

June 17, 2009

BSE-30:14,958

End of the affair (unless revived by a rush of new passion). We are increasingly skeptical about the sustainability of the current market rally and expect the current momentum to peter out or even reverse without fresh impetus from (1) earnings upgrades, (2) better macro-economic conditions and government action and (3) sustained high liquidity. The last factor has largely resulted in most large-cap. stocks trading well above their fundamental-based fair valuations.

Valuations will matter; liquidity cannot create fundamentals

We find the market in a state of 'unstable equilibrium'—it may not sustain at current levels without (1) earnings upgrades that would make valuations appear more reasonable and (2) positive news flow from government action. We find the market's valuations (as measured by the BSE-30 Index) rich at 16.8X FY2010E earnings and fully valued at 13.9X FY2011E earnings. Our bottom-up BSE-30 Index target, based on FY2011E fair valuations comes to 14,000.

Impetus 1: Earnings upgrades—no signs yet

We do not see signs of any meaningful earnings upgrades by our research team as yet. We project the earnings of the BSE-30 Index (ex-energy basis) to decline 5.8% in FY2010E and grow 17.1% in FY2011E. Our FY2010E earnings growth estimate has declined to -1.7% from +11.1% over the past six months. We continue to see risks to earnings in several sectors.

Impetus 2: Better macro-economic conditions—increasing interest rates and BOP are worrying

We see increasing risks to the market from (1) higher interest rates in 2HFY10 led by large government borrowing program in both FY2010E and FY2011E and (2) higher current account deficit due to higher-than-expected crude oil prices. The government can help with the right initiatives on infrastructure but certain reforms (fiscal consolidation) will be painful in the short term. Indian companies do benefit from government largesse—low and zero excise duties in some cases, income tax exemptions and grant of natural resources.

Impetus 3: Sustained high liquidity—positive but unpredictable

We find it hard to build an investment case based on liquidity and momentum; liquidity is a difficult issue to handle. The continued increase in government bond yields globally may eventually force central banks to increase policy rates and reduce liquidity. We believe high liquidity and notions of inevitable and invincible inflows have resulted in the market glossing over valuations and other concerns.

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Important disclosures appear
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The prices in this report are based on the market close of June 16, 2009.

VALUATIONS: RICHER BY THE DAY

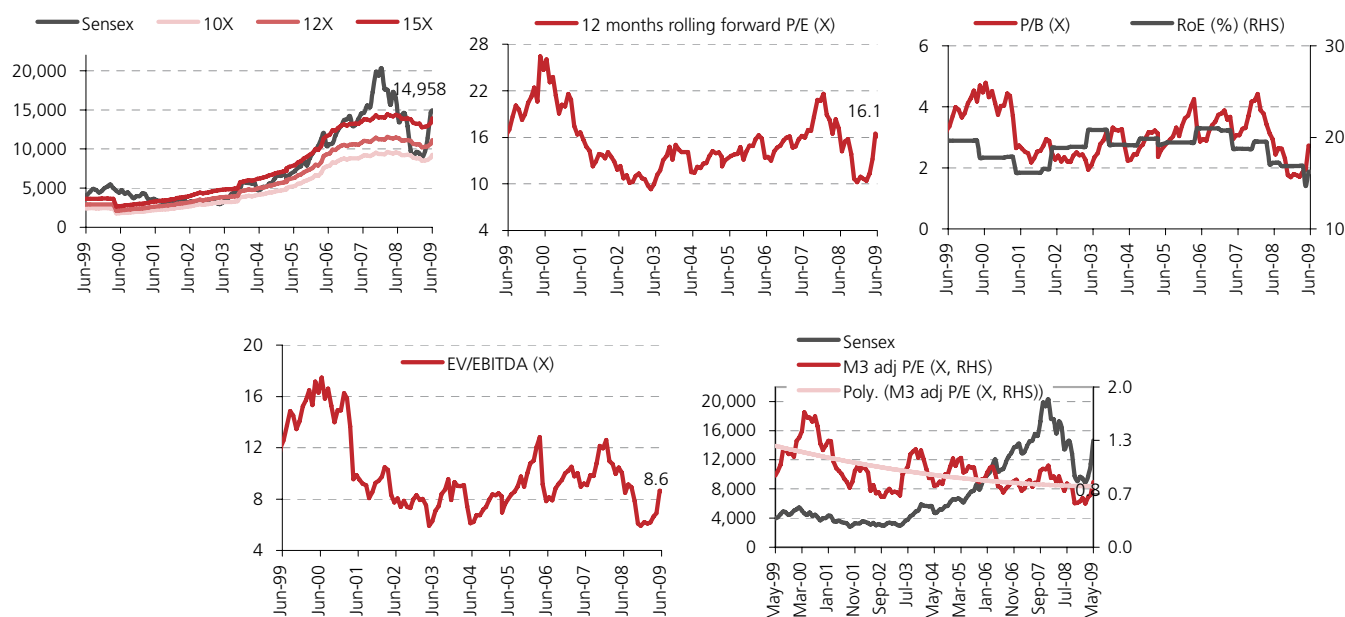
We see the market in a state of 'unstable equilibrium' and unlikely to sustain at current levels without (1) earnings upgrades (not forthcoming as yet) and (2) sustained positive news flow on government action. We believe excessive global liquidity has resulted in the market running well ahead of fundamentals. We do not see an immediate trigger for a market correction; nonetheless, a potential souring of macro-economic parameters and possible disappointments from heightened expectations about earnings upgrades and government action may gradually cramp the market momentum.

Rich valuations offer cold comfort

Exhibit 1 shows the steep inflation in valuation of the Indian market over the past few months. The Indian market as measured by the BSE-30 Index now trades at 16.8X FY2010E and 13.9X FY2011E earnings. More important, the BSE-30 Index on an ex-energy basis trades at 18.4X FY2010E and 15.7X FY2011E earnings; Exhibit 2 gives the breakdown of valuations by sectors. The sharp recovery in the Indian market is not unusual in the context of re-rating of most emerging markets (see Exhibit 3). Nonetheless, India's outperformance is noteworthy and reflects the market's expectations about (1) earnings upgrades and (2) positive government action on reforms.

Exhibit 1: 1-year rolling forward P/E of BSE-30 Index is trading at full valuations

1-year rolling forward P/E, P/B, ROE, EV/EBITDA and M3 growth rate adjusted valuations for BSE-30 Index



Source: BSE, Bloomberg, Kotak Institutional Equities estimates

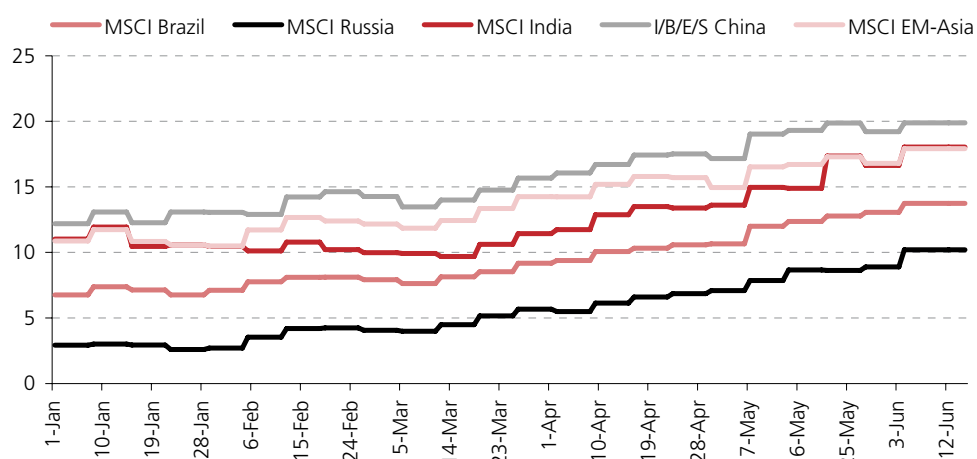
Exhibit 2: Valuation summary of BSE-30 Index sectors, March fiscal year-ends, 2009E-11E

	Mkt cap. (US\$ mn)	Adj mkt cap. (US\$ mn)	EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Div. yield (%)		RoE (%)		
			2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2009E	2010E	2011E
Automobiles	14,872	9,122	(41.1)	29.9	14.0	25.7	19.8	17.3	15.1	10.8	9.4	2.5	2.2	2.0	0.9	1.0	9.9	11.3	11.6
Banking	67,842	50,411	16.7	(4.2)	16.6	18.6	19.5	16.7	—	—	—	2.6	2.4	2.1	1.3	1.3	13.7	12.1	12.8
Cement	7,980	5,314	(15.0)	(1.4)	(6.7)	11.8	11.9	12.8	6.3	5.9	6.0	2.3	2.0	1.8	2.0	2.0	20.0	17.0	14.1
Consumers	27,669	16,967	17.7	5.6	14.6	23.1	21.9	19.1	15.5	13.9	12.1	8.1	7.1	6.3	2.5	2.7	35.1	32.6	32.8
Diversified	6,421	3,852	(30.8)	126.3	45.5	72.9	32.2	22.1	21.7	15.1	14.4	5.5	4.8	4.1	0.0	0.0	7.6	15.1	18.3
Energy	111,948	40,853	7.5	9.1	28.5	14.4	13.2	10.3	7.1	5.8	4.7	2.3	2.1	1.8	1.7	2.0	16.0	15.7	17.8
Industrials	41,142	24,870	23.2	26.9	17.4	31.4	24.8	21.1	17.9	14.1	12.1	6.8	5.5	4.5	0.7	0.8	21.7	22.2	21.4
Metals	20,781	11,727	15.7	(47.0)	57.6	6.5	12.3	7.8	4.8	6.3	4.9	0.9	0.9	0.8	1.1	1.1	14.3	7.1	10.1
Pharmaceuticals	8,333	3,333	(37.0)	11.4	28.7	26.8	24.1	18.7	18.9	15.7	12.0	3.4	2.8	2.5	1.8	1.9	12.6	11.5	13.5
Property	12,554	1,883	(36.6)	(44.5)	7.2	12.0	21.7	20.2	11.6	16.1	14.0	2.4	2.2	2.1	0.9	0.8	20.3	10.3	10.2
Technology	48,756	24,005	15.9	(2.0)	10.5	15.7	16.0	14.5	11.2	10.6	8.7	4.8	3.9	3.3	1.4	1.7	30.3	24.5	23.0
Telecom	46,294	16,203	15.3	(1.1)	11.4	15.1	15.3	13.7	9.5	8.6	7.3	3.3	2.7	2.3	0.4	0.5	22.1	17.9	16.6
Utilities	50,344	13,586	12.8	14.1	12.0	23.0	20.1	18.0	13.8	12.9	12.4	2.8	2.6	2.4	1.4	1.6	12.2	12.8	13.1
BSE-30	464,937	222,126	6.3	(1.7)	20.6	16.5	16.8	13.9	9.4	8.7	7.4	2.8	2.5	2.2	1.3	1.5	16.9	14.8	15.8
BSE-30 ex-Energy	352,988	181,273	5.8	(5.8)	17.1	17.3	18.4	15.7	10.6	10.5	9.1	3.0	2.6	2.3	1.2	1.3	17.2	14.4	14.9
BSE-30 ex-Energy, Com.	324,227	164,232	5.1	2.0	14.0	19.6	19.2	16.9	12.9	11.7	10.2	3.5	3.1	2.7	1.2	1.3	17.8	16.0	16.0

Note:
(a) EV/EBITDA excludes Banking sector.

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Exhibit 3: Significant re-rating of emerging markets CYTD
1-year forward P/E ratio of various indices, Calendar year-end, 2009E (X)



Source: Bloomberg, Datastream

Exhibit 4 shows that most stocks in the BSE-30 Index are trading at or above our fair valuations despite meaningful upward revisions in our 12-month target prices over the past few weeks. On the other hand, earnings upgrades have been fairly muted; we deal with this issue in more detail in the next section.

Exhibit 4: Many stocks in BSE-30 Index are trading near or above our fair valuations
Valuation summary of BSE-30 Index stocks, March fiscal year-ends, 2009-11E

	P/E (X)			EV/EBITDA (X)			Price (Rs)		Upside (%)
	2009E	2010E	2011E	2009E	2010E	2011E	Current	Target	
Ranbaxy Laboratories	NA	NA	56.6	NA	878.1	22.5	290	150	(48)
Reliance Communications	11.8	16.1	15.5	8.1	8.2	6.9	328	180	(45)
Tata Steel	3.6	8.1	5.2	4.0	5.5	4.2	451	280	(38)
Tata Motors	16.8	23.1	17.5	12.4	10.7	9.3	350	235	(33)
Maruti Suzuki	25.5	18.4	17.0	14.6	9.5	8.0	1,076	780	(27)
Reliance Industries	20.7	16.7	12.7	12.2	7.7	6.0	2,143	1,650	(23)
Sterlite Industries	12.9	15.5	12.6	5.7	6.3	4.9	634	490	(23)
NTPC	23.9	20.8	18.5	14.7	13.3	13.0	225	180	(20)
TCS	14.7	15.3	14.2	11.0	10.5	8.9	389	325	(16)
ACC	15.2	15.5	20.3	7.7	7.7	8.9	855	725	(15)
Mahindra & Mahindra	35.7	19.2	17.8	23.1	12.8	11.6	775	670	(14)
Jaiprakash Associates	72.9	32.2	22.1	21.7	15.1	14.4	219	190	(13)
HDFC	28.8	25.2	22.3	—	—	—	2,309	2,025	(12)
Bharat Heavy Electricals	33.7	23.5	20.2	18.3	13.0	11.0	2,159	1,900	(12)
Larsen & Toubro	29.0	26.5	22.4	17.4	15.3	13.1	1,526	1,375	(10)
DLF	12.1	21.7	20.2	11.6	16.1	14.0	353	320	(9)
Tata Power	21.0	15.4	13.7	11.1	11.3	10.6	1,183	1,100	(7)
ICICI Bank	21.7	22.8	19.1	—	—	—	734	685	(7)
HDFC Bank	27.9	24.5	20.6	—	—	—	1,546	1,460	(6)
Grasim Industries	10.1	10.2	10.1	5.8	5.2	5.0	2,411	2,300	(5)
Bharti Airtel	18.1	15.5	13.5	10.6	8.9	7.6	810	775	(4)
Oil & Natural Gas Corporation	11.2	11.8	9.5	4.3	4.2	3.5	1,127	1,100	(2)
Reliance Infrastructure	19.8	21.6	20.2	12.4	13.4	11.6	1,269	1,250	(2)
Wipro	15.4	15.0	13.6	11.2	10.1	8.2	397	400	1
Infosys Technologies	16.8	17.4	15.4	11.4	10.9	8.9	1,725	1,800	4
State Bank of India	11.9	14.2	12.3	—	—	—	1,714	1,870	9
ITC	22.9	20.1	17.5	13.9	11.7	10.3	199	225	13
Hindustan Unilever	23.4	24.9	21.7	18.3	18.2	15.5	263	320	21
Sun Pharmaceuticals	15.1	14.5	14.4	11.5	10.1	9.3	1,326	1,800	36
Hindalco Industries	11.0	28.5	8.7	6.4	8.5	6.6	99	135	36

Source: Kotak Institutional Equities estimates

Exhibit 5 compares our current fair valuation of BSE-30 stocks with those a month ago and also shows changes in EBITDA or EPS for FY2010E and FY2011E. The steep increase in 12-month target prices in some cases reflects (1) roll-forward of to FY2011E and (2) higher multiples due to expansion in market multiples or peer group multiples.

Exhibit 5: Target prices of many companies in BSE-30 Index stock up but no meaningful change in earnings as yet
EPS and target prices of BSE-30 Index companies, March fiscal year-ends, 2010E-11E

	2010E EPS (Rs)			2011E EPS (Rs)			Target price		
	Current	May-09	Change (%)	Current	May-09	Change (%)	Current	May-09	Change (%)
Hindalco Industries	3	2	47	11	8	38	135	55	145
Larsen & Toubro	58	52	12	68	55	25	1,375	650	112
DLF	16	16	2	17	17	0	320	190	68
Grasim Industries	236	188	25	239	193	24	2,300	1,500	53
Mahindra & Mahindra	40	35	16	44	34	27	670	450	49
ICICI Bank	32	33	(1)	38	38	(0)	685	475	44
Hindustan Unilever	11	10	3	12	12	5	320	235	36
Jaiprakash Associates	7	8	(14)	10	12	(16)	190	140	36
Reliance Infrastructure	59	59	—	63	63	—	1,250	970	29
Bharat Heavy Electricals	92	89	3	107	105	1	1,900	1,475	29
TCS	25	26	(1)	27	28	(2)	325	255	27
HDFC Bank	63	64	(1)	75	75	0	1,460	1,150	27
Wipro	26	27	(2)	29	29	(1)	400	325	23
Tata Motors	15	19	(20)	20	17	20	235	195	21
Infosys Technologies	99	104	(5)	112	116	(4)	1,800	1,500	20
HDFC	91	93	(2)	104	109	(5)	2,025	1,730	17
State Bank of India	121	124	(2)	139	145	(4)	1,870	1,600	17
ACC	55	55	—	42	42	—	725	625	16
Oil & Natural Gas Corporation	95	104	(8)	119	138	(14)	1,100	950	16
ITC	10	10	1	11	11	1	225	200	13
Tata Power	77	90	(15)	87	101	(15)	1,100	1,000	10
Reliance Industries	128	128	0	169	176	(4)	1,650	1,650	—
Bharti Airtel	52	52	—	60	60	—	775	775	—
Maruti Suzuki	58	58	1	63	64	(0)	780	780	—
NTPC	11	11	1	12	12	1	180	180	—
Ranbaxy Laboratories	(6)	(6)	—	5	5	—	150	150	—
Reliance Communications	20	20	—	21	21	—	180	180	—
Sterlite Industries	41	41	—	51	51	—	490	490	—
Sun Pharmaceuticals	92	86	7	92	94	(2)	1,800	1,800	—
Tata Steel	56	56	—	87	87	—	280	280	—

Source: Kotak Institutional Equities estimates

Portfolio selection: Defensive, barring a few with scope for earnings upgrades

Exhibit 6 gives our revised Model Portfolio and Exhibit 7 is our revised Top-10 list. We discuss the key changes in and arguments for our portfolio construction. We note that we have very few ideas where we see meaningful absolute positive returns. This restricts our portfolio construction to very few names where we see limited downside to our fair valuations.

Exhibit 6: Overweight PSU banks, consumers, pharmaceuticals, technology and utilities
Kotak Institutional Equities Model Portfolio

Company	16-Jun	Rating	Weightage (%)		Diff. (bps)
	Price (Rs)		BSE-30	KS reco.	
Mahindra & Mahindra	775	ADD	1.5	1.5	—
Maruti Suzuki	1,076	SELL	1.5	—	(148)
Tata Motors	350	SELL	1.2	—	(120)
Automobiles			4.1	1.5	(268)
Punjab National Bank	631	BUY	—	1.5	150
State Bank of India	1,714	BUY	4.7	6.7	200
Union Bank	225	BUY	—	1.5	150
PSU Banking			4.7	9.7	500
Axis Bank	760	BUY	—	2.0	200
HDFC	2,309	REDUCE	5.3	1.8	(350)
HDFC Bank	1,546	ADD	5.2	3.2	(200)
ICICI Bank	734	REDUCE	7.8	6.3	(150)
Rural Electrification Corp.	163	BUY	—	1.0	100
Pvt. Banking/Financing			18.2	14.2	(400)
ACC	855	REDUCE	0.8	—	(84)
Grasim Industries	2,411	REDUCE	1.6	1.6	—
Jaiprakash Associates	219	ADD	1.8	2.8	100
Cement			4.2	4.3	16
Hindustan Unilever	263	BUY	2.7	4.5	180
ITC	199	ADD	5.0	6.0	100
Consumers			7.7	10.5	280
GAIL (India)	289	ADD	—	1.0	100
Oil & Natural Gas Corporation	1,127	BUY	4.6	5.6	100
Reliance Industries	2,143	SELL	14.0	8.5	(550)
Energy			18.6	15.1	(350)
Bharat Heavy Electricals	2,159	REDUCE	3.5	1.5	(200)
IVRCL	325	BUY	—	0.5	50
Larsen & Toubro	1,526	ADD	7.8	7.8	—
Company	16-Jun	Rating	Weightage (%)		Diff. (bps)
	Price (Rs)		BSE-30	KS reco.	
Nagarjuna Construction	133	BUY	—	0.5	50
Punj Lloyd	210	BUY	—	1.0	100
Industrials/Construction			11.3	11.3	—
Hindalco Industries	99	BUY	1.2	—	(116)
Hindustan Zinc	658	BUY	—	1.5	150
Sterlite Industries	634	ADD	1.7	1.7	—
Tata Steel	451	BUY	2.5	1.0	(150)
Metals			5.3	4.2	(116)
Cipla	261	ADD	—	1.0	100
Divi's Laboratories	1,139	BUY	—	1.0	100
Ranbaxy Laboratories	290	REDUCE	0.5	—	(47)
Sun Pharmaceuticals	1,326	BUY	1.0	3.0	200
Pharmaceuticals			1.5	5.0	353
DLF	353	REDUCE	0.9	—	(86)
Real estate			0.9	—	(86)
Infosys Technologies	1,725	BUY	8.0	9.0	100
TCS	389	REDUCE	0.9	—	(90)
Wipro	397	ADD	1.1	2.1	100
Technology			10.0	11.1	110
Bharti Airtel	810	ADD	5.1	6.1	100
Reliance Communications	328	SELL	2.3	—	(225)
Telecom			7.4	6.1	(125)
Lanco Infratech	379	ADD	—	1.0	100
NTPC	225	SELL	2.6	—	(265)
Reliance Infrastructure	1,269	BUY	1.8	2.8	100
Tata Power	1,183	ADD	1.8	3.3	150
Utilities			6.2	7.0	85
BSE-30	14,958		100.0	100.0	—

Note:

1. Weights are with respect to June 16, 2009 prices.

Source: Bloomberg, BSE, Kotak Institutional Equities estimates

Exhibit 7: Back to basics—we have included Bharti Airtel, Hindustan Unilever and Infosys in our Top-10 list
Kotak Institutional Equities Top-10 List

Companies	Sector	Rating	Mkt cap.	CMP	Target	EPS (Rs)			P/E (X)			EV/EBDITA (X)		
			(US\$ mn)	(Rs)	(Rs)	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E
State Bank of India	Banking	BUY	22,767	1,714	1,870	143.6	121.1	139.2	11.9	14.2	12.3	—	—	—
Infosys Technologies	Technology	BUY	20,704	1,725	1,800	102.4	99.3	111.9	16.8	17.4	15.4	12.2	12.3	10.2
Axis Bank	Banking	BUY	5,704	760	850	50.6	56.1	66.6	15.0	13.5	11.4	—	—	—
Hindustan Unilever	Consumer products	BUY	12,008	263	320	11.3	10.6	12.2	0.0	24.9	21.7	18.3	19.1	16.5
Oil & Natural Gas Corporation	Energy	BUY	50,402	1,127	1,100	100.3	95.3	119.2	11.2	11.8	9.5	4.3	4.2	3.5
Sun Pharmaceuticals	Pharmaceuticals	BUY	5,745	1,326	1,800	87.8	91.5	92.2	15.1	14.5	14.4	11.5	10.1	9.3
Tata Power	Utilities	ADD	5,506	1,183	1,100	56.2	76.6	86.5	21.0	15.4	13.7	11.4	11.8	11.0
Jaiprakash Associates	Diversified	ADD	6,421	219	190	3.0	6.8	9.9	72.9	32.2	22.1	24.1	16.1	15.0
Bharti Airtel	Telecom	ADD	32,141	810	775	44.6	52.2	59.8	18.1	15.5	13.5	10.6	9.1	7.8
ITC	Consumer products	ADD	15,661	199	225	8.7	9.9	11.3	22.9	20.1	17.5	13.9	12.4	10.9
BSE-30				14,958										

Source: Company, Bloomberg, Kotak Institutional Equities estimates

- ▶ **Top-10 changes.** We have removed Cairn India, JSPL and Sterlite Industries from our Top-10 list and included Bharti Airtel, HUL and Infosys instead. We had downgraded Cairn to REDUCE two weeks ago after the stock's 87% absolute return and 33% outperformance since October 31, 2008 (dated of inclusion in Top-10 list). JSPL stock is trading at 31% above our fair valuation of Rs1,820. The stock has appreciated by 188% on CYTD basis. Sterlite Industries stock is now trading at 23% above our fair valuation of Rs490 after a spectacular 144% increase in its stock price CYTD.
- ▶ **Increased weight on consumer staples.** In line with the introduction of HUL in our Top-10 list, we have also increased its weight in our recommended portfolio by 280 bps to 4.5% from 1.8% previously. We have also raised weight on ITC by 100 bps to 6%.
- ▶ **Reduced weight on the energy sector.** We have removed Cairn from the Model Portfolio. It had a weight of 4% previously. We retain ONGC with a 5.6% weight noting its inexpensive valuations and possible large upside to fair valuation in case of deregulation of oil and gas pricing (see Exhibit 8, which shows favorable reward-risk balance for ONGC stock). We currently use US\$50/bbl normalized crude price to value ONGC stock. We do not ascribe a high probability to full-fledged deregulation but expect the government to gradually realign prices of diesel and gasoline to international levels and potentially reduce subsidies on LPG and kerosene through direct cash subsidies to consumers. We have reduced the weight on Reliance Industries' (RIL) by 140 bps to 8.5% and introduce GAIL (ADD; TP: Rs300) with a 100 bps weight.

Exhibit 8: ONGC stock has large upside in case of deregulation of oil and gas pricing

Estimation of fair value of ONGC stock based on normalized free cash flow at different levels of crude price

	Equity value (Rs/share)	Change from base case (%)
Normalized crude prices		
US\$75/bbl	1,837	73
US\$70/bbl	1,682	58
US\$65/bbl	1,528	44
US\$60/bbl	1,373	29
US\$55/bbl	1,219	15
US\$50/bbl	1,064	
US\$45/bbl	909	(15)
US\$40/bbl	755	(29)
US\$35/bbl	600	(44)

Source: Kotak Institutional Equities estimates

- ▶ **Reduced weight on the metals sector.** We have reduced weight on the metals sector by reducing weight on Sterlite to make it equal-weight versus 200 bps overweight previously. However, we have included Hindustan Zinc (HZ), Sterlite's 65% subsidiary (BUY; TP: Rs825) instead with a weight of 150 bps. We see scope for earnings upgrades in case of HZ given our conservative price assumptions for zinc. We model zinc prices at US\$1,400/ton for FY2010E and US\$1,500/ton for FY2011E; our assumed prices are below current prices of around US\$1,575/ton. Exhibit 9 compares our assumed prices of major metals (ferrous and non-ferrous) with their current prices, last five-year average prices and last 10-year average prices.

Exhibit 9: Our commodity price assumptions are conservative versus long-term averages
KIE metals price assumptions versus historical average, March fiscal year-ends, 2010-11E (US\$/ton)

	2010E				2011E			
	Our assumption	Current spot prices	5-year average	10-year average	Our assumption	Current spot prices	5-year average	10-year average
Prices								
Aluminium	1,700	1,610	2,274	1,875	2,000	1,610	2,274	1,875
Zinc	1,400	1,575	2,177	1,573	1,500	1,575	2,177	1,573
Copper	3,600	5,006	5,450	3,623	4,000	5,006	5,450	3,623
Lead	1,300	1,677	1,572	1,044	1,300	1,677	1,572	1,044
EBITDA margin (%)								
Sterlite	24	24	31	26	27	26	33	28
Hindustan Zinc	45	53	60	48	49	55	61	50

Source: Bloomberg, Kotak Institutional Equities

- **Increased weight on pharmaceuticals.** We have included Cipla and Divi's with weights of 100 bps each. We have reduced weight of Sun Pharma (a large underperformer over the past three months) to 200 bps from 350 bps previously. We note that the sector's large underperformance over the past three months due to its perceived defensive nature has resulted in relatively inexpensive valuations of most stocks in the sector. Exhibit 10 shows the valuations and performance of the 11 pharmaceutical stocks under our coverage.

Exhibit 10: Most pharmaceutical companies have underperformed the BSE-30 Index
Valuation and performance of pharmaceutical companies in KIE universe, March fiscal year-ends, 2009E-11E

	P/E (X)			EV/EBITDA (X)			Absolute performance		Relative performance	
	2009E	2010E	2011E	2009E	2010E	2011E	1 month	3 month	1 month	3 month
Biocon	44.6	15.2	10.7	18.3	9.1	6.6	45	94	18	16
Cipla	26.4	18.9	17.4	18.9	13.6	12.3	13	29	(8)	(23)
Dishman Pharma & Chemicals	9.5	8.0	6.2	8.1	6.4	5.0	43	78	17	6
Divi's Laboratories	17.8	15.3	13.2	14.4	11.6	9.3	23	29	0	(23)
Dr Reddy's Laboratories	22.0	15.9	14.5	9.6	7.8	6.8	24	64	1	(2)
Glenmark Pharmaceuticals	13.8	12.1	9.8	9.2	7.9	6.6	27	64	3	(2)
Jubilant Organosys	10.2	9.1	7.7	12.0	7.5	5.5	18	90	(4)	14
Lupin	13.8	12.7	11.8	13.7	11.4	9.7	7	41	(13)	(16)
Piramal Healthcare	15.6	12.0	9.5	11.6	8.1	6.6	6	41	(13)	(16)
Ranbaxy Laboratories	(35.8)	NA	56.6	NA	878.1	22.5	45	96	18	17
Sun Pharmaceuticals	15.1	14.5	14.4	11.5	10.1	9.3	2	33	(17)	(21)

Source: Bloomberg, Kotak Institutional Equities estimates

- **Increased weight on the technology sector.** We have increased weight on Infosys by 300 bps to 9%. We have increased weight of Wipro by 100 bps to 2.1%. We now have a modest overweight of 110 bps on the sector versus a large underweight of 380 bps previously.
- **Increased weight on the telecom sector (Bharti).** We have made Bharti equal-weight in our model portfolio and included in top-10. This positive view reflects our move towards a more conservative portfolio. Bharti is among a few large-cap. stocks trading at or near our 12-month fair valuations. We continue to ascribe nil weight to RCOM given our discomfort with the company's financials and disclosures.

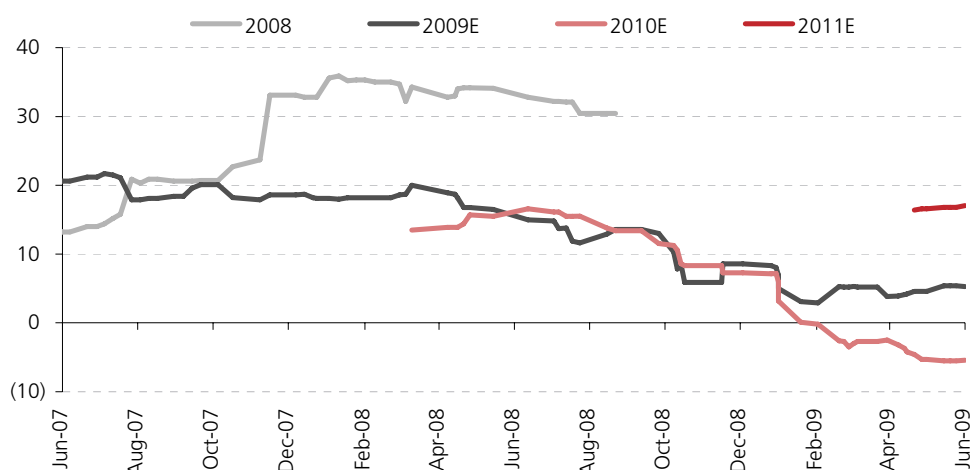
EARNINGS: POORER BY THE DAY

We do not yet see any significant upgrades by our research team or reasons for meaningful upgrades later during the year. We are already ahead of consensus BSE-30 Index earnings by 7.9% for FY2010E and by 11.9% for FY2011E. We continue to see earnings risks in several sectors and stocks due to specific macro (higher interest rates, higher crude oil prices) and micro risks (more competition in a sector, deteriorating supply-demand balance and adverse regulatory changes among others).

1.7% yoy decline in FY2010E earnings and 20.6% yoy increase in FY2011E earnings

Exhibit 11 tracks changes in our earnings forecasts for FY2010E (ex-energy basis, BSE-30 Index) over the past several years. We now project BSE-30 Index (ex-energy) earnings to decline 1.7% in FY2010E compared to 11.1% at the beginning of CY2009. We have seen earnings upgrades in a few smaller sectors (automobiles and cement) but downgrades in larger sectors (banking, metals and technology). This has resulted in an overall decline in earnings over the past few months. Exhibit 12 tracks changes in earnings estimates across sectors over the past six months.

Exhibit 11: Sensex (ex-energy) earnings growth has declined sharply in the past few months
Expected growth in Sensex ex-energy earnings for FY2008-11E (%)



Source: Kotak Institutional Equities

Exhibit 12: No major upgrades except in automobiles and cement
Earnings growth of BSE-30 Index sectors, March fiscal year-end, 2010E (%)

	Earnings growth (%)						
	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09
Automobiles	(5.3)	18.5	21.0	20.1	25.0	30.9	29.9
Banking	5.4	2.9	0.4	0.1	(1.3)	(4.1)	(4.2)
Cement	(21.1)	(21.9)	(21.9)	(21.2)	(21.2)	(11.5)	(1.4)
Consumers	14.7	14.4	14.4	14.4	14.4	12.3	5.6
Diversified	30.8	33.4	33.4	33.4	33.4	20.0	126.3
Energy	21.2	12.4	6.9	17.7	17.7	7.1	9.1
Industrials	26.4	29.4	29.4	26.0	28.5	30.7	26.9
Metals	(19.1)	(33.8)	(49.3)	(46.3)	(44.5)	(47.5)	(47.0)
Pharmaceuticals	NA	48.6	44.5	47.6	47.6	4.7	11.4
Property	6.2	(26.3)	(24.4)	(24.4)	(24.4)	(45.2)	(44.5)
Technology	5.9	4.6	4.6	9.0	5.7	0.8	(2.0)
Telecom	22.5	2.9	2.9	(4.4)	(4.4)	(1.1)	(1.1)
Utilities	13.7	11.2	17.6	18.5	19.6	19.2	14.1
BSE-30 Index	10.8	3.5	—	3.0	3.2	(1.7)	(1.7)
BSE-30 ex-Energy	6.7	0.1	(2.6)	(2.6)	(2.5)	(5.1)	(5.8)

Source: Kotak Institutional Equities estimates

We expect earnings to rebound 20.6% in FY2011E. However, we note that the composition of earnings growth (see Exhibit 13) is lackluster with 59% of the growth coming from the energy and metals sectors. In our view, these sectors will likely trade at lower multiples versus high-growth consumption and investment stocks. In particular, we highlight that 24% of our projected yoy growth in FY2011E comes from RIL led by (1) higher gas production volumes from its KG D-6 gas fields and (2) use of natural gas for internal processes of its refineries that would add around US\$1.5-2/bbl to underlying refining margins. We believe that these issues are already well known and discounted in the stock's current price.

Exhibit 13: Significant portion of earnings growth in FY2011E is contributed by energy sector
Break-up of earnings of BSE-30 Index across sectors, March fiscal year-ends, 2008-11E

	Net profit (Rs bn)				Contribution (%)				Incremental profits			
									2010E		2011E	
	2008	2009E	2010E	2011E	2008	2009E	2010E	2011E	(Rs bn)	(%)	(Rs bn)	(%)
Automobiles	47	28	36	41	4	2	3	3	8	(37)	5	2
Banking	149	174	167	194	12	13	13	12	(7)	33	28	10
Cement	38	32	32	30	3	2	2	2	(0)	2	(2)	(1)
Consumers	49	57	60	69	4	4	5	4	3	(14)	9	3
Diversified	6	4	10	14	0	0	1	1	5	(24)	4	2
Energy	346	372	405	521	27	28	31	33	34	(150)	116	42
Reliance Industries	147	157	201	266	12	12	15	17	44	(197)	65	24
Industrials	51	63	79	93	4	5	6	6	17	(75)	14	5
Metals	132	152	81	127	10	11	6	8	(72)	318	47	17
Pharmaceuticals	24	15	17	21	2	1	1	1	2	(7)	5	2
Property	79	50	28	30	6	4	2	2	(22)	99	2	1
Technology	128	148	145	161	10	11	11	10	(3)	13	15	6
Telecom	127	146	145	161	10	11	11	10	(2)	7	16	6
Utilities	93	105	120	134	7	8	9	8	15	(65)	14	5
BSE-30	1,267	1,346	1,324	1,596	100	100	100	100	(23)	100	272	100
BSE-30 change (%)		6.3	(1.7)	20.6								
BSE-30 ex-energy change (%)		5.8	(5.8)	17.1								

Source: Kotak Institutional Equities estimates

Earnings risks: Liquidity cannot wish them away

Exhibit 14 shows our assessment of risks in various sectors under our coverage. We discuss some of the more critical ones below.

Exhibit 14: Downside risks to earnings persist

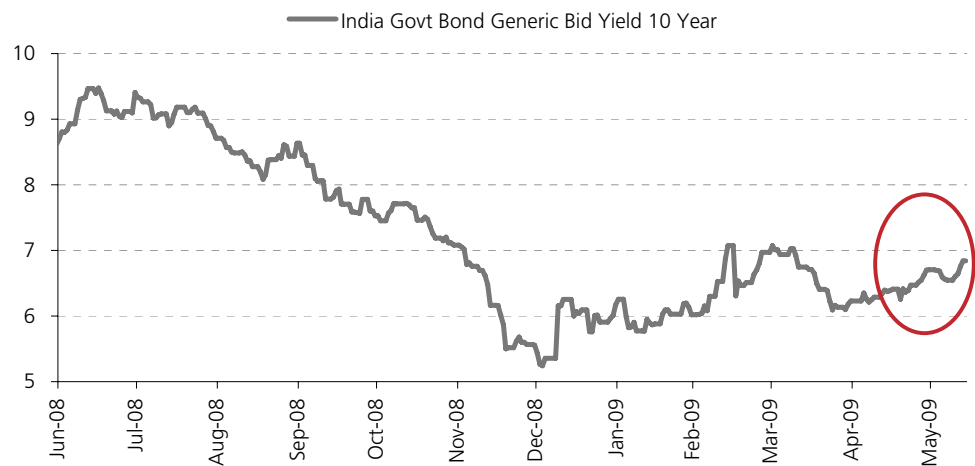
Overview of risks to earnings in major sectors

Upside risks to earnings	Downside risks to earnings
Automobiles	
(1) Strong demand from rural areas and government employees more than offset weakness in services and industrial sectors	(1) Lower industrial production and reduced demand for movement of goods could result in continued slowdown in the CV segment
(2) Lower raw material costs could result in margin improvement	(2) Weak consumer sentiment, high cost of financing and reduced availability of credit could result in lower volume growth
Banking	
(1) Banks NIMs may improve led by (1) faster-than-expected repricing of liabilities and (2) higher-than-expected loan growth	(1) Higher-than-expected increase in NPLs due to moderation in economic growth
(2) Softer Gsec yield could help banks book higher treasury income	(2) Higher borrowing program of government of India could continue to exert upward pressure on yields, which could be accentuated by concurrent pick-up in credit demand; this in turn would result in MTM losses on banks' investment portfolio
Cement	
(1) Margins likely to sustain if cement manufacturers are able to retain prices at current levels through the monsoons	(1) Higher-than-anticipated price decline due to lower capacity utilization
(2) Volume growth higher than our estimate of 7% growth aided by revival of real estate demand in Tier I towns	(2) Lower-than-expected consumption may further widen extant supply-demand gap
Chemicals	
	(1) Commissioning of new chemical capacities (19.3 mtpa in CY2009-10E) likely to lead to subdued chemical margins
	(2) Weak global GDP growth may lead to lower-than-expected margins
Construction	
(1) Easing of monetary policy leading to easing of current credit crunch and lower-than-expected interest costs which would result in improved bottom-line earnings	(1) Lower margins from rebound in commodity (steel) prices and inadequate pass-through of costs in inflexible (fixed-price) contracts
(2) Further decline in commodity prices would alleviate cost pressures, thereby leading to improved margins	(2) Rising interest rates may affect the viability of infrastructure projects and thus, dampen investment momentum
	(3) Lack of expertise in new segments/geographies may lead to higher costs and execution-related challenges
Consumers	
(1) Significant margin expansion for players with strong brand franchise if lower commodity prices sustain in FY2010E	(1) Current economic scenario coupled with higher retail prices leading to consumer downtrading in select categories, mostly staples
(2) Increased consumption surplus available due to Sixth Pay Commission Award and waiver of farm loans	(2) Impact on consumer confidence can result in postponement of discretionary expenditure like processed foods, paints, luxury goods and jewelry
(3) Operating leverage benefits for smaller players due to acceleration in volume growth	(3) Acute competition in staples categories as unorganized and regional players channelize gross margin expansion into higher trade spends
Energy	
(1) Key upside risk to our cautious view on refining cycle stems from a sharp recovery in global GDP leading to higher-than-expected refining margins	(1) Refining margins will likely remain weak led by significant capacity additions in CY2009E-10E and weak global demand for oil
(2) Higher-than-expected crude price will be positive for earnings of upstream companies (ONGC, Cairn and GAIL)	(2) Uncertainty prevails over earnings of government-owned R&M companies which will remain dependent on compensation from government (in the form of oil bonds) and contribution from upstream companies
	(3) Higher-than-expected subsidy burden will be negative for ONGC and Gail; downside risks from declining crude prices for Cairn
Industrials	
(1) Higher order inflows would lead to larger order backlogs and higher execution	(1) Political uncertainty, slowdown in infrastructure investments due to slowdown in economic activity, lack of stable/conducive regulatory policies and delays in project clearances in various sectors, particularly infrastructure
(2) Lower commodity prices would further improve margins	
Media	
(1) Industry consolidation may be positive for leading players	(1) Slowdown in GDP growth and/or consumption to impact advertisement spending negatively
(2) Closure/restructuring of loss-making businesses to provide earnings support	(2) Rising competitive intensity in some segments to result in revenue fragmentation, higher costs
Metals	
(1) A sharp pullback in commodity prices backed by recently-announced production cuts could provide upside to earnings	(1) Weaker-than-expected global GDP growth could prevent any pullback in demand resulting in lower prices and margin
(2) Renegotiation of raw material contracts (iron ore, coal) at lower levels could reduce cost of production, improve margins	(2) Inventory build-up may prevent commodity prices from moving up
Pharmaceuticals	
(1) Strong growth in domestic market; we factor in lower growth in sales versus growth in FY2009	(1) Risks to revenues of CMO/CRO due to (1) lower inventory levels of innovator companies and (2) funding problems of cash-strapped biotech firms
	(2) Exchange rate fluctuations
Real estate	
Lower commodity prices (cement, steel) could partly cushion selling price declines; we currently model 5% yoy increase in construction costs for FY2010E and FY2011E	(1) Steeper-than-expected decline in residential real estate prices on weak demand, high interest rates. We model 10% yoy decline in FY2010E prices and flat prices in FY2011E across all verticals
Higher-than-expected demand due to (1) lower interest rates and (2) large correction in prices versus our current expectations	(2) Delay in delivery of projects and thus, lower volumes and revenues on account of weak demand, slower execution, approval delays
	(3) Slowdown in IT services, which may affect demand for commercial real estate
Technology	
(1) Higher-than-expected volume growth for FY2010E; we model volume growth of 2-5% for Tier I companies in FY2010E	(1) Further delays in IT budget finalizations leading to further delay in volume recovery
(2) Lower-than-expected pricing pressure; we model 4-6% like-on-like pricing decline for Tier I companies for FY2010E	(2) Higher-than-expected pricing pressure due to US slowdown; we model 4-6% like-on-like pricing decline for Tier I companies
(3) Favorable currency movements; either sharp depreciation in the Re versus the USD or further appreciation of the US\$ versus GBP/EUR/AUD; we model Re/US\$ rate of 48 for FY2010E and 47.75 for FY2011E	(3) Adverse currency movements; either sharp appreciation in the Re versus the USD or further appreciation of the US\$ versus GBP/EUR/AUD; we model Re/US\$ rate of 48 for FY2010E and 47.75 for FY2011E
Telecom	
(1) Wireless tariffs sustaining at current levels	(1) Steeper-than-expected decline in pricing due to increased competition from expansion by extant operators and entry of new operators (3-4); risk of sustained irrational pricing in the market as new networks keep getting launched. Recent termination rate cuts will likely lead to incremental pricing wars, in our view
(2) Significant savings arising from sharing of passive infrastructure and retention of savings by service providers	(2) Lower-than-expected savings from sharing of passive infrastructure due to concurrent reduction to tariffs from enhanced competition
Utilities	
(1) Higher tariff for merchant power capacity sustaining after national elections	(1) Delay in execution of projects due to funding constraints
(2) Availability of gas from KG basin could enable gas-based projects to operate at higher PLFs	(2) Supply shortage under coal linkages for existing and new power plants could impact generation growth

Source: Kotak Institutional Equities estimates

- **Banking.** A sharp increase in bond yields will likely impact earnings through MTM losses on the investment portfolio of banks. Bond yields have firmed up significantly over the past few weeks (see Exhibit 15). We currently assume 10-year G-Sec yield at 7% for March, 2010 and note an impact of 1.5-5.6% on net worth for banks under our coverage in case we assume yield at 8%. Exhibit 16 shows the impact on earnings of higher yields for the 16 banks under our coverage.

Exhibit 15: Bond yields have firmed up significantly over the past few weeks
10-year yield of Government of India bond (%)



Source: Bloomberg, Kotak Institutional Equities

Exhibit 16: MTM losses for banking companies will range in 1.5-5.6% of the net worth with 10-year Gsec at 8%

Impact on earnings in case of higher-than-expected yields, March fiscal year-end, 2010E

	Losses with 10-year Gsec		Losses with 10-year Gsec		Net worth (Rs bn)
	@7.5%	@8.0%	@7.5%	@8.0%	
	(Rs bn)	(Rs bn)	(% of NW)	(% of NW)	
Public banks					
Andhra Bank	0.8	1.6	2.0	3.9	40
Bank of Baroda	3.1	6.3	2.4	4.9	130
Bank of India	1.5	2.9	1.1	2.1	138
Canara Bank	2.0	3.9	1.8	3.5	112
Corporation Bank	1.5	3.0	2.8	5.6	55
Indian Bank	1.2	2.4	1.8	3.7	65
IOB	1.4	2.9	2.2	4.4	65
OBC	1.2	2.3	1.7	3.4	70
PNB	1.1	2.1	0.7	1.4	155
SBI	8.1	16.1	1.3	2.5	634
Union Bank	1.5	3.1	1.9	3.7	83
Old private banks					
Federal Bank	0.7	1.5	1.6	3.1	47
J&K Bank	0.2	0.4	0.7	1.4	29
New private banks					
Axis Bank					118
HDFC Bank					212

Source: Company, Kotak Institutional Equities estimates

However, we note that we model a steep increase in NPLs in FY2010E and FY2011E and the likely MTM losses are small in the context of our assumed loan-loss provisions and book values of the banks. We expect an improvement in economic conditions to result in likely lower NPLs versus our current assumptions. Exhibit 17 compares our loan-loss provisions for FY2010E versus MTM losses at higher G-Sec yields versus our base-case assumptions.

Exhibit 17: MTM losses with 10-year Gsec at 8% is marginal compared to loan-loss provision assumed
Loan-loss provision and losses with 10-year Gsec at 7.5% and 8%, March fiscal year-end, 2010E

	<u>Loan-loss provision</u>	<u>Losses with 10-year Gsec</u>		<u>MTM losses/loan-loss provision</u>	
		<u>@7.5%</u>	<u>@8.0%</u>	<u>@7.5%</u>	<u>@8.0%</u>
	(Rs bn)	(Rs bn)	(Rs bn)	(%)	(%)
Public banks					
Andhra Bank	4	1	2	19	37
Bank of Baroda	10	3	6	31	61
Bank of India	17	1	3	9	17
Canara Bank	16	2	4	12	24
Corporation Bank	4	2	3	36	73
Indian Bank	5	1	2	22	45
IOB	10	1	3	15	29
OBC	7	1	2	17	34
PNB	17	1	2	6	13
SBI	65	8	16	12	25
Union Bank	10	2	3	15	29
Old private banks					
Federal Bank	5	1	1	16	32
J&K Bank	2	0	0	10	20
New private banks					
Axis Bank	14				
HDFC Bank	22				
ICICI Bank	38				

Source: Company, Kotak Institutional Equities estimates

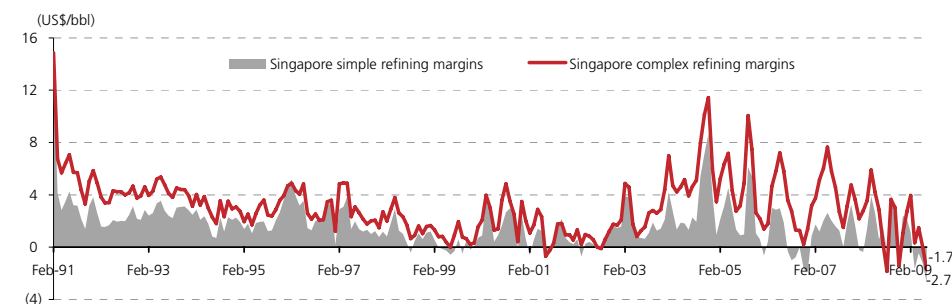
- **Energy.** (1) Lower-than-expected refining margins and (2) non-availability of tax exemption for production of natural gas under Section 80 IB of the IT Act may result in significantly lower earnings for RIL versus our current forecasts. Exhibit 18 compares our base-case earnings assumptions for RIL versus a scenario of lower refining margins (by US\$2/bbl in the exercise) and no tax exemption on gas production. Global refining margins have been at very low levels for the past few months (see Exhibit 19) and the traditional premium between light, sweet and heavy, sour crude has also declined to modest levels over the past few weeks. The former will affect RIL's underlying refining margins while the latter will erode its purported advantages in refining.

Exhibit 18: We see significant downside risks to RIL's earnings
Potential downside risks on RIL's earnings, March fiscal year-ends, 2010-11E (Rs)

	2010E	2011E
Base-case assumption	111	171
Impact of lower refining margins of US\$2/bbl	(18)	(19)
Impact of non-availability of tax exemption on gas production	(8)	(16)
Total potential downside to earnings	(26)	(35)
Hypothetical EPS	85	136

Source: Kotak Institutional Equities estimates

Exhibit 19: Refining margins have significantly declined
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	(1.22)
2Q	2.47	0.45	0.07	1.20	3.13	2.78	(0.70)	0.99	1.71	
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	(1.22)

Weekly margins				
Current	-1 Wk	-2 Wk	-3 Wk	-4 Wk
(3.54)	(1.89)	(1.98)	(1.58)	(1.42)

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	(1.22)
Complex	1.86	1.34	0.79	1.24	4.57	4.93	3.45	4.05	2.09	0.23

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	0.23
2Q	3.96	0.58	0.14	2.35	5.80	6.11	2.46	2.91	0.66	
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	0.23

Weekly margins				
Current	-1 Wk	-2 Wk	-3 Wk	-4 Wk
(2.53)	(0.95)	(0.24)	0.14	(0.23)

Source: Bloomberg, Kotak Institutional Equities

We see lower risks to ONGC's earnings since we model a net realized crude price (gross price based on international benchmark adjusted for subsidy payment) of US\$48/bbl for FY2010E and US\$47/bbl for FY2011E. ONGC's net crude realization has varied between US\$46 /bbl and US\$52/bbl for FY2007, FY2008 and FY2009. On the other hand, ONGC's earnings can jump sharply (this will also boost overall market numbers significantly) under a benign scenario of deregulation of both oil and gas pricing. Exhibit 20 shows the steep potential increase in ONGC's earnings under various scenarios of crude oil prices, nil subsidy and gas price of US\$4.2/mn BTU.

Exhibit 20: We see significant upside to ONGC's earnings
Potential upside to ONGC's FY2011E earnings (Rs)

Crude price assumptions (US\$/bbl)	Various level of crude prices						
	50	55	60	65	70	75	80
Base-case EPS assumption	103	109	112	116	118	121	122
Impact of no subsidy burden	9	20	34	46	61	75	91
Impact of higher gas price at US\$4.2/mn BTU	1,837	1,837	1,837	1,837	1,837	1,837	1,837
Total potential upside to earnings	1,846	1,857	1,871	1,883	1,898	1,913	1,928
Hypothetical EPS	1,949	1,966	1,983	1,999	2,016	2,033	2,050

Source: Kotak Institutional Equities estimates

- **Metals.** Lower-than-expected prices and margins will likely be negative for earnings of metal companies. In particular, we see risks to earnings of aluminum and steel companies under our coverage. We are concerned about the earnings of steel companies. Current steel prices (HRC, Asia fob basis) at US\$484/ton are below our assumed US\$535/ton for FY2010E and US\$550/ton for FY2011E. We see a similar situation in case of aluminum stocks but, as highlighted in the previous section, we see the possibility of higher earnings in the case of zinc stocks (HZ and through consolidation, Sterlite). Exhibit 21 gives the sensitivity of earnings of aluminum and steel companies to various levels of aluminum and steel prices.

Exhibit 21: Lower-than-expected prices can have a significant impact on earnings of metal companies
Sensitivity of earnings of aluminum and steel companies, March fiscal year-end, 2010-11E

	2010E			2011E		
	-100/ton	Base case	+100/ton	-100/ton	Base case	+100/ton
Aluminum						
Hindalco (consolidated)						
Price	1,700	1,800	1,900	2,100	2,200	2,300
EPS	1.6	3.5	5.4	9.5	11.4	13.3
(% change)	(54.5)		54.5	(16.8)		16.8
Nalco						
Price	1,600	1,700	1,800	1,900	2,000	2,100
EPS	11.0	13.7	16.5	17.8	20.4	23.0
(% change)	(20.1)		20.1	(12.8)		12.8
Steel						
JSW Steel						
Price	380	480	580	400	500	600
EPS	(62.6)	25.7	113.9	(43.8)	55.0	153.8
(% change)	(344.1)		344.1	(179.5)		179.5
Tata Steel						
Price	435	535	635	450	550	650
EPS	(57.2)	54.9	166.9	(31.7)	86.3	204.1
(% change)	(204.3)		204.3	(136.7)		136.4
Zinc						
Hindustan Zinc						
Price	1,300	1,400	1,500	1,400	1,500	1,600
EPS	51.5	57.3	63.1	67.7	74.1	80.5
(% change)	(10.2)		10.2	(8.6)		8.6

Source: Company, Kotak Institutional Equities

- **Telecom.** We believe this sector faces the perpetual threat of earnings reductions given the (1) structure of the market (fragmented market and continuous entry of new players) and (2) potential regulatory changes (introduction of mobile number portability [MNP] from September 2009). Pricing has been benign over the past 2-3 quarters resulting in stable EBITDA per minute (EPM) but we do not rule out another bout of competitive intensity with the introduction of MNP in phases from September 2009. The first phase will result in introduction of MNP in eight circles from September 1, 2009.

KEY ISSUES: RISKIER BY THE DAY

We see several factors that may weaken India's economic growth and corporate earnings in the short term. The biggest negatives for the market, in our view, are (1) higher interest rates from likely tightness in credit conditions and (2) higher crude oil prices and resultant higher CAD. Large equity issuances by the government and private companies may cap the market's upside. Finally, any reversal of liquidity and withdrawal of funds by foreign investors may be a large negative for the market; recent funds flow data suggests that foreign investors have invested US\$6.7 bn FYTD.

Emerging macro-economic and other issues

- **Likely increase in increase rates.** We expect interest rates to harden from 4QFY10 led by tighter credit conditions. The tighter credit market in turn will be led by the government's large borrowing program in 2HFY10. We see a bigger issue in FY2011E with a large gap between availability and demand of credit (see Exhibit 22). Bond yields have already firmed over the past few weeks, reflecting large likely supply of government paper. Higher interest rates will result in (1) higher cost of capital theoretically, which is a negative for valuations in general; however, valuations would depend on the market's assessment of the equity risk premium and (2) higher interest expense for companies; it could be very harmful for highly leveraged companies.

Exhibit 22: Excess supply likely to exert moderate pressure on yields in FY2010E; interest rate shock in FY2011E

Demand and supply of SLR securities, March fiscal year-ends, 2008-11E (Rs bn)

	2008	2009E	2010E	2011E
1. Demand for SLR securities (2+3+4)	2,505	2,658	2,835	2,989
2. required from banks	1,812	1,658	1,652	1,589
3. from insurance companies	534	760	915	1,100
4. from others	159	240	268	300
5. Supply of SLR securities (6+7+8+9+10)	2,919	2,777	3,382	4,648
6. Net market borrowing of center	1,107	2,620	3,787	3,498
7. T-bills financing	256	850	50	200
8. State government issuances	562	1,038	1,300	950
9. MSS	1,057	(803)	(650)	—
10. OMO	(62)	(928)	(1,105)	—
11. Excess demand/(supply) (1-5)	(414)	(118)	(547)	(1,659)
Memo items				
NDTL	34,813	41,721	48,606	48,606
SLR ratio (% of NDTL)	25	24	24	24

Source: Kotak Institutional Equities estimates

- **Higher crude oil prices.** We see higher crude prices as a negative for the country's Current Account Deficit (CAD), inflation and likely resulting in negative earnings and sentiment impact on automobiles and downstream oil companies. Exhibit 23 gives the sensitivity of BOP to various levels of crude oil prices. At US\$80/bbl, we compute India's CAD/GDP at 3.2%, up from our base-case assumption of 1.9% (US\$60/bbl crude oil price).

Exhibit 23: Current account deficit may widen to over 3% of GDP if oil spikes again
India's quarterly balance of payments, March fiscal year-ends, 2008-2010E (US\$ bn)

	2008	2009E	2010E (crude prices at)		
			US\$60/bbl	US\$70/bbl	US\$80/bbl
Current account	(17)	(32)	(21)	(31)	(38)
GDP	1,173	1,167	1,116	1,116	1,174
CAD/GDP (% of GDP)	(1.5)	(2.8)	(1.9)	(2.7)	(3.2)
Trade balance	(92)	(123)	(99)	(109)	(116)
% of GDP	(8)	(11)	(9)	(10)	(10)
- Exports	156	170	154	154	154
- Imports	250	294	253	263	271
o/w Oil imports	73	92	78	90	101
o/w Non-oil imports	175	202	176	173	170
Invisibles (net)	75	91	78	78	78
- Services	38	49	43	43	43
o/w Software	37	43	39	39	39
- Transfers	42	46	40	40	40
- Other invisibles	(5)	(4)	(5)	(5)	(5)
Capital account	108	17	56	50	44
Foreign investment	45	5	33	28	23
- FDI	15	20	19	18	15
- FII	21	(16)	12	8	5
- ADRs/GDRs	9	1	2	3	2
Banking capital	12	(1)	3	2	2
- NRI deposits	0	3	4	4	4
Short-term credit	17	(2)	0	(0)	(1)
ECBs	23	8	11	11	10
External assistance	2	3	4	4	4
Other capital account items	9	4	5	5	5
E&O	1	1	—	—	—
Overall balance	92	(14)	36	20	6
Assumptions					
Indian crude basket price (US\$/bbl)	78.2	83.3	60.0	70.0	80.0

Source: RBI, Kotak Institutional Equities estimates

- **Weak fiscal position and possible reversal of excise duty cuts.** We do not rule out the government rolling back a part of the tax concessions provided earlier as part of the government's various stimulus packages. This would be a negative for demand in general but may impact the automobile sector particularly negatively, especially given likely higher interest rates also from 4QFY10. The government had cut the general excise duty to 8% in February 2008 from 14% in December 2008. This has compounded a weak fiscal position given the ongoing slowdown in direct tax collections and steep increase in government expenditure.

Exhibit 24 gives our projected fiscal deficit for FY2010E and FY2011E. We see continued pressure on the government's fiscal position in the absence of strong measures given the likely lower-than-budgeted taxation revenues. The government's direct taxation revenues increased 5.8% in April-May 2009 versus the corresponding period of FY2009 and the budgeted 10% growth. We note that many of the expenditure items (interest, subsidies, defense and salaries) of the government cannot be reduced immediately, leaving the government with limited options.

Exhibit 24: Fiscal deficit likely to deteriorate in FY2010E and improve only modestly with growth in FY2011E
Major central government budgetary items, March fiscal year-end, 2008-11E (Rs bn)

	FY2008A (Rs bn)	FY2009RE (Rs bn)	FY2010BE (Rs bn)	FY2010E (Rs bn)	FY2010FP (Rs bn)	FY2011E (Rs bn)
Revenue receipts	5,419	5,622	6,096	5,796	6,229	6,777
Tax revenues (gross)	5,932	6,280	6,713	6,270	6,453	7,303
Direct taxes	3,125	3,450	3,800	3,642	3,642	4,254
Corporation tax	1,929	2,220	2,442	2,298	2,298	2,735
Tax on income	1,193	1,226	1,354	1,340	1,340	1,514
Others	3	4	4	4	4	5
Indirect taxes	2,790	2,814	2,897	2,628	2,811	3,050
Customs duty	1,041	1,080	1,102	1,010	1,010	1,212
Excise duty	1,236	1,084	1,106	985	1,102	1,143
Service tax	513	650	689	633	699	695
Less:						
States' share in tax revenue	1,518	1,602	1,712	1,652	1,652	1,896
Transfer of UTs taxes and duties	13	34	41	42	42	47
Net tax revenue to centre	4,414	4,660	4,976	4,576	4,759	5,360
Non tax revenues	1,024	962	1,120	1,220	1,470	1,417
Capital receipts (net)	1,708	3,388	3,437	3,676	3,826	3,510
Market borrowings (net)	1,318	2,620	3,087	3,787	3,787	3,498
Disinvestment	388	26	11	250	400	145
Total receipts	7,127	9,010	9,532	9,583	10,016	10,843
Non-plan expenditure	5,077	6,180	6,681	7,010	6,522	7,602
Non-plan revenue expenditure	4,209	5,618	5,997	6,330	5,842	6,747
Interest payments	1,710	1,927	2,255	2,380	2,290	2,610
Subsidies	709	1,292	1,009	1,196	777	1,319
Food	313	436	425	550	396	590
Fertilizers	196	275	164	200	100	250
Petroleum	28	29	31	31	31	34
Others	129	552	390	415	250	445
Centre's grant to States & UTs	384	384	466	466	466	498
Non-plan capital	867	562	684	680	680	855
Defense expenditure (revenue+capital)	917	1,146	1,417	1,465	1,465	1,510
Plan expenditure	2,051	2,830	2,852	3,021	3,010	3,241
Plan revenue (central plan incl. assistance to states & UTs)	1,736	2,417	2,484	2,501	2,490	2,773
Plan capital (central plan incl. assistance to states & UTs)	315	413	368	520	520	468
Total expenditure	7,127	9,010	9,532	10,031	9,532	10,843
Revenue expenditure	5,945	8,035	8,481	8,831	7,981	9,520
Capital expenditure	1,182	975	1,052	1,200	1,552	1,323
Select fiscal indicators						
Gross fiscal deficit (GFD)	1,269	3,265	3,328	4,127	3,195	3,891
Revenue deficit (RD)	526	2,413	2,385	3,035	1,752	2,743
Primary deficit (PD)	(441)	1,338	1,073	1,747	905	1,281
GDP	47,234	54,263	60,214	58,611	58,611	66,412
Gross fiscal deficit/GDP (%)	2.69	6.02	5.53	7.04	5.45	5.86
Revenue deficit/GDP (%)	1.11	4.45	3.96	5.18	2.99	4.13
Primary deficit/GDP (%)	(0.93)	2.47	1.78	2.98	1.54	1.93
Gross tax/GDP (%)	12.56	11.57	11.15	10.70	11.01	11.00
Total expenditure/GDP (%)	15.09	16.60	15.83	17.11	16.26	16.33

Notes:

(1) A: actuals, RE: Revised estimates, BE: Budget estimates, E: Kotak Institutional Equities estimates and FP: Kotak Institutional Equities suggested fiscal plan.

Source: Kotak Institutional Equities estimates

- **Supply of new paper.** We expect large equity issuance by Indian companies and potential divestment by the government of India to act as an overhang on the market. The market has readily absorbed US\$2.6 bn of fresh issuance and divestment by majority shareholders CYTD given large inflows from FIIs and a buoyant investment mood. However, it remains to be seen if the market would be equally receptive to (1) the large amount of proposed issuance (see Exhibit 25 for a list of likely issuances (QIPs) and respective amounts) and at (2) current inflated valuations of most stocks.

In addition, the government may need to sell stakes in listed and unlisted government-owned companies to partially bridge the likely high fiscal deficit for FY2010E. We do not rule out the government eventually targeting US\$4.5-9 bn (Rs20-40 bn) of stake sale in its companies.

Exhibit 25: Corporate India is planning to raise more than US\$10 bn from QIPs

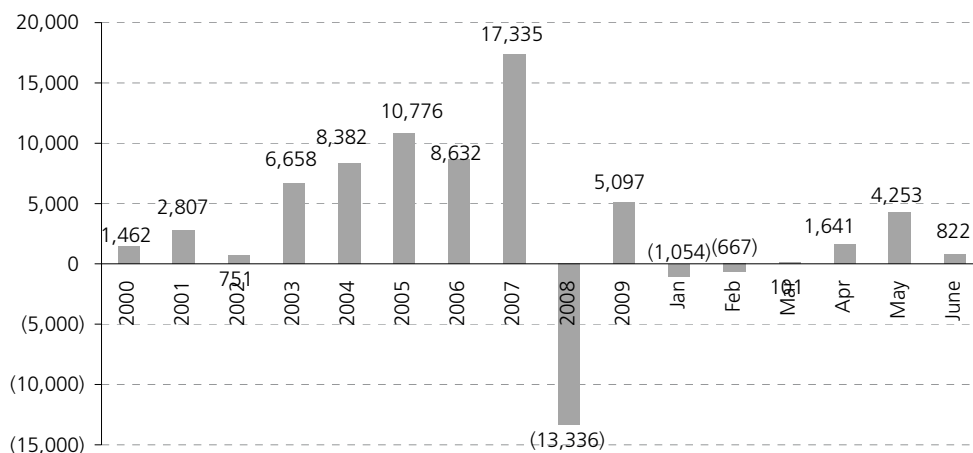
List of companies which have announced plans to raise money through QIPs (Rs bn)

Company	Value (Rs bn)	Company	Value (Rs bn)
Essar Oil	100	JSL	5
Cairn India	50	Karnataka Bank	5
GMR Infrastructure	50	LIC Housing Finance	5
JSW Steel	48	Dhanalakshmi Bank	4
HDFC	40	Orbit Corp	4
HDIL	29	Dewan Housing Finance Corp	3
GVK Power	25	Akruti City	NA
Parsvnath Developers	25	Austral Coke & Projects	NA
Anant Raj Industries	20	DLF	NA
Omaxe	18	Hindustan Dorr-Oliver Ltd	NA
Adani Enterprises	15	IOL Netcom	NA
Hindustan Construction	15	Nitin Fire Protection Industries	NA
Sobha Developers	15	PSL Ltd	NA
Gujarat NRE Coke	10	Puravankara	NA
Pantaloon Retail	10	Reliance Communication	NA
Gammon Infrastructure	5	Shiv-Vani Oil & Gas Exploration Services	NA

Source: Company, Prime database

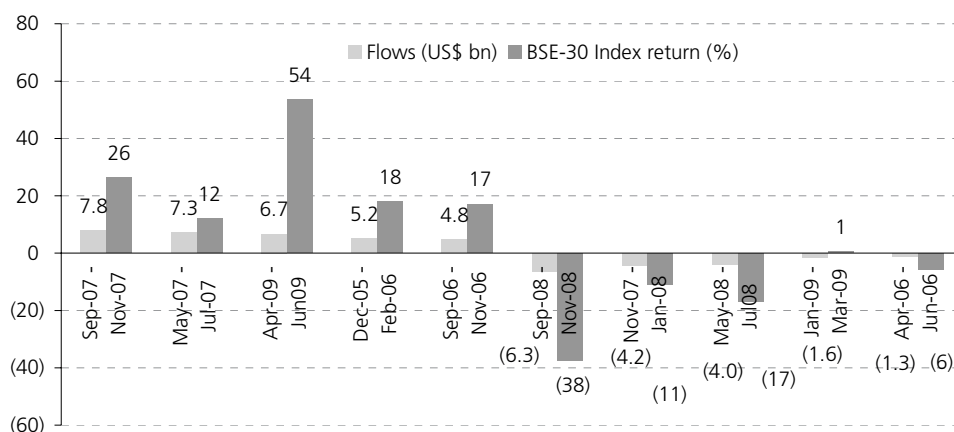
- **Reversal of liquidity.** We are reluctant to rely on liquidity as the overriding investment thesis. The market seems to be relying largely on liquidity as the basis of fresh investment or assurance of investment, in our view. We believe liquidity is partly overshadowing valuations, emerging macro-economic and earnings-related issues. The Indian market has risen 51% FYTD driven by US\$6.7 bn of FII inflows largely (see Exhibit 26). This is not a new phenomenon as can be seen in Exhibit 27. In the past, the Indian market has seen periodic bursts of FII inflows corresponding with steep increases in market valuations, followed inevitably by a pullback in the market and outflow of FII money.

Exhibit 26: FII have invested US\$5.1 bn in 2009YTD
 Net FII inflows, Calendar year-ends 2000-09 (US\$ mn)



Source: Bloomberg, SEBI

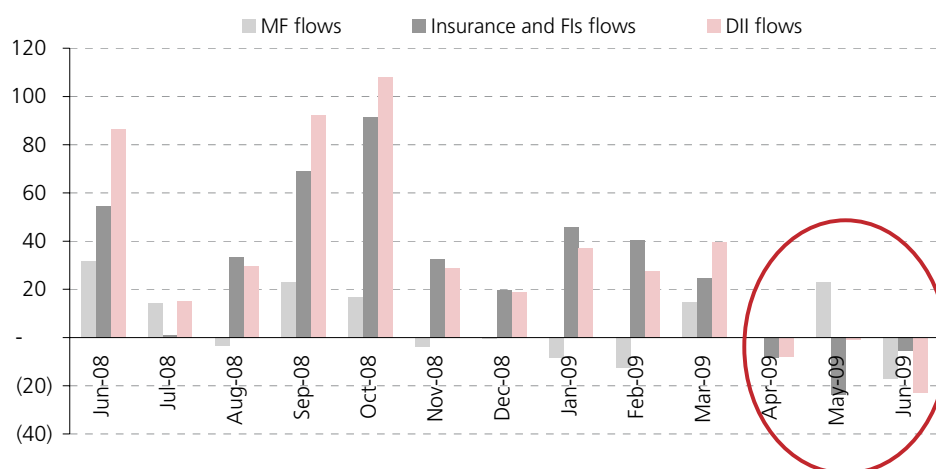
Exhibit 27: Current market rally driven by liquidity
 Performance of market and FII flows



Source: Bloomberg, Kotak Institutional Equities

Indian financial institutions have been more conservative over the past few months (see Exhibit 28) but their conservatism could be tested by fresh inflows, particularly in life insurance products through new and renewal premiums. Exhibit 29 shows our estimates of likely investment by domestic life insurance companies into equities in FY2010E.

Exhibit 28: Domestic institutions have turned net sellers in the market
Equity flows by domestic institutions (Rs bn)



Source: Kotak Institutional Equities

Exhibit 29: We expect US\$10-12 bn investment in equities by life insurance companies in FY2010E
Estimation of investment in equities, March fiscal year-ends, 2006-10E

	Premium collections (Rs bn)			Proportion in equity (%)		Investment in equity (Rs bn)		
	Individual	Group	Total	Individual	Group	Individual	Group	Total
2006								
Private players	140	11	151	52	20	72	2	75
LIC	840	39	879	13	20	109	8	117
Total	980	50	1,030			181	10	191
2007								
Private players	257	25	283	54	20	138	5	143
LIC	1,161	114	1,275	22	20	258	23	281
Total	1,419	139	1,558			396	28	424
2008								
Private players	454	39	493	55	20	251	8	259
LIC	1,403	105	1,508	23	20	326	21	347
Total	1,856	144	2,001			577	29	606
2009E								
Private players	524	50	573	43	20	223	10	232
LIC	1,319	127	1,446	18	20	238	25	263
Total	1,842	177	2,019			460	35	496
2010E								
Private players	611	55	665	46	20	280	11	291
LIC	1,319	127	1,446	18	20	238	25	263
Total	1,929	182	2,111			517	36	554

Source: Kotak Institutional Equities estimates

Exhibit 30: Valuation summary of key Indian companies

	16-Jun-09		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target	Upside	ADVT-
Company	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	(Rs)	(%)	(US\$ mn)
Automobiles																													
Bajaj Auto	996	SELL	144,032	3,012	145	48.7	65.3	73.1	(6.7)	34.0	12.0	20.4	15.3	13.6	11.4	8.6	8.5	7.6	5.8	4.6	2.0	2.0	2.0	40.2	42.8	36.8	780	(21.6)	4.8
Hero Honda	1,420	REDUCE	283,664	5,933	200	64.2	83.8	91.2	32.4	30.5	8.8	22.1	17.0	15.6	12.9	10.0	8.7	7.2	5.6	4.5	1.4	1.5	1.5	36.6	37.4	31.9	1,000	(29.6)	19.1
Mahindra & Mahindra	775	ADD	205,584	4,300	265	21.7	40.4	43.6	(42.9)	86.0	8.0	35.7	19.2	17.8	23.1	12.8	11.6	4.3	3.2	2.8	1.2	1.2	1.2	12.3	19.3	17.0	670	(13.6)	18.4
Maruti Suzuki	1,076	SELL	310,834	6,501	289	42.2	58.3	63.4	(29.5)	38.1	8.6	25.5	18.4	17.0	14.6	9.5	8.0	3.2	2.8	2.4	0.3	0.5	0.5	13.3	16.1	15.1	780	(27.5)	26.0
Tata Motors	350	SELL	194,679	4,072	556	20.8	15.2	20.0	(58.3)	(27.0)	32.2	16.8	23.1	17.5	12.4	10.7	9.3	1.4	1.4	1.3	1.6	1.6	1.6	9.0	6.1	—	235	(32.8)	40.7
Automobiles																													
		Cautious	1,138,794	23,817					(26.0)	30.7	12.3	23.9	18.3	16.3	14.0	10.3	9.1	3.4	2.9	2.5	1.2	1.3	1.3	14.1	15.8	15.6			
Banks/Financial Institutions																													
Andhra Bank	85	ADD	41,395	866	485	13.5	11.1	12.6	14.0	(17.9)	13.6	6.3	7.7	6.8	—	—	—	1.2	1.1	1.0	5.3	3.3	3.7	19.0	14.0	14.4	75	(12.1)	1.6
Axis Bank	760	BUY	272,718	5,704	359	50.6	56.1	66.6	56.9	11.0	18.7	15.0	13.5	11.4	—	—	—	2.9	2.6	2.2	1.3	1.5	1.7	19.1	18.3	18.9	850	11.9	72.0
Bank of Baroda	438	ADD	159,918	3,345	366	60.9	54.9	58.5	55.1	(9.8)	6.5	7.2	8.0	7.5	—	—	—	1.5	1.5	1.3	2.1	1.9	2.0	18.7	14.9	14.2	370	(15.4)	12.4
Bank of India	326	ADD	171,317	3,583	526	57.2	46.3	53.2	40.7	(19.1)	14.9	5.7	7.0	6.1	—	—	—	1.7	1.6	1.5	2.5	2.0	2.3	29.2	19.0	18.7	310	(4.8)	16.3
Canara Bank	250	REDUCE	102,398	2,142	410	50.5	38.6	41.4	32.4	(23.6)	7.1	4.9	6.5	6.0	—	—	—	1.3	1.2	1.1	3.2	3.2	4.0	18.3	12.4	12.2	220	(11.9)	5.8
Corporation Bank	318	BUY	45,542	952	143	62.2	51.5	55.3	21.4	(17.3)	7.4	5.1	6.2	5.7	—	—	—	0.9	0.8	0.8	4.0	3.3	3.6	19.6	14.3	13.8	310	(2.4)	0.9
Federal Bank	251	BUY	42,946	898	171	27.8	31.4	38.2	(19.2)	13.1	21.5	9.0	8.0	6.6	—	—	—	1.0	0.9	0.9	2.1	2.3	2.8	11.5	11.8	13.0	280	11.5	3.4
Future Capital Holdings	262	BUY	16,565	346	63	4.5	28.8	NA	(198.6)	546.1	(100.0)	58.9	9.1	NA	—	—	—	2.2	1.8	NA	—	—	—	3.8	21.4	NA	440	67.9	1.5
HDFC	2,309	REDUCE	656,895	13,738	284	80.2	95.1	103.6	(6.5)	14.0	13.3	28.8	25.2	22.3	—	—	—	5.0	4.5	4.0	1.3	1.4	1.6	18.2	18.3	18.3	2,025	(12.3)	69.6
HDFC Bank	1,546	ADD	680,953	14,241	440	55.4	63.2	75.1	20.4	14.2	18.8	27.9	24.5	20.6	—	—	—	4.5	3.2	2.9	0.6	0.8	0.9	16.9	15.4	15.0	1,460	(5.6)	54.5
ICICI Bank	734	REDUCE	817,387	17,095	1,113	33.8	32.3	38.5	(15.4)	(4.4)	19.2	21.7	22.8	19.1	—	—	—	1.7	1.6	1.5	1.5	1.2	1.3	7.8	7.1	8.0	685	(6.7)	204.2
IDFC	143	ADD	185,214	3,874	1,294	5.8	7.0	8.0	2.3	21.0	13.3	24.6	20.4	18.0	—	—	—	3.0	2.7	2.4	0.7	0.8	0.9	12.9	14.1	14.2	85	(40.6)	38.6
India Infoline	129	ADD	40,313	843	311	5.0	5.8	6.5	(10.0)	15.5	12.3	25.7	22.2	19.8	—	—	—	3.2	2.8	2.6	2.1	2.6	3.1	11.7	13.5	14.6	90	(30.5)	10.6
Indian Bank	134	BUY	57,783	1,208	430	28.1	26.6	30.6	24.7	(5.3)	15.0	4.8	5.1	4.4	—	—	—	1.1	1.0	0.9	3.1	3.0	3.4	22.7	18.3	18.1	165	22.7	3.1
Indian Overseas Bank	86	BUY	46,662	976	545	24.3	16.6	22.2	10.3	(31.9)	33.8	3.5	5.2	3.9	—	—	—	0.8	0.7	0.6	6.1	4.4	4.8	24.7	14.5	17.0	110	28.4	4.6
J&K Bank	505	ADD	24,489	512	48	84.5	80.8	95.4	13.8	(4.3)	18.0	6.0	6.2	5.3	—	—	—	1.0	1.0	0.9	3.3	3.2	3.8	16.7	14.1	14.9	510	1.0	0.4
LIC Housing Finance	609	BUY	51,720	1,082	85	62.5	68.8	80.3	37.3	10.0	16.8	9.7	8.8	7.6	—	—	—	2.2	1.8	1.5	2.3	2.5	2.9	26.2	23.9	23.4	390	(35.9)	11.5
Mahindra & Mahindra Financial	265	ADD	25,365	530	96	22.4	27.5	30.0	7.5	22.9	8.7	11.8	9.6	8.8	—	—	—	1.8	1.6	1.4	2.1	2.6	2.8	15.4	16.9	16.3	240	(9.5)	1.0
Oriental Bank of Commerce	180	ADD	45,022	942	251	36.1	27.3	34.6	51.4	(24.5)	26.7	5.0	6.6	5.2	—	—	—	0.8	0.8	0.8	4.0	3.0	3.8	14.8	10.2	11.8	150	(16.5)	3.5
PCF	206	SELL	236,669	4,950	1,148	13.0	16.5	19.3	14.3	26.7	17.6	15.9	12.5	10.7	—	—	—	2.1	1.9	1.7	1.3	2.4	2.1	13.8	15.8	16.7	160	(22.4)	6.1
Punjab National Bank	631	BUY	198,909	4,160	315	98.0	98.5	115.1	50.9	0.5	16.8	6.4	6.4	5.5	—	—	—	1.6	1.4	1.3	3.1	3.1	3.7	23.0	19.9	20.1	760	20.5	22.6
Rural Electrification Corp.	163	BUY	139,995	2,928	859	16.5	17.5	20.8	50.7	6.5	18.8	9.9	9.3	7.8	—	—	—	2.0	1.7	1.5	1.2	2.0	2.3	21.2	19.6	20.3	155	(4.9)	3.7
Shriram Transport	295	ADD	62,404	1,305	212	30.1	32.5	36.9	56.8	7.9	13.7	9.8	9.1	8.0	—	—	—	2.8	2.4	2.0	2.9	3.3	3.8	29.6	27.0	25.8	300	1.7	2.9
SREI	69	ADD	8,076	169	116	7.0	5.9	7.9	(38.4)	(16.7)	35.3	9.9	11.8	8.7	—	—	—	0.8	0.7	0.6	1.4	1.7	1.7	12.5	10.2	12.5	95	36.8	3.2
State Bank of India	1,714	BUY	1,088,612	22,767	635	143.6	121.1	139.2	34.8	(15.7)	14.9	11.9	14.2	12.3	—	—	—	2.2	2.2	1.9	1.7	1.7	1.9	17.1	12.7	13.3	1,870	9.1	123.1
Union Bank	225	BUY	113,652	2,377	505	34.2	29.6	35.5	24.5	(13.5)	19.9	6.6	7.6	6.3	—	—	—	1.3	1.2	1.0	2.3	2.0	2.4	27.2	19.9	19.9	220	(2.2)	7.0
Banks/Financial Institutions																													
		Attractive	5,332,918	111,532					27.9	(4.6)	15.7	12.5	13.1	11.4	—	—	—	2.1	1.9	1.8	1.7	1.7	1.9	16.9	14.8	15.4			
Cement																													
ACC	855	REDUCE	160,543	3,358	188	56.3	55.2	42.2	(12.2)	(1.9)	(23.6)	15.2	15.5	20.3	7.7	7.7	8.9	3.1	2.7	2.5	2.7	2.7	2.7	24.7	21.3	15.1	725	(15.2)	12.9
Ambuja Cements	99	REDUCE	151,096	3,160	1,522	7.2	7.0	5.8	(5.0)	(3.1)	(16.2)	13.8	14.3	17.0	7.4	7.5	8.6	2.5	2.2	2.0	3.0	1.9	2.2	19.7	16.9	12.8	80	(19.4)	5.6
Grasim Industries	2,411	REDUCE	221,032	4,623	92	238.5	235.7	239.1	(16.2)	(1.2)	1.4	10.1	10.2	10.1	5.8	5.2	5.0	2.0	1.7	1.5	1.4	1.4	1.4	21.7	18.2	16.0	2,300	(4.6)	10.4
India Cements	161	ADD	45,240	946	282	22.7	19.8	17.5	na	(12.8)	(11.2)	7.1	8.1	9.1	4.8	5.0	5.2	1.2	1.0	1.0	1.3	1.3	2.0	15.7	14.7	11.7	155	(3.4)	8.6
Shree Cement	1,197	BUY	41,693	872	35	174.7	91.6	86.2	93.7	(47.6)	(5.9)	6.8	13.1	13.9	4.7	5.1	5.5	3.5	2.8	2.4	0.9	0.9	0.9	65.7	24.0	18.9	1,150	(3.9)	0.7
UltraTech Cement	711	ADD	89,104	1,864	125	78.0	70.5	55.6	(4.1)	(9.7)	(21.0)	9.1	10.1	12.8	5.9	5.5	6.3	2.1	1.7	1.6	1.2	1.2	1.2	31.2	22.3	15.0	725	1.9	5.4
Cement																													
		Neutral	708,708	14,822					(5.1)	(9.2)	(10.8)	10.7	11.8	13.2	6.2	6.0	6.3	2.2	1.9	1.7	2.0	1.7	1.8	21.0	16.5	13.2			
Consumer products																													
Asian Paints	1,155	ADD	110,787	2,317	96	38.4	49.1	57.5	(2.2)	27.9	17.1	30.1	23.5	20.1	17.5	13.7	11.6	9.7	8.0	6.6	1.5	1.7	1.9	36.3	38.5	36.8	1,000	(13.4)	0.9
Colgate-Palmolive (India)	572	ADD	77,788	1,627	136	21.6	24.4	25.7	26.3	12.9	5.4	26.5	23.5	22.3	21.3	19.0	16.6	36.3	30.0	28.4	2.6	3.1	3.7	156.1	140.2	131.1	520	(9.1)	2.4
GlaxoSmithkline Consumer (a)	920	ADD	38,691	809	42	44.8	56.1	63.6	15.8	25.2	13.5	20.5	16.4	14.5	11.4	9.3	8.1	5.0	4.3	3.8	1.6	2.3	3.2	26.8	28.5	28.0	900	(2.2)	0.9
Godrej Consumer Products	172	ADD	44,265	926	258	6.8	8.7	9.8	(3.9)	27.8	12.8	25.3	19.8	17.6	22.0	16.2	13.4	6.7	5.8	4.9	2.3	2.3	2.3	42.7	42.7	33.1	160	(6.7)	0.7
Hindustan Unilever	263	BUY	574,179	12,008	2,179	11.3	10.6	12.2	40.7	(6.0)	15.0	23.4	24.9	21.7	18.3	19.1	16.5	27.9	25.0	22.3	3.3	3.6	4.1	140.5	105.9	108.9	320	21.5	25.5
ITC	199	ADD	748,823	15,661	3,769	8.7	9.9	11.3	4.8	14.2	14.4	22.9	20.1	17.5	13.9	12.4	10.9	5.3	4.6	4.0	1.9	2.0	2.3	25.4	25.4	25.4	225	13.2	31.9
Jyothy Laboratories	117	ADD	8,476	177	73	7.2	10.6	13.0	10.2	47.3	22.1	16.2	11.0	9.0	10.7	7.6	6.1	2.2	1.9	1.6	2.0								

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Source: Company, Bloomberg, Kotak Institutional Equities estimates

	16-Jun-09			Mkt cap.		O/S shares		EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price		ADVT-3mo
Company	133.2	BUY		(Rs mn)	(US\$ mn)			2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	(Rs)	Upside	(US\$ mn)
Energy																															
Bharat Petroleum	448	SELL	146,848	3,071	328	20.4	32.1	41.8	(50.7)	58	NA		22	NA	10.7		5.1	5.1	4.6	1.1	1.0	0.9	1.7	3.0	3.8	5.2	7.7	9.4	475	6.0	10.4
Cairn india	241	REDUCE	456,434	9,546	1,897	4.3	9.2	31.2	(3,703)	115	238.0		56	26	7.7		36.8	13.4	5.5	1.4	1.3	1.3	—	—	10.4	2.5	5.1	16.5	225	(6.5)	35.7
Castrol India (a)	349	BUY	43,107	902	124	21.3	25.5	26.6	20.8	19.5	4.3		16.4	13.7	13.1		9.2	7.9	7.5	9.6	8.6	8.1	4.3	5.2	5.7	61.2	66.5	63.7	390	11.9	0.6
GAIL (India)	289	ADD	366,589	7,667	1,268	22.1	21.9	22.6	8.4	(0.8)	3.2		13.1	13.2	12.8		6.8	7.4	7.9	2.2	2.0	1.8	1.6	1.8	1.8	17.6	15.3	14.1	300	3.8	14.4
GSPL	53	REDUCE	30,053	629	563	1.9	2.5	3.7	4.4	30.5	52.6		28.4	21.8	14.3		9.6	6.2	5.2	2.3	2.0	2.1	1.0	1.3	7.0	8.2	9.8	14.4	45	(15.7)	5.6
Hindustan Petroleum	320	SELL	108,636	2,272	339	17.0	16.7	34.9	(49.3)	(1.6)	109.2		18.9	19.2	9.2		6.1	6.0	NA	0.9	0.8	NA	1.6	3.7	7.8	4.4	3.9	7.8	350	9.2	12.6
Indian Oil Corporation	573	REDUCE	675,750	14,133	1,179	18.9	44.3	43.1	(69.1)	133.8	(2.6)		30.3	12.9	13.3		10.7	5.8	5.7	1.4	1.4	1.3	1.3	3.2	3.1	4.6	10.2	9.3	550	(4.0)	7.6
Oil & Natural Gas Corporation	1,127	BUY	2,409,991	50,402	2,139	100.3	95.3	119.2	6.1	(5.0)	25.1		11.2	11.8	9.5		4.3	4.2	3.5	2.1	1.9	1.7	3.0	3.6	3.7	18.9	15.9	18.2	1,100	(2.4)	51.6
Petronet LNG	74	REDUCE	55,613	1,163	750	6.9	7.3	8.5	—	5.9	16.8		10.7	10.1	8.7		7.6	6.6	5.9	2.5	2.0	1.7	2.4	2.7	3.0	23.9	21.1	20.5	57	(23.1)	6.7
Reliance Industries	2,143	SELL	2,942,820	61,546	1,373	103.4	128.0	169.0	(1.5)	23.8	32.0		20.7	16.7	12.7		12.2	7.7	6.0	2.5	2.2	1.9	0.7	0.7	0.9	15.1	16.0	18.6	1,650	(23.0)	242.7
Reliance Petroleum	133	NR	599,850	12,545	4,500	—	8.3	13.8	n/a	n/a	n/a		n/a	n/a	9.7		n/a	n/a	7.9	4.4	3.7	2.8	—	1.5	1.5	0.6	25.1	33.0	—	—	27.0
Energy		Cautious	7,835,690	163,875					(5.8)	26.5	33.9		17.4	13.8	10.3		8.4	6.4	5.1	2.1	1.9	1.7	1.5	2.0	2.8	12.1	13.8	16.6			
Industrials																															
ABB	771	REDUCE	163,275	3,415	212	25.8	24.9	29.6	11.3	(3.6)	18.7		29.8	30.9	26.1		17.7	17.5	14.3	7.7	6.4	5.3	0.3	0.4	0.4	29.2	22.6	22.1	500	(35.1)	8.4
BGR Energy Systems	347	REDUCE	25,013	523	72	15.3	20.7	24.3	26.1	35.4	17.5		22.7	16.8	14.3		12.4	10.0	8.5	4.4	3.7	3.0	0.7	1.0	1.1	21.3	23.9	23.2	165	(52.5)	1.6
Bharat Electronics	1,420	REDUCE	113,628	2,376	80	101.9	111.1	119.0	(0.0)	9.0	7.1		13.9	12.8	11.9		6.1	5.5	4.9	2.9	2.5	2.1	1.8	1.8	1.8	22.4	20.9	19.2	1,025	(27.8)	2.0
Bharat Heavy Electricals	2,159	REDUCE	1,056,947	22,105	490	64.1	92.0	106.8	9.8	43.5	16.1		33.7	23.5	20.2		18.3	13.0	11.0	8.1	6.5	5.2	0.8	0.9	1.1	26.4	30.7	28.6	1,900	(12.0)	65.1
Crompton Greaves	289	ADD	106,016	2,217	367	15.3	17.0	20.0	37.3	11.0	17.5		18.8	17.0	14.5		10.6	9.5	8.2	6.0	4.6	3.6	0.7	0.7	0.8	36.5	30.5	27.9	300	3.7	7.6
Larsen & Toubro	1,526	ADD	910,266	19,037	597	52.6	57.5	68.2	38.6	9.4	18.5		29.0	26.5	22.4		17.4	15.3	13.1	5.7	4.7	3.9	0.7	0.7	0.8	22.5	19.4	19.1	1,375	(9.9)	100.7
Maharashtra Seamless	293	BUY	20,634	432	71	35.9	33.0	39.6	22.2	(8.1)	20.3		8.2	8.9	7.4		5.5	5.7	4.4	1.5	1.3	1.2	1.8	1.7	2.4	20.3	16.0	16.8	225	(23.1)	1.4
Siemens	494	REDUCE	166,422	3,481	337	14.2	19.8	21.1	(22.2)	39.7	6.4		34.8	24.9	23.4		16.6	14.3	13.6	7.4	6.2	5.2	0.6	1.3	0.8	23.3	27.1	24.2	360	(27.1)	8.2
Suzlon Energy	120	ADD	188,405	3,940	1,571	7.0	7.1	11.4	6.0	2.1	59.7		17.2	16.9	10.6		11.2	9.9	7.9	1.9	1.6	1.4	0.4	0.4	0.8	11.3	10.1	13.9	90	(25.0)	113.8
Industrials		Neutral	2,750,606	57,526					15.5	20.1	20.0		27.2	22.6	18.9		15.3	12.8	10.9	5.4	4.4	3.7	0.7	0.8	0.9	19.8	19.6	19.6			
Infrastructure																															
IRB Infrastructure	136	ADD	45,301	947	332	5.6	10.4	10.8	63.5	85.5	3.9		24.3	13.1	12.6		13.4	7.4	6.7	2.4	2.0	1.7	—	—	—	10.6	16.8	14.5	135	(1.0)	8.0
Media																															
DishTV	41	REDUCE	38,706	810	946	(7.3)	(4.1)	(3.2)	n/a	(44.4)	(22.6)		(5.6)	(10.0)	(12.9)		(24.4)	(149.1)	47.4	(6.0)	(19.1)	(7.7)	—	—	—	86.1	91.1	NA	22	(46.2)	12.5
HT Media	101	ADD	23,624	494	234	0.8	4.2	6.3	(80.4)	399.4	49.2		118.7	23.8	15.9		24.4	10.1	8.0	2.8	2.6	2.4	0.4	0.8	2.5	2.3	11.3	15.6	120	19.0	0.5
Jagran Prakashan	80	BUY	24,229	507	301	3.0	4.3	5.5	(6.6)	42.1	26.8		26.5	18.6	14.7		15.0	10.4	8.3	4.3	4.0	3.7	2.5	3.2	3.7	16.7	22.5	26.3	92	14.4	0.2
Sun TV Network	252	REDUCE	99,151	2,074	394	9.3	11.1	12.8	11.8	19.2	15.8		27.1	22.8	19.7		16.9	15.1	13.2	5.8	5.3	5.0	1.6	2.4	3.2	23.5	25.1	26.7	200	(20.5)	1.5
Zee Entertainment Enterprises	180	REDUCE	77,955	1,630	434	8.1	9.3	11.2	(9.0)	15.5	20.0		22.3	19.3	16.1		15.5	13.3	11.1	2.3	2.2	2.1	1.3	1.5	1.8	11.6	12.2	13.7	145	(19.4)	8.8
Zee News	42	ADD	10,154	212	240	1.9	2.1	2.5	20.4	11.1	18.8		22.7	20.5	17.2		11.7	9.9	8.7	4.1	3.5	3.1	0.9	0.9	1.4	20.0	19.0	19.5	40	(5.5)	1.5
Media		Neutral	273,819	5,727					(47.3)	140.5	54.6		132.3	55.0	35.6		22.5	15.5	12.4	4.5	3.9	3.8	1.2	1.7	2.3	3.4	7.1	10.6			
Metals																															
Hindalco Industries	99	BUY	173,772	3,634	1,753	9.0	3.5	11.4	(33.9)	(61.4)	227.6		11.0	28.5	8.7		6.4	8.5	6.6	0.5	0.5	0.4	—	—	—	10.3	5.2	6.7	135	36.2	23.4
National Aluminium Co.	366	SELL	235,656	4,929	644	19.7	13.7	20.4	(22.0)	(30.6)	48.8		18.5	26.7	17.9		9.6	10.2	7.1	2.2	2.1	1.9	1.0	0.5	0.5	12.7	8.1	11.1	290	(20.7)	3.6
Jindal Steel and Power	2,626	ADD	404,318	8,456	154	198.0	172.4	196.2	139.3	(12.9)	13.8		13.3	15.2	13.4		8.9	9.2	7.7	5.6	4.1	3.1	—	0.2	0.2	53.1	31.0	26.4	1,820	(30.7)	32.6
JSW Steel	682	SELL	127,651	2,670	187	13.1	24.1	53.5	(84.7)	83.3	121.8		51.9	28.3	12.8		9.8	9.8	7.6	1.2	1.1	1.0	0.1	0.7	0.7	11.0	4.3	8.3	340	(50.2)	43.9
Hindustan Zinc	658	BUY	278,110	5,816	423	64.6	57.3	74.1	(38.0)	(11.2)	29.3		10.2	11.5	8.9		6.3	6.4	4.1	1.9	1.6	1.4	0.6	0.8	0.8	20.1	15.1	16.7	825	25.3	4.4
Sesa Goa	201	BUY	158,157	3,308	787	24.8	25.5	34.2	30.8	3.0	34.0		8.1	7.9	5.9		5.1	4.6	2.7	3.5	2.5	1.8	1.7	1.7	1.7	52.8	37.1	36.0	240	19.5	38.4
Sterlite Industries	634	ADD	449,398	9,399	708	49.2	41.0	50.5	(23.6)	(16.7)	23.4		12.9	15.5	12.6		7.7	8.5	6.3	1.7	1.6	1.4	—	—	—	14.3	10.7	11.8	490	(22.7)	48.8
Tata Steel	451	BUY	370,471	7,748	822	123.9	55.5	87.0	63.6	(55.2)	56.7		3.6	8.1	5.2		4.0	5.5	4.2	0.8	0.8	0.7	2.9	2.9	2.9	36.8	15.7	21.3	280	(37.9)	116.7
Metals		Cautious	2,197,533	45,959					7.7	(34.7)	44.7		8.7	13.3	9.2		6.1	7.3	5.5	1.4	1.3	1.1	0.8	0.9	0.9	16.4	9.7	12.4			
Pharmaceutical																															
Biocon	207	BUY	41,490	868	200	4.7	13.6	19.4	(80.0)	192.2	42.8		44.6	15.2	10.7		18.3	9.1	6.6	2.7	2.4	2.0	0.0	0.0	0.1	6.2	16.9	20.9	235	13.3	4.2
Cipla	261	ADD	202,679	4,239	777	9.9	13.8	15.0	9.5	39.5	8.6		26.4	18.9	17.4		18.9	13.6	12.3	4.7	4.0	3.4	1.0	1.2	1.3	19.1	22.8	21.1	250	(4.1)	9.5
Dishman Pharma & chemicals	170	BUY	13,831	289	81	18.0	21.2	27.3	12.0	17.9	28.7		9.5	8.0	6.2		8.1	6.4	5.0	2.0	1.6	1.3	—	—	—	22.8	21.9	22.9	280	64.7	0.6
Divi's Laboratories	1,139	BUY	73,516	1,538	65	63.8	74.6	86.5	19.9	16.9	16.0		17.8	15.3	13.2		14.4	11.6	9.3	6.0	4.4	3.4	0.1	0.1	0.1	39.8	35.3	29.3	1,375	20.7	4.4
Dr Reddy's Laboratories	713	BUY	120,616	2,523	169	32.4	44.8	49.3	24.5	38.2	9.9		22.0	15.9	14.5		9.6	7.8	6.8	3.5	2.9	2.5	0.9	1.0	1.1	13.7	19.8	18.5	770	8.0	6.1
Glenmark Pharmaceuticals	220	BUY	58,608	1,226	266	16.0	18.2	22.5	(38.2)	13.9	23.6		13.8	12.1	9.8		9.2	7.9	6.6	2.6	2.2	1.8	—	—	—	22.0	19.8	20.2	390</		

Valuation summary of key Indian companies

	16-Jun-09		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
Company	40.9	REDUCE	(Rs mn)	(US\$ mn)	(mn)	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	(Rs)	(%)	(US\$ mn)
Retail																													
Titan Industries	1,179	REDUCE	52,344	1,095	44	45.9	50.1	56.9	30.8	9.2	13.7	25.7	23.6	20.7	16.5	14.3	12.4	9.1	7.0	5.6	0.8	0.9	1.0	38.9	33.6	29.9	850	(27.9)	3.4
Retail		Neutral	52,344	1,095					30.8	9.2	13.7	25.7	23.6	20.7	16.5	14.3	12.4	9.1	7.0	5.6	0.8	0.9	1.0	35.3	29.7	26.8			
Technology																													
HCL Technologies	209	REDUCE	145,220	3,037	695	16.2	13.1	17.0	6.0	(19.0)	29.5	12.9	15.9	12.3	7.2	7.1	6.8	2.3	2.2	2.1	5.7	5.7	5.7	18.6	14.4	17.7	135	(35.4)	6.3
Infosys Technologies	1,725	BUY	989,949	20,704	574	102.4	99.3	111.9	29.6	(3.1)	12.7	16.8	17.4	15.4	12.2	12.3	10.2	5.4	4.4	3.7	1.4	1.4	1.6	36.7	28.1	26.1	1,800	4.4	65.3
Mphasis BFL	349	REDUCE	72,805	1,523	208	14.2	38.8	30.3	15.7	173.5	(21.9)	24.6	9.0	11.5	18.7	6.4	6.3	5.1	3.4	2.8	1.1	1.3	1.4	22.8	45.3	26.4	240	(31.3)	2.9
Mindtree	428	BUY	17,633	369	41	13.2	44.0	50.7	(50.5)	232.5	15.1	32.4	9.7	8.5	5.6	5.6	4.7	3.2	2.4	1.9	0.4	—	1.2	5.5	20.4	18.4	400	(6.6)	4.8
Patni Computer Systems	240	REDUCE	30,813	644	129	26.8	23.5	26.1	(19.3)	(12.4)	11.1	8.9	10.2	9.2	3.4	2.8	2.6	1.2	1.0	0.9	0.8	2.0	2.2	16.2	10.0	10.3	150	(37.4)	2.0
Polaris Software Lab	105	SELL	10,329	216	99	13.1	13.3	12.1	76.0	1.7	(8.9)	8.0	7.8	8.6	3.0	3.5	3.6	1.3	1.2	1.1	2.6	1.9	1.9	18.1	15.9	12.9	50	(52.2)	3.9
TCS	389	REDUCE	761,644	15,929	1,957	26.4	25.4	27.4	3.1	(4.1)	8.1	14.7	15.3	14.2	10.3	10.7	9.2	4.9	4.0	3.5	1.8	2.0	2.8	36.9	28.7	26.4	325	(16.5)	32.2
Wipro	397	ADD	579,683	12,123	1,462	25.7	26.4	29.2	15.8	2.6	10.3	15.4	15.0	13.6	11.3	10.4	8.6	3.9	3.2	2.7	1.0	1.9	2.1	26.9	23.3	21.6	400	0.9	15.0
Technology		Attractive	2,717,260	56,829					15.0	(1.9)	9.2	15.2	15.5	14.2	10.5	10.3	8.9	4.3	3.6	3.1	1.6	1.9	2.2	28.2	23.0	21.6			
Telecom																													
Bharti Airtel	810	ADD	1,536,836	32,141	1,899	44.6	52.2	59.8	26.4	17.0	14.6	18.1	15.5	13.5	10.6	9.1	7.8	4.9	3.7	2.9	0.5	0.7	1.0	31.4	27.0	23.8	775	(4.3)	99.4
IDEA	86	REDUCE	268,328	5,612	3,104	2.9	2.9	3.2	(26.5)	(0.1)	10.9	29.8	29.8	26.9	10.8	9.6	8.0	1.9	1.8	1.7	—	—	—	10.4	6.4	6.8	65	(24.8)	19.5
MTNL	109	SELL	68,733	1,437	630	4.0	4.1	4.6	(44.3)	2.6	11.8	27.4	26.7	23.9	16.2	11.9	8.2	0.6	0.6	0.6	5.5	5.5	5.5	1.6	1.6	1.9	50	(54.2)	4.0
Reliance Communications	328	SELL	677,411	14,167	2,064	27.7	20.3	21.1	4.7	(26.6)	3.9	11.8	16.1	15.5	9.9	9.3	7.3	1.9	1.7	1.6	0.2	—	—	18.6	11.7	10.9	180	(45.2)	79.7
Tata Communications	493	REDUCE	140,448	2,937	285	13.6	14.0	15.2	24.0	3.2	8.2	36.3	35.2	32.5	15.4	14.0	13.0	2.0	2.0	1.9	1.0	1.3	1.5	5.4	5.2	5.5	400	(18.8)	7.6
Telecom		Cautious	2,691,756	56,295					11.5	(0.5)	11.3	16.7	16.8	15.1	10.6	9.4	7.8	2.7	2.4	2.0	0.5	0.6	0.8	16.3	14.0	13.6			
Transportation																													
Container Corporation	990	ADD	128,680	2,691	130	64.4	71.4	83.3	11.6	10.8	16.6	15.4	13.9	11.9	11.0	9.3	7.8	3.4	2.9	2.4	1.4	1.6	1.9	24.0	22.5	22.2	850	(14.1)	1.2
Transportation		Cautious	128,680	2,691					11.6	10.8	16.6	15.4	13.9	11.9	11.0	9.3	7.8	3.4	2.9	2.4	1.4	1.6	1.9	22.1	20.8	20.5			
Utilities																													
CESC	329	ADD	41,066	859	125	31.2	38.0	42.1	12.3	21.8	10.8	10.5	8.7	7.8	5.7	6.4	6.8	1.1	1.0	0.9	1.4	1.7	1.8	11.4	12.2	11.9	345	5.0	1.7
Lanco Infratech	379	ADD	84,207	1,761	222	14.5	18.1	33.8	(2.5)	25.1	86.9	26.2	20.9	11.2	23.3	17.7	8.3	3.9	3.2	2.5	—	—	—	16.1	16.9	25.0	360	(5.0)	20.2
NTPC	225	SELL	1,856,466	38,826	8,245	9.4	10.8	12.2	1.1	14.7	12.6	23.9	20.8	18.5	18.1	15.3	14.4	3.1	2.9	2.7	1.6	1.8	2.0	13.7	14.5	15.0	180	(20.1)	39.6
Reliance Infrastructure	1,269	BUY	287,467	6,012	226	64.1	58.8	62.9	70.5	(8.2)	6.9	19.8	21.6	20.2	21.3	21.6	16.7	1.7	1.6	1.5	0.6	0.7	0.7	6.3	7.0	9.0	1,250	(1.5)	120.5
Reliance Power	196	REDUCE	470,123	9,832	2,397	1.0	2.5	3.1	—	140.3	25.3	192.3	80.0	63.9	—	—	—	3.4	3.3	3.1	—	—	—	1.8	4.2	5.0	160	(18.4)	34.8
Tata Power	1,183	ADD	263,253	5,506	223	56.2	76.6	86.5	76.6	36.2	12.9	21.0	15.4	13.7	11.4	11.8	11.0	2.6	2.3	2.0	1.0	1.0	1.2	13.4	15.8	15.7	1,100	(7.0)	14.2
Utilities		Attractive	3,002,584	62,796					14.0	17.4	14.8	26.3	22.4	19.5	18.7	17.7	15.6	2.8	2.6	2.4	1.1	1.3	1.4	10.8	11.7	12.3			
Others																													
Aban Offshore	1,005	SELL	38,083	796	38	87.8	125.3	214.6	21	42.7	71.3	11.4	8.0	4.7	9.2	7.9	6.7	2.7	2.1	1.5	0.4	0.5	0.5	33.7	33.3	36.7	365	(63.7)	66.5
Havells India	285	REDUCE	17,269	361	61	(1.0)	10.3	14.7	(10.4)	NA	43.0	NA	27.8	19.4	10.9	9.4	8.5	2.4	2.3	2.1	1.1	1.4	1.7	(0.9)	8.5	11.4	120	(57.9)	2.5
Jaiprakash Associates	219	ADD	307,007	6,421	1,403	3.0	6.8	9.9	(39)	126.3	45.5	72.9	32.2	22.1	24.1	16.1	15.0	5.5	4.8	4.1	—	—	—	8.0	16.1	20.0	190	(13.1)	93.4
Jindal Saw	394	BUY	21,636	453	55	64.3	47.8	41.7	(1)	(25.6)	(12.8)	6.1	8.2	9.5	4.0	4.1	4.0	0.6	0.6	0.6	1.3	1.0	1.0	10.8	7.4	6.2	300	(23.9)	3.5
PSL	130	BUY	5,665	118	44	22.0	36.8	30.0	4	67.4	(18.5)	5.9	3.5	4.3	5.7	4.7	4.1	0.6	0.6	0.5	7.1	6.9	6.9	10.2	13.4	11.1	160	23.1	0.9
Sintex	242	BUY	32,977	690	136	23.8	24.8	27.3	22	4.1	10.2	10.1	9.7	8.8	7.2	6.6	5.5	1.7	1.4	1.2	0.5	0.5	0.5	16.6	14.8	14.1	175	(27.6)	4.7
Tata Chemicals	246	ADD	57,887	1,211	235	27.6	23.1	27.2	(30)	(16.4)	17.9	8.9	10.7	9.1	5.7	4.7	4.1	1.2	1.1	1.0	3.7	3.7	3.7	17.9	12.9	13.7	200	(18.7)	4.8
Welspun Gujarat Stahl Rohren	218	REDUCE	41,162	861	189	17.3	23.4	17.3	(16)	35.0	(25.7)	12.6	9.3	12.6	7.7	5.5	6.5	2.2	1.8	1.5	0.9	0.7	0.7	17.6	20.8	12.9	125	(42.7)	20.7
United Phosphorus	158	BUY	73,134	1,530	462	10.7	13.5	18.0	28	25.7	33.9	14.8	11.8	8.8	9.8	7.2	5.5	2.4	2.1	1.7	0.8	0.9	1.3	18.1	18.2	20.5	140	(11.6)	5.2
Others			594,821	12,440					(12.1)	29.2	24.8	19.8	15.3	12.3	10.8	8.9	8.4	2.6	2.2	1.9	0.7	0.7	0.8	12.9	14.6	15.7			
KS universe (b)			33,528,330	701,209					3.9	3.7	21.6	16	15.8	13.0	10.5	9.3	7.9	2.6	2.3	2.0	1.3	1.5	1.8	15.6	14.4	15.6			
KS universe (b) ex-Energy			25,692,641	537,334					7.1	(2.7)	17.1	16.0	16.5	14.1	11.5	11.0	9.5	2.7	2.4	2.1	1.2	1.4	1.5	17.1	14.7	15.2			
KS universe (d) ex-Energy & ex-Commodities			22,786,399	476,553					7.7	3.9	14.9	17.8	17.1	14.9	13.8	12.3	10.7	3.0	2.7	2.4	1.3	1.4	1.6	17.0	15.6	15.9			

Note:

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

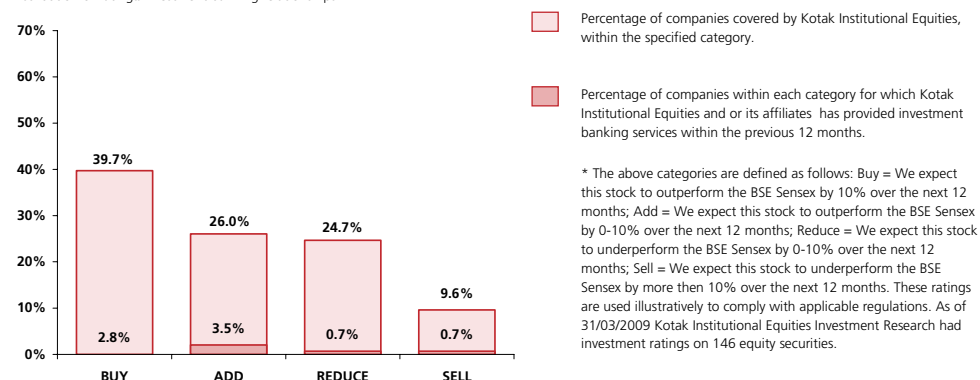
(2) 2008 means calendar year 2007, similarly for 2009 and 2010 for these particular companies.

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

(4) Ru

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of March 31, 2009

Analyst coverage

Sanjeev Prasad, the lead analyst in this report, also covers the following companies

Company Name	Ticker
Bharat Petroleum	BPCL.BO
Cairn India	CAIL.BO
Castrol India	CAST.BO
GAIL (India)	GAIL.BO
Gujarat State Petronet	GSPT.BO
Hindustan Petroleum	HPCL.BO
Indian Oil Corp.	IOC.BO
Oil & Natural Gas Corporation	ONGC.BO
Petronet LNG	PLNG.BO
Reliance Industries	RELI.BO
Reliance Petroleum	RPET.BO

Source: Kotak Institutional Equities Research

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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 Sensex by more than 10% over the next 12 months.

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