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Updates

State Bank of India: Core profitability may improve in the remainder of the year

MindTree: Still the best in midcap IT

News Round-up

- **Cipla**, the country's second-largest drug company, will foray into the production of biotechnology medicines soon. The company is planning to set up a 50:50 joint venture partnership with a Chinese firm. The JV will be based in India and will manufacture and market bio-similar products (off patent biotechnology medicines) for domestic and overseas markets. *(BS)*
- **OIL India (OIL)** plans to bid for blocks in Iraq jointly with **Indian Oil Corporation (IOC)**, as the government-owned exploration company that accounts for 20% of the country's crude oil output looks to expand its oil and gas portfolio. *(ET)*
- **Etisalat DB**, formerly known as **Swan Telecom**, will outsource implementation of its software applications and IT infrastructure to **Tech Mahindra** as part of a US\$400 mn (around Rs19.5 bn) deal spread over the next 10 years. *(BL)*
- Indian exporters have more trouble in store, as the global merchandise outlook has worsened with UN body **UNCTAD** estimating 11 per cent decline in international trade in 2009. *(ET)*
- In order to protect the interest of policyholders from agents or corporate agents switching from one insurance company to another, the **Insurance Regulatory and Development Authority** has asked all insurers to enter into an agreement with agents or corporate agents for a minimum of three years. At present, the attrition level of the insurance industry is as high as 70 per cent and agents tend to leave a firm after every six months. *(BS)*
- The high-level committee headed by Mr B. K. Chaturvedi, Member, Planning Commission, wants the Government to make available funds from the fuel cess to the **National Highways Authority of India (NHAI)** for another 21 years. The Finance Ministry could provide a Letter of Comfort to the NHAI "confirming the availability of cess at least till 2030-31" to ensure low-cost funds for the highway building programme, said the committee in its recommendations. *(BL)*
- **Maruti Suzuki** plans to expand its passenger vehicle production capacity at Manesar, near here, by around 2,00,000 units over the next two years, said R C Bhargava, chairman. Currently, the plant at Manesar, the company's second, which produces the company's new models like the Swift, A-Star and the Ritz, has a capacity of around 3,00,000 units. *(BS)*
- **OIL India (OIL)** plans to bid for blocks in Iraq jointly with **Indian Oil Corporation (IOC)**, as the government-owned exploration company that accounts for 20% of the country's crude oil output looks to expand its oil and gas portfolio. *(ET)*
- Logistics firm **Gateway Distriparks Ltd** is close to signing a deal with an international private equity firm to raise at least Rs300 crore, by selling a stake of up to 25% in its subsidiary **Gateway Rail Freight Ltd**. *(Mint)*

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

EQUITY MARKETS

India	Change %			
	7-Sep	1-day	1-mo	3-mo
Sensex	16,016	2.1	5.6	9.2
Nifty	4,783	2.2	6.7	8.0
Global/Regional indices				
Dow Jones	9,441	1.0	0.8	7.7
Nasdaq Composite	2,019	1.8	0.9	9.2
FTSE	4,933	1.7	4.3	12.0
Nikkie	10,307	(0.1)	(1.0)	4.5
Hang Seng	20,617	(0.1)	1.2	13.0
KOSPI	1,611	0.2	2.2	15.7
Value traded - India				
Cash (NSE+BSE)	232.9	231.3	246.8	
Derivatives (NSE)	574.9	652.3	659	
Deri. open interest	903.7	709	780	

Forex/money market

	Change, basis points			
	7-Sep	1-day	1-mo	3-mo
Rs/US\$	48.6	(24)	79	108
10yr govt bond, %	7.3	(13)	18	78
Net investment (US\$m)				
	4-Sep	MTD	CYTD	
FIs	(12)	(62)	8,134	
MFs	5	19	1,031	

Top movers -3mo basis

Best performers	Change, %			
	7-Sep	1-day	1-mo	3-mo
SCS IN Equity	121.4	1.0	18.3	100.0
HCLT IN Equity	310.7	1.9	27.1	80.1
JSP IN Equity	3506.8	6.9	28.8	57.6
TTMT IN Equity	566.0	11.4	36.5	55.0
EDSL IN Equity	4242.5	1.8	10.4	49.8
Worst performers				
BJFIN IN Equity	276.6	1.6	(10.9)	(28.6)
SUEL IN Equity	102.8	2.6	18.2	(15.6)
ICEM IN Equity	130.1	1.0	(7.5)	(13.5)
MMTC IN Equity	29328.6	4.4	1.7	(13.3)
GMRI IN Equity	139.9	3.2	6.1	(12.7)

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UPDATE

Coverage view: **Attractive**

Price (Rs): **1,813**

Target price (Rs): **1,870**

BSE-30: **16,016**

Core profitability to improve during the rest of the year. We expect SBI's margins to expand over next few quarters due to a likely increase in credit offtake and re-pricing of some of its high-cost deposits. Concerns on asset quality will likely subside as industrial activity picks up. A rise in bond yields may not have a significant impact—SBI is cushioned up to 10-year Gsec yields of 7.5%; we are not assuming any gains from the treasury segment in the current environment. Valuations at 1.1X PBR FY2011E (consolidated book) appear reasonable, we reiterate our BUY rating with a target price of Rs1,870 (unchanged).

Company data and valuation summary

State Bank of India

Stock data

52-week range (Rs) (high,low) 2,040-892

Market Cap. (Rs bn) 1,151.3

Shareholding pattern (%)

Promoters 59.4

FIs 13.1

MFs 4.9

Price performance (%)

Absolute 4.0 (0.2) 19.3

Rel. to BSE-30 (1.5) (5.9) 7.9

Forecasts/Valuations

	2009	2010E	2011E
EPS (Rs)	143.7	129.8	149.1
EPS growth (%)	35.6	(9.6)	14.9
P/E (X)	12.6	14.0	12.2
NII (Rs bn)	208.7	230.8	291.0
Net profits (Rs bn)	91.2	82.4	94.7
BVPS	912.7	1,007.5	1,119.1
P/B (X)	2.0	1.8	1.6
ROE (%)	17.1	13.5	14.0
Div. Yield (%)	1.6	1.7	1.8

QUICK NUMBERS

- Core performance of the company might improve as loan demand picks up
- Concerns on asset quality may subside in the event of better economic growth
- Valuations at 1.1X FY2011E (consolidated banking book) not too demanding

Margin improvement on the cards—provides upside to our estimates

We believe that SBI's margins have bottomed out at the current levels and may improve on sequential basis. We expect NIM to improve marginally in 2QFY10E but 2HFY10E will likely see a sharper improvement. The key factors that will likely drive margins are (1) deposit re-pricing at much lower rates from 2QFY10E, (2) improvement in credit off-take as economic growth takes root in 2HFY10E and (3) somewhat higher interest rates on its loan assets. Thus, our current assumption of a 30 bps yoy decline in margins in FY2010E may provide an upside.

Deposit re-pricing benefits are likely from the current quarter

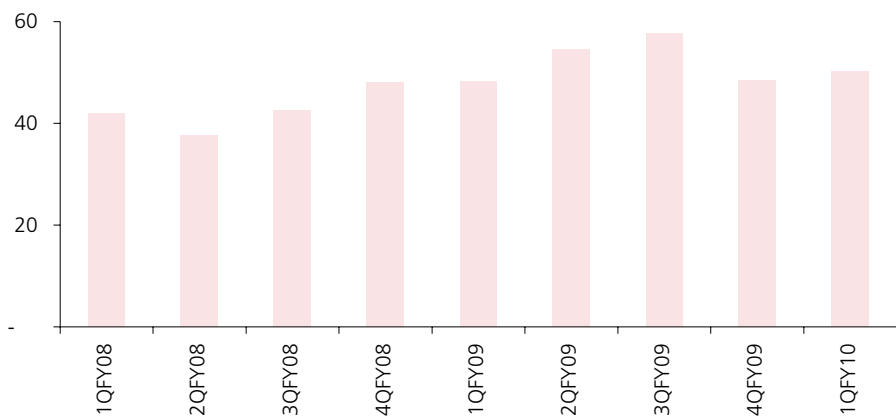
SBI raised Rs2 tn of term deposits in FY2009 and a large part of these term deposits, which will likely mature in about 12 months i.e. 2QFY10E onwards. Of the above, deposits of Rs400 bn (5.2% of overall deposits) were contracted under the special 1000-day scheme at around 10-10.5%. SBI has already reduced deposit rates by 350-400 bps from peak rates across most maturities which will likely underpin margins over the next few quarters. We believe the impact of deposit re-pricing is gradual and not accurately captured in our estimates/ by the markets though the impact of lower rates on the loan products was fairly sharp as a proportion of loans linked to the PLR was high while deposit re-pricing is likely to be more gradual.

Better credit pick may provide a further boost to margins

An improvement in lead indicators of economic growth (like industrial growth - IIP) has increased the probability of better-than-expected loan growth. Over the past three quarters, liquidity on SBI's balance sheet increased sharply, owing to the sharp rise in deposits and a lack of lending opportunities. The credit-to-deposit ratio declined to 71% as of June 2009 from a high of near 80% as of September 2008. We currently model 18% yoy growth for SBI during FY2010E somewhat higher than 15% for the overall system.

NII growth has remained sluggish in the last few quarters

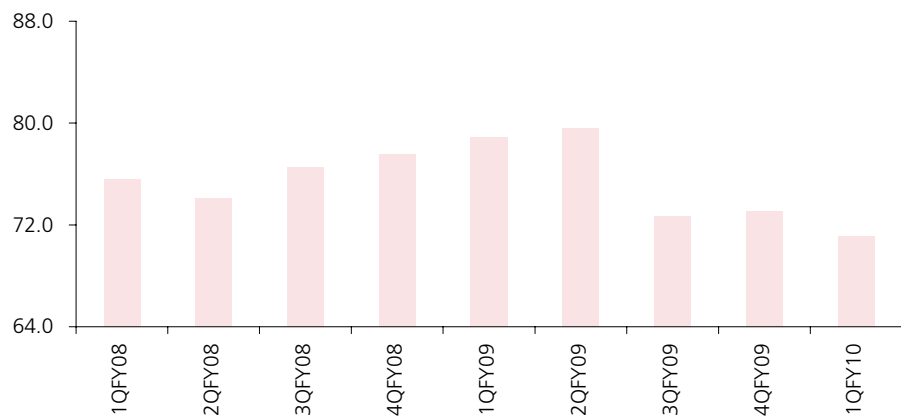
NII, March fiscal year-ends, 1QFY08-1QFY10, Rs bn



Source: Company

Higher deposit growth compared to loan demand has led to a drop in CD ratio

CD ratio of company, March fiscal year-ends, 1QFY08-1QFY10 (%)



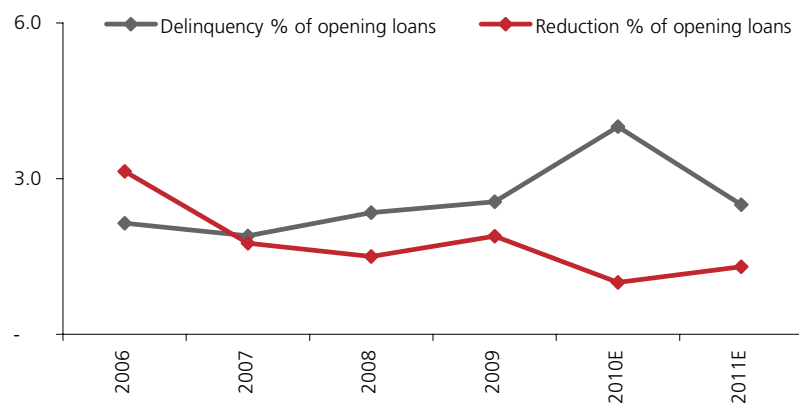
Source: Company

Asset quality performance may be better than expected

An improvement in economic growth may likely lead to a reduction in loan slippages and credit provisions. The company had an overall restructured loans at Rs210 bn as of June 2009 (facility wise) is around 3.8% of loans. We currently model 4% delinquency for SBI in FY2010E and 2.5% in FY2011E somewhat higher than delinquency ratios of 2.6% reported in FY2009 and 1.5% in 1QFY10. Consequently, we project SBI's gross NPL ratio to rise to 5% by March 2011. We believe our estimate is conservative and the probability of better-than-expected asset quality is high though we await more data points to formally change our earnings expectations.

Our slippage assumptions are fairly high in the next few years

Delinquency ratio, March fiscal year-ends, 2008-2011E (%)



Source: Company, Kotak Institutional Equities estimates

Consequently, we expect a fairly sharp increase in our NPL estimates

Gross and net NPL estimates, March fiscal year-ends, 2008-2011E

	2008	2009	2010E	2011E
Gross NPLs (Rs bn)	128	156	318	393
Gross NPL ratio (%)	3.0	2.8	4.9	5.0
Net NPLs (Rs bn)	74	96	172	156
Net NPL ratio (%)	1.8	1.8	2.7	2.1

Source: Company, Kotak Institutional Equities estimates

Investment book cushioned up to 7.5% yield

As of June 2009, the investment book of SBI was about Rs2.7 tn. Out of this, 70% was in HTM and rest in AFS with duration of about 2 years. The management has highlighted that they are fairly cushioned up to a yield of 7.5%. However, at current levels of yields there would be very marginal gains left on the AFS book. Thus, against a Rs19 bn of investment gains (treasury gains + write-backs on investment depreciation) in 1QFY10, we anticipate gains of Rs24 bn for FY2010E. Thus, our estimates are not aggressive on the treasury front. The losses on the debt book may be mitigated by the higher gains on the equity book.

SOTP based valuation of SBI

	SBI holding (%)	Multiple assumed (X)	Value FY2011 (Rs mn)	Value per share FY2011 (Rs)	Methodology adopted
SBI standalone				1,446	Residual income model
Non banking subsidiaries and investments					
SBI Life			120,197	138	Based on appraisal value
SBI MF	63%		11,496	18	4% of AUM (20% growth assumed)
NSE	8%		14,976	24	NSE value assumed to be Rs130 bn, which is based on last transaction (+ 20% growth)
UTI MF	25%		6,998	11	Valued at 4% of AUM (+ 20% growth)
SBI Caps	86%		10,449	16	10X 2008 PAT
SBI DFHI	57%		6,835	11	1X FY2010 network
Value of all non-bank subsidiaries				223	
SBI Associate banks					
State Bank of Bikaner and Jaipur	75%	1.00	17,255		
State Bank of Hyderabad	100%	1.00	34,997		
State Bank of Mysore	92%	1.00	21,768		
State Bank of Patiala	100%	1.00	32,540		
State Bank of Travancore	75%	1.00	20,695		
State Bank of Indore	98%	1.00	16,816		
Banking subsidiaries and associates			144,072		
post discount of 10%			129,665	204	
Value of all subsidiaries				427	
Total value of the bank				1,873	

Source: Company, Kotak Institutional Equities estimates

Valuations of SBI are not too demanding despite the run-up
Valuation of SBI, March fiscal year-ends, 2008-2011E

	PAT (Rs mn)	EPS (Rs)	P/E (X)	BVPS (Rs)	P/B (X)	BVPS including banking subsidiaries (Rs)	P/B Consolidated banking book (X)	RoE (%)
2008	67,291	106.6	17.0	772	2.3	954	1.6	16.8
2009	91,212	143.7	12.6	913	2.0	1,122	1.4	17.1
2010E	82,417	129.8	14.0	1,007	1.8	1,243	1.3	13.5
2011E	94,666	149.1	12.2	1,119	1.6	1,386	1.1	14.0

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Key ratios and growth rates of SBI
March fiscal year-ends, 2007-2011E (%)

	2007	2008	2009	2010E	2011E
Growth rates (%)					
Net loan	28.9	23.5	30.2	17.7	18.8
Total Asset	14.7	27.4	33.7	15.7	14.4
Deposits	14.6	23.4	38.1	18.8	16.7
Current	20.6	19.7	12.9	18.8	16.7
Savings	14.6	19.4	28.5	11.2	16.7
Fixed	12.6	27.0	51.9	22.3	16.7
Net interest income	8.1	13.0	22.6	10.6	26.0
Loan loss provisions	265.1	27.2	5.5	139.7	39.8
Total other income	3.3	28.6	46.1	4.8	10.7
Net fee income	20.2	23.1	28.8	18.0	15.0
Net capital gains	(112.4)	(1,397.4)	171.2	(37.7)	(12.5)
Net exchange gains	(29.4)	109.0	70.2	10.0	10.0
Operating expenses	0.8	6.6	24.1	15.0	11.9
Employee expenses	(2.3)	(1.8)	25.2	13.8	12.6
Key ratios (%)					
Yield on average earning assets	7.5	8.2	8.1	7.6	7.6
Yield on average loans	8.3	9.3	9.7	9.0	8.9
Yield on average investments	6.9	7.4	7.0	7.0	6.7
Average cost of funds	4.7	5.6	5.8	5.7	5.5
Interest on deposits	4.6	5.6	5.9	5.7	5.4
Difference	2.8	2.6	2.3	1.9	2.1
Net interest income/earning assets	3.0	2.8	2.6	2.3	2.5
New provisions/average net loans	0.7	0.7	0.6	1.1	1.3
Interest income/total income	69.0	66.2	62.2	63.5	66.4
Fee income to total income	22.0	23.0	22.7	24.7	23.6
Operating expenses/total income	54.2	49.1	46.6	49.5	46.0
Tax rate	40.2	35.5	35.7	34.0	34.0
Dividend payout ratio	16.2	20.2	20.2	23.1	21.5
Share of deposits					
Current	18.8	18.3	14.9	14.9	14.9
Fixed	51.5	53.0	58.4	60.1	60.1
Savings	29.7	28.7	26.7	25.0	25.0
Loans-to-deposit ratio	77.5	77.6	73.1	72.4	73.7
Equity/assets (EoY)	5.5	6.8	6.0	5.7	5.6
Dupont analysis (%)					
Net interest income	2.8	2.6	2.5	2.2	2.4
Loan loss provisions	0.4	0.4	0.3	0.6	0.8
Net other income	1.3	1.3	1.5	1.3	1.2
Operating expenses	2.2	2.0	1.9	1.7	1.7
Invnt. depreciation	0.1	(0.0)	0.1	(—)	—
(1- tax rate)	59.8	64.5	64.3	66.0	66.0
ROA	0.9	1.0	1.1	0.8	0.8
Average assets/average equity	18.0	16.0	15.8	17.1	17.7
ROE	15.4	16.8	17.1	13.5	14.0

Source: Company, Kotak Institutional Equities estimates

Income statement and balance sheet of SBI
March fiscal year-ends, 2007-2011E (Rs mn)

	2007	2008	2009	2010E	2011E
Income statement					
Total interest income	372,423	489,503	637,884	752,950	870,026
Loans	248,392	352,281	464,047	528,718	619,091
Investments	104,562	119,442	155,741	215,082	242,705
Total interest expense	221,841	319,291	429,153	522,115	579,067
Net interest income	150,582	170,212	208,731	230,835	290,959
Loan loss provisions	20,187	25,679	27,098	64,966	90,823
Net interest income (after prov.)	130,395	144,533	181,634	165,869	200,137
Other income	67,531	86,839	126,908	132,960	147,136
Net fee income	48,045	59,143	76,172	89,883	103,366
Net capital gains	(729)	9,463	25,667	16,000	14,000
Net exchange gains	3,315	6,927	11,792	12,972	14,269
Operating expenses	118,235	126,086	156,487	179,954	201,438
Employee expenses	79,326	77,859	97,473	110,882	124,846
Depreciation on investments	3,877	(887)	7,072	(8,000)	—
Other Provisions	32	1,894	3,176	2,001	2,401
Pretax income	75,903	104,389	141,806	124,875	143,434
Tax provisions	30,490	37,098	50,594	42,457	48,767
Net Profit	45,413	67,291	91,212	82,417	94,666
% growth	3.1	48.2	35.5	(9.6)	14.9
PBT - Treasury + Provisions	100,729	121,612	153,485	167,842	222,658
% growth	(8.15)	20.73	26.21	9.35	32.66
Balance sheet					
Cash and bank balance	519,687	674,663	1,044,038	786,225	859,799
Cash	25,301	32,203	42,955	42,955	42,955
Balance with RBI	265,463	483,143	512,507	440,906	514,480
Balance with banks	9,967	37,135	116,152	116,152	116,152
Net value of investments	1,491,489	1,895,013	2,759,540	3,566,387	3,901,458
Govt. and other securities	1,177,031	1,407,340	2,262,175	3,087,949	3,423,020
Shares	23,047	45,025	45,904	45,904	45,904
Debentures and bonds	86,907	176,288	148,890	148,890	148,890
Net loans and advances	3,373,365	4,167,682	5,425,032	6,386,920	7,585,788
Fixed assets	28,189	33,735	38,378	46,399	48,828
Other assets	252,923	444,170	377,333	377,333	377,333
Total assets	5,665,652	7,215,263	9,644,321	11,163,264	12,773,205
Deposits	4,355,211	5,374,060	7,420,731	8,818,117	10,289,594
Current	819,980	981,335	1,107,536	1,316,094	1,535,710
Fixed	2,243,866	2,850,411	4,330,953	5,297,494	6,181,485
Savings	1,291,365	1,542,293	1,982,243	2,204,529	2,572,398
Borrowings and bills payable	761,496	921,767	1,029,880	1,029,880	1,029,880
Other liabilities	235,960	429,131	614,233	675,656	743,222
Total liabilities	5,352,667	6,724,957	9,064,844	10,523,653	12,062,695
Total shareholders' equity	312,985	490,327	579,477	639,612	710,510

Source: Company, Kotak Institutional Equities estimates

SEPTEMBER 09, 2009
UPDATE

Coverage view: **Attractive**

Price (Rs): **525**

Target price (Rs): **650**

BSE-30: **16,016**

Still the best in midcap IT. We approach our midcap IT picks through the tenets of scalability and sustainable shareholders returns. Scalability of a business model demands a management track record, process and systems, relationship management model, execution and ability to attract the best talent. Mindtree passes muster on most of these parameters. We reiterate Mindtree as our preferred midcap IT pick; we increase our end-March 2011 target price to Rs650 (Rs500 earlier).

Company data and valuation summary

Mindtree

Stock data		Forecasts/Valuations			
		2009	2010E	2011E	
52-week range (Rs) (high,low)	622-181	EPS (Rs)	13.2	39.2	50.1
Market Cap. (Rs bn)	21.6	EPS growth (%)	(50.5)	196.0	27.9
Shareholding pattern (%)		P/E (X)	39.6	13.4	10.5
Promoters	33.4	Sales (Rs bn)	12.4	12.6	14.5
FIs	11.6	Net profits (Rs bn)	0.5	1.6	2.1
MFs	0.3	EBITDA (Rs bn)	3.3	2.4	3.0
Price performance (%)		EV/EBITDA (X)	6.8	9.3	6.7
Absolute	1M 3M 12M	ROE (%)	5.5	25.3	25.1
Rel. to BSE-30	16.1 6.6 39.6	Div. Yield (%)	0.4	0.0	1.0

Upgrade earnings estimates; best play for FY2011E demand recovery thesis

We increase our FY2010E EPS estimate by 6% to Rs39.2 and FY2011E EPS estimate by 14% to Rs50. The revision in our earnings estimates is driven by (1) increase in revenue estimates—we increase our US\$ revenue estimate for FY2010E and FY2011E by 1.2% and 3.6%, respectively; our revised revenue projections imply a 18% growth in US\$ revenues in FY2010E (2.5% revenue decline on an organic basis) and 15% growth in FY2011E and (2) consequent margin flow through; we increase our EBITDA margin assumption by 50 bps for FY2010E and 130 bps for FY2012E.

Increase in revenue estimates is led by potential ramp up from recent marquee deal signings. In addition, Mindtree derives 60% of revenues from discretionary IT spending and is an ideal play on recovery of IT spending, in our view. Our recent conversations with Tier-1 players indicate a faster-than-expected turnaround in offshore BFSI IT spending and growth from potential normalization of IT spending. We highlight that MindTree has a long list of marquee client names and the company does not depend on new client additions to drive higher-than-industry-average revenue growth over the next two to three years. Revenue growth accrual from existing accounts also has corresponding margin benefits arising out of S&M leverage.

Raise target to Rs650; reiterate BUY rating

We raise our end-March 2011E target price on Mindtree to Rs650/share (Rs500/share earlier). In addition to the earnings upgrade, we also revise our target multiple on the stock to 13X FY2011E (11X earlier). Our target multiple for MT is still at a 25-35% discount to our target multiple for tier-I companies. We believe that Mindtree has the potential to trade at a higher multiple in case it translates its potential to grow at a sustainably higher rate than Tier-1 players. The company has the building blocks in place to demonstrate superior performance; the company has made a good beginning by signing MSAs with high-potential clients recently. Reiterate BUY.

Sustainability and scalability over valuations

We note that a number of midcap IT stocks are cheaper than Mindtree on valuation. Some reasons for our preference for Mindtree over other mid cap IT names:

- ▶ **Scalability.** We find the Mindtree story scalable on account of several factors (1) strong management team with prior experience in running a large organization; (2) investments in sales and marketing, systems and processes and solutions and (3) investments in human resources function and sharing of wealth (stock options) leading to continued recognition as a preferred employer. To facilitate these investments, Mindtree depended on private equity funding in the initial phases. Mindtree has over the last few years developed capabilities in several service offerings and verticals that can drive the company to the next level of size and growth.

In contrast, other mid sized companies suffer from several inadequacies including (1) dependence on an anchor client leading to compromise on rate structure, investments in sales and marketing and solutions; (2) most mid-sized companies are controlled by the promoter, sharing little equity and thereby creating challenges on attracting and retaining senior management talent, and (3) lack of senior management that has prior experience in running large organizations. Inevitably, these mid-sized companies have struggled to breach the scale barrier (US\$300 mn).

- ▶ **Sustainability.** We believe that the offshoot of upfront investments will result in sustainability of performance. Unlike other mid-size companies, Mindtree did not sacrifice pricing for scale. We believe that scale (revenue growth) will result in operating leverage (margin increase) and disproportionate growth in EBITDA and net income. We believe that operating margin performance demonstrated by other mid-sized companies has been on the back of unsustainable factors such as (1) reducing salary costs onsite and offshore and (2) scale back in sales and marketing expenses. For such companies, we believe that investments have to precede revenue growth, which in turn will drive down margins.

Inflection point in FY2011E

We believe revenue acceleration and a break out from the scale barrier for Mindtree would require growth of at least 2-3 accounts to US\$30-40 mn. The scaling up of relationships to this size would reflect maturity of service offerings and relationship management model; we note that a client with US\$30-40 mn worth of billing would use multiple services, presumably across at least 2-3 business divisions/ functions of the clients.

Mindtree has launched multiple services in the past three years, including infrastructure services, technical help desk, SAP implementation that could provide platform for future growth. The company also added accounts such as Arcelor Mittal, which had a buy-in for these services. However, recession, bankruptcies of a few clients and M&A situations have pushed back the inflection point by a couple of years, in our view.

We believe FY2011/ FY2012E can potentially be the inflection point of Mindtree. The company has the requisite service offerings and new client wins (marquee names in financial services and CPG) to breach the critical scale barrier. MindTree is also making incremental investments in revamping its account management model to drive the company to the next level in terms of size.

Near-term performance likely to be weak

We expect weak near-term performance from Mindtree. The company is likely to report to strong September quarter (+5% growth) and follow it up with a weak December quarter (lower billing days). We do not expect increase in discretionary spending for the remainder of the year; hence revenue growth performance will likely remain muted in FY2010E. As we have highlighted in our quarterly update, FY2010E performance has been impacted by unavoidable client-specific shocks including (1) bankruptcy filing by a large client, and (2) cancellation of order post M&A within a large client in Europe. Both these clients had US\$10 mn+ annual billing run rates. Our conversation with the management indicates that client specific shocks are already built into FY2010E revenue guidance of US\$255 mn to US\$270 mn.

Expectations management is a weak point of the company

Mindtree has not done well in managing investor expectations. The company has missed revenue guidance, had anomaly in guiding for operating margins (in the March 2009 quarter) and suffers from incomprehensible volatility in financial performance. While a part of it is unavoidable (driven by external circumstances, small size of the company and limited history as a public limited company), we expect the company to be consistent in its approach to guidance and follow principles of conservatism in case of uncertainty or doubt.

Our conversations with the company indicate that it is focused on improving on its expectations management effort through regular updates to the street on annual performance, pre-announcements in case of a likely guidance miss and regular investor interactions. The company has also reverted to principles of conservatism for its annual guidance.

MindTree - key changes to estimates, fiscal year-ends March, 2010E-2011E

	Revised		Earlier		Change (%)	
	FY2010E	FY2011E	FY2010E	FY2011E	FY2010E	FY2011E
Revenues (Rs mn)	12,647	14,514	12,504	14,015	1.1	3.6
Revenues (US\$ mn)	263	304	260	293	1.2	3.6
EBITDA (Rs mn)	2,354	3,043	2,258	2,765	4.2	10.0
Net Profit (Rs mn)	1,613	2,063	1,523	1,805	5.9	14.3
Fully diluted EPS (Rs/share)	39.2	50.1	37.0	43.9	5.9	14.3
Re/ \$ rate	48.0	47.8	48.0	47.8	(0.0)	0.0
EBITDA margin (%)	18.6	21.0	18.1	19.7		

Source: Kotak Institutional Equities estimates

Condensed consolidated financials for MindTree Limited, 2007-2011E, March fiscal year-ends (Rs mn)

	2007	2008	2009	2010E	2011E
Profit model					
Revenues	5,904	7,398	12,375	12,647	14,514
EBITDA	1,086	1,254	3,309	2,354	3,043
Interest (expense)/income	(30)	(59)	(162)	(107)	(55)
Depreciation	(244)	(356)	(570)	(679)	(733)
Other income	82	279	(1,974)	302	154
Pretax profits	893	1,118	604	1,870	2,409
Tax	7	(85)	(67)	(258)	(346)
Profit after tax	899	1,033	537	1,613	2,063
Diluted earnings per share (Rs)	22.8	26.1	13.2	39.2	50.1
Balance sheet					
Total equity	4,355	5,331	5,513	7,233	9,180
Deferred taxation liability	(46)	(90)	(190)	(190)	(190)
Total borrowings	264	919	1,394	1,376	—
Minority interest	—	—	328	—	—
Current liabilities	1,038	1,392	3,082	3,029	3,705
Total liabilities and equity	5,610	7,553	10,126	11,449	12,695
Cash	768	553	488	1,011	1,077
Other current assets	2,002	2,765	4,203	5,198	6,023
Goodwill	—	214	1,460	1,460	1,460
Tangible fixed assets	699	2,625	2,962	2,765	3,121
Investments	2,141	1,395	1,013	1,013	1,013
Total assets	5,610	7,553	10,126	11,449	12,695
Free cash flow					
Operating cash flow, excl. working capital	942	1,398	1,889	2,026	3,043
Tax paid	(48)	(188)	(287)	(258)	(346)
Working capital changes	(123)	(408)	251	(1,048)	(149)
Capital expenditure	(549)	(2,176)	(369)	(482)	(1,089)
Investment changes/acquisition	(1,620)	491	(2,538)	—	—
Free cash flow	(1,398)	(883)	(1,053)	239	1,459
Ratios (%)					
EBITDA margin	18.4	16.9	26.7	18.6	21.0
EBIT margin	14.3	12.1	22.1	13.2	15.9
Debt/equity	0.1	0.2	—	—	—
Net debt/equity	(0.6)	(0.2)	(0.0)	(0.1)	(0.2)
RoAE	31.9	21.3	5.5	25.3	25.1
RoACE	25.3	16.5	32.2	21.1	26.0

Source: Company, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	7-Sep-09		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)		Target price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)	
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E			
Automobiles																													
Ashok Leyland	41	ADD	54,876	1,128	1,330	1.5	2.3	2.4	(57.8)	50.3	5.8	27.0	17.9	17.0	15.4	9.9	8.1	1.5	1.4	1.4	2.4	2.4	2.4	6.2	8.1	8.2	37	(10.3)	4.4
Bajaj Auto	1,275	ADD	184,414	3,791	145	45.2	85.0	100.9	(13.4)	87.9	18.7	28.2	15.0	12.6	15.1	8.9	7.8	9.8	6.8	4.9	1.6	1.6	1.6	37.7	53.1	44.0	1,260	(1.1)	5.9
Hero Honda	1,633	REDUCE	326,020	6,703	200	64.2	87.5	94.9	32.5	36.3	8.5	25.4	18.7	17.2	15.1	11.2	10.0	8.3	6.3	5.0	1.2	1.3	1.3	36.6	38.7	32.6	1,330	(18.5)	20.5
Maruti Suzuki	1,555	SELL	449,279	9,237	289	42.2	73.3	77.3	(29.6)	73.8	5.5	36.9	21.2	20.1	22.3	12.0	10.7	4.7	3.9	3.3	0.2	0.3	0.3	13.5	20.2	17.8	1,160	(25.4)	26.0
Tata Motors	566	SELL	314,869	6,473	556	20.8	28.9	31.3	(58.3)	39.1	8.4	27.2	19.6	18.1	17.0	11.1	10.2	2.4	2.2	1.9	1.0	1.0	1.0	9.1	11.5	11.2	350	(38.2)	63.0
Automobiles		Cautious	1,579,492	32,473					(24.8)	63.9	8.4	30.5	18.6	17.2	17.8	11.0	9.9	4.2	3.5	3.0	1.0	1.0	1.0	13.9	18.8	17.4			
Banks/Financial Institutions																													
Andhra Bank	93	BUY	45,275	931	485	13.5	13.3	15.2	13.5	(1.5)	14.4	6.9	7.0	6.2	—	—	—	1.2	1.1	1.0	4.8	3.6	4.1	18.9	16.6	16.9	105	12.5	1.3
Axis Bank	933	BUY	334,808	6,883	359	50.6	59.1	68.2	56.9	16.8	15.6	18.4	15.8	13.7	—	—	—	3.3	2.8	2.4	1.1	1.3	1.4	19.1	19.2	19.2	850	(8.9)	65.1
Bank of Baroda	434	ADD	158,621	3,261	366	60.9	60.9	62.1	55.1	0.0	1.9	7.1	7.1	7.0	—	—	—	1.4	1.2	1.1	2.1	2.1	2.1	18.7	16.3	14.7	480	10.6	6.6
Bank of India	335	ADD	176,208	3,623	526	57.2	51.5	56.2	40.7	(9.9)	9.1	5.9	6.5	6.0	—	—	—	1.5	1.3	1.1	2.4	2.1	2.3	29.2	21.0	19.3	370	10.4	11.8
Canara Bank	291	ADD	119,105	2,449	410	50.5	46.0	53.6	32.4	(8.9)	16.3	5.7	6.3	5.4	—	—	—	1.2	1.0	0.9	2.8	2.8	3.4	18.3	14.6	15.1	325	11.9	4.3
Corporation Bank	375	BUY	53,796	1,106	143	62.3	58.0	57.1	21.5	(6.8)	(1.6)	6.0	6.5	6.6	—	—	—	1.1	1.0	0.9	3.3	3.1	3.1	19.6	16.0	14.0	420	12.0	0.8
Federal Bank	235	BUY	40,141	825	171	27.8	34.3	39.9	(19.2)	23.6	16.1	8.4	6.8	5.9	—	—	—	0.9	0.8	0.8	2.2	2.7	3.2	11.5	12.9	13.5	320	36.3	2.6
HDFC	2,521	ADD	717,042	14,742	284	80.2	101.4	117.5	(6.4)	26.4	15.9	31.4	24.9	21.5	—	—	—	5.5	5.0	4.4	1.2	1.4	1.6	18.2	20.4	20.9	2,450	(2.8)	51.4
HDFC Bank	1,467	REDUCE	663,351	13,638	452	52.8	63.3	73.5	17.6	20.0	16.0	27.8	23.2	20.0	—	—	—	4.4	3.1	2.8	0.6	0.8	0.9	16.9	15.8	14.7	1,430	(2.5)	37.5
ICICI Bank	789	REDUCE	878,219	18,055	1,113	33.8	34.3	40.4	(15.4)	1.7	17.6	23.4	23.0	19.5	—	—	—	1.8	1.7	1.6	1.4	1.4	1.7	7.8	7.5	8.4	685	(13.2)	147.8
IDFC	147	ADD	190,470	3,916	1,295	5.8	7.7	8.7	1.9	33.9	12.6	25.4	19.0	16.8	—	—	—	3.1	2.7	2.4	0.8	0.9	1.0	12.9	15.4	15.3	120	(18.4)	40.7
India Infoline	143	ADD	44,665	918	312	5.1	7.7	8.2	(8.7)	50.5	7.3	28.0	18.6	17.4	—	—	—	3.6	3.0	2.5	1.8	2.3	2.7	11.9	17.5	17.2	145	1.2	17.6
Indian Bank	137	BUY	58,771	1,208	430	28.0	27.6	30.2	24.1	(1.4)	9.7	4.9	5.0	4.5	—	—	—	1.1	0.9	0.8	3.7	3.5	3.8	22.9	19.2	18.2	185	35.3	2.3
Indian Overseas Bank	89	BUY	48,242	992	545	24.3	19.7	25.4	10.3	(18.9)	28.6	3.6	4.5	3.5	—	—	—	0.8	0.7	0.6	5.9	4.2	4.7	22.1	14.2	16.1	140	58.1	2.7
J&K Bank	600	BUY	29,095	598	48	84.5	86.6	96.3	13.8	2.4	11.2	7.1	6.9	6.2	—	—	—	1.2	1.1	1.1	2.8	2.9	3.2	16.7	15.1	14.9	550	(8.3)	1.1
Mahindra & Mahindra Financial	230	ADD	21,978	452	96	22.4	26.7	28.8	7.5	19.0	8.1	10.2	8.6	8.0	—	—	—	1.6	1.4	1.2	2.4	2.9	3.1	15.4	16.4	15.8	270	17.6	1.0
Oriental Bank of Commerce	205	REDUCE	51,285	1,054	251	36.1	29.1	31.5	51.4	(19.4)	8.3	5.7	7.0	6.5	—	—	—	1.0	1.0	0.9	3.6	2.9	3.1	13.7	9.6	9.7	190	(7.2)	2.9
PFC	226	SELL	259,567	5,337	1,148	13.0	18.0	20.0	14.3	38.6	11.1	17.4	12.6	11.3	—	—	—	2.3	2.1	1.9	1.2	2.4	2.7	13.8	17.3	17.2	185	(18.2)	5.0
Punjab National Bank	687	BUY	216,518	4,451	315	98.0	100.7	115.2	50.9	2.7	14.4	7.0	6.8	6.0	—	—	—	1.6	1.4	1.2	2.9	2.9	3.4	23.0	20.3	20.1	800	16.5	13.7
Reliance Capital	922	ADD	226,898	4,665	246	39.3	29.0	28.9	(5.6)	(26.2)	(0.5)	23.4	31.8	31.9	—	—	—	3.4	3.1	2.9	0.6	0.5	0.5	15.3	10.2	9.3	875	(5.1)	132.9
Rural Electrification Corp.	207	BUY	177,945	3,658	859	16.5	19.6	21.3	50.7	19.1	8.8	12.6	10.6	9.7	—	—	—	2.5	2.1	1.8	1.0	1.7	1.9	21.2	21.5	19.9	190	(8.3)	6.6
Shriram Transport	361	ADD	76,271	1,568	212	30.1	32.5	36.9	56.8	7.9	13.7	12.0	11.1	9.8	—	—	—	3.5	3.0	2.5	2.4	2.7	3.1	29.6	27.0	25.8	350	(2.9)	2.4
SREI	73	ADD	8,454	174	116	7.0	7.5	6.8	(38.4)	6.1	(9.5)	10.3	9.7	10.7	—	—	—	0.8	0.7	0.7	1.4	1.7	1.7	12.5	10.3	10.2	90	23.8	3.6
State Bank of India	1,813	BUY	1,151,260	23,669	635	143.7	129.8	149.1	34.8	(9.6)	14.9	12.6	14.0	12.2	—	—	—	2.0	1.8	1.6	1.6	1.7	1.8	17.1	13.5	14.0	1,870	3.1	90.1
Union Bank	219	BUY	110,722	2,276	505	34.2	32.4	35.4	24.5	(5.1)	9.2	6.4	6.8	6.2	—	—	—	1.6	1.3	1.1	2.3	2.2	2.4	27.2	21.2	19.5	280	27.7	5.4
Banks/Financial Institutions		Attractive	5,913,866	121,584					26.7	2.2	13.1	13.6	13.3	11.8	—	—	—	2.2	1.9	1.7	1.5	1.7	1.9	16.1	14.5	14.6			
Cement																													
ACC	800	REDUCE	150,304	3,090	188	56.3	74.0	57.1	(12.2)	31.6	(22.8)	14.2	10.8	14.0	7.1	5.5	6.3	2.9	2.4	2.1	2.9	2.9	2.9	24.7	27.1	18.4	875	9.4	13.1
Ambuja Cements	101	REDUCE	154,217	3,171	1,522	7.2	7.9	6.6	(5.0)	10.2	(16.8)	14.1	12.8	15.4	7.6	7.1	7.9	2.5	2.2	2.0	3.0	1.9	2.1	19.7	19.1	14.1	85	(16.1)	8.9
Grasim Industries	2,712	REDUCE	248,654	5,112	92	238.6	251.9	266.5	(16.2)	5.6	5.8	11.4	10.8	10.2	6.5	5.3	5.1	2.1	1.8	1.6	1.2	1.2	1.3	21.1	18.4	16.8	2,560	(5.6)	11.6
India Cements	130	ADD	36,730	755	282	17.8	19.4	15.2	n/a	9.1	(21.8)	7.3	6.7	8.6	5.2	4.1	4.6	1.0	0.9	0.8	1.4	1.6	2.5	14.8	14.6	10.4	155	19.2	8.4
Shree Cement	1,526	BUY	53,148	1,093	35	174.7	209.9	195.6	93.7	20.1	(6.8)	8.7	7.3	7.8	5.9	4.2	3.8	4.4	2.7	2.0	0.7	0.7	0.7	65.7	46.0	29.4	2,000	31.1	0.8
UltraTech Cement	759	BUY	94,500	1,943	124	78.8	90.2	73.8	(3.1)	14.5	(18.2)	9.6	8.4	10.3	5.8	4.5	5.0	2.2	1.8	1.5	0.8	1.1	1.1	31.1	27.3	18.3	900	18.6	6.1
Cement		Neutral	737,553	15,164					(8.0)	13.6	(10.4)	11.5	10.1	11.3	6.5	5.3	5.5	2.3	1.9	1.7	1.8	1.7	1.8	20.0	19.0	14.9			
Consumer products																													
Asian Paints	1,380	ADD	132,374	2,722	96	38.6	60.0	69.8	(1.7)	55.5	16.3	35.8	23.0	19.8	21.3	13.9	11.8	11.6	9.3	7.6	1.3	2.0	2.2	36.6	46.8	43.8	1,600	15.9	1.2

Kotak Institutional Equities: Valuation summary of key Indian companies

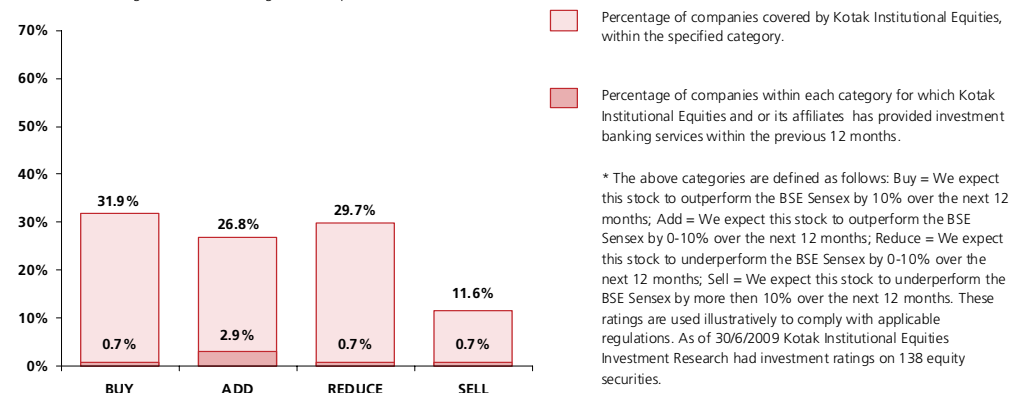
Company	7-Sep-09		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)		Target price		ADVT-3mo (US\$ mn)		
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	(Rs)		(%)	(US\$ mn)
Energy																														
Bharat Petroleum	596	BUY	195,299	4,015	328	20.6	79.8	65.0	(50.1)	287.1	(18.5)	28.9	7.5	9.2	7.7	5.1	5.5	1.5	1.3	1.2	1.3	5.9	4.8	5.3	18.9	13.8	675	13.3	9.6	
Cairn India	262	REDUCE	497,022	10,218	1,897	8.8	30.8	34.7	105	250	12.6	30	9	7.6	14.9	5.9	5.4	1.4	1.4	1.3	—	8—	9.5	4.9	16.2	17.7	225	(14.1)	22.8	
Castrol India (a)	500	BUY	61,801	1,271	124	21.3	31.1	32.0	20.8	45.9	3.0	23.5	16	15.6	13.4	9.6	9.2	13.8	12.1	10.9	3.0	4.4	4.6	61.2	80.2	73.5	480	(4.0)	1.2	
GAIL (India)	363	ADD	460,902	9,476	1,268	22.2	20.9	22.9	8.7	(5.8)	9.6	16.4	17.4	15.9	8.8	10.0	10.0	2.9	2.6	2.4	1.9	2.2	2.2	17.5	14.7	14.8	355	(2.3)	18.0	
GSPL	82	REDUCE	46,177	949	563	2.2	3.5	6.7	21.7	58.3	92.7	37.4	23.6	12.3	12.8	7.5	4.7	3.5	3.1	3.2	0.9	1.4	8.2	9.6	17.5	14.7	65	(20.8)	8.4	
Hindustan Petroleum	417	BUY	141,282	2,905	339	17.0	73.1	58.5	(49.3)	330.9	(19.9)	24.6	5.7	7.1	8.4	5.1	NA	1.1	1.0	NA	1.3	7.2	5.8	4.4	17.7	12.8	525	26.0	12.5	
Indian Oil Corporation	675	REDUCE	795,628	16,357	1,179	18.9	63.8	43.5	(69.1)	236.9	(31.8)	35.6	10.6	15.5	11.8	5.6	6.4	1.7	1.5	1.4	1.1	2.7	1.9	4.6	14.6	9.1	550	(18.5)	9.2	
Oil & Natural Gas Corporation	1,188	BUY	2,541,960	52,261	2,139	89.6	115.8	136.4	(3.4)	29.2	17.8	13.3	10.3	8.7	4.8	3.8	3.1	2.2	2.0	1.7	2.7	3.5	4.0	16.6	18.9	19.8	1,400	17.8	54.1	
Petronet LNG	77	REDUCE	57,975	1,192	750	6.9	7.2	8.6	—	3.6	19.6	11.2	10.8	9.0	7.9	7.1	6.1	2.6	2.1	1.8	2.3	2.6	2.9	23.9	20.6	20.6	64	(17.2)	7.5	
Reliance Industries	2,003	SELL	2,749,913	56,356	1,373	103.4	109.3	158.3	(1.5)	5.7	44.9	19.4	18.3	12.7	11.5	8.1	5.9	2.3	2.1	1.8	0.7	0.8	1.0	15.1	13.7	17.6	1,600	(20.1)	207.4	
Reliance Petroleum	123	NR	555,525	11,421	4,500	—	3.1	10.0	n/a	n/a	n/a	n/a	n/a	12.3	n/a	n/a	9.4	4.1	4.0	3.2	—	1.6	1.6	0.6	10.1	29.0	—	—	18.0	
Energy		Cautious	8,103,485	166,601					(7.8)	50.1	20.0	18.4	12.3	10.2	8.8	6.0	5.1	2.2	1.9	1.7	1.4	2.7	2.9	11.7	10.8	17.0				
Industrials																														
ABB	758	REDUCE	160,680	3,303	212	25.8	23.3	30.0	11.3	(9.8)	28.6	29.4	32.5	25.3	17.4	18.3	14.0	7.6	6.4	5.2	0.3	0.4	0.4	29.2	21.3	22.7	660	(13.0)	7.6	
BGR Energy Systems	466	ADD	33,584	690	72	16.0	26.0	35.3	32.2	62.3	35.8	29.1	17.9	13.2	16.5	10.6	8.4	6.0	4.7	3.7	0.6	1.0	1.3	22.3	29.4	31.2	530	13.6	2.9	
Bharat Electronics	1,413	REDUCE	113,008	2,323	80	101.9	113.7	121.2	(0.0)	11.5	6.6	13.9	12.4	11.7	6.1	5.3	4.8	2.9	2.5	2.1	1.8	1.8	1.8	22.4	21.3	19.5	1,450	2.6	2.6	
Bharat Heavy Electricals	2,225	ADD	1,088,986	22,389	490	63.9	93.3	115.2	9.4	46.1	23.4	34.8	23.8	19.3	19.0	13.3	10.6	8.4	6.7	5.3	0.8	0.9	1.1	26.4	31.2	30.5	2,300	3.4	47.7	
Crompton Greaves	319	ADD	117,092	2,407	367	15.3	17.7	20.3	37.3	15.3	15.0	20.8	18.0	15.7	11.1	9.7	8.2	6.4	4.9	3.9	0.6	0.7	0.8	35.9	30.8	27.6	315	(1.4)	4.8	
Larsen & Toubro	1,598	ADD	942,576	19,379	590	50.1	62.1	78.4	32.1	24.0	26.1	31.9	25.7	20.4	20.1	14.9	12.2	6.2	4.6	3.8	0.7	0.7	0.8	21.7	20.5	20.4	1,725	7.9	94.7	
Maharashtra Seamless	299	BUY	21,064	433	71	35.9	33.0	35.3	22.2	(7.9)	6.9	8.3	9.0	8.5	4.9	5.1	4.4	1.6	1.4	1.2	1.8	1.7	2.1	20.3	16.0	15.0	285	(4.6)	0.8	
Siemens	526	ADD	177,194	3,643	337	14.2	22.8	22.7	(22.2)	61.0	(0.5)	37.1	23.0	23.2	17.8	13.3	13.4	7.8	6.5	5.3	0.6	1.4	0.8	23.3	30.8	25.2	515	(2.0)	6.8	
Suzlon Energy	103	ADD	172,489	3,546	1,678	7.4	3.9	6.1	12.8	(47.2)	5.7	13.9	26.3	17.0	11.3	12.7	10.7	1.8	1.5	1.3	—	—	0.2	12.5	6.2	8.3	110	7.0	148.8	
Industrials		Neutral	2,826,674	58,114					14.2	21.3	23.0	28.3	23.3	18.9	16.3	13.1	10.8	5.7	4.5	3.7	0.7	0.8	0.9	20.1	19.2	19.7				
Infrastructure																														
GMR Infrastructure	140	ADD	256,440	5,272	1,834	1.5	0.9	0.9	33.0	(38.3)	(6.8)	91.1	147.6	158.3	31.8	23.0	17.0	3.1	2.6	2.4	—	—	—	4.4	2.6	2.4	135	(3.5)	30.5	
GVK Power & Infrastructure	46	BUY	73,038	1,502	1,579	0.8	0.8	1.0	(20.6)	3.7	31.1	60.7	58.5	44.6	54.2	17.8	16.5	3.1	2.3	2.2	—	—	0.6	4.8	4.6	5.1	50	8.1	19.6	
IRB Infrastructure	213	ADD	70,727	1,454	332	5.3	10.6	13.5	54.3	101.2	27.0	40.2	20.0	15.7	20.7	10.6	9.7	3.9	3.1	2.6	0.6	—	—	10.1	17.3	18.0	200	(6.0)	10.1	
Infrastructure		Attractive	400,205	8,228					22.5	16.0	18.8	71.1	61.3	51.6	31.5	18.1	14.7	3.2	2.6	2.4	0.1	—	0.1	4.5	4.2	4.6				
Media																														
DishTV	47	REDUCE	44,101	907	946	(8.8)	(3.2)	(1.3)	n/a	(63.4)	(60.8)	(5.3)	(14.5)	(37.0)	(31.5)	67.9	15.8	(7.1)	(8.7)	(20.8)	—	—	—	84.4	54.0	NA	35	(24.9)	13.8	
HT Media	117	ADD	27,454	564	234	0.9	4.8	6.6	(78.8)	422.4	37.4	127.9	24.5	17.8	29.1	12.0	9.7	3.3	3.0	2.8	0.3	0.7	2.2	2.5	12.8	16.3	125	6.7	0.3	
Jagran Prakashan	102	ADD	30,719	632	301	3.0	4.8	5.8	(6.6)	58.0	20.0	33.6	21.2	17.7	19.1	12.3	10.2	5.5	5.1	4.6	2.0	2.8	3.1	16.7	24.9	27.4	105	2.9	1.3	
Sun TV Network	297	REDUCE	116,963	2,405	394	9.1	11.3	13.3	9.3	24.4	18.4	32.8	26.4	22.3	17.2	14.7	12.3	6.7	5.9	5.2	0.8	1.3	2.0	22.5	24.0	24.9	235	(20.8)	2.4	
Zee Entertainment Enterprises	217	REDUCE	94,149	1,936	434	8.3	10.0	12.0	(6.5)	20.6	19.5	26.2	21.7	18.2	18.5	15.5	12.6	2.8	2.6	2.4	1.1	1.2	1.5	11.9	13.0	14.4	160	(26.3)	7.1	
Zee News	46	ADD	11,101	228	240	1.9	2.2	2.7	21.3	14.7	23.4	24.7	21.5	17.4	12.6	10.3	8.7	4.5	3.8	3.3	0.9	0.9	1.3	20.1	19.6	20.7	45	(2.8)	0.9	
Media		Neutral	324,487	6,671					(22.3)	112.2	49.0	78.0	36.7	24.7	24.3	16.0	12.1	5.3	4.7	4.1	0.9	1.2	1.7	6.8	12.9	16.7				
Metals																														
Hindalco Industries	108	BUY	189,983	3,906	1,753	2.8	3.5	11.1	(77.9)	25.5	218.4	39.1	31.2	9.8	12.0	8.8	6.8	0.5	0.5	0.5	—	—	—	10.3	5.2	6.5	135	24.5	28.0	
National Aluminium Co.	332	SELL	213,846	4,397	644	19.7	13.7	20.4	(22.0)	(30.6)	48.8	16.8	24.2	16.3	8.6	9.1	6.2	2.0	1.9	1.7	1.1	0.6	0.6	12.7	8.1	11.1	290	(12.6)	3.4	
Jindal Steel and Power	3,507	SELL	539,904	11,100	154	198.0	247.1	236.4	139.3	24.8	(4.3)	17.7	14.2	14.8	11.5	9.2	8.9	7.2	4.7	3.6	—	0.2	0.2	51.9	40.3	27.6	2,150	(38.7)	61.1	
JSW Steel	725	SELL	135,666	2,789	187	13.1	36.8	65.9	(84.7)	180.1	79.1	55.2	19.7	11.0	10.0	9.5	7.1	1.5	1.2	1.1	0.1	0.4	0.7	11						

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	7-Sep-09		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)		EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)		
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E				
Retail																														
Titan Industries	1,291	REDUCE	57,320	1,178	44	44.3	49.4	58.7	26.4	11.6	18.7	29.1	26.1	22.0	17.5	16.1	13.4	9.9	7.6	6.0	0.8	0.8	0.9	37.5	33.1	30.6	1,040	(19.5)	1.5	
Retail		Neutral	57,320	1,178					26.4	11.6	18.7	29.1	26.1	22.0	17.5	16.1	13.4	9.9	7.6	6.0	0.8	0.8	0.9	34.1	29.3	27.4				
Technology																														
HCL Technologies	311	REDUCE	215,902	4,439	695	17.5	16.7	22.8	14.5	(4.6)	36.5	17.8	18.6	13.6	10.0	9.2	8.5	3.7	3.3	2.8	3.9	3.9	3.9	20.9	19.0	22.3	275	(11.5)	8.9	
Infosys Technologies	2,224	BUY	1,276,691	26,248	574	102.4	106.7	120.0	29.6	4.1	12.5	21.7	20.9	18.5	16.2	14.9	12.4	7.0	5.6	4.7	1.1	1.2	1.6	36.7	30.0	27.6	2,500	(12.4)	65.0	
Mphasis BFL	607	REDUCE	126,533	2,601	208	14.2	41.5	42.2	15.7	192.6	1.8	42.8	14.6	14.4	32.6	10.7	9.5	8.8	5.8	4.3	0.7	0.7	0.8	22.8	47.7	34.2	450	(25.9)	12.3	
Mindtree	525	BUY	21,600	444	41	13.2	39.2	50.1	(50.5)	196.0	27.9	39.6	13.4	10.5	6.8	9.3	6.7	3.9	3.0	2.4	0.4	—	1.0	5.5	25.3	25.1	650	23.8	3.9	
Patni Computer Systems	422	REDUCE	54,178	1,114	129	26.8	33.8	36.7	(19.3)	26.1	8.6	15.7	12.5	11.5	7.9	5.9	5.7	2.2	1.7	1.6	0.4	1.6	1.7	16.2	14.8	14.6	320	(24.1)	7.1	
Polaris Software Lab	144	SELL	14,208	292	99	13.1	13.8	12.9	76.0	5.4	(6.4)	11.0	10.4	11.1	4.6	5.6	5.9	1.8	1.6	1.4	1.9	1.4	1.4	18.1	16.4	13.6	80	(44.4)	4.5	
TCS	551	ADD	1,078,319	22,169	1,957	26.4	31.2	35.3	3.1	17.8	13.3	20.8	17.7	15.6	14.5	12.6	10.9	6.9	5.5	4.6	1.3	1.7	2.6	36.9	34.6	32.2	600	8.9	41.1	
Wipro	554	ADD	810,460	16,662	1,462	25.7	27.5	32.0	15.8	6.6	16.6	21.5	20.2	17.3	15.8	14.2	11.8	5.4	4.4	3.7	0.7	1.4	1.7	26.9	24.0	23.3	520	(6.2)	15.7	
Technology		Neutral	3,609,749	74,214					15.3	12.8	14.2	21.2	18.8	16.5	14.8	12.9	11.0	6.0	4.8	4.0	1.2	1.5	2.0	28.1	25.6	24.6				
Telecom																														
Bharti Airtel	421	ADD	1,597,018	32,833	3,797	22.3	26.9	30.6	26.4	20.5	13.8	18.8	15.6	13.7	11.0	9.3	8.0	5.1	3.8	3.0	0.5	0.7	0.9	31.4	28.0	24.6	425	1.0	66.9	
IDEA	81	REDUCE	252,033	5,182	3,104	2.9	3.4	3.6	(26.5)	15.8	7.3	28.0	24.2	22.5	10.2	8.5	7.6	1.8	1.7	1.6	—	—	—	10.4	7.4	8.0	65	(20.0)	17.2	
MTNL	95	SELL	59,724	1,228	630	3.1	(4.8)	(3.9)	(57.1)	(256.5)	(18.1)	30.9	(19.7)	(24.1)	12.4	(15.7)	(53.8)	0.5	0.5	0.5	6.3	—	—	1.1	(2.6)	(2.2)	50	(47.3)	3.5	
Reliance Communications	312	SELL	643,974	13,240	2,064	27.7	21.2	23.0	4.7	(23.3)	8.3	11.3	14.7	13.6	9.3	9.1	7.2	1.6	1.4	1.3	0.3	—	—	17.0	10.6	10.3	240	(23.1)	63.5	
Tata Communications	493	REDUCE	140,633	2,891	285	13.6	14.0	15.2	24.0	3.2	8.2	36.3	35.2	32.5	15.5	14.1	13.0	2.0	2.0	1.9	1.0	1.3	1.5	5.4	5.2	5.5	400	(18.9)	6.9	
Telecom		Cautious	2,693,383	55,374					11.1	1.1	12.8	16.8	16.6	14.7	10.5	9.4	7.9	2.6	2.2	2.0	0.5	0.5	0.6	15.4	13.5	13.3				
Transportation																														
Container Corporation	1,191	ADD	154,767	3,182	130	64.4	67.8	80.3	11.6	5.3	18.5	18.5	17.6	14.8	13.6	12.3	10.2	4.1	3.5	3.0	1.2	1.3	1.5	24.0	21.4	21.7	1,125	(5.5)	1.1	
Transportation		Cautious	154,767	3,182					11.6	5.3	18.5	18.5	17.6	14.8	13.6	12.3	10.2	4.1	3.5	3.0	1.2	1.3	1.5	22.1	19.9	20.1				
Utilities																														
CECSC	374	ADD	46,720	961	125	32.3	37.9	42.0	16.2	17.4	11.0	11.6	9.9	8.9	6.3	5.8	6.1	1.3	1.1	1.0	1.1	1.3	1.4	11.7	11.9	11.6	365	(2.4)	3.5	
Lanco Infratech	420	ADD	93,388	1,920	222	14.5	20.8	36.6	(2.5)	43.8	76.2	29.0	20.2	11.5	24.3	16.4	8.0	4.3	3.3	2.5	—	—	—	16.1	18.7	25.2	440	4.7	29.3	
NTPC	207	SELL	1,708,048	35,116	8,245	9.5	10.8	12.2	1.6	14.1	12.6	21.8	19.2	17.0	17.2	14.2	13.4	2.9	2.7	2.5	1.7	2.0	2.2	13.8	14.5	15.0	180	(13.1)	33.1	
Reliance Infrastructure	1,161	BUY	262,818	5,403	226	62.7	63.7	68.6	66.7	1.6	7.8	18.5	18.2	16.9	23.2	21.2	16.9	1.6	1.4	1.3	0.6	0.7	0.8	4.9	6.1	7.8	1,250	7.7	94.2	
Reliance Power	165	REDUCE	395,584	8,133	2,397	1.0	2.5	3.1	—	141.5	24.4	161.8	67.0	53.9	—	—	—	2.9	2.8	2.6	—	—	—	1.8	4.2	5.0	160	(3.1)	28.4	
Tata Power	1,322	ADD	313,983	6,455	237	50.2	74.4	84.1	57.5	48.3	13.0	26.4	17.8	15.7	12.0	11.9	11.4	3.1	2.4	2.1	0.8	0.9	1.1	12.0	15.3	14.4	1,400	5.9	16.2	
Utilities		Attractive	2,820,541	57,988					12.9	20.6	14.7	24.9	20.7	18.0	18.5	16.6	14.8	2.7	2.4	2.2	1.2	1.4	1.6	10.7	11.7	12.3				
Others																														
Havells India	298	REDUCE	18,062	371	61	4.9	12.3	19.1	(82)	NA	56.2	NA	24.4	15.6	10.3	8.4	7.3	2.8	3.3	2.8	0.8	0.8	0.8	4.5	12.4	19.3	175	(41.4)	0.9	
Jaiprakash Associates	231	REDUCE	323,638	6,654	1,403	3.0	6.7	11.4	(39)	123.8	70.2	76.8	34.3	20.2	25.0	15.1	13.6	5.8	4.9	4.0	—	—	—	8.0	15.5	21.9	220	(4.6)	93.1	
Jindal Saw	569	ADD	32,770	674	58	74.3	61.5	61.1	20	(17.2)	(0.7)	7.7	9.3	9.3	5.2	5.5	4.8	0.9	0.9	0.8	0.8	0.7	0.7	11.6	8.9	8.6	470	(17.4)	3.8	
PSL	163	BUY	7,084	146	44	22.2	37.6	30.1	5	69.2	(19.8)	7.3	4.3	5.4	4.6	3.7	3.2	1.0	0.9	0.8	3.0	3.9	3.9	11.9	13.4	11.3	160	(1.6)	1.8	
Sintex	240	BUY	32,786	674	136	23.8	25.2	27.6	22	5.6	9.6	10.1	9.5	8.7	7.1	6.4	5.5	1.7	1.4	1.2	0.5	0.5	0.5	16.6	15.0	14.2	275	14.5	4.2	
Tata Chemicals	254	ADD	61,842	1,271	243	26.6	17.8	26.8	(33)	(33.0)	50.4	9.5	14.2	9.5	6.3	6.5	5.2	1.3	1.3	1.1	3.4	3.4	3.4	17.9	11.0	14.7	260	2.4	5.3	
Welspun Gujarat Stahl Rohren	255	REDUCE	48,053	988	189	17.3	24.0	17.8	(16)	38.7	(25.8)	14.7	10.6	14.3	8.0	5.8	6.9	2.7	2.1	1.8	0.8	0.6	0.7	17.8	21.7	13.4	145	(43.0)	23.6	
United Phosphorus	167	BUY	76,946	1,582	462	10.7	13.9	18.0	28	29.7	29.6	15.6	12.0	9.3	10.3	7.5	5.9	2.6	2.2	1.8	0.7	0.9	1.2	18.1	19.1	20.8	160	(3.9)	5.3	
Others			661,329	13,596					(8.1)	28.1	30.2	21.2	16.5	12.7	11.8	9.6	8.8	2.8	2.4	2.1	0.6	0.6	0.7	13.2	14.7	16.3				
KS universe (b)			36,924,853	759,146					2.0	14.4	18.4	18	15.9	13.5	11.9	9.6	8.3	2.8	2.4	2.1										

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of June 30, 2009

Ratings and other definitions/identifiers

Rating system

Definitions of ratings

BUY. We expect this stock to outperform the BSE Sensex by 10% over the next 12 months.

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

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

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

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

Other definitions

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

Other ratings/identifiers

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

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