kotak® Institutional Equities

INDIA DAILY

July 7, 2009

Contents

EQUITY MARKETS

		Change %		
India	**6-Jul**	**1-day**	**1-mo**	**3-mo**
Sensex	14,043	(5.8)	(7.0)	33.3
Nifty	4,166	(5.8)	(9.2)	27.9
Global/Regional indices				
Dow Jones	8,281	(2.6)	(4.5)	3.3
Nasdaq Composite	1,797	(2.7)	(1.6)	10.8
FTSE	4,175	(1.4)	(5.9)	4.6
Nikkie	9,681	(1.4)	(0.9)	9.3
Hang Seng	17,979	(1.2)	(3.7)	19.9
KOSPI	1,429	0.6	2.5	10.1
Value traded - India				
Cash (NSE+BSE)	269.6		276.6	253.3
Derivatives (NSE)	548.4		651.7	565
Deri. open interest	711.4		735	677

Forex/money market

	Change, basis points			
	6-Jul	**1-day**	**1-mo**	**3-mo**
Rs/US$	48.5	57	91	(158)
10yr govt bond, %	6.8	(3)	22	(13)
Net investment (US$mn)				
	3-Jul		**MTD**	**CYTD**
FIIs	118		118	5,088
MFs	(43)		(78)	443

Top movers -3mo basis

	Change, %			
Best performers	6-Jul	1-day	1-mo	3-mo
MTNL IN Equity	96	(10.3)	(18.2)	37.1
BJAUT IN Equity	961	(2.4)	(15.2)	46.7
HPCL IN Equity	318	(4.1)	(9.0)	22.3
GMRI IN Equity	133	(5.2)	(22.1)	31.1
INFO IN Equity	1,761	(2.4)	3.7	24.6
Worst performers				
NACL IN Equity	285	(4.6)	(18.1)	23.2
DIVI IN Equity	1,088	(3.1)	(8.7)	18.2
HDFCB IN Equity	1,424	(6.1)	0.4	33.8
WPRO IN Equity	372	(3.4)	(5.4)	38.1
ABB IN Equity	745	(5.1)	5.0	66.8

News Round-up

- South African telecom major MTN today said the company is still in talks with Indian firm Bharti Airtel for a potential transaction. MTN and Bharti are in exclusive discussions till July 31, for a possible US$23 billion deal which would create a new telecom entity with about 200 million subscribers. *(BS)*
- FMCG companies are upbeat on the Finance Ministry's emphasis on rural development schemes in the full 2010 Budget and expect that it will boost demand from country's hinterland. *(ET)*
- The Budget gave a big boost to power reforms program, Accelerated Power Development and Reforms Program (APDRP), by increasing allocation to Rs21 bn, or a rise of 160% from the previous fiscal year. *(BS)*
- State-owned Oil India Ltd and National Hydroelectric Power Corporation (NHPC) will tap the capital market with their initial public offering (IPOs) in August/September this fiscal, as per the Finance Secretary, Mr. Ashok Chawla. *(HBL)*
- Mid- and small-sized IT companies can breathe easier with the extension of the sunset clause for tax benefits under the software technology parks scheme by another year. The extension by a year of such benefits should ease any potential strain on profitability. *(HBL)*
- The full 2010 budget has increased the personal income tax exemption limit by Rs10,000 to Rs160,000 for general category, by Rs10,000 to Rs190,000 for women and by Rs15,000 to Rs240,000 for senior citizens while leaving the corporate tax rates unchanged. *(ET)*
- Hike in Minimum Alternate Tax (MAT) and continuity of Securities Transaction Tax (STT) along with no change in corporate tax rates were some of the disappointing factors from the Budget. No clear roadmap for disinvestment and reforms in the near future also weighed on the sentiment. The index nose-dived to a low of 13,959, down 1,138 points from the day's high. *(BS)*
- The government today raised the Minimum Alternate Tax (MAT) to 15% even as it abolished the Fringe Benefit Tax (FBT) and Commodities Transaction Tax (CTT). MAT is the amount companies pay as tax on their book profits. *(BS)*
- The government today abolished the Commodity Transaction Tax (CTT) that was announced in the Budget last year, but was yet to be implemented and the commodity exchanges rejoiced the decision. *(BS)*
- The Centre's fiscal deficit is estimated to be 6.8% of GDP in 2009-10 against the low of 2.5% projected for the previous fiscal a year ago, as expenditure is expected at over Rs10 tn and tax collection can take a hit due to stimulus packages. *(BS)*

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

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INDIA

JULY 07, 2009

NEW RELEASE

BSE-30: 14,043

More of the same. The government's FY2010E Union Budget continued with fiscal-related stimulus to consumption and thrust on investment. However, FY2010 Budget did not address several key issues facing the economy—(1) high fiscal deficit and requisite fiscal consolidation, (2) continued high government influence in certain sectors and (3) reforms in key areas. We maintain our defensive stance, our bias towards defensive stocks and our BSE-30 Index 12-month fair valuation of 14,000.

Budget theme—Continued stimulus to consumption; investment will hopefully follow

We believe the government has largely followed a balancing act of (1) stimulating consumption by leaving indirect taxes largely unchanged and reducing personal income tax and (2) addressing investment through higher allocations to various projects from the FY2010 Budget and greater thrust on public-private partnerships.

Fiscal situation may deteriorate further if revenues do not materialize as expected

We see GFD/GDP at around 7% for FY2010E versus the government's planned 6.8% and 6.1% in FY2009E. We believe India runs the risk of continued high fiscal deficits without it addressing key issues such as (1) growing subsidies on food and fertilizer, (2) continued government control on pricing in energy and fertilizer sectors and (3) inability to increase taxation base and/or remove expendable tax exemptions.

No new direction for certain sectors and lack of reforms disappointing but there is hope

We find the government's reluctance to implement reforms in certain key areas disappointing. In our view, the government may have missed a good opportunity to showcase India as an attractive investment destination in the current weak global environment. Nonetheless, we remain hopeful that the government can encourage investments in the crucial infrastructure area through a mix of pragmatic policies and efficient execution.

No change to market view; retain defensive stance

We find the market's valuation full at current levels at 15.7X FY2010E earnings and 13.3X FY2011E earnings. We continue to maintain our defensive stance with focus on safe stocks. We continue to be overweight consumers, PSU banks, pharmaceuticals, technology and utilities. We see maximum downside risk to earnings in the case of energy sector (refining stocks), metals (aluminum and steel stocks) and real estate.

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Budget impact on sectors at a glance

Sector	Net impact	Key positives	Key negatives
Automobiles	↑	Excise duty on motor vehicles with engine capacity exceeding 1,999 cc has been reduced by Rs5,000	
		Excise duty on petrol-driven good carriers reduced to 8% from 20%.	
		Allocation under the JNNURM scheme of Rs129 bn, an 87% increase from FY2009	
Banking & Finance	↓		Higher fiscal deficit to lead to higher yields; banks could witness MTM losses in 2HFY10E, cost of borrowings for bulk borrowers and NBFCs will likely rise
Cement	↔	Higher allocation to NHAI and infrastructure boost bodes well for cement demand	Service tax on railway freight will increase the cost of transportation of cement
Chemicals	↔	No change in tariff protection for chemicals	
Consumers	↑	Abolishment of FBT	
		No change in excise duty rates augurs well for cigarette volume growth	
		Higher spending on NREGA provides opportunity to drive penetration-driven growth, particularly in personal care	
Energy	↓	Introduction of GST from April 1, 2010 could entail removal of octroi on crude oil which will be positive for BPCL and HPCL	Non-availability of tax exemption for production of natural gas from extant NELP blocks
		Extension of Section 80 IB benefits to new refineries starting before March 31, 2012	No roadmap for deregulation of pricing of petroleum products or a pragmatic subsidy-sharing mechanism
			Increase in MAT rate to 17% from 11.33% will have negative impact
Industrials	↑	Infrastructure spend to be over 9% of GDP by 2014	MAT increased to 15% (from 10%) of book profit; however, period of MAT offset raised to 10 years from from 7 years
		IIFCL to evolve a new takeout financing scheme, to refinance 60% of commercial bank loans in PPP projects	
		Increased allocation to NHAI, railways, APDRP and Accelerated Irrigation Program	
Media	↔	Continuation of indirect tax cuts to be positive for consumption of goods and services	Re-introduction of basic customs duty on STBs negative for TV distribution companies
		Continuation of stimulus through higher DAVP allocationpositive	
Metals	↔	Thrust on infrastructure through additional allocation to various government schemes and road building to help boost demand	MAT increase to impact profitability of new projects
		No change in existing duty structure on iron ore exports	
Pharmaceuticals	↔	Lowering of tax rate due to abolishment of FBT	Increase in effective tax rate due to increase in MAT tax rate
			Companies will not end up paying 15% effective tax rate due to EOU benefits; most companies believe tax provided in FY2010E may not be materially impacted
Real estate	↔	Budgetary allocation of Rs39 bn for housing for urban poor may increase opportunities for slum rehabilitation	Any uptick in interest rate rates will affect affordability for residential real estate and put pressure on demand
Technology	↑	Extension of STPI tax benefits by one year to end-FY2011	Correction in anomaly of computing SEZ tax exemption done prospectively as against companies' expectations of retrospective correction; IT cos with operational SEZs may possibly have to shell out taxes for earlier years
Telecom	↔		Increase in MAT rate to 15% from 10% will lead to cash flow impact for RCOM and Idea. No earnings impact as companies are likely to create MAT credit entitlement asset against MAT payment
Utilities	↔	(1) Increased allocation for APDRP and rural electrification increases investment opportunity for the sector, and (2) Exemption u/s 80-IA extended for projects commissioning up to March 2011 from March 2010 previously	Increase in MAT rate to 15% from 10% could reduce profitability for power capacities operating on merchant-basis; higher MAT rate does not impact sale of power under regulated basis

Source: Kotak Institutional Equities estimates

Overweight banking, consumers, pharmaceuticals and technology
Kotak Institutional Equities Model Portfolio

Company	6-Jul Price (Rs)	Rating	Weightage (%) BSE-30	KS reco.	Diff. (bps)
Hero Honda	1,359	REDUCE	1.3	—	(134)
Mahindra & Mahindra	712	ADD	1.4	1.4	—
Maruti Suzuki	1,038	SELL	1.5	—	(148)
Tata Motors	283	SELL	0.9	—	(85)
Automobiles			**5.1**	**1.4**	**(368)**
Punjab National Bank	641	BUY	—	2.0	200
State Bank of India	1,654	BUY	4.7	6.7	200
Union Bank	233	BUY	—	1.5	150
PSU Banking			**4.7**	**10.2**	**550**
Axis Bank	794	BUY	—	2.0	200
HDFC	2,356	REDUCE	6.0	2.5	(350)
HDFC Bank	1,424	REDUCE	5.3	3.3	(200)
ICICI Bank	680	REDUCE	7.5	6.0	(150)
Rural Electrification Corp.	159	BUY	—	1.0	100
Pvt. Banking/Financing			**18.7**	**14.7**	**(400)**
ACC	724	REDUCE	0.7	—	(74)
Grasim Industries	2,298	REDUCE	1.6	1.6	—
Jaiprakash Associates	193	ADD	1.3	2.3	100
Cement			**3.6**	**3.9**	**26**
Hindustan Unilever	275	BUY	3.0	5.0	200
ITC	198	BUY	5.1	6.6	150
Consumers			**8.1**	**11.6**	**350**
GAIL (India)	315	ADD	—	1.0	100
Oil & Natural Gas Corporation	1,070	BUY	4.5	6.0	150
Reliance Industries	1,893	SELL	12.8	6.2	(667)
Energy			**17.4**	**13.2**	**(417)**
Bharat Heavy Electricals	2,101	REDUCE	3.6	1.6	(200)
IVRCL	330	BUY	—	0.5	50
Larsen & Toubro	1,464	ADD	7.8	7.8	—

Company	6-Jul Price (Rs)	Rating	Weightage (%) BSE-30	KS reco.	Diff. (bps)
Nagarjuna Construction	130	BUY	—	0.5	50
Punj Lloyd	199	BUY	—	1.0	100
Industrials/Construction			**11.3**	**11.3**	**—**
Hindalco Industries	78	BUY	0.9	0.9	—
Hindustan Zinc	563	BUY	—	1.5	150
Sterlite Industries	589	REDUCE	1.6	1.6	—
Tata Steel	397	BUY	2.3	0.8	(150)
Metals			**4.8**	**4.8**	**—**
Cipla	258	ADD	—	0.5	50
Divi's Laboratories	1,088	BUY	—	0.5	50
Sun Pharmaceuticals	1,127	ADD	0.9	2.4	150
Pharmaceuticals			**0.9**	**3.4**	**250**
DLF	310	REDUCE	1.3	—	(130)
Real estate			**1.3**	**—**	**(130)**
Infosys Technologies	1,761	BUY	8.5	10.0	150
TCS	381	REDUCE	1.8	—	(184)
Wipro	372	ADD	1.1	2.6	150
Technology			**11.4**	**12.6**	**116**
Bharti Airtel	783	ADD	5.1	6.1	100
Reliance Communications	269	SELL	1.9	—	(192)
Telecom			**7.1**	**6.1**	**(92)**
Lanco Infratech	353	ADD	—	1.0	100
NTPC	193	SELL	2.4	—	(236)
Reliance Infrastructure	1,131	BUY	1.6	2.6	100
Tata Power	1,104	ADD	1.7	3.2	150
Utilities			**5.7**	**6.8**	**114**
BSE-30	**14,043**		**100.0**	**100.0**	**—**

Note:
1. Weights are with respect to July 6, 2009 prices.

Source: Bloomberg, BSE, Kotak Institutional Equities estimates

Major budgetary items of the central government, March fiscal year-ends, 2008-2010BE (Rs bn)

	FY2008A	FY2009BE	FY2009RE	FY2010BE (I)	FY2010BE (F)	Change (%) FY2009BE/ FY2008A	FY2009RE/ FY2009BE	FY2010BE(I)/ FY2009RE	FY2010BE(F)/ FY2010BE(I)
Receipts									
1. Revenue receipts (2 + 3)	**5,420**	**6,029**	**5,622**	**6,096**	**6,145**	***11***	***(7)***	***8***	***1***
2. Gross tax revenue (a + b)	5,927	6,877	6,279	6,713	6,411	*16*	*(9)*	*7*	*(5)*
2.a. Direct taxes	3,125	3,650	3,450	3,800	3,716	*17*	*(5)*	*10*	*(2)*
2.a.1. Corporation tax	1,929	2,264	2,220	2,442	2,567	*17*	*(2)*	*10*	*5*
2.a.2. Income tax	1,193	1,383	1,226	1,354	1,129	*16*	*(11)*	*10*	*(17)*
2.a.3. Other taxes	3	3	4	4	20	*8*	*23*	*6*	*377*
2.b. Indirect taxes	2,790	3,213	2,814	2,897	2,695	*15*	*(12)*	*3*	*(7)*
2.b.1. Customs duty	1,041	1,189	1,080	1,102	980	*14*	*(9)*	*2*	*(11)*
2.b.2. Excise duty	1,236	1,379	1,084	1,106	1,065	*12*	*(21)*	*2*	*(4)*
2.b.3. Service tax	513	645	650	689	650	*26*	*1*	*6*	*(6)*
(2.c) Transfers to States and UTs	1,531	1,806	1,636	1,753	1,669	*18*	*(9)*	*7*	*(5)*
2.d Net tax revenue	4,396	5,072	4,660	4,976	4,742	*15*	*(8)*	*7*	*(5)*
3. Non-tax revenue	1,024	958	962	1,120	1,403	*(6)*	*0*	*16*	*25*
4. Capital receipts (4a + 4b + 4c)	**1,708**	**1,479**	**3,388**	**3,437**	**4,063**	***(13)***	***129***	***1***	***18***
4.a Recovery of loans	51	45	97	97	42	*(12)*	*116*	*0*	*(57)*
4.b Other receipts (Disinvestments)	388	102	26	11	11	*(74)*	*(75)*	*(56)*	-
4.c Borrowings and other liabilities	1,269	1,333	3,265	3,328	4,010	*5*	*145*	*2*	*20*
4.c.1 Net market borrowing	1,318	1,006	2,620	3,087	3,980	*(24)*	*160*	*18*	*29*
5. Total receipts (1 + 4)	**7,128**	**7,509**	**9,010**	**9,532**	**10,208**	***5***	***20***	***6***	***7***
Expenditures									
11. Non-plan expenditure (12 + 13)	**5,077**	**5,075**	**6,180**	**6,681**	**6,957**	***(0)***	***22***	***8***	***4***
12. Non-plan revenue expenditure	4,209	4,484	5,618	5,997	6,188	*7*	*25*	*7*	*3*
12.a. Interest payments	1,710	1,908	1,927	2,255	2,255	*12*	*1*	*17*	*0*
12.b. Subsidies	709	714	1,292	1,009	1,113	*1*	*81*	*(22)*	*10*
12.b.1. Food	313	327	436	425	525	*4*	*34*	*(3)*	*24*
12.b.2. Fertilizer	196	201	759	500	500	*3*	*277*	*(34)*	-
12.b.3. Others	200	186	98	85	88	*(7)*	*(48)*	*(13)*	*4*
12.c. Grants to States and UTs	384	433	384	466	486	*13*	*(11)*	*21*	*4*
12.d. Others	1,405	1,428	2,014	2,267	2,335	*2*	*41*	*13*	*3*
13. Non-plan capital exp.	867	591	562	684	769	*(32)*	*(5)*	*22*	*12*
14. Plan expenditure (15 + 16)	**2,051**	**2,434**	**2,830**	**2,852**	**3,251**	***19***	***16***	***1***	***14***
15. Plan revenue expenditure	1,736	2,098	2,417	2,484	2,784	*21*	*15*	*3*	*12*
16. Plan capital expenditure	315	336	413	368	468	*7*	*23*	*(11)*	*27*
17. Total expenditure (11 + 14)	**7,127**	**7,509**	**9,010**	**9,532**	**10,208**	***5***	***20***	***6***	***7***
18. Revenue expenditure	5,945	6,581	8,035	8,481	8,972	*11*	*22*	*6*	*6*
19. Capital expenditure	1,182	928	975	1,052	1,236	*(22)*	*5*	*8*	*18*
Deficit									
Primary Deficit (PD)	(441)	(575)	1,338	1,073	1,755	*30*	*(333)*	*(20)*	*64*
Revenue Deficit (RD)	526	552	2,413	2,385	2,827	*5*	*337*	*(1)*	*19*
Gross fiscal deficit (GFD)	1,269	1,333	3,265	3,328	4,010	*5*	*145*	*2*	*20*
Gross domestic product (GDP)	47,234	53,038	53,218	60,214	58,566	*12*	*0*	*13*	*(3)*
PD/GDP (%)	**(0.9)**	**(1.1)**	**2.5**	**1.8**	**3.0**	***16***	***(332)***	***(29)***	***68***
RD/GDP (%)	**1.1**	**1.0**	**4.5**	**4.0**	**4.8**	***(7)***	***336***	***(13)***	***22***
GFD/GDP (%)	**2.7**	**2.5**	**6.1**	**5.5**	**6.8**	***(6)***	***144***	***(10)***	***24***

Notes:
(1) 2008A represents actual government financials for FY2008.
(2) 2009BE represents FY2009 Budget estimates.
(3) 2009RE represents FY2009 revised estimates.
(4) 2010BE (I) represents FY2010 Interim Budget estimates.
(5) 2010BE (F) represents FY2010 Budget estimates.

Source: Ministry of Finance, Kotak Institutional Equities estimates kotak Institutional Equities

ITC (ITC)

Consumer Products

BUY

JULY 07, 2009

CHANGE IN RECO.

Coverage view: Attractive

Price (Rs): 198

Target price (Rs): 235

BSE-30: 14,043

No news is good news. The Union Budget 2009-10 left the excise rates on cigarettes unchanged—significant positive surprise for the street. Our positive stance is reinforced, we upgrade ITC stock to BUY (ADD previously) and increase TP to Rs235 (Rs225 previously). Building in higher cigarette margins, our EPS estimates are increased to Rs10.2 (Rs9.9 previously) and Rs11.6 (Rs11.3 previously) for FY2010E and FY2011E. No change in excise is a likely precursor to State GST of 20%, in our view.

Company data and valuation summary

ITC

Stock data			
52-week range (Rs) (high,low)			223-132
Market Cap. (Rs bn)			745.1
Shareholding pattern (%)			
Promoters			0.0
FIIs			14.2
MFs			3.4
Price performance (%)	**1M**	**3M**	**12M**
Absolute	3.3	10.0	15.5
Rel. to BSE-30	9.7	(17.5)	10.6

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	8.7	10.2	11.6
EPS growth (%)	2.8	17.9	13.9
P/E (X)	22.8	19.4	17.0
Sales (Rs bn)	153.9	173.2	201.1
Net profits (Rs bn)	32.6	38.5	43.8
EBITDA (Rs bn)	51.8	60.2	67.4
EV/EBITDA (X)	13.9	11.9	10.5
ROE (%)	25.3	26.0	25.7
Div. Yield (%)	1.9	2.0	2.3

Upgrade to BUY from ADD, increase TP to Rs235/share

- The Union Budget 2009-10 left the excise rate on cigarette unchanged—this is a significant positive surprise for the street
- We rate ITC stock as BUY (ADD previously) and increase TP to Rs235 (Rs225 previously)
- We recommend investors to utilize the recent underperformance (-17% versus Sensex over the last three months) as an opportunity to buy the stock with a one year view
- We value ITC stock at 20X FY2011E applying a 10% discount to the three year average PE as (1) impact of pictorial warnings is yet to be gauged and (2) potential threat of increase in VAT by other states beyond 20% (which is the maximum rate for demerit goods)
- Higher-than-expected increase in VAT rates remain the key risk to our BUY rating

Is the Union Budget a precursor to State GST of 20%? Quite likely, in our view

- No change in excise rate (on cigarettes) in Union Budget is a likely precursor for implementation of State GST rate of 20% in next year's budget (applicable for FY2011), in our view
- We keenly watch out for any changes in the VAT rates by the Andhra Pradesh and Kerala which together account for about 25% of ITC's cigarette revenues

QUICK NUMBERS

- We model cigarette volume growth of 5.5% in FY2010E and 4% in FY2011E
- We assume price increase of about 5% in FY2010E
- Stock trading closer to five year lowest PE

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Upgrade to BUY from ADD, increase TP to Rs235/share

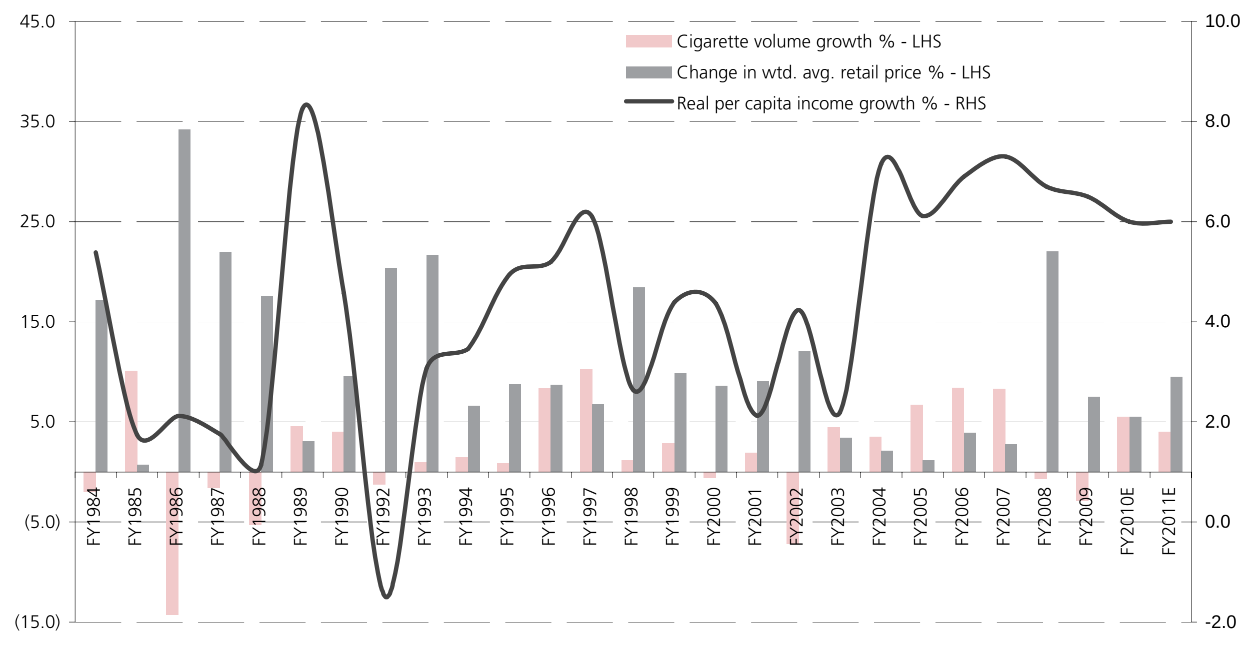
We rate ITC stock as BUY (ADD previously) and increase TP to Rs235 (Rs225 previously). We recommend investors to utilize the recent underperformance (-17% versus Sensex over the last three months) as an opportunity to buy the stock with a one year view. ITC continues to be our top pick in FMCG.

The Union Budget 2009-10 left the excise rate on cigarette unchanged—this is a significant positive surprise for the street. We had expected a moderate excise increase in the budget—our hypothesis was based on the fact that indirect tax as a proportion of retail price is already at 58% in India—one of the highest amongst developed and developing nations. Moreover, we have always believed that the government is likely to consider cigarette taxation in its totality (VAT + excise + other levies).

We model higher cigarette volumes of 5.5% (4% previously) in FY2010E and maintain our estimates of 4% growth in FY2011E. We assume a further price increase of about 2% in FY2010E (company has already effected about 3%) to maintain price-parity among brands (premium/discount between various brands). We model higher margins for cigarette segment at 28.9% in FY2010E (28.2% previously) as benefits of lower excise will likely benefit margins. Our EPS estimates are up 3%—Rs10.2 (Rs9.9 previously) and Rs11.6 (Rs11.3 previously) for FY2010E and FY2011E.

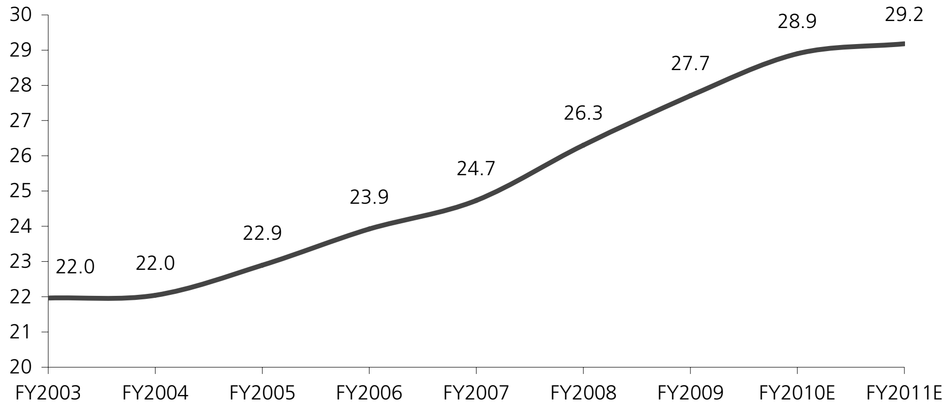
Cigarette volumes has remained resilient due to sustaining real per capita income growth, potential to grow in FY2010-11E

Cigarette volumes growth, average retail price increase and real per capita income growth (%)



Source: Kotak Institutional Equities estimates, Company

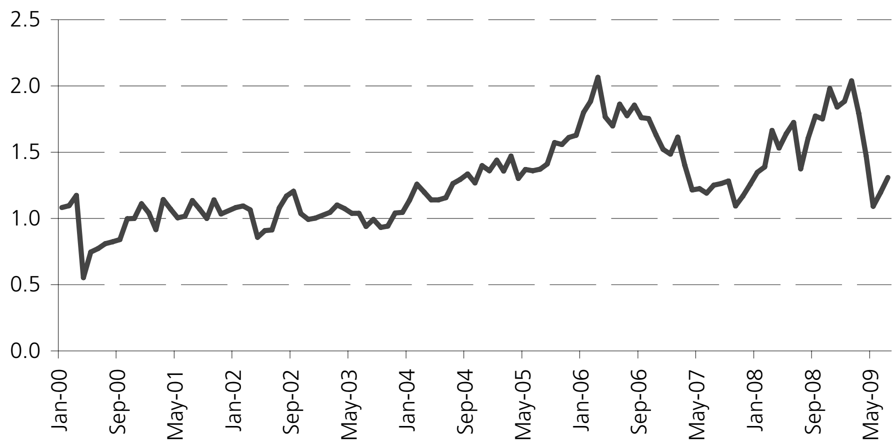
Price increases ahead of excise increase and mix improvement has helped improve margins
ITC cigarette PBIT margins, %



Source: Kotak Institutional Equities

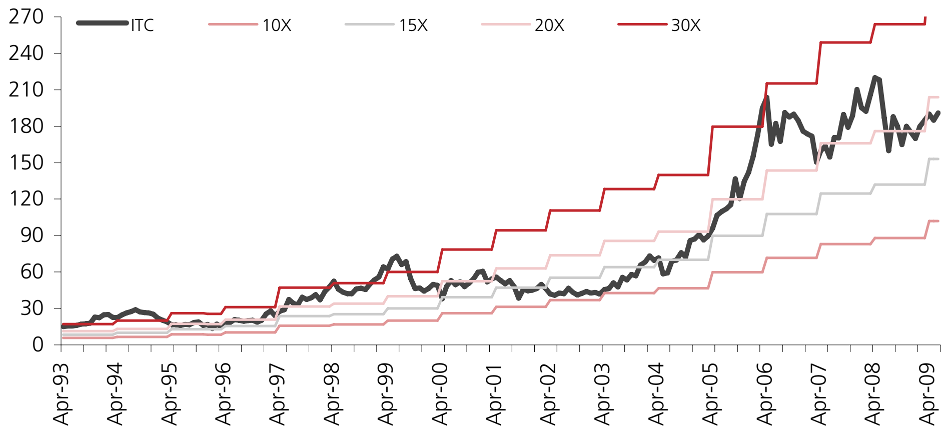
At the current price of Rs198, ITC stock trades at 17X FY2011E, at the lowest end of the last five year's trading band. We believe that the market concerns regarding indirect taxation regime could abate—in the last three years, a period faced with difficult taxation regime, the stock has traded at an average PE of 22X and has remained in the 17X-26X band.

Valuations offer upside opportunity
ITC relative PE versus Sensex (x)



Source: Kotak Institutional Equities

ITC - P/E bands (one year forward)



Source: Kotak Institutional Equities

We value the stock at 10% discount to three year average PE
One-year forward PE of ITC (x)

	Average	Maximum	Minimum
1-year	19.7	21.6	18.1
3-years	21.9	26.6	18.1
5-years	21.6	32.5	15.0

Source: Kotak Institutional Equities

We value ITC stock at 20X FY2011E applying a 10% discount to the three year average PE as (1) impact of pictorial warnings is yet to be gauged and (2) potential threat of increase in VAT by other states beyond 20% (which is the maximum rate for demerit goods). Small impact of pictorials, better-than-expected performance in other FMCG and no increase in VAT by other states are positive triggers.

Is the Union Budget a precursor to State GST of 20%? Quite likely, in our view

No change in excise rate (on cigarettes) in Union Budget is a likely precursor for implementation of State GST rate of 20% in next year's budget (applicable for FY2011), in our view. We highlight that in the State budgets for FY2010 most states have left VAT on cigarettes unchanged at 12.5% whereas Uttar Pradesh increased it modestly to 13.5% from 12.5%. The Maharashtra and Delhi governments recently increased state VAT on cigarettes to 20% from 12.5%. We keenly watch out for any changes in the VAT rates by the Andhra Pradesh and Kerala which together account for about 25% of ITC's revenues.

Many states have already presented the budget for FY2010 but have left VAT rate unchanged

State/region	FY2009-10 Budget status (Interim/Final)	Contribution to ITC cigarette sales (Value, %)	Increase in VAT on cigarettes
Tamilnadu	Final	11	No
West Bengal	Final	8	No
Haryana	Final	4	No
Chattisgarh	Final	3	No
Bihar	Final	3	No
Gujarat	Final	3	No
Himachal Pradesh	Final	2	No
Maharashtra	Final	9	Yes, 12.5% to 20%
Delhi	Final	4	Yes, 12.5% to 20%
Uttar Pradesh	Final	4	Yes, 12.5% to 13.5%
Andhra Pradesh	Interim	13	
Kerala	Interim	12	
Karnataka	Interim	9	
Madhya Pradesh	Interim	3	

Source: Kotak Institutional Equities

ITC, change in estimates, March fiscal year-ends (Rs mn)

	FY10E			FY11E		
	New	Old	Change (%)	New	Old	Change (%)
Sales	173,209	173,160	0.0	201,133	199,496	0.8
Operating profit	56,938	53,884	5.7	63,924	60,625	5.4
PBT	56,933	55,121	3.3	64,034	62,251	2.9
Net profit	38,463	37,330	3.0	43,811	42,701	2.6
EPS (Rs)	10.2	9.9	3.0	11.6	11.3	2.6
Growth, %						
Sales	12.6	12.5		16.1	15.2	
Operating profit	16.9	10.9		12.3	12.5	
Net profit	17.9	14.2		13.9	14.4	
EPS	17.9	14.2		13.9	14.4	

Source: Kotak Institutional Equities estimates

ITC: Profit model, balance sheet, cash flow model 2006-2011E, March fiscal year-ends (Rs mn)

	2006	2007	2008	2009E	2010E	2011E
Profit model (Rs mn)						
Net sales	97,905	123,693	140,012	153,881	173,209	201,133
EBITDA	**33,274**	**39,700**	**44,703**	**48,686**	**56,938**	**63,924**
Other income	2,899	3,365	6,109	5,349	6,611	7,684
Interest	(158)	(169)	(173)	(284)	(111)	(111)
Depreciation	(3,323)	(3,629)	(4,385)	(5,494)	(6,506)	(7,463)
Extraordinary items	(63)	—	—	—	—	—
Pretax profits	32,629	39,267	46,255	48,258	56,933	64,034
Tax	(10,276)	(12,267)	(14,517)	(15,622)	(18,470)	(20,223)
Net profits	**22,353**	**27,000**	**31,738**	**32,636**	**38,463**	**43,811**
Earnings per share (Rs)	**6.0**	**7.2**	**8.4**	**8.7**	**10.2**	**11.6**
Balance sheet (Rs mn)						
Total equity	90,615	104,371	120,577	137,351	158,192	182,179
Deferred taxation liability	3,248	4,729	5,451	8,672	8,672	8,672
Total borrowings	1,197	2,009	2,144	1,776	1,776	1,776
Currrent liabilities	35,781	38,576	44,323	47,050	47,935	52,435
Total liabilities and equity	**130,840**	**149,684**	**172,495**	**194,848**	**216,574**	**245,062**
Cash	8,558	9,002	5,703	10,324	15,158	24,664
Current assets	43,061	53,896	64,490	71,287	74,817	87,192
Total fixed assets	44,051	56,109	72,956	84,860	98,222	104,828
Investments	35,170	30,678	29,346	28,378	28,378	28,378
Total assets	**130,840**	**149,684**	**172,495**	**194,848**	**216,574**	**245,062**
Free cash flow (Rs mn)						
Operating cash flow, excl. working capital	25,638	31,040	37,112	41,493	45,411	51,551
Working capital	(5,469)	(8,667)	(6,634)	(4,977)	175	(5,978)
Capital expenditure	(6,013)	(15,702)	(21,239)	(17,407)	(19,878)	(14,079)
Investments	3,577	4,492	1,332	968—	—	—
Free cash flow	**17,734**	**11,164**	**10,570**	**20,077**	**25,708**	**31,493**
Key ratios (%)						
Sales growth	28.2	26.3	13.2	9.9	12.6	16.1
EBITDA margins	34.0	32.1	31.9	31.6	32.9	31.8
EPS growth	28.3	20.1	17.1	2.8	17.9	13.9

Source: Kotak Institutional Equities estimates

ITC: Segment revenue and PBIT, 2006-2011E, March fiscal year-ends (Rs mn)

	2006	2007	2008	2009	2010E	2011E
Segment revenue, gross (Rs mn)						
Cigarettes	113,297	128,337	138,256	151,151	168,130	190,941
Other FMCG	10,135	17,044	25,231	30,140	35,557	41,519
Hotels	7,834	9,857	11,002	10,203	10,701	12,240
Agri Business	26,784	36,914	38,998	38,460	39,242	44,954
Paperboards, Paper & Packaging	18,957	21,001	23,643	28,220	33,802	38,793
TOTAL	177,007	213,152	237,131	258,173	287,431	328,447
Less: Inter segment revenue	14,763	18,101	23,137	26,738	28,433	32,600
Gross sales	**162,244**	**195,051**	**213,994**	**231,435**	**258,999**	**295,847**
Net sales	97,905	123,693	140,012	153,881	173,209	201,133
Segment revenue break up, (%)						
Cigarettes	**69.8**	**65.8**	**64.6**	**65.3**	**64.9**	**64.5**
Other FMCG	6.2	8.7	11.8	13.0	13.7	14.0
Hotels	4.8	5.1	5.1	4.4	4.1	4.1
Agri Business	16.5	18.9	18.2	16.6	15.2	15.2
Paperboards, Paper & Packaging	11.7	10.8	11.0	12.2	13.1	13.1
TOTAL	109.1	109.3	110.8	111.6	111.0	111.0
Less: Inter segment revenue	9.1	9.3	10.8	11.6	11.0	11.0
Gross sales	100.0	100.0	100.0	100.0	100.0	100.0
Segment PBIT margins (Rs mn)						
Cigarettes	27,088	31,722	36,340	41,838	48,539	55,678
Other FMCG	(1,718)	(2,020)	(2,635)	(4,835)	(4,638)	(3,369)
Hotels	2,581	3,508	4,108	3,162	2,943	3,678
Agri Business	909	1,236	1,292	2,562	3,196	3,862
Paperboards, Paper & Packaging	3,514	4,168	4,531	5,086	6,259	7,558
TOTAL	32,373	38,613	43,636	47,813	56,299	67,408
Segment PBIT margins (%)						
Cigarettes	23.9	24.7	26.3	27.7	28.9	29.2
Other FMCG	(17.0)	(11.9)	(10.4)	(16.0)	(13.0)	(8.1)
Hotels	32.9	35.6	37.3	31.0	27.5	30.0
Agri Business	3.4	3.3	3.3	6.7	8.1	8.6
Paperboards, Paper & Packaging	18.5	19.8	19.2	18.0	18.5	19.5
TOTAL	18.3	18.1	18.4	18.5	19.6	20.5

Source: Kotak Institutional Equities estimates

ITC: Segment revenue, 2006-2011E, March fiscal year-ends (Rs mn)

	2006	2007	2008	2009	2010E	2011E
Segment revenue, gross (Rs mn)						
Cigarettes	113,297	128,337	138,256	151,151	168,130	190,941
Other FMCG	10,135	17,044	25,231	30,140	35,557	41,519
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Gross sales	**162,244**	**195,051**	**213,994**	**231,435**	**258,999**	**295,847**
Net sales	97,905	123,693	140,012	153,881	173,209	201,133
Segment revenue growth, (%)						
Cigarettes		13.3	7.7	9.3	11.2	13.6
Other FMCG		68.2	48.0	19.5	18.0	16.8
Hotels		25.8	11.6	(7.3)	4.9	14.4
Agri Business		37.8	5.6	(1.4)	2.0	14.6
Paperboards, Paper & Packaging		10.8	12.6	19.4	19.8	14.8
TOTAL		20.4	11.2	8.9	11.3	14.3
Less: Inter segment revenue		22.6	27.8	15.6	6.3	14.7
Gross sales		20.2	9.7	8.2	11.9	14.2
Net sales		26.3	13.2	9.9	12.6	16.1

Source: Kotak Institutional Equities estimates

Reliance Industries (RIL)

Energy

SELL

JULY 07, 2009

UPDATE

Coverage view: Cautious

Price (Rs): 1,893

Target price (Rs): 1,600

BSE-30: 14,043

The stars are not good these days. We view the Indian Budget FY2010 as negative for RIL due to non-availability of seven-year tax exemption for gas production. We have cut earnings to factor (1) non-availability of tax exemption on natural gas production, (2) lower refining margins and (3) higher MAT rate. We retain SELL rating with a 12-month fair valuation of Rs1,600 (Rs1,650 previously). Our revised consolidated EPS estimates for FY2010E-12E are Rs112 (-12%), Rs145 (-14%) and Rs184 (-14%).

Company data and valuation summary

Reliance Industries

Stock data			
52-week range (Rs) (high,low)			2,535-930
Market Cap. (Rs bn)			2,599.3
Shareholding pattern (%)			
Promoters			42.4
FIIs			19.4
MFs			2.6
Price performance (%)	**1M**	**3M**	**12M**
Absolute	(14.4)	13.3	(9.8)
Rel. to BSE-30	(6.9)	(15.0)	(13.5)

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	103.4	112.5	144.7
EPS growth (%)	(1.5)	8.8	28.6
P/E (X)	18.3	16.8	13.1
Sales (Rs bn)	1,499.7	1,750.3	1,931.5
Net profits (Rs bn)	157.1	176.9	227.6
EBITDA (Rs bn)	239.8	346.7	420.0
EV/EBITDA (X)	11.6	7.8	6.0
ROE (%)	15.1	14.1	16.2
Div. Yield (%)	0.6	0.7	0.9

Non-availability of tax exemption on gas production is negative for RIL

Our reading of the FY2010 budget document suggests that an undertaking can claim100% income tax exemption on profits from natural gas production for a period of seven years from blocks offered in NELP VIII (due shortly) only. In our view, this benefit is not available for gas produced from NELP I-VII blocks; this includes RIL's D6 block, which is a NELP I block.

Revised earnings for non-availability of tax exemption and lower refining margins

We have cut earnings estimates to reflect (1) non-availability of tax exemption as discussed above, (2) lower refining margins and (3) higher MAT rate of 17% versus 11.33%. We compute an EPS impact of Rs9 on FY2010E EPS and a valuation impact of Rs84 due to non-availability of tax exemption for natural gas production. We assume refining margins of US$9.4/bbl, US$10.5/bbl and US$11.2/bbl for FY2010E, FY2011E and FY2012E, lower by US$0.5-1/bbl versus our previous assumptions. Reliance's earnings have high sensitivity to refining margins.

Maintain SELL with a revised SOTP-based 12-month fair valuation of Rs1,600

We retain our SELL rating on RIL with a revised 12-month fair valuation of Rs1,600 (Rs1,650 previously). The change in valuation reflects (1) non-availability of tax exemption for natural gas production (-ve impact), (2) lower refining margins (-ve impact), (3) higher multiples for refining and chemical segment (+ve impact) and (4) higher MAT rate of 17% versus 11.33% (-ve impact).

QUICK NUMBERS

- Non-availability of tax exemption alone reduces FY2010E EPS by Rs9
- Cut FY2010E, FY2011E and FY2012E EPS to Rs112 (-12%), Rs145 (-14%) and Rs184 (-14%)
- Revise SOTP-based 12-month fair valuation to Rs1,600

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Reduced fair value estimate but further downside risks exist

Exhibit 1 is our SOTP valuation for RIL based on FY2011E estimates. We have factored in the impact of budget-related developments and also reduced our assumptions for refining margins. However, we have increased our target multiples for the chemical and refining segments to 6.5X FY2011E EBITDA from 6X previously to reflect the market's increased risk appetite (lower implied cost of equity) and our current somewhat generous mood.

SOTP valuation of Reliance is Rs1,600 per share on FY2011E estimates
Sum-of-the-parts valuation of Reliance Industries, FY2011E basis (Rs)

	Valuation base (Rs bn)		Multiple (X)		EV	Value share
	Other	**EBITDA**	**Muliple**	**EV/EBITDA**	**(Rs bn)**	**(Rs)**
Chemicals		73		6.5	474	328
Refining & Marketing		162		6.5	1,050	728
Oil and gas—producing		27		5.0	133	92
Gas—developing (DCF-based) (a)	429	—	100%	—	429	297
Oil—KG-DWN-98/3 (b)	86	—	100%	—	86	60
Investments						
Others	27	—	100%	—	27	19
Loans & advances to affiliates less accounts payables to affiliates	83	—	100%	—	83	58
Retailing	60	—	80%	—	48	33
SEZ development	62	—	80%	—	50	34
Total enterprise value					**2,381**	**1,649**
Net debt					158	110
Implied equity value					**2,223**	**1,540**

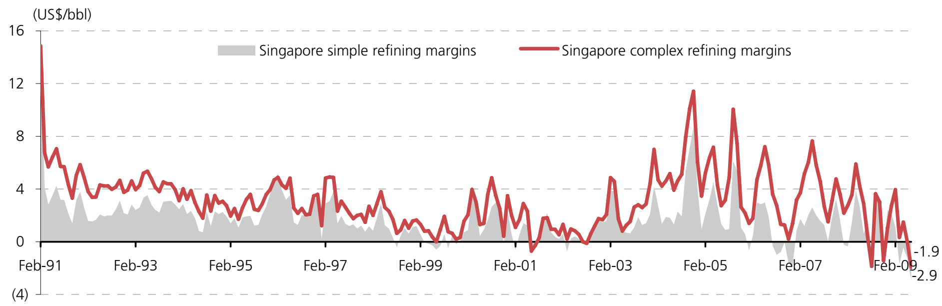
Note:
(a) We value the KG D-6 and NEC-25 gas discoveries on DCF and CBM discoveries based on KG D-6's valuation.
(b) 180 mn bbls of recoverable reserves based on gross OOIP of 0.5 bn bbls.
(c) Net debt is for 'merged' entity.
(d) We use 1.443 bn shares post merger of RPET with RIL (excluding treasury shares) for per share computations.

Source: Kotak Institutional Equities estimates

We note that we have not factored in potential negatives of further unfavorable developments in the ongoing RIL-RNRL dispute. We assume that RIL will sell 40 mcm/d of gas to RNRL (28 mcm/d) and NTPC (12 mcm/d) at US$2.34/mn BTU starting FY2013E for a period of 17 years. However, we do not assume additional liability to the government of India. We compute a further downside risk of Rs112 in case RIL has to pay the government of India (1) royalty, (2) income tax and (3) government's share of profit petroleum at a gas price of US$4.2/mn BTU as per the government-approved formula rather than at US$2.34/mn BTU.

We also see downside risks to our earnings estimates from weaker-than-expected refining margins. Refining margins continue to be abysmally low (see Exhibit 2) and the premium between light-sweet and heavy-sour crude has also compressed significantly of late (see Exhibit 3). RIL's earnings have very high sensitivity to refining margins as can be seen in Exhibit 4.

Refining margins have collapsed in the recent month
Singapore refining margins (US$/bbl)



Simple refining margins, March fiscal year-ends (US$/bbl)										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 YTD
1Q	1.29	0.51	0.30	1.05	1.69	3.02	2.52	2.25	2.40	(1.51)
2Q	2.47	0.45	0.07	1.20	3.13	2.78	(0.70)	0.99	1.71	(2.85)
3Q	1.74	1.06	1.44	1.57	6.46	2.22	(1.25)	2.32	1.31	
4Q	0.21	(0.03)	2.98	2.88	2.08	1.09	1.25	0.25	0.65	
Average	**1.43**	**0.50**	**1.20**	**1.67**	**3.34**	**2.28**	**0.45**	**1.45**	**1.52**	**(1.61)**

Complex refining margins, March fiscal year-ends (US$/bbl)										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 YTD
1Q	1.86	1.34	0.79	1.24	4.57	4.93	6.24	6.58	4.31	(0.13)
2Q	3.96	0.58	0.14	2.35	5.80	6.11	2.46	2.91	0.66	(1.88)
3Q	2.25	1.22	1.56	3.23	9.04	3.94	0.98	3.91	1.04	
4Q	1.60	0.65	3.70	5.44	5.02	2.77	4.11	2.78	2.36	
Average	**2.42**	**0.95**	**1.55**	**3.06**	**6.10**	**4.44**	**3.45**	**4.05**	**2.09**	**(0.26)**

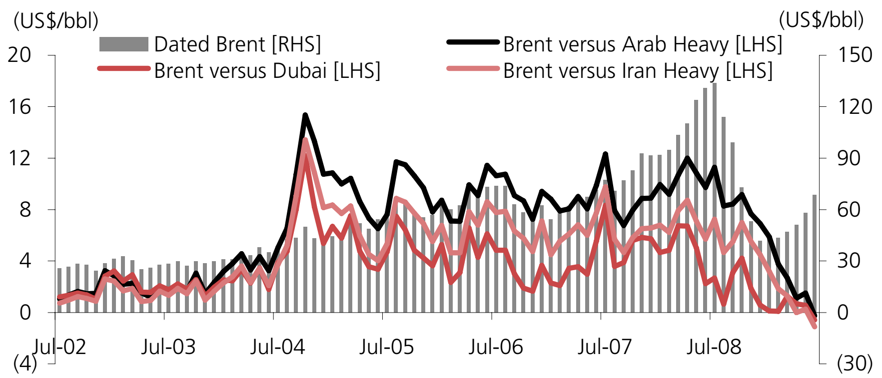
Weekly margins (simple)				
Current	-1 Wk	-2 Wk	-3 Wk	-4 Wk
(2.85)	**(2.84)**	(3.44)	(3.54)	(1.89)

Weekly margins (complex)				
Current	-1 Wk	-2 Wk	-3 Wk	-4 Wk
(1.88)	**(2.09)**	(2.21)	(2.53)	(0.95)

Singapore refining margins, March fiscal year-ends (US$/bbl)										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 YTD
Simple	1.43	0.50	1.20	1.67	3.34	2.28	0.45	1.45	1.52	(1.61)
Complex	1.86	1.34	0.79	1.24	4.57	4.93	3.45	4.05	2.09	(0.26)

Source: Bloomberg, Kotak Institutional Equities

Light-heavy differential has contracted significantly
Light-heavy differential (US$/bbl)



Source: Bloomberg, Kotak Institutional Equities

Reliance's earnings have high leverage to refining margins
Sensitivity of RIL's consolidated earnings to key variables

	Fiscal 2010E			Fiscal 2011E			Fiscal 2012E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
Rupee-dollar exchange rate									
Rupee-dollar exchange rate	47.0	48.0	49.0	46.8	47.8	48.8	46.5	47.5	48.5
Net profits (Rs mn)	170,906	176,944	182,982	220,515	227,611	234,708	282,074	290,081	298,087
EPS (Rs)	108.6	112.5	116.3	140.2	144.7	149.2	179.3	184.4	189.5
% upside/(downside)	**(3.4)**		**3.4**	**(3.1)**		**3.1**	**(2.8)**		**2.8**
Chemical prices									
Change in prices (%)	(5.0)		5.0	(5.0)		5.0	(5.0)		5.0
Net profits (Rs mn)	172,179	176,944	181,710	223,449	227,611	231,774	285,637	290,081	294,525
EPS (Rs)	109.4	112.5	115.5	142.0	144.7	147.3	181.5	184.4	187.2
% upside/(downside)	**(2.7)**		**2.7**	**(1.8)**		**1.8**	**(1.5)**		**1.5**
Refining margins (US$/bbl)									
Margins (US$/bbl)	8.4	9.4	10.4	9.5	10.5	11.5	10.2	11.2	12.2
Net profits (Rs mn)	163,067	176,944	190,816	213,098	227,611	242,122	275,667	290,081	304,493
EPS (Rs)	103.6	112.5	121.3	135.4	144.7	153.9	175.2	184.4	193.5
% upside/(downside)	**(7.8)**		**7.8**	**(6.4)**		**6.4**	**(5.0)**		**5.0**

Source: Kotak Institutional Equities estimates

Cut earnings to reflect negative tax-related development and weaker refining margins

We have cut FY2010E, FY2011E and FY2012E EPS to Rs112 (-12%), Rs145 (-14%) and Rs184 (-14%) to reflect (1) non-availability of income tax exemption on production of natural gas and (2) lower refining margins by US$0.5-1/bbl. We have assumed higher use of gas for internal refining processes, which mitigates a sharper cut in our underlying assumptions for refining margins. We highlight that RIL has been importing LNG and using the same to run its refineries. Current spot LNG prices are quite low and also, RIL will be in a position to use gas from its KG D-6 block by end of FY2010E.

We note that the government has left import tariffs on all oil and gas products and crude oil unchanged. The government has also left the tariffs of chemical products unchanged. Exhibit 5 gives our summary financials for RIL.

RIL consolidated with RPL: Profit model, balance sheet, cash model, March fiscal year-ends, 2003-2012E (Rs mn)

	2003	2004	2005	2006	2007	2008	2009E	2010E	2011E	2012E
Profit model (Rs mn)										
Net sales	451,133	510,715	656,223	809,113	1,114,927	1,334,430	1,499,690	1,750,334	1,931,544	2,031,194
EBITDA	**75,808**	**91,148**	**123,820**	**139,991**	**198,462**	**233,056**	**236,220**	**343,128**	**416,464**	**492,369**
Other income	10,012	11,381	14,498	6,829	4,783	8,953	20,570	34,555	36,127	43,090
Interest	(15,552)	(14,347)	(14,687)	(8,770)	(11,889)	(10,774)	(17,450)	(51,228)	(38,166)	(17,343)
Depreciation & depletion	(28,371)	(32,470)	(37,235)	(34,009)	(48,152)	(48,471)	(51,720)	(93,053)	(102,501)	(113,944)
Pretax profits	41,897	55,711	86,397	104,041	143,205	182,764	187,620	233,403	311,923	404,172
Extraordinary items	7,845	7,300	4,290	3,000	2,000	47,335	(3,700)	—	—	—
Tax	(2,459)	(3,510)	(7,050)	(9,307)	(16,574)	(26,520)	(21,290)	(40,747)	(75,651)	(106,574)
Deferred taxation	(6,240)	(7,900)	(7,920)	(7,040)	(9,196)	(8,999)	(9,000)	(7,594)	5,186	10,677
Minority interest	—	—	—	—	—	—	(249)	(8,117)	(13,846)	(18,195)
Net profits	41,043	51,601	75,717	90,693	119,434	194,580	153,381	176,944	227,611	290,081
Adjusted net profits	**34,570**	**45,623**	**72,135**	**88,152**	**117,789**	**152,605**	**156,472**	**176,944**	**227,611**	**290,081**
Earnings per share (Rs)	**25**	**33**	**52**	**63**	**81**	**105**	**103**	**112**	**145**	**184**
Balance sheet (Rs mn)										
Total equity	303,744	344,525	404,033	430,543	673,037	847,853	1,130,178	1,274,764	1,464,478	1,702,635
Deferred taxation liability	26,848	34,748	42,668	49,708	69,820	78,725	87,725	95,320	90,134	79,457
Minority interest	—	—	—	—	33,622	33,622	33,832	38,051	47,105	57,072
Total borrowings	197,583	209,447	187,846	218,656	332,927	493,072	710,346	614,160	391,160	202,012
Currrent liabilities	109,666	122,855	171,315	164,545	192,305	251,427	301,513	246,007	256,570	256,749
Total liabilities and equity	**637,842**	**711,574**	**805,863**	**863,452**	**1,301,712**	**1,704,700**	**2,263,594**	**2,268,302**	**2,249,446**	**2,297,925**
Cash	1,472	2,242	36,087	21,461	18,449	42,822	256,703	246,297	232,729	307,020
Current assets	227,809	218,159	248,438	224,283	286,566	402,721	483,779	510,829	533,699	539,984
Total fixed assets	340,863	351,460	350,823	626,745	899,403	1,081,638	1,333,592	1,321,657	1,293,500	1,261,401
Investments	67,227	139,714	170,515	(9,038)	97,294	177,519	189,519	189,519	189,519	189,519
Deferred expenditure	472	—	—	—	—	—	—	—	—	—
Total assets	**637,842**	**711,574**	**805,863**	**863,452**	**1,301,712**	**1,704,700**	**2,263,594**	**2,268,302**	**2,249,446**	**2,297,924**
Free cash flow (Rs mn)										
Operating cash flow, excl. working capital	67,072	83,301	107,002	119,520	164,285	180,718	168,460	244,498	297,135	361,851
Working capital	(17,614)	20,265	46,875	(32,188)	(13,075)	(31,071)	(30,973)	(82,555)	(12,307)	(6,107)
Capital expenditure	(37,043)	(43,191)	(52,440)	(94,273)	(247,274)	(239,691)	(238,171)	(74,940)	(73,616)	(82,895)
Investments	(34,204)	(68,430)	(48,192)	(32,364)	(105,760)	(78,953)	(12,000)	—	—	—
Other income	5,219	5,902	3,032	5,159	4,143	6,132	20,570	34,555	36,127	43,090
Free cash flow	**(16,569)**	**(2,153)**	**56,276**	**(34,146)**	**(197,681)**	**(162,865)**	**(92,114)**	**121,558**	**247,339**	**315,939**
Ratios (%)										
Debt/equity	59.8	55.2	42.1	45.5	44.8	53.2	58.3	44.8	25.2	11.3
Net debt/equity	59.3	54.6	34.0	41.1	42.3	48.6	37.2	26.8	10.2	(5.9)
RoAE	10.7	12.7	17.6	19.9	20.3	18.9	15.0	14.1	16.0	17.7
RoACE	**8.8**	**9.7**	**13.0**	**13.8**	**13.9**	**12.7**	**9.9**	**11.2**	**13.4**	**15.9**

Source: Company, Kotak Institutional Equities estimates

We believe that there is some amount of confusion about the income tax exemption on production of gas. We have dealt with this in more detail in our comment on the Energy sector dated July 7, 2009. We provide the key excerpt from the Finance Bill, 2009 clarifying the same. *"It is also proposed to further amend the said sub-section (9) as so substituted and further amended by inserting a new clause (iv) to provide that the benefit of deduction under the said sub-section shall be available if the undertaking is engaged in commercial production of natural gas in blocks licensed under the VIII Round of bidding for award of exploration contracts under the New Exploration Licensing Policy announced by the Government of India Vide Resolution No.0- 9018/22/95-ONG.DO.VL dated 10th February, 1999 (hereinafter referred to as "NELP-VIII") and begins commercial production of natural gas on or after the 1st day of April, 2009."*

NEUTRAL

JULY 07, 2009

UPDATE

BSE-30: 14,043

Budget 2010— one positive and one negative for the Indian IT sector. Finance Bill 2010 has two amendments that have marginal near-term implications (1) extension of STPI sunset clause by another year—TCS, HCLT and mid-sized companies may benefit, and (2) correction in anamoly of computing SEZ tax exemption done prospectively as against companies' expectations (other than Infosys) of restropective correction; IT companies with operational SEZs may possibly have to shell out taxes for earlier years.

STPI tax benefit extension— TCS and HCLT likely to gain

The Indian Government has extended tax holiday under section 10A of the Indian Income Tax Act by another year. Tax exemption will now be available for 10-years for a unit or till end-March 2011E, whichever is earlier. Extension of the tax benefit has marginal FY2011E earnings benefit for Infosys and Wipro— most of their STPI units complete maximum allowed 10-year of tax concession by FY2010E. TCS and HCLT's FY2011E ETR may reduce to 18% and 17% versus our earlier estimated 21% and 28% respectively providing 4% and 15% upside to our FY2011E EPS estimates, respectively.

Provides little more breathing space to the mid-sized companies

Most mid-sized companies have been slow on SEZ expansion or had expansion plans impacted by recession in client geographies. Thus, STPI benefit extension provides these companies some more time to expand their SEZ presence, thereby reducing the negative impact of STPI phase-out in FY2011E. Our FY2011E EPS estimate may increase by 14.5% for Mindtree, 9% for Hexaware, and 2.2% for Patni. Exhibit 1 summarizes the potential earnings for Indian IT companies.

Anomaly in tax exemption from SEZ units corrected prospectively—potentially negative for IT cos

The Finance Bill has proposed revision in methodology of computing tax exemption on profits derived from SEZs. Under the proposed revision, profits from SEZs are exempt in the ratio of export revenues to the total revenues of **SEZ—this clause till now read as export revenues from SEZ to total revenues of the firm**. For example, if a firm has Rs100 of export revenues from SEZ versus Rs1000 total revenues, exemption till FY2009 was restricted to the ratio of 100/1000 i.e. only10% of profit from SEZ was exempt from taxation. Post revision, the entire SEZ income would be exempt. This revision is proposed prospectively starting April 1, 2010, a negative. Indian IT companies paid taxes in the earlier years assuming that earlier provision was anomalous and would get corrected retrospectively. We believe that Indian IT companies (other than Infosys, which was conservative) may have to pay taxes for earlier years along with interest. Exhibit 2 gives a hypothetical example of the impact.

Increase in MAT rate of taxation and abolishment of FBT will have insignificant impact

The Government has proposed increase in Minimum Alternate Tax (MAT) rate to 15% from 10% earlier. This does not impact our earnings estimate (even though there is a cash flow impact) for any Indian IT company since they create an asset of an equivalent amount and offset future tax liabilities as long as it utilized within a period of 10-years of creation. Fringe Benefit Tax (FBT) paid by companies was an insignificant 0.2-0.5% of earnings. Abolishment of the same will lead to insignificant gains for Indian IT. FBT paid on stock options was recovered from employees, in any case.

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Exhibit 1: Estimation of EPS impact of STPI tax benefit extension - mid-caps stand to gain more

	Current estimates				With 1-year STPI extension				Change (%)	
	EPS (Rs)		Tax rate (%)		EPS (Rs)		Tax rate (%)		EPS	
	FY2010E	FY2011E	FY2010E	FY2011E	FY2010E	FY2011E	FY2010E	FY2011E	FY2010E	FY2011E
Infosys	99.3	111.9	17.0	20.4	99.3	112.5	17.0	20.0	—	0.6
TCS	26.9	29.6	17.5	21.1	26.9	30.8	17.5	18.0	—	3.9
Wipro	26.4	29.2	14.3	21.5	26.4	30.6	14.3	17.5	—	5 (c)
HCLT	13.1	17.0	18.5	28.0	13.6	19.6	15.5	17.0	3.7	15.3
Patni	24.7	26.8	19.4	22.7	24.7	27.4	19.4	21.0	—	2.2
MindTree	46.6	51.9	17.1	23.2	46.6	59.4	17.1	12.0	—	14.5
Hexaware	3.6	4.0	19.0	26.3	3.6	4.3	19.0	20.0	—	8.6
Polaris	12.8	11.6	19.0	28.0	12.8	12.5	19.0	22.0	—	8.3

Note:
(a) HCLT is June year-end.
(b) Patni and Hexaware are December year-ends.
(c) Actual benefit from STPI tax exemption extension is minimal; however, our earlier tax assumption was conservative.

Source: Companies, Kotak Institutional Equities estimates

Exhibit 2: A hypothetical example depicting the impact (on FY2009 earnings) of SEZ tax computation methodology revision with prospective effect

Hypothetical example	
Total revenues	100.0
Total net profits	20.0
Total PBT	23.5
Tax paid	3.5
Effective tax rate (actual)	15.0
Offshore revenues	50.0
SEZ revenues as % of total revenues	6.0
SEZ revenues as % of offshore revenues	12.0
% of SEZ profits on which tax exemption available	12.0
% of SEZ profits on which tax exemption claimed	100.0
Offshore PBT margin (%)	35.0
Taxes paid and provided for on SEZ profits	-
Taxes that should have been paid and provided for on SEZ profits	0.6
Marginal tax rate (%)	34.0
Revised tax paid	4.2
Revised ETR (%)	**17.7**
Increase in ETR (bps)	**267.0**
Revised net profit	**19.4**
Change in net profit (%)	**(3.1)**

Source: Kotak Institutional Equities estimates

Exhibit 3: Infosys' STPI units and their tax exemption status

Unit	Year of Commencement	Tax exemption status
Electronics City, Bangalore	1995	Expired
Mangalore	1996	Expired
Pune	1997	Expired
Bhubaneswar	1997	Expired
Chennai	1997	Expired
Phase I, Electronics City, Bangalore	1999	Expired
Phase II, Electronics City, Bangalore	2000	Ends FY2009
Hinjewadi, Pune	2000	Ends FY2009
Mysore	2000	Ends FY2009
Hyderabad	2000	Ends FY2009
Mohali	2000	Ends FY2009
Sholinganallur, Chennai	2001	Ends FY2010
Konark, Bhubaneswar	2001	Ends FY2010
Mangala, Mangalore	2001	Ends FY2010
Thiruvananthapuram	2004	

Source: Company, Kotak Institutional Equities kotak Institutional Equities

Energy

India

CAUTIOUS

JULY 07, 2009

UPDATE

BSE-30: 14,043

Negative impact of FY2010 Budget; larger issues left untouched. We view the FY2010 Indian Budget as negative for the Indian oil and gas sector. The key budget-related changes include (1) non-availability of tax exemption on natural gas production for NELP I-VII blocks, (2) availability of deduction for capital expenditure on cross-country pipeline network but corresponding removal of 10-year tax exemption under Section 80 IA and (3) increase in MAT rate to 17% from 11.33%.

Larger issues of deregulation, subsidy-sharing mechanism untouched

We view the Indian Budget FY2010 as negative for the Indian oil and gas sector given that the government did not address the larger issues facing the sector. It did not provide any roadmap for deregulation of pricing of petroleum products, which is negative versus expectations. Also, the government did not lay out any transparent scheme for sharing of subsidies.

Direct tax impact—No exemption on gas production for NELP I-VII blocks, higher MAT rate

(1) The government has clarified that tax exemption on production of natural gas will be available on blocks offered under NELP VIII only (and presumably beyond). We view this as a significant negative versus expectations as the tax exemption will not be available for extant blocks. (2) The government has provided for availability of deduction under Section 35AD for capital expenditure incurred on laying cross-country natural gas distribution networks. We see this as having minimal impact on GAIL as it had another form of exemption earlier. (3) The government has extended the date for availing tax exemption under Section 80 IB benefit for refineries to March 31, 2012 from March 31, 2009 earlier; this would be a positive for new refineries of Bharat Oman Refineries (subsidiary of BPCL) and Essar Oil. (4) The government has also increased the MAT (Minimum Alternate Tax) rate to 17% from 11.33% currently.

No change in tariff protection for refining; introduction of GST from April 1, 2010

The government has left import tariffs on all oil and gas products and crude oil unchanged. We assume that the introduction of GST from April 1, 2010 would entail removal of several state and city-level taxes including octroi duty or availability of offsets on such irrecoverable taxes. We note that the removal of octroi duty on crude oil (3% currently) would boost refining margins of the Mumbai refineries of BPCL and HPCL.

QUICK NUMBERS

- Rs14 EPS impact on RIL for FY2011E due to non-availability of Section 80 IB
- Nominal impact on GAIL of proposed tax changes
- MAT rate increased to 17% from 11.3%

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Budget details

- **Amount of direct subsidy payment from the budget and provision for oil bonds.** The government has provided for a direct subsidy of Rs31.4 bn for FY2010E from the budget on kerosene and LPG versus Rs29 bn for FY2009 (revised estimate). Also, the government has provided for Rs103 bn of oil bonds for FY2010E against Rs713 bn issue of bonds in FY2009 (the budget document gives a figure at Rs759 bn); however, we highlight that this is a provisional amount and the actual amount of oil bonds will depend on the actual gross under-recoveries for FY2010E and the subsidy-sharing system. Exhibit 1 shows our computation of gross under-recoveries, oil bonds and share of upstream companies for FY2010E and compares the same with the previous years.

Gross under-recoveries will likely be likely lower in FY2010E
Share of various participants of under-recoveries, March fiscal year-ends, 2006-2010E (Rs bn)

	2006	2007	2008	2009	2010E
Dated Brent crude oil price (US$/bbl)	57	65	82	85	60
Subsidy loss	**400**	**494**	**771**	**1,032**	**350**
Payment by government (oil bonds)	**115**	**241**	**353**	**713**	**160**
Share of BPCL	22	53	86	162	36
Share of HPCL	23	49	77	147	33
Share of IOCL	70	138	190	404	91
Net under-recovery of oil companies	**285**	**253**	**418**	**319**	**190**
Share of refining companies	27	—	—	—	—
Share of upstream companies	**140**	**205**	**257**	**329**	**117**
Share of ONGC	120	170	220	282	100
Share of GAIL	11	15	14	18	6
Share of Oil India	10	20	23	29	10
Net under-recovery of R&M companies (BPCL, HPCL, IOCL)	**118**	**48**	**161**	**(10)**	**73**
Pre-tax profits of R&M companies	**74**	**96**	**153**	**50**	

Source: Kotak Institutional Equities estimates

- **No change in import tariffs and excise duties.** Exhibit 2 shows that current tariff protection for refining is 2.4%, unchanged from previous levels. Import tariff on crude oil continues to be 0%.

The government has left import tariffs on all oil and gas products and crude oil unchanged
Import tariffs on oil products, March fiscal year-ends, 2005-2010E (%)

	2005	2006	Mar-07	2007	2008	Jun-08	2009E	2010E
LPG	6.6	—	—	—	—	—	—	—
Gasoline	16.7	10.2	7.7	8.1	7.7	2.6	3.4	2.6
Naphtha	7.6	4.7	—	—	—	—	—	—
Kerosene	6.6	—	—	—	—	—	—	—
ATF	19.4	10.2	10.3	10.2	10.3	5.2	6.0	5.2
Diesel	16.7	10.2	7.7	8.1	7.7	2.6	3.4	2.6
FO	19.4	10.2	10.3	10.2	10.3	5.2	6.0	5.2
Bitumen	19.4	10.2	10.3	10.2	10.3	5.2	6.0	5.2
Weighted average import duty	**14.5**	**7.9**	**6.1**	**6.2**	**6.1**	**2.4**	**3.0**	**2.4**
Duty on crude	10.2	5.1	5.2	5.1	5.2	—	—	—
Tariff differential	**4.4**	**2.8**	**0.9**	**1.1**	**0.9**	**2.4**	**3.0**	**2.4**

Source: Kotak Institutional Equities estimates

- **No income tax exemption on gas production for NELP I-VII blocks.** The government has amended sub-section (9) of Section 80 IB of the Income Tax Act, 1961 to include commercial production of gas in blocks licensed under NELP VIII. In our view, the proposed amendment is available for NELP VIII blocks only, which the government will shortly auction. In our view, this benefit does not cover blocks awarded under the previous NELP rounds (I-VII) of licensing. This would suggest that RIL would have to pay income tax on gas produced from its NELP-I KG D6 block. We compute a negative impact of Rs9 and Rs14 on RIL's EPS for FY2010E and FY2011E consequent to the above-mentioned change.

A section of the street believes that the government has extended the tax exemption for all NELP blocks. We believe that the confusion reflects the government's clarification about the definition of 'undertaking' in the same section. In our view, the government has clarified the definition of 'undertaking' so that all the blocks licensed under a single contract under NELP will be treated as a single 'undertaking'. This amendment is applicable retrospectively from April 1, 2000 and may have created confusion about the amendment to Section 80 IB covering natural gas also.

Companies had a view that each well in a block is a separate 'undertaking' separately and thus, they could claim tax holiday separately for each such well for seven consecutive years from the start of production of the well. This would have resulted in tax exemption being possibly available beyond seven years from the start of commercial production of oil and gas. For example, a company could claim tax exemption from profits derived from production of oil or gas from a second well starting after say five years after the start of the first well in the same block. In other words, the company would avail of tax exemption from the sixth year to the thirteenth year for the second well. This would mean that the company would have income tax exemption for thirteen years compared to the seven-year tax holiday provided under Section 80 IB.

As per the Finance Bill, 2009, *"Further, it is also proposed to amend the Income Tax Act so as to extend the tax holiday under sub-section(9) of section 80-IB of the Income Tax Act, which was hitherto available in respect of profits arising from the commercial production or refining of mineral oil, also to natural gas from blocks which are licensed under the VIII Round of bidding for award of exploration contracts (hereafter referred to as "NELP-VIII") under the New Exploration Licensing Policy announced by the Government of India vide Resolution No.O-19018/22/95-ONG.DO.VL, dated 10th February, 1999 and begin commercial production of natural gas on or after the 1st day of April, 2009."*

The Finance Bill, 2009 further states that *"The term "undertaking" in sub-section (9) has not been defined. Therefore, in the context of mineral oil, the meaning of the term "undertaking" has been the subject matter of considerable dispute. The tax payers have been holding the view that every well in a block licensed constitutes a single "undertaking" and accordingly the tax holiday is available separately for each such well. However, this view is against the legislative intent. Accordingly, it is proposed to amend sub-section (9) by inserting an Explanation so as to clarify that for the purposes of claiming deduction under sub-section (9), all blocks licensed under a single contract, which has been awarded under the New Exploration Licensing Policy announced by the Government of India vide Resolution No. O-19018/22/95-ONG.DO.VL, dated 10th February, 1999 or has been awarded in pursuance of any law for the time being in force or has been awarded by Central or a State Government in any other manner, shall be treated as a single "undertaking". This amendment is proposed to take retrospective effect from the 1st April, 2000 and will, accordingly, apply in relation to assessment year 2000-2001 and subsequent years. This definition of "undertaking" will be applicable both in relation to mineral oil and natural gas."*

- **Change in tax benefit for natural gas pipelines.** The government has provided for availability of deduction under Section 35AD for capital expenditure incurred on laying cross-country natural gas distribution networks. We see this as having minimal impact on GAIL as it a 10-year tax holiday available under Section 80IA earlier. Exhibit 3 compares the impact of the two schemes.

Change in tax policy makes nominal impact on GAIL
Impact of change in tax policy for a model pipeline (Rs)

	Earlier tax regime	New tax regime
Capex	100	100
Project duration (years)	25	25
NPV of the project	**46.2**	**43.6**
Change		**(2.7)**

Note:
(a) We have assumed new MAT rate of 17% for both scenarios.

Source: Kotak Institutional Equities estimates

- **Introduction of GST by April 1, 2010.** We are not sure about the applicability of octroi and other forms of irrevocable taxes in a GST system. It is also possible that the government may keep oil out of GST. We note that the Mumbai refineries of BPCL and HPCL pay 3% octroi duty on crude oil purchased by them. Thus, removal of octroi duty would improve refining margins by US$1.8/bbl (assuming US$60/bbl crude oil price; 3% octroi duty), which would result in EPS increasing by Rs15 and Rs10, respectively. Our earnings models do not factor potential upside from removal of octroi duty for BPCL and HPCL.

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	6-Jul-09 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2009	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS growth (%) 2009	EPS growth (%) 2010E	EPS growth (%) 2011E	PER (X) 2009	PER (X) 2010E	PER (X) 2011E	EV/EBITDA (X) 2009	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	Price/BV (X) 2009	Price/BV (X) 2010E	Price/BV (X) 2011E	Dividend yield (%) 2009	Dividend yield (%) 2010E	Dividend yield (%) 2011E	RoE (%) 2009	RoE (%) 2010E	RoE (%) 2011E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Automobiles																													
Ashok Leyland	29	ADD	38,845	801	1,330	1.4	1.8	2.4	(60.1)	23.3	33.3	20.2	16.4	12.3	11.7	8.5	7.1	1.6	1.6	1.5	3.4	3.4	3.4	8.0	9.7	12.5	32	9.6	3.2
Bajaj Auto	961	SELL	139,099	2,869	145	48.7	65.3	73.1	(6.7)	34.0	12.0	19.7	14.7	13.2	12.0	8.9	8.8	7.3	5.6	4.4	2.1	2.1	2.1	40.2	42.8	36.8	780	(18.9)	4.7
Hero Honda	1,359	REDUCE	271,442	5,599	200	64.2	83.8	91.2	32.4	30.5	8.8	21.2	16.2	14.9	13.9	10.7	9.4	6.9	5.4	4.3	1.5	1.6	1.6	36.6	37.4	31.9	1,000	(26.4)	17.8
Mahindra & Mahindra	712	ADD	188,780	3,894	265	21.7	40.4	43.6	(42.9)	86.0	8.0	32.8	17.6	16.3	28.9	13.3	12.0	4.0	3.0	2.6	1.3	1.3	1.3	12.3	19.3	17.0	670	(5.9)	19.5
Maruti Suzuki	1,038	SELL	299,866	6,185	289	42.2	62.4	67.3	(29.6)	47.9	7.9	24.6	16.6	15.4	20.8	10.3	8.9	3.1	2.6	2.3	0.5	0.3	0.5	13.4	17.2	15.9	900	(13.3)	21.9
Tata Motors	283	SELL	157,379	3,246	556	20.8	15.2	20.0	(58.3)	(27.0)	32.2	13.6	18.7	14.1	19.5	12.8	10.9	1.2	1.1	1.0	2.0	2.0	2.0	9.0	6.1		235	(16.9)	41.6
Automobiles		**Cautious**	**1,095,412**	**22,594**					**(165.2)**	**194.7**	**102.1**	**132.1**	**100.2**	**86.2**	**106.7**	**64.5**	**57.1**	**24.1**	**19.3**	**16.1**	**10.7**	**10.7**	**10.9**	**119.5**	**132.4**	**114.1**			
Banks/Financial Institutions																													
Andhra Bank	78	REDUCE	37,733	778	485	13.5	11.1	12.6	14.0	(17.9)	13.6	5.8	7.0	6.2				1.1	1.0	0.9	5.8	3.6	4.1	19.0	14.0	14.4	90	15.7	1.8
Axis Bank	794	BUY	285,194	5,882	359	50.6	56.1	66.6	56.9	11.0	18.7	15.7	14.2	11.9				3.1	2.7	2.3	1.3	1.4	1.7	19.1	18.3	18.9	850	7.0	74.3
Bank of Baroda	406	REDUCE	148,532	3,064	366	60.9	54.9	58.5	55.1	(9.8)	6.5	6.7	7.4	6.9				1.4	1.4	1.2	2.2	2.0	2.1	18.7	14.9	14.2	440	8.3	11.9
Bank of India	327	ADD	172,079	3,549	526	57.2	46.3	53.2	40.7	(19.1)	14.9	5.7	7.1	6.2				1.7	1.6	1.5	2.4	2.0	2.3	29.2	19.0	18.7	360	10.0	15.9
Canara Bank	263	REDUCE	107,933	2,226	410	50.5	38.6	41.4	32.4	(23.6)	7.1	5.2	6.8	6.4				1.3	1.2	1.1	3.0	3.0	3.8	18.3	12.4	12.2	260	(1.2)	6.0
Corporation Bank	310	BUY	44,430	916	143	62.2	51.5	55.3	21.4	(17.3)	7.4	5.0	6.0	5.6				0.9	0.8	0.7	4.1	3.4	3.7	19.6	14.3	13.8	395	27.5	1.0
Federal Bank	235	BUY	40,133	828	171	27.8	31.4	38.2	(19.2)	13.1	21.5	8.4	7.5	6.1				1.0	0.9	0.8	2.2	2.5	3.0	11.5	11.8	13.0	320	36.4	3.5
Future Capital Holdings	277	BUY	17,535	362	63	4.5	28.8		(198.6)	546.1	(100.0)	62.3	9.6					2.3	1.9					3.8	21.4		440	58.6	1.4
HDFC	2,356	REDUCE	670,136	13,822	284	80.2	91.5	103.6	(6.5)	14.0	13.3	29.4	25.8	22.7				5.1	4.6	4.1	1.3	1.4	1.5	18.2	18.3	18.3	2,025	(14.0)	63.3
HDFC Bank	1,424	REDUCE	627,114	12,935	440	55.4	63.2	75.1	20.4	14.2	18.8	25.7	22.5	19.0				4.3	3.0	2.7	0.7	0.8	1.0	16.9	15.4	15.0	1,490	4.6	51.9
ICICI Bank	680	REDUCE	756,506	15,604	1,113	33.8	32.3	38.5	(15.4)	(4.4)	19.2	20.1	21.1	17.7				1.5	1.5	1.4	1.6	1.3	1.4	7.8	7.1	8.0	685	0.8	192.8
IDFC	134	ADD	173,307	3,575	1,294	5.8	7.0	8.0	2.3	21.0	13.3	23.0	19.1	16.8				2.8	2.5	2.2	0.8	0.9	1.0	12.9	14.1	14.2	85	(36.5)	43.2
India Infoline	119	ADD	36,949	762	311	5.0	5.8	6.5	(10.0)	15.5	12.3	23.5	20.4	18.1	10.9	9.7	8.9	3.1	2.8	2.5	2.1	2.6	3.2	11.7	13.5	14.6	90	(24.1)	13.0
Indian Bank	131	BUY	56,429	1,164	430	28.1	26.6	30.6	24.7	(5.3)	15.0	4.7	4.9	4.3				1.1	1.0	0.9	3.2	3.0	3.5	22.7	18.3	18.1	185	40.9	3.5
Indian Overseas Bank	85	BUY	46,117	951	545	24.3	16.6	22.2	10.3	(31.9)	33.8	3.5	5.1	3.8				0.8	0.7	0.6	6.2	4.4	4.9	24.7	14.5	17.0	130	53.6	4.8
J&K Bank	466	ADD	22,575	466	48	84.5	80.8	95.4	13.8	(4.3)	18.0	5.5	5.8	4.9				1.0	0.9	0.8	3.6	3.5	4.1	16.7	14.1	14.9	550	18.1	0.4
LIC Housing Finance	595	NR	50,611	1,044	85	62.5	68.8	80.3	37.3	10.0	16.8	9.5	8.7	7.4				2.1	1.8	1.5	2.3	2.5	3.0	26.2	23.9	23.4		(100.0)	17.7
Mahindra & Mahindra Financial	258	ADD	24,686	509	96	22.4	27.5	30.0	7.5	22.9	8.7	11.5	9.4	8.6				1.8	1.5	1.3	2.1	2.7	2.9	15.4	16.9	16.3	240	(7.0)	1.1
Oriental Bank of Commerce	170	REDUCE	42,654	880	251	36.1	27.3	34.6	51.4	(24.5)	26.7	4.7	6.2	4.9				0.7	0.8	0.8	4.2	3.2	4.1	14.8	10.2	11.8	190	11.6	3.4
PFC	195	SELL	223,470	4,609	1,148	13.0	16.5	19.3	14.3	26.7	17.6	15.0	11.8	10.1				2.0	1.8	1.6	1.4	2.5	2.3	13.8	15.8	16.7	160	(17.8)	7.0
Punjab National Bank	641	BUY	202,219	4,171	315	98.0	98.5	115.1	50.9	0.5	16.8	6.5	6.5	5.6				1.7	1.5	1.3	3.1	3.1	3.6	23.0	19.9	20.1	800	24.7	19.2
Reliance Capital	834	REDUCE	205,384	4,236	246	39.3	29.0	28.9	(5.6)	(26.2)	(0.5)	21.2	28.7	28.9							0.7	0.5	0.5	15.3	10.2	9.3	875	4.9	167.1
Rural Electrification Corp.	159	BUY	136,861	2,823	859	16.5	17.5	20.8	50.7	6.5	18.8	9.7	9.1	7.7				1.9	1.7	1.4	1.3	2.0	2.4	21.2	19.6	20.3	155	(2.8)	4.4
Shriram Transport	298	ADD	62,954	1,298	212	30.1	32.5	36.9	56.8	7.9	13.7	9.9	9.2	8.1				2.9	2.5	2.0	2.9	3.3	3.7	29.6	27.0	25.8	300	0.8	3.2
SREI	73	ADD	8,460	174	116	7.7	6.9	8.2	(32.8)	(10.1)	18.6	9.5	10.5	8.9				0.8	0.7	0.7	3.2	3.8	4.4	14.0	11.5	13.0	95	30.6	4.0
State Bank of India	1,654	BUY	1,049,973	21,657	635	143.6	121.1	139.2	34.8	(15.7)	14.9	11.5	13.7	11.9				2.1	2.1	1.8	1.8	1.8	1.9	17.1	12.7	13.3	1,870	13.1	117.6
Union Bank	233	BUY	117,490	2,423	505	34.2	29.6	35.5	24.5	(13.5)	19.9	6.8	7.9	6.6				1.4	1.2	1.1	2.2	1.9	2.3	27.2	19.5	19.9	280	20.4	7.4
Banks/Financial Institutions		**Attractive**	**5,367,464**	**110,709**					**332.3**	**485.7**	**305.5**	**366.1**	**311.8**	**265.1**	**10.9**	**9.7**	**8.9**	**49.8**	**43.9**	**37.4**	**65.7**	**63.3**	**72.2**	**488.5**	**428.6**	**415.2**			
Cement																													
ACC	724	REDUCE	135,997	2,805	188	56.3	55.2	42.2	(12.2)	(1.9)	(23.6)	12.9	13.1	17.2	6.4	6.5	7.5	2.6	2.3	2.1	3.2	3.2	3.2	24.7	21.3	15.1	725	0.2	12.6
Ambuja Cements	87	REDUCE	132,599	2,735	1,522	7.2	7.0	5.8	(5.0)	(3.1)	(16.2)	12.1	12.5	14.9	6.5	6.6	7.6	2.2	1.9	1.8	3.4	2.2	2.5	19.7	16.9	12.8	80	(8.2)	5.9
Grasim Industries	2,298	REDUCE	210,713	4,346	92	238.5	235.7	239.1	(16.2)	(1.2)	1.4	9.6	9.7	9.6	5.6	5.0	4.7	1.9	1.6	1.4	1.4	1.4	1.5	21.7	18.2	16.0	2,300	0.1	10.5
India Cements	132	ADD	37,108	765	282	17.8	19.7	16.6	(27.2)	10.8	(15.8)	7.4	6.7	7.9	4.8	4.2	4.6	1.0	0.9	0.8	1.6	1.6	2.4	14.9	14.8	11.2	155	17.7	8.9
Shree Cement	1,194	BUY	41,592	858	35	174.7	91.6	86.2	93.7	(47.6)	(5.9)	6.8	13.0	13.9	4.7	5.1	5.4	3.5	2.8	2.4	0.9	0.9	0.9	65.7	24.0	18.9	1,150	(3.7)	0.6
UltraTech Cement	689	ADD	86,354	1,781	125	78.0	70.5	55.6	(4.1)	(9.7)	(21.0)	8.8	9.8	12.4	5.7	5.4	6.1	2.0	1.7	1.5	1.2	1.2	1.2	31.2	22.3	15.0	725	5.2	5.6
Cement		**Neutral**	**644,363**	**13,291**					**29.0**	**(52.6)**	**(81.1)**	**57.7**	**64.9**	**75.9**	**33.7**	**32.7**	**36.0**	**13.2**	**11.3**	**10.1**	**11.8**	**10.5**	**11.7**	**177.8**	**117.5**	**89.1**			
Constructions																													
Consolidated Construction Co.	268	ADD	9,900	204	37	19.7	27.2	31.9	(18.1)	38.0	17.5	13.6	9.9	8.4	8.9	6.3	5.3	1.9	1.7	1.4	1.0	1.5	1.7	15.0	18.1	18.3	190	(29.1)	0.2
IVRCL	330	BUY	44,633	921	135	16.7	17.9	22.1	7.4	7.4	23.1	19.7	18.4	14.9	13.3	10.1	8.0	2.5	2.2	1.9	0.2	0.2	0.2	13.2	12.6	13.6	350	6.1	25.5
Nagarjuna Construction Co.	130	BUY	29,747	614	229	6.7	7.5	8.5	(6.4)	11.9	13.3	19.4	17.3	15.3	12.1	9.2	7.9	1.8	1.6	1.5	1.0	1.2	1.5	9.4	9.8	10.3	145	11.7	8.2
Punj Lloyd	199	BUY	61,785	1,274	311	(7.4)	15.9	17.2	(174.4)	(314.8)	7.7	(26.8)	12.5	11.6	28.1	7.2	6.9	2.5	2.1	1.8	(0.2)	0.4	0.4	(9.2)	18.9	17.1	200	0.7	39.5
Sadbhav Engineering	673	BUY	8,407	173	13	50.6	51.1	73.1	25.0	0.9	43.0	13.3	13.2	9.2	9.7	7.6	6.2	2.4	2.1	1.7	0.7	0.9	1.0	18.0	15.7	18.6	830	23.4	0.2
Constructions		**Attractive**	**154,472**	**3,186**					**(166.5)**	**(256.6)**	**104.7**	**39.2**	**71.2**	**59.4**	**72.2**	**40.4**	**34.3**	**11.0**	**9.6**	**8.3**	**2.9**	**4.2**	**4.9**	**46.5**	**75.0**	**78.0**			
Consumer Products																													
Asian Paints	1,194	ADD	114,495	2,362	96	38.4	49.1	57.5	(2.2)	27.9	17.1	31.1	24.3	20.8	18.1	14.2	12.0	10.1	8.3	6.8	1.5	1.7	1.9	36.3	38.5	36.8	1,200	0.5	0.8
Colgate-Palmolive (India)	610	ADD	82,901	1,710	136	21.6	25.5	27.3	26.3	18.2	7.0	28.2	23.9	22.3	23.3	20.2	17.4	38.3	33.9	29.4	2.5	3.3	3.4	155.1	150.4	140.9	550	(9.8)	2.5
GlaxosmithKline Consumer	922	ADD	38,782	800	42	44.8	56.1	63.6	15.8	25.2	13.5	20.6	16.4	14.5	11.5	9.3	8.1	5.1	4.3	3.8	1.6	2.3	3.2	26.8	28.5	28.0	1,050	13.9	0.9
Godrej Consumer Products	166	ADD	42,730	881	258	6.8	8.7	9.8	(3.9)	27.8	12.8	24.4	19.1	16.9	21.4	15.7	13.2	6.5	5.6	4.8	2.4	2.4	2.4	42.7	42.7	33.1	180	8.7	0.7
Hindustan Unilever	275	BUY	599,134	12,358	2,179	9.5	10.6	12.2	19.0	11.1	15.0	28.9	26.0	22.6	22.1	19.5	16.8	29.1	26.0	23.3	3.2	3.4	4.0	112.4	105.9	108.9	320	16.4	24.9
ITC	198	BUY	745,054	15,367	3,769	8.7	10.2	11.6	2.8	17.9	13.9	22.8	19.4	17.0	13.9	11.9	10.5	5.1	4.5	3.9	1.9	2.0	2.3	25.3	26.0	25.7	235	18.9	33.2
Jyothy Laboratories	90	ADD	6,524	135	73	5.6	10.1	12.6	(11.2)	78.5	25.0	16.0	8.9	7.2	10.0	6.0	4.6							10.7	16.7	19.4	145	61.3	0.2
Nestle India	1,933	ADD	186,357	3,844	96	58.6	70.5	82.4	31.0	20.4	16.8	33.0	27.4	23.5	21.0	17.9	15.5	39.4	32.3	26.8	2.2	2.6	3.1	126.7	129.6	124.8	2,100	8.6	1.7
Tata Tea	708	BUY	43,773	903	62	57.0	62.8	69.2	5.3	10.1	10.2	12.4	11.3	10.2	6.6	5.8	4.8	0.9	0.9	0.8	2.4	2.6	2.9	9.8	10.1	10.4	900	27.1	3.1
Consumer Products		**Attractive**	**1,859,750**	**38,359**					**82.8**	**237.0**	**131.3**	**217.4**	**176.8**	**155.0**	**147.8**	**120.4**	**102.9**	**134.4**	**115.7**	**99.6**	**17.6**	**20.4**	**23.2**	**545.8**	**548.3**	**528.0**			
Energy																													
Bharat Petroleum	445	SELL	160,922	3,319	362	20.4	32.1	41.8	(50.7)	57.8	30.1	21.9	13.9	10.7	8.1	7.7	6.0	1.2	1.1	1.0	1.6	2.7	3.5	5.2	7.7	9.4	475	6.7	10.8
Cairn India	219	REDUCE	414,897	8,558	1,897	4.3	9.2	31.2		115.1	238.0	50.9	23.7	7.0	33.3	12.3	5.0	1.2	1.2	1.1			11.4	2.5	5.1	16.5	225	2.9	36.2
Castrol India	368	BUY	45,555	940	124	21.3	25.5	26.6	20.8	19.5	4.3	17.3	14.5	13.9	9.7	8.4	7.9	10.2	9.1	8.6	4.1	4.9	5.4	61.2	66.5	63.7	390	5.8	0.8
GAIL (India)	315	ADD	399,316	8,236	1,268	23.4	20.6	21.8	14.7	(11.8)	5.7	13.5	15.2	14.4	7.4	8.7	9.0	2.5	2.2	2.0	2.3	2.1	2.1	18.4	14.5	14.0	300	(4.7)	15.0
GSPL	50	REDUCE	28,336	584	563	2.2	2.4	3.3	21.7	8.1	38.0	23.0	21.2	15.4	8.8	6.2	4.8	2.1	2.0	2.0	1.5	1.6	6.5	9.6	9.6	12.7	45	(10.6)	6.1
Hindustan Petroleum	318	SELL	107,703	2,221	339	17.0	16.7	34.9	(49.3)	(1.6)	109.2	18.7	19.0	9.1	7.0	7.3	5.7	0.9	0.8	0.8	1.7	3.8	7.9	4.4	3.9	7.8	350	10.2	14.2
Indian Oil Corporation	539	REDUCE	643,105	13,265	1,192	18.9	44.3	43.1	(69.1)	133.8	(2.6)	28.5	12.2	12.5	10.4	5.6	5.4	1.4	1.3	1.2	1.4	3.3	3.3	4.6	10.2	9.3	550	2.0	8.3
Oil & Natural Gas Corporation	1,070	BUY	2,288,074	47,194	2,139	91.4	100.3	119.9	(1.5)	9.8	19.5	11.7	10.7	8.9	4.2	3.8	3.2	2.0	1.8	1.6	3.0	3.4	3.9	17.3	16.9	18.2	1,100	2.8	59.4
Petronet LNG	66	REDUCE	49,238	1,016	750	6.9	7.3	8.5	9.2	5.9	16.8	9.5	9.0	7.7	6.9	6.0	5.4	2.2	1.8	1.5	2.7	3.0	3.4	23.9	21.1	20.5	57	(13.2)	8.4
Reliance Industries	1,893	SELL	2,978,663	61,438	1,573	103.4	112.5	144.7	(1.5)	8.8	28.6	18.3	16.8	13.1	13.2	8.9	6.9	2.5	2.3	2.0	0.6	0.7	0.9	15.1	14.1	16.2	1,600	(15.5)	241.8
Reliance Petroleum	119	NR	535,275	11,041	4,500	0.2	8.3	13.8		4,351.0	65.6	637.2	14.3	8.6	299.3	10.7	7.2	4.0	3.3	2.5		1.7	1.7	0.6	25.1	33.0		(100.0)	25.9
Energy		**Cautious**	**7,651,085**	**157,811**					**(105.8)**	**4,696.4**	**553.1**	**850.5**	**170.5**	**121.3**	**408.3**	**85.5**	**66.7**	**30.1**	**26.9**	**24.4**	**18.8**	**27.3**	**50.1**	**162.8**	**194.7**	**221.3**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

	6-Jul-09		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US$ mn)	(mn)	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	(Rs)	(%)	(US$ mn)
Industrials																													
ABB	745	REDUCE	157,798	3,255	212	25.0	29.6		(3.4)	18.7	(100.0)	29.8	25.1		18.8	15.5		6.2	5.1		0.4	0.4		22.6	22.2		500	(32.9)	8.7
BGR Energy Systems	309	REDUCE	22,244	459	72	15.6	23.1	26.4	29.0	47.8	14.2	19.7	13.4	11.7	11.0	8.1	6.9	3.9	3.1	2.6	0.9	1.2	1.4	21.6	26.0	24.3	315	2.0	1.6
Bharat Electronics	1,336	REDUCE	106,896	2,205	80	101.9	111.1	119.0	(0.0)	9.0	7.1	13.1	12.0	11.2	5.6	5.8	5.1	2.7	2.3	2.0	1.9	1.9	1.9	22.4	20.9	19.2	1,025	(23.3)	2.4
Bharat Heavy Electricals	2,101	REDUCE	1,028,237	21,208	490	64.1	92.0	106.8	9.8	43.5	16.1	32.8	22.8	19.7	24.4	15.5	12.8	7.9	6.3	5.1	0.8	0.9	1.1	26.4	30.7	28.6	1,900	(9.5)	60.8
Crompton Greaves	286	ADD	104,848	2,163	367	15.3	18.0	21.0	37.3	17.6	16.3	18.6	15.8	13.6	10.5	9.0	7.7	5.7	4.4	3.4	0.7	0.8	0.9	35.9	31.3	28.1	315	10.1	5.2
Larsen & Toubro	1,464	ADD	873,658	18,020	597	52.6	57.5	68.2	38.6	9.4	18.5	27.8	25.4	21.5	19.9	16.7	14.0	5.5	4.5	3.7	0.7	0.8	0.8	22.5	19.4	19.1	1,375	(6.1)	110.8
Maharashtra Seamless	255	BUY	18,003	371	71	35.9	33.0	39.6	22.2	(8.1)	20.3	7.1	7.7	6.4	4.8	4.9	3.8	1.3	1.2	1.0	2.1	1.9	2.8	20.3	16.0	16.8	225	(11.9)	1.4
Siemens	458	REDUCE	154,520	3,187	337	19.8	21.1		39.7	6.4	(100.0)	23.1	21.7		13.2	12.5		5.8	4.8		1.4	0.9		27.1	24.2		360	(21.4)	8.1
Suzlon Energy	99	ADD	155,185	3,201	1,571	7.2	7.6	10.5	10.0	5.5	37.2	13.7	13.0	9.4	10.0	9.5	7.8	1.7	1.4	1.2	0.5	0.5	1.0	12.3	11.7	13.7	140	41.7	146.4
Industrials		**Neutral**	**2,621,389**	**54,069**					**183.1**	**149.9**	**(70.4)**	**185.9**	**157.1**	**93.6**	**118.2**	**97.5**	**58.1**	**40.7**	**33.1**	**19.1**	**9.4**	**9.3**	**9.8**	**211.2**	**202.4**	**149.8**			
Infrastructure																													
IRB Infrastructure	161	BUY	53,576	1,105	332	5.8	11.3	12.7	69.2	95.7	11.7	27.8	14.2	12.7	15.1	8.2	7.1	2.9	2.3	1.9				11.0	18.1	16.5	160	(0.7)	10.8
Infrastructure		**Attractive**	**53,576**	**1,105**					**69.2**	**95.7**	**11.7**	**27.8**	**14.2**	**12.7**	**15.1**	**8.2**	**7.1**	**2.9**	**2.3**	**1.9**	**-**	**-**	**-**	**11.0**	**18.1**	**16.5**			
Media																													
DishTV	36	REDUCE	34,495	711	946	(7.3)	(4.1)	(3.2)	(23.9)	(44.4)	(22.6)	(5.0)	(8.9)	(11.5)	(22.2)	(134.2)	43.1	-5.3	-17.0	-6.9				86.1	91.1	84.8	32	(12.2)	14.8
HT Media	88	ADD	20,602	425	234	0.8	4.2	6.3	(80.4)	399.4	49.2	103.5	20.7	13.9	21.4	8.8	7.0	2.4	2.3	2.1	0.5	0.9	2.9	2.3	11.3	15.6	120	36.4	0.5
Jagran Prakashan	72	BUY	21,729	448	301	2.9	4.2	5.5	(12.1)	47.2	29.6	25.2	17.1	13.2	14.1	9.5	7.5	3.9	3.7	3.3	2.8	3.5	4.2	15.8	22.1	26.5	92	27.5	0.8
Sun TV Network	225	REDUCE	88,747	1,830	394	9.1	11.1	13.0	9.3	22.9	16.5	24.9	20.2	17.4	12.9	11.1	9.4	5.1	4.5	4.0	1.1	1.8	2.7	22.5	23.8	24.4	215	(4.5)	2.0
Zee Entertainment Enterprises	171	REDUCE	74,225	1,531	435	8.1	9.3	11.2	(9.0)	15.5	20.0	21.1	18.3	15.3	14.8	12.7	10.5	2.2	2.1	1.9	1.3	1.6	1.9	11.6	12.2	13.7	145	(15.1)	8.0
Zee News	39	ADD	9,327	192	240	1.9	2.1	2.5	20.4	11.1	18.8	20.9	18.8	15.8	10.9	9.2	8.1	3.8	3.3	2.8	1.0	1.0	1.5	20.0	19.0	19.5	40	2.8	1.6
Media		**Neutral**	**249,125**	**5,138**					**(95.8)**	**451.8**	**111.6**	**190.7**	**86.3**	**64.0**	**52.0**	**(82.9)**	**85.6**	**12.1**	**-1.3**	**7.3**	**6.7**	**8.8**	**13.1**	**158.3**	**179.5**	**184.4**			
Metals																													
Hindalco Industries	78	BUY	136,704	2,820	1,753	7.7	2.0	10.0	(44.4)	(73.3)	386.0	10.2	38.1	7.8	6.3	8.8	6.7	0.4	0.4	0.3				10.3	5.2	6.7	135	73.1	25.8
Hindustan Zinc	563	BUY	238,033	4,910	423	64.6	62.9	80.9	(38.0)	(2.6)	28.7	8.7	9.0	7.0	4.9	4.4	2.6	1.6	1.4	1.1	0.7	0.9	0.9	20.1	16.5	17.9	825	46.4	4.7
Jindal Steel and Power	2,498	REDUCE	384,580	7,932	154	198.0	172.4	196.2	139.3	(12.9)	13.8	12.6	14.5	12.7	8.5	8.8	7.4	5.3	3.9	3.0	0.3	0.3	0.3	53.1	31.0	26.4	2,000	(19.9)	38.6
JSW Steel	575	SELL	107,609	2,220	187	13.1	24.1	53.5	(84.7)	83.3	121.8	43.8	23.9	10.8	9.2	9.2	7.1	1.0	0.9	0.8	0.2	0.9	0.9	11.0	4.3	8.3	390	(32.2)	52.2
National Aluminium Co	285	SELL	183,661	3,788	644	19.7	13.7	20.4	(22.0)	(30.6)	48.8	14.4	20.8	14.0	8.8	9.0	5.8	1.8	1.6	1.5	1.2	0.7	0.7	12.7	8.1	11.1	290	1.7	4.1
Sesa Goa	180	BUY	141,310	2,915	787	24.8	25.5	34.2	30.8	3.0	34.0	7.2	7.0	5.2	4.5	3.9	2.2	3.1	2.3	1.6	1.9	1.9	1.9	52.8	37.1	36.0	240	33.7	43.1
Sterlite Industries	589	REDUCE	417,516	8,612	708	49.2	33.2	41.8	(23.6)	(32.5)	26.1	12.0	17.8	14.1	6.9	8.1	6.1	1.6	1.5	1.3				14.3	8.7	9.9	540	(8.4)	49.6
Tata Steel	397	BUY	325,960	6,723	822	110.0	53.8	85.4	45.3	(51.1)	58.8	3.6	7.4	4.6	4.6	7.1	5.5	0.8	0.8	0.7	3.9	4.0	4.0	36.3	18.5	24.8	505	27.3	133.6
Metals		**Cautious**	**1,935,372**	**39,919**					**2.7**	**(116.7)**	**718.0**	**112.5**	**138.3**	**76.2**	**53.7**	**59.2**	**43.4**	**15.6**	**12.6**	**10.4**	**8.2**	**8.7**	**8.7**	**210.7**	**129.4**	**141.2**			
Others																													
Aban Offshore	809	SELL	30,628	632	38	87.8	125.3	214.6	21.5	42.7	71.3	9.2	6.5	3.8	8.8	7.5	6.3	2.2	1.7	1.2	0.5	0.6	0.6	33.7	33.3	36.7	365	(54.9)	72.5
Havells India	276	REDUCE	16,694	344	61	4.5	12.2	19.0	(83.0)	170.4	55.5	61.0	22.6	14.5	9.8	8.0	7.2	2.6	3.0	2.6	0.9	0.9	0.9	4.1	12.5	19.3	175	(36.6)	2.7
Jaiprakash Associates	193	ADD	271,148	5,593	1,403	3.0	6.8	9.9	(38.7)	126.3	45.5	64.4	28.4	19.6	22.1	14.8	14.0	4.9	4.3	3.6	0.0	0.0	0.0	8.0	16.1	20.0	190	(1.7)	106.4
Jindal Saw	378	BUY	20,734	428	55	64.3	47.8	41.7	(0.8)	(25.6)	(12.8)	5.9	7.9	9.1	3.9	4.0	3.8	0.6	0.6	0.6	1.3	1.1	1.1	10.8	7.4	6.2	300	(20.6)	3.7
PSL	115	BUY	5,027	104	44	22.0	36.8	30.0	4.3	67.4	(18.5)	5.2	3.1	3.8	4.7	3.6	3.0	0.8	0.7	0.6	4.3	5.6	5.6	10.2	13.4	11.1	160	38.7	1.0
Sintex	220	BUY	30,090	621	136	23.8	25.2	27.6	21.9	5.6	9.6	9.3	8.8	8.0	6.6	6.0	5.0	1.5	1.3	1.1	0.5	0.5	0.5	16.6	15.0	14.2	275	24.7	4.5
Tata Chemicals	213	ADD	50,126	1,034	235	27.6	23.1	27.2	(30.4)	(16.4)	17.9	7.7	9.2	7.8	5.3	4.2	3.6	1.1	1.0	0.9	4.3	4.2	4.2	17.9	12.9	13.7	200	(6.2)	5.2
United Phosphorus	147	BUY	67,775	1,398	462	10.7	13.5	18.0	27.8	25.7	33.9	13.7	10.9	8.1	9.7	6.7	5.1	2.3	1.9	1.6	0.8	1.0	1.4	18.1	18.2	20.5	140	(4.6)	5.9
Welspun Gujarat Stahl Rohren	185	REDUCE	34,923	720	189	17.3	23.4	17.3	(15.8)	35.0	(25.7)	10.7	7.9	10.7	6.9	4.9	5.7	1.9	1.5	1.3	1.1	0.8	0.8	17.6	20.8	12.9	125	(32.4)	23.1
Others		**-**	**527,146**	**10,873**					**(93.3)**	**431.1**	**176.7**	**187.1**	**105.3**	**85.4**	**77.8**	**59.7**	**53.8**	**17.8**	**15.9**	**13.4**	**13.8**	**14.8**	**15.2**	**137.1**	**149.4**	**154.5**			
Pharmaceuticals																													
Biocon	210	BUY	41,970	866	200	4.7	13.6	18.3	(80.0)	192.6	34.2	45.1	15.4	11.5	13.7	10.4	7.9	2.7	2.4	2.1	0.0	0.0	0.1	6.2	16.9	19.8	270	28.7	5.1
Cipla	258	ADD	200,230	4,130	777	9.9	13.9	15.5	9.5	40.6	11.9	26.1	18.6	16.6	19.8	13.9	12.2	4.7	3.9	3.3	1.0	1.2	1.4	19.1	23.0	21.8	250	(3.0)	10.5
Dishman Pharma & chemicals	174	BUY	14,180	292	81	18.0	21.2	27.3	22.1	17.9	28.7	9.7	8.2	6.4	8.2	6.5	5.1	2.0	1.6	1.3	0.0	0.0	0.0	22.8	21.9	22.9	280	60.6	0.6
Divi's Laboratories	1,088	BUY	71,044	1,465	65	63.8	74.6	86.5	19.9	16.9	16.0	17.1	14.6	12.6	14.5	11.6	9.3	5.8	4.2	3.2	0.1	0.1	0.1	39.8	33.5	29.3	1,375	26.4	4.0
Dr Reddy's Laboratories	767	BUY	129,710	2,675	169	32.4	44.8	48.4	24.5	38.2	8.0	23.6	17.1	15.8	11.0	8.6	7.5	3.7	3.1	2.7	0.8	0.9	1.0	13.7	19.8	18.2	770	0.4	7.3
Glenmark Pharmaceuticals	230	BUY	61,080	1,260	266	11.1	12.1	16.2	(57.0)	8.7	33.6	20.7	19.0	14.2	12.5	11.1	9.2	2.9	2.6	2.2	0.0	0.0	0.0	15.9	14.4	16.6	315	37.1	10.5
Jubilant Organosys	161	BUY	27,512	567	171	16.5	18.6	21.8	(26.2)	12.6	17.0	9.7	8.6	7.4	11.7	7.3	5.4	2.2	1.8	1.5	0.8	0.8	1.1	18.6	22.6	21.7	250	55.6	0.5
Lupin	830	BUY	73,559	1,517	89	60.7	66.0	71.3	21.9	8.7	8.0	13.7	12.6	11.7	13.6	11.3	9.6	4.3	3.4	2.8	1.4	1.3	1.6	33.7	30.3	26.1	1,075	29.5	3.3
Piramal Healthcare	308	BUY	64,299	1,326	209	17.3	22.4	28.2	(2.7)	29.8	26.0	17.8	13.7	10.9	13.1	9.2	7.6	4.9	3.8	3.0	1.4	1.5	1.5	26.3	31.4	30.8	340	10.5	1.9
Ranbaxy Laboratories	262	REDUCE	111,722	2,304	427	(8.1)	(5.7)	5.1	(134.7)	(29.5)	(189.8)	(32.3)	(45.9)	51.1	(79.0)	(191.6)	21.9	2.2	1.9	2.0	3.9	4.4	4.8	(8.8)	(4.7)	4.1	150	(42.7)	17.0
Sun Pharmaceuticals	1,127	ADD	233,466	4,815	207	87.8	78.5	82.5	17.6	(10.6)	5.2	12.8	14.4	13.7	10.1	10.2	9.0	3.4	2.8	2.4	1.2	1.2	1.2	31.6	22.6	19.9	1,665	47.7	26.1
Pharmaceuticals		**Attractive**	**1,028,771**	**21,219**					**(185.1)**	**325.9**	**(1.2)**	**163.9**	**96.3**	**171.8**	**49.3**	**(91.4)**	**104.8**	**38.8**	**31.6**	**26.5**	**10.6**	**11.4**	**12.8**	**218.8**	**231.6**	**231.3**			
Property																													
DLF	310	REDUCE	532,326	10,980	1,716	29.3	16.3	17.5	(36.6)	(44.4)	7.2	10.6	19.1	17.8	11.1	15.9	13.5	2.2	2.0	1.8	1.0	1.0	1.3	22.5	10.8	10.6	320	3.1	165.5
Housing Development & Infrastructur	227	NR	62,509	1,289	275	30.6	19.8	24.8	(40.1)	(35.3)	25.1	7.4	11.4	9.2	10.3	11.8	9.7	1.4	1.3	1.2	2.2	2.6	3.5	21.2	12.1	13.9		(100.0)	122.4
Indiabulls Real Estate	203	ADD	81,462	1,680	401	3.0	3.1	7.5	(81.8)	3.8	141.1	67.7	65.2	27.0	(202.9)	46.7	11.1	1.2	0.9	0.9	0.0	0.0	0.0	1.3	1.6	3.2	235	15.7	72.7
Mahindra Life Space Developer	262	BUY	11,001	227	42	10.2	10.8	15.4	(39.2)	5.3	42.5	25.6	24.3	17.0	39.4	22.8	11.6	1.2	1.2	1.2	1.5	1.5	1.5	4.8	4.9	6.7	410	56.7	1.1
Phoenix Mills	105	BUY	15,209	314	145	5.2	7.1	8.7	63.1	38.3	21.4	20.3	14.7	12.1	23.0	10.5	9.1	1.0	1.0	0.9	1.0	1.0	1.4	5.1	6.7	7.7	210	100.0	0.3
Puravankara Projects	87	REDUCE	18,611	384	213	6.8	7.0	7.4	(39.8)	2.8	6.9	12.9	12.5	11.7	19.4	15.8	12.8	1.4	1.3	1.2		2.3	2.3	11.5	10.8	10.7	55	(36.9)	0.3
Sobha	224	REDUCE	16,308	336	73	17.4	11.9	14.7	(45.2)	(31.4)	23.5	12.9	18.8	15.2	10.5	14.7	13.0	1.5	1.4	1.3	1.8	1.8	1.8	12.0	7.7	9.0	90	(59.8)	1.6
Unitech	76	SELL	171,619	3,540	2,261	7.7	4.5	4.6	(25.8)	(41.0)	0.9	9.9	16.8	16.6	13.9	11.7	11.3	3.7	1.8	1.6				29.4	13.5	10.1	60	(20.9)	158.1
Property		**Cautious**	**909,046**	**18,750**					**(245.4)**	**(101.8)**	**268.6**	**167.3**	**182.8**	**126.7**	**(75.3)**	**149.9**	**92.0**	**13.7**	**10.8**	**10.1**	**7.4**	**10.1**	**11.8**	**107.8**	**68.0**	**72.0**			
Retail																													
Titan Industries	1,233	REDUCE	54,750	1,129	44	45.9	50.1	56.9	30.8	9.2	13.7	26.9	24.6	21.7	17.2	15.0	12.9	9.5	7.3	5.8	0.8	0.9	1.0	38.9	33.6	29.9	850	(31.1)	3.0
Retail		**Neutral**	**54,750**	**1,129**					**30.8**	**9.2**	**13.7**	**26.9**	**24.6**	**21.7**	**17.2**	**15.0**	**12.9**	**9.5**	**7.3**	**5.8**	**0.8**	**0.9**	**1.0**	**38.9**	**33.6**	**29.9**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

	6-Jul-09		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US$ mn)	(mn)	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	(Rs)	(%)	(US$ mn)
Technology																													
HCL Technologies	187	REDUCE	130,278	2,687	695	16.2	13.1	17.0	6.0	(19.0)	29.5	11.6	14.3	11.0	6.6	6.4	6.1	2.1	2.0	1.9	6.4	6.4	6.4	18.6	14.4	17.7	135	(28.0)	6.4
Hexaware Technologies	44	SELL	6,371	131	144	3.6	4.0		(12.7)	11.5	(100.0)	12.4	11.1		2.9	2.7		0.9	0.9		2.3	2.3		7.6	8.0		35	(21.1)	1.5
Infosys Technologies	1,761	BUY	1,010,929	20,851	574	102.4	99.3	111.9	29.6	(3.1)	12.7	17.2	17.7	15.7	12.5	12.7	10.5	5.5	4.5	3.8	1.3	1.4	1.6	36.7	28.1	26.1	1,800	2.2	64.8
Mindtree	480	BUY	19,753	407	41	13.2	46.4	51.7	(50.5)	250.3	11.6	36.2	10.3	9.3	6.2	6.7	5.4	3.6	2.6	2.1	0.4		1.1	5.5	22.1	18.7	575	19.8	4.0
Mphasis BFL	351	REDUCE	73,201	1,510	208	14.2	38.9	33.5	15.7	174.5	(13.9)	24.8	9.0	10.5	18.8	6.4	5.9	5.1	3.4	2.7	1.1	1.3	1.4	22.8	45.4	28.8	335	(4.6)	3.4
Patni Computer Systems	247	REDUCE	31,803	656	129	24.7	26.8		(7.8)	8.5	(100.0)	10.0	9.2		3.3	3.1		1.1	1.0		2.0	2.2		11.0	11.2		220	(11.1)	1.9
Polaris Software Lab	98	SELL	9,717	200	99	13.1	12.8	11.6	76.0	(2.5)	(9.5)	7.5	7.7	8.5	2.7	3.3	3.4	1.3	1.1	1.0	2.8	2.0	2.0	18.1	15.3	12.4	80	(18.7)	4.3
TCS	381	REDUCE	745,106	15,369	1,957	26.4	26.9	29.6	3.1	1.9	10.0	14.4	14.1	12.8	10.1	9.7	8.4	4.8	3.9	3.4	1.8	2.1	3.1	36.9	30.4	28.1	350	(8.1)	32.5
Wipro	372	ADD	544,156	11,224	1,462	25.7	26.4	29.2	15.8	2.6	10.3	14.5	14.1	12.8	10.6	9.7	8.0	3.6	3.0	2.6	1.1	2.0	2.3	26.9	23.3	21.6	400	7.5	16.3
Technology		**Attractive**	**2,571,313**	**53,036**					**75.2**	**424.8**	**(149.4)**	**148.5**	**107.6**	**80.7**	**73.6**	**60.7**	**47.7**	**27.9**	**22.5**	**17.3**	**19.2**	**19.6**	**17.9**	**184.1**	**198.1**	**153.4**			
Telecom																													
Bharti Airtel	783	ADD	1,485,774	30,646	1,898	44.6	52.2	59.8	26.4	17.0	14.6	17.5	15.0	13.1	10.3	8.8	7.5	4.7	3.6	2.8	0.5	0.8	1.0	31.4	27.0	23.8	775	(1.0)	93.6
IDEA	69	REDUCE	215,563	4,446	3,104	2.9	2.9	3.2	(26.5)	(0.1)	10.9	23.9	23.9	21.6	9.0	8.2	6.8	1.6	1.5	1.4				10.4	6.4	6.8	65	(6.4)	22.6
MTNL	96	SELL	60,606	1,250	630	5.1	5.5	6.5	(28.4)	7.6	17.7	18.8	17.5	14.8	5.1	4.8	4.4	0.5	0.5	0.5	6.2	6.2	6.2	2.2	2.4	2.9	50	(48.0)	4.7
Reliance Communications	269	SELL	574,394	11,847	2,133	27.7	20.3	21.1	4.7	(26.6)	3.9	9.7	13.2	12.7	8.8	8.4	6.5	1.7	1.5	1.3	0.3			18.6	11.7	10.9	180	(33.2)	83.7
Tata Communications	468	REDUCE	133,394	2,751	285	13.6	14.0	15.2	24.0	3.2	8.2	34.5	33.4	30.9	14.7	13.4	12.4	1.9	1.9	1.8	1.1	1.4	1.6	5.4	5.2	5.5	400	(14.5)	9.1
Telecom		**Cautious**	**2,469,731**	**50,941**					**0.3**	**1.0**	**55.3**	**104.5**	**103.1**	**93.1**	**47.8**	**43.4**	**37.7**	**10.4**	**8.9**	**7.8**	**8.1**	**8.4**	**8.9**	**67.8**	**52.8**	**49.9**			
Transportation																													
Container Corporation	996	ADD	129,421	2,669	130	64.4	71.4	83.3	11.6	10.8	16.6	15.5	13.9	12.0	11.1	9.4	7.8	3.4	2.9	2.5	1.4	1.6	1.9	24.0	22.5	22.2	850	(14.6)	1.3
Transportation		**Cautious**	**129,421**	**2,669**					**11.6**	**10.8**	**16.6**	**15.5**	**13.9**	**12.0**	**11.1**	**9.4**	**7.8**	**3.4**	**2.9**	**2.5**	**1.4**	**1.6**	**1.9**	**24.0**	**22.5**	**22.2**			
Utilities																													
CESC	276	ADD	34,464	711	125	31.2	38.0	42.1	12.3	21.8	10.8	8.8	7.3	6.6	4.9	5.7	6.2	0.9	0.8	0.7	1.7	2.0	2.2	11.4	12.2	11.9	345	25.1	2.3
Lanco Infratech	353	ADD	78,372	1,616	222	14.5	20.2	35.1	(2.5)	39.7	73.7	24.4	17.4	10.0	22.6	16.1	7.9	3.6	2.9	2.2				16.1	18.6	25.3	385	9.2	24.8
NTPC	193	SELL	1,593,024	32,858	8,245	9.4	10.8	12.2	1.1	14.7	12.6	20.5	17.9	15.9	15.6	13.3	12.7	2.7	2.5	2.3	1.8	2.1	2.4	13.7	14.5	15.0	180	(6.8)	44.5
Reliance Infrastructure	1,131	BUY	256,058	5,281	226	64.1	58.8	62.9	70.5	(8.2)	6.9	17.6	19.2	18.0	18.9	19.4	15.0	1.5	1.4	1.3	0.6	0.7	0.8	6.3	7.0	9.0	1,250	10.5	122.9
Reliance Power	164	REDUCE	393,307	8,112	2,397	1.0	2.5	3.1	168.2	140.3	25.3	160.9	66.9	53.4	129.4	1,083.6	85.4	2.9	2.7	2.6				1.8	4.2	5.0	160	(2.5)	39.1
Tata Power	1,104	ADD	245,713	5,068	223	56.2	76.6	86.5	76.6	36.2	12.9	19.6	14.4	12.8	10.9	11.3	10.7	2.4	2.1	1.9	1.0	1.1	1.3	13.4	15.8	15.7	1,100	(0.3)	14.0
Tata Power	1,171	ADD	260,649	5,435	223	56.2	76.6	86.5	76.6	36.2	12.9	20.8	15.3	13.5	11.3	11.7	11.0	2.6	2.3	2.0	1.0	1.0	1.2	13.4	15.8	15.7	1,100	(6.1)	14.2
Utilities		**Attractive**	**2,861,587**	**59,082**					**402.9**	**280.6**	**155.1**	**272.6**	**158.4**	**130.2**	**213.7**	**1,161.2**	**148.9**	**16.7**	**14.8**	**13.1**	**6.1**	**6.9**	**7.8**	**76.2**	**88.1**	**97.6**			
KS universe (b)			**24,376,367**	**487,771**					**26.0**	**2.0**	**7.8**	**12**	**12.1**	**11.2**	**7.9**	**8.0**	**7.0**	**2.2**	**1.9**	**1.7**	**1.7**	**1.7**	**2.0**	**17.9**	**15.3**	**14.8**			
KS universe (b) ex-Energy			**18,082,077**	**361,822**					**30.8**	**5.1**	**(0.2)**	**12.1**	**11.5**	**11.5**	**8.6**	**8.6**	**8.1**	**2.3**	**1.9**	**1.7**	**1.7**	**1.7**	**1.9**	**19.2**	**16.8**	**14.9**			
KS universe (d) ex-Energy & ex-Commodities			**16,258,901**	**325,341**					**36.0**	**6.2**	**6.9**	**13.6**	**12.8**	**12.0**	**10.6**	**10.3**	**9.0**	**2.6**	**2.2**	**1.9**	**1.7**	**1.7**	**1.9**	**18.7**	**16.8**	**15.9**			

Note:
(1) For banks we have used adjusted book values.
(2) 2009 means calendar year 2008, similarly for 2010 and 2011 for these particular companies.
(3) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.
(4) Rupee-US Dollar exchange rate (Rs/US$)= 48.48

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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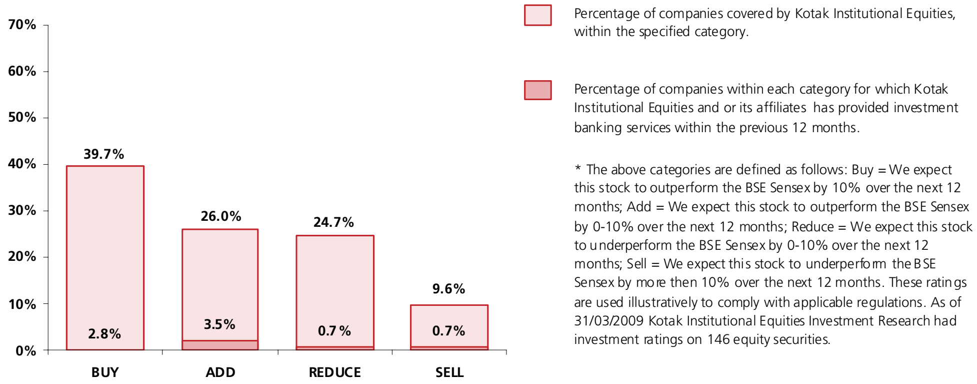
Distribution of ratings/investment banking relationships



* The above categories are defined as follows: Buy = We expect this stock to outperform the BSE Sensex by 10% over the next 12 months; Add = We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months; Reduce = We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months; Sell = We expect this stock to underperform the BSE Sensex by more then 10% over the next 12 months. These ratings are used illustratively to comply with applicable regulations. As of 31/03/2009 Kotak Institutional Equities Investment Research had investment ratings on 146 equity securities.

Source: Kotak Institutional Equities — As of March 31, 2009

Ratings and other definitions/identifiers

Rating system

Definitions of ratings

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

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

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

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