Many (if not fifty) shades of grey. 2QFY13 results raised several uncomfortable questions about (1) PSU banks' NPLs, (2) high multiples of certain consumer stocks in light of the middling quality of earnings, (3) disclosures and (4) the market's expectations of earnings upgrades. 2QFY13 BSE-30 net income (adjusted) increased 6.8% yoy (21% on an ex-energy basis), marginally ahead of our expectations but EBITDA declined 0.5% yoy (-3.2% excluding NTPC, which had high one-off gains once again).

Some uncomfortable truths and bare facts

Investors may want to explore the following issues: (1) Reasons for stark differences in credit quality of PSU and private banks despite similar exposures in certain cases, (2) high multiples of consumer stocks given weakening fundamentals, (3) declining disclosures in certain companies and (4) the market's expectations (belief in certain quarters) of earnings upgrades and reforms.

2QFY13 results were largely in line with expectations; quality is another issue

2QFY13 results were largely in line with our expectations with the BSE-30 Index's net profits growing 6.8% yoy (1.6% higher than expectations) and EBITDA declining 0.5% yoy (3.3% below expectations). One-off revenues from NTPC led to higher-than-expected net income; excluding NTPC, 2QFY13 EBITDA declined 3.2% yoy and net income grew 3.9% yoy. More important, the quality of earnings was quite poor with other income being a large contributor and cash flows being quite weak in several companies.

No sign of earnings upgrades as yet; composition of earnings precludes major upgrades

Our FY2013E and FY2014E earnings for the BSE-30 have declined modestly after the recently concluded 2QFY13 results. We note the composition of India's market results in low correlation of earnings to (1) domestic GDP growth and (2) general reforms (as opposed to specific reforms such as fuel-price deregulation). (1) Global sectors and (2) Government-owned companies account for 57% of BSE-30 net profits and 53% of Nifty-50 profits.

Model Portfolio: Nothing exciting in large-cap. ideas; new positions with new names

We struggle to find good investment ideas given expensive valuations of good-quality consumer and banking names and fair valuations of others in the context of specific operating and financial challenges. Further fiscal (reduction in subsidies) and investment reforms may provide more investment ideas. We have made a few changes to our Model Portfolio and included a few smaller names that have the same characteristics of the larger ones that we prefer to own but cannot recommend given their terribly expensive valuations.

INSIDE

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Important disclosures appear at the back

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The prices in this report are based on the market close of November 13, 2012.

OVERVIEW: QUESTIONS, QUESTIONS AND MORE QUESTIONS

We believe investors may want to revisit the investment thesis about (1) certain sectors and stocks and (2) expectations of earnings upgrades in light of 2QFY13 results and trends over the past few quarters. These include (1) private banks, given further increase in NPLs and restructured loans of PSU banks in 2QFY13, (2) consumer stocks due to their extremely rich valuations and middling fundamentals, (3) L&T, given its poor cash-flow generation despite meeting revenue and order-booking guidance and (4) cement.

Several shades of grey and some bare facts

Investors may want to explore certain issues in more detail in light of (1) the Street's benevolent attitude towards certain sectors and stocks, (2) rich multiples of consumer stocks despite middling fundamentals, (3) declining disclosures in certain companies and (4) the Street's expectations of earnings upgrades and reforms. We raise a few questions.

- **Why are PSU banks so different from private banks in asset quality?** 2QFY13 results of PSU banks showed further increase in their NPLs and restructured loans from their already high levels while private banks had a relatively benign quarter with a modest decline in asset quality (see Exhibits 1 and 2, which show trends in NPLs, slippages and restructured loans of banks under our coverage). We have observed this divergence over the past few quarters and wonder whether the two sets of banks (1) operate under very different conditions and (2) have exposure to completely different sectors given the stark difference in credit performance. We appreciate the high exposure of certain private banks (HDFC Bank, IIB) to the retail sector where asset quality is relatively fine.

Exhibit 1: Asset quality of PSU banks deteriorated sharply in 2QFY13
Trend in gross NPLs, net NPLs and restructured loans, 2QFY12-2QFY13

	Gross NPLs (%)					Net NPLs (%)					Slippages (%)				
	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13
Public banks															
Andhra Bank	2.6	2.4	2.1	2.7	3.5	1.5	1.2	0.9	1.5	2.2	5.8	2.0	2.4	3.9	3.6
Bank of Baroda	1.4	1.5	1.5	1.8	2.0	0.5	0.5	0.5	0.7	0.8	1.0	1.6	2.0	1.7	1.9
Bank of India	3.0	2.7	2.3	2.6	3.4	2.0	1.8	1.5	1.7	2.0	5.3	1.0	0.6	2.8	4.1
Canara Bank	1.7	1.8	1.7	2.0	2.6	1.4	1.5	1.5	1.7	2.1	2.3	1.6	2.0	2.6	3.4
Corporation Bank	1.3	1.4	1.3	1.7	2.0	0.9	1.0	0.9	1.2	1.4	2.6	1.8	0.7	2.9	1.8
Indian Bank	1.2	1.4	2.0	1.7	2.1	0.7	0.8	1.3	1.0	1.3	1.8	1.8	4.7	1.0	3.1
Indian Overseas Bank	3.1	3.0	2.7	3.0	3.9	1.2	1.2	1.4	1.5	2.3	3.3	2.2	3.1	2.5	5.0
Oriental Bank of Commerce	3.0	2.9	3.2	3.0	2.9	1.9	1.9	2.2	2.1	2.0	6.1	2.6	4.8	2.5	2.3
Punjab National Bank	2.1	2.4	2.9	3.3	4.7	0.8	1.1	1.5	1.7	2.7	1.6	2.7	4.3	3.8	6.2
State Bank of India	4.2	4.6	4.4	5.0	5.2	2.0	2.2	1.8	2.2	2.4	4.3	4.1	2.1	5.0	3.7
Union Bank	3.5	3.3	3.0	3.8	3.7	2.0	1.9	1.7	2.2	2.1	4.9	1.6	1.6	3.6	1.8
Old private banks															
Federal Bank	3.6	4.0	3.4	3.6	3.8	0.6	0.7	0.5	0.6	0.7	3.3	3.9	3.2	3.1	1.5
J&K Bank	1.9	1.8	1.5	1.6	1.6	0.2	0.2	0.2	0.1	0.2					
New private banks															
Axis Bank	1.1	1.1	0.9	1.1	1.1	0.3	0.4	0.3	0.3	0.3	1.5	1.5	1.4	1.1	1.5
HDFC Bank	1.0	1.0	1.0	1.0	0.9	0.2	0.2	0.2	0.2	0.2					
ICICI Bank	4.1	3.8	3.6	3.5	3.5	0.9	0.8	0.7	0.7	0.8	1.4	1.5	1.0	1.4	1.8
IndusInd Bank	1.1	1.0	1.0	1.0	1.0	0.3	0.3	0.3	0.3	0.3	1.8	0.1	0.5	1.1	0.9
Yes Bank	0.2	0.2	0.2	0.3	0.2	0.0	0.0	0.1	0.1	0.1					
Total	**2.8**	**2.9**	**2.8**	**3.1**	**3.4**	**1.3**	**1.3**	**1.2**	**1.4**	**1.7**					

Source: Company, Kotak Institutional Equities

Exhibit 2: Steep increase in restructured loans for PSU banks in 2QFY13
Trend in restructured loans, 2QFY12-2QFY13

	Restructured loans (Rs bn)					Restructured loans (%)					Restructured loans + Net NPLs (%)				
	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13
Public banks															
Andhra Bank	28	37	61	68	91	3.8	4.6	7.2	7.8	10.5	5.2	5.8	8.1	9.3	12.6
Bank of Baroda	79	99	186	195	211	3.3	3.8	6.5	6.8	7.2	3.8	4.3	7.0	7.5	8.0
Bank of India	111	137	164	206	214	5.1	5.9	6.5	7.8	8.4	7.1	7.6	8.0	9.5	10.4
Canara Bank	85	100	79	140	149	3.9	4.5	3.4	6.2	6.9	5.3	6.0	4.9	7.9	9.0
Corporation Bank	38	45	73	84	89	4.7	4.9	7.2	8.5	9.0	5.6	5.9	8.1	9.7	10.4
Indian Bank	51	56	89	99	103	6.0	6.3	9.9	10.6	10.9	6.7	7.1	11.2	11.6	12.2
Indian Overseas Bank	72	101	126	134	148	5.6	7.6	9.0	9.0	9.6	6.8	8.8	10.3	10.5	11.8
Oriental Bank of Commerce	41	61	95	110	115	3.9	5.5	8.5	9.6	9.7	5.8	7.4	10.7	11.6	11.8
Punjab National Bank	149	169	250	255	279	6.0	6.4	8.5	8.7	9.4	6.8	7.5	10.0	10.3	12.1
State Bank of India (a)	354	376	427	433	478	4.5	4.4	4.9	4.7	5.2	6.5	6.7	6.8	6.9	7.6
Union Bank (a)	66	86	119	135	144	4.5	5.5	6.6	7.8	8.3	6.5	7.4	8.2	9.9	10.4
Old private banks															
Federal Bank (a)	14	14	24	26	28	4.3	4.4	6.4	6.9	7.8	4.9	5.1	6.9	7.5	8.5
J&K Bank	22	17	14	14	15	7.7	5.6	4.1	4.1	4.4	8.0	5.7	4.3	4.3	4.5
New private banks															
Axis Bank	24	27	31	38	41	1.5	1.5	1.6	2.0	2.1	1.9	2.0	1.9	2.3	2.4
HDFC Bank	7	8	8	6	6	0.4	0.4	0.4	0.3	0.3	0.6	0.6	0.6	0.5	0.4
ICICI Bank	25	31	43	42	42	1.1	1.2	1.7	1.6	1.5	2.0	2.1	2.4	2.3	2.3
IndusInd Bank	1	1	1	1	1	0.3	0.2	0.3	0.2	0.2	0.6	0.5	0.5	0.5	0.5
Yes Bank	2	2	2	2	2	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.5
Total	**1,170**	**1,366**	**1,791**	**1,986**	**2,155**	**3.9**	**4.3**	**5.3**	**5.7**	**6.1**	**5.2**	**5.6**	**6.5**	**7.1**	**7.8**

Notes:
(a) We have used gross restructured loans for Federal Bank, SBI and Union Bank.

Source: Company, Kotak Institutional Equities

However, several private banks have similar exposure to the corporate, infrastructure and SME sectors (see Exhibit 3, which shows the breakdown of outstanding loans in the retail, corporate, SME and infrastructure sectors for banks under our coverage). Investors may want to find out whether the continued deterioration in asset quality in the case of PSU banks, relative to private banks, simply reflects weak lending practices of PSU banks or whether there are other reasons for the divergent performance. The Government and regulator may want to ensure better lending practices at PSU banks or enforce better practices (lending and otherwise) of private-sector companies on PSU banks.

Exhibit 3: Not much difference in loans of public banks and certain private banks
Breakdown of loans of banks, March fiscal year-end, 2QFY13 (Rs bn)

	Advances	Retail	Corporate loans (%)			Retail	Corporate loans (Rs bn)		
	(Rs bn)	(%)	Total	Infra	SME	(Rs bn)	Total	Infra	SME
Public banks									
Andhra Bank	865	13	55	13	16	117	478	108	135
BOB (a) (e)	2,922	12	67	10	13	342	1,953	293	369
BOI (a)	2,561	8	73	12	12	203	1,858	306	315
Canara Bank	2,158	10	59	19	15	222	1,272	402	331
Corporation Bank	982	22	48	17	16	212	469	165	158
Indian Bank	950	15	52	19	12	140	495	183	119
IOB (a)	1,534	7	69	13	11	103	1,058	196	161
OBC	1,178	11	72	22	16	131	850	259	186
PNB (a)	2,947	10	41	16	10	297	1,203	466	307
SBI (a)	9,560	20	50	10	15	1,918	4,758	985	1,447
Union Bank	1,729	10	64	18	16	176	1,104	316	275
Total public sector	**27,386**	**14**	**57**	**13**	**14**	**3,861**	**15,496**	**3,679**	**3,801**
New private banks									
Federal Bank	363	31	40	12	32	114	146	45	115
J&K Bank	332	—	—	—	—	—	—	—	—
Old private banks									
Axis Bank	1,721	26	53	12	14	443	921	213	236
HDFC Bank	2,316	53	47	4	—	1,232	1,085	94	—
ICICI Bank (a) (d)	3,019	31	58	16	5	933	1,752	480	138
IndusInd Bank	406	53	25	4	14	216	102	17	57
Yes Bank	420	15	67	19	18	62	283	78	75
Total private sector (b)	**8,246**	**38**	**54**	**11**	**8**	**2,999**	**4,289**	**928**	**621**

Notes:
(a) Exposure to corporates includes international loans.
(b) Total private sector exposure excludes J&K Bank.
(c) Infra exposure for old private banks represents fund-based exposure as of FY2012.
(d) ICICI bank loan book includes its UK and Canada businesses. Retail loans have been taken from stadalone entity as UK and Canada subsidiaries have limited retail exposure.
(e) Infrastructure loans for Bank of Baroda as of 1QFY13.

Source: Company, Kotak Institutional Equities

- Why should certain 'fancied' companies trade at such high multiples?

  - **Cement.** We find valuations of cement companies expensive in the context of the commodity nature of the business and high current and estimated profitability (see Exhibit 4, which shows P/E and EBITDA/ton for the five large cement companies under our coverage for FY2013E and FY2014E). In our view, cement stocks, as in the case of commodity stocks, should trade at 8-10X mid-cycle earnings. The stocks' high multiples suggest that investors believe earnings are below mid-cycle levels. This argument does not hold true in the context of profitability of cement companies versus historical levels (see Exhibit 5 for EBITDA/ton for FY2003-1HFY13 for cement stocks under our coverage).

Exhibit 4: We find valuation of cement companies expensive
Valuation of cement companies, March fiscal year-ends, 2013E-14E

	P/E (X)		EV/EBITDA (X)		EV/ton of production (US$)		EV/ton of capacity (US$)	
Company	**2013E**	**2014E**	**2013E**	**2014E**	**2013E**	**2014E**	**2013E**	**2014E**
ACC	19.5	17.7	10.5	9.0	182	167	156	148
Ambuja Cements	19.9	16.6	11.4	9.4	247	226	218	210
India Cements	9.0	6.2	5.4	4.3	101	88	68	62
Shree Cement	17.1	15.3	9.5	7.9	215	199	220	212
UltraTech Cement	21.1	18.3	12.1	10.2	237	212	204	200

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: Profitability of cement companies are at historical highs
EBITDA/ton for cement stocks under our coverage, March fiscal year-ends, 2003-13E (Rs/ton)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	1HY2013
ACC	144	175	285	423	770	857	762	1,046	563	587	992
Ambuja Cements	281	301	372	747	1,103	1,013	824	858	826	764	1,266
India Cements		80	119	227	824	1,172	900	606	254	644	1,007
Shree Cement	398	448	597	659	1,264	1,219	1,045	1,488	732	962	1,526
UltraTech Cement	302	188	238	326	834	1,012	828	802	532	804	1,159

Source: Company, Kotak Institutional Equities estimates

We see limited merit in arguments about (1) improving the supply-demand balance and (2) limited limestone reserves. In our view, investors' confidence in the companies' earnings largely stems from their implicit faith in high cement prices and profitability due to strong pricing discipline in the sector. Most investors acknowledge the existence of a pricing cartel in the cement industry. Yet, many are prepared to take a favorable view of the stocks, which we find quite aggressive in the context of (1) large penalties being imposed by India's anti-trust regulator (Competition Commission of India) and (2) potential penalties being imposed in future too, in case there is merit in investors' arguments about a successful cement cartel keeping prices artificially high.

- **Consumer staples.** The argument about 50 years of growth notwithstanding, investors may want to revisit the investment thesis of consumer stocks in light of their very high multiples and uncomfortable facts of (1) declining volume growth (decline in volumes in the case of Castrol); Exhibit 6 gives the yoy change in revenues and volumes of stocks under our coverage over the past 10 quarters, (2) the large contribution of other income to overall earnings in certain cases (see Exhibit 7, which compares incremental other income, PBT and absolute other income and PBT of certain consumer stocks under our coverage) and (3) low tax rates versus the marginal corporate tax rate of 32.45% (see Exhibit 8, which shows the 1HFY13 tax rate of consumer stocks under our coverage). The latter two facts would suggest that consumer stocks are even more expensive adjusting for (1) lower multiples for earnings from other income and (2) full tax rates.

  In particular, we highlight HUL's 30% share of other income in PBT in 1HFY13 and 60% of incremental PBT (1HFY13 over 1HFY12) arising from growth in other income (financial income and other operating income). We note that several consumer companies have a high share of other income in overall profits, Colgate, GSK Consumer and HUL being the more prominent ones.

Exhibit 6: Volume growth of consumer staple companies has come off over the past few quarters
Yoy change in revenues and volumes of stocks under our coverage over the past 10 quarters

	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12
Revenue growth (%)										
Asian Paints	28	6	37	24	29	25	20	29	7	16
GSK Consumer	14	24	21	9	22	18	19	15	12	15
HUL	7	11	12	13	15	18	16	16	14	11
ITC (cigarette)	12	15	18	13	13	14	11	11	15	17
Nestle	21	26	24	22	20	20	17	13	13	8
Volume growth (%)										
Asian Paints	19	(2)	30	12	11	8	7	15	0	7
GSK Consumer	10	19	12	5	16	15	12	7	7	6
HUL	11	14	13	14	8	10	9	10	9	7
ITC (cigarette)	(4)	1	2	(2)	7	9	5	5	0	0
Nestle	20	20	17	15	12	7	7	(5)	(2)	(3)

Source: Company, Kotak Institutional Equities estimates

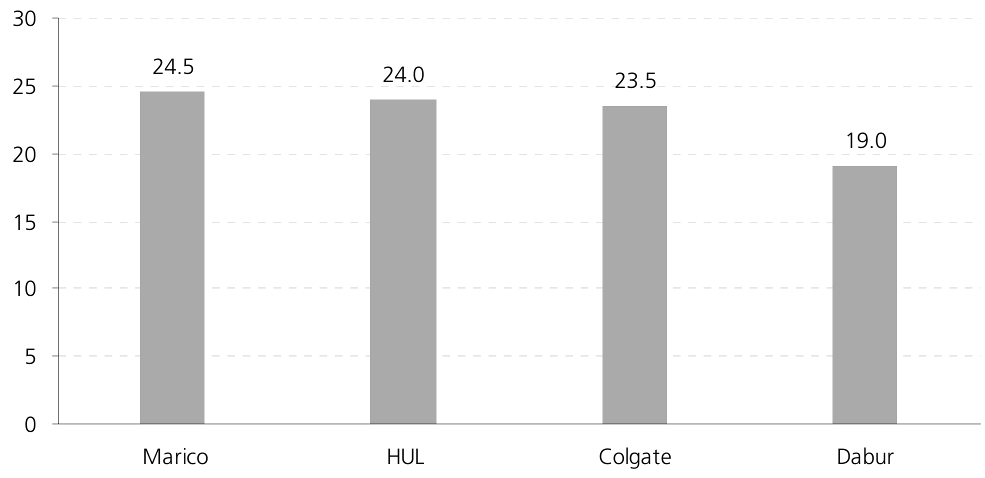
Exhibit 7: Other income now accounts for a significant proportion of consumer stocks' PBT
Other income and PBT, March fiscal year ends, 2009-12 (Rs mn)

	2009	2010	2011	2012	1HFY13
Colgate					
Operating other income	760	727	729	710	387
Other income	227	254	339	475	261
Total other income	987	981	1,068	1,185	648
PBT	3,502	4,848	5,200	5,966	3,431
Other income/PBT (%)	**28**	**20**	**21**	**20**	**19**
GSK Consumer					
Operating other income	495	621	676	852	823
Other income	460	273	498	796	791
Total other income	955	893	1,174	1,648	1,614
PBT	2,854	3,539	4,518	5,403	5,452
Other income/PBT (%)	**33**	**25**	**26**	**30**	**30**
HUL					
Operating other income	3,842	2,015	3,416	4,043	2,840
Other income	2,056	1,481	2,563	2,817	3,674
Total other income	5,897	3,496	5,978	6,860	6,514
PBT	30,251	27,162	27,302	34,382	21,846
Other income/PBT (%)	**19**	**13**	**22**	**20**	**30**
ITC					
Operating other income	1,946	2,291	2,914	3,754	1,414
Other income	3,403	3,743	5,798	8,253	3,549
Total other income	5,349	6,034	8,712	12,007	4,964
PBT	48,257	60,153	72,682	88,975	49,977
Other income/PBT (%)	**11**	**10**	**12**	**13**	**10**

Notes:
(a) GSK is a December ending company; hence, 2009 means year ending December 2008 and so on. 1HFY13 represents 9MCY12.
(b) HUL had a 15-month fiscal year end in 2009.

Source: Company, Kotak Institutional Equities

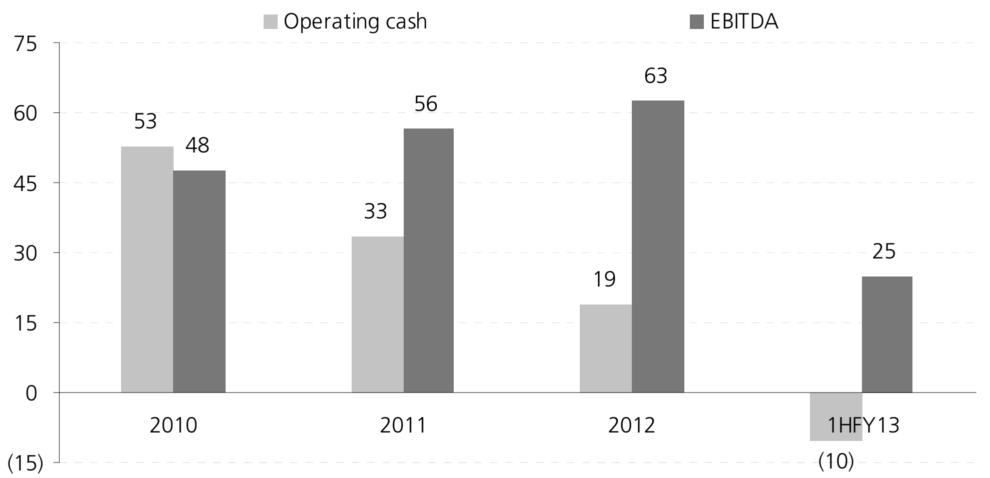
Exhibit 8: Many consumer stocks pay lower tax than the marginal corporate tax rate of 32.45%
Effective tax rate, 1HFY13 (%)



Source: Company, Kotak Institutional Equities

- **L&T.** We appreciate the market's view on L&T being the only real play in the industrials/infrastructure segment in the current weak macro-environment. We find it quite creditable that L&T has managed to meet its aggressive revenue and order booking targets for 1HFY13. However, we highlight L&T's low cash-flow generation versus its EBITDA over the past 2-3 years (see Exhibit 9). In 1HFY13, L&T reported negative operating cash flows, driven by a large increase in working capital. We would think the low conversion of EBITDA/PAT to cash flows demands a lower multiple. As such, the stock is not cheap on earnings; it will be quite expensive on cash flows.

Exhibit 9: Earnings quality of L&T has deteriorated significantly over the past two years
EBITDA to operating cash conversion for L&T's standalone business, March fiscal year-ends, 2010-1HFY13 (Rs bn)



Source: Company, Kotak Institutional Equities

- **Why is the market so nonchalant about declining disclosure standards?** We highlight that a few companies stopped disclosing vital information with 2QFY13 results.

  - **Axis Bank.** Axis did not provide details of fee income as it did historically (see Exhibit 10). We note that Axis provides the maximum disclosures on fee income (breakdown by categories) and it is not obliged to share such details as per listing requirements. Nonetheless, we note that fee income rose sharply qoq in 2QFY13 (₹13.9 bn versus ₹11.9 bn in 1QFY13) making a big contribution to the earnings surprise.

Exhibit 10: Axis Bank did not provide as many details of fee income as it did historically
Axis Bank's fee income details by categories, March fiscal year-ends, 2009-2QFY13 (Rs bn)

	2009	2010	2011	2012	1QFY13	2QFY13
Corporate banking/credit (%)	18.5	28.0	31.8	33.7	34.5	36.8
Business Banking (%)	13.0	12.0	9.4	8.5	9.3	7.9
Capital markets (%)	14.9	1.6	1.7	1.1	1.0	1.1
Retail banking (%)	31.2	27.3	24.5	25.1	27.2	35.1
Wealth Management fees (%)	10.3	6.0	5.4	7.1	5.1	NA
Cards, forex and remittances (%)	5.6	6.9	6.9	8.1	10.8	NA
Other retail assets (%)	15.3	14.4	12.1	9.9	11.3	NA
Agri & SME banking (%)	8.5	7.3	5.9	5.8	5.3	6.3
Treasury and debt capital markets (%)	14.1	17.5	18.6	19.1	20.1	24.9
Others (%)	(0.1)	6.3	8.1	6.6	2.6	4.7
Total fee income (Rs bn)	**24.7**	**31.2**	**41.4**	**50.6**	**11.9**	**13.9**

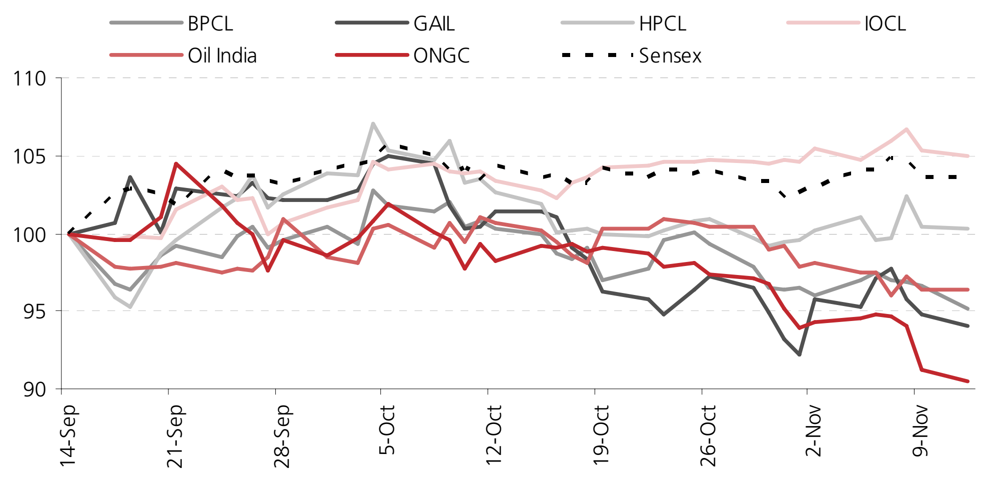
Source: Company, Kotak Institutional Equities

- **Shree Cements.** Shree Cements did not provide details of cement sales volumes, which it used to provide historically (until 4QFY12). The company is not obliged to share this information but sales volume is basic data for investors and analysts to appreciate a company's financials better.

- **Why is the market optimistic about fiscal reforms but cautious about fuel-subsidy reforms?** It seems the market is quite cautious about fuel reforms (fuel-price increases, deregulation) as reflected in the performance of Government-owned energy companies after the announcement of reforms. The six companies have meaningfully under-performed the broader market (see Exhibit 11) despite (1) positive steps on fuel reforms (increases in retail prices of auto fuels and capping of the number of subsidized LPG cylinders to six a year) announced on September 14, 2012 and (2) expectations of more fiscal reforms, which presumably involve lower fuel subsidies. The Government recently announced a path for fiscal consolidation with a target to reduce the gross fiscal deficit to 3% of GDP by FY2017.

  We do not see much scope for improvement in India's fiscal position in the medium term (see Exhibit 12 for our estimates of the key fiscal items) without meaningful reduction in fuel subsidies (raising fuel prices to customers, in other words). We note that UID-enabled cash transfers in the case of food and fertilizer will not reduce the overall subsidy amount. In fact, the Government's food subsidy bill will increase after the implementation of the Food Security Bill, 2011; we see very high chances of the Food Security Bill being passed over the next few months. We expect tax revenues to grow moderately given moderate GDP growth over the next 2-3 years.

Exhibit 11: Energy companies have meaningfully under-performed the broader market
Performance of energy companies after the reforms announcement(Base 100)



Source: Bloomberg, Kotak Institutional Equities

Exhibit 12: Limited scope for improvement in fiscal position without tax and subsidy reforms

Major Central Government budgetary items, March fiscal year-ends, 2010-14E (Rs bn)

	2010	2011	2012PE	2013BE	2013E Oil@110	2014E	2012PE/ 2011	2013BE/ 2012PE	2013E/ 2012PE	2014E/ 2013E
Receipts										
1. Revenue receipts (2d + 3)	**5,728**	**7,885**	**7,562**	**9,357**	**8,841**	**9,931**	**(4)**	**24**	**17**	**12**
2. Gross tax revenue (a + b)	6,245	7,931	8,906	10,776	10,301	11,925	12	21	16	16
2.a. Direct taxes	3,792	4,485	4,983	5,732	5,522	6,290	11	15	11	14
2.a.1. Corporation tax	2,447	2,987	3,233	3,732	3,588	4,047	8	15	11	13
2.a.2. Income tax	1,344	1,499	1,653	2,000	1,934	2,243	10	21	17	16
2.b. Indirect taxes	2,454	3,445	3,923	5,044	4,779	5,635	14	29	22	18
2.b.1. Customs duty	833	1,358	1,495	1,867	1,719	1,984	10	25	15	15
2.b.2. Excise duty	1,036	1,377	1,452	1,937	1,742	2,004	5	33	20	15
2.b.3. Service tax	584	710	976	1,240	1,317	1,647	37	27	35	25
2.c Transfers to States and UTs	1,680	2,232	2,587	3,065	2,956	3,422	16	18	14	16
2.d Net tax revenue	4,565	5,699	6,319	7,711	7,344	8,503	11	22	16	16
3. Non-tax revenue	1,163	2,186	1,243	1,646	1,496	1,428	(43)	32	20	(5)
4. Non-debt capital receipts (a + b)	**332**	**353**	**325**	**417**	**417**	**420**	**(8)**	**28**	**28**	**1**
4.a Recovery of loans	86	124	169	117	117	120	36	(31)	(31)	3
4.b Other receipts (Disinvestments)	246	228	156	300	300	300	(32)	92	92	0
5. Total receipts (1 + 4)	**6,060**	**8,237**	**7,887**	**9,773**	**9,257**	**10,351**	**(4)**	**24**	**17**	**12**
6. Non-plan expenditure	**7,211**	**8,183**	**8,849**	**9,699**	**10,201**	**10,862**	**8**	**10**	**15**	**6**
6.a. Interest payments	2,131	2,340	2,725	3,198	3,225	3,605	16	17	18	12
6.b. Subsidies	**1,414**	**1,734**	**2,163**	**1,900**	**2,476**	**2,306**	**25**	**(12)**	**14**	**(7)**
6.b.1. Food	**584**	**638**	**728**	**750**	**800**	**800**	**14**	**3**	**10**	**0**
6.b.2. Fertilizer	**613**	**623**	**672**	**610**	**650**	**650**	**8**	**(9)**	**(3)**	**0**
6.b.3. Oil	**150**	**384**	**685**	**436**	**921**	**751**	**78**	**(36)**	**34**	**(18)**
6.b.3. Other subsidies	67	89	78	105	105	105	(12)	34	34	0
6.c. Others	3,667	4,109	3,962	4,601	4,501	4,951	(4)	16	14	10
7. Plan expenditure	**3,034**	**3,790**	**4,135**	**5,210**	**4,950**	**5,544**	**9**	**26**	**20**	**12**
8. Total expenditure (6 + 7)	**10,245**	**11,973**	**12,984**	**14,909**	**15,151**	**16,406**	**8**	**15**	**17**	**8**
Deficit										
Primary deficit (PD)	2,054	1,396	2,373	1,938	2,670	2,450	70	(18)	13	(8)
Gross fiscal deficit (GFD)	4,185	3,736	5,097	5,136	5,894	6,055	36	1	16	3
Gross borrowings	4,510	4,370	5,100	5,696	5,894	6,445	17	12	16	9
Net market borrowing (dated securities)	3,984	3,254	4,364	4,790	4,988	5,495	34	10	14	10
Short-term borrowing (T-Bills)	(91)	78	1,161	90	450	250	1,396	(92)	(61)	(44)
Nominal GDP at market prices	**64,574**	**76,741**	**88,558**	**101,599**	**100,513**	**113,379**	**15**	**15**	**14**	**13**
PD/GDP (%)	**3.2**	**1.8**	**2.7**	**1.9**	**2.7**	**2.2**				
GFD/GDP (%)	**6.5**	**4.9**	**5.8**	**5.1**	**5.9**	**5.3**				

Source: Ministry of Finance, Kotak Institutional Equities estimates

Finally, the finance ministry and the RBI have both stated that fiscal consolidation through the expenditure side (lower subsidies, in other words) would be preferable and more sustainable than through the revenue side (raising revenues through taxation and one-off sales of natural resources and stakes in Government-owned companies). This would also suggest that policy rates may not decline meaningfully unless there is evidence of control over expenditure, particularly subsidies in a sustainable manner.

- **Why is the Street hopeful about earnings upgrades?** 2QFY13 results provided no evidence of earnings upgrades. Net profits beat our estimates but largely due to higher other income in a few cases and large one-off items in the case of NTPC. In fact, the BSE-30 Index's EBITDA was 3.3% lower than our expectations and the Nifty-50 Index's EBITDA was 3.7% lower, excluding BPCL, which received ₹72 bn in compensation in 2QFY13 from the Government versus nil compensation assumed by us. We will discuss 2QFY13 results in detail in the next section but highlight a few points about earnings of the broad market that preclude meaningful earnings upgrades.

(1) Global (private-sector energy, metals, IT) and (2) Government-controlled companies (Coal India, ONGC) and (3) regulated sectors (parts of the utilities sector) account for 57% of FY2013E net profits of the BSE-30 Index. In fact, including pharmaceuticals (which derive a meaningful portion of their earnings overseas) and Tata Motors (bulk of its earnings from its overseas operations, JLR) would take this figure to 67%. We rule out meaningful earnings upgrades without strong global economic recovery and favorable policy framework for the coal and energy sectors.

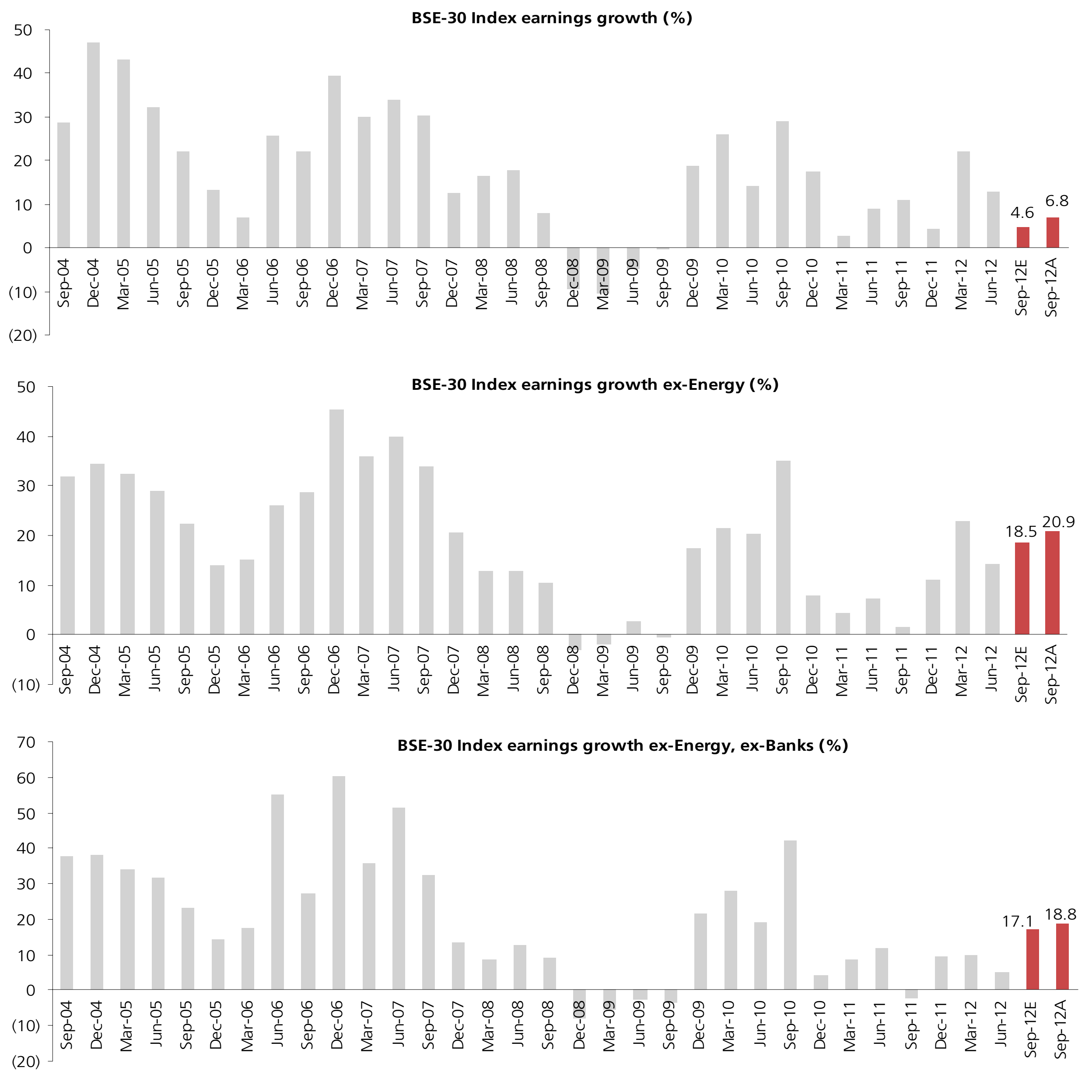
2QFY13 RESULTS ANALYSIS: IN-LINE QUARTER BUT THAT'S NOT THE POINT

2QFY13 results were largely in line with our expectations with the BSE-30 Index's net profits growing 6.8% yoy (1.6% higher than expectations) and EBITDA declining 0.5% yoy (3.3% below expectations). One-off revenues from NTPC led to the higher-than-expected EBITDA and net income; excluding NTPC, 2QFY13 EBITDA declined 3.2% yoy and net income grew 3.9% yoy. More important, the quality of earnings was a tad suspect with cash flows being weak in several companies.

2QFY13 results analysis: In-line quarter

Exhibit 13 presents the quarterly trend in earnings growth of the BSE-30 Index. The BSE-30 Index delivered adjusted net income growth of 6.8% yoy against our expectation of 4.6% yoy. Energy companies (Gail (India), Reliance Industries and ONGC) and metal and mining companies (Coal India, Tata Steel) were the primary laggards in 2QFY13. Excluding energy companies, the BSE-30 Index's earnings growth was up by a sharp 21% yoy. Reported net income of the BSE-30 Index grew 6.6% yoy and 1.8 % qoq.

Exhibit 13: Adjusted net profits of the BSE-30 Index increased by 6.8% yoy; and by 21% yoy on an ex-energy basis
Adjusted net income growth of the BSE-30 Index (%)



Source: Company, Kotak Institutional Equities estimates

- **Adjusted net income of the BSE-30 Index grew 6.8% yoy, but was sequentially flat.** Exhibit 14 compares 2QFY13 adjusted net income estimates of the BSE-30 Index with the adjusted net income in 2QFY12 and 1QFY13. (1) ITC (strong sales growth), (2) Maruti Suzuki (lower-than-expected royalty and advertising expenses), (3) NTPC (one-off revenues led to the higher-than-expected EBITDA and net income) and (4) Sterlite Industries (led by forex gains in the copper smelting business and higher-than-expected other income) reported better-than-expected earnings growth while BHEL (due to lower-than-expected execution and other income) disappointed at the net-income level.

Exhibit 14: 2QFY13 results were modestly above our expectations
Comparison of 2QFY13 net income of BSE-30 stocks, actual versus expected (Rs bn)

	Adjusted net income (₹ bn)				Change	Growth (%)	
	Sep-11	Jun-12	Sep-12A	Sep-12E	A versus E	yoy	qoq
Bajaj Auto	6.6	7.2	7.4	7.3	1	12	3
Hero Motocorp	6.0	6.2	4.4	4.2	6	(27)	(28)
Mahindra & Mahindra	7.4	7.3	9.0	8.4	7	22	24
Maruti Suzuki	2.4	4.2	2.3	1.7	32	(5)	(46)
Tata Motors	18.8	22.4	20.7	19.4	7	11	(8)
HDFC	9.7	10.0	11.5	11.8	(2)	19	15
HDFC Bank	12.0	14.2	15.6	15.5	1	30	10
ICICI Bank	15.0	18.2	19.6	18.0	9	30	8
State Bank of India	28.1	37.5	36.6	34.7	5	30	(2)
Hindustan Unilever	6.6	8.5	8.1	8.1	(0)	23	(6)
ITC	15.1	16.0	18.4	16.4	12	21	15
GAIL (India)	10.9	11.3	9.4	9.8	(4)	(14)	(17)
Oil & Natural Gas Corporation	85.1	60.8	57.8	53.6	8	(32)	(5)
Reliance Industries	57.0	44.7	53.8	54.7	(2)	(6)	20
Bharat Heavy Electricals	14.1	9.2	12.7	14.8	(14)	(10)	38
Larsen & Toubro	8.0	9.0	9.3	9.2	1	17	3
Coal India	25.8	44.8	30.9	40.8	(24)	20	(31)
Hindalco Industries	5.0	4.2	3.6	3.7	(2)	(29)	(16)
Jindal Steel and Power	9.7	9.6	9.0	9.4	(4)	(6)	(6)
Sterlite Industries	10.3	12.0	17.4	10.7	62	70	45
Tata Steel	2.1	6.0	(3.6)	3.3	(210)	(271)	(161)
Cipla	3.1	4.0	5.0	4.2	19	62	25
Dr Reddy's Laboratories	3.1	3.4	4.1	3.9	5	32	21
Sun Pharmaceuticals	6.0	8.0	9.0	9.3	(3)	51	14
Infosys	19.1	22.9	23.7	23.9	(1)	24	3
TCS	24.4	32.8	35.1	34.4	2	44	7
Wipro	13.0	15.8	16.1	15.2	6	24	2
Bharti Airtel	10.3	7.6	4.8	5.1	(6)	(53)	(37)
NTPC	17.4	25.0	31.4	23.8	32	81	26
Tata Power	3.1	2.6	3.1	3.1	(1)	(2)	18
BSE-30 Index	**455**	**485**	**486**	**478**	**1.6**	**6.8**	**0.1**
BSE-30 Index (ex Energy)	**302**	**369**	**365**	**360**	**1.4**	**20.9**	**(0.9)**

Source: Company, Kotak Institutional Equities estimates

- **Reported net income of the BSE-30 Index grew 6.6% yoy and 1.8% qoq.** Exhibit 15 shows the reported net income of the BSE-30 Index in 2QFY12, 1QFY13 and 2QFY13. The key stocks with a big difference between reported and adjusted net income include (1) NTPC with prior-period items totaling ₹11.7 bn, (2) Sun Pharmaceuticals, which provided Rs5.8 bn for potential damages in the ongoing litigation for Protonix, (3) Larsen & Toubro, which reported exceptional income of ₹2.1 bn (about ₹1.5 bn net of tax) from gains on divestment of stake in a subsidiary and extraordinary income of ₹539 mn and (4) ONGC, whose reported net income included ₹1.2 bn of write-back of excess provision for royalty.

Exhibit 15: Companies reported moderate sequential growth in earnings
Comparison of 2QFY13 net income of BSE-30 stocks (Rs bn)

	Reported net income (₹ bn)			Growth (%)	
	Sep-11	Jun-12	Sep-12A	yoy	qoq
Bajaj Auto	7.3	7.2	7.4	2	3
Hero Motocorp	6.0	6.2	4.4	(27)	(28)
Mahindra & Mahindra	7.4	7.3	9.0	22	24
Maruti Suzuki	2.4	4.2	2.3	(5)	(46)
Tata Motors	18.8	22.4	20.7	11	(8)
HDFC	9.7	10.0	11.5	19	15
HDFC Bank	12.0	14.2	15.6	30	10
ICICI Bank	15.0	18.2	19.6	30	8
State Bank of India	28.1	37.5	36.6	30	(2)
Hindustan Unilever	6.9	13.3	8.1	17	(39)
ITC	15.1	16.0	18.4	21	15
GAIL (India)	10.9	11.3	9.9	(10)	(13)
Oil & Natural Gas Corporation	86.4	60.8	59.0	(32)	(3)
Reliance Industries	57.0	44.7	53.8	(6)	20
Bharat Heavy Electricals	14.1	9.2	12.7	(10)	38
Larsen & Toubro	8.0	8.6	11.4	42	32
Coal India	25.9	44.7	30.8	19	(31)
Hindalco Industries	5.0	4.2	3.6	(29)	(16)
Jindal Steel and Power	8.8	3.9	9.0	3	133
Sterlite Industries	10.0	12.0	17.4	75	45
Tata Steel	2.1	6.0	(3.6)	(271)	(161)
Cipla	3.1	4.0	5.0	62	25
Dr Reddy's Laboratories	3.1	3.4	4.1	32	21
Sun Pharmaceuticals	6.0	8.0	3.2	(47)	(60)
Infosys	19.1	22.9	23.7	24	3
TCS	24.4	32.8	35.1	44	7
Wipro	13.0	15.8	16.1	24	2
Bharti Airtel	10.3	7.6	4.8	(53)	(37)
NTPC	24.2	25.6	41.7	72	63
Tata Power	3.1	3.1	3.0	(5)	(5)
BSE-30 Index	**463**	**485**	**494**	**6.6**	**1.8**
BSE-30 Index (ex Energy)	**309**	**368**	**371**	**20.2**	**0.8**

Source: Company, Kotak Institutional Equities estimates

- **Adjusted EBITDA of the BSE-30 Index declined 0.5% yoy and was 3.3% below our expectation.** This may be the most important parameter to look at given surprises in below-EBITDA items that contributed to the earnings surprise at the net income level. Exhibit 16 compares 2QFY13 adjusted EBITDA of the BSE-30 Index and Nifty-50 Index with 2QFY12, 1QFY13 and 2QFY13E EBITDA. Even in the case of the Nifty-50, EBITDA was 3.7% below our expectations excluding BPCL's results (BPCL received ₹72.4 bn in compensation from the Government versus nil assumed by us).

Exhibit 16: EBITDA was in line with our expectations for BSE-30 Index
EBITDA analysis of BSE-30 and Nifty-50 stocks, 2QFY13

		EBITDA (Rs mn)				Change (%)		
Company	**Industry**	**Sep-11**	**Jun-12**	**Sep-12A**	**Sep-12E**	**A/E**	**yoy**	**qoq**
Bajaj Auto	Automobiles	10,574	8,717	9,152	8,859	3	(13)	5
Hero Motocorp	Automobiles	7,087	7,169	5,132	4,821	6	(28)	(28)
Mahindra & Mahindra	Automobiles	8,740	11,094	11,189	10,661	5	28	1
Maruti Suzuki	Automobiles	4,942	7,863	5,085	4,006	27	3	(35)
Tata Motors	Automobiles	45,039	57,549	53,336	52,019	3	18	(7)
ACC	Cement	2,204	6,508	4,350	4,540	(4)	97	(33)
Ambuja Cements	Cement	2,908	7,223	5,151	4,965	4	77	(29)
Grasim Industries	Cement	9,028	15,932	13,551	13,132	3	50	(15)
UltraTech Cement	Cement	5,816	12,918	10,074	9,815	3	73	(22)
Asian Paints	Consumers	2,756	3,947	3,254	3,563	(9)	18	(18)
Hindustan Unilever	Consumers	7,326	8,388	8,213	8,629	(5)	12	(2)
ITC	Consumers	21,053	23,075	26,077	23,887	9	24	13
Bharat Petroleum	Energy	(26,948)	(81,500)	53,880	(46,396)	216	300	166
Cairn India	Energy	21,040	34,921	26,658	31,890	(16)	27	(24)
GAIL (India)	Energy	16,755	19,225	14,120	16,049	(12)	(16)	(27)
Oil & Natural Gas Corporation	Energy	144,686	111,305	103,687	115,382	(10)	(28)	(7)
Reliance Industries	Energy	98,440	67,470	77,050	79,496	(3)	(22)	14
Bharat Heavy Electricals	Industrials	17,123	10,894	17,375	18,860	(8)	1	59
Larsen & Toubro	Industrials	11,741	10,870	14,054	13,909	1	20	29
Coal India	Metals & Mining	24,819	48,146	28,617	44,265	(35)	15	(41)
Hindalco Industries	Metals & Mining	6,692	4,631	5,153	5,321	(3)	(23)	11
Jindal Steel and Power	Metals & Mining	17,038	15,932	16,964	19,050	(11)	(0)	6
Sesa Goa	Metals & Mining	2,600	6,762	58	407	(86)	(98)	(99)
Sterlite Industries	Metals & Mining	24,820	23,083	25,270	22,164	14	2	9
Tata Steel	Metals & Mining	27,500	34,033	23,101	26,966	(14)	(16)	(32)
Jaiprakash Associates	Others	6,832	7,712	8,135	7,651	6	19	5
Cipla	Pharmaceuticals	3,914	4,990	6,310	5,444	16	61	26
Dr Reddy's Laboratories	Pharmaceuticals	5,014	5,214	6,909	6,189	12	38	33
Lupin	Pharmaceuticals	2,765	4,230	4,545	4,579	(1)	64	7
Ranbaxy Laboratories	Pharmaceuticals	1,741	5,113	3,098	2,775	12	78	(39)
Sun Pharmaceuticals	Pharmaceuticals	7,840	12,169	11,685	12,475	(6)	49	(4)
DLF	Property	11,730	10,670	7,464	9,651	(23)	(36)	(30)
HCL Technologies	Technology	7,778	12,786	13,289	12,579	6	71	4
Infosys	Technology	25,160	29,460	28,730	31,427	(9)	14	(2)
TCS	Technology	33,829	43,328	44,404	45,745	(3)	31	2
Wipro	Technology	17,753	21,609	21,760	21,212	3	23	1
Bharti Airtel	Telecom	58,151	58,487	61,008	58,023	5	5	4
NTPC	Utilities	24,794	36,306	42,243	35,204	20	70	16
Power Grid	Utilities	18,978	24,646	26,693	24,981	7	41	8
Reliance Infrastructure	Utilities	5,304	4,258	4,413	4,655	(5)	(17)	4
Tata Power	Utilities	3,354	2,819	4,171	3,273	27	24	48
BSE-30		**674,184**	**683,826**	**670,796**	**693,336**	**(3.3)**	**(0.5)**	**(1.9)**
Nifty-50		**723,896**	**736,872**	**830,139**	**759,959**	**9.2**	**14.7**	**12.7**

Source: Company, Kotak Institutional Equities estimates

Exhibit 17 compares reported EBITDA and net income of the BSE-30 Index with adjusted EBITDA and net income. We remove extraordinary items such as prior-period items while computing adjusted EBITDA and net income (adjusted for tax impact) but do not remove additional branding costs or foreign currency-related gains or losses. In our view, these represent the normal costs of doing business and global accounting practices also advocate recognition of foreign currency-related gains or losses in a profit-and-loss statement on a consistent basis.

Exhibit 17: Not too many cases of one-off items in 2QFY13; NTPC and Sun Pharma were exceptions
Adjusted and reported EBITDA and net income of BSE-30 stocks, 2QFY13 (Rs mn)

	EBITDA			Net income		
Company	Adjusted	Reported	Difference	Adjusted	Reported	Difference
Bajaj Auto	9,152	9,152	—	7,407	7,407	—
Hero Motocorp	5,132	5,132	—	4,406	4,406	—
Mahindra & Mahindra	11,189	11,189	—	9,018	9,018	—
Maruti Suzuki	5,085	5,085	—	2,274	2,274	—
Tata Motors	53,336	53,336	—	20,747	20,747	—
HDFC	—	—	—	11,514	11,514	—
HDFC Bank	—	—	—	15,600	15,600	—
ICICI Bank	—	—	—	19,561	19,561	—
State Bank of India	—	—	—	36,581	36,581	—
Hindustan Unilever	8,213	8,213	—	8,059	8,069	(11)
ITC	26,077	26,077	—	18,364	18,364	—
Gail (India)	14,120	14,120	—	9,404	9,854	(450)
Oil & Natural Gas Corporation	103,687	103,687	—	57,754	58,966	(1,211)
Reliance Industries	77,050	77,050	—	53,760	53,760	—
Bharat Heavy Electricals	17,375	17,375	—	12,745	12,745	—
Larsen & Toubro	14,054	14,054	—	9,305	11,373	(2,068)
Hindalco Industries	5,153	5,153	—	3,589	3,589	—
Jindal Steel and Power	16,964	16,964	—	9,035	8,973	62
Sterlite Industries	25,270	25,270	—	17,427	17,427	—
Tata Steel	23,101	23,101	—	(3,639)	(3,639)	—
Coal India	28,617	28,617	—	30,869	30,781	88
Cipla	6,310	6,310	—	5,000	5,000	—
Dr Reddy's Laboratories	6,909	6,909	—	4,074	4,074	—
Sun Pharmaceuticals	11,685	11,685	—	9,032	3,196	5,836
Infosys	28,730	28,730	—	23,690	23,690	—
TCS	44,404	44,404	—	35,123	35,123	—
Wipro	21,760	21,760	—	16,106	16,106	—
Bharti Airtel	61,008	61,008	—	4,826	4,826	—
NTPC	32,605	42,243	(9,638)	19,716	31,424	(11,708)
Tata Power	4,171	4,171	—	3,053	2,960	93

Source: Company, Kotak Institutional Equities estimates

KIE coverage universe

In our coverage universe of 161 stocks, 61 beat our earnings forecast by more than 5%, 43 reported adjusted net income in the -5% to +5% range of our estimates and 57 were lower than our estimates by more than 5%.

Exhibit 18 compares the 2QFY13 net income of KIE coverage sectors with 2QFY12, 1QFY13 and 2QFY13E. Sectors that surpassed net profit estimates were: (1) Automobiles, (2) energy; the Government-owned downstream companies received ₹300 bn in compensation pertaining to 1HFY13 in 2QFY13 versus nil assumed by us, (3) pharmaceuticals and (4) utilities. Sectors that fell short of expectations were: (1) Industrials, (2) metals & mining and (3) telecom. We note that the three downstream companies reported large profits in 2QFY13 due to the receipt of compensation (for selling regulated fuels significantly below market prices) a few days prior to their reporting dates compared with nil compensation in 2QFY12 and 1QFY13. Also, we had assumed nil compensation in our estimates. Thus, we see little merit in looking at the overall KIE universe and focus on ex-energy analysis for yoy and qoq comparisons.

Exhibit 18: PAT of the KIE coverage universe on an ex-energy basis was in line with our expectations
Comprehensive sector-wise PAT analysis of the 2QFY13 earnings season (Rs bn)

					A versus E	Growth (%)	
	Sep-11	Jun-12	Sep-12A	Sep-12E	(%)	Yoy	Qoq
Automobiles	45	52	50	47	7	11	(3)
Banking	163	198	197	194	1	21	(1)
Cement	13	31	22	23	(6)	72	(29)
Construction	1	0	(1)	0	(216)	(176)	(800)
Consumers	36	41	43	41	4	18	5
Energy	52	(235)	329	(45)	NA	539	240
Industrials	29	16	22	32	(33)	(26)	34
Infrastructure	6	8	8	7	12	27	(4)
Media	4	4	5	5	2	6	9
Metals & Mining	61	105	85	94	(9)	39	(19)
Others	2	8	5	8	(43)	127	(42)
Pharmaceuticals	18	20	37	32	18	111	84
Real Estate	7	6	5	6	(21)	(33)	(19)
Technology	69	90	92	90	2	35	3
Telecom	4	(2)	(5)	(4)	(22)	(253)	(255)
Utilities	47	49	59	52	15	27	22
KIE universe	**555**	**391**	**952**	**581**	**64**	**71**	**143**
KIE universe (ex-Energy)	**504**	**626**	**623**	**626**	**(0.5)**	**23.6**	**(0.6)**

Source: Company, Kotak Institutional Equities estimates

Exhibit 19 shows sectors that surprised and disappointed versus our expectations of sales, EBITDA and net profits. We highlight that the utilities and energy sectors surprised on sales/NII while real estate, construction and industrial sectors disappointed. The energy, utilities and automobiles sectors surprised at the EBITDA level but the industrials, metals and mining and real estate sectors disappointed. Finally, the energy, pharmaceuticals and utilities sectors surprised at the net income level while the construction, industrials and telecom sectors disappointed.

Exhibit 19: 2QFY13 net income of the energy, pharmaceuticals and utilities sectors beat expectations
Performance of sectors versus expectations (KIE universe), 2QFY13/3QCY12 (Rs bn)

	Companies	Net sales (₹ bn)		Change
	(#)	Actual	Expected	(%)
Revenues: Sectors posting positive surprises				
Utilities	9	326	306	7
Energy	12	3,501	3,331	5
Cement	6	183	181	1
Metals & Mining	9	849	840	1
Consumers	15	291	289	1
Revenues: Sectors posting negative surprises				
Property	5	30	34	(10)
Construction	4	54	60	(9)
Industrials	15	465	485	(4)
Infrastructure	4	28	28	(1)
Technology	10	489	492	(1)

	Companies	EBITDA (₹ bn)		Change
	(#)	Actual	Expected	(%)
EBITDA: Sectors posting positive surprises				
Energy	12	447	75	493
Utilities	9	102	95	8
Automobiles	10	100	96	4
Telecom	5	91	88	3
Infrastructure	4	12	12	3
EBITDA: Sectors posting negative surprises				
Industrials	15	42	53	(19)
Metals & Mining	9	129	150	(14)
Property	5	14	15	(6)
Construction	4	5	6	(5)
Media	7	9	10	(3)

	Companies	PAT (₹ bn)		Change
	(#)	Actual	Expected	(%)
PAT: Sectors posting positive surprises				
Energy	12	329	(45)	826
Pharmaceuticals	13	37	32	18
Utilities	9	59	52	15
Infrastructure	4	8	7	12
Automobiles	10	50	47	7
PAT: Sectors posting negative surprises				
Construction	4	(1)	0	(216)
Industrials	15	22	32	(33)
Telecom	5	(5)	(4)	(22)
Real Estate	5	5	6	(21)

Source: Kotak Institutional Equities estimates

Exhibit 20 shows the movement in EBITDA margins across sectors over the past few quarters. We are reluctant to look at EBITDA margins of certain sectors (cement, energy and metals & mining) and focus on absolute profitability (₹/ton or US$/ton). Nonetheless, the exercise is useful in understanding issues in sectors. For example, the recovery in EBITDA margins of the automobile sector on a qoq basis reflects decreases in raw material costs; recovery in EBITDA margins of companies in the cement sector on a qoq basis reflects higher cement prices; and higher EBITDA margins of the technology sector reflect uplift from a weaker Rupee.

Exhibit 20: EBITDA margins in the industrials, metals & mining and telecom sectors declined yoy
Comparison of EBITDA margins for stocks in the KIE universe (%)

	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12A	Sep-12E
Automobiles	11.8	13.1	12.1	11.8	11.4	11.0
Banking	—	—	—	—	—	—
Cement	15.8	20.2	23.0	25.3	21.4	21.7
Construction	8.9	6.7	7.5	9.7	9.7	9.3
Consumers	19.3	20.0	19.0	19.9	19.9	19.9
Energy	7.1	12.5	13.1	(3.2)	12.8	2.3
Industrials	10.8	10.7	15.0	7.3	9.1	10.8
Infrastructure	42.5	44.6	41.6	46.1	45.1	43.4
Media	32.1	31.3	26.9	30.9	28.8	29.6
Metals & Mining	16.7	17.5	18.3	19.2	15.2	17.8
Others	11.4	10.9	10.6	13.7	12.4	12.7
Pharmaceuticals	21.6	25.2	24.8	24.2	24.2	24.3
Property	45.6	45.7	45.9	47.9	46.2	44.3
Technology	23.9	25.7	24.9	25.3	24.9	25.1
Telecom	28.1	27.4	26.1	25.5	25.8	25.1
Utilities	26.2	24.9	28.6	28.1	31.4	30.9
KIE universe	**12.5**	**14.9**	**15.4**	**8.8**	**14.9**	**10.9**
KIE universe (ex-Energy)	**16.2**	**16.8**	**17.1**	**17.1**	**16.4**	**16.8**

Source: Kotak Institutional Equities estimates

Quality of earnings was suspect

In our view, the quality of earnings in 2QFY13 was weak with (1) a large portion of income growth being supported by high other income, (2) a portion of yoy increase in revenues and profits (IT, metals, RIL) arising from steep yoy depreciation in the Rupee and (3) a steep increase in working capital across companies. In addition, 2QFY13 results highlighted continued problems in some sectors and stocks. We will discuss these issues in more detail below.

- **Steep sequential increase in bank NPLs.** Exhibit 21 shows the movement in NPLs (gross and net) and restructured loans over the past five quarters for major banks under our coverage. We are intrigued by the low levels of NPLs of certain private banks versus the high levels of restructured loans and NPLs of PSU banks. We note that the loan profile of private-sector banks is not very different from an average PSU bank. Thus, their low reported NPLs is quite inexplicable in the context of their exposure to certain defaulting companies, their high exposure to weak companies.

Exhibit 21: Asset quality of banks has deteriorated over the past 2-3 quarters
Trend in gross NPLs, net NPLs and restructured loans, 2QFY12-2QFY13

	Gross NPLs (%)					Net NPLs (%)					Restructured loans (%)				
	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13
Public banks															
Andhra Bank	2.6	2.4	2.1	2.7	3.5	1.5	1.2	0.9	1.5	2.2	3.8	4.6	7.2	7.8	10.5
Bank of Baroda	1.4	1.5	1.5	1.8	2.0	0.5	0.5	0.5	0.7	0.8	3.3	3.8	6.5	6.8	7.2
Bank of India	3.0	2.7	2.3	2.6	3.4	2.0	1.8	1.5	1.7	2.0	5.1	5.9	6.5	7.8	8.4
Canara Bank	1.7	1.8	1.7	2.0	2.6	1.4	1.5	1.5	1.7	2.1	3.9	4.5	3.4	6.2	6.9
Corporation Bank	1.3	1.4	1.3	1.7	2.0	0.9	1.0	0.9	1.2	1.4	4.7	4.9	7.2	8.5	9.0
Indian Bank	1.2	1.4	2.0	1.7	2.1	0.7	0.8	1.3	1.0	1.3	6.0	6.3	9.9	10.6	10.9
Indian Overseas Bank	3.1	3.0	2.7	3.0	3.9	1.2	1.2	1.4	1.5	2.3	5.6	7.6	9.0	9.0	9.6
Oriental Bank of Commerce	3.0	2.9	3.2	3.0	2.9	1.9	1.9	2.2	2.1	2.0	3.9	5.5	8.5	9.6	9.7
Punjab National Bank	2.1	2.4	2.9	3.3	4.7	0.8	1.1	1.5	1.7	2.7	6.0	6.4	8.5	8.7	9.4
State Bank of India	4.2	4.6	4.4	5.0	5.2	2.0	2.2	1.8	2.2	2.4	4.5	4.4	4.9	4.7	5.2
Union Bank	3.5	3.3	3.0	3.8	3.7	2.0	1.9	1.7	2.2	2.1	4.5	5.5	6.6	7.8	8.3
Old private banks															
Federal Bank	3.6	4.0	3.4	3.6	3.8	0.6	0.7	0.5	0.6	0.7	4.3	4.4	6.4	6.9	7.8
J&K Bank	1.9	1.8	1.5	1.6	1.6	0.2	0.2	0.2	0.1	0.2	7.7	5.6	4.1	4.1	4.4
New private banks															
Axis Bank	1.1	1.1	0.9	1.1	1.1	0.3	0.4	0.3	0.3	0.3	1.5	1.5	1.6	2.0	2.1
HDFC Bank	1.0	1.0	1.0	1.0	0.9	0.2	0.2	0.2	0.2	0.2	0.4	0.4	0.4	0.3	0.3
ICICI Bank	4.1	3.8	3.6	3.5	3.5	0.9	0.8	0.7	0.7	0.8	1.1	1.2	1.7	1.6	1.5
IndusInd Bank	1.1	1.0	1.0	1.0	1.0	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.3	0.2	0.2
Yes Bank	0.2	0.2	0.2	0.3	0.2	0.0	0.0	0.1	0.1	0.1	0.5	0.5	0.5	0.5	0.5
Total	**2.8**	**2.9**	**2.8**	**3.1**	**3.4**	**1.3**	**1.3**	**1.2**	**1.4**	**1.7**					

Source: Company, Kotak Institutional Equities

- **Low order booking in industrial companies.** Exhibit 22 shows the trend in order booking of major industrial companies over the past few quarters. L&T reported strong order inflows of ₹210 bn but BHEL disappointed with relatively low order inflows of ₹32 bn in 2QFY13. Order inflows of construction companies were particularly weak.

Exhibit 22: Order inflows were generally down on a yoy basis
Order inflows of key industrials and construction companies, 2QFY12-2QFY13 (Rs bn)

	Order inflows (₹ bn)					yoy growth (%)				
	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13
ABB	25	22	16	20	17	23	60	(4)	14	(33)
BHEL	143	10	68	56	32	(3)	(93)	(69)	126	(78)
Crompton (standalone)	9	12	7	7	9	24	150	12	17	(2)
IVRCL	43	39	42	39	10	(19)	143	128	70	(77)
Larsen & Toubro	161	171	212	196	210	(21)	28	(30)	21	30
Nagarjuna Construction Co.	17	68	10	20	6	(50)	150	163	47	(64)
Punj Lloyd	47	21	20	17	20	352	(58)	(43)	(70)	(57)
Siemens	27	28	18	27	27	(10)	(29)	(45)	18	0
Thermax	12	6	8	13	12	(10)	(40)	(36)	(13)	5
Voltas	5	15	4	4	3	(28)	191	(63)	23	(29)
Total	**489**	**392**	**405**	**399**	**346**	**(7)**	**(9)**	**(38)**	**16**	**(29)**

Notes:
(a) Data for Siemens is not yet available; its results are due on November 23. We have assumed similar numbers as in 2QFY12.

Source: Company, Kotak Institutional Equities

- **Increase in working capital leads to deterioration in balance sheets.** BHEL (due to lower current liabilities) and L&T reported high working capital in 2QFY13. Almost all other industrial companies reported a steep increase in working capital (net working capital) qoq, which shows the stress in cash flows of customers. Exhibits 23 and 24 show the net working capital and debtors in terms of number of days of major industrial companies over the past 1.5 years.

Exhibit 23: Working capital position of industrial companies deteriorated meaningfully
Net working capital levels of key industrial companies, March fiscal year-ends, 2009-1HFY13

	Mar-09	Mar-10	Mar-11	Sep-11	Mar-12	Sep-12
(Rs mn)						
Larsen & Toubro	48,303	36,869	53,975	104,288	92,381	139,213
BHEL	(17,465)	7,030	29,212	77,057	111,723	164,778
Voltas	558	1,085	4,097	8,919	8,174	10,485
Crompton Greaves	4,035	4,161	8,619	14,353	11,893	13,066
Thermax	(103)	(4,790)	(2,168)	455	946	2,123
(Days of sales)						
Larsen & Toubro	52	36	45	80	63	88
BHEL	(24)	8	26	64	86	124
Voltas	5	8	29	63	58	70
Crompton Greaves	17	17	31	50	39	40
Thermax	(1)	(52)	(16)	3	7	15

Source: Company, Kotak Institutional Equities

Exhibit 24: Debtors position of industrial companies deteriorated moderately
Debtor levels of key industrial companies, March fiscal year-ends, 2009-1HFY13

	Mar-09	Mar-10	Mar-11	Sep-11	Mar-12	Sep-12
(Rs mn)						
Larsen & Toubro	100,555	111,637	124,276	136,274	187,299	187,743
BHEL	159,755	206,888	273,546	305,693	358,448	366,564
Voltas	9,521	10,060	11,705	13,030	11,668	11,572
Crompton Greaves	20,556	21,463	25,427	28,388	31,433	31,627
Thermax	5,719	7,984	10,013	10,143	12,456	11,793
(Days of sales)						
Larsen & Toubro	108	110	103	105	129	119
BHEL	222	230	240	252	277	276
Voltas	80	76	83	92	82	77
Crompton Greaves	86	86	93	99	102	97
Thermax	60	86	75	69	86	84

Source: Company, Kotak Institutional Equities

- **Rupee depreciation helped revenues and profits.** Exhibit 25 compares reported revenues of IT companies in US Dollar and Rupee terms and shows the large difference in revenue growth in the two currencies. We note that profits would have benefited meaningfully from the weaker Rupee yoy; we are not quantifying the impact as companies may have passed on some benefits of the Rupee depreciation.

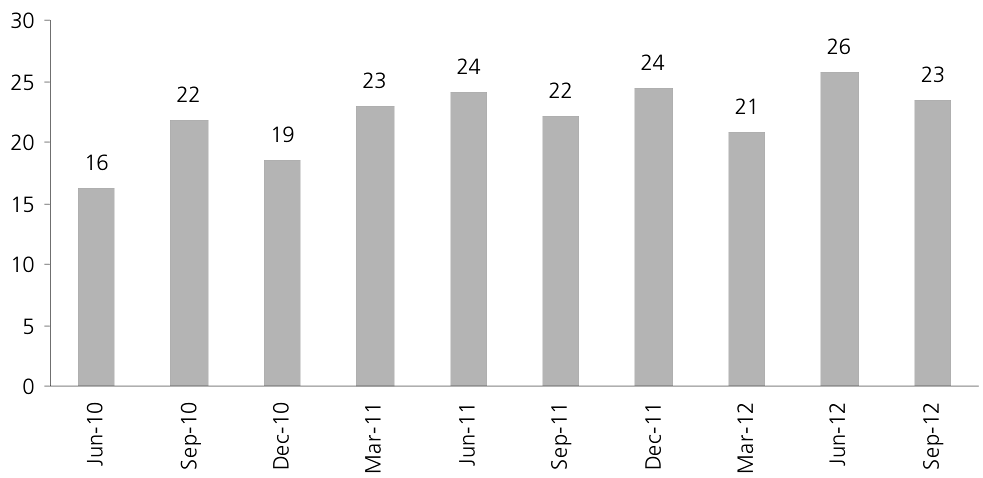
Exhibit 25: Big difference in revenue growth in US Dollar and Rupee terms
Revenues of IT companies in US Dollars and Rupees, 2QFY12-2QFY13 (Rs mn, US$ mn)

	Revenues (US$ mn)		Change	Revenues (Rs mn)		Change
Company	**2QFY12**	**2QFY13**	**(%)**	**2QFY12**	**2QFY13**	**(%)**
HCL Technologies	1,002	1,114	11	46,513	60,912	31
Hexaware	79	93	18	3,660	5,075	39
Infosys	1,746	1,797	3	80,990	98,580	22
Mindtree	101	107	6	4,567	5,963	31
Polaris	111	108	(3)	5,097	5,859	15
Mahindra Satyam	330	354	7	15,777	19,384	23
TCS	2,525	2,853	13	116,335	156,208	34
Tech Mahindra	296	299	1	13,333	16,314	22
Wipro	1,473	1,541	5	68,294	83,732	23

Source: Company, Kotak Institutional Equities

- **Other income lifts profit.** We have seen a steady increase in other income of many companies. Exhibit 26 shows the proportion of other income to PBT of companies in the Nifty-50 Index over the past few quarters.

Exhibit 26: Steady increase in other income for companies
Proportion of other income to PBT for the Nifty-50 Index, March fiscal year-ends, 2010-13 (%)



Source: Capitaline, Kotak Institutional Equities

- **Rising net debt of infrastructure companies.** Exhibit 27 shows the increase in net debt of construction, infrastructure and power companies over the past few quarters. A portion of the increase reflects an increase in working-capital requirements but most of the increase reflects (1) continued capex in most cases and (2) losses in the case of certain companies (Adani Power and Suzlon).

Exhibit 27: Net debt of infrastructure companies continues to increase
Net debt of infrastructure and power companies, 2QFY11-2QFY13 (Rs bn)

Company	Sector	Consolidated/ Standalone	2QFY11	4QFY11	2QFY12	4QFY12	2QFY13
IVRCL	Construction	Standalone	22	20	25	25	26
NCC	Construction	Standalone	19	23	25	25	24
Punj Lloyd	Construction	Consolidated	33	33	43	46	52
Sadbhav Engineering	Construction	Standalone	4	3	4	4	6
Suzlon Energy	Industrials	Consolidated	98	102	116	121	132
Container Corporation	Infrastructure	Standalone	(23)	(24)	(27)	(27)	(30)
GMR Infrastructure	Infrastructure	Consolidated	189	209	227	284	331
GVK Power & Infrastructure	Infrastructure	Consolidated	47	52	58	122	141
IRB Infrastructure	Infrastructure	Standalone	27	34	43	50	59
Adani Port and SEZ	Infrastructure	Standalone	24	26	38	46	65
Gujarat Pipavav Port	Infrastructure	Standalone	6	6	6	6	3
Jaiprakash Associates	Others	Standalone	161	192	213	181	210
Adani Power	Utilities	Standalone	149	165	207	239	227
CESC	Utilities	Standalone	22	22	22	23	22
JSW Energy	Utilities	Consolidated	76	87	96	87	92
Lanco Infratech	Utilities	Consolidated	87	142	179	266	327
NHPC	Utilities	Standalone	108	117	108	116	136
NTPC	Utilities	Standalone	201	270	295	315	322
Power Grid	Utilities	Standalone	331	372	398	484	530
Reliance Infrastructure	Utilities	Consolidated	104	117	145	167	165
Reliance Power	Utilities	Consolidated	19	54	76	129	178
Tata Power	Utilities	Standalone	55	62	60	66	89

Source: Company, Kotak Institutional Equities

EARNINGS: NO SIGN OF UPGRADES AS YET

Our FY2013E and FY2014E earnings for the BSE-30 have undergone minor changes after the recently concluded 2QFY13 results. Also, we note that the composition of India's broad market makes the earnings of the broad market less correlated to (1) domestic GDP growth and (2) general reforms (as opposed to specific reforms on fuel subsidies). (1) Global sectors and (2) Government-owned companies account for 57% of BSE-30 net profits and 53% of Nifty-50 profits.

No major changes to earnings after the 2QFY13 results season

Exhibit 28 traces our earnings growth (yoy percentage terms) for the BSE-30 sectors for FY2013 and FY2014, broken down by sector. As can be seen, our earnings forecast has declined moderately for FY2013 and we now forecast 5.8% growth in net profits of the BSE-30 Index (full-float basis) versus 7.5% at the start of the 2QFY13 results season. We estimate FY2013 BSE-30 'EPS' at ₹1,192 and FY2014 'EPS' at ₹1,335. This is lower versus ₹1,202 for FY2013 and ₹1,357 for FY2014 at the start of the 2QFY13 results season.

Exhibit 28: Earnings changes by sector for FY2013E and FY2014E over a period of time
Earnings growth of the BSE-30 Index sectors, March fiscal year-ends, 2013-14E (%)

	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Current
2013E															
Automobiles	11	11	14	15	19	17	16	15	2	0	(1)	(8)	(10)	(10)	2
Banking	23	23	27	20	20	19	17	18	19	19	20	19	18	20	20
Consumers	14	16	16	16	16	16	16	16	16	16	16	17	17	22	22
Energy	7	6	8	11	10	10	(1)	(1)	0	(2)	(2)	(1)	1	(0)	(5)
Industrials	12	10	6	5	(6)	(2)	(2)	(2)	(3)	(3)	5	4	6	5	5
Metals & Mining	16	14	20	18	18	20	20	16	16	16	13	10	7	8	(2)
Pharmaceuticals	19	18	24	27	27	22	15	15	11	14	10	27	30	33	22
Technology	15	20	20	22	22	21	19	16	20	24	19	19	24	20	19
Telecom	54	54	68	75	75	63	63	63	61	61	61	(24)	(24)	(24)	(28)
Utilities	7	10	11	9	9	16	16	16	13	13	13	9	9	19	12
BSE-30 Index	**14.6**	**14.9**	**17.6**	**17.2**	**16.4**	**16.6**	**12.7**	**11.8**	**11.0**	**10.2**	**9.8**	**7.1**	**7.5**	**7.9**	**5.8**
BSE-30 ex-Energy	**17.5**	**18.1**	**20.9**	**19.4**	**18.9**	**18.8**	**17.9**	**16.5**	**14.9**	**14.7**	**13.8**	**9.8**	**9.6**	**10.7**	**9.5**
2014E															
Automobiles							13	13	21	23	24	26	34	34	18
Banking							17	16	13	13	13	13	12	10	10
Consumers							16	16	14	14	14	14	14	16	16
Energy							4	4	3	4	1	1	2	2	5
Industrials							3	(2)	(2)	(2)	(4)	(5)	(7)	(8)	(8)
Metals & Mining							22	22	17	17	14	18	17	17	22
Pharmaceuticals							12	12	12	11	9	1	1	(0)	9
Technology							13	13	12	9	4	4	10	8	8
Telecom							23	23	24	24	24	50	50	50	60
Utilities							27	27	22	22	22	25	25	8	13
BSE-30 Index							**13.9**	**13.4**	**12.2**	**12.0**	**10.2**	**10.9**	**12.2**	**10.7**	**11.1**
BSE-30 ex-Energy							**16.9**	**16.3**	**15.0**	**14.6**	**13.0**	**14.1**	**15.4**	**13.5**	**13.2**

Source: Kotak Institutional Equities estimates

Composition of earnings may rule out major upgrades on domestic factors alone

We note that the market is quite excited about the start of the reforms process in India and expects more reforms. The extent and nature of reforms is open to debate but we highlight that the composition of India's earnings (as in the broad market: BSE-30 Index or Nifty-50) precludes a meaningful increase in earnings of the broad market on domestic factors alone. The earnings of several sectors depend on either (1) global factors (private-sector energy, metals, IT) or (2) Government regulations (coal and public-sector energy). Besides, reforms may not necessarily translate into strong GDP growth given the myriad problems facing the Indian economy: (1) Slowing consumption, (2) declining investment and (3) a weak external account.

- Exhibit 29 gives the breakdown of net profits of the BSE-30 Index by sector.

Exhibit 29: Limited scope for earnings surprises in FY2013 and FY2014 given the composition of India's earnings
Breakup of earnings of the BSE-30 Index across sectors, March fiscal year-ends, 2010-14E

	Net profits (Rs bn)					Contribution (%)					Incremental profits			
											2013E		2014E	
	2010	2011	2012	2013E	2014E	2010	2011	2012	2013E	2014E	(Rs bn)	(%)	(Rs bn)	(%)
Automobiles	115	185	241	245	290	8	11	12	12	13	4	3	45	19
Banking	190	209	275	329	363	13	12	14	16	16	55	48	33	14
Consumers	61	71	87	107	124	4	4	4	5	5	19	17	17	7
Energy	**390**	**450**	**518**	**494**	**517**	**27**	**26**	**26**	**24**	**22**	**(23)**	**(20)**	**22**	**10**
ONGC	196	211	281	255	282	14	12	14	12	12	(26)	(22)	27	12
Reliance Industries	162	203	200	200	195	11	12	10	10	8	(0)	(0)	(5)	(2)
Industrials	78	101	117	123	113	5	6	6	6	5	6	5	(10)	(4)
Metals & Mining	**207**	**282**	**290**	**285**	**347**	**14**	**16**	**15**	**14**	**15**	**(6)**	**(5)**	**63**	**27**
Coal India	96	109	147	156	179	7	6	7	8	8	10	8	23	10
Pharmaceuticals	23	38	51	63	69	2	2	3	3	3	11	10	6	3
Technology	177	209	245	293	315	12	12	12	14	14	48	42	22	10
Telecom	90	60	43	31	49	6	4	2	1	2	(12)	(10)	18	8
Utilities	102	109	100	113	128	7	6	5	5	6	12	11	15	6
BSE-30	**1,433**	**1,714**	**1,968**	**2,082**	**2,314**	**100**	**100**	**100**	**100**	**100**	**114**	**100**	**232**	**100**
BSE-30 change (%)	**1.7**	**19.6**	**14.8**	**5.8**	**11.1**									
BSE-30 ex-energy change (%)	**6.2**	**21.3**	**14.7**	**9.5**	**13.2**									
BSE-30 EPS (FF)	**834**	**1,024**	**1,125**	**1,192**	**1,335**									

Source: Kotak Institutional Equities estimates

- **30% of the net profits of the BSE-30 Index come from companies with global exposure.** We see little evidence of a strong global economic recovery to expect earnings upgrades in RIL (chemical or refining segments), metals companies or IT companies. Tata Motors also now derives most of its earnings from its overseas operations (JLR).

- **20% of net profits of the BSE-30 Index come from companies with a large Government influence on pricing.** We put Coal India and ONGC in this category. The earnings of these companies may benefit from favorable policy decisions on pricing and subsidies but we do not expect the Government's policies on pricing of coal, oil and natural gas to change dramatically. We build conservative assumptions on prices of crude oil (net realization for ONGC) and coal accordingly. In fact, the market does not factor any positive upside to these stocks from reforms (fuel reforms) as can be seen in the weak performance of the stocks over the past two months.

- **5% of the net profits of the BSE-30 Index come from regulated businesses.** NTPC accounts for 5% of the BSE-30 Index's net profits. Its earnings and the regulated portion of Tata Power's business are unlikely to surprise even with meaningful reforms. Tata Power could potentially benefit from a favorable renegotiation of the PPA of the Mundra Power Plant (effectively higher power tariffs). However, this is a difficult assumption to make given complex legal, political and social issues. Any action from a state government or state governments that can be construed as being favorable to a private company at the cost of citizens of the state/(s) is unlikely to be politically or socially acceptable.

- **27% of the profits of the BSE-30 Index come from domestic cyclical sectors.** We put automobiles (barring Tata Motors), banking and industrials/infrastructure in this bracket. Other sectors such as cement, media and real estate that are not represented in the BSE-30 Index will also see strong revenues and profits in the case of a strong domestic economic recovery. The banking sector's net income could also be boosted by lower-than-expected provisioning (NPLs).

Reforms will take time to bite, so will recovery of GDP growth

It is too early to take a more positive view of the Indian economy based on recent positive reform announcements: (1) Fuel-price increases and (2) increase in FDI limits in certain sectors. We note that the Government will need to implement more reforms for (1) a better fiscal position and (2) a stronger investment climate (see Exhibit 30 for our wish list of reforms). We also note that a meaningful part of potential reforms will entail the approval of the Parliament (legislative route) and may face potential political challenges (see Exhibit 31 for major economic bills pending before the Parliament).

Exhibit 30: Multi-faceted reforms required to bring India back on track

KIE's wish list of actionable reforms

		Executive	Legislative
(A)	**Governance reforms: Decisive leadership to overcome policy paralysis of last several years**		
1	Addressing endemic corruption via specific oversight legislations like Lokpal		√
2	Reducing excessive bureaucracy by streamlining decision-making; single-window clearances required	√	
3	Executive and legislative arms of the Government need to work: present and clear bills in Parliament		√
4	Strong regulators required across many sectors (energy, coal, real-estate) with appropriate penal powers	√	√
5	Institutions like CAG to be strengthened with Executive not directly sparring with them in public	√	
(B)	**Fiscal reforms: Tighter fiscal management to bring down interest rates in the economy**		
1	Important for Government to signal fiscal prudence for RBI to reciprocate on monetary policy: FRBM Act		√
2	Taxation reforms: GST and DTC implementation critical; practical timelines should be announced and adhered to	√	√
3	Subsidy reforms: Capping subsidies on fuels (LPG, diesel and petrol) and market-linked pricing for fertilizers	√	
4	Spreading the direct cash transfer pilots to across the country to cover various subsidies, support-systems	√	
5	Increasing price of power to sustainable rates for the SEBs to come back to health	√	
(C)	**Investment reforms: Better investment climate to increase potential GDP growth**		
1	Creation of National Investment Board (NIB)	√	√
2	Clear, transparent policies on auction of natural resources such as coal, minerals, spectrum, etc.	√	
3	Identifying new avenues of infrastructure creation; facilitating that with land acquisition	√	

Source: Kotak Institutional Equities estimates

Exhibit 31: Many economically important bills are hanging fire at various stages
Details of important economic bills

Issues at hand	Introduced	Comments	Impact
Banking Laws (Amendment) Bill, 2011			
Raises the ceiling on voting rights of shareholders of nationalized banks from 1% to 10%	In Lok Sabha on Mar 22, 2011	Standing Committee report has been received on Dec 13, 2011	Will provide clarity on new banking licenses
Removes the existing restrictions on voting rights limited to 10% of the total voting rights of all the shareholders of the banking company			
For persons who wish to acquire 5% or more of the share capital of a banking company, it will be mandatory to obtain prior approval from the RBI			
Confer powers on the RBI to supersede the Board of Directors of a banking company			
The Companies Bill, 2011			
Multiple updated provisions including on private placements, limits on directorships, changes in auditors, increase in fines, corporate social responsibility (2% of last three years profits), control of pay of management by the government	In Lok Sabha on Dec 2, 2011	Companies Bill, 2009 was introduced on Aug 3 2009. The Standing Committee presented its report on Aug 31, 2010. The central government withdrew this Bill in the winter session of 2011. It re-introduced the Companies Bill, 2011 on Dec 2, 2011	
The Constitution (115th Amendment) Bill, or the Goods and Services Tax Bill			
Give concurrent taxing powers to both the Union and States. The bill suggests the creation of Goods and Services Tax council and a Goods and Services Tax Dispute Settlement Authority	In Lok Sabha on Mar 22, 2011	Referred to Standing Committee on Mar 29, 2011. However, the Central government is still building consensus with state governments	~100 bps increase in GDP, ~70 bps increase in central taxes as percentage of GDP
Insurance Laws (Amendment) Bill, 2008			
Allows foreign investors to hold up to 49% of the capital in an Indian insurance company. It allows for nationalized general insurance companies to raise funds from the capital markets	In Rajya Sabha on Dec 22, 2008	Standing Committee submitted its report on Dec 13, 2011 and the Cabinet approved many of the changes suggested on Sep 21, 2012	Greater FDI inflow possible
Land Acquisition, Rehabilitation and Resettlement Bill, 2011			
Compensation for the owners of the acquired land shall be four times the market value in case of rural areas and twice in case of urban areas.	In Lok Sabha on Sep 07, 2011	Two similar bills were introduced in 2007 but lapsed as the XIVth Lok Sabha dissolved	Clarity in acquisition process; a better sense of the pricing of the projects
In case of acquisition of land for use by private companies or public private partnerships, consent of 80% of the displaced people will be required. Purchase of large pieces of land by private companies will require provision of rehabilitation and resettlement			
Mines and Minerals (Development and Regulation) Bill, 2011			
The central government may invite competitive offers for grant of mineral concession in case of coal minerals, and state governments may invite competitive offers in case of other minerals	Introduced in Lok Sabha on Dec 12, 2011	Standing Committee to report by the last week of the Winter session, 2012	Clarity in mines development process; clarity on the profitability of the projects
Compensation shall be paid to every person or family holding occupation or rights of the land surface for which a license is granted. The holder of a mining lease will pay a specified amount of money each year to the District Mineral Foundation, which will be used for the benefit of persons or families affected by mining related operations. This amount is equivalent to 26% of profit in the case of coal and lignite, and is equivalent to the royalty paid during the financial year in case of major minerals			

Source: Kotak Institutional Equities estimates

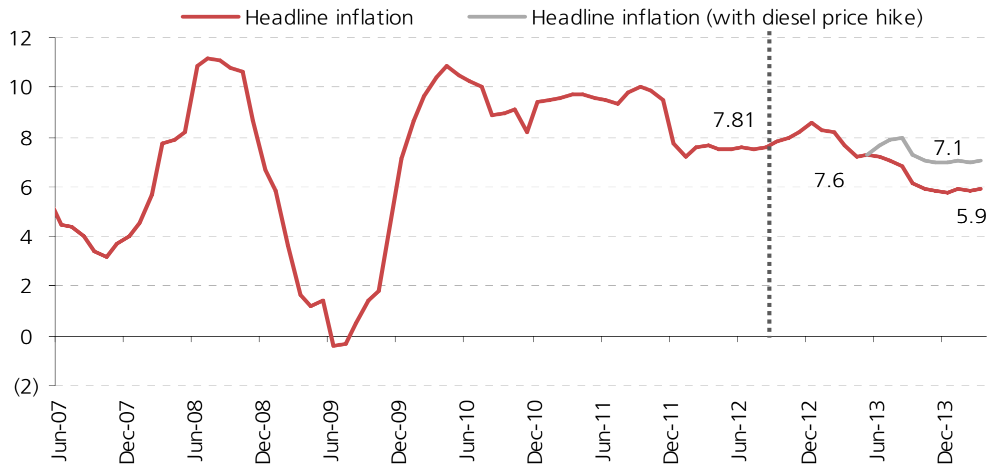
Our economics team does not forecast strong economic recovery (6.2% GDP growth in FY2014E; see Exhibit 32) and meaningful cuts in policy rates. High inflation through FY2013 and into FY2014 in case of further increases in diesel prices (see Exhibit 33) may hold back the RBI from cutting policy rates meaningfully. We expect a 50 bp cut in 4QFY13. However, this will depend on the trajectory of inflation and the extent of fiscal consolidation. Even though the RBI may focus on core earnings, we note that higher fuel prices (particularly diesel) will feed into core inflation.

Exhibit 32: Real GDP growth is likely to be about 5.6% in FY2013 and improve to 6.2% in FY2014
Real GDP at factor cost and components, March fiscal-year ends, 2010-14E (%)

Sector	2010	2011	2012	2013E	2014E
Agriculture and allied activities	**1.3**	**7.0**	**2.8**	**1.2**	**2.0**
Industry	**9.1**	**6.8**	**2.6**	**2.0**	**3.9**
Mining and quarrying	7.2	5.0	(0.9)	0.9	3.0
Manufacturing	9.8	7.6	2.5	1.4	3.5
Electricity, gas and water supply	5.9	3.0	7.9	7.6	7.5
Services	**9.8**	**9.2**	**8.5**	**7.6**	**7.7**
Construction	7.0	8.0	5.3	7.5	4.5
Trade, hotels, transport, storage and communication	10.1	11.1	9.9	6.1	7.5
Financing, insurance, real estate and business services	8.9	10.4	9.6	9.8	9.0
Community, social and personal services	11.9	4.5	5.8	7.9	8.0
Real GDP at factor cost	**8.3**	**8.4**	**6.5**	**5.6**	**6.2**

Source: CSO, Kotak Institutional Equities estimates

Exhibit 33: Inflation may decline through FY2014; upside risks exist though from higher-than-expected fuel-price increases
WPI inflation (yoy change), 2008-14E



Notes:
(a) Assuming Rs4/liter price increase in diesel in June 2013.
(b) In our base case scenario we assume no change in prices of regulated fuels through FY2014E.

Source: GOI, Kotak Institutional Equities estimates

MODEL PORTFOLIO: NOTHING EXCITING HERE; TRYING NEW IDEAS

We struggle to find good investment ideas given expensive valuations of good-quality consumer and banking names and fair valuations of others in the context of specific operating and financial challenges. Further fiscal (reduction in subsidies) and investment reforms may provide more investment ideas. We have made a few changes to our Model Portfolio and included a few smaller names that have the same characteristics as larger ones, but are less expensive than the large-cap. stocks.

Few reasons for excitement on a bottom-up basis

We continue to struggle for good ideas given expensive valuations of good-quality stocks (see Exhibit 34 for valuations of BSE-30 stocks) and fair valuation for the market (see Exhibit 35) in the context of middling earnings growth. We see limited merit in following a 'riskier' strategy given (1) our relatively sober view on the reforms process versus the Street in light of likely stiff political and social challenges, (2) fair-to-rich valuations for most large-cap. stocks under our coverage and (3) poor financial condition and weak corporate governance of low-quality high-beta companies.

Exhibit 34: Wide range in upsides to our 12-month target prices
Valuation summary of BSE-30 Index stocks, March fiscal year-ends, 2012-14E

	P/E (X)			EV/EBITDA (X)			Price	Target price	Upside	Performance			
	2012	2013E	2014E	2012	2013E	2014E	(Rs)	(Rs)	(%)	1-mo	3-mo	6-mo	1-Year
Maruti Suzuki	25.8	23.2	17.5	20.6	16.4	11.4	1,462	1,100	(25)	6.6	23.4	17.1	42.4
HDFC	28.1	24.6	20.8	—	—	—	785	690	(12)	6.0	11.6	21.6	16.6
Bharat Heavy Electricals	8.1	8.1	10.6	5.4	5.6	6.5	232	205	(11)	(5.6)	(0.1)	6.7	(27.0)
HDFC Bank	29.4	22.6	17.8	—	—	—	647	590	(9)	2.5	6.4	29.3	37.3
Hero Motocorp	15.7	16.3	15.0	11.9	12.3	10.2	1,870	1,700	(9)	5.1	(0.6)	1.4	(15.4)
TCS	24.4	19.1	17.4	17.3	13.8	12.5	1,325	1,225	(8)	2.1	4.5	8.8	18.2
Sun Pharmaceuticals	27.5	24.1	20.7	20.3	13.0	13.3	689	664	(4)	(3.5)	3.2	19.2	34.8
Hindustan Unilever	44.4	34.3	31.6	37.8	29.9	25.1	529	510	(4)	(6.6)	8.3	23.7	34.4
Reliance Industries	12.9	12.8	13.1	7.6	8.2	7.6	790	775	(2)	(3.6)	(1.2)	15.9	(9.9)
Infosys	16.1	14.6	13.9	10.6	9.4	8.4	2,338	2,350	1	(2.4)	0.4	0.4	(16.4)
Bajaj Auto	17.7	17.8	14.0	12.9	13.8	10.7	1,842	1,875	2	5.6	9.1	16.1	6.0
Larsen & Toubro	21.2	18.6	16.6	16.2	13.8	12.0	1,607	1,625	1	(2.6)	10.4	38.6	21.1
Wipro	16.3	14.0	13.0	11.2	9.1	8.1	369	375	2	4.9	3.9	(8.5)	(4.7)
Hindalco Industries	6.4	7.8	7.7	6.8	7.7	7.7	113	115	2	(4.0)	(5.7)	1.3	(10.2)
Cipla	28.2	19.9	19.7	19.2	14.0	12.9	394	400	1	8.3	12.8	23.0	36.8
Tata Steel	22.4	27.5	7.9	7.7	7.6	5.9	386	400	4	(8.3)	(5.0)	(5.5)	(6.4)
State Bank of India	12.4	10.5	10.0	—	—	—	2,171	2,300	6	(3.6)	13.7	18.0	23.9
Bharti Airtel	25.2	34.9	21.9	7.4	6.7	5.8	283	300	6	8.7	8.5	(8.0)	(30.2)
NTPC	15.4	13.1	12.2	12.5	10.7	9.8	167	180	8	(1.3)	(2.9)	13.1	(3.6)
ICICI Bank	18.9	16.3	16.7	—	—	—	1,060	1,140	8	1.4	9.3	32.4	29.1
Dr Reddy's Laboratories	20.9	17.3	16.6	13.2	11.5	10.8	1,755	1,940	11	4.2	6.7	5.0	6.7
Sterlite Industries	6.4	6.7	6.5	3.8	3.5	2.8	100	110	10	(2.4)	(11.0)	6.0	(13.2)
Mahindra & Mahindra	20.1	17.0	15.3	15.3	12.2	10.8	907	1,000	10	6.2	21.1	38.0	14.6
Jindal Steel and Power	8.9	11.6	8.7	7.7	8.0	7.2	377	420	11	(9.7)	(9.7)	(17.5)	(30.9)
Tata Power	21.7	29.6	16.7	11.1	9.0	7.1	100	113	13	(2.4)	(0.7)	6.4	(1.3)
Tata Motors	6.2	6.4	5.4	5.3	4.5	3.8	278	320	15	2.3	18.1	(4.5)	56.1
ITC	35.8	30.0	25.3	25.3	20.6	17.1	284	330	16	0.1	6.0	21.1	34.2
GAIL (India)	12.2	11.4	11.2	7.9	7.4	7.0	351	410	17	(7.5)	(6.3)	10.3	(16.0)
Coal India	14.9	14.0	12.2	9.4	8.1	6.7	346	404	17	(3.8)	(2.3)	9.4	7.0
Oil & Natural Gas Corporation	7.8	8.6	7.8	3.2	3.5	3.0	257	300	17	(7.4)	(10.2)	2.0	(1.7)
BSE-30 Index	**15.5**	**14.6**	**13.1**	**9.0**	**8.4**	**7.4**	**18,619**	**19,000**	**2**	**(0.3)**	**5.6**	**14.3**	**8.3**

Source: Company, Kotak Institutional Equities estimates

Exhibit 35: We expect earnings of the BSE-30 Index to grow 5.8% in FY2013 and 11.1% in FY2014
Valuation summary of BSE-30 sectors, March fiscal year-ends, 2012-2014E

	Mkt cap.	Adj. mkt cap.	EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Div. yield (%)		RoE (%)		
	(US$ bn)	(US$ bn)	2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2012	2013E	2014E
Automobiles	50.9	31.2	30.5	1.6	18.3	11.6	11.4	9.6	8.6	7.5	6.2	3.8	3.1	2.4	1.5	1.9	33.0	26.7	25.3
Banking	98.2	76.8	31.5	19.9	10.2	19.7	16.4	14.9	—	—	—	3.1	2.8	2.5	1.3	1.5	15.8	17.1	16.9
Consumers	60.9	38.5	23.3	22.3	15.7	38.3	31.3	27.1	28.5	23.0	19.1	14.4	12.7	11.0	1.6	2.0	37.7	40.6	40.6
Energy	90.9	36.8	15.2	(4.5)	4.5	9.6	10.1	9.7	5.0	5.3	4.7	1.3	1.2	1.1	2.4	2.5	13.9	12.1	11.5
Industrials	28.2	19.7	15.2	5.1	(7.9)	13.3	12.6	13.7	10.7	10.0	10.1	2.7	2.3	2.0	1.6	1.5	20.6	18.1	14.5
Metals & Mining	63.1	17.2	2.9	(2.0)	22.0	11.9	12.2	10.0	7.3	7.1	6.0	1.9	1.7	1.5	2.5	2.0	16.0	14.1	15.2
Pharmaceuticals	24.2	13.0	36.8	21.9	9.3	25.8	21.2	19.4	17.7	12.8	12.5	5.0	4.2	3.6	0.6	0.8	19.2	19.7	18.4
Technology	88.1	39.0	17.4	19.4	7.6	19.7	16.5	15.4	13.7	11.4	10.2	5.2	4.4	3.7	1.8	2.0	26.5	26.5	24.3
Telecom	19.6	6.8	(29.6)	(27.8)	59.7	25.2	34.9	21.9	7.4	6.7	5.8	2.1	2.0	1.9	—	0.5	8.4	5.8	8.5
Utilities	29.5	8.1	(8.0)	12.4	12.9	16.1	14.4	12.7	12.1	10.3	9.0	1.9	1.7	1.6	1.9	2.2	11.6	12.0	12.5
BSE-30	**553**	**287**	**14.8**	**5.8**	**11.1**	**15.5**	**14.6**	**13.1**	**9.0**	**8.4**	**7.4**	**2.7**	**2.4**	**2.1**	**1.7**	**1.9**	**17.3**	**16.3**	**16.1**
BSE-30 ex-Energy	**463**	**250**	**14.7**	**9.5**	**13.2**	**17.5**	**16.0**	**14.2**	**10.9**	**9.7**	**8.4**	**3.3**	**2.9**	**2.6**	**1.6**	**1.7**	**18.9**	**18.3**	**18.1**
BSE-30 ex-Energy, Com.	**400**	**233**	**18.1**	**12.4**	**11.2**	**18.9**	**16.9**	**15.2**	**12.2**	**10.5**	**9.2**	**3.8**	**3.3**	**2.9**	**1.5**	**1.7**	**19.9**	**19.5**	**19.0**

Source: Kotak Institutional Equities estimates

We attribute the general bullish sentiment among investors to a mix of strong global liquidity and expectations of domestic reforms. Investors are generally betting on continued reforms (fiscal, governance, investment) based on positive statements from the Government about its commitment to economic reforms. However, we note that most of the important potential reforms in the future (such as implementation of GST) would require the approval of the Parliament (legislative route), which may pose challenges. In our view, GST is unlikely to be implemented by April 1, 2013 given that the Government will finalize the structure of the GST system by December 31, 2012 (we do not rule out delays) and the GST Bill entails a complex legislative process for its implementation: Approval of two-thirds of the Parliament and ratification by 50% of the states.

Nonetheless, the Government can take executive decisions on (1) fiscal reforms (such as raising fuel prices, implementing UID-enabled direct cash transfers to designated households) and (2) investment reforms (creation of a National Investment Board, implementation of transparent methodologies for allocation of coal blocks and mineral-ore blocks and award of new investment projects) to sustain the momentum on reforms and meet the market's expectations.

We shall discuss the logic for our portfolio construction below.

- **Domestic staples.** We are underweight on domestic staple stocks as we find the multiples of consumer staples very expensive with most stocks under our coverage trading at over 25X FY2014E EPS. We think it is better to play the consumption theme through retail banks and NBFCs, the pharmaceuticals and automobiles sectors. These sectors are much cheaper and offer similar (if slightly lower quality) exposure to rising consumption in India, driven by the underlying factors of (1) increase in incomes and (2) favorable demographics.

- **Domestic cyclical stocks.** This segment is likely to benefit most from any meaningful reforms: (1) Fiscal reforms that can bring down interest rates in the economy and (2) investment reforms that can provide visibility to medium-term earnings of industrial companies and improve the operating and financial condition of infrastructure companies.

  We think it is best to play the theme of reforms and potential interest rate cuts through the automobiles and financial sectors. In the case of the latter, we prefer good-quality names given our concerns about NPLs. Also, we highlight that the next RBI policy meeting is on December 18, 2012 (we do not expect a rate cut before the January 30, 2013 meeting, given rising inflation up to December 2012) and the next one month will provide more clarity on the reforms process when the Indian Parliament meets for the winter session (starting November 22, 2012). The fate of certain sectors may be decided well before the next RBI policy meeting.

If the Government is unable to push through certain critical reforms in the forthcoming winter session of the Parliament and convince the market about its ability and willingness to push through reforms, we see a potential sharp correction in domestic cyclical stocks (banks, industrial and low-quality infrastructure stocks) that have run up over the past 2-3 months due to the announcement of some reforms (fuel-price increases, increase in FDI limits in some sectors) and in anticipation of more reforms (fiscal, investment).

We do not rule out a disrupted session of the Parliament in light of (1) allegations of corruption by various political parties against each other and (2) significant differences in political positions on higher FDI limits in certain sectors (particularly, insurance and multi-brand retailing) as announced by the Government over the past 2-3 months.

- **Global cyclical stocks.** We recommend underweight positions on global cyclical stocks; we have had no exposure to metal stocks and an underweight position on RIL for a while. We do not expect a strong global economic recovery. Also, many metal and energy companies face specific challenges such as (1) poor economics for new projects and difficulties in acquiring coal blocks or bauxite mines that can improve the economics of the projects (Hindalco and Sesa/Sterlite), (2) unfavorable regulatory developments through forced regulated returns for merchant power or higher royalties on coal (JSPL), (3) weak global cycles (RIL, Tata Steel) and (4) production challenges (Cairn). Finally, many of the stocks are fairly valued with most of them trading at about our 12-month fair valuations.

  A positive view on Government-owned energy companies (BPCL, HPCL, IOCL, GAIL, OIL, ONGC) would largely depend on progress in reforms on fuel subsidies. The stocks are inexpensive (with subsidies quite large relative to their FY2014E and FY2015E profit before taxes; see Exhibit 36) but the market would like to see progress towards a structural deregulation of fuel prices. The Government has started the process of deregulating fuel prices but progress has been very patchy. We have an overweight position in BPCL, OIL and ONGC noting the (1) stocks' depressed valuations (the market has little faith in deregulation of oil prices but is implicitly assuming fiscal reforms as discussed in the overview section) and (2) their large upside to deregulation of the oil sector. Also, (1) OIL and ONGC will benefit from a potential deregulation of natural gas prices; see Exhibits 37 and 38 for the impact of higher gas prices and (2) BPCL from higher value of its E&P business as and when there is more visibility on the reserves in Mozambique and Brazil; Exhibit 39 is our SOTP valuation model of BPCL.

Exhibit 36: Subsidy outgo for upstream and downstream companies is quite large relative to their profit before taxes

Under-recovery sharing versus PBT for oil companies, March fiscal year-ends, 2014-15E (Rs bn)

	BPCL	HPCL	IOCL	GAIL	OIL	ONGC
FY2014E						
PBT	22	12	88	58	57	430
Subsidy burden	18	17	41	29	53	315
PBT (excluding subsidy burden)	**40**	**29**	**129**	**86**	**111**	**744**
FY2015E						
PBT	26	13	94	62	60	452
Subsidy burden	18	17	41	26	48	279
PBT (excluding subsidy burden)	**43**	**30**	**134**	**88**	**107**	**731**

Source: Kotak Institutional Equities estimates

Exhibit 37: Government may increase royalty rates along with prices for natural gas
ONGC's EPS at various levels of gas prices and royalty rates, March fiscal year-end, 2015E (Rs)

FY2015E EPS for ONGC (Rs)

Royalty on natural gas (%)	Natural gas price (US$/mn BTU) 4.2	5.0	6.0	7.0	8.0
10	30.3	32.3	34.8	37.3	39.8
20	29.4	31.2	33.4	35.7	37.9
30	28.6	30.2	32.3	34.3	36.4
40	27.9	29.4	31.3	33.2	35.1

Source: Kotak Institutional Equities estimates

Exhibit 38: Government may increase royalty rates along with prices for natural gas
OIL's EPS at various levels of gas prices and royalty rates, March fiscal year-end, 2015E (Rs)

FY2015E EPS for OIL (Rs)

Royalty on natural gas (%)	Natural gas price (US$/mn BTU) 4.2	5.0	6.0	7.0	8.0
10	59.7	63.0	67.1	71.2	75.3
20	58.0	61.0	64.7	68.4	72.1
30	56.6	59.3	62.6	66.0	69.4
40	55.3	57.8	60.9	63.9	67.0

Source: Kotak Institutional Equities estimates

Exhibit 39: We compute fair value of Rs410 for BPCL
Fair valuation of BPCL (Rs)

Refining and marketing business (Rs bn)	
FY2014E profit after tax	15.1
Less: income from investments valued separately	1.4
FY2014E adjusted profit after tax	13.7
FY2014E adjusted EPS (Rs)	21
P/E multiple (X)	9
Value of refining and marketing business (Rs) (A)	**188**
E&P business (Rs bn)	
10% stake in Area 1, Mozambique	77.6
12.5% stake in BM-C-30, Brazil	7.5
Value of E&P business (Rs bn)	85.1
Value of E&P business (Rs) (B)	**130**
Investments (Rs bn)	
Numaligarh	13.6
Petronet LNG	13.5
Oil India Ltd	6.2
Indraprastha Gas	6.6
Other equity (excluding BPRL)	20.2
Value of investments (Rs bn)	60.0
Value of investments (Rs) (C)	**91**
Total equity value (A) + (B) + (C)	**409**

Source: Company, Kotak Institutional Equities estimates

A few changes to our Model Portfolio

Exhibit 40 shows our revised Model Portfolio after the 2QFY13 results. We have made the following changes to our recommended portfolio.

- **Included a basket of NBFCs versus large-cap. financials.** We have included a basket of NBFCs (LICHF, MMFS, SHTF) with a weight of 300 basis. We find valuations of retail-oriented private banks very expensive and are not comfortable with the asset quality of other private banks with large exposure to the corporate segment and the infrastructure sector. In our view, the NPL cycle is likely to continue to deteriorate and we expect higher NPLs in infrastructure, power and steel companies. We continue to avoid PSU banks in general, given continued deterioration in asset quality; inexpensive valuations have little relevance in the context of very large restructured loans and net NPLs. More important, their weak lending practices are a source of concern for future loans, too.

- **Reduced weight on consumer staples, more weight assigned to auto companies.** We have reduced weight on HUL (100 bps underweight versus 50 bps underweight previously) and increased weights to M&M and Tata Motors.

- **Changed weights between a few energy companies.** We have included BPCL in the Model Portfolio at the expense of GAIL. We see two triggers for BPCL: (1) Favorable resolution of the subsidy issue; we do not factor any improvement though with our FY2014E EPS of ₹21 factoring ₹18 bn (₹16/share on a post-tax basis) of net under-recoveries and (2) higher valuation for the E&P segment. Other Government-owned energy companies can also potentially benefit from the Government’s resolve for fiscal consolidation. However, it is ironical that Government-owned energy companies have been the worst performers since the start of the recent phase of reforms (early September).

  It seems the market is quite positive about reforms in general but still has doubts about specific reforms such as lower fuel subsidies, which would be positive for Government-owned energy companies. In our view, lowering fuel subsidies is probably one of the most significant reforms ahead for the Government if it has to deliver a lower fiscal deficit. We do not see investors continuing their recent love affair with India without credible fiscal reforms.

Exhibit 40: Model Portfolio: Defensive given macro uncertainties and fair valuations

Kotak Institutional Equities Model Portfolio

Company	13-Nov Price (Rs)	Rating	Weightage (%) BSE-30	Weightage (%) KS reco.	Diff. (bps)
Bajaj Auto	1,842	ADD	1.7	2.7	100
Hero Motocorp	1,870	SELL	1.2	0.7	(50)
Mahindra & Mahindra	907	BUY	2.6	3.6	100
Maruti Suzuki	1,462	SELL	1.4	—	(140)
Tata Motors	278	BUY	4.0	5.0	100
Automobiles			**10.9**	**12.0**	**110**
State Bank of India	2,171	ADD	3.7	2.7	(100)
PSU Banking			**3.7**	**2.7**	**(100)**
HDFC	785	SELL	7.6	6.6	(100)
HDFC Bank	647	SELL	7.7	7.7	—
ICICI Bank	1,060	ADD	7.7	7.7	—
LIC Housing Finance	252	ADD	—	1.0	100
Mahindra & Mahindra Financial	950	RS	—	1.0	100
Shriram Transport	620	ADD	—	1.0	100
Pvt. Banking/Financing			**23.0**	**25.0**	**200**
Hindustan Unilever	529	REDUCE	3.6	2.6	(100)
ITC	284	ADD	9.8	9.8	—
Consumers			**13.4**	**12.4**	**(100)**
Bharat Petroleum	333	ADD	—	1.0	100
GAIL (India)	351	ADD	1.1	—	(113)
Oil India	472	BUY	—	1.0	100
Oil & Natural Gas Corporation	257	ADD	3.5	4.5	100
Reliance Industries	790	SELL	8.2	6.3	(187)
Energy			**12.8**	**12.8**	**(0)**
Bharat Heavy Electricals	232	SELL	1.3	—	(126)
Crompton Greaves	112	BUY	—	0.5	50
Larsen & Toubro	1,607	REDUCE	5.6	3.9	(175)
Voltas	113	REDUCE	—	0.5	50
Industrials/Construction			**6.9**	**4.9**	**(201)**
Coal India	346	BUY	1.4	2.4	100
Hindalco Industries	113	REDUCE	1.0	—	(96)
Jindal Steel and Power	377	REDUCE	1.0	—	(101)
Sterlite Industries	100	ADD	1.0	—	(96)
Tata Steel	386	ADD	1.7	—	(166)
Metals & Mining			**6.0**	**2.4**	**(359)**
Cipla	394	REDUCE	1.3	1.8	50
Dr Reddy's Laboratories	1,755	ADD	1.4	2.4	100
Lupin	584	ADD	—	0.5	50
Sun Pharmaceuticals	689	REDUCE	1.8	1.8	—
Pharmaceuticals			**4.5**	**6.5**	**200**
Infosys	2,338	REDUCE	7.2	7.2	—
TCS	1,325	REDUCE	4.9	3.4	(150)
Wipro	369	REDUCE	1.4	1.4	—
Technology			**13.6**	**12.1**	**(150)**
Bharti Airtel	283	ADD	2.4	2.4	—
Telecom			**2.4**	**2.4**	**—**
NTPC	167	REDUCE	1.7	0.7	(100)
Power Grid	119	ADD	—	1.0	100
Tata Power	100	ADD	1.1	2.1	100
Utilities			**2.8**	**3.8**	**100**
Cash				**3.0**	**300**
BSE-30	**18,691**		**100.0**	**100.0**	**—**

Notes:
(a) Weights are with respect to November 13, 2012 prices.

Source: Company, Kotak Institutional Equities estimates

Exhibit 41: Kotak Institutional Equities: Valuation summary of KIE universe stocks

Company	13-Nov-12 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2012	EPS (Rs) 2013E	EPS (Rs) 2014E	EPS growth (%) 2012	EPS growth (%) 2013E	EPS growth (%) 2014E	PER (X) 2012	PER (X) 2013E	PER (X) 2014E	EV/EBITDA (X) 2012	EV/EBITDA (X) 2013E	EV/EBITDA (X) 2014E	Price/BV (X) 2012	Price/BV (X) 2013E	Price/BV (X) 2014E	Dividend yield (%) 2012	Dividend yield (%) 2013E	Dividend yield (%) 2014E	RoE (%) 2012	RoE (%) 2013E	RoE (%) 2014E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Automobiles																													
Apollo Tyres	82	BUY	41,134	748	504	8.1	11.7	14.0	(7.0)	43.8	20.0	10.0	7.0	5.8	5.8	4.4	3.7	1.3	1.1	0.9	0.6	0.8	1.0	15.6	19.0	19.1	110	34.8	7.8
Ashok Leyland	27	ADD	71,838	1,307	2,661	2.1	1.9	2.6	(10.6)	(9.0)	34.2	12.7	14.0	10.4	8.1	8.4	7.0	1.5	1.5	1.4	3.7	3.7	3.7	17.7	15.2	19.0	29	7.4	2.6
Bajaj Auto	1,842	ADD	533,075	9,698	289	103.8	103.6	131.8	14.9	(0.2)	27.2	17.7	17.8	14.0	12.9	13.8	10.7	8.8	6.9	5.5	2.4	2.3	2.9	54.5	43.5	43.9	1,875	1.8	11.3
Bharat Forge	259	REDUCE	61,401	1,117	237	17.4	13.8	19.1	38.5	(20.3)	37.9	14.9	18.7	13.6	8.3	9.0	7.4	2.5	2.2	1.9	0.4	0.4	0.4	15.1	14.2	13.2	270	4.3	2.0
Exide Industries	140	SELL	118,788	2,161	850	5.4	6.9	7.9	(27.2)	27.2	14.7	25.8	20.2	17.7	17.3	13.2	11.9	3.9	3.4	3.0	1.1	1.3	1.4	15.9	18.0	18.2	115	(17.7)	4.8
Hero Motocorp	1,870	SELL	373,369	6,792	200	119.1	115.0	124.3	19.9	(3.4)	8.1	15.7	16.3	15.0	11.9	12.3	10.2	6.8	5.3	4.3	1.6	1.8	2.0	61.8	43.8	36.5	1,700	(9.1)	13.4
Mahindra & Mahindra	907	BUY	556,745	10,128	614	45.1	53.2	59.3	8.1	17.9	11.4	20.1	17.0	15.3	15.3	12.2	10.8	4.4	3.7	3.2	1.3	1.8	2.0	24.6	24.7	23.4	1,000	10.3	19.1
Maruti Suzuki	1,462	SELL	441,747	8,036	302	56.6	62.9	83.6	(28.6)	11.1	32.9	25.8	23.2	17.5	20.6	16.4	11.4	2.9	2.6	2.3	0.5	0.5	0.5	11.1	11.7	13.8	1,100	(24.8)	20.0
Motherson Sumi Systems	166	BUY	97,579	1,775	588	4.6	8.9	15.4	(31.9)	94.5	72.9	36.3	18.7	10.8	16.8	10.8	5.1	5.2	4.5	3.1	1.4	1.2	3.0	15.5	25.9	34.3	180	8.5	1.6
Tata Motors	278	BUY	893,113	16,247	3,218	44.6	43.7	51.5	58.7	(2.0)	17.8	6.2	6.4	5.4	5.3	4.5	3.8	2.7	2.0	1.5	1.4	2.3	2.0	54.8	33.3	31.8	320	15.3	48.2
Automobiles		**Neutral**	**3,188,788**	**58,010**					**25.8**	**3.0**	**19.9**	**12.1**	**11.8**	**9.8**	**8.8**	**7.7**	**6.2**	**3.6**	**2.9**	**2.4**	**1.5**	**1.8**	**1.9**	**29.7**	**24.9**	**24.1**			
Banks/Financial Institutions																													
Andhra Bank	105	ADD	58,952	1,072	560	24.0	22.0	23.2	6.1	(8.4)	5.2	4.4	4.8	4.5	—	—	—	0.8	0.8	0.7	5.2	4.8	5.0	19.2	15.5	14.6	120	13.9	1.8
Axis Bank	1,223	ADD	505,183	9,190	413	102.7	108.5	112.9	24.4	5.6	4.1	11.9	11.3	10.8	—	—	—	2.2	2.0	1.7	1.3	1.4	1.4	20.3	18.2	16.4	1,250	2.2	51.5
Bajaj Finserv	846	SELL	122,435	2,227	145	94.8	74.4	75.3	21.3	(21.5)	1.1	8.9	11.4	11.2	—	—	—	2.4	1.8	1.6	1.8	1.8	1.8	32.2	18.1	14.7	740	(12.6)	3.7
Bank of Baroda	756	REDUCE	311,763	5,672	412	121.4	114.1	118.7	12.4	(6.0)	4.0	6.2	6.6	6.4	—	—	—	1.2	1.1	1.0	2.2	2.5	2.6	21.7	16.7	15.3	770	1.9	11.1
Bank of India	282	BUY	161,986	2,947	575	46.6	52.4	58.1	2.5	12.4	10.8	6.0	5.4	4.9	—	—	—	0.9	0.9	0.8	2.5	2.8	3.1	15.0	14.4	14.1	340	20.6	4.7
Canara Bank	437	REDUCE	193,370	3,518	443	74.1	68.4	77.4	(18.5)	(7.7)	13.2	5.9	6.4	5.6	—	—	—	1.0	1.0	0.9	2.5	2.7	2.7	15.4	12.7	13.0	420	(3.8)	7.4
Corporation Bank	401	BUY	59,429	1,081	148	101.7	92.9	110.5	6.6	(8.6)	18.8	3.9	4.3	3.6	—	—	—	0.8	0.7	0.7	5.1	4.7	5.6	19.5	15.6	16.4	480	19.6	0.6
Federal Bank	470	ADD	80,435	1,463	171	45.4	46.2	48.1	32.3	1.7	4.2	10.4	10.2	9.8	—	—	—	1.4	1.3	1.2	1.9	1.9	2.0	14.4	13.1	12.4	515	9.5	4.4
HDFC	785	SELL	1,201,710	21,861	1,532	27.9	31.9	37.8	15.8	14.2	18.5	28.1	24.6	20.8	—	—	—	6.3	4.8	4.2	1.4	1.5	1.8	22.7	22.1	21.7	690	(12.1)	64.7
HDFC Bank	647	SELL	1,518,425	27,623	2,347	22.0	28.7	36.4	30.4	30.3	27.0	29.4	22.6	17.8	—	—	—	5.1	4.4	3.7	0.7	0.9	1.1	18.7	20.7	22.3	590	(8.8)	27.8
ICICI Bank	1,060	ADD	1,221,646	22,224	1,153	56.1	64.9	63.6	25.4	15.6	(2.0)	18.9	16.3	16.7	—	—	—	2.1	1.9	1.8	1.6	1.8	1.8	11.2	11.9	10.8	1,140	7.6	64.3
IDFC	162	ADD	245,229	4,461	1,512	10.3	12.5	14.9	17.2	21.9	18.7	15.8	12.9	10.9	—	—	—	2.0	1.8	1.6	1.5	1.5	1.8	13.7	14.6	15.5	170	4.8	19.6
India Infoline	70	REDUCE	22,806	415	327	4.5	7.7	8.5	(38.3)	68.5	10.5	15.4	9.1	8.3	—	—	—	1.3	1.1	1.0	1.9	3.8	2.1	7.7	13.1	12.7	65	(6.9)	0.9
Indian Bank	177	BUY	76,091	1,384	430	39.6	39.8	41.8	1.2	0.7	5.0	4.5	4.4	4.2	—	—	—	0.9	0.8	0.7	4.2	4.2	4.4	19.4	17.0	15.7	260	46.9	1.0
Indian Overseas Bank	76	REDUCE	60,173	1,095	797	13.2	14.7	20.5	(24.0)	11.9	39.3	5.7	5.1	3.7	—	—	—	0.6	0.6	0.6	5.9	4.6	6.4	9.9	9.5	12.2	75	(0.7)	1.7
IndusInd Bank	376	ADD	175,926	3,200	468	17.2	20.6	23.3	38.5	20.0	13.1	21.9	18.3	16.2	—	—	—	3.9	3.4	2.9	0.6	0.7	0.8	20.1	19.8	18.8	380	1.0	3.6
J&K Bank	814	ADD	39,473	718	48	165.6	199.0	183.3	30.6	20.2	(7.9)	4.9	4.1	4.4	—	—	—	1.0	0.8	0.7	4.1	4.9	4.6	21.2	21.6	17.2	1,200	47.4	2.0
LIC Housing Finance	252	ADD	127,121	2,313	505	18.1	22.1	28.4	(11.8)	22.2	28.6	13.9	11.4	8.9	—	—	—	2.3	2.0	1.7	1.4	1.7	2.2	18.6	18.3	20.2	290	15.2	13.2
L&T Finance Holdings	83	ADD	142,497	2,592	1,715	2.7	3.5	4.7	(5.6)	33.6	32.0	31.3	23.4	17.8	—	—	—	3.0	2.7	2.3	—	—	—	11.9	12.0	13.9	60	(27.8)	5.5
Muthoot Finance	226	BUY	84,026	1,529	372	24.0	25.7	25.1	52.4	7.1	(2.5)	9.4	8.8	9.0	—	—	—	2.9	2.2	1.7	1.8	—	—	41.9	29.8	22.7	220	(2.7)	—
Oriental Bank of Commerce	318	ADD	92,722	1,687	292	39.1	52.7	57.1	(24.0)	34.6	8.4	8.1	6.0	5.6	—	—	—	1.0	0.9	0.8	2.5	3.3	3.6	9.9	12.3	12.2	325	2.3	4.1
PFC	189	ADD	249,024	4,530	1,319	23.0	28.8	31.5	0.9	25.3	9.1	8.2	6.5	6.0	—	—	—	1.2	1.1	1.1	3.2	4.0	4.4	16.9	17.3	16.7	220	16.6	11.7
Punjab National Bank	767	REDUCE	260,286	4,735	339	144.0	139.6	153.6	2.9	(3.0)	10.0	5.3	5.5	5.0	—	—	—	1.1	1.1	0.9	2.9	2.8	3.1	21.1	16.7	16.1	800	4.2	12.1
Reliance Capital	392	ADD	96,605	1,757	246	21.1	36.7	21.7	126.7	74.0	(41.0)	18.6	10.7	18.1	—	—	—	0.9	0.8	0.8	1.9	2.8	1.7	5.7	8.0	4.5	450	14.7	32.2
Rural Electrification Corp.	225	REDUCE	221,965	4,038	987	28.6	35.7	39.1	10.0	24.9	9.7	7.9	6.3	5.7	—	—	—	1.6	1.5	1.4	3.3	4.2	4.6	20.5	22.1	20.9	234	4.1	9.4
Shriram City Union Finance	835	NR	46,170	840	55	65.4	83.0	100.6	34.7	26.9	21.2	12.8	10.1	8.3	—	—	—	2.7	2.1	1.6	0.7	1.3	1.6	23.3	23.0	22.9	—	—	1.7
Shriram Transport	620	ADD	138,280	2,516	223	56.4	59.5	71.5	2.3	5.6	20.2	11.0	10.4	8.7	—	—	—	2.3	2.1	1.8	1.1	1.9	2.3	23.1	20.4	20.9	700	13.0	3.6
SKS Microfinance	121	RS	8,828	161	73	(189.0)	(32.2)	0.5	(1,304.4)	(83.0)	(101.4)	(0.6)	(3.7)	267.8	—	—	—	2.0	3.8	3.4	—	—	—	(122.9)	(70.7)	1.4	—	—	3.8
State Bank of India	2,171	ADD	1,457,064	26,507	671	174.5	206.0	217.5	34.0	18.1	5.6	12.4	10.5	10.0	—	—	—	2.2	2.1	1.9	1.8	1.9	2.0	15.7	15.5	14.6	2,300	5.9	113.0
Union Bank	228	BUY	125,773	2,288	551	32.3	37.0	38.2	(18.2)	14.6	3.2	7.1	6.2	6.0	—	—	—	1.1	1.1	0.9	3.5	3.2	3.3	14.9	14.9	13.7	255	11.6	6.1
Yes Bank	422	ADD	148,925	2,709	353	27.7	33.2	39.6	32.1	19.9	19.3	15.2	12.7	10.7	—	—	—	3.2	2.7	2.2	0.9	1.1	1.4	23.1	22.7	22.4	415	(1.6)	22.3
Banks/Financial Institutions		**Cautious**	**9,351,879**	**170,127**					**14.6**	**14.2**	**10.0**	**12.9**	**11.3**	**10.3**	—	—	—	**2.1**	**1.9**	**1.7**	**1.7**	**1.9**	**2.0**	**16.4**	**17.1**	**16.7**			
Cement																													
ACC	1,424	SELL	267,504	4,866	188	57.1	73.6	81.4	7.8	28.9	10.6	24.9	19.3	17.5	14.4	10.4	8.9	3.5	3.1	2.8	2.3	1.6	1.6	16.9	18.4	17.9	1,300	(8.7)	7.8
Ambuja Cements	210	SELL	320,156	5,824	1,522	7.8	10.6	12.7	(1.2)	36.2	20.0	27.0	19.8	16.5	15.7	11.7	9.6	3.7	3.4	3.1	1.1	1.3	1.8	14.6	18.2	19.5	180	(14.4)	9.4
Grasim Industries	3,316	ADD	304,153	5,533	92	288.6	335.4	363.9	24.4	16.2	8.5	11.5	9.9	9.1	7.5	5.9	4.9	1.8	1.5	1.3	1.0	1.0	1.0	16.7	16.7	15.7	3,600	8.6	4.9
India Cements	89	ADD	27,185	495	307	9.0	9.8	14.1	373.8	9.5	44.2	9.9	9.0	6.3	5.2	4.7	3.6	0.6	0.6	0.6	2.4	3.6	3.6	6.9	7.3	9.8	105	18.6	3.2
Shree Cement	4,307	SELL	150,032	2,729	35	159.6	252.2	281.8	179.3	58.0	11.7	27.0	17.1	15.3	8.3	9.5	7.9	5.6	4.4	3.5	0.5	0.5	0.5	24.3	28.8	25.6	3,340	(22.4)	2.7
UltraTech Cement	1,987	SELL	544,687	9,909	274	89.3	107.8	124.7	99.0	20.8	15.6	22.3	18.4	15.9	13.7	11.0	9.1	3.7	3.1	2.6	0.5	0.5	0.5	20.8	20.8	19.9	1,510	(24.0)	5.3
Cement		**Cautious**	**1,613,715**	**29,356**					**40.8**	**24.7**	**14.0**	**19.7**	**15.8**	**13.9**	**10.8**	**8.8**	**7.3**	**2.9**	**2.5**	**2.2**	**1.0**	**1.0**	**1.1**	**14.9**	**16.1**	**15.9**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE universe stocks

	13-Nov-12		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)	2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E	(Rs)	(%)	(US$ mn)
Consumer products																													
Asian Paints	4,083	SELL	391,660	7,125	96	99.9	114.3	133.9	23.6	14.4	17.2	40.9	35.7	30.5	28.6	24.4	20.4	15.2	12.0	9.4	1.0	0.9	0.9	42.9	38.9	35.7	3,300	(19.2)	4.8
Bajaj Corp.	202	BUY	29,825	543	148	8.1	10.9	12.5	16.5	33.4	15.5	24.8	18.6	16.1	25.6	17.6	14.7	7.0	6.0	5.2	2.0	2.6	3.0	29.9	34.7	34.5	225	11.3	0.6
Colgate-Palmolive (India)	1,332	SELL	181,142	3,295	136	32.8	39.5	46.1	10.9	20.4	16.6	40.6	33.7	28.9	34.9	28.2	23.8	41.6	34.0	29.7	1.9	2.1	2.6	109.0	111.0	109.7	1,150	(13.7)	1.7
Dabur India	126	ADD	221,274	4,025	1,753	3.7	4.5	5.2	12.6	21.1	15.7	34.3	28.3	24.5	27.2	21.9	18.3	12.7	10.0	8.1	1.0	1.2	1.4	41.4	40.1	37.0	140	10.9	3.1
GlaxoSmithkline Consumer	3,023	ADD	127,151	2,313	42	86.0	108.5	126.4	20.8	26.1	16.4	35.1	27.9	23.9	27.4	23.0	19.4	11.1	9.2	7.8	1.2	1.5	1.9	34.4	36.2	35.3	3,250	7.5	1.4
Godrej Consumer Products	693	ADD	224,329	4,081	324	17.7	22.3	28.5	18.7	26.2	27.7	39.2	31.1	24.3	27.2	21.1	16.4	8.0	6.4	5.5	0.7	0.7	0.8	25.2	24.2	28.0	760	9.6	3.2
Hindustan Unilever	529	REDUCE	1,142,342	20,781	2,159	11.9	15.4	16.8	23.9	29.5	8.6	44.4	34.3	31.6	37.8	29.9	25.1	32.5	27.9	24.1	1.7	2.4	2.6	83.4	87.5	82.5	510	(3.6)	21.3
ITC	284	ADD	2,206,174	40,134	7,771	7.9	9.5	11.2	23.7	19.3	18.4	35.8	30.0	25.3	25.3	20.6	17.1	11.2	9.9	8.6	1.6	1.8	2.0	35.5	36.6	37.7	330	16.2	30.4
Jubilant Foodworks	1,354	SELL	88,845	1,616	66	16.4	23.0	34.7	46.1	40.8	50.6	82.8	58.8	39.0	47.2	33.4	23.3	30.0	19.9	13.2	—	—	—	44.0	40.6	40.6	1,000	(26.2)	8.1
Jyothy Laboratories	178	ADD	29,186	531	164	2.8	4.3	7.5	(73.3)	53.8	76.2	64.5	42.0	23.8	41.6	22.9	16.0	4.8	4.3	3.7	—	—	—	6.1	10.8	16.6	195	9.3	1.0
Marico	229	ADD	147,660	2,686	645	5.2	6.6	8.0	34.2	27.4	20.6	44.0	34.6	28.7	31.7	23.5	19.0	12.6	9.7	7.5	0.3	0.4	0.5	31.0	32.3	30.0	220	(4.0)	1.5
Nestle India	4,793	SELL	462,087	8,406	96	104.6	118.7	142.7	20.5	13.5	20.2	45.8	40.4	33.6	30.2	24.6	20.7	36.3	26.2	18.8	1.0	1.1	1.3	94.7	75.3	65.1	4,000	(16.5)	2.7
Speciality Restaurants	185	ADD	8,683	158	47	4.9	6.3	8.5	7.6	28.2	34.9	37.8	29.5	21.9	24.0	18.9	13.5	7.6	5.6	4.4	—	—	—	16.2	14.0	12.2	200	8.1	0.7
Tata Global Beverages	171	BUY	106,025	1,929	618	5.4	6.5	7.7	36.3	19.7	19.6	31.8	26.5	22.2	18.7	14.6	12.3	1.9	1.8	1.7	1.0	1.2	1.5	7.8	8.6	9.9	165	(3.8)	9.0
Titan Industries	292	ADD	259,056	4,713	888	6.7	7.9	9.5	36.5	18.1	20.3	43.5	36.8	30.6	29.9	23.3	18.9	17.9	13.8	9.9	0.8	1.0	0.3	47.9	42.3	37.6	270	(7.5)	7.8
United Spirits	1,804	ADD	226,622	4,123	126	16.6	33.5	38.2	(53.0)	102.2	13.9	108.8	53.8	47.3	28.1	20.1	18.2	4.9	4.5	4.1	0.1	0.1	0.2	4.7	8.7	9.1	770	(57.3)	125.9
Consumer products		**Cautious**	**5,852,059**	**106,459**					**19.8**	**23.2**	**17.5**	**40.4**	**32.8**	**27.9**	**28.7**	**22.9**	**19.0**	**12.3**	**10.6**	**9.0**	**1.3**	**1.6**	**1.7**	**30.4**	**32.3**	**32.4**			
Constructions																													
IVRCL	40	REDUCE	10,627	193	267	0.9	3.3	6.1	(84.7)	265.1	85.8	44.1	12.1	6.5	9.9	7.0	5.7	0.5	0.5	0.5	1.0	1.0	1.0	1.2	4.3	7.6	43	8.0	9.2
NCC	43	ADD	11,033	201	257	1.4	2.4	3.0	(78.0)	73.5	25.1	30.7	17.7	14.1	8.2	7.7	8.2	0.5	0.4	0.4	0.7	1.4	2.3	1.5	2.6	3.1	55	27.9	2.2
Punj Lloyd	51	REDUCE	17,455	318	340	3.3	3.9	7.6	(322.9)	18.7	94.5	15.5	13.1	6.7	9.8	6.6	5.7	0.6	0.6	0.5	0.3	0.7	1.3	3.8	4.5	8.2	60	16.7	2.6
Sadbhav Engineering	142	BUY	21,328	388	150	9.4	8.1	11.3	20.5	(13.4)	39.9	15.2	17.5	12.5	8.8	9.1	7.2	2.7	2.4	2.0	0.4	0.4	0.4	17.9	13.6	16.1	180	26.8	0.5
Construction		**Cautious**	**60,443**	**1,100**					**(19.2)**	**29.6**	**65.5**	**19.3**	**14.9**	**9.0**	**9.3**	**7.2**	**6.3**	**0.7**	**0.7**	**0.7**	**0.5**	**0.8**	**1.1**	**3.9**	**4.8**	**7.4**			
Energy																													
Aban Offshore	387	RS	16,862	307	44	68.3	70.9	92.0	(49.1)	3.8	29.9	5.7	5.5	4.2	8.2	7.1	6.4	0.6	0.6	0.5	0.9	1.2	1.3	12.3	13.2	13.8	—	—	6.6
Bharat Petroleum	333	ADD	241,003	4,384	723	18.3	30.3	20.9	(5.7)	65.1	(31.1)	18.2	11.0	16.0	10.3	7.0	8.6	1.5	1.4	1.3	1.7	2.8	1.9	8.1	12.2	7.8	410	23.0	6.6
Cairn india	332	ADD	633,256	11,520	1,907	41.6	60.1	50.1	25.0	44.5	(16.7)	8.0	5.5	6.6	6.0	3.8	4.3	1.3	1.1	1.1	—	3.8	4.8	17.7	22.0	16.6	360	8.4	36.4
Castrol India	309	SELL	152,671	2,777	495	9.5	9.2	10.2	(4.4)	(3.0)	11.2	32.6	33.7	30.3	22.4	23.3	20.7	27.9	26.8	25.0	2.4	2.4	2.6	87.9	81.1	85.4	200	(35.2)	1.5
GAIL (India)	351	ADD	445,807	8,110	1,268	28.8	30.9	31.3	2.3	7.2	1.4	12.2	11.4	11.2	7.9	7.4	7.0	1.9	1.7	1.5	2.5	2.7	2.7	15.7	14.9	13.5	410	16.7	6.8
GSPL	75	BUY	41,977	764	563	9.3	8.5	8.1	4.7	(8.6)	(5.2)	8.0	8.8	9.2	4.9	5.0	4.9	1.5	1.3	1.1	1.3	1.3	1.3	20.7	15.8	13.0	85	13.9	1.9
Hindustan Petroleum	302	REDUCE	102,330	1,862	339	26.8	10.2	23.5	(34.4)	(61.8)	129.2	11.3	29.5	12.9	2.5	3.4	2.7	0.6	0.6	0.6	2.8	1.0	2.4	5.4	2.0	4.5	315	4.4	5.6
Indian Oil Corporation	264	ADD	641,222	11,665	2,428	32.9	18.3	24.3	1.3	(44.3)	32.7	8.0	14.4	10.9	6.9	8.1	6.8	1.0	1.0	0.9	1.9	1.5	2.8	13.0	6.8	8.5	280	6.0	2.0
Oil India	472	BUY	283,581	5,159	601	57.3	59.1	64.4	19.5	3.0	9.1	8.2	8.0	7.3	3.2	2.7	2.1	1.5	1.3	1.2	4.0	4.5	5.1	17.2	15.6	15.4	575	21.9	1.1
Oil & Natural Gas Corporation	257	ADD	2,195,774	39,945	8,556	32.8	29.8	33.0	33.1	(9.1)	10.7	7.8	8.6	7.8	3.2	3.5	3.0	1.3	1.2	1.1	3.8	3.9	4.3	16.8	13.4	13.5	300	16.9	15.5
Petronet LNG	166	ADD	124,800	2,270	750	14.1	15.0	14.2	70.7	6.6	(5.6)	11.8	11.1	11.7	8.0	7.8	7.0	3.2	2.5	2.1	1.5	1.7	1.8	29.7	24.8	19.0	180	8.2	4.1
Reliance Industries	790	SELL	2,353,798	42,820	2,981	61.3	61.8	60.2	(1.1)	0.9	(2.7)	12.9	12.8	13.1	7.6	8.2	7.6	1.3	1.2	1.1	1.1	1.1	1.1	11.7	10.8	9.7	775	(1.8)	55.8
Energy		**Neutral**	**7,233,079**	**131,582**					**12.9**	**(2.6)**	**2.6**	**9.5**	**9.8**	**9.5**	**5.5**	**5.6**	**5.0**	**1.3**	**1.2**	**1.1**	**2.2**	**2.6**	**2.9**	**13.9**	**12.4**	**11.7**			
Industrials																													
ABB	726	SELL	153,761	2,797	212	8.7	11.4	20.1	192.0	31.1	76.0	83.3	63.5	36.1	53.2	37.8	22.6	6.1	5.7	5.1	0.4	0.5	0.5	7.4	9.3	14.9	500	(31.1)	0.8
BGR Energy Systems	265	REDUCE	19,097	347	72	31.1	27.9	33.9	(30.7)	(10.1)	21.5	8.5	9.5	7.8	5.8	5.2	4.9	1.7	1.5	1.3	2.6	2.1	2.6	21.7	16.9	18.0	280	5.8	2.3
Bharat Electronics	1,206	REDUCE	96,452	1,755	80	106.3	110.7	125.7	(0.9)	4.1	13.5	11.3	10.9	9.6	5.5	4.4	3.2	1.6	1.5	1.3	1.7	2.5	2.5	15.3	14.3	14.6	1,300	7.8	1.0
Bharat Heavy Electricals	232	SELL	566,864	10,312	2,448	28.8	28.5	21.9	17.1	(1.0)	(23.0)	8.1	8.1	10.6	5.4	5.6	6.5	2.2	1.9	1.6	2.8	2.6	2.0	30.9	24.9	16.4	205	(11.5)	22.8
Crompton Greaves	112	BUY	71,848	1,307	642	5.7	6.2	10.4	(60.0)	9.1	65.8	19.5	17.9	10.8	8.6	9.3	6.5	2.0	1.8	1.6	1.3	1.3	1.6	10.6	10.6	15.9	155	38.4	6.8
Cummins India	476	ADD	131,850	2,399	277	22.0	25.4	29.8	(0.9)	15.3	17.3	21.6	18.7	15.9	19.8	16.0	13.4	6.5	5.7	5.0	2.3	2.7	3.1	30.7	31.1	32.0	525	10.4	2.4
Kalpataru Power Transmission	84	BUY	12,845	234	153	13.3	13.6	15.5	(4.1)	2.0	14.2	6.3	6.2	5.4	4.6	4.5	4.1	0.7	0.6	0.6	1.8	1.8	1.8	10.7	9.8	10.3	120	43.4	0.5
KEC International	62	BUY	15,939	290	257	6.9	6.8	8.9	(14.1)	(1.8)	31.9	9.0	9.2	7.0	5.6	6.3	5.3	1.4	1.2	1.1	1.9	1.6	2.2	16.4	14.1	16.4	80	29.0	0.4
Larsen & Toubro	1,607	REDUCE	983,882	17,899	612	75.7	86.6	96.9	12.4	14.4	11.9	21.2	18.6	16.6	16.2	13.8	12.0	3.2	2.6	2.3	0.9	0.9	0.9	16.1	15.5	14.7	1,625	1.1	47.8
Maharashtra Seamless	325	BUY	22,929	417	71	45.0	33.5	38.6	(6.6)	(25.6)	15.2	7.2	9.7	8.4	4.4	4.9	4.0	0.8	0.8	0.7	2.8	2.1	2.4	11.8	8.3	9.1	400	23.0	0.1
Siemens	679	REDUCE	231,179	4,206	340	18.0	26.6	31.7	(29.3)	47.8	19.2	37.7	25.5	21.4	23.2	15.6	13.0	5.3	4.6	3.9	0.5	0.8	0.9	14.9	19.3	19.8	640	(5.8)	5.0
Suzlon Energy	16	RS	27,816	506	1,777	(4.0)	(3.7)	(0.4)	(34.1)	(6.0)	(88.1)	(3.9)	(4.2)	(35.3)	7.8	7.9	6.4	0.5	0.6	0.7	—	1.3	1.3	(11.7)	(13.7)	(1.8)	—	—	4.5
Tecpro Systems	161	ADD	8,134	148	50	24.4	24.1	25.9	(9.6)	(1.2)	7.5	6.6	6.7	6.2	5.0	4.9	4.6	1.1	0.9	0.8	—	—	—	17.1	14.7	14.0	200	24.1	0.1
Thermax	581	REDUCE	69,232	1,259	119	32.9	26.5	31.6	4.0	(19.5)	19.4	17.7	21.9	18.4	11.8	14.0	11.3	4.2	3.8	3.3	1.2	1.4	1.5	26.6	18.2	19.2	510	(12.2)	0.5
Voltas	113	REDUCE	37,308	679	331	9.4	7.3	9.1	(3.4)	(22.6)	24.4	11.9	15.4	12.4	9.8	11.0	7.9	2.5	2.3	2.0	1.4	1.9	2.4	21.7	15.4	17.2	125	10.8	4.2
Industrials		**Cautious**	**2,449,136**	**44,554**					**7.1**	**5.8**	**4.7**	**16.0**	**15.1**	**14.4**	**11.0**	**10.2**	**9.5**	**2.7**	**2.3**	**2.1**	**1.4**	**1.5**	**1.4**	**16.8**	**15.5**	**14.3**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE universe stocks

Company	13-Nov-12 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2012	EPS (Rs) 2013E	EPS (Rs) 2014E	EPS growth (%) 2012	EPS growth (%) 2013E	EPS growth (%) 2014E	PER (X) 2012	PER (X) 2013E	PER (X) 2014E	EV/EBITDA (X) 2012	EV/EBITDA (X) 2013E	EV/EBITDA (X) 2014E	Price/BV (X) 2012	Price/BV (X) 2013E	Price/BV (X) 2014E	Dividend yield (%) 2012	Dividend yield (%) 2013E	Dividend yield (%) 2014E	RoE (%) 2012	RoE (%) 2013E	RoE (%) 2014E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Infrastructure																													
Adani Port and SEZ	129	BUY	260,049	4,731	2,017	5.5	5.9	8.8	20.0	8.3	48.8	23.6	21.8	14.6	21.0	15.2	11.2	5.2	4.4	3.5	0.8	0.9	1.3	23.8	21.9	26.6	150	16.4	3.7
Container Corporation	1,019	ADD	132,465	2,410	130	65.6	82.4	93.6	(3.0)	25.7	13.6	15.5	12.4	10.9	10.2	8.4	7.1	2.4	2.1	1.8	1.5	1.9	2.1	16.1	17.9	17.8	1,050	3.0	0.6
GMR Infrastructure	20	RS	78,821	1,434	3,892	(1.1)	0.1	1.1	236.7	(113.0)	645.0	(17.9)	137.5	18.5	18.4	7.7	4.9	0.9	0.7	0.6	—	—	—	(5.8)	0.8	5.5	—	—	3.5
Gujarat Pipavav Port	48	REDUCE	23,108	420	483	1.4	1.4	2.2	(212.6)	4.1	58.4	35.3	34.0	21.4	15.1	13.8	12.1	2.9	1.9	1.8	—	—	—	10.4	7.0	10.2	52	8.8	0.9
GVK Power & Infrastructure	12	RS	19,424	353	1,579	0.4	1.0	3.5	(60.3)	165.6	243.1	31.6	11.9	3.5	25.9	11.7	6.7	0.6	0.4	0.4	2.4	2.8	6.5	1.8	3.9	11.1	—	—	3.3
IRB Infrastructure	125	BUY	41,695	759	332	15.1	12.2	12.5	10.8	(19.0)	2.5	8.3	10.3	10.0	6.9	7.1	6.2	1.4	1.0	0.9	—	—	—	18.1	11.0	9.1	170	35.5	10.1
Infrastructure		**Neutral**	**555,564**	**10,107**					**(4.0)**	**38.8**	**52.2**	**26.0**	**18.8**	**12.3**	**16.4**	**10.7**	**7.5**	**2.1**	**1.6**	**1.4**	**0.8**	**1.0**	**1.3**	**7.9**	**8.6**	**11.5**			
Media																													
DB Corp	208	BUY	38,211	695	183	11.0	11.6	14.3	(14.5)	4.9	24.1	18.9	18.0	14.5	11.0	10.1	8.2	4.1	3.8	3.5	2.4	2.9	3.8	23.0	21.9	24.9	260	24.7	0.1
DishTV	76	ADD	80,568	1,466	1,064	(1.0)	0.4	1.4	(45.3)	(143.5)	212.8	(74.7)	171.9	55.0	18.2	13.3	10.8	(85.9)	(171.6)	80.9	—	—	—	694.0	(66.6)	557	85	12.2	6.0
Eros International	170	BUY	15,568	283	92	16.5	18.8	20.5	31.9	13.8	9.5	10.3	9.0	8.3	7.7	6.4	5.9	1.9	1.5	1.3	—	—	—	20.0	18.5	16.8	200	17.9	1.1
Hindustan Media Ventures	130	BUY	9,541	174	73	8.9	10.5	11.0	22.3	17.4	5.0	14.5	12.4	11.8	7.8	6.5	5.8	2.2	1.9	1.7	0.8	1.5	3.1	15.9	16.3	15.4	180	38.5	0.0
HT Media	97	ADD	22,709	413	235	7.0	6.1	8.2	(8.4)	(13.3)	34.6	13.7	15.8	11.7	5.8	6.2	4.3	1.4	1.4	1.3	0.4	2.1	4.1	11.0	8.8	11.2	120	24.3	0.3
Jagran Prakashan	102	BUY	32,099	584	316	5.6	6.0	7.0	(17.4)	6.7	16.8	18.0	16.9	14.5	10.0	9.3	8.0	4.3	4.0	3.5	3.4	3.4	3.4	24.5	24.3	25.8	130	28.1	0.3
Sun TV Network	344	ADD	135,583	2,466	394	17.6	17.5	19.4	(10.0)	(0.5)	10.6	19.6	19.7	17.8	12.3	11.8	10.7	5.1	4.7	4.3	2.8	2.9	3.5	28.6	25.9	26.4	350	1.7	5.7
Zee Entertainment Enterprises	190	REDUCE	180,738	3,288	950	6.0	7.3	8.9	(0.5)	20.6	22.0	31.6	26.2	21.5	22.4	17.8	14.3	3.9	3.8	3.6	0.7	0.8	1.0	13.0	14.9	17.3	190	(0.1)	7.7
Media		**Neutral**	**515,016**	**9,369**					**(1.5)**	**15.7**	**21.5**	**26.8**	**23.2**	**19.1**	**14.0**	**12.2**	**10.3**	**4.4**	**4.1**	**3.7**	**1.4**	**1.6**	**2.0**	**16.4**	**17.5**	**19.5**			
Metals & Mining																													
Coal India	346	BUY	2,183,883	39,729	6,316	23.2	24.8	28.4	34.4	6.5	14.5	14.9	14.0	12.2	9.4	8.1	6.7	5.1	4.1	3.4	2.9	2.1	2.5	38.0	32.8	30.4	404	16.8	12.7
Hindalco Industries	113	REDUCE	216,981	3,947	1,915	17.7	14.5	14.7	38.8	(18.0)	1.1	6.4	7.8	7.7	6.8	7.7	7.7	0.7	0.6	0.6	1.3	1.3	1.3	11.1	8.4	7.9	115	1.5	15.4
Hindustan Zinc	136	ADD	573,333	10,430	4,225	13.2	13.3	14.1	13.2	0.7	6.4	10.3	10.2	9.6	6.5	6.4	5.0	2.1	1.8	1.6	1.8	1.8	1.8	22.6	19.3	17.7	145	6.9	2.1
Jindal Steel and Power	377	REDUCE	352,700	6,416	935	42.4	32.6	43.6	5.6	(23.2)	33.8	8.9	11.6	8.7	7.7	8.0	7.2	1.9	1.7	1.4	0.5	0.5	0.5	24.8	15.7	17.8	420	11.3	24.1
JSW Steel	749	SELL	167,016	3,038	223	24.1	68.9	66.7	(69.3)	185.8	(3.1)	31.1	10.9	11.2	5.5	6.0	6.2	1.0	0.9	0.9	1.0	1.3	1.3	8.2	9.8	8.0	585	(21.8)	19.6
National Aluminium Co.	46	SELL	117,393	2,136	2,577	3.4	2.9	3.4	(19.7)	(14.0)	16.9	13.5	15.7	13.5	6.0	5.9	4.4	1.0	1.0	0.9	2.2	2.2	2.2	7.6	6.2	7.0	49	7.6	0.2
Sesa Goa	174	ADD	150,832	2,744	869	31.0	28.6	28.4	(36.2)	(7.8)	(0.6)	5.6	6.1	6.1	5.4	19.9	14.7	1.0	0.9	0.8	2.7	0.7	0.7	11.1	1.2	2.4	185	6.6	7.5
Sterlite Industries	100	ADD	337,464	6,139	3,361	15.8	15.0	15.4	3.9	(4.8)	2.9	6.4	6.7	6.5	3.8	3.5	2.8	0.7	0.7	0.6	2.0	2.0	2.0	12.1	10.5	9.9	110	9.6	13.5
Tata Steel	386	ADD	374,867	6,819	971	17.2	14.0	48.7	(72.3)	(18.7)	247.1	22.4	27.5	7.9	7.7	7.6	5.9	0.9	0.9	0.8	3.1	3.1	3.1	6.4	3.2	10.6	400	3.7	35.4
Metals & Mining		**Cautious**	**4,474,470**	**81,398**					**(1.5)**	**(0.9)**	**16.0**	**11.3**	**11.4**	**9.8**	**7.0**	**7.1**	**6.0**	**1.8**	**1.6**	**1.4**	**2.3**	**1.9**	**2.1**	**15.7**	**14.0**	**14.4**			
Pharmaceutical																													
Apollo Hospitals	816	ADD	113,516	2,065	139	15.8	21.5	27.1	19.3	35.9	26.1	51.7	38.0	30.1	22.2	19.1	15.9	4.5	4.0	3.7	—	—	—	9.6	11.2	12.7	700	(14.2)	3.2
Biocon	295	ADD	58,900	1,071	200	17.1	16.9	20.7	(6.9)	(1.0)	22.0	17.2	17.4	14.2	9.8	10.3	8.3	2.6	2.4	2.1	1.7	1.7	2.1	15.7	14.2	15.7	287	(2.5)	2.6
Cipla	394	REDUCE	316,471	5,757	803	14.0	19.8	20.0	13.5	41.4	0.9	28.2	19.9	19.7	19.2	14.0	12.9	4.1	3.5	3.1	0.5	0.7	0.7	15.7	17.0	16.6	400	1.5	15.2
Cadila Healthcare	842	ADD	172,347	3,135	205	31.9	32.8	47.1	(8.2)	3.0	43.5	26.4	25.6	17.9	20.3	17.2	12.5	6.7	5.6	4.6	0.9	1.0	1.4	27.5	23.9	28.4	943	12.0	1.9
Dishman Pharma & chemicals	121	REDUCE	9,805	178	81	7.0	9.7	12.0	(29.0)	38.7	23.7	17.3	12.4	10.1	8.6	7.2	6.3	1.1	1.0	1.0	—	—	—	4.6	7.2	8.4	50	(58.5)	2.8
Divi's Laboratories	1,207	REDUCE	160,070	2,912	133	40.2	49.5	58.9	24.0	23.1	19.0	30.0	24.4	20.5	22.8	18.4	14.7	7.5	6.3	5.3	1.1	1.3	1.6	27.1	28.1	28.0	1,130	(6.3)	6.3
Dr Reddy's Laboratories	1,755	ADD	298,720	5,434	170	84.0	101.5	106.0	29.4	20.8	4.5	20.9	17.3	16.6	13.2	11.5	10.8	5.2	4.2	3.5	0.8	0.8	0.8	23.4	24.7	21.8	1,940	10.5	11.6
GlaxoSmithkline Pharmaceuticals	1,999	SELL	169,433	3,082	85	74.3	79.8	90.3	8.8	7.5	13.2	26.9	25.0	22.1	19.1	18.5	15.7	8.8	8.3	7.7	2.2	2.5	3.2	32.4	34.0	36.2	1,900	(5.0)	1.3
Glenmark Pharmaceuticals	433	REDUCE	117,052	2,129	271	21.9	20.8	27.7	31.1	(4.8)	32.9	19.8	20.8	15.6	22.6	14.0	11.1	4.8	4.0	3.3	—	0.6	0.8	20.7	21.3	23.3	405	(6.4)	3.3
Jubilant Life Sciences	215	REDUCE	34,218	622	159	22.9	31.0	37.4	58.7	35.4	20.7	9.4	6.9	5.7	8.3	6.4	5.5	1.4	1.2	1.0	0.9	1.4	1.9	16.2	19.4	19.7	185	(13.9)	1.2
Lupin	584	ADD	261,048	4,749	447	19.5	28.3	29.6	1.2	45.4	4.6	30.0	20.6	19.7	21.2	13.0	12.2	6.4	5.1	4.2	0.5	0.8	0.9	23.9	28.0	23.8	600	2.7	11.4
Ranbaxy Laboratories	532	SELL	224,373	4,082	422	(18.5)	38.8	23.5	(145.7)	309.1	(39.5)	(28.7)	13.7	22.7	15.7	10.3	15.6	7.8	5.2	4.3	—	—	—	(68.5)	45.6	20.8	482	(9.3)	10.3
Sun Pharmaceuticals	689	REDUCE	713,095	12,972	1,036	25.0	28.5	33.3	42.5	14.1	16.7	27.5	24.1	20.7	20.3	13.0	13.3	5.4	4.6	3.9	0.6	0.8	0.9	21.9	20.4	20.3	664	(3.6)	11.7
Pharmaceuticals		**Attractive**	**2,649,048**	**48,191**					**(8.2)**	**50.1**	**7.4**	**30.7**	**20.4**	**19.0**	**17.7**	**13.0**	**12.4**	**5.2**	**4.4**	**3.7**	**0.7**	**0.8**	**1.0**	**17.0**	**21.3**	**19.5**			
Real Estate																													
DLF	203	NR	347,801	6,327	1,715	7.1	12.7	16.9	(22.1)	79.7	33.1	28.7	16.0	12.0	15.0	11.4	8.7	1.3	1.2	1.1	1.2	1.5	1.7	4.5	7.6	9.5	—	—	28.5
Housing Development & Infrastructure	108	NR	45,315	824	419	22.0	28.8	28.8	11.3	30.5	0.2	4.9	3.8	3.8	5.6	4.9	4.5	0.4	0.4	0.3	—	1.4	1.8	8.3	10.8	9.6	—	—	37.3
Mahindra Life Space Developer	410	NR	16,750	305	41	29.4	29.8	34.3	18.0	1.3	15.1	14.0	13.8	12.0	13.7	10.9	10.4	1.5	1.4	1.3	1.1	1.2	1.3	11.2	10.4	11.0	—	—	0.2
Oberoi Realty	283	NR	93,216	1,696	330	14.1	14.3	22.4	(10.5)	1.4	57.3	20.1	19.8	12.6	16.6	12.9	8.1	2.5	2.3	2.0	0.7	0.9	1.1	13.1	12.0	16.9	—	—	0.5
Phoenix Mills	220	NR	31,844	579	145	7.3	10.7	11.5	14.9	46.9	7.9	30.2	20.6	19.1	23.0	16.1	15.3	1.9	1.8	1.7	0.9	0.9	0.9	6.4	8.9	9.0	—	—	0.4
Sobha Developers	368	NR	36,097	657	98	21.4	25.1	37.4	13.8	17.1	49.2	17.2	14.7	9.8	10.2	9.2	6.4	1.8	1.6	1.4	1.4	1.4	1.4	10.9	11.7	15.6	—	—	0.9
Unitech	27	NR	69,724	1,268	2,616	0.9	1.8	2.3	(56.1)	84.8	32.7	28.1	15.2	11.4	29.2	16.0	12.3	0.6	0.6	0.5	0.4	0.4	0.4	2.1	3.7	4.7	—	—	10.0
Real Estate		**Cautious**	**640,748**	**11,656**					**(17.4)**	**52.1**	**26.7**	**20.2**	**13.3**	**10.5**	**13.7**	**10.5**	**8.3**	**1.1**	**1.0**	**0.9**	**1.1**	**1.4**	**1.6**	**5.4**	**7.7**	**9.0**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of KIE universe stocks

	13-Nov-12		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)	2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E	2012	2013E	2014E	(Rs)	(%)	(US$ mn)
Technology																													
HCL Technologies	616	REDUCE	440,297	8,010	715	34.6	46.8	50.0	51.2	35.5	6.8	17.8	13.2	12.3	11.0	8.3	7.7	4.5	3.4	2.8	1.3	1.3	1.3	25.1	28.9	25.2	575	(6.6)	12.6
Hexaware Technologies	111	REDUCE	32,652	594	294	9.1	11.9	12.0	207.9	30.7	1.0	12.2	9.4	9.3	10.7	6.9	6.5	3.2	2.8	2.5	2.7	5.3	5.4	26.9	32.0	28.6	110	(1.1)	3.5
Infosys	2,338	REDUCE	1,342,184	24,417	574	144.9	160.5	168.5	21.0	10.8	5.0	16.1	14.6	13.9	10.6	9.4	8.4	4.3	3.6	3.1	2.0	2.2	2.3	29.0	26.9	24.1	2,350	0.5	50.4
Mahindra Satyam	108	ADD	127,361	2,317	1,176	10.2	10.2	11.1	142.3	0.1	9.1	10.6	10.6	9.8	9.7	5.9	5.2	4.3	3.0	2.5	—	—	2.1	50.4	33.8	28.2	120	10.8	9.2
Mindtree	695	ADD	28,599	520	41	53.1	71.1	77.4	115.1	34.0	8.8	13.1	9.8	9.0	9.7	5.7	5.5	3.0	2.4	2.1	0.8	2.0	3.3	25.2	27.4	24.8	750	7.9	1.6
Mphasis	394	SELL	82,961	1,509	211	39.0	38.0	39.3	(24.6)	(2.7)	3.5	10.1	10.4	10.0	8.4	7.2	6.3	2.1	1.8	1.6	1.1	1.3	1.4	22.8	18.9	16.8	375	(4.7)	1.2
Polaris Financial Technology	115	REDUCE	11,441	208	100	20.8	21.7	19.9	7.4	4.7	(8.2)	5.5	5.3	5.8	3.0	2.5	2.2	0.9	0.8	0.7	3.4	3.6	3.7	18.1	16.2	13.3	120	4.6	2.0
TCS	1,325	REDUCE	2,593,877	47,187	1,957	54.4	69.5	76.1	22.0	27.8	9.5	24.4	19.1	17.4	17.3	13.8	12.5	8.0	6.5	5.4	1.9	2.1	2.3	36.8	37.6	34.0	1,225	(7.6)	27.5
Tech Mahindra	945	ADD	120,437	2,191	128	80.1	96.0	104.8	63.5	19.9	9.1	11.8	9.8	9.0	15.0	10.2	9.3	3.0	2.6	2.2	0.4	0.6	0.8	28.4	28.8	27.3	1,025	8.5	15.4
Wipro	369	REDUCE	906,755	16,495	2,456	22.7	26.4	28.3	5.2	16.4	7.2	16.3	14.0	13.0	11.2	9.1	8.1	3.2	2.7	2.3	1.3	1.6	1.8	21.2	20.9	19.2	375	1.6	10.8
Technology		**Cautious**	**5,686,564**	**103,448**					**21.2**	**19.6**	**7.4**	**18.3**	**15.3**	**14.2**	**12.9**	**10.4**	**9.4**	**4.7**	**3.9**	**3.3**	**1.7**	**1.9**	**2.1**	**26.0**	**25.7**	**23.5**			
Telecom																													
Bharti Airtel	283	ADD	1,074,721	19,551	3,798	11.2	8.1	12.9	(29.6)	(27.8)	59.7	25.2	34.9	21.9	7.4	6.7	5.8	2.1	2.0	1.9	—	0.5	0.5	8.6	5.9	8.9	300	6.0	28.5
IDEA	92	ADD	304,564	5,541	3,303	2.2	3.3	6.0	(19.6)	52.3	81.4	42.1	27.7	15.3	8.7	7.3	5.6	2.3	2.2	1.9	—	—	—	5.7	8.1	13.2	90	(2.4)	3.2
MTNL	27	RS	17,136	312	630	(9.1)	(8.4)	(8.3)	(11.9)	(8.1)	(1.7)	(3.0)	(3.2)	(3.3)	0.2	0.3	0.3	0.2	0.2	0.2	—	—	—	(5.7)	(5.5)	(5.8)	—	—	6.0
Reliance Communications	61	SELL	124,872	2,272	2,064	4.5	2.8	4.1	(31.0)	(37.9)	46.5	13.5	21.7	14.8	8.6	7.3	6.4	0.3	0.3	0.3	—	—	—	2.4	1.6	2.2	43	(28.9)	13.9
Tata Communications	238	REDUCE	67,802	1,233	285	(27.9)	(34.1)	(23.7)	12.0	22.3	(30.4)	(8.5)	(7.0)	(10.0)	9.8	8.3	7.3	3.0	4.7	8.8	—	—	—	(27.0)	(52.1)	(61.4)	220	(7.5)	0.6
Telecom		**Cautious**	**1,589,095**	**28,908**					**(34.4)**	**(28.4)**	**101.7**	**35.0**	**48.9**	**24.2**	**8.0**	**7.1**	**6.0**	**1.4**	**1.4**	**1.3**	**—**	**—**	**0.3**	**4.0**	**2.8**	**5.4**			
Utilities																													
Adani Power	48	SELL	104,858	1,908	2,180	(0.4)	(7.4)	(1.9)	(118.0)	1,645.4	(74.3)	(113.5)	(6.5)	(25.3)	35.0	44.3	12.9	1.7	2.5	2.7	—	—	—	(1.5)	(31.3)	(10.2)	33	(31.4)	2.5
CESC	277	REDUCE	34,626	630	125	21.7	26.0	32.3	(9.3)	19.6	24.1	12.7	10.7	8.6	8.2	8.4	5.7	0.6	0.5	0.5	—	1.8	1.9	4.5	5.2	6.2	294	6.1	3.6
JSW Energy	61	SELL	99,712	1,814	1,640	2.0	4.7	5.4	(60.6)	131.8	15.5	30.1	13.0	11.2	14.4	8.2	6.2	1.7	1.5	1.4	—	—	—	5.8	12.6	12.8	54	(11.2)	1.9
Lanco Infratech	12	RS	27,343	497	2,223	(0.5)	(0.7)	1.0	(131.8)	39.2	(233.2)	(23.5)	(16.9)	12.7	10.5	10.3	6.9	0.6	0.6	0.6	—	—	—	(2.5)	(3.6)	4.8	—	—	6.3
NHPC	22	BUY	274,307	4,990	12,301	2.5	2.0	2.3	84.5	(21.6)	17.1	9.0	11.4	9.7	8.9	9.4	7.5	1.0	0.9	0.9	3.0	2.3	2.8	11.1	8.2	9.0	25	12.1	3.0
NTPC	167	REDUCE	1,374,931	25,012	8,245	10.8	12.7	13.7	(1.1)	17.4	7.8	15.4	13.1	12.2	12.5	10.7	9.8	1.9	1.7	1.6	2.0	2.3	2.5	12.6	13.6	13.5	180	7.9	8.0
Power Grid	119	ADD	552,790	10,056	4,630	7.1	8.1	10.0	22.9	14.3	23.8	16.9	14.8	11.9	13.1	11.7	9.3	2.4	2.1	1.9	1.8	2.1	2.6	14.6	15.1	16.9	140	17.3	7.0
Reliance Infrastructure	471	BUY	123,979	2,255	263	60.3	56.8	59.8	4.0	(5.8)	5.3	7.8	8.3	7.9	10.0	4.1	3.4	0.5	0.5	0.5	2.2	2.4	2.4	8.9	10.1	9.4	904	91.8	22.9
Reliance Power	97	SELL	272,658	4,960	2,805	3.1	3.7	3.2	14.0	19.8	(13.2)	31.5	26.3	30.3	70.5	27.8	20.1	1.6	1.5	1.4	—	—	—	5.0	5.7	4.7	79	(18.7)	10.4
Tata Power	100	ADD	246,958	4,493	2,468	4.6	3.4	6.0	(40.6)	(26.8)	77.3	21.7	29.6	16.7	11.1	9.0	7.1	1.8	1.8	1.7	1.5	1.7	1.7	8.1	6.1	10.4	113	12.9	7.3
Utilities		**Attractive**	**3,112,162**	**56,616**					**(1.8)**	**0.3**	**23.2**	**16.2**	**16.1**	**13.1**	**13.4**	**11.4**	**9.1**	**1.5**	**1.4**	**1.3**	**1.7**	**1.8**	**2.0**	**9.5**	**9.0**	**10.2**			
Others																													
Carborundum Universal	149	BUY	27,950	508	187	11.6	9.1	12.5	27.0	(21.4)	37.4	12.9	16.4	11.9	7.9	9.0	6.7	2.6	2.3	2.0	1.3	1.0	1.4	24.8	16.3	19.4	180	20.7	0.2
Coromandel International	278	SELL	78,498	1,428	283	22.5	23.4	23.7	(8.5)	4.4	1.1	12.4	11.9	11.7	9.8	9.8	7.3	3.3	2.8	2.4	2.5	2.7	2.8	27.7	24.0	20.9	260	(6.4)	0.5
Havells India	590	REDUCE	73,561	1,338	125	31.5	30.5	38.4	69.0	(2.9)	25.6	18.7	19.3	15.4	11.9	10.7	8.8	7.3	5.0	4.0	1.1	1.2	1.3	45.6	30.7	28.8	600	1.8	2.7
Jaiprakash Associates	91	BUY	193,082	3,512	2,126	2.9	6.5	10.8	(51.5)	123.0	65.6	31.1	13.9	8.4	12.0	9.0	6.9	1.7	1.5	1.3	—	—	—	5.6	11.6	16.9	86	(5.3)	28.0
Jet Airways	373	SELL	32,180	585	86	(184.6)	(15.5)	23.9	1,735.6	(92)	(254.6)	(2.0)	(24.1)	15.6	(601.2)	10.6	7.0	24.6	(1,255.6)	15.8	—	—	—	6.0	6.0	6.0	350	(6.1)	13.0
Rallis India	159	BUY	30,853	561	194	5.1	6.7	8.6	(21.6)	32	27.4	31.1	23.6	18.5	15.8	13.6	10.2	5.6	4.9	4.1	1.4	1.4	1.4	20.4	20.9	24.1	155	(2.3)	1.1
SpiceJet	35	BUY	15,249	277	441	(13.7)	0.2	2.4	(650.1)	(101.4)	1,103.7	(2.5)	176.0	14.6	(4.4)	19.4	7.4	(9.6)	(10.2)	(33.3)	—	—	—	(746)	(5.6)	(106.5)	45	30.2	3.1
Tata Chemicals	320	BUY	81,542	1,483	255	32.9	35.3	40.4	28.2	7.4	14.3	9.7	9.1	7.9	5.6	5.0	4.4	1.2	1.0	0.9	3.1	3.1	3.1	12.3	11.7	11.9	360	12.5	2.7
United Phosphorus	111	REDUCE	51,376	935	462	12.0	15.0	16.0	(0.4)	24.9	6.5	9.2	7.4	7.0	5.2	4.7	4.2	1.2	1.1	1.0	2.2	2.2	2.2	14.5	16.0	15.0	120	7.9	2.4
Others			**584,290**	**10,629**					**(67.3)**	**261.8**	**41.0**	**50.3**	**13.9**	**9.9**	**11.8**	**8.4**	**6.5**	**2.1**	**1.9**	**1.6**	**1.2**	**1.3**	**1.3**	**4.2**	**13.5**	**16.4**			
KS universe (b)			**49,556,056**	**901,511**					**9.1**	**9.3**	**12.4**	**15.3**	**14.0**	**12.4**	**9.8**	**8.9**	**7.6**	**2.3**	**2.1**	**1.9**	**1.6**	**1.8**	**1.9**	**15.2**	**14.9**	**15.0**			
KS universe (b) ex-Energy			**42,322,977**	**769,929**					**8.0**	**12.9**	**15.0**	**17.0**	**15.1**	**13.1**	**11.7**	**10.0**	**8.5**	**2.7**	**2.4**	**2.1**	**1.5**	**1.6**	**1.8**	**15.6**	**15.7**	**16.0**			
KS universe (d) ex-Energy & ex-Commodities			**36,234,791**	**659,174**					**9.1**	**15.1**	**14.8**	**18.0**	**15.7**	**13.6**	**13.0**	**10.8**	**9.1**	**2.8**	**2.5**	**2.2**	**1.4**	**1.6**	**1.8**	**15.6**	**16.1**	**16.4**			

Notes:

(a) For banks we have used adjusted book values.

(b) 2012 means calendar year 2011, similarly for 2013 and 2014 for these particular companies.

(c) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.

(d) Rupee-US Dollar exchange rate (Rs/US$)= 54.97

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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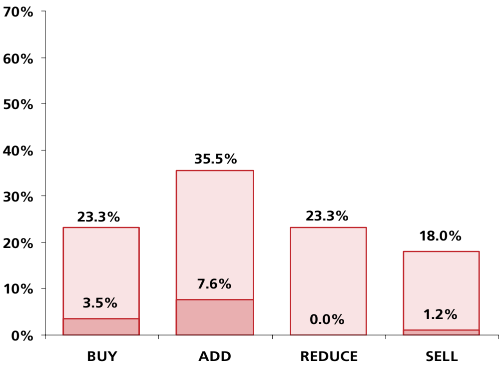

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Source: Kotak Institutional Equities

As of September 30, 2012

Ratings and other definitions/identifiers

Definitions of ratings

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ADD. We expect this stock to deliver 5-15% returns over the next 12 months.

REDUCE. We expect this stock to deliver -5-+5% returns over the next 12 months.

SELL. We expect this stock to deliver <-5% returns over the next 12 months.

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