kotak® Institutional Equities

INDIA DAILY

August 11, 2010

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Updates

GAIL (India): Hail of spots to sail GAIL

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News Round-up

- ONGC (ONGC IN) has proposed to Russian oil company Rosneft that the two jointly bid for strategic Trebs and Titov fields in the Arctic north. *(BSTD)*
- The Rajasthan government has agreed to take 26% stake in a refinery proposed to be set up in the state by ONGC (ONGC IN). The Rajasthan government has been pressing for a 9-12 mn tonne refinery at Barmer after Cairn India (CAIR IN) found 6.5 bn barrels of reserves that can produce 175,000 barrels per day (8.75 mn tons a year) of oil at plateau. *(BSTD)*
- Reliance Industries Ltd (RIL IN) announced that it had re-opened its extensive fuel retail network across Kerala. The retail networks were closed before deregulations of pricing. *(BSTD)*
- GMR Infrastructure (GMRI IN) gets USD 1 bn offer for InterGen stake. *(BSTD)*
- Three groups, including M&M (MM IN) and the Ruia Group, have made binding offers to buy the troubled South Korean car maker Ssangyong Motor Company. *(BSTD)*
- GE, Siemens, Alstom and Bombardier have been shortlisted for setting up a USD 426 mn electric locomotive manufacturing unit at Madhepura in Bihar. *(BSTD)*
- Aban Offshore (ABAN IN) has won a USD 494mn contract from Brazilian firm Petrobras for deployment of its drillship Aban Abraham offshore Brazil for 5 years. *(ECNT)*
- DLF (DLFU IN) in talks to refinance USD 300 mn ECB at 7%. *(FNLE)*
- Motherson Sumi (MSS IN) to invest USD 65 mn for capacity expansion in India. *(THBL)*
- Glenmark Generics has received final approval form USFDA to sell anti-inflammatory skin ointment, mometasone furorate in the American market. *(ECNT)*
- Lupin (LPC IN) & Ranbaxy Lab (RBXY IN), along with its parent Daiichi Sankyo have slapped patent infringement charges against each other to stop one another from launching low-cost versions of their respective original drugs in the US. *(ECNT)*

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

EQUITY MARKETS

		Change %		
India	**10-Aug**	**1-day**	**1-mo**	**3-mo**
Sensex	18,220	(0.4)	2.2	6.3
Nifty	5,461	(0.5)	2.0	6.3
Global/Regional indices				
Dow Jones	10,644	(0.5)	4.4	(1.0)
Nasdaq Composite	2,277	(1.2)	3.7	(4.1)
FTSE	5,376	(0.6)	4.7	0.8
Nikkie	9,332	(2.3)	(2.6)	(10.4)
Hang Seng	21,542	0.3	5.7	6.9
KOSPI	1,764	(0.9)	2.4	5.6
Value traded – India				
Cash (NSE+BSE)	203		172	169
Derivatives (NSE)	771		663	989
Deri. open interest	1,571		1,387	1,266

Forex/money market				
		Change, basis points		
	10-Aug	**1-day**	**1-mo**	**3-mo**
Rs/US$	46.4	27	(38)	154
10yr govt bond, %	7.8	3	19	15
Net investment (US$mn)				
	9-Aug		**MTD**	**CYTD**
FIIs	(13)		710	11,187
MFs	(70)		(135)	(282)

Top movers -3mo basis				
		Change, %		
Best performers	**10-Aug**	**1-day**	**1-mo**	**3-mo**
HPCL IN Equity	451.9	1.3	(7.5)	37.9
BHFC IN Equity	343.6	(0.3)	4.0	30.6
BOI IN Equity	435.9	(0.6)	16.5	29.7
APNT IN Equity	2667.0	0.2	11.9	28.9
BJAUT IN Equity	2650.5	(2.0)	9.5	24.7
Worst performers				
RNR IN Equity	39.4	(0.8)	(12.3)	(21.6)
PUNJ IN Equity	119.9	(0.2)	(13.6)	(20.3)
FTECH IN Equity	1210.8	(0.0)	(11.4)	(15.9)
ABAN IN Equity	880.4	(3.5)	1.4	(15.4)
IH IN Equity	96.9	(1.0)	(9.1)	(14.7)

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Tata Motors (TTMT)

Automobiles

ADD

AUGUST 11, 2010

RESULT

Coverage view: Cautious

Price (Rs): 957

Target price (Rs): 1,150

BSE-30: 18,220

In full throttle. Tata Motors reported 1QFY11 standalone EBITDA of Rs11.6 bn and JLR EBITDA of £350 mn, beating estimates handily. The upside on the standalone results were driven by lower other expenses, which came down to normalized 14% of sales from a 16% rate seen in 4QFY10. 15% EBITDA margin at JLR was driven by a 6.5% sequential increase in realizations, driven by better mix and favorable currency. Maintaining ADD with a Rs1,150 target.

Company data and valuation summary

Tata Motors

Stock data			
52-week range (Rs) (high,low)			967-393
Market Cap. (Rs bn)			599.5
Shareholding pattern (%)			
Promoters			37.0
FIIs			34.2
MFs			2.7
Price performance (%)	**1M**	**3M**	**12M**
Absolute	24.2	19.7	122.4
Rel. to BSE-30	21.6	12.6	84.0

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	23.8	27.1	35.0
EPS growth (%)	137.8	13.5	29.4
P/E (X)	40.2	35.4	27.4
Sales (Rs bn)	355.9	419.0	467.6
Net profits (Rs bn)	13.6	16.9	20.6
EBITDA (Rs bn)	40.4	44.7	50.9
EV/EBITDA (X)	18.9	17.1	14.8
ROE (%)	8.6	8.6	9.1
Div. Yield (%)	1.4	0.6	0.6

Standalone results beat expectations on sharper-than-expected drop in other expenses

Tata Motors reported standalone EBITDA of Rs11.6 bn for 1QFY11 compared to our estimate of Rs10 bn. EBITDA margin for the quarter came in at 11% compared to our estimate of 9.7%. EBITDA margins for 1QFY11 were 200 bps higher than 4QFY10 levels as other expenses returned to within its normalized range at 13.5%. Raw material costs were flat on a qoq basis at 70.5% and 50 bps lower than we expected. Realizations for the quarter were 3% below 4QFY10 levels, driven by the increasing Nano sales. The company reported adjusted standalone PAT of Rs3.96 bn versus our estimate of Rs3.5 bn. PAT numbers had more upside considering the Rs660 mn of forex valuation loss.

Currency benefits and geographic mix drive Jaguar Land Rover (JLR) realizations and EBITDA upside.

JLR reported EBITDA of £350 mn compared to our estimate of £290 mn. The upside was largely driven by better-than-expected realizations. Revenue per unit for quarter was up 6.5% on a qoq basis, primarily driven by a depreciating GBP against the USD. We estimate that a weaker GBP probably helped realizations by up to 3% and the rest of the qoq increase was driven by better product and geographical mix. Some impact of the redesigned XJ would have also been felt, but the full impact of the launch would be seen only in the current quarter.

Maintaining standalone EPS estimates while raising earnings for Jaguar Land Rover

We are raising our EBITDA estimate for JLR to £1.1 bn from £990 mn prior, largely driven by better realizations. We remain below the Rs1.4 bn annualized rate implied by the Rs350 mn 1QFY11 EBITDA as the favorable currency movements have reversed lately. Our EBITDA margin estimate for FY2011E is 12% compared to the 15.5% reported in 1QFY11. We are maintaining our FY2011E and FY2012E standalone EPS estimates at Rs27 from Rs35 as a higher EBITDA estimate was offset by higher interest expense. We are now assuming EBITDA margin of 10.9% in FY2011E compared to 11.3% for FY2010 and 12.3% for the first three quarters of FY2010. Our FY2011E standalone EPS reflects 24% revenue growth translating into a 19% EBITDA growth. Our FY2012E EPS estimate remains at Rs35.

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Income and cash flow statement of JLR, March fiscal year-ends, 2009-2012E (GBP in mn)

Income statement	1QFY11	1QFY11E	4QFY10	1QFY11E	4QFY10	FY2009	FY2010	FY2011E	FY2012E
Volumes (000s)	59	57	57	3.6	3.7	167	194	252	277
Sales	**2,262**	**2,112**	**2,048**	**7.1**	**10.4**	**4,974**	**6,554**	**9,293**	**10,223**
RPU	38,209	36,955	35,878	3.4	6.5	29,784	33,502	36,853	36,853
Cost of sales	**1,912**	**1,820**	**1,814**	**5.1**	**5.4**	**5,018**	**6,122**	**8,189**	**8,974**
Materials	1,393	1,315	1,300	6.0	7.2	3,296	4,439	6,146	6,760
Labor	191	195	175	(2.1)	9.1	569	730	803	879
Mnfrng costs and SG&A	328	310	339	5.8	(3.2)	1,153	953	1,240	1,334
D&A	87	90	66	(3.3)	32.8	170	310	360	396
R&D	11	13	20	(12.0)	(45.0)	39	48	50	50
EBIT	**252**	**190**	**149**	**32.8**	**69.7**	**(253)**	**74**	**694**	**803**
EBITDA	**350**	**292**	**234**	**19.7**	**49.6**	**(44)**	**432**	**1,104**	**1,249**
EBITDA margin (%)	*15.5*	*13.8*	*11.4*			*(0.9)*	*6.6*	*11.9*	*12.2*

Source: Company, Kotak Institutional Equities estimates

Valuation: Raising target to Rs1,150 as we move to FY2012E earnings

Our Rs1,150 target is based on an 8X multiple for Tata Motors' standalone EBITDA and 6X for JLR EBITDA. We adjust JLR's EBITDA estimate for the capitalized R&D to arrive at our EV. We assign an Rs515 equity value for the standalone business, Rs535 for JLR and Rs100 for subsidiaries.

Interim results of Tata Motors (standalone), March fiscal year-ends (Rs mn)

					(% chg.)					
	1QFY11	1QFY11E	1QFY10	4QFY10	1QFY11E	1QFY10	4QFY10	2011E	2010	(%chg)
Net sales	**104,163**	**103,626**	**64,046**	**122,297**	**0.5**	**62.6**	**(14.8)**	**441,492**	**355,931**	**24.0**
Total expenditure	(92,606)	(93,575)	(56,878)	(110,918)	(1.0)	62.8	(16.5)	(393,301)	(315,588)	24.6
Inc/(Dec) in stock	4,584	1,000	1,920	(955)	358.4	138.7	(580.0)	2,116	6,066	(65.1)
Raw materials	(78,060)	(74,575)	(44,701)	(85,374)	4.7	74.6	(8.6)	(309,369)	(249,058)	24.2
Staff cost	(5,098)	(5,000)	(3,984)	(4,830)	2.0	28.0	5.5	(21,154)	(18,361)	15.2
Other expenditure	(14,032)	(15,000)	(10,114)	(19,759)	(6.5)	38.7	(29.0)	(64,894)	(54,235)	19.7
EBITDA	**11,557**	**10,052**	**7,168**	**11,379**	**15.0**	**61.2**	**1.6**	**48,191**	**40,343**	**19.5**
OPM (%)	**11.1**	**9.7**	**11.2**	**9.3**				**10.9**	**11.3**	
Other income	693	50	7	5	1,286.0	10,243.3	14,645	1,543	523	194.9
Interest	(3,140)	(2,700)	(2,535)	(2,786)	16.3	23.9	12.7	(12,747)	(11,038)	15.5
Depreciation	(3,074)	(2,900)	(2,291)	(2,772)	6.0	34.2	10.9	(13,656)	(10,339)	32.1
Pretax profits	**6,036**	**4,502**	**2,349**	**5,825**	**34.1**	**157.0**	**3.6**	**23,331**	**19,489**	**19.7**
Extraordinaries	(660)	-	3,132	2,371				5,286	8,807	
Tax	(1,419)	(990)	(343)	(2,226)	43.3	314.0	(36.2)	(6,296)	(5,895)	7
Net income	**3,957**	**3,511**	**5,138**	**5,971**	**12.7**	**(23.0)**	**(33.7)**	**22,321**	**22,401**	**(0.4)**
Adjusted PAT	**4,617**	**3,511**	**2,463**	**3,600**	**31.5**	**87.4**	**28.3**	**17,035**	**13,594**	**25.3**
Ratios										
RM to sales (%)	70.5	71.0	66.8	70.6				70.1	70.0	
EBITDA margin (%)	11.1	9.7	11.2	9.3				10.9	11.3	
Net profit margin (%)	3.8	3.4	8.0	4.9				3.9	3.8	
ETR (%)	26.4	22.0	6.3	27.2				27.0	30.2	
EPS (Rs)	6.9	6.3	9.2	10.2				27.2	22.8	
Other details										
Sales volumes (# vehicles)	190,304	187,711	127,340	216,643	1.4	49.4	(12.2)	857,349	667,971	28.4
Net sales realisation (Rs/vehicle)	**547,348**	**552,052**	**502,955**	**564,509**	**(0.9)**	**8.8**	**(3.0)**	**514,951**	**532,853**	**(3.4)**

Source: Company, Kotak Institutional Equities estimates

Tata Motors SOTP-based valuation, average FY11-12E basis (Rs mn)

	EBITDA (Rs mn)	Multiple (X)	Value (Rs mn)	Value per share (Rs)	Comments
Tata Motors standalone EV	55,710	8.0	445,684	781	based on 8.0X FY2012E EBITDA
JLR stadalone EV	60,431	6.0	362,586	635	based on 6.0X FY2012E EBITDA adjusted for capitalized R&D
Less: Net debt - standalone			151,234	265	standalone net debt
Less: Net debt - JLR			56,737	99	operating JLR debt
Total standalone + JLR			**600,299**	**1,052**	
Value of subsidiaries				104	
SOTP-based value				**1,157**	
Target price				**1,150**	

Source: Company, Kotak Institutional Equities estimates

Tata Motors standalone, profit model, balance sheet and cash flow model, March fiscal year-ends, 2007-12E (Rs mn)

	2007	2008	2009	2010E	2011E	2012E
Profit model (Rs mn)						
Net sales	272,618	285,219	253,541	353,738	441,492	501,600
EBITDA	**30,191**	**28,191**	**13,293**	**37,454**	**48,191**	**55,710**
Other income	4,295	5,365	7,144	2,710	1,543	1,592
Interest	(3,131)	(2,824)	(6,737)	(11,038)	(12,747)	(13,415)
Depreciaiton	(5,863)	(6,523)	(8,745)	(10,339)	(13,656)	(15,554)
Profit before tax	**25,492**	**24,209**	**4,956**	**18,787**	**23,331**	**28,334**
Current tax	(4,825)	(1,460)	(150)	-	(1,860)	(1,938)
Deferred tax	(1,772)	(4,015)	25	(5,895)	(4,436)	(4,324)
Net profit	**19,135**	**20,289**	**10,013**	**22,401**	**22,321**	**23,558**
Adjusted earnings per share (Rs)	**46.4**	**46.0**	**10.0**	**22.8**	**27.2**	**35.2**
Balance sheet (Rs mn)						
Equity	68,698	78,395	123,943	148,038	167,970	187,523
Deferred tax liability	7,868	9,757	8,658	15,086	19,522	23,846
Total borrowings	40,091	62,805	131,656	166,259	150,734	150,734
Current liabilities	77,280	106,566	108,355	173,727	189,504	200,740
Total liabilities	**193,937**	**257,524**	**372,612**	**503,110**	**527,730**	**562,843**
Net fixed assets	63,946	104,523	145,993	164,360	178,204	190,150
Investments	24,770	49,103	129,681	223,369	223,369	223,369
Cash	8,268	23,973	11,418	17,533	(500)	5,230
Other current assets	96,853	79,865	85,499	97,847	126,656	144,094
Miscellaneous expenditure	101	61	20	1	1	-
Total assets	**193,937**	**257,524**	**372,612**	**503,110**	**527,730**	**562,843**
Free cash flow (Rs mn)						
Operating cash flow excl. working capital	26,621	24,631	13,901	38,354	46,331	53,772
Working capital changes	(4,520)	37,114	(950)	27,506	(11,415)	(6,200)
Capital expenditure	(23,660)	(43,719)	(40,113)	(23,102)	(27,500)	(27,500)
Free cash flow	**(1,559)**	**18,026**	**(27,162)**	**42,759**	**7,416**	**20,072**
Ratios						
Debt/equity (X)	0.5	0.7	1.0	1.0	0.8	0.7
Net debt/equity (X)	0.3	0.1	0.0	0.6	0.5	0.4
RoAE (%)	27.4	22.8	4.4	8.7	9.7	11.1
RoACE (%)	**20.7**	**16.8**	**8.0**	**10.1**	**9.5**	**9.7**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Hindalco Industries (HNDL)

Metals

ADD

AUGUST 10, 2010

RESULT

Coverage view: Cautious

Price (Rs): 164

Target price (Rs): 200

BSE-30: 18,220

Novelis on track to deliver US$1 bn+ EBITDA in FY2011E. Novelis reported an outstanding quarter with adjusted EBITDA of US$263 mn led by strong growth in shipments, increase in conversion premium and scale absorption along with benefits of Euro depreciation. Novelis guided for US$1 bn+ of adjusted EBITDA and US$355 mn+ of FCF generation in FY2011E. We retain our positive view, raise our earnings estimates and increase our target price to Rs200, from Rs185 earlier.

Company data and valuation summary

Hindalco Industries

Stock data			
52-week range (Rs) (high,low)			193-95
Market Cap. (Rs bn)			313.1
Shareholding pattern (%)			
Promoters			32.1
FIIs			35.5
MFs			3.1
Price performance (%)	**1M**	**3M**	**12M**
Absolute	9.8	(6.8)	60.6
Rel. to BSE-30	7.5	(11.3)	32.3

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	5.7	13.6	15.5
EPS growth (%)	(64.5)	139.5	14.2
P/E (X)	28.8	12.0	10.5
Sales (Rs bn)	607.2	666.7	722.5
Net profits (Rs bn)	10.9	26.0	29.7
EBITDA (Rs bn)	70.1	75.7	80.1
EV/EBITDA (X)	8.6	8.7	8.9
ROE (%)	10.3	11.1	11.5
Div. Yield (%)	0.8	0.8	0.8

Excellent quarter, Novelis on track to generate US$1 bn+ of adjusted EBITDA

Novelis reported adjusted EBITDA of US$263 mn in 1QFY11, a qoq and yoy growth of 13.9% and 112.1%. This performance was led by (1) strong shipments of 746 kt (+4.2% qoq, 14.8% yoy); (2) increase in conversion premium to US$1,303/ ton (+8.8% qoq) led by change in the product mix and renegotiation of contracts especially in the beverage can segment and (3) continued cost focus, scale absorption and Euro depreciation benefits. EBITDA/ ton increased 9.3%qoq and 84.8% yoy to US$353. Novelis reported net income of US$50 mn as compared US$143 mn in 1QFY10 and loss of US$1 mn in 4QFY10.

On the back of strong growth in shipments and cost management, the company guided for US$1 bn+ adjusted EBITDA for FY2011E. Novelis is also confident of protecting/ improving EBITDA/ton at 1QFY11 level of US$353.

Guides for significant FCF generation; capex guidance retained at US$250 mn

Novelis has guided for FCF generation higher than FY2010 level of US$355 mn. FCF generation in the first quarter was a modest U$34 mn; the company attributed this to reduced working capital financing activity. Adjusted for this, FCF generation would have been US$110 mn.

Novelis is running production at a peak capacity of 3 mn tons pa. The company did not elaborate on the potential increase in capacity from debottlenecking in the near term. Novelis' FY2011E capex guidance of U$250 mn split into (1) maintenance capex of US$120 mn; (2) US$50 mn in strategic projects including debottlenecking and process efficiencies and (2) US$80 mn as part of 210Ktpa expansion of Brazilian rolling mill capacity.

Maintain ADD rating, raise estimates and target price

We raise our FY2011E and FY2012E EBITDA estimate for Novelis by 9.5% and 6% to US$984 mn and US$1023 mn on the back of strong and sustainable 1QFY11 performance. We also raise our consolidated EPS estimate by 7.6% and 3% to Rs13.6 and Rs15.5 and target price to Rs200 from Rs185 earlier. Hindalco is an ideal mix of steady cash-flow generating business (Novelis) that can potentially fund significant value accreting new Greenfield projects. Reiterate ADD rating.

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Our TP of Rs200 is based on (1) 6X multiple to standalone aluminium and copper business; (2) 6.5X EBITDA multiple to Novelis and (3) Rs12 to value of listed investments (after assigning 20% holding co discount). We assign book value to capital invested in new projects.

Exhibit 1: Hindalco Industries, Valuation, FY2011E basis (Rs mn)

		Multiple	Value	
		(X)	(Rs mn)	(Rs/share)
Hindalco FY2011E EBITDA	24,867	6.0	149,199	78
Novelis FY2011E EBITDA	45,281	6.5	294,328	154
ABML FY2011E EBITDA (proportionate stake)	2,867	5.0	14,337	7
Total Enterprise Value			**457,864**	**239**
Add: Value of listed investments (20% to market price)			23,530	12
Less: Net debt (adjusted for CWIP)	102,515		102,515	54
Arrived market capitalization			**355,349**	**198**
Target price (Rs)				**200**

Source: Kotak Institutional Equities estimates

Exhibit 2: Hindalco, Change in estimates, March fiscal year ends, 2011E-13E (Rs mn)

	Revised estimates			Old estimates			Change (%)		
	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E
Hindalco									
Aluminium metal sales (tons)	556,600	602,640	1,084,600	571,780	602,640	1,084,600	(2.7)	—	—
Aluminium price (US$/ton)	1,950	2,050	2,200	1,950	2,050	2,200	—	—	—
Net revenues	212,339	229,087	295,738	213,118	229,087	295,738	(0.4)	—	—
EBITDA	24,867	26,607	56,951	25,039	26,607	56,951	(0.7)	—	—
PAT	13,925	14,864	22,704	14,055	14,866	22,710	(0.9)	(0.0)	(0.0)
Novelis									
Shipments (tons)	2,831	2,944	3,062	2,831	2,944	3,062	—	—	—
Net revenues	438,108	476,130	508,629	418,093	457,115	489,791	4.8	4.2	3.8
EBITDA	45,281	47,042	46,183	41,348	44,395	41,337	9.5	6.0	11.7
PAT	12,519	15,445	16,035	11,005	14,585	13,579	13.8	5.9	18.1
Consolidated									
Net revenues	666,693	722,508	822,051	647,456	703,493	803,213	3.0	2.7	2.3
EBITDA	75,678	80,085	109,817	71,917	77,438	104,971	5.2	3.4	4.6
PAT	26,010	29,705	38,225	24,167	28,848	35,774	7.6	3.0	6.8
EPS (Rs)	13.6	15.5	20.0	12.6	15.1	18.7	7.6	3.0	6.8

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Interim results of Novelis, March fiscal year-ends (US$ mn)

	1QFY11	1QFY10	4QFY10	(% chg.) 1QFY10	4QFY10
Net sales	**2,533**	**1,960**	**2,420**	**29.2**	**4.7**
Expenditure	**(2,298)**	**(1,846)**	**(2,252)**	**24.5**	**2.0**
Cost of goods sold	(2,208)	(1,760)	(2,141)	25.5	3.1
SG&A	(81)	(78)	(100)	3.8	(19.0)
R&D	(9)	(8)	(11)	12.5	(18.2)
EBITDA	**235**	**114**	**168**	**106.1**	**39.9**
Restructuring expenses	(6)	(3)	(7)	100.0	(14.3)
Reported EBITDA	**229**	**111**	**161**	**106.3**	**42.2**
Depreciation	(103)	(100)	(99)	3.0	4.0
EBIT	**126**	**11**	**62**	**1,045.5**	**103.2**
Interest Income	3	3	3	—	—
Interest Expense	(39)	(43)	(44)	(9.3)	(11.4)
Extraordinary income (loss)	(6)	299	2	(102.0)	(400.0)
Affiliate income / (loss)	(3)	(10)	(3)	(70.0)	-
Other income (expenses)- net	(7)	13	4	(153.8)	(275.0)
Profit before tax	**74**	**273**	**24**	**(72.9)**	**208.3**
Income tax	(15)	(112)	(15)		
Profit after tax	**59**	**161**	**9**	**(63.4)**	**555.6**
Minorities	(9)	(18)	(10)		
Net income	**50**	**143**	**(1)**	**(65.0)**	**(5,100.0)**
Ratios					
Gross profit margin	12.8	10.2	11.5		
EBITDA (adjusted)	9.3	5.8	6.9		
EBITDA (reported)	9.0	5.7	6.7		
EBIT	5.0	0.6	2.6		
PBT margin	2.9	13.9	1.0		
Net income	2.0	7.3	(0.0)		
Key metrics					
Shipments (kt)	746	650	716	14.8	4.2
Average realization (US$/ton)	3,395	3,015	3,380	12.6	0.5
Adjusted EBITDA/ton (US$/ton)	353	191	323	84.8	9.3

Source: Company, Kotak Institutional Equities estimates

Exhibit 4: Novelis, Adjusted EBITDA calculation, March fiscal year-ends (US$ mn)

	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11
Operating EBITDA	**176**	**69**	**69**	**252**	**114**	**187**	**193**	**168**	**235**
Extraordinary Income (loss)	65	(185)	(1,736)	82	299	254	62	2	(6)
Affiliate income/ (loss)	(2)	2	(166)	(6)	(10)	(10)	8	(3)	(3)
Other income/ (expenses) - net	(23)	(10)	(20)	(33)	13	6	2	4	(7)
Restructuring expenses, net	1	-	(15)	(81)	(3)	(3)	(1)	(7)	(6)
EBITDA (as reported)	**217**	**(124)**	**(1,868)**	**214**	**413**	**434**	**264**	**164**	**213**
Unrealised gain (loss) on derivatives	20	(221)	(463)	145	299	254	62	(37)	(47)
Goodwill impairment	—	—	(1,340)	(160)	—	—	—	—	—
Gain on debt exchange	—	—	—	122	—	—	—	—	—
Proportional consolidation	(18)	(18)	(174)	144	(16)	(17)	2	(20)	(10)
Restructuring charges, net	1	—	(15)	(81)	(3)	(3)	(1)	(7)	(6)
Other costs, net	(4)	26	(4)	(7)	9	3	2	(3)	13
Underlying EBITDA	**218**	**89**	**128**	**51**	**124**	**200**	**199**	**231**	**263**

Source: Company, Kotak Institutional Equities estimates

Broad-based growth, the key highlight

Exhibit 5 details the shipments and revenue growth across geographies. Novelis reported 15% growth in shipments with key highlight being growth across all geographies. Novelis articulated potential CAGR of 6% over the next five years in the flat rolled products business. The company expects this growth to be driven by the APAC and Latin American geographies and from the automotives vertical. The company believes that the current global FRP capacity is running at an extremely high level and indicated Novelis' priority of expanding capacity to capture potential growth in overall market.

Exhibit 5: Shipment growth across different geographies, March fiscal year ends (%)

	ROLLED PRODUCTS			INGOT PRODUCTS			TOTAL		
Shipments (kt)	**Jun-10**	**Jun-09**	**% Change**	**Jun-10**	**Jun-09**	**% Change**	**Jun-10**	**Jun-09**	**% Change**
North America	278	254	9.4	5	7	(28.6)	283	261	8.4
Europe	232	185	25.4	17	27	(37.0)	249	212	17.5
Asia	146	130	12.3	1	—	NA	147	130	13.1
South America	90	81	11.1	10	7	42.9	100	88	13.6
Total	**746**	**650**	**14.8**	**33**	**41**	**(19.5)**	**779**	**691**	**12.7**

Source: Company, Kotak Institutional Equities estimates

Exhibit 6: Novelis, Key operating matrics, March fiscal year-ends (US$ mn)

	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11
Shipments (kt)	**825**	**808**	**659**	**651**	**650**	**721**	**649**	**716**	**746**
Average LME (US$/ton)	2,936	2,792	1,830	1,371	1,505	1,808	2,000	2,182	2,092
Average realization (US$/ton)	**3,761**	**3,662**	**3,302**	**2,978**	**3,015**	**3,025**	**3,254**	**3,380**	**3,395**
Premium over LME (US$/ton)	825	870	1,472	1,607	1,510	1,217	1,254	1,198	1,303
Cost per ton (US$)	**3,432**	**3,454**	**3,070**	**2,467**	**2,708**	**2,638**	**2,789**	**2,990**	**2,960**
Adjusted EBITDA (US$ mn)	218	89	128	51	124	200	199	231	263
Adjusted EBITDA/ton (US$)	**264**	**110**	**194**	**78**	**191**	**277**	**307**	**323**	**353**

Source: Company, Kotak Institutional Equities estimates

Exhibit 7: Hindalco Industries, Key assumptions, March fiscal-year ends, FY2008-2013E (Rs mn)

	2008	2009	2010E	2011E	2012E	2013E
Aluminium						
Hindalco						
Aluminium price (US$/ton)	2,623	2,234	1,900	1,950	2,050	2,200
Metal sales volume (tons)	473,118	521,069	555,404	556,600	602,640	1,084,600
Blended realization (Rs/ton)	131,937	127,384	113,091	110,748	114,947	118,589
Cost/ton (US$/ton)	2,102	1,939	1,708	1,876	1,941	1,736
EBITDA/ton (US$/ton)	1,337	981	753	615	635	885
Alumina price (US$/ton)	370	278	305	313	329	353
Alumina sales volume (tons)	259,627	238,350	247,415	362,810	319,949	480,198
Alumina EBITDA (Rs mn)	2,497	2,189	2,144	3,028	2,585	4,969
Novelis						
Average realization (US$/ton)	3,570	3,458	3,203	3,257	3,403	3,564
Conversion premium (US$/ton)	947	1,224	1,303	1,307	1,353	1,364
Shipments ('000 tons)	3,150	2,943	2,708	2,925	3,042	3,102
EBITDA/ton (US$/ton)	169	192	401	337	336	324
EBITDA (US$ mn)	533	566	1,085	984	1,023	1,004
EBITDA (Rs mn)	21,448	25,997	51,538	45,281	47,042	46,183
Copper						
Price (US$/ton)	7,521	5,885	6,112	6,700	7,100	7,250
Copper cathode volumes (tons)	180,668	153,236	188,560	206,592	206,990	202,250
Copper rods volumes (tons)	138,543	146,323	147,450	151,874	156,430	161,123
TCRC margin (cents/lb)	24	15	22	18	18	20
EBITDA (Rs mn)	6,693	5,476	8,342	6,997	7,366	8,806

Source: Company, Kotak Institutional Equities estimates

Exhibit 8: Hindalco (consolidated), Profit model, balance sheet and cash flow model, March fiscal year-ends, 2008-2013E (Rs mn)

	2008	2009	2010E	2011E	2012E	2013E
Profit model (Rs mn)						
Net sales	600,128	656,252	607,221	666,693	722,508	822,051
EBITDA	**66,351**	**53,584**	**70,094**	**75,678**	**80,085**	**109,817**
Other income	6,560	6,878	3,227	4,449	3,901	4,805
Interest	(18,491)	(12,323)	(11,041)	(15,617)	(15,007)	(28,717)
Depreciation	(24,883)	(30,378)	(27,836)	(27,175)	(25,555)	(30,610)
Profit before tax	**29,537**	**17,761**	**34,444**	**37,334**	**43,424**	**55,295**
Extraordinaries	5,481	(22,319)	28,394	—	—	—
Taxes	(11,889)	8,046	(19,319)	(10,067)	(12,183)	(15,450)
Profit after tax	**23,130**	**3,488**	**43,519**	**27,267**	**31,241**	**39,845**
Minority interest	(2,194)	1,718	(4,237)	(1,230)	(1,509)	(1,594)
Share in profit/(loss) of associates	998	(353)	(27)	(27)	(27)	(27)
Reported net income	**21,933**	**4,853**	**39,255**	**26,010**	**29,705**	**38,225**
Adjusted net income	**16,452**	**19,791**	**19,617**	**26,010**	**29,705**	**38,225**
Fully diluted EPS (Rs)	**12.9**	**11.6**	**10.2**	**13.6**	**15.5**	**20.0**
Balance sheet (Rs mn)						
Equity	172,866	158,536	222,465	245,452	272,134	307,336
Deferred tax liability	41,723	27,571	28,167	28,566	28,742	32,388
Total Borrowings	323,524	283,098	256,950	332,750	409,350	429,350
Current liabilities	172,201	162,602	145,657	156,767	167,194	183,538
Minority interest	16,154	12,866	17,103	18,332	19,841	21,435
Total liabilities	**726,467**	**644,672**	**670,342**	**781,868**	**897,262**	**974,046**
Net fixed assets	267,820	275,249	268,155	248,523	220,448	465,108
Capital work in progress	24,571	29,495	55,105	150,615	257,493	6,747
Goodwill	79,247	42,908	42,908	42,908	42,908	42,908
Investments	140,077	104,308	104,281	104,255	104,228	104,201
Cash	17,169	21,918	13,498	37,185	59,181	119,376
Other current assets	197,574	170,791	186,395	198,382	213,004	235,707
Miscellaneous expenditure	10	4	—	—	—	—
Total assets	**726,467**	**644,672**	**670,342**	**781,868**	**897,262**	**974,046**
Free cash flow (Rs mn)						
Operating cash flow excl. working capital	27,709	(7,156)	60,081	50,392	53,071	69,296
Working capital changes	7,576	29,309	(25,366)	(877)	(4,195)	(6,359)
Capital expenditure	(27,507)	(25,988)	(46,352)	(103,054)	(104,357)	(24,525)
Free cash flow	**7,778**	**(3,834)**	**(11,638)**	**(53,539)**	**(55,481)**	**38,412**
Ratios						
EBITDA margin (%)	11.1	8.2	11.5	11.4	11.1	13.4
EBIT margin (%)	6.9	3.5	7.0	7.3	7.5	9.6
Debt/equity (X)	1.9	1.8	1.2	1.4	1.5	1.4
Net debt/equity (X)	1.2	1.4	0.9	1.0	1.1	0.9
Net debt/EBITDA (X)	3.2	4.1	2.9	3.3	3.8	2.4
RoAE (%)	10.9	11.9	10.3	11.1	11.5	13.2
RoACE (%)	**7.9**	**5.4**	**4.8**	**6.6**	**6.2**	**8.3**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Piramal Healthcare (PIHC)

Pharmaceuticals

REDUCE

AUGUST 11, 2010

RESULT

Coverage view: Attractive

Price (Rs): 481

Target price (Rs): 490

BSE-30: 18,220

PAT miss due to poor sales growth in all businesses except Minrad. Sales/PAT were lower than our est. due to poor performance in all businesses except Minrad. India sales growth at 5% was very surprising. We lower our FY2012E PAT by 13% to account for (1) sale of Pathlabs, (2) lower FY2011E guidance for pharma solutions and (3) lower tax rate of 10%. With pharma solutions accounting for 50% of sales in FY2012E, recovery in this segment remains critical for PIHC to meet our FY2012E est. We maintain REDUCE with PT at Rs490/share including cash of Rs377/share.

Company data and valuation summary

Piramal Healthcare

Stock data			
52-week range (Rs) (high,low)			600-300
Market Cap. (Rs bn)			100.5
Shareholding pattern (%)			
Promoters			52.1
FIIs			23.9
MFs			1.0
Price performance (%)	**1M**	**3M**	**12M**
Absolute	(6.1)	(12.3)	55.0
Rel. to BSE-30	(8.1)	(16.6)	27.7

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	22.4	13.3	9.5
EPS growth (%)	29.7	(40.4)	(28.9)
P/E (X)	21.5	36.0	50.7
Sales (Rs bn)	36.5	28.6	20.6
Net profits (Rs bn)	4.7	2.8	2.0
EBITDA (Rs bn)	7.2	4.9	3.6
EV/EBITDA (X)	15.6	5.9	3.8
ROE (%)	30.7	140.7	16.5
Div. Yield (%)	1.1	1.2	0.7

QUICK NUMBERS

- PAT, 32% lower than our est.
- PIHC lowers FY2011E guidance for pharma solutions
- We value the stock at Rs490/share; assuming no dividend; maintain REDUCE

Sales, 11% lower than our estimate due to poor performance in India and pharma solutions

Sales at Rs8.4 bn was 11% lower than our estimate due to lower performance in all business segments except Minrad which registered sales of US$20 mn during the quarter vs our est. of US$15 mn. However, all other segments disappointed with (1) India finished dosage segment surprising with sales growth of 5%, lower than 24% sales growth in FY2009-10 due to uncertainty emerging from sale of business to Abbott, (2) pharma solutions business was 23% lower than our est. and (3) Pathlabs business at Rs536 mn, 4% lower than our estimates.

PAT, 32% lower than our est. due to poor sales growth of high-margin business in India

PAT at Rs807 mn was lower than our estimate of Rs1.1 bn due to poor operating performance with margin dipping to 16.4% vs our estimate of 21.3% on account of (1) poor performance of high-margin segment of India finished dosage and (2) higher staff costs at Rs1.6 bn which included bonuses which were paid out in Sept quarter last year. Interest cost declined qoq despite slight qoq increase in debt due to replacement of high-cost debentures with low-cost rupee debt.

PIHC lowers FY2011E guidance for pharma solutions, we value remaining business at Rs109/share

With pharma solutions/critical care business accounting for 76% of sales in FY2012E, the performance of these businesses is critical for PIHC meeting our FY2012E est. earnings. While Minrad sales have grown sequentially in 1QFY11 and outlook remains strong, PIHC has lowered its guidance for pharma solutions to flat sales in FY2011E vs earlier guidance of 10-15% sales growth, although profitability will improve yoy due to closure of Huddersfield in FY2010. Recovery in this segment (we est 15% sales growth) remains critical for PIHC to meet our FY2012E est.

We value the stock at Rs490/share; assuming no dividend; maintain REDUCE

We value the PIHC at Rs490/share which includes (1) business Rs109/share and (2) NPV of Rs377/share, we apply a 30% discount due to no clarity on use of cash. While PIHC will pay out a special dividend upon closure of both deals in 2HFY11E, the amount remains unknown, hence we do not assume dividend payout in our NPV calculations.

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Sales, 11% lower than our estimate due to poor performance in India and pharma solutions

Sales at Rs8.4 bn were 11% lower than our estimate due to lower performance in all business segments except Minrad which registered sales of US$20 mn during the quarter vs our est of US$15 mn. However, all other segments disappointed.

- India finished dosage segment surprised with sales growth of 5%, lower than 24% sales growth in FY2009-10 due to uncertainty emerging from sale of business to Abbott. OTC sales included in healthcare solutions of Rs220 mn were down from Rs260 mn last year implying significant decline in organic business and minimal contribution from I-Pill acquired in FY2010 (annualized sales of Rs300 mn in FY2010).

- Pharma solutions business was 23% lower than our estimate with sequential decline in revenue from both India and international assets. Pharma solutions from India included API CMO sales for the quarter; however, despite this reorganization of segment reporting, the sales was lower than our estimate of Rs918 mn and down yoy due to one-time sales recorded in 1QFY10. Pharma solutions from International assets which is mainly Morpeth sales from UK was down 16% yoy and was flat in GBP terms.

- Pathlabs business at Rs536 mn, 4% lower than our estimate.

- Critical care business revenues were 16% higher than our estimate due to Minrad reporting higher sales at US$20 mn, up from US$10 mn last year. This was on account of strong sales of Sevoflurane in US. PIHC has applied for registrations in 27 countries across Europe for Sevoflurane. Having already installed vapourisers across hospitals in US, strong revenue generation will lead to improvement in profitability at Minrad with the company expecting EBITDA margin to touch high-teens at end of FY211E from mid-teens currently. However, sales ex-Minrad were disappointing having fallen to Rs185 mn from Rs260 mn last year.

PAT, 32% lower than our est. due to poor sales growth of high-margin business in India

PAT at Rs807 mn was lower than our estimate of Rs1.1 bn due to poor operating performance with margin dipping to 16.4% vs our estimate of 21.3% on account of (1) poor performance of high-margin segment of India finished dosage and (2) higher staff costs atRs1.6 bn which included bonuses which were paid out in Sept quarter last year.

Interest cost declined qoq to Rs145 mn from 190 mn last quarter despite slight increase in debt to Rs13.2 bn as of June 2010 from Rs13 bn as of March 2010 due to replacement of high-cost debentures with low-cost rupee debt. Despite PBT being 40% lower than our estimate, PAT was 32% lower due to lower tax rate at 3% versus our estimate of 17%.

Interim results, March fiscal year-ends, (Rs mn)

	1QFY11	1QFY11E	1QFY10	4QFY10	% change 1QFY11E	1QFY10	4QFY10
Net sales	**8,424**	**9,460**	**8,215**	**9,418**	**(11)**	**3**	**(11)**
Change in stock	(418)	—	(214)	781	NM	NM	NM
Consumption of raw materials	3,696	3,547	3,331	2,705	4	11	37
Personnel cost	1,575	1,400	1,360	1,352	12	16	16
R&D	166	180	172	172	(8)	(3)	(4)
Marketing and selling	1,146	1,230	1,084	1,234	(7)	6	(7)
Other expenses	970	1,088	925	1,012	(11)	5	(4)
Forex gains/losses	(89)	—	(45)	(49)	NM	NM	NM
Total expenditure	7,045	7,445	6,614	7,206	(5)	7	(2)
EBITDA	**1,379**	**2,015**	**1,602**	**2,212**	**(32)**	**(14)**	**(38)**
Non operating other income	—	—	—	—	NM	NM	NM
Interest	145	225	254	192	(35)	(43)	(24)
Depreciation	381	350	385	233	9	(1)	64
PBT	853	1,440	963	1,787	**(41)**	**(11)**	**(52)**
Current Tax	27	245	113	178	(89)	(76)	(85)
PAT	**826**	**1,195**	**851**	**1,609**	**(31)**	**(3)**	**(49)**
Exceptional expenses (income)	19	—	—	66	NM	NM	(71)
PAT post exceptional	807	1,195	851	1,543	(32)	(5)	(48)
Minority	—	(2)	—	—	NM	1233	NM
PAT post minority	**807**	**1,193**	**851**	**1,543**	**(32)**	**(5)**	**(48)**
Sales by business segments							
Healthcare solutions	4,613	5,188	4,397	5,394	(11)	5	(14)
Pharma solutions- India assets	660	912	807	818	(28)	(18)	(19)
Pharma solutions- international assets	1,088	1,368	1,297	1,342	(20)	(16)	(19)
Diagnostic solutions	536	557	485	529	(4)	11	1
PCC (Piramal critical care incl Minrad)	1,082	934	729	884	16	48	22
Others	445	500	501	451	(11)	(11)	(1)
Total	**8,424**	**9,460**	**8,215**	**9,418**	**(11)**	**3**	**(11)**

Source: Kotak Institutional Equities estimates, Company

PIHC lowers FY2011E guidance for pharma solutions business

With pharma solutions and global critical care business accounting for around 76% of sales in FY2012E, according to our estimates, we think the performance of these businesses is critical for PIHC meeting FY2012E estimated earnings.

- Minrad sales (25% of FY2012E sales) have grown sequentially and FY2011 outlook remains strong with Minrad estimated to report US$80 mn of sales up from US$45 mn in sales in FY2010, according to us.

- However, PIHC has lowered its guidance for pharma solutions business (50% of FY2012E sales) to flat sales in FY2011E versus earlier guidance of 10-15% sales growth, although profitability will improve yoy due to closure of Huddersfield in FY2010. Recovery in this segment in FY2012E remains critical for PIHC to meet our FY2012E est. We expect 15% organic sales growth in rupee terms in pharma solutions business in FY2012E, as guided for by the company.

We value the remaining businesses at Rs109/share

Piramal's remaining businesses reported sales of Rs16.2 bn in FY2010. We expect this to grow to Rs20.6 bn at a CAGR of 13% over FY2010-12E. We expect operating margin at 18% for the remaining businesses and assume tax rate of 10% in FY2012E. We expect R&D costs to decline to Rs400 mn in FY2012E from Rs700 mn in FY2010. We do not take into account interest income likely to be generated on US$2.1 bn likely to be received by 2HCY10. We estimate this business to report PAT of Rs2 bn or EPS of Rs9.5 in FY2012E.

We value the remaining businesses at Rs109/share

	PAT (Rs mn)	P/E	Valuation (Rs mn)
	2012E	(X)	2012E
OTC+Opthamology	278	16.0	4,455
Pharma solutions	1,209	10.0	12,086
PCC	516	12.0	6,195
Total	**2,003**		**22,736**
Business share price value (Rs)			**109**

Source: Kotak Institutional Equities estimates, Company

Profit and loss statement, March fiscal year-ends, 2007-2012E (Rs mn)

	2007	2008	2009	2010	2011E	2012E
Net sales	**24,198**	**28,675**	**32,811**	**36,505**	**28,604**	**20,623**
Operating expenses						
Materials	(10,829)	(10,912)	(12,365)	(13,972)	(11,569)	(8,460)
Selling and administration	(4,591)	(6,885)	(7,953)	(8,916)	(7,061)	(5,053)
Employee cost	(4,200)	(4,709)	(5,010)	(5,853)	(4,625)	(3,094)
R&D/other exp	(1,265)	(752)	(1,670)	(560)	(460)	(392)
Total expenditure	**(20,885)**	**(23,258)**	**(26,998)**	**(29,301)**	**(23,715)**	**(16,998)**
EBITDA	**3,313**	**5,417**	**5,813**	**7,204**	**4,889**	**3,625**
Depreciation and amortisation	(818)	(947)	(1,196)	(1,427)	(1,476)	(1,400)
EBIT	**2,495**	**4,470**	**4,618**	**5,777**	**3,414**	**2,225**
Net finance cost	(305)	(463)	(838)	(916)	(370)	—
Other income	525	61	74	—	—	—
Pretax profits before extra-ordinaries	**2,715**	**4,067**	**3,853**	**4,861**	**3,044**	**2,226**
Current tax	(315)	(445)	(452)	(180)	(247)	(223)
Deferred tax	(45)	105	492	—	—	—
Fringe benefit tax	(29)	(37)	(259)	—	—	—
Reported profit	**2,327**	**3,691**	**3,634**	**4,681**	**2,797**	**2,003**
Minority interests	(1)	(14)	(26)	2	(8)	(20)
Reported net profit after MI	**2,402**	**3,677**	**3,608**	**4,682**	**2,789**	**1,983**
Exceptional income	(43)	(339)	(446)	(69)	73,640	14,444
Reported net profit	**2,358**	**3,338**	**3,162**	**4,613**	**76,429**	**16,427**

Source: Kotak Institutional Equities estimates, Company

We value cash at Rs377/share (30% discount to NPV/share due to no clarity on use of cash)

PIHC expects to close both deals by end of 2QFY11E and expects to make the following disbursements upon receiving the payments—(1) repay outstanding debt of Rs13.2 bn with SRL paying Rs2.2 bn of debt of Pathlabs, (2) Rs900 mn one-time bonuses to employees, (3) Rs3.5 bn will be paid to Piramal Enterprises for the guarantees it has provided on behalf of PIHC. Post (1) debt repayment, (2) payment to Piramal Enterprises (3) capital gains tax of 21.5%, and (4) payment to employees, we estimate the NPV of the remaining amount available to shareholders at Rs112 bn or at Rs538/share.

However, it remains unclear to us as to where the remaining cash pool post dividend payment will be invested. PIHC intends to invest in other businesses which may include non healthcare businesses; details of which have not been divulged. Due to no clarity on dividend amount and businesses to be invested in future we (1) do not assume a dividend payout in our NPV calculations and (2) apply a 30% discount to NPV value of cash to arrive at cash value of Rs377/share.

Price target, FY2012E

	Post Pathlabs deal Valuation (Rs)	Before Pathlabs deal Valuation (Rs)
	2012E	2012E
Business share price value	109	127
Discounted cash NPV/share	377	365
Total	486	492

Source: Kotak Institutional Equities estimates, Company

Balance sheet statement, March fiscal year-ends, 2007-2012E (Rs mn)

	2007	2008	2009	2010	2011E	2012E
Balance sheet						
Net worth	10,862	10,926	13,171	16,849	91,823	107,417
Debt	6,392	7,163	13,391	12,950	—	—
Current liabilities	4,866	5,890	8,215	7,310	7,300	5,482
Deferred tax liabilities	898	945	800	568	575	595
Total equity and liabilities	**23,018**	**24,924**	**35,577**	**37,677**	**99,699**	**113,495**
Cash and cash equivalents	506	551	946	412	500	500
Current assets	9,988	11,136	13,962	15,809	13,896	11,823
Net assets incl CWIP	12,238	12,585	20,391	21,130	14,298	14,898
Investments	287	653	278	326	71,004	86,274
Total uses of funds	**23,018**	**24,924**	**35,577**	**37,677**	**99,699**	**113,495**
Free cash flow						
Operating cash flow, excl. working ca	2,667	4,728	5,160	6,589	4,262	3,103
Working capital	(2,105)	(1,047)	(501)	(3,041)	1,757	864
Capital expenditure	(1,745)	(588)	(3,699)	(851)	3,357	(2,000)
Investments	—	(365)	374	(47)	(70,679)	(15,269)
Free cash flow	**(1,183)**	**2,728**	**1,335**	**2,650**	**(61,303)**	**(13,302)**

Source: Kotak Institutional Equities estimates, Company

Current vs earlier estimates, March fiscal year-ends, FY2011-12E (Rs mn)

	Current estimates		Earlier estimates		% change	
	2011E	2012E	2011E	2012E	2011E	2012E
Net sales	**28,604**	**20,623**	**31,446**	**23,777**	**(9)**	**(13)**
EBITDA	**4,889**	**3,625**	**5,652**	**4,286**	**(14)**	**(15)**
Other income	—	—	—	—	NM	NM
Depreciation	(1,476)	(1,400)	(1,575)	(1,500)	(6)	(7)
Financial charges	(370)	—	(675)	—	(45)	NM
PBT	**3,044**	**2,226**	**3,403**	**2,787**	**(11)**	**(20)**
Tax	(247)	(223)	(578)	(474)	(57)	(53)
PAT	**2,797**	**2,003**	**2,824**	**2,313**	**(1)**	**(13)**
Minority interest in loss (profits)	(8)	(20)	(10)	(20)	(24)	—
PAT bef excep.	**2,789**	**1,983**	**2,814**	**2,293**	**(1)**	**(13)**

Source: Kotak Institutional Equities estimates, Company

kotak Institutional Equities

IVRCL (IVRC)

Construction

BUY

AUGUST 11, 2010

RESULT

Coverage view: Attractive

Price (Rs): 175

Target price (Rs): 210

BSE-30: 18,288

Sedate revenues attributed to project-specific issues. Sedate 1QFY11 attributed to several project specific issues (central govt project in MP, IOCL tankage order and AP-state orders). The company has maintained its full-year revenue guidance implying a strong growth requirement of about 30% in rem. 9M11E. Working cap. deterioration led by higher inventory, debtor levels and lower current liabilities-rise in debt levels by Rs6 bn. Strong order backlog provides revenue visibility - execution remains key. BUY.

Company data and valuation summary

IVRCL

Stock data			
52-week range (Rs) (high,low)			213-144
Market Cap. (Rs bn)			46.8
Shareholding pattern (%)			
Promoters			9.6
FIIs			55.2
MFs			13.0
Price performance (%)	1M	3M	12M
Absolute	(8.4)	1.7	14.1
Rel. to BSE-30	(10.7)	(3.6)	(6.4)

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	7.9	10.3	12.4
EPS growth (%)	(6.7)	31.0	19.7
P/E (X)	22.2	17.0	14.2
Sales (Rs bn)	54.9	66.5	85.2
Net profits (Rs bn)	2.1	2.8	3.3
EBITDA (Rs bn)	5.3	6.3	7.8
EV/EBITDA (X)	11.4	9.8	8.3
ROE (%)	11.0	12.8	13.5
Div. Yield (%)	0.2	0.2	0.2

Results miss estimates; sedate revenues attributed to project-specific issues

IVRCL reported relatively flat revenues of Rs11.1 bn, about 15% below our estimates of Rs13.1 bn. IVRCL management cited a revenue loss of about Rs2.5 bn during the quarter due to several project specific issues viz. (1) delays in a central government project in the state of MP - revenue loss of Rs750 mn, (2) delays in the IOCL tankage order impacting revenues of about Rs1.25 bn and (3) pushing back of execution of AP-state orders - revenue impact of Rs500 mn. EBITDA margin of 9.1% was broadly in line with estimates. IVRCL reported a net PAT of Rs281 mn, down 20% yoy from Rs351 mn in 1QFY10 and about 35% below our estimates.

Likely to miss aggressive revenue guidance of Rs67.5-71 bn in FY2011E

The aggressive revenue guidance of Rs67.5-71 bn in FY2011E implies very strong growth requirement of about 28-36% in remaining 9MFY11E. We believe that this would be difficult to achieve as it requires a high quarterly revenue booking run rate of about Rs18-19 bn. We have built in FY2011E revenues of Rs64.2 bn implying a revenue growth of 21% in remaining 9MFY11E.

Other highlights: Working capital deteriorates; strong backlog provides visibility

Other highlights of the quarter include (1) deterioration in working capital levels (led by increase in inventory and debtor levels as well as a decrease in current liabilities) in 1QFY11 led to a net rise of about Rs6 bn in debt levels to Rs22 bn from Rs15.3 bn at end-FY2010 and (2) IVRCL reported a strong order backlog of Rs233 bn which provides a revenue visibility of over 3 years – however, execution of this backlog remains key.

Revise earnings estimates and target price to Rs210/share; reiterate BUY

We have revised our earnings estimates to Rs9.1 and Rs11.6 from Rs10.3 and Rs12.4 for FY2011E and FY2012E, respectively, based on lower execution assumptions. We reiterate BUY with a revised target price of Rs210/share (from Rs215) based on (1) relatively attractive valuations, (2) strong likely near-term earnings growth, (3) high revenue visibility and (4) long-term outlook for infrastructural investments.

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Sedate revenues attributed to project-specific issues

IVRCL reported sedate revenues of Rs11.1 bn, relatively flat on a yoy basis and about 15.5% below our estimates of Rs13.1 bn. The sedate performance during the quarter was attributed to a loss of about Rs2.5 bn of revenues in 1QFY11 due to certain project specific issues:

- NATRIP order in MP: Delay in execution of a central government project (worth over Rs5.5 bn) in the state of Madhya Pradesh due to delay in release of construction drawings by the client appointed consultant. The management attributed a loss in revenues to the tune of about Rs750 mn on account of these delays. The client has changed the consultants for the project and the company expects the revenues to start flowing in the next one-two quarters

- **IOCL tankage order:** Loss of revenues of about Rs1.25 bn in the IOCL tankage orders. The company was awaiting the approval of its design drawings submitted to the client's consultants and hence was unable to proceed with the construction.

- **AP government projects:** Slowdown in execution of Andhra Pradesh government related orders due to delay in receipt of payment. The company expected to receive about Rs2 bn of revenues from the AP government in FY2011E at a rate of about Rs500 mn per quarter. The receivables from the AP government got postponed by a quarter and hence the company also decided to push back its execution as well.

IVRCL reported EBITDA margin of 9.1% in 1QFY11, relatively flat and broadly in line with our estimates of 9.3%. IVRCL also reported a 16% increase in interest expenses to Rs453 mn (in line with estimates) due to an increase in debt level. The sedate revenue growth and higher interest expense led to a disappointing net PAT of Rs281 mn, about 35% below our estimates and 20% down on a yoy basis.

1QFY11 results impacted by project-specific issues in several projects
IVRCL - 1QFY11 - key numbers (Rs mn)

	1QFY11	1QFY11E	1QFY10	4QFY10	% chg. vs est.	% chg. yoy	% chg. qoq	FY2011E	FY2010	% change
Net Sales	**11,064**	**13,090**	**10,860**	**18,904**	***(15.5)***	***1.9***	***(41.5)***	**68,892**	**54,923**	***25.4***
CoGS	(9,122)		(9,263)	(15,580)		*(1.5)*	*(41.5)*	(58,558)	(46,281)	*26.5*
Constrn, stores & spares	(3,606)		(4,327)	(6,847)		*(16.6)*	*(47.3)*	(58,558)	(20,211)	*189.7*
Subcontracting exp.	(1,901)		(1,646)	(3,575)		*15.5*	*(46.8)*	-	(10,845)	*(100.0)*
Masonry & labour	(3,614)		(3,291)	(5,159)		*9.8*	*(29.9)*	-	(15,225)	*(100.0)*
Staff cost	(652)		(418)	(716)		*55.9*	*(8.9)*	(2,583)	(2,026)	*27.5*
Other expenditure	(283)		(183)	(624)		*54.3*	*(54.7)*	(1,206)	(1,303)	*(7.5)*
Expenditure	(10,057)	(11,879)	(9,864)	(16,920)	*(15.3)*	*1.9*	*(40.6)*	(62,347)	(49,610)	*25.7*
EBITDA	**1,008**	**1,211**	**996**	**1,984**	***(16.8)***	***1.2***	***(49.2)***	**6,545**	**5,313**	***23.2***
Other income	9	46	39	20	*(80.8)*	*(77.6)*	*(55.9)*	182	155	*17.6*
PBIDT	**1,016**	**1,256**	**1,035**	**2,004**	***(19.1)***	***(1.8)***	***(49.3)***	**6,727**	**5,468**	***23.0***
Interest	(453)	(450)	(389)	(525)	*0.6*	*16.3*	*(13.8)*	(1,801)	(1,639)	*9.9*
Depreciation	(157)	(161)	(129)	(141)	*(2.5)*	*21.5*	*12.0*	(686)	(543)	*26.4*
Profit before tax	**406**	**645**	**516**	**1,338**	***(37.0)***	***(21.3)***	***(69.6)***	**4,240**	**3,286**	***29.0***
Tax	(125)	(213)	(165)	(486)	*(41.1)*	*(24.0)*	*(74.2)*	(1,408)	(1,177)	*19.6*
Profit after tax	**281**	**432**	**351**	**852**	***(35.0)***	***(20.0)***	***(67.1)***	**2,832**	**2,109**	***34.3***
Order book										
Order backlog	-		139,000	211,750		*(100.0)*	*(100.0)*	255,658	211,750	*20.7*
Order booking	-		14,860	57,226		*(100.0)*	*(100.0)*	107,550	97,995	*9.8*
Key ratios (%)										
CoGS/Sales	82.4		85.3	82.4				85.0	84.3	
Constrn, spares/sales	32.6		39.8	36.2						
Subcontracting exp./sales	17.2		15.2	18.9						
Masonry & labour/sales	32.7		30.3	27.3						
Staff cost/sales	5.9		3.8	3.8				3.8	3.7	
Other expenditure/sales	2.6		1.7	3.3				1.8	2.4	
EBITDA margin	**9.1**	**9.3**	**9.2**	**10.5**				**9.5**	**9.7**	
PBT Margin	3.7	4.9	4.8	7.1				6.2	6.0	
Net Profit margin	2.5	3.3	3.2	4.5				4.1	3.8	
Effective tax rate	30.9	33.0	32.0	36.3				33.2	35.8	

Source: Company, Kotak Institutional Equities estimates

Potential to miss aggressive full-year revenue guidance of Rs67.5-71 bn

The management has maintained its aggressive full-year revenue guidance of Rs67.5-71 bn in FY2011E. This would imply a very strong revenue growth requirement of 28-36% in the remaining nine months of FY2011E. The management has cited that the company has missed out on only Rs2.5 bn of revenues in 1QFY11 and expects to make up for the same in the rest of the year. Revenue booking is likely to be back ended with about two-thirds of revenues in the second half.

We highlight a risk to meeting the guidance as it would imply a revenue booking run rate of about Rs18.8 bn per quarter (at the lower end) in the remaining 9MFY11E. This is versus an average quarterly revenue booking of Rs13.7 bn in FY2010 and Rs14.7 bn in last nine months of FY2010. The company had booked revenues of Rs18.9 bn in 4QFY10 – which was the strongest quarter in the year. We have built in a revenue growth of 17% yoy to Rs64.2 bn in FY2011E. Our estimates imply a revenue growth requirement of 21% in remaining 9MFY11E. We expect the company to report EBITDA margin of 9.5% in FY2011E leading to a full-year PAT of Rs2.4 bn, up 15% yoy.

IVRCL - remaining 9MFY11E implied - key numbers (Rs mn)

	1QFY11	1QFY10	% change	Rem. 9MFY11E	Rem. 9MFY10	% change	FY2011E	FY2010	% change
Net Sales	**11,064**	**10,860**	***1.9***	**57,828**	**44,063**	***56.4***	**68,892**	**54,923**	***25.4***
Expenditure	(10,057)	(9,864)	*1.9*	(52,291)	(39,746)	*56.9*	(62,347)	(49,610)	*25.7*
EBITDA	**1,008**	**996**	***1.2***	**5,537**	**4,317**	***51.6***	**6,545**	**5,313**	***23.2***
Other income	9	39	*(77.6)*	174	116	*57.1*	182	155	*17.6*
Interest	(453)	(389)	*16.3*	(1,348)	(1,249)	*44.2*	(1,801)	(1,639)	*9.9*
Depreciation	(157)	(129)	*21.5*	(529)	(413)	*65.9*	(686)	(543)	*26.4*
Profit before tax	**406**	**516**	***(21.3)***	**3,834**	**2,770**	***53.1***	**4,240**	**3,286**	***29.0***
Tax	(125)	(165)	*(24.0)*	(1,282)	(1,012)	*39.1*	(1,408)	(1,177)	*19.6*
Profit after tax	**281**	**351**	***(20.0)***	**2,552**	**1,758**	***61.1***	**2,832**	**2,109**	***34.3***
Key ratios (%)									
EBITDA margin	**9.1**	**9.2**		**9.7**	**9.5**		**9.5**	**9.7**	
PBT Margin	3.7	4.8		6.0	7.2		6.2	6.0	
Net Profit margin	2.5	3.2		3.8	4.8		4.1	3.8	
Effective tax rate	30.9	32.0		35.8	33.0		33.2	35.8	

Source: Company, Kotak Institutional Equities estimates

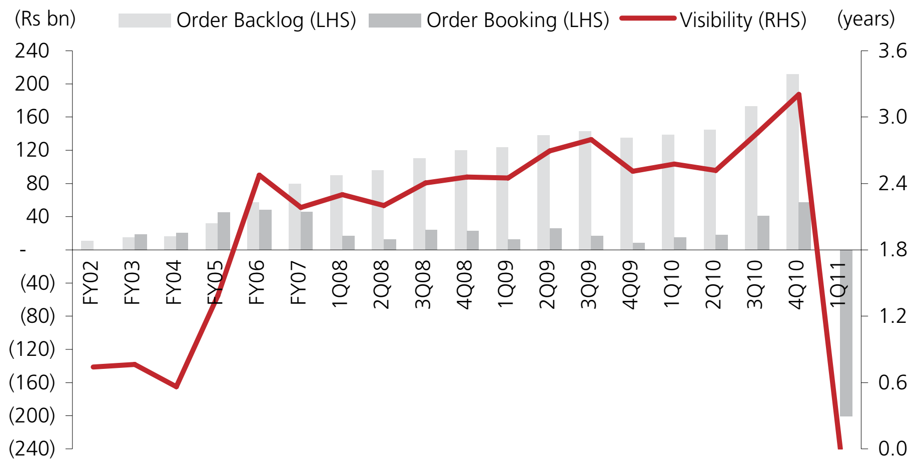
Working capital deteriorates; leads to higher debt levels

The company reported an increase in net working capital to the tune of about Rs6 bn from Rs20.6 bn at end-FY2010 to about Rs26 bn at end-1QFY11. This was led by an increase in inventory and debtor levels (by about Rs2 bn each) and a Rs2 bn decrease in current liabilities. This was funded by a increase in debt level to the same amount. Total gross debt outstanding stood at Rs22 bn at end of 1QFY11 versus about Rs15.5 bn at end-FY2010.

Order inflows remain strong – but execution remains key

The company reported strong order inflows of Rs32 bn in 1QFY11 leading to an order backlog of Rs233 bn. The order backlog of Rs233 bn provides a revenue visibility of about 3.2 years based on forward four quarter revenues.

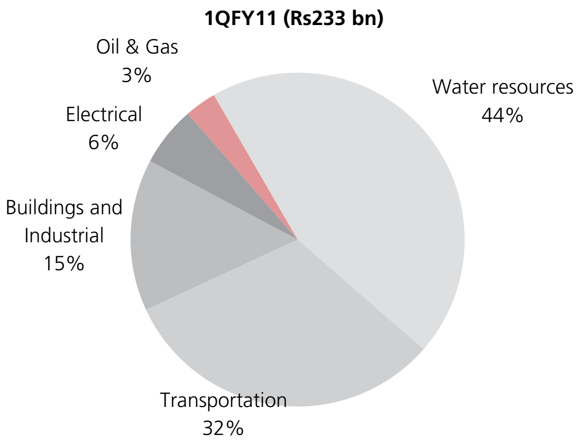
Order book visibility at about 3.2 years based on fwd four qtr revenues
Order backlog, booking and visibility (X) of IVRCL Infrastructure, March fiscal year-ends, 2002-1QFY11

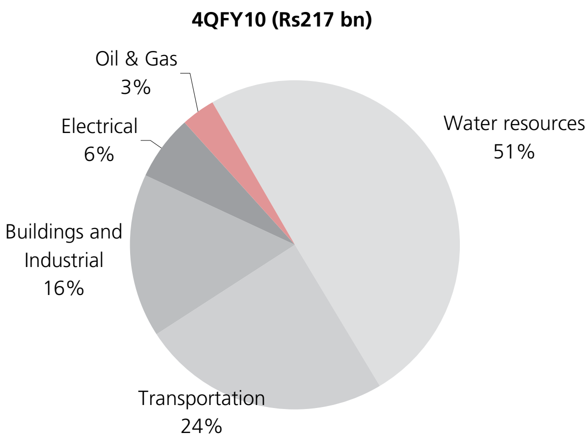


Source: Company, Kotak Institutional Equities estimates

The water segment continued to dominate the order backlog at 44% of the total backlog. Roads segment also contributed to a significant proportion of the backlog at 32% of the backlog. Although the order backlog of the company remains strong, we believe that execution of this large backlog would remain key. The company has faced several issues in some of its projects and resolution of these issues would remain key for driving the revenue growth.

Segment wise breakup of IVRCL's order book at end-1QFY11 and end-4QFY10





Source: Company, Kotak Institutional Equities

Other highlights

- Shadow of doubt on actual margins as prior year credits amount to Rs0.4 bn (equivalent to almost entire 1QFY11 profit before tax)
- Andhra Pradesh-related orders now contribute to only about 16% of the total backlog. The company has only Rs180 mn of direct outstanding from the government of AP and about Rs1 bn outstanding from back-to-back orders.
- Has L1 status in orders to the tune of about Rs30 bn
- Receives toll revenues of about Rs8.3-8.5 mn per day and expects it to increase to Rs10 mn per day by the end of the year. The toll revenues were contributed by about Rs2.7 mn per day revenues from the three road projects (expected to reach levels of Rs4.2-4.3 mn per day in the next few quarters) and Rs5.3 mn per day from the Chennai desalination project
- About Rs7.9 bn of equity invested in BOT projects so far and would require further equity investments to the tune of about Rs13.9 bn over the next 2-3 years for the existing projects
- Cash and bank balance of Rs1.4 bn at end-1QFY11

Revise earnings estimates and target price to Rs210/share; retain BUY

We have revised our earnings estimates for IVRCL to Rs9.1 and Rs11.6 from Rs10.3 and Rs12.4 for FY2011E and FY2012E respectively. Our earnings revision is based on lower execution estimates (by about 6.5-7%) in FY2011E and FY2012E. We have revised our SOTP-based target price to Rs210/share from Rs215/share based on earnings revision and moving to FY2012E-based target price versus Sept-11E based earlier. Our target price of Rs210/share is comprised of (1) Rs151/share from the core construction business based on 13XFY2012E earnings, (2) IVRCL Assets' contribution of Rs40/share, and (3) Rs15/share contribution from Hindustan Dorr Oliver.

Derivation of SOTP based target price for IVRCL

Project/ Business	Valuation (Rs mn)	Rs/ share		Valuation methodology
Value of core construction business	40,265	151	#	P/E multiple of 13X FY2012E earnigns
Value of Hindustan Dorr Oliver	3,925	15	#	Discount to market price
Value of IVRCL Prime Developers Ltd	10,740	40	#	Discount to market price
Total		**212**	**#**	

Source: Company, Kotak Institutional Equities estimates

We reiterate our BUY rating on the stock based on (1) relatively attractive valuations, (2) strong likely near-term earnings growth, (3) high revenue visibility and (4) long-term outlook for infrastructural investments.

Profit model and balance sheet of IVRCL, March fiscal year-ends, 2005-12E (Rs mn)

	2006	2007	2008	2009	2010E	2011E	2012E
Income statement							
Operating Income	**14,957**	**23,059**	**36,606**	**48,819**	**54,923**	**68,892**	**88,846**
Operating Expenses	(12,964)	(19,497)	(30,965)	(41,772)	(46,281)	(58,558)	(75,785)
EBITDA	**1,343**	**2,301**	**3,544**	**4,145**	**5,313**	**6,545**	**8,440**
Other Income	57	74	45	299	155	182	198
Interest & Finance charges	(253)	(308)	(407)	(1,233)	(1,639)	(1,801)	(2,388)
Depreciation	(112)	(216)	(328)	(473)	(543)	(686)	(806)
Profit Before Tax	**1,035**	**1,851**	**2,853**	**2,738**	**3,286**	**4,240**	**5,445**
Tax expense	(100)	(436)	(749)	(478)	(1,177)	(1,408)	(1,808)
PAT	**935**	**1,415**	**2,105**	**2,260**	**2,109**	**2,832**	**3,637**
EPS (Rs)	**8.7**	**10.9**	**15.8**	**16.9**	**7.9**	**10.6**	**13.6**
Balance sheet							
Total share holders funds	**4,770**	**13,217**	**16,060**	**18,106**	**20,228**	**22,939**	**26,455**
Share Capital	214	259	267	267	534	534	534
Reserves & Surplus	4,555	12,918	15,789	17,839	19,694	22,405	25,921
Loan Funds	**6,786**	**5,561**	**10,678**	**13,980**	**13,980**	**16,980**	**20,480**
Working Capital Loan	1,611	2,864	5,215	7,645	—	—	—
Long term	2,275	1,580	5,159	3,949	13,595	16,595	20,095
Total Sources of Funds	**11,598**	**18,834**	**26,841**	**32,203**	**34,208**	**39,919**	**46,936**
Net fixed assets	**1,373**	**2,435**	**3,733**	**5,403**	**6,064**	**6,928**	**7,623**
Net block	1,107	1,929	3,192	5,207	5,864	6,678	7,373
Capital WIP	266	506	541	196	200	250	250
Investments	2,765	2,829	3,409	3,892	4,327	4,627	4,927
Net Current Assets (excl Cash)	**5,016**	**11,332**	**17,928**	**21,900**	**22,051**	**25,790**	**31,536**
Cash and Bank Balances	2,443	2,238	1,772	1,009	1,765	2,574	2,850
Total	**11,598**	**18,834**	**26,841**	**32,203**	**34,208**	**39,919**	**46,936**
Free cash flow							
Net cashflow from operating activites	**(782)**	**(4,340)**	**(3,657)**	**22**	**4,022**	**1,581**	**1,084**
Net PBT	1,035	1,851	2,853	2,738	3,286	4,240	5,445
Add: Depreciation	112	216	328	473	543	686	806
Add: Financial Charges	253	308	407	1,233	1,639	1,801	2,388
Tax paid	(79)	(399)	(650)	(449)	(1,295)	(1,408)	(1,808)
Change in wcap.	(2,103)	(6,316)	(6,596)	(3,972)	(151)	(3,738)	(5,747)
Cash flow from investing activities	**(2,993)**	**(1,407)**	**(2,264)**	**(2,709)**	**(1,640)**	**(1,850)**	**(1,800)**
Free cash flow	**(3,775)**	**(5,747)**	**(5,922)**	**(2,687)**	**2,382**	**(269)**	**(716)**
Key ratios							
EBITDA margin (%)	9.0	10.0	9.7	8.5	9.7	9.5	9.5
PAT margin (%)	6.2	6.1	5.7	4.6	3.8	4.1	4.1
Debt/ equity (X)	1.4	0.4	0.7	0.8	0.7	0.7	0.8
Net debt/ equity (X)	0.9	0.3	0.6	0.7	0.6	0.6	0.7
ROAE (%)	21.2	15.7	14.4	13.2	11.0	13.1	14.7
ROACE (%)	12.3	10.7	10.4	10.5	9.7	10.9	12.1

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Nagarjuna Construction Co. (NJCC)

Construction

BUY

AUGUST 11, 2010

RESULT

Coverage view: Attractive

Price (Rs): 166

Target price (Rs): 210

BSE-30: 18,220

Moderate results, retains strong guidance; faces issues in several projects. Key highlights of 1QFY11 are (1) moderate revenue growth of 8.5% yoy; management maintains full-year guidance – implies strong growth of 25% in rem. 9M11E, (2) strong consolidated performance, (3) toll revenues at Bangalore project remains below par; CoD of road projects in the offing–to boost cons. revenues, (4) strong, well diversified backlog of Rs160 bn and (5) facing issues in several projects (power, real estate). BUY.

Company data and valuation summary

Nagarjuna Construction Co.

Stock data			
52-week range (Rs) (high,low)			198-119
Market Cap. (Rs bn)			42.5
Shareholding pattern (%)			
Promoters			20.2
FIIs			34.4
MFs			20.2
Price performance (%)	**1M**	**3M**	**12M**
Absolute	(10.9)	(5.7)	30.5
Rel. to BSE-30	(12.8)	(10.3)	7.5

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	7.1	11.5	14.3
EPS growth (%)	6.1	61.1	24.1
P/E (X)	23.2	14.4	11.6
Sales (Rs bn)	47.8	69.4	84.1
Net profits (Rs bn)	1.8	2.9	3.7
EBITDA (Rs bn)	4.8	6.8	8.2
EV/EBITDA (X)	11.5	8.7	7.1
ROE (%)	9.3	12.5	13.9
Div. Yield (%)	1.0	1.2	1.2

Moderate standalone revenue growth below estimates; strong performance at consolidated level

Nagarjuna reported 1QFY11 standalone revenue growth of 8.5% to Rs10.7 bn, about 12% below our estimates. EBITDA margin at 9.7% was marginally below our estimate of 10% leading to a net PAT disappointment of 20% versus our estimates - PAT of Rs414 mn in 1QFY11. The company, however, recorded a strong growth of about 16% yoy in consolidated revenues led by strong performance of its international construction subsidiaries. Start of commercial operations of the Bangalore Elevated road project would have also contributed to this revenue growth.

Despite the moderate growth in 1Q, the management has maintained its full-year guidance of Rs58 bn at the standalone level and Rs73 bn at the consolidated level implying a 25% revenue growth requirement in remaining 9MFY11.

Faces issues in several projects; toll revenue below par but CoD of projects to boost cons. numbers

The company is facing issues in several of its projects viz. Sompet 2X660 MW thermal power plant, Dubai Harmony real estate project and National Games Housing Project at Ranchi (Jharkhand) which may lead to delays in execution of these projects. The toll collections at Bangalore road project remains below initial estimates at Rs1.5 mn/day versus estimate of Rs2.5 mn/day. The company is expecting to achieve commercial operations of three of its BOT road project in the near future which would help boost the consolidated revenues of the firm.

Other highlights: Interest decline may reverse, conservative approach to NHAI bids, strong backlog

Other highlights include (1) strong decline in interest expense (despite increase in debt) led by lower borrowing rate may be reversed going forward post implementation of base rates by banks, (2) relatively conservative approach to bids for NHAI projects limits strain on balance sheet and (3) reported inflows of Rs20 bn in 1QFY11 leading to a strong, well diversified backlog of Rs160 bn.

Retain estimates and target price of Rs210/share; reiterate BUY

We have retained our earnings estimates and target price of Rs210/share. We reiterate BUY rating based on (1) attractive valuations, (2) strong growth visibility, (3) ramp-up of business segments, (4) strong progress in BOT projects and (5) long-term outlook of infrastructural investments.

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Results below estimates; records moderate revenue and PAT growth

Nagarjuna reported revenues of Rs10.9 bn, recording a moderate revenue growth of about 8.5% yoy from Rs10 bn in 1QFY10. The revenues were about 12% below our estimates of Rs12.3 bn likely led by lower-than-expected execution of the existing projects in the backlog. EBITDA margin declined by about 70 bps yoy to 9.7% marginally below our estimate of 10% margins – leading to a relatively flat operating profit on a yoy basis. The moderate revenue growth and reduction in interest expense led to a net PAT growth of 8.3% to Rs414 mn, about 20% below our estimate of Rs520 mn.

Nagarjuna Construction - 1QFY11 - standalone key numbers (Rs mn)

					% change					
	1QFY11	1QFY11E	1QFY10	4QFY10	vs est.	yoy	qoq	FY2011E	FY2010	*% chg*
Net sales	**10,865**	**12,323**	**10,010**	**15,227**	**(11.8)**	**8.5**	**(28.6)**	**58,682**	**47,778**	**22.8**
Operating costs	**(9,807)**	**(11,091)**	**(8,972)**	**(13,700)**	**(11.6)**	**9.3**	**(28.4)**	**(52,790)**	**(42,944)**	**22.9**
Construction costs	(8,959)		(8,321)	(12,954)					(40,133)	
(Increase)/Decrease in Stock	583		(261)	(542)		(323.0)	(207.6)		(408)	
Raw materials	(3,645)		(2,793)	(5,886)		30.5	(38.1)		(17,662)	
Other construction expenses	(4,731)		(4,357)	(5,268)		8.6	(10.2)		(17,562)	
Labour	(1,166)		(909)	(1,258)		28.3	(7.4)		(4,501)	
Staff cost	(594)		(454)	(472)		30.8	25.9		(1,841)	
Other expenditure	(254)		(197)	(274)		28.7	(7.2)		(969)	
Operating profit	**1,058**	**1,232**	**1,038**	**1,527**	**(14.2)**	**1.9**	**(30.8)**	**5,892**	**4,834**	**21.9**
Other income	13	10	14	12	21.8	(7.6)	2.3	42	48	(13.5)
Interest cost	(293)	(315)	(346)	(348)	(6.8)	(15.2)	(15.7)	(1,102)	(1,322)	(16.7)
Depreciation	(156)	(149)	(127)	(136)	4.6	23.1	14.5	(635)	(525)	20.8
Profit before tax	**621**	**779**	**578**	**1,055**	**(20.3)**	**7.3**	**(41.2)**	**4,197**	**3,035**	**38.3**
Tax	(207)	(258)	(196)	(437)	(20.1)	5.3	(52.8)	(1,218)	(1,117)	9.0
Profit after tax	**414**	**520**	**382**	**618**	**(20.4)**	**8.3**	**(33.0)**	**2,979**	**1,918**	**55.4**
Exceptional items (net of tax)	-	-	-	408				-	408	
Reported PAT	414	520	382	1,026	(20.4)	8.3	(59.7)	2,979	2,326	28.1
Key ratios (%)										
Construction expenses/ Sales	82.5		83.1	85.1					84.0	
Staff cost	5.5		4.5	3.1					3.9	
Other expenditure	2.3		2.0	1.8					2.0	
EBITDA margin	**9.7**	**10.0**	**10.4**	**10.0**				**10.0**	**10.1**	
PBT margin	5.7	6.3	5.8	6.9				7.2	6.4	
PAT margin	3.8	4.2	3.8	4.1				5.1	4.0	
Effective tax rate	33.3	33.2	33.9	41.5				29.0	36.8	
Order details										
Order booking	20,230		28,740	20,787		(29.6)	(2.7)	88,663	86,787	2.2
Order backlog	160,510		139,020	153,700		15.5	4.4	151,031	153,700	(1.7)

Source: Company, Kotak Institutional Equities estimates

Good performance at consolidated level led by strong subsidiary performance

At the consolidated level the company reported a strong revenue growth of 15.7% yoy to Rs14 bn in 1QFY11 versus Rs12.1 bn in 1QFY11. The subsidiary revenues were contributed by (1) Rs1.8 bn from Nagarjuna Contracting Co. LLC in Dubai, (2) Rs1.13 bn from NCCL International LLC in Muscat and (3) Rs336 mn revenues from NCC Urban Infrastructure Ltd. Consolidated EBITDA margin declined by about 50 bps yoy to 11.2% leading to a net PAT growth of 12.7% yoy to Rs530 mn from Rs470 mn in 1QFY10.

Nagarjuna Construction - 1QFY11 - standalone key numbers (Rs mn)

	1QFY11	1QFY10	% change
Net sales	**13,995**	**12,097**	**15.7**
Operating costs	**(12,424)**	**(10,684)**	**16.3**
Construction costs	(11,061)	(9,670)	14.4
(Increase)/Decrease in Stock	968	538	80.1
Raw materials	(4,354)	(3,775)	15.3
Other construction expenses	(6,355)	(5,433)	17.0
Labour	(1,321)	(1,000)	32.1
Staff cost	(876)	(678)	29.3
Other expenditure	(486)	(337)	44.5
Operating profit	**1,571**	**1,413**	**11.2**
Other income	53	42	26.0
Interest cost	(567)	(551)	2.8
Depreciation	(315)	(236)	33.6
Profit before tax	**742**	**668**	**11.1**
Tax	(212)	(198)	7.5
Profit after tax	**530**	**470**	**12.7**
Key ratios (%)			
Construction expenses/ Sales	79.0	79.9	
Staff cost	6.3	5.6	
Other expenditure	3.5	2.8	
EBITDA margin	**11.2**	**11.7**	
PBT margin	5.3	5.5	
PAT margin	3.8	3.9	
Effective tax rate	28.6	29.6	

Source: Company, Kotak Institutional Equities

Maintains aggressive revenue guidance– implies strong growth in rem. 9MFY11E

The management has maintained its revenue guidance of Rs58 bn at the standalone level and Rs73 bn at the consolidated level for FY2011E. This implies a very strong revenue growth requirement of about 25% yoy in the remaining nine months of FY2011E at the standalone and consolidated level. The management had guided for order inflows of about Rs150 bn in FY2011E including the in-house power project order of Rs50 bn. We believe that the Rs50 bn power project order is likely to get delayed due to several issues being faced by the company. The management is confident of achieving the remaining Rs100 bn of order inflows from other diversified segments in FY2011E – this is versus order inflows of about Rs88 bn in FY2010.

Nagarjuna Construction - 9MFY11E implied standalone key numbers (Rs mn)

	1QFY11	1QFY10	% change	Rem. 9MFY11E	Rem. 9MFY10	% change	FY2011E	FY2010	% change
Net sales	**10,865**	**10,010**	**8.5**	**47,817**	**37,768**	**26.6**	**58,682**	**47,778**	**22.8**
Operating costs	(9,807)	(8,972)	9.3	(42,983)	(33,971)	26.5	(52,790)	(42,944)	22.9
Operating profit	**1,058**	**1,038**	**1.9**	**4,834**	**3,797**	**27.3**	**5,892**	**4,834**	**21.9**
Other income	13	14	(7.6)	29	34	(15.8)	42	48	(13.5)
Interest cost	(293)	(346)	(15.2)	(808)	(976)	(17.2)	(1,102)	(1,322)	(16.7)
Depreciation	(156)	(127)	23.1	(479)	(398)	20.1	(635)	(525)	20.8
Profit before tax	**621**	**578**	**7.3**	**3,576**	**2,456**	**45.6**	**4,197**	**3,035**	**38.3**
Tax	(207)	(196)	5.3	(1,011)	(921)	9.8	(1,218)	(1,117)	9.0
Profit after tax	**414**	**382**	**8.3**	**2,565**	**1,535**	**67.1**	**2,979**	**1,918**	**55.4**
Key ratios (%)									
EBITDA margin	**9.7**	**10.4**		**10.1**	**10.1**		**10.0**	**10.1**	
PBT margin	5.7	5.8		7.5	6.5		7.2	6.4	
PAT margin	3.8	3.8		5.4	4.1		5.1	4.0	
Effective tax rate	33.3	33.9		28.3	37.5		29.0	36.8	

Source: Company, Kotak Institutional Equities estimates

Facing issues in several ongoing projects

The company is facing some issues in several of its ongoing projects which include:

- **Sompet power project:** The National Environmental Appellate Authority (NEAA) has revoked the environmental clearance received by the company for developing the 2X660 MW thermal power plant at Sompet district in Andhra Pradesh. This decision was made about a day after two people protesting against the project were killed in police firing. An ecological study of the area would have to be done and the Ministry of Environment and Forest (MoEF) would then again relook at the decision of the NEAA. All this would likely lead to a delay in the execution of the project. The company has so far invested about Rs830 mn in the project of which about Rs450 mn was toward land acquisition. The management is however hopeful of executing the project without substantial delays and does not expect performance guarantees to be encashed by the client.

- **Dubai Harmony real estate project:** The company has decided to go ahead and take the construction of tower 1 of the Dubai Harmony project to the sixth floor in order to avoid being deemed the developer default status. This would force the investors to either pay the next installment of the apartments or to default on their initial investment. The company has so far invested about Rs1.6 bn in the project (Rs600 mn of equity and Rs1 bn of debt). Highlight that this project had witnessed delays as well as reduction in scope post the real estate slowdown in Dubai.

- **Ranchi real estate development project:** Nagarjuna's National Games Housing Project at Ranchi (Jharkhand) has seen several delays so far. The company has constructed about 1,200 apartments for the stay of athletes and officials during the National Games 2007 at Ranchi; however this has been postponed several times due to the political instability of the region. Only after the games, NCC can transfer possession of the dwelling units to the buyers. The company has already sold about 300 apartments of the project.

Toll revenues below par; CoD of BOT projects to boost consolidated revenues

Toll revenues from the Bangalore Elevated road project remains below par at about Rs1.5 mn per day versus the company's estimate of about Rs2.5 mn per day at the time of bidding. However these numbers are based on three to four months of toll collections and toll collections need to be observed for a longer period to predict a trend.

The company expects to achieve commercial operations of two more road projects by end of 2QFY11 viz. (1) OB Infra annuity based project – the company has already submitted the request for CoD to NHAI and expects to receive the approval for the same by the end of this month and (2) Western UP Tollway – expect to achieve commercial operations by end of September 2010. The third road project (Pondicherry–Tindivanam toll based project) is expected to achieve CoD by Dec-2010. All these projects would help boost the revenues of the consolidated entities. However highlight that these projects have faced several delays in the past.

Excluding Sompet power project, not much equity investment requirement for ongoing BOT projects

Most of the road projects as well as the Himachal Sorang project are in advanced stage of development and hence require only a small amount of residual equity investment. The three BOT road projects together would require an equity investment of about Rs450-500 mn and the Himachal Sorang project would require a further equity investment of about Rs250-300 mn. The major equity investment requirement would be pertaining to the Sompet power plant (Rs4.5 bn) but may be delayed.

Relatively conservative approach to NHAI road projects limits strain on balance sheet

The company has maintained a relatively conservative approach towards bidding for the NHAI road projects versus several aggressive bids seen in the market. This helps limits the strain on the balance sheet of the company in terms of funding requirement for the projects. The company places its bids based on an internal equity IRR target of about 15-16%.

Details of BOT projects of Nagarjuna Construction

	Target COD	Shareholding (%)	Project cost (Rs mn)	NCC's equity (Rs mn)	Venture partners	Purpose
Roads						
Brindavan Infrastructure Co. Ltd.	Jun-10E	33.3	2,475	150	Maytas and KMC	Annuity: 16 semiannual annuities of Rs297mn
Bangalore elevated Corridor Project	Jan-10A	33.5	8,800	973	Maytas and Soma	Toll
Western UP Tollway Ltd.	Sep-10E	50.0	6,670	404	Maytas and Gayatri	Toll
Orai - Bhognipur	Aug-10E	50.3	5,848	936	KMC Consortium	Annuity: 30 semiannual annuities of Rs448 mn
Pondicherry Tindivanam Tollway	Dec-10E	50.0	3,150	330	Maytas Infras Limited	Toll
Himachal Sorang	Nov-11E		5,800	774	Maytas	
NCC Power	Jan-14E		69,550	8,867	—	
Total			**102,293**	**12,434**		

Source: Company, Kotak Institutional Equities

Details of key real estate projects of Nagarjuna Construction

Project	Acres	Stake	Partners	Status	Project description
Ranchi	55	100%	N.A.	In phase 1, 1200 flats have been completed; 200 sold Phase II of 600 flats to be launched later	National games village related project; where company constructs the flats for athletes on free land and post completion of games gets the right to sell 88% of the flats
Vizag	98	95%	Local partner	Launch delayed	About Rs1 bn of land acqusition cost has been paid
Jubilee Hill	6	25%	ICICI Venture	Construction going to start; was held back because of clearances	Five star hotel, high end retail & residential. Rs585 mn of equity has already been invested
Tellapur	100	26%	Tishman Speyer	Launch delayed, however land payments have gone; Rs1.3 bn of equity has been invested	7.5 mn sq. ft. development. Rs1.3 bn of equity has been invested
Dubai	4.2	90%	Local partner	Rs700 mn of equity invested; Rs1.7 bn has been received as advances	Mix use development of 1.45 mn sq. Ft. Earlier was planned as two tower project now scope has been reduced to only one tower; ia also contemplating withdrawal from the project

Source: Company

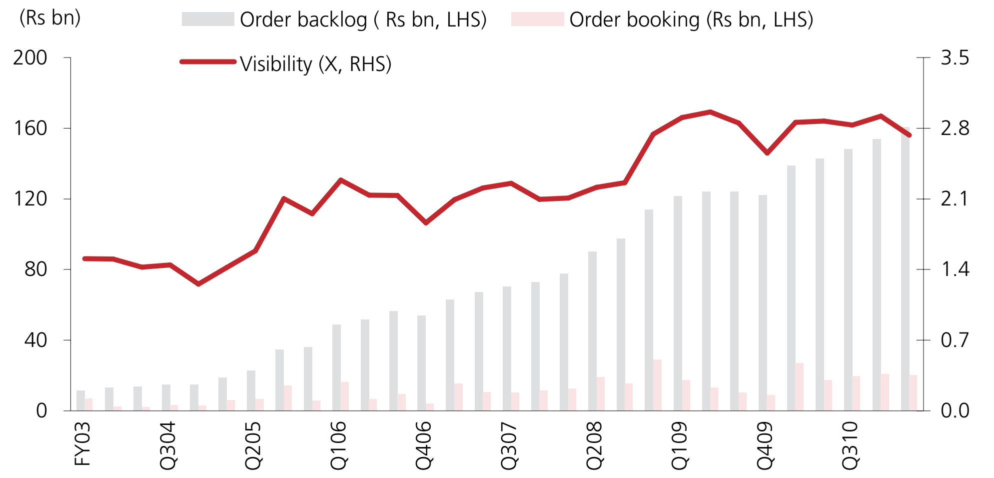
Strong decline in interest cost but may be partially reversed going forward

Nagarjuna reported interest expense of Rs293 mn in 1QFY11, about 15% below 1QFY10 and 4QFY10 numbers of Rs346 mn and Rs348 mn respectively. The lower interest cost for the quarter, despite a Rs2.5 bn increase in debt levels, was attributed to lower average rate of borrowing. However the interest rates are unlikely to sustain at these low levels; the management has cited a hardening in the interest rate levels particularly post the implementation of the base rate by banks.

Strong, diversified backlog provides revenue visibility; execution remains key

The company reported strong order inflows of Rs20 bn in 1QFY11 leading to an order backlog of Rs160 bn. The order backlog of Rs160 bn provides a revenue visibility of about 2.8 years based on forward four quarter revenues.

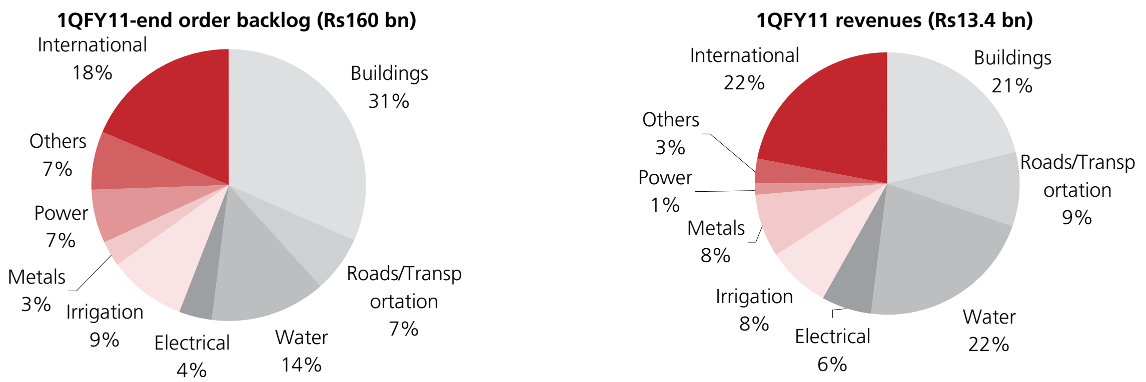
Nagarjuna Construction has visibility of 2.7 years based on forward four quarter revenues
Order backlog, order booking and visibility (X) of Nagarjuna Construction



Source: Company, Kotak Institutional Equities estimates

The order backlog is well diversified among several sectors with maximum contribution from the buildings segment at 31% of the total backlog. The remaining backlog is well diversified between international, water & environment, irrigation and other segments. Although the order backlog of the company remains strong, we believe that execution of this large backlog would remain key.

Nagarjuna Construction - segment order book, March fiscal year-ends, 2009-10



Source: Company, Kotak Institutional Equities

Retain earnings estimates and target price of Rs210/share; reiterate BUY

We retain our earnings estimates of Rs9.1 and Rs11.8 for FY2011E and FY2012E, respectively. Our SOTP-based target price of Rs210/share is comprised of (1) standalone construction business valuation of Rs142/share based on target P/E multiple of 13X Sept-11E earnings, (2) Rs27/share from the international construction subsidiaries based on 13X Sept-11E earnings, (3) Rs28/share contribution from book value of BOT projects, (3) Rs16/share from book value of real estate investments.

Derivation of SOTP based target price for NCCL

Project/Business	Equity commitment (Rs mn)	Valuation (Rs mn)	Rs/share	Valuation methodology
Value of core construction business		**36,370**	**141.7**	**P/E of 13.0X Sept-11E earnings**
Value of international subsidiary		6,791	26.5	P/E of 13.0X Sept-11E earnings
Book value of equity investments in real estate	4,052	4,052	15.8	1X book
Book value of investments in BOT assets	4,838	7,257	28.3	1X book
Value accretion from roads, power and housing projects	**4,356**	**1,954**	**7.6**	
Total			**212**	

Source: Company, Kotak Institutional Equities estimates

We maintain BUY based on (1) relatively attractive valuations, (2) strong growth visibility based on order backlog, (3) ramp-up of business segments in areas like metals, power and international – areas that hold immense potential, (4) strong progress in BOT projects and (5) long-term outlook of strong infrastructural investments.

kotak Institutional Equities

GAIL (India) (GAIL)

Energy

BUY

AUGUST 11, 2010

UPDATE

Coverage view: Cautious

Price (Rs): 443

Target price (Rs): 550

BSE-30: 18,220

Hail of spots to sail GAIL. GAIL management presented an upbeat picture on recent developments and long-term growth plans in an analyst meeting. The key takeaways are—(1) management's expectation of ~10% increase in gas transmission volumes from spot cargoes, (2) significant capex of over ₹290 bn to drive expansion plans in FY2011-13E and (3) steady progress on ongoing pipeline and petrochemical projects. We maintain BUY with 24% potential upside to our 12-month target price of ₹550.

Company data and valuation summary

GAIL (India)

Stock data			
52-week range (Rs) (high,low)			517-312
Market Cap. (Rs bn)			562.1
Shareholding pattern (%)			
Promoters			57.3
FIIs			13.2
MFs			5.1
Price performance (%)	1M	3M	12M
Absolute	(6.1)	3.6	40.9
Rel. to BSE-30	(8.1)	(1.5)	16.1

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	24.8	27.2	40.2
EPS growth (%)	11.7	10.1	47.4
P/E (X)	17.9	16.3	11.0
Sales (Rs bn)	250.4	375.4	506.3
Net profits (Rs bn)	31.4	34.6	50.9
EBITDA (Rs bn)	52.1	57.2	81.0
EV/EBITDA (X)	10.0	10.1	8.2
ROE (%)	17.4	17.0	21.6
Div. Yield (%)	1.7	1.9	2.8

Spot cargoes to boost transmission volumes, offset lower gas production from KG D-6 block

GAIL management expects its gas transmission volumes to increase by ~10% (versus 116.2 mcm/d in 1QFY11) from spot LNG cargoes. We note that GAIL has already received a spot LNG cargo in August at US$7.8/mn BTU and will receive another spot cargo in September 2010. The company plans to transmit 2-3 spot cargoes per month on an ongoing basis in the medium term thereby offsetting the impact of lower gas production from RIL's KG D-6 block. Our FY2011E gas transmission volume estimate of 118 mcm/d should be easily achievable given incremental availability of spot cargoes versus 1QFY11 volume of 116 mcm/d. We model FY2012E volume at 140 mcm/d, which reflects (1) higher gas production from RIL's KG D-6 block, (2) higher LNG imports by Petronet LNG and Shell-Total Hazira terminal and (3) gas production from ONGC's marginal (C-Series) fields.

Significant capex planned over the next five years

GAIL management has indicated a capex plan of ₹416 bn over the next five years including capex of (1) ₹230 bn on gas pipeline projects, (2) ₹88 bn on petrochemical expansion projects and (3) ₹30 bn on E&P activities. We note that the company plans to spend ₹67 bn in FY2011E, ₹86 bn in FY2012E and ₹138 bn in FY2013E on several ongoing projects. The company plans to leverage its healthy debt-equity ratio of 0.08:1 as of June 30, 2010 to finance the intensive capex plans.

Retain BUY rating with 12-month SOTP-based fair valuation of ₹550

We maintain our BUY rating on the stock noting that it offers a 24% potential upside to our 12-month SOTP-based target price of ₹550 from current levels. The management guidance on spot LNG cargoes provides comfort to our gas transmission volume assumptions over the next two years. We also highlight that the recent weakness in chemical margins is not relevant for GAIL as the performance of its chemical segment is dependent on the chemical prices rather than margins. We expect chemical prices to rebound from current low levels due to continued high crude oil prices.

QUICK NUMBERS

- Management guidance of ~10% growth in volumes from spot LNG
- ₹416 bn of capex planned over the next five years
- 24% potential upside to our target price from current levels

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Other highlights of analyst meeting

- **Pipeline projects.** The management reiterated its plan to increase gas transmission capacity to 300 mcm/d (14,000 km) by FY2013E from 150 mcm/d (7,200 km) currently. It expects nearly 2,100 km of gas pipelines under construction to be completed by April 2011 (see Exhibit 1). The company also indicated that a further 2,500 km of gas pipelines including (1) 1,389 km of Dabhol-Bangalore and (2) 1,114 km of Kochi-Mangalore/Bangalore would be ready by December 2012; we have already factored these pipelines in our earnings model.

GAIL to expand gas transportation capacity significantly by FY2013E
Summary status of pipeline projects

Projects	Completion date	Project cost (Rs bn)	Capacity (mcm/d)	Length (km)	Status
Dahej-Vijapur-GREP upgradation	Apr-2011	108.3	60	1,115	Project on schedule to commission in April 2011
Chainsa-Gurgaon-Jhajjhar-Hissar	Apr-2011	12.6	35	349	Chainsa-Gurgaon-Jhajar section (12mcm/d) completed in March 2010
Dadri-Bawana-Nangal	Apr-2011	23.5	31	646	Dadri-Bawana section of the DBN pipeline completed in March 2010
Dabhol-Bangalore	Dec-2012	50.1	16	1,389	Phase I - March 2012 (Dabhol-Bangalore & Spurlines); Phase II - December 2012 (Spurlines)
Kochi-Koottanad-Bangalore/Mangalore	Dec-2012	32.6	16	1,114	Phase I - March 2012 (Kochi - Alwaye & Spurlines); Phase II - December 2012 (Alwaye-Bangaluru-Kanjirikkod-Mangalore & Spurlines)
Jagdishpur-Haldia	Jan-2013	76.0	32	2,050	Phase I - March 2012 (Haldia- Phulpur & Spurlines); Phase II - January 2013 (Compressor station at Haldia & Spurlines)
Total		**303.1**	**190**	**6,663**	

Source: Company, Kotak Institutional Equities

- **Petrochemicals.** GAIL plans to augment the petrochemical capacity at Pata to 500,000 tons by 3QFY11E from 420,000 tons currently by installing a new furnace (#6) at a cost of ₹1.25 bn. It plans to further increase the capacity of Pata plant to 900,000 tons by FY2014-15 at a cost of ₹840 bn; we have not factored the latter expansion in our earnings model currently.

  The company management also indicated its plans to complete the Assam gas cracker project of 0.28 mtpa by April 2012 at a cost of ₹54.6 bn. GAIL owns 70% in the project. We note that the project is currently running six months behind schedule due to shortage of skilled manpower and heavy rains in the ongoing monsoon season.

- **City gas distribution (CGD) business.** GAIL is currently operating eight JVs in CGD business. We note that GAIL Gas Ltd has been authorized by PNGRB to operate four CGD networks.

We value GAIL stock at ₹550 per share

Sum-of-the-parts valuation of GAIL, FY2012E basis (₹ bn)

	Valuation base (Rs bn)		Multiples (X)		EV (Rs bn)		EV
	Other	EBITDA	Other	EV/EBITDA	Other	EBITDA basis	(Rs/share)
Natural gas transportation							
HVJ pipeline	50				50		39
DV pipeline	47				47		37
DUPD pipeline	35				35		27
DBN pipeline	25				25		20
CGJH pipeline	16				16		12
DV GREP pipeline	162				162		128
DB pipeline	18				18		14
KBM pipeline	13				13		10
Short distance pipelines		5.0		7.0		35	28
Total natural gas transportation							**315**
Other businesses							
LPG transportation		2.6		7.0		19	15
LPG production		20.0		7.5		150	118
Petrochemicals		6.2		6.5		40	32
Oil and gas upstream	20		1.0		20		16
Total other business segments							**180**
Investments							
ONGC shares	77		0.9		69		55
Others	31		0.9		28		22
Investments	**108**		**0.9**		**97**		**76**
Total						**244**	**572**
Net debt/(cash)					32	32	26
Implied value of share (Rs/share)							**546**

Source: Kotak Institutional Equities estimates

Key assumptions behind GAIL model, March fiscal year-ends, 2006-14E

	2006	2007	2008	2009	2010E	2011E	2012E	2013E	2014E
Volumes									
Natural gas transportation, gross (mcm/day)									
HBJ pipeline	32	32	32	32	32	32	32	32	32
Dahej-Vijaypur-GREP upgradation							24	28	32
Dadri-Bawana-Nangal (transmitted and sold)					1	2	11	13	16
Dadri-Bawana-Nangal (transmitted)						1	5	12	15
Chainsa-Jhajjar-Hissar (transmitted and sold)						2	3	8	12
Chainsa-Jhajjar-Hissar (transmitted)						1	5	10	15
Other pipelines (transmitted)						14	15	15	15
Other pipelines	36	39	40	39	49	41	37	40	40
Regassified LNG									
Dahej-Vijaipur pipeline (transmitted and sold)	7	6	9	9	15	13	13	13	13
Dahej-Vijaipur pipeline (transmitted)	4	4	6	6	10	13	13	13	13
Dahej-Uran pipeline (transmitted and sold)			6	9	12	7	7	7	7
Dahej-Uran pipeline (transmitted)						5	5	5	5
Panvel-Dabhol pipeline (transmitted and sold)			4	6	8	5	7	7	7
Panvel-Dabhol pipeline (transmitted)						5	5	5	5
Dabhol-Bangalore pipeline								7	8
Kochi-Bangalore/Mangalore pipeline								7	8
Elimination of double-counted volumes (a)	(1)	(3)	(15)	(18)	(21)	(22)	(42)	(61)	(76)
Total gas transmission	**79**	**77**	**82**	**83**	**107**	**118**	**140**	**161**	**168**
Total gas sales						**87**	**107**	**128**	**135**
LPG (000 tons)									
Sold	1,039	1,037	1,039	1,092	1,101	1,100	1,100	1,100	1,100
Transported	2,228	2,490	2,754	2,744	3,160	3,100	3,100	3,100	3,100
Petrochemicals (000 tons)									
Polyethylene									
Domestic sales	271	337	381	423	409	440	450	450	450
Exports	40	10	10	—	—	—	—	—	—
Total petrochemicals	**311**	**347**	**391**	**423**	**409**	**440**	**450**	**450**	**450**
Prices									
Natural gas (Rs/cubic meter)									
Natural gas ceiling price	3.52	4.21	4.21	4.59	5.75	7.55	7.71	7.71	7.71
Regassified LNG including transportation	6.47	6.93	6.44	7.05	12.28	12.48	13.01	13.10	13.11
Transmission plus marketing charges									
HBJ pipeline, Dahej-Vijaipur pipeline (from FY2007)	1.15	0.99	0.96	1.05	0.98	1.16	1.16	1.16	1.16
Dahej-Vijaypur-GREP upgradation					1.95	1.95	1.95	1.95	1.95
Dadri-Bawana-Nangal					0.66	0.66	0.66	0.66	0.66
Chainsa-Jhajjar-Hissar					0.45	0.45	0.45	0.45	0.45
Dahej-Vijaipur, Dahej-Uran, Panvel-Dabhol pipeline	0.69	0.99	1.03	1.04	1.26	0.96	0.96	0.96	0.96
Dabhol-Bangalore pipeline								1.97	1.97
Kochi-Bangalore/Mangalore pipeline								1.42	1.42
Other pipelines	0.42	0.40	0.42	0.44	0.44	0.44	0.44	0.44	0.44
LPG									
LPG (US$/ton)	510	531	702	685	612	673	673	715	715
Transmission charges (Rs/ton)									
Jamnagar-Loni	1,522	1,522	1,522	1,522	1,522	1,522	1,522	1,522	1,522
Vizag-Secunderabad	1,450	1,450	1,450	1,450	1,450	1,450	1,450	1,450	1,450
Other assumptions									
Polyethylene, HDPE (US$/ton)	1,055	1,315	1,500	1,360	1,340	1,200	1,275	1,325	1,350
Import tariff, Polyethylene	10%	5%	5%	5%	5%	5%	5%	5%	5%
Import tariff, LPG	0%	0%	0%	0%	0%	0%	0%	0%	0%
Exchange rate (Rs/US$)	44.3	45.3	40.3	45.8	47.4	46.0	46.0	46.0	46.0
Subsidy losses	10,640	14,880	13,137	17,812	13,267	12,282	8,932	10,272	10,540

Note:
(a) Gas transported through the HVJ or DV pipeline and then to smaller pipelines.

Source: Company, Kotak Institutional Equities estimates

GAIL (India) Ltd: Profit model, balance sheet, cash model of GAIL, March fiscal year-ends, 2006-14E (₹ mn)

	2006	2007	2008	2009	2010E	2011E	2012E	2013E	2014E
Profit model (Rs mn)									
Net sales	163,513	160,472	180,082	237,760	250,404	375,403	506,327	623,257	671,422
EBITDA	**35,981**	**30,649**	**39,275**	**40,647**	**47,761**	**52,753**	**76,729**	**92,263**	**98,099**
Other income	4,555	5,450	5,564	7,966	4,343	4,488	4,300	4,485	4,768
Interest	(1,174)	(1,071)	(796)	(870)	(700)	(1,039)	(3,525)	(6,068)	(7,750)
Depreciation	(5,595)	(5,754)	(5,710)	(5,599)	(5,618)	(6,610)	(9,679)	(12,952)	(14,892)
Pretax profits	**33,767**	**29,274**	**38,333**	**42,144**	**45,785**	**49,592**	**67,825**	**77,727**	**80,225**
Tax	(9,221)	(7,941)	(12,525)	(13,941)	(13,750)	(14,126)	(12,411)	(12,857)	(14,228)
Deferred taxation	(445)	(190)	(10)	(62)	(636)	(901)	(4,470)	(7,332)	(6,341)
Net profits	**23,350**	**24,619**	**26,015**	**28,037**	**31,399**	**34,564**	**50,943**	**57,538**	**59,656**
Earnings per share (Rs)	**18.4**	**19.4**	**20.5**	**22.1**	**24.8**	**27.2**	**40.2**	**45.4**	**47.0**
Balance sheet (Rs mn)									
Total equity	99,733	113,929	130,049	147,696	167,992	189,983	222,436	258,526	295,256
Deferred taxation liability	12,997	13,187	13,197	13,259	13,896	14,797	19,267	26,599	32,940
Total borrowings	19,166	13,379	12,659	12,001	14,804	53,253	131,053	133,853	81,653
Current liabilities	37,522	45,512	60,604	81,548	103,769	110,077	87,680	100,376	105,616
Total liabilities and equity	**169,418**	**186,007**	**216,509**	**254,505**	**300,461**	**368,109**	**460,436**	**519,354**	**515,465**
Cash	44,959	26,604	44,730	34,562	41,785	24,689	16,199	16,461	21,554
Other current assets	28,309	50,851	59,370	87,804	95,329	119,098	141,734	157,560	159,776
Total fixed assets	81,716	93,913	97,500	114,767	142,617	203,592	281,773	324,603	313,405
Investments	14,434	14,638	14,909	17,373	20,730	20,730	20,730	20,730	20,730
Total assets	**169,418**	**186,007**	**216,509**	**254,505**	**300,461**	**368,110**	**460,437**	**519,354**	**515,465**
Free cash flow (Rs mn)									
Operating cash flow, excl. working capital	25,165	23,920	33,692	30,456	33,152	35,813	56,222	67,616	74,237
Working capital changes	5,950	(10,151)	(388)	(5,573)	14,697	(17,462)	(45,032)	(3,131)	3,025
Capital expenditure	(5,811)	(20,449)	(12,419)	(25,535)	(33,310)	(65,810)	(83,290)	(50,060)	(1,810)
Investments	(6,462)	(205)	(270)	(2,464)	(3,358)	—	—	—	—
Other income	3,995	3,884	4,042	5,243	4,343	4,488	4,300	4,485	4,768
Free cash flow	**22,837**	**(3,002)**	**24,658**	**2,127**	**15,524**	**(42,971)**	**(67,801)**	**18,910**	**80,220**
Ratios (%)									
Debt/equity	17.0	10.5	8.8	7.5	8.1	26.0	54.2	46.9	24.9
Net debt/equity	(22.9)	(10.4)	(22.4)	(14.0)	(14.8)	13.9	47.5	41.2	18.3
ROAE (%)	22.1	20.5	19.2	18.4	18.3	17.9	22.8	21.8	19.5
ROACE (%)	**19.9**	**16.1**	**17.8**	**17.5**	**17.2**	**15.5**	**17.0**	**15.7**	**15.8**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

GSPL (GUJS)

Energy

SELL

AUGUST 10, 2010

UPDATE

Coverage view: Cautious

Price (Rs): 112

Target price (Rs): 83

BSE-30: 18,220

Pipedreams in pipelines. Our reverse valuation exercise implies that GSPL stock is discounting a blue-sky scenario of current tariffs sustaining in perpetuity accompanied by steep increase in gas volumes. It appears that the market is relying on regulatory munificence as an investment thesis. We advise investors to sell the stock given (1) 26% potential downside to our 12-month target price of ₹83 from current levels; our assumptions are quite generous, (2) downside risks to gas volumes in medium term and (3) concerns on long-term sustainability of GSPL's transmission tariffs.

Company data and valuation summary

GSPL

Stock data			
52-week range (Rs) (high,low)			114-65
Market Cap. (Rs bn)			63.0
Shareholding pattern (%)			
Promoters			37.7
FIIs			12.5
MFs			10.1
Price performance (%)	**1M**	**3M**	**12M**
Absolute	9.3	18.6	67.2
Rel. to BSE-30	7.0	12.9	37.7

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	7.4	7.2	8.0
EPS growth (%)	234.7	(2.6)	12.1
P/E (X)	15.2	15.6	13.9
Sales (Rs bn)	10.0	10.7	12.2
Net profits (Rs bn)	4.1	4.0	4.5
EBITDA (Rs bn)	9.6	10.1	11.5
EV/EBITDA (X)	7.7	7.6	6.3
ROE (%)	27.3	21.4	20.8
Div. Yield (%)	0.9	1.6	2.9

What if gas supply is lower versus expectations? Fair value = ₹58

We highlight the downside risk to GSPL's transmission volumes given (1) slower-than-expected ramp-up in gas production from RIL's KG D-6 block, (2) lower imported LNG volumes due to low spot cargoes in the near term and (3) slippages in long-dated projects – (a) RIL's NEC-25, (b) ONGC's KG-DWN-98/2 and (c) GSPC's Deen Dayal block. Our fair value of GSPL declines to ₹41 if we were to assume no ramp-up in gas transmission volumes from FY2011E onwards. However, in this scenario GSPL will be compensated by higher gas transmission tariffs to ensure CROCI of say, 14%; this will result in a fair value of ₹58.

What if the regulator decides to allow GSPL to earn 12% (post tax) project IRR? Fair value = ₹60

We note that our fair value of GSPL declines to ₹60 assuming a discount rate of 12%. The new regulations for gas transmission companies permit 12% post-tax or 18% pre-tax return on capital employed; it effectively means the tariff will be fixed by the regulator such that a company earns 12% post-tax project IRR over the life of the pipeline. We have concerns on the sustainability of GSPL's current tariffs and expect them to lower once GSPL is brought under the purview of regulations for long-distance gas transportation pipelines. However, the regulator had been quite generous in the case of GAIL while fixing the tariffs of the HVJ-DV pipeline; the street perhaps expects the regulator to be munificent in the case of GSPL also. It's possible but that's not an investment thesis for us to rely on.

What if all optimistic expectations turn out to be there? Fair value = current stock price

We highlight that the current stock price is already building in a blue-sky scenario of 1QFY11 transmission tariffs of ₹0.77/ cu m sustaining in perpetuity, which translates into high average CROCI of 21.7% in FY2011-21E. We have modeled a rather strong growth in gas transmission volumes to 53.6 mcm/d in FY2013E from 38.8 mcm/d in FY2011E and 32 mcm/d in FY2010. We note that the company is under preliminary discussions with the regulator and it expects the finalization of provisional tariffs by 3QFY11E.

QUICK NUMBERS

- Stock price discounting 1QFY11 tariff of ₹0.77/cu m in perpetuity
- Fair value declines to ₹60 assuming regulated returns
- Fair value declines to ₹58 assuming 1QFY11 volumes and tariffs in perpetuity

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GSPL's valuation is highly sensitive to tariff assumptions
DCF valuation, CROCI and ROCE at various levels of average tariff, 2011-21E

Average tariff (Rs/cu m)	Valuation (Rs/share)	CROCI (%)	ROCE (%)	Comments
0.77	**123**	**21.7**	**48.7**	**1QFY11 tariffs in perpetuity**
0.70	106	19.7	42.7	
0.61	**83**	**17.0**	**33.0**	**Base case**
0.55	73	15.6	29.9	
0.50	**60**	**14.0**	**25.0**	**Likely regulated CROCI**
Assuming flat volumes from FY2011E onwards				
0.61	41	11.9	15.7	
0.72	**58**	**14.0**	**23.1**	**Likely regulated CROCI**

Source: Kotak Institutional Equities estimates

Various scenarios—pipedreams in gas pipelines

- **Scenario 1—1QFY11 gas transmission volumes and tariff in perpetuity.** Our 12-month DCF valuation for GSPL comes to ₹58 if we assume 1QFY11 gas transmission volume of 36.3 mcm/d and ₹0.77/cu m tariff in perpetuity. We use a discount rate of 12%, which is equal to the post-tax project IRR allowed by regulations for gas transmission companies. Exhibit 2 gives the tariff, volume, CROCI and pre-tax ROCE for each of the years in our explicit forecast period (FY2011-21E).

12-month fair value declines to ₹58 assuming 1QFY11 transmission volumes and tariff in perpetuity
CROCI and Pre-tax ROCE, March fiscal year-ends, 2011-21E (%)

	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Transmission tariffs (Rs/cu m)	0.77	0.77	0.77	0.77	0.77	0.77	0.77	0.77	0.77	0.77	0.77
Gas volumes (mcm/d)	36.3	36.3	36.3	36.3	36.3	36.3	36.3	36.3	36.3	36.3	36.3
CROCI	17.6	15.5	15.0	14.6	14.2	13.8	13.5	13.1	12.8	12.5	11.2
Pre-tax ROCE	20.9	18.0	19.6	22.2	24.9	26.7	28.1	29.7	31.5	33.5	44.5

Source: Kotak Institutional Equities estimates

- **Scenario 2—steep increase in volumes and ₹0.5/cu m tariff in perpetuity.** Our 12-month DCF valuation for GSPL comes to ₹60 if we assume gas transmission volume as per our base model and ₹0.5/cu m tariff in perpetuity. Exhibit 3 gives our tariff and gas transmission volume assumptions for GSPL and also the corresponding CROCI and post-tax ROCE for each of the years in FY2011-21E. We assume GSPL's gas transmission volume to increase to 62.6 mcm/d in FY2016E (flat beyond FY2016E) from 36.3 mcm/d in 1QFY11. We use a discount rate of 12%, which is equal to the post-tax project IRR allowed by regulations for gas transmission companies.

12-month fair value declines to ₹60 assuming tariff of ₹0.5/cu m in perpetuity
CROCI and Pre-tax ROCE, March fiscal year-ends, 2011-21E (%)

	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Transmission tariffs (Rs/cu m)	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Gas volumes (mcm/d)	38.8	47.1	53.6	57.6	59.6	62.6	62.6	62.6	62.6	62.6	62.6
CROCI	12.2	14.3	14.3	14.7	14.8	15.1	14.8	14.4	14.1	13.8	12.4
Pre-tax ROCE	11.4	13.7	19.0	24.6	29.4	34.1	36.0	38.3	40.8	43.7	57.0

Source: Kotak Institutional Equities estimates

- Scenario 3—steep increase in volumes and 1QFY11 tariff in perpetuity. Our 12-month DCF-valuation for GSPL increases to ₹123 if we assume GSPL's 1QFY11 tariff persists in perpetuity and its gas transmission volumes increase as per our base model. The current valuation comes to ₹110, which effectively means the stock is discounting a scenario of (1) no change in tariffs in perpetuity and (2) steep increase in gas transmission volumes. Exhibit 4 gives the tariff, gas transportation volumes, CROCI and post-tax ROCE for FY2011-21E.

12-month fair value increases to ₹123 assuming 1QFY11 tariff in perpetuity

CROCI and Pre-tax ROCE, March fiscal year-ends, 2011-21E (%)

	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Transmission tariffs (Rs/cu m)	0.77	0.77	0.77	0.77	0.77	0.77	0.77	0.77	0.77	0.77	0.77
Gas volumes (mcm/d)	38.8	47.1	53.6	57.6	59.6	62.6	62.6	62.6	62.6	62.6	62.6
CROCI	18.6	19.5	21.4	22.4	22.8	23.4	23.0	22.6	22.3	21.9	20.5
Pre-tax ROCE	22.8	25.9	32.5	38.7	43.9	49.9	52.2	55.0	58.1	61.7	73.6

Source: Kotak Institutional Equities estimates

DCF valuation of GSPL (₹ mn)

	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
EBITDA	9,861	11,259	11,650	11,549	11,388	11,970	11,945	11,919	11,891	11,861	11,829	11,829	11,829
Adjusted tax expense	(1,598)	(2,641)	(2,959)	(3,064)	(3,133)	(3,461)	(3,586)	(3,697)	(3,794)	(3,880)	(4,491)		
Change in working capital	(5,009)	(2,207)	(25)	3	7	(35)	—	—	—	—	—		
Operating cash flow	**3,255**	**6,410**	**8,665**	**8,488**	**8,262**	**8,474**	**8,359**	**8,222**	**8,097**	**7,981**	**7,338**		
Capital expenditure	(4,076)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(1,761)		
Free cash flow	**(821)**	**6,160**	**8,415**	**8,238**	**8,012**	**8,224**	**8,109**	**7,972**	**7,847**	**7,731**	**5,578**	**5,578**	**5,578**
Discounted cash flow	**(761)**	**5,097**	**6,217**	**5,434**	**4,719**	**4,323**	**3,806**	**3,341**	**2,936**	**2,582**	**1,663**		
Discounted cash flow-1 year forward		5,711	6,963	6,086	5,285	4,844	4,263	3,742	3,289	2,893	1,863	1,663	
Discounted cash flow-2 year forward			7,801	6,816	5,919	5,425	4,776	4,191	3,683	3,240	2,087	1,863	1,663

	Now	+ 1-year	+ 2-years
Discount rate (%)	12.0	12.0	12.0
Total PV of free cash flow	39,358	46,601	47,465
Terminal value assumption			
Growth to perpetuity (%)	—	—	—
FCF in 2021E	5,578	5,578	5,578
Exit FCF multiple (X)	8.3	8.3	8.3
Exit EV/EBITDA multiple (X)	3.9	3.9	3.9
Terminal value	46,480	46,480	46,480
PV of terminal value	13,861	13,861	13,861
Total company value	**53,219**	**60,461**	**61,325**
Net debt	10,856	13,609	10,114
Equity value	42,363	46,853	51,211
Shares outstanding (mn)	562	562	562
Estimated share price using DCF	**75**	**83**	**91**

Fiscal Year end (March 31, XXXX)	March-11	March-12	March-13	March-14	March-15	March-16	March-17	March-18	March-19	March-20	March-21	March-22	March-23
Today	30-Jul-10	30-Jul-10	30-Jul-10	30-Jul-10	30-Jul-10	30-Jul-10	30-Jul-10	30-Jul-10	30-Jul-10	30-Jul-10	30-Jul-10	30-Jul-10	30-Jul-10
Days left	244	610	975	1,340	1,705	2,071	2,436	2,801	3,166	3,532	3,897	4,262	4,627
Years left	0.67	1.67	2.67	3.67	4.67	5.67	6.67	7.67	8.67	9.68	10.68	11.68	12.68
Discount factor at WACC	**0.93**	**0.83**	**0.74**	**0.66**	**0.59**	**0.53**	**0.47**	**0.42**	**0.37**	**0.33**	**0.30**	**0.27**	**0.24**

Source: Kotak Institutional Equities estimates

GSPL: Profit model, balance sheet, cash model, March fiscal year-ends, 2007-14E (₹ mn)

	2007	2008	2009	2010E	2011E	2012E	2013E	2014E
Profit model (Rs mn)								
Net sales	3,176	4,179	4,875	10,009	10,666	12,155	12,623	12,578
EBITDA	**2,677**	**3,645**	**4,249**	**9,414**	**9,861**	**11,259**	**11,650**	**11,549**
Other income	175	294	243	159	284	263	263	262
Interest	(457)	(815)	(870)	(938)	(1,148)	(1,227)	(814)	(349)
Depreciation	(1,026)	(1,632)	(1,705)	(2,365)	(2,961)	(3,531)	(3,519)	(3,511)
Pretax profits	1,369	1,491	1,918	6,269	6,036	6,764	7,580	7,952
Contribution towards GSEDS	—	—	—	—	—	—	—	—
Tax	(70)	(389)	(536)	(1,870)	(1,342)	(2,236)	(2,672)	(2,936)
Deferred taxation	(409)	(82)	(145)	(261)	(663)	(11)	154	294
Net profits	**894**	**999**	**1,234**	**4,138**	**4,031**	**4,517**	**5,062**	**5,310**
Earnings per share (Rs)	**1.6**	**1.8**	**2.2**	**7.4**	**7.2**	**8.0**	**9.0**	**9.4**
Balance sheet (Rs mn)								
Total equity	9,659	11,410	12,152	15,637	18,489	20,899	23,010	24,605
Deferred tax liability	917	999	1,144	1,405	2,068	2,079	1,925	1,631
Total borrowings	8,638	9,660	11,509	12,595	14,665	11,165	5,965	1,365
Currrent liabilities	1,845	5,106	5,331	8,334	3,165	1,041	1,041	1,042
Total liabilities and equity	**21,059**	**27,175**	**30,137**	**37,972**	**38,387**	**35,184**	**31,941**	**28,642**
Cash	1,811	2,569	975	1,740	1,057	1,052	1,051	1,016
Current assets	2,126	2,928	4,641	5,808	5,647	5,730	5,756	5,754
Total fixed assets	17,029	21,259	24,132	29,755	31,014	27,733	24,465	21,204
Investments	—	356	356	666	666	666	666	666
Deferred expenditure	93	63	33	3	3	3	3	3
Total assets	**21,059**	**27,175**	**30,137**	**37,972**	**38,387**	**35,184**	**31,941**	**28,642**
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	2,212	2,743	2,918	6,435	7,227	7,796	8,163	8,265
Working capital changes	(1,058)	2,460	(1,752)	1,836	(5,009)	(2,207)	(25)	3
Capital expenditure	(4,404)	(5,863)	(4,579)	(7,787)	(4,076)	(250)	(250)	(250)
Investments	—	(356)	—	(310)	—	—	—	—
Other income	146	—	297	159	284	263	263	262
Free cash flow	**(3,103)**	**(659)**	**(3,116)**	**642**	**(1,574)**	**5,602**	**8,151**	**8,280**
Ratios (%)								
Debt/equity	81.7	77.9	86.6	73.9	71.3	48.6	23.9	5.2
Net debt/equity	45.0	43.8	46.4	42.5	41.6	32.7	19.3	4.9
RoAE	8.8	8.8	9.6	27.3	21.4	20.8	21.1	20.8
RoACE	**10.0**	**8.2**	**8.6**	**18.6**	**17.2**	**15.4**	**16.7**	**17.9**
CROCI	**13.5**	**16.9**	**14.8**	**23.6**	**18.2**	**18.0**	**18.1**	**17.6**
Key assumptions								
Volumes-old pipelines (mcm/d)	12.6	12.7	11.1	13.8	14.0	15.0	17.0	20.0
Volumes-new pipelines (mcm/d)	1.7	4.1	3.8	18.2	24.8	32.1	36.6	37.6
Volumes (mcm/d)	**14.3**	**16.8**	**14.9**	**32.0**	**38.8**	**47.1**	**53.6**	**57.6**
Average tariff (Rs/cu m)	**0.61**	**0.67**	**0.83**	**0.86**	**0.75**	**0.71**	**0.65**	**0.60**

Source: Company, Kotak Institutional Equities estimates

AUGUST 11, 2010

UPDATE

BSE-30: 18,220

US Fed gets more bearish, maintains stimulus at current levels. We see the FOMC decision on August 10, 2010 as clear sign of getting more bearish. However, for now it chose to maintain stimulus rather than adding to it through its decision to keep constant the Federal Reserve's holdings of securities at their current level by reinvesting principal payments from agency debt and agency mortgage-backed securities in longer-term Treasury securities.

US Fed turns more bearish at its August 10 FOMC meeting

The statement issued by the US Fed's Federal open Markets Committee (FOMC) on conclusion of its August 10, 2010 meeting suggests that the US Fed is turning more bearish on the US economy. It said, *"the pace of recovery in output and employment has slowed in recent months"* and added that, *"pace of economic recovery is likely to be more modest in the near term than had been anticipated."* In contrast with its June statement, we see these remarks as clear signs of the Fed turning more bearish.

FOMC decision on MBS and agency debt is maintenance of QE

The FOMC at its meeting yesterday night decided to (1) keep its policy rate – the intended (or target) federal funds rate – unchanged at 0-0.25%, (2) keep constant the Fed's holdings of securities at their current level by reinvesting principal payments from agency debt and agency mortgage-backed securities in longer-term Treasury securities and (3) to continue to roll over the Federal Reserve's holdings of Treasury securities as they mature. We see (2) and (3) as implying that the QE based stimulus is maintained at its current level, as Fed's reserve balances in SOMA could be maintained at about its current level of about US$2 tn. On the other hand, through this clever move, the Fed can clean up its balance sheet substantially.

Fed decision likely to leave financial markets broadly stable

The decision should help keep financial markets broadly stable as an expansion in QE could have accelerated weakening of the US dollar on the back of speculation that the Fed might increase the QE. Their may be some relief rally for US dollar now that may spill over to a slightly weaker rupee from the current levels. The bond yields should also remain broadly stable with marginal upward bias. If Fed had taken no action on reinvesting agency debt, it would have implied gradual roll-back of stimulus that would have left markets across asset classes much weaker.

QUICK NUMBERS

- FOMC keeps Fed funds target at 0-0.25%; unlikely to raise till 2HCY11E, in our view
- Fed to reinvest agency MBS & debt; maintain QE with reserve balances at about US$2 tn
- Us$ may rally in near term leaving rupee marginally weaker in near term

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US Fed turns more bearish at its August 10 FOMC meeting

The statement issued by the US Fed's Federal open Markets Committee (FOMC) on conclusion of its August 10, 2010 meeting suggests that the US Fed is turning more bearish on the US economy. It said, "*the pace of recovery in output and employment has slowed in recent months*" and added that, "*pace of economic recovery is likely to be more modest in the near term than had been anticipated.*" We see these remarks as clear signs of the Fed turning more bearish on the outlook on the US economy. After its June 2010 meeting the FOMC had said that *"economic activity is proceeding"* and the *"labor market is improving gradually."* As such, we note this important change in the central bank's lingo as a clear sign that it has turned more bearish on the outlook for the US.

Other significant changes in the Fed statement also indicated its more bearish outlook:

- "*household spending is increasing gradually*", thus adding the word 'gradually' to its June statement.

- business spending on equipment and software "*is rising"*, by dropping the word 'significantly' and changing the tense from its June statement had said that it *"has risen significantly."*

On the other hand, the FOMC dropped the mention of deterioration in financial conditions stemming from Europe, and it continued to reflect on the stagnation in housing starts, weakness in non-residential structures and continued contraction in bank credit. On inflation, the statement dropped the reference to lower energy and commodity prices, but said that underlying inflation has trended lower "*in recent quarters*" while continuing to point to the stability of inflation expectations.

FOMC keeps rate, Fed's treasury holdings at current levels

The FOMC at its meeting yesterday night decided to:

- keep its policy rate the intended (or target) federal funds rate unchanged at 0-0.25%.

- keep constant the Fed's holdings of securities at their current level by reinvesting principal payments from agency debt and agency mortgage-backed securities in longer-term Treasury securities

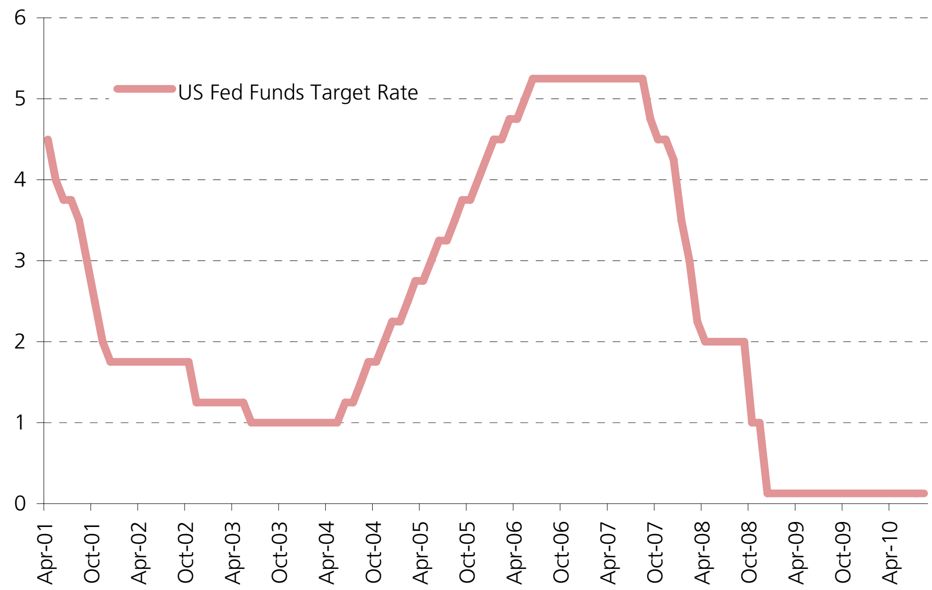
- to continue to roll over the Federal Reserve's holdings of Treasury securities as they mature

The 10-member FOMC voted 9-1 for the FOMC decision. The FOMC retained the crucial phrase in its statement that it, "*anticipate that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period.*" Thomas Hoeing continued to vote against the FOMC decision as he believed that continuing to express the expectation of exceptionally low levels of the federal funds rate for an extended period was no longer warranted and limits the Committee's ability to adjust policy when needed. In addition, Hoeing also dissented on the decision to keep constant the size of the Fed's holdings of longer-term securities at their current level and felt that this was not required to support a return to the Committee's policy objectives.

The minutes of FOMC's April meeting revealed that Hoeing had suggested an increase in the target federal funds rate to 1% during the summer, before then pausing to further assess the economic outlook. He added that this would "*also mitigate the need to push the policy rate to higher levels later in the expansionary phase of the economic cycle*".

The Federal funds rate is the interest rate at which depository institutions lend balances to each other overnight. By open market operations through trading of treasury (government) securities, the Fed affects the federal funds rate to bring it in line with its target. The Fed has been maintaining its target Fed funds rate at the current level since December 16, 2008 after having brought it down from 5.25% in 10 rate cuts starting September 18, 2007 (3 cuts of 25 bps each, 4 of 50 bps, 2 of 75 bps and 1 of 75-100 bps) (see Exhibit).

Exhibit: US Fed stays at zero nominal lower bound (ZLB) interest rate policy
Intended US Federal Funds rate (US Fed policy rate target), CY2001-10, (%)



Source: Kotak Institutional Equities

Half the Hoeing makes sense to us, liquidity trap risks significant

We agree with the first cause of dissent from Hoeing, but not the second part so that 'half the Hoeing' makes sense to us. While a simple application of Taylor's rule suggests that the Fed funds target should still be negative, the risks from zero lower nominal bound (ZLB) interest rate policy are huge. Any Economics 001 student also knows of the liquidity trap that arises in these conditions, leaving monetary policy totally ineffective. Japan has gone down the prolonged recession drain as a result. St. Louis Fed President, James Bullard, who voted with the FOMC majority, also recently highlighted the 2001 Benhabib et al. research paper, 'The Perils of Taylor Rule' that showed that pursuing an active monetary policy (where the policy rate responds to changes in inflation in > 1:1 ratio leads to a steady state, where cetris paribus, inflation and the policy-intended nominal interest rate are in balance. However, it risks a steady state where inflation turns negative, nominal rates reach the zero bound and monetary policy becomes passive with actual and expected inflation turning negative and remaining negative as is currently in Japan. Bullard noted that these risks have been raised by the commitment to keep the policy rate low for an "*extended period*".

However, we find Hoeing's opposition to keeping the size of the Fed's holdings of longer-term securities at their current level as puzzling as there is little alternative to that at the moment. We think, the Fed can raise the interest rate on reserves from the current 0.25% to serve gradual exit while maintaining QE. However, with FOMC turning more bearish for now, its chances are diminished.

FOMC decision on MBS and agency debt is maintenance of QE

In our assessment, the Fed's decision to reinvest principal payments of agency MBS and agency debt is maintenance of its stimulus through quantitative easing (QE) at its current levels. It may belly hopes in a segment of financial markets that Fed may expand QE stimulus. A decision to do so could have triggered widespread reaction in global financial markets that could have weakened US dollar and generated a bond rally. Instead the decision would now:

- Help Fed clean its balance sheet by increasing its holding Treasury securities by reducing the lesser quality MBS and agency debt portfolio, by keeping its reserve balances unchanged. This would mean the overall QE may be kept at current levels.

We find it as a clever Fed move that may seemingly look as a return to more QE that the US financial markets seem to be looking for, while at the same time helping the process of a very gradual normalization as the US mortgage and other segment of financial markets as they would be forced to live with lesser Fed support for poor quality quasi federal paper. Absence of reinvestment decision would have meant that Fed's expanded balance sheet may have begun to contract.

Mortgage backed Securities (MBS) are securities backed by mortgages as the underlying assets. In the US, mortgage securitization has been dominated by two government agencies – Fannie Mae and Freddie Mac. The Federal Housing Administration (FHA) and Ginnie Mae are also significant players in this space. By contrast, private-label securitization became a significant presence in mortgage securitization only during the past decade, motivated in part by developments in financial engineering.

Agency debt is debt obligation owed by an agency of the U.S. Government. While similar to a Treasury security, agency bonds are issued by a particular agency of the federal government, rather than the federal government itself. These agencies include Ginnie Mae, the Federal Farm Credit Bank, and the U.S. Postal Service. With the exceptions of the Postal Service and the Tennessee Valley Authority, all these obligations are guaranteed by the U.S. Government. They offer higher interest rates than Treasury securities. In Fed's terminology, it distinguishes agency debt from MBS in that the former is not mortgaged backed.

The most recent H.4.1 data release by the Fed indicates that outright holdings of domestic securities in the System Open Market Account (SOMA) totaled US$2.05 tn as of August 4, 2010, of which US$1.12 tn is MBS, US$0.16 tn is Federal agency debt securities and the rest are in other forms.

We now expect the US Fed's open market operations desk at the New York Fed to start buying US Treasury securities, mainly with 2-10 year tenors, on the basis of a monthly calendar designed to offset the principal payments from agency MBS and agency debt.

Fed decision may keep markets stable; dollar may rally in near term

In our assessment, the decision should help keep financial markets broadly stable. An expansion in QE could have:

- accelerated weakening of the US dollar that has already occurred on the back of speculation that the Fed might increase the QE. Their may be some relief rally for US dollar now that may spill over to a slightly weaker rupee from the current levels.

- the bond yields should also remain broadly stable with marginal upward bias in near term as the larger QE hopes may be dashed. However, the bearish outlook provided by the Fed should give room for pricing in 4QCY10 and a 1QCY11 bond rally globally and a 1QCY11 bond rally in India. We expect the OIS to price this in.

- If Fed had taken no action on reinvesting agency debt, it would have implied gradual roll-back of stimulus that would have left markets across asset classes much weaker. The Fed decision and communication in totality should broadly keep the markets stable. However, the bearish outlook should soften the oil and metal future commodity prices. An explicit QE expansion on the other hand could have fuelled return of commodity inflation.

- It would be interesting to see how the market prices future asset price movements as the Fed communication implies the risks of double dip remains.

June 2010: Earnings announcement calendar

Mon	Tue	Wed	Thu	Fri	Sat
9-Aug	**10-Aug**	**11-Aug**	**12-Aug**	**13-Aug**	**14-Aug**
		Bharti Airtel	Apollo Hospitals	Ackruti City	Lanco Infratech
		Bosch	Cummins India	Adani Enterprises	National Aluminium
		Financial Technologies	Divis Laboratories	Cipla	Unitech
		Videocon Industries	Hindustan Copper	Gammon India	
		Bajaj Hindustan	Indiabulls Real Estate	Koutons Retail	
		Parsvnath Developer	Moser Baer	Patel Engineering	
			MTNL	Reliance Communications	
			Ranbaxy Laboratories	Suzlon Energy	
			Shree Renuka Sugar	Wockhardt	
			State Bank of India		
			Tata Power		
			Tata Steel		

Source: BSE, Kotak Institutional Equities

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	10-Aug-10 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS (Rs) 2012E	EPS growth (%) 2010E	EPS growth (%) 2011E	EPS growth (%) 2012E	PER (X) 2010E	PER (X) 2011E	PER (X) 2012E	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	EV/EBITDA (X) 2012E	Price/BV (X) 2010E	Price/BV (X) 2011E	Price/BV (X) 2012E	Dividend yield (%) 2010E	Dividend yield (%) 2011E	Dividend yield (%) 2012E	RoE (%) 2010E	RoE (%) 2011E	RoE (%) 2012E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Automobiles																													
Ashok Leyland	71	ADD	94,052	2,027	1,330	2.8	4.3	5.9	84.5	52.3	37.5	25.1	16.4	12.0	14.5	10.9	8.6	2.3	2.1	1.9	2.1	1.4	1.4	10.9	13.5	16.7	78	10.3	9.3
Bajaj Auto	2,651	ADD	383,527	8,267	145	117.7	169.0	189.5	160.1	43.6	12.2	22.5	15.7	14.0	14.6	11.1	9.7	13.1	7.6	5.2	0.8	0.8	0.8	70.9	61.4	44.0	2,650	(0.0)	13.9
Bharat Forge	344	ADD	82,152	1,771	239	0.7	12.4	19.7	(92.0)	1,705.4	59.1	499.9	27.7	17.4	20.7	9.3	5.8	2.2	2.1	1.9	—	—	—	0.9	0.4	0.1	360	4.8	4.8
Hero Honda	1,867	SELL	372,780	8,035	200	111.8	115.3	130.1	74.1	3.1	12.8	16.7	16.2	14.4	10.7	10.7	9.0	10.3	7.2	5.4	1.6	1.7	1.9	59.1	52.5	42.8	1,800	(3.6)	19.9
Mahindra & Mahindra	641	BUY	381,756	8,228	595	33.9	44.1	51.7	125.8	30.1	17.3	18.9	14.5	12.4	12.5	10.5	8.8	4.7	3.8	3.1	1.4	1.4	1.5	30.0	29.0	27.3	760	18.5	25.8
Maruti Suzuki	1,227	REDUCE	354,675	7,645	289	86.4	77.6	88.3	104.9	(10.2)	13.9	14.2	15.8	13.9	7.5	7.9	6.8	3.0	2.5	2.2	0.5	0.4	0.5	23.3	17.3	16.7	1,200	(2.2)	22.4
Tata Motors	957	ADD	599,458	12,921	626	23.8	27.1	35.0	137.8	13.5	29.4	40.2	35.4	27.4	17.9	16.5	14.3	3.3	2.9	2.5	1.4	0.6	0.6	8.6	8.6	9.1	1,150	20.1	85.6
Automobiles		**Cautious**	**2,268,401**	**48,893**					**109.9**	**19.4**	**17.3**	**22.2**	**18.6**	**15.9**	**13.0**	**11.5**	**9.7**	**4.3**	**3.6**	**3.0**	**1.2**	**0.9**	**1.0**	**19.4**	**19.1**	**18.6**			
Banks/Financial Institutions																													
Andhra Bank	146	BUY	70,665	1,523	485	21.6	22.9	26.7	60.1	6.4	16.4	6.8	6.4	5.5	—	—	—	1.6	1.4	1.1	3.4	3.7	4.3	26.0	23.1	22.7	180	23.5	4.4
Axis Bank	1,295	ADD	524,660	11,309	405	62.1	78.1	98.3	22.7	25.9	25.9	20.9	16.6	13.2	—	—	—	3.3	2.8	2.4	0.9	1.2	1.5	19.2	18.3	19.9	1,500	15.8	47.5
Bank of Baroda	762	BUY	278,496	6,003	366	83.7	95.1	115.7	37.3	13.7	21.7	9.1	8.0	6.6	—	—	—	2.0	1.7	1.4	2.0	2.2	2.7	24.4	23.0	23.3	950	24.7	9.0
Bank of India	436	REDUCE	229,246	4,941	526	33.1	49.9	58.1	(42.1)	50.9	16.4	13.2	8.7	7.5	—	—	—	1.8	1.6	1.3	1.6	2.4	2.8	14.2	19.0	19.2	460	5.5	7.9
Canara Bank	484	ADD	198,461	4,278	410	73.7	82.2	98.3	45.8	11.6	19.5	6.6	5.9	4.9	—	—	—	1.6	1.3	1.0	1.7	2.1	2.5	22.4	20.8	20.8	580	19.8	6.4
Corporation Bank	581	BUY	83,302	1,795	143	82.0	88.0	102.6	31.8	7.3	16.6	7.1	6.6	5.7	—	—	—	1.4	1.2	1.1	2.8	3.0	3.6	22.0	20.2	20.2	700	20.5	1.1
Federal Bank	330	ADD	56,364	1,215	171	27.2	36.4	49.0	(7.2)	34.1	34.4	12.1	9.0	6.7	—	—	—	1.2	1.1	1.0	1.5	2.0	2.7	10.3	12.6	15.2	360	9.2	6.2
HDFC	3,073	ADD	882,346	19,018	287	98.4	116.1	138.9	22.7	17.9	19.6	31.2	26.5	22.1	—	—	—	5.8	5.1	4.5	1.2	1.3	1.6	20.0	20.6	21.7	3,450	12.3	38.5
HDFC Bank	2,095	BUY	959,041	20,671	458	64.4	87.2	113.8	22.1	35.4	30.5	32.5	24.0	18.4	—	—	—	4.5	3.9	3.3	0.6	0.8	1.0	16.1	17.3	19.5	2,400	14.6	31.6
ICICI Bank	989	REDUCE	1,102,514	23,764	1,115	36.1	45.2	57.3	6.9	25.3	26.6	27.4	21.9	17.3	—	—	—	2.1	2.0	1.9	1.2	1.5	1.9	8.0	9.5	11.3	1,000	1.1	82.4
IDFC	183	ADD	266,660	5,748	1,458	8.4	9.4	11.2	44.9	12.4	18.7	21.8	19.4	16.3	—	—	—	3.8	2.5	2.1	0.7	1.0	1.2	16.6	15.5	14.3	205	12.1	24.6
India Infoline	100	BUY	31,227	673	312	8.1	7.2	8.7	59.2	(11.9)	21.6	12.3	14.0	11.5	—	—	—	2.0	1.7	1.4	3.2	1.5	2.0	16.4	12.9	14.4	120	19.8	4.0
Indian Bank	231	ADD	99,126	2,137	430	35.1	32.4	44.1	25.5	(7.7)	36.2	6.6	7.1	5.2	—	—	—	1.5	1.3	1.1	2.8	2.5	3.4	24.1	18.8	21.7	280	21.4	4.0
Indian Overseas Bank	129	BUY	70,415	1,518	545	13.0	16.7	24.8	(46.7)	29.0	48.4	10.0	7.7	5.2	—	—	—	1.1	1.0	0.8	2.7	3.0	3.3	9.6	11.6	15.4	160	23.8	4.0
J&K Bank	803	BUY	38,925	839	48	105.7	119.3	139.9	25.1	12.8	17.3	7.6	6.7	5.7	—	—	—	1.3	1.2	1.0	2.7	3.1	3.6	18.2	17.9	18.3	930	15.9	0.8
LIC Housing Finance	1,204	ADD	114,320	2,464	95	69.7	100.7	109.9	11.5	44.5	9.1	17.3	11.9	11.0	—	—	—	3.5	2.9	2.5	1.2	1.8	2.0	23.6	25.5	23.2	1,250	3.9	20.1
Mahindra & Mahindra Financial	602	BUY	57,797	1,246	96	35.9	46.4	56.2	60.0	29.4	21.2	16.8	13.0	10.7	—	—	—	3.4	2.9	2.4	1.3	1.6	2.0	21.5	23.5	23.8	590	(2.0)	1.7
Oriental Bank of Commerce	399	ADD	100,015	2,156	251	45.3	57.8	66.8	25.3	27.6	15.5	8.8	6.9	6.0	—	—	—	1.4	1.2	1.0	2.3	2.9	3.4	14.5	16.5	16.9	430	7.7	5.3
PFC	324	SELL	371,533	8,008	1,148	20.5	22.9	27.6	53.5	11.9	20.3	15.8	14.1	11.7	—	—	—	2.9	2.5	2.2	1.6	1.8	2.1	18.8	18.3	19.2	275	(15.0)	3.8
Punjab National Bank	1,103	BUY	347,857	7,498	315	123.9	133.4	163.3	26.4	7.7	22.4	8.9	8.3	6.8	—	—	—	2.1	1.8	1.5	2.0	2.5	3.0	26.2	23.2	23.7	1,300	17.8	9.0
Reliance Capital	758	NR	186,651	4,023	246	12.9	13.7	9.8	(67.3)	6.5	(28.6)	59.0	55.4	77.6	—	—	—	2.7	2.6	2.6	0.8	0.7	0.5	4.7	4.8	3.4	-	(100.0)	40.0
Rural Electrification Corp.	319	ADD	314,977	6,789	987	20.3	25.3	31.2	23.2	24.5	23.4	15.7	12.6	10.2	—	—	—	2.8	2.5	2.1	2.0	2.4	2.9	22.0	21.0	22.5	325	1.9	13.5
Shriram Transport	705	ADD	157,258	3,390	223	39.2	53.4	64.8	30.1	36.4	21.3	18.0	13.2	10.9	—	—	—	4.3	3.6	3.0	1.7	2.3	2.8	28.4	28.2	28.4	700	(0.7)	4.6
SREI	90	NR	10,431	225	116	8.3	7.9	9.9	17.8	(4.8)	25.8	10.8	11.4	9.0	—	—	—	0.9	0.8	0.8	1.3	1.3	1.3	11.1	10.5	12.3	—	—	4.1
State Bank of India	2,630	BUY	1,669,519	35,985	635	144.4	170.9	210.6	0.5	18.3	23.2	18.2	15.4	12.5	—	—	—	2.5	2.2	2.0	1.1	1.2	1.3	14.8	15.5	16.7	2,900	10.3	93.4
Union Bank	321	BUY	162,067	3,493	505	41.1	45.7	56.9	20.2	11.3	24.5	7.8	7.0	5.6	—	—	—	1.8	1.5	1.2	1.7	1.9	2.4	26.2	23.7	24.1	400	24.7	4.5
Yes Bank	303	BUY	102,834	2,216	340	15.0	17.7	22.5	46.7	18.2	26.6	20.2	17.1	13.5	—	—	—	3.3	2.8	2.4	0.5	0.6	0.7	20.3	18.0	19.3	350	15.6	19.6
Banks/Financial Institutions		**Attractive**	**8,486,708**	**182,923**					**14.8**	**19.4**	**23.0**	**16.9**	**14.1**	**11.5**	**—**	**—**	**—**	**2.6**	**2.3**	**2.0**	**1.3**	**1.5**	**1.8**	**15.5**	**16.1**	**17.2**			
Cement																													
ACC	847	ADD	159,210	3,432	188	83.2	66.0	72.4	47.9	(20.7)	9.8	10.2	12.8	11.7	5.4	6.0	4.8	2.5	2.2	1.9	3.2	2.8	2.8	29.3	20.0	19.2	920	8.6	7.3
Ambuja Cements	120	SELL	182,228	3,928	1,522	8.0	8.4	8.9	11.4	5.3	5.1	15.0	14.2	13.5	8.2	7.8	6.7	2.6	2.3	2.1	1.6	1.7	1.8	19.3	17.8	16.5	108	(9.8)	4.9
Grasim Industries	1,904	ADD	174,536	3,762	92	301.0	229.0	273.3	26.1	(23.9)	19.4	6.3	8.3	7.0	4.0	4.4	3.4	1.4	1.2	1.1	1.7	1.8	1.8	22.9	15.7	16.3	2,200	15.6	8.0
India Cements	108	SELL	33,282	717	307	10.0	8.7	10.6	(43.5)	(13.1)	21.1	10.8	12.4	10.3	5.9	7.4	5.0	0.8	0.8	0.7	2.0	2.9	2.9	8.2	6.7	7.7	95	(12.3)	2.3
Shree Cement	1,928	BUY	67,157	1,448	35	208.0	221.1	242.5	19.0	6.3	9.7	9.3	8.7	8.0	4.5	4.4	3.5	3.7	2.6	2.0	0.5	0.5	0.5	48.0	35.0	28.1	2,550	32.3	1.0
UltraTech Cement	885	ADD	110,217	2,376	124	88.2	66.9	75.1	12.0	(24.2)	12.4	10.0	13.2	11.8	5.3	6.4	5.3	2.0	1.8	1.6	0.7	0.9	0.9	25.9	16.7	16.3	985	11.3	2.7
Cement		**Neutral**	**726,631**	**15,662**					**19.3**	**(15.4)**	**12.7**	**9.5**	**11.2**	**9.9**	**5.1**	**5.6**	**4.5**	**1.9**	**1.7**	**1.5**	**1.7**	**1.8**	**1.8**	**20.6**	**15.2**	**15.0**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	10-Aug-10 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS (Rs) 2012E	EPS growth (%) 2010E	EPS growth (%) 2011E	EPS growth (%) 2012E	PER (X) 2010E	PER (X) 2011E	PER (X) 2012E	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	EV/EBITDA (X) 2012E	Price/BV (X) 2010E	Price/BV (X) 2011E	Price/BV (X) 2012E	Dividend yield (%) 2010E	Dividend yield (%) 2011E	Dividend yield (%) 2012E	RoE (%) 2010E	RoE (%) 2011E	RoE (%) 2012E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Consumer products																													
Asian Paints	2,667	BUY	255,813	5,514	96	71.5	89.0	107.1	85.3	24.4	20.4	37.3	30.0	24.9	23.0	18.7	15.3	15.9	12.4	9.9	1.0	1.4	1.7	51.8	47.9	45.4	3,000	12.5	4.8
Colgate-Palmolive (India)	842	REDUCE	114,533	2,469	136	31.1	34.5	39.6	44.2	10.9	14.6	27.1	24.4	21.3	22.2	18.1	15.5	35.1	29.9	25.6	2.4	3.1	3.5	156.1	132.3	129.4	830	(1.4)	2.3
Dabur India	202	REDUCE	175,294	3,778	866	5.8	6.8	8.2	28.1	17.6	20.8	34.9	29.7	24.6	25.9	20.8	17.2	16.6	13.7	11.3	1.5	1.8	2.1	54.3	51.1	50.7	210	3.8	3.9
GlaxoSmithkline Consumer (a)	1,830	ADD	76,945	1,658	42	55.4	68.6	81.3	23.6	23.9	18.6	33.1	26.7	22.5	18.3	15.8	13.0	8.6	7.1	6.0	1.0	1.2	1.4	27.9	29.0	28.7	2,000	9.3	0.7
Godrej Consumer Products	358	ADD	115,716	2,494	324	11.3	13.0	17.3	69.5	14.4	33.1	31.6	27.6	20.7	25.0	19.7	14.8	12.0	6.6	6.0	1.1	0.9	0.9	44.6	31.0	30.4	400—	—	2.8
Hindustan Unilever	260	REDUCE	567,675	12,236	2,182	9.4	10.2	11.8	(0.9)	8.4	15.3	27.6	25.5	22.1	18.8	18.0	15.0	22.0	19.0	16.4	2.9	3.2	3.7	71.1	80.2	80.0	250	(3.9)	10.7
ITC	157	BUY	1,203,048	25,931	7,651	5.3	6.3	7.3	22.6	18.2	15.8	29.6	25.1	21.6	17.9	15.7	13.3	8.1	6.8	5.9	3.2	1.7	1.9	29.2	31.1	30.5	165	4.9	24.4
Jubilant Foodworks	462	REDUCE	29,476	635	64	5.5	9.7	12.1	340.6	75.7	24.6	83.3	47.4	38.1	44.3	26.8	18.8	25.1	16.4	11.5	—	—	—	46.6	41.8	35.4	370	(19.8)	9.0
Jyothy Laboratories	287	NR	20,856	450	73	11.0	12.9	15.3	99.6	17.0	18.3	26.1	22.3	18.8	20.2	15.3	12.6	5.1	4.4	3.7	1.6	1.2	1.6	18.6	20.2	20.5	—	—	1.3
Nestle India (a)	2,819	REDUCE	271,767	5,858	96	74.4	86.6	104.8	27.0	16.4	20.9	37.9	32.5	26.9	25.0	21.8	18.5	46.8	37.3	29.7	1.7	2.2	2.6	136.0	127.5	122.9	3,000	6.4	1.9
Tata Global Beverages	112	ADD	69,446	1,497	618	6.6	7.4	8.4	23.4	11.1	13.8	17.0	15.3	13.4	11.0	8.9	8.0	1.4	1.3	1.2	1.9	2.1	2.4	10.9	11.4	12.0	125	11	4.1
Consumer products		**Attractive**	**2,973,041**	**64,081**					**24.2**	**16.4**	**17.5**	**30.3**	**26.0**	**22.2**	**19.5**	**17.0**	**14.2**	**10.3**	**8.6**	**7.4**	**2.4**	**2.0**	**2.3**	**33.9**	**32.9**	**33.3**			
Constructions																													
IVRCL	170	BUY	45,485	980	267	7.8	10.3	12.4	(7.7)	32.4	19.7	21.8	16.5	13.8	11.6	9.6	8.1	2.3	2.0	1.7	0.2	0.2	0.2	10.9	12.8	13.5	215	26.2	7.3
Nagarjuna Construction Co.	166	BUY	42,477	916	257	7.1	11.5	14.3	6.1	61.1	24.1	23.2	14.4	11.6	11.5	8.7	7.1	1.9	1.7	1.5	1.0	1.2	1.2	9.3	12.5	13.9	210	26.8	3.2
Punj Lloyd	120	REDUCE	40,615	875	339	(12.9)	9.8	12.0	79.2	(175.4)	22.4	(9.3)	12.3	10.0	34.9	6.8	6.2	1.3	1.2	1.1	(0.1)	0.4	0.9	(15.8)	10.3	11.4	140	16.8	12.5
Sadbhav Engineering	1,494	BUY	22,403	483	15	43.1	62.0	84.0	(15.8)	43.9	35.5	34.7	24.1	17.8	19.0	12.3	9.9	5.4	3.6	3.1	0.2	0.4	0.4	13.3	14.1	17.4	1,575	5.5	0.2
Construction		**Attractive**	**150,981**	**3,254**					**(96.9)**	**14,481**	**24.4**	**2,229.9**	**15.3**	**12.3**	**16.1**	**8.4**	**7.3**	**2.0**	**1.7**	**1.5**	**0.3**	**0.6**	**0.7**	**0.1**	**11.3**	**12.5**			
Energy																													
Aban Offshore	880	ADD	38,297	825	43	94.5	154.1	139.3	(2.5)	63.0	(9.6)	9.3	5.7	6.3	8.5	6.8	6.6	1.7	1.6	1.4	0.4	0.4	0.5	21.7	33.1	22.9	935	6.2	56.2
Bharat Petroleum	647	ADD	233,862	5,041	362	62.1	57.4	65.7	201	(8)	14.5	10	11	9.8	5.7	5.6	5.0	1.6	1.5	1.3	2.2	2.9	3.3	15.6	13.0	13.5	690	6.7	27.3
Cairn india	336	SELL	638,140	13,754	1,897	5.5	20.5	36.0	29.0	270.6	75.1	60.7	16.4	9.4	47.8	9.8	6.0	1.9	1.7	1.5	—	—	4.5	3.1	10.7	17.0	270	(19.7)	17.6
Castrol India (a)	470	REDUCE	116,234	2,505	247	15.4	20.7	21.2	45	34	2.4	31	23	22.2	18.1	14.1	13.6	25.2	23.7	22.5	2.7	3.5	3.6	83.8	107.4	103.7	380	(19.2)	1.1
GAIL (India)	443	BUY	562,063	12,115	1,268	24.8	27.2	40.2	11.7	10.1	47.4	17.9	16.3	11.0	10.0	10.1	8.2	3.1	2.7	2.3	1.7	1.9	2.8	17.4	17.0	21.6	550	24.1	17.5
GSPL	112	SELL	62,994	1,358	562	7.4	7.2	8.0	235	(3)	12.1	15	16	13.9	7.7	7.6	6.3	3.7	3.1	2.7	0.9	1.6	2.9	27.3	21.4	20.8	83	(25.9)	4.2
Hindustan Petroleum	452	ADD	153,182	3,302	339	52.6	53.5	58.6	210.1	1.8	9.5	8.6	8.4	7.7	3.1	3.1	2.8	1.1	1.0	0.9	2.7	3.7	4.1	13.3	12.2	12.1	535	18.4	33.9
Indian Oil Corporation	372	ADD	903,562	19,475	2,428	49.9	38.8	41.1	407	(22)	5.9	7	10	9.1	5.1	5.1	4.5	1.6	1.5	1.4	3.5	3.2	3.3	22.7	15.6	15.1	415	11.5	17.3
Oil India	1,367	BUY	328,749	7,086	240	115.1	133.6	153.4	13.8	16.1	14.8	11.9	10.2	8.9	5.0	3.9	3.3	2.2	2.0	1.7	2.5	3.2	3.7	16.7	18.1	18.3	1,550	13.4	7.5
Oil & Natural Gas Corporation	1,235	BUY	2,642,060	56,947	2,139	91.4	116.6	136.1	1	27	16.7	14	11	9.1	4.9	4.2	3.3	2.0	1.8	1.6	2.7	3.4	3.9	14.6	16.8	17.6	1,480	19.8	38.2
Petronet LNG	104	REDUCE	77,700	1,675	750	5.4	5.8	7.9	(22.0)	8.1	35.3	19.2	17.8	13.1	11.1	10.3	8.4	3.0	2.7	2.3	1.7	1.9	2.7	15.9	15.1	17.8	86	(17.0)	4.9
Reliance Industries	988	SELL	2,939,990	63,369	2,976	49.6	59.0	74.4	(2)	19	26.2	20	17	13.3	10.1	7.9	6.6	2.0	1.8	1.6	0.7	0.8	1.0	11.4	12.3	13.9	1,060	7.3	109.1
Energy		**Cautious**	**8,696,834**	**187,452**					**38.1**	**16.2**	**22.0**	**14.4**	**12.4**	**10.2**	**7.0**	**5.9**	**4.9**	**2.0**	**1.8**	**1.6**	**1.8**	**2.1**	**2.8**	**13.8**	**14.4**	**15.8**			
Industrials																													
ABB	784	REDUCE	166,210	3,583	212	16.7	18.3	33.1	(35.2)	9.3	80.7	46.9	42.9	23.7	26.8	24.5	13.7	6.9	6.1	5.0	0.3	0.4	0.4	15.6	15.0	23.0	725	(7.6)	7.0
BGR Energy Systems	787	BUY	56,696	1,222	72	16.0	28.0	39.7	32.2	74.6	41.9	49.1	28.1	19.8	27.6	16.0	11.6	10.1	8.0	6.1	0.4	0.9	1.0	22.3	31.8	35.1	950	20.6	3.9
Bharat Electronics	1,780	REDUCE	142,408	3,069	80	93.9	107.3	122.4	(9.6)	14.3	14.1	19.0	16.6	14.5	9.1	7.7	6.5	3.2	2.8	2.4	1.4	1.4	1.4	17.9	18.0	17.9	1,835	3.1	2.1
Bharat Heavy Electricals	2,500	REDUCE	1,223,678	26,375	490	88.1	116.3	135.4	37.9	32.1	16.4	28.4	21.5	18.5	15.9	12.1	10.3	7.7	6.1	4.9	0.8	1.0	1.2	29.9	31.5	29.2	2,600	4.0	27.9
Crompton Greaves	283	BUY	181,288	3,907	642	12.8	14.0	16.3	46.5	9.0	16.6	22.0	20.2	17.3	12.7	11.3	9.4	7.2	5.5	4.4	0.4	0.7	0.8	37.9	31.1	28.2	320	13.2	8.3
Larsen & Toubro	1,827	ADD	1,100,430	23,719	602	57.9	71.7	89.0	15.6	23.8	24.1	31.5	25.5	20.5	17.6	13.9	11.7	4.9	4.1	3.5	0.7	0.7	0.8	18.6	17.7	18.5	2,075	13.6	57.5
Maharashtra Seamless	418	BUY	29,496	636	71	40.2	43.6	49.8	12.1	8.5	14.2	10.4	9.6	8.4	5.6	4.9	3.9	1.9	1.6	1.4	1.4	1.9	2.4	19.3	17.9	17.7	450	7.6	0.4
Siemens	698	REDUCE	235,253	5,071	337	25.2	27.0	31.9	56.4	7.3	18.0	27.7	25.8	21.9	16.8	15.2	12.6	6.9	5.7	4.8	0.7	0.8	0.9	27.6	24.2	23.8	635	(9.0)	6.5
Suzlon Energy	58	REDUCE	92,604	1,996	1,594	(5.9)	0.3	5.3	(182.3)	(104.4)	1,931.8	(9.8)	224.0	11.0	16.9	8.7	5.7	0.8	0.9	0.8	—	—	0.3	(8.8)	0.4	7.5	70	20.5	22.3
Thermax	756	ADD	90,083	1,942	119	21.7	29.5	39.7	(10.4)	35.9	34.4	34.8	25.6	19.0	17.9	14.0	10.4	8.4	6.9	5.5	0.7	1.1	1.5	25.0	29.5	32.2	865	14.4	1.2
Voltas	210	REDUCE	69,520	1,498	331	10.9	11.8	13.4	57.4	8.2	14.3	19.3	17.9	15.6	11.5	9.9	8.3	6.5	5.2	4.3	1.5	1.6	1.9	38.3	32.5	30.2	225	7.0	5.0
Industrials		**Attractive**	**3,387,667**	**73,018**					**1.8**	**35.1**	**26.6**	**31.8**	**23.6**	**18.6**	**16.2**	**12.5**	**10.1**	**5.1**	**4.3**	**3.7**	**0.7**	**0.8**	**1.0**	**16.1**	**18.4**	**19.6**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	10-Aug-10 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS (Rs) 2012E	EPS growth (%) 2010E	EPS growth (%) 2011E	EPS growth (%) 2012E	PER (X) 2010E	PER (X) 2011E	PER (X) 2012E	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	EV/EBITDA (X) 2012E	Price/BV (X) 2010E	Price/BV (X) 2011E	Price/BV (X) 2012E	Dividend yield (%) 2010E	Dividend yield (%) 2011E	Dividend yield (%) 2012E	RoE (%) 2010E	RoE (%) 2011E	RoE (%) 2012E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Infrastructure																													
Container Corporation	1,408	REDUCE	183,044	3,945	130	61.1	74.3	85.9	0.3	21.7	15.6	23.1	18.9	16.4	16.4	13.3	11.2	4.2	3.6	3.1	1.0	1.2	1.4	19.6	20.6	20.5	1,250	(11.2)	1.8
GMR Infrastructure	60	ADD	220,753	4,758	3,667	0.4	0.2	0.1	(43.8)	(48.9)	(40.0)	139.7	273.4	455.4	24.2	15.6	14.6	2.1	1.8	1.8	—	—	—	2.4	1.2	0.7	65	8.0	5.4
GVK Power & Infrastructure	44	BUY	69,248	1,493	1,579	0.8	1.1	1.4	6.7	33.5	32.4	53.9	40.4	30.5	18.4	16.8	17.3	2.2	2.1	2.0	—	0.7	0.7	4.7	5.3	6.7	54	23.1	5.1
IRB Infrastructure	291	RS	96,701	2,084	332	9.7	12.6	12.1	83.8	29.2	(3.7)	29.9	23.2	24.0	13.9	12.3	11.4	4.2	3.2	2.6	—	—	—	15.6	15.7	11.9	—	—	8.4
Mundra Port and SEZ	817	REDUCE	329,611	7,104	403	16.7	21.9	34.1	55.7	31.0	56.1	48.9	37.3	23.9	36.4	23.8	17.2	9.3	7.9	6.2	—	—	—	20.8	22.9	28.9	750	(8.2)	5.8
Infrastructure		**Attractive**	**899,358**	**19,385**					**16.3**	**21.2**	**26.0**	**43.3**	**35.7**	**28.3**	**22.5**	**16.6**	**14.4**	**3.8**	**3.2**	**2.9**	**—**	**—**	**0.3**	**8.7**	**9.1**	**10.3**			
Media																													
DB Corp	254	BUY	46,213	996	182	10.6	13.0	15.7	286.5	22.4	21.0	23.9	19.5	16.2	13.3	11.0	9.0	7.1	5.8	5.0	0.8	1.2	1.6	40.3	32.6	33.2	290	14.0	0.3
DishTV	49	ADD	52,532	1,132	1,063	(2.5)	(1.8)	0.1	(62.0)	(28.8)	(107.4)	(19.8)	(27.8)	377.7	65.1	26.2	13.9	12.8	23.7	22.3	—	—	—	249.3	(59.7)	6.1	47	(4.9)	4.1
HT Media	164	NR	38,599	832	235	6.1	7.7	9.2	623.3	25.9	19.8	26.9	21.4	17.8	13.5	11.3	9.4	4.0	3.5	3.2	0.6	1.2	2.4	15.6	17.5	18.9	—	—	0.4
Jagran Prakashan	119	BUY	35,899	774	301	5.9	6.6	7.7	92.3	12.3	17.8	20.4	18.1	15.4	12.3	10.5	9.0	5.9	5.4	4.9	2.9	3.4	4.2	30.1	30.8	33.3	140	17.4	1.6
Sun TV Network	471	REDUCE	185,631	4,001	394	13.1	18.0	22.5	44.8	36.9	25.2	35.8	26.2	20.9	20.3	15.1	12.2	9.6	8.1	6.7	1.6	1.6	1.9	28.4	33.7	35.1	420	(10.8)	2.1
Zee Entertainment Enterprises	312	REDUCE	135,408	2,919	435	10.6	11.8	14.4	25.0	12.0	21.5	29.5	26.4	21.7	22.0	17.5	14.0	3.7	3.5	3.3	0.8	0.9	1.2	13.1	13.8	16.0	270	(13.3)	8.9
Media		**Neutral**	**494,283**	**10,654**					**185.5**	**35.8**	**37.2**	**40.7**	**30.0**	**21.9**	**19.6**	**15.0**	**11.8**	**6.0**	**5.5**	**5.0**	**1.1**	**1.3**	**1.7**	**14.7**	**18.4**	**22.8**			
Metals																													
Hindalco Industries	164	ADD	313,122	6,749	1,914	5.7	13.6	15.5	(64.5)	139.5	14.2	28.8	12.0	10.5	8.2	8.2	8.5	1.4	1.3	1.2	0.8	0.8	0.8	10.3	11.1	11.5	200	22.2	40.5
Hindustan Zinc	1,149	BUY	485,595	10,467	423	95.6	102.5	116.0	48.2	7.2	13.1	12.0	11.2	9.9	7.9	6.4	4.5	2.6	2.1	1.7	0.5	0.5	0.5	24.1	20.8	19.4	1,240	7.9	4.4
Jindal Steel and Power	633	REDUCE	589,611	12,709	931	38.4	50.9	56.0	17.3	32.7	9.9	16.5	12.4	11.3	11.5	8.2	6.9	5.2	3.7	2.8	0.2	0.4	0.4	37.8	34.9	28.0	625	(1.3)	25.1
JSW Steel	1,133	REDUCE	285,914	6,163	252	80.4	68.5	108.5	481.1	(14.8)	58.5	14.1	16.5	10.4	10.7	9.0	6.0	2.6	1.6	1.2	0.6	0.8	0.8	16.0	12.0	13.3	1,075	(5.1)	53.7
National Aluminium Co.	425	SELL	273,606	5,897	644	10.1	28.0	27.7	(49.0)	178.6	(1.2)	42.2	15.1	15.3	18.7	7.3	6.8	2.5	2.2	1.9	0.5	0.5	0.5	6.1	15.4	13.3	320	(24.6)	0.9
Sesa Goa	377	REDUCE	335,418	7,230	890	29.6	58.6	46.3	23.5	98.4	(21.0)	12.8	6.4	8.1	10.5	4.5	4.5	4.2	2.6	2.0	0.9	0.9	0.9	35.8	41.5	23.7	340	(9.8)	71.8
Sterlite Industries	176	ADD	589,971	12,716	3,362	12.0	14.2	19.3	2.8	18.4	35.5	14.6	12.3	9.1	12.3	10.9	7.0	1.6	1.4	1.2	0.5	0.5	0.5	12.9	12.2	14.6	210	19.7	41.8
Tata Steel	536	BUY	475,957	10,259	887	3.2	78.7	93.5	(97.1)	2,331.6	18.7	165.6	6.8	5.7	17.9	6.0	5.1	1.9	1.5	1.2	1.5	1.5	1.5	1.1	24.7	23.8	700	30.5	102.1
Metals		**Cautious**	**3,349,193**	**72,189**					**(28.9)**	**79.8**	**13.4**	**18.7**	**10.4**	**9.2**	**11.6**	**7.4**	**6.1**	**2.3**	**1.9**	**1.5**	**0.7**	**0.7**	**0.7**	**12.4**	**17.9**	**16.9**			
Pharmaceutical																													
Biocon	312	BUY	62,460	1,346	200	14.8	17.8	22.0	216.4	19.8	23.7	21.0	17.6	14.2	12.2	10.2	8.4	3.5	3.0	2.6	—	—	0.1	17.9	18.8	20.0	400	28.1	3.7
Cipla	319	REDUCE	256,212	5,522	803	13.5	12.8	15.6	35.9	(4.9)	21.9	23.7	24.9	20.4	17.5	16.5	13.8	4.3	3.8	3.3	0.8	0.8	0.8	19.9	16.3	17.4	280	(12.3)	8.4
Cadila Healthcare	623	REDUCE	127,476	2,748	205	24.7	33.2	37.7	66.9	34.2	13.7	25.2	18.8	16.5	16.4	12.6	11.2	7.8	5.9	4.6	0.8	1.1	1.2	36.0	35.8	31.3	580	(6.8)	1.5
Dishman Pharma & chemicals	209	BUY	17,003	366	81	14.4	17.2	28.8	(19.7)	19.4	67.0	14.5	12.1	7.3	10.5	8.8	6.2	2.1	1.8	1.5	—	—	—	15.5	16.3	22.7	300	43.5	0.5
Divi's Laboratories	761	ADD	100,521	2,167	132	25.8	34.3	43.9	(18.3)	33.3	27.9	29.5	22.2	17.3	22.0	16.3	12.4	6.7	5.5	4.5	—	—	—	24.8	27.2	28.4	800	5.2	2.8
Dr Reddy's Laboratories	1,332	REDUCE	225,669	4,864	169	48.1	66.7	70.8	48.3	38.8	6.1	27.7	20.0	18.8	15.3	11.6	10.7	6.0	4.7	3.9	0.5	0.6	0.7	22.2	26.3	22.6	1,150	(13.7)	16.6
GlaxoSmithkline Pharmaceuticals (a)	1,990	REDUCE	168,589	3,634	85	59.1	69.7	79.2	8.1	18.0	13.5	33.7	28.5	25.1	19.3	16.3	14.1	9.4	8.0	6.9	—	—	—	29.8	30.4	29.4	1,880	(5.5)	1.8
Glenmark Pharmaceuticals	268	NR	73,588	1,586	274	12.7	19.2	20.3	14.7	50.6	5.6	21.1	14.0	13.3	13.6	8.9	8.5	3.1	2.6	2.2	—	—	—	16.7	19.9	17.6	—	—	3.8
Jubilant Organosys	353	BUY	56,000	1,207	159	26.5	31.8	38.9	49.0	19.8	22.4	13.3	11.1	9.1	9.6	8.7	7.0	2.5	2.1	1.7	0.5	0.7	0.9	26.3	21.7	21.1	400	13.4	2.6
Lupin	1,861	ADD	164,614	3,548	88	77.0	99.1	127.6	27.9	28.7	28.7	24.2	18.8	14.6	20.7	15.0	11.5	7.1	5.4	4.1	0.7	0.8	0.8	36.6	33.0	32.2	2,000	7.5	7.2
Piramal Healthcare	481	REDUCE	100,514	2,166	209	22.4	13.3	9.5	29.7	(40.4)	(28.9)	21.5	36.0	50.7	15.6	5.9	3.8	6.0	1.1	0.9	1.1	1.2	0.7	30.7	140.7	16.5	490	1.9	28.8
Ranbaxy Laboratories	446	SELL	191,088	4,119	428	7.1	28.0	11.7	(128.4)	297.1	(58.3)	63.2	15.9	38.2	15.5	9.3	18.5	4.9	3.8	3.6	—	0.9	0.9	6.9	24.6	9.1	220	(50.7)	9.4
Sun Pharmaceuticals	1,755	REDUCE	363,454	7,834	207	65.2	80.0	85.1	(25.7)	22.6	6.4	26.9	21.9	20.6	20.3	15.9	14.1	4.4	3.7	3.3	0.8	0.8	0.8	17.8	18.8	17.2	1,685	(4.0)	7.2
Pharmaceuticals		**Attractive**	**1,907,188**	**41,108**					**44.3**	**31.3**	**5.1**	**26.6**	**20.3**	**19.3**	**16.6**	**12.5**	**11.7**	**5.0**	**3.6**	**3.1**	**0.5**	**0.6**	**0.6**	**18.9**	**17.8**	**15.8**			
Property																													
DLF	320	ADD	547,302	11,797	1,708	9.6	16.3	25.1	(64.0)	69.4	53.8	33.3	19.6	12.8	20.9	13.3	10.0	2.0	1.9	1.7	0.9	0.9	1.5	6.4	9.9	13.8	340	6.1	46.2
Housing Development & Infrastructure	277	ADD	106,621	2,298	385	12.4	14.2	16.7	(41.2)	14.2	17.9	22.3	19.6	16.6	11.0	12.5	8.3	1.5	1.3	1.2	1.0	1.8	1.8	10.0	9.3	9.9	318	14.8	33.9
Indiabulls Real Estate	186	RS	74,588	1,608	401	1.6	4.0	8.0	109.7	151.7	101.7	117.2	46.6	23.1	(99.3)	48.1	12.6	0.8	0.8	0.8	0.0	0.0	0.0	0.8	1.8	3.5	285	53.3	18.2
Mahindra Life Space Developer	499	ADD	20,968	452	42	18.9	20.3	27.5	82.4	7.3	35.8	26.4	24.6	18.1	22.4	18.7	10.4	2.2	2.1	1.9	0.8	0.8	0.8	8.4	8.5	10.7	540	8.3	0.6
Phoenix Mills	243	BUY	35,212	759	145	4.1	6.6	7.6	(16.7)	59.0	15.6	58.8	37.0	32.0	47.1	25.9	21.7	2.3	2.2	2.1	0.4	0.6	0.8	3.9	6.0	6.7	260	7.0	0.8
Puravankara Projects	119	REDUCE	25,440	548	213	6.4	8.2	8.1	(5.2)	28.4	(2.0)	18.6	14.5	14.8	22.7	15.4	15.0	1.8	1.6	1.5	1.7	1.7	1.7	10.0	11.9	10.7	110	(7.7)	0.5
Sobha	375	ADD	36,818	794	98	14.1	17.0	26.2	(7.1)	20.8	54.0	26.7	22.1	14.4	19.2	15.0	9.9	2.1	2.0	1.7	0.3	0.3	0.4	9.7	9.2	12.8	372	(0.9)	2.2
Unitech	89	SELL	233,101	5,024	2,616	3.4	4.3	5.6	(54.2)	26.3	30.2	26.4	20.9	16.0	22.9	15.8	10.1	2.2	1.9	1.7	—	—	1.7	9.7	9.4	11.1	72	(19.2)	50.1
Property		**Cautious**	**973,431**	**20,981**					**(53.1)**	**58.0**	**47.2**	**33.9**	**21.5**	**14.6**	**22.5**	**14.5**	**10.4**	**1.9**	**1.7**	**1.6**	**0.6**	**0.6**	**1.4**	**5.5**	**8.0**	**10.8**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

	10-Aug-10		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
Company	**Price (Rs)**	**Rating**	**(Rs mn)**	**(US$ mn)**	**(mn)**	**2010E**	**2011E**	**2012E**	**2010E**	**2011E**	**2012E**	**2010E**	**2011E**	**2012E**	**2010E**	**2011E**	**2012E**	**2010E**	**2011E**	**2012E**	**2010E**	**2011E**	**2012E**	**2010E**	**2011E**	**2012E**	**(Rs)**	**(%)**	**(US$ mn)**
Retail																													
Titan Industries	2,813	ADD	124,858	2,691	44	57.3	83.4	110.2	29.3	45.6	32.2	49.1	33.7	25.5	31.2	22.7	17.3	16.9	12.1	8.6	0.5	0.4	0.5	38.7	41.8	39.4	3,000	6.7	4.9
Retail		**Neutral**	**124,858**	**2,691**					**29.3**	**45.6**	**32.2**	**49.1**	**33.7**	**25.5**	**31.2**	**22.7**	**17.3**	**16.9**	**12.1**	**8.6**	**0.5**	**0.4**	**0.5**	**34.5**	**35.8**	**33.8**			
Sugar																													
Bajaj Hindustan	117	SELL	22,303	481	191	9.7	9.9	8.9	201.1	2.2	(10.4)	12.0	11.7	13.1	7.0	5.8	5.5	0.9	0.8	0.8	0.6	0.6	0.6	8.1	7.5	6.3	99	(15.1)	5.7
Balrampur Chini Mills	84	ADD	21,503	463	257	4.3	10.4	7.0	(43.2)	140.4	(32.7)	19.3	8.0	11.9	9.0	5.5	5.9	1.5	1.3	1.3	0.5	0.5	0.5	8.2	17.9	10.9	93	11.0	5.2
Shree Renuka Sugars	66	BUY	44,207	953	670	9.9	7.6	7.8	196.4	(23.2)	3.1	6.7	8.7	8.4	4.6	5.2	4.4	1.7	1.4	1.2	0.6	0.5	0.5	32.0	18.1	15.7	76	15.2	13.2
Sugar		**Cautious**	**88,013**	**1,897**					**99.6**	**0.7**	**(9.4)**	**9.2**	**9.1**	**10.0**	**6.1**	**5.5**	**5.1**	**1.4**	**1.2**	**1.1**	**0.6**	**0.5**	**0.5**	**15.1**	**13.2**	**10.7**			
Technology																													
HCL Technologies	413	REDUCE	284,867	6,140	690	17.5	24.5	30.1	0.2	39.7	23.0	23.6	16.9	13.7	11.5	10.0	8.2	4.0	3.4	3.0	1.0	1.0	1.5	19.3	22.0	21.2	390	(5.5)	12.0
Hexaware Technologies	80	REDUCE	11,557	249	144	9.3	5.0	9.4	127.7	(46.3)	87.7	8.6	16.0	8.5	4.3	10.1	5.1	1.4	1.3	1.1	1.2	1.2	1.2	17.8	8.2	14.0	72	(10.5)	2.3
Infosys Technologies	2,829	BUY	1,623,875	35,001	574	108.3	124.1	150.0	5.7	14.5	20.9	26.1	22.8	18.9	19.1	15.6	12.7	7.0	5.8	4.8	0.9	1.2	1.5	30.1	28.0	28.0	3,100	9.6	56.4
Mphasis BFL	619	REDUCE	129,024	2,781	208	43.6	49.0	45.6	207.5	12.5	(7.0)	14.2	12.6	13.6	11.3	10.1	9.2	5.5	3.9	3.1	0.6	0.6	0.7	48.1	36.4	25.8	550	(11.1)	7.5
Mindtree	532	REDUCE	21,897	472	41	52.2	32.6	51.6	294.3	(37.5)	58.1	10.2	16.3	10.3	8.8	9.3	6.1	3.3	2.7	2.2	0.4	0.6	1.0	35.2	19.2	23.7	550	3.4	1.0
Patni Computer Systems	450	REDUCE	59,980	1,293	133	36.6	41.3	37.5	36.4	12.8	(9.1)	12.3	10.9	12.0	6.0	5.2	4.3	1.7	1.6	1.4	1.6	1.8	1.7	18.2	15.1	12.4	450	(0.1)	6.2
Polaris Software Lab	179	SELL	17,851	385	100	15.4	19.1	18.8	16.9	24.3	(1.7)	11.6	9.4	9.5	5.8	7.5	6.4	2.0	1.8	1.5	2.0	2.1	2.2	18.6	20.1	17.2	180	0.5	4.6
TCS	865	BUY	1,691,999	36,469	1,957	35.1	42.1	48.2	32.8	19.8	14.5	24.6	20.5	17.9	18.6	15.0	12.4	8.1	6.7	5.6	2.3	1.9	2.2	37.6	35.6	33.9	965	11.6	29.6
Wipro	428	ADD	1,046,684	22,560	2,447	18.9	22.3	25.7	22.1	18.1	15.6	22.7	19.2	16.6	17.2	13.8	11.4	5.3	4.4	3.6	0.8	1.0	1.3	26.5	25.0	23.7	465	8.7	13.8
Technology		**Attractive**	**4,887,734**	**105,350**					**22.7**	**17.4**	**16.0**	**23.4**	**19.9**	**17.2**	**16.9**	**14.0**	**11.5**	**6.2**	**5.1**	**4.3**	**1.4**	**1.4**	**1.7**	**26.4**	**25.7**	**24.9**			
Telecom																													
Bharti Airtel	326	REDUCE	1,236,119	26,643	3,798	24.0	21.4	24.2	7.5	(10.8)	13.2	13.6	15.2	13.4	7.6	7.3	6.2	2.8	2.4	2.1	0.9	1.2	1.5	24.1	17.0	16.5	290	(10.9)	51.2
IDEA	71	REDUCE	233,131	5,025	3,300	2.7	2.2	1.5	(5.8)	(19.7)	(30.8)	25.8	32.2	46.6	8.8	9.6	8.2	2.1	1.9	1.9	—	—	—	7.2	6.2	4.2	55	(22.2)	12.6
MTNL	67	SELL	42,116	908	630	(15.6)	(10.4)	(9.1)	(750.8)	(33.7)	(11.9)	(4.3)	(6.4)	(7.3)	(0.6)	(0.7)	(1.0)	0.4	0.4	0.4	—	—	—	(8.5)	(6.1)	(5.7)	50	(25.2)	3.2
Reliance Communications	175	SELL	373,191	8,044	2,133	22.1	14.1	18.2	(30.2)	(36.2)	29.1	7.9	12.4	9.6	7.2	8.0	6.0	1.0	0.9	0.8	0.4	—	—	11.7	7.4	8.9	175	-	43.7
Tata Communications	292	REDUCE	83,263	1,795	285	14.0	15.2	15.7	3.2	8.2	3.5	20.9	19.3	18.6	8.5	7.8	7.5	1.2	1.1	1.1	2.2	2.6	2.9	5.2	5.5	5.5	225	(23.0)	1.9
Telecom		**Cautious**	**1,967,819**	**42,414**					**(15.1)**	**(17.8)**	**15.7**	**13.8**	**16.7**	**14.5**	**8.0**	**8.0**	**6.6**	**1.7**	**1.6**	**1.5**	**0.8**	**0.9**	**1.1**	**12.7**	**9.5**	**10.0**			
Utilities																													
Adani Power	141	ADD	306,835	6,614	2,180	0.8	4.3	17.4	—	455.1	300.9	179.6	32.4	8.1	136.6	23.8	7.0	5.6	4.8	3.0	—	—	—	4.4	15.9	45.5	146	3.7	2.7
CESC	392	ADD	48,950	1,055	125	35.2	37.3	44.3	9.3	5.7	18.9	11.1	10.5	8.8	7.1	5.9	6.3	1.2	1.0	1.0	1.1	1.2	1.4	11.1	10.4	11.3	466	18.9	2.1
Lanco Infratech	68	BUY	162,939	3,512	2,405	2.0	3.7	5.0	35.1	87.6	34.9	34.5	18.4	13.6	20.3	8.6	8.2	4.8	3.8	3.0	—	—	—	15.8	21.2	22.7	77	13.7	6.9
NHPC	31	REDUCE	380,093	8,193	12,301	1.9	1.3	1.6	74.9	(27.5)	20.6	16.7	23.0	19.1	10.7	11.5	8.9	1.5	1.4	1.4	1.8	1.1	1.4	9.7	6.4	7.4	28	(9.4)	5.7
NTPC	196	REDUCE	1,618,997	34,896	8,245	10.8	12.5	14.7	9.6	16.2	17.4	18.2	15.7	13.4	13.9	12.3	10.3	2.5	2.3	2.1	2.1	2.4	2.8	14.5	15.4	16.6	210	7.0	9.3
Reliance Infrastructure	1,113	ADD	273,964	5,905	246	61.8	65.0	84.5	(1.5)	5.3	30.0	18.0	17.1	13.2	19.3	17.0	11.9	1.4	1.3	1.2	0.7	0.8	0.9	6.3	7.3	10.1	1,160	4.2	47.1
Reliance Power	158	SELL	378,807	8,165	2,397	2.9	3.1	5.3	179.7	9.8	70.0	55.4	50.5	29.7		228.4	35.6	2.6	2.5	2.3	—	—	—	4.8	5.1	8.1	135	(14.6)	21.2
Tata Power	1,330	ADD	328,240	7,075	247	60.2	69.2	88.5	20.1	15.0	27.8	22.1	19.2	15.0	13.9	12.5	10.8	2.5	2.3	2.0	0.9	1.1	1.1	12.9	12.5	14.3	1,420	6.8	10.2
Utilities		**REDUCE**	**3,498,825**	**75,414**					**23.5**	**15.6**	**37.5**	**22.2**	**19.2**	**13.9**	**17.4**	**14.6**	**10.7**	**2.4**	**2.2**	**1.9**	**1.3**	**1.4**	**1.6**	**10.6**	**11.3**	**13.9**			
Others																													
Havells India	719	SELL	43,246	932	60	5.3	31.6	45.0	3.7	497.9	42.6	136.0	22.8	16.0	18.3	11.3	9.3	11.9	7.9	5.3	0.3	0.3	0.4	6.6	41.6	39.7	497	(30.9)	7.1
Jaiprakash Associates	122	BUY	260,462	5,614	2,129	1.5	5.5	7.4	(27.2)	279.8	34.1	84.0	22.1	16.5	21.5	15.8	11.3	3.0	2.6	2.3	—	—	—	4.1	12.8	14.9	170	38.9	29.1
Jindal Saw	203	ADD	59,814	1,289	294	25.0	18.6	17.9	110.8	(25.4)	(4.0)	8.1	10.9	11.4	5.3	6.1	5.8	1.6	1.3	1.2	0.5	0.4	0.4	20.5	12.9	11.1	256	25.9	3.2
PSL	137	BUY	7,303	157	53	22.9	25.4	28.2	3.3	10.6	11.0	6.0	5.4	4.8	3.3	2.8	3.0	0.8	0.7	0.6	4.8	4.8	5.1	12.6	11.7	12.0	182	33.2	0.6
Sintex	370	BUY	50,537	1,089	136	24.1	28.3	33.3	0.5	17.4	17.5	15.4	13.1	11.1	12.6	8.5	7.3	2.4	2.0	1.7	0.3	0.4	0.4	15.5	15.3	15.2	380	2.6	4.6
Tata Chemicals	362	REDUCE	88,021	1,897	243	26.4	33.2	37.5	(27.1)	25.8	12.7	13.7	10.9	9.7	7.1	6.1	5.2	1.9	1.6	1.4	2.4	2.5	2.5	16.0	18.7	18.3	360	(0.5)	3.6
Welspun Corp	252	ADD	51,768	1,116	205	32.0	27.0	25.6	85.2	(15.7)	(5.4)	7.9	9.3	9.9	4.5	4.9	4.7	1.6	1.4	1.2	0.9	0.9	0.9	24.8	15.6	12.8	286	13.5	5.2
United Phosphorus	184	BUY	84,973	1,832	463	11.9	13.8	17.4	18.8	15.8	25.9	15.4	13.3	10.5	8.9	8.1	6.4	2.5	2.1	1.8	0.8	1.1	1.1	17.7	17.2	18.3	225	22.5	8.3
Others			**646,124**	**13,927**					**16.3**	**32.3**	**17.6**	**19.2**	**14.5**	**12.4**	**11.1**	**9.9**	**8.2**	**2.4**	**2.0**	**1.8**	**0.7**	**0.7**	**0.7**	**12.4**	**14.0**	**14.3**			
KS universe (b)			**45,527,089**	**981,293**					**14.4**	**21.4**	**20.9**	**19.3**	**15.9**	**13.2**	**11.7**	**9.7**	**8.0**	**2.9**	**2.5**	**2.2**	**1.3**	**1.4**	**1.7**	**14.8**	**15.6**	**16.5**			
KS universe (b) ex-Energy			**36,830,255**	**793,841**					**8.0**	**23.2**	**20.6**	**21.0**	**17.0**	**14.1**	**14.4**	**11.7**	**9.6**	**3.2**	**2.7**	**2.4**	**1.2**	**1.2**	**1.4**	**15.1**	**16.0**	**16.8**			
KS universe (d) ex-Energy & ex-Commodities			**32,754,431**	**705,991**					**14.6**	**18.4**	**22.1**	**21.9**	**18.5**	**15.1**	**15.9**	**13.4**	**10.9**	**3.3**	**2.9**	**2.5**	**1.2**	**1.2**	**1.5**	**15.3**	**15.8**	**16.8**			

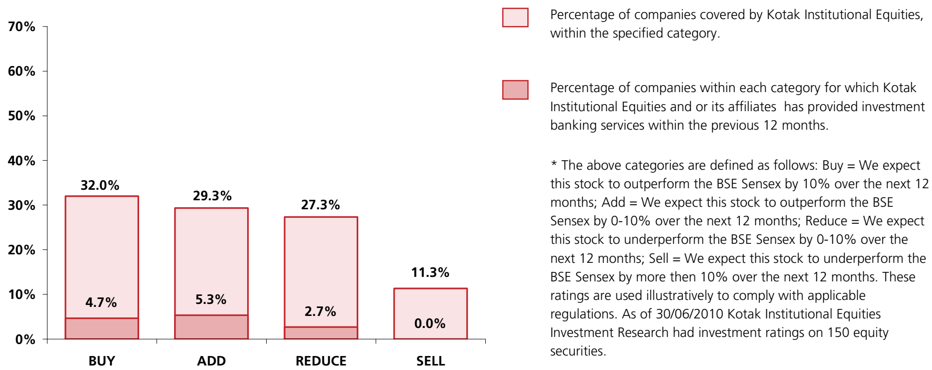
Note:
(1) For banks we have used adjusted book values.
(2) 2010 means calendar year 2009, similarly for 2011 and 2012 for these particular companies.
(3) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.
(4) Rupee-US Dollar exchange rate (Rs/US$)= 0.00

Source: Company, Bloomberg, Kotak Institutional Equities estimates

"Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Sanjeev Prasad, Kawaljeet Saluja, Dr. Mridul Saggar, airam Nathan, Lokesh Garg, Gundeep Singh, Priti Arora."

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



* The above categories are defined as follows: 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 then 10% over the next 12 months. These ratings are used illustratively to comply with applicable regulations. As of 30/06/2010 Kotak Institutional Equities Investment Research had investment ratings on 150 equity securities.

Source: Kotak Institutional Equities

As of June 30, 2010

Ratings and other definitions/identifiers

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.

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NA = Not Available or Not Applicable. The information is not available for display or is not applicable.

NM = Not Meaningful. The information is not meaningful and is therefore excluded.

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