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News Round-up

- ▶ The corporate affairs ministry has proposed that investment cos. be barred from having more than 2 tiers of subsidiaries to ensure transparency in flow of funds & transactions, a move that is sure to impact infra firms. (ECNT)
- ▶ The Union cabinet is likely to approve disinvestment of 5% of the govt's equity in BHEL (BHEL IN) next week. This is part of the govt's plan to raise USD 8.97 bn from disinvestment in the current financial year. (BSTD)
- ▶ India has invited coal mining technology majors from the former Soviet bloc of Czech Republic, Poland and Belarus to open offices in India and participate in the modernisation and under ground capacity enhancement initiatives of Coal India (COAL IN) and Neyvelli Lignite Corporation (NLC IN). (THBL)
- ▶ BP won't get to export gas from RIL (RIL IN) oilfields in India. Despite gas policy, govt leaves nothing to chance. (FNLE)
- ▶ Rating agency Standard & Poor's (S&P) said SBI (SBIN IN), may see pressure on its net interest margins and profitability in the current environment, which is marked by increasing competition and high inflation. (BSTD)
- ▶ Power Grid Corp.(PWGR IN) is racing to build transmission lines for Tata Power's (TPWR IN) ultra mega power plant in Mundra, whose 1st unit is ready to start generation 3 months ahead of planned start-up date in the middle of Sept. (ECNT)
- ▶ Tata Power (TPWR IN) has achieved full load generation of unit I- 525 MW at the Maithon Power plant in Dhanbad, Jharkhand. (THBL)
- ▶ The top four IT cos. TCS (TCS IN), Infosys (INFO IN), Wipro (WPRO IN) & HCL Tech (HCLT IN) are expected to report sequential growth of 4-6% in dollar-denominated revenues during the quarter ended June 30, 2011, better than the lukewarm growth of 2-4% in the previous quarter, as demand stays strong in the key markets of Europe & North America. (ECNT)
- ▶ NHAI selects 101 firms to directly bid for projects. L&T Infra, IL&FS, Reliance Infra (RELI IN), Punj Lloyd (PUNJ IN), Lanco among those selected. (FNLE)

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

EQUITY MARKETS

India	Change %		
	4-Jul	1-day	1-mo 3-mo
Sensex	17,022	1.7	(0.7) 0.3
Nifty	5,111	1.8	(0.7) 0.6
Global/Regional indices			
Dow Jones	10,255	0.1	(6.1) (1.8)
Nasdaq Composite	2,303	1.0	(5.0) 0.5
FTSE	5,211	1.2	(3.7) (5.7)
Nikkei	9,939	0.3	(10.1) (2.0)
Hang Seng	19,787	1.6	(4.7) (3.8)
KOSPI	1,669	0.4	(2.9) 3.1
Value traded – India			
Cash (NSE+BSE)	156	175	178
Derivatives (NSE)	770	539	676
Deri. open interest	1,190	1,078	1,008

Forex/money market

	Change, basis points			
	3-Jun	1-day	1-mo	3-mo
Rs/US\$	46.7	(28)	217	99
10yr govt bond, %	7.6	6	(47)	(40)
Net investment (US\$m)				
	2-Jun	MTD	CYTD	
FII's	(27)	(101)	(230)	
MFs	(3)	-	(282)	

Top movers -3mo basis

Best performers	Change, %			
	3-Jun	1-day	1-mo	3-mo
BJFIN IN Equity	482.3	4.3	42.2	42.6
IBULL IN Equity	141.9	(0.8)	(3.6)	26.8
BOB IN Equity	745.0	4.7	7.2	22.3
DRRD IN Equity	1395.4	(0.7)	13.2	20.6
AL IN Equity	64.3	5.3	5.5	17.3
Worst performers				
ABAN IN Equity	695.5	0.1	(39.0)	(44.2)
NMDC IN Equity	274.2	(0.3)	(7.4)	(37.1)
GRASIM IN Equity	1789.6	0.7	(30.9)	(35.9)
PUNJ IN Equity	117.8	1.9	(25.6)	(34.0)
SUEL IN Equity	55.3	2.0	(18.9)	(28.8)

The Great Unskilled: Can we fix it? A large labor force and an industry grappling with a dearth of labor is just one more paradox among the many ironies that define India's demographic profile: the paradox brings home the fact that millions of India's educated have no employable skills. Failure to absorb them into the workforce could have long-term negative implications on social stability. We believe vocational training is the need of the hour. We estimate the vocational training market to be US\$20 bn per annum. The big challenge is designing a model for this industry that benefits both of its main stakeholders: students as well as companies setting up these businesses.

Vocational training: A US\$20 bn business opportunity

Our estimates suggest that vocational training in India is a US\$20 bn annual opportunity with 475 mn people in need of training by FY2022E. Sectors like auto, building and construction, textile and organized retail, along with the growth in the unorganized sector, will propel the demand for skilled labor. Creating a steady supply of training is the key next step.

Increasing productivity is a must: Wages running ahead of productivity

India is replacing labor with capital as its preferred factor of production. With India's baby boomer generation (those born in the 1980s and 1990s, decades of highest population growth) coming into the work-force over this decade and next, India needs a big push towards expanding its manufacturing base – preferably in north and east India.

Vocational training systems: An international perspective

Countries around the world have devised various ways to give their youth vocational training. Typically, this requires that the employers contribute their inputs on the type of talent required, which are then incorporated either as part of the schooling curricula or as part of training institutes, which can loop back into the university system for formal completion of education. The government acts as the facilitator in the interactions and also serves as the accreditation body.

Value for all stakeholders: Creating the right business model

Getting the value equation right for all the stakeholders will determine the success of the vocation training model. Employers want trained employees but are afraid of losing them to attrition, students need assurance of employment and corporates need to make a decent IRR, which can be facilitated via scale, technology or fiscal incentives. The overall objective requires converting a manual laborer into a trained technician – this will increase incomes and productivity.

Discussions with S Ramadorai, Advisor to PM on skill development: Cognizant of challenges

Our discussions with Mr. S Ramadorai indicate that the government is cognizant of the woeful lack of trainers and the employability of the students after completing various levels of education. The government's co-ordination mechanism under the National Skills Development Council will help channelize the effort of the 17 ministries. He believes that innovative use of technology can make the delivery mechanism robust.

Gamechangers: Target right, train the trainers, certify and fund

Skilling India will require an overhaul of the education system: introducing vocational training into the school curriculum and targeting those who graduate from/drop out of 'general' school programs. For vocational training to work, India requires trained faculty — the first challenge is to train the trainers. Creating an accreditation platform will reduce transaction costs for both students and employers. Funding mechanisms like NSDC raise the viability of training for both students and companies.

INDIA

JULY 04, 2011

NEW RELEASE

BSE-30: **18,763**

QUICK NUMBERS

- **US\$20 bn annual business opportunity**
- **Linking 'vocational' training to 'general' education**
- **Government has a special focus on the issue**

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JULY 04, 2011

UPDATE

Coverage view: **Cautious**

Price (Rs): **607**

Target price (Rs): **670**

BSE-30: **18,763**

FY2011 annual report: Near-term outlook remains drab. The management (though positive on medium/long term) appears cautious on the near-term growth prospects on muted inflows (especially in 2H), sedate investment climate and rising commodity prices. Net working capital recorded some deterioration (though still at negative levels) on higher share of EPC revenues leading to lower operational cash flows. Highlights progress in the supercritical JV with B&W—prequalifies for NTPC bulk tender. Retain REDUCE.

Company data and valuation summary

Thermax

Stock data				Forecasts/Valuations				2011	2012E	2013E		
52-week range (Rs) (high,low)		930-537		EPS (Rs)		31.6		35.1		39.4		
Market Cap. (Rs bn)		71.5		EPS growth (%)		44.3		11.0		12.4		
Shareholding pattern (%)				P/E (X)		19.0		17.1		15.2		
Promoters		62.0		Sales (Rs bn)		53.4		57.3		63.2		
FIs		9.0		Net profits (Rs bn)		3.8		4.2		4.7		
MFs		11.3		EBITDA (Rs bn)		5.7		6.3		7.1		
Price performance (%)		1M	3M	12M	EV/EBITDA (X)		11.0		9.7		8.4	
Absolute		(0.6)	(9.4)	(19.7)	ROE (%)		31.5		28.8		26.8	
Rel. to BSE-30		(2.7)	(4.9)	(25.2)	Div. Yield (%)		1.5		1.7		1.9	

Subdued near-term outlook on weak inflows and sectoral environment

The management guided for subdued revenue growth in FY2012E citing several challenges in the business environment such as: (1) Relatively flat yoy backlog in FY2011 on the back of sedate inflows especially in 2HFY11 (down 26% from 1HFY11 levels as well as on a yoy basis), (2) sedate industrial investment climate, (3) non-conducive fiscal and monetary policies and (4) increasing commodity prices leading to margin pressures. The management, though, appears positive on the medium to long-term outlook based on strong positioning in crucial areas of energy and environment. We expect the company to record a moderate growth of about 7-10% over the next two years (FY2012-13E) with relatively flat margins.

Working capital (and thereby cash flows) affected by higher EPC share and relatively flat backlog

Thermax reported some deterioration in net working capital levels (excluding cash) in FY2011 led by (1) higher share of EPC business in total revenues (31% in FY2011 versus 18% in FY2010) and (2) relatively flat order backlog on a yoy basis leading to flat customer advances. However, working capital levels continued to remain negative (reported negative working capital of 16 days of sales from end-FY2010 levels of negative 48 days). Increased working capital led to reduced operational cash flow of Rs2.2 bn (versus Rs7.3 bn in FY2010) despite a 44% increase in operating income.

TBW JV: Land acquired, prequalified for NTPC tenders, maintains September 2012 deadline

Thermax has acquired land at Shirwal near Pune for the manufacturing facility of the supercritical boiler JV with Babcock & Wilcox. The management cited that Thermax has prequalified for the recent NTPC tenders. The manufacturing facility (capacity of 3 GW in the first phase) is expected to be commissioned by Sept-2012. Thermax has invested Rs492 mn towards its 51% stake in the JV.

Marginally revise estimates; reiterate REDUCE with a target price of Rs670/share

We marginally revise our estimates to Rs35.1 and Rs39.4 (from Rs35.6 and Rs40) for FY2012E and FY2013E. Retain REDUCE rating (TP: Rs670) on (1) weak order booking traction, (2) thematic idea of the company scaling up to large power plants not materializing, (3) sedate capex environment and (3) difficulty in building the supercritical business in the medium term.

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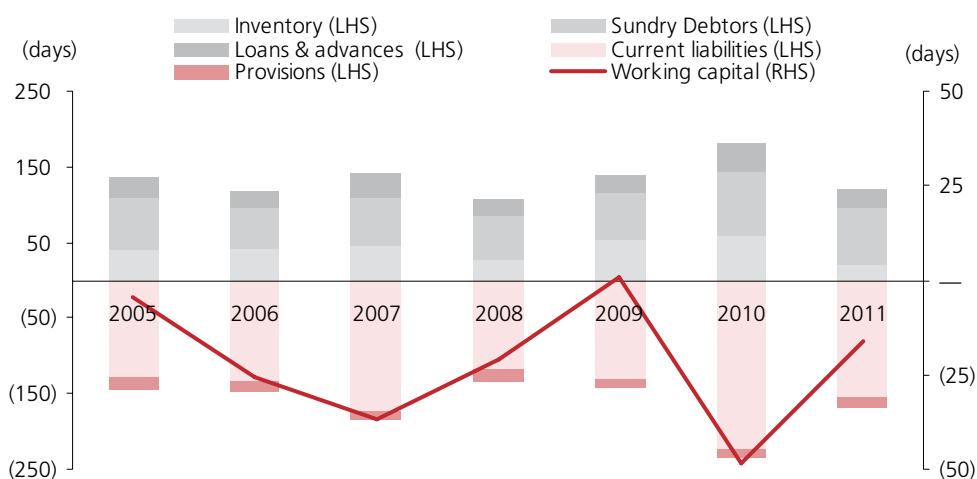
Some deterioration in WCap levels on high EPC share; continues to be negative

Thermax reported some deterioration in net working capital levels (excluding cash) in FY2011. This was primarily attributed to higher share of EPC business in the total revenues—EPC business contributed Rs15 bn of sales (31% share) in FY2011 versus Rs5.8 bn (18% share) in FY2010.

However, despite this scale working capital levels continued to remain negative. The company reported negative working capital of Rs2.2 bn (negative 16 days of sales) from end-FY2010 levels of negative Rs4.2 bn (negative 48 days of sales).

Working capital continues to be negative

Working capital details for Thermax (standalone), March fiscal year-ends, 2005-11 (Rs mn)

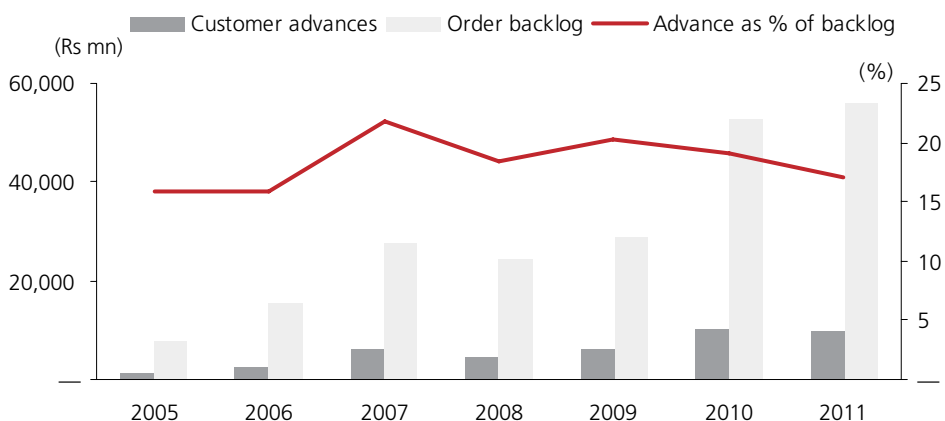


Source: Company, Kotak Institutional Equities

Flat customer advances also contributed to moderating the negative working capital (lower current liabilities). Customer advances stood at about 17% of the FY2011-end order backlog (of Rs56 bn) which had recorded a marginal 5-6% yoy growth. Customer advances marginally declined to Rs9.5 bn in FY2011 from Rs10 bn in FY2010.

Order backlog is a key driver of working capital as it determines customer advances

Customer advances and order backlog trends for Thermax, March fiscal year-ends, 2005-2011



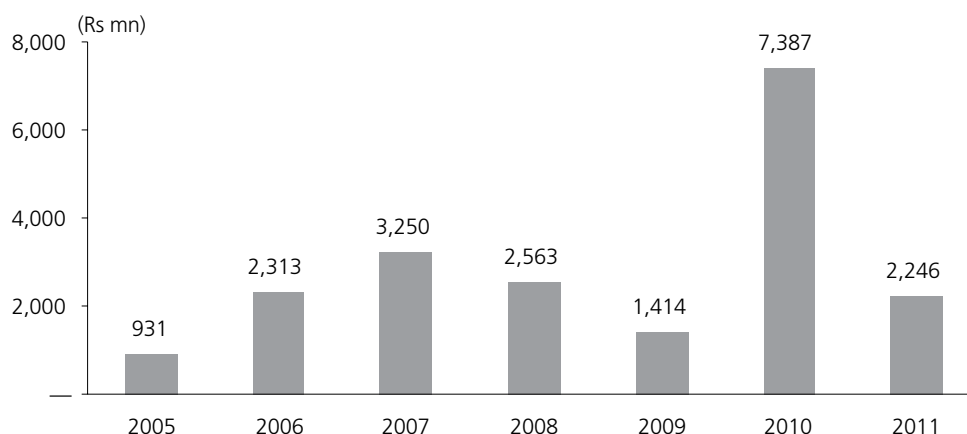
Source: Kotak Institutional Equities, Company

Higher working capital leads to decline in operating cash flows

Operating cash flow before working capital adjustments increased significantly to Rs4.3 bn in FY2011 from Rs3 bn in FY2010. However, increased working capital requirements led to reduced net cash flow from operations of Rs2.2 bn (versus Rs7.3 bn in FY2010) despite a 44% increase in operating income. The cash flow was utilized towards (1) dividend payment of Rs1.25 bn, (2) capex of Rs545 mn towards increase in fixed assets, and (3) Rs262 mn increase in investments. The company reported a year-end cash balance of Rs6.6 bn in FY2011 (marginally higher than FY2010-end level of Rs6 bn).

Increase in working capital leads to decline in cash flow from operations

Cash flow from operations for Thermax (standalone), March fiscal year-ends, 2005-11 (Rs mn)



Source: Company, Kotak Institutional Equities

Strong imports outpace exports; remains a net export company nevertheless

Thermax reported exports income (excluding deemed exports) of Rs6.6 bn in FY2010, up 20% yoy versus Rs5.5 bn in FY2010. Value of imports rose significantly at Rs4.8 bn in FY2011 from Rs3.15 bn in FY2010 on account of higher raw material expenses. The company still remained a net export company (net export of Rs1.9 bn in FY2011 versus Rs2.4 bn in FY2010). In FY2011, Thermax's exports stood at 13.6% of sales while imports were 14% of raw material costs.

Imports increase by 51% versus 20% increase in exports, but remains a net export company

Value of export and imports for Thermax (standalone), March fiscal year-ends, 2007-11



Source: Company, Kotak Institutional Equities

Danstoker acquisition to help gain from renewable energy movement in Europe

Thermax acquired Danstoker and its German subsidiary, Omnical Kessel in FY2011 for a consideration of Rs1.87 bn. The acquisition would help expand Thermax's green initiatives as a significant share of Danstoker and Omnical revenues come from biomass and waste heat recovery boilers. The acquisition also enables Thermax to gain from the ongoing renewable energy movement in Europe aimed at targeting 20% of its overall energy generation from renewable in 2020.

Danstoker is a respected brand in the renewable energy space (Euros40 mn annual sales). The company headquartered in Denmark has a strong presence in the Nordic countries, Germany, UK, France and Russia.

Consistent revenue growth makes Thermax a billion-dollar business

Strong revenue growth through the year led Thermax to report revenues in excess of \$1 billion (Rs48.8 bn), up 55% yoy (Rs30.9 bn in FY2010). Energy segment revenues were up 62% to Rs39 bn while environment revenues increased 36% to Rs11.4 bn.

Marginal decline in EBITDA margin on EPC business scale-up

EPC business contributed Rs15 bn of sales (31% share) in FY2011 versus Rs5.8 bn (18% share) in FY2010. This led to a slight (50 bps) decline in EBITDA margin to 11.6% in FY2011 from 12.1% in FY2010. Higher raw material cost as % of sales has been mitigated to a large extent by lower employee expenses and other operating expenses as percentage of sales (operating leverage gains). For FY2011, Thermax reported full-year revenues of Rs48.8 bn (up 55% yoy). EBITDA margin declined 50 bps to 11.6% leading to PAT growth of 49% (reported EBITDA of Rs3.8 bn).

Standalone profit model of Thermax, March fiscal year-ends, 2008-13E (Rs mn)

	2008	2009	2010	2011	2012E	2013E
Profit model						
Total operating income	32,042	32,644	31,855	48,832	53,823	59,062
Yoy growth (%)	47.5	1.9	(2.4)	53.3	10.2	9.7
Total operating costs	(27,946)	(28,499)	(28,013)	(43,172)	(47,618)	(52,230)
Raw material expenses	(21,804)	(20,976)	(20,585)	(34,159)	(36,621)	(40,162)
Other expenses	(3,731)	(4,977)	(4,502)	(5,327)	(7,158)	(7,855)
Employee costs	(2,411)	(2,546)	(2,927)	(3,686)	(3,839)	(4,212)
EBITDA	4,096	4,144	3,841	5,661	6,205	6,832
Other income	418	388	498	523	486	505
Financial charges	(13)	(33)	(15)	(22)	(22)	(22)
Depreciation	(218)	(321)	(404)	(432)	(458)	(495)
Pre-tax profit	4,283	4,178	3,920	5,730	6,211	6,821
Taxation	(1,496)	(1,319)	(1,356)	(1,906)	(2,062)	(2,264)
Adjusted PAT	2,787	2,859	2,563	3,824	4,149	4,556
EPS (Rs)	23.4	24.0	21.5	32.1	34.8	38.2
Margins (%)						
Raw material/sales	68.0	64.3	64.6	70.0	68.0	68.0
Other expenses/sales	11.6	15.2	14.1	10.9	13.3	13.3
Employee expense/sales	7.5	7.8	9.2	7.5	7.1	7.1
EBITDA margin	12.8	12.7	12.1	11.6	11.5	11.6
PBT margin	13.4	12.8	12.3	11.7	11.5	11.5
Effective tax rate	34.9	31.6	34.6	33.3	33.2	33.2
PAT margin	8.7	8.8	8.0	7.8	7.7	7.7

Source: Company, Kotak Institutional Equities estimates

Guides for subdued revenue growth in FY2012E on sedate 2HFY11 order flows

The management has guided for subdued revenue growth in FY2012E on the back of a slowdown in order inflows, especially during the second half of FY2011. The company reported order inflows to the tune of Rs22 bn in 2HFY11, a decline of about 26% from 1HFY11 levels as well as on a yoy basis. The management cited several challenges in the business environment which may impact near-term growth prospects of the company. These include: (1) Relatively flat yoy order backlog in FY2011, necessitating a faster pace of order intake to sustain growth trajectory, (2) likely sedate industrial investment climate across the world, including India in the near term, (3) non-conducive fiscal and monetary policies for accelerated industrial growth and (4) increasing commodity prices and interest rates leading to margin pressures on the capital goods industry.

The management, though, appears positive on the medium to long-term outlook for the company based on strong positioning in crucial areas of energy and environment.

We expect the company to record a moderate growth of about 7-10% over the next two years (FY2012-13E) with relatively flat margins. Key assumptions underlying our estimates include:

- ▶ **Large power plants.** 1-2 utility or large captive orders (up to 300 MW) in FY2012E and FY2013E each, with a gradual pick-up in execution of large orders. We have assumed that EBIT margin in large orders would be about 100-200 bps below the core energy segment business.
- ▶ **Core energy business.** Moderate 10% growth in inflows in the core energy business (excluding utility orders) with lower execution rate than historical as order size increases.
- ▶ **Environment segment.** Assume 10-15% growth in order inflows in environment segment with lower execution rate than historical as order size increases.

Energy segment expected to record muted growth on the back of flattish backlog
Segmental revenues and margins for Thermax, March fiscal year-ends, 2008-13E (Rs mn)

	2008	2009	2010	2011	2012E	2013E
Energy segment excluding utility orders						
Revenue	26,207	25,173	22,761	34,674	35,932	38,765
Growth (%)	53.3	(3.9)	(9.6)	52.3	3.6	7.9
Order inflow	20,770	31,710	36,342	34,517	37,968	41,765
Growth (%)	(26.7)	52.7	14.6	(5.0)	10.0	10.0
Order backlog	19,340	20,709	31,079	30,921	32,958	35,958
Growth (%)	(21.6)	7.1	50.1	(0.5)	6.6	9.1
Bill to book ratio (%)	74.7	71.5	58.5	71.7	72.0	72.0
EBIT	3,705	3,315	2,873	4,161	4,132	4,458
EBIT Margin (%)	14.1	13.2	12.6	12.0	11.5	11.5
Utility and large power plant business						
Revenue	—	—	1,321	4,408	6,472	7,213
Growth (%)	—	—	—	233.7	46.8	11.4
Order inflow	—	3,800	10,010	6,507	7,808	9,369
Growth (%)	—	—	163.4	(35.0)	20.0	20.0
Order backlog	—	3,800	12,489	14,588	15,924	18,080
Growth (%)	—	—	228.7	16.8	9.2	13.5
Bill to book ratio (%)	—	—	15	28.0	35.0	35.0
EBIT	—	—	132	441	647	721
EBIT Margin (%)	—	—	10.0	10.0	10.0	10.0
Total for energy segment						
Revenue	26,207	25,173	24,082	39,082	42,404	45,978
Growth (%)	53.3	(3.9)	(4.3)	62.3	8.5	8.4
Order inflow	20,770	35,510	46,352	41,023	45,776	51,134
Growth (%)	(26.7)	71.0	30.5	(11.5)	11.6	11.7
Order backlog	19,340	24,509	43,568	45,509	48,881	54,038
Growth (%)	(21.6)	26.7	77.8	4.5	7.4	10.5
Bill to book ratio (%)	74.7	67.9	50.5	61.0	62.0	61.8
EBIT	3,705	3,315	3,005	4,602	4,779	5,179
EBIT Margin (%)	14.1	13.2	12.5	11.8	11.3	11.3
Environment segment						
Revenue	6,513	8,113	8,410	11,472	12,234	13,947
Growth (%)	23.8	24.6	3.7	36.4	6.6	14.0
Order inflow	7,420	7,310	11,578	12,157	13,373	15,378
Growth (%)	12.8	(1.5)	58.4	5.0	10.0	15.0
Order backlog	5,000	4,461	7,922	8,606	9,745	11,176
Growth (%)	66.7	(10.8)	77.6	8.6	13.2	14.7
Bill to book ratio (%)	97.1	93.7	82.0	81.9	80.0	80.0
EBIT	792	1,140	1,173	1,549	1,590	1,813
EBIT Margin (%)	12.2	14.0	14.0	13.5	13.0	13.0
Sum of Segments						
Revenues	31,568	32,111	31,855	49,037	52,999	58,127
Growth (%)	47.7	1.7	(0.8)	53.9	8.1	9.7
EBIT	4,296	4,211	4,067	6,024	6,233	6,843
Margin (%)	13.6	13.1	12.8	12.3	11.8	11.8
Order inflow	28,190	42,820	57,930	53,180	59,149	66,513
Growth (%)	(19.2)	51.9	35.3	(8.2)	11.2	12.5
Order backlog	24,340	28,970	52,810	56,060	58,626	65,214
Growth (%)	(12.1)	19.0	82.3	6.2	4.6	11.2

Assume modest growth in order inflows in the core energy business (excluding utility orders).

Factor in margin compression of 50 bps for FY2012-13

1-2 utility order (up to about 300 MW) each year

Gradual pick up in execution of large orders. Assume large orders to be about 24-36 months execution cycle.

EBIT margins for large utility projects assumed to be 150-200 bps below core energy segment business

Assume modest growth in order inflows in FY2012E-13E

Assume slower execution as order size increase, for e.g. municipal sewage plants.

Source: Company, Kotak Institutional Equities

Supercritical JV Sept-12 deadline maintained; prequalifies for NTPC tenders

The company has acquired land at Shirwal near Pune for setting up the manufacturing facility for the supercritical boilers JV between Thermax and Babcock & Wilcox. Construction work has begun but more important indication comes from the company getting prequalified in recent NTPC tenders. The company expects to manufacture 3 GW of subcritical and supercritical boiler annually in the first phase, with the provision of expanding to 5 GW. Thermax has currently invested Rs492 mn towards its 51% stake in the equity capital of the JV. We currently do not build any value for the JV into our target price.

Theme of scale-up to large power plants may have got diluted

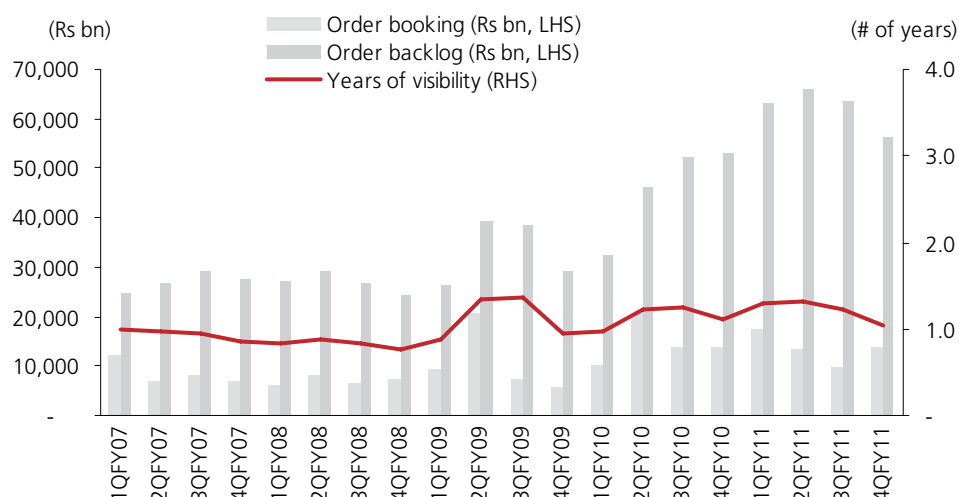
We believe that the theme of the company to scale up in the large power plants segment may have got diluted based on lack of ordering in the last one year as well as potential lack of near-term visibility of opportunities in that segment. We highlight that a couple of large opportunities have not fructified in Thermax's favor because of competition as well. For instance, (1) Meenakshi, SKS and Ind-Bharath in the large power plants segment were won by Cethar Vessels, (2) electrostatic precipitator business of NTPC for bulk tender related plants was won by competition and (3) new players like Tecpro have won orders (worth Rs2 bn) for waste heat recovery boilers from reputable customers such as Grasim.

Decline in order flow reduces visibility

Full-year standalone order inflows at Rs53.2 bn were down 8% yoy (versus Rs57.9 bn in FY2010). The fall was attributed to lack of incremental large power project orders. Power orders declined to Rs15.3 bn from Rs21.4 bn in FY2010. In MW terms, orders declined to 370-400 MW from 630 MW a year ago. This weakness in order inflows along with strong revenue growth is depleting the backlog and hence, reducing visibility.

Order backlog provides visibility of 1.1 years based on forward four quarter revenues

Order booking, order backlog & visibility trend for Thermax



Source: Company, Kotak Institutional Equities estimates

Marginally revise earnings; reiterate REDUCE with a target price of Rs670

We marginally revise our earnings estimates to Rs35.1 and Rs39.4 from Rs35.6 and Rs39.9 for FY2012E and FY2013E, respectively. We correspondingly revise our target price to Rs670/share (from Rs680 earlier) based on 17X FY2013E.

Our REDUCE rating on the stock is based on (1) weak order booking traction, (2) thematic idea of the company scaling up to large power plants not materializing, (3) likely sedate capex environment in the industrials segment in the near term and (3) difficulty in building the supercritical business in the medium term.

Consolidated balance sheet, profit model and cash flow statement of Thermax, March fiscal year-ends, 2007-13E (Rs mn)

	2007	2008	2009	2010	2011	2012E	2013E
Balance sheet							
Shareholders funds	5,899	7,595	9,924	10,782	13,149	15,933	19,091
Loan funds	22	—	41	80	1,479	1,479	1,479
Total sources of funds	6,122	7,908	10,331	11,396	15,736	18,520	21,678
Net block	1,671	2,878	4,911	5,369	7,853	7,854	7,875
CWIP	118	607	177	115	354	455	493
Net fixed assets	1,789	3,485	5,088	5,484	8,208	8,309	8,368
Investments	5,741	5,601	1,443	3,703	2,415	3,665	4,915
Cash balances	972	580	3,696	6,702	7,496	8,170	8,637
Net current assets excluding cash	(2,515)	(1,977)	(103)	(4,790)	(2,672)	(1,913)	(531)
Total application of funds	6,122	7,908	10,331	11,396	15,736	18,520	21,678
Profit model							
Total operating income	23,267	34,815	34,603	33,703	53,371	57,263	63,224
Total operating costs	(20,433)	(30,528)	(30,371)	(29,731)	(47,632)	(50,939)	(56,121)
EBITDA	2,834	4,288	4,232	3,972	5,739	6,324	7,103
Other income	360	439	404	519	579	549	574
PBDIT	3,194	4,727	4,636	4,491	6,318	6,873	7,677
Financial charges	(15)	(17)	(38)	(21)	(41)	(41)	(41)
Depreciation	(195)	(232)	(351)	(434)	(540)	(566)	(603)
Pre-tax profit	2,984	4,478	4,247	4,036	5,737	6,265	7,033
Taxation	(1,046)	(1,571)	(1,357)	(1,423)	(1,967)	(2,082)	(2,332)
Adjusted PAT	1,937	2,907	2,889	2,612	3,770	4,183	4,700
Extraordinary items, net of tax	—	—	—	(1,149)	—	—	—
Profit after tax	1,937	2,907	2,889	1,464	3,817	4,183	4,700
Cash flow statement							
Operating profit before working capital change	2,145	3,228	3,268	3,047	4,324	4,750	5,303
Change in working capital / other adjustments	1,313	(538)	(1,874)	4,687	(2,118)	(759)	(1,382)
Cash flow from operating activities	3,457	2,689	1,394	7,734	2,205	3,991	3,921
Fixed Assets	(544)	(1,966)	(1,915)	(830)	(3,264)	(667)	(662)
Investments	(1,772)	140	4,158	(2,260)	1,289	(1,250)	(1,250)
Cash (used) / realised in investing activities	(2,316)	(1,826)	2,243	(3,090)	(1,975)	(1,917)	(1,912)
Dividend paid	(825)	(1,115)	(697)	(695)	(1,246)	(1,447)	(1,589)
Cash (used) /realised in financing activities	(680)	(1,233)	(520)	(473)	376	(1,400)	(1,542)
Cash generated /utilised	425	(392)	3,116	3,006	794	674	467
Cash at beginning of year	547	972	580	3,696	6,702	7,496	8,170
Cash at end of year	972	580	3,696	6,702	7,496	8,170	8,637
Key ratios (%)							
EBITDA margin	12.2	12.3	12.2	11.8	10.8	11.0	11.2
PAT margin	8.3	8.4	8.4	7.8	7.1	7.3	7.4
RoE	36.9	43.1	33.0	25.2	31.9	28.8	26.8
RoCE	36.8	43.2	33.2	25.2	30.2	26.3	24.9
EPS (Rs)	16.3	24.4	24.3	21.9	32.0	35.1	39.4

Source: Company, Kotak Institutional Equities

JULY 05, 2011

UPDATE

BSE-30: 18,814

Margins to decline as funding costs catch up. We expect the trend of consistent margin expansion to visibly reverse during 1QFY12 and expect margins to be under pressure. We expect margins to decline by 20-25 bps qoq for most banks while revised provisioning norms would keep earnings growth muted for the quarter, especially for public banks. Higher borrowings cost will also pull down earnings growth for NBFCs even as loan growth remains in line. We maintain our positive view on Axis Bank and ICICI Bank amongst private banks and PNB and Union Bank amongst public sector banks; Mahindra Finance and LICHF in NBFCs.

Subdued performance for PSU banks on the back of margin pressure and revised guidelines

We expect overall earnings to be under pressure in the current quarter on the back of (1) higher cost of deposits due to revised savings guidelines and sharp rise in deposit rates (2) revised guidelines to take effect on NPL and restructured loans. We expect a 5% yoy decline in earnings growth, with public banks showing a decline of 17% (mainly SBI) while private banks would grow by 30%. Non interest income will remain subdued, as treasury gains will be limited. We expect NII growth to be at 18% yoy (16% for public banks and 22% for private banks). A stringent reporting format for public sector banks would imply slippages being above normalized levels while revised guidelines on provisions would imply higher provisions for the quarter.

NBFCs will likely report 10-25% core earnings growth primarily on the back of strong traction of loan growth over the past four quarters even as NIM moderate. We expect Bol, IOB, Canara and SBI in public sector and most private sector banks to show earnings growth over 25% yoy aided by lower base earnings; Mahindra Finance will likely deliver 35% growth on the back of strong business traction.

Expect margin compression of 20-25 bps across banks; muted loan growth performance

We expect margins to compress by 20-25 bps qoq across all banks to factor the revised savings rate (effective for two months) and the full impact of higher deposit costs witnessed in 4QFY11. However, we expect average lending yields to increase as the full impact of the hikes taken in February and May, 2011 are reflected in current quarter earnings. There would be a lag of a few quarters when we see the benefit of the recent decline in wholesale rates. Loan deposit ratio has been stable at 75%. On a sequential basis, we expect most banks to report flat loan growth performance (due to seasonality). However, we are seeing signs of a slowdown, which would result in a closing of the current gap between deposit and loan growth.

Most NBFCs will likely report an NIM decline of 10-40 bps yoy. NIMs typically peak in the 4Q and hence an NIM decline will likely be higher qoq i.e. 40-80 bps. Lower competitive intensity on the asset side and moderation in CP and CD rates will augur well for incremental margins though reported NIMs will remain under pressure over the next 1-2 quarters, in our view.

NPLs unlikely to surprise negatively; expect better performance on recoveries and upgradations

We do we expect the current divergence on slippage performance for public and private sector banks to continue, however, we don't expect any sharp rise in slippages across the sector. Slippages for public sector banks are likely to continue to remain above trend levels, especially as a result of the change to a more rigorous recognition system that prevents any form of manual intervention. Slippages continue to remain at low levels for private sector banks which are unlikely to reverse in the current quarter. However, discussions with banks indicate that recoveries have improved, mitigating a sharp rise in overall NPLs.

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NBFC: Pressure on NIM, growth moderates in 1Q

- ▶ We expect most NBFCs to report 10% to 25% core earnings growth primarily driven by higher business volumes.
- ▶ A sharp rise in borrowings cost over the past few months affected NIM in 4Q; the hit will likely be stronger in 1QFY12E. In select segments, NIM peaks-out in 4Q due to better collections and hence margins decline seasonally in 1Q. This trend, coupled with a cyclical decline will play out in 1QFY12 as NIM decline 40-80 bps qoq. A rise in the PLR/base rate by banks has increased competitive intensity in the market ; this will augur well for NBFCs as well. Topping off of interest rates, as indicated in the trends for CP and CD rates over the past few days, is a positive sign.

NIM under pressure

Quarterly trends in NIM, 1QFY11-1QFY12E (%)

	1Q11	2Q11	3Q11	4Q11	1Q12E	Comments
LIC Housing Financ	3.0	2.9	3.1	3.5	2.7	New home loan product and 50bps hike in PLR to cushion sharp rise in borrowings cost
IDFC	4.1	3.9	4.3	4.3	4.2	Easing competitive scenario has buoyed asset yields and supported margins
PFC	4.2	4.1	4.1	4.1	3.9	Rise in borrowings cost to put pressure on NIM
REC	4.7	4.7	4.8	4.9	4.7	Rise in borrowings cost to put pressure on NIM
Shriram Transport	9.4	9.6	10.2	9.3	8.9	Rise in bank PLR, delay in passing rate to consumers to hit NIM
Mahindra Finance	11.4	12.5	12.1	12.7	10.7	Seasonal trends, rise in borrowings cost pull down NIM

Source: Company, Kotak Institutional Equities estimates

- ▶ Incremental trends in NIMs may be better than expected, regardless, we expect loan growth to moderate in FY2012E. Typically, 1Q is a weak quarter for the business and the general level of activity picks up in later quarters. Most companies indicate that 1Q has been weak but they expect positive traction in the later months; nevertheless, overall growth will likely be lower. Select segments viz. autos and more specifically CVs, home loans (in select markets likely Mumbai and Delhi) and lending to power sector will clearly moderate in FY2012E. Rural lending will likely remain strong though the monsoon remains a big factor.

Yoy loan growth moderates

Quarterly trends in loan growth, 1QFY11-1QFY12E (%)

	1Q11	2Q11	3Q11	4Q11	1Q12E	Comments
LIC Housing Finance	37	36	36	34	35	Traction remains strong
IDFC	37	56	49	50	31	Loan book stable qoq
Power Finance Corporation	29	28	27	25	20	Moderating loan growth
Rural Electrification Corporation	27	25	20	24	20	Moderating loan growth
Shriram Transport Finance	27	23	25	24	23	Loan growth strong in last four quarters
Mahindra Finance	31	33	46	49	47	Loan growth strong in last four quarters

Source: Company, Kotak Institutional Equities estimates

PAT growth moderates in 1QFY12

Quarterly trends in yoy earnings growth, 1QFY11-1QFY12E (%)

	1Q11	2Q11	3Q11	4Q11	1Q12E	Comments
LIC Housing Finance	71	37	39	47	18	Decline in NIM pulls down PAT even as loan growth remains strong
IDFC	23	16	19	26	3	Lower income from other businesses to pull down earnings growth
Power Finance Corporation	18	10	17	1	7	Lower NIM and loan growth hits earnings growth
Rural Electrification Corporati	24	25	40	25	14	Lower loan growth and other income hits earnings growth
Shriram Transport Finance	74	45	27	29	21	Pressure on NIM, somewhat better loan growth over last four quarters
Mahindra Finance	86	68	24	11	35	Strong growth in last four quarters drives earnings despite NIM pressure

Source: Company, Kotak Institutional Equities estimates

Loan growth showing signs of moderation; yoy growth at 21%

Despite 1Q being a weak quarter traditionally, we see initial signs of moderation on loan growth. Loan growth which peaked at 25% in December 2010 has moderated to 21% for June 17, 2011. YTD growth is at 1.6% compared to 2.2% in FY2011 (however, this includes the benefit of lending to telecom companies). We expect a marginal increase in loan book across all banks for the quarter. As per the last reported data, CD ratio was flat at 75% qoq though average CD ratio was lower for the quarter at 74%.

Borrowings through external credit/short-term credit from abroad continued to remain strong. Bank's investments in commercial paper and corporate debentures have remained flat sequentially at Rs123 bn and Rs923 bn.

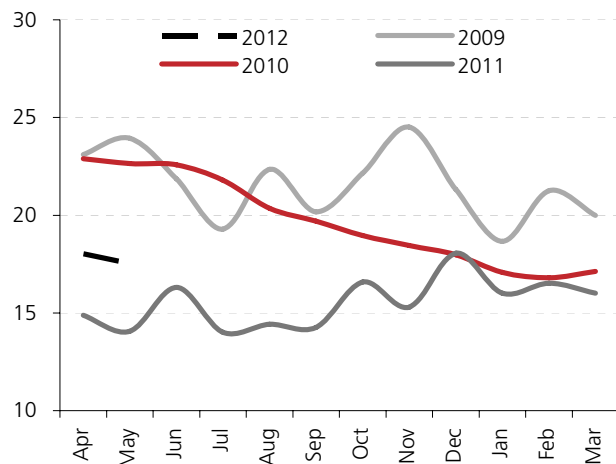
PAT growth to slowdown due to higher base effect

Yoy growth in PAT, March fiscal year-ends, 4QFY10-1QFY12E (%)

	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12
Public banks						
Andhra Bank	19.4	25.3	10.6	20.2	30.2	(12.4)
Bank of Baroda	20.4	25.4	58.0	28.4	42.8	16.5
Bank of India	(47.2)	23.3	90.7	61.0	15.4	(2.0)
Canara Bank	(30.0)	82.5	10.7	5.1	78.7	(19.6)
Corporation Bank	19.9	27.8	20.6	25.4	10.6	(10.6)
Indian Bank	4.0	11.0	11.8	11.3	7.0	2.7
IOB	(60.5)	(33.6)	17.1	127.8	240.8	55.7
OBC	61.9	41.1	46.8	41.1	5.3	(16.9)
PNB	31.1	28.4	15.7	7.8	5.8	0.3
State Bank of India	(31.9)	25.1	0.5	14.1	(98.9)	(37.1)
Union Bank	27.6	36.0	(39.9)	8.5	0.7	(15.3)
Old private banks						
Federal Bank	2.3	(3.3)	38.9	29.8	46.9	14.5
J&K Bank	52.6	25.0	23.0	19.9	15.4	8.1
New private banks						
Axis Bank	31.5	32.0	38.3	35.9	33.4	15.0
IndusInd Bank	93.9	37.1	71.1	74.8	75.3	39.2
HDFC Bank	32.6	33.9	32.5	32.9	33.2	30.2
ICICI Bank	35.2	16.8	18.9	30.5	44.4	38.1
Yes Bank	65.7	97.1	106.6	79.0	71.4	59.5

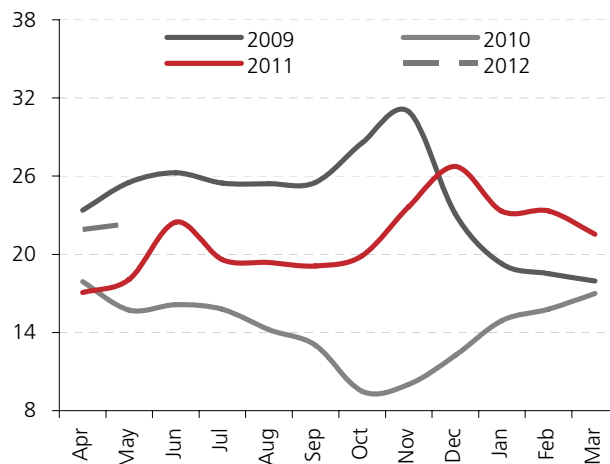
Source: Companies, Kotak Institutional Equities estimates

Deposit growth showing signs of improvement in recent times
Yoy growth in deposits (%)



Source: Kotak Institutional Equities

Demand for loans is showing signs of slowdown
Yoy growth in advances, March fiscal year-ends (%)



Source: Kotak Institutional Equities

Margin pressure visible due to revised savings rate and higher deposits rates

We expect margins to come off by about 20-25 bps qoq across banks as the impact of revised savings rate and higher cost of deposits mobilized in 4QFY11 is fully reflected in the current quarters cost of deposits. The revised savings rate hike of 50 bps to 4% was effective for two months of the current quarter. Also, banks had aggressively mobilized high cost deposits in 4Q on the back of strong credit demand and weak deposit growth, a trend that is showing signs of reversal. We expect some of the hike in deposits rates to be offset by the hike in lending rates taken in 4Q and 1Q. On the positive side, banks which raised capital in 4Q primarily through Govt infusion would stand to gain.

Overall, we expect NII to grow by 18% yoy (-0.5% qoq) with public sector banks growing by 16% yoy (-2% qoq) and private sector banks by 22% yoy (2% qoq). OBC, Corporation Bank, Federal Bank should see fairly weak NII growth for the quarter. One-off interest income in BoB, Bol and Union Bank would result in sharper NIM compression. IOB and ICICI Bank would have strong quarters on the back of a lower base while we expect stable performance from IndusInd Bank and HDFC Bank.

NII growth momentum to slowdown on the back of higher deposit rates and new savings rate
Yoy growth in NII, March fiscal year-ends, 4QFY10-1QFY12 (%)

	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12
Public banks						
Andhra Bank	66.0	66.9	52.2	44.2	31.3	13.2
Bank of Baroda	18.6	54.2	45.6	43.2	49.8	29.3
Bank of India	8.3	33.5	26.0	32.9	48.7	18.0
Canara Bank	22.4	33.8	52.5	43.4	23.5	10.8
Corporation Bank	37.6	49.2	42.1	40.5	29.2	7.5
Indian Bank	39.9	25.6	37.7	18.9	18.9	15.5
IOB	16.5	17.9	21.9	42.3	48.1	35.3
OBC	114.7	118.3	92.0	18.0	2.5	(6.3)
PNB	31.0	45.4	49.3	37.5	21.3	14.6
State Bank of India	38.8	45.4	44.7	43.3	19.9	15.3
Union Bank	50.7	68.2	72.6	51.8	22.9	24.2
Old private banks						
Federal Bank	27.7	42.5	32.9	17.4	9.3	8.0
J&K Bank	23.2	37.9	48.7	32.7	34.7	8.1
New private banks						
Axis Bank	41.4	44.8	40.5	28.5	16.5	12.6
IndusInd Bank	89.1	76.7	58.1	52.7	42.3	28.8
HDFC Bank	27.0	29.4	29.1	24.9	20.8	20.7
ICICI Bank	(4.9)	0.3	8.3	12.3	23.3	24.6
Yes Bank	57.3	67.1	77.9	53.2	42.7	35.2

Source: Company, Kotak Institutional Equities

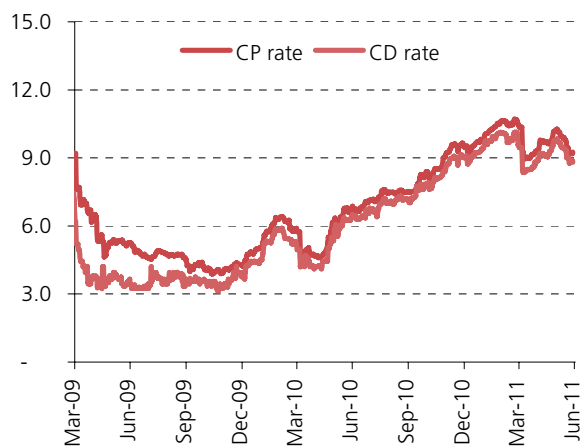
Equity capital raised in 4QFY11 should marginally cushion margin pressure for Andhra and OBC
March fiscal year-ends, 2011 (₹ bn)

	Capital raised	Deposits	Loans	% of deposits
Andhra Bank	12	934	720	1.3
Bank of Baroda	25	3,005	2,190	0.8
Bank of India	10	3,038	2,193	0.3
Canara Bank	20	2,962	2,138	0.7
Corporation Bank	3	1,183	875	0.3
IOB	11	1,478	1,161	0.7
OBC	17	1,415	990	1.2
PNB	2	3,192	2,461	0.1
Union Bank	7	2,058	1,547	0.3

Source: Company, Kotak Institutional Equities

Short term rates have seen a rise in last few months

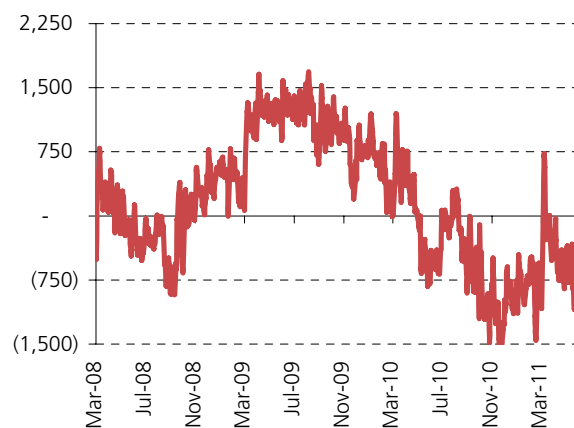
CP and CD rates, March 2009- June 2011 (%)



Source: Bloomberg, Kotak Institutional Equities

Liquidity remains in negative zone

Net Reverse Repo outstanding, March 2009- June 2011 (Rs bn)



Source: Bloomberg, Kotak Institutional Equities

PLR and base rates hikes have been taken in February and May 2011

	2QFY11	Initial PLR	Rate changes	Effective PLR	Initial Base rate	Rate changes	Revised Base rate
Andhra Bank		12.50	5-Oct-10	12.75	8.25	6-Oct-10	8.50
			13-Dec-10	13.00		13-Dec-10	9.00
			23-Dec-10	13.25		3-Feb-11	9.50
			3-Feb-11	13.75		6-May-11	10.00
			6-May-11	14.25			
Bank of Baroda	6-Aug-10	12.50	13-Dec-10	13.25	8.00	5-Oct-10	8.50
			3-Feb-11	13.75		13-Dec-10	9.00
			6-May-11	14.25		3-Feb-11	9.50
						6-May-11	10.00
Bank of India	14-Aug-10	12.50	15-Dec-10	13.25	8.00	6-Oct-10	8.50
			1-Feb-11	13.75		15-Dec-10	9.00
			6-May-11	14.25		1-Feb-11	9.50
						6-May-11	10.00
Canara Bank		12.00	12-Aug-10	12.50	8.00	1-Oct-10	8.50
			4-Feb-11	13.75		13-Dec-10	9.00
			5-May-11	14.25		4-Feb-11	9.50
			1-Jul-11	14.50		5-May-11	10.00
						1-Jul-11	10.25
Corporation	2-Aug-10	12.50	8-Oct-10	12.75	7.75	4-Nov-10	8.25
			13-Dec-10	13.00		3-Jan-11	8.90
			29-Jan-11	13.25		1-Feb-11	9.40
			1-Feb-11	13.60		10-May-11	9.90
			10-May-11	13.85			
Indian Bank	2-Jul-09	12.50	1-Oct-10	12.75	8.00	1-Oct-10	8.50
			1-Dec-10	13.00	8.00	1-Oct-10	8.50
			13-Dec-10	13.25		13-Dec-10	9.00
			21-Jan-11	13.50		2-Feb-11	9.50
			18-Feb-11	13.75		5-May-11	10.00
			5-May-11	14.25			
IOB	23-Aug-10	12.50	1-Oct-10	12.75	8.25	1-Oct-10	8.50
			13-Dec-10	13.00		13-Dec-10	9.00
			16-Dec-10	13.25		2-Feb-11	9.50
			5-Feb-11	13.75		4-May-11	10.00
			4-May-11	14.25		6-May-11	10.00
			6-May-11	14.25			
OBC	6-Aug-10	12.50	15-Dec-10	13.25	8.00	1-Oct-10	8.50
			2-Feb-11	13.75		15-Dec-10	9.00
			5-May-11	14.25		2-Feb-11	9.50
						5-May-11	10.00
PNB	1-Aug-10	11.75	8-Dec-10	12.50	8.00	1-Oct-10	8.50
			31-Jan-11	13.00		13-Dec-10	9.00
			4-May-11	13.50		31-Jan-11	9.50
						4-May-11	10.00
SBI	16-Aug-10	12.25	21-Oct-10	12.50	7.50	21-Oct-10	7.60
			3-Jan-11	12.75		3-Jan-11	8.00
			14-Feb-11	13.00		14-Feb-11	8.25
			25-Apr-11	13.25		25-Apr-11	8.50
			12-May-11	14.00		12-May-11	9.25
Union Bank	4-Aug-10	12.25	18-Dec-10	13.25	8.00	15-Oct-10	8.50
			9-Feb-11	13.75		27-Dec-10	9.00
			7-May-11	14.25		4-Feb-11	9.50
						7-May-11	10.00

Source: Company, Kotak Institutional Equities

Subdued non interest income; limited treasury gains

Non-interest income to remain subdued for another quarter on the back of lower treasury gains and slower fee income growth. Low loan book activity, pressure on fee income from third party distribution (mainly for private banks) should result in subdued performance for the quarter.

There have been limited opportunities for banks to have made gains on their investment portfolio during the quarter. During the quarter, the yield curve was flat across tenors. 10 year, 5 year, 2 year and 1 year is at 8.2-8.3% levels. The 1, 2, 5 and 10 year has increased by 70, 60, 40 and 30 bps qoq, respectively.

Treasury income for the quarter to be lower due to limited trading opportunities

March fiscal year-ends, 4QFY10 - 1QFY12E (Rs mn)

	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12
Public banks						
Andhra Bank	530	480	176	100	650	352
Bank of Baroda	2,068	1,279	1,101	848	1,209	1,000
Bank of India	661	999	360	592	1,266	1,300
Canara Bank	1,140	2,240	20	290	(180)	500
Corporation Bank	622	135	45	324	819	250
Indian Bank	75	570	586	270	54	350
IOB	372	410	150	229	300	240
OBC	275	170	8	314	262	300
PNB	2,186	1,210	380	870	1,730	1,250
State Bank of India	4,256	1,734	1,973	2,202	3,347	3,200
Union Bank	410	1,130	1,310	1,080	1,710	900
Old private banks						
Federal Bank	42	166	141	82	70	150
J&K Bank	136	336	182	179	227	200
New private banks						
Axis Bank	1,030	1,960	1,080	1,350	580	835
IndusInd Bank	44	199	130	240	192	200
HDFC Bank	(473)	215	(521)	(307)	86	275
ICICI Bank	1,960	1,040	(1,440)	210	(1,960)	100
Yes Bank	-	(80)	(200)	-	-	50

Source: Companies, Kotak Institutional Equities estimates

Non-interest income (ex-treasury) likely to show moderate growth

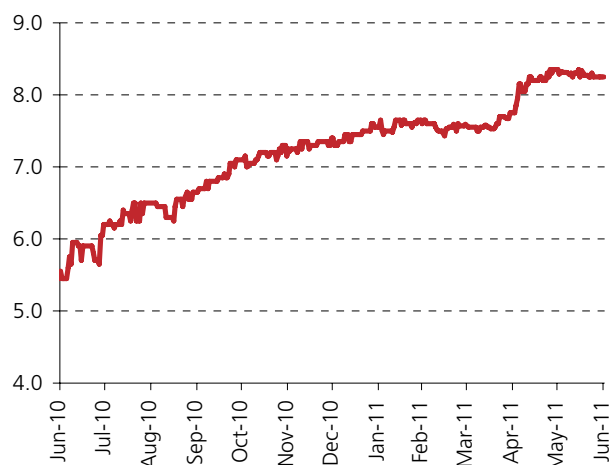
Yoy growth in non-interest income (ex-treasury), March fiscal year-ends, 4QFY10 -1QFY12E (%)

	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12
Public banks						
Andhra Bank	36.8	46.9	25.6	6.7	8.3	17.2
Bank of Baroda	16.1	9.3	20.3	13.1	11.2	10.7
Bank of India	17.0	19.7	4.5	35.4	6.0	5.9
Canara Bank	19.8	14.5	8.9	4.4	59.5	20.3
Corporation Bank	28.9	45.3	(2.8)	8.0	56.7	9.5
Indian Bank	21.8	20.7	8.4	2.5	(6.7)	(25.0)
IOB	(19.9)	(11.6)	16.7	36.1	44.8	42.6
OBC	29.6	27.1	6.5	7.1	14.5	22.8
PNB	16.0	11.6	9.6	34.2	35.8	7.4
State Bank of India	27.2	23.0	27.8	5.6	9.7	6.5
Union Bank	36.0	0.7	12.3	15.5	(4.9)	25.0
Old private banks						
Federal Bank	9.2	4.3	21.3	13.6	6.2	14.4
J&K Bank	48.9	22.8	11.5	8.6	9.3	(0.6)
New private banks						
Axis Bank	22.2	27.2	9.9	23.8	67.6	34.6
IndusInd Bank	39.8	64.0	31.6	63.1	27.0	27.9
HDFC Bank	14.6	16.6	13.7	25.2	25.0	18.3
ICICI Bank	16.1	14.6	12.8	1.7	8.4	12.2
Yes Bank	78.4	36.8	11.4	26.5	16.6	15.0

Source: Companies, Kotak Institutional Equities estimates

Yields have seen a sharper rise of about 25 bps qoq

Yield of 1-year G-Sec (%)



Source: Kotak Institutional Equities

Yield at the longer end has softened marginally in recent weeks

Yield of 10-year G-Sec (%)



Source: Kotak Institutional Equities

Investment hits unlikely to be sharp, as HTM remains large

Impact of 50 bps yield change on investments as of 4QFY11, March fiscal year-ends

	Investment (Rs bn)	AFS (Rs bn)	% of book (%)	Duration (Years)	Impact (Rs mn)	PBT 2012 (Rs mn)	Impact (%)
Public banks							
Andhra Bank	242	34	14.2	3.9	664	18,127	3.7
Bank of Baroda	713	99	13.9	2.8	1,386	61,530	2.3
Bank of India	866	291	33.6	2.0	2,850	45,497	6.3
Canara Bank	832	218	26.2	2.4	2,565	48,467	5.3
Indian Bank	348	124	35.7	1.7	1,062	28,709	3.7
IOB	550	172	31.2	2.7	2,292	23,126	9.9
OBC	421	116	27.6	4.1	2,382	22,552	10.6
PNB	955	211	22.1	2.7	2,855	76,947	3.7
SBI	2,956	720	24.4	3.6	12,960	205,001	6.3
Union Bank	584	141	24.2	1.8	1,249	38,073	3.3
Old private banks							
Federal Bank	145	42	29.1	2.3	482	11,796	4.1
Axis Bank	720	250	34.7	3.1	3,836	60,804	6.3

Source: Kotak Institutional Equities

Slippages and provisions to remain high; expect no negative surprises

We expect divergence on asset quality across private and public sector banks to continue in the current quarter. We expect slippages to continue at higher levels for PSU banks as they would report NPLs without any manual intervention for loans above ₹1-5 mn. The complete transition is expected to be completed by September 2011. Restructured assets and slippages are unlikely to throw up negative surprises. Also, trends on recoveries and upgradations should witness further improvement resulting in lower net additions to NPL. We see almost negligible impact from microfinance in the current quarter. Provisions would continue to be at higher levels as banks would need to make higher provisions for revised guidelines on sub-standard, doubtful and restructured loans.

Break-up of gross NPL and restructure loans which would require higher provisions on the back of revised guidelines
March fiscal year-ends, 2011

	Gross NPL	Sub-standard	Doubtful	Loss	Gross NPL	Net NPL	Provision coverage	Restructured loans	Proportion of loans
	(Rs mn)	(Rs mn)	(Rs mn)	(Rs mn)	(%)	(%)	Without write-off Including write-off	(Rs mn)	(%)
Public sector banks									
Andhra Bank	9,956	5,615	4,258	83	1.4	0.4	72.5 83.9	25,020	3.5
Bank of Baroda	31,525	10,972	13,366	7,186	1.4	0.3	74.9 85.0	67,110	2.9
Bank of India	48,297	20,988	21,830	5,479	2.2	0.9	59.6 72.2	106,446	4.9
Canara Bank	30,892	15,859	14,770	263	1.4	1.1	24.0 73.0	80,780	4.3
Corporation Bank	7,902	3,558	2,492	1,852	0.9	0.5	49.7 75.0	31,439	3.6
Indian Bank	7,403	6,817	472	114	1.0	0.5	47.3 84.3	51,950	6.9
OBC	19,205	8,721	10,022	462	2.0	1.0	51.2 76.8	52,690	5.4
PNB	43,794	26,432	17,362	3,384	1.8	0.9	53.4 73.2	153,140	6.3
SBI*	318,241	142,392	141,685	34,164	3.3	1.6	51.2 65.0	343,490	4.5
Union Bank	36,230	22,470	10,880	2,880	2.4	1.2	50.2 67.6	56,162	3.7
Private Banks									
Axis Bank	15,994	4,585	4,128	7,282	1.0	0.3	74.3 82.9	19,300	1.2
Federal Bank	10,945	6,785	3,192	968	3.8	0.7	83.0	12,356	4.5
HDFC Bank	16,985	7,440	4,778	4,768	1.1	0.2	82.5	4,819	0.3
ICICI Bank	100,343	17,920	74,000	8,423	4.5	1.1	75.7	19,700	0.9
IndusInd Bank	2,659	1,034	1,611	14	1.0	0.3	72.6	733	0.3
Yes Bank	805	392	413	-	0.2	0.0	88.6		

Source: Company, Kotak Institutional Equities

Nearly 15% of the restructured portfolio has slipped into NPL
Restructured loans and slippages from restructured loans, March fiscal year-ends, 4QFY11

	Restructured loans (Rs bn)	% of loans (%)	Slippages (Rs bn)	% of restructured loans (%)
Andhra Bank	23	3.5	3	14.3
Bank of Baroda	60	2.9	6	9.3
Bank of India	103	5.4	23	21.9
Corporation Bank	30	4.2	2	7.5
Indian Bank	58	7.8	2	3.7
IOB	76	7.6	15	20.3
OBC	51	5.7	7	13.4
PNB	144	6.5	13	8.7
SBI	328	4.5	51	15.7
Union Bank	53	3.9	9	17.8
Total	926		131	14.2

Source: Company, Kotak Institutional Equities

NPL provisions will remain at elevated levels for all public banks but decline for private banks
Loan loss provisions of banks, March fiscal year-ends, 4QFY10-1QFY12E (₹ mn)

	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12
Public banks						
Andhra Bank	1,690	174	1,186	1,693	2,284	1,827
Bank of Baroda	2,318	2,775	1,423	2,064	4,244	3,607
Bank of India	6,600	3,080	2,863	1,236	3,367	3,388
Canara Bank	5,780	1,310	2,060	2,000	5,410	3,787
Corporation Bank	986	1,187	884	1,534	1,873	1,306
Indian Bank	3,110	4,100	1,145	280	1,845	1,661
IOB	4,726	1,540	2,736	3,016	3,470	3,297
OBC	3,480	1,436	2,196	1,781	3,930	2,700
PNB	5,770	5,320	3,990	6,640	6,700	6,500
State Bank of India	21,868	17,334	21,625	16,323	32,639	31,007
Union Bank	2,610	810	6,290	3,610	1,170	3,200
Old private banks						
Federal Bank	773	1,358	1,430	1,276	970	1,067
J&K Bank	584	440	436	299	348	300
New private banks						
Axis Bank	1,797	3,050	3,210	2,330	1,760	2,077
IndusInd Bank	422	400	331	446	339	339
HDFC Bank	2,750	3,650	4,450	2,929	3,301	3,395
ICICI Bank	9,898	7,978	6,411	4,643	3,836	4,220
Yes Bank	115	13	174	140	173	300

Source: Companies, Kotak Institutional Equities estimates

Stocks are trading at attractive levels despite recent price appreciation

Valuations of key banks, March fiscal year-ends, 2011-2013E

	Reco.	Price	Market cap. US \$bn	EPS (Rs)			PER (X)			BVPS (Rs)			PBR (X)			RoE (%)		
		(Rs)		2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E	2011E	2012E	2013E	2011	2012E	2013E
		29-Jun-11																
Public banks																		
Andhra Bank	BUY	133	1.7	23	23	28	5.9	5.7	4.8	116	133	152	1.1	1.0	0.9	23	19	19
Bank of Baroda	BUY	866	7.6	108	110	130	8.0	7.9	6.7	493	580	683	1.8	1.5	1.3	26	20	21
Bank of India	ADD	412	5.0	45	60	70	9.1	6.9	5.9	292	339	394	1.4	1.2	1.0	18	18	19
Canara Bank	ADD	522	5.2	91	85	108	5.7	6.1	4.8	405	476	570	1.3	1.1	0.9	23	18	19
Corporation Bank	ADD	532	1.8	95	88	104	5.6	6.0	5.1	482	548	627	1.1	1.0	0.8	22	17	18
Indian Bank	BUY	215	2.1	39	45	56	5.5	4.8	3.8	184	219	263	1.2	1.0	0.8	23	22	23
IOB	BUY	147	2.0	17	25	33	8.5	5.8	4.4	132	154	184	1.1	1.0	0.8	13	16	18
OBC	BUY	327	2.1	52	55	64	6.3	6.0	5.1	350	392	441	0.9	0.8	0.7	16	14	14
PNB	BUY	1,085	7.7	140	163	198	7.8	6.7	5.5	632	756	907	1.7	1.4	1.2	24	23	24
SBI	BUY	2,380	33.6	130	213	266	18.3	11.2	8.9	1,023	1,194	1,417	2.3	2.0	1.7	13	19	20
SBI incl. banking subs	BUY	2,149	30.4	175	265	331	12.3	8.1	6.5	1,302	1,532	1,816	1.7	1.4	1.2	14	19	20
SBI (core banking business)	BUY	1,699	24.0	131	193	244	13.0	8.8	7.0	921	1,092	1,314	1.8	1.6	1.3	14	20	22
Union Bank	BUY	299	3.5	39	51	62	7.6	5.9	4.8	211	248	294	1.4	1.2	1.0	21	22	23
Old private banks																		
Federal Bank	ADD	451	1.7	34	45	57	13.1	10.0	7.9	298	331	372	1.5	1.4	1.2	12	14	16
J&K Bank	ADD	845	0.9	127	132	151	6.7	6.4	5.6	717	818	933	1.2	1.0	0.9	19	17	17
New private banks																		
Axis Bank	BUY	1,294	11.9	83	99	121	15.7	13.0	10.7	463	542	639	2.8	2.4	2.0	19	20	21
IndusInd Bank	BUY	275	2.9	12	15	18	22.2	18.3	15.4	82	94	109	3.4	2.9	2.5	21	17	18
HDFC Bank	ADD	2,489	25.9	84	110	140	29.5	22.6	17.7	546	631	739	4.6	3.9	3.4	17	19	21
ICICI Bank	ADD	1,087	27.9	45	57	68	24.3	18.9	15.9	478	516	560	2.3	2.1	1.9	10	12	13
ICICI standalone	ADD	797	20.4	41	54	64	19.4	14.9	12.5	365	402	446	2.2	2.0	1.8	12	15	17
Yes Bank	BUY	313	2.4	21	26	33	14.6	12.1	9.6	109	132	160	2.9	2.4	2.0	22	22	22
Non-banks																		
HDFC	REDUCE	696	22.8	24	28	32	28.9	24.9	21.9	118	134	169	5.9	5.2	4.1	22	22	21
HDFC core	REDUCE	426	13.9	20	24	28	21.2	18.0	15.2	58	72	107	7.4	5.9	4.0	39	37	32
IDFC	ADD	131	3.8	9	10	12	14.9	12.9	10.7	71	83	92	1.8	1.6	1.4	15	13	14
India Infoline	ADD	88	0.6	7	7	8	11.9	13.0	10.4	58	62	68	1.5	1.4	1.3	14	13	14
LIC Hsg Fin	ADD	240	2.5	21	22	28	11.7	10.7	8.7	88	105	125	2.7	2.3	1.9	26	23	24
Mahindra Finance	BUY	617	1.1	45	56	67	13.6	10.9	9.2	243	285	335	2.5	2.2	1.8	22	21	22
Power Finance Corporation	ADD	185	4.7	23	25	30	8.1	7.5	6.2	133	160	183	1.4	1.2	1.0	18	18	18
Shriram Transport	REDUCE	602	2.3	55	65	77	10.9	9.2	7.8	220	270	329	2.7	2.2	1.8	28	27	26
Rural Electrification Corp.	ADD	194	4.3	26	29	33	7.5	6.6	5.9	129	147	167	1.5	1.3	1.2	22	21	21
Reliance Capital	REDUCE	568	3.1	12	9	16	14.4	45.6	61.0	280	285	293	0.7	0.7	0.7	3	6	8

Source: Companies, Bloomberg, Kotak Institutional Equities estimates

BFSI outperformed Sensex during the quarter
 Stock price performance—absolute and relative (%)

	Change in price (%)					Relative performance to sensex (%)					52 week high	52 week low
	1 month	3 month	6 month	12 month	Ytd	1 month	3 month	6 month	12 month	Ytd	(Rs)	(Rs)
Public banks												
Andhra Bank	(5.8)	(11.2)	(11.1)	0.1	(11.9)	(8.0)	(8.7)	(3.1)	(6.1)	(2.8)	190	124
Bank of Baroda	3.2	(7.8)	(2.8)	22.5	(3.4)	0.9	(5.4)	4.5	14.9	5.0	1,052	691
Bank of India	(5.5)	(12.5)	(4.6)	19.1	(8.8)	(7.6)	(10.0)	2.9	11.7	0.1	589	336
Canara Bank	(2.6)	(15.3)	(20.1)	16.6	(20.9)	(4.8)	(12.8)	(11.5)	9.4	(11.0)	844	362
Corporation Bank	2.0	(12.2)	(16.8)	2.7	(16.4)	(0.3)	(9.8)	(8.5)	(3.7)	(6.9)	815	475
Indian Bank	(3.7)	(7.2)	(12.2)	(1.5)	(12.9)	(5.9)	(4.8)	(4.2)	(7.6)	(3.7)	317	196
IOB	3.1	0.0	3.7	41.1	(0.0)	0.7	2.2	10.6	32.4	8.1	180	95
OBC	(6.4)	(15.1)	(17.8)	1.1	(19.3)	(8.6)	(12.6)	(9.4)	(5.2)	(9.6)	546	280
PNB	0.8	(7.3)	(11.3)	3.5	(11.2)	(1.5)	(5.0)	(3.4)	(2.9)	(2.1)	1,400	970
SBI	6.5	(14.0)	(13.6)	3.9	(15.4)	4.0	(11.5)	(5.5)	(2.6)	(6.0)	3,515	2,120
Union Bank	(3.8)	(12.8)	(10.6)	(4.8)	(14.0)	(6.0)	(10.3)	(2.7)	(10.7)	(4.7)	427	285
Old private banks												
Federal Bank	3.0	12.7	14.0	42.9	13.5	0.6	14.6	20.2	34.1	20.5	501	309
J&K Bank	8.3	3.6	9.1	2.5	8.0	5.8	5.7	15.6	(3.8)	15.5	938	695
New private banks												
Axis Bank	6.0	(9.0)	(1.4)	4.3	(4.2)	3.6	(6.7)	5.8	(2.2)	4.3	1,609	1,149
IndusInd Bank	6.0	3.1	8.7	33.8	3.9	6.0	3.1	8.7	33.8	3.9	309	181
HDFC Bank	8.1	8.0	6.9	30.7	6.1	5.6	10.0	13.6	22.6	13.7	2,540	1,879
ICICI Bank	1.8	(1.1)	(3.7)	28.2	(5.1)	(0.5)	1.1	3.7	20.2	3.5	1,279	830
Yes Bank	5.4	1.1	1.8	16.7	(0.0)	3.0	3.2	8.8	9.5	8.1	388	234
Non-banks												
HDFC	6.1	1.9	(3.0)	19.9	(4.4)	3.6	4.0	4.4	12.5	4.1	861	574
IDFC	(5.1)	(16.7)	(26.2)	(24.1)	(28.4)	(7.3)	(14.1)	(17.2)	(28.8)	(18.0)	218	111
LIC Housing Finance	8.0	7.9	26.3	20.6	22.9	5.6	9.9	31.6	13.1	29.2	299	150
MMFS	(7.0)	(23.1)	(16.8)	35.3	(16.7)	(9.1)	(20.4)	(8.4)	26.9	(7.2)	940	440
PFC	(7.2)	(24.5)	(40.0)	(37.5)	(40.3)	(9.3)	(21.8)	(30.0)	(41.4)	(28.9)	385	168
Shriram Transport	(14.1)	(22.9)	(22.1)	3.1	(22.9)	(16.0)	(20.2)	(13.4)	(3.3)	(12.9)	900	570
SREI	16.1	(4.2)	(26.6)	(2.2)	(27.6)	13.4	(2.0)	(17.5)	(8.2)	(17.2)	79	34
REC	(4.3)	(21.1)	(33.2)	(35.8)	(35.3)	(6.5)	(18.5)	(23.6)	(39.7)	(24.3)	414	177

Source: Bloomberg

Quarterly result expectations of companies under coverage

	Jun-10	Mar-11	Jun-11E	Change (%)		Comments
				yoy	qoq	
Andhra Bank						
Net interest income	7,367	8,615	8,342	13.2	(3.2)	NII growth to slowdown to 13% levels on the back of higher cost of deposits. Loan growth to remain above industry average
Operating profit	4,284	5,722	5,795	35.3	1.3	
Treasury income (net)	480	650	(48)	(110.0)	(107.4)	Provisions to remain high as the system based transition continues and for investments.
Loan loss provision	174	2,284	1,827	950.8	(20.0)	
PAT	3,210	3,128	2,811	(12.4)	(10.1)	
Axis Bank						
Net interest income	15,138	17,010	17,043	12.6	0.2	Expect margins to decline by 15-20 bps on the back of priority sector loans and higher cost of deposits. Loan growth to remain well above industry average at about 30% levels
Operating profit	12,541	17,628	14,381	14.7	(18.4)	
Treasury income (net)	1,960	580	835	(57.4)	43.9	PAT growth to be lower at 15% yoy on account of margin pressure. Expect asset quality trends to remain stable
Loan provision	3,050	1,760	2,077	(31.9)	18.0	
PAT	7,419	10,201	8,531	15.0	(16.4)	
Bank of Baroda						
Net interest income	18,580	26,139	24,020	29.3	(8.1)	NIMs to remain stable and expect NII growth at 29%. Loan growth to track industry average at 24% yoy
Operating profit	13,672	16,935	17,209	25.9	1.6	
Treasury income (net)	1,869	863	700	(62.5)	(18.9)	Net profit growth to remain healthy at 16% yoy. Asset quality and staff expenses will be a key monitorable, but we don't expect any negative surprises
Loan loss provision	2,775	4,244	3,607	30.0	(15.0)	
PAT	8,592	12,944	10,007	16.5	(22.7)	
Bank of India						
Net interest income	17,360	23,073	20,481	18.0	(11.2)	We expect NII growth at 18% yoy with NIMs declining over 30 bps qoq. Impact on margins to be higher on the back of one-off interest income received in 4Q
Operating profit	13,062	10,865	14,154	8.4	30.3	
Treasury income (net)	999	1,188	600	(39.9)	(49.5)	Loan book to be marginally above industry average. Higher provisions to continue on the back of revised guidelines and for investment book resulting in flat PAT yoy
Loan loss provision	3,080	3,367	3,388	10.0	0.6	
PAT	7,207	4,936	7,060	(2.0)	43.0	
Canara Bank						
Net interest income	17,278	19,729	19,147	10.8	(3.0)	NII growth to come off sharply to 11% yoy as we expect margins to decline by over 20 bps qoq. Loan growth to remain above industry average
Operating profit	12,234	16,949	14,261	16.6	(15.9)	
Treasury income (net)	1,710	(50)	(300)	(117.5)	500.0	Net profits will be subdued as the bank needs to make provisions for revised NPL provisioning norms
Loan provision	1,310	5,410	3,787	189.1	(30.0)	
PAT	10,134	8,989	8,149	(19.6)	(9.3)	
Corporation Bank						
Net interest income	6,976	7,618	7,502	7.5	(1.5)	NII growth to decline sharply to about 8% yoy; lower than balance sheet growth. NIMs to decline by over 20 bps qoq as the bank has a weaker CASA franchise. Subdued loan growth qoq
Operating profit	6,066	6,371	5,737	(5.4)	(10.0)	
Treasury income (net)	59	273	(350)	(695.2)	(228.0)	Small ticket loans are yet to be fully transitioned to system based NPLs. Overall provisions to remain lower than 4Q
Loan provision	1,187	1,873	1,306	10.0	(30.3)	
PAT	3,338	3,453	2,983	(10.6)	(13.6)	
Federal Bank						
Net interest income	4,133	4,476	4,466	8.0	(0.2)	Margins to decline by about 25 bps qoq. Muted qoq performance on loan growth but to be ahead of industry average yoy on the back of strong growth in 4Q
PBT	3,171	3,658	3,312	4.4	(9.4)	
Treasury income (net)	206	20	75	(63.6)	275.0	Expect further improvement in slippage trends (overall slippage ratio to remain above normalised levels)
Loan provision	1,358	970	1,067	(21.4)	10.0	
PAT	1,319	1,717	1,510	14.5	(12.0)	
HDFC						
Net operational income	10,767	16,442	12,912	19.9	(21.5)	We expect HDFC to deliver about 20% loan growth
PBT	9,658	15,540	11,612	20.2	(25.3)	
PAT	6,938	11,420	8,477	22.2	(25.8)	Reported spreads will likely remain above 2% - increase in PLR by 1.5% in last one year will somewhat offset the impact of higher borrowings costs

Source: Company, Kotak Institutional Equities estimates

Quarterly result expectations of companies under coverage

	Jun-10	Mar-11	Jun-11E	Change (%)		Comments
				yoy	qoq	
HDFC Bank						
Net interest income	24,011	28,395	28,989	20.7	2.1	A strong CASA base will cushion NIMs over a medium term. Expect stable margins at 4% levels and NII growth at 20% yoy
PBT	15,372	19,870	18,783	22.2	(5.5)	
Treasury income (net)	215	86	275	27.9	219.8	
Loan provision	3,650	3,301	3,395	(7.0)	2.8	Loan growth to be subdued yoy on account of higher base effect (3G related disbursements in FY2011). Earnings growth to remain healthy at near 30% yoy
PAT	8,117	11,147	10,568	30.2	(5.2)	
ICICI Bank						
Net interest income	19,911	25,097	24,806	24.6	(1.2)	Expect margins to decline by about 15 bps qoq on the back of revised deposit rates and higher share of low yielding PSL. Loan growth inline with industry trends
Operating profit	20,841	25,009	23,272	11.7	(6.9)	
Treasury income (net)	1,040	(1,960)	100	(90.4)	(105.1)	
Loan provision	7,978	3,836	4,220	(47.1)	10.0	Loan loss provisioning to remain marginally higher qoq.PAT growth to remain healthy at 38% yoy
PAT	10,260	14,521	14,173	38.1	(2.4)	
IDFC						
Net operational income	6,120	6,231	6,312	3.1	1.3	Loan book likely to grow marginally qoq; yoy growth of 31%
Operating profit	4,443	4,117	4,654	4.7	13.0	
PAT	3,346	2,865	3,444	2.9	20.2	Margins moderate qoq, capital gains is a key sensitivity to PAT
Indian Bank						
Net interest income	9,266	11,110	10,698	15.5	(3.7)	Loan book to grow below industry average. NII to grow by 15% yoy
Operating profit	8,539	9,703	7,619	(10.8)	(21.5)	
Treasury income (net)	500	(96)	(150)	(130.0)	56.3	
Loan provision	4,100	1,845	1,661	(59.5)	(10.0)	Margins to decline by about 20 bps qoq.PAT to remain flat yoy on the back of higher provisions for NPL and investment book
PAT	3,681	4,389	3,779	2.7	(13.9)	
India Infoline						
Net sales	3,059	3,683	3,467	13.3	(5.9)	Decline in cash market volumes (down 22% yoy) will affect broking income
PBT	653	651	459	(29.8)	(29.5)	Income from insurance distribution business is challenging to model and can be a major sensitivity
PAT	432	467	297	(31.2)	(36.3)	
Indian Overseas Bank						
Net interest income	9,063	12,153	12,260	35.3	0.9	NII growth trends should remain strong at 35% yoy. NIMs likely to be decline by 25 bps to 3%. Loan growth expected to higher than industry
Operating profit	4,179	8,899	7,989	91.2	(10.2)	
Treasury income (net)	410	(120)	(60)	(114.6)	(50.0)	
Loan provision	1,540	3,470	3,297	114.1	(5.0)	Net profit growth to remain above 50% levels on the back of lower base
PAT	2,004	4,343	3,120	55.7	(28.2)	
IndusInd Bank						
Net interest income	2,957	3,881	3,808	28.8	(1.9)	Expect loan growth to remain at about 25% levels. Margins to decline qoq on the back of higher deposit costs. Fee income traction to remain strong
Operating profit	2,019	2,720	2,646	31.0	(2.7)	
Loan provision	400	339	339	(15.3)	-	
PAT	1,186	1,718	1,651	39.2	(3.9)	PAT growth to slowdown to 40% yoy on account of lower revenue growth. Cost-income to remain at 49% levels. Asset quality trends to remain stable
J&K Bank						
Net interest income	3,668	4,157	3,965	8.1	(4.6)	Expect margins to decline by about 25 bps due to higher deposits costs. Loan growth below industry average as state loans taken off its books in 4Q
Operating profit	2,555	2,522	2,628	2.8	4.2	
Treasury income (net)	77	29	75	(3.1)	156.8	
Loan provision	440	348	300	(31.8)	(13.7)	Asset quality trends should remain stable resulting in lower provisions
PAT	1,464	1,386	1,582	8.1	14.2	
LIC Housing Finance						
Net interest income	3,243	4,585	3,846	18.6	(16.1)	Loan growth strong at 35% yoy, sharp qoq decline in NIM (seasonal trend) will temper earnings
Operating profit	2,893	4,295	3,381	16.9	(21.3)	
PAT	2,120	3,148	2,478	16.9	(21.3)	Asset quality trends will drive provisioning and remains the biggest sensitivity to our earnings

Source: Company, Kotak Institutional Equities estimates

Quarterly result expectations of companies under coverage

	Jun-10	Mar-11	Jun-11E	Change (%)		Comments
				yoy	qoq	
Mahindra & Mahindra Financial						
Net interest income	2,502	3,806	3,484	39.2	(8.5)	Business traction strong, we expect yoy loan growth of about 45%
PBT	1,111	2,440	1,504	35.4	(38.4)	
PAT	744	1,566	1,008	35.4	(35.6)	
Oriental Bank of Commerce						
Net interest income	10,572	10,134	9,908	(6.3)	(2.2)	NII to decline yoy on the back of higher cost of deposits. Expect loan growth to remain lower than industry average at 15% yoy
Operating profit	7,389	7,273	7,150	(3.2)	(1.7)	
Treasury income (net)	(9)	(518)	(200)	2,073.9	(61.4)	Expect provisions to remain high as the bank completes transition to system based NPLs and higher investment provision
Loan loss provision	1,436	3,930	2,700	88.0	(31.3)	
PAT	3,633	3,337	3,018	(16.9)	(9.5)	
PFC						
Net interest income	9,230	8,328	9,831	6.5	18.1	Loan growth will likely be moderate at 20%, margins will likely be under pressure (down 30 bps qoq)
Operating profit	8,585	8,194	9,511	10.8	16.1	
PAT	6,516	6,067	6,943	6.5	14.4	Fee / Exchange income has been very volatile and is the key sensitivity to our estimates
Punjab National Bank						
Net interest income	26,186	30,290	30,006	14.6	(0.9)	Net profit growth to remain flat yoy on the back of margin pressure (20 bps qoq decline) and higher provisions. Loan growth to be high at about 25% levels
Operating profit	19,890	23,236	21,637	8.8	(6.9)	
Treasury income (net)	1,070	1,260	550	(48.6)	(56.3)	Slippages will remain the key monitorable especially from the transition to system based recognition platform. Expect higher investment provisions
Loan loss provision	5,320	6,700	6,500	22.2	(3.0)	
PAT	10,683	12,009	10,717	0.3	(10.8)	
Rural Electrification Corp.						
Net interest income	7,984	9,718	9,800	22.8	0.8	Loan growth to moderate at 20%
Operating profit	7,933	9,459	9,140	15.2	(3.4)	
PAT	5,874	7,002	6,672	13.6	(4.7)	Margins down 20-30bps qoq; provisions remain key sensitivity to our earnings, on the downside
Shriram Transport						
Net interest income	7,014	8,118	8,200	16.9	1.0	Loan growth will likely be subdued (5% qoq) in 1QFY12
Operating profit	4,318	5,119	5,175	19.8	1.1	
PAT	2,862	3,407	3,467	21.1	1.8	We model 40 bps qoq NIM decline
State Bank of India						
Net interest income	73,037	80,581	84,181	15.3	4.5	We expect NIMs to remain flat qoq as the previous quarter had one-off impact and the bank has raised its lending rates in the current quarter. Loan growth to be below industry average at about 20% levels
Operating profit	58,447	51,559	59,566	1.9	15.5	
Treasury income (net)	4,717	307	(800)	(117.0)	(360.3)	Slippages will remain above normalised levels. Provisions also likely to be higher as it needs to catch up with provision coverage
Loan provision	17,334	32,639	31,007	78.9	(5.0)	
PAT	29,142	209	18,321	(37.1)	8,674.4	
Union Bank						
Net interest income	13,480	17,165	16,741	24.2	(2.5)	NII growth at 24% yoy inline with loan growth. NIMs to decline qoq on the back of rising deposit rates
Operating profit	9,184	6,823	10,278	11.9	50.6	
Treasury income (net)	90	1,510	100	11.1	(93.4)	Slippages to remain high as we expect full transition to system based NPLs in the current quarter. Loan loss provisions and investment depreciation to remain high for the quarter
Loan provision	810	1,170	3,200	295.1	173.5	
PAT	6,014	5,976	5,097	(15.3)	(14.7)	
Yes Bank						
Net interest income	2,621	3,485	3,544	35.2	1.7	Loan growth trajectory to move downwards as we expect the bank to be cautious in the current environment
Operating profit	2,381	3,287	3,165	33.0	(3.7)	
Treasury income (net)	109	201	131	20.0	(34.9)	Fee income trends to remain healthy. PAT growth at 23% yoy driven mainly by balance sheet expansion witnessed over last few quarters
Loan provision	13	173	300	2,207.7	73.8	
PAT	1,564	2,034	1,928	23.3	(5.2)	

Source: Company, Kotak Institutional Equities estimates

JULY 4, 2011

UPDATE

BSE-30: 18,763

1QFY12E preview. We expect a steady quarter for the listed Indian wireless names with 5-8% qoq volume growth and 1-1.5% sequential RPM decline translating into 4-7% qoq wireless revenue growth. Expect wireless EBITDA margins to remain in a narrow band with an upward bias. Incremental expensing of 3G-related interest and amortization expenses are likely to put pressure at the PBT/PAT level. We remain cautious on the sector – valuations continue to run ahead of fundamentals.

Jun 2011 quarter – expect a steady quarter

Exhibits 1, 2 and 3 give our Jun 2011 quarter earnings estimates for Bharti, RCOM and Idea, respectively. We expect robust sequential growth in volumes for all the three with Idea again leading the way with 8% qoq minutes growth. RPM would continue to be under pressure as competition remains stiff in the high-end segment of the market and selective circle-level tariff interventions continue. We would watch for indicators/commentary on revenue/margin traction from 3G rollouts.

Bharti – expect robust revenue growth and expansion in margins

We estimate a 5% and 7.8% qoq growth in consolidated revenues and EBITDA to Rs170.9 bn and Rs58.8 bn, respectively. We expect robust growth across segments, with the India wireless, Africa and the passive infra segments likely to contribute to majority of the growth. For the India wireless business, we estimate volumes growth of 7% qoq and RPM decline of 1% qoq to translate into qoq revenue growth of 6%, and build in a 70 bps qoq margin expansion. For Africa wireless, we estimate a volume-led 5% qoq revenue growth in Re terms and 100 bps improvement in OPM. Our net income forecast of Rs15.8 bn (+12.9 % qoq) builds in zero forex gains/losses versus a loss of Rs0.5 bn in the previous quarter. See Exhibit 1 for our estimates for other segments.

RCOM – watch out for the ‘new normal’ in the global segment post the recent accounting change

We expect consolidated revenues and EBITDA to decline 31.1% and 59.2% qoq to Rs54.3 bn and Rs16.8 bn, respectively; 4QFY11 revenues and EBITDA were inflated on account of an accounting policy change in the company’s global business segment. For the wireless segment, we estimate a 3.7% qoq growth in revenues driven by 5.2% growth in volumes and 1.4% decline in RPM. We continue to monitor the non-wireless segments’ performance keenly, which have been disappointing for the past few quarters. Our net income forecast of Rs3 bn (+78.7 qoq) builds in a sharp decline in ETR (to 5% from 50% in 4QFY11).

Idea – industry-leading growth likely to continue

We estimate consolidated revenues to come in at Rs44.9 bn (+6.1% qoq) and EBITDA to decline 0.5% qoq to Rs10.7 bn (6% growth adjusted for one-off expenses in 4QFY11). Expect strong 8% wireless minutes growth and 1.2% RPM decline qoq. Expect flat OPM qoq for the wireless segment on an adjusted basis. Our PAT estimate of Rs1.5 bn implies a 45.5% qoq decline on account of increased 3G-related interest and amortization charges.

Remain Cautious on the sector; valuations running ahead of fundamentals

Fundamentals for the sector are improving at the margin. However, we still remain Cautious on the sector for two reasons – (1) valuations (at 8-8.5X FY2012E EV/EBITDA for Bharti and Idea) are rich and (2) it is too early to call it an end of high competition in the industry and start building in an RPM increase in forecasts. We reiterate SELL on Bharti/RCOM and REDUCE on Idea.

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Exhibit 1: Bharti 1QFY12E preview, IFRS, March fiscal year-ends (Rs mn)

	1QFY11	4QFY11	1QFY12E	Change	
				qoq	yoy
Consolidated results					
Revenues	122,308	162,654	170,853	5.0	39.7
Operating costs	(78,168)	(108,158)	(112,080)		
EBITDA	44,140	54,496	58,773	7.8	33.2
EBITDA margin (%)	36.1	33.5	34.4		
Depreciation and Amortization	(19,467)	(29,756)	(31,843)		
EBIT	24,673	24,740	26,930	8.9	9.1
EBIT margin (%)	20.2	15.2	15.8		
Net finance (cost)/income	(4,197)	(6,611)	(6,732)		
Other non-financial income/(expense)	315	173	375		
PBT	20,791	18,302	20,573	12.4	(1.0)
Tax provision	(3,750)	(4,996)	(5,349)		
PAT before minority interest	17,041	13,306	15,224		
Minority interest	(153)	701	583		
Equity in earnings of affiliates	(72)	-	-		
Reported net income	16,816	14,007	15,807	12.9	(6.0)
Reported EPS	4.4	3.7	4.2		
Segmental performance					
Wireless - India and SA					
Revenues	88,237	94,948	100,653	6.0	14.1
EBITDA	31,710	31,620	34,222	8.2	7.9
OPM (%)	35.9	33.3	34.0		
ARPU (Rs/sub/month)	215	194	194	0.3	(9.9)
MOU (min/sub/month)	480	449	455	1.3	(5.4)
RPM (Rs/min)	0.448	0.431	0.427	(1.0)	(4.7)
EPM (Rs/min)	0.167	0.149	0.151	1.1	(9.3)
Total minutes (bn)	190.4	211.8	226.6	7.0	19.0
Bharti Africa					
Revenues (b)	37,915	41,815	43,906	5.0	15.8
EBITDA	10,425	10,998	11,986	9.0	15.0
EBITDA margin (%)	27.5	26.3	27.3		
Telemedia services					
Revenues	8,960	9,178	9,325	1.6	4.1
EBITDA	3,938	4,147	4,196	1.2	6.6
OPM (%)	44.0	45.2	45.0		
Long distance + Enterprise					
Revenues	10,186	10,179	10,433	2.5	2.4
EBITDA	2,497	2,619	2,608	(0.4)	4.5
OPM (%)	24.5	25.7	25.0		
Passive infra business					
Revenues	20,412	22,010	23,000	4.5	12.7
EBITDA	7,240	8,153	8,855	8.6	22.3
OPM (%)	35.5	37.0	38.5		
Others					
Revenues	1,949	3,315	3,580	8.0	83.7
EBITDA	(2,359)	(1,510)	(1,504)	(0.4)	(36.3)
OPM (%)	(121.0)	(45.6)	(42.0)		

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: RCOM 1QFY12E preview, Indian GAAP, March fiscal year-ends (Rs mn)

(Rs mn)	1QFY11	4QFY11	1QFY12E	Change	
				qoq (%)	yoy (%)
Consolidated results					
Revenues	51,092	78,760	54,299	(31.1)	6.3
Operating costs	(34,772)	(37,540)	(37,472)	(0.2)	7.8
EBITDA	16,320	41,220	16,827	(59.2)	3.1
EBITDA margin (%)	31.9	52.3	31.0		
Depreciation and Amortization	(9,648)	(35,500)	(11,093)	(68.8)	15.0
EBIT	6,672	5,720	5,734	0.2	(14.1)
EBIT margin (%)	13.1	7.3	10.6		
Net finance (cost)/income	(4,396)	(2,234)	(2,300)	3.0	(47.7)
PBT	2,276	3,486	3,434	(1.5)	50.9
Tax provision	719	(1,711)	(172)	(90.0)	(123.9)
PAT before minority interest	2,995	1,775	3,262	83.8	8.9
Minority interest	(486)	(212)	(250)	17.9	(48.6)
Extraordnaries	-	123	-		
Reported net income	2,509	1,686	3,012	78.7	20.1
Segmental performance					
Wireless					
Revenues	41,528	41,978	43,550	3.7	4.9
EBITDA	11,989	11,490	11,671	1.6	(2.6)
OPM (%)	28.9	27.4	26.8		
ARPU (Rs/sub/month)	130	107	104	(3.1)	(20.2)
MOU (min/sub/month)	295	241	237	(1.7)	(19.8)
RPM (Rs/min)	0.44	0.44	0.44	(1.4)	(0.5)
EPM (Rs/min)	0.13	0.12	0.12	(3.4)	(7.4)
Total minutes (bn)	94.4	94.4	99.3	5.2	5.2
Long distance segment					
Revenues	18,137	44,758	18,495	(58.7)	2.0
EBITDA	3,317	29,122	4,069	(86.0)	22.7
OPM (%)	18.3	65.1	22.0		
Broadband segment					
Revenues	6,763	6,906	7,113	3.0	5.2
EBITDA	2,477	2,261	2,418	7.0	(2.4)
OPM (%)	36.6	32.7	34.0		
Others					
Revenues	3,348	3,643	4,140	13.6	23.7
EBITDA	(1,350)	(949)	(828)	(12.8)	(38.7)
OPM (%)	(40.3)	(26.0)	(20.0)		

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Idea 1QFY12E quarterly preview, Indian GAAP, March fiscal year-ends (Rs mn)

	1QFY11	4QFY11	1QFY12E	qoq (%)	yoy (%)
Consolidated					
Revenues	36,537	42,348	44,938	6.1	23.0
Standalone	36,897	42,692	45,479	6.5	23.3
Spice	-	-	-		
Indus	2,554	2,943	3,037	3.2	18.9
Eliminations	(2,914)	(3,287)	(3,578)	8.9	22.8
Costs	(27,653)	(31,595)	(34,243)	8.4	23.8
EBITDA	8,884	10,753	10,695	(0.5)	20.4
EBITDA margin (%)	24.3	25.4	23.8		
Depreciation and Amortization	(5,656)	(6,572)	(7,134)		
EBIT	3,228	4,181	3,561	(14.8)	10.3
Net interest income/expense)		(854)	(1,840)		
PBT		3,327	1,721		
Taxes		(581)	(224)		
PAT	2,014	2,746	1,497	(45.5)	(25.6)
Extraordinaries	-	-	-		
Reported net income	2,014	2,746	1,497		
Wireless metrics					
Wireless ARPU (Rs/sub/month)	182	161	159	(1.5)	(12.9)
Wireless MOU (min/sub/month)	415	397	396	(0.3)	(4.6)
Wireless RPM (Rs/min)	0.439	0.406	0.401	(1.2)	(8.6)
Wireless EPM (Rs/min)	0.096	0.093	0.084	(9.6)	(12.8)
Total minutes (bn min)	82.3	102.0	110.1	8.0	33.8

(a) Wireless metrics for 4QFY10 are for Idea standalone (ex-Spice) and including Spice for 3QFY11 and 4QFY11.

Source: Company, Kotak Institutional Equities estimates

Exhibit 4: Indian telecom companies valuation analysis, March fiscal year-ends, 2009-2013E

	Price (Rs)	Target price	P/E (X)					EV/EBITDA (X)				
	1-Jul-11	(Rs)	2009	2010	2011	2012E	2013E	2009	2010	2011	2012E	2013E
Bharti	383	345	17.2	16.2	24.1	19.4	15.7	10.1	9.1	10.3	7.9	6.5
Idea	79	65	27.2	28.8	29.1	48.7	25.4	10.5	9.5	9.7	8.5	6.8
MTNL	44	35	18.3	(2.8)	(4.2)	(4.8)	(5.2)	(12.0)	1.0	(0.2)	(1.7)	(3.1)
RCOM	97	95	3.3	4.8	14.9	13.3	9.7	6.8	6.9	5.8	6.2	5.2
TCOM	204	205	15.0	14.6	13.5	13.0	12.8	7.7	6.9	6.2	4.8	4.7
	KS rating	Market cap. (US\$ bn)	Revenues (Rs bn)					EBITDA (Rs bn)				
			2009	2010	2011	2012E	2013E	2009	2010	2011	2012E	2013E
Bharti	SELL	32.8	370	418	595	725	827	152	168	200	256	302
Idea	REDUCE	5.9	101	124	155	193	230	28	34	38	46	58
MTNL	SELL	0.6	45	37	38	40	42	2	(9)	(7)	(5)	(4)
RCOM	SELL	4.7	223	215	231	237	269	86	72	91	79	90
TCOM	REDUCE	1.3	38	42	46	49	52	8	9	10	10	11
	Net Income (Rs bn)					EPS (Rs/share)						
	2009	2010	2011	2012E	2013E	2009	2010	2011	2012E	2013E		
Bharti	84	90	60	75	93	22.3	23.6	15.9	19.7	24.5		
Idea	9	9	9	5	10	2.90	2.73	2.71	1.62	3.10		
MTNL	1	(10)	(7)	(6)	(5)	2.4	(15.6)	(10.4)	(9.1)	(8.4)		
RCOM	61	42	13	15	21	29.5	20.4	6.5	7.3	10.0		
TCOM	4	4	4	4	5	13.6	14.0	15.2	15.7	15.9		

Source: Companies, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

	4-Jul-11		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	shares (mn)	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	price (Rs)	(%)	(US\$ mn)
Automobiles																													
Ashok Leyland	50	SELL	66,249	1,494	1,330	4.7	4.2	4.7	68.2	(10.8)	11.7	10.5	11.8	10.5	7.4	8.0	7.2	1.5	1.4	1.2	2.0	2.0	2.0	21.3	16.4	16.3	52	4.4	6.4
Bajaj Auto	1,424	ADD	412,236	9,298	289	90.6	99.8	109.8	44.2	10.2	10.0	15.7	14.3	13.0	14.7	13.3	12.1	8.3	6.4	5.1	2.8	2.8	2.8	85.0	50.8	43.1	1,550	8.8	14.4
Bharat Forge	311	ADD	73,765	1,664	237	11.9	18.3	23.0	1,324.3	54.0	25.6	26.1	17.0	13.5	11.6	8.6	7.1	3.3	2.8	2.3	1.1	—	—	7.8	14.6	16.7	355	14.2	2.3
Exide Industries	162	ADD	137,615	3,104	850	7.3	8.8	10.8	15.4	20.1	23.4	22.2	18.5	15.0	15.6	13.0	10.8	5.0	4.1	3.3	0.8	0.8	0.8	25.0	24.4	24.5	175	8.1	5.5
Hero Honda	1,898	REDUCE	379,100	8,551	200	99.3	108.5	127.6	(11.1)	9.2	17.5	19.1	17.5	14.9	12.5	9.3	7.8	8.1	8.4	8.0	5.5	3.7	3.7	56.5	62.5	60.8	1,722	(9.3)	23.1
Mahindra & Mahindra	703	ADD	431,765	9,739	614	41.7	43.9	48.9	22.7	5.2	11.4	16.9	16.0	14.4	13.0	11.9	10.5	4.1	3.4	2.9	1.6	1.6	1.6	27.3	23.2	22.0	770	9.5	26.9
Maruti Suzuki	1,158	BUY	334,488	7,545	289	79.2	84.5	103.2	(8.4)	6.7	22.2	14.6	13.7	11.2	9.2	8.4	6.2	2.4	2.1	1.8	0.5	0.5	0.6	17.6	16.1	16.9	1,515	30.9	11.5
Tata Motors	1,012	REDUCE	672,747	15,174	665	136.0	123.6	134.4	737.9	(9.1)	8.8	7.4	8.2	7.5	5.3	5.7	5.2	3.5	2.5	2.0	1.9	1.4	1.4	66.1	36.2	29.6	1,060	4.8	61.3
Automobiles		Cautious	2,507,965	56,569					88.2	0.6	12.8	12.5	12.4	11.0	8.5	8.2	7.1	4.0	3.2	2.7	2.3	1.9	1.9	31.7	26.1	24.3			
Banks/Financial Institutions																													
Andhra Bank	135	BUY	75,320	1,699	560	22.6	23.7	27.9	5.0	4.7	17.6	5.9	5.7	4.8	—	—	—	1.2	1.0	0.9	4.1	4.3	5.0	23.2	19.0	19.5	190	41.2	2.3
Axis Bank	1,334	BUY	547,750	12,355	411	82.5	99.2	121.1	33.0	20.2	22.1	16.2	13.5	11.0	—	—	—	2.9	2.5	2.1	1.0	1.3	1.5	19.3	19.7	20.5	1,700	27.4	49.1
Bank of Baroda	884	BUY	347,160	7,830	393	108.0	116.4	139.6	29.1	7.8	19.9	8.2	7.6	6.3	—	—	—	1.8	1.5	1.2	1.9	2.0	2.4	25.3	21.1	21.3	1,250	41.4	8.0
Bank of India	416	ADD	227,424	5,130	547	45.5	59.9	69.6	37.4	31.6	16.2	9.1	6.9	6.0	—	—	—	1.4	1.2	1.1	2.0	2.6	3.0	17.3	19.0	19.0	500	20.3	11.2
Canara Bank	540	ADD	239,198	5,395	443	90.9	87.1	108.6	23.3	(4.2)	24.7	5.9	6.2	5.0	—	—	—	1.3	1.1	0.9	2.0	2.2	2.2	23.2	17.8	19.0	600	11.1	12.2
Corporation Bank	524	ADD	77,665	1,752	148	95.4	88.3	104.1	16.3	(7.5)	18.0	5.5	5.9	5.0	—	—	—	1.1	1.0	0.8	3.8	3.5	4.2	21.9	17.1	17.7	630	20.2	0.9
Federal Bank	457	ADD	78,084	1,761	171	34.3	44.9	57.0	26.3	31.0	26.7	13.3	10.2	8.0	—	—	—	1.6	1.4	1.3	1.9	2.4	3.1	12.0	14.3	16.2	500	9.5	5.7
HDFC	701	REDUCE	1,027,930	23,186	1,467	24.1	27.9	31.8	22.4	15.9	14.1	29.1	25.1	22.0	—	—	—	5.9	5.2	4.0	1.3	1.5	1.8	21.7	22.2	21.4	725	3.5	43.9
HDFC Bank	2,532	ADD	1,178,045	26,571	465	84.4	110.2	140.4	31.0	30.6	27.3	30.0	23.0	18.0	—	—	—	4.6	4.0	3.4	0.7	0.9	1.1	16.7	18.7	20.5	2,800	10.6	43.1
ICICI Bank	1,100	ADD	1,266,714	28,571	1,152	44.7	57.5	68.3	23.9	28.6	18.8	24.6	19.1	16.1	—	—	—	2.3	2.1	2.0	1.3	1.6	1.9	9.7	11.6	12.7	1,270	15.5	91.5
IDFC	138	ADD	207,764	4,686	1,506	8.8	10.1	12.2	4.8	15.1	21.0	15.7	13.6	11.3	—	—	—	2.0	1.7	1.5	1.1	1.4	1.7	14.7	13.3	14.0	160	16.0	24.1
India Infoline	87	ADD	28,506	643	327	7.4	6.8	8.4	(9.3)	(8.3)	24.4	11.8	12.9	10.4	—	—	—	1.7	1.4	1.3	3.2	1.7	2.1	12.9	12.0	13.0	100	14.7	2.0
Indian Bank	219	BUY	93,926	2,119	430	38.8	43.9	53.8	10.5	13.1	22.6	5.6	5.0	4.1	—	—	—	1.2	1.0	0.8	3.4	3.6	4.4	22.3	21.2	21.9	300	37.3	2.2
Indian Overseas Bank	145	BUY	89,533	2,019	619	17.3	23.5	30.7	33.6	35.4	30.9	8.3	6.2	4.7	—	—	—	1.1	0.9	0.8	3.5	2.9	3.2	12.7	14.6	16.8	190	31.3	2.8
IndusInd Bank	282	BUY	131,445	2,965	466	12.4	14.8	17.8	45.3	19.5	20.2	22.8	19.1	15.9	—	—	—	3.6	3.1	2.7	0.7	0.8	1.0	20.0	16.8	17.6	315	11.6	4.0
J&K Bank	835	ADD	40,489	913	48	126.9	136.9	152.9	20.1	7.9	11.7	6.6	6.1	5.5	—	—	—	1.2	1.0	0.9	3.1	3.4	3.8	19.0	17.8	17.4	900	7.8	0.6
LIC Housing Finance	242	ADD	114,772	2,589	475	20.5	22.4	27.6	47.2	9.0	23.3	11.8	10.8	8.8	—	—	—	2.8	2.3	1.9	1.8	2.0	2.5	25.8	23.3	24.0	270	11.7	30.0
Mahindra & Mahindra Financial	664	BUY	67,997	1,534	102	45.2	56.5	67.1	26.0	25.0	18.8	14.7	11.7	9.9	—	—	—	2.8	2.4	2.1	1.5	1.9	2.2	22.0	21.4	21.6	825	24.3	2.7
Muthoot Finance	166	BUY	61,599	1,389	371	15.7	19.0	24.5	108.4	20.5	29.0	10.5	8.7	6.8	—	—	—	4.6	2.1	1.6	—	—	—	51.5	33.0	26.8	220	35.7	—
Oriental Bank of Commerce	343	BUY	100,191	2,260	292	51.5	56.8	65.8	13.7	10.3	15.8	6.7	6.0	5.2	—	—	—	1.0	0.9	0.8	3.0	3.3	3.8	15.5	14.2	14.8	430	25.2	5.2
PFC	194	REDUCE	256,133	5,777	1,320	22.8	24.7	30.1	11.0	8.2	22.0	8.5	7.9	6.5	—	—	—	1.7	1.3	1.1	2.0	2.5	3.1	18.3	17.9	17.6	250	28.8	17.2
Punjab National Bank	1,126	BUY	356,728	8,046	317	139.9	166.4	201.5	13.0	18.9	21.1	8.0	6.8	5.6	—	—	—	1.7	1.5	1.2	2.5	3.0	3.7	24.0	23.5	23.7	1,500	33.2	6.6
Reliance Capital	592	REDUCE	145,825	3,289	246	9.3	16.5	24.6	(25.3)	77.0	49.6	63.7	36.0	24.0	—	—	—	2.1	2.0	1.9	0.6	1.1	1.7	3.3	5.7	8.2	600	1.3	19.6
Rural Electrification Corp.	201	ADD	198,910	4,487	987	26.0	29.3	32.8	28.1	12.7	12.2	7.8	6.9	6.1	—	—	—	1.6	1.4	1.2	3.7	4.9	5.5	21.5	21.2	20.9	250	24.1	13.4
Shriram Transport	668	REDUCE	149,113	3,363	223	55.1	65.5	77.2	40.8	18.8	17.9	12.1	10.2	8.7	—	—	—	3.1	2.6	2.2	1.6	2.0	2.3	28.1	26.7	25.8	700	4.8	15.9
SKS Microfinance	337	REDUCE	24,793	559	74	15.7	(39.1)	3.9	(41.8)	(349.4)	(109.9)	21.4	(8.6)	86.8	—	—	—	1.4	1.6	1.6	—	—	—	8.3	(17.4)	1.9	350	4.0	6.2
State Bank of India	2,436	BUY	1,546,921	34,892	635	130.2	213.1	266.4	(9.9)	63.7	25.0	18.7	11.4	9.1	—	—	—	2.4	2.0	1.7	1.4	1.5	1.6	12.6	19.2	20.4	2,900	19.0	142.5
Union Bank	298	BUY	156,303	3,526	524	39.5	50.9	61.9	(3.9)	29.1	21.5	7.6	5.9	4.8	—	—	—	1.4	1.2	1.0	3.1	4.0	4.9	20.9	22.3	22.9	425	42.6	4.6
Yes Bank	319	BUY	110,688	2,497	347	21.5	25.9	32.7	43.2	20.7	26.3	14.8	12.3	9.7	—	—	—	2.9	2.4	2.0	0.8	0.9	1.2	21.7	21.5	22.5	420	31.7	18.9
Banks/Financial Institutions																													
		Attractive	8,946,926	201,803					20.1	23.5	22.2	14.6	11.8	9.7	—	—	—	2.3	2.0	1.7	1.5	1.8	2.1	15.9	17.0	17.8			
Cement																													
ACC	954	REDUCE	179,181	4,042	188	55.6	63.8	79.1	(33.2)	14.8	24.1	17.2	14.9	12.1	10.4	8.3	6.3	2.6	2.4	2.1	3.7	2.5	2.5	17.5	18.2	19.4	1,050	10.1	6.1
Ambuja Cements	129	SELL	196,691	4,436	1,522	7.9	8.4	10.9	(1.5)	6.6	29.2	16.4	15.4	11.9	9.9	8.4	6.2	2.5	2.3	2.0	1.6	1.7	1.9	16.6	15.8	18.3	145	12.2	9.5
Grasim Industries	2,146	BUY	196,779	4,438	92	233.3	277.7	319.7	(22.5)	19.0	15.1	9.2	7.7	6.7	5.9	4.5	3.6	1.4	1.2	1.0	1.6	1.6	1.6	15.8	16.3	16.3	3,100	44.5	4.3
India Cements	72	REDUCE	22,209	501	307	2.2	8.3	10.8	(77.6)	270.2	29.5	32.2	8.7	6.7	10.8	5.7	3.9	0.5	0.5	0.5	4.4	4.4	4.4	1.8	6.4	8.0	9.2	27.2	

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	4-Jul-11		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target Price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)	
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E				
Consumer products																														
Asian Paints	3,297	REDUCE	316,214	7,132	96	80.8	94.6	111.4	13.0	17.1	17.7	40.8	34.8	29.6	27.3	22.2	18.2	15.4	11.9	9.6	1.0	0.8	1.1	43.9	40.0	36.8	2,900	(12.0)	10.0	
Colgate-Palmolive (India)	1,026	SELL	139,569	3,148	136	29.6	34.3	39.2	(4.9)	16.0	14.1	34.7	29.9	26.2	30.1	26.0	21.8	36.3	31.7	26.0	2.1	2.5	2.7	113.4	113.2	108.9	900	(12.3)	2.2	
Dabur India	117	ADD	202,031	4,557	1,731	3.3	3.7	4.3	13.4	11.8	16.5	35.5	31.8	27.3	27.9	22.9	19.8	15.6	12.0	9.5	1.0	1.1	1.3	51.5	43.3	39.5	110	(5.7)	6.0	
GlaxoSmithkline Consumer (a)	2,490	ADD	104,716	2,362	42	71.3	85.4	101.5	28.8	19.8	18.9	34.9	29.2	24.5	25.2	21.4	17.8	11.2	9.1	7.4	2.0	1.1	1.3	32.2	33.5	32.5	2,700	8.4	0.7	
Godrej Consumer Products	432	BUY	139,662	3,150	324	14.6	18.1	22.4	29.1	23.7	23.6	29.5	23.8	19.3	23.7	17.8	14.2	7.8	7.1	6.2	1.0	0.7	0.7	34.6	31.3	34.4	510	18.2	2.4	
Hindustan Unilever	336	ADD	726,542	16,388	2,159	9.6	11.3	13.4	2.1	17.7	17.9	35.0	29.7	25.2	28.9	24.8	20.4	27.6	23.6	20.2	2.3	2.8	3.3	80.6	85.8	86.5	340	1.1	15.6	
ITC	199	ADD	1,529,805	34,506	7,697	6.5	8.0	9.1	22.1	23.1	13.5	30.7	24.9	21.9	20.8	16.8	14.6	9.7	8.2	7.1	2.2	1.9	2.3	34.3	37.3	36.2	230	15.7	31.6	
Jubilant Foodworks	811	SELL	52,336	1,180	65	11.2	14.7	20.0	98.7	31.7	35.9	72.7	55.2	40.6	43.7	29.7	22.3	27.3	18.3	12.6	—	—	—	46.5	39.7	36.7	550	(32.2)	32.6	
Jyothy Laboratories	214	ADD	17,239	389	81	10.5	11.7	13.3	(5.0)	11.4	14.2	20.4	18.3	16.0	18.0	13.6	11.1	2.6	2.3	2.2	2.7	2.2	2.7	12.3	13.3	14.0	240	12.3	1.0	
Marico	155	ADD	94,944	2,142	612	4.2	5.5	6.5	10.9	29.4	18.6	36.8	28.4	24.0	24.5	19.5	16.4	10.1	7.9	6.3	0.5	0.6	0.7	32.8	31.8	29.5	160	3.1	0.9	
Nestle India (a)	4,436	REDUCE	427,681	9,647	96	86.8	104.6	123.9	16.7	20.5	18.4	51.1	42.4	35.8	34.0	27.6	22.9	50.0	36.0	27.1	1.1	1.4	1.6	116.5	98.7	86.3	3,500	(21.1)	2.9	
Tata Global Beverages	104	ADD	64,530	1,456	618	4.0	6.0	6.8	(34.6)	52.6	13.0	26.4	17.3	15.3	10.3	8.8	7.7	1.3	1.2	1.2	1.9	2.9	3.3	6.5	9.6	10.4	110	5.4	3.0	
Titan Industries	218	REDUCE	193,449	4,363	888	5.3	6.5	7.7	83.9	24.0	17.5	41.4	33.4	28.4	30.2	23.2	19.2	17.8	13.4	10.6	0.6	1.0	1.4	51.3	45.8	41.6	240	10.1	44.9	
United Spirits	1,017	ADD	127,760	2,882	126	29.5	39.2	50.6	8.3	32.8	29.0	34.4	25.9	20.1	17.1	13.2	11.3	2.9	2.7	2.4	0.3	0.3	0.4	9.1	10.7	12.5	1,300	27.8	7.6	
Consumer products		Cautious	4,136,479	93,301					15.9	21.6	16.5	34.7	28.5	24.5	24.1	19.6	16.6	10.9	9.3	8.0	1.7	1.7	2.0	31.4	32.7	32.7				
Constructions																														
IVRCL	72	BUY	19,291	435	267	5.9	7.9	9.8	(25.2)	33.6	24.5	12.2	9.1	7.3	7.5	6.5	5.9	1.0	0.9	0.8	0.6	0.6	0.6	8.2	10.1	11.3	125	73.0	5.6	
Nagarjuna Construction Co.	85	BUY	21,835	493	257	6.4	7.0	8.9	(10.7)	10.5	25.8	13.4	12.1	9.6	9.3	8.5	7.6	0.9	0.9	0.8	2.4	2.4	2.4	7.1	7.4	8.9	140	64.5	2.3	
Punj Lloyd	77	REDUCE	26,131	589	340	(1.5)	5.2	8.2	(56.6)	(449.2)	57.5	(51.8)	14.8	9.4	9.4	6.9	5.8	0.9	0.8	0.8	(0.1)	0.6	0.9	(1.7)	5.8	8.5	75	(2.5)	12.5	
Sadbhav Engineering	136	BUY	20,415	460	150	8.0	10.0	12.1	55.1	25.4	21.1	17.1	13.6	11.3	10.4	8.6	7.2	3.2	2.6	2.1	0.4	0.4	0.4	18.6	19.2	19.0	190	39.6	0.5	
Construction		Attractive	87,673	1,978					14.1	83.7	32.2	22.5	12.2	9.2	9.0	7.4	6.4	1.1	1.0	0.9	0.8	1.0	1.1	4.9	8.4	10.1				
Energy																														
Aban Offshore	537	BUY	23,347	527	44	116.2	103.6	104.0	9.0	(10.8)	0.3	4.6	5.2	5.2	7.0	6.6	6.6	1.1	1.0	0.8	0.7	0.7	0.8	29.2	19.9	16.5	775	44.4	13.5	
Bharat Petroleum	647	ADD	233,898	5,276	362	45.7	46.0	60.0	(20.7)	0.6	30.5	14.2	14.1	10.8	9.9	8.7	6.8	1.6	1.5	1.3	2.2	2.3	3.0	10.8	10.1	12.2	800	23.7	10.0	
Cairn India	324	REDUCE	615,652	13,886	1,902	33.3	51.2	48.2	501.1	53.8	(6.0)	9.7	6.3	6.7	7.1	4.6	4.3	1.5	1.3	1.2	—	1.5	4.6	16.9	21.9	18.2	280	(13.5)	61.3	
Castrol India (a)	555	SELL	137,166	3,094	247	19.8	20.7	21.3	28.7	4.6	2.7	28.0	26.8	26.0	17.9	17.7	10.0	26.6	24.3	23.0	2.7	2.9	3.1	100.5	95.0	90.9	385	(30.6)	2.0	
GAIL (India)	461	ADD	584,135	13,175	1,268	28.1	39.9	41.5	13.4	42.2	3.9	16.4	11.5	11.1	10.2	8.3	7.7	2.8	2.3	2.0	1.6	2.4	2.5	17.4	21.1	18.5	570	23.8	10.4	
GSPL	93	REDUCE	52,180	1,177	563	9.0	8.1	9.0	23.1	(10.3)	11.9	10.3	11.5	10.3	6.7	6.8	6.3	2.3	1.9	1.7	1.1	1.7	2.9	25.5	18.2	17.4	92	(0.8)	2.9	
Hindustan Petroleum	394	ADD	133,485	3,011	339	45.7	32.5	43.5	(11.4)	(28.8)	33.9	8.6	12.1	9.0	3.4	3.8	3.1	0.8	0.8	0.7	3.6	2.5	3.4	10.1	6.5	8.1	500	27.0	8.7	
Indian Oil Corporation	338	ADD	820,526	18,507	2,428	31.8	31.8	36.9	(35.4)	0.2	16.0	10.6	10.6	9.2	8.3	7.6	5.9	1.4	1.3	1.2	2.8	2.8	3.3	12.9	12.0	12.8	435	28.7	5.4	
Oil India	1,336	BUY	321,283	7,247	240	120.1	187.1	191.4	4.3	55.8	2.3	11.1	7.1	7.0	4.7	3.0	2.5	1.9	1.6	1.4	2.8	4.3	4.4	16.2	21.6	19.2	1,760	31.7	2.4	
Oil & Natural Gas Corporation	277	BUY	2,372,026	53,502	8,556	25.2	39.8	40.0	9.9	57.8	0.4	11.0	7.0	6.9	4.2	3.1	2.7	1.6	1.4	1.2	3.2	4.5	4.7	14.7	20.6	18.0	370	33.5	34.3	
Petronet LNG	139	SELL	104,213	2,351	750	8.1	9.3	9.5	50.5	15.0	1.8	17.1	14.9	14.6	10.1	9.1	9.4	3.4	2.9	2.6	1.4	2.2	2.2	20.9	20.2	17.7	105	(24.4)	5.7	
Reliance Industries	868	REDUCE	2,588,700	58,390	2,981	62.0	68.0	70.9	24.8	9.8	4.2	14.0	12.8	12.2	7.6	6.7	6.1	1.6	1.4	1.3	0.9	1.0	1.2	13.0	12.9	12.0	1,020	17.5	88.4	
Energy		Cautious	7,986,610	180,142					12.6	30.3	3.4	11.8	9.1	8.8	6.4	5.1	4.5	1.6	1.5	1.3	2.0	2.6	3.1	14.0	16.0	14.9				
Industrials																														
ABB	859	SELL	182,114	4,108	212	3.0	21.1	27.3	(82.2)	606.1	29.6	288.0	40.8	31.5	210.2	27.6	20.6	7.5	6.5	5.5	0.2	0.4	0.4	2.6	17.1	19.1	700	(18.5)	1.8	
BGR Energy Systems	474	REDUCE	34,225	772	72	44.8	45.8	46.9	60.0	2.2	2.6	10.6	10.4	10.1	6.8	6.1	5.6	3.6	2.8	2.3	1.9	1.9	2.0	39.0	30.6	25.4	470	(0.9)	7.2	
Bharat Electronics	1,660	ADD	132,784	2,995	80	102.9	120.8	133.9	7.0	17.4	10.8	16.1	13.7	12.4	9.9	7.3	6.2	2.6	2.3	2.0	1.5	1.5	1.5	17.2	17.7	17.2	1,850	11.5	1.1	
Bharat Heavy Electricals	2,047	REDUCE	1,002,072	22,602	490	122.8	134.6	150.1	39.7	9.6	11.5	16.7	15.2	13.6	11.2	10.1	8.6	5.0	4.0	3.3	1.3	1.4	1.6	33.3	29.1	26.4	2,100	2.6	34.0	
Crompton Greaves	268	BUY	171,665	3,872	642	14.3	15.4	17.9	11.5	7.8	15.9	18.7	17.3	14.9	12.4	10.4	8.5	5.2	4.2	3.4	0.9	0.7	0.9	31.7	26.7	24.9	310	15.8	7.9	
Larsen & Toubro	1,790	ADD	1,083,429	24,437	605	69.3	84.1	102.9	19.5	21.4	22.4	25.8	21.3	17.4	17.1	12.5	10.4	4.1	3.4	2.9	0.7	0.8	0.8	17.2	17.4	17.9	1,875	4.7	69.7	
Maharashtra Seamless	376	ADD	26,519	598	71	46.6	42.4	47.2	20.6	(9.0)	11.4	8.1	8.9	8.0	4.0	4.3	3.5	1.0	1.0	0.9	2.2	2.3	2.5	13.4	11.2	11.6	418	11.2	0.2	
Siemens	898	REDUCE	302,787	6,830	337	22.4	31.7	33.6	39.5	41.3	5.9	40.0	28.3	26.7	23.7	18.1	16.7	9.3	7.5	6.1	0.6	0.7	0.8	25.2	29.3	25.2	860	(4.2)	9.4	
Suzlon Energy	50	REDUCE	79,288	1,788	1,594	(6.0)	(0.0)	4.6	(2.8)	(99.9)	(62,927.5)	(8.3)	(6,836.6)	10.9	29.9	9.7	6.4	1.2	1.3	1.2	—	—	—	0.4	(14.4)	(0.0)	11.1	55	10.6	26.4
Tecpro Systems	277	BUY																												

Kotak Institutional Equities: Valuation summary of key Indian companies

	4-Jul-11		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target	Upside	ADVT-3mo	
Company	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	shares (mn)	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	(Rs)	(%)	(US\$ mn)	
Media																														
DB Corp	232	BUY	42,143	951	182	14.2	14.6	17.5	33.5	2.8	19.8	16.3	15.9	13.3	10.5	9.4	7.9	5.1	4.4	4.0	1.7	2.6	4.3	35.1	29.8	31.4	320	38.0	0.2	
DishTV	92	ADD	97,819	2,206	1,062	(1.8)	(0.0)	1.2	(27.5)	(97.2)	(2,583.4)	(51.5)	(1,850.9)	74.5	44.9	20.9	14.1	46.5	47.7	29.1	—	—	—	(62.3)	(2.5)	48.5	85	(7.7)	6.4	
Eros International	192	BUY	17,815	402	93	12.7	16.2	20.3	31.4	28.1	24.7	15.2	11.8	9.5	11.1	8.8	6.6	2.5	2.1	1.9	—	—	—	25.0	19.4	19.7	230	19.7	0.9	
Hindustan Media Ventures	137	BUY	10,024	226	73	7.3	9.0	12.1	198.7	22.8	35.0	18.7	15.2	11.3	9.0	7.8	5.7	2.5	2.1	1.9	—	—	—	2.2	22.3	15.1	17.7	220	61.1	0.2
HT Media	168	ADD	39,515	891	235	7.7	8.9	11.0	26.3	15.3	23.6	21.8	18.9	15.3	10.6	8.9	6.9	2.8	2.6	2.5	1.2	2.4	3.6	15.0	14.4	16.6	190	13.0	0.4	
Jagran Prakashan	122	BUY	36,725	828	301	6.8	7.6	8.9	17.2	11.1	17.1	17.8	16.0	13.7	10.2	9.2	7.8	5.3	4.7	4.2	2.9	3.3	4.1	31.5	30.9	32.3	170	39.4	0.3	
Sun TV Network	341	ADD	134,559	3,035	394	19.6	22.5	26.7	48.5	14.8	18.8	17.4	15.2	12.8	10.5	9.0	7.5	5.6	4.9	4.4	2.6	3.5	4.7	36.6	35.9	37.6	480	40.6	23.3	
Zee Entertainment Enterprises	132	BUY	128,948	2,909	978	5.7	7.1	8.4	7.3	24.9	18.5	23.1	18.5	15.6	15.7	12.0	10.0	3.1	2.9	2.8	1.0	1.2	1.4	13.8	16.4	18.8	180	36.6	6.5	
Media		Neutral	507,549	11,448					49.8	27.7	25.4	25.9	20.3	16.2	13.9	11.1	8.9	4.7	4.3	3.9	1.4	1.9	2.6	18.0	21.0	23.9				
Metals & Mining																														
Coal India	395	BUY	2,495,596	56,290	6,316	17.3	24.5	28.6	13.6	41.7	16.8	22.8	16.1	13.8	13.8	10.7	8.8	7.1	5.6	4.4	1.3	1.9	2.2	35.1	38.9	35.8	460	16.4	35.3	
Hindalco Industries	190	ADD	364,139	8,213	1,914	12.8	18.2	18.6	(36.0)	42.7	2.1	14.9	10.4	10.2	7.7	7.0	7.4	1.3	1.1	1.0	0.8	0.8	0.8	9.7	11.4	10.5	225	18.3	29.5	
Hindustan Zinc	138	BUY	583,261	13,156	4,225	11.6	14.6	16.0	21.8	25.1	9.5	11.9	9.5	8.6	7.7	5.1	4.0	2.5	2.0	1.6	0.7	0.7	0.7	24.2	24.3	21.5	170	23.1	5.2	
Jindal Steel and Power	649	REDUCE	606,454	13,679	934	40.2	51.3	58.6	5.1	27.6	14.2	16.2	12.7	11.1	11.6	9.3	8.6	4.0	3.0	2.4	0.3	0.3	0.3	30.8	29.3	25.7	700	7.8	15.7	
JSW Steel	881	REDUCE	218,784	4,935	248	78.6	87.4	113.7	(2.2)	11.2	30.0	11.2	10.1	7.8	7.3	5.4	5.1	1.2	0.9	0.8	1.2	1.0	1.0	11.9	10.3	11.4	990	12.3	22.5	
National Aluminium Co.	84	SELL	215,973	4,871	2,577	4.1	5.0	5.3	36.3	20.5	6.0	20.2	16.8	15.8	10.8	8.6	7.7	1.9	1.8	1.7	1.8	1.8	1.8	9.9	11.1	11.0	76	(9.3)	0.7	
Sesa Goa	285	REDUCE	253,432	5,716	890	47.5	41.9	36.7	60.6	(11.8)	(12.3)	6.0	6.8	7.8	3.0	4.7	5.1	1.9	1.5	1.3	1.4	1.4	1.4	36.6	23.2	17.2	305	7.1	17.4	
Sterlite Industries	172	BUY	576,692	13,008	3,362	15.2	20.1	22.3	26.2	32.2	11.4	11.3	8.6	7.7	7.5	4.9	4.1	1.4	1.2	1.0	0.7	0.7	0.7	13.0	15.1	14.6	210	22.4	18.3	
Tata Steel	598	BUY	580,417	13,092	971	76.0	70.8	85.8	(2,278.5)	(6.9)	21.2	7.9	8.4	7.0	6.8	6.3	5.4	1.6	1.4	1.2	2.0	—	—	—	24.9	17.8	18.4	750	25.5	48.0
Metals & Mining		Attractive	5,894,747	132,959					39.3	22.3	12.7	14.2	11.6	10.3	8.8	7.2	6.4	2.6	2.2	1.9	1.1	1.2	1.3	18.6	18.9	18.1				
Pharmaceutical																														
Apollo Hospitals	497	BUY	65,744	1,483	132	13.9	17.6	21.8	27.0	26.9	23.5	35.7	28.2	22.8	16.4	12.8	10.9	3.6	3.1	2.7	—	—	—	10.0	11.4	12.2	565	13.6	0.8	
Biocon	364	BUY	72,760	1,641	200	18.4	21.6	24.2	23.8	17.4	12.3	19.8	16.9	15.0	11.4	9.8	8.6	3.5	3.0	2.6	—	—	—	19.4	19.4	18.7	480	31.9	3.6	
Cipla	330	REDUCE	264,924	5,976	803	12.1	16.3	18.8	(12.0)	35.4	15.4	27.4	20.2	17.5	22.2	15.8	13.2	4.0	3.4	2.9	0.8	0.8	0.8	15.4	18.2	—	330	0.0	8.8	
Cadila Healthcare	931	BUY	190,621	4,300	205	34.7	42.2	51.7	40.6	21.4	22.7	26.8	22.1	18.0	23.1	17.2	13.8	8.8	6.7	5.3	0.7	0.9	1.1	37.5	34.5	32.8	1,130	21.4	2.1	
Dishman Pharma & chemicals	93	SELL	7,523	170	81	9.8	8.0	9.4	(31.8)	(18.7)	17.2	9.4	11.6	9.9	9.7	7.5	6.7	0.9	0.8	0.8	—	—	—	9.6	7.2	7.9	95	2.7	0.2	
Divi's Laboratories	794	BUY	105,256	2,374	133	32.4	40.3	46.2	25.7	24.4	14.7	24.5	19.7	17.2	20.1	14.9	12.7	5.9	4.9	4.2	—	—	—	25.9	27.1	26.2	900	13.4	6.0	
GlaxoSmithkline Pharmaceuticals (a)	2,347	REDUCE	198,760	4,483	85	68.3	80.2	91.8	15.5	17.5	14.4	34.4	29.2	25.6	23.2	19.9	17.0	10.2	9.3	8.5	1.7	2.1	2.4	30.9	33.3	34.7	2,300	(2.0)	1.3	
Glenmark Pharmaceuticals	313	REDUCE	84,433	1,904	270	17.0	18.4	24.3	33.5	8.7	32.1	18.4	17.0	12.9	20.6	14.6	11.8	4.1	3.4	2.7	—	—	—	20.8	22.0	23.6	330	5.5	5.0	
Jubilant Life Sciences	201	REDUCE	32,083	724	159	14.4	16.4	19.3	(45.6)	13.7	17.4	14.0	12.3	10.5	11.1	9.1	8.3	1.4	1.3	1.2	1.0	1.2	1.7	12.3	11.5	12.2	195	(3.2)	0.8	
Lupin	449	ADD	200,188	4,515	446	19.3	20.4	25.2	26.1	5.8	23.3	23.2	21.9	17.8	19.5	16.1	13.1	6.0	4.9	4.0	0.7	0.8	0.9	29.5	25.0	25.2	500	11.4	10.3	
Ranbaxy Laboratories	530	SELL	223,320	5,037	421	40.8	18.8	21.9	478.2	(54.0)	16.6	13.0	28.3	24.2	15.9	19.6	16.5	4.0	3.4	3.0	—	—	—	34.5	13.2	13.4	450	(15.2)	11.3	
Sun Pharmaceuticals	500	ADD	517,645	11,676	1,036	17.5	19.5	22.7	34.4	10.9	16.6	28.5	25.7	22.0	24.3	20.6	17.0	5.0	4.3	3.7	0.7	0.8	1.0	22.9	19.6	19.6	515	3.0	10.1	
Pharmaceuticals		Cautious	2,310,797	52,121					26.0	8.1	3.8	24.9	23.0	22.2	18.8	15.1	14.6	3.9	3.3	3.1	0.6	0.7	0.8	15.6	14.5	14.2				
Property																														
DLF	234	ADD	400,524	9,034	1,715	9.1	11.9	15.7	(14.5)	31.3	31.8	25.7	19.6	14.9	16.7	13.2	10.0	1.5	1.4	1.3	0.8	1.1	1.3	5.4	7.5	9.2	270	15.6	34.2	
Housing Development & Infrastructure	167	ADD	73,515	1,658	441	19.8	28.9	34.6	24.3	46.0	19.7	8.4	5.8	4.8	10.4	5.3	4.3	0.8	0.7	0.6	—	0.6	0.9	10.0	12.4	12.8	190	14.0	21.0	
Indiabulls Real Estate	118	RS	47,525	1,072	402	4.0	8.5	15.4	(1,095.5)	114.1	81.5	29.7	13.9	7.7	18.7	15.3	6.8	0.4	0.4	0.4	—	—	—	0.6	1.4	2.9	5.0	—	11.3	
Mahindra Life Space Developer	365	ADD	14,895	336	41	25.0	29.7	37.2	30.3	18.9	25.4	14.6	12.3	9.8	11.3	8.0	5.8	1.4	1.3	1.2	1.4	1.2	1.4	10.4	11.2	12.7	470	28.8	0.3	
Oberoi Realty	245	BUY	80,754	1,821	330	15.7	20.0	28.0	14.7	27.6	39.7	15.6	12.2	8.8	11.6	8.0	5.0	2.4	2.1	1.7	0.4	0.6	1.0	19.9	18.2	21.3	315	28.6	0.3	
Phoenix Mills	196	BUY	28,455	642	145	6.3	7.5	10.7	52.5	18.4	43.8	31.2	26.3	18.3	22.7	18.8	13.9	1.8	1.7	1.6	0.8	1.0	1.0	5.8	6.6	8.9	300	52.7	0.3	
Puravankara Projects	92	REDUCE	19,667	444	213	5.5	9.1	11.2	(18.9)	65.2	22.4	16.7	10.1	8.2	20.8	10.5	8.7	1.3	1.2	1.0	1.1	1.6	2.2	8.0	12.1	13.4	110	19.4	0.2	
Sobha Developers	280	BUY	27,419	618	98	18.7	23.4	27.7	33.0	25.0	18.5	14.9	12.0	10.1	12.5	9.6	7.7	1.5	1.3	1.2	1.1	1.3	—	10.1	11.6	12.3	385	37.7	1.7	
Unitech	34	RS	88,038	1,986	2,616	2.3	3.9	5.3	(23.4)	69.1	35.2	14.5	8.6	6.3	15.4	8.8	5.9	0.8	0.7	0.6	—	—	—	5.4	8.4	10.3	—	—	23.7	
Property		Cautious	780,793	17,611					5.1	44.6	33.1	18.9	13.0	9.8	15.2	10.5	7.6	1.1	1.0	1.0	0.6	0.8	1.0	6.0	8.0	9.7				

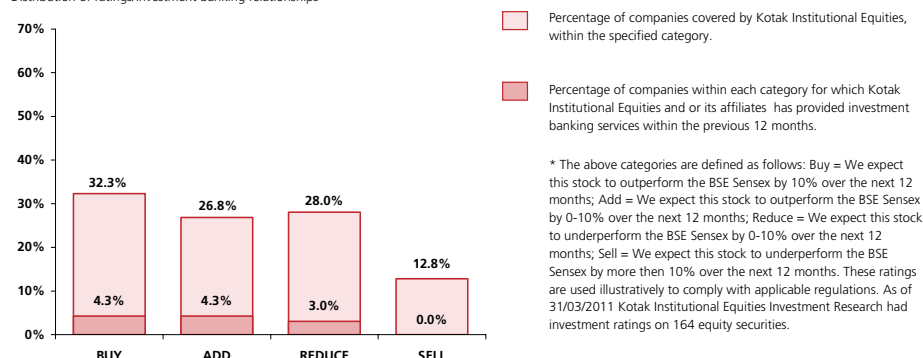
Kotak Institutional Equities: Valuation summary of key Indian companies

Company	4-Jul-11		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target	Upside (%)	ADVT-3mo (US\$ mn)
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	shares (mn)	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	price (Rs)		
Sugar																													
Bajaj Hindustan	74	REDUCE	16,982	383	228	(8.0)	(1.2)	2.1	(348.8)	(85.6)	(282.4)	(9.3)	(64.2)	35.2	18.8	7.8	6.5	0.6	0.5	0.5	0.8	0.8	0.8	(6.0)	(0.9)	1.6	65	(12.6)	2.0
Balrampur Chini Mills	65	BUY	16,702	377	257	0.8	8.3	8.4	(89.9)	974.0	1.0	83.9	7.8	7.7	11.6	5.0	4.1	1.2	1.1	1.0	0.7	0.7	0.7	1.5	14.8	13.1	80	23.0	1.9
Shree Renuka Sugars	73	BUY	49,005	1,105	670	10.5	4.3	5.9	214.7	(59.5)	37.9	7.0	17.2	12.5	9.2	7.0	5.8	2.0	1.8	1.6	1.4	1.4	1.4	34.4	11.1	13.8	75	2.6	7.8
Sugar		Cautious	82,688	1,865					18.4	(17.0)	39.1	14.5	17.5	12.6	11.7	6.9	5.8	1.2	1.1	1.1	1.1	1.1	1.1	8.4	6.5	8.4			
Technology																													
HCL Technologies	499	REDUCE	351,725	7,933	705	23.1	30.8	36.4	31.9	33.4	18.1	21.6	16.2	13.7	13.1	10.1	8.4	4.5	3.8	3.2	1.5	1.6	1.6	22.1	25.4	25.5	490	(1.8)	9.9
Hexaware Technologies	73	BUY	21,359	482	291	3.0	6.6	7.4	(36.5)	122.6	11.3	24.7	11.1	10.0	19.2	8.7	7.0	2.2	1.9	1.7	2.0	1.7	2.0	9.4	18.5	17.9	80	9.0	2.2
Infosys Technologies	2,939	BUY	1,686,957	38,050	574	119.7	144.8	172.6	10.5	20.9	19.2	24.5	20.3	17.0	16.9	13.8	11.3	6.5	5.4	4.5	2.0	1.5	1.8	28.0	29.0	28.7	3,450	17.4	101.0
Mahindra Satyam	91	REDUCE	106,428	2,401	1,176	4.2	4.9	6.1	68.9	17.0	23.2	21.6	18.4	15.0	17.4	10.0	7.8	6.2	4.6	3.5	—	—	—	27.6	28.8	26.9	80	(11.6)	14.3
Mindtree	371	REDUCE	15,258	344	41	24.7	33.9	38.6	(52.7)	37.3	14.0	15.0	10.9	9.6	8.4	6.3	5.1	2.0	1.7	1.5	0.7	0.9	3.1	14.4	16.6	16.7	370	(0.2)	1.0
Mphasis BFL	457	SELL	96,300	2,172	211	51.8	36.6	36.0	18.8	(29.2)	(1.7)	8.8	12.5	12.7	7.5	9.4	8.3	2.9	2.4	2.1	0.9	1.0	1.1	38.6	21.3	17.7	360	(21.2)	3.8
Polaris Software Lab	187	SELL	18,684	421	100	19.3	18.9	20.9	25.7	(2.2)	10.8	9.7	9.9	8.9	6.4	5.2	4.5	1.8	1.6	1.4	2.0	2.1	2.2	20.2	16.9	16.4	175	(6.6)	4.0
TCS	1,186	BUY	2,320,652	52,344	1,957	44.4	54.2	63.1	26.3	22.2	16.5	26.7	21.9	18.8	20.2	15.8	13.4	9.2	7.5	6.2	1.5	1.8	2.1	37.6	37.8	36.2	1,350	13.9	42.9
Tech Mahindra	731	REDUCE	92,049	2,076	126	48.8	66.3	70.8	(25.2)	36.0	6.7	15.0	11.0	10.3	10.1	9.7	9.2	2.7	2.4	2.1	0.5	0.5	1.4	20.5	23.9	22.3	665	(9.0)	3.9
Wipro	424	ADD	1,041,478	23,491	2,454	21.6	24.2	27.5	14.5	11.9	13.8	19.7	17.6	15.4	14.6	12.3	10.4	4.3	3.6	3.1	1.0	1.2	1.4	24.3	22.5	21.6	525	23.7	11.3
Technology		Attractive	5,795,646	130,724					16.9	17.9	15.9	22.6	19.2	16.5	16.3	13.3	11.2	6.0	5.0	4.2	1.7	1.5	1.8	26.4	25.9	25.2			
Telecom																													
Bharti Airtel	384	SELL	1,459,418	32,918	3,798	15.9	19.7	24.5	(32.6)	23.9	24.1	24.1	19.5	15.7	10.4	8.0	6.5	3.0	2.6	2.2	—	—	—	13.3	14.3	15.3	345	(10.2)	39.7
IDEA	79	REDUCE	260,465	5,875	3,303	2.7	1.6	3.1	(1.0)	(40.1)	91.5	29.1	48.7	25.4	9.7	8.5	6.8	2.1	2.0	1.9	—	—	—	7.6	4.4	7.9	65	(17.6)	6.4
MTNL	45	SELL	28,350	639	630	(10.4)	(9.1)	(8.4)	(33.7)	(11.9)	(8.1)	(4.3)	(4.9)	(5.4)	(0.3)	(0.4)	(0.5)	0.3	0.3	0.3	—	—	—	(6.1)	(5.7)	(5.5)	35	(22.2)	0.9
Reliance Communications	101	SELL	214,745	4,844	2,133	6.3	7.1	9.7	(68.0)	12.0	37.6	16.0	14.3	10.4	5.9	6.2	5.2	0.6	0.6	0.5	—	—	—	3.4	4.1	5.4	95	(5.7)	16.1
Tata Communications	210	REDUCE	59,750	1,348	285	15.2	15.7	15.9	8.2	3.5	1.5	13.8	13.4	13.2	6.4	6.0	5.7	0.8	0.8	0.8	3.6	4.1	4.3	5.5	5.5	5.4	205	(2.2)	1.2
Telecom		Cautious	2,022,728	45,624					(42.4)	17.1	31.0	25.1	21.5	16.4	9.2	7.7	6.3	1.8	1.6	1.5	0.1	0.1	0.1	7.0	7.6	9.1			
Utilities																													
Adani Power	110	REDUCE	239,582	5,404	2,180	2.4	15.2	16.8	200.4	544.8	10.5	46.7	7.2	6.6	33.2	6.5	4.7	3.8	2.5	1.8	—	—	—	8.5	41.6	32.0	120	9.2	1.8
CESC	303	BUY	37,806	853	125	37.7	42.5	51.3	9.1	12.7	20.8	8.0	7.1	5.9	5.7	6.0	5.7	0.8	0.7	0.6	1.6	1.8	2.0	10.5	10.7	11.5	440	45.4	1.0
JSW Energy	68	SELL	111,602	2,517	1,640	5.1	6.6	5.5	12.9	28.9	(16.2)	13.3	10.3	12.3	13.3	7.3	6.2	2.0	1.7	1.5	(1.5)	—	—	16.1	17.5	12.6	74	8.7	2.2
Lanco Infratech	25	BUY	56,020	1,264	2,223	2.0	4.0	4.6	(5.8)	97.6	15.9	12.6	6.4	5.5	10.7	8.2	7.4	1.4	1.1	0.9	—	—	—	12.2	19.6	18.3	54	114.3	8.6
NHPC	25	BUY	305,673	6,895	12,301	1.3	1.9	2.3	(27.2)	39.6	20.8	18.4	13.2	10.9	13.4	9.2	7.4	1.1	1.1	1.0	1.7	2.0	2.5	6.3	8.2	9.4	30	20.7	2.4
NTPC	184	REDUCE	1,520,876	34,304	8,245	11.0	11.9	12.7	5.3	7.4	6.8	16.7	15.6	14.6	13.7	12.5	11.7	2.2	2.0	1.9	2.1	1.9	2.1	13.7	13.5	13.3	200	8.4	9.9
Reliance Infrastructure	578	BUY	154,624	3,488	267	58.0	66.6	73.3	(6.5)	14.8	10.0	10.0	8.7	7.9	10.1	5.6	4.2	0.7	0.6	0.6	1.6	1.8	2.0	6.4	10.5	11.5	975	68.7	19.5
Reliance Power	118	SELL	329,737	7,437	2,805	2.7	3.8	3.1	(5.0)	40.1	(17.9)	43.4	31.0	37.7	251.7	107.0	17.7	2.0	1.9	1.8	—	—	—	4.9	6.3	4.9	110	(6.4)	6.6
Tata Power	1,323	ADD	326,451	7,363	247	76.4	107.9	121.0	20.2	41.2	12.1	17.3	12.3	10.9	12.7	10.1	8.1	2.3	2.0	1.7	1.1	1.1	1.3	13.9	17.2	16.7	1,480	11.9	6.9
Utilities		Cautious	3,082,370	69,525					5.0	35.8	8.0	17.9	13.2	12.2	15.9	11.1	9.0	1.8	1.6	1.5	1.3	1.4	1.5	10.1	12.3	12.0			
Others																													
Carbonium Universal	297	BUY	27,750	626	93	17.8	18.0	22.1	62.9	1.3	23.1	16.7	16.5	13.4	10.5	9.5	7.9	3.4	2.9	2.5	1.3	1.3	1.6	21.4	20.0	20.9	300	0.9	0.3
Havells India	387	REDUCE	48,238	1,088	125	22.7	27.3	31.1	302.5	19.8	13.9	17.0	14.2	12.5	11.1	9.3	7.9	7.1	4.9	3.6	0.6	0.7	0.8	51.3	40.7	33.2	440	13.8	4.4
Jaiprakash Associates	83	BUY	183,126	4,131	2,214	5.5	5.8	5.8	214.7	5.2	(0.3)	15.0	14.3	14.3	11.5	9.8	9.5	1.8	1.7	1.5	—	—	—	13.2	12.3	11.1	135	63.2	23.4
Jet Airways	484	BUY	41,745	942	86	(10.1)	31.6	70.8	(85.6)	(414)	124.2	(48.1)	15.3	6.8	9.1	7.6	6.0	2.4	2.1	1.6	—	—	—	(5.0)	14.6	26.5	650	34.4	11.3
Sintex	180	SELL	49,042	1,106	272	17.0	19.2	20.3	40.2	13.4	5.7	10.6	9.4	8.9	8.3	7.3	6.5	1.9	1.6	1.3	0.7	0.8	0.8	17.9	16.9	15.1	170	(5.7)	6.9
SpiceJet	33	BUY	13,098	295	403	2.4	3.2	4.6	(4.2)	32.1	41.6	13.4	10.1	7.1	8.8	10.7	7.7	4.2	3.0	2.1	—	—	—	(653)	34.4	34.4	65	100.0	3.3
Tata Chemicals	370	REDUCE	94,222	2,125	255	26.1	32.6	38.6	(1.3)	25.1	18.2	14.2	11.3	9.6	8.2	6.0	5.1	1.7	1.5	1.3	2.6	3.2	4.1	16.9	18.5	19.5	380	2.7	3.1
United Phosphorus	158	BUY	72,755	1,641	462	12.4	17.5	20.3	4.0	41.5	15.9	12.8	9.0	7.8	7.6	5.2	4.4	1.9	1.7	1.4	1.2	1.9	2.2	17.9	19.7	19.5	220	39.5	4.1
Others			529,975	11,954					125.4	25.3	18.0	15.3	12.2	10.3	9.9	8.2	7.4	2.1	1.8	1.6	0.8	1.0	1.3	13.7	15.0	15.3			
KS universe (b)			49,457,134	1,115,533					18.1	23.6	14.1	16.8	13.6	11.9	10.6	8.6	7.4	2.6	2.3	2.0	1.4	1.6	1.8	15.5	16.6	16.6			
KS universe (b) ex-Energy			41,470,524	935,390					19.9	21.5	17.5	18.3	15.0	12.8	12.5	10.1	8.6	2.9	2.5	2.2	1.3	1.4	1.6	16.0	16.8	17.2			
KS universe (d) ex-Energy & ex-Commodities			34,659,863	781,772					18.2	20.9	18.6	19.3	16.0	13.5	14.0	11.3	9.5	3.0	2.6	2.3	1.3	1.4	1.6	15.6	16.5	17.1			

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