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Updates

Larsen & Toubro: Inflows barely on target; Subs IPO positive—aid growth & reduce B/S pressure

Maruti Suzuki: Raising estimates but would curb the enthusiasm

News Round-up

- ▶ Pantaloon Retail (PF IN) has approved the proposal to raise USD 166.67mn in one or more tranches by issuing equity shares or any other financial instrument to be finalized later. (ECNT)
- ▶ Realtor Prestige Estates Projects has set the price band at INR 172-183 per share for its initial public offering, which opens on Oct. 12. (ECNT)
- ▶ Vedanta group firm Sesa Goa's (SESA IN) open offer to acquire up to 20% in Cairn India will be delayed as SEBI is yet to approve the scheme. (ECNT)
- ▶ Vedanta would invest USD 2 bn less in next 2 years. (BSTD)
- ▶ UltraTech Cement (UTCEM IN) has kick-started the next round of its capacity expansion which is likely to cost USD 1.11bn, immediately after execution of its earlier plan of adding nearly 20 million tonne over the past four years. (ECNT)
- ▶ Cairn Energy shareholders approved plans to sell a bulk of the company's stake in Cairn India (CAIR IN) to Vedanta Resources for up to USD 8.48 bn. (BSTD)
- ▶ M&M (MM IN) to ride into every two-wheeler segment. Says it would be foolhardy for the company not to participate. (BSTD)
- ▶ Pantaloon Retail (PF IN) said its board had approved plans to raise up to USD 750 through a share sale. (BSTD)
- ▶ Tata Motors (TTMT IN) said it has raised little more than USD 750 mn by way of QIP. (BSTD)
- ▶ Zydus Cadila Healthcare said it had got approval from the US health regulator to market high blood pressure treatment tablets, Losartan Potassium and HCTZ in the American market. (BSTD)
- ▶ BHEL (BHEL IN) gets USD 841 mn order from Karnataka. (BSTD)
- ▶ FIPB objects to Jet's (JET IN) QIP plan due to 49% FDI limit. (BSTD)
- ▶ JSPL (JSP IN) bids for majority stake in Zimbabwe steelworks. (BSTD)
- ▶ Steady demand from sectors like automobile & consumer durables helped domestic steel consumption rise 9.8% to 29.82mt during the first half of the current fiscal over the year-ago period. Consumption was at 27.15mt in the same period a year ago. (ECNT)
- ▶ Food inflation posted a marginal decline at 16.24% for the week ended September 25, primarily due to a fall in the prices of foodgrains. (BSTD)

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

EQUITY MARKETS

India	Change %			
	7-Oct	1-day	1-mo	3-mo
Sensex	20,315	(1.1)	8.8	15.1
Nifty	6,120	(1.1)	9.1	15.5
Global/Regional indices				
Dow Jones	10,949	(0.2)	5.4	8.0
Nasdaq Composite	2,384	0.1	6.9	9.6
FTSE	5,662	(0.3)	4.3	10.9
Nikkei	9,655	(0.3)	7.0	1.2
Hang Seng	22,861	(0.1)	8.4	14.0
KOSPI	1,891	(0.5)	6.3	11.3
Value traded – India				
Cash (NSE+BSE)	263		211	192
Derivatives (NSE)	1,024		977	691
Deri. open interest	1,604		1,820	1,345

Forex/money market

	Change, basis points			
	7-Oct	1-day	1-mo	3-mo
Rs/US\$	44.2	(1)	(245)	(266)
10yr govt bond, %	7.9	(2)	(2)	33

Net investment (US\$m)

	6-Oct	MTD	CYTD
FIs	516	1,089	20,343
MFs	(96)	(153)	(282)

Top movers -3mo basis

Best performers	Change, %			
	7-Oct	1-day	1-mo	3-mo
BOI IN Equity	575.8	0.2	24.3	56.4
TTMT IN Equity	1128.7	(0.9)	9.3	49.3
HNDL IN Equity	211.8	0.6	16.8	46.2
SBIN IN Equity	3219.9	(0.4)	11.2	36.6
KMB IN Equity	512.8	(0.8)	21.2	34.9
Worst performers				
FTECH IN Equity	1184.3	(2.8)	(13.6)	(13.2)
IVRC IN Equity	162.6	(2.8)	1.1	(12.9)
RNR IN Equity	40.8	(0.7)	4.6	(8.9)
HH IN Equity	1843.6	1.1	8.1	(8.2)
RELI IN Equity	1088.3	(2.9)	6.1	(7.9)

OCTOBER 07, 2010

UPDATE

Coverage view: **Attractive**

Price (Rs): **2,037**

Target price (Rs): **2,150**

BSE-30: **20,315**

Inflows strain to meet target; capital raising in subsidiaries eases pressures.

Moderate inflows of Rs284 bn in 1HFY11 (power leads while O&G, infra lag) imply strong inflow requirement of Rs470-490 bn (versus Rs416 bn last year excluding the Hyderabad metro order of about Rs100 bn) in 2H11E to meet full-year guidance. In-house projects contributed to about 23% of total inflows in 1H. Capital raising in subsidiaries is a positive as it aids growth visibility and reduces funding pressure on parent's balance sheet. Retain ADD.

Company data and valuation summary

Larsen & Toubro

Stock data

52-week range (Rs) (high,low)	1,951-1,371
Market Cap. (Rs bn)	1,120.0

Shareholding pattern (%)

Promoters	0.0
FII's	17.1
MFs	5.4

Price performance (%)

	1M	3M	12M
Absolute	5.9	14.4	24.2
Rel. to BSE-30	3.0	11.9	5.6

Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	57.9	71.7	89.0
EPS growth (%)	15.6	23.8	24.1
P/E (X)	32.2	26.0	20.9
Sales (Rs bn)	439.7	531.6	667.1
Net profits (Rs bn)	34.9	43.4	53.9
EBITDA (Rs bn)	63.7	81.5	98.9
EV/EBITDA (X)	20.7	16.4	13.9
ROE (%)	18.6	17.7	18.5
Div. Yield (%)	0.7	0.6	0.8

Inflows barely on target; 20%+ in-house projects; power leads, O&G and infra lag

L&T has announced relatively moderate inflows of Rs284 bn in 1HFY11 (Rs156 bn reported in 1Q + Rs128 bn announced in 2Q). The inflows were led by the power segment while orders from oil & gas and infra segment lagged estimates. L&T's own in-house projects (Rajupura power project, Krishnagiri-Walahjapet road project) constituted 23% of the total inflows. Even including the potential large order of Rs100 bn for the Hyderabad Metro, L&T would still require strong order inflows of Rs470-490 bn (versus Rs417 bn reported last year) in order to meet its full-year inflow guidance of Rs870-890 bn. Historical skew towards 2H may help but target still remains stiff.

Subsidiaries IPO likely value accretive as capital aids growth and reduces pressure on parent

L&T recently announced its intention to monetize its stake in L&T Finance Holdings (the holding company for its two key finance subsidiaries – L&T Finance Ltd and L&T Infrastructure Finance Ltd) through an IPO to raise about Rs15 bn. This would help ease the pressure on the parent's balance sheet. Both these subsidiaries recorded very strong performance in FY2010 with a 39% yoy growth in asset base of L&T Finance and an 85% growth for L&T Infra Finance.

IDPL next in line for IPO; invested Rs12 bn in infra assets; may need Rs15 bn p.a. for next few years

L&T has 18 infrastructure projects (seven complete) in its portfolio spread across the roads, ports and rail with a cumulative project size of about Rs320 bn. The company has currently invested equity of about Rs12.4 bn in these projects and is likely to require additional equity of about Rs40-45 bn over the next three years. These projects are likely to be eventually routed through L&T IDPL—likely next in line for monetization. This may take a while as the company may wait for revenue generation.

Retain estimates; reiterate ADD with a revised target price of Rs2,150/share

Retain earnings estimates of Rs63.9 and Rs78.2 for the standalone and Rs74.7 and Rs90 for the consolidated entity for FY2011E and FY2012E, respectively. Reiterate ADD with a revised TP of Rs2,150 (from Rs2,075) on (1) likely strong execution pick-up in 2HFY11E and FY2012E, (2) likely capex revival, (3) scale-up of power business, and (4) value accretion in subsidiaries.

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Inflows barely on target; power leads while oil & gas and infrastructure lag

L&T has announced order inflows to the tune of about Rs128 bn in 2QFY11. Adding this to the reported order inflows in 1QFY11 (of Rs156 bn), L&T would have a total inflows of about Rs284 bn in 1HFY11. This implies an order inflow requirement of about Rs585-620 bn in the remainder of FY2011E in order to meet its full-year order inflow guidance – a requirement of a yoy growth in order inflows of 40-48% over inflows of Rs417 bn in 2HFY10. These numbers are not including the potential large order for the Hyderabad Metro project with a likely value of about Rs150 bn. Including the Hyderabad metro order, L&T would have to win additional orders of about Rs460-500 bn in 2HFY11E.

L&T management has guided for a strong growth in order inflows of about 25-30% in FY2011E. This is over and above the 35% growth recorded in FY2010. This growth target implies order inflows to the tune of about Rs870-900 bn in FY2011E. We have currently built in order inflows of Rs817 bn in FY2011E – a yoy growth of 17%.

Power leads inflows while oil & gas and infrastructure lag estimates

Power segment has recorded very strong order inflows of Rs162 mn in 1HFY11 contributing to about 57% of total order inflows. These were led by (1) Rs52 bn order for the 2X660 MW Rajpura power plant and (2) Rs65 bn order for BTG equipment for the 3X660 MW Karchana power project from Jaiprakash Group. However, orders from the oil & gas and infrastructure segment (not including potential Hyderabad metro rail order) have remained relatively subdued in FY2011E so far. L&T has reported order inflows of only Rs11 bn from the oil & gas sector.

Rough break up of sector-wise order inflows of L&T

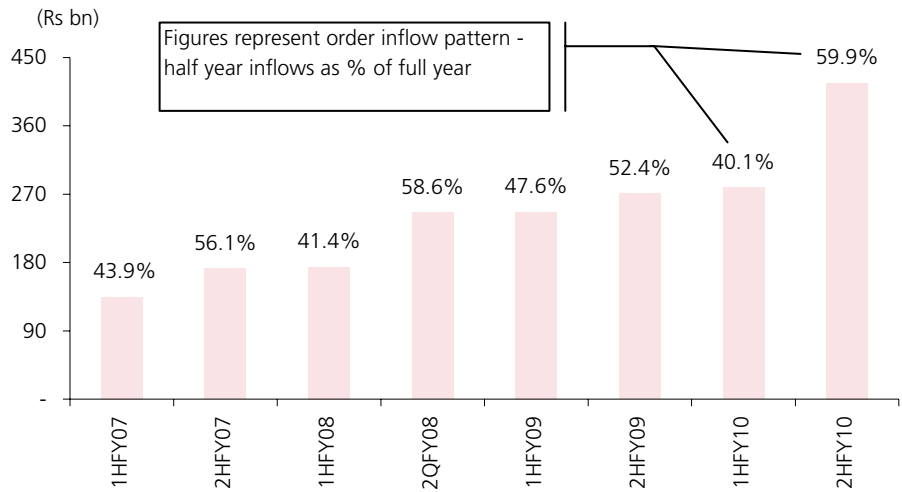
Segment	FY2008		FY2009		FY2010		1QFY11		Announcements post 1QFY11		Inflow in FY2011 so far		FY2011E orders	
	Ann.	Rep.	Ann.	Rep.	Ann.	Rep.	Ann.	Rep.	(Rs bn)	(%)	(Rs bn)	(%)	(Rs bn)	(%)
Process	95	63	125	83	94	90	5	45	31	24.3	76	20.7	100	12.2
Refineries	38		37		21				12	9.4			20	
Petrochemicals	3		8		30								30	
Minerals & metals	54		80		43		2		17	13.7			50	
Bulk material handling							3		2				-	
Oil & gas	42	105	15	62	74	139	4	61	—	—	61	16.8	75	9.2
Platforms	42				74		4						75	
Pipelines			15											
Power	35	59	80	129	217	230	73	42	81	63.5	123	33.6	280	34.3
BOP	5		7		45		11		16				65	
EPC					103		52						110	
Equipment			16		24		-		65	50.9			45	
Electrification/ T&D	30		45		45		10						60	
Infrastructure	100	130	185	201	135	188	40	69	16	12.2	85	23.1	300	36.7
Roads and bridges	3		43		15		15						70	
Ports and airports	55													
Railways	3		28		8								125	
Industrial & commercial bldg.	33		92		92		14		10	8.0			90	
Water	6		23		21		11		5				20	
Others	54	63	53	41	10	49	1	21	—	—	21	5.8	62	7.6
Total	326	420	458	516	530	696	123	238	128	100.0	366	100.0	817	100.0

Source: Company, Kotak Institutional Equities estimates

Inflows are typically skewed towards the second half

Over the past three years, order inflows for L&T have been skewed towards the second half with about 55-60% of orders inflows coming in 2H of the fiscal year. Note that about 60% of full-year inflows in FY2010 were recorded in the second half. Furthermore, the inflows were particularly concentrated in 4HFY10 (34% of inflows) versus about 25-27% in 4H of FY2007-09.

Historical half-yearly order inflow pattern of L&T, 1HFY07-2HFY10



Source: Company, Kotak Institutional Equities

Note that our analysis is based on order inflow announcements made in 2QFY11 and actual order inflow may be higher than the same. However, order announcements have historically been at about 80% of the total reported inflows. For instance, L&T announced orders of Rs123 bn in 1QFY11 versus reported inflows of Rs156 bn.

Several in-house projects boost backlog; constitute over 20% of inflows in FY2011E

The inflows in 1QFY11 were primarily driven by in-house projects constituting about 42% of the reported inflows in 1QFY11. In-house project contributed to about 43% of the inflows reported in 1QFY11 (about 23% of total inflows of 1HFY11). These projects included (1) Rs52 mn order for L&T’s own 2X660 MW Rajpura power project and (2) Rs15 bn order for the 148 km Krishnagiri-Walajahpet Highway project being developed by L&T.

Even going forward, we believe that several in-house infrastructure and power projects would boost the backlog of L&T in FY2011E. These would be led by (1) Rs150 bn order for the Hyderabad metro rail project – L&T declared as lowest bidder; however, may dilute return ratios in the near term, (2) Samaikhiali-Gandhidham (56 km) and Devihalli-Hassan (73 km) road projects which are pending financial closure.

Financial subsidiaries’ IPO would reduce pressure on parent’s balance sheet

L&T Finance Holdings Ltd, a subsidiary of the company, proposes to enter the capital market with an Initial Public Offering (IPO) of equity shares for an amount aggregating to Rs15 bn. L&T Finance Holdings Ltd (earlier called L&T Capital Holding Co. Ltd) is the holding company for the finance subsidiaries of L&T. The company owns 100% stake in the two key finance subsidiaries of L&T, viz. L&T Finance Ltd and L&T Infrastructure Finance Ltd.

Investment details of L&T Finance Holdings Ltd, March fiscal year-ends, 2009-10 (Rs mn)

	2010	2009
In subsidiaries		
L&T Finance Ltd	6,410	5,160
L&T Infrastructure Finance Company Ltd	7,751	5,000
India Infrastructure Developers Ltd	561	561
L&T Aviation Services Pvt. Ltd	10	—
In associate companies		
NAC Infrastructure Equipment Ltd	45	45
Others: (quoted)		
Federal Bank Ltd	1,238	—
City Union Bank Ltd	279	—
Total investments	16,293	10,765

Source: Company

Both key financial subsidiaries record strong performance

Both these subsidiaries have recorded very strong performance in FY2010 (continued in 1QFY11 as well). L&T Finance recorded a revenue growth of 16% in FY2010 and a significant improvement in PAT margin leading to a net profit growth of about 58% yoy. The asset base of the company increased by 39% yoy, to Rs73 bn at end-FY2010 versus Rs52.5 bn at end-FY2009.

Financials of L&T Finance Ltd, March fiscal year-ends, 2008-12E (Rs mn)

	2008	2009	2010	2011E	2012E
Income statement					
Revenues	6,060	8,303	9,657	13,999	17,499
Operating expenses	(548)	(1,143)	(2,513)	(1,260)	(1,575)
EBITDA	5,512	7,160	7,145	12,739	15,924
EBITDA margin (%)	91.0	86.2	74.0	91.0	91.0
Interest expense	(3,363)	(5,137)	(4,311)	(9,091)	(11,229)
Depreciation	(536)	(569)	(471)	(696)	(870)
PBT	1,613	1,454	2,363	2,952	3,825
Tax	(463)	(465)	(799)	(945)	(1,224)
PAT	1,150	988	1,565	2,007	2,601
PAT margin (%)	19.0	11.9	16.2	14.3	14.9
Balance sheet					
Shareholders funds	7,216	8,455	11,269	15,777	18,377
Share capital	1,867	1,867	2,122	2,122	2,122
Reserves and surplus	5,349	6,588	9,148	13,655	16,256
Loan funds	40,683	44,820	64,403	86,585	106,947
Secured loans	23,242	24,836	47,000	47,209	58,821
Unsecured loans	17,440	19,984	17,403	39,376	48,126
Total sources of funds	47,899	53,274	75,672	102,361	125,324
Net block	4,014	2,419	3,955	5,062	5,932
Investments	367	70	1,696	1,696	1,696
Cash and bank balance	293	698	1,107	2,569	1,404
Net working capital	43,225	50,087	68,914	93,034	116,293
Total application of funds	47,899	53,274	75,672	102,361	125,324
Key ratios (%)					
Revenue growth	120.1	37.0	16.3	45.0	25.0
PAT growth	83.6	(14.0)	58.3	28.3	29.6
RoE	20.9	12.6	15.9	14.8	15.2
RoCE	9.2	8.9	6.9	9.2	9.0
D/E (X)	5.6	5.3	5.7	5.5	5.8

Source: Company, Kotak Institutional Equities estimates

L&T Infrastructure Finance recorded a very strong revenue growth of 52% yoy in FY2010 to Rs4.5 bn. The asset base of the company increased by about 85% yoy to Rs42 bn at end-FY2010 versus Rs23 bn at end-FY2009.

Financials of L&T Infrastructure Finance Ltd, March fiscal year-ends, 2008-12E (Rs mn)

	2008	2009	2010	2011E	2012E
Income statement					
Revenues	1,103	2,960	4,504	8,837	12,781
Operating expenses	(82)	(189)	(392)	(707)	(1,023)
EBITDA	1,021	2,771	4,112	8,130	11,759
EBITDA margin (%)	92.6	93.6	91.3	92.0	92.0
Interest expense	(334)	(1,630)	(2,456)	(5,187)	(8,141)
Depreciation	(1)	(2)	(2)	(4)	(6)
PBT	686	1,140	1,653	2,939	3,612
Tax	(234)	(375)	(545)	(968)	(1,190)
PAT	452	765	1,109	1,971	2,422
PAT margin (%)	40.9	25.8	24.6	22.3	19.0
Balance sheet					
Shareholders funds	5,502	6,266	10,126	12,097	14,519
Share capital	5,000	5,000	6,834	6,834	6,834
Reserves and surplus	502	1,266	3,292	5,263	7,685
Loan funds	13,650	17,712	32,368	51,868	81,409
Secured loans	10,400	16,712	27,468	43,450	69,198
Unsecured loans	3,250	1,000	4,900	8,418	12,211
Total sources of funds	19,158	23,952	42,374	63,845	95,809
Net block	7	7	8	11	16
Investments	599	1,150	250	250	250
Cash and bank balance	221	2	51	486	897
Net working capital	18,331	22,793	42,065	63,097	94,646
Total application of funds	19,158	23,952	42,374	63,845	95,809
Key ratios (%)					
Revenue growth		168.3	52.2	96.2	44.6
PAT growth		69.3	45.0	77.8	22.9
RoE	8.6	13.0	13.5	17.7	18.2
RoCE	5.6	8.6	8.3	10.2	9.9
D/E (X)	2.5	2.8	3.2	4.3	5.6

Source: Company, Kotak Institutional Equities estimates

Clearing tables for IDPL IPO; buying out P/E and transferring real estate investments

We believe that ultimately all the infrastructure projects would reside within L&T Infrastructure Development Projects Ltd (IDPL) which is the holding company for the infra projects of L&T.

IDPL has sold preference shares worth Rs2.9 bn held in L&T Urban Infra to L&T Realty

Going forward, L&T IDPL is likely to increasingly focus on transportation infrastructure. As a step in this direction, L&T IDPL has sold its entire holdings of preference shares (Rs2.9 bn) in L&T UIL to a fellow subsidiary L&T Realty Pvt. Ltd.

Monetization may have to wait for start of some of the projects

We believe that the various projects in the development portfolio of L&T are likely to be next in line for monetization. However, this may be some way off as the company is awaiting completion of construction of these projects and start of revenue generation.

18 infra projects in portfolio; may require Rs15 bn equity p.a. over next few yrs

L&T currently has about 18 infrastructure development projects over roads, ports and metro sectors with a cumulative project cost of about Rs320 bn. Of these, seven road projects have achieved completion while the remaining (with a cumulative project size of about Rs285 bn) are in various stages of development. The under development projects comprise (1) eight road projects with a total project cost of over Rs80 bn, (2) two port projects (Dhamra and Katupalli – Rs53 bn project cost) and (3) Hyderabad metro project (Rs150 bn project cost). Apart from this the company also has 14 real estate development projects under construction (in L&T Urban Infrastructure). Furthermore, L&T Urban Infrastructure Ltd (UIL) a step-down subsidiary of L&T IDPL, is developing 19 real estate projects (five completed).

L&T has, through its standalone entity, IDPL and other subsidiaries, invested equity of about Rs12.4 bn in the infrastructure assets so far. The projects are likely to require further equity of about Rs42-45 bn spread over the next three years implying an average annual equity requirement of about Rs12-15 bn.

Details of infrastructure portfolio of L&T (Rs mn)

	Project cost	Est. Equity requirement	Invested so far			Total	Addl equity requirement		
			IDPL	L&T standalone	Other subs		2011E	2012E	2013E
Roads									
Completed									
L&T Panipat Elevated Corridor	4,220	843	843			843			
Narmada Infra Constrn Enterprise Ltd	1,420	121	121	127	226	474			
L&T Krishnagiri Thopur Toll Road	5,250	788	788			788			
L&T Western Andhra Tollways	3,730	565	565			565			
L&T Transportation Infra Ltd	1,040	531	531	109		640			
L&T Interstate Road Corridor Ltd	5,370	572	572			572			
L&T Vadodara Bharuch Tollway Ltd	14,610	2,175	2,175			2,175			
Under implementation									
Ahmedabad-Maliya Tollway	14,970	4,491		630		630	2,021	1,840	
L&T Halol-Shamlaji Tollway Pvt Ltd	13,050	3,915		653		653	1,762	1,501	
Rajkot Vadinar Tollway Pvt Ltd	10,960	3,288		550		550	1,480	1,258	
Chennai-Tada Tollway Ltd	8,480	2,544			420	420	1,145	979	
Pimplegaon-Nasik (60 km)	6,000	1,800		846		846	630	325	
Krishnagiri-Walajahpet	14,500	4,350				—	870	1,740	1,740
Samaikhiali-Gandhidham (56 km)	5,600	1,680				—	252	672	756
Devihalli-Hassan (73 km)	7,300	2,190				—	329	876	986
Ports									
Dhamra port (50:50 JV)	24,600	3,690	2,465			2,465	1,225		
Katupalli port	28,370	8,511				—	1,277	1,702	2,979
Metro									
Hyderabad Metro project	150,000	40,626				—	—	6,094	8,125
Total	319,470		8,059	2,914	646	11,619	10,989	16,986	14,586

Source: Company, Kotak Institutional Equities estimates

Sedate 1Q2011 performance—several large projects in initial stage of execution

L&T reported disappointing revenues of Rs79 bn, about 15% below our estimates of Rs93 bn, recording a modest 6.4% growth yoy. The sedate revenue growth was attributed to (1) several large projects being in the initial stages of execution (due to the back-ended nature of order inflows in FY2010) – the management expects execution of these orders to pick up in 2HFY10, (2) increase in average execution-cycle of the backlog; about a third of the current order book comprise of orders with an execution cycle of 3-5 years and (3) higher international order inflows which is yet to translate into revenues. The management expects execution to pick up in 2HFY11E.

FY2011E estimates imply very strong execution pick-up in remaining 9MFY11E

We expect L&T to record a strong revenue growth of 21.5% in FY2011E based on FY2010-end backlog of Rs1,002 bn, pick-up in execution of process and buildings segment orders and stronger execution in the product segments led by revival in the industrial capex activity. Based on our estimates, L&T would have to record a strong revenue growth of about 25.3% in the remaining nine months of FY2011E. We expect margins to remain relatively flat on a yoy basis at 13% implying margins of about 13% in remaining 9MFY11. This leads to net PAT growth requirement of about 24% for L&T in remaining 9MFY11.

FY2011E estimates imply very strong execution pick-up in remaining 9MFY11E

Implied numbers for L&T in remaining 9MFY11 based on our full-year estimates and 1QFY11 actual performance (Rs mn)

	1QFY11	1QFY10	% change	Rem. 9MFY11E (Implied)	Rem 9MFY10	% change	FY2011E	FY2010	% change
Net sales	78,853	74,083	6.4	371,162	296,265	25.3	450,015	370,348	21.5
Expenses	(68,783)	(65,764)	4.6	(323,075)	(256,429)	26.0	(391,858)	(322,193)	21.6
EBITDA	10,071	8,319	21.1	48,086	39,836	20.7	58,157	48,156	20.8
PBT	9,773	8,514	14.8	48,096	39,545	21.6	57,870	48,059	20.4
Tax	(3,112)	(2,730)	14.0	(16,101)	(13,678)	17.7	(19,213)	(16,409)	17.1
Net profit	6,662	5,783	15.2	31,995	25,867	23.7	38,657	31,650	22.1
Order details									
Order booking	156,260	95,700	63.3	658,429	600,020	9.7	814,689	695,720	17.1
Key ratios (%)									
EBITDA margin	12.8	11.2		13.0	13.4		12.9	13.0	
PBT Margin	12.4	11.5		13.0	13.3		12.9	13.0	
PAT margin	8.4	7.8		8.6	8.7		8.6	6.6	

Source: Company, Kotak Institutional Equities estimates

Expect some execution pick-up in 2QFY11E

We expect some pick-up in revenues in 2QFY11E versus a relatively sedate 1QFY11 led by execution of the large orders in the backlog of the company. We expect the company to record a 16.5% yoy revenue growth in 2QFY11E to Rs92 bn from Rs79 bn in 2QFY10. Expect EBITDA margins to decline slightly on a sequential basis (by about 100 bps) to 11.8%. We expect the company to report a net profit of about Rs7 bn, up 21% yoy.

L&T - key nos - 2QFY11E results estimates (Rs mn)

	2QFY11E	2QFY10	1QFY11	% change		1HFY11E	1HFY10	% change
				yoy	qoq			
Net sales	92,253	79,188	78,853	16.5	17.0	171,106	153,271	11.6
Expenses	(81,413)	(70,816)	(68,783)	15.0	18.4	(150,196)	(136,580)	10.0
EBITDA	10,840	8,372	10,071	29.5	7.6	20,910	16,692	25.3
Other income	2,359	2,176	2,268	8.4	4.0	4,626	4,403	5.1
PBDIT	13,198	10,548	12,338	25.1	7.0	25,537	21,095	21.1
Interest	(1,423)	(1,310)	(1,423)	8.7	-	(2,847)	(2,406)	18.3
Depreciation	(1,264)	(1,001)	(1,142)	26.2	10.7	(2,405)	(1,939)	24.1
PBT	10,511	8,237	9,773	27.6	7.6	20,285	16,751	21.1
Tax	(3,469)	(2,707)	(3,112)	28.2	11.5	(6,580)	(5,437)	21.0
Net profit	7,043	5,530	6,662	27.3	5.7	13,704	11,314	21.1
Extraordinary items	-	274	-	NA	NA	-	10,473	NA
RPAT	7,043	5,804	6,662	21.3	5.7	13,704	21,786	(37.1)
Key ratios (%)								
EBITDA margin	11.8	10.6	12.8			12.2	12.8	
PBDIT margin	14.3	13.3	15.6			14.9	15.6	
PBT Margin	11.4	10.4	12.4			11.9	12.4	
PAT margin	7.6	7.0	8.4			8.0	6.6	
Tax rate	33.0	32.9	31.8			32.4	31.8	

Source: Company, Kotak Institutional Equities estimates

Retain estimates; reiterate ADD with a revised target price of Rs2,150/share

We have retained our earnings estimates of Rs63.9 and Rs78.2 for the standalone entity and Rs71.7 and Rs89 for the consolidated entity for FY2011E and FY2012E, respectively. We revise our SOTP-based target price to Rs2,150 (from Rs2,075/share) comprised of (1) Rs1,651/share from the core construction business based on 21X FY2012E expected earnings, (2) Rs139/share from L&T's service subsidiaries, (3) Rs46/share from the manufacturing subsidiaries, (4) Rs82/share from the infrastructure SPVs and (5) Rs109/share from other subsidiaries and investments.

We have changed the ascribed multiple for L&T Finance and L&T Infrastructure Finance to build potential upside from public listing which would infuse additional capital aiding growth visibility of these companies.

We arrive at a SOTP-based target price of Rs2,150/share for L&T
FY2012E-based Sum of The Parts (SOTP) valuation of Larsen and Toubro

	Earnings/Book (Rs mn)	FY2012E multiple (X)	Valuation basis	Stake (%)	Value (Rs bn)	Per share (Rs)
Core company valuation	47,200	21.0	P/E	100	991	1,646
Key subsidiaries - services	22,145				139	230
L&T Finance	18,377	2.5	P/B	100	46	76
L&T Infrastructure Finance	14,519	2.5	P/B	100	36	60
L&T Infotech	3,768	15.0	P/E	100	57	94
Key subsidiaries - manufacturing	2,892				46	76
Tractor Engineers	87	15.0	P/E	100	1	2
Associate companies*	2,805	15.0	P/E	50	21	35
Power equipment JVwth MHI	NA		DCF	51	24	39
Infrastructure SPVs	23,358	2.5	P/B	84.27	49	82
Other subsidiaries	37,626	1.8	P/B	100	66	109
Total subsidiaries					300	498
Grand total					1,291	2,144

Source: Company, Kotak Institutional Equities estimates

Other subsidiaries value primarily from L&T International FZE and Seawoods

A value of about Rs37.6 bn (Rs125/share) from 'other subsidiaries' of L&T is primarily from L&T International FZE (Rs12.5 bn of equity investment) and L&T Seawoods (Rs8.6 bn of equity investment). The other key contributors include stake in Satyam Computer Services Ltd (Rs4.4 bn) and investment in L&T Realty (Rs5 bn).

Details of equity investments and advances towards subsidiaries of L&T, March fiscal year-ends, 2009-10 (Rs mn)

	2009		2010			yoy change	
	Equity	L&A	Equity	L&A	Total	Equity	L&A
Subsidiary companies							
Bhillai Power supply co	0.5	71.9	0.5	71.9	72.4	—	—
L&T General Insurance Co.	—	—	290	—	290	290	—
L&T Realty	472	—	472	4,620	5,092	—	4,620
L&T Seawoods	0.1	5,899	0.1	8,583	8,583	—	2,683
L&T Special Steels & Heavy Forgings	—	—	1,110	—	1,110	1,110	—
L&T Western India Tollbridge	140	—	140	—	140	—	—
L&T Sargent Lundy	15	—	15	—	15	—	—
L&T International FZE	10,498	—	11,474	—	11,474	976	—
Spectrum Infotech	68	—	68	—	68	—	—
Others	41	—	31	—	31	(11)	—
Subsidiaries total	11,211	5,971	13,600	19,505	33,105	2,389	13,534
Associate companies							
Gujarat Leather Industries	6	—	6	—	6	—	—
Intl Seaport Dredging	402	110	399	118	518	(3)	9
Associates total	402	110	0	118	118	(402)	9
Other investments							
City Union Bank Ltd	253	—	—	—	—	(253)	—
Satyam Computer Services	1,764	—	4,363	—	4,363	2,599	—
Ultratech Cement	143	—	—	—	—	(143)	—
Investments in Integrated JVs	1,278	—	1,088	—	1,088	(190)	—
Other investments total	2,241	—	4,403	—	4,403	2,162	—
Grand total	13,854	6,081	18,003	19,624	37,626	4,149	13,543

Source: Company, Kotak Institutional Equities

Retain ADD on strong inflows; potential execution pick-up and value accretion in subsidiaries

We retain our ADD rating on the stock based on (1) expected execution pick-up in 2HFY11E on the back of strong order inflows during FY2010 and FY2011E, (2) scale-up of power equipment and EPC that is both less cyclical and competitive (versus other segments), (3) revival in capex activity, (4) strong investments in capacity and capability enhancement that would open new growth areas such as power equipment, nuclear energy and defense, (5) value creation in subsidiaries, particularly with incremental capital being raised from market raising growth visibility and reducing funding pressure on standalone parent balance sheet and (6) strong balance sheet and cash flows that enable L&T to capture opportunities in various areas including infrastructure development.

Large development projects, slower-than-expected execution and margins are key risks

Key risks emanate from (1) dependence on in-house orders from infrastructure and power verticals – long gestation periods for such projects requiring large amounts of capital squeeze the returns on capital, (2) exposure to very large development projects such as Hyderabad Metro exposing the company to risks of execution, politics, real estate etc., and (3) likely pressure on working capital and margins with likely dominance of infrastructure orders.

Standalone balance sheet and income statement of L&T, March fiscal year-ends, 2007-12E (Rs mn)

	2007	2008	2009	2010	2011E	2012E
Income statement						
Net operating revenues	176,142	248,779	339,385	370,348	450,015	569,139
Cost of goods sold	(158,247)	(220,515)	(300,164)	(322,592)	(391,858)	(497,647)
Construction materials	(36,510)	(56,103)	(75,100)	(74,781)	(90,867)	(114,921)
Sub contracts	(33,920)	(44,904)	(70,533)	(86,618)	(105,250)	(133,111)
Stores, spares and tools	(4,694)	(6,995)	(9,008)	(10,523)	(11,250)	(14,228)
Other mfg exp	(13,635)	(16,772)	(22,455)	(24,826)	(29,251)	(36,994)
S, G & A	(10,280)	(13,856)	(17,703)	(14,627)	(16,651)	(20,489)
Salaries & wages	(12,592)	(15,354)	(19,745)	(23,791)	(29,461)	(37,042)
EBIDTA	17,895	28,264	39,222	47,756	58,157	71,492
<i>EBIDTA margin (%)</i>	10.2	11.4	11.6	12.9	12.9	12.6
Other income	4,927	6,520	7,398	9,502	9,933	10,527
Interest	(930)	(1,227)	(4,156)	(5,053)	(5,288)	(5,476)
Depreciation	(1,715)	(2,022)	(3,073)	(4,159)	(4,932)	(5,678)
PBT	20,191	31,534	39,404	48,059	57,870	70,866
Tax	(6,019)	(9,821)	(12,312)	(16,409)	(19,213)	(23,527)
PAT	14,172	21,714	27,092	31,650	38,657	47,338
Extraordinaries	—	(8)	7,725	12,105	—	—
Reported PAT	14,172	21,706	34,817	43,755	38,657	47,338
EPS (Rs)	50.0	37.1	46.3	52.6	63.9	78.2
Balance sheet						
Equity capital	567	585	1,171	1,204	1,210	1,210
Reserves & surplus	56,839	94,707	123,180	181,679	215,439	252,865
Shareholders funds	57,405	95,292	124,351	182,884	216,650	254,075
Reval reserves	279	259	246	233	233	233
Secured loans	2,454	3,085	11,024	9,557	9,557	9,557
Unsecured loans	18,324	32,755	54,537	58,451	63,451	63,451
Total debt	20,778	35,840	65,560	68,008	73,008	73,008
Total sources of funds	78,462	131,391	190,157	251,125	289,891	327,317
Net Block	17,083	28,544	40,128	53,654	64,722	71,544
Capital WIP	4,357	6,990	10,410	8,577	600	600
Total fixed assets	21,440	35,534	50,538	62,231	65,322	72,144
Intangible assets	807	920	1,408	1,427	1,427	1,427
Investments	31,044	69,223	82,637	137,053	144,413	159,413
Net working capital (excl. cash)	14,530	16,652	48,303	36,869	64,388	85,108
Cash and bank balances	10,944	9,645	7,753	14,319	25,115	22,498
Total application of funds	78,462	131,391	190,157	251,124	299,891	339,817

Source: Company, Kotak Institutional Equities estimates

OCTOBER 8, 2010

UPDATE

Coverage view: **Cautious**

Price (Rs): **1,490**

Target price (Rs): **1,330**

BSE-30: **20,315**

Raising estimates but not pulling out all the stops. We don't believe strong volume growth at Maruti would help offset the permanent margin decline brought about by a higher royalty charge. We show how Maruti's cost structure has not really benefitted from operating leverage in the past. We are raising our FY2011E and FY2012E EPS estimates by 5% and reflect domestic volume growth of 25% and 15%. We retain our REDUCE rating as the recent outperformance appears to make light of some key areas of concern.

Company data and valuation summary

Maruti Suzuki

Stock data

52-week range (Rs) (high,low) 1,692-1,127

Market Cap. (Rs bn) 430.6

Shareholding pattern (%)

Promoters 54.2

FIs 20.1

MFs 2.9

Price performance (%)

Absolute 1M 3M 12M

Rel. to BSE-30 4.0 (7.1) (20.0)

Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	86.4	80.6	93.4
EPS growth (%)	105.0	(6.7)	15.8
P/E (X)	17.2	18.5	16.0
Sales (Rs bn)	291.0	358.5	414.2
Net profits (Rs bn)	25.0	23.3	27.0
EBITDA (Rs bn)	34.6	34.1	40.1
EV/EBITDA (X)	10.7	10.7	8.9
ROE (%)	23.3	17.8	17.5
Div. Yield (%)	0.4	0.4	0.4

We have seen limited operating leverage benefits in the past

Most of Maruti's costs have grown at a rate faster than volumes, driving constant increases in cost per unit metrics (Exhibit 1). Most of the EBITDA per unit improvement seems to have come from higher realizations driven by the improving mix, which we don't expect to repeat going forward. The higher royalty payment on a percentage-of-sales basis further reduces operating leverage for the company. Exhibit 1 also shows that our cost estimates could be aggressive compared to past trends.

Raising EPS estimates to reflect higher volumes estimates

We are raising our FY2011E and FY2012E EPS estimates to Rs80 and Rs93 from Rs78 and Rs88 prior. We are raising our volume estimates to 1.24 mn units for FY2011E, implying 21% growth from FY2010. We have modeled 25% domestic volume growth and flat exports. Maruti's domestic volumes have grown 28% in 1HFY11 and our volume estimates imply 22% growth in 2HFY11. For FY2012E, we have modeled volume growth of 14% to 1.4 mn units. We have assumed 15% domestic growth and 10% export growth for the year. A 1.25 mn unit domestic volume estimate implies that the passenger cars grow at a 22% CAGR between 2010 and 2012 and Maruti maintains a 50% market share. On the margin front, we expect EBITDA margins to come in around 11% for the rest of the year compared to 9.6% for 1QFY11. We have modeled EBITDA margins of 10.7% for FY2012E.

Raising target to Rs1,330 to reflect higher earnings, maintaining REDUCE

Our 1,330 target implies 13.5X our FY2012E consolidated EPS of Rs98. At our EPS estimate of Rs93, the company's earnings are growing at a 4% rate between 2010 and 2012. In addition, we see risks to our estimates from (1) competition with Toyota entering the hatchback segment in January 2011, (2) adverse currency movements and (3) commodity cost increases. We could be aggressive in our assumptions by not modeling a decrease in raw material costs from 1QFY11 levels, increasing average realizations and operating leverage benefits that they have not got in the past.

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Operating leverage expectations could be overstated

Operating leverage benefits generally arise from a reduction in costs on a per unit basis as fixed costs don't increase at the same rate as volumes/revenues. We have tried to analyze this from a historical perspective, specifically by better understanding revenue, cost and EBITDA per unit trends since 2005. Exhibit 1 shows these trends and major cost-per-unit trends over the years.

Exhibit 1: We did not see much of operating leverage between 2005-2010

Maruti cost per unit trends, March fiscal year-ends, 2005-2012E (Rs)

	2005	2006	2007	2008	2009	2010	2011E	2012E	CAGR (%)	
									2005-2010	2010-2012E
Production (units)	536,274	561,819	674,924	764,842	792,167	1,018,365	1,236,469	1,412,114	13.7	17.8
Revenues (Rs mn)	112,029	122,925	149,497	183,454	208,525	296,231	364,620	420,916	21.5	19.2
Revenue per unit	208,903	218,798	221,502	239,859	263,234	290,888	294,888	298,075	6.8	1.2
Cost per unit (Rs)										
Raw materials consumed	158,039	162,732	162,300	176,763	202,825	217,994	227,267	229,887	6.6	2.7
Labor	3,655	4,071	4,273	4,657	5,947	5,358	5,267	5,073	7.9	(2.7)
Consumption of stores	1,205	1,467	1,625	1,922	2,497	2,388	2,316	2,374	14.7	(0.3)
Power and fuel	1,083	1,018	1,443	1,926	2,444	2,127	1,595	1,595	14.4	(13.4)
Repairs and maintenance	524	1,048	649	664	718	645	610	645	4.2	(0.0)
Royalty	3,703	4,528	5,442	6,475	8,573	9,998	14,748	14,748	22.0	21.4
Rent, rates, taxes, insurance	255	226	200	199	769	673	554	534	21.4	(10.9)
Selling & distribution	6,761	6,337	7,407	7,324	9,319	8,995	8,119	8,213	5.9	(4.4)
Others	2,529	4,142	4,289	5,249	7,015	3,881	3,196	3,079	8.9	(10.9)
Total	177,754	185,569	187,629	205,180	240,107	252,059	263,672	266,146	7.2	2.8
EBITDA (Rs mn)	16,704	18,669	22,862	26,524	18,321	39,543	38,598	45,087	18.8	6.8
EBITDA per unit (Rs)	31,148	33,230	33,873	34,679	23,127	38,830	31,216	31,929	4.5	(9.3)
Depreciation per unit (Rs)	8,518	5,080	4,021	7,429	8,919	8,101	7,919	8,162	(1.0)	0.4

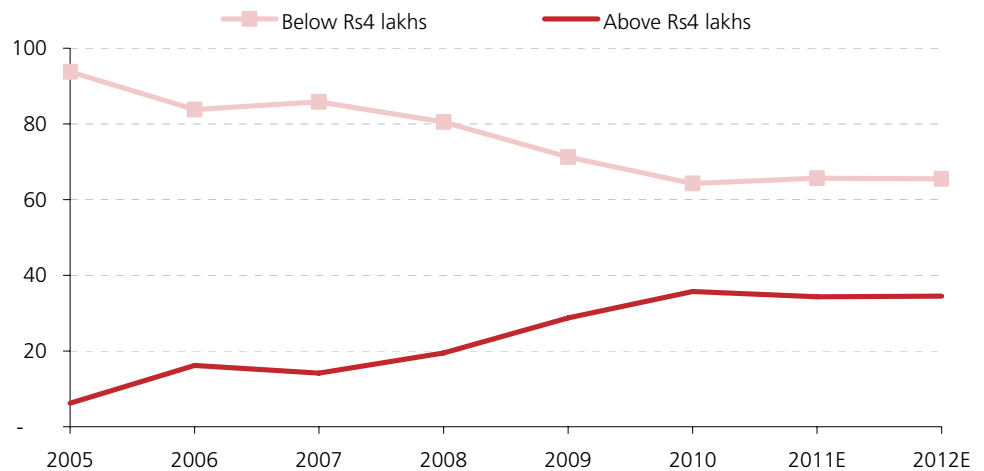
Source: Company, Kotak Institutional Equities estimates

At the outset, we can see that EBITDA has grown at a faster pace of 19% compared to volumes, which grew at 14% CAGR. As a result, EBITDA per unit grew at a CAGR of 4.5% between 2005 and 2010. PBT (excluding financial income) per unit has grown at a faster rate of 7% driven by a reduction in depreciation cost per unit.

Drilling down to the costs per unit trends, we can see that apart from D&A, there has been no cost item that has seen a decline on a per unit basis, implying that each of the cost items has grown at a faster rate than volumes. From another angle, total costs per unit rose Rs74,000 per unit between 2005 and 2010 while revenue per unit increased Rs82,000. EBITDA per unit has increased largely due to price increases and mix improvements.

Exhibit 2: Entry into higher-end hatchback and sedan segments drove mix improvements in the past, we expect less of the same going ahead

Product mix trends, March fiscal year ends, 2005-2012E, (%)



Source: Company, Kotak Institutional Equities estimates

The mix improvements have largely been driven by product introductions at the higher end of the hatchback segment (Swift, Ritz) and the sedan segment (Dzire). Exhibit 2 shows this mix change between 2005 and 2010 by bifurcating the products below Rs4 lakhs and above Rs4 lakhs. The mix change would be more pronounced if we had included the A-star (which transcends both segments) in the above Rs4 lakhs category. Going forward, however, we see limited scope for mix improvements of this pace given that Maruti now has products across the B and C segments. Additionally, the company has stated its intention of not entering the D segment and above in a big way. Net realizations have been flat for the last four quarters in a sign of stabilizing product mix. We actually would not be surprised with some gradual decline in realizations given the increase in the mix of C segment (Vans) vehicles with the Eeco and lower export realizations, driven by a weaker euro.

Additionally, Maruti has never been aggressive in increasing prices. Given the increasing competitive intensity, we don't expect this to change. On the other hand, we would expect lesser room for price increases.

Historical contribution margins have also not pointed to Maruti's business model having significant operating leverage. Contribution margin between 2005 and 2010 was 12%, which is very similar to EBITDA margin levels.

Lastly, as indicated in the exhibit below, our cost assumptions for FY2011E and FY2012E seem aggressive when compared to historical trends.

Raising EPS estimates by 5% to reflect higher volume estimates

We are raising our FY2011E and FY2012E EPS estimates to Rs80 and Rs93 from Rs78 and Rs88 to reflect higher volume estimates. Maruti continues to squeeze more out of its capacity through efficiencies and removal of bottlenecks. As a result, we expect the company to be able to build as much as 110,000 units per month. We have increased our FY2011E volume estimate to 1.24 mn units, implying growth of 21% from FY2010. Between geographies, we expect domestic volumes to grow 25% yoy and exports to be largely flat.

For FY2012E, we have modeled 15% domestic volume growth and 10% export volume growth for total volume growth of 14% to 1.4 mn units. We could see further improvements in capacity in 4QFY11E and the commissioning of the first 250,000 unit expansion in 3QFY12E would add to capacity as well. We are not comfortable assuming growth higher than 15% in domestic markets as it would be a tough act to follow after two 20% plus growth years. In addition, we may start to see the impact of higher interest rates.

It could be too early to go relax wrt the competition

There seems to be a lot of focus on the supply situation currently given the robust demand dynamics, some of which is seasonal. The strong demand seems to have caught the new entrants by surprise as well, resulting in waiting periods for most vehicles. However, this could change as the new entrants raise capacity to align with demand. Higher competition would not bite in a 20% plus sales growth environment, but things could change fast as growth slows to a 10-15% range.

In addition, the elephant in the room is yet to blow its horn. Toyota is slated to launch the Etios hatchback and sedan in December 2010. A sign of how seriously Toyota is taking the Etios is evident from the commentary in its annual report. Toyota has built up an initial capacity of 70,000 units for the Etios, which can be expanded to 200,000 units. The localization content is expected to be 70% initially and increase to XX% with the start of local engine production. Toyota targets to increase its market share by 300 bps with the launch of the Etios.

Exhibit 3: Volume assumptions for Maruti Suzuki, March fiscal year-ends, 2007-13E (# vehicles)

	2007	2008	2009	2010	2011E	2012E	2013E
Segment-wise sales (units)							
Entry (A) segment	79,245	69,553	49,383	33,028	25,000	25,000	25,000
Van-Segment	83,091	89,729	77,948	101,325	179,630	206,574	237,560
Compact (B) segment	440,375	499,280	511,396	633,190	751,169	863,844	993,421
Mid-size (C) segment	29,697	49,335	75,928	99,315	123,358	141,862	163,141
D segment	—	—	—	—	500	2,000	2,000
MUV	3,221	3,921	7,489	3,932	6,813	7,835	9,010
Domestic	635,629	711,818	722,144	870,790	1,086,469	1,247,114	1,430,131
Exports	39,295	53,024	70,023	147,575	150,000	165,000	181,500
Total	674,924	764,842	792,167	1,018,365	1,236,469	1,412,114	1,611,631
Segment-wise sales growth(%)							
Entry (A) segment	(11.0)	(12.2)	(29.0)	(33.1)	(24.3)	—	—
Van-Segment	24.0	8.0	(13.1)	30.0	77.3	15.0	15.0
Compact (B) segment	31.5	13.4	2.4	23.8	18.6	15.0	15.0
Mid-size (C) segment	(7.3)	66.1	53.9	30.8	24.2	15.0	15.0
MUV	(19.5)	21.7	91.0	(47.5)	73.3	15.0	15.0
Domestic	20.6	12.0	1.5	20.6	24.8	14.8	14.7
Exports	13.0	34.9	32.1	110.8	1.6	10.0	10.0
Total	20.1	13.3	3.6	28.6	21.4	14.2	14.1

Source: Company, Kotak Institutional Equities estimates

Exhibit 4: Maruti Suzuki, Profit model, balance sheet and cash flow model, March fiscal year-ends, 2007-2013E (Rs mn)

	2007	2008	2009	2010	2011E	2012E	2013E
Profit model (Rs mn)							
Net sales	146,539	179,362	204,553	290,989	358,515	414,181	476,819
EBITDA	22,862	26,524	18,321	39,543	38,598	45,087	51,792
Other income	3,026	4,784	6,013	4,967	4,503	4,973	5,852
Interest	(376)	(596)	(510)	(335)	(493)	(534)	(534)
Depreciation	(2,714)	(5,682)	(7,065)	(8,250)	(9,791)	(11,526)	(13,686)
Profit before tax	22,798	25,030	16,758	35,925	32,817	38,000	43,424
Current tax	6,281	7,696	4,689	11,230	8,860	10,260	11,724
Deferred tax	897	26	(118)	(281)	656	760	868
Net profit	15,620	17,308	12,187	24,976	23,300	26,980	30,831
Earnings per share (Rs)	54.0	59.9	42.2	86.4	80.6	93.4	106.7
Balance sheet (Rs mn)							
Equity	68,539	84,154	93,449	118,351	139,759	164,548	192,876
Deferred tax liability	1,675	1,701	1,551	1,370	2,026	2,786	3,655
Total Borrowings	6,308	9,002	6,989	8,214	8,214	8,214	8,214
Current liabilities	25,015	28,257	33,976	35,678	59,118	66,272	74,670
Total liabilities	101,537	123,114	135,965	163,613	209,117	241,820	279,414
Net fixed assets	29,104	40,328	49,321	54,123	68,332	80,806	91,120
Investments	34,092	51,807	31,733	71,766	73,766	75,766	77,766
Cash	14,228	3,305	19,390	982	3,613	11,405	25,499
Other current assets	24,113	27,674	35,521	36,742	63,407	73,843	85,029
Miscellaneous expenditure	—	—	—	—	—	—	—
Total assets	101,537	123,114	135,965	163,613	209,117	241,820	279,414
Free cash flow (Rs mn)							
Operating cash flow excl. working capital	15,988	18,387	12,933	28,991	29,737	34,827	40,067
Working capital changes	4,410	(83)	(1,000)	(117)	(3,224)	(3,283)	(2,788)
Capital expenditure	(13,950)	(16,930)	(16,136)	(13,149)	(24,000)	(24,000)	(24,000)
Free cash flow	6,448	1,374	(4,203)	15,725	2,513	7,544	13,279
Ratios							
EBITDA margin (%)	15.3	14.5	8.8	13.3	10.6	10.7	10.7
PAT margin (%)	10.7	9.6	6.0	8.6	6.5	6.5	6.5
Debt/equity (X)	0.1	0.1	0.1	0.1	0.1	0.0	0.0
Net debt/equity (X)	(0.6)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Book value (Rs/share)	243.0	297.1	328.7	414.4	490.8	579.2	680.2
RoAE (%)	24.9	22.2	13.5	23.3	17.8	17.5	16.9
RoACE (%)	35.4	33.7	14.4	34.4	30.9	27.1	23.9

Source: Company, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	7-Oct-10		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)		2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	(Rs)
Automobiles																														
Ashok Leyland	76	ADD	101,102	2,287	1,330	2.8	4.3	5.9	84.5	52.3	37.5	26.9	17.7	12.9	15.4	11.5	9.1	2.5	2.3	2.0	2.0	1.3	1.3	10.9	13.5	16.7	78	2.6	8.6	
Bajaj Auto	1,568	REDUCE	453,713	10,264	289	117.7	87.8	101.3	160.2	(25.4)	15.4	13.3	17.9	15.5	17.2	12.6	10.7	15.5	9.5	6.4	0.6	1.3	1.3	70.9	65.8	49.5	1,420	(9.4)	22.5	
Bharat Forge	370	REDUCE	88,524	2,003	239	0.7	12.4	19.7	(92.0)	1,705.4	59.1	538.6	29.8	18.8	27.2	12.8	9.0	2.3	2.2	2.0	—	—	—	0.9	0.4	0.1	360	(2.8)	5.5	
Hero Honda	1,844	REDUCE	368,167	8,329	200	111.8	114.9	129.8	74.1	2.8	12.9	16.5	16.0	14.2	10.3	10.2	8.7	10.2	7.1	5.3	1.6	1.7	1.9	59.0	52.1	42.7	1,800	(2.4)	23.1	
Mahindra & Mahindra	725	BUY	431,984	9,772	595	33.9	44.1	51.7	125.8	30.1	17.3	21.4	16.4	14.0	14.1	11.8	9.9	5.4	4.3	3.5	1.3	1.3	1.3	30.0	29.0	27.3	760	4.8	25.3	
Maruti Suzuki	1,490	REDUCE	430,505	9,739	289	86.4	80.6	93.4	105.0	(6.7)	15.8	17.2	18.5	16.0	9.4	9.5	7.9	3.6	3.0	2.6	0.4	0.4	0.4	23.3	17.8	17.5	1,330	(10.7)	22.3	
Tata Motors	1,129	ADD	706,804	15,989	626	27.4	94.8	109.2	(182.5)	246.1	15.2	41.2	11.9	10.3	14.2	7.4	6.5	4.6	3.2	2.4	1.2	0.5	0.5	8.7	11.9	11.1	1,150	1.9	96.9	
Automobiles																														
Cautious																														
			2,580,799	58,383					276.0	58.9	16.9	24.7	15.6	13.3	13.4	9.5	8.1	5.2	4.0	3.2	1.0	0.9	1.0	20.9	25.7	23.7				
Banks/Financial Institutions																														
Andhra Bank	168	BUY	81,601	1,846	485	21.6	22.9	26.7	60.1	6.4	16.4	7.8	7.3	6.3	—	—	—	1.9	1.6	1.3	3.0	3.2	3.7	26.0	23.1	22.7	190	12.9	6.7	
Axis Bank	1,569	ADD	635,597	14,378	405	62.1	78.1	98.3	22.7	25.9	25.9	25.3	20.1	16.0	—	—	—	4.0	3.4	2.9	0.8	1.0	1.2	19.2	18.3	19.9	1,600	2.0	44.8	
Bank of Baroda	921	BUY	336,505	7,612	366	83.7	95.1	115.7	37.3	13.7	21.7	11.0	9.7	8.0	—	—	—	2.4	2.0	1.7	1.6	1.9	2.3	24.4	23.0	23.3	1,000	8.6	7.9	
Bank of India	576	ADD	302,795	6,850	526	33.1	54.5	62.0	(42.1)	64.7	13.6	17.4	10.6	9.3	—	—	—	2.4	2.0	1.7	1.2	2.0	2.3	14.2	20.7	20.1	560	(2.7)	13.3	
Canara Bank	625	ADD	256,291	5,798	410	73.7	82.2	98.3	45.8	11.6	19.5	8.5	7.6	6.4	—	—	—	2.0	1.6	1.3	1.3	1.6	1.9	22.4	20.8	20.8	580	(7.2)	8.8	
Corporation Bank	722	ADD	103,533	2,342	143	82.0	88.0	102.6	31.8	7.3	16.6	8.8	8.2	7.0	—	—	—	1.8	1.5	1.3	2.3	2.5	2.9	22.0	20.2	20.2	750	3.9	1.9	
Federal Bank	420	ADD	71,834	1,625	171	27.2	36.4	49.0	(7.2)	34.1	34.4	15.5	11.5	8.6	—	—	—	1.5	1.4	1.2	1.2	1.6	2.1	10.3	12.6	15.2	430	2.4	7.1	
HDFC	726	REDUCE	1,041,922	23,570	1,436	19.7	23.3	27.9	22.7	18.3	19.9	36.9	31.2	26.0	—	—	—	6.9	6.1	5.3	1.0	1.1	1.3	20.0	20.7	21.8	720	(0.8)	50.8	
HDFC Bank	2,434	ADD	1,113,941	25,199	458	64.4	84.9	111.1	22.1	31.7	30.9	37.8	28.7	21.9	—	—	—	5.2	4.5	3.9	0.5	0.6	0.9	16.1	16.9	19.2	2,500	2.7	43.1	
ICICI Bank	1,138	REDUCE	1,268,298	28,691	1,115	36.1	45.2	57.3	6.9	25.3	26.6	31.5	25.1	19.9	—	—	—	2.5	2.3	2.2	1.1	1.3	1.7	8.0	9.5	11.3	1,000	(12.1)	87.5	
IDFC	205	ADD	299,400	6,773	1,458	8.4	9.4	11.2	44.9	12.4	18.7	24.5	21.8	18.3	—	—	—	4.3	2.8	2.3	0.7	0.8	1.1	16.6	15.5	14.3	205	(0.1)	27.9	
India Infoline	124	BUY	38,757	877	312	8.1	7.2	8.7	59.2	(11.9)	21.6	15.3	17.4	14.3	—	—	—	2.4	2.1	1.7	2.6	1.2	1.6	16.4	12.9	14.4	130	4.6	6.5	
Indian Bank	310	ADD	133,401	3,018	430	35.1	32.4	44.1	25.5	(7.7)	36.2	8.8	9.6	7.0	—	—	—	2.0	1.7	1.4	2.1	1.9	2.6	24.1	18.8	21.7	280	(9.8)	5.9	
Indian Overseas Bank	148	BUY	80,685	1,825	545	13.0	16.7	24.8	(46.7)	29.0	48.4	11.4	8.9	6.0	—	—	—	1.3	1.1	1.0	2.4	2.6	2.9	9.6	11.6	15.4	160	8.0	5.1	
J&K Bank	775	ADD	37,567	850	48	105.7	119.3	139.6	25.0	12.9	17.1	7.3	6.5	5.5	—	—	—	1.3	1.1	1.0	2.8	3.2	3.8	18.2	17.9	18.3	850	9.7	3.1	
LIC Housing Finance	1,448	REDUCE	137,527	3,111	95	69.7	100.7	109.9	11.5	44.5	9.1	20.8	14.4	13.2	—	—	—	4.2	3.5	3.0	1.0	1.5	1.6	23.6	25.5	23.2	1,250	(13.7)	33.7	
Mahindra & Mahindra Financial	690	REDUCE	66,283	1,499	96	35.9	46.4	56.2	60.0	29.4	21.2	19.3	14.9	12.3	—	—	—	3.9	3.3	2.8	1.1	1.4	1.7	21.5	23.5	23.8	635	(8.0)	4.4	
Oriental Bank of Commerce	498	ADD	124,719	2,821	251	45.3	57.8	66.8	25.3	27.6	15.5	11.0	8.6	7.5	—	—	—	1.7	1.5	1.3	1.8	2.3	2.7	14.5	16.5	16.9	450	(9.6)	9.1	
PFC	362	SELL	415,378	9,397	1,148	20.5	22.9	27.6	53.5	11.9	20.3	17.7	15.8	13.1	—	—	—	3.2	2.8	2.5	1.4	1.6	1.9	18.8	18.3	19.2	275	(24.0)	4.8	
Punjab National Bank	1,315	BUY	414,544	9,378	315	123.9	133.4	163.3	26.4	7.7	22.4	10.6	9.9	8.1	—	—	—	2.5	2.1	1.8	1.7	2.1	2.5	26.2	23.2	23.7	1,450	10.3	9.6	
Reliance Capital	852	NR	209,790	4,746	246	12.9	13.7	9.8	(67.3)	6.5	(28.6)	66.3	62.3	87.2	—	—	—	3.1	3.0	2.9	0.7	0.6	0.5	4.7	4.8	3.4	—	—	36.2	
Rural Electrification Corp.	385	REDUCE	380,293	8,603	987	20.3	25.3	31.2	23.2	24.5	23.4	19.0	15.3	12.4	—	—	—	3.4	3.0	2.6	1.7	2.0	2.4	22.0	21.0	22.5	325	(15.6)	8.9	
Shriram Transport	784	ADD	174,830	3,955	223	39.2	53.3	65.1	30.1	36.2	22.0	20.0	14.7	12.0	—	—	—	4.7	4.0	3.3	1.5	2.0	2.5	28.4	28.2	28.6	800	2.1	8.1	
SREI	102	NR	11,879	269	116	8.3	7.9	9.9	17.8	(4.8)	25.8	12.3	12.9	10.3	—	—	—	1.0	0.9	0.9	1.2	1.2	1.2	11.1	10.5	12.3	—	—	5.2	
State Bank of India	3,220	BUY	2,044,258	46,245	635	144.4	176.8	209.3	0.5	22.4	18.4	22.3	18.2	15.4	—	—	—	3.1	2.7	2.4	0.9	1.0	1.1	14.8	15.9	16.6	3,400	5.6	127.9	
Union Bank	394	BUY	198,865	4,499	505	41.1	48.8	60.2	20.2	18.8	23.5	9.6	8.1	6.5	—	—	—	2.3	1.8	1.5	1.4	1.7	2.0	26.2	25.1	25.1	450	14.3	5.7	
Yes Bank	345	BUY	117,117	2,649	340	15.0	18.7	25.8	46.7	24.5	38.3	23.0	18.4	13.3	—	—	—	3.8	3.2	2.6	0.4	0.5	0.7	20.3	18.8	21.7	375	8.8	15.8	
Banks/Financial Institutions																														
Attractive																														
			10,097,610	228,427					14.8	20.8	22.0	20.1	16.6	13.6	—	—	—	3.1	2.7	2.3	1.1	1.3	1.6	15.5	16.3	17.3				
Cement																														
ACC	1,031	REDUCE	193,714	4,382	188	83.2	66.0	72.9	47.9	(20.7)	10.4	12.4	15.6	14.1	6.6	7.5	6.1	3.0	2.7	2.3	2.6	2.3	2.3	29.3	20.0	19.3	980	(5.0)	10.8	
Ambuja Cements	142	SELL	215,949	4,885	1,522	8.0	8.4	8.9	11.4	5.3	5.1	17.7	16.8	16.0	9.8	9.3	8.1	3.1	2.7	2.4	1.3	1.4	1.5	19.3	17.8	16.5	108	(23.9)	6.9	
Grasim Industries	2,344	ADD	214,921	4,862	92	301.0	242.3	292.5	26.1	(19.5)	20.7	7.8	9.7	8.0	4.6	4.9	3.7	1.7	1.5	1.3	1.4	1.5	1.5	22.9	16.5	17.2	2,500	6.7	7.4	
India Cements	120	SELL	36,892	835	307	10.0	7.4	9.4	(43.5)	(26.5)	27.5	12.0	16.3	12.8	6.4	8.4	6.0	0.9	0.8	0.8	1.8	2.7								

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	7-Oct-10		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)		2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E			
Consumer products																													
Asian Paints	2,701	ADD	259,046	5,860	96	71.5	89.0	104.3	85.3	24.4	17.3	37.8	30.4	25.9	23.3	18.9	15.9	16.1	12.6	10.1	1.0	1.4	1.6	51.8	47.9	44.4	3,000	11.1	9.5
Colgate-Palmolive (India)	850	SELL	115,601	136	136	31.1	34.5	39.6	44.2	10.9	14.6	27.3	24.6	21.5	22.4	18.3	15.6	35.4	30.2	25.8	2.4	3.0	3.5	156.1	132.3	129.4	830	(2.4)	2.7
Dabur India	109	ADD	188,614	4,267	1,731	2.9	3.4	4.2	28.2	16.8	23.3	37.6	32.2	26.1	27.9	22.5	18.3	17.9	13.8	11.5	1.4	1.6	2.0	54.3	49.0	48.4	115	5.6	5.9
GlaxoSmithkline Consumer (a)	2,139	ADD	89,961	2,035	42	55.4	68.8	83.9	23.6	24.3	22.0	38.6	31.1	25.5	21.8	18.7	15.0	10.1	8.4	7.0	0.8	1.0	1.3	27.9	29.1	29.6	2,200	2.8	1.0
Godrej Consumer Products	406	ADD	131,491	2,975	324	11.3	13.5	18.0	69.5	18.9	33.4	35.9	30.2	22.6	28.5	21.4	16.1	13.7	7.4	6.7	1.0	0.8	0.8	44.6	31.9	31.1	450	10.7	2.2
Hindustan Unilever	296	SELL	646,543	14,626	2,182	9.4	10.2	12.0	(0.9)	8.4	17.5	31.4	29.0	24.7	21.6	20.8	17.0	25.0	21.6	18.7	2.6	2.8	3.3	71.1	80.2	81.3	250	(15.6)	14.5
ITC	172	ADD	1,315,128	29,751	7,651	5.3	6.4	7.5	22.6	20.5	17.8	32.4	26.9	22.8	19.7	16.9	14.1	8.9	7.4	6.3	2.9	1.6	1.7	29.2	31.6	31.3	175	1.8	27.1
Jubilant Foodworks	491	SELL	31,379	710	64	5.5	10.0	13.1	340.6	79.9	31.4	88.7	49.3	37.5	47.2	28.1	18.8	26.7	17.3	11.8	—	—	—	46.6	42.6	37.5	400	(18.6)	24.9
Jyothy Laboratories	268	ADD	20,548	465	77	11.0	14.3	17.0	99.6	30.1	18.2	24.3	18.7	15.8	19.6	12.3	9.8	5.0	3.3	2.9	1.6	1.4	1.8	16.0	18.4	19.6	320	19.3	0.8
Marico	134	ADD	82,040	1,856	612	4.4	5.3	6.4	32.9	20.2	20.4	30.2	25.1	20.8	20.6	16.8	14.0	12.3	8.9	6.6	0.5	0.7	0.8	48.9	41.6	36.7	140	4.4	2.0
Nestle India (a)	3,210	REDUCE	309,480	7,001	96	74.4	90.7	109.8	27.0	22.0	21.0	43.1	35.4	29.2	28.5	23.6	20.0	53.2	40.3	30.9	1.5	1.9	2.3	136.0	129.7	119.5	3,100	(3.4)	3.4
Tata Global Beverages	133	ADD	82,494	1,866	618	6.1	7.3	8.7	14.5	20.7	19.0	22.0	18.3	15.4	10.6	8.1	6.8	1.7	1.6	1.5	1.5	1.8	2.2	10.2	11.7	12.9	130	(2.5)	4.5
Consumer products		Cautious	3,272,325	74,026					23.8	18.4	19.0	33.5	28.3	23.7	21.5	18.3	15.2	11.3	9.3	8.0	2.2	1.8	2.1	33.8	33.1	33.7			
Constructions																													
IVRCL	163	BUY	43,402	982	267	7.9	9.1	11.6	(6.7)	15.0	27.9	20.6	17.9	14.0	10.5	9.9	7.8	2.1	1.9	1.7	0.2	0.2	0.2	11.0	11.3	12.9	205	26.1	7.8
Nagarjuna Construction Co.	157	BUY	40,207	910	257	7.1	8.9	11.6	6.1	24.3	31.1	22.0	17.7	13.5	11.1	9.7	8.0	1.8	1.7	1.5	0.9	1.3	1.3	9.3	9.8	11.8	205	30.8	4.3
Punj Lloyd	136	REDUCE	46,071	1,042	339	(12.9)	9.8	12.0	79.2	(175.4)	22.4	(10.5)	13.9	11.4	37.4	7.3	6.7	1.5	1.4	1.2	(0.1)	0.3	0.8	(15.8)	10.3	11.4	140	3.0	13.1
Sadbhav Engineering	1,522	BUY	22,830	516	15	42.8	61.8	87.2	(16.3)	44.3	41.0	35.5	24.6	17.5	19.4	13.0	10.0	5.6	3.7	3.1	0.2	0.4	0.4	15.8	15.1	17.8	1,750	15.0	0.4
Construction		Attractive	152,510	3,450					(91.1)	4,479	28.0	781.4	17.1	13.3	15.9	9.0	7.6	2.0	1.8	1.6	0.3	0.6	0.7	0.3	10.3	11.8			
Energy																													
Aban Offshore	876	ADD	38,134	863	44	94.5	151.1	129.7	(2.5)	59.9	(14.2)	9.3	5.8	6.8	8.4	7.1	6.7	1.7	1.6	1.4	0.4	0.4	0.5	21.7	32.9	21.9	915	4.4	39.3
Bharat Petroleum	753	ADD	272,222	6,158	362	58.6	57.0	65.4	230	(3)	14.8	13	13	11.5	7.1	6.8	6.3	2.0	1.8	1.6	1.9	2.5	2.9	14.9	13.3	13.8	855	13.6	31.5
Cairn India	340	RS	644,402	14,578	1,897	5.5	20.5	36.6	29.0	270.1	78.3	61.3	16.6	9.3	48.2	9.9	6.0	1.9	1.7	1.5	—	—	4.4	3.1	10.7	17.2	—	—	32.2
Castrol India (a)	506	SELL	125,161	2,831	247	15.4	20.7	21.2	45	34	2.4	33	24	23.9	19.6	15.2	14.7	27.2	25.5	24.2	2.5	3.3	3.4	83.8	107.4	103.7	380	(24.9)	2.3
GAIL (India)	484	BUY	613,564	13,880	1,268	24.8	26.8	40.3	11.7	8.2	50.4	19.5	18.1	12.0	11.0	10.9	8.5	3.4	3.0	2.5	1.6	1.8	2.6	17.4	16.6	21.7	550	13.7	17.2
GSPL	117	SELL	65,638	1,485	562	7.3	7.1	8.0	233	(3)	12.6	16	17	14.7	8.0	7.9	6.6	3.9	3.2	2.9	0.9	1.5	2.7	27.1	21.2	20.6	83	(28.9)	5.3
Hindustan Petroleum	514	BUY	174,387	3,945	339	51.6	52.1	58.5	204.2	1.0	12.4	10.0	9.9	8.8	3.6	3.3	3.0	1.3	1.2	1.1	2.3	3.2	3.6	13.1	11.9	12.1	625	21.5	33.8
Indian Oil Corporation	425	ADD	1,030,786	23,318	2,428	49.1	37.9	41.9	399	(23)	10.7	9	11	10.1	6.2	6.3	5.6	1.9	1.7	1.6	3.1	2.7	3.0	22.4	15.3	15.4	480	13.1	14.8
Oil India	1,490	REDUCE	358,349	8,107	240	115.2	131.9	149.0	13.9	14.6	12.9	12.9	11.3	10.0	6.0	4.5	3.9	2.4	2.1	1.9	2.3	3.0	3.4	16.8	17.9	17.9	1,550	4.0	4.2
Oil & Natural Gas Corporation	1,384	BUY	2,960,861	66,980	2,139	90.3	116.4	136.7	(1)	29	17.5	15	12	10.1	5.4	4.7	4.1	2.2	2.0	1.8	2.4	3.0	3.5	14.4	16.8	17.7	1,500	8.4	33.9
Petronet LNG	113	SELL	84,488	1,911	750	5.4	6.5	7.9	(22.0)	20.5	21.8	20.9	17.3	14.2	11.9	10.1	8.9	3.3	2.8	2.5	1.6	1.8	2.4	15.9	16.7	17.6	88	(21.9)	8.7
Reliance Industries	1,039	REDUCE	3,092,510	69,958	2,976	49.6	57.7	74.4	(2)	16	28.9	21	18	14.0	10.6	8.4	6.9	2.1	1.9	1.7	0.7	0.8	1.0	11.4	12.1	13.9	1,015	(2.3)	126.6
Energy		Cautious	9,460,501	214,014					36.6	15.9	23.9	15.8	13.6	11.0	7.7	6.6	5.5	2.2	2.0	1.7	1.6	1.9	2.6	13.7	14.3	15.8			
Industrials																													
ABB	935	REDUCE	198,198	4,484	212	16.7	18.3	33.1	(35.2)	9.3	80.7	55.9	51.1	28.3	32.1	29.5	16.5	8.2	7.2	5.9	0.2	0.3	0.4	15.6	15.0	23.0	725	(22.5)	5.8
BGR Energy Systems	790	BUY	56,909	1,287	72	16.0	28.0	41.1	32.2	74.4	46.9	49.3	28.3	19.2	27.7	16.3	11.5	10.1	8.1	6.1	0.4	0.9	1.0	22.3	31.7	36.1	950	20.2	4.5
Bharat Electronics	1,875	REDUCE	149,984	3,393	80	96.1	105.9	120.3	(7.4)	10.2	13.6	19.5	17.7	15.6	9.3	8.2	6.9	3.3	2.9	2.6	1.0	1.3	1.3	17.5	17.7	17.6	1,800	(4.0)	3.3
Bharat Heavy Electricals	2,606	REDUCE	1,275,493	28,854	490	87.9	114.3	135.5	37.7	30.0	18.5	29.6	22.8	19.2	16.7	12.9	10.7	8.0	6.3	5.1	0.7	0.9	1.1	29.8	31.1	29.3	2,600	(0.2)	31.0
Crompton Greaves	334	REDUCE	214,133	4,844	642	12.8	14.0	16.3	46.5	9.0	16.6	26.0	23.8	20.4	15.1	13.4	11.3	8.5	6.6	5.2	0.4	0.6	0.6	37.9	31.1	28.2	320	(4.1)	9.2
Larsen & Toubro	2,037	ADD	1,226,531	27,746	602	57.9	71.7	89.0	15.6	23.8	24.1	35.1	28.4	22.9	19.4	15.3	12.8	5.5	4.6	3.9	0.6	0.6	0.7	18.6	17.7	18.5	2,075	1.9	52.6
Maharashtra Seamless	407	BUY	28,730	650	71	40.2	43.6	49.8	12.1	8.5	14.2	10.1	9.3	8.2	5.4	4.7	3.8	1.8	1.6	1.4	1.5	1.9	2.4	19.3	17.9	17.7	450	10.5	0.7
Siemens	820	REDUCE	276,522	6,255	337	25.2	27.0	31.9	56.4	7.3	18.0	32.6	30.4	25.7	20.1	18.3	15.2	8.1	6.7	5.6	0.6	0.6	0.8	27.6	24.2	23.8	635	(22.6)	

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	7-Oct-10		Mkt cap.		shares O/S (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)		2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E			
Infrastructure																													
Container Corporation	1,324	REDUCE	172,048	3,892	130	61.1	74.3	85.9	0.3	21.7	15.6	21.7	17.8	15.4	15.3	12.4	10.4	4.0	3.4	2.9	1.1	1.3	1.5	19.6	20.6	20.5	1,250	(5.6)	2.6
GMR Infrastructure	59	ADD	216,170	4,890	3,667	0.4	0.2	0.1	(43.8)	(48.9)	(40.0)	136.8	267.8	445.9	23.9	15.4	14.4	2.0	1.8	1.7	—	—	—	2.4	1.2	0.7	65	10.3	6.9
GVK Power & Infrastructure	47	BUY	73,907	1,672	1,579	0.8	1.1	1.4	6.7	33.5	32.4	57.5	43.1	32.5	19.2	17.5	17.9	2.3	2.2	2.1	—	0.6	0.6	4.7	5.3	6.7	54	15.4	6.7
IRB Infrastructure	269	RS	89,356	2,021	332	9.7	12.6	12.1	83.8	29.2	(3.7)	27.6	21.4	22.2	13.1	11.7	10.9	3.9	3.0	2.4	—	—	—	15.6	15.7	11.9	—	—	14.7
Mundra Port and SEZ	181	REDUCE	365,259	8,263	2,017	3.3	4.3	7.0	55.7	28.9	63.7	54.2	42.1	25.7	40.0	26.3	18.5	10.3	8.6	6.7	—	—	—	20.8	22.3	29.3	150	(17.1)	7.1
Infrastructure		Attractive	916,740	20,738					16.3	20.5	28.4	44.1	36.1	28.5	22.9	16.9	14.5	3.8	3.3	3.0	—	0.3	0.3	8.7	9.0	10.4			
Media																													
DB Corp	276	BUY	50,065	1,133	182	10.6	13.0	15.7	286.5	22.4	21.0	25.9	21.2	17.5	14.4	11.9	9.8	7.7	6.2	5.4	0.7	1.1	1.5	40.3	32.6	33.2	290	5.2	0.6
DishTV	55	ADD	58,540	1,324	1,063	(2.5)	(1.8)	0.1	(62.0)	(28.8)	(107.4)	(22.1)	(31.0)	420.9	72.1	28.9	15.2	14.2	26.4	24.8	—	—	—	249.3	(59.7)	6.1	47	(14.6)	3.7
HT Media	165	NR	38,775	877	235	6.1	7.7	9.2	623.3	25.9	19.8	27.0	21.5	17.9	13.5	11.3	9.4	4.0	3.6	3.2	0.6	1.2	2.4	15.6	17.5	18.9	—	—	0.5
Jagran Prakashan	139	BUY	41,845	947	301	5.8	6.6	7.7	92.0	13.4	17.0	23.8	21.0	17.9	14.4	12.2	10.4	6.8	6.2	5.7	2.5	2.9	3.6	30.0	31.1	33.3	145	4.4	1.9
Sun TV Network	521	REDUCE	205,158	4,641	394	13.1	18.0	22.5	44.8	36.9	25.2	39.6	28.9	23.1	22.5	16.7	13.5	10.6	8.9	7.4	1.4	1.4	1.7	28.4	33.7	35.1	420	(19.3)	3.6
Zee Entertainment Enterprises	295	REDUCE	128,062	2,897	435	10.6	11.8	14.8	25.7	11.0	25.2	27.7	25.0	20.0	20.3	16.4	12.7	3.3	3.2	3.1	0.8	1.0	1.3	12.8	13.2	16.0	300	1.8	13.0
Media		Neutral	522,445	11,819					186.0	35.6	38.2	42.9	31.7	22.9	20.6	15.8	12.4	6.2	5.7	5.2	1.1	1.2	1.6	14.8	18.1	22.7			
Metals																													
Hindalco Industries	212	ADD	405,385	9,171	1,914	20.0	14.5	16.3	25.0	(27.4)	12.7	10.6	14.6	13.0	6.1	8.2	8.4	1.9	1.7	1.5	0.6	0.6	0.6	20.4	12.2	12.3	225	6.2	31.8
Hindustan Zinc	1,196	BUY	505,137	11,427	423	95.6	102.5	116.0	48.2	7.2	13.1	12.5	11.7	10.3	8.3	6.7	4.8	2.7	2.2	1.8	0.5	0.5	0.5	24.1	20.8	19.4	1,240	3.7	4.8
Jindal Steel and Power	736	REDUCE	685,388	15,505	931	38.4	50.9	56.0	17.3	32.7	9.9	19.2	14.5	13.1	13.1	9.5	8.0	6.1	4.2	3.2	0.2	0.3	0.3	37.8	34.9	28.0	625	(15.1)	23.5
JSW Steel	1,371	REDUCE	345,841	7,824	252	80.4	71.9	112.2	481.1	(10.6)	56.1	17.1	19.1	12.2	12.1	10.0	6.8	3.2	1.9	1.5	0.5	0.7	0.7	16.0	12.5	13.6	1,150	(16.1)	41.8
National Aluminium Co.	415	SELL	267,292	6,047	644	12.6	14.3	17.3	(34.9)	13.3	20.5	32.8	29.0	24.0	15.7	13.0	10.7	2.6	2.4	2.3	0.6	1.2	1.2	8.1	8.6	9.8	260	(37.3)	1.7
Sesa Goa	354	REDUCE	315,133	7,129	890	29.6	58.6	46.3	23.5	98.4	(21.0)	12.0	6.0	7.6	9.9	4.2	4.1	3.9	2.4	1.9	1.0	1.0	1.0	35.8	41.5	23.7	340	(4.0)	46.1
Sterlite Industries	176	ADD	591,651	13,384	3,362	12.0	13.7	18.7	2.8	13.6	36.7	14.6	12.9	9.4	9.4	8.1	5.0	1.6	1.4	1.3	0.5	0.5	0.5	12.9	11.7	14.2	200	13.6	36.9
Tata Steel	650	REDUCE	594,092	13,439	914	(3.6)	66.5	70.0	(103.6)	(1,968.8)	5.2	(182.5)	9.8	9.3	11.5	6.2	5.9	2.6	1.9	1.6	1.2	1.2	—	(1.5)	22.4	18.8	650	0.0	104.8
Metals		Cautious	3,709,920	83,925					(19.7)	50.9	11.5	18.4	12.2	10.9	10.0	7.5	6.3	2.6	2.1	1.8	0.6	0.7	0.5	14.3	17.2	16.0			
Pharmaceutical																													
Apollo Hospitals	516	BUY	66,393	1,502	129	10.9	14.1	17.8	28.8	28.4	26.5	47.1	36.7	29.0	22.7	16.6	13.9	4.0	3.8	3.3	—	—	—	8.3	9.8	11.4	72	(86.0)	2.0
Biocon	402	BUY	80,330	1,817	200	14.8	17.8	22.0	216.4	19.8	23.7	27.1	22.6	18.3	15.7	13.1	11.0	4.5	3.9	3.3	—	—	—	17.9	18.8	20.0	400	(0.4)	6.1
Cipla	331	REDUCE	265,887	6,015	803	13.7	14.0	16.6	38.1	1.9	19.2	24.2	23.7	19.9	17.3	15.9	13.5	4.5	3.9	3.4	0.6	0.8	0.8	21.1	17.6	18.2	295	(10.9)	10.6
Cadila Healthcare	683	REDUCE	139,792	3,162	205	24.7	33.2	37.7	66.9	34.2	13.7	27.6	20.6	18.1	17.9	13.8	12.2	8.6	6.4	5.1	0.7	1.0	1.1	36.0	35.8	31.3	580	(15.0)	2.0
Dishman Pharma & chemicals	184	ADD	14,961	338	81	14.4	17.8	22.8	(19.7)	23.7	28.0	12.7	10.3	8.1	9.6	7.8	6.1	1.9	1.6	1.4	—	—	—	15.5	16.8	18.3	230	25.0	0.8
Dwi's Laboratories	719	REDUCE	93,884	2,124	131	26.1	34.0	44.9	(18.2)	30.4	32.1	27.6	21.2	16.0	20.4	15.6	11.2	6.2	5.1	4.1	—	—	—	24.7	26.4	28.5	800	11.3	3.2
Dr Reddy's Laboratories	1,553	REDUCE	263,072	5,951	169	48.1	66.7	70.8	48.3	38.8	6.1	32.3	23.3	21.9	17.8	13.5	12.6	7.0	5.5	4.5	0.4	0.5	0.6	22.2	26.3	22.6	1,150	(25.9)	17.0
GlaxoSmithkline Pharmaceuticals (a)	2,275	REDUCE	192,704	4,359	85	59.1	69.7	79.2	8.1	18.0	13.5	38.5	32.6	28.7	22.4	19.0	16.4	10.8	9.2	7.8	—	—	—	29.8	30.4	29.4	1,880	(17.4)	2.1
Glenmark Pharmaceuticals	314	NR	85,992	1,945	274	12.7	19.2	20.3	14.7	50.6	5.6	24.6	16.4	15.5	15.5	10.1	9.7	3.7	3.0	2.6	0.0	0.0	0.0	16.7	19.9	17.6	—	—	6.0
Jubilant Organosys	329	BUY	52,229	1,182	159	26.5	31.8	38.9	49.0	19.8	22.4	12.4	10.3	8.5	9.2	8.3	6.6	2.3	1.9	1.6	0.6	0.8	0.9	26.3	21.7	21.1	400	21.6	2.0
Lupin	407	ADD	180,078	4,074	442	15.4	19.8	25.5	27.9	28.7	26.4	20.5	16.0	22.5	16.3	12.9	7.8	7.3	6.4	3.2	3.6	3.8	36.6	37.2	43.6	400	(1.7)	8.7	
Piramal Healthcare	519	REDUCE	108,520	2,455	209	22.4	13.3	9.5	29.7	(40.4)	(28.9)	23.2	38.9	54.7	16.8	7.6	6.0	6.4	1.2	1.0	1.0	1.2	0.7	30.7	140.7	16.5	490	(5.6)	27.6
Ranbaxy Laboratories	577	SELL	247,358	5,596	428	7.1	27.5	14.8	(128.4)	289.4	(46.0)	81.7	21.0	38.9	19.7	12.0	20.0	6.3	4.5	4.1	—	0.7	0.7	6.9	22.9	10.5	340	(41.1)	14.1
Sun Pharmaceuticals	2,039	REDUCE	422,245	9,552	207	65.2	90.4	87.4	(25.7)	38.6	(3.3)	31.3	22.6	23.3	24.1	16.9	16.4	5.1	4.3	3.7	0.7	0.7	0.7	17.8	21.0	17.3	1,835	(10.0)	9.0
Pharmaceuticals		Attractive	2,213,445	50,072					45.2	33.9	4.8	30.0	22.4	21.4	18.6	13.9	13.1	5.6	4.0	3.4	0.6	0.8	0.8	18.6	18.0	16.1			
Property																													
DLF	381	ADD	651,416	14,736	1,708	10.7	16.3	25.1	(60.0)	53.1	53.8	35.8	23.4	15.2	23.8	15.2	11.5	2.4	2.2	2.0	0.8	0.8	1.3	7.1	9.9	13.8	378	(0.9)	50.9
Housing Development & Infrastructure	279	ADD	107,371	2,429	385	12.4	14.2	16.7	(41.2)	14.2	17.9	22.5	19.7	16.7	11.1	12.6	8.3	1.5	1.3	1.2	1.0	1.8	1.8	10.0	9.3	9.9	311		

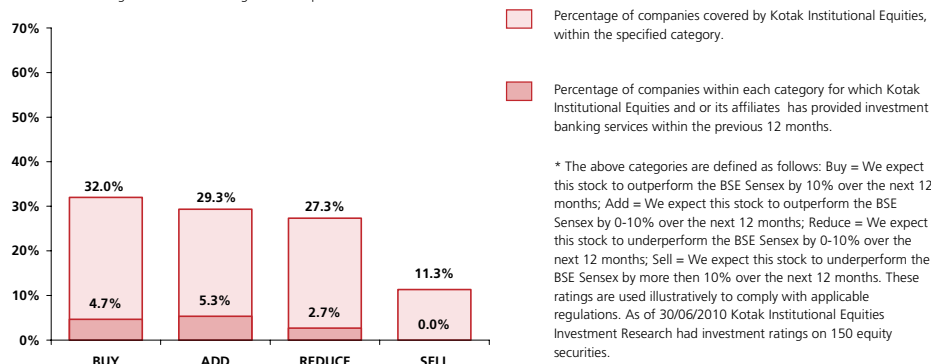
Kotak Institutional Equities: Valuation summary of key Indian companies

Company	7-Oct-10		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)		2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E			
Retail																													
Titan Industries	3,365	ADD	149,372	3,379	44	57.3	83.9	110.9	29.3	46.5	32.2	58.8	40.1	30.4	37.4	27.0	20.6	20.3	14.2	10.1	0.4	0.4	0.4	38.7	41.7	38.8	3,600	7.0	13.3
Retail		Neutral	149,372	3,379					29.3	46.5	32.2	58.8	40.1	30.4	37.4	27.0	20.6	20.3	14.2	10.1	0.4	0.4	0.4	38.7	41.7	38.8	3,600	7.0	13.3
Sugar																													
Bajaj Hindustan	132	SELL	25,345	573	191	4.9	9.9	8.9	52.3	101.0	(9.9)	26.9	13.4	14.9	8.7	6.3	6.0	1.1	1.0	0.9	0.5	0.5	0.5	4.2	7.9	6.5	99	(25.3)	5.1
Balrampur Chini Mills	94	ADD	24,084	545	257	4.3	10.4	7.0	(43.2)	140.4	(32.7)	21.6	9.0	13.4	9.7	6.0	6.6	1.7	1.5	1.4	0.5	0.5	0.5	8.2	17.9	10.9	93	(0.9)	4.9
Shree Renuka Sugars	84	BUY	55,962	1,266	670	9.9	7.7	8.1	195.3	(21.9)	4.7	8.5	10.9	10.4	5.2	6.1	5.3	1.9	1.6	1.4	0.5	0.4	0.4	22.4	17.0	14.8	76	(9.0)	13.8
Sugar		Cautious	105,391	2,384					80.0	12.4	(8.4)	12.2	10.8	11.8	7.0	6.1	5.8	1.6	1.4	1.2	0.5	0.5	0.5	13.1	12.8	10.5			
Technology																													
HCL Technologies	430	REDUCE	296,562	6,709	690	17.5	24.5	30.1	0.2	39.7	23.0	24.5	17.6	14.3	11.9	10.5	8.6	4.2	3.6	3.1	0.9	0.9	1.4	19.3	22.0	21.2	390	(9.3)	9.4
Hexaware Technologies	78	REDUCE	11,190	253	144	9.3	5.0	9.4	127.7	(46.3)	87.7	8.3	15.5	8.3	4.1	9.7	4.9	1.3	1.2	1.1	1.3	1.3	1.3	17.8	8.2	14.0	72	(7.6)	1.9
Infosys Technologies	3,053	BUY	1,752,680	39,649	574	108.3	124.1	150.0	5.7	14.5	20.9	28.2	24.6	20.4	20.7	17.0	13.8	7.6	6.3	5.2	0.8	1.1	1.4	30.1	28.0	28.0	3,100	1.5	63.9
Mphasis BFL	653	SELL	137,518	3,111	211	43.6	50.3	45.6	207.5	15.5	(9.3)	15.0	13.0	14.3	12.0	10.4	9.8	5.9	4.2	3.3	0.5	0.6	0.7	48.1	37.5	25.8	550	(15.7)	6.7
Mindtree	515	REDUCE	21,199	480	41	52.2	32.6	51.6	294.3	(37.5)	58.1	9.9	15.8	10.0	8.5	9.0	5.9	3.2	2.6	2.1	0.4	0.6	1.0	35.2	19.2	23.7	550	6.8	1.0
Patni Computer Systems	447	REDUCE	59,481	1,346	133	36.6	41.3	37.5	36.4	12.8	(9.1)	12.2	10.8	11.9	5.9	5.1	4.2	1.6	1.5	1.4	1.6	1.8	1.7	18.2	15.1	12.4	450	0.8	14.0
Polaris Software Lab	173	SELL	17,248	390	100	15.4	19.1	18.8	16.9	24.3	(1.7)	11.3	9.1	9.2	5.5	7.2	6.1	2.0	1.7	1.5	2.0	2.1	2.3	18.6	20.1	17.2	180	4.0	4.6
Satyam Computer Services	86	REDUCE	101,489	2,296	1,176	2.5	5.0	5.4	(190.7)	102.3	7.0	34.7	17.2	16.0	17.5	11.2	8.3	5.4	5.7	4.2	—	—	—	58.5	32.2	30.0	80	(7.3)	37.1
TCS	949	BUY	1,856,991	42,009	1,957	35.1	42.1	48.2	32.8	19.8	14.5	27.0	22.6	19.7	20.5	16.5	13.8	8.9	7.3	6.1	2.1	1.8	2.0	37.6	35.6	33.9	965	1.7	36.0
Tech Mahindra	764	REDUCE	94,647	2,141	124	65.1	68.9	67.8	(9.6)	5.7	(1.5)	11.7	11.1	11.3	9.4	11.5	10.2	3.3	2.7	2.2	0.5	0.3	0.3	29.5	20.3	16.2	735	(3.8)	8.8
Wipro	458	ADD	1,119,839	25,333	2,447	18.9	22.3	25.7	22.1	18.1	15.6	24.3	20.6	17.8	18.4	14.9	12.3	5.7	4.7	3.9	0.8	1.0	1.2	26.5	25.0	23.7	465	1.6	13.3
Technology		Attractive	5,468,845	123,716					24.0	18.4	15.1	24.8	21.0	18.2	17.9	15.0	12.4	6.5	5.4	4.5	1.2	1.3	1.5	26.3	25.9	24.8			
Telecom																													
Bharti Airtel	355	REDUCE	1,347,578	30,485	3,798	23.6	20.0	20.7	5.8	(15.6)	3.9	15.0	17.8	17.1	8.5	9.1	7.4	3.2	2.7	2.3	—	—	—	24.4	16.5	14.7	305	(14.0)	50.1
IDEA	72	REDUCE	238,081	5,386	3,300	2.7	2.2	1.5	(5.8)	(19.7)	(30.8)	26.4	32.9	47.6	8.9	9.7	8.3	2.1	2.0	1.9	—	—	—	7.2	6.2	4.2	55	(23.8)	12.2
MTNL	66	SELL	41,643	942	630	(15.6)	(10.4)	(9.1)	(750.8)	(33.7)	(11.9)	(4.2)	(6.4)	(7.2)	(0.5)	(0.7)	(0.9)	0.4	0.4	0.4	—	—	—	(8.5)	(6.1)	(5.7)	50	(24.4)	2.3
Reliance Communications	178	SELL	379,908	8,594	2,133	22.1	6.0	9.4	(30.2)	(72.8)	56.1	8.1	29.7	19.0	7.3	9.9	8.2	1.0	0.9	0.9	0.4	—	—	11.7	3.2	4.9	125	(29.8)	22.1
Tata Communications	332	REDUCE	94,506	2,138	285	14.0	15.2	15.7	3.2	8.2	3.5	23.7	21.9	21.1	9.6	8.9	8.4	1.3	1.3	1.3	2.0	2.3	2.6	5.2	5.5	5.5	225	(32.1)	3.3
Telecom		Cautious	2,101,716	47,545					(15.9)	(33.1)	9.5	14.8	22.2	20.2	8.6	9.5	7.9	1.9	1.8	1.6	0.2	0.1	0.1	12.8	7.9	8.0			
Utilities																													
Adani Power	137	ADD	298,878	6,761	2,180	0.8	4.8	19.1	NM	510.9	298.8	175.0	28.6	7.2	142.5	23.8	6.6	5.2	4.4	2.7	—	—	—	4.2	16.6	46.7	143	4.3	5.2
CESC	397	ADD	49,643	1,123	125	35.2	37.3	44.3	9.3	5.7	18.9	11.3	10.7	9.0	7.1	6.0	6.4	1.2	1.1	1.0	1.1	1.2	1.4	11.1	10.4	11.3	466	17.3	2.8
Lanco Infratech	71	BUY	170,996	3,868	2,405	2.1	4.1	5.4	46.6	92.8	30.4	33.4	17.3	13.3	17.4	9.4	7.9	5.1	4.0	3.1	—	—	—	17.4	23.9	24.2	83	16.7	6.3
NHPC	33	SELL	410,230	9,280	12,301	1.9	1.4	1.7	74.9	(25.2)	19.7	18.0	24.1	20.1	11.4	12.0	9.3	1.6	1.6	1.5	1.6	1.1	1.3	9.7	6.6	7.6	28	(16.0)	7.6
NTPC	215	REDUCE	1,773,187	40,113	8,245	10.8	12.5	14.7	9.6	16.2	17.4	20.0	17.2	14.7	15.2	13.2	11.0	2.8	2.5	2.3	1.9	2.2	2.6	14.5	15.4	16.6	210	(2.3)	12.6
Reliance Infrastructure	1,088	ADD	267,776	6,058	246	61.8	65.0	84.5	(1.5)	5.3	30.0	17.6	16.7	12.9	18.9	16.7	11.7	1.4	1.3	1.2	0.8	0.9	0.9	6.3	7.3	10.1	1,160	6.6	30.1
Reliance Power	166	SELL	397,621	8,995	2,397	2.9	3.1	5.3	179.7	9.8	70.0	58.1	53.0	31.1	(535.2)	234.1	36.4	2.7	2.6	2.4	—	—	—	4.8	5.1	8.1	135	(18.6)	9.1
Tata Power	1,438	ADD	355,010	8,031	247	60.2	69.2	88.5	20.1	15.0	27.8	23.9	20.8	16.3	14.6	13.1	11.2	2.7	2.5	2.2	0.8	1.0	1.0	12.9	12.5	14.3	1,420	(1.3)	12.2
Utilities		Attractive	3,723,341	84,229					23.8	16.9	38.3	23.5	20.1	14.6	18.2	15.3	11.0	2.5	2.3	2.1	1.2	1.3	1.6	10.6	11.4	14.1			
Others																													
Havells India	851	SELL	51,176	1,158	60	5.3	31.6	45.0	3.7	497.9	42.6	161.0	26.9	18.9	21.0	13.0	10.7	14.1	9.3	6.3	0.3	0.3	0.3	6.6	41.6	39.7	497	(41.6)	9.5
Jaiprakash Associates	135	BUY	287,711	6,509	2,129	1.5	5.5	7.4	(27.2)	279.8	34.1	92.8	24.4	18.2	22.6	16.5	11.7	3.4	2.9	2.5	—	—	—	4.1	12.8	14.9	170	25.8	26.7
Jindal Saw	213	ADD	62,564	1,415	294	25.0	18.6	17.9	110.8	(25.4)	(4.0)	8.5	11.4	11.9	5.5	6.3	6.1	1.6	1.4	1.2	0.4	0.4	0.4	20.5	12.9	11.1	256	20.4	3.4
PSL	120	BUY	6,439	146	53	22.9	25.4	28.2	3.3	10.6	11.0	5.2	4.7	4.3	3.1	2.5	2.7	0.7	0.6	0.6	5.4	5.4	5.8	12.6	11.7	12.0	182	51.1	1.0
Sintex	431	BUY	58,775	1,330	136	24.1	28.3	33.3	0.5	17.4	17.5	17.9	15.2	12.9	14.1	9.8	8.4	2.8	2.3	2.0	0.3	0.3	0.3	15.5	15.3	15.2	380	(11.8)	7.5
Tata Chemicals	412	REDUCE	100,270	2,268	243	26.4	35.1	39.2	(27.1)	32.9	11.7	15.6	11.7	10.5	7.6	6.1	5.1	2.1	1.8	1.6	2.2	2.3							

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