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Construction: Prime transaction lifts IVRCL target price; new orders lift Nagarjuna's

News Round-up

- ▶ Harish Salve, the lawyer representing **Reliance Industries (RIL)**, said on Tuesday there were **no ongoing negotiations to reach an out-of-court settlement with RNRL** to resolve the legal dispute over supply of gas from the Krishna-Godavari basin. This was reiterated by RIL. (ET)
- ▶ The Securities Exchange Board of India (**SEBI**) today barred Chennai-based **Pyramid Saimira Theatre Ltd** (PSTL) from the stock market for seven years. The order came after SEBI investigated allotment of the company's shares reserved for employees in its December 2006 initial public offer (IPO). (BS)
- ▶ Mukesh Ambani-controlled Reliance Industries (**RIL**) today said it has made its **first on-land oil discovery in the Cambay basin**, around 130 km from Ahmedabad. Five wells had been drilled in the area, and the fifth well flowed at a rate of 500 barrels of oil per day (bopd), the company said in a statement. (BS)
- ▶ Laying the roadmap for the introduction of a goods and service tax (GST), **state governments today proposed a dual GST structure**, with two rates for goods and a single rate for services. The tax would be levied both by the Centre and the states, though there is still no clarity when the new tax regime will be implemented. (BS)
- ▶ **Bajaj Auto and Nissan-Renault** have resolved their differences and are set to announce the details of the proposed joint venture for making the ultra low-cost car on Tuesday. Nissan Renault CEO Carlos Ghosn met Bajaj Auto MD Rajiv Bajaj Monday evening to settle issues relating to branding and the basic concept of the car that were delaying the project. (ET)
- ▶ **National Thermal Power Corporation Ltd** (NTPC) has informed the BSE that a Memorandum of Understanding (MoU) has been signed on Monday between Madhya Pradesh government, NTPC and Madhya Pradesh Power Trading Company Ltd for setting up of 4x660 MW coal based thermal power project in Narsingpur District in Madhya Pradesh, subject to establishment of its techno-commercial viability. (BL)
- ▶ With a turnaround in global business sentiment, the **Indian IT sector** is expected to return to double digit growth by the next financial year, according to the Nasscom President, Mr Som Mittal. Mr Mittal pointed out that that while there were some positive signs, the industry might not reach the levels of growth it had posted till 2007. (BL)

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

EQUITY MARKETS

India	Change %			
	10-Nov	1-day	1-mo	3-mo
Sensex	16,441	(0.4)	(1.2)	9.5
Nifty	4,882	(0.3)	(1.3)	10.0
Global/Regional indices				
Dow Jones	10,247	0.2	3.9	9.7
Nasdaq Composite	2,151	(0.1)	0.6	8.0
FTSE	5,231	(0.1)	1.3	10.8
Nikkie	9,892	0.2	(1.2)	(6.5)
Hang Seng	22,496	1.0	4.6	6.7
KOSPI	1,583	0.0	(3.9)	0.2
Value traded - India				
Cash (NSE+BSE)	250.8	232.2	234.8	
Derivatives (NSE)	810.1	636.2	685	
Deri. open interest	980.1	987	722	

Forex/money market

	Change, basis points			
	10-Nov	1-day	1-mo	3-mo
Rs/US\$	46.5	4	2	(131)
10yr govt bond, %	7.3	-	2	21
Net investment (US\$m)				
	9-Nov	MTD	CYTD	
FII's	139	145	14,358	
MFs	39	123	(472)	

Top movers -3mo basis

Best performers	Change, %			
	10-Nov	1-day	1-mo	3-mo
AL IN Equity	53.3	1.0	31.6	54.5
RBXY IN Equity	405.6	(2.5)	4.8	46.7
CRG IN Equity	394.4	2.4	23.0	46.2
JSP IN Equity	675.0	0.1	12.4	42.0
IH IN Equity	84.6	0.5	12.4	41.6
Worst performers				
IDEA IN Equity	49.6	(2.0)	(20.6)	(33.6)
RCOM IN Equity	168.8	(3.2)	(32.2)	(33.4)
TCOM IN Equity	358.6	(0.3)	(24.5)	(24.4)
IBULL IN Equity	137.0	(2.9)	(25.6)	(24.2)
MTNL IN Equity	72.5	0.7	(12.3)	(23.3)

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NOVEMBER 11, 2009

NEW RELEASE

BSE-30: 16,441

Flow versus flow. We analyze demand for and supply of Indian paper, both private and public, over the next few months to understand the implications for the Indian market. The market appears fully valued and lacks catalysts, which makes the amount of paper supply and demand for the same important in determining its future course. We concede that this may be an academic exercise and things seldom work to form given the myriad associated complexities.

Market shows a strong correlation with net secondary market flows; no surprises there

The Indian market has shown a very high correlation with net institutional flows in the secondary market (total flows of FIs and DIs less investment in primary issuances) over the past few months. It has performed exceedingly well in months when net institutional investment has been large; this holds true for 1HCY09. However, the performance in 2HCY09 has been muted on account of large primary issuances. Indian companies and promoters have sold paper worth US\$12 bn CYTD with the bulk of the sales being in April-October 2009.

Future institutional inflows or demand for paper very hard to judge

The amount of foreign institutional inflows is particularly hard to judge given the array of variables—global risk appetite, savings and investment patterns in developed countries, dollar carry trade, attractiveness of equities versus other asset classes and attractiveness of India relative to other markets among other factors. We estimate US\$8-10 bn in inflows from domestic institutional investors in the rest of FY2010E led primarily by insurance.

Supply of paper, private and public, very large on paper

We estimate US\$25-30 bn of potential supply of paper from private Indian companies and US\$8-10 bn of possible divestment by the government of India. The supply of paper would depend on the government's fiscal position, valuations, promoter keenness to raise funds and the type of funds, investment prospects of the real economy and of course, the state of the market or appetite for paper.

Market is fairly valued in the absence of triggers in either direction

We find the Indian market (BSE-30 Index) fairly valued at 17.8X FY2010E earnings (19.2X on ex-Energy basis) and 14.8X FY2011E earnings (16.6X on ex-Energy basis). We see limited scope for earnings upgrades as discussed in our November 4 2009 report titled '*No need to rush in*', which would make the market largely dependent on flows, which in turn would be largely dependent on global factors.

QUICK NUMBERS

- **Strong correlation between net institutional investment and market**

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Very high correlation between 'net' institutional investment and the market

Data on institutional investment and primary issuances and market performance (US\$ mn)

	Investment			Primary issuance				Net flow	BSE-30 return (%)
	FIIIs	DIIIs	Total	IPO	QIP	Promoters	Total		
Jan-09	(1,054)	761	(293)	—	—	—	—	(293)	(2)
Feb-09	(667)	563	(104)	—	—	—	—	(104)	(6)
Mar-09	101	771	872	5	—	89	94	778	9
Apr-09	1,641	(156)	1,485	—	324	—	324	1,162	17
May-09	4,253	(17)	4,236	—	548	1,301	1,848	2,388	28
Jun-09	695	551	1,246	6	253	501	760	486	(1)
Jul-09	2,400	1,201	3,600	57	1,936	—	1,994	1,607	8
Aug-09	827	1,031	1,858	658	428	—	1,085	773	(0)
Sep-09	4,142	159	4,301	1,855	1,020	1,043	3,919	382	9
Oct-09	1,768	(10)	1,758	457	1,287	—	1,745	13	(7)

Source: SEBI, Bloomberg, Kotak Institutional Equities

Indian companies have raised US\$3 bn through IPOs in CYTD2009

Money raised through IPOs by Indian companies in CY2009

	Shares	Price	Amount		Listing date
	(mn)	(Rs)	(Rs mn)	(US\$ mn)	
Indiabulls Power	340	45	15,291	327	30-Oct-09
Thinksoft Global Services	4	125	456	10	26-Oct-09
Euro Multivision	9	75	660	14	15-Oct-09
Pipavav Shipyard	85	58	4,956	106	9-Oct-09
Oil India	27	1,050	27,825	574	30-Sep-09
Globus Spirits	8	100	750	15	23-Sep-09
Jindal Cotex	12	75	934	19	22-Sep-09
NHPC	1,677	36	60,385	1,246	1-Sep-09
Adani Power	302	100	30,165	624	20-Aug-09
Raj Oil Mills	10	120	1,140	24	12-Aug-09
Excel Infoways	6	85	482	10	3-Aug-09
Mahindra Holidays & Resorts	9	300	2,780	57	16-Jul-09
Rishabhdev Technocable	9	33	297	6	29-Jun-09
Edserve Softsystem	4	60	238	5	2-Mar-09
Total			146,359	3,039	

Source: Bloomberg, Kotak Institutional Equities

Indian companies have raised US\$5.9 bn through QIPs in CYTD2009

Money raised through QIPs by Indian companies in CY2009

	Shares	Price	Amount		Trading date
	(mn)	(Rs)	(Rs mn)	(US\$ mn)	
Jai Balaji	8	239	1,985	42	4-Nov-09
Patel Engineering	7	477	3,445	73	3-Nov-09
United Spirits	18	914	16,156	346	29-Oct-09
Allied Digital Services	5	472	2,314	50	27-Oct-09
HCL Infosystem	31	155	4,727	101	26-Oct-09
Larsen & Toubro	11	1,659	18,729	401	20-Oct-09
Parsnath Developers	14	121	1,680	36	14-Oct-09
3I Infotech	38	85	3,178	68	5-Oct-09
Cipla	26	264	6,752	145	5-Oct-09
LIC Hosuing Finance	10	658	6,580	141	1-Oct-09
Axis Bank	33	907	29,961	618	30-Sep-09
Glenmark Pharmaceuticals	19	221	4,136	85	24-Sep-09
Opto Circuits	21	187	4,000	83	23-Sep-09
ING Vysya	9	248	2,300	47	22-Sep-09
Ackruti City	6	501	3,024	62	16-Sep-09
Delta Corp	17	50	833	17	15-Sep-09
Nagarjuna Constructions	28	132	3,674	76	8-Sep-09
PSL Ltd	11	139	1,493	31	2-Sep-09
Webel-SL Energy Systems	2	227	454	9	28-Aug-09
Orbit Corporation	8	185	1,450	30	27-Aug-09
IndusInd Bank	55	88	4,803	99	20-Aug-09
Lanco Infratech	18	395	7,274	150	13-Aug-09
Punj Llyod	28	240	6,702	138	13-Aug-09
Indiabulls Financial Services	56	171	9,600	198	30-Jul-09
REI Agro	30	61	1,827	38	30-Jul-09
Texmaco	16	104	1,706	35	30-Jul-09
Educomp Solutions	2	3,745	6,067	125	17-Jul-09
GVK Power & Infra	173	41	7,168	148	16-Jul-09
Dewan Hosuing Finance Corp.	16	141	2,258	47	13-Jul-09
Emami	10	310	3,100	64	13-Jul-09
Bajaj Hindustan	35	204	7,232	149	10-Jul-09
HDIL	70	240	16,884	348	10-Jul-09
Hindustan Constructions	47	102	4,801	99	9-Jul-09
Sobha Developers	25	209	5,294	109	9-Jul-09
Unitech	344	81	27,893	576	9-Jul-09
Network 18 Media & Investments	16	130	2,049	43	23-Jun-09
Shree Renuka	37	137	5,060	106	23-Jun-09
PTC India	67	75	5,000	105	2-Jun-09
Indiabulls Real Estate	144	185	26,565	547	28-May-09
Unitech	421	39	16,211	324	29-Apr-09
Total			284,364	5,911	

Source: Bloomberg, Primedatabase, Kotak Institutional Equities

Likely modest net inflows into mutual funds in India CYTD-2009

Estimate of net inflows/outflows in India MFs (Rs bn)

		Comments
Benchmark BSE-30 Index level at end-December 2008 (X)	9,647	
Benchmark BSE-30 Index level at end-September 2009 (X)	17,127	
Actual BSE-30 Index returns (%)	78	
AUMs of equity MFs by end-December 2008 (US\$ bn)	22.0	
AUMs of equity MFs by end-December 2008	1,071	Rs48.7/US\$ at end-December 2008
Expected equity investments by MFs at end-September 2009	1,902	Assuming average mutual fund returns track BSE-30
AUMs of equity MFs by end-September 2009 (US\$ bn)	38.8	
AUMs of equity MFs by end-September 2009	1,866	Rs48.1/US\$ at end-September 2009
Likely net inflows/(outflows) into MFs CYTD-2009 (Rs bn)	(36)	

Source: Mutual Funds Explorer, Kotak Institutional Equities estimates

The government has already announced at least 10% disinvestment in companies with over 90% government holding

Likely receipts from disinvestment in companies with less than 10% public holding (Rs bn)

	Net sales (Rs bn)	Net income (Rs bn)	Market capitalization (Rs bn)	Government stake (%)	Disinvestment	
					Dilution (%)	Proceeds (Rs bn)
Hindustan Copper Limited	12	(0)	254	99.6	10	25
MMTC Limited	368	1	1,813	99.3	10	181
HMT Limited	2	(1)	32	98.9	10	3
NMDC Limited	76	44	1,644	98.4	10	164
Fertilisers & Chemicals Travancore	21	0	13	98.1	10	1
National Fertilizers Ltd	51	1	29	97.6	10	3
Neyveli Lignite Corporation	34	8	230	93.6	10	23
ITI Limited	17	(7)	12	93.0	10	1
Rashtriya Chemicals & Fertilizers	84	2	39	92.5	10	4
India Tourism Development Corp.	4	0	9	92.1	10	1
Engineers India Ltd	15	3	79	90.4	10	8
Total disinvestment proceeds						415

Source: Capital Line, Kotak Institutional Equities estimates

The government may accelerate disinvestment of listed public companies

Likely receipts from disinvestment by the government of India (Rs bn)

	Net sales (Rs bn)	Net income (Rs bn)	Market capitalization (Rs bn)	Government stake (%)	Disinvestment	
					Dilution (%)	Proceeds (Rs bn)
Oil & Natural Gas Corp Ltd	636	161	2,446	74.1	5	122
MMTC Limited	368	1	1,813	99.3	10	181
NTPC Limited	419	82	1,751	89.5	10	175
State Bank Of India	638	91	1,495	59.4	—	—
NMDC Limited	76	44	1,644	98.4	10	164
Bharat Heavy Electricals Ltd	262	31	1,085	67.7	5	54
Indian Oil Corporation Ltd	3,046	29	749	78.9	5	37
Steel Authority Of India	431	62	723	85.8	10	72
GAIL India Ltd	238	28	470	57.3	5	23
Power Grid Corp Of India Ltd	67	17	449	86.4	10	45
NHPC Ltd	27	11	404	86.4	10	40
Punjab National Bank	193	31	287	57.8	—	—
Oil India Ltd	72	22	277	78.4	5	14
Power Finance Corporation	66	20	254	89.8	10	25
Hindustan Copper Limited	12	(0)	254	99.6	10	25
National Aluminium Company Ltd	51	13	244	87.2	10	24
Neyveli Lignite Corporation	34	8	230	93.6	10	23
Bank Of India	163	30	197	64.5	—	—
Bank Of Baroda	151	22	197	53.8	—	—
Bharat Petroleum Corp Ltd	1,352	7	190	54.9	—	—
Rural Electrification Corp	47	13	182	81.8	5	9
Canara Bank	171	21	156	73.2	—	—
Container Corporation Of India Ltd	34	8	149	63.1	5	7
Union Bank Of India	119	17	133	55.4	—	—
Bharat Electronics Limited	46	7	127	75.9	5	6
Hindustan Petroleum Corp	1,248	6	120	51.1	—	—
IDBI Bank Limited	115	9	89	52.7	—	—
Engineers India Ltd	15	3	79	90.4	10	8
Indian Bank	68	12	69	80.0	—	—
Oriental Bank Of Commerce	89	9	66	51.1	—	—
Indian Overseas Bank	96	13	63	61.2	—	—
Central Bank Of India	105	6	61	80.2	—	—
Corporation Bank	61	9	62	57.2	—	—
Allahabad Bank	74	8	59	55.2	—	—
Andhra Bank	54	7	58	51.6	—	—
Shipping Corporation Of India Ltd	42	9	58	80.1	5	3
HMT Limited	2	(1)	32	98.9	10	3
Syndicate Bank	96	9	47	66.5	—	—
Mahanagar Telephone Nigam	45	2	45	56.3	5	2
BEML Limited	28	3	42	54.0	—	—
Rashtriya Chemicals & Fertilizers	84	2	39	92.5	10	4
Jammu & Kashmir Bank Ltd	30	4	31	53.2	—	—
UCO Bank	81	6	30	63.6	—	—
National Fertilizers Ltd	51	1	29	97.6	10	3
Vijaya Bank	52	3	21	53.9	—	—
Dena Bank	34	4	20	51.2	—	—
Bank Of Maharashtra	43	4	20	76.8	—	—
Dredging Corporation Of India Ltd	7	—	14	78.6	5	1
Fertilisers & Chemicals Travancore	21	—	13	98.1	10	1
ITI Limited	17	(7)	12	93.0	10	1
India Tourism Development Corp.	4	—	9	92.1	10	1
Total disinvestment proceeds						1,078

Source: Capital Line, Kotak Institutional Equities estimates

NOVEMBER 11, 2009
UPDATE

Coverage view: **Neutral**

Price (Rs): **1,335**

Target price (Rs): **1,200**

BSE-30: **16,441**

High gold price hurting demand. The high price of gold, nearing Rs1,700/gm is likely to hurt demand for jewelry in the upcoming marriage season. The jewelry segment, which accounts for two-thirds of Titan's operating profit has been seeing a decline in volumes for the past three quarters and we expect the trend to continue. The watch segment is back on track after a poor 1HCY09; however, we believe high gold prices can constrain overall profitability for Titan.

Company data and valuation summary

Titan Industries

Stock data				Forecasts/Valuations			
				2009	2010E	2011E	
52-week range (Rs) (high,low)				1,509-665			
Market Cap. (Rs bn)				59.3			
Shareholding pattern (%)				P/E (X)			
Promoters				30.1			
FII				25.2			
MFs				21.6			
Price performance (%)				Sales (Rs bn)			
1M				38.3			
3M				46.7			
12M				54.9			
Absolute				Net profits (Rs bn)			
(6.2)				2.0			
15.4				2.4			
42.8				2.7			
Rel. to BSE-30				EBITDA (Rs bn)			
(4.9)				3.3			
5.3				3.8			
(8.5)				4.5			
				EV/EBITDA (X)			
				18.1			
				16.0			
				13.4			
				ROE (%)			
				37.5			
				35.1			
				31.4			
				Div. Yield (%)			
				0.7			
				0.7			
				0.9			

QUICK NUMBERS

- **Gold at Rs1,660/ gm hurting jewelry demand**
- **Jewelry volumes decline in the past three quarters**

Volume decline in jewelry segment likely to continue

We expect Titan's jewelry business to continue to remain under pressure due to all-time high gold price which is hurting jewelry demand. Titan has seen volume declines of approximately 8%, 15% and 11% in the preceding three quarters, and we expect negative volume growth in current quarter also despite strong sales during Diwali.

Watch segment profitability improving

Titan's watch segment reported flat revenues in 2QFY10 with strong operating margins of 19.7%. We expect growth in watch revenues to improve in 2HFY10 due to (1) higher consumer spending and (2) restocking by dealers to meet the reviving demand. We highlight that the dealers had built up large inventories in FY2009 due to which the sales to dealers was minimal in 4QFY09 and 1QFY10 to balance the inventory level.

Pressing brakes on store roll-out—early signs of possible demand slowdown

Titan has revisited its extensive store roll-out plan across segments in view of lower-than-expected growth in volumes. The company has put on hold the further launch of 'GoldPlus' stores until demand for gold jewelry improves. In 2HFY10, the company plans to open only three large-format 'Tanishq' stores unlike the earlier model of multiple smaller stores at different locations. It has also cut down on its target for the 'Titan Eye+' stores to 90 by end-FY10 from its earlier target of around 120-130 at the beginning of the year. The company is currently relocating seven of its existing eye-wear stores to smaller locations in order to save on rentals and improve the profitability of these stores.

We like Titan's long-term growth story; however, current valuations look expensive

We like Titan's long-term growth story as a direct play on the fast-growing Indian consumer spend. However, we believe its current valuation at 21.6X FY2011E EPS is expensive, considering the risk to near-term demand from high gold prices and increasing competition in the watch segment. We maintain our REDUCE rating and target price of Rs1,200, which implies 19.4X FY2011E EPS, in line with Titan's long-term average one-year forward PER of 19.1X.

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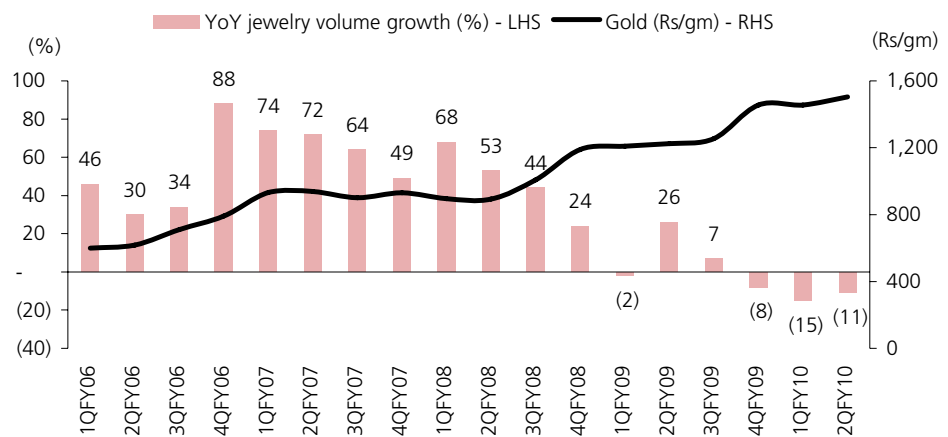
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High gold price impacting jewelry volumes

A sharp increase in gold price has impacted jewelry volume demand significantly for Titan and for the industry. Titan's jewelry segment has witnessed volume decline of 8%, 15% and 11% in the preceding three quarters. Gold import data, which shows the industry trend for gold demand also indicates a similar trend of declining gold demand due to increase in gold price.

Titan's jewelry volumes have shown sharp decline in recent quarters

Titan, quarterly jewelry volume growth and average gold price



Note:

Volume growth calculated assuming 30% revenues from studded jewelry

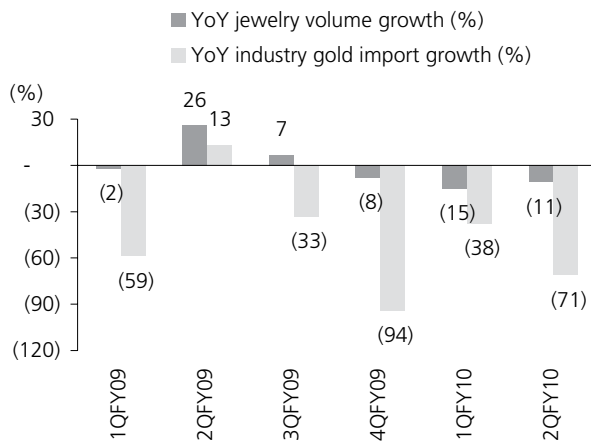
Source: Kotak Institutional Equities estimates

We expect volume decline to continue in 3Q as well

We expect volume decline for Titan's jewelry segment to continue in 3QFY10 as well, notwithstanding relatively strong sales during the Diwali season. We believe the recent jump in gold prices (by almost Rs100/gm post Diwali) will likely impact the jewelry demand in the ensuing marriage season thus offsetting any improvement in volumes during Diwali. Gold imports have declined 39% to 27 tons in October indicating a possible slowdown in demand in the upcoming season.

Gold import is a lead indicator of Titan's jewelry volume growth

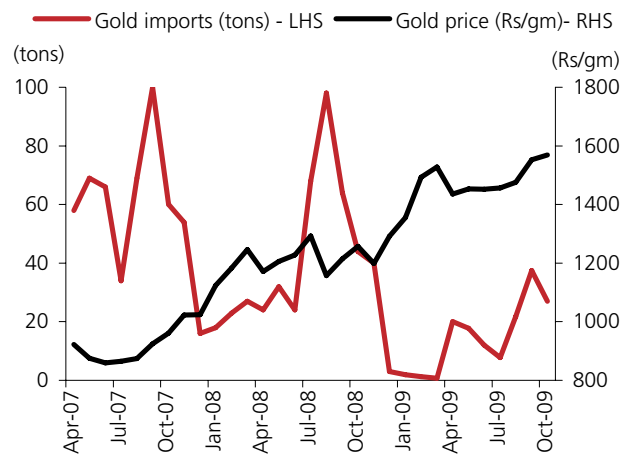
Titan's jewelry volume growth versus total gold imports in India (%)



Source: Bloomberg, News reports, Kotak Institutional Equities estimates

Rising gold prices hurting gold demand in India

Gold import in India, average gold price



Source: Bloomberg, News reports, Kotak Institutional Equities estimates

Diamond jewelry supporting margins; GoldPlus barely breaking even

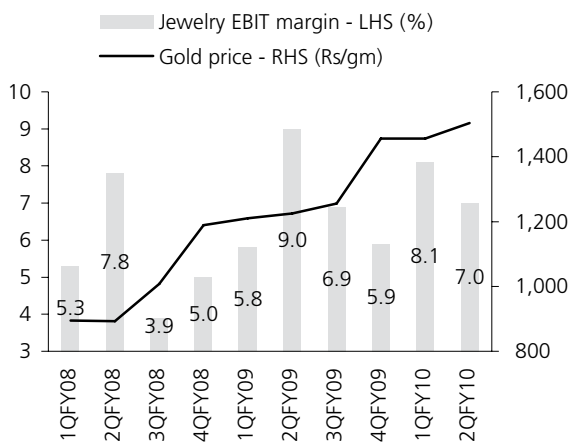
Jewelry segment profitability is largely driven by the growth in diamond and studded jewelry which generate substantially higher margins thus negating the decline in earnings from gold jewelry. We highlight that GoldPlus was working at break-even level in 2QFY10 due to very low volume offtake; hence, any further demand decline can result in an operating loss for GoldPlus.

Jewelry segment contributes 67% of EBITDA

We estimate the jewelry segment will contribute 67% of Titan's FY2010E EBITDA, hence any disappointment in this segment can significantly pull down the overall estimates. We highlight that the quarterly margin for jewelry segment has been fluctuating significantly due to high volatility in gold prices, which pose a risk to our margin estimates.

Jewelry segment margins fluctuate with gold price

Titan, jewelry EBIT margin, average gold price



Source: Company, Bloomberg

Jewelry segment accounts for 67% of EBITDA

Titan, segmental revenue and EBITDA contribution, FY2010E (%)

	Revenues	EBITDA
Watch	21.2	42.4
Jewelry	74.1	67.1
Eye wear	2.7	(2.7)
Others	1.9	(6.9)
Total	100.0	100.0

Source: Kotak Institutional Equities estimates

Watch segment to benefit from revival in consumer spend

We expect Titan's watch segment to benefit from revival in consumer spending and launch of new models. We expect the sales to dealers to improve in 2HFY10 as consumer demand picks up and dealers also rebuild inventory levels ahead of the seasonal demand. During 1HCY10, the watch segment had witnessed a slowdown in sales to dealers due to pile up of 'Sonata' inventory with the dealers. The excess inventory was cleared by 1QFY10 through production cuts and lower dispatches to dealers. The profitability of watch segment has been improving over the last two quarters due to improved product mix (higher share of the high-value watches) and partial benefits from lower material cost.

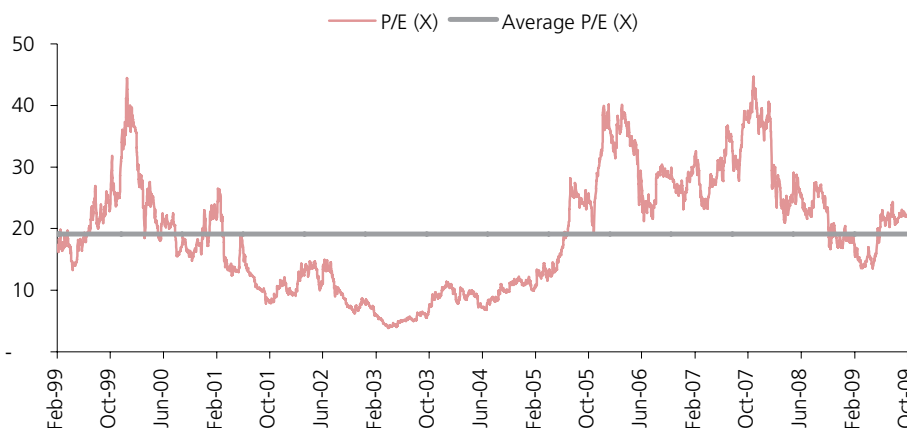
Eye-wear—time to slowdown and relook

The growth in eye-wear segment has been lower than the management's estimate, resulting in a relook at the expansion strategy. The company had earlier planned to roll-out 200 stores by FY2011; however, due to lower-than-expected same store growth and longer gestation period in establishing the brand, this plan is now being reconsidered. The company now plans to open only 20 stores in FY2010, taking the total number of stores to 90 by end of the fiscal year. It is also relocating its seven large format stores (average size of 1,000 sq. ft) to smaller locations of (around 600 sq. ft) in order to reduce the rental cost and improve the profitability of these stores.

Valuations ahead of long-term average; maintain REDUCE

Titan is currently trading at 21.6X FY2011E EPS, ahead of its long-term average one-year forward EPS of 19.1X. Our DCF-based target price of Rs1,200 implies a PER of 19.4X based on FY2011E EPS. We maintain our REDUCE rating as we believe high gold prices and slower store roll-out will keep earnings growth subdued in the near term.

Current valuations appear expensive considering risks to near-term demand
Titan, one-year forward rolling P/E (X)



Source: Bloomberg, Kotak Institutional Equities

Operating assumptions

Titan, operating assumptions, March fiscal year-ends, 2006-11E (Rs mn)

	2006	2007	2008	2009	2010E	2011E
Jewelry						
Revenues (Rs mn)	7,896	12,903	20,252	27,563	34,596	41,185
EBITDA (Rs mn)	491	913	1,152	2,030	2,541	2,919
EBITDA margin (%)	6.2	7.1	5.7	7.4	7.3	7.1
Volumes ('000 pcs)						
Jewelry	570	720	1,139	1,365	1,515	1,666
Coins	1,427	1,925	1,017	772	926	1,019
Average realisation (Rs/pc)						
Jewelry	11,530	14,325	15,032	16,596	19,939	21,756
Coins	926	1,343	3,080	6,364	4,739	4,839
Average gold price						
US\$/oz	504	675	835	905	987	1,036
Rs/gm	723	969	1,081	1,326	1,501	1,532
Diamond share						
Share of diamond jewelry (%)	25	33	33	37	37	37
Watches						
Revenues (Rs mn)	6,198	7,408	8,828	8,941	9,896	10,901
EBITDA (Rs mn)	1,138	1,191	1,418	1,585	1,608	1,782
EBITDA margin (%)	18.4	16.1	16.1	17.7	16.3	16.4
Volumes ('000 pcs)						
Watches	8,336	8,964	10,286	9,694	10,415	11,191
Table clocks	272	149	125	72	83	89
Average realisation (Rs/pc)						
Watches (produced)	716	796	814	879	914	941
Table clocks	413	448	1,053	572	583	589
Eyewear						
Revenues (Rs mn)	129	253	406	648	1,277	1,835
EBITDA (Rs mn)	40	99	50	(210)	(101)	(12)
EBITDA margin (%)	30.7	39.2	12.2	(32.4)	(7.9)	(0.6)
Sunglasses						
Volume ('000 pcs)	232	380	437	480	576	691
Average realisation (Rs/pc)	558	665	711	768	845	913
Titan Eye+						
No. of stores	—	1	10	69	99	124
Annual revenue per store (Rs mn)	—	—	19	7	10	11

Source: Company, Kotak Institutional Equities estimates

Summary financials

Profit model, balance sheet, cash model (consolidated) for Titan Industries, March fiscal year-ends, 2006-11E (Rs mn)

	2006	2007	2008	2009	2010E	2011E
Profit model						
Total income	14,398	20,906	29,969	38,326	46,662	54,909
EBITDA	1,529	2,013	2,388	3,329	3,788	4,451
Interest (expense)/income	(248)	(212)	(208)	(288)	(217)	(204)
Depreciation	(200)	(260)	(333)	(423)	(378)	(410)
Other income	42	(47)	45	53	34	34
Pretax profits	1,123	1,494	1,892	2,671	3,227	3,871
Tax	(182)	(404)	(373)	(697)	(823)	(1,045)
Deferred taxation	56	27	(73)	65	(48)	(77)
Profit after tax	997	1,117	1,446	2,039	2,356	2,749
Associate income / (loss)	(185)	(116)	110	—	—	—
Adjusted net profit	812	1,001	1,556	2,039	2,356	2,749
Diluted earnings per share (Rs)	18.6	22.6	35.1	44.3	53.1	61.9
Balance sheet						
Total equity	1,966	3,371	4,458	5,578	7,414	9,539
Deferred taxation liability	243	181	252	188	236	314
Total borrowings	3,094	2,478	2,103	1,666	1,813	1,580
Current liabilities	3,632	5,958	9,123	10,402	10,951	12,219
Total liabilities and equity	8,934	11,988	15,936	17,833	20,415	23,652
Cash	386	510	554	564	410	1,299
Other current assets	6,042	8,402	12,481	14,259	16,747	18,955
Total fixed assets	2,007	2,717	2,877	2,995	3,242	3,382
Miscl. exp. not written off	219	42	—	—	—	—
Investments	280	316	23	16	16	16
Total assets	8,934	11,988	15,936	17,833	20,415	23,652
Free cash flow						
Operating cash flow, excl. working capital	1,186	1,544	1,742	2,363	2,748	3,202
Working capital changes	(195)	(188)	(905)	(906)	(1,939)	(1,044)
Capital expenditure	(431)	(983)	(509)	(665)	(625)	(550)
Investments	(79)	(265)	(213)	7	—	—
Other income	96	50	50	77	34	34
Free cash flow	577	159	165	876	218	1,642
Ratios (%)						
Debt/equity	140.1	69.8	44.6	28.9	23.7	16.0
Net debt/equity	122.6	55.4	32.9	19.1	18.3	2.8
RoAE	42.2	34.8	37.7	37.5	35.1	31.4
RoACE	19.7	20.6	26.8	30.7	29.8	27.7

Source: Company, Kotak Institutional Equities estimates

NOVEMBER 11, 2009

UPDATE

BSE-30: 16,441

Prime transaction lifts IVRCL target price; new orders lift Nagarjuna's. IVRCL announced a swap of 59.4 mn shares of IVR Prime for its BOT assets (operational +L1+LOIs) which implies a value of about Rs8.2 bn. This transaction is likely to facilitate potential equity raising in IVR Prime for equity requirements of the recent project wins. We reiterate our BUY rating on IVRCL with a revised target price of Rs410. We raise our target price in Nagarjuna to Rs180 based on large recent orders.

Swap ratio implies valuation of about Rs8.2 bn for BOT projects higher-than-estimated

IVRCL announced that IVR Prime would issue 59.4 mn shares to IVRCL Infrastructure for all BOT projects (operational + L1 + LOIs) including investments such as Alkoor Petro. This merger ratio implies a value of Rs8.2 bn for the BOT projects and increase IVRCL's stake in IVR Prime to 80.5% from 62.35%. We were hitherto attributing lower value to four BOT assets (about Rs6 bn) and not assigning any value to other projects at LOI or L1 stages.

Facilitates equity raising, use of Prime's net worth; real estate and infra mix potentially unattractive

We believe that this transaction would pave the way for potential equity raising in IVR Prime as the equity requirements of recently won projects would need to be funded. Equity dilution in IVRCL may have been less palatable because of low promoter holding. This also utilizes the net worth of IVR Prime (about Rs9.5 bn at FY2009-end) more effectively. We highlight that IVR Prime would offer a mix of infrastructure and real estate exposure and may be unattractive to potential investors.

IVRCL: Reiterate BUY with a revised target price of Rs410

We maintain our earnings estimates of Rs19.8 and Rs23.7 for FY2010E and FY2011E, respectively. We have revised our SOTP-based target price to Rs410/share from Rs390/share earlier based on (1) higher value attributed to projects on transfer versus our earlier valuation and (2) subsequent further run up in IVR Prime market price. We reiterate our BUY rating on the stock based on (1) attractive valuations, (2) strong likely near-term earnings growth, (3) high revenue visibility - based on strong order backlog and (4) long-term outlook for infrastructural investments. Key risks to the earnings originate from (1) slower-than-expected execution and (2) deterioration in working capital situation of the company.

Nagarjuna : Revise estimates and target price to Rs180e based on large recent orders

We have marginally changed our earnings estimates for Nagarjuna construction to Rs7.8 and Rs10 from Rs7.4 and Rs9.2 respectively on back of strong order booking track record in the recent past. We change target price of our Nagarjuna to Rs180 from Rs160 in line with the earnings change. We reiterate our BUY rating on the stock based on (1) relatively attractive valuations, (2) strong growth visibility based on order backlog, (3) ramp-up of business segments in areas like metals, power and international – areas that hold immense potential and (4) long-term outlook of strong infrastructural investments.

QUICK NUMBERS

- **Restructuring transaction implies value of Rs8.2 bn for BOT assets**
- **IVRCL's post-restructuring stake in IVR Prime at 80.5%**
- **Revise target price of IVRCL to Rs410/share and Nagarjuna to Rs180/share**

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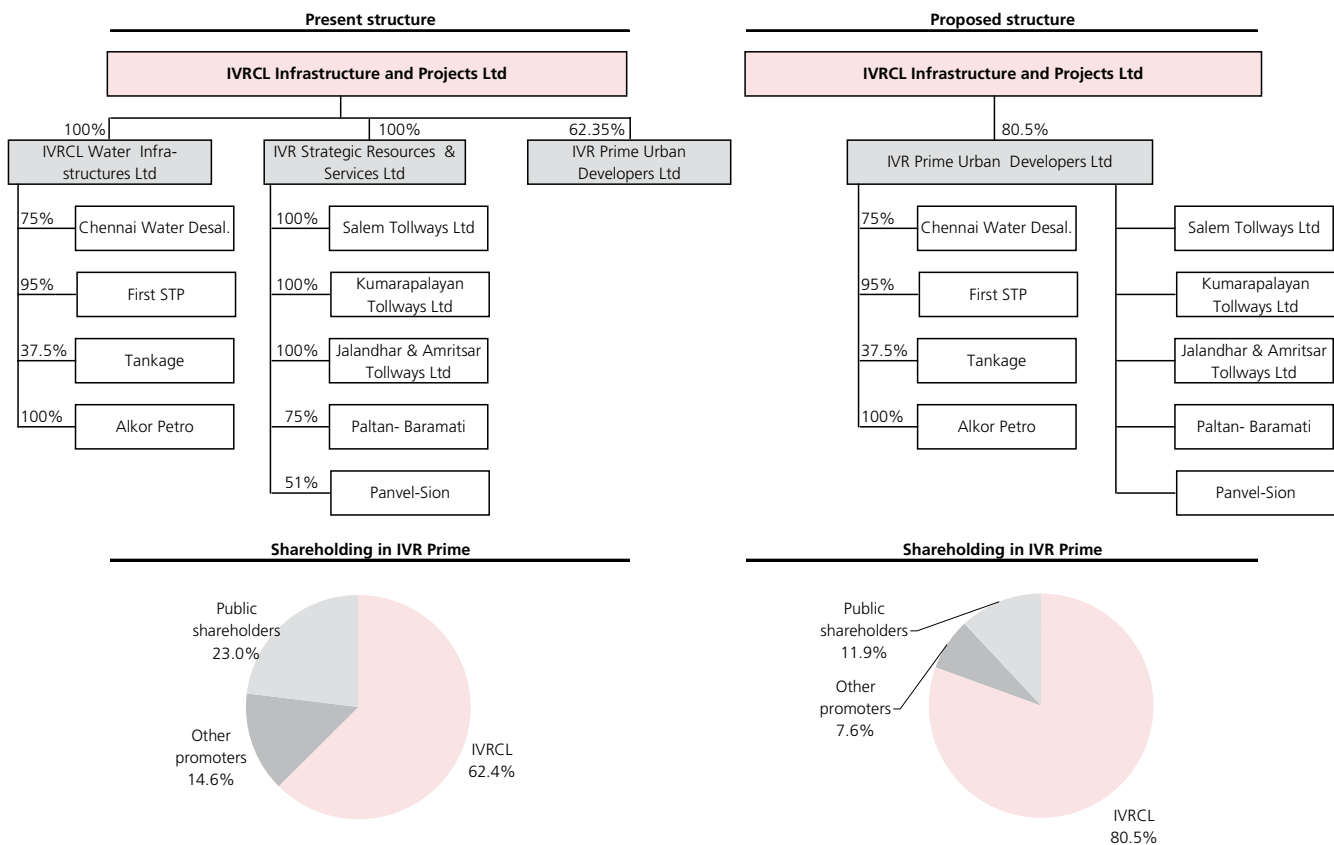
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Swap ratio implies valuation of about Rs8.2 bn for BOT projects

IVRCL management had earlier cited its intentions to amalgamate the BOT business of the company (which currently resides as IVRCL's 100% subsidiaries) with IVR Prime. The scheme proposes the amalgamation of IVR Water and IVR Strategic, with all its assets and liabilities, into IVR Prime post – post which, IVR Water and IVR Strategic would stand dissolved without winding up. The appointed date for the amalgamation is April 01, 2010.

IVRCL announced that IVR Prime would issue 59.4 mn shares to IVRCL Infrastructure for a 100% stake of the four BOT projects (three road projects and Chennai water project) of the company. At the closing price of November 09, 2009 of Rs138/share, this swap ratio would imply a value of Rs8.2 bn for the BOT projects. Post the transaction, IVRCL's stake in IVR Prime would increase to 80.5% from 62.35% earlier.

Proposed restructuring of IVRCL subsidiaries



Source: Company

Facilitates equity raising and use of Prime's net worth in operational business

IVR Prime also becomes a vehicle for raising equity for the group (as IVRCL can not be diluted any further with out fear of losing control) and flagship entity for bidding for further BOT projects. The management highlighted that its recently won BOT projects/ L1 projects would require about Rs4.25-4.5 bn of equity investment over the next 2.5 years. This would also mean that IVR Prime has a growth objective after being virtually dormant the past year and a half year. We believe this would also help utilize IVR Prime's net worth in the operational business of infrastructure development as its real estate business has been facing a sharp slowdown and activity had come to a standstill. This would augment the pre-qualification criterion for bidding for new projects.

Would boost IVR Prime net worth further with goodwill on asset side

BOT assets have been acquired at a valuation higher than the actual invested equity in those assets, thus there would be a goodwill creation on the asset side. On the liability side, there would be creation of capital reserve which would reflect full transaction value of assets. The entire valuation of BOT assets would thus get captured in the net worth of the group entity.

Consolidated balance sheet of IVR Prime, March fiscal year-ends, 2009 (Rs mn)

	2009
Shareholders funds	9,427
Minority Interest	1,501
Loan funds	2,777
Total source of funds	13,705
Goodwill	915
Fixed assets	176
Current assets (excluding cash)	16,111
Cash balances	512
Current liabilities and Provisions	4,092
Net current assets excluding cash	12,019
Deferred tax assets (net)	83
Total application of funds	13,705

Source: Company

Exposure mix of real estate and Infrastructure development for investors

IVR Prime would now have exposure to both real estate development as well as infrastructure development.

Implied value is higher than our estimated value of Rs6.2 bn

We had estimated a value of about Rs6.2 bn for the four BOT projects of IVRCL comprised of (1) DCF-based valuation of Rs4.7 bn for the three road projects and (2) Rs1.5 bn for the Chennai water project (based on 1.75X price to book ratio).

Key details of existing BOT projects of IVRCL

	Jallandhar- Amristar Tollways	Salem - Kumarapalayam	Sumarapalayam Chenagmpalli	Chennai Water
Project Description	4 laning of 49 km stretch between Jallandhar and Amristar	53 kilometers from Salem to Kumarapalayam	47 kilometers from Kumarapalayam to Chengapalli	100 MLD
Company's share	100%	100%	100%	75%
Other partners				Befesa
Project Type	Toll	Toll	Toll	Two part tariff
Concession Period	17.5 years	20 years	20 years	
Construction period	2.5 years	2 years	3 years	
Grant structure	Positive grant of Rs 330 mn	Positive grant of Rs 175 mn	Positive grant of Rs 1290 mn	
Estimated Funding structure (in Rs mn)				
Total project Cost	3,430	5,020	4,215	5,680
Equity	671	800	650	1,730
Debt	2,365	2,930	3,390	3,950
Grant	395	1,290	175	
IVRCL's Equity Commitment	671	800	650	1,297
Likely Completion date	December, 2009	December, 2009	December, 2009	December, 2009

Source: Company

We believe that the higher value provided to IVRCL could be prima facie explained by (1) the recent win of the Baramati-Phaltan project, (2) two additional L1s/LOIs that IVRCL has received but would be passing on to IVR Prime and (3) value of other investments such as Alkoor Petro. These would include:

- ▶ Rs4 bn order for four-laning of Baramati-Phaltan and Phaltan-Lonand to Shirwal from MSRDC. IVRCL has been awarded the project and the concession agreement is likely to be signed by end of November-09
- ▶ Rs15 bn order for the 25 km Sion-Panvel expressway which involves expanding the existing road into a 10-lane concrete expressway
- ▶ Rs30 bn annuity-based tankage order from Indian Oil Corporation Ltd with about Rs7 bn of works for IVRCL

Key details of BOT projects in which IVRCL has received deemed L1 status

	Baramati-Phaltan	Sion-Panvel Expressway	IOCL-tankage order
Project Description	Four laning of Baramati-Phaltan and Phaltan-Lonand to Shirwal (77.9 km)	25 kilometers of a 10-lane concrete expressway from Sion to Panvel	Construction of 12 tanks
Company's share	75%	51%	37.5%
Other partners		Kakade Infrastructures	
Project Type	Toll	Toll	Annuity - (Rs350 mn per month)
Concession Period	25 years	18 years and 9 months	15 years
Grant structure	Positive grant of Rs1,220 mn	No grant	No grant
Status	CA to be signed by Nov-09; Financial closure under progress	LOI awaited	LOI awaited
COD	Sept-2012		
Estimated Funding structure (in Rs mn)			
Total project Cost	3,600	15,000	30,000
Equity	1,300	4,000	2,250
Debt	1,080	7,100	2,250 - Sponser debt
Grant	1,220	3,900	25,500 - Senior debt
IVRCL's Equity Commitment	975	2,040	844

Source: Company

Transaction lifts target price to Rs410/share from Rs390/share

The transaction does not imply a material change in the holdings – IVRCL would hold 80% in the BOT assets versus 100% earlier. However IVR Prime's market price would now incorporate the value of the projects and existing real estate business. This would change our target price to Rs410 for IVRCL from Rs390 earlier. The change in target price is because of the higher value attributed to projects on transfer versus our earlier valuation and subsequent further run up in IVR Prime's market price.

We maintain our earnings estimates of Rs19.8 and Rs23.7 for FY2010E and FY2011E, respectively. Based on the transaction, we have revised our SOTP-based target price to Rs410/share from Rs390/share earlier comprising (1) core business valuation of Rs308/share (based on 13X FY2011E P/E multiple), (2) IVR Prime's contribution of Rs87.2/share and (5) Rs13/share contribution from Hindustan Dorr Oliver.

Derivation of SOTP-based target price for IVRCL

Project/ Business	Equity Commitment (Rs mn)	Valuation (Rs mn)	Rs/ share	Valuation methodology
Value of core construction business			308.3	P/E multiple of 13X FY2011E earnings
Value from Hindustan Dorr Oliver		1,761	13.0	Discount to market price
Value of IVRCL Prime Developers Ltd		11,775	87.2	NAV
Total			409	

Source: Kotak Institutional Equities estimates

Reiterate BUY rating

We reiterate our BUY rating on the stock based on (1) attractive valuations, (2) strong likely near-term earnings growth, (3) high revenue visibility—based on strong order backlog and (4) long-term outlook for infrastructural investments. Key risks to the earnings originate from (1) slower-than-expected execution, and (2) deterioration in working capital situation of the company.

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

	2005	2006	2007	2008	2009	2010E	2011E	2012E
Income statement								
Operating Income	10,547	14,957	23,059	36,606	48,819	60,806	74,504	84,105
Operating Expenses	(9,248)	(12,964)	(19,497)	(30,965)	(41,772)	(51,563)	(63,329)	(71,910)
EBITDA	865	1,343	2,301	3,544	4,145	5,746	7,078	7,696
Other Income	24	57	74	45	299	974	928	852
Interest & Finance charges	(214)	(253)	(308)	(407)	(1,233)	(2,018)	(2,373)	(2,676)
Depreciation	(80)	(112)	(216)	(328)	(473)	(682)	(821)	(960)
Profit Before Tax	595	1,035	1,851	2,853	2,738	4,020	4,811	4,912
Tax expense	(28)	(100)	(436)	(749)	(478)	(1,351)	(1,617)	(1,650)
PAT	567	935	1,415	2,105	2,260	2,669	3,195	3,261
EPS (Rs)	6.7	8.7	10.5	15.6	16.8	19.8	23.7	24.2
Balance sheet								
Total share holders funds	4,030	4,770	13,217	16,060	18,106	20,654	23,728	26,869
Share Capital	170	214	259	267	267	267	267	267
Reserves & Surplus	2,384	4,555	12,918	15,789	17,839	20,387	23,461	26,602
Loan Funds	2,472	6,786	5,561	10,678	13,980	16,480	18,980	22,480
Working Capita Loan	959	1,611	2,864	5,215	7,645	—	—	—
Long term	1,512	2,275	1,580	5,159	3,949	16,095	18,595	22,095
Total Sources of Funds	6,533	11,598	18,834	26,841	32,203	37,134	42,708	49,349
Net fixed assets	957	1,373	2,435	3,733	5,403	6,275	6,954	7,495
Net block	741	1,107	1,929	3,192	5,207	6,025	6,704	7,245
Capital WIP	216	266	506	541	196	250	250	250
Investments	316	2,765	2,829	3,409	3,892	4,327	4,627	4,927
Net Current Assets (excl Cash)	733	5,016	11,332	17,928	21,900	25,692	28,923	28,891
Cash and Bank Balances	4,527	2,443	2,238	1,772	1,009	840	2,204	8,036
Total	6,533	11,598	18,834	26,841	32,203	37,134	42,708	49,349
Free cash flow								
Net cashflow from operating activities	(190)	(782)	(4,340)	(3,657)	22	1,460	3,158	6,929
Net PBT	595	1,035	1,851	2,853	2,738	4,020	4,811	4,912
Add: Depreciation	80	112	216	328	473	682	821	960
Add: Financial Charges	214	253	308	407	1,233	2,018	2,373	2,676
Tax paid	(90)	(79)	(399)	(650)	(449)	(1,468)	(1,617)	(1,650)
Change in wcap.	(989)	(2,103)	(6,316)	(6,596)	(3,972)	(3,792)	(3,231)	32
Cash flow from investing activities	(509)	(2,993)	(1,407)	(2,264)	(2,709)	(1,990)	(1,800)	(1,800)
Free cash flow	(699)	(3,775)	(5,747)	(5,922)	(2,687)	(530)	1,358	5,129
Key ratios								
EBITDA margin (%)	8.2	9.0	10.0	9.7	8.5	9.5	9.5	9.2
PAT margin (%)	5.4	6.2	6.1	5.7	4.6	4.4	4.3	3.9
Debt/ equity (X)	0.6	1.4	0.4	0.7	0.8	0.8	0.8	0.8
Net debt/ equity (X)	(0.5)	0.9	0.3	0.6	0.7	0.8	0.7	0.5
ROAE (%)	18.4	21.2	15.7	14.4	13.2	13.8	14.4	12.9
ROACE (%)	14.6	12.3	10.7	10.4	10.5	11.6	12.0	11.0

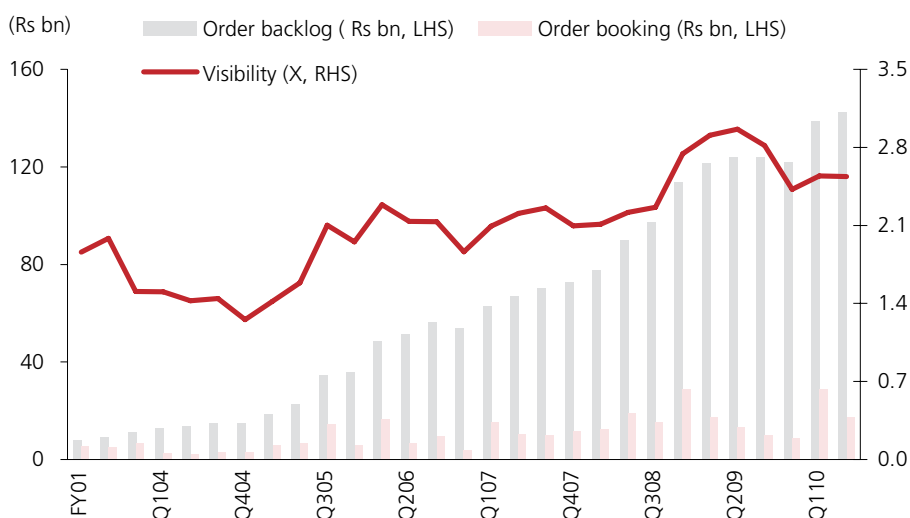
Source: Company, Kotak Institutional Equities estimates

Nagarjuna – upward revision to estimates led by recent large order wins

Nagarjuna has recently reported several large order inflows to the tune of about Rs7.2 bn from the water supply, buildings and transportation sectors. The company had reported strong order inflows to the tune of Rs46.2 bn for 1HFY10, up 51% yoy, and Rs17.5 bn for 2QFY10, up 32.6% yoy. These orders would help boost the already strong 1HFY10-end order backlog of Rs142.7 bn.

Nagarjuna Construction has visibility of 2.6 years based on forward four quarter revenues

Order backlog, order booking and visibility (X) of Nagarjuna Construction



Source: Company, Kotak Institutional Equities estimates

Order book details of Nagarjuna Construction in FY2010 so far

Date	Segment	Client	Size (Rs bn)	Profile of work
10-Nov-09	Water supply	Chennai Metropolitan Water Supply and Sewerage Board	600	Providing comprehensive water supply scheme
10-Nov-09	Transportation	Rail Vikas Nigam Ltd, New Delhi	910	Construction of road beds, bridges, track linings etc
10-Nov-09	Buildings	Jain Housing, Chennai	1,000	Construction of residential apartments
10-Nov-09	Transportation	Water Resources Department, Bihar	1,430	Construction of bituminous road
10-Nov-09	Water supply	Bangalore Water Supply and Sewerage Board, Bangalore	3,280	Water supply and sewerage project
1-Sep-09	Others	MRF Ltd, Chennai	320	Construction of radial tyre plant
1-Sep-09	Water supply	Water Resources Department, Bihar	4,490	Restoration of canal system
27-Aug-09	Buildings	Adhunik Power and Natural Resources Ltd, Kolkata	640	Civil, Structural and Architectural works
27-Aug-09	Buildings	Mantri Developers Pvt. Ltd, Hyderabad	650	RCC works in Hyderabad
27-Aug-09	Water supply	Osmanabad Municipal Council, Osmanabad	1,820	Augmentation of Osmanabad water supply scheme
20-Jul-09	Buildings	Employees State Insurance Corporation, New Delhi	6,000	Construction of medical college related works
20-Jul-09	Others	Mezgon Dock Ltd, Mumbai	1,360	Mazdock modernization project
20-Jul-09	Buildings	National Institute of Technology, Assam	400	Construction of boy's hostel
1-Jul-09	Transportation	Maharashtra State Road Development Corporation, Mumbai	790	Construction of flyovers at Kapurbawadi junction
1-Jul-09	Transportation	Bangalore Development Authority, Bangalore	1,320	Construction of flyovers at Bangalore
1-Jul-09	Electrical	Maharashtra State Electricity Distribution Company Limited	1,680	Electrical works in Pandharpur division
1-Jul-09	Water supply	Superintendent Engineer, Bellampally, Alidabad district, AP	4,180	Construction of gravity canal and related works
22-Jun-09	Buildings	Center for Development of Advanced Computing	492	Construction of C-Dac Innovation Park, Pune
22-Jun-09	Buildings	Times of India Group	495	Construction of mail civil works, New Delhi
22-Jun-09	Water supply	Maharashtra Jeevan Pradikaran, Amaravati	649	Supply of drinking water to 105 villages
22-Jun-09	Water supply	Directorate of Public Health Engg, Kolkata	654	Lumpsum contract for water supply
Total orders booked in FY2010 so far			33,160	

Source: Company

Revise earnings estimates and target price to Rs180/share; reiterate BUY

We have marginally changed our earnings estimates for Nagarjuna construction to Rs7.8 and Rs10 from Rs7.4 and Rs9.2, respectively, on the back of the strong order booking track record in the recent past. We change the target price of Nagarjuna to Rs180 from Rs160 in line with our earnings change.

Change in estimates for Nagarjuna Construction, March fiscal year-ends, 2010-11E (Rs mn)

Target price (Rs)	New estimates		Old estimates		% change	
	180		160		12.5	
Rating	BUY		BUY			
	FY2010E	FY2011E	FY2010E	FY2011E	FY2010E	FY2011E
Revenues	50,333	61,209	50,165	58,381	0.3	4.8
EBIDTA	4,746	5,772	4,580	5,447	3.6	6.0
EBITDA margin (%)	9.4	9.4	9.1	9.3		
PAT	1,997	2,570	1,886	2,360	5.9	8.9
EPS (Rs)	7.8	10.0	7.4	9.2	5.9	8.9
yoy growth (%)						
Revenus	21.2	21.6	20.8	16.4		
EBITDA	27.0	21.6	22.6	18.9		
PAT	29.8	28.7	22.6	25.1		
EPS	15.8	28.7	9.3	25.1		

Source: Kotak Institutional Equities estimates

Our SOTP-based target price of Rs180/share is comprised of (1) core construction business valuation of Rs130/share based on revision in target P/E multiple of 13X FY2011E earnings (2) Rs11/share contribution from book value of BOT projects, (3) Rs15.8/share from book value of real estate, (4) Rs5.1/share from incremental value from roads, power and housing projects, (5) Rs2/share from stake sale of Gautami power and (6) Rs14.3/share of cash from QIP issue.

Derivation of SOTP-based target price for NCCL

Project/Business	Equity commitment (Rs mn)	Valuation (Rs mn)	Rs/share	Valuation methodology
Value of core construction business		16,386	130.2	P/E multiple of 13.0X FY2011E earnings
Book value of equity investments in real estate	4,052	4,052	15.8	1X book
Book value of investments in BOT assets	2,829	2,829	11.0	1X book
Cash from QIP issue		3,673	14.3	
Incremental value from roads, power and housing projects				
Brindavan Infrastructure Co. Ltd.	150	60	0.2	Incremental P/B of 0.4
Bangalore elevated Corridor Project	637	478	1.9	Incremental P/B of 0.75
Western UP Tollway Ltd.	239	179	0.7	Incremental P/B of 0.75
Orai - Bhognipur	832	333	1.3	Incremental P/B of 0.4
Pondicherry Tindivanam Tollway Limited	375	150	0.6	Incremental P/B of 0.4
Gautami Power	522	522	2.0	Stake sale proceeds
Hydropower project in Himachal Pradesh	495	99.0	0.4	Incremental P/B of 0.2
Total			178	

Source: Kotak Institutional Equities estimates

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

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

	2005	2006	2007	2008	2009	2010E	2011E	2012E
Income statement								
Operating Income	11,885	18,404	28,711	34,729	41,514	50,333	61,209	73,224
Operating Expenses	(10,978)	(16,764)	(26,013)	(31,131)	(37,777)	(45,587)	(55,437)	(66,319)
EBITDA	907	1,641	2,698	3,599	3,737	4,746	5,772	6,905
Other Income	49	86	428	452	701	588	749	797
Interest & Finance charges	(147)	(283)	(640)	(1,116)	(1,623)	(1,785)	(2,003)	(2,262)
Depreciation	(109)	(182)	(299)	(482)	(533)	(569)	(683)	(807)
Profit Before Tax	700	1,262	1,824	2,431	2,282	2,981	3,836	4,633
Tax expense	(127)	(214)	(667)	(811)	(743)	(984)	(1,266)	(1,529)
PAT	573	1,048	1,519	1,642	1,539	1,997	2,570	3,104
EPS (Rs)	3.6	5.1	7.3	7.2	6.7	7.8	10.0	12.1
Balance sheet								
Total share holders funds	3,255	9,461	10,391	15,724	16,856	22,065	24,058	26,584
Share Capital	159	207	418	458	458	513	513	513
Reserves & Surplus	3,096	9,254	9,973	15,266	16,398	21,552	23,545	26,071
Loan Funds	648	1,779	6,370	8,938	12,439	13,439	15,939	18,439
Working Capita Loan	383	1,203	2,398	5,613	6,739	6,739	6,739	6,739
Long term	265	576	3,971	3,325	4,699	5,699	8,199	10,699
Total Sources of Funds	3,970	11,306	16,876	24,829	29,482	35,692	40,184	45,211
Net fixed assets	1,098	1,916	4,229	5,340	4,873	5,274	6,091	6,783
Investments	462	877	4,768	5,648	7,402	8,436	8,766	9,086
Net Current Assets (excl Cash)	1,003	5,673	5,435	11,512	15,861	18,288	22,579	24,377
Cash and Bank Balances	1,372	2,818	2,434	2,330	1,345	3,694	2,749	4,965
Total	3,970	11,306	16,875	24,829	29,482	35,692	40,184	45,211
Free cash flow								
Net cashflow from operating activities	247	(3,011)	969	(4,817)	(2,257)	139	(1,038)	2,113
Net PBT	700	1,262	1,824	2,431	2,282	2,981	3,836	4,633
Add: Depreciation	109	182	299	482	533	569	683	807
Tax paid	(278)	(437)	(603)	(759)	(722)	(984)	(1,266)	(1,529)
Change in wcap.	(302)	(4,049)	(562)	(6,981)	(4,350)	(2,427)	(4,291)	(1,798)
Cash flow from investing activities	(502)	(1,936)	(6,447)	(2,451)	(1,505)	(2,002)	(1,830)	(1,820)
Free cash flow	(255)	(4,946)	(5,477)	(7,268)	(3,762)	(1,863)	(2,868)	293
Key ratios								
EBITDA margin (%)	7.6	8.9	9.4	10.4	9.0	9.4	9.4	9.4
PAT margin (%)	4.8	5.7	5.3	4.7	3.7	4.0	4.2	4.2
Debt/ equity (X)	0.2	0.2	0.6	0.6	0.7	0.6	0.7	0.7
Net debt/ equity (X)	(0.2)	(0.1)	0.4	0.4	0.7	0.4	0.5	0.5
ROAE (%)	25.9	19.0	23.8	27.0	21.8	23.7	22.7	23.4
ROACE (%)	20.0	18.2	18.5	17.2	14.7	14.8	14.9	15.1

Source: Company, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	10-Nov-09		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)		EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)	
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E
Automobiles																													
Ashok Leyland	53	ADD	70,907	1,525	1,330	1.5	2.9	3.2	(57.8)	87.2	11.0	34.8	18.6	16.8	18.8	10.7	9.5	1.9	1.8	1.7	1.9	1.9	1.9	6.2	11.2	10.3	47	(11.8)	5.3
Bajaj Auto	1,456	ADD	210,681	4,530	145	45.2	97.4	112.3	(13.4)	115.2	15.3	32.2	15.0	13.0	17.1	9.1	8.1	11.2	7.2	5.1	1.4	1.4	1.4	37.7	58.5	45.4	1,575	8.2	8.4
Hero Honda	1,497	REDUCE	298,921	6,428	200	64.2	100.4	109.6	32.4	56.4	9.2	23.3	14.9	13.7	13.7	9.0	7.7	7.6	5.5	4.2	1.3	1.5	1.5	36.4	42.8	35.0	1,535	2.5	18.2
Mahindra & Mahindra	1,003	ADD	295,538	6,355	295	30.0	56.4	61.7	(19.8)	88.0	9.4	33.4	17.8	16.2	23.5	11.8	10.6	5.6	3.9	3.1	0.9	1.0	1.0	17.4	27.3	21.4	1,025	2.2	32.3
Maruti Suzuki	1,446	SELL	417,764	8,983	289	42.2	79.4	83.1	(29.6)	88.3	4.7	34.3	18.2	17.4	20.6	10.5	9.5	4.4	3.6	3.0	0.2	0.3	0.3	13.5	21.7	18.8	1,250	(13.5)	35.7
Tata Motors	594	SELL	339,099	7,292	571	10.0	26.2	29.3	(78.2)	161.0	12.2	59.2	22.7	20.2	22.5	12.5	11.1	2.6	2.0	1.8	0.9	1.0	1.0	9.1	14.4	11.4	465	(21.7)	84.4
Automobiles Cautious 1,632,910 35,113																													
Banks/Financial Institutions																													
Andhra Bank	120	BUY	58,297	1,254	485	13.5	15.4	13.5	13.5	14.2	(12.1)	8.9	7.8	8.9	—	—	—	1.6	1.4	1.2	3.7	2.6	2.2	18.9	19.0	14.7	125	4.0	2.7
Axis Bank	996	ADD	378,639	8,142	380	50.6	61.8	71.6	56.9	22.2	15.9	19.7	16.1	13.9	—	—	—	3.7	2.4	2.1	0.9	1.2	1.5	19.1	18.0	16.9	980	(1.6)	59.5
Bank of Baroda	537	ADD	196,160	4,218	366	60.9	68.6	71.3	55.1	12.6	3.8	8.8	7.8	7.5	—	—	—	1.7	1.5	1.3	1.7	1.9	2.0	21.4	20.3	18.0	560	4.4	8.2
Bank of India	381	REDUCE	200,111	4,303	526	57.2	45.0	48.5	40.7	(21.3)	7.8	6.7	8.5	7.8	—	—	—	1.7	1.5	1.3	2.1	1.7	1.8	29.2	18.5	17.2	360	(5.4)	18.6
Canara Bank	377	ADD	154,386	3,320	410	50.5	57.2	60.3	32.4	13.2	5.4	7.4	6.6	6.2	—	—	—	1.5	1.3	1.1	2.1	2.1	2.7	18.3	17.8	16.4	410	8.9	6.8
Corporation Bank	431	BUY	61,800	1,329	143	62.3	61.3	61.5	21.5	(1.5)	0.2	6.9	7.0	7.0	—	—	—	1.3	1.1	1.0	2.9	2.9	2.9	19.6	16.8	14.9	515	19.5	0.9
Federal Bank	234	BUY	40,056	861	171	29.3	32.1	39.6	(14.8)	9.8	23.1	8.0	7.3	5.9	—	—	—	0.9	0.8	0.8	2.1	2.3	2.9	12.1	12.1	13.4	340	45.2	4.6
HDFC	2,756	ADD	784,030	16,859	284	80.2	99.6	117.1	(6.4)	24.1	17.6	34.3	27.7	23.5	—	—	—	6.0	5.4	4.8	1.1	1.3	1.5	18.2	20.0	20.8	2,575	(6.6)	50.4
HDFC Bank	1,703	REDUCE	770,060	16,559	452	52.8	65.2	85.0	17.6	23.5	30.5	32.3	26.1	20.0	—	—	—	5.1	3.6	3.2	0.6	0.7	0.9	16.9	16.2	16.8	1,600	(6.1)	30.6
ICICI Bank	897	ADD	998,120	21,463	1,113	33.8	37.4	45.8	(15.4)	10.8	22.5	26.6	24.0	19.6	—	—	—	2.0	1.9	1.8	1.2	1.4	1.7	7.8	8.2	9.5	850	(5.2)	129.1
IDFC	163	ADD	210,677	4,530	1,295	5.8	8.4	9.1	1.9	45.7	8.4	28.1	19.3	17.8	—	—	—	3.4	3.0	2.6	0.7	0.9	0.9	12.9	16.5	15.6	145	(10.9)	36.1
India Infoline	140	BUY	43,636	938	312	5.1	8.4	9.4	(8.7)	63.7	12.9	27.4	16.7	14.8	—	—	—	3.5	2.9	2.3	1.8	2.6	1.6	11.9	19.0	19.1	175	25.0	14.4
Indian Bank	161	BUY	69,171	1,487	430	28.0	32.5	34.1	24.1	16.4	4.9	5.8	4.9	4.7	—	—	—	1.3	1.0	0.9	3.1	3.5	3.7	22.9	22.3	19.8	225	39.8	4.4
Indian Overseas Bank	116	BUY	62,952	1,354	545	24.3	22.9	14.9	10.3	(6.0)	(35.1)	4.7	5.0	7.8	—	—	—	1.1	0.9	0.8	4.6	3.2	3.6	22.1	16.3	9.5	150	29.8	5.8
J&K Bank	628	BUY	30,465	655	48	84.5	95.0	104.1	13.8	12.4	9.6	7.4	6.6	6.0	—	—	—	1.4	1.2	1.0	2.7	3.0	3.3	16.7	16.5	15.9	700	11.4	1.2
LIC Housing Finance	879	NR	83,506	1,796	95	62.5	79.0	83.6	37.3	26.4	5.8	14.1	11.1	10.5	—	—	—	2.7	2.3	1.9	1.4	2.0	2.1	26.5	21.2	22.8	—	—	27.5
Mahindra & Mahindra Financial	261	BUY	25,011	538	96	22.4	30.7	35.6	7.5	36.9	16.0	11.7	8.5	7.3	—	—	—	1.8	1.5	1.3	2.1	2.9	3.4	15.4	18.7	19.0	330	26.3	0.9
Oriental Bank of Commerce	223	REDUCE	65,829	1,416	251	36.1	39.9	39.8	51.4	10.5	(0.4)	7.3	6.6	6.6	—	—	—	1.1	1.0	0.9	2.8	3.1	3.1	13.7	12.9	11.8	280	6.6	6.2
PFC	261	SELL	254,059	5,463	1,148	13.3	18.7	20.9	17.4	40.2	11.9	16.6	11.8	10.6	—	—	—	2.3	2.0	1.8	1.8	2.1	2.4	18.9	17.5	17.3	200	(9.6)	3.9
Punjab National Bank	904	BUY	285,112	6,131	315	98.0	111.3	119.7	50.9	13.5	7.6	9.2	8.1	7.6	—	—	—	2.2	1.8	1.5	2.2	2.5	2.6	25.8	24.2	21.8	930	2.8	12.7
Reliance Capital	807	ADD	198,651	4,272	246	39.3	17.7	17.5	(5.6)	(55.1)	(1.1)	20.5	45.7	46.2	—	—	—	3.0	2.8	2.7	0.7	0.3	0.3	15.3	6.3	5.9	875	8.4	96.4
Rural Electrification Corp.	217	ADD	186,273	4,005	859	16.5	21.2	23.1	50.7	28.9	8.7	13.2	10.2	9.4	—	—	—	2.6	2.2	1.9	0.9	2.0	2.1	21.2	23.2	21.3	200	(7.8)	6.8
Shriram Transport	403	ADD	85,208	1,832	212	30.1	35.6	40.9	56.7	18.4	14.8	13.4	11.3	9.9	—	—	—	3.8	3.2	2.7	1.2	2.7	3.0	29.6	29.4	28.0	440	9.2	3.5
SREI	74	BUY	8,658	186	116	7.0	8.7	8.4	(24.7)	23.4	(3.6)	10.6	8.6	8.9	—	—	—	0.8	0.7	0.7	1.3	1.6	1.6	12.8	11.9	11.4	115	54.5	2.8
State Bank of India	2,369	BUY	1,503,968	32,340	635	143.7	155.6	175.3	34.8	8.3	12.7	16.5	15.2	13.5	—	—	—	2.6	2.3	2.0	1.2	1.3	1.4	17.1	16.0	15.9	2,400	1.3	138.0
Union Bank	263	BUY	133,073	2,861	505	34.2	35.0	37.8	24.5	2.5	7.8	7.7	7.5	7.0	—	—	—	1.9	1.6	1.3	1.9	1.9	2.1	27.2	22.7	20.5	310	17.7	6.0
Banks/Financial Institutions Attractive 6,887,908 148,111																													
Cement																													
ACC	719	REDUCE	135,020	2,903	188	56.3	84.1	53.3	(12.2)	49.4	(36.7)	12.8	8.5	13.5	6.4	4.4	5.8	2.6	2.1	1.9	3.3	3.3	3.3	24.7	30.1	16.8	800	11.3	11.5
Ambuja Cements	84	REDUCE	128,412	2,761	1,522	7.2	8.1	6.2	(5.0)	12.2	(23.7)	11.7	10.5	13.7	6.3	5.8	6.9	2.1	1.8	1.7	3.5	2.2	2.5	19.7	19.4	13.2	85	0.8	10.5
Grasim Industries	2,218	REDUCE	203,391	4,374	92	238.6	284.8	270.7	(16.2)	19.4	(4.9)	9.3	7.8	8.2	5.5	4.2	4.2	1.8	1.5	1.3	1.5	1.5	1.5	21.1	20.6	16.7	2,325	4.8	14.2
India Cements	106	REDUCE	29,895	643	282	17.8	15.7	13.0	n/a	(11.4)	(17.6)	6.0	6.7	8.2	4.5	4.1	4.5	0.8	0.7	0.7	1.7	2.0	3.0	14.8	12.1	9.2	110	3.9	6.8
Shree Cement	1,644	BUY	57,255	1,231	35	174.7	209.9	195.6	93.7	20.1	(6.8)	9.4	7.8	8.4	6.4	4.5	4.2	4.8	2.9	2.1	0.6	0.6	0.6	65.7	46.0	29.4	2,200	33.9	1.2
UltraTech Cement	740	BUY	92,123	1,981	124	78.8	94.0	73.9	(3.1)	19.2	(21.3)	9.4	7.9	10.0	5.6	4.4	5.0	2.1	1.7	1.5	0.8	1.1	1.1	31.1	28.3	18.1	925	25.0	5.1
Cement Neutral 646,096 13,893																													
Consumer products																													
Asian Paints	1,676	ADD	160,757	3,457	96	38.6	66.8	75.6	(1.7)	73.0	13.3	43.4	25.1	22.2	25.9	15.5	13.4	14.1	11.6	9.7	1.0	2.2	2.4	36.6	52.9	49.6	1,840	9.8	1.7
Colgate-Palmolive (India)	680	REDUCE	92,475	1,988	136	21.6	29.9	33.4	26.3	38.3	12.0	31.5	22.8	20.3	26.0	18.8	15.6	42.8	38.4	43.1	2.2	3.5	4.4	155.1	177.6	199.3	700	2.9	2.3
GlaxoSmithKline Consumer (a)	1																												

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	10-Nov-09		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)		EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside (%)	ADVT-3mo			
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	(Rs)	(%)	(US\$)		
Energy																															
Bharat Petroleum	527	BUY	172,859	3,717	328	20.6	75.0	64.3	(50.1)	264.1	(14.3)	25.6	7.0	8.2	5.3	3.8	4.0	1.3	1.1	1.0	1.5	6.3	5.4	5.3	17.7	13.7	675	28.0	9.2		
Cairn India	282	REDUCE	535,619	11,517	1,897	6.4	21.8	29.0	50	240	32.8	44	13	9.7	27.1	8.5	6.8	1.5	1.5	1.5	—	7.1	8.9	3.6	12.0	15.9	225	(20.3)	20.9		
Castrol India (a)	532	ADD	65,746	1,414	124	21.3	33.2	36.5	20.8	55.7	10.1	25.0	16.0	14.6	14.3	9.6	8.7	14.7	13.0	11.4	2.8	4.5	4.9	6.12	85.8	83.3	550	3.4	1.7		
GAIL (India)	370	ADD	468,830	10,081	1,268	22.2	21.0	22.3	8.7	(5.0)	6.1	16.7	17.6	16.5	9.0	10.1	10.4	2.9	2.7	2.4	1.9	2.2	2.2	17.5	14.8	14.4	365	(1.2)	17.2		
GSPL	95	REDUCE	53,409	1,148	563	2.2	6.4	11.8	21.7	190.8	84.6	43.3	14.9	8.1	14.4	7.2	4.6	4.0	3.4	3.4	0.8	2.3	11.2	9.6	24.7	42.0	95	0.1	10.0		
Hindustan Petroleum	357	BUY	120,857	2,599	339	17.0	64.0	61.1	(49.3)	277.1	(4.5)	21.0	5.6	5.8	3.2	2.1	2.2	1.0	0.9	0.8	1.5	7.3	7.0	4.4	15.6	13.5	525	47.3	11.3		
Indian Oil Corporation	306	BUY	725,619	15,603	2,372	9.8	47.6	38.2	(67.9)	383.2	(19.6)	31.1	6.4	8.0	8.4	4.3	3.9	1.5	1.3	1.2	1.2	6.5	5.2	4.8	21.2	15.3	400	30.7	9.7		
Oil India	1,148	BUY	260,803	5,608	227	101.1	108.5	123.3	—	7.3	13.6	11.3	10.6	9.3	5.2	3.6	2.8	2.5	1.8	1.6	2.5	3.8	4.5	20.1	16.0	17.3	1,275	11.1	—		
Oil & Natural Gas Corporation	1,134	BUY	2,424,856	52,142	2,139	89.6	103.0	127.8	(3.4)	15.0	24.2	12.7	11.0	8.9	4.5	3.8	3.0	2.1	1.9	1.7	2.8	3.2	3.9	16.6	16.9	18.8	1,325	16.9	40.1		
Petronet LNG	67	REDUCE	50,588	1,088	750	6.9	6.7	8.0	—	(3.6)	20.7	9.8	10.1	8.4	7.1	6.8	5.8	2.2	1.9	1.6	2.6	3.0	3.3	23.9	19.2	19.6	64	(5.1)	5.5		
Reliance Industries	2,055	SELL	2,993,407	64,367	1,457	101.2	96.6	137.5	(3.7)	(4.5)	42.4	20.3	21.3	14.9	13.5	10.3	7.6	2.2	1.9	1.7	0.6	0.6	0.9	13.6	10.9	13.8	1,750	(14.8)	218.0		
Energy																															
			Cautious	7,872,591	169,285					(9.8)	44.5	18.2	17.5	12.1	10.3	7.9	5.9	4.9	2.0	1.8	1.6	1.5	2.9	3.3	11.5	14.8	15.8				
Industrials																															
ABB	742	REDUCE	157,183	3,380	212	25.8	21.6	30.4	11.3	(16.6)	41.3	28.7	34.4	24.4	17.0	19.3	13.8	7.4	6.3	5.2	0.3	0.4	0.4	29.2	19.8	23.3	660	(11.0)	6.3		
BGR Energy Systems	469	ADD	33,750	726	72	16.0	24.3	32.9	32.2	51.4	35.5	29.2	19.3	14.2	16.6	11.3	9.0	6.0	4.8	3.8	0.6	0.9	1.2	22.3	27.6	29.7	530	13.1	3.4		
Bharat Electronics	1,587	ADD	126,968	2,730	80	103.8	117.7	126.2	1.8	13.4	7.2	15.3	13.5	12.6	7.7	6.2	5.5	3.2	2.7	2.3	1.2	1.6	1.6	20.7	22.0	20.1	1,625	2.4	2.6		
Bharat Heavy Electricals	2,217	ADD	1,085,192	23,335	490	63.9	92.5	113.1	9.4	44.8	22.2	34.7	24.0	19.6	18.9	13.4	10.7	8.4	6.6	5.3	0.8	0.9	1.1	26.4	30.9	30.1	2,425	9.4	45.8		
Crompton Greaves	394	BUY	144,569	3,109	367	15.3	20.7	23.7	37.3	35.2	14.1	25.7	19.0	16.7	13.7	10.4	8.9	7.9	5.8	4.5	0.5	0.7	0.8	35.9	35.3	30.5	400	1.4	7.1		
Larsen & Toubro	1,597	ADD	960,046	20,644	601	50.1	57.1	74.0	32.1	13.9	29.6	31.9	28.0	21.6	20.4	15.5	12.5	6.3	4.3	3.6	0.6	0.7	0.8	21.7	18.4	18.4	1,725	8.0	77.3		
Maharashtra Seamless	320	BUY	22,552	485	71	35.9	36.9	39.6	22.2	2.8	7.4	8.9	8.7	8.1	4.9	4.3	3.8	1.7	1.4	1.3	1.7	1.7	2.2	20.3	17.8	16.5	335	4.8	1.1		
Siemens	528	ADD	178,071	3,829	337	14.2	22.8	22.7	(22.2)	61.0	(0.5)	37.3	23.1	23.3	17.9	13.4	13.5	7.9	6.5	5.3	0.6	1.4	0.8	23.3	30.8	25.2	515	(2.5)	6.6		
Suzlon Energy	65	ADD	109,249	2,349	1,679	7.2	(2.4)	2.6	9.9	(133.1)	(210.5)	9.0	(27.2)	24.6	7.0	11.9	7.7	1.0	0.9	0.9	—	—	—	—	0.3	11.5	(3.6)	3.8	90	38.4	98.6
Industrials																															
			Attractive	2,817,580	60,587					13.1	10.3	30.5	28.5	25.8	19.8	15.8	13.3	10.7	5.6	4.4	3.7	0.7	0.8	0.9	19.5	16.9	18.6				
Infrastructure																															
GMR Infrastructure	68	ADD	123,957	2,665	1,834	0.8	0.5	0.4	(33.5)	(38.3)	6.8	88.1	142.7	153.0	19.3	14.0	10.4	1.5	1.2	1.1	—	—	—	4.4	2.6	2.4	68	0.6	11.4		
GVK Power & Infrastructure	51	ADD	79,750	1,715	1,579	0.8	0.8	1.0	(20.6)	2.5	34.2	66.2	64.6	48.2	57.6	20.3	18.3	3.4	2.5	2.4	—	—	—	0.6	4.8	4.5	5.1	5.0	(1.0)	18.2	
IRB Infrastructure	264	ADD	87,611	1,884	332	5.3	10.6	13.5	54.3	101.2	27.0	49.8	24.8	19.5	24.5	12.5	11.1	4.8	3.9	3.2	0.4	—	—	—	10.1	17.3	18.0	200	(24.1)	10.8	
Infrastructure																															
			Attractive	291,318	6,264					22.5	15.7	19.3	51.8	44.8	37.5	25.1	14.7	12.1	2.3	1.9	1.7	0.1	—	—	0.2	4.5	4.2	4.6			
Media																															
DishTV	37	REDUCE	35,394	761	946	(6.6)	(1.8)	0.0	n/a	(72.2)	(101.9)	(5.7)	(20.4)	#####	(33.5)	25.9	11.2	(5.7)	94.1	86.5	—	—	—	—	—	83.9	59.0	NA	37	(1.1)	9.2
HT Media	132	ADD	31,032	667	235	0.8	5.4	7.1	(80.5)	540.7	31.9	156.4	24.4	18.5	35.3	12.0	9.7	3.6	3.3	2.9	0.2	0.8	1.5	2.3	14.0	16.7	135	2.2	0.5		
Jagran Prakashan	118	ADD	35,493	763	301	3.0	5.9	6.8	(6.6)	93.7	15.9	38.7	20.0	17.3	22.0	11.9	10.0	6.3	5.8	5.2	1.7	3.0	3.2	16.7	30.3	31.7	130	10.3	1.0		
Sun TV Network	318	REDUCE	125,357	2,696	394	9.1	12.1	14.6	9.5	32.7	20.8	35.0	26.4	21.8	18.5	15.1	12.2	7.1	6.1	5.4	0.8	1.3	1.9	22.5	25.3	26.3	295	(7.3)	1.7		
Zee Entertainment Enterprises	248	NR	107,524	2,312	434	8.4	10.2	12.5	(4.8)	21.0	22.3	29.3	24.2	19.8	20.3	17.8	14.1	3.1	2.8	2.6	0.8	1.0	1.2	11.8	12.5	14.0	NA		9.3		
Zee News	53	NR	12,673	273	240	1.9	2.4	3.2	20.4	28.9	34.0	28.4	22.0	16.4	14.0	10.9	8.7	5.2	4.3	3.6	0.8	0.8	1.3	20.1	21.9	24.4	NA		2.3		
Media																															
			Neutral	347,473	7,472					(21.0)	161.6	41.7	82.0	31.4	22.1	25.3	15.6	11.8	5.5	4.5	4.0	0.8	1.2	1.6	6.7	14.3	18.2				
Metals																															
Hindalco Industries	127	BUY	221,706	4,767	1,753	2.8	4.5	13.1	(77.9)	61.1	193.3	45.7	28.4	9.7	13.5	9.1	6.8	1.2	0.8	0.7	—	—	—	9.6	5.9	8.0	135	6.7	36.5		
National Aluminium Co.	379	SELL	244,129	5,250	644	19.7	8.3	27.1	(22.0)	(57.9)	226.9	19.2	45.6	14.0	9.4	18.8	6.6	2.3	2.3	2.0	1.3	0.5	0.5	12.8	5.1	15.1	310	(18.2)	2.3		
Jindal Steel and Power	675	SELL	626,343	13,468	928	196.9	41.1	49.0	138.0	(79.1)	19.2	3.4	16.4	13.8	13.5	10.8	8.7	8.1	5.4	3.9	0.2	0.1	0.1	50.9	39.7	33.0	530	(21.5)	81.7		
JSW Steel	849	SELL	158,823	3,415	187	13.1	80.2	88.1	(84.7)	510.1	9.8	64.6	10.6	9.6	10.8	6.4	6.7	1.7	1.3	1.1	0.1	0.4	0.6	11.7	14.7	12.5	670	(21.1)	40.7		
Hindustan Zinc	931	BUY	393,356	8,458	423	64.6	79.7	93.9	(38.0)	23.4	17.8	14.4	11.7	9.9	10.9	7.7	5.5	2.6	2.2	1.8	0.4	0.5	0.5	20.2	20.4	19.8	1,100	18.2	7.7		
Sesa Goa	331	REDUCE	271,221	5,832	821	24.7	22.2	29.1	30.2	(10.0)	30.9	13.4	14.9	11.4	9.8	9.7	6.9	5.9	4.1	3.1	0										

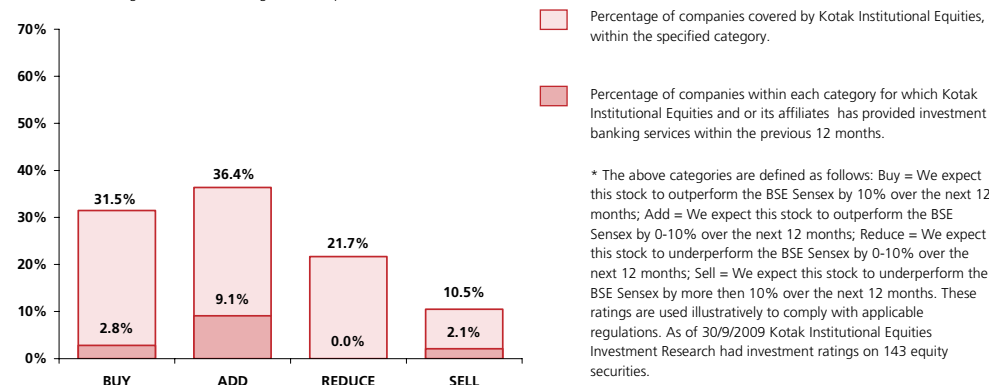
Kotak Institutional Equities: Valuation summary of key Indian companies

Company	10-Nov-09		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)	
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E				
Retail																														
Titan Industries	1,335	REDUCE	59,262	1,274	44	44.3	53.1	61.9	26.4	19.8	16.7	30.1	25.2	21.6	18.1	16.0	13.4	10.3	7.7	6.0	0.7	0.7	0.9	37.5	35.1	31.4	1,200	(10.1)	2.5	
Retail		Neutral	59,262	1,274					26.4	19.8	16.7	30.1	25.2	21.6	18.1	16.0	13.4	10.3	7.7	6.0	0.7	0.7	0.9	34.1	30.8	27.9				
Sugar																														
Bajaj Hindustan	212	SELL	40,587	873	191	(1.0)	23.9	17.7	(92.1)	(2,491.2)	(25.8)	(212.6)	8.9	12.0	13.4	6.4	6.2	2.0	1.5	1.3	0.3	0.3	0.3	(1.2)	19.4	12.0	150	(29.3)	30.4	
Balrampur Chini Mills	143	ADD	36,567	786	256	10.0	13.4	13.0	223.2	34.5	(2.9)	14.3	10.7	11.0	8.2	6.3	6.0	2.6	2.1	1.8	0.3	—	0.3	20.2	22.1	17.8	140	(2.2)	21.6	
Shree Renuka Sugars	214	BUY	71,669	1,541	335	8.1	24.2	20.4	88.3	198.6	(15.9)	26.4	8.8	10.5	13.7	5.1	5.6	4.1	2.5	2.0	0.1	0.2	0.2	20.7	34.9	20.8	235	9.8	23.9	
Sugar		Attractive	148,823	3,200					3,055.5	217.4	(15.9)	29.3	9.2	11.0	11.8	5.8	5.9	2.9	2.0	1.7	0.2	0.2	0.2	9.8	22.2	15.6				
Technology																														
HCL Technologies	305	REDUCE	212,253	4,564	695	17.5	16.6	22.9	14.5	(5.0)	37.9	17.5	18.4	13.3	9.8	8.9	8.0	3.7	3.3	2.8	3.9	3.9	3.9	20.9	19.5	23.0	300	(1.8)	12.7	
Infosys Technologies	2,218	BUY	1,273,103	27,376	574	102.4	104.5	118.0	29.6	2.0	12.9	21.7	21.2	18.8	16.1	15.0	12.7	7.0	5.6	4.7	1.1	1.1	1.5	36.7	29.4	27.3	2,500	12.7	75.6	
Mphasis BFL	736	REDUCE	153,511	3,301	208	14.2	41.5	42.2	15.7	192.6	1.8	52.0	17.8	17.4	39.6	13.0	11.7	10.7	7.0	5.2	0.5	0.6	0.7	22.8	47.7	34.2	450	(38.9)	18.5	
Mindtree	608	BUY	25,006	538	41	13.2	46.8	53.6	(50.5)	253.5	14.5	45.9	13.0	11.3	7.8	9.8	7.0	4.5	3.4	2.6	0.3	—	0.9	5.5	29.7	26.0	700	15.2	4.3	
Patni Computer Systems	486	REDUCE	62,461	1,343	129	26.8	36.5	41.0	(19.3)	36.1	12.4	18.1	13.3	11.9	9.5	7.1	7.0	2.5	2.0	1.9	0.4	1.5	1.7	16.2	16.0	16.7	410	(15.6)	12.0	
Polaris Software Lab	165	SELL	16,330	351	99	13.2	14.5	13.9	76.6	10.5	(4.6)	12.6	11.4	11.9	5.5	6.1	6.5	2.1	1.8	1.6	1.7	1.2	1.2	18.2	17.2	14.4	125	(24.4)	8.1	
TCS	627	ADD	1,226,479	26,373	1,957	26.4	32.2	36.0	3.1	21.9	11.8	23.7	19.4	17.4	16.6	14.4	12.8	7.8	6.2	5.2	1.1	1.5	2.3	36.9	35.6	32.6	650	3.7	46.2	
Wipro	594	ADD	867,989	18,664	1,462	25.7	30.5	35.4	15.8	18.6	15.8	23.1	19.4	16.8	17.0	14.3	12.0	5.8	4.6	3.9	0.7	1.4	1.7	26.9	26.4	25.0	675	13.7	18.6	
Technology		Neutral	3,849,588	82,778					15.3	16.7	13.6	22.6	19.4	17.1	15.8	13.6	11.8	6.3	5.1	4.3	1.1	1.5	1.9	28.1	26.4	25.1				
Telecom																														
Bharti Airtel	293	REDUCE	1,114,040	23,955	3,797	22.3	23.8	21.7	26.4	6.4	(8.8)	13.1	12.3	13.5	7.8	7.3	7.1	3.5	2.8	2.3	0.7	1.0	1.4	31.4	25.1	18.6	300	2.2	123.2	
IDEA	50	REDUCE	153,951	3,310	3,104	2.9	2.0	1.2	(26.5)	(32.2)	(38.0)	17.1	25.2	40.6	6.8	7.0	7.3	1.1	1.1	1.0	—	—	—	10.4	4.4	2.9	45	(9.3)	15.9	
MTNL	72	SELL	45,644	981	630	2.4	(2.4)	(3.2)	(66.3)	(199.6)	(32.8)	30.1	(30.3)	(22.8)	(1.4)	3.0	2.1	0.4	0.4	0.4	1.4	—	—	1.2	(1.3)	(1.7)	50	(31.0)	1.8	
Reliance Communications	169	SELL	348,303	7,490	2,064	31.6	14.9	13.0	19.4	(52.8)	(12.9)	5.3	11.3	13.0	6.7	8.4	7.9	0.8	0.8	0.7	0.5	—	—	18.9	7.3	5.9	150	(11.1)	64.9	
Tata Communications	359	REDUCE	102,187	2,197	285	13.6	14.0	15.2	24.0	3.2	8.2	26.4	25.6	23.7	11.4	10.3	9.5	1.5	1.4	1.4	1.4	1.8	2.1	5.4	5.2	5.5	400	11.6	3.8	
Telecom		Cautious	1,764,125	37,934					16.6	(20.9)	(10.4)	10.5	13.2	14.8	7.4	7.7	7.5	1.7	1.5	1.4	0.6	0.7	1.0	15.8	11.2	9.1				
Transportation																														
Container Corporation	1,143	ADD	148,580	3,195	130	60.9	65.7	82.4	5.5	7.8	25.5	18.8	17.4	13.9	13.5	12.2	9.3	3.9	3.4	2.9	1.2	1.3	1.7	22.8	21.0	22.4	1,250	9.4	2.2	
Transportation		Cautious	148,580	3,195					5.5	7.8	25.5	18.8	17.4	13.9	13.5	12.2	9.3	3.9	3.4	2.9	1.2	1.3	1.7	21.0	19.5	20.7				
Utilities																														
CESC	371	ADD	46,401	998	125	32.3	37.9	42.0	16.2	17.4	11.0	11.5	9.8	8.8	(0.5)	(1.0)	(0.9)	0.8	0.6	0.5	7.7	11.7	14.0	11.7	11.9	11.6	375	1.0	2.9	
Lanco Infratech	526	ADD	126,575	2,722	241	14.5	21.1	35.4	(1.9)	44.8	68.1	36.2	25.0	14.9	20.2	18.1	8.9	6.0	3.6	2.9	—	—	—	16.4	16.8	20.2	475	(9.7)	26.6	
NTPC	212	REDUCE	1,745,977	37,544	8,245	9.8	11.1	12.4	5.3	13.2	11.4	21.6	19.1	17.1	17.8	14.4	13.0	3.0	2.7	2.5	1.7	2.0	2.2	14.3	14.9	15.2	190	(10.3)	19.5	
Reliance Infrastructure	1,101	BUY	249,287	5,360	226	62.7	63.7	68.6	66.7	1.6	7.8	17.6	17.3	16.0	22.0	20.2	16.1	1.5	1.4	1.3	0.6	0.8	0.8	4.9	6.1	7.8	1,250	13.5	63.1	
Reliance Power	144	REDUCE	344,413	7,406	2,397	—	2.5	3.1	—	141.5	24.4	140.9	58.3	46.9	—	—	—	2.5	2.4	2.3	—	—	—	1.8	4.2	5.0	160	11.3	13.6	
Tata Power	1,325	ADD	314,553	6,764	237	50.2	72.0	80.9	57.5	43.5	12.4	26.4	18.4	16.4	12.0	12.5	12.0	3.2	2.4	2.2	0.8	0.9	1.1	12.0	14.9	13.9	1,400	5.7	17.5	
Utilities		Attractive	2,827,207	60,794					16.3	18.5	14.7	21.2	17.9	15.6	15.2	13.8	12.0	2.5	2.2	2.0	1.4	1.7	2.0	11.9	12.4	13.1				
Others																														
Havells India	319	REDUCE	19,209	413	60	5.1	12.2	19.5	(81)	NA	60.1	NA	26.2	16.4	10.1	8.9	7.5	3.2	3.7	3.1	0.8	0.8	0.8	4.6	13.0	20.5	210	(34.2)	1.9	
Jaiprakash Associates	227	ADD	319,438	8,869	1,406	3.0	6.0	11.1	(39)	101.5	84.2	75.8	20.4	27.9	17.4	14.6	4.8	3.8	3.3	—	—	—	7.3	11.4	17.3	250	10.0	93.4		
Jindal Saw	788	ADD	43,205	929	55	85.9	71.7	79.1	39	(16.6)	10.3	9.2	11.0	10.0	6.0	6.3	5.4	1.2	1.1	1.0	0.6	0.5	0.5	13.4	9.9	10.3	690	(12.4)	15.1	
PSL	143	BUY	7,626	164	53	22.2	29.3	24.7	5	32.0	(15.9)	6.4	4.9	5.8	4.7	3.5	2.9	1.1	0.8	0.7	2.8	4.6	4.6	11.9	12.3	11.1	175	22.7	2.5	
Sintex	216	BUY	29,456	633	136	24.0	25.0	27.9	23	4.0	11.7	9.0	8.6	7.7	7.9	6.8	5.5	1.6	1.3	1.1	0.5	0.5	0.6	17.6	15.5	14.7	280	29.7	3.6	
Tata Chemicals	276	ADD</																												

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Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of September 30, 2009

Ratings and other definitions/identifiers

Rating system

Definitions of ratings

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

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

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

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

Our target price are also on 12-month horizon basis.

Other definitions

Coverage view. The coverage view represents each analyst's overall fundamental outlook on the Sector. The coverage view will consist of one of the following designations: Attractive (A), Neutral (N), Cautious (C).

Other ratings/identifiers

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