	5,678	5,073	6,049
Interest	(107)	(255)	(253)	(391)	(434)
Depreciation	(1,302)	(1,384)	(1,953)	(1,677)	(1,998)
Pretax profits	18,757	21,463	30,251	28,794	33,489
Tax	(2,950)	(3,660)	(5,729)	(5,548)	(6,795)
Deferred taxation	(268)	(389)	0.2	(195)	(191)
Net profit	15,539	17,415	24,522	23,050	26,504
Earnings per share (Rs)	7.0	7.9	11.3	10.6	12.2
Balance sheet (Rs mn)					
Total equity	27,235	14,392	20,615	23,008	25,760
Total borrowings	726	885	4,219	4,219	4,219
Currrent liabilities	45,231	51,110	57,838	54,185	61,272
Total liabilities and equity	73,191	66,387	82,673	81,413	91,251
Cash	4,169	2,009	17,773	15,731	17,580
Current assets	27,527	30,765	38,236	34,919	39,391
Total fixed assets	15,110	17,081	20,789	25,083	28,792
Investments	24,139	14,408	3,326	3,326	3,326
Deferred tax asset	2,245	2,124	2,548	2,353	2,163
Total assets	73,191	66,387	82,673	81,413	91,251
Free cash flow (Rs mn)					
Operating cash flow, excl. working capital	20,209	20,674	26,581	24,922	28,693
Working capital	(471)	3,091	(2,592)	(1,035)	1,203
Capital expenditure	(1,576)	(3,355)	(5,660)	(5,972)	(5,707)
Investments	(4,309)	9,464	10,657	0	0
Free cash flow	13,852	29,873	28,986	17,915	24,190
Key assumptions					
Revenue Growth (%)	9.4	13.0	48.0	(8.1)	13.2
EBITDA Margin(%)	13.9	13.7	13.2	13.9	14.2
EPS Growth (%)	18.3	12.1	42.7	(6.0)	15.0

Note:

(a) 15 month period starting January 1, 2008 to March 31, 2009

Source: Company, Kotak Institutional Equities estimates



Sun Pharmaceuticals (SUNP)

Pharmaceuticals

Gaining more support in Taro deal, unconfirmed Israeli media reports say that Templeton Asset Management has decided to withdraw from Taro's appeal against Sun filed with the Supreme Court of Israel. We think the decision of Israel's Supreme Court alone can lead to a conclusion of the continuing battle between Taro's controlling shareholders and SUNP. Since Taro has not announced audited numbers for recent years, we are unable to estimate impact of the potential transaction. Our estimates, price target and rating are unchanged.

Company data and valuation summary Sun Pharmaceuticals Stock data

52-week range (Rs) (hig	1,0	600-953				
Market Cap. (Rs bn)			300.7			
Shareholding pattern (%)						
Promoters		63.7				
FIIs		19.0				
MFs		3.1				
Price performance (%)	1M	3M	12M			
Absolute	5.3	23.3	35.5			
Rel. to BSE-30	(1.1)	14.1	(27.2)			

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	87.8	57.7	65.2
EPS growth (%)	17.6	(34.3)	13.1
P/E (X)	16.5	25.2	22.3
Sales (Rs bn)	42.7	38.1	42.8
Net profits (Rs bn)	18.2	11.9	13.5
EBITDA (Rs bn)	19.5	13.0	14.9
EV/EBITDA (X)	13.7	19.7	16.5
ROE (%)	30.2	15.9	15.9
Div. Yield (%)	0.9	0.9	0.9

SUNP gets support from Templeton in its Taro bid

Israeli newspaper Globes reported that Templeton Asset Management has decided to withdraw from Taro's appeal against Sun filed with the Supreme Court. Globes reports that Templeton has stated in a statement to the Supreme Court of Israel that Taro's condition continues to deteriorate in terms of proper corporate governance. Under these circumstances, Templeton believes that it must act without delay to enable Taro to emerge from the situation in which it has found itself by removing the barriers for the transfer of control in Taro, for the good of all shareholders.

Does this mean we are any closer to the conclusion? We think not

Support from other shareholders for SUNP is welcome but that is not going to change the current impasse in any way. SUNP is legally not allowed to buy TARO shares from other shareholders at any price other than open offer which is currently on. This offer is at US\$7.75 a share while market price is well in excess of the offer price (~US\$9 a share). As a result, a shareholder may not participate in open offer.

Judgment of Israeli Supreme Court will resolve the issue

After the mediation efforts between SUNP and Taro failed, Supreme Court of Israel heard the matter in April 2009 and the decision is awaited. Taro has continued to file cases against SUNP. The latest was filed in September in US court alleging that SUNP failed to disclose to Taro shareholders material information about the action by US FDA against Caraco in which the FDA seized US\$20 mn in products.

Impact of potential Taro merger is not in estimates and price target

We maintain our PT of Rs1,400 and maintain ADD rating. At the current price, the stock is trading at 27X FY2010E and 24X FY2011E earnings. At our target price, it will trade at 21X FY2011E earnings. Since Taro has not announced audited results for recent years, we are not including any impact on sales/profits of the potential merger.

ADD

DECEMBER 02, 2009 UPDATE Coverage view: Attractive Price (Rs): 1,540 Target price (Rs): 1,400 BSE-30: 17,198

QUICK NUMBERS

- SUNP battle with Taro controlling shareholders continues
- Estimates are unchanged
- Taro will host AGM on 31st December

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Profit and loss statement, March fiscal year-ends, 2006-2011E (Rs mn)

	2006	2007	2008	2009	2010E	2011E
Net sales	16,368	21,321	33,565	42,723	38,132	42,763
Materials	(4,872)	(5,767)	(7,222)	(8,556)	(9,300)	(11,545)
Selling and administration	(2,117)	(2,616)	(3,759)	(5,543)	(6,994)	(5,862)
Employee cost	(1,416)	(1,989)	(2,331)	(3,401)	(5,149)	(6,054)
R& D	(1,534)	(2,440)	(2,725)	(3,099)	(2,601)	(3,421)
Others	(1,525)	(1,785)	(2,017)	(3,484)	(2,679)	(2,138)
Total expenditure	(11,463)	(14,597)	(18,054)	(24,084)	(26,722)	(29,019)
EBITDA	4,905	6,724	15,511	18,640	11,410	13,744
Depreciation and amortisation	(610)	(813)	(969)	(1,233)	(1,580)	(1,950)
EBIT	4,295	5,910	14,543	17,407	9,830	11,794
Net finance cost	(156)	(127)	(88)	_	_	_
Other income	1,830	2,551	1,539	2,085	2,792	2,400
Pretax profits before extra-ordinaries	5,969	8,335	15,994	19,492	12,621	14,194
Current tax	(83)	(91)	(1,288)	(1,192)	(345)	(401)
Deferred tax	(157)	158	804	481	(450)	(450)
Reported net profit	5,730	8,402	15,509	18,780	11,826	13,342
Minority Interests	(3)	559	640	603	(120)	(168)
Reported net profit after minority interes	5,733	7,843	14,869	18,177	11,946	13,510

Source: Kotak Institutional Equities estimates

Balance sheet, cash model, March fiscal year-ends, 2006-2011E (Rs mn)

	2006	2007	2008	2009	2010E	2011E
Balance sheet						
Total equity	15,902	27,728	49,915	70,449	79,599	90,313
Total debt	18,745	11,144	1,436	1,789	1,789	1,789
Current liabilities	3,515	3,046	6,373	7,198	7,021	7,421
Minority Interests	332	438	1,886	1,970	1,850	1,683
Deferred tax liabilities	1,053	895	92	(679)	(229)	221
Total equity and liabilities	39,546	43,250	59,701	80,728	90,031	101,427
Cash and cash equivalents	15,323	13,802	12,389	16,690	27,499	37,255
Current assets	11,198	16,086	26,983	25,993	24,367	26,457
Net fixed assets	8,563	9,514	10,354	14,625	14,746	14,296
Intangible assets	507	697	1,729	3,253	3,253	3,253
Capital -WIP	414	608	686	1,571	1,571	1,571
Investments	3,541	2,543	7,560	18,595	18,595	18,595
Total assets	39,546	43,250	59,701	80,728	90,031	101,427
Free cash flow						
Operating cash flow, excl. working capital	5,506	8,134	15,198	18,841	12,281	14,164
Working capital	(3,433)	(5,568)	(7,183)	1,113	1,389	(1,857)
Capital expenditure	(4,457)	(2,103)	(1,787)	(6,401)	(1,700)	(1,500)
Investments	2,944	998	(5,017)	(11,035)	_	_
Free cash flow	560	1,461	1,210	2,519	11,971	10,807

Source: Kotak Institutional Equities estimates



HPCL/BPCL (HPCL/BPCL)

Energy

One is cheap (BPCL), the other cheaper (HPCL). We highlight that the recent strong outperformance of BPCL stock has opened a large valuation gap between BPCL and HPCL. We see similar upside/downside risks to the earnings of both the companies in the current macro-environment and find it hard to justify the valuation gap. Adjusted for value of investments, HPCL is trading at 4.8X FY2011E EPS and BPCL at 9X FY2011E EPS. We maintain our BUY rating on both stocks but prefer HPCL on higher potential upside (45% for HPCL and 11% for BPCL).

Company data and valuation summary

Hindustan Petroleum						
Stock data				Forecasts/Valuations		
52-week range (Rs) (hig	h,low)	426-216 EPS (Rs)				
Market Cap. (Rs bn)			122.4	EPS growth (%)		
Shareholding pattern (%	%)			P/E (X)		
Promoters			51.1	Sales (Rs bn)		
FIIs			9.5	Net profits (Rs bn)		
MFs			11.8	EBITDA (Rs bn)		
Price performance (%)	1M	3M	12M	EV/EBITDA (X)		
Absolute	3.8	(6.3)	52.4	ROE (%)		
Rel. to BSE-30	(4.0)	(15.2)	(21.7)	Div. Yield (%)		

Company data and valuation summary

Bharat Petroleum							
Stock data							
52-week range (Rs) (hig	h,low)	(517-314				
Market Cap. (Rs bn)			198.5				
Shareholding pattern (%	%)						
Promoters			54.9				
FIIs			9.3				
MFs			7.4				
Price performance (%)	1M	3M	12M				
Absolute	18.4 12.0 67.1						
Rel. to BSE-30	9.4	1.3	(14.1)				

BPCL's strong outperformance makes HPCL look cheaper

BPCL stock (+16.3%) has outperformed the BSE-30 Index by 15% since November 20, 2009 versus a moderate 5.6% rise in HPCL stock price over the same period. We attribute the spurt in BPCL stock price partly to an announcement of a significant oil discovery in Brazil. However, it is difficult to justify the valuation gap of US\$1.8 bn between EVs of BPCL and HPCL. We note that HPCL stock offers a significant upside (+45%) to our 12-month target price of Rs525. The recent strong outperformance of BPCL leaves moderate upside for the stock (+11%) to our target price of Rs675. We maintain our BUY rating on both the stocks and find it difficult to justify the significant gap in valuations given similar operating environment.

Forecasts/Valuations

EPS growth (%)

Sales (Rs bn)

EBITDA (Rs bn)

EV/EBITDA (X)

Div. Yield (%)

ROE (%)

Net profits (Rs bn)

EPS (Rs)

P/E (X)

HPCL is trading at 4.8X P/E and BPCL is trading at 9X P/E

We believe that the current relative valuations of BPCL and HPCL offer a good trading play. We do not see any justification for such a significant valuation gap as both companies have similar operating environment and regulatory exposure. HPCL stock is trading at 4.8X FY2011E EPS and BPCL at 9X FY2011E EPS (adjusted for the value of investments and dividends). Exhibit 1 gives our estimated replacement value for R&M companies broken down by various assets. At the current valuations, HPCL is trading at 27% discount to its replacement cost, as compared to BPCL which is trading at a 21% discount. Even on a P/B ratio, HPCL continues to be inexpensive at 0.9X in relation to BPCL which is trading at 1.44X (see Exhibit 2).

BUY

DECEMBER 02, 2009 UPDATE Coverage view: Cautious Price HPCL/BPCL(Rs):361/606 TP HPCL/BPCL (Rs): 525/675 BSE-30: 17,198

QUICK NUMBERS

2010E

64.0

5.6

277.1

812.4

21.7

46.9

4.8

15.6

7.2

2010E

75.0

8.1

878.5

27.1

45.2

5.9

17.7

5.0

264.1

2011E

61 1

(4.5)

5.9

826.2

20.7

47.0

4.4

13.5

6.9

2011E

64.3

(14.3)

905.1

23.3

44.7

5.6

13.7

4.2

9.4

2009

17 0

(49.3)

21.3

4.8

28.7

7.6

4.4

1.5

2009

20.6

(50.1)

29.4

7.5

27.5

9.1

5.3

1.2

1,340.7

1,249.3

- HPCL is trading at 4.8X FY2011E EPS and BPCL at 9X FY2011E EPS
- HPCL and BPCL are trading at 27% and 21% discount to replacement cost
- HPCL continues to be inexpensive at 0.9X FY2010E book value versus BPCL at 1.4X

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Potential triggers offer upside to earnings and valuations for HPCL and BPCL

We maintain our BUY rating on BPCL and HPCL stocks given (1) large upside to our 12month target prices and (2) several potential catalysts. We see upside to earnings for FY2010E of BPCL and HPCL from a favorable subsidy-sharing scheme (see Exhibit 3). We currently assume that (1) the downstream companies will bear 25% of the subsidy burden from auto fuels and (2) the government will compensate the entire subsidy burden on cooking fuels through issue of oil bonds. We see potential positive catalysts in the medium term in the form of (1) potential deregulation of pricing of petroleum products and (2) removal of octroi.

Enterprise value versus replacement cost of BPCL and HPCL (Rs mn)

		BP	CL	н	PCL
			Repl.	-	Repl.
	Rs/unit	Details	cost	Details	cost
Replacement cost calculation					
Refining capacity (mtpa)	7,000	20.0	140,000	16.2	113,610
Product pipeline network (kms)	12.5	1,700	21,250	3,187	39,838
LOBS capacity (000 tpa)	12	180	2,160	335	4,020
Retail outlets (#)-land		8,402	7,021	8,539	7,370
Retail outlets (#)-fixed assets		8,402	16,804	8,539	17,078
Tanks, terminals etc. (mn kilo liters)	6,000	3.3	19,980	4.0	23,844
LPG cylinders (100% of gross block)			32,626		12,650
LPG bottling capacity (000 tpa)	10	2,126	21,260	2,440	24,400
LPG import capacity (000 tpa)	3		_	1,600	4,800
Petrochemicals (PX, PTA, LAB)					
Capital WIP			20,375		22,634
Fixed assets total			281,475		270,243
Investments (@ market value)			217,173		140,208
Net working capital			20,156		36,286
Value of lubes business (@ 1X sales)			18,255		22,660
Replacement cost			537,060		469,397
Enterprise value calculation					
Outstanding shares (mn)		362		339	
Market price		606		361	
Market capitalization (Rs mn)			218,924		122,307
Net debt (Rs mn)			207,299		221,469
Enterprise value (Rs mn)			426,223		343,775
Current EV/RC (X)			0.79		0.73
Implied market price at EV/RC=60%			318		178
Implied market price at EV/RC=80%			615		455
Implied market price at EV/RC=100%			912		732

Source: Company, Kotak Institutional Equities estimates

Downstream stocks are attractively valued

Price/book (price to current year-end book) ratio for BPCL and HPCL (X)



Source: Bloomberg, Kotak Institutional Equities estimates

R&M stocks' valuations are attractive even if crude continues at US\$75-80/bbl for the remaining part of FY2010E Price/earnings (price to current year EPS) ratio for BPCL and HPCL (X)

	25% share of	ubsidy burden	on auto fuels	No subsidy burden			
Crude price (US\$/bbl)	70	75	80				
BPCL							
Company's share of subsidy-burden (Rs mn)	4,056	8,063	11,775	—			
FY2010E EPS (Rs)	75.0	63.1	54.6	82.4			
P/E (X)	8.1	9.6	11.1	7.3			
HPCL							
Company's share of subsidy-burden (Rs mn)	3,691	7,276	10,592	_			
FY2010E EPS (Rs)	64.0	52.6	44.5	71.1			
P/E (X)	5.6	6.9	8.1	5.1			

Source: Bloomberg, Kotak Institutional Equities estimates

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

	2006	2007	2008	2009	2010E	2011E	2012E
Profit model (Rs mn)							
Net sales	708,609	889,959	1,043,130	1,249,348	812,378	826,166	872,389
EBITDA	8,056	24,036	15,757	28,707	46,855	46,994	56,963
Other income	3,285	6,845	11,980	9,057	10,689	9,073	6,974
Interest	(1,587)	(4,230)	(7,925)	(20,828)	(13,896)	(13,432)	(13,037)
Depreciation	(6,902)	(7,040)	(8,508)	(9,813)	(10,804)	(11,267)	(11,791)
Pretax profits	2,851	19,611	11,303	7,122	32,844	31,368	39,110
Extraordinary items	2,201	3,030					
Тах	(898)	(6,625)	(1,799)	(2,416)	(9,942)	(8,322)	(11,168)
Deferred taxation	(97)	(365)	(2,025)	(343)	(1,222)	(2,340)	(2,125)
Prior period adjustment		61	3,870	1,387	—	—	_
Net profits	4,056	15,712	11,349	5,750	21,681	20,706	25,816
Earnings per share (Rs)	6.6	40.0	33.5	17.0	64.0	61.1	76.2
Balance sheet (Rs mn)							
Total equity	87,357	95,987	105,633	107,306	118,675	129,532	143,069
Deferred tax liability				16,034	17,256		
	13,844	14,209	15,960			19,596	21,721
Total borrowings	66,638	105,175	167,867	227,552	217,552	172,173	126,673
Currrent liabilities	79,549	101,195	124,337	117,558	91,282	96,320	99,791
Total liabilities and equity	247,389	316,566	413,797	468,450	444,764	417,621	391,254
Cash	426	868	2,940	6,083	1,230	1,208	1,266
Current assets	109,674	113,779	190,034	153,844	134,618	138,367	142,806
Total fixed assets	97,013	130,644	152,452	166,558	178,935	178,066	177,201
Investments	40,276	71,275	68,371	141,965	129,981	99,981	69,981
Total assets	247,389	316,566	413,796	468,450	444,764	417,621	391,255
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	10,126	23,966	(18,679)	(12,139)	20,551	24,336	32,758
Working capital changes	(5,351)	8,936	(6,504)	48,461	(6,003)	2,119	(968)
Capital expenditure	(25,298)	(38,510)	(31,638)	(19,275)	(20,714)	(9,493)	(10,926)
Investments	(22,884)	(31,704)	(1,851)	(70,386)	11,984	30,000	30,000
Other income	941	2,067	4,692	3,187	9,642	8,243	6,974
Free cash flow	(42,466)	(35,246)	(53,980)	(50,151)	15,459	55,205	57,838
Ratios (%)			420.4	1045	1.50.0	445.5	76.0
Debt/equity	65.8	95.4	138.1	184.5	160.0	115.5	76.9
Net debt/equity	65.4	94.7	135.6	179.6	159.1	114.6	76.1
RoAE	4.1	14.9	9.8	4.7	16.7	14.5	16.4
RoACE	2.5	8.8	6.4	5.8	9.3	9.8	12.2
Key assumptions							
Crude throughput (mn tons)	14.0	16.7	16.8	15.8	16.4	18.5	19.3
Effective tariff protection (%)	3.1	1.4	1.3	2.4	2.4	2.4	2.4
Net refining margin (US\$/bbl)	3.9	4.3	6.6	4.3	3.1	3.3	4.4
Sales volume (mn tons)	20.1	23.4	26.2	27.0	27.3	27.9	29.2
Marketing margin (Rs/ton)	(463)	(710)	(2,345)	(5,021)	946	1,426	1,435
Subsidy under-recoveries (Rs mn)	(29,671)	(18,899)	(28,549)	(28,432)	(3,691)	.,	
	(23,071)	(10,055)	(20,345)	(20,752)	(3,031)		

Source: Company, Kotak Institutional Equities estimates

Consolidated profit model, balance sheet, cash model of BPCL, March fiscal year-ends, 2006-2012E (Rs mn)

	2006	2007	2008	2009	2010E	2011E	2012E
Profit model (Rs mn)	755 222	005 500	1 102 001	1 240 724	070 546	005 002	051.265
Net sales	755,333	965,569	1,102,081	1,340,734	878,546	905,093	951,265
EBITDA	9,407	35,362	28,472	27,507	45,179	44,681	50,465
Other income	4,653	7,332	13,954	15,087	18,236	12,459	10,694
Interest	(2,474)	(4,774)	(6,725)	(21,664)	(11,681)	(10,002)	(7,516)
Depreciation	(7,680)	(9,041)	(10,982)	(10,755)	(10,641)	(11,904)	(12,484)
Pretax profits	3,906	28,879	24,719	10,176	41,093	35,233	41,160
Extraordinary items	176	(68)					
Tax	(140)	(9,286)	(9,059)	(5,103)	(10,521)	(10,370)	(13,042)
Deferred taxation	(1,025)	(268)	(1,108)	2,421	(3,447)	(1,606)	(948)
Net profits	2,916	18,055	15,806	7,359	27,125	23,258	27,170
Net profits after minority interests	2,916	18,055	15,806	7,359	27,125	23,258	27,170
Earnings per share (Rs)	7.6	50.1	43.7	20.4	75.0	64.3	75.1
Balance sheet (Rs mn)							
Total equity	91,394	102,735	116,768	121,281	135,717	148,094	162,553
Deferred taxation liability	13,558	13,826	14,814	12,392	15,839	17,445	18,393
Total borrowings	83,736	108,292	150,224	211,714	173,686	132,686	95,153
Currrent liabilities	94,070	112,767	145,803	128,313	109,090	117,443	120,056
Total liabilities and equity	282,758	337,620	427,608	473,701	434,332	415,668	396,156
Cash	4,921	8,640	9,616	4,416	4,795	4,734	4,388
Current assets	128,208	127,698	187,457	148,469	138,365	142,458	145,061
Goodwill	120,200	127,050	107,457	140,405	150,505	142,450	145,001
Total fixed assets	110,855	118,334	127,354	140.033	165,050	167,356	170,586
Investments	38,774	82,949	103,182	180,784	126,121	107,330	76,121
Total assets	282,758	337,621	427,608	473.701	434,332	415,668	396,157
Total assets	202,730	337,021	427,008	473,701	434,332	415,008	390,137
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	9,275	29,920	22,988	19,717	22,977	24,309	29,908
Working capital	1,577	11,451	(25,161)	20,585	(7,682)	5,470	9
Capital expenditure	(19,945)	(17,908)	(20,665)	(23,323)	(35,659)	(14,209)	(15,715)
Investments	(28,146)	(45,481)	(21,684)	(82,456)	54,663	25,000	25,000
Other income	1,785	4,337	6,434	6,655	16,798	11,250	10,694
Free cash flow	(35,455)	(17,682)	(38,088)	(58,822)	51,098	51,819	49,897
Ratios (%)							
Debt/equity	91.6	105.4	128.7	174.6	128.0	89.6	58.5
Net debt/equity	86.2	97.0	120.4	170.9	124.4	86.4	55.8
RoAE	3.3	16.3	12.7	5.5	19.0	14.7	15.7
RoACE	4.1	11.0	7.9	5.1	11.7	10.2	11.6
	-)						
Key assumptions (standalone until FY200 Crude throughput (mn tons)	5) 17.2	19.8	20.9	20.0	19.7	22.7	22.7
Effective tariff protection (%)	2.9	19.8	1.4	20.0	2.4	22.7	2.4
Net refining margin (US\$/bbl)	2.3	3.1	5.6	5.0	3.0	3.8	4.4
		24.5	26.7				
Sales volume (mn tons)	23.3 (671)			28.1	28.4 923	29.1	30.6
Marketing margin (Rs/ton) Subsidy under-recoveries (Rs mn)		(1,140)	(3,010)	(5,944)		1,474	1,480
Subsidy under-recoveries (KS mm)	(31,847)	(20,159)	(26,680)	(27,706)	(4,056)		

Source: Company, Kotak Institutional Equities estimates



Economy

National Accounts

2Q GDP growth: Surprise and more surprise? The 2QFY10 GDP growth of 7.9% was a surprise — about 1.6 ppt above consensus. A closer look at the data suggests that it is bit of a conundrum that agriculture did not contract despite the severe drought. More importantly, in our view, the 2Q GDP surprise may mean that more surprise may follow soon as monetary policy may be tightened in January 2010, slightly ahead of the market expectations.

Growth surprise a statistical conundrum

Despite the 18% drop in Kharif foodgrains production, the agriculture growth in 2QFY10 was +0.9%. This propelled GDP growth to way above market and our expectations. The positive agricultural growth may be a statistical conundrum. It is the outcome of the crop calendar methodology that gives insufficient weight to sowing of the main crops in India in this quarter. The methodology needs to be re-looked into by experts with a view to refine it.

GDP growth may near 7.0% in FY2010E; but at 7.3% in FY2011E may still stay below potential

Factoring in the 2QFY10 GDP that is given, we are upgrading our FY2010E GDP growth to 6.9% from 6.0%. The large upgrade mainly reflects the upward revision in agriculture estimates, but in part is also the result of some buoyancy now seen in the manufacturing activity. However, with a higher-base, our FY2011E growth estimate now stands reduced to 7.3% from 7.5%.

2QFY10 GDP shows first signs of revival of private demand

High growth in 2QFY10 was still driven by government consumption that grew 27% yoy on back of the fiscal stimulus through wage hikes and other spending. However, in real terms, private consumption grew 5.6% in 2Q, the highest in six quarters. Gross capital formation grew less than 2% in contrast with anecdotal evidence that new investments are still strong, reflecting perhaps delays in actual investment spending.

Surprise quicker exit from stimulus may follow the GDP surprise

It appears that the Indian economy is back to normal after three quarters of below potential growth as a fallout of the global slowdown. Non-agricultural GDP has grown at 9.0% in 2QFY10. With inflation becoming the primary macro-concern, we expect stimulus to be withdrawn over CY2010. In our view, the monetary policy may be tightened significantly in January 2010 and most of the tax cuts related to the three stimulus packages may be rolled back in FY2011 Union budget.

INDIA

DECEMBER 02, 2009
UPDATE
BSE-30: 17,198

QUICK NUMBERS

- Agriculture grows nearly 1% in 2Q despite drought
- Industry and services grow 9% in 2Q
- Our FY2010E GDP estimate increased to 6.5% from 6.0%
- We see 50 bps CRR hike, 25 bps policy rates hike in Jan

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2QGDP surprise

2QFY10 GDP growth at 7.9% (see Exhibit 1) exceeded street consensus of 6.3% and our estimate of 6.0%. This surprise was the result of:

2QFY10 agriculture GDP growth of 0.9% (our estimate -7.0%)

▶ 2QFY10 community, social & personal services growing by 12.7% (our estimate 6.7%)

In our view, this surprise was the result of methodological peculiarities arising from a crop calendar that gives inadequate weight to main crops in 2Q.

Exhibit 1: India's 2QFY10 growth at 7.9% indicates sharp recovery Sector-wise quarterly real GDP growth rates, March fiscal year-ends, 1QFY08-2QFY10

	Sector	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10
I	Agriculture and allied activities	4.3	3.9	8.1	2.2	3.0	2.7	(0.8)	2.7	2.4	0.9
Ш	Industry (2+3+4)	8.5	7.5	7.6	5.9	5.1	4.8	1.6	(0.5)	4.2	9.0
	2 Mining and quarrying	0.1	3.8	4.2	4.7	4.6	3.7	4.9	1.6	7.9	9.5
	3 Manufacturing	10.0	8.2	8.6	6.3	5.5	5.1	0.9	(1.4)	3.4	9.2
	4 Electricity, gas and water supply	6.9	5.9	3.8	4.6	2.7	3.8	3.5	3.6	6.2	7.4
Ш	Services (5+6+7+8)	10.8	10.7	10.2	11.3	10.0	9.8	9.5	8.4	7.7	9.0
	5 Construction	11.0	13.4	9.7	6.9	8.4	9.6	4.2	6.8	7.1	6.5
	6 Trade, hotels, transport, storage and communication	13.1	10.9	11.7	13.8	13.0	12.1	5.9	6.3	8.1	8.5
	7 Financing, insurance, real estate and business services	12.6	12.4	11.9	10.3	6.9	6.4	8.3	9.5	8.1	7.7
	8 Community, social and personal services	4.5	7.5	5.5	9.5	8.2	9.0	22.5	12.5	6.8	12.7
IV	Real GDP at factor cost (I+II+III)	9.2	9.0	9.3	8.6	7.8	7.7	5.8	5.8	6.1	7.9
	non-agricultural GDP	10.3	9.9	9.6	10.0	8.8	8.6	7.7	6.4	6.9	9.0

Source: Central Statistical Organisation and Kotak Institutional Equities

2QGDP surprise a result of quixotic methodology

We find a positive agriculture growth a stark contrast with official crop data (First Advance Estimates of Kharif production) that show:

- ▶ 18% drop in Kharif foodgrains output (it is still 16% if the First Advance Estimate for FY2010 is compared with the First Advance Estimate last year)
- ▶ 15% drop in oilseeds production

In our view, the compilation methodology of the CSO needs to be debated to satisfy oneself on its scientific basis. On a thumb rule, 2Q accounts for a third of Kharif output, while 3Q takes two-thirds. In the 2QFY10 GDP weight to the foodgrains (rice, coarsegrains & pulses) and oilseeds — the crops that saw steep drop in output — was just 18%, while the weight to fruits and vegetables, other crops, livestock products, forestry and fishing was 82%. In terms of the official weights used by Ministry of Agriculture for compilation of agricultural growth, the weight of foodgrains and oilseeds was 75.6% in the principal crops in India for the triennium-ending 1981-82. Three decades down, the structure could have surely changed, but no formal exercise has been undertaken by the statistical agencies to capture that. CSO appears to be apportioning agriculture output considering the harvest stage, where as the internationally recognized System of National Accounts (SNA), 1993 requires crop output to be distributed among quarters in proportion to the cost incurred in each quarter.

Need to revamp estimation methodology

It is difficult to understand why so low a weight is given to the main Kharif crops in GDP compilation for 2Q, when the period till the end of the monsoon season is covered. In our view, there could be little case for doing so as all sowing is completed by August and the Kharif crop is ripe by September, leaving only harvesting and marketing to 3Q.

Similarly, the pay commission arrears merely reflect the deferred payments for a productive activity that has already been undertaken in the period for which arrears are given. So there is little justification of a spike in output under 'community, social and personal services' in a single quarter when arrears get paid. It would be better to revise data by spreading the arrear payments over 14 quarters, i.e., the entire period from the start of 2006 from which date the arrears are due.

In our view there is a case for expert group to look into the CSO's entire methodology for quarterly GDP estimation with a view to improve it. India has a rich tradition of firm statistical system compared with some of its emerging market counterparts and there is need to preserve integrity, transparency and faith in its statistical system by bringing about methodological improvements from time to time.

FY2010E GDP may near 7.0%, but we see no significant upside for FY2011E

Considering the 2QFY10 GDP surprise and factoring in CSO's extant methodologies, we are upgrading our full year FY2010E GDP estimate to 6.9% (from 6.0% earlier), but slightly revising downwards our FY2011E estimate to 7.3% (from 7.5%) (see Exhibit 2).

Exhibit 2: India's FY2010E real GDP growth survives drought risks Growth in real GDP at factor cost and components, March fiscal year-ends, 2007-2011E (%)

							2010	E	2011	E
Sector	2005	2006	2007	2008	2009	2010EAC	Earlier	Revised	Earlier	Revised
Agriculture and allied activities	0.0	5.8	4.0	4.9	1.6	(2.0)	(5.0)	(1.5)	6.8	3.5
Industry	8.5	8.1	10.7	7.4	2.6	8.2	8.3	8.5	6.3	6.3
Mining and quarrying	8.2	4.9	8.8	3.3	3.6	10.0	11.1	8.9	7.6	10.1
Manufacturing	8.7	9.1	11.8	8.2	2.4	7.7	7.9	8.6	6.2	5.8
Electricity, gas and water supply	7.9	5.1	5.3	5.3	3.4	7.4	8.0	7.2	5.1	6.0
Services	9.9	11.2	11.3	10.8	9.4	8.2	8.2	8.0	8.0	8.3
Construction	16.1	16.2	11.8	10.1	7.2	8.8	7.6	8.2	9.6	9.0
Trade, hotels, transport, storage and communication	10.7	12.1	12.8	12.4	9.0	8.4	8.3	9.4	8.6	9.7
Financing, insurance, real estate and business services	8.7	11.4	13.8	11.7	7.8	8.0	7.9	7.1	9.3	10.1
Community, social and personal services	6.8	7.1	5.7	6.8	13.1	8.0	8.8	6.2	4.7	3.3
Real GDP at factor cost	7.5	9.5	9.7	9.0	6.7	6.5	6.0	6.5	7.5	7.2
non-agricultural GDP	9.5	10.4	11.2	9.9	7.8	8.2	8.2	8.1	7.6	7.9

Source: Central Statistical Organisation and Kotak Institutional Equities

- The upgrade of FY2010E GDP is largely accounted by the surprise on the agriculture
- The downward adjustment of FY2011E GDP largely reflects the impact of higher base with an upward revision in FY2010E GDP

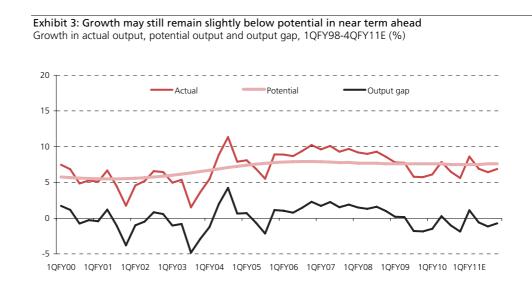
In 2QFY10, GDP growth has exceeded potential, but we still see small slack in output prevailing till end-FY11E (see Exhibit 3). Output levels are likely to return to normal precrisis levels, but growth is unlikely to return to 9% growth path that we saw before the cyclical downturn began in FY2009.

FY2011E acceleration may be muted by withdrawal of fiscal stimulus

We expect fiscal stimulus to be withdrawn in FY2011. This would keep further acceleration muted, with a sharp drop in government consumption that has been the key driver of growth in FY2009 and FY2010 so far (see Exhibit 4). In our view, the fiscal constraints have become binding and there is little choice but to cut fiscal gaps if crowding out of private investment through higher interest rates is to be avoided.

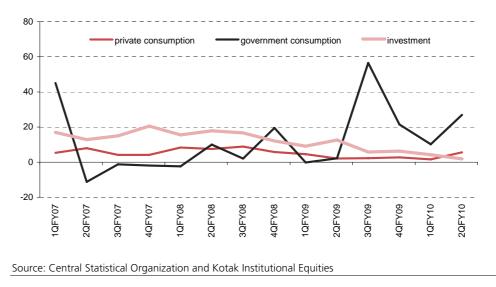
A notable feature of the 2QFY10 GDP is that it shows private consumption demand reviving. In real terms, private consumption demand was growing 1.6-2.7% in the four preceding quarters (2QFY09—1QFY10), but it expanded 5.6% in 2QFY10

Real gross capital formation, however, decelerated further to 1.9%, suggesting that while investment intentions remain strong, actual execution is suffering.



Source: Central Statistical Organisation and Kotak Institutional Equities estimates

Exhibit 4: Government spending still the key growth driver, but private demand improves Growth in components of real aggregate demand, March fiscal year-ends, 1QFY07-4QFY09 (%)



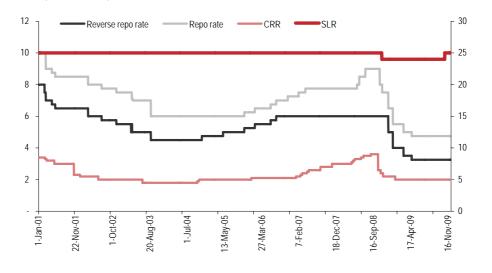
Growth surprise paves way for monetary tightening in January 2010

In our assessment, the high 2QFY10 growth may result in:

- 50 bps CRR and a 25 bps repo & reverse repo rate hikes by RBI at its scheduled policy date of January 29, 2010.
- The CRR action may even precede the policy date and can occur post December 11, 2009 after the October IIP data release. We see October IIP growth in double digits.
- We continue to see headline inflation moving up sharply to 8.0% by end-FY10E, necessitating a monetary policy response.
- In our view, the seasonal decline in vegetable and fruit prices that typically occurs in November and December may not occur this time, prompting policy-makers to quickly tighten monetary policy in order to prevent more general price rise later on cost-push factors.

The high growth in 2QFY10E may settle the policy debate on exiting from the stimulus. IIP growth has averaged 8.9% in the last four months and now non-agricultural GDP has grown 9.0% in 2Q. On the other hand, relentless food price rise is fast becoming a major political issue that would shift the weight in policy-making to controlling inflation as a first priority as output levels may be seen back to normal. As such, tightening appears imminent to us after unprecedented monetary policy accommodation (see Exhibit 5).

Exhibit 5 : Monetary measures on hold after aggressive easing; but tightening likely imminent RBI's repo, reverse repo rates and cash reserve ratio on LHS, SLR on RHS (%)



Source: RBI and Kotak Institutional Equities



Banks/Financial Institutions

India

RBI guidelines for minimum provisions: No impact on fair value estimates.

According to RBI's final guidelines on the minimum NPL provision requirement for Indian banks, Indian banks would be required to provide cover for at least 70% of their NPLs by September 2010. Banks would be allowed include technical / prudential writeoffs in calculation of their provision coverage ratio. Earnings of companies like SBI, Canara Bank, IOB and OBC are likely to be impacted, but our fair value estimates of these companies remain unchanged.

Impact on earnings to be around 10-15% for certain banks

This is likely to result in lower profits for banks that do not meet this criterion. Amongst the banks under our coverage, SBI, ICICI Bank, Canara Bank, IOB and OBC are likely to have lower provision coverage than 70% by FY2011E. Amongst these, ICICI Bank and Canara Bank do have relatively aggressive write off policies and the net impact on their P&L is likely to be lower. However, we believe earnings for SBI could get hit by 11% in FY2010E and FY2011E. The impact on networth is likely to be around 1-5%.

Technical write-off higher in case of ICICI Bank and Canara Bank

We understand ICICI Bank and Canara Bank have a policy of aggressive write-offs. Given this, the additional provision requirement is likely to be low. For ICICI Bank, the impact on earnings is likely to be marginal given its conservative write-off policy and lower incremental delinquencies.

Impact on profit could be lower in the event of lower delinquencies

We note that the impact on profits and net worth could be lower if delinquencies are lower than currently modeled by us—2.5-3X rise in gross NPLs over the next 18 months, which is likely conservative given the improved economic outlook and greater access to equity capital for most companies.

Fair values however remain unaffected

We net off the net NPLs from the net worth of companies to arrive at our fair value estimates. Due to the change in provisioning norms, both the profits and reported net NPLs of companies will decrease compared to the erstwhile provisioning regime. The lower net NPLs would entirely neutralize the decline in net worth and have no impact on our fair value estimates. Hence, we believe that a sharp correction in prices solely as a reaction to change in provisioning policy is not warranted.

ATTRACTIVE

DECEMBER 02, 2009 UPDATE

BSE-30: 17,198

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Earnings of certain companies could be lower by 10-15% on account of the RBI policy Impact on earnings due to change in provisioning policy, March fiscal year-ends, 2010-11E

	PBT (Rs	ha)	Net worth (I	Pc hp)	Additional provision	Impact on I	DDT (0/)	Impact on net worth (%)
—	2010E	2011E	2010E	2011E	requirements	Impact on I 2010E	<u>2011Е</u>	(%) 2011E
Public banks	20105	20116	20105	20115	(Rs bn)	20105	2011E	20116
Andhra Bank	11.0	9.6	42	47	-	-	_	
BoB	37.4	40.1	134	155	0.5	(0.6)	(0.6)	(0.1)
Bol	32.4	34.9	138	159		-	-	-
Canara Bank	31.3	32.9	120	140	13.0	(20.7)	(19.7)	(6.0)
Corporation Bank	13.1	13.2	56	62	-	-	-	-
Indian Bank	19.1	20.9	66	78	4.7	(12.2)	(11.2)	(3.9)
IOB	17.3	11.6	71	77	0.7	(1.9)	(2.8)	(0.6)
OBC	14.3	14.2	68	76	3.5	(12.1)	(12.2)	(3.0)
PNB	52.4	56.4	158	187	-	-	-	-
SBI	149.7	168.7	656	744	34.3	(11.5)	(10.2)	(3.0)
Union Bank	24.2	26.5	85	101	-	-	-	-
Old private banks								
Federal Bank	7.6	9.4	48	53	-	-	-	-
J&K Bank	7.1	7.8	30	34	1.0	(7.1)	(6.5)	(2.0)
New private banks								
Axis Bank	36.0	44.1	159	181	-	-	-	-
HDFC Bank	42.1	54.9	213	243	-	-	-	-
ICICI Bank	57.9	71.1	521	552	-	-	-	-

Source: Source: Companies, Kotak Institutional Equities estimates

We assume a fairly sharp rise in NPLs for companies

Gross, net NPLs and credit provision estimates of companies, March fiscal year-ends, 2010-11E

	Gross NPLs (Rs bn) 2QFY10 2010E 2011E		Net	NPLs (Rs b	n)	Provisio	n coverag	e (%)	NPL pro	rovisions (Rs bn)			
	2QFY10	2010E	2011E	2QFY10	2010E	2011E	2QFY10	2010E	2011E	2009	2010E	2011E	
Public banks													
Andhra Bank	4	7	12	1	2	2	81	71	81	2	2	6	
ВоВ	20	32	55	4	6	17	79	82	69	4	9	13	
Bol	39	54	78	16	15	18	59	72	76	8	17	21	
Canara Bank	23	46	66	17	28	33	28	39	50	9	11	16	
Corporation Bank	6	7	14	2	0	3	75	96	79	2	3	4	
Indian Bank	5	15	22	1	9	11	80	39	48	1	2	5	
IOB	27	45	54	12	28	17	54	39	69	4	7	19	
OBC	12	24	33	5	11	13	58	54	59	2	3	6	
PNB	26	57	86	2	19	25	91	67	71	10	14	22	
SBI	174	264	332	99	135	134	43	49	60	27	47	70	
Union Bank	19	29	40	2	3	4	88	88	91	7	10	11	
Old private banks													
Federal Bank	8	12	18	1	3	4	83	75	76	4	5	5	
J&K Bank	5	8	10	1	4	4	76	53	60	1	2	2	
New private banks													
Axis Bank	11	26	38	4	9	8	63	66	78	9	14	16	
HDFC Bank	20	30	40	6	11	7	70	64	81	17	21	22	
ICICI Bank	95	123	135	46	46	38	52	62	72	38	41	32	

Source: Source: Companies estimates.

Fair value estimate remains unaffected by change in provisioning policy Illustration of impact on ABVPS before and after change in provisioning policy

Current scenario		
Net worth (Rs)	(1)	100
Gross NPLs (Rs)	(2)	45
Net NPLs (Rs)	(3)	18
Provision coverage (%)	(4) = (1 - (3)/ (2)) X 100	60
Provisions through P&L (Rs)	(5)	9
PAT (Rs)	(6)	15
Adjusted net worth (Rs)	(7) = (1) - (3) X 0.65	89
New provisioning regime		
Additional provisions (Rs)	(8) = ((70 - (4))/100 X (2)) X 50%	2
Revised PAT (Rs)	(9) = (6) - (8) X 0.65	13
Revised net worth (Rs)	(10) = (1) - (6) + (9)	99
Revised net NPLs (Rs)	(11) = (3) - (8) X 2	16
Adjusted net worth (Rs)	(12) = (10) - (11) X 0.65	89

Source: Source: Kotak Institutional Equities estimates



Automobiles

India

Auto sales remain in festive mood. Auto sales remained robust and, as expected, did not see the declines typical of the post-festival season. Overall, sales were largely in line with our estimates. Maruti improved sales 3% from October as the company replenished inventory at dealers. Hero Honda's volumes also grew 8% sequentially as volumes were no longer impacted by labor issues. Tata Motors reported strong M&HCV growth largely on account of the low base of the previous year.

Maruti: Domestic sales marginally better, exports slightly below estimates

Maruti reported total sales volumes of 87,807 units, up 67% yoy and 3% sequentially. Domestic sales were slightly stronger than expected as Maruti started getting the benefits of increased capacity through re-alignment in their Gurgaon facility. Retail sales were closer to 70,000 for the month and the company built inventory to more normalized levels. Exports of 11,448 were slightly below estimates on a missed shipment, which is expected to be made up in December. Fiscal year-to-date sales are up 29% yoy compared to our estimate of 23% growth for FY2010E.

M&M: Sequential decline in line with seasonal trends

M&M reported UV sales of 15,193 slightly below our expectation. Sales grew 102% yoy and declined 17.5% from October. Tractor sales were up 48% yoy at 12,592 and better than our estimate. Mahindra's new small commercial vehicle GIO sold 1,019 units in its second month of sale. Three-wheeler sales grew 79% yoy to 4,118 units and was flat sequentially. Fiscal year-to-dates sales are up 33% yoy compared to our estimate of 27% for FY2010E.

Hero Honda: Sales improve 7.7% sequentially with labor issues behind it

Hero Honda reported volumes of 381,378, up 32% yoy and in-line with our 380,707 unit estimate. Volumes grew 7.7% from October as production was no longer impacted by labor issues. Fiscal year-to-date sales are up 21% yoy compared to our estimate of 23% for FY2010E.

Tata Motors: Strong volume growth led by easy financing, base effect

Tata Motors reported M&HCV growth of 116% yoy and 5% sequentially in Nov-2009 led largely by (1) easy financing and (2) low base effect of the previous year (due to economic slowdown in FY2009). Domestic M&HCV volume growth at 12,507 units was aided by increased economic activity and lower cost of financing. Meanwhile, LCV volumes grew 62% yoy but were down 9.3% sequentially. UVs grew 23% yoy, while on a sequential basis, volumes declined 8.6% as festival demand seems to have waned away. Passenger car segment volumes grew 49% yoy and 8% qoq—largely due to (1) launch of the new sedan Manza, (2) low base effect of FY2009 and (3) incremental volumes from Nano (approximately 3,400). We expect 2HFY10 volume growth numbers to be optically large as 2HFY09 volumes were severely impacted by slowdown in the economy and the credit crisis.

CAUTIOUS

DECEMBER 02, 2009 UPDATE BSE-30: 17,198

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4-wheelers Nov 2009 sales performance

	Nov-09	Nov-08	yoy %	Oct-09	mom %	YTD, FY2010	YTD, FY2009	yoy %
Tata Motors								
M&HCV	12,507	5,792	115.9%	11,916	5.0%	85,845	81,909	4.8%
LCV	16,901	10,437	61.9%	18,625	-9.3%	135,804	99,214	36.9%
Domestic CV sales	29,408	16,229	81.2%	30,541	-3.7%	221,649	181,123	22.4%
CV Exports	3,053	1,628	87.5%	2,443	25.0%	16,027	22,015	-27.2%
Total CV	32,461	17,857	81.8%	32,984	-1.6%	237,676	203,138	17.0%
UV	2,263	1,840	23.0%	2,475	-8.6%	20,711	26,961	-23.2%
Passenger Cars	19,384	12,999	49.1%	17,945	8.0%	122,615	108,011	13.5%
Total	54,108	32,696	65.5%	53,404	1.3%	381,002	338,110	12.7%
Mahindra & Mahindra								
UVs	15,193	7,523	102.0%	18,410	-17.5%	137,603	97,839	40.6%
LCVs	778	302	157.6%	841	-7.5%	6,487	6,559	-1.1%
SCV- GIO (standalone)	1,019	-		-		1,019	-	
Logan	279	300	-7.0%	401	-30.4%	3,581	10,593	-66.2%
Tractors	12,592	8,498	48.2%	18,772	-32.9%	115,177	82,839	39.0%
3 Wheelers	4,118	2,305	78.7%	4,886	-15.7%	29,756	32,318	-7.9%
Total	33,979	18,928	79.5%	43,310	-21.5%	293,623	230,148	27.6%
Maruti Udyog						-	-	
Entry (A) segment	3,040	2,307	31.8%	3,124	-2.7%	22,020	34,400	-36.0%
Van-segment	8,320	3,845	116.4%	8,018	3.8%	60,771	51,177	18.7%
Compact (B) segment	56,005	34,976	60.1%	51,437	8.9%	407,272	321,919	26.5%
Mid-size (C) segment	8,741	5,975	46.3%	8,804	-0.7%	61,770	46,176	33.8%
MUV	253	601	-57.9%	168	50.6%	2,576	4,957	-48.0%
Domestic	76,359	47,704	60.1%	71,551	6.7%	554,409	458,629	20.9%
Exports	11,448	5,007	128.6%	13,864	-17.4%	91,731	40,606	125.9%
Total	87,807	52,711	66.6%	85,415	2.8%	646,140	499,235	29.4%

Source: Company

Reported monthly sales of two-wheeler companies - Nov 2009

	Nov-09	Nov-08	yoy %	Oct-09	mom %	YTD, FY2010	YTD, FY2009	yoy %
TVS Motor								
Motorcycles	45,080	45,276	-0.4%	56,465	-20.2%	409,166	446,480	-8.4%
Scooty	25,115	23,487	6.9%	28,301	-11.3%	206,805	187,061	10.6%
Moped	50,649	34,397	47.2%	46,263	9.5%	373,432	288,656	29.4%
Total 2-Wheelers	120,844	98,402	22.8%	131,029	-7.8%	989,403	917,439	7.8%
Hero Honda								
Total 2-Wheelers	381,378	289,426	31.8%	354,156	7.7%	3,037,756	2,508,214	21.1%

Source: Company

Kotak Institutional Equities: Valuation summary of key Indian companies

					0/5																						Target		ADVT
_	1-Dec-09		Mkt		shares		EPS (Rs)			growth (9	-		PER (X)		-	/EBITDA	<u> </u>		rice/BV (<u> </u>		nd yield			RoE (%	<u> </u>	price	<u> </u>	3mo
ompany sutomobiles	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	(Rs)	(%) ((US\$ m
	52	400	70 500	1.522	1.220	1.5	2.0	2.2	(57.0)	07.0	12.0	24.7	18.5	16.4	10.7	10.4	0.4	1.0	1.0	17	1.0	1.0	1.0	6.2	11.2	10.5	47	(11.3)	
Ashok Leyland Bajaj Auto	53 1,638	ADD BUY	70,508 236,977	1,522 5,114	1,330 145	1.5 45.2	2.9 102.6	3.2 125.0	(57.8) (13.4)	87.8	12.6 21.8	34.7 36.2	16.0	16.4 13.1	18.7	9.6	9.4 8.0	1.9 12.6	1.8 7.9	1.7	1.9 1.2	1.9	1.9	6.2 37.7	60.7	10.5 48.3	47 1,750	(11.3)	5
lero Honda	1,038	REDUCE	345,601		200	45.2 64.2		125.0	32.4	126.9 60.5	9.6	27.0	16.8	15.3	16.1	10.4	9.0	8.8	6.3	4.8	1.2	1.2	1.2	36.4	43.7	35.5	1,750	(8.7)	17
Hero Honda Mahindra & Mahindra	1,731	ADD	318,366	7,459 6.871	200	30.0	60.4	64.4	(19.8)	101.3	9.6	36.0	17.9	16.8	25.2	12.0	10.9	6.0	4.1	4.8	0.9	0.9	0.9	17.4	28.5	21.9	1,580	(0.5)	29.
		SELL																									1		
Maruti Suzuki	1,587		458,701	9,900	289	42.2	79.4	83.3	(29.6)	88.2	5.0	37.6	20.0	19.0	22.8	11.7	10.6	4.8	3.9	3.3	0.2	0.3	0.3	13.5	21.7	18.8	1,250	(21.2)	34
Tata Motors	703	SELL	401,595	8,667	571	10.0	25.9	29.2	(78.2)	158.0	12.9	70.1	27.2	24.1	25.5	14.1	12.5	2.1	2.4	2.1	0.8	0.8	0.8	9.1	14.3	11.4	465	(33.9)	78
Automobiles		Cautious	1,831,747	39,533					(30.7)	103.0	10.9	39.2	19.3	17.4	21.6	11.8	10.4	4.9	3.8	3.1	0.8	0.9	0.9	12.5	19.4	18.0			
Banks/Financial Institutions Andhra Bank	116	BUY	56,115	1,211	485	13.5	15.4	13.5	13.5	14.2	(12.1)	8.6	7.5	8.6			_	1.5	1.3	1.2	3.9	2.7	2.3	18.9	19.0	14.7	125	8.0	3
Andhra Bank Axis Bank	1,037	ADD	394,010	8,504	485	50.6	61.8	71.6	56.9	22.2	(12.1)	20.5	16.8	14.5	_	_	_	3.9	2.5	2.2	0.9	1.2	1.4	18.9	18.0	14.7	980	(5.5)	53
Bank of Baroda	524	ADD	191.463	4,132	366	60.9	68.6	71.3	55.1	12.6	3.8	8.6	7.6	7.4	_		_	1.7	1.4	1.2	1.7	1.2	2.0	21.4	20.3	18.0	560	6.9	9
Bank of India	390	REDUCE	205,028	4,132	526	57.2	45.0	48.5	40.7	(21.3)	7.8	6.8	8.7	8.0	_	_	_	1.7	1.4	1.2	2.0	1.5	1.7	21.4	18.5	17.2	360	(7.7)	17
Canara Bank	414	ADD	169,699	4,425	410	57.2	45.0	48.5	32.4	(21.3)	5.4	8.2	7.2	6.9	-	-	-	1.7	1.5	1.2	1.9	1.0	2.4	18.3	17.8	16.4	410	(0.9)	7
Corporation Bank	414	BUY		1,404	143	62.3	57.2 61.3	61.5	21.5	(1.5)	0.2	7.3	7.4	7.4	_	_	_	1.7	1.4	1.2	2.8	2.7	2.4	19.6	16.8	14.9	515	(0.9)	0
			65,035										7.6		-	-	-										340		4
Federal Bank	243	BUY	41,612	898	171	29.3	32.1	39.6	(14.8)	9.8	23.1	8.3		6.2	_	_	_	1.0	0.9	0.8	2.1	2.3	2.8	12.1	12.1	13.4		39.7	
HDFC	2,804	ADD	797,726	17,216	284	80.2		117.1	(6.4)	24.1	17.6	34.9	28.2	24.0	-	-	-	6.1	5.5	4.9	1.1	1.2	1.5	18.2	20.0	20.8	2,575	(8.2)	45
HDFC Bank	1,790	REDUCE	809,050	17,461	452	52.8	65.2	85.0	17.6	23.5	30.5	33.9	27.5	21.0	_	_	-	5.4	3.8	3.3	0.5	0.7	0.9	16.9	16.2	16.8	1,600	(10.6)	29
ICICI Bank	887	ADD	987,711	21,317	1,113	33.8	37.4	45.8	(15.4)	10.8	22.5	26.3	23.7	19.4	-	-	-	2.0	1.9	1.8	1.2	1.4	1.7	7.8	8.2	9.5	850	(4.2)	122
IDFC	168	REDUCE	217,736	4,699	1,295	5.8	8.4	9.1	1.9	45.7	8.4	29.0	19.9	18.4	-	_	-	3.5	3.1	2.7	0.7	0.8	0.9	12.9	16.5	15.6	145	(13.7)	36
India Infoline	136	BUY	42,405	915	312	5.1	8.4	9.4	(8.7)	63.7	12.9	26.6	16.3	14.4	-	-	-	3.4	2.8	2.3	1.9	2.6	1.6	11.9	19.0	19.1	175	28.7	11
Indian Bank	172	BUY	73,963	1,596	430	28.0	32.5	34.1	24.1	16.4	4.9	6.2	5.3	5.0	-	-	-	1.3	1.1	1.0	2.9	3.3	3.4	22.9	22.3	19.8	225	30.7	4
Indian Overseas Bank	118	BUY	64,041	1,382	545	24.3	22.9	14.9	10.3	(6.0)	(35.1)	4.8	5.1	7.9	-	-	-	1.1	0.9	0.8	4.5	3.2	3.5	22.1	16.3	9.5	150	27.6	6
J&K Bank	620	BUY	30,072	649	48	84.5	95.0	104.1	13.8	12.4	9.6	7.3	6.5	6.0	-	-	-	1.3	1.2	1.0	2.7	3.1	3.4	16.7	16.5	15.9	700	12.9	0
LIC Housing Finance	870	ADD	78,256	1,689	90	62.5	86.1	86.0	37.3	37.7	(0.1)	13.9	10.1	10.1	-	-	-	2.4	2.0	1.7	1.5	2.2	2.3	27.2	21.7	22.7	950	9.3	31.
Mahindra & Mahindra Financial	302	BUY	28,930	624	96	22.4	30.7	35.6	7.5	36.9	16.0	13.5	9.9	8.5	-	-	-	2.1	1.8	1.5	1.8	2.5	2.9	15.4	18.7	19.0	350	15.8	1
Oriental Bank of Commerce	277	REDUCE	69,324	1,496	251	36.1	39.9	39.8	51.4	10.5	(0.4)	7.7	6.9	7.0	-	-	-	1.1	1.0	0.9	2.6	2.9	2.9	13.7	12.9	11.8	280	1.2	6.
PFC	252	SELL	288,779	6,232	1,148	13.3	18.7	20.9	17.4	40.2	11.9	18.9	13.5	12.0	-	-	-	2.6	2.3	2.0	1.6	1.9	2.1	18.9	17.5	17.3	200	(20.5)	4.
Punjab National Bank	921	BUY	290,299	6,265	315	98.0	111.3	119.7	50.9	13.5	7.6	9.4	8.3	7.7	-	-	-	2.2	1.8	1.5	2.1	2.4	2.6	25.8	24.2	21.8	930	1.0	12.
Reliance Capital	857	ADD	210,959	4,553	246	39.3	17.7	17.5	(5.6)	(55.1)	(1.1)	21.8	48.5	49.1	-	_	-	3.1	3.0	2.8	0.7	0.3	0.3	15.3	6.3	5.9	875	2.1	92.
Rural Electrification Corp.	252	NR	216,582	4,674	859	16.5	21.2	23.1	50.7	28.9	8.7	15.3	11.9	10.9	-	-	-	3.0	2.5	2.2	0.8	1.7	1.8	21.2	23.2	21.3	200	(20.7)	6
Shriram Transport	419	ADD	88,678	1,914	212	30.1	35.6	40.9	56.7	18.4	14.8	13.9	11.8	10.3	-	_	-	3.9	3.3	2.8	1.1	2.5	2.9	29.6	29.4	28.0	440	5.0	3
SREI	77	BUY	8,960	193	116	7.0	8.7	8.4	(24.7)	23.4	(3.6)	11.0	8.9	9.2	-	-	-	0.9	0.7	0.7	1.3	1.6	1.6	12.8	11.9	11.4	115	49.3	2.
State Bank of India	2,292	NR	1,454,891	31,399	635	143.7		175.3	34.8	8.3	12.7	16.0	14.7	13.1	-	-	-	2.5	2.2	2.0	1.3	1.3	1.4	17.1	16.0	15.9	2,400	4.7	149.
Union Bank	284	BUY	143,428	3,095	505	34.2	35.0	37.8	24.5	2.5	7.8	8.3	8.1	7.5	-	-	-	2.0	1.7	1.4	1.8	1.8	1.9	27.2	22.7	20.5	310	9.2	5.
Banks/Financial Institutions Cement		Attractive	7,024,753	151,608					27.0	11.8	11.1	16.1	14.4	13.0	-	-	-	2.6	2.2	2.0	1.3	1.5	1.6	16.0	15.4	15.1			
ACC	809	REDUCE	152.070	3,282	188	56.3	84.1	53.3	(12.2)	49.4	(36.7)	14.4	9.6	15.2	7.2	5.0	6.6	2.9	23	2.1	2.9	2.9	2.9	24.7	30.1	16.8	800	(1.2)	9.
Ambuja Cements	94	REDUCE	143,484	3,097	1,522	7.2	8.1	6.2	(5.0)	12.2	(23.7)	13.1	11.7	15.3	7.1	6.5	7.7	2.4	2.1	1.9	3.2	2.0	2.3	19.7	19.4	13.2	85	(9.8)	8.
Grasim Industries	2.398	REDUCE	219.873	4,745	92	238.6		270.7	(16.2)	19.4	(4.9)	10.1	8.4	8.9	5.9	4.5	4.5	1.9	1.6	1.4	1.4	1.4	1.4	21.1	20.6	16.7	2.325	(3.0)	13.
India Cements	114	REDUCE	32,056	692	282	17.8	15.7	13.0	n/a	(11.4)	(17.6)	6.4	7.2	8.7	4.7	4.3	4.7	0.8	0.8	0.7	1.6	1.9	2.8	14.8	12.1	9.2	110	(3.1)	6.
Shree Cement	1,807	BUY	62,956	1,359	35	174.7	209.9	195.6	93.7	20.1	(6.8)	10.3	8.6	9.2	7.0	4.9	4.6	5.3	3.2	2.4	0.6	0.6	0.6	65.7	46.0	29.4	2,200	21.7	1.
UltraTech Cement	841	BUY	104,690	2,259	124	78.8	94.0	73.9	(3.1)	19.2	(21.3)	10.7	8.9	11.4	6.3	4.9	5.6	2.4	1.9	1.7	0.7	1.0	1.0	31.1	28.3	18.1	925	10.0	5
Cement		Neutral	715,128	15,434					(8.0)	20.7	(17.7)	11.1	9.2	11.2	6.3	4.9	5.4	2.2	1.8	1.6	1.9	1.7	1.8	20.0	20.0	14.5			
Consumer products																													
Asian Paints	1,707	ADD	163,778	3,535	96	38.6	66.8	75.6	(1.7)	73.0	13.3	44.2	25.6	22.6	26.4	15.8	13.6	14.3	11.8	9.9	1.0	2.1	2.4	36.6	52.9	49.6	1,840	7.8	1.
Colgate-Palmolive (India)	692	REDUCE	94,114	2,031	136	21.6	29.9	33.4	26.3	38.3	12.0	32.1	23.2	20.7	26.5	19.2	15.9	43.5	39.1	35.1	2.2	3.5	3.9	155.1	177.6	178.5	700	1.1	2
GlaxoSmithkline Consumer (a)	1,392	ADD	58,548	1,264	42	44.8	61.6	72.3	15.8	37.6	17.3	31.1	22.6	19.3	18.1	13.5	11.6	7.6	6.4	5.5	1.1	1.6	2.3	26.8	31.0	31.0	1,500	7.7	0
Godrej Consumer Products	288	ADD	74,451	1,607	258	6.7	10.9	12.6	(5.3)	63.0	15.6	43.1	26.5	22.9	29.8	18.6	14.9	13.0	7.6	6.2	1.4	1.4	1.4	46.9	36.4	30.0	270	(6.4)	0
Hindustan Unilever	279	BUY	607,307	13,107	2,179	9.5	10.6	12.2	19.0	11.1	15.0	29.3	26.3	22.9	22.4	19.8	17.1	29.5	26.4	23.6	3.1	3.4	3.9	112.4	105.9	108.9	320	14.8	17
ITC	258	BUY	972,490	20,988	3,769	8.7	10.8	12.8	2.8	24.4	18.6	29.8	24.0	20.2	18.3	14.9	12.6	6.7	5.8	4.9	1.4	1.5	1.7	25.3	27.3	27.6	290	12.4	27
lyothy Laboratories Nestle India (a)	164 2,567	ADD ADD	11,890 247,461	257 5,341	73 96	5.5 58.6	10.4 77.2	12.8 93.1	(12.9) 31.0	88.4 31.8	22.7 20.6	29.6 43.8	15.7 33.2	12.8 27.6	20.0 27.9	10.2 22.1	7.8	3.3 52.3	2.8 42.2	2.4 34.3	1.4	1.8	2.1	10.6 126.7	17.3 140.5	19.7 137.3	170 3,000	3.8 16.9	1
Nestie India (a) Tata Tea	2,567	BUY	247,461 55,953	1,208	96	58.6	64.8	70.9	31.0	20.7	20.6 9.4	43.8	33.2 14.0	12.8	10.2	9.1	7.8	52.3	42.2	1.0	1.7	2.2	2.6	9.4	140.5	137.3	3,000	10.5	5
Consumer products	305	Attractive	2,285,992	49,336	02	35.7	04.6	70.5	14.7	20.7	9.4 16.7	31.3	24.9	21.4	20.5	16.5	14.0	9.2	7.9	6.9	1.9	2.3	2.6	29.3	31.9	32.3	1,000	10.5	2
Consumer products		Attractive	2,203,352	45,550					10.4	23.7	10.7	51.5	24.9	21.4	20.3	10.5	14.0	5.2	7.5	0.5	1.9	2.2	2.0	25.3	51.9	32.5			
VRCL	378	BUY	51,205	1,105	135	16.7	19.7	23.6	7.4	18.1	19.7	22.7	19.2	16.0	15.5	11.6	9.6	2.8	2.5	2.2	0.2	0.2	0.2	13.2	13.8	14.4	410	8.4	20
Nagarjuna Construction Co.	164	BUY	42,131	909	257	6.7	7.8	10.0	(6.3)	15.8	28.7	24.4	21.1	16.4	14.2	10.9	9.6	2.5	1.9	1.8	0.6	1.0	1.2	9.4	10.3	11.1	180	9.6	7
	200	REDUCE	67,607	1,459	339	(7.2)	13.7	16.6	(172.4)	(289.7)	20.9	(27.6)	14.6	12.0	21.6	8.9	7.2	2.7	1.9	1.6	0.1	0.3	0.4	(8.6)	15.3	14.6	240	20.3	33
Punj Lloyd																						0.5				40.4			
Punj Lloyd Sadbhav Engineering	965	BUY	12,066	260	13	51.1	55.3	77.4	26.2	8.0	40.0	18.9	17.5	12.5	12.9	10.0	8.0	3.4	2.9	2.4	0.4	0.5	0.6	18.0	16.6	19.1	1,025	6.2	0

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

	1-Dec-09		Mkt		O/S shares	EPS (Rs)	-	arouth (0/)		PER (X		_		00						(0/)				Target	Incid-	ADV1 3mc
		Detina	-					5 growth (%)					/EBITDA			rice/BV ()			nd yield			RoE (%)		price		
Company Energy	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2009 2010E 2011E	2009	2010E 201	1E 2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	(Rs)	(%) ((US\$ r
harat Petroleum	606	BUY	198,528	4,285	328	20.6 75.0 64.3	(50.1)	264.1 (14	3) 29.4	8.1	9.4	5.9	4.2	4.4	1 5	1.3	1.2	1.3	5.5	4.7	5.3	17.7	13.7	675	11.5	
Lairn india	286	REDUCE	541,783	11,693	1,897	6.4 21.8 29.0	50	240 32		13	9.9	27.4	4.2	6.9	1.5 1.6	1.6	1.2	1.2	7.0	8.8	3.6	12.0	15.9		(21.2)	1
Castrol India (a)	542	ADD	66,988	1,446	124	21.3 33.2 36.5	20.8	55.7 10		16.3	14.8	14.6	9.8	8.8	14.9	13.2	1.6	2.8	4.4	4.8	61.2	85.8	83.3	225 550		
SAIL (India)	411	ADD	521,853	11,263	1.268	22.2 21.0 22.3	8.7	(5.0) 6		19.5	18.4	14.6	9.8	11.5	3.2	3.0	11.6 2.7	1.7	4.4		17.5	14.8	14.4	365	1.5	
GSPL	99	REDUCE	55,913	1,203	563	2.2 6.9 12.0	21.9	213.6 74			8.3									1.9					(11.3)	1
Hindustan Petroleum	361	BUY	122.383	2.641	339	17.0 64.0 61.1	(49.3)	213.6 /4		5.6	5.9	14.8	7.3	4.6	4.2	3.5	2.9	0.8	2.4	6.1	9.6	26.5	38.5	90	(9.5)	
			1									3.2	2.1	2.2	1.0	0.9	0.8	1.5	7.2	6.9	4.4	15.6	13.5	525	45.4	1
Indian Oil Corporation	301	BUY	713,642	15,402	2,372	9.8 47.6 38.2	(67.9)	383.2 (19	.,	6.3	7.9	8.3	4.3	3.8	1.5	1.3	1.2	1.3	6.6	5.3	4.8	21.2	15.3	400	32.9	
Oil India	1,323	BUY	300,659	6,489	227	101.1 108.5 123.3		7.3 13		12.2	10.7	6.2	4.4	3.4	2.9	2.1	1.9	2.2	3.3	3.9	20.1	16.0	17.3	1,275	(3.6)	
Oil & Natural Gas Corporation	1,198	BUY	2,561,959	55,292	2,139	89.6 103.0 127.8	(3.4)	15.0 24			9.4	4.8	4.1	3.2	2.2	2.0	1.8	2.7	3.0	3.7	16.6	16.9	18.8	1,325	10.6	3
Petronet LNG	69	REDUCE	51,788	1,118	750	6.9 6.7 8.0		(3.6) 20			8.6	7.2	6.9	5.9	2.3	1.9	1.6	2.5	2.9	3.3	23.9	19.2	19.6	64	(7.3)	
Reliance Industries	1,098	SELL	3,202,866	69,124	2,917	50.6 48.3 68.8	(3.7)	(4.5) 42		22.7	16.0	14.3	11.0	8.1	2.4	2.1	1.9	0.6	0.6	0.8	13.6	10.9	13.8	900	(18.0)	21
Energy		Cautious	8,338,360	179,958			(9.8)	44.6 18	1 18.6	12.9	10.9	8.4	6.2	5.2	2.1	1.9	1.7	1.4	2.7	3.0	11.5	14.8	15.8			
Industrials																										
ABB	744	REDUCE	157,596	3,401	212	25.8 21.6 30.4	11.3	(16.6) 41		34.5	24.4	17.1	19.3	13.8	7.4	6.3	5.2	0.3	0.4	0.4	29.2	19.8	23.3	660	(11.3)	
BGR Energy Systems	500	ADD	36,011	777	72	16.0 24.3 32.9	32.2	51.4 35		20.6	15.2	17.7	12.0	9.5	6.4	5.1	4.0	0.6	0.8	1.1	22.3	27.6	29.7	530	6.0	
Bharat Electronics	1,810	ADD	144,824	3,126	80	103.8 117.7 126.2	1.8	13.4 7	2 17.4	15.4	14.3	9.0	7.4	6.6	3.7	3.1	2.7	1.0	1.4	1.4	20.7	22.0	20.1	1,625	(10.2)	
Bharat Heavy Electricals	2,230	ADD	1,091,752	23,562	490	63.9 92.5 113.1	9.4	44.8 22		24.1	19.7	19.0	13.5	10.8	8.4	6.7	5.3	0.8	0.9	1.1	26.4	30.9	30.1	2,425	8.7	4
Crompton Greaves	406	BUY	148,986	3,215	367	15.3 20.7 23.7	37.3	35.2 14			17.2	14.1	10.8	9.2	8.1	6.0	4.6	0.5	0.7	0.8	35.9	35.3	30.5	400	(1.6)	
Larsen & Toubro	1,629	ADD	979,128	21,131	601	50.1 57.1 74.0	32.1	13.9 29	6 32.5	28.5	22.0	20.8	15.8	12.7	6.5	4.4	3.7	0.6	0.7	0.7	21.7	18.4	18.4	1,725	5.9	6
Maharashtra Seamless	353	BUY	24,876	537	71	35.9 36.9 39.6	22.2	2.8 7	.4 9.8	9.6	8.9	5.6	4.9	4.3	1.8	1.6	1.4	1.5	1.6	2.0	20.3	17.8	16.5	335	(5.0)	
Siemens	537	REDUCE	180,954	3,905	337	14.2 16.1 22.7	(22.2)	13.5 41	1 37.9	33.4	23.6	18.2	14.9	13.4	8.0	6.7	5.5	0.6	1.2	0.8	23.3	21.8	25.4	515	(4.0)	
Suzion Energy	81	REDUCE	136,288	2,941	1,679	7.2 (2.4) 2.6	9.9	(133.1) (210	5) 11.2	(33.9)	30.7	7.8	13.3	8.7	1.3	1.2	1.2	_	-	0.2	11.5	(3.6)	3.8	80	(1.4)	9
Voltas	176	BUY	58,127	1,254	331	6.9 9.5 10.8	29.8	37.3 14		18.5	16.3	14.1	10.1	8.5	7.4	5.8	4.7	0.9	1.5	1.7	33.4	35.0	31.8	200	13.8	
Industrials		Attractive	2,958,541	63,851			13.5	8.6 32		26.9	20.3	16.2	13.6	10.9	5.7	4.5	3.8	0.7	0.8	0.9	19.7	16.8	18.8	210		
Infrastructure													.5.5		5		5.0	0	0.0	0.5						
GMR Infrastructure	68	ADD	125,240	2,703	1,834	0.8 0.5 0.4	(33.5)	(38.3) (6	8) 89.0	144.2	154.6	19.5	14.1	10.5	1.5	1.3	1.2	-	-	-	4.4	2.6	2.4	68	(0.4)	9
GVK Power & Infrastructure	51	ADD	80,935	1,747	1,579	0.8 0.8 1.0	(20.6)	2.5 34		65.6	48.9	58.2	20.5	18.5	3.5	2.6	2.5	_	_	0.6	4.8	4.5	5.1	50	(2.4)	16
IRB Infrastructure	259	NR	85,966	1.855	332	5.3 10.6 13.5	54.3	101.2 27	0 48.9	24.3	19.1	24.1	12.3	11.0	4.7	3.8	3.1	0.5	_		10.1	17.3	18.0	200	(22.7)	10
Infrastructure	235	Attractive	292,141	6,305	552	5.5 10.0 15.5	22.5	15.7 19		44.9	37.6	25.1	14.8	12.1	2.3	1.9	1.7	0.1		0.2	4.5	4.2	4.6	200	(22.7)	· · ·
Media		Attractive	232,141	0,303			22.5	13.7 13.	5 51.5	44.5	57.0	23.1	14.0	12.1	2.5	1.9	1.7	0.1		0.2	4.5	4.2	4.0			
DishTV	41	ADD	43,653	942	1,063	(6.6) (1.8) (0.6)	n/a	(72.5) (64	4) (6.2	(22.7)	(63.8)	(39.6)	36.5	16.7	(7.0)	9.0	10.5				83.9	275.0	NA	40	(2.6)	
HT Media	140	ADD	32,830	709	235	0.8 5.4 7.1	(80.5)	540.7 31		25.8	19.6	37.3	12.7	10.7	3.8	3.5	3.1	0.2	0.7	1.4	2.3	14.0	16.7	135	(3.4)	
Jagran Prakashan	119	ADD	35,884	774	301	3.0 5.9 6.8	(6.6)	93.7 15			17.4	22.3		10.2	6.4		5.2	1.7	3.0	3.2	16.7	30.3	31.7	130	9.1	(
Sun TV Network	344	REDUCE	135,603	2.927	394	9.1 12.1 14.6	9.5	32.7 20		20.2	23.6		12.0			5.9				1.7						
												20.1	16.4	13.2	7.7		5.8	0.7	1.2		22.5	25.3	26.3	295	(14.3)	1
Zee Entertainment Enterprises	263	NR	114,229	2,465 312	434 240	8.4 10.2 12.5	(4.8)	20.8 22 30.0 35		25.8	21.1	21.5	18.9	15.0	3.3	3.0	2.8	0.8	1.0	1.2	11.8	12.5	14.0	NA		8
Zee News	60		14,460		240	1.9 2.4 3.3	20.4			24.9	18.4	15.8	12.2	9.6	5.9	4.9	4.1	0.7	0.7	1.2	20.1	22.1	24.7	NA		2
Media		Neutral	376,658	8,129			(21.0)	157.0 37	7 88.9	34.6	25.1	27.3	16.9	13.1	6.0	4.6	4.2	0.7	1.1	1.4	6.7	13.3	16.7			
Metals							((= =)	-
Hindalco Industries	142	BUY	271,603	5,862	1,911	2.8 4.3 12.6	(77.9)	54.6 194			11.3	14.9	9.6	7.1	1.5	0.9	0.8	-	-	-	9.6	5.7	7.6	135	(5.0)	36
National Aluminium Co.	384	SELL	247,705	5,346	644	19.7 8.3 27.1	(22.0)	(57.9) 226			14.2	9.5	19.2	6.7	2.4	2.3	2.0	1.3	0.5	0.5	12.8	5.1	15.1	310	(19.4)	2
Jindal Steel and Power	707	SELL	655,851	14,155	928	196.9 41.1 49.0	138.0	(79.1) 19			14.4	14.0	11.3	9.1	8.4	5.7	4.1	0.2	0.1	0.1	50.9	39.7	33.0	530	(25.0)	79
JSW Steel	1,016	SELL	190,013	4,101	187	13.1 80.2 88.1	(84.7)	510.1 9			11.5	11.8	7.0	7.3	2.1	1.6	1.3	0.1	0.3	0.5	11.7	14.7	12.5	670	(34.0)	57
Hindustan Zinc	1,180	BUY	498,545	10,760	423	64.6 79.7 93.9	(38.0)	23.4 17		14.8	12.6	14.7	10.5	7.8	3.3	2.7	2.3	0.3	0.4	0.4	20.2	20.4	19.8	1,100	(6.8)	1
Sesa Goa	368	REDUCE	302,031	6,518	821	24.7 22.2 29.1	30.2	(10.0) 30	9 14.9	16.6	12.7	11.1	11.0	7.9	6.6	4.5	3.5	0.7	1.0	1.0	52.4	32.4	30.9	265	(28.0)	76
Sterlite Industries	885	ADD	743,543	16,047	840	46.8 37.7 45.3	(25.8)	(19.4) 20	.1 18.9	23.5	19.5	14.1	11.5	8.6	2.8	2.0	1.8	_	_	_	14.0	9.9	9.8	780	(11.8)	55
Tata Steel	582	BUY	516,157	11,140	887	110.1 29.7 73.4	45.3	(73.0) 147	.1 5.3	19.6	7.9	5.8	10.9	6.3	1.8	1.7	1.4	2.5	1.4	1.4	24.0	7.2	19.4	600	3.2	128
Metals		Cautious	3,425,448	73,928			(1.3)	(22.8) 52	9 15.0	19.4	12.7	10.0	10.6	7.4	2.8	2.2	1.8	0.6	0.4	0.4	18.8	11.2	14.6			
Pharmaceutical																										
Biocon	268	BUY	53,500	1,155	200	4.7 14.1 17.3	(79.9)	200.5 23	.1 57.0	19.0	15.4	22.8	10.8	9.1	3.5	3.1	2.7	_	-	0.0	6.2	17.5	18.8	285	6.5	5
Cipla	329	ADD	264,001	5,698	803	9.9 12.6 15.1	10.0	26.5 20		26.2	21.7	25.2	17.8	15.2	6.1	4.6	3.9	0.6	0.8	0.8	19.0	19.9	19.3	285	(13.3)	13
Dishman Pharma & chemicals	222	BUY	18,032	389	81	18.0 18.6 22.4	22.1	3.3 20			9.9	9.3	8.6	7.0	2.5	2.1	1.8	-	_	-	22.7	19.3	19.5	265	19.5	2
Divi's Laboratories	621	ADD	40,073	865	65	31.9 19.0 30.0	19.7	(40.4) 57		32.7	20.7	7.7	9.1	6.5	6.5	5.6	4.6	-	0.0	0.0	39.6	18.5	24.5	550	(11.4)	
Dr Reddy's Laboratories	1,145	BUY	193,958	4,186	169	32.4 54.4 60.8	24.3	67.8 11		21.1	18.8	14.9	12.0	10.2	5.5	4.5	3.7	0.5	0.6	0.7	13.6	23.3	21.5	990	(13.5)	1
GlaxoSmithkline Pharmaceuticals (a)	1,687	REDUCE	142,856	3,083	85	54.6 60.1 66.1	13.8	10.0 10		28.1	25.5	17.6	15.9	14.1	9.1	7.7	6.6	-	-	-	31.3	29.7	27.9	1,450	(14.0)	
Glenmark Pharmaceuticals	243	NR	66,480	1,435	274	11.1 12.1 16.5	(57.0)	9.3 36		20.0	14.7	13.8	11.7	9.2	4.2	2.9	2.4	-	-	-	17.7	16.2	17.7	320	31.9	
Jubilant Organosys	311	BUY	53,101	1,146	171	16.6 28.2 31.2	(26.1)	70.2 10		11.0	10.0	16.6	9.3	7.9	4.1	3.0	2.4	0.4	0.4	0.6	16.2	33.8	30.0	300	(3.4)	
Lupin	1,400	BUY	124,047	2,677	89	60.2 75.7 83.9	21.0	25.8 10		18.5	16.7	20.9	16.4	13.4	8.6	5.3	4.2	0.8	0.9	1.0	37.1	36.1	28.7	1,400	(0.0)	
Piramal Healthcare	397	BUY	82,900	1,789	209	17.3 21.5 28.3	(1.9)	24.4 31		18.5	14.0	16.1	12.1	9.5	6.3	5.0	3.8	1.1	1.1	1.1	26.2	30.2	31.1	425	7.1	
Ranbaxy Laboratories	469	REDUCE	201,077	4,340	428	(12.3) 11.2 17.6	(152.8)	(191.4) 56			26.6	(88.8)	21.7	16.3	6.8	6.3	5.4	-	0.8	0.9	(13.6)	11.3	16.4	210	(55.3)	18
Sun Pharmaceuticals	1,540	ADD	318,939	6,883	207	87.8 57.7 65.2	17.6	(34.3) 13		26.7	23.6	13.8	19.3	16.4	4.4	3.9	3.5	0.9	0.9	0.9	30.2	15.9	15.9	1,400	(9.1)	16
Pharmaceuticals		Attractive	1,558,962	33,645			(19.9)	31.2 21	9 30.4	23.2	19.0	19.3	14.8	12.2	5.4	4.4	3.7	0.5	0.6	0.7	17.8	19.0	19.6			
Property								()	-																	
DLF	371	SELL	626,838	13,528	1,691	26.7 13.1 16.8	(42.0)	(50.9) 27			22.1	13.9	18.6	16.4	2.6	2.4	2.2	0.8	0.8	1.1	20.7	8.9	10.6	320	(13.7)	13
Housing Development & Infrastructure	340	ADD	117,501	2,536	345	21.3 12.3 24.0	(58.5)	(42.0) 94		27.6	14.2	12.0	20.2	8.5	2.7	1.8	1.5	-	0.9	1.6	18.7	9.9	15.5	350	2.9	11
Indiabulls Real Estate	214	ADD	85,682	1,849	401	0.8 1.6 4.0	(95.4)	109.7 151		134.6	53.5	(54)	(134.3)	63.8	1.3	0.9	0.9	-	-	-	0.3	0.8	1.8	285	33.5	5
Mahindra Life Space Developer	344	BUY	14,473	312	42	10.4 12.5 15.8	(38.5)	20.5 26		27.6	21.8	51.1	24.4	15.5	1.6	1.6	1.5	1.1	1.1	1.1	4.8	5.7	6.9	435	26.4	
Phoenix Mills	191	BUY	27,694	598	145	5.0 5.8 8.3	57.7	15.6 42		33.1	23.2	44.7	26.9	18.2	1.8	1.8	1.7	0.5	0.5	0.8	4.9	5.5	7.4	230	20.3	
Puravankara Projects	95	REDUCE	20,243	437	213	6.8 8.3 7.9	(39.8)	22.4 (4		11.4	12.0	20.6	12.9	12.2	1.5	1.4	1.3		2.1	2.1	11.5	12.7	11.1	100	5.4	
Sobha	237	ADD	23,192	501	98	15.1 13.4 14.9	(52.3)	(11.3) 11		17.6	15.8	15.2	12.6	12.1	2.1	1.3	1.3	1.3	1.7	1.7	10.4	9.3	8.2	245	3.6	2
Unitech	89	SELL	217,165	4,687	2,446	7.4 3.9 4.4	(28.7)	(46.5) 12	0 12.1	22.6	20.1	19.0	16.7	14.5	4.2	2.0	1.7	-	-	-	27.3	11.2	9.2	65	(26.8)	130
Property		Neutral	1,132,789	24,448			(42.4)	(39.4) 37	4 16.5	27.2	19.8	15.9	18.8	14.7	2.5	2.0	1.8	0.5	0.6	0.9	15.2	7.2	9.0			

India Daily Summary - December 2, 2009

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

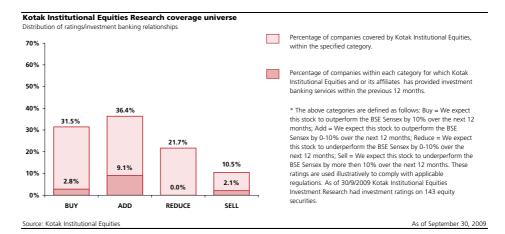
	1-Dec-09		Mkt	cap.	O/S shares		EPS (Rs)		EPS	growth (%)		PER (X)		EV	/EBITDA	(X)	P	rice/BV (X)	Divide	nd yield	(%)		RoE (%))	Target price	Upside	ADVT- 3mo
Company	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)		2010E	2011E	2009		2011E	2009			2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	(Rs)	(%) ((US\$ mn)
Retail			,	()	. ,										-														
Titan Industries	1,341	REDUCE	59,515	1,284	44	44.3	53.1	61.9	26.4	19.8	16.7	30.3	25.3	21.7	18.2	16.1	13.4	10.3	7.8	6.0	0.7	0.7	0.9	37.5		31.4	1,200	(10.5)	2.3
Retail		Neutral	59,515	1,284					26.4	19.8	16.7	30.3	25.3	21.7	18.2	16.1	13.4	10.3	7.8	6.0	0.7	0.7	0.9	34.1	30.8	27.9			
Sugar																													
Bajaj Hindustan	221	SELL	42,271	912	191	(12.6)	(1.0)	23.7	(8,831.1)	(92.1)	#####	(17.6)	(221.4)	9.3	43.6	13.7	6.6	3.5	2.1	1.6	0.2	0.3	0.3	(13.1)	(1.2)	19.3	150	(32.1)	30.1
Balrampur Chini Mills	135	ADD	34,567	746	256	3.1	7.6	14.0	(220.6)	147.4	83.5	43.7	17.7	9.6	14.6	9.2	6.0	3.0	2.7	2.2	0.2	_	0.3	7.4	16.2	25.3	140	3.7	20.2
Shree Renuka Sugars	231	BUY	77,211	1,666	335	4.3	6.9	27.2	23.9	60.4	294.1	53.5	33.4	8.5	32.2	18.2	5.3	8.8	4.7	2.7	0.1	0.4	0.2	17.2	18.4	40.2	250	8.4	21.9
Sugar		Attractive	154,049	3,325					(25.3)	2,436.2	322.7	958.1	37.8	8.9	27.6	13.7	5.9	4.8	3.1	2.2	0.1	0.3	0.2	0.5	8.2	24.3			
Technology																													
HCL Technologies	341	REDUCE	236,717	5,109	695	17.5	16.6	22.9	14.5	(5.0)	37.9	19.5	20.5	14.9	10.9	9.9	8.9	4.1	3.7	3.1	3.5	3.5	3.5	20.9	19.5	23.0	300	(11.9)	10.4
Hexaware Technologies	91	REDUCE	13,101	283	144	4.1	9.1	9.8	(46.4)	122.1	7.9	22.2	10.0	9.3	8.1	4.4	4.1	2.0	1.7	1.5	0.5	1.1	1.1	8.6	18.2	16.9	80	(12.3)	2.2
Infosys Technologies	2,396	BUY	1,375,161	29,679	574	102.4	104.5	118.0	29.6	2.0	12.9	23.4	22.9	20.3	17.5	16.4	13.9	7.5	6.1	5.1	1.0	1.0	1.4	36.7	29.4	27.3	2,500	4.4	72.0
Mphasis BFL	681	REDUCE	142,013	3,065	208	14.2	43.6	47.6	15.7	207.5	9.2	48.1	15.6	14.3	36.6	12.4	11.0	9.9	6.1	4.4	0.6	0.5	0.6	22.8	48.1	35.5	570	(16.3)	17.0
Mindtree	650	BUY	26,743	577	41	13.2	46.8	53.6	(50.5)	253.5	14.5	49.1	13.9	12.1	8.4	10.5	7.5	4.9	3.6	2.8	0.3	0.3	0.8	5.5	29.7	26.0	700	7.7	3.4
Patni Computer Systems	448	REDUCE	57,597	1,243	129	26.8	36.5	41.0	(19.3)	36.1	12.4	16.7	12.3	10.9	8.5	6.4	6.3	2.3	1.9	1.7	0.4	1.6	1.8	16.2	16.0	16.7	410	(8.5)	11.3
Polaris Software Lab	173	SELL	17,085	369	99	13.2	14.5	13.9	76.6	10.5	(4.6)	13.2	11.9	12.5	5.9	6.5	6.9	2.2	1.9	1.7	1.6	1.2	1.2	18.2	17.2	14.4	125	(27.8)	8.3
TCS	686	ADD	1,342,150	28,966	1,957	26.4	32.2	36.0	3.1	21.9	11.8	25.9	21.3	19.0	18.2	15.8	14.1	8.6	6.8	5.7	1.0	1.4	2.1	36.9	35.6	32.6	650	(5.2)	40.9
Wipro	638	ADD	932,975	20,135	1,462	25.7	30.5	35.4	15.8	18.6	15.8	24.8	20.9	18.0	18.3	15.4	13.0	6.2	5.0	4.1	0.6	1.3	1.6	26.9	26.4	25.0	675	5.8	18.5
Technology	050	Neutral	4,143,541	89,426	1,402	2.3.7	50.5	22.4	15.3	16.9	13.9	24.4	20.8	18.3	17.1	14.7	12.8	6.8	5.5	4.6	1.0	1.4	1.8	28.1	26.4	25.1			
Telecom		neutra	4,145,541	03,420					15.5	10.5	15.5	2-1.7	20.0	10.5															
Bharti Airtel	305	REDUCE	1,156,376	24,957	3.797	22.3	23.8	21.7	26.4	6.4	(8.8)	13.6	12.8	14.0	8.1	7.6	7.4	3.7	2.9	2.4	0.6	1.0	1.3	31.4	25.1	18.6	300	(1.5)	121.7
IDEA	52	REDUCE	161,400	3,483	3,104	2.9	2.0	1.2	(26.5)	(32.2)	(38.0)	17.9	26.4	42.6	7.1	7.3	7.6	1.2	1.1	1.1	_	_	_	10.4	44	2.9	45	(13.5)	14.1
MTNL	76	SELL	47,817	1,032	630	2.4	(2.4)	(3.2)	(66.3)	(199.6)	32.8	31.6	(31.7)	(23.9)	(0.1)	0.3	0.2	0.4	0.4	0.4	1.3	_	_	1.2	(1.3)	(1.7)	50	(34.1)	1.9
Reliance Communications	177	SELL	365.125	7,880	2.064	31.6	14.9	13.0	19.4	(52.8)	(12.9)	5.6	11.9	13.6	6.9	8.7	8.1	0.9	0.8	0.8	0.5	-	-	18.9	7.3	5.9	150	(15.2)	61.8
Tata Communications	391	REDUCE	111,535	2,407	2,004	13.6	14.0	15.2	24.0	3.2	8.2	28.8	27.9	25.8	12.4	11.2	10.4	1.6	1.6	1.5	1.3	17	1.9	5.4	5.2	5.5	400	2.2	3.0
Telecom	391	Cautious	1,842,254	39,759	205	15.0	14.0	13.2	16.6	(20.9)	(10.4)	10.9	13.8	15.4	7.7	8.0	7.8	1.7	1.5	1.4	0.6	0.7	0.9	15.8	11.2	9.1	400	2.2	5.0
Transportation		Cautious	1,042,234	39,739					10.0	(20.5)	(10.4)	10.5	15.0	13.4	1.1	0.0	7.0	1.7	1.5	1.4	0.0	0.7	0.5	15.0	11.2	5.1			
Container Corporation	1.200	ADD	155.918	3.365	130	60.9	65.7	82.4	5.5	7.8	25.5	19.7	18.3	14.6	14.2	12.9	9.9	4.1	3.6	3.0	1.2	1.3	1.6	22.8	21.0	22.4	1,250	4.2	2.3
Transportation	1,200	Cautious	155,918	3,365	150	00.5	0.5.7	02.4	5.5	7.8	25.5	19.7	18.3	14.6	14.2	12.9	9.9	4.1	3.6	3.0	1.2	1.3	1.6	21.0	19.5	20.7	1,250		2.5
Utilities		Cautious	155,918	5,505					3.5	7.0	23.5	15.7	10.5	14.0	14.2	12.5	5.5	4.1	5.0	5.0	1.2	1.5	1.0	21.0	15.5	20.7			
CESC	392	ADD	48,944	1,056	125	32.3	37.9	42.0	16.2	17.4	11.0	12.1	10.3	9.3	(0.4)	(0.9)	(0.8)	0.9	0.6	0.6	7.3	11.1	13.3	11.7	11.9	11.6	375	(4.3)	2.3
Lanco Infratech	558	ADD	134,091	2,894	241	14.5	21.1	35.4	(1.9)	44.8	68.1	38.3	26.5	15.7	21.1	18.6	9.1	6.4	3.9	3.1		_	_	16.4	16.8	20.2	475	(14.8)	24.8
NTPC	210	REDUCE	1,735,258	37,450	8,245	9.8	11.1	12.4	5.3	13.2	11.4	21.4	18.9	17.0	17.7	14.4	12.9	2.9	2.7	2.5	1.7	2.0	2.2	14.3	14.9	15.2	190	(9.7)	17.1
Reliance Infrastructure	1.081	BUY	244,702	5,281	226	62.7	63.7	68.6	66.7	1.6	7.8	17.2	17.0	15.8	21.6	19.8	15.8	1.4	1.3	1.3	0.6	0.8	0.9	4.9	6.1	7.8	1.250	15.7	60.8
	1,081	REDUCE	351,484	7,586	2,397	1.0		3.1	00.7	141.5	24.4	143.8	59.5	47.8	21.0	19.0	13.0	2.6	2.4	2.3	0.0	0.0	0.9	1.8	4.2	5.0	1,230	9.1	11.8
Reliance Power Tata Power	1.360	ADD	335.608		2,397	50.2	2.5 63.3	70.3	57.5	26.1	24.4	27.1	21.5	47.8	12.5	13.8	13.3	3.4	2.4	2.3	0.8	0.9	1.0	12.0	13.7	12.8	1.400	3.0	16.4
Utilities	1,300		2,850,086	7,243	247	50.2	03.3	70.5		17.4	14.6	27.1		15.9	15.3	14.0	12.2	2.5	2.0	2.4	1.4	1.7	2.0	11.9	12.3	13.0	1,400	5.0	10.4
Others		Attractive	2,850,086	61,510					16.3	17.4	14.0	21.3	18.2	15.9	13.5	14.0	12.2	2.5	2.2	2.1	1.4	1.7	2.0	11.9	12.5	15.0			
Aban Offshore	1,325	BUY	57,568	1,242	43	96.9	181.6	300.2	34	87.3	65.3	13.7	7.3	4.4	12.4	8.5	6.0	3.2	1.5	1.1	0.2	0.3	0.3	26.9	21.5	27.9	1,500	13.2	77.9
Havells India	401	REDUCE	24,119	521	43	5.1	12.2	19.5	(81)	87.3 NA	60.1	NA	32.9	20.5	12.4	10.4	8.8	4.0	4.6	3.9	0.2	0.5	0.5	4.6	13.0	20.5	210	(47.6)	2.4
Jaiprakash Associates	229	ADD	322,320	6,956	1,406	3.0	6.0	19.5	(39)	101.5	84.2	76.5	32.9	20.5	28.0	17.5	14.7	4.0	3.9	3.3	0.0	0.0	0.0	7.3	11.4	17.3	250	9.1	85.7
Jaiprakasri Associates	960	ADD	52,520	1,136	55	85.9	71.7	79.1	(39)	(16.6)	10.3	11.2	13.4	12.1	7.0	7.4	6.4	4.5	1.3	1.2	0.5	0.4	0.4	13.4	9.9	10.3	690	(28.1)	20.5
PSL	159	BUY	8,476	1,136	53	22.2	29.3	24.7	5	32.0	(15.9)	7.1	5.4	6.4	5.0	3.7	3.2	1.3	0.9	0.8	2.5	4.1	4.1	11.9	12.3	11.1	175	10.4	1.7
Sintex	255	BUY	34,738	750	136	22.2	29.3	24.7	23	4.0	(15.9)	10.6	10.2	9.1	8.9	7.8	6.3	1.3	1.6	1.3	0.4	0.5	0.5	17.6	15.5	14.7	280	10.4	4.0
Tata Chemicals	255	ADD	71,545	1,544	243	24.0	25.0	27.9	(33)	(16.5)	25.4	11.0	13.2	10.5	6.8	6.2	5.2	1.5	1.4	1.3	3.0	3.0	3.0	17.0	13.1	14.7	300	2.1	3.1
Welspun Gujarat Stahl Rohren	294	REDUCE	52.876	1,544	189	17.3	24.2	27.9	(16)	(16.5) 39.7	(16.4)	16.2	11.6	13.9	8.6	6.4	7.0	2.9	2.3	1.9	0.7	0.6	0.7	17.3	21.7	14.7	210	(25.0)	20.1
United Phosphorus	158	BUY	73,128	1,141	463	10.1	11.0	14.4	20	9.5	(16.4)	15.7	14.3	10.9	9.7	8.4	6.8	2.5	2.3	1.9	0.9	0.0	1.3	19.3	16.2	17.6	180	13.9	6.1
Others	108	BUT	697,400	15,051	403	10.1	11.0	14.4	(6.2)	27.8	39.5	21.9	14.5	12.3	12.6	10.1	8.7	2.9	2.1	2.0	0.9	0.5	0.6	13.1	13.4	15.9	100	13.5	0.1
			39,656,067	855,856						15.9	17.8	21.9	16.7	14.2	12.6	10.1	8.5	3.0	2.5	2.0	1.1	1.5	1.7	15.1	15.4	15.9			
KS universe (b)									1.4 5.1		17.8	19					8.5 10.5				1.1								
KS universe (b) ex-Energy			31,317,707	675,897						7.9			18.2	15.5	14.1	12.5		3.3	2.8	2.4		1.2	1.4	16.9	15.2	15.6			
KS universe (d) ex-Energy & ex-C	ommodities		27,177,130	586,536					7.1	12.6	15.3	20.9	18.5	16.1	16.0	13.6	11.7	3.4	2.9	2.5	1.1	1.3	1.5	16.5	15.6	15.8			

Note:

Note: (1) For banks we have used adjusted book values. (2) 2009 means calendar year 2008, similarly for 2010 and 2011 for these particular companies. (3) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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Definitions of ratings

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

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