kotak Institutional Equities

INDIA DAILY

July 28, 2009

Contents

News Round-up

- The government has lowered interest rates on loans for affordable housing, extended a tax holiday given to industrial parks, and lifted the tax burden off road repair costs, adding to the four existing stimulus packages in its effort to propel economic growth to 8-9 percent by the end of 2010 *(ET)*
- French pharma major Sanofi-aventis today said its vaccine division Sanofi Pasteur has acquired 80 per cent stake in Shantha Biotechnics for about Rs 3,000 crore, valuing the Hyderabad-based firm at 550 mn euros *(ET)*
- Despite the weak monsoons, the Indian economy is expected to grow faster than earlier estimates, a survey of professional forecasters conducted by the Reserve Bank of India revealed *(BS)*
- The Mumbai-based Wadhawan group — owners of real estate company HDIL, finance company Dewan Housing Finance Corporation (DHFC) and retail chain Spinach — today took the first step towards a succession plan in their family-controlled businesses (BS)

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

EQUITY MARKETS

		Change %		
India	**27-Jul**	**1-day**	**1-mo**	**3-mo**
Sensex	15,375	(0.0)	4.1	39.8
Nifty	4,572	0.1	4.5	36.0
Global/Regional indices				
Dow Jones	9,109	0.2	7.9	13.6
Nasdaq Composite	1,968	0.1	7.1	17.6
FTSE	4,586	0.2	8.1	12.0
Nikkie	10,088	(0.0)	2.1	18.8
Hang Seng	20,262	0.1	8.9	39.2
KOSPI	1,528	0.2	9.5	17.5
Value traded - India				
Cash (NSE+BSE)	251.0		236.1	260.2
Derivatives (NSE)	504.9		480.7	758
Deri. open interest	970.9		566	949

Forex/money market

	Change, basis points			
	27-Jul	**1-day**	**1-mo**	**3-mo**
Rs/US$	48.2	(6)	7	(208)
10yr govt bond, %	7.1	3	11	100

Net investment (US$mn)

	24-Jul		MTD	CYTD
FIIs	217		1,500	6,470
MFs	34		327	843

Top movers -3mo basis

	Change, %			
Best performers	**27-Jul**	**1-day**	**1-mo**	**3-mo**
ABAN IN Equity	987.7	(1.0)	10.6	149.9
WGS IN Equity	210.9	(1.3)	3.2	129.7
SCS IN Equity	103.2	(1.6)	41.6	121.8
CENT IN Equity	480.4	1.9	16.4	120.3
JSTL IN Equity	683.6	8.2	9.7	116.6
Worst performers				
TCOM IN Equity	481.4	(1.7)	1.8	(10.0)
ESOIL IN Equity	139.1	(0.6)	(13.8)	(1.4)
SUNP IN Equity	1242.8	(0.3)	8.9	1.0
RIL IN Equity	1940.7	(3.8)	(4.4)	11.7
RPET IN Equity	120.6	(4.2)	(4.4)	11.8

kotak Institutional Equities

NTPC (NATP)

Utilities

SELL

JULY 28, 2009

RESULT

Coverage view: Attractive

Price (Rs): 215

Target price (Rs): 180

BSE-30: 15,375

Good first quarter post new regulations. NTPC reported 26% yoy growth in revenues at Rs112 bn, aided by 10% yoy growth in generation due to commercialization of new power capacities. NTPC recognized revenues of Rs119 bn under the new tariff regulations, though billing continues as per old regulations — pending the issue of tariff orders under the new tariff regulations. We maintain our earning estimates and SELL rating on the stock with a target price of Rs180/share.

Company data and valuation summary

NTPC

Stock data			
52-week range (Rs) (high,low)			233-113
Market Cap. (Rs bn)			1,768.7
Shareholding pattern (%)			
Promoters			89.5
FIIs			3.6
MFs			0.6
Price performance (%)	1M	3M	12M
Absolute	10.0	13.9	14.3
Rel. to BSE-30	5.7	(15.7)	6.1

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	9.4	10.8	12.2
EPS growth (%)	1.1	14.7	12.6
P/E (X)	22.7	19.8	17.6
Sales (Rs bn)	419.2	471.8	531.9
Net profits (Rs bn)	77.7	89.2	100.4
EBITDA (Rs bn)	105.1	131.0	155.6
EV/EBITDA (X)	17.3	14.6	13.8
ROE (%)	13.7	14.5	15.0
Div. Yield (%)	1.6	1.9	2.1

QUICK NUMBERS

- 10% yoy growth in generation
- Trading at 2.8X P/B
- Retain target price of Rs180/share

Higher fuel cost partly explain the revenue growth

NTPC reported revenues of Rs120 bn, operating profit of Rs31 bn and net profit of Rs21 bn compared to our estimates of Rs112 bn, Rs29 bn and Rs19 bn, respectively. Higher-than-estimated fuel cost at Rs77 bn (Rs1.4/kwh) compared to our estimate of Rs72 bn (Rs1.3/kwh) part explains the deviation of reported sales from our estimates. Lower depreciation expense for the quarter at Rs6.1 bn compared to Rs7.3 bn in 4QFY09, was likely on account of rupee appreciation which led to re-statement of forex denominated component of fixed assets. Generation from Kahalgaon and Sipat towards the end of FY2009, led to 10% yoy growth in generation at 55 BU in 1QFY10.

Revenue recognition as per new regulations, billing as per old

NTPC recognized revenues of Rs119 bn during the quarter as per the norms laid down under the new regulations. However, in the absence of new tariff orders, billing (of Rs115 bn) of procurers continued under the old regulations. NTPC recognized a deferred tax expense of Rs11.8 bn resulting in its effective tax rate increasing to 24% in 1QFY10 compared to 20% in 1QFY09 and 15% for full-year FY2009. Under the new tariff regulations, the RoE is grossed at the effective tax rate and the entire tax expense is not a pass through. We note that the new tariff regulations are neutral for existing operating capacities of NTPC, as tightening of operating norms and lower tax reimbursement has been adequately compensated by higher RoE and availability based incentives.

Maintain SELL rating and target price of Rs180/share

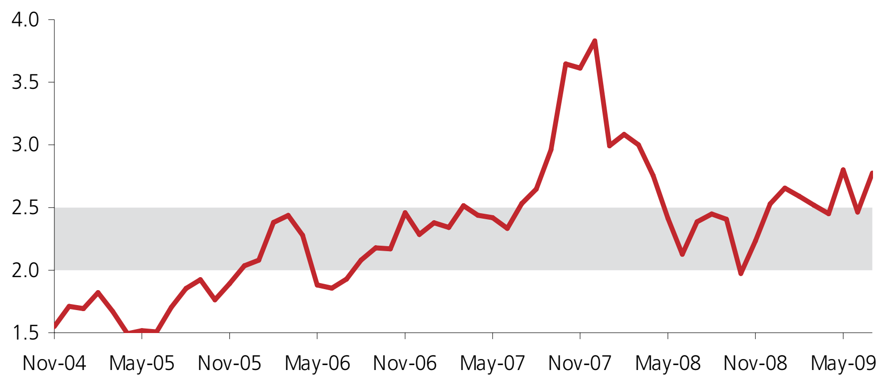
We maintain our SELL rating and target price of Rs180/share as the current valuations –2.8X P/B cannot be justified, by the return on equity and growth profile of NTPC. We note that NTPC reported earnings growth of 4.9% yoy in FY2009 and generation growth in single digits (3.03% yoy). We maintain our earnings estimates of Rs10.8 (+14% yoy) for FY2010E and Rs12.2 (+12% yoy) for FY2011E. We believe there is a risk to earnings growth due to slippages in capacity addition over the next few years. Our estimates currently factor in a capacity of 45.6 GW for NTPC by FY2012-end compared to the target of 50 GW.

Exhibit 1: Increased generation and higher fuel costs aided 26% yoy revenue growth
Interim results for NTPC, March fiscal year-ends (Rs bn)

					(% Chg.)					
	1QFY10	1QFY10E	1QFY09	4QFY09	1QFY10E	1QFY09	4QFY09	FY2010E	FY2009	(% Chg.)
Net sales	**120.0**	**112.3**	**95.4**	**114.5**	**7**	**26**	**5**	**471.8**	**419.2**	**13**
Operating costs										
Cost of fuel	(77.4)	(72.2)	(61.4)	(80.2)	7	26	(3)	(280.1)	(271.1)	3
Personnel costs	(5.9)	(6.2)	(5.8)	(6.2)	(5)	2	(5)	(29.8)	(24.6)	21
Other expenses	(4.9)	(5.0)	(4.0)	(5.9)	(1)	23	(16)	(25.1)	(19.5)	29
Total expenses	(88.3)	(83.4)	(71.2)	(92.3)				(335.0)	(315.2)	
EBITDA	**31.8**	**29.0**	**24.2**	**22.2**	**10**	**31**	**43**	**136.8**	**104.0**	**32**
EBITDA margin (%)	26.5	25.8	25.4	19.4				29.0	24.8	
Other income	7.8	7.5	7.2	8.2				24.3	31.3	
Interest & finance charges	(4.4)	(5.3)	(4.2)	(5.7)				(23.7)	(20.2)	
Depreciation	(6.1)	(6.8)	(5.5)	(7.3)				(24.1)	(23.6)	
PBT	**28.9**	**24.4**	**21.6**	**17.4**	**19**	**34**	**66**	**113.3**	**91.4**	**24**
Provision for tax (net)	(7.0)	(5.0)	(4.4)	5.2				(24.1)	(13.2)	
Net profit	**21.9**	**19.4**	**17.3**	**22.6**	**13**	**27**	**(3)**	**89.2**	**78.2**	**14**
Extraordinary	—	—	—	(1.5)				—	(3.8)	
EBITDA margin (%)	26.5	25.8	25.4	19.4				29.0	24.8	
Tax rate (%)	24.2	20.5	20.2	(29.7)				21.3	14.5	
Adjusted EBITDA calculations										
Net sales	**120.0**	**112.3**	**94.8**	**111.2**	**6.8**	**26.6**	**7.9**	**471.8**	***409.0***	**15.3**
Cost of fuel	(77.4)	(72.2)	(61.4)	(80.2)				(280.1)	*(271.1)*	
Personnel costs	(5.9)	(6.2)	(5.8)	(6.2)				(29.8)	*(24.6)*	
Other expenses	(6.5)	(6.6)	(5.9)	(7.8)				(34.2)	*(27.0)*	
Total expenses	(89.8)	(84.9)	(73.1)	(94.1)				(344.1)	*(322.8)*	
EBITDA (w/o prior period revenues)	**30.2**	**27.4**	**21.7**	**17.1**	**10.0**	**39.0**	**76.8**	**127.7**	***86.2***	**48.1**
Prior period revenue	—	—	0.6	3.2				—	10.2	(100.0)
Key operating parameters										
Units generated (bn units)	55.5	55.5	50.5	56.9				224.8	*207.0*	8.6
Energy sent out (bn units)	52.0	51.6	47.0	53.7				211.4	*193.6*	9.2

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: NTPC has historically traded on average below 2.5X P/B
Historical P/B multiple for NTPC (X)



Source: Bloomberg, Kotak Institutional Equities estimates

Capacity addition of 18 GW factored in, against target addition of 22.4 GW

We model NTPC to reach a commercial generation capacity of 45.6 GW by FY2012-end compared to NTPC's plan of adding 22.4 GW in the XIth five-year plan to reach a capacity of 50 GW. We believe there will be significant slippages in capacity addition and commercialization of capacities. NTPC has so far commissioned 2,740 MW and plans to add (commission) 3,300 MW of generation capacity in FY2010E comprising Sipat-I (1,320 MW), Kahalgaon-II (500 MW), Korba-III (500 MW) and NCTPP-II (980 MW).

Exhibit 3: NTPC: Profit model, balance sheet, cash model 2006-2011E, March fiscal year-ends (Rs mn)

	2007	2008	2009E	2010E	2011E
Profit model (Rs mn)					
Net sales	**326,317**	**370,910**	**419,200**	**471,773**	**531,910**
EBITDA	**93,137**	**108,176**	**94,478**	**126,000**	**149,982**
Other income	27,449	29,203	31,300	24,280	21,920
Interest	(8,063)	(10,678)	(10,728)	(12,875)	(18,085)
Depreciation	(20,754)	(21,385)	(23,645)	(24,090)	(28,286)
Pretax profits	91,769	105,316	91,405	113,315	125,531
Tax	(20,427)	(28,401)	(13,232)	(24,141)	(25,120)
Net profits	**71,342**	**76,915**	**78,174**	**89,174**	**100,411**
Extraordinary items	(2,695)	(2,752)	3,840	—	—
Earnings per share (Rs)	**8.7**	**9.3**	**9.5**	**10.8**	**12.2**
Balance sheet (Rs mn)					
Total equity	485,968	526,386	573,673	623,725	680,084
Deferred taxation liability	6,568	13,735	15,303	15,303	15,303
Total borrowings	244,844	274,460	334,669	411,883	584,594
Currrent liabilities	70,263	79,299	92,492	96,225	106,379
Total liabilities and equity	**807,643**	**893,880**	**1,016,136**	**1,147,137**	**1,386,361**
Cash	133,146	149,332	164,715	160,652	115,777
Current assets	88,681	106,156	120,688	130,896	145,013
Total fixed assets	424,873	485,720	583,165	715,991	1,000,181
Investments	160,943	152,672	147,569	139,598	125,391
Total assets	**807,643**	**893,880**	**1,016,136**	**1,147,137**	**1,386,361**
Free cash flow (Rs mn)					
Operating cash flow, excl. working capital	89,474	95,555	105,659	113,264	128,697
Working capital	(7,485)	(8,439)	(1,560)	(7,479)	(5,090)
Capital expenditure	(78,392)	(82,232)	(121,090)	(156,916)	(312,476)
Investments	31,948	8,271	5,104	7,971	14,208
Free cash flow	**35,545**	**13,155**	**(11,888)**	**(43,160)**	**(174,661)**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Tata Motors (TTMT)

Automobiles

SELL

JULY 28, 2009

RESULT

Coverage view: Cautious

Price (Rs): 374

Target price (Rs): 335

BSE-30: 15,375

Strong domestic performance. Tata Motors' remarkable margin performance in 1QFY10 was driven by higher realizations, excise duty benefits and lower raw material costs. We expect these margin levels to sustain, for the most part, in FY2010E and expect domestic operations to show further improvement as volumes rise. However, we remain cautious on the stock as we expect JLR's protracted turnaround to result in higher debt levels. We raise our target price to Rs335 on higher earnings estimates.

Company data and valuation summary

Tata Motors

Stock data			
52-week range (Rs) (high,low)			445-122
Market Cap. (Rs bn)			208.1
Shareholding pattern (%)			
Promoters			41.7
FIIs			20.2
MFs			2.7
Price performance (%)	1M	3M	12M
Absolute	9.9	50.2	(9.4)
Rel. to BSE-30	5.6	11.1	(15.9)

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	20.8	23.7	26.0
EPS growth (%)	(58.3)	14.1	9.6
P/E (X)	18.0	15.8	14.4
Sales (Rs bn)	254.7	299.3	364.3
Net profits (Rs bn)	10.0	13.2	14.4
EBITDA (Rs bn)	14.5	32.5	36.4
EV/EBITDA (X)	23.0	11.4	10.2
ROE (%)	9.0	9.3	0.0
Div. Yield (%)	1.5	1.5	1.5

- EBITDA of Rs7.2 bn exceeds our estimate of Rs3.4 bn
- PAT of Rs5.1 bn beats our breakeven estimate
- We raise our target price to Rs335

Tata Motors' EBITDA upside largely driven by higher realizations and excise duty benefit

Tata Motors reported an EBITDA of Rs7.2 bn, much above our estimate of Rs3.4 bn. EBITDA margins of 11.2% were 600bps higher sequentially and 470 bps on a yoy basis. The Rs3.6 bn beat was driven by better realizations, lower raw material costs and excise duty benefits from the Pantnagar plant. The company reported a PAT of Rs5.1 bn compared to our breakeven estimate. Lower interest expense, D&A and income from sale of investments drove the upside.

Raising standalone EPS estimates to Rs23.7 and Rs26 from Rs15 and Rs20 for FY2010E & FY2011E

We are now modeling an 11% EBITDA margin for FY2010E from 9% prior. The 11.2% EBITDA margin for the quarter includes most of the reduction in commodity prices and excise duty benefits. We expect EBITDA margins to decline to 10% in FY2011E as Nano becomes a bigger mix of revenues. Our EBITDA estimates are Rs32.4 bn for FY2010E, increasing to Rs36.3 bn for FY2011E. Our volume growth assumption excluding Nano is 10% in FY2010E and 9% for FY2011E.

Domestic operations on the right track; can't say the same of JLR—could be a big swing factor

Strong standalone results in the quarter and improving industrial production trends augur well for standalone results. However, with JLR revenues exceeding standalone sales by 45% in FY2009, the division's results could prove to be a bigger swing factor. Given the two-year breakeven target, we expect JLR to continue to burn cash and drive debt levels higher.

Raising target to Rs335 from Rs235, retain SELL rating

At Rs374, the stock seems to be discounting all of the good news on the domestic front without factoring in risks at JLR. We expect a long road to recovery at JLR with the division burning cash in the interim. Our Rs335 valuation is based on 8X consolidated FY2011E EBITDA. We are modeling an EBITDA of £370 mn pounds at JLR by FY2011E, implying a 6% EBITDA margin. JLR earned a 7.4% margin in 2007 on annual revenues of almost US$15 bn. Current revenues are in the US$8 bn range.

Interim results of Tata Motors (standalone), March fiscal year-ends (Rs mn)

	1QFY10	1QFY10E	1QFY09	4QFY09	(% chg.) 1QFY10E	1QFY09	4QFY09
Net sales	**64,046**	**59,720**	**69,284**	**67,053**	**7.2**	**(7.6)**	**(4.5)**
Total expenditure	(56,878)	(56,448)	(69,797)	(59,906)	0.8	(18.5)	(5.1)
Inc/(Dec) in stock	1,920	150	5,738	(3,684)	1,180.1	(66.5)	(152.1)
Raw materials	(44,701)	(42,398)	(55,627)	(45,314)	5.4	(19.6)	(1.4)
Staff cost	(3,984)	(3,800)	(4,009)	(3,638)	4.8	(0.6)	9.5
Other expenditure	(10,114)	(10,250)	(10,160)	(10,954)	(1.3)	(0.5)	(7.7)
EBITDA	**7,168**	**3,422**	**5,225**	**3,463**	**109.5**	**37.2**	**107.0**
OPM (%)	**11.2**	**5.7**	**7.5**	**5.2**			
Other income	7	2,250	2,020	816	(99.7)	(99.7)	(99.2)
Interest	(2,535)	(3,000)	(1,123)	(2,447)	(15.5)	125.7	3.6
Depreciation	(2,291)	(2,800)	(1,808)	(2,892)	(18.2)	26.7	(20.8)
Pretax profits	**2,349**	**(128)**	**4,313**	**(1,060)**	**(1,933.8)**	**(45.5)**	**(321.7)**
Extraordinaries	3,132	-	(862)	8,357		(463.2)	(62.5)
Tax	(343)	-	(190)	(1,384)	NA	80.6	(75.2)
Net income	**5,138**	**(128)**	**3,261**	**5,914**	**(4,111.0)**	**57.5**	**(13.1)**
Adjusted PAT	**2,202**	**(128)**	**3,951**	**(859)**	**(1,819.1)**	**(44.3)**	**(356.5)**
Income tax rate (%)	6.3	-	5.5	19.0			
Ratios							
RM to sales (%)	66.8	70.7	72.0	73.1			
EBITDA margin (%)	11.2	5.7	7.5	5.2			
Net profit margin (%)	8.0	(0.2)	4.7	8.8			
ETR (%)	6.3	-	5.5	19.0			
EPS (Rs)	9.2	(0.2)	6.8	12.3			
Other details							
Sales volumes (# vehicles)	123,113	123,113	131,733	135,227			
Net sales realisation (Rs/vehicle)	**562,982**	**536,001**	**594,967**	**541,416**			

Source: Company, Kotak Institutional Equities

Tata Motors, SOTP-based valuation, FY2011E basis (Rs mn)

	EBITDA (Rs mn)	Multiple (X)	Value (Rs mn)	Value per share (Rs)	Comments
Tata Motors standalone EV	36,352	8.0	290,819	523	Based on 8X FY2011E earnings
JLR stadalone EV	27,734	8.0	221,871	399	Based on 8X FY2011E earnings
Less: Net debt - standalone			180,607	325	standalone debt including secured NCD + premium
Less: Net debt - JLR			191,330	344	rollover bridge loan, cash burn
Total standalone + JLR			**140,754**	**253**	
Value of subsidiaries				74	
Embedded value of investments				9	Value of investments in Tata Steel at KIE target price
SOTP-based value				**335**	
Target price				**335**	

Notes:
(1) We have valued the subsidiaries and the investments in Tata Steel after considering 20% holding company discount.

Source: Kotak Institutional Equities estimates

Tata Motors standalone, Volume details, March fiscal year-ends, 2006-2011E (Rs mn)

	2006	2007	2008	2009	2010E	2011E
M&HCVs	**136,871**	**184,997**	**179,400**	**123,011**	**133,445**	**153,041**
M&HCVs-domestic	128,610	172,842	166,037	113,674	125,041	143,798
M&HCVs-exports	8,261	12,155	13,363	9,337	8,403	9,244
LCVs	**108,151**	**149,241**	**173,434**	**168,495**	**192,054**	**210,358**
LCVs-domestic	86,226	125,744	147,334	151,338	174,039	191,443
LCVs-exports	21,925	23,497	26,100	17,157	18,015	18,916
UVs	**39,791**	**49,306**	**50,299**	**39,981**	**42,732**	**44,869**
UVs-domestic	37,910	47,892	47,700	39,303	42,054	44,157
UVs-exports	1,881	1,414	2,599	678	678	712
Passenger vehicles	**169,280**	**196,736**	**179,268**	**166,660**	**228,326**	**487,243**
Passenger vehicles-domestic	151,160	180,328	167,058	160,422	171,652	180,234
Passenger vehicles-exports	18,120	16,408	12,210	6,238	6,675	7,008
Small car					50,000	300,000
Total domestic sales	403,906	526,806	528,129	464,737	562,786	859,631
Total export sales	50,187	53,474	54,272	33,410	33,771	35,880
Total vehicle sales	**454,093**	**580,280**	**582,401**	**498,147**	**596,557**	**895,511**
Volume growth (yoy %)						
M&HCVs	**1.2**	**35.2**	**(3.0)**	**(31.4)**	**8.5**	**14.7**
M&HCVs-domestic	(0.5)	34.4	(3.9)	(31.5)	10.0	15.0
M&HCVs-exports	39.3	47.1	9.9	(30.1)	(10.0)	10.0
LCVs	**45.7**	**38.0**	**16.2**	**(2.8)**	**14.0**	**9.5**
LCVs-domestic	41.9	45.8	17.2	2.7	15.0	10.0
LCVs-exports	62.7	7.2	11.1	(34.3)	5.0	5.0
UVs	**7.5**	**23.9**	**2.0**	**(20.5)**	**6.9**	**5.0**
UVs-domestic	10.7	26.3	(0.4)	(17.6)	7.0	5.0
UVs-exports	(32.4)	(24.8)	83.8	(73.9)	-	5.0
Passenger vehicles	**10.9**	**16.2**	**(8.9)**	**(7.0)**	**37.0**	**113.4**
Passenger vehicles-domestic	4.4	19.3	(7.4)	(4.0)	7.0	5.0
Passenger vehicles-exports	132.0	(9.4)	(25.6)	(48.9)	7.0	5.0
Small car						
Total domestic sales	9.4	30.4	0.3	(12.0)	21.1	52.7
Total export sales	67.3	6.5	1.5	(38.4)	1.1	6.2
Total vehicle sales	**13.8**	**27.8**	**0.4**	**(14.5)**	**19.8**	**50.1**

Source: Company, Kotak Institutional Equities estimates

Tata Motors standalone, Profit model, balance sheet and cash flow model, March fiscal year-ends, 2006-2011E (Rs mn)

	2006	2007	2008E	2009E	2010E	2011E
Profit model (Rs mn)						
Net sales	205,241	272,618	285,219	254,712	299,322	364,309
EBITDA	**23,822**	**30,191**	**28,191**	**14,463**	**32,451**	**36,352**
Other income	4,184	4,535	6,921	11,155	5,640	5,854
Interest	(2,264)	(3,131)	(2,824)	(6,736)	(11,484)	(12,375)
Depreciaiton	(5,209)	(5,863)	(6,523)	(8,745)	(10,129)	(11,769)
Profit before tax	**20,534**	**25,732**	**25,765**	**10,137**	**16,479**	**18,062**
Current tax	(3,824)	(4,825)	(1,460)	(608)	(1,071)	(1,174)
Deferred tax	(1,422)	(1,772)	(4,015)	483	(2,225)	(2,438)
Net profit	**15,289**	**19,135**	**20,289**	**10,012**	**13,183**	**14,450**
Earnings per share (Rs)	**39.2**	**47.0**	**49.8**	**20.8**	**23.7**	**26.0**
Balance sheet (Rs mn)						
Equity	55,371	68,698	78,395	126,268	135,842	146,683
Deferred tax liability	6,225	7,868	9,757	9,274	11,499	13,937
Total Borrowings	29,368	40,091	62,805	131,500	173,500	173,500
Current liabilities	69,419	77,280	106,566	97,638	102,803	107,782
Total liabilities	**160,383**	**193,937**	**257,524**	**364,680**	**423,644**	**441,902**
Net fixed assets	45,212	63,946	104,523	135,777	153,149	166,379
Investments	20,152	24,770	49,103	120,603	157,603	157,603
Cash	11,194	8,268	23,973	7,419	11,168	10,352
Other current assets	83,684	96,853	79,865	100,821	101,664	107,508
Miscellaneous expenditure	141	101	61	61	61	61
Total assets	**160,383**	**193,937**	**257,524**	**364,680**	**423,644**	**441,902**
Free cash flow (Rs mn)						
Operating cash flow excl. working capital	20,981	26,621	24,631	13,855	31,380	35,178
Working capital changes	(23,191)	(4,520)	37,114	(29,884)	4,322	(865)
Capital expenditure	(11,095)	(23,660)	(43,719)	(40,000)	(27,500)	(25,000)
Free cash flow	**(13,305)**	**(1,559)**	**18,026**	**(56,029)**	**8,202**	**9,313**
Ratios						
Debt/equity (X)	0.5	0.5	0.7	1.0	1.2	1.1
Net debt/equity (X)	0.2	0.3	0.1	0.1	0.9	0.8
RoAE (%)	28.3	27.7	24.7	9.0	9.3	9.4
RoACE (%)	**20.9**	**20.7**	**16.8**	**8.0**	**7.6**	**7.4**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Bank of India (BOI)

Banks/Financial Institutions

ADD

JULY 28, 2009

RESULT

Coverage view: Attractive

Price (Rs): 333

Target price (Rs): 370

BSE-30: 15,375

Mediocre quarter but valuations are not too demanding. Bank of India's NIM declined by 70 bps in the quarter on the domestic book as deposit growth outpaced loan growth. Asset quality in terms of reported NPLs and restructured assets were better than expected. Our earnings estimates for the company (EPS decline of 10% in FY2010E) and slippage assumptions (3.5%) are likely conservative capturing most of the downside risks. We retain our ADD rating as the valuations at 1.1X PBR FY2011E for an expected RoE of 18% are not too demanding.

Company data and valuation summary

Bank of India

Stock data			
52-week range (Rs) (high,low)			369-179
Market Cap. (Rs bn)			175.1
Shareholding pattern (%)			
Promoters			64.5
FIIs			14.3
MFs			1.4
Price performance (%)	**1M**	**3M**	**12M**
Absolute	(3.6)	23.8	16.7
Rel. to BSE-30	(7.4)	(8.5)	8.3

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	57.2	51.5	56.2
EPS growth (%)	100.0	(9.9)	9.1
P/E (X)	5.8	6.5	5.9
NII (Rs bn)	55.0	58.1	69.2
Net profits (Rs bn)	30.1	27.1	29.6
BVPS	224.1	267.2	314.2
P/B (X)	1.5	1.2	1.1
ROE (%)	29.2	21.0	19.3
Div. Yield (%)	2.4	2.2	2.4

NII growth at 10% - in line with expectations

Bank of India's net interest income (NII) for the quarter was Rs13 bn (up 10%yoy), in line with expectations (3% lower than estimates). The company was able to maintain its yield on advances on its domestic book at 10.7% in 1QFY10 (11.0% in 4QFY09) but since the growth in incremental growth in deposits (Rs53 bn) was ahead of its incremental growth in advances (Rs31 bn) the overall NIM was impacted. NIM of the company will likely improve over the next few quarters as the company's high cost deposits get repriced at a lower rate or if there is a pick up in credit demand in the remainder of the year. We currently expect the NIM to decline by around 30 bps in FY2010E compared to FY2009.

Loan growth has slowed down in recent quarters

BoI's loan growth has come off in the past few quarters in line with the management's strategy. The loan book as of June 2009 was Rs1.5 tn (20% yoy growth) and was at the same level as of March 2009. We note that the company's loan growth was fairly strong until 3QFY09, which could lead to a risk of higher NPLs in the event of a sharper-than-expected slowdown in the economy. We currently model an incremental slippage of 3.5% in FY2010E compared to the 1.9% observed in FY2009.

Reported asset quality remains healthy and quantum of restructured assets is at 4.5% of loans

The reported gross NPLs increased by 13% on a sequential basis to Rs28 bn (gross NPL ratio of 1.9%) as of June 2009 largely on account of a single account in the 'services' sector. Restructured assets of the company increased by a further Rs16.5 bn in 1QFY10 and the cumulative assets restructured as of June 2009 were Rs67 bn (4.5% of loan book). We note that the company discloses the restructured assets on a borrower basis rather than on a facility basis.

QUICK NUMBERS

- NIM declines sharply as deposit growth continues to be well in excess of credit growth
- Upgrade earnings by 11% in FY2010E
- Retain ADD rating with target price of Rs370 (Rs 360 earlier)

Non-interest income increased on account of higher fees and treasury income

BoI's non-interest revenues in 1QFY10 were Rs6.5 bn (up 14% yoy) driven by core fees of Rs2.6 bn and treasury income of Rs2.4 bn (up 2.5X yoy). There was a loss of around Rs700 mn on account of the adverse movement of the currency which was adjusted against the foreign exchange income line in the current quarter.

Other key operational highlights

- CASA ratio of the company (as proportion of domestic deposits) showed a marginal improvement—increased to 30.9% as of June 2009 from 30.5% as of March 2009

- BoI made an adhoc provision of Rs740 mn for the expected increase in wages on account of the current ongoing negotiations IBA and wage unions.

- The company made NPL provisions of Rs1.8 bn in 1QFY10 compared to Rs1.4 bn in 1QFY09. The provision coverage of the company reduced to 56% as of June 2009 (74% as of March 2009) as it utilized the floating provisions (Rs3.9 bn) as Tier II capital rather than adjusting it against the gross NPLs.

Bank of India's quarterly results-- P&L and key balance sheet items
March fiscal year-ends, 1QFY09-1QFY10

	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	% chg	1QFY10KS	% chg
Interest Income	35,483	39,628	43,810	44,931	43,777	23.4	41,513	5.5
- Loans	26,874	30,524	34,402	33,593	33,520	24.7	31,913	5.0
- Investments	7,859	8,046	8,652	9,146	9,643	22.7	8,800	9.6
- others	750	1,058	378	2,192	615	(18.1)	800	(23.2)
Interest expense	23,676	25,996	28,215	30,598	30,771	30.0	28,000	9.9
-interest on deposits	21,317	23,410	25,640	27,400	27,940	31.1	25,000	11.8
-interest on borrowings	1,169	1,430	1,120	1,610	1,090	142.2	3,000	(5.7)
-interest on subordinated	1,190	1,160	1,460	1,590	1,740	46.2	-	-
NII	11,808	13,631	15,594	14,334	13,006	10.1	13,513	(3.8)
Other income	5,664	6,495	10,506	7,854	6,459	14.0	6,450	0.1
- treasury	683	180	4,350	2,240	2,400	251.3	1,200	100.0
- core fees	2,309	2,641	2,870	3,110	2,630			
- forex income	1,125	1,020	2,370	1,180	360			
- recoveries	861	867	250	550	330			
- other income	686	1,787	670	770	740			
Total income	17,472	20,126	26,100	22,187	19,465	11.4	19,963	(2.5)
Operating expenses	6,748	7,979	8,107	8,107	8,529	26.4	7,800	9.3
- staff	4,598	4,817	5,180	4,779	5,331	15.9	4,800	11.1
- others	2,149	3,162	2,927	3,328	3,197	48.8	3,000	6.6
Operating profit	10,724	12,147	17,994	14,081	10,936	2.0	12,163	(10.1)
Provisions	3,490	2,868	2,720	3,846	2,234	(36.0)	2,500	(10.6)
NPLs	1,440	800	2,070	1,920	1,780	23.6	2,500	(28.8)
Invst depreciation	1,273	1,920	630	900	(1,280)	(200.6)	-	
Other provisions	778	150	20	1,020	1,730	122.5	-	
PBT	7,234	9,280	15,274	10,234	8,702	20.3	9,663	(9.9)
Tax	1,615	1,651	6,174	2,131	2,859	77.1	2,899	(1.4)
Net profit	**5,620**	**7,629**	**9,100**	**8,104**	**5,843**	**4.0**	**6,764**	**(13.6)**
Tax rate	22.3	17.8	40.4	20.8	32.9		30.0	
Advances (Rs bn)								
Global	1,229	1,293	1,361	1,447	1,478			
India	960	1,012	1,085	1,154	1,165			
Foreign	269	281	276	294	313			
Agriculture	129	140	151	163	160			
SME	211	224	239	254	256			
Retail	195	199	190	174	170			
Residential mortgage	61	58	65	73	80			
Business mortgage	30	29	28	23	22			
Auto finance	6	7	8	9	9			
Educational loan	11	12	13	13	14			
Others	86	92	77	56	46			
Deposits (Rs bn)								
Global	1,592	1,642	1,717	1,897	1,950			
India	1,327	1,382	1,472	1,595	1,660			
Foreign	266	261	245	302	290			
Saving deposits	348	355	359	379	394			
Current deposits	102	90	104	107	119			
CASA ratio on global deposits(%)	28.2	27.1	27.0	25.6	26.3			
CASA ratio on Indian deposits(%)	33.9	32.2	31.4	30.5	30.9			
Investments (Rs bn)								
Global	449	424	466	533	571			
India	401	375	416	480	510			
Foreign	48	49	50	53	62			
SLR investments	359	340	376	433	467			
Gsec	352	333	369	426	460			
Other approved securities	7	7	7	7	6			

Source: Company, Kotak Institutional Equities estimates

Bank of India-- key analytical parameters
March fiscal year-ends, 1QFY09-1QFY10

	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	% chg
Asset quality						
Gross NPLs (Rs bn)	20.2	19.8	22.1	24.7	27.9	38.2
Gross NPLs (%)	1.6	1.5	1.6	1.7	1.9	
Net NPLs (Rs bn)	6.3	6.1	7.0	6.3	12.3	96.4
Net NPLs (%)	0.5	0.5	0.5	0.4	0.8	
				1.27	1.05	
Yield management measures (%)						
Cost of deposits	5.5	5.8	6.1	6.1	5.8	
India	6.0	6.3	6.6	6.7	6.5	
Foreign	3.0	3.1	3.4	2.4	2.1	
Cost of funds	5.1	5.4	5.6	5.7	5.4	
India	5.5	5.8	6.0	6.3	6.0	
Foreign	3.4	3.4	3.8	2.8	2.6	
Yield on advances	9.2	9.8	10.5	9.7	9.3	
India	10.3	11.2	11.8	11.0	10.7	
Foreign	4.9	4.8	5.5	4.6	3.9	
Yield on investments	7.3	7.5	7.9	7.4	7.1	
India	7.5	7.7	8.0	7.6	7.3	
Foreign	5.7	5.6	6.7	6.1	4.9	
Yield on funds	7.7	8.2	8.6	8.3	7.7	
India	8.3	9.0	9.3	9.2	8.5	
Foreign	4.9	4.8	5.5	4.3	4.0	
Spread	2.6	2.8	3.0	2.7	2.3	
Domestic	2.8	3.1	3.3	2.9	2.5	
Foreign	1.5	1.5	1.8	1.5	1.4	
Capital adequacy (%)						
CAR	12.2	12.3	13.4	13.0	13.3	
- Tier I	7.8	8.2	8.9	8.9	9.2	
- Tier II	4.41	4.1	4.47	4.1	4.07	
RWA (Rs bn)	1,288	1,322	1,315	1,399	1,413	
Tier I	101	108	117	125	130	
Tier II	57	54	59	57	58	

Source: Company, Kotak Institutional Equities estimates

We increase our FY2010E earnings by 10%
March fiscal year-ends, 2010-2011E (Rs mn)

	New estimates		New estimates		% change	
	2010E	2011E	2010E	2011E	2010E	2011E
Net interest income	55,651	66,379	58,105	69,160	4.4	4.2
Loan growth (%)	15.5	15.7	16.5	15.9		
NIM (%)	2.41	2.52	2.51	2.62		
Loan loss provisions	16,937	21,363	16,245	21,573	(4.1)	1.0
Other income	27,624	29,558	28,624	29,558	3.6	-
Fee income	12,554	14,437	12,554	14,437	-	-
Treasury income	3,000	2,500	4,000	2,500		
Operating expenses	33,234	36,488	33,578	36,867	1.0	1.0
Employee expenses	20,517	22,495	20,861	22,874	1.7	1.7
PBT	24,327	27,963	27,103	29,563	11.4	5.7
Net profit	**24,327**	**27,963**	**27,103**	**29,563**	**11.4**	**5.7**
PBT-treasury + loan loss provisions	**38,264**	**46,826**	**39,348**	**48,636**	**2.8**	**3.9**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Bank of Baroda (BOB)

Banks/Financial Institutions

ADD

JULY 28, 2009

CHANGE IN RECO.

Coverage view: Attractive

Price (Rs): 418

Target price (Rs): REDUCE

BSE-30: 15,375

Margins disappoint, but asset quality trends are positive. Core earnings trends (margins and fees) were somewhat less than expected. However, the balance sheet strength improved as delinquency was only at 1.3%. We expect margins to improve from 2QFY10E as deposits start repricing at much lower rates. With net NPLs at 0.27% and provision coverage of 82%, we are comfortable with asset quality. The stock trades at 1X FY2011E PBR. We raise our target price to Rs480 and upgrade to ADD.

Company data and valuation summary

Bank of Baroda

Stock data			
52-week range (Rs) (high,low)			485-170
Market Cap. (Rs bn)			152.8
Shareholding pattern (%)			
Promoters			53.8
FIIs			13.5
MFs			12.3
Price performance (%)	1M	3M	12M
Absolute	(4.0)	33.2	65.0
Rel. to BSE-30	(7.8)	(1.5)	53.2

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	60.9	60.9	62.1
EPS growth (%)	12.5	0.0	1.9
P/E (X)	6.9	6.9	6.7
NII (Rs bn)	51.2	56.6	69.6
Net profits (Rs bn)	22.3	22.3	22.7
BVPS	309.6	360.0	411.4
P/B (X)	1.3	1.2	1.0
ROE (%)	18.7	16.3	14.7
Div. Yield (%)	2.2	2.2	2.2

Upgrade to ADD after underperformance of stock and asset quality comfort

We upgrade our recommendation on Bank of Baroda (BOB) to ADD with a target price of Rs480. The stock has underperformed by 11% the Sensex and Bankex by 8% since our last downgrade on June 22nd 2009. The asset quality trends appear to be better than expected earlier as there has been negligible new restructuring, incremental delinquency in 1QFY10 was only 1.3% and net NPLs have further reduced as the bank has made higher loan loss provisions.

Margins declined in 1QFY10; likely to improve going forward

One of key concerns in the bank's 1QFY10 results has been net interest margins, which declined sharply to 2.37% (from 2.9% in 4QFY09). This was largely on account of a 50 bps lending rate reduction affected from April 2009 onwards, which had a full quarter impact. We expect margins to improve going forward as lending rate reduction has an immediate impact on margins deposit repricing is likely in 2QFY10 and 3QFY10. We note that BoB has not followed other public banks that reduced rates in the last week of June (impact on margins to be felt in 2QFY10E).

Balance sheet growth remained strong – loans and deposits were up 28%

BoB's loans as of June 2009 stood at Rs1.43 tn—a growth of 28% yoy. The domestic loan book constituted Rs1.1 bn (25% yoy growth) of the overall loans. On a qoq basis, the domestic loan book has declined by 3%. The growth has been well diversified, with retail growing by 20% yoy, agriculture growing by 31% yoy and SMEs growing by 25% yoy. Deposits also grew by 28%, with absolute CASA deposits growing by 19% yoy and CASA proportion has been maintained at 35% of domestic deposits.

Non-interest income up 37%, largely driven by treasury

Treasury gains were strong at Rs2.5 bn (up 1.8X yoy) during the quarter and were the key drivers of income. Non-interest income (excluding treasury and recoveries) increased by 8% yoy to Rs4 bn in 1QFY10. A large part of this income was driven by core fees of Rs3 bn (up 11% yoy). The growth appears lower, as new sanctions and disbursements have been very subdued during the quarter as compared to the previous quarter.

QUICK NUMBERS

- NII up by 8% yoy, as margins decline sharply by 53 bps
- Loans up 28% yoy and deposits also 28% yoy
- Delinquency at 1.3%; Net NPLs at 0.27%
- Upgrade our recommendation to ADD

Asset quality trend is comfortable

One of the key positive takeaways from the current quarter has been the bank's ability to manage asset quality in the current environment. Reported gross NPL ratio and net NPL ratio as of June 2009 were at 1.6% and 0.3%, respectively, with a provision coverage ratio of 82%. In 1QFY10, the bank made higher NPL provisions resulting in net NPLs declining from 0.31% as of FY2009 to 0.28% as of 1QFY10 and provision coverage also improved from 76% to 82%. Both the gross and net NPLs declined sequentially in absolute amounts during the quarter. More important, BoB's incremental delinquencies during 1QFY10 were Rs4.5 tn, which is 1.3% (annualized) of the loan book. We build in 2.5% delinquency in FY2010E and 2% in FY2011E. The management appears confident of maintaining its delinquency at 1.25-1.5%.

Restructured assets were at the same levels as of March 2009

Restructured assets were at Rs42 bn as of June 2009. There has been no increase in the restructured assets as compared to the March 2009 numbers (Rs26.6 bn restructured + proposals of Rs16 bn). The overall restructured assets are 2.9% (facility wise) of the loan book. The management highlighted that there are no new proposals pending. Of the restructuring done, CDR cases has been negligible and only standard assets are restructured.

Write-back in international and equities book reduce provision burden.

BoB reported negative provisions of Rs0.4 bn during 1QFY10. This is despite a high NPL provisions (including write-offs) in 1QFY09 of Rs3.2 bn. The bank benefited from a write-back of Rs940 mn on its CLN portfolio on account of improved conditions in the international financial markets and Rs2.6 bn on its equities portfolio.

Bank of Baroda quarterly results and key balance sheet items
March fiscal year-ends, 1QFY09-1QFY10 (Rs mn)

	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	% chg	1QFY10KS	Actval Vs KS
Interest income	33,538	35,510	41,080	41,388	40,321	20.2	38,500	4.7
Interest on advances	23,897	26,892	30,422	30,762	30,366	27.1	29,000	4.7
Income from invts	8,512	7,265	9,085	8,845	8,902	4.6	8,500	4.7
Bal with RBI	1,129	1,353	1,573	1,781	1,053	(6.7)	1,000	5.3
Interest expenses	22,368	24,172	26,462	26,680	28,274	26.4	25,000	13.1
Net interest income	**11,170**	**11,338**	**14,618**	**14,708**	**12,047**	**7.9**	**13,500**	**(10.8)**
Non-interest income	5,126	4,759	9,156	8,536	7,030	37.2	6,500	8.2
Other income (excld treasury)	4,236	3,837	4,285	5,528	4,476	5.7	5,000	(10.5)
Other income (excld treasury and recove	3,691	3,404	3,461	4,699	3,977	7.7		
Fee income	2,727	1,632	1,729	6,142	3,013	10.5		
Forex income	942	551	1,367	860	963	2.2		
Treasury income	890	923	4,180	3,009	2,554	187.0	1,500	70.3
Total income	**16,296**	**16,097**	**23,774**	**23,244**	**19,077**	**17.1**	**20,000**	**(4.6)**
Operating expenses	7,694	8,250	9,627	10,199	8,978	16.7	10,000	(10.2)
Employee expenses	5,227	5,244	6,673	6,347	5,942	13.7	6,000	(1.0)
Other operating expenses	2,467	3,006	2,954	3,853	3,036	23.1	4,000	(24.1)
Operating profit	8,602	7,847	14,147	13,045	10,099	17.4	10,000	1.0
Provisions	2,803	1,810	3,501	2,097	(390)	(113.9)	2,500	(115.6)
Loan loss	581	620	1,040	2,030	3,171	445.6	2,500	26.8
Invt. depreciation	2,788	1,189	2,329	(340)	(3,598)	(229.0)		
PBT	5,799	6,037	10,646	10,947	10,489	80.9	7,500	39.9
Taxation	2,090	2,084	3,562	3,421	3,635	73.9	2,625	38.5
Net profit	**3,709**	**3,953**	**7,084**	**7,527**	**6,854**	**84.8**	**4,875**	**40.6**
PBT-invt gains/losses	7,697	6,304	8,104	7,599	4,337	(43.7)	6,121	(29.2)
PBT-invt gains + provisions	8,278	6,924	9,144	9,629	7,508	(9.3)	9,832	(23.6)
Tax rate	36.0	34.5	33.5	31.2	34.7		35.0	
Key balance sheet items (Rs bn)								
Deposits	1,549	1,611	1,686	1,924	1,986	28.2		
Domestic	1,238	1,310	1,365	1,514	1,544	24.7		
CASA ratio (%)	36.9	35.9	36.1	34.9	35.1			
Foreign	311	301	321	410	442	42.1		
Advances	1,112	1,195	1,272	1,440	1,427	28.3		
Domestic	853	913	981	1,093	1,066	24.9		
Retail loans	167	177	188	197	202	20.9		
Home loans	73	76	79	83	87	20.3		
SME	121	127	137	147	151	25.2		
Farm credit	137	149	156	170	180	31.2		
Foreign	259	282	291	347	361	39.5		
Investments	466.4	404.6	460.6	530.8	565.4	21.2		
AFS	149	-	-	149	123			
Duration (years)	1.9	1.8	1.8	2.7	3.0			
Yield management measures (%)								
Average cost of deposits	5.55	5.59	5.73	5.71	5.41			
Avg. cost of deposits (domestic)	6.05	6.12	6.25	6.30	6.16			
Avg. cost of deposits (international)	3.43	3.38	3.52	3.29	2.65			
Yield on advances (total)	9.08	9.37	9.58	9.50	8.72			
Yield on advances (domestic)	10.34	10.73	11.25	10.86	10.10			
Yield on advances (international)	4.91	-	5.58	5.19	4.69			
Yield on investments (total)	7.22	-	7.18	7.05	6.83			
Yield on investments (domestic)	-	-	7.30	7.18	7.07			
Yield on investments (international)	-	-	5.88	6.48	3.87			
NIM	2.76	2.77	3.30	2.91	2.37			
Asset quality details								
Gross NPLs (Rs bn)	20.9	19.5	19.2	18.4	20.7	(1.1)		
Gross NPLs (%)	1.9	1.6	1.5	1.3	1.6			
Net NPLs (Rs bn)	5.8	5.0	4.7	4.5	3.8	(34.2)		
Net NPLs (%)	0.5	0.4	0.4	0.3	0.3			
Capital adequacy details (%)								
CAR	13.0	12.9	13.2	14.1	14.6			
Tier I	7.9	7.8	8.5	8.5	8.8			
Tier II	5.2	5.1	4.7	5.6	5.8			

Source: Company, Kotak Institutional Equities estimates

Bank of Baroda-- change in estimates
March fiscal year-ends, 2010-2011E (Rs mn)

	Old Estimates		New Estimates		% change	
	2010E	2011E	2010E	2011E	2010E	2011E
NII	56,495	69,490	56,551	69,623	0.1	0.2
Loan growth	19.4	15.9	19.4	15.9		
NIM	2.4	2.5	2.4	2.5		
Non-treasury other inc	19,891	21,712	19,891	21,712	0.0	0.0
Operating expenses	40,422	44,441	40,422	44,441	0.0	0.0
Employee expenses	26,299	28,403	26,299	28,403	0.0	0.0
Provisions and contingencies	0	0	0	0	0.0	0.0
Loan loss prov	10,269	16,709	10,269	15,781	0.0	-5.6
PBT	30,395	33,852	33,251	34,912	9.4	3.1
PAT	**20,364**	**22,003**	**22,278**	**22,693**	**9.4**	**3.1**
PBT- invt gains + provisions	**35,964**	**46,761**	**36,020**	**46,893**	**0.2**	**0.3**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Tata Communications (TCOM)

Telecom

REDUCE

JULY 28, 2009

RESULT

Coverage view: Cautious

Price (Rs): 481

Target price (Rs): 400

BSE-30: 15,375

TCOM 1QFY10 results—a mixed bag. Tata Communications' standalone 1QFY10 results disappointed on the revenue front with reported revenues of Rs8.4 bn (down 5% qoq, down 2.4% yoy) coming in below our expectation of Rs9.2 bn. Reported EBITDA of RS2.2 bn, however, beat our expectations aided by better-than-expected cost control measures. We await consolidated results before reviewing our rating on the company. Maintain REDUCE with a SOTP-based target price of Rs400/share.

Company data and valuation summary

Tata Communications

Stock data			
52-week range (Rs) (high,low)			660-320
Market Cap. (Rs bn)			137.2
Shareholding pattern (%)			
Promoters			76.2
FIIs			10.2
MFs			0.3
Price performance (%)	1M	3M	12M
Absolute	1.8	(11.7)	10.7
Rel. to BSE-30	(2.3)	(34.7)	2.8

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	13.6	14.0	15.2
EPS growth (%)	24.0	3.2	8.2
P/E (X)	35.4	34.4	31.8
Sales (Rs bn)	37.7	42.2	45.6
Net profits (Rs bn)	3.9	4.0	4.3
EBITDA (Rs bn)	9.4	10.3	11.1
EV/EBITDA (X)	15.1	13.7	12.7
ROE (%)	5.4	5.2	5.5
Div. Yield (%)	1.0	1.4	1.6

1QFY10—disappointing revenues but impressive OPM expansion

TCOM's 1QFY10 reported revenues of Rs8.4 bn (down 5% qoq, down 2.4% yoy) were below our expectation of Rs9.2 bn. Revenue underperformance was driven by a further decline in voice segment revenues; voice revenues fell 17% qoq and 16% qoq to Rs3.4 bn. Data and others segment posted robust quarters logging 6% and 3% sequential growth, respectively. EBITDA margin at 25.9% (+480 bps qoq, +330 bps yoy) was however, substantially ahead of our expectation of 22.6%. Employee expenses declined 6.7% qoq while SG&A expenses were down an impressive 35% qoq. Decline in SG&A expenses was driven by lower doubtful debt provisions, lower professional fees, and other operational efficiencies. Net income of Rs319 mn (down 4% qoq, down 68% yoy) was below our expectation of Rs523 mn, but was impacted by forex loss of Rs101 mn (versus a gain of Rs93 mn in 1QFY09).

Pressure on standalone voice revenues likely to continue

A good chunk of TCOM's standalone voice revenues accrue from the domestic NLD business. We expect the pressure on the company's NLD business increase over the coming quarters as (1) growth in NLD volumes is deceleration, impacted by the general economic slowdown, and decreasing proportion of NLD minutes among the Indian wireless subscribers (driven by declining quality of incremental wireless subs), and (2) wireless players expanding their NLD infrastructure; large wireless players like Idea Cellular, Vodafone, etc. have been expanding their NLD backbone in recent times to become more integrated players and thus the third-party NLD minutes pie available to TCOM is likely shrinking.

We await consolidated results; maintain rating and target price

We await TCOM's consolidated results to review our rating and target price on the company. We maintain our REDUCE rating on the stock and our SOTP-based 12-month forward target price of Rs400/share. We value TCOM's remaining stake in TTSL using an equity valuation of US$5 bn for TTSL, while we value TCOM's Tyco and Teleglobe assets at the purchase price. We also ascribe a value of Rs34 bn (Rs119/share) to the surplus real estate assets. Exhibit 2 gives the SOTP-based fair value computation for TCOM.

Exhibit 1: TCOM standalone interim results, March fiscal year-ends (Rs mn)

	qoq			yoy			versus KIE		
	1Q 2010	4Q 2009	% chg.	1Q 2010	1Q 2009	% chg.	1Q 2010	1Q2010E	% chg.
Revenues	**8,429**	**8,869**	***(5.0)***	**8,429**	**8,632**	***(2.4)***	**8,429**	**9,196**	***(8.3)***
Staff cost	(913)	(979)	*(6.7)*	(913)	(752)	*21.5*	(913)		
Interconnection, network, license fee costs	(3,791)	(3,726)	*1.7*	(3,791)	(4,088)	*(7.3)*	(3,791)		
SG&A	(1,541)	(2,385)	*(35.4)*	(1,541)	(1,869)	*(17.5)*	(1,541)		
Total expenditure	(6,245)	(7,090)	*(11.9)*	(6,245)	(6,708)	*(6.9)*	(6,245)	(7,118)	*(12.3)*
EBITDA	**2,184**	**1,780**	***22.7***	**2,184**	**1,924**	***13.5***	**2,184**	**2,078**	***5.1***
EBITDA margin (%)	**25.9**	**20.1**		**25.9**	**22.3**		**25.9**	**22.6**	
Interest/other income	74	397	*(81.5)*	74	581	*(87.3)*	74	407	*(81.9)*
Depreciation and amortization	(1,234)	(1,305)	*(5.5)*	(1,234)	(797)	*54.9*	(1,234)	(1,311)	*(5.9)*
Interest expense	(525)	(442)		(525)	(196)		(525)	(383)	
Pre-tax profits	**498**	**428**	***16.2***	**498**	**1,512**	***(67.1)***	**498**	**791**	***(37.0)***
Extraordinaries/Prior Year	—	3,467		—	—		—	—	
Tax (incl. deferred tax)	(179)	(871)	*(79.5)*	(179)	(528)	*(66.2)*	(179)	(268)	*(33.4)*
Reported net income	**319**	**3,024**	***(89.4)***	**319**	**983**	***(67.5)***	**319**	**523**	***(38.9)***
Adjusted net income	**319**	**333**	***(4.0)***	**319**	**983**	***(67.5)***	**319**	**523**	***(38.9)***
Recurring EPS	**1.1**	**1.2**		**1.1**	**3.5**		**1.1**	**1.8**	
Effective tax rate (%)	35.9	22.4		35.9	34.9		35.9	33.9	
Segment results									
Revenues									
Wholesale voice	3,410	4,087	*(17)*	3,410	4,039	*(16)*			
Enterprise and carrier data	3,490	3,298	*6*	3,490	3,536	*(1)*			
Others	1,530	1,484	*3*	1,530	1,058	*45*			
EBIT (before unalloc. expenses)									
Wholesale voice	613	1,015	*(40)*	613	727	*(16)*			
Enterprise and carrier data	3,036	2,684	*13*	3,036	2,578	*18*			
Others	613	945	*(35)*	613	627	*(2)*			

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Our sum-of-the-parts 12-month forward target price for TCOM is Rs400/share

	Estimated value		Value in SOTP		
	(Rs bn)	(Rs/share)	(Rs bn)	(Rs/share)	Comments
1. Core business					
Equity value	**40**	**141**	**40**	**141**	
2. Investments					
TATA Teleservices (TTSL)	26	90	26	90	Valuation based on US$5 bn equity value for TTSL
Tyco Global Network (TGN)	6	20	5.7	20	Valued at book value (100% taken in SOTP)
Teleglobe (TG)	8	28	8.1	28	Valued at book value (100% taken in SOTP)
SNO (South Africa)	0	0	0	0	No NPV ascribed (i.e. neither capex nor revenues modeled)
India retail business	0	0	0	0	No NPV ascribed (i.e. neither capex nor revenues modeled)
Total	**40**	**139**	**40**	**139**	
3. Others					
Surplus real estate	61	216	34	119	55% of estimated market value of surplus land
Total	**61**	**216**	**34**	**119**	
Grand total [1]+[2]+[3]	**141**	**495**	**114**	**398**	**12-month forward target price is Rs400/share**

Source: Kotak Institutional Equities estimates

kotak Institutional Equities

Glenmark Pharmaceuticals (GNP)

Pharmaceuticals

BUY

JULY 28, 2009

RESULT

Coverage view: Attractive

Price (Rs): 264

Target price (Rs): 315

BSE-30: 15,375

The worst is past. 1QFY10 results disappointed on sales but EBITDA margin surpassed our estimates. Forex losses of Rs340 mn impacted PBT but its deferred tax credit softened the blow. GNP expects PAT of Rs3-4 bn for FY2010E and we are at the lower end of guidance. We retain our price target of Rs315 and make minor changes to FY2010-11E estimates. We expect GNP to continue to outperform earnings—announcements relating to Oglemilast would be the key catalyst.

Company data and valuation summary

Glenmark Pharmaceuticals

Stock data			
52-week range (Rs) (high,low)			697-119
Market Cap. (Rs bn)			70.1
Shareholding pattern (%)			
Promoters			52.1
FIIs			28.2
MFs			1.9
Price performance (%)	**1M**	**3M**	**12M**
Absolute	13.3	32.3	(61.2)
Rel. to BSE-30	8.8	(2.2)	(64.0)

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	11.1	11.6	15.7
EPS growth (%)	(57.0)	4.2	35.1
P/E (X)	23.7	22.7	16.8
Sales (Rs bn)	20.9	25.2	31.4
Net profits (Rs bn)	2.9	3.1	4.2
EBITDA (Rs bn)	6.3	6.6	8.3
EV/EBITDA (X)	13.8	13.0	10.4
ROE (%)	15.9	13.8	16.2
Div. Yield (%)	0.0	0.0	0.0

1QFY10 sales at Rs5.4 bn, 11% lower than our estimates

Revenues were 11% lower than estimates due to lower sales in all generic markets and Latin America. India sales at Rs1.6 bn grew 19% yoy and were in line with estimates. Revenue for semi-regulated markets comprising Africa, Russia beat our estimates by 8% on account of re-stocking by distributors.

Adjusted EBITDA margin was 33% versus estimate of 31%

GNP incurred forex loss of Rs340 mn on account of asset revaluation of loans and advances given to subsidiaries. This is reported in other expenses. Adjusted margin excluding forex loss and R&D spend was 33% versus estimate of Rs31%. Margin expansion was due to expense control. Material cost was higher than estimated.

PAT at Rs535 mn versus estimate of Rs612 mn

PAT was 13% lower than our estimates due to (1) forex loss of Rs340 mn (2) lower other income of Rs76 mn versus estimated Rs150 mn. Tax rate was nil versus estimated 25% this quarter. The cash tax rate was 16%, while GNP got deferred tax credit for losses related to forex.

GNP FY2010E PAT guidance of Rs3-4 bn

We leave our FY2010-11E our estimates largely unchanged. We estimate PAT of Rs3 bn in FY2010E at the lower-end of GNP guidance. We believe that in order to reach the upper end of its guidance, GNP requires either an exclusivity product in US or sharp reduction in effective tax rate. We have provided for 20% effective tax rate for the next three quarters. Since GNP has acquired a new facility in tax-free area in 1QFY10, we could see some upside surprise.

QUICK NUMBERS

- Adjusted EBITDA margin was 33% versus estimate of 31%
- PAT at Rs535 mn versus estimate of Rs612 mn
- GNP gives FY2010E PAT guidance of Rs3-4 bn

1QFY10 sales at Rs5.4 bn, 11% lower than our estimates

- US, one of the largest markets for GNP (31% of sales), reported revenues of US$35 mn versus our estimate of US$45 mn. For the past two quarters, revenues have been lower than the quarterly run rate of US$40-50 mn reported in the preceding six quarters. However, this previously reported run rate is not credible since GNP was over reporting revenues of generic Trileptal which has been corrected in this quarter. GNP is guiding toward revenues of US$160-180 mn in FY2010E.

During this quarter, GNP received three final ANDA approvals and launched two products. GNP filed 6 ANDAs in 1Q FY2010E. In the forthcoming quarter, GNP plans to file at least 6-8 new products and anticipates launch of at least six new products.

- India sales at Rs1.6 bn were in line exhibiting 19% growth yoy. GNP continued to grow much faster than the Indian pharmaceutical market in 1QFY10. GNP launched seven products during the quarter. GNP gained market share in dermatology and cardiology segment.

- Sales in Latin America declined to US$7 mn and were 23% lower than our estimates. Brazil reported sales growth yoy however rest of Latin America reported muted sales growth due to delayed approval of new products. Margins remain under pressure in this region on account of high fixed cost. GNP expects this business to break even in subsequent quarters as sales scale up.

- Sales from RoW markets (Asia/Africa/CIS) at US$16 mn versus estimate of U$20 mn. In rupee terms, sales beat our forecasts by 8% and grew 99% yoy. This growth was on account of distributors re-stocking this quarter. GNP does not expect such high growth rates to sustain in coming quarters. GNP expects sales growth of 30-40% for the remaining three quarters of FY2010E.

- European generic revenues at US$6 mn were above estimate of US$3 mn. During the quarter, GNP increased its coverage in the region by initiating sales in an additional market. It also successfully signed out-licensing deals for three products in few other EU markets.

Adjusted EBITDA margin was 33% versus estimate of 31%

GNP incurred forex loss of Rs340 mn on account of asset revaluation of loans and advances given to subsidiaries. This is reported in other expenses. Adjusted margin excluding forex loss and R&D spend was 33% versus estimate of Rs31%.

Materials cost at 33% was higher than estimated 30% while staff cost at 15% was higher than estimated 13%. However, other expenses excluding forex loss was 19% versus estimate of 26%.

PAT at Rs535 mn versus estimate of Rs612 mn

PAT was 13% lower than our estimates due to (1) forex loss of Rs340 mn (2) lower other income of Rs76 mn versus estimate of Rs150 mn. However, the tax rate was nil versus estimated of 25% for the quarter.

Interim results- Glenmark , March fiscal year-ends (Rs mn)

	1QFY10	1QFY10E	1QFY09	4QFY09	% change 1QFY10E	% change 1QFY09	% change 4QFY09
Net sales	**5,437**	**6,105**	**4,608**	**4,911**	**(11)**	**18**	**11**
Consumption of raw materials	1,358	1,831	1,219	3,321	(26)	11	(59)
(Inc)/ in stock in trade	418	—	52	(1133)	NM	707	NM
Personnel cost	821	800	729	746	3	13	10
Other expenses	1,036	1,600	1,019	2,209	(35)	2	(53)
R&D	250	300	180	200	(17)	39	25
Total Expenditure	4,223	4,531	3,199	5,343	(7)	32	(21)
EBITDA	**1,214**	**1,573**	**1,410**	**(432)**	**(23)**	**(14)**	**NM**
Other income	76	150	109	1,094	(49)	(30)	(93)
Research income	—	—	—	—	NM	NM	NM
Interest	438	400	155	719	10	183	(39)
Depreciation	312	507	215	296	(39)	45	5
PBT	**540**	**817**	**1,148**	**(354)**	**(34)**	**(53)**	**NM**
Current Tax	85	204	216	(73)	(58)	(60)	NM
Deferred Tax	(80)	—	(221)	—	NM	NM	NM
PAT	**535**	**612**	**1,154**	**(280)**	**(13)**	**(54)**	**NM**
Generics	**2,387**	**2,963**	**2,381**	**2,219**	**(19)**	**0**	**8**
USA	1,721	2,191	1,909	1,564	(21)	(10)	10
Europe	41	66	0	74	(37)	NM	(44)
Latin America	68	122	71	76	(44)	(4)	(10)
API	557	584	401	505	(5)	39	10
Specialty	**3,050**	**3,142**	**2,227**	**2,692**	**(3)**	**37**	**13**
India	1,659	1,643	1,397	1,617	1	19	3
Europe	269	331	124	384	(19)	118	(30)
Latin America	335	438	312	269	(23)	7	25
SRM	786	730	394	423	8	99	86
Research income	—	—	—	—	NM	NM	NM
Total Revenues	**5,437**	**6,105**	**4,608**	**4,911**	**(11)**	**18**	**11**

Source: Kotak Institutional Equities estimates

GNP FY2010E PAT guidance is for Rs3-4 bn

- We leave our FY2010-11E our estimates largely unchanged. We estimate PAT of Rs3 bn in FY2010E at the lower-end of GNP guidance.

- Due to the presence of many one-off items in FY2009 results, it is necessary to provide a comparable EBITDA margin. For FY2009, we arrive at adjusted EBITDA margin of 32.2% after adding back research expenses, Rs1.3 bn expenses that will not recur in FY2010E. We forecast adjusted margins to increase to 34.4% in FY2010E and 33.4% in FY2011E.

- While we expect 28% growth in adjusted EBITDA in FY2010E, reported PAT before exceptional costs will show only a modest increase of 8% due to (1) doubling of R&D costs in FY2010E to Rs2.4 bn. This is due to a combination of higher costs for clinical trials and GNP decision to expense all R&D costs to revenue statement in FY2010E. Around Rs1 bn of R&D expense was capitalized in FY2009 (2) we forecast lower other income of Rs670 mn in FY2010E versus Rs1.7 bn in FY2009 which included forex gains.

- We think to reach the upper end of guidance GNP requires either an exclusivity product in US or sharp reduction in effective tax rate. In 1QFY10 GNP cash tax rate was 16%. We have provided for a 20% effective tax rate for the next three quarters. Since GNP has acquired a new facility in tax-free area in 1QFY10, it could provide a positive surprise going forward.

Profit and loss, March fiscal year-ends, 2007-2011E

	2007	2008	2009E	2010E	2011E
Net sales	**10,442**	**16,937**	**20,930**	**25,160**	**31,448**
Materials	(3,164)	(4,722)	(6,646)	(8,089)	(8,721)
Selling and administration	(2,133)	(2,945)	(4,412)	—	—
Employee cost	(1,112)	(1,626)	(3,123)	(3,521)	(4,049)
R& D	(433)	(758)	(900)	(2,350)	(2,830)
Others	(732)	(1,284)	(1,300)	(5,226)	(8,177)
Total expenditure	**(7,574)**	**(11,335)**	**(16,380)**	**(19,186)**	**(23,777)**
EBITDA	**2,868**	**5,603**	**4,550**	**5,974**	**7,671**
Depreciation and amortisation	(423)	(717)	(1,027)	(1,387)	(1,703)
EBIT	**2,445**	**4,886**	**3,523**	**4,587**	**5,969**
Net finance cost	(398)	(710)	(1,405)	(1,538)	(1,300)
Other income	171	537	1,740	676	600
NCE Income	1,395	2,403	—	—	—
Pretax profits before extra-ordinaries	**3,613**	**7,115**	**3,858**	**3,725**	**5,269**
Current tax	(209)	(595)	(913)	(723)	(1,106)
Deferred tax	(304)	(199)	(84)	80	—
Reported net profit	**3,101**	**6,321**	**2,861**	**3,082**	**4,162**

Source: Kotak Institutional Equities estimates

Progress of innovative research – still waiting for out licensing deal

On melogliptin, GNP continues to be in discussions with various partners to take the molecule forward. Licensing deal is likely by end of 2009 according to GNP. A typical phase III trial for melogliptin would cost about US$40-50 mn spread over three years. GNP had mentioned in the past that their first objective is to try and get a partner as quickly as possible. GNP expects to spend ~US$50 mn in FY2010E on R&D expenses. GNP believes that it has the requisite capital to invest in melogliptin provided they are able to license rest of their pipeline. We think that investors are likely to be more impressed if GNP is able to find a partner for this molecule shortly.

GNP has in-licensed crofelemer and it continues to progress well in phase III clinical trials. GNP expects to launch the product in non regulated markets in FY2011E. We have not yet included this opportunity in our forecasts. GNP estimates peak sales of the product to be US$80 mn in about three years.

GNP PDE4 inhibitor oglemilast continues in Phase II B clinical trials with partner Forest. GNP expects that top line results of studies for treatment of COPD (Chronic Obstructive Pulmonary Disease) will be announced in 2QFY10E. GNP continues to be in discussion with potential partners for European region.

GNP expects to conclude at least one deal with innovator companies during this year. It believes that the atmosphere for such activity has started changing after about 9 months of lull caused by recession in the developed world.

Not factoring in any value for patent challenge pipeline in US

Our database suggests that GNP has made the following eight patent challenges. They are: Clarinex (desloratadine) Tablets, Cutivate fluticasone) Lotion, Lunesta eszopiclone) Tablets, Strattera (atomoxetine) Capsules, Tarka (trandolapril/verapamil) ER Tablets, Vanos (fluocinonide) Cream, Zetia (ezetimibe) Tablets and Zyvox (linezolid) Tablets.

GNP believes that it has five products where it is potentially first to file and in three cases it is the only patent challenger. GNP has received tentative approval for generic Zetia where it believes it has first-to-file status. A thirty-month stay granted under the statute is set to expire in October 2010. GNP mentioned that it is not planning to launch the product at risk and is waiting for the court to finalize the trial schedule. We have not included any value from the patent challenges in our price target.

Lower target price multiples stay

After 3QFY09 results, we lowered the target multiples used in valuation across various business segments by 15% due to delays in investor communication by the management. We thought that GNP delayed updating investors about situation in Brazil/Russia. Indian finished dosage is valued at 15.3X, US generic at 14X, rest of the world business at 13X and API business at 8.5X. We think that branded generic businesses across world will continue to get a premium valuation due to sticky demand and stable profits.

We are not yet inclined to reinstate higher multiples used in the past. We need a couple of more quarters where GNP shows improvements in its operating performance. We have not introduced FY2012E as we await annual report for FY2009. Once we start using these estimates for setting share price target, our target price could increase further.

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

	New estimates		Old estimates		% change	
	2010E	2011E	2010E	2011E	2010E	2011E
Net sales	**25,160**	**31,448**	**26,483**	**32,938**	**(5)**	**(5)**
Materials	(8,089)	(8,721)	(7,609)	(9,457)	6	(8)
Selling and administration	—	—	—	—		
Employee cost	(3,521)	(4,049)	(3,500)	(4,025)	1	1
R& D	(2,350)	(2,830)	(2,401)	(2,964)	(2)	(5)
Others	(5,226)	(8,177)	(6,750)	(8,564)	(23)	(5)
Total expenditure	**(19,186)**	**(23,777)**	**(20,260)**	**(25,010)**	**(5)**	**(5)**
EBITDA	**5,974**	**7,671**	**6,223**	**7,928**	**(4)**	**(3)**
Depreciation and amortisati	(1,387)	(1,703)	(1,325)	(1,500)	5	14
EBIT	**4,587**	**5,969**	**4,898**	**6,428**	**(6)**	**(7)**
Net finance cost	(1,538)	(1,300)	(1,500)	(1,300)	3	0
Other income	676	600	900	600	(25)	0
NCE Income	—	—	—	—		
Pretax profits before extr	**3,725**	**5,269**	**4,298**	**5,728**	**(13)**	**(8)**
Current tax	(723)	(1,106)	(1,083)	(1,432)	(33)	(23)
Deferred tax	80	—	—	—		
Reported net profit	**3,082**	**4,162**	**3,215**	**4,296**	**(4)**	**(3)**

Source: Kotak Institutional Equities estimates

Target price includes Rs90 for research pipeline

Our price target of Rs315 includes value of research pipeline of Rs90. We value GNP business excluding research pipeline at Rs225. We forecast EPS excluding research income of Rs11.6 for FY2010E rising to Rs15.7 in FY2011E. Thus, at Rs225 (price target excluding research pipeline), GNP will trade at 14X FY2011E KIE PAT.

SOTP based price target, FY2010-FY2011E

	PAT (Rs mn)		P/E	Valuation (Rs mn)	
	2010E	**2011E**	**(X)**	**2010E**	**2011E**
Generics					
API	135	178	8.5	1,143	1,512
Oncology	7	18	14.0	102	251
US	1,658	2,220	14.0	23,256	31,136
Europe generics	4	8	12.8	46	104
Total	**1,804**	**2,424**		**24,547**	**33,004**
Specialty					
India	977	1,114	15.3	14,950	17,043
Africa, Asia, Russia	273	388	12.8	3,479	4,952
Latin America	104	157	12.8	1,331	2,000
Europe branded	47	79	12.8	602	1,006
Total	**1,402**	**1,738**		**20,363**	**25,002**
Value per share (Rs)					
Generics				92	124
Specialty (incl NCE)				166	183
Combined share price target					**308**

Source: Kotak Institutional Equities estimates

kotak Institutional Equities

Punj Lloyd (PUNJ)

Constructions

BUY

JULY 28, 2009

RESULT

Coverage view: Attractive

Price (Rs): 243

Target price (Rs): 300

BSE-30: 15,375

Results broadly in line. Punj reported net income of Rs1.25 bn broadly in line with our estimates. Revenues missed expectations marginally, which was offset by higher-than-expected margins. The rise in EBITDA margin was led by a substantial expansion in subsidiary margins. The company reported a strong order backlog of Rs279 bn led by several large orders from Libya. Higher working capital and debt levels in the firm bear watching. We retain our estimates and TP of Rs300 and reiterate our BUY rating.

Company data and valuation summary

Punj Lloyd

Stock data			
52-week range (Rs) (high,low)			324-66
Market Cap. (Rs bn)			75.7
Shareholding pattern (%)			
Promoters			41.5
FIIs			18.2
MFs			10.1
Price performance (%)	1M	3M	12M
Absolute	11.5	107.4	(4.3)
Rel. to BSE-30	7.1	53.4	(11.1)

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	(7.2)	17.6	20.6
EPS growth (%)	(172.4)	(343.2)	17.2
P/E (X)	(33.7)	13.9	11.8
Sales (Rs bn)	119.1	136.9	158.6
Net profits (Rs bn)	(2.2)	5.5	6.4
EBITDA (Rs bn)	4.4	12.7	14.3
EV/EBITDA (X)	23.4	8.2	7.3
ROE (%)	(8.6)	19.9	19.4
Div. Yield (%)	0.1	0.3	0.4

Results in line with estimates; reports strong margin expansion

Punj Lloyd reported 1QFY10 consolidated revenues of Rs29.7 bn, up 12% yoy, marginally below our estimates of Rs31.5 bn. Stronger-than-expected EBITDA margin of 10.4% helped the company meet our EBITDA and bottom line estimates. Punj reported consolidated net income of Rs1.25 bn, up 27% yoy from Rs985 mn. Punj reported strong revenue growth of 23% at the standalone level with a slight dip of 60 bps in EBITDA margin. High interest expenses led by higher debt levels led to a decline in net income at the standalone level. International subsidiaries reported a substantial increase in EBITDA margin increasing by about 6.4 percentage points on a yoy basis. However, we highlight that the contribution margins have declined for the standalone and subsidiary entities.

Large order backlog of Rs279 bn; strong inflows led by several large orders from Libya

Punj reported a strong order backlog of Rs279 bn at the end of 1QFY10 which provides a revenue visibility of about 2 years based on FY2010E expected earnings. The company reported order inflows of Rs99.5 bn in 1QFY10, more than three times the order inflows reported in 1QFY09. The order inflows were primarily driven by orders in the Libyan geography which contributed about Rs77.8 bn to the total inflows during the quarter. This is also reflected in the order backlog split with Africa contributing to about 36% of the total order backlog at the end of 1QFY10 versus 5% at the end of 1QFY09. India contributed to less than 20% of the order book.

Retain earnings estimates and target price of Rs300/share; reiterate BUY

We maintain our earnings estimates of Rs17.6 and Rs20.6 for FY2010E and FY2011E, respectively, and our target price of Rs300/share. Our target price is based on a 15X FY2011E P/E multiple which implies a 15% premium to our target multiple of 13X for the construction companies. We reiterate our BUY rating on the stock based on (1) negative events that have already panned out and are reflected in the price, (2) strong and diversified order backlog provides near-term earnings visibility and (3) attractive valuations. Key risks to the earnings would come from (1) slower-than-expected execution in some orders, (2) exposure to high-risk geographies, (3) deterioration in working capital situation and (4) high debt levels.

Results broadly in line with expectations

Punj Lloyd reported revenues of Rs29.7 bn, up 12% yoy from Rs26.6 bn, slightly below our estimates of Rs31.5 bn. Higher-than-expected margins helped the company meet our operating profit expectation of Rs3 bn. Punj reported operating profit margin expansion of 220 bps to 10.4% in 1QFY10 versus 8.2% in 1QFY09. versus our estimate of 9.5%. The EBITDA margin expansion was led by (1) 140 bps yoy decline in staff costs as a percentage of sales and (2)180 bps yoy decline in other expenses as a percentage of sales. The margin expansion due to staff costs and other expenses was partially offset by a 110 bps yoy increase in raw material costs as a percentage of sales. We highlight that our contribution margin for the consolidated firm declined to 38.4% for 1QFY10 versus 39.5% in 1QFY09. Punj reported a net profit of Rs1.25 bn, up 27% yoy, in line with our estimates of Rs1.25 bn.

Punj Lloyd (consolidated) - 1QFY10 - key numbers (Rs mn)

					% change					
	1QFY10	1QFY10E	1QFY09	4QFY09	1QFY10E	1QFY09	4QFY09	FY2010E	FY2009	*% change*
Net Sales	**29,728**	**31,488**	**26,558**	**32,173**	**(5.6)**	**11.9**	**(7.6)**	**136,905**	**119,120**	**14.9**
Expenditure	**(26,634)**	**(28,497)**	**(24,371)**	**(32,958)**	**(6.5)**	**9.3**	**(19.2)**	**(124,242)**	**(116,028)**	**7.1**
Material	(18,305)		(16,071)	(23,445)		13.9	(21.9)	(85,566)	(79,871)	7.1
Staff cost	(3,239)		(3,276)	(3,783)		(1.2)	(14.4)	(15,060)	(12,922)	16.5
Other expenditure	(5,090)		(5,024)	(5,729)		1.3	(11.2)	(23,616)	(23,235)	1.6
EBITDA	**3,094**	**2,991**	**2,187**	**(785)**	**3.4**	**41.5**	**NA**	**12,664**	**3,093**	**309.5**
Other Income	63	227	23	134	(72.4)	167.5	(53.2)	907	745	21.8
PBDIT	**3,157**	**3,218**	**2,211**	**(651)**	**(1.9)**	**42.8**	**NA**	**13,571**	**3,838**	**253.6**
Interest	(744)	(887)	(368)	(729)	(16.2)	102.0	2.0	(3,550)	(2,208)	60.8
Depreciation	(541)	(526)	(392)	(508)	3.0	38.2	6.7	(2,102)	(1,771)	18.7
Profit before Tax	**1,872**	**1,805**	**1,451**	**(1,888)**	**3.7**	**29.0**	**NA**	**7,919**	**(141)**	**NA**
Tax	(622)	(542)	(469)	(667)	14.8	32.6	(6.8)	(2,455)	(2,260)	8.6
Profit after Tax	**1,250**	**1,264**	**982**	**(2,555)**	**(1.1)**	**27.4**	**NA**	**5,464**	**(2,401)**	**NA**
Exceptional items	—	—	4	(1)		(100.0)	(100.0)	-	148	(100.0)
Net Profit	**1,250**	**1,264**	**985**	**(2,556)**	**(1.1)**	**26.9**	**NA**	**5,464**	**(2,253)**	**NA**
Key ratios (%)										
Material costs/ Sales	61.6		60.5	72.9				62.5	67.1	
Staff cost/ Sales	10.9		12.3	11.8				11.0	10.8	
Other expenditure/ Sales	17.1		18.9	17.8				17.3	19.5	
EBITDA margin	**10.4**	**9.5**	**8.2**	**(2.4)**				**9.3**	**2.6**	
PBDIT margin	10.6	10.1	8.3	(2.0)				9.8	3.2	
PBT margin	6.3	5.7	5.5	(5.9)				5.8	(0.1)	
PAT margin	4.2	4.0	3.7	(7.9)				4.0	(2.0)	
Effective tax rate	33.2	30.0	32.3	(35.3)				31.0	(1,608.8)	
Order details										
Order backlog	278,893		200,621	208,033		39.0	34.1	285,492	208,033	37.2
Order booking	99,460		31,223	21,126		218.5	370.8	214,064	132,096	62.1

Source: Company, Kotak Institutional Equities estimates

Standalone reports strong top line growth; however net earnings affected by high borrowing costs

Punj Lloyd reported a strong revenue growth of 23% yoy at the standalone level to Rs19.2 bn in 1QFY10 from Rs15.6 bn in 1QFY09. EBITDA margin in 1QFY10 declined slightly by about 60 bps yoy to 9.8%, led by higher material costs as a percentage of sales. The company reported a standalone profit after tax of Rs687 mn, down 3.9% yoy, from Rs715 mn in 1QFY09. This was primarily led by higher interest expenses of Rs642 mn due to higher debt levels of the firm.

Punj Lloyd (standalone) - 1QFY10 - key numbers (Rs mn)

				(% chg)	
	1QFY10	1QFY09	4QFY09	1QFY09	4QFY09
Net Sales	**19,245**	**15,643**	**19,771**	***23.0***	***(2.7)***
Expenditure	**(17,352)**	**(14,010)**	**(18,070)**	***23.9***	***(4.0)***
Material + contractor	(11,442)	(9,141)	(11,313)	*25.2*	*1.1*
Staff cost	(1,657)	(1,327)	(1,586)	*24.9*	*4.5*
Other expenditure	(4,252)	(3,541)	(5,172)	*20.1*	*(17.8)*
EBITDA	**1,894**	**1,633**	**1,701**	***16.0***	***11.3***
Other Income	78	74	36	*5.9*	*116.1*
PBIDT	**1,971**	**1,707**	**1,737**	***15.5***	***13.5***
Interest	(642)	(322)	(629)	*99.7*	*2.0*
Depreciation	(320)	(274)	(359)	*16.7*	*(10.9)*
Profit before Tax	**1,009**	**1,111**	**748**	***(9.1)***	***34.8***
Tax	(322)	(396)	(127)	*(18.7)*	*153.9*
Current	(168)	(325)	234	*(48.2)*	*(171.8)*
Deferred	(148)	(64)	(358)	*131.6*	*(58.8)*
Fringe benefit tax	(7)	(8)	(3)	*(16.7)*	*116.7*
Profit after Tax	**687**	**715**	**622**	***(3.9)***	***10.6***
Exceptional items	-	-	(25)		*(100.0)*
Net Profit	**687**	**715**	**596**	***(3.9)***	***15.2***
Key ratios (%)					
Material/ Sales	59.5	58.4	57.2	1.0	
Staff cost/ Sales	8.6	8.5	8.0	0.1	
Other expenditure/ Sales	22.1	22.6	26.2	(0.5)	
EBITDA margin	**9.8**	**10.4**	**8.6**	(0.6)	
PBIDT margin	10.2	10.9	8.8		
PAT margin	3.6	4.6	3.0		
Effective tax rate	31.9	35.6	16.9		

Source: Company, Kotak Institutional Equities

Significant margin expansion in international subsidiaries

International subsidiaries reported a substantial increase of 6.4 percentage points in operating margins in 1QFY10 to 11.5% from 5.1% in 1QFY09. The increase was led by decline in employee expenses and other expenses as a percentage of sales. However, contribution margins declined by about 200 bps led by increase in material costs as a percentage of sales. The margin expansion led to strong net income growth of 108% yoy at the subsidiary level to Rs563 mn in 1QFY10 versus Rs270 mn in 1QFY09.

Punj Lloyd (subsidiary) - 1QFY10 - key numbers (Rs mn)

				(% chg)	
	1QFY10	1QFY09	4QFY09	1QFY09	4QFY09
Net Sales	**10,483**	**10,916**	**12,401**	***(4.0)***	***(15.5)***
Expenditure	**(9,282)**	**(10,362)**	**(14,888)**	***(10.4)***	***(37.7)***
Material + contractor	(6,863)	(6,930)	(12,132)	*(1.0)*	*(43.4)*
Staff cost	(1,581)	(1,949)	(2,198)	*(18.9)*	*(28.1)*
Other expenditure	(838)	(1,483)	(558)	*(43.5)*	*50.3*
EBITDA	**1,201**	**554**	**(2,486)**	***116.7***	***(148.3)***
Other Income	(15)	(50)	98	*(69.7)*	*(115.6)*
PBIDT	**1,186**	**504**	**(2,388)**	***135.2***	***(149.6)***
Interest	(102)	(47)	(100)	*117.6*	*2.0*
Depreciation	(221)	(118)	(148)	*88.3*	*49.1*
Profit before Tax	**863**	**340**	**(2,636)**	***153.9***	***(132.7)***
Tax	(300)	(73)	(541)	*310.3*	*(44.5)*
Current	(207)	(65)	72	*217.0*	*(386.3)*
Deferred	(91)	(7)	(610)	*1,180.3*	*(85.1)*
Fringe benefit tax	(2)	(1)	(4)	*183.3*	*(51.4)*
Profit after Tax	**563**	**267**	**(3,177)**	***111.0***	***(117.7)***
Exceptional items	—	4	24		*(100.0)*
Net Profit	**563**	**270**	**(3,153)**	***108.1***	***(117.9)***
Key ratios (%)					
Material/ Sales	65.5	63.5	97.8	2.0	
Staff cost/ Sales	15.1	17.9	17.7		
Other expenditure/ Sales	8.0	13.6	4.5		
EBITDA margin	**11.5**	**5.1**	**(20.0)**	6.4	
PBT margin	8.2	3.1	(21.3)		
PAT margin	5.4	2.4	(25.6)		
Effective tax rate	34.8	21.5	(20.5)		

Source: Company, Kotak Institutional Equities

Strong order backlog of Rs279 bn provides two years of revenue visibility

Order inflows for the company continue to remain strong with the company reporting an order backlog of Rs279 bn, up 39% yoy. The order backlog provides revenue visibility of about two years based on FY2010E expected earnings.

Key orders won by Punj Lloyd since FY2008 (Rs mn)

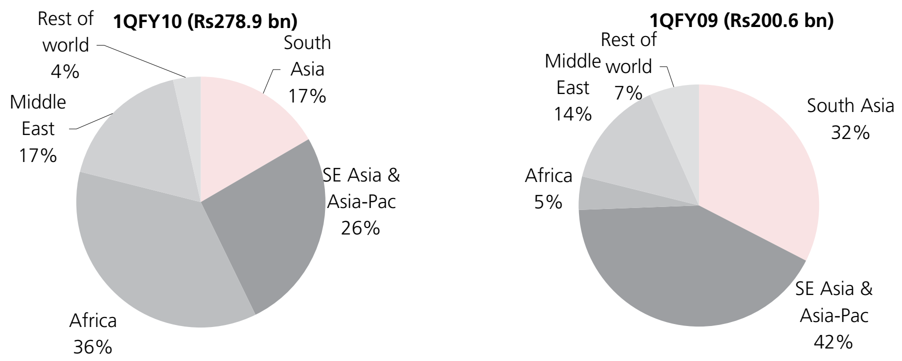
Date	Segment	Client	Value (Rs mn)	Description
10-Jul-09	Infrastructure	International Investment and Services Company, Libya	59,040	Commercial and residential developments
9-Jul-09	Oil and Gas	Saudi Aramco Total Refinery & Petrochemical Company	12,100	EPC of port tank farm in Saudi Arabia
2-Jul-09	Infrastructure	Housing and Infrastructure Board, Libya	18,732	Utilities in 3 towns in Libya
1-Jul-09	Infrastructure	Land Transport Authority, Singapore	12,630	Construction of 2 MRT stations
16-Apr-09	Infrastructure	Bangalore Metro Rail Corporation	3,080	Construction of 8 stations
	Infrastructure	Government of Delhi	438	Infrastructure development of schools
	Process	Exxon-Mobil	1,512	EPC for Jurong strategic study project
	Order booked in FY2010 so far		**107,532**	
15-Jan-09	Infrastructure	Housing and Infra board	13,112	Utilities in Souk Al Juma, Tripoli, Libya
7-Jan-09	Infrastructure	Housing and Infra board	10,501	EPC of infra in Tripoli, Libya
7-Jan-09	Oil and Gas	Cairn India	1,046	EPC of pipeline
6-Jan-09	Infrastructure	Airports Authority of India	2,640	Sikkim's first greenfield airport
23-Dec-08	Infrastructure	Municipal Corp, Delhi	3,040	Parking facility near JN Stadium, N Delhi
20-Oct-08	Oil and Gas	PT Shell Indonesia	1,069	New fuel terminal at Kalimantan
23-Sep-08	Oil and Gas	Qatar Petroleum	36,360	211 km of pipeline
18-Jul-08	Process	Abu Dhabi Polymers Company	4,640	Mechanical works for Borouge project
9-Sep-08	Process	FWP Joint Venture	1,670	Mechanical works for utilities at Jurong island
3-Jul-08	Infrastructure	GVK Power Limited, Hyderabad	10,050	Balance of plant work (BOP) and entire civil work on EPC basis
6-Jun-08	Process	Indian Oil Corporation Limited	6,490	Upgrade the refinery at Barauni
30-Apr-08	Process	PT Makmur Sejahtera Wisesa, Indonesia	3,300	EPC project for 2x30 MW coal power plant in Kalimantan island, Indonesia
11-Apr-08	Process	Technipont SPA	18,640	Technipont SPA order for Rs3.5 bn
11-Apr-08	Infrastructure		970	
	Order booked in FY2009		**113,527**	
31-Mar-08	Process	Tecnimont S.p.A (Italy)	2,720	Mechanical work PE3 and PH areas
7-Mar-08	Oil and Gas	Petronas Carigali Sdn Bhd, Malasia	20,150	Onshore natural gas pipeline and associated facilities
14-Feb-08	Civil, Infrastructure and Power	Marina Bay Sands, Singapore	11,192	Integrated resort comprising casino, theatres and retail arcade
12-Dec-07	Process	Indian Oil Corporation	5,900	Construction of coker unit & block for the Vadodara refinery in Gujarat
30-Nov-07	Civil, Infrastructure and Power	Land Transport Authority, Singapore	12,720	Construction of the MRT station in Marina Bay in Singapore
5-Nov-07	Process	Jurong Aromatics Corporation, Singapore	17,700	EPC work for a new mega aromatics plant at Jurong island
12-Oct-07	Oil and Gas	Qatar Petroleum	3,890	46 km of 18" multi-product pipeline
6-Aug-07	Process	Bharat Oman Refineries Limited	5,900	Sulphur block at Bina Refinery
2-Aug-07	Civil, Infrastructure and Power	Sentosa Pte Ltd, subsidiary of Genting Group	6,660	Sub-structural works at Sentosa Integrated Resort Development
27-Jul-07	Oil and Gas	Reliance Gas Transportation Infrastructure Ltd	3,180	Laying of East-West pipeline project
23-Jul-07	Oil and Gas	Saudi Kayan Petrochemical Company (SABIC)	1,587	Tanks at Jubail Industrial city, Saudi Arabia
20-Jul-07	Process	Gulf Fluor	500	Fluorides plant incorporating a new Sulphuric Acid plant
14-May-07	Oil and Gas	GAIL (India) Ltd	1,227	Phase II of Panvel — Dabhol Pipeline
16-Apr-07	Oil and Gas	Oman Gas Company	5,300	24", 40 Km pipeline
19-Apr-07	Oil and Gas	Ras Laffan Olefins, USA	1,935	Ethylene pipeline
23-Apr-07	Oil and Gas	Reliance Gas Transportation Infrastructure Ltd	1,802	48", 122 Km pipeline
Total orders announced in FY2008			**102,362**	

Source: Company, Kotak Institutional Equities

Inflows driven by Libyan geography; market might not be as risky as earlier perceived

The company reported order inflows of Rs99.5 bn in 1QFY10, more than three times the order inflows reported in 1QFY09. The order inflows were primarily driven by orders in the Libyan geography which contributed about Rs77.8 bn to the total inflows during the quarter. This is also reflected in the order backlog split with Africa contributing to about 36% of the total order backlog at the end of 1QFY10 versus 5% at the end of 1QFY09. India contributed to less than 20% of the order book. Despite the political turmoil witnessed in Libya in the past, we believe the country is attempting to rebuild its bridges with the international community. Several indications of this would include (1) restoration of diplomatic relations with the EU and US, (2) application for membership of WTO and (3) several market-oriented reforms.

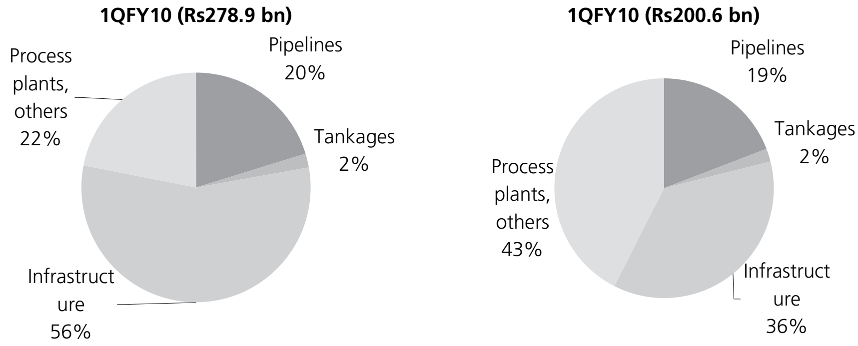
Geographical mix of order backlog of Punj Lloyd group



Source: Company, Kotak Institutional Equities

Infrastructure segment has significantly increased its stake in the backlog pie at 56% of the total order book versus 36% at the end of 1QFY09.

Sector-wise order backlog of Punj Lloyd group (Rs bn)



Source: Company, Kotak Institutional Equities

The management highlighted that the only order with slower-than-expected execution is the Rs17.7 bn Jurong Aromatics complex order. The project is still awaiting financial closure and the client is currently exploring options for relocation to lower cost areas. The company would potentially write-off the project from the order book incase there is no material progress in these efforts.

High working capital and debt levels could be a cause for concern

We highlight that working capital levels of Punj Lloyd have further deteriorated since March 2009. The company reported net working capital (excluding cash) of Rs30.4 bn versus Rs25.5 bn at the end of FY2009. The debt levels of the company also increased from end-FY2009 levels. Total debt of the company increased to Rs38.9 bn versus Rs35.6 bn at the end of FY2009 likely to be led by high working capital loans. This led to deterioration in net debt: equity ratio to 1.3 at the end of 1QFY10 versus 1.1 at the end of FY2009.

Retain earnings estimates and target price of Rs300/share; reiterate BUY

We maintain our earnings estimates of Rs17.6 and Rs20.6 for FY2010E and FY2011E respectively and our target price of Rs300/share. Our target price is based on a 15X FY2011E P/E multiple which implies a 15% premium to our target multiple of 13X for the construction companies. We reiterate our BUY rating on the stock based on (1) negative events have already panned out and are already reflected in the price, (2) strong and diversified order backlog provides near-term earnings visibility and (3) attractive valuations.

Key risks to the earnings would come from (1) slower-than-expected execution in some orders, (2) exposure to high-risk geographies, (3) deterioration in working capital situation and (4) high debt levels.

kotak Institutional Equities

Titan Industries (TTAN)

Retail

REDUCE

JULY 28, 2009

RESULT

Coverage view: Neutral

Price (Rs): 1,336

Target price (Rs): 1,040

BSE-30: 15,375

Jewelry losing shine. Titan's 1QFY10 results were below our estimates primarily led by poor performance in the jewelry segment. Adjusting for the impact of change in inventory valuation for gold (Rs300 mn), the PAT would have been Rs245 mn versus our estimate of Rs337 mn. We maintain our REDUCE rating with a revised target price of Rs1,040 as we find valuations expensive at 27X FY2010E EPS in an environment of high gold prices and declining jewelry volumes.

Company data and valuation summary

Titan Industries

Stock data			
52-week range (Rs) (high,low)			1,375-665
Market Cap. (Rs bn)			59.3
Shareholding pattern (%)			
Promoters			53.1
FIIs			12.3
MFs			6.3
Price performance (%)	1M	3M	12M
Absolute	17.3	82.6	20.5
Rel. to BSE-30	12.7	35.1	11.9

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	44.3	49.4	58.5
EPS growth (%)	26.4	11.6	18.4
P/E (X)	30.2	27.0	22.8
Sales (Rs bn)	38.3	45.8	53.3
Net profits (Rs bn)	2.0	2.2	2.6
EBITDA (Rs bn)	3.3	3.7	4.3
EV/EBITDA (X)	18.2	16.6	13.9
ROE (%)	37.5	33.1	30.5
Div. Yield (%)	0.7	0.7	0.9

QUICK NUMBERS

- Rs300 mn gain from change in gold inventory valuation policy
- Underlying PAT of Rs245 mn below estimated Rs337 mn
- Implied gold volume decline of 14% yoy

1QFY10 results—underlying PAT below estimates

Titan reported 1QFY10 PAT of Rs460 mn versus our estimate of Rs337 mn. However, this included the benefit of Rs300 mn on account of change in valuation methodology of gold inventory to FIFO from a weighted average cost basis. Adjusting for the above, the underlying PAT at Rs245 mn was lower than our estimated Rs337 mn. The negative surprise was mainly on account of lower revenues and margins in the jewelry segment, which continued to witness volume decline due to high gold prices.

High gold prices hurting jewelry volumes

Jewelry revenues at Rs6.4 bn (up 3.2% yoy) were lower than our estimate of Rs6.9 bn. The high gold price of Rs1,456/gm (up 20.4% yoy) implied a 14% yoy decline in jewelry volumes. The increase in gold prices helped maintain jewelry revenues; however, the high volume decline poses a big risk to our estimates. Titan reported EBIT margin of 8.1% for the jewelry segment in 1QFY10; however, adjusting for the change in inventory valuation the underlying EBIT margin was only 3.4%—much below our estimated 6%.

Watches save the day with a positive surprise

The strong performance in the watch segment with revenues of Rs2 bn (up 21% yoy) and EBIT margin of 14.1% (up 420 bps) yoy saved the day for Titan in this quarter. We had estimated revenues of Rs1.8 bn and EBIT margin of 9.6% for the quarter since the inventory clearance for the low-end Sonata watches was expected to continue till May 2009. The watch segment's EBIT of Rs293 mn accounted for 70% of the adjusted EBIT of Rs419 mn (excluding inventory valuation change benefit); much higher than its 34% share in 1QFY09.

1QFY10 results below expectation

Titan, Interim results (stand alone), March fiscal year-ends (Rs mn)

					(% change)		
	1Q FY10	1Q FY10E	1Q FY09	4Q FY09	1Q FY10E	1Q FY09	4Q FY09
Net sales	**8,830**	**9,114**	**8,103**	**8,812**	**(3.1)**	**9.0**	**0.2**
Total expenditure	**(8,035)**	**(8,502)**	**(7,543)**	**(8,183)**	**(5.5)**	**6.5**	**(1.8)**
Inc/(Dec) in stock	(35)	—	375	(401)	—	(109.4)	(91.2)
Raw materials	(5,983)	—	(6,290)	(5,709)	—	(4.9)	4.8
Staff cost	(616)	—	(519)	(629)	—	18.7	(1.9)
Advertising	(445)	—	(407)	(369)	—	9.3	20.6
Other expenditure	(956)	—	(701)	(1,076)	—	36.4	(11.1)
EBITDA	**795**	**611**	**561**	**629**	**30.0**	**41.8**	**26.4**
OPM (%)	**9.0**	**6.7**	**6.9**	**7.1**			
Other income	10	12	8	15	(16.7)	20.5	(34.6)
Interest	(76)	(60)	(52)	(58)	26.5	45.7	31.8
Depreciation	(90)	(85)	(77)	(93)	5.3	15.8	(3.6)
Pretax profits	**639**	**478**	**440**	**494**	**33.6**	**45.5**	**29.5**
Extraordinary	—	—	—	(162)			
Reported PBT	**639**	**478**	**440**	**332**			
Tax	(177)	(142)	(117)	(53)	25.0	50.9	232.1
Profit after tax	**462**	**337**	**322**	**278**	**37.3**	**43.5**	**66.2**
Income tax rate (%)	27.7	29.6	26.7	16.1			
Segmental revenues							
Watches	2,086	1,822	1,719	2,400	14.5	21.3	(13.1)
Jewelry	6,356	6,892	6,157	6,066	(7.8)	3.2	4.8
Others	389	400	227	345	(2.8)	71.3	12.6
Total revenues	**8,830**	**9,114**	**8,103**	**8,812**	**(3.1)**	**9.0**	**0.2**
Segmental EBIT							
Watches	293	175	170	372	67.7	72.9	(21.1)
Jewelry	514	414	355	359	24.4	44.8	43.4
Others	(89)	(50)	(20)	(101)	77.2	345.2	(12.2)
Total EBIT	**719**	**538**	**505**	**630**	**33.6**	**42.4**	**14.2**
Segmental EBIT margin (%)							
Watches	14.1	9.6	9.9	15.5			
Jewelry	8.1	6.0	5.8	5.9			

Source: Company, Kotak Institutional Equities

Revise estimates marginally

We revise our EPS estimate for FY2010E and FY2011E to Rs49.4 and Rs58.5 from Rs50.1 and Rs56.9, respectively. Key changes to our assumptions include higher international gold prices, lower exchange rate and higher jewelry margins.

Key changes to our estimates for Titan, March fiscal year-ends, 2010-11E (Rs mn)

	Revised estimates		Old estimates		Change (%)	
	2010E	2011E	2010E	2011E	2010E	2011E
Revenue	45,822	53,306	47,830	55,154	(4.2)	(3.4)
EBITDA	3,653	4,303	3,701	4,166	(1.3)	3.3
EBITDA margin (%)	8.0	8.1	7.7	7.6	—	—
Adjusted net profit	2,195	2,606	2,222	2,527	(1.2)	3.1
Diluted EPS (Rs)	49.4	58.7	50.1	56.9	(1.2)	3.1
Gold price						
(US$/oz)	932	951	909	927	2.6	2.6
(Rs/gm)	1,462	1,469	1,481	1,505	(1.3)	(2.4)
INR/USD	48.8	48.0	50.7	50.5	(3.8)	(4.8)

Source: Kotak Institutional Equities estimates

Raise target price to Rs1,040; but maintain REDUCE on jewelry concerns

We raise our 12-month DCF-based target price to Rs1,040 (from Rs850) mainly on account of the roll over to FY2011E. We increase in our long-term jewelry margin assumption led by higher contribution from studded jewelry. However, we maintain our REDUCE rating due to concerns on the volume decline in the jewelry segment. The high gold prices of around Rs1,450/gm is hurting consumer sentiment significantly with jewelry volumes witnessing a decline for a second consecutive quarter. We find current valuations at 27X FY2010E expensive considering the concerns on the jewelry segment and poor performance in 1QFY10.

We value Titan at Rs1,040/share

DCF-based valuation for Titan, March fiscal year-ends (Rs mn)

	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	Terminal value
EBITDA	3,653	4,303	5,134	6,172	7,371	8,690	9,670	10,648	11,793	12,991	
Tax expense	(776)	(1,021)	(1,517)	(1,950)	(2,361)	(2,855)	(3,150)	(3,420)	(3,787)	(4,187)	
Changes in working capital	(1,783)	(934)	(623)	(384)	(1,661)	(1,224)	(1,401)	(511)	(1,557)	(1,702)	
Cash flow from operations	**1,094**	**2,348**	**2,995**	**3,839**	**3,349**	**4,611**	**5,119**	**6,717**	**6,449**	**7,103**	
Capital expenditure	(625)	(550)	(450)	(450)	(400)	(400)	(400)	(400)	(400)	(400)	
Free cash flow to the firm	**469**	**1,798**	**2,545**	**3,389**	**2,949**	**4,211**	**4,719**	**6,317**	**6,049**	**6,703**	**94,730**
Dicounted cash flow-now	431	1,454	1,813	2,127	1,631	2,052	2,026	2,390	2,016	1,968	
Discounted cash flow-1 year forward	—	1,650	2,058	2,414	1,851	2,329	2,300	2,712	2,288	2,234	
Discounted cash flow-2 year forward		—	2,336	2,740	2,101	2,643	2,610	3,078	2,597	2,535	
Discount rate	13.5%										
Growth from 2018 to perpetuity	6.0%										
Discount factor at WACC	**0.92**	**0.81**	**0.71**	**0.63**	**0.55**	**0.49**	**0.43**	**0.38**	**0.33**	**0.29**	

	+ 1-year		+ 2-years	
Total PV of free cash flow (a)	**19,836**	**42%**	**20,641**	**40%**
PV of terminal value (b)	27,817	58%	31,572	60%
EV (a) + (b)	**47,653**		**52,213**	
Net debt	1,394		344	
Equity value	**46,259**		**51,869**	
No. of shares	44.4		44.4	
Implied share price (Rs)	**1,042**		**1,169**	
Exit EV/EBITDA multiple (X)	8.0			
Exit FCF multiple (X)	14.1			

Sensitivity of share price to WACC and growth

Growth Rate	WACC 12.5%	13.0%	13.5%	14.0%	14.5%
4.5%	1,066	994	930	873	822
5.0%	1,112	1,033	963	902	847
5.5%	1,163	1,076	1,000	933	874
6.0%	1,223	1,126	**1,042**	969	905
6.5%	1,293	1,183	1,090	1,009	939
7.0%	1,375	1,250	1,145	1,056	978
7.5%	1,474	1,330	1,210	1,109	1,022

Source: Kotak Institutional Equities estimates

Operating assumptions
Key operating assumption for Titan, March fiscal year-ends, 2006-2011E (Rs mn)

	2006	2007	2008	2009	2010E	2011E
Jewelry						
Revenues (Rs mn)	**7,896**	**12,903**	**20,252**	**27,563**	**33,745**	**39,563**
EBITDA (Rs mn)	491	913	1,152	2,030	2,398	2,647
EBITDA margin (%)	6.2	7.1	5.7	7.4	7.1	6.7
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	19,452	20,905
Coins	926	1,343	3,080	6,364	4,616	4,638
Average gold price						
US$/oz	504	675	835	905	932	951
Rs/gm	723	969	1,081	1,326	1,462	1,469
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)	98
EBITDA margin (%)	30.7	39.2	12.2	(32.4)	(7.9)	5.4
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

Titan, summary financials, 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	45,822	53,306
EBITDA	**1,529**	**2,013**	**2,388**	**3,329**	**3,653**	**4,303**
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**	**3,092**	**3,723**
Tax	(182)	(404)	(373)	(697)	(835)	(1,080)
Deferred taxation	56	27	(73)	65	(62)	(37)
Profit after tax	**997**	**1,117**	**1,446**	**2,039**	**2,195**	**2,606**
Associate income / (loss)	(185)	(116)	110	—	—	—
Adjusted net profit	**812**	**1,001**	**1,556**	**2,039**	**2,195**	**2,606**
Diluted earnings per share (Rs)	**18.6**	**22.6**	**35.1**	**44.3**	**49.4**	**58.7**
Balance sheet						
Total equity	1,966	3,371	4,458	5,578	7,253	9,236
Deferred taxation liability	243	181	252	188	250	287
Total borrowings	3,094	2,478	2,103	1,666	1,813	1,580
Current liabilities	3,632	5,958	9,123	10,402	10,806	11,932
Total liabilities and equity	**8,934**	**11,988**	**15,936**	**17,833**	**20,123**	**23,035**
Cash	386	510	554	564	419	1,236
Other current assets	6,042	8,402	12,481	14,259	16,446	18,401
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**	**20,123**	**23,035**
Free cash flow						
Operating cash flow, excl. working capital	1,186	1,544	1,742	2,363	2,601	3,020
Working capital changes	(195)	(188)	(905)	(906)	(1,783)	(934)
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**	**227**	**1,569**
Ratios (%)						
Debt/equity	140.1	69.8	44.6	28.9	24.2	16.6
Net debt/equity	122.6	55.4	32.9	19.1	18.6	3.6
RoAE	42.2	34.8	37.7	37.5	33.1	30.6
RoACE	**19.7**	**20.6**	**26.8**	**30.7**	**28.1**	**26.9**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Castrol India (CSTRL)

Energy

BUY

JULY 28, 2009

RESULT

Coverage view: Cautious

Price (Rs): 440

Target price (Rs): 480

BSE-30: 15,375

Robust 2QCY09 results. Castrol reported very strong 2QCY09 net income at Rs1.28 bn (+55% yoy) versus our estimate of Rs1.46 bn. The strong performance yoy despite lower volumes (-12.4%) was due to expanded margins in both the automotive and industrial segments. We maintain BUY rating with a revised 12-month target price of Rs480 (Rs390 previously). Key downside risk stems from higher-than-expected LOBS prices and weaker-than-expected demand.

Company data and valuation summary

Castrol India (a)

Stock data			
52-week range (Rs) (high,low)			449-259
Market Cap. (Rs bn)			54.4
Shareholding pattern (%)			
Promoters			71.0
FIIs			3.2
MFs			2.6
Price performance (%)	1M	3M	12M
Absolute	17.7	38.2	69.5
Rel. to BSE-30	13.0	2.2	57.3

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	21.3	31.1	32.0
EPS growth (%)	20.8	45.9	3.0
P/E (X)	20.7	14.2	13.7
Sales (Rs bn)	22.1	23.2	23.8
Net profits (Rs bn)	2.6	3.8	4.0
EBITDA (Rs bn)	4.4	6.2	6.4
EV/EBITDA (X)	11.8	8.4	8.1
ROE (%)	61.2	80.2	73.5
Div. Yield (%)	3.4	5.0	5.2

Strong 2QCY09 results due to a sharp improvement in margins

Castrol reported 2QCY09 net income at Rs1.28 bn (+68% qoq, +55% yoy) versus our expected Rs1.46 bn. Revenues for 2QCY09 increased to Rs6.4 bn (+3% yoy) despite lower volumes due to higher realizations. Sales volumes declined 12.4% yoy led by lower demand. However, average realizations were higher at Rs114/liter (+17.6% yoy) due to price increases implemented in 2HCY08. We highlight that qoq results comparison is not valid due to seasonality.

Maintain BUY with revised target price of Rs480

We maintain our BUY rating on the stock with a revised 12-month target price of Rs480 (Rs390 previously) based on 15X CY2010E EPS. The upgrade to target price is due to (1) higher earnings (impact of Rs54) and (2) roll-forward to CY2010E (impact of Rs36). We reiterate our positive view on the stock emanating from (1) likely strong operational performance over the next quarter, (2) potential upside (9%) to target price from current levels and (3) good dividend yield (4.8%).

Earnings revision— upward revision to EPS estimates for CY2009E (+22%) and CY2010E (+21%)

We have revised our CY2009E and CY2010E EPS estimates to Rs31.1 and Rs32 from Rs25.5 and Rs26.6 to reflect (1) moderately higher volumes (+ve impact), (2) stronger rupee (+ve impact), (3) higher realization (+ve impact) and (4) higher LOBS prices (-ve impact). We retain our BUY rating with a revised 12-month target price of Rs480 based on 15X CY2010E EPS. Key downside risks stem from higher-than-expected LOBS prices and a weaker-than-expected rupee.

QUICK NUMBERS

- Strong 2QCY09 net income at Rs1.28 bn (+55% yoy and 68% qoq)
- High average realizations at Rs114/liter (+17.6% yoy)
- Revised our EPS estimates to Rs31.1 for CY2009E and to Rs32 for CY2010E

2QCY09 result details—strong improvement in profitability

Exhibit 1 gives details of Castrol's results.

Interim results of Castrol, calendar year-ends (Rs mn)

						(% chg)			yoy	
	2QCY09	2QCY09E	2QCY08	1QCY09	*2QCY09E*	*2QCY08*	*1QCY09*	1HCY09	1HCY08	*% chg*
Net sales	**6,402**	**5,627**	**6,214**	**5,087**	***13.8***	***3.0***	***25.9***	**11,489**	**11,143**	***3.1***
Raw materials	2,810	2,225	3,476	2,737	*26.3*	*(19.2)*	*2.7*	5,547	6,106	*(9.2)*
Employees	296	250	282	276	*18.4*	*5.0*	*7.2*	572	501	*14.2*
Others	1,313	933	1,191	923	*40.7*	*10.2*	*42.3*	2,235	2,137	*4.6*
Advertisement	426	200	353	207	*113.0*	*20.7*	*105.8*	633	552	*14.7*
CIF costs	181	183	201	164	*(1.0)*	*(10.0)*	*10.4*	344	384	*(10.4)*
Other exp	706	550	637	552	*28.4*	*10.8*	*27.9*	1,258	1,201	*4.7*
Total expenditure	4,419	3,408	4,949	3,936	*29.7*	*(10.7)*	*12.3*	8,354	8,744	*(4.5)*
EBITDA	**1,983**	**2,219**	**1,265**	**1,151**	***(10.6)***	***56.8***	***72.3***	**3,135**	**2,399**	***30.7***
EBITDA margin (%)	**31.0**	**39.4**	**20.4**	**22.6**				**27.3**	**21.5**	
Other income	66	75	92	95	*(12.0)*	*(28.3)*	*(30.5)*	161	211	*(23.7)*
Interest	6	10	7	9	*(40.0)*	*(14.3)*	*(33.3)*	15	20	*(25.0)*
Depreciation	67	66	68	65	*1.5*	*(1.5)*	*3.1*	133	130	*2.3*
Pre-tax profits	**1,976**	**2,218**	**1,282**	**1,172**	***(10.9)***	***54.1***	***68.6***	**3,148**	**2,460**	***28.0***
Extraordinaries	—	—	—	—				—	(17)	
Tax	692	754	454	409	*(8.2)*	*52.4*	*69.2*	1,101	887	*24.1*
Deferred tax	—	—	—	—				—	—	
Net income	**1,284**	**1,464**	**828**	**763**	***(12.3)***	***55.1***	***68.3***	**2,047**	**1,556**	***31.6***
Adjusted net income	**1,284**	**1,464**	**828**	**763**	***(12.3)***	***55.1***	***68.3***	**2,047**	**1,567**	***30.6***
Effective tax rate (%)	35.0	34.0	35.4	34.9				35.0	36.1	
Other details										
Sales volumes ('000 tons)	56.0	50.0	63.9	45.2	*12.0*	*(12.4)*	*23.9*	101.2	118.2	*(14.4)*
Gross realization (Rs/lt)	114.3	112.5	97.2	112.5	*1.6*	*17.6*	*1.6*	113.5	94.3	*20.4*
Segment details										
Revenues										
Automotive	5,615		5,350	4,381		*5.0*	*28.2*	9,996	9,470	*5.6*
Non-automotive	760		864	678		*(12.0)*	*12.1*	1,438	1,673	*(14.0)*
Total	**6,375**		**6,214**	**5,059**		***2.6***	***26.0***	**11,434**	**11,143**	***2.6***
EBIT										
Automotive	1,707		1,069	982		*59.7*	*73.8*	2,689	2,002	*34.3*
Non-automotive	232		169	153		*37.3*	*51.6*	385	356	*8.1*
Total	**1,939**		**1,238**	**1,135**		***56.6***	***70.8***	**3,074**	**2,358**	***30.4***
EBIT margin (%)										
Automotive	30.4		20.0	22.4				26.9	21.1	
Non-automotive	30.5		19.6	22.6				26.8	21.3	
Total	**30.4**		**19.9**	**22.4**				**26.9**	**21.2**	
Capital employed										
Automotive	1,571		2,170	2,955		*(27.6)*	*(46.8)*	1,571	2,170	*(27.6)*
Non-automotive	871		988	402		*(11.8)*	*116.7*	871	988	*(11.8)*
Unallocable assets less liabilities	2,914		1,833	2,162		*59.0*	*34.8*	2,914	1,833	*59.0*
Total	**5,356**		**4,991**	**5,519**		***7.3***	***(3.0)***	**5,356**	**4,991**	***7.3***

Source: Company, Kotak Institutional Equities estimates

Strong margins in automotive segment. The automotive segment's EBIT grew 59.7% yoy to Rs1.7 bn led by a robust improvement in EBIT margin to 30.4% from 20% in 2QCY08. Castrol's 2QCY09 automotive lubes segment's revenues improved by 5% yoy to Rs5.6 bn led by higher realization in the quarter. We do not look at a qoq comparison since automobile lubes sales are seasonal—2Q and 4Q in a calendar year are the best quarters.

Industrial segment performance also robust. Castrol's industrial lubes segment delivered an impressive EBIT margin of 30.5% in 2QCY09 versus 19.6% in 2QCY08. However, revenues for the industrial segment declined 12% yoy to Rs760 mn led by sluggish demand.

Key assumptions

Exhibit 2 gives our key assumptions for our earnings. We discuss the same in detail below.

Castrol: Key assumptions, December year-ends, 2004-2011E

	2004	2005	2006	2007	2008	2009E	2010E	2011E
Volume (Kilo litres)								
Industrial grades	50,306	50,788	50,585	49,245	42,571	38,314	38,314	39,463
Automotive grades	173,277	174,936	174,236	169,621	170,284	166,878	168,547	168,547
Traded items	621	747	1,055	1,114	1,723	1,723	1,723	1,723
Total	**224,204**	**226,471**	**225,875**	**219,980**	**214,578**	**206,915**	**208,584**	**209,733**
Growth (%)	**5.8**	**1.0**	**(0.3)**	**(2.6)**	**(2.5)**	**(3.6)**	**0.8**	**0.6**
Raw material prices (US$/ton)								
LOBS prices	**423**	**520**	**815**	**786**	**1,041**	**845**	**880**	**920**
Macro assumptions								
INR/US$	45.3	44.1	45.3	41.3	43.6	48.6	47.8	47.6

Source: Company, Kotak Institutional Equities estimates

- **Volumes.** We currently model a yoy decline of 3.6% in sales volumes in CY2009E. We highlight that volumes for 1HCY09 were down 14.4% at 101,000 tons. However, we expect sharp yoy improvement in sales volumes in 2HCY09 given that sales were severely impacted in 2HCY08 due to economic slowdown. We expect volumes for automotive segment to decline by 2% yoy and non-automotive segment to decline by 10% yoy in CY2009.

- **Lubes prices.** We model lube realizations to increase about 9% in CY2009E even though 1HCY09 realization was higher 20.4% yoy. We expect prices to largely remain flat in 2HCY09E compared to both 2HCY08 and 1HCY09. Castrol had taken a 6% price cut in January 2009 following solid price increase in 2HCY08.

- **LOBS prices.** We model LOBS prices at US$845/ton (US$700/ton previously) to reflect rebound in LOBS prices. LOBS prices have increased by US$100-200/ton (across various grades) from the low levels in March 2009. We model yoy increase of US$35/ton in LOBS prices in CY2010E to reflect higher crude price assumption.

- **Exchange rate assumption.** We have revised our exchange rate assumption for CY2009E, CY2010E and CY2011E to Rs48.6/US$, Rs47.8/US$ and Rs47.6/US$ versus Rs50.3/US$, Rs50.6/US$ and Rs49.4/US$.

Earnings revisions

CY2009E. We have revised Castrol's CY2009E EPS to Rs31.1 from Rs25.5 previously to reflect (1) higher volumes, (2) higher realization and (3) stronger rupee at Rs48.6/US$ versus Rs50.3/US$ assumed previously. This is partly mitigated by higher LOBS prices (US$845/ton from US$700/ton previously) to reflect the recent spurt in LOBS prices.

CY2010E. We have revised Castrol's CY2010E EPS to Rs32 from Rs26.6 previously on account of (1) higher volumes, (2) higher realization and (3) stronger rupee at Rs47.8/US$ versus Rs50.6/US$ assumed previously. The moderate yoy growth in earnings reflects (1) higher volumes (+0.8%) and (2) a stronger rupee.

Castrol has high leverage to exchange rate and raw material prices

Sensitivity of Castrol's earnings to key variables

	CY2009E			CY2010E			CY2011E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
Exchange rate									
Rupee dollar	49.6	48.6	47.6	48.8	47.8	46.8	48.6	47.6	46.6
Net profits (Rs mn)	3,741	3,844	3,947	3,852	3,960	4,068	3,912	4,026	4,139
EPS (Rs)	30.3	31.1	31.9	31.2	32.0	32.9	31.6	32.6	33.5
% upside/(downside)	**(2.7)**		**2.7**	**(2.7)**		**2.7**	**(2.8)**		**2.8**
Raw material price									
Raw material price (US$/ton)	870	845	820	905	880	855	945	920	895
Net profits (Rs mn)	3,696	3,844	3,993	3,813	3,960	4,107	3,879	4,026	4,173
EPS (Rs)	29.9	31.1	32.3	30.8	32.0	33.2	31.4	32.6	33.7
% upside/(downside)	**(3.9)**		**3.9**	**(3.7)**		**3.7**	**(3.7)**		**3.7**

Source: Kotak Institutional Equities estimates

Castrol: Profit model, balance sheet, cash model, December year-ends, 2004-2011E (Rs mn)

	2004	2005	2006	2007	2008	2009E	2010E	2011E
Profit model (Rs mn)								
Net sales	13,051	14,304	17,524	18,883	22,057	23,238	23,799	24,602
EBITDA	**2,082**	**2,117**	**2,200**	**3,296**	**3,997**	**5,887**	**6,037**	**6,115**
Other income	221	201	344	348	418	350	400	425
Interest	(29)	(30)	(41)	(38)	(37)	(32)	(51)	(51)
Depreciation	(249)	(189)	(180)	(208)	(257)	(268)	(272)	(276)
Pretax profits	2,026	2,098	2,322	3,398	4,122	5,938	6,113	6,212
Tax	(687)	(694)	(889)	(1,455)	(1,568)	(2,141)	(2,210)	(2,247)
Deferred taxation	9	56	57	236	86	48	57	61
Net profits	**1,275**	**1,468**	**1,545**	**2,184**	**2,624**	**3,844**	**3,960**	**4,026**
Earnings per share (Rs)	**10.7**	**11.8**	**12.2**	**17.6**	**21.3**	**31.1**	**32.0**	**32.6**
Balance sheet (Rs mn)								
Total equity	3,601	3,901	4,177	4,302	4,756	5,418	6,051	6,894
Deferred taxation liability	174	119	61	(182)	(268)	(316)	(373)	(433)
Total borrowings	37	28	28	28	28	19	16	13
Currrent liabilities	2,830	3,238	3,619	5,116	4,690	3,932	4,027	4,113
Total liabilities and equity	**6,642**	**7,285**	**7,885**	**9,264**	**9,205**	**9,053**	**9,721**	**10,588**
Cash	297	399	892	3,179	2,556	1,989	2,625	3,422
Current assets	3,558	4,422	5,271	4,546	5,199	5,731	5,887	6,082
Total fixed assets	1,498	1,383	1,297	1,333	1,445	1,327	1,204	1,078
Investments	1,289	1,081	425	206	5	5	5	5
Total assets	**6,642**	**7,285**	**7,885**	**9,264**	**9,205**	**9,053**	**9,721**	**10,588**
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	1,576	1,544	1,403	2,046	2,772	3,714	3,776	3,816
Working capital	24	(465)	(506)	1,484	(1,193)	(1,291)	(60)	(109)
Capital expenditure	(57)	(89)	63	(243)	(371)	(150)	(150)	(150)
Free cash flow	**1,542**	**991**	**960**	**3,287**	**1,208**	**2,274**	**3,566**	**3,557**
Investments	(402)	258	687	224	201	—	—	—
Other income	37	25	9	151	210	350	400	425
Ratios (%)								
Debt/equity	1.0	0.7	0.7	0.7	0.6	0.4	0.3	0.2
Net debt/equity	1.0	0.7	0.7	0.7	0.6	0.4	0.3	0.2
RoAE	34.3	37.7	37.4	52.3	61.0	80.2	73.5	66.3
RoACE	**35.7**	**37.7**	**37.0**	**52.4**	**61.4**	**80.2**	**73.8**	**66.7**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Ashok Leyland (AL)

Automobiles

ADD

JULY 28, 2009

RESULT

Coverage view: Cautious

Price (Rs): 35

Target price (Rs): 32

BSE-30: 15,375

Low margins mar the quarter. Ashok Leyland reported lower-than-expected results as (1) raw material benefits failed to come through and (2) volumes dipped sharply (down 58% yoy and 29% qoq). Consequently, 1QFY10 operating margin at 1.3% was abysmally low. We believe the company may not have been able to take full advantage of lower costs. Besides, inventory continues to a major problem for AL. We will review our estimates and rating after the conference call with the management.

Company data and valuation summary

Ashok Leyland

Stock data			
52-week range (Rs) (high,low)			38-12
Market Cap. (Rs bn)			46.5
Shareholding pattern (%)			
Promoters			51.0
FIIs			10.9
MFs			2.9
Price performance (%)	1M	3M	12M
Absolute	9.2	65.6	21.6
Rel. to BSE-30	4.9	22.5	12.9

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	1.5	1.8	2.4
EPS growth (%)	(57.8)	18.5	32.7
P/E (X)	22.8	19.3	14.5
Sales (Rs bn)	59.8	64.9	74.8
Net profits (Rs bn)	2.0	2.4	3.2
EBITDA (Rs bn)	4.2	6.5	8.3
EV/EBITDA (X)	15.2	9.9	7.7
ROE (%)	6.2	6.4	8.3
Div. Yield (%)	2.9	2.9	2.9

QUICK NUMBERS

- 1QFY10 PAT down 85% yoy
- 1QFY10 EBITDA margin falls sharply to 1.3%

Disappointing results as company fails to drive home cost advantages

We believe Ashok Leyland failed to capitalize on the decline in commodity costs as its 1QFY10 operating margin dipped sharply to 1.3%. 1QFY10 net profit at Rs78 mn was lower than expectations and down 85% yoy.

- 1QFY10 net revenues at Rs9.1 bn were down 52% yoy and lower than our expectation of Rs10 bn primarily due to lower volumes (down 58% yoy) and lower average realizations
- 1QFY10 EBITDA margin at 1.3% declined 800 bps sequentially and 500 bps on a yoy basis
- Net profit at Rs78 mn was impacted positively by higher other income—adjusted for other income and extraordinaries, the company would have reported a net loss of Rs52 mn

Raw material benefits don't seem to have come in despite management assurances

AL failed to lower its raw material costs despite a sharp decline in commodity prices. In fact, raw material cost as a percentage of sales remained flat on a sequential basis despite management assurances of a Rs25,000/vehicle decline in raw material costs. We believe EBITDA margin at 1.3% may have been hit by (1) failure to lower input costs, (2) increase in staff costs and (3) lower average realizations resulting in lower revenues. We await detailed clarifications from the management.

No improvements on a sequential basis

AL's operating performance failed to show any improvement on a sequential basis. Net revenues declined 25% on a qoq basis even though volumes were down 29% qoq. EBITDA was down 90% on a qoq basis implying that costs have not come down on a sequential basis even as most auto companies have benefitted from the reduction in input prices and have improved their operating performance. We believe this may just be the worst quarter for AL as margins will likely improve in the coming quarters. We will review our estimates and our rating on the stock after the conference call with the management.

Interim results of Ashok Leyland , March fiscal year-ends (Rs mn)

					(% chg.)		
	1QFY10	1QFY10E	1QFY09	4QFY09	1QFY10E	1QFY09	4QFY09
Net sales	**9,125**	**10,016**	**18,880**	12,181	**(8.9)**	**(51.7)**	**(25.1)**
Total expenditure	(9,003)	(9,095)	(17,661)	(11,033)	(1.0)	(49.0)	(18.4)
Inc/(Dec) in stock	(374)	(500)	2,610	(2,602)	(25.1)	(114.3)	(85.6)
Raw materials	(6,252)	(6,694)	(16,985)	(6,236)	(6.6)	(63.2)	0.3
Staff cost	(1,441)	(1,116)	(1,626)	(1,240)	29.1	(11.4)	16.2
Other expenditure	(935)	(785)	(1,659)	(955)	19.1	(43.6)	(2.1)
EBITDA	**122**	**920**	**1,219**	1,148	**(86.8)**	**(90.0)**	**(89.4)**
OPM (%)	**1.3**	**9.2**	**6.5**	**9.4**			
Other income	606	120	74	131	405.2	717.9	362.6
Interest	(258)	(400)	(107)	(440)	(35.5)	141.3	(41.4)
Depreciation	(435)	(500)	(441)	(480)	(13.0)	(1.4)	(9.4)
Pretax profits	**35**	**140**	**745**	359	**(75.2)**	**(95.3)**	**(90.3)**
Extraordinaries	(10)	—	(33)	(35)			
Tax	53	(21)	(207)	210	(352.7)	(125.7)	(74.6)
Net income	**78**	**119**	**506**	533	**(34.9)**	**(84.6)**	**(85.4)**
Adjusted profits	**88**	**119**	**515**	510	**(26.2)**	**(82.9)**	**(82.7)**
Income tax rate (%)	NA	15.0	29.0	(64.7)			
Ratios							
RM to sales (%)	72.6	71.8	76.1	72.6			
EBITDA margin (%)	1.3	9.2	6.5	9.4			
Net profit margin (%)	0.9	1.2	2.7	4.4			
ETR (%)	NA	15.0	29.0	(64.7)			
EPS (Rs)	0.1	0.1	0.4	0.4			
Other details							
Sales volumes (# vehicles)	7,698	7,698	18,425	10,788	—	(58.2)	(28.6)

Source: Company, Kotak Institutional Equities

kotak Institutional Equities

Andhra Bank (ANDB)

Banks/Financial Institutions

BUY

JULY 28, 2009

RESULT, CHANGE IN RECO.

Coverage view: Attractive

Price (Rs): 91

Target price (Rs): 105

BSE-30: 15,375

Strong operational performance, upgrade to BUY. Andhra Bank reported robust operational performance driven by better balance sheet management and PAT growth was a remarkable 2.3X yoy in 1QFY10. The company's reported asset quality also remained healthy while the overall restructured assets at 5.3% of June 2009 loan book are lower compared to some of its peers. We upgrade our target price to Rs105 (Rs90 earlier) and revise our rating to BUY from REDUCE.

Company data and valuation summary

Andhra Bank

Stock data			
52-week range (Rs) (high,low)			98-35
Market Cap. (Rs bn)			43.9
Shareholding pattern (%)			
Promoters			51.5
FIIs			14.6
MFs			4.4
Price performance (%)	1M	3M	12M
Absolute	8.4	55.9	59.8
Rel. to BSE-30	4.1	15.3	48.3

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	13.5	13.3	15.2
EPS growth (%)	12.5	(1.5)	14.4
P/E (X)	6.7	6.8	6.0
NII (Rs bn)	16.3	18.3	22.1
Net profits (Rs bn)	6.5	6.4	7.4
BVPS	75.2	84.6	95.3
P/B (X)	1.2	1.1	0.9
ROE (%)	18.9	16.6	16.9
Div. Yield (%)	5.0	3.7	4.2

NII growth of 28% yoy due to better balance sheet management

Andhra Bank's NII in 1QFY10 to Rs4.4 bn (up 28% yoy) as its average loan growth in the quarter compared to the previous period. This helped the company maintain its yield on advances at 11.2% which was comparable to 11.5% observed in 4QFY09. On the liability side, the cost of deposits declined sharply by 70 bps to 6.8% as the company benefited from the softer interest rates in the system. The company currently has only Rs35 bn (6% of deposits) of deposits, which have an interest rate higher than the card rate. The company has reduced its PLR by 25 bps effective July 25, 2009 which could have an impact on NIM in the near term. Despite these results, we continue to model a 20 bps decline in NIM in FY2010E, which may be conservative.

Treasury income boosts non-interest revenues

Andhra Bank's non-interest revenues in 1QFY10 were Rs2.4 bn (up 1X yoy) largely on account of treasury income of Rs1.3 bn while the fee income continued to be under some stress. We note that the company books the fee income from third party distribution as part of other miscellaneous income, which distorts the comparison with other banks.

Asset quality remains amongst the best in the industry

Andhra Bank's reported net NPLs as of June 2009 were Rs1 bn as of June 2009 (net NPL ratio of 0.2%) which is amongst the best in the industry. Low NPL levels remain one of the key strengths of the company. Restructured assets as of June 2009 were Rs23.6 bn (5.3% of loan book) which is lower compared to most of its peers. We currently model a delinquency rate of 2.0% in FY2010E compared to the 0.6% observed in FY2009 and assume a 90% yoy increase in NPL provisions in the current fiscal.

QUICK NUMBERS

- Reports a 2.3X yoy growth in PAT driven by NII growth and higher treasury profits
- Asset quality remains healthy and restructured assets are 5.3% of loan book
- We have raised estimates by 25% for FY2010E to factor in the results

Andhra Bank-- quarterly results
March fiscal year-ends, 1QFY09-1QFY10

	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	% chg	1QFY10KS	Actual Vs KS
Interest Earned	11,777	13,481	14,024	15,067	15,046	27.8	14,049	7.1
Interest on advances	8,801	10,253	11,108	11,988	12,178	38.4	11,149	9.2
Interest on investments	2,912	3,006	2,823	2,852	2,809	(3.5)	2,700	4.1
Interest on bal. with RBI & other inter bank funds	64	162	93	58	59	(8.3)	200	(70.7)
Other interest	-	60	-	169	-			
Interest expense	8,111	8,946	9,305	11,114	10,633	31.1	10,350	2.7
Net interest income	**3,666**	**4,535**	**4,719**	**3,953**	**4,414**	**27.5**	**3,699**	**19.3**
Other income	1,187	1,354	2,165	3,204	2,381	100.6	1,900	25.3
Treasury	(10)	(80)	670	1,624	1,280	(13,161.2)	600	113.3
Commission & exchange	496	520	600	508	480	(3.2)	(0)	-
Forex profit	92	145	30	106	153	66.1	-	-
Others	599	752	845	957	468	(21.9)	-	-
Total income	**4,853**	**5,889**	**6,884**	**7,157**	**6,794**	**40.0**	**5,599**	**21.4**
Operating expenses	**2,597**	**2,905**	**2,958**	**2,839**	**3,314**	**27.7**	**2,850**	**16.3**
Payments to / Provisions for employees	1,406	1,669	1,644	1,522	2,114	50.3	1,550	36.4
Other operating expenses	1,190	1,236	1,315	1,317	1,201	0.9	1,300	(7.6)
Operating profit before prov. & cont.	2,256	2,984	3,925	4,318	3,480	54.3	2,749	26.6
Provisions & Contingencies	1,430	769	449	1,856	(32)	(102.3)	1,000	(103.2)
Investment amortization	203	186	200	200	-	(100.0)	-	
Loan loss provisions	362	457	320	921	380	4.9	1,000	(62.0)
Investment depreciation	864	126	(200)	1,010	(510)	(159.0)	-	
Profit before tax	**826**	**2,215**	**3,477**	**2,462**	**3,512**	**325.1**	**1,749**	**100.9**
Provision for taxes	50	600	1,350	450	950	1,800.0	612	55.2
Net profit	**776**	**1,615**	**2,127**	**2,012**	**2,562**	**230.1**	**1,137**	**125.4**
Tax rate	6	27	39	18	27		35	
PBT - treasury + investment dep.	1,700	2,421	2,607	1,848	1,722	1.3	1,149	49.9
PBT - treasury + investment dep. + loan loss	2,223	3,038	2,927	2,769	2,552	14.8	2,149	18.8
Key balance sheet items (Rs bn)								
Deposits	492	505	538	594	604	22.8		
CASA	162	172	171	186	185	14.1		
CASA (%)	33.0	34.1	31.8	31.4	30.7			
Advances	341	364	420	444	449	31.8		
Priority sector	135	-	142	150	163	21.0		
Agriculture	61	59	65	68	69	13.2		
SME	42	45	50	54	60	43.2		
Investments	161.1	142.4	163.7	169.1	178.6	10.9		
AFS	-	25.5	43.5	46.9	34.8			
Duration (years)	-	1.4	1.8	3.4	2.0			
Asset quality details								
Gross Non Performing Assets (Rs mn)	3,928	3,741	3,734	3,681	3,591	(8.6)		
Gross Non Performing Assets (%)	1.2	1.0	0.9	0.8	0.8			
Net Non Performing Assets (Rs mn)	351	873	862	792	996	183.5		
Net Non Performing Assets (%)	0.1	0.2	0.2	0.2	0.2			
Yield management measures (%)								
Yield on advances	10.4	11.2	11.9	11.5	11.2			
Cost of deposits	6.5	6.7	7.0	7.5	6.8			
Yield on investments	7.4	7.6	-	10.7	7.0			
Cost of funds	5.8	6.0	6.2	6.8	6.1			
Yield from funds	8.3	8.8	9.2	9.2	8.7			
Spread	2.5	2.8	3.0	2.4	2.6			
NIM	2.9	3.4	3.4	2.6	2.9			
Capital adeuqacy details								
CAR (%)	12.1	13.4	12.7	13.2	14.8			
Tier I (%)	9.0	NA	8.7	8.7	9.1			
Tier II (%)	3.1	NA	4.0	4.6	5.7			

Source: Company, Kotak Institutional Equities estimates

Our earnings estimates for FY2010E are higher on account of better NII and higher treasury income
March fiscal year-ends, 2010-2011E (Rs mn)

	Old estimates		New estimates		% change	
	2010E	**2011E**	**2010E**	**2011E**	**2010E**	**2011E**
Net interest income	17,507	21,014	18,258	22,109	4.3	5.2
Loan growth (%)	16	15	21	15		
Spread (%)	2.20	2.31	2.25	2.33		
Loan loss provisions	4,290	6,052	3,420	4,604	(20.3)	(23.9)
Other income	6,886	7,269	7,386	7,269	7.3	-
Fee income	2,049	2,213	2,049	2,213	-	-
Treasury income	1,000	1,000	1,500	1,000		
Operating expenses	12,276	13,396	12,764	13,951	4.0	4.1
Employee expenses	7,039	7,797	7,228	8,006	2.7	2.7
Net profit	**5,166**	**5,831**	**6,433**	**7,360**	**24.5**	**26.2**
PBT-treasury+provisions	**11,118**	**13,887**	**11,380**	**14,427**	**2.4**	**3.9**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

HT Media (HTML)

Media

ADD

JULY 28, 2009

RESULT

Coverage view: Neutral

Price (Rs): 113

Target price (Rs): 125

BSE-30: 15,375

Robust 1QFY10 results but continued weakness in advertising revenues. HTML reported 1QFY10 adjusted (excl. Rs50 mn of foreign exchange gains) EBITDA of Rs640, marginally ahead of our Rs600 mn estimate. Weak ad revenue growth (-1% yoy) was supported by strong circulation revenue growth (+24% yoy) as well as savings in SG&A expenses (-9% qoq). We retain our ADD rating with a 12-month DCF-based target price of Rs125 (Rs120 previously); we recommend buying on dips.

Company data and valuation summary

HT Media

Stock data			
52-week range (Rs) (high,low)			144-36
Market Cap. (Rs bn)			26.5
Shareholding pattern (%)			
Promoters			68.7
FIIs			15.4
MFs			12.5
Price performance (%)	**1M**	**3M**	**12M**
Absolute	18.5	56.8	(2.8)
Rel. to BSE-30	13.8	15.9	(9.8)

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	0.9	4.8	6.6
EPS growth (%)	(78.8)	422.4	37.4
P/E (X)	123.2	23.6	17.2
Sales (Rs bn)	13.6	14.5	16.2
Net profits (Rs bn)	0.2	1.1	1.5
EBITDA (Rs bn)	1.0	2.4	2.9
EV/EBITDA (X)	28.1	11.5	9.4
ROE (%)	2.5	12.8	16.3
Div. Yield (%)	0.4	0.7	2.3

1QFY10 results analysis.

- 1QFY10 advertising revenues decline 1% yoy with marginal benefit of election spending (negative impact given loss of government spending).

- Strong 24% yoy growth in circulation revenues; highlights the counter-cyclical tool available with print media companies.

- 5% qoq decline in raw material costs (savings in newsprint consumption) and 9% qoq decline in SG&A expenses (increasing stable operations).

- 27% yoy growth in employee expenses marginally above our expectations due to the integration of Fever FM radio financials (impact of Rs35 mn) and increasing scale of print operations; HTML management confident of keeping employee expenses below 16.5% of revenues for FY2010E (17% in 1QFY10) indicating stability going forward.

Investment rationale

- Retain ADD with revised 12-month DCF-based target price of Rs125 (Rs120 previously) on account of lower newsprint prices, higher circulation revenues and cost rationalization partially negated by reduced ad revenue growth assumptions.

- Fine-tuned FY2010E and FY2011E consolidated EPS estimates to Rs4.6 (Rs4.2 previously) and Rs6.4 (Rs6.3 previously) largely on account of lower newsprint prices.

- Our reverse valuation exercise for HTML shows limited upside from core operations (even with higher EV/EBITDA multiples on account of reduced risk aversion); improved operating performance from currently loss-making operations (HT Mumbai, HT Mint, Internet) critical for further stock appreciation. We recommend buying only on dips.

1QFY10 results analysis

Advertising revenues disappoint. HTML reported 1% yoy decline in 1QFY10 advertising revenues at Rs2.8 bn, marginally below our Rs2.85 bn expectation. HTML management noted continued traction in Hindustan, HT Mumbai and HT Mint revenues with 25-30%, 5-7% and 20-25% yoy growth, respectively. HT Delhi, the flagship print brand, was the overhang with 1QFY10 being the third consecutive quarter of yoy decline in advertising revenues. Also, there was little incremental benefit from election spending as election advertising was negated by the lack of government advertising (DAVP) in print during the two election months (April-May 2009); the negative impact was particularly felt on HT Delhi given its large circulation (~1 mn per day) and direct correlation between DAVP advertising rate to circulation of the newspaper.

Interim results of HT Media Limited (HTML), March fiscal year-ends (Rs mn)

					(% chg)					
	1QFY10 (b)	1QFY10E	1QFY09	4QFY09 (b)	1QFY10E	1QFY09	4QFY09 (b)	FY2009 (a)	FY2008 (a)	(% chg)
Total revenues	**3,351**	**3,425**	**3,247**	**3,375**	***(2)***	***3***	***(1)***	**13,591**	**12,033**	***13***
Advertisement revenues	2,781	2,850	2,805	2,797	*(2)*	*(1)*	*(1)*	11,334	10,137	*12*
Circulation revenues	444	400	358	410	*11*	*24*	*8*	1,548	1,449	*7*
Other operating revenues	126	175	84	168	*(28)*	*49*	*(25)*	709	447	*59*
Total expenditure	**(2,710)**	**(2,825)**	**(2,584)**	**(2,886)**	***(4)***	***5***	***(6)***	**(12,587)**	**(10,334)**	***22***
Raw material costs	(1,226)	(1,250)	(1,191)	(1,285)	*(2)*	*3*	*(5)*	(5,588)	(4,643)	*20*
Employee expenses	(573)	(550)	(451)	(594)	*4*	*27*	*(4)*	(2,419)	(1,983)	*22*
SG&A and other expenses	(912)	(1,025)	(942)	(1,007)	*(11)*	*(3)*	*(9)*	(4,580)	(3,708)	*24*
EBITDA	**640**	**600**	**663**	**489**	***7***	***(3)***	***31***	**1,004**	**1,699**	***(41)***
OPM (%)	**19.1**	**17.5**	**20.4**	**14.5**				**7.4**	**14.1**	
Other income	66	75	82	64	*(13)*	*(20)*	*2*	206	439	*(53)*
Interest expense	(78)	(100)	(51)	(91)	*(22)*	*52*	*(15)*	(323)	(178)	*81*
Depreciation	(164)	(150)	(129)	(155)	*9*	*27*	*5*	(688)	(570)	*21*
Pretax profits	**465**	**425**	**565**	**306**	***9***	***(18)***	***52***	**198**	**1,390**	***(86)***
Extraordinaries	5	—	—	(110)				(190)	—	
Tax provision	(146)	(125)	(188)	38	*17*	*(23)*	*(482)*	(125)	(377)	*(67)*
Minority interest	—	—	—	—				125	—	
Net income	**324**	**300**	**377**	**234**	***8***	***(14)***	***38***	**9**	**1,013**	***(99)***
Tax rate (%)	**31.4**	**29.4**	**33.3**	**(12.4)**				**63.0**	**27.1**	

Notes:
(a) Annual financials represent consolidated numbers with radio, internet and metro now business.
(b) Quarter financials represent standalone numbers including radio business merged with the parent company in 4QFY09.

Source: Company data, Kotak Institutional Equities estimates

Strong growth in circulation revenues. HTML reported strong 24% yoy growth in 1QFY10 circulation revenues at Rs444 mn versus our Rs400 mn estimate. The strong growth in circulation revenues represents (1) measures taken by all print companies (raising cover prices) to negate the negative impact of declining ad revenues and rising newsprint prices and (2) increasing stability of HTML's emerging print operations (HT Mumbai, Hindustan new editions and HT Mint), which resulted in the company reducing the discount schemes offered to consumers to drive circulation. However, HTML's management noted that it would be open to launching the occasional discount scheme to drive up circulation.

1QFY10 EBITDA supported by lower raw material costs and SG&A expenses. HTML reported 1QFY10 EBITDA at Rs640 mn (-3% yoy, +31% qoq), largely in line with our Rs600 mn expectation. 1QFY10 raw material costs declined 4% qoq largely reflecting the reduced consumption of newsprint in line with reduced advertising volumes. The impact of large amounts of high-cost newsprint inventory on HTML financials continued; HTML management expects the positive impact of reduction in global newsprint prices to be felt marginally in 2QFY10 and completely in 3QFY10.

HTML's 1QFY10 SG&A expenses declined 9% qoq (adjusted for Rs50 mn of foreign exchange gain in 1QFY10 versus Rs50 mn loss in 4QFY09 on account of Rupee appreciation in 1QFY10). The gains were largely led by increasing stable operations with only one new launch (Mint Kolkata) during the quarter and reduced competitive pressure to promote emerging brands. However, HTML management noted some variability in the same depending upon strategic drives to increasing penetration in key markets (HT Mumbai re-launch in 2QFY10 for example).

However, 1QFY10 employee expenses at Rs573 mn (+27% yoy) were marginally above our RS550 mn expectation largely led by (1) integration on radio operations with the parent company (impact of Rs35 mn), (2) impact of getting established RJs (radio jockeys) from competing radio stations in key markets (Mumbai for example) and (3) increasing scale of print operations (Hindustan, HT Mumbai, Mint) over time. However, HTML management was confident of maintaining employee expenses below 16.5% of revenues in FY2010 versus 17.0% of revenues in 1QFY10. We highlight that Fever FM radio business reported operating losses of Rs263 mn versus Rs209 mn in 4QFY09 despite strong 20% qoq increase in advertising revenues.

Net income supported by lower interest outgo; HTML writes off investment in Metro Now JV. HTML reported 1QFY10 net interest expense at Rs12 mn versus Rs27 mn in 4QFY09 despite marginal increase in net debt levels to Rs1.75 bn from Rs1.4 bn at end-4QFY09; we will discuss the same in detail with the management at the results conference call tomorrow but believe external commercial borrowing at rupee appreciation in 1QFY10 to be the key driver. Also, HTML has started to write off its investment in Metro Now, the tabloid print JV with BCCL, and has written off Rs45 mn of its investment in the JV during 1QFY10.

Earnings revisions

We have revised our 12-month DCF-based target price of HTML stock to Rs125 (Rs120 previously) and fine-tuned our FY2010E and FY2011E consolidated EPS estimates toRs4.6 (Rs4.2 previously) and Rs6.4 (Rs6.3) taking into account 1QFY10 results as well as sharp decline in newsprint prices in recent months.

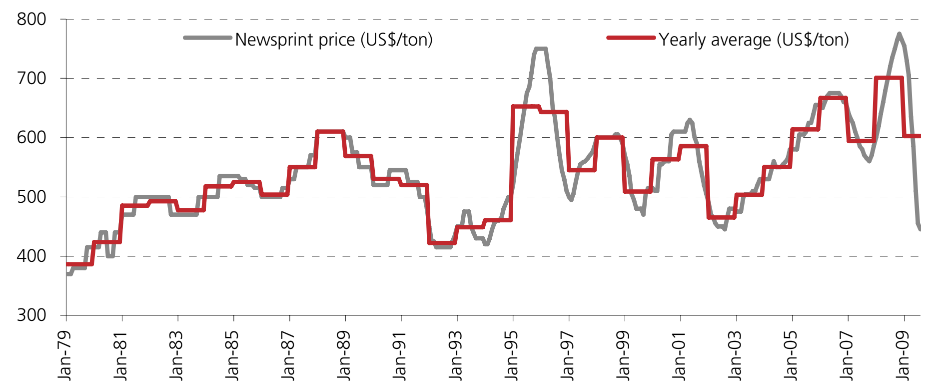
- **Advertising revenues.** We now model HTML's FY2010E and FY2011E advertising revenues at Rs11.6 bn (Rs21.0 bn previously) and Rs12.7 bn (Rs13.3 bn) on account of continued weakness in HTML's key Delhi print market.

- **Circulation revenues.** We now model HTML's FY2010E and FY2011E advertising revenues at Rs1.8 bn (Rs1.75 bn previously) and Rs2.0 bn (Rs1.95 bn) on account of rising cover prices across print media companies.

- **Newsprint prices.** We now model FY2010E and FY2011E newsprint prices at US$620/ton (US$650/ton previously); FY2010E newsprint prices would be lower but for the large high-cost inventory with HTML. We now model US$650/ton newsprint prices in perpetuity versus US$670/ton previously.

- **SG&A expenses.** We have reduced HTML's FY2010E and FY2011E SG&A expenses to Rs3.3 bn (Rs3.5 bn previously) and Rs3.5 bn (Rs3.7 bn) on account of cost rationalization initiatives of the company.

Historical newsprint price, US East Coast, 1979-2008 (US$/ton)



Source: PPPC, Pulp and Paper Weekly, compiled by Kotak Institutional Equities

Investment rationale

There is some steam left but stock performance is contingent upon the turnaround of emerging businesses. Exhibit __ presents our revised reverse valuation model for HTML; HTML's stock is currently discounting marginal value accretion from its emerging businesses (HT Mumbai, HT Mint and Hindustan) but has moved far from the large negative valuation attributed to new businesses on account of near-term losses. However, value creation in emerging businesses is far from given as has been the past experience. The recent downturn in advertising revenue market and sharp increase in newsprint prices has certainly been helpful in curbing the past excesses.

Estimate of implied valuation of emerging businesses of HT Media (Rs mn)

		Comments
1. Valuation of mature businesses		**English (HT) and Hindi (Hindustan)**
FY2010E EBITDA of HT Delhi edition	2,249	Normalized growth of 4-6% over time, flagship print brand
Appropriate EV/EBITDA multiple (X)	8.0	New printing facilities for HT Delhi in FY2008
FY2010E EBITDA of HT (other) and Hindustan editions	1,198	Robust 12-15% growth over time, EBITDA depressed due to new editions
Appropriate EV/EBITDA multiple (X)	10.0	New printing facilities for Hindustan in FY2009
FY2011E EBITDA of Fever FM radio	132	Robust 15-20% growth over time, significant option value
Appropriate EV/EBITDA multiple (X)	8.0	
Valuation of mature businesses	**31,027**	
2. Valuation of investments		
Net cash/(debt) position at end-FY2009E	(1,912)	
Total value of investments	**(1,912)**	
Valuation of HTML ex-emerging businesses	**29,115**	
Enterprise value of HTML	29,304	
3. Valuation of emerging businesses		**Emerging media businesses**
Implied value of new media businesses	**189**	
FY2010E revenues of HT Mumbai edition	1,302	Circulation of 0.43 mn copies, complements presense in metro market of Delhi
FY2010E revenues of HT Mint business newspaper	450	Circulation of 0.13 mn copies, Number two in metro markets of Delhi and Mumbai
FY2010E revenues of Hindustan (new editions)	NA	Expansion in Uttar Pradesh - Uttaranchal markets

Source: Company data, Kotak Institutional Equities estimates

HTML is poised to benefit from the expected recovery in the advertising market in FY2011E. However, we remain cautiously positive and will wait for either (1) relatively better valuations or (2) some visible progress in turnaround of emerging businesses before attributing large value to the same; we retain our ADD rating on the stock and increase our 12-month DCF-based target price to Rs125 (Rs120 previously); we recommend investors buy into HTML stock but only on dips. HTML stock is fairly valued at 19X standalone and 24X consolidated FY2010E valuations.

HTML stock is also completely pricing in the value of its core operations despite the upward revision in multiples—8X (7X previously) for stable HT Delhi cash flows, 10X (9X previously) for HT (others) and Hindustan (legacy) on account of modest growth in cash flows—on account of reduced risk aversion. We now value Fever FM radio business at 8X FY2011E EBITDA driven by strong growth in its cash flows going forward. We highlight that the EV/EBITDA metric may overstate the value of the radio business given the finite term of the radio license (10 years). However, we also note that the above metric may underestimate the value of the radio business on a going concern basis (provided players bid sensibly for the renewal of the license) given already sunk capital investment in establishing radio stations.

Profit model, balance sheet, cash model of HT Media 2006-2013E, March fiscal year-ends (Rs mn)

	2006	2007	2008	2009	2010E	2011E	2012E	2013E
Profit model								
Net sales	8,210	10,397	12,033	13,558	14,506	16,151	18,202	20,294
EBITDA	**1,184**	**1,680**	**1,699**	**972**	**2,360**	**2,867**	**3,608**	**4,589**
Other income	177	367	439	207	207	225	249	256
Interest	(135)	(143)	(178)	(323)	(311)	(311)	(289)	(244)
Depreciation	(385)	(436)	(570)	(688)	(666)	(537)	(572)	(617)
Pretax profits	**841**	**1,468**	**1,390**	**169**	**1,589**	**2,245**	**2,996**	**3,985**
Extraordinary items	(229)	2	—	(190)	(180)	(120)	—	—
Tax	(65)	(573)	(520)	(78)	(521)	(720)	(1,029)	(1,363)
Deferred taxation	(174)	27	143	—	54	16	25	21
Net income	**373**	**924**	**1,013**	**(99)**	**942**	**1,421**	**1,992**	**2,644**
Minority interest	—	(46)	—	(125)	—	—	—	—
Adjusted net income	**537**	**969**	**1,013**	**127**	**1,069**	**1,503**	**1,992**	**2,644**
Earnings per share (Rs)	**2.4**	**4.1**	**4.3**	**0.5**	**4.6**	**6.4**	**8.5**	**11.3**
Balance sheet								
Total equity	6,932	7,642	8,529	8,445	9,168	9,885	10,945	12,042
Minority interest	—	—	1	(124)	(124)	(124)	(124)	(124)
Deferred taxation liability	296	273	122	122	68	52	26	5
Total borrowings	1,696	1,658	2,231	3,458	3,458	3,458	2,958	2,458
Current liabilities	1,809	2,113	2,804	2,954	2,809	3,015	3,234	3,379
Total liabilities and equity	**10,733**	**11,685**	**13,685**	**14,854**	**15,378**	**16,285**	**17,039**	**17,759**
Cash	2,678	1,104	774	518	613	1,054	1,281	1,271
Other current assets	3,276	2,863	4,425	5,098	5,153	5,600	6,126	6,601
Total fixed assets	3,736	4,109	4,752	6,179	6,553	6,572	6,572	6,828
Intangible assets	182	1,098	1,078	1,003	1,003	1,003	1,003	1,003
Investments	861	2,510	2,656	2,056	2,056	2,056	2,056	2,056
Total assets	**10,733**	**11,685**	**13,685**	**14,854**	**15,378**	**16,285**	**17,039**	**17,759**
Free cash flow								
Operating cash flow, excl. working capital	757	1,194	1,064	582	1,528	1,836	2,290	2,982
Working capital changes	(232)	(226)	(131)	(522)	(201)	(241)	(307)	(331)
Capital expenditure	(327)	(867)	(1,196)	(2,050)	(1,040)	(556)	(572)	(873)
Investments	388	(319)	(325)	600	—	—	—	—
Other income	130	197	298	207	207	225	249	256
Free cash flow	**716**	**(21)**	**(290)**	**(1,184)**	**494**	**1,265**	**1,660**	**2,036**
Ratios (%)								
Debt/equity	23.5	20.9	25.8	40.4	37.4	34.8	27.0	20.4
Net debt/equity	(13.6)	7.0	16.8	34.3	30.8	24.2	15.3	9.9
ROAE (%)	9.4	12.8	12.2	1.5	12.0	15.7	19.1	23.0
ROACE (%)	**12.1**	**10.6**	**9.6**	**2.3**	**10.3**	**13.3**	**15.8**	**19.6**

Source: Company data, Kotak Institutional Equities estimates

kotak Institutional Equities

BGR Energy Systems (BGRL)

Industrials

REDUCE

JULY 28, 2009

RESULT

Coverage view: Neutral

Price (Rs): 352

Target price (Rs): 360

BSE-30: 15,379

Disappointing results led by slow execution. BGR Energy reported disappointing revenues of R3.1 bn led by lower-than-expected execution. However, execution may pick up in later quarters as it depends on two large EPC projects. Margins surpassed expectations at 13.6% with a substantial decline seen in raw material costs as a percentage of sales. Order backlog at Rs108.8 bn was boosted by a BOP order worth Rs16.3 bn. Reiterate REDUCE rating with a revised target price of 360/share.

Company data and valuation summary

BGR Energy Systems

Stock data			
52-week range (Rs) (high,low)			393-107
Market Cap. (Rs bn)			25.4
Shareholding pattern (%)			
Promoters			81.3
FIIs			1.2
MFs			4.8
Price performance (%)	1M	3M	12M
Absolute	3.5	84.3	4.9
Rel. to BSE-30	(0.6)	36.3	(2.7)

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	15.6	23.5	28.2
EPS growth (%)	29.0	50.1	19.9
P/E (X)	22.5	15.0	12.5
Sales (Rs bn)	19.3	27.9	34.1
Net profits (Rs bn)	1.1	1.7	2.0
EBITDA (Rs bn)	2.1	3.0	3.7
EV/EBITDA (X)	12.5	9.1	7.7
ROE (%)	21.6	26.4	25.7
Div. Yield (%)	0.8	1.1	1.4

QUICK NUMBERS

- Flat yoy revenues of Rs3.1 bn
- Substantial margin improvement of 340 bps yoy
- Strong order backlog of Rs108.8 bn

Yet another quarter of disappointing revenues; margins improve substantially

BGR reported relatively flat revenues of Rs3.1 bn for 1QFY10, significantly below our estimates of Rs4.6 bn led by lower-than-expected execution. We had expected a strong revenue growth led by pick up in execution of the large thermal power projects. However, the supply of high-value items such as boiler and turbine etc in EPC contracts in later half of FY2010E may make up for the 1Q disappointment. Operating profit margin improved substantially by 340 bps yoy to 13.6% (based on substantial decline in raw material cost as a percentage of sales) versus our expectation of 10.3%. Raw material costs reported were at 75% of 1Q sales versus 82.7% in 1QFY09 and an average of 82% in FY2009. We highlight that BGR would potentially benefit from the decline in commodity prices as the EPC contracts are fixed price contracts constituting about 90% of the order book. The margin improvement led to yoy growth of 17.4% in the net income of BGR.

Strong order backlog of Rs108.8 bn provides higher revenue visibility

BGR energy reported a strong order backlog of Rs108.8 bn at the end of 1QFY10, which is about 3.7X FY2010E expected revenues. The order backlog implies strong order inflows of Rs16.7 bn during the quarter. We highlight that this is primarily driven by the Chandrapur Mega Project order worth Rs16.3 bn. The order is for the BOP works for the main plant package of the 2X500 MW Chandrapur Super Thermal Power Station Expansion Project awarded by Maharashtra State Power Generation Company Ltd.

Revise earnings estimates and target price to Rs360; reiterate REDUCE

We revise our earning estimates to Rs23.5 and Rs28.2 from Rs23.1 and Rs26.4 from for FY2010E and FY2011E, respectively, based on slightly execution for FY2010E and higher margin assumptions. We reiterate our REDUCE rating on the stock with a revised target price of Rs360/share (13X FY2011E P/E) from Rs315/share earlier. We maintain our REDUCE rating on the stock based on (a) revenue concentration with almost complete reliance on four or five large projects which may be subject to delays etc, (b) reliance on Chinese equipment vendors for quality and delivery timelines, (c) lack of demonstrated experience in handling full EPC contracts and (d) potentially high working capital requirements of executing large long-term projects.

Revenues disappoint for the quarter; however, may make up later

BGR Energy reported 1QFY09 revenues of Rs3.1 bn, about 32% below our expectation of Rs4.56 bn likely led by lower-than-expected execution during the quarter. The revenues have remained relatively flat on a yoy basis growing by only 1.4%. We had expected the company to report strong revenue growth during the quarter led by pick up in execution of the large thermal power projects. However, the supply of high-value items such as boiler and turbine etc in EPC contracts in later half of FY2010E may make up for the 1Q disappointment. The two large EPC orders (Mettur and Kalisindh) worth Rs80 bn are expected to contribute about Rs17.6 bn towards the full year revenues of the company. Highlight potential downside risk to our full-year revenue estimates.

Margins beat expectations

BGR Energy reported EBITDA margin of 13.6% in 1QFY10 up by 340 bps yoy from 10.2% in 1QFY09. We had expected relatively flat margins of 10.3% for the quarter. The improvement in margins was led by a substantial decline in raw material costs as a percentage of sales. Raw material costs as a percentage of sales came in at 75% versus 82.7% in 1QFY09 and an average of 82% in FY2009. Highlight that BGR would potentially benefit from the decline in commodity prices as the EPC contracts are fixed price contracts constituting about 90% of the order book. The decline in raw material costs was partially offset by a 260 bps yoy increase in employee expenses and 170 bps yoy increase in other expenses as a percentage of sales. The margin improvement led to a yoy growth of 17.4% in the net income of the company. BGR Energy reported a PAT of Rs202 mn in 1QFY10 versus Rs172 mn in 1QFY09 and our estimates of Rs246 mn.

BGR Energy Systems - 1QFY10 results - Key numbers (Rs mn)

					change (%)					
	1QFY10	1QFY10E	1QFY09	4QFY09	1QFY10E	1QFY09	4QFY09	FY2010E	FY2009	% change
Sales	**3,111**	**4,567**	**3,068**	**7,183**	**(31.9)**	**1.4**	**(56.7)**	**27,920**	**19,303**	**44.6**
Expenses	(2,688)	(4,099)	(2,757)	(6,347)	(34.4)	(2.5)	(57.6)	(24,895)	(17,214)	44.6
Stock	(5)		(2)	(46)		182.6	(89.8)	-	11	(100.0)
RM	(2,328)		(2,536)	(5,834)		(8.2)	(60.1)	(23,260)	(15,848)	46.8
Employee exp	(217)		(133)	(191)		62.4	13.8	(838)	(744)	12.6
Other exp	(139)		(86)	(276)		61.9	(49.8)	(798)	(633)	26.1
Operating profit	**422**	**468**	**312**	**836**	**(9.8)**	**35.5**	**(49.5)**	**3,025**	**2,089**	**44.8**
Other income	67	76	41	47	(11.4)	66.4	43.2	327	317	3.1
EBIDT	**490**	**544**	**352**	**883**	**(10.0)**	**39.1**	**(44.5)**	**3,352**	**2,406**	**39.3**
Interest	(163)	(149)	(76)	(153)	9.0	115.3	6.0	(717)	(579)	23.7
Depreciation	(21)	(22)	(14)	(23)	(5.9)	52.4	(9.8)	(88)	(75)	17.0
PBT	**307**	**373**	**263**	**707**	**(17.8)**	**16.5**	**(56.6)**	**2,547**	**1,752**	**45.4**
Tax	(104)	(127)	(91)	(237)	(17.9)	14.8	(56.1)	(857)	(596)	43.9
Net profit	**202**	**246**	**172**	**470**	**(17.8)**	**17.4**	**(56.9)**	**1,690**	**1,156**	**46.2**
Key Ratios										
RM/Sales	75.0		82.7	81.9				83.3	82.0	
Employee exp/Sales	7.0		4.3	2.7				3.0	3.9	
Other Exp/Sales	4.5		2.8	3.8				2.9	3.3	
OPM	**13.6**	**10.3**	**10.2**	**11.6**				**10.8**	**10.8**	
PBT margin	9.9	8.2	8.6	9.8				9.1	9.1	
Tax rate	34.0	34.0	34.5	33.6				33.7	34.0	
PAT Margin	6.5	5.4	5.6	6.5				6.1	6.0	

Source: Company, Kotak Institutional Equities estimates

BGR Energy Systems - 1QFY10 segmental results (Rs mn)

	1QFY10	1QFY09	4QFY09	change (%) 1QFY09	change (%) 4QFY09
Revenues					
Capital goods	2,941	2,817	1,001	4.4	193.8
Construction & EPC contracts	170	251	6,182	(32.4)	(97.3)
Total revenues	**3,111**	**3,068**	**7,183**	**24.1**	**52.0**
Segment results					
Capital goods	392	306	37	28.4	957.2
Construction & EPC contracts	18	33	764	(44.6)	(97.6)
Unallocable income net of exp.	59	-	59	NA	(0.7)
Interest expense	(163)	(76)	(153)	115.3	6.0
Total PBT	**307**	**263**	**707**	**54.8**	**70.5**
Capital employed					
Capital goods	2,445	1,066	737	129.4	232.0
Construction & EPC contracts	171	622	1,678	(72.5)	(89.8)
Unallocated	3,197	3,197	3,197	-	-
Total capital employed	**5,814**	**4,886**	**5,611**	**19.1**	**4.0**
Segmental revenue mix					
Capital goods	94.5	91.8	13.9		
Construction & EPC contracts	5.5	8.2	86.1		
Segment margins					
Capital goods	13.3	10.8	3.7		
Construction & EPC contracts	10.8	13.2	12.4		

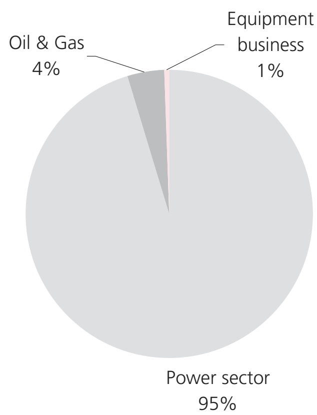
Source: Company, Kotak Institutional Equities

Strong order backlog of Rs108.8 bn provides higher revenue visibility

BGR energy reported a strong order backlog of Rs108.8 bn at the end of 1QFY10, which is about 3.7X FY2010E expected revenues. The order backlog implies strong order inflows of Rs16.7 bn during the quarter. Highlight that this is primarily driven by the Chandrapur Mega Project order worth Rs16.3 bn. The order is for the BOP works for the main plant package of the 2X500 MW Chandrapur Super Thermal Power Station Expansion Project awarded by Maharashtra State Power Generation Company Ltd.

A majority of the backlog is from the power sector (EPC and BOP contracts) forming about 95% of total order book. Oil & Gas and the equipment business contribute about 4% and 1% of total order backlog. We believe that power segment orders might lead to a pick-up in execution led by the two large EPC orders viz. Mettur and Kalisindh.

Breakup of order backlog of BGR Energy, June 30, 2009



Source: Company

Revise earnings estimates and target price to Rs360; reiterate REDUCE

We revise our earning estimates to Rs23.5 and Rs28.2 from Rs23.1 and Rs26.4 from for FY2010E and FY2011E, respectively, based on slightly lower execution expectation for FY2010E and higher margin expectations. We reiterate our REDUCE rating on the stock with a revised target price of Rs360/share from Rs315/share earlier. The change in target price is based on (a) 13X FY2011E based valuation, (b) earnings revision led by slightly higher margin assumptions.

Revised estimates of BGR Energy, March fiscal year-ends ,2010-11E (Rs mn)

	New estimates		Old estimates	
Target price (Rs)	**360**		**315**	
Rating	**REDUCE**		**REDUCE**	
	FY2010E	**FY2011E**	**FY2010E**	**FY2011E**
Revenues	27,920	34,088	29,464	35,576
EBITDA	3,025	3,693	3,086	3,728
EBITDA margin (%)	10.8	10.8	10.5	10.5
PBT	2,547	3,054	2,557	2,923
PAT	1,691	2,027	1,665	1,901
EPS (Rs)	23.5	28.2	23.1	26.4
yoy growth (%)				
Revenues	44.6	22.1	52.6	20.7
EBITDA	44.8	22.1	47.7	20.8
PBT	45.4	19.9	46.0	14.3
PAT	50.1	19.9	47.8	14.2
EPS	50.1	19.9	47.8	14.2

Source: Kotak Institutional Equities estimates

We maintain our REDUCE rating on the stock based on (a) almost complete reliance on four or five large projects which may at some point be subject to delays etc, (b) reliance on Chinese equipment vendors for quality and delivery timelines, (c) lack of demonstrated experience in handling full EPC contracts and (d) potentially high working capital requirements of executing large long-term projects.

Key upside risks include: (1) Visible investment momentum in power generation sector with several projects coming up for bidding (likely to be commissioned during FY2010E-12E), (2) limited competition in the provision of turnkey BOP services for large power plants (up to 500 MW) that may potentially ensure strong order inflows (3) BGR Energy's strong design and engineering skills that differentiate it from its competitors, (4) BGR Energy's ability to scale up its business quickly and (5) BGR Energy's presence across several diverse businesses such as process equipment for the oil & gas industry and for water and environmental solutions, that provide several sources of consistent long-term growth.

Kotak Institutional Equities

Jindal Saw (JSAW)

Others

BUY

JULY 28, 2009

RESULT

Coverage view:

Price (Rs): 459

Target price (Rs): 300

BSE-30: 15,375

Strong margins spring positive surprise. JSAW reported strong 2QCY09 results with PAT of Rs1.4 bn, significantly ahead of our estimated Rs1 bn. Strong margins at 15.9% (up 330 bps qoq) significantly surpassed our estimated 12.9%. The company also announced plan to set up a 200,000 tpa integrated ductile iron plant at a total cost of Rs3.5 bn. We will review our estimates and rating after the management call.

Company data and valuation summary

Jindal Saw

Stock data			
52-week range (Rs) (high,low)			650-135
Market Cap. (Rs bn)			25.2
Shareholding pattern (%)			
Promoters			43.8
FIIs			17.4
MFs			14.4
Price performance (%)	**1M**	**3M**	**12M**
Absolute	13.2	114.8	(11.4)
Rel. to BSE-30	8.7	58.9	(17.7)

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	64.3	47.8	41.7
EPS growth (%)	(0.8)	(25.6)	(12.8)
P/E (X)	7.1	9.6	11.0
Sales (Rs bn)	58.5	48.6	47.2
Net profits (Rs bn)	3.5	2.7	2.3
EBITDA (Rs bn)	7.5	6.2	5.7
EV/EBITDA (X)	4.5	4.7	4.6
ROE (%)	10.8	7.4	6.2
Div. Yield (%)	1.1	0.9	0.9

QUICK NUMBERS

- Strong EBITDA margins of 15.9% (up 330 bps qoq)
- Order book of US$780 mn

Strong margins drive 2QCY09 PAT ahead of estimates

JSAW reported strong 2QCY09 results with PAT of Rs1.4 bn (+94% yoy and +39% qoq) versus our estimate of Rs1 bn. Revenues at Rs15 bn (+46% yoy and 3% qoq) was largely in line with our estimate of Rs14.3 bn. Strong margins at 15.9% (-50 bps yoy and +330 bps qoq) was significantly ahead of our estimated 12.9% mainly led by material cost benefits.

- **Margin increase led by material cost benefits.** The management in its press release has attributed the expansion in margins to lower material cost led by (a) positive impact of forex movement on raw material payments; (b) better profitability in SAW pipe orders executed during the quarter and (c) lower contracted coking coal prices for 2009-10 as compared 2008-09. We await details on the impact of each of these items on margin improvement.

- **Higher seamless volumes also support margins.** Seamless pipe volumes of 28,500 tons (versus 17,472 in 2QCY08 and 18,800 in 1QCY09) were much higher than our estimated 17,000 tons. This is the highest quarterly seamless volumes that the company has achieved over the last two years. Higher seamless volumes also supported the margins during the quarter as realizations remained strong at Rs77,649/ ton with declining billet prices.

Upcoming facilities to drive growth—new ductile pipe plant announced

- **New ductile iron plant.** JSAW announced plans to set up a new integrated ductile iron plant of 200,000 tpa capacity at its existing facility in Mundra, Gujarat. The plant to be executed over the next 24 months will involve a total capex of Rs3.5 bn. It will include a DI pipe making facility, mini blast furnace, coke oven, sinter plant and other necessary equipments.

- **Large diameter pipes.** The 200,000 tpa LSAW facility at Mundra has been commercialized from July 2009. The partial increase in the HSAW capacity at Bellary from 40,000 tpa to 150,000 tpa will be operational by December 2009.

- **Seamless plant.** The 150,000 tpa expansion at the seamless plant is currently under trials and is expected to begin commercial production shortly.

Strong margins drive 2QCY09 PAT ahead of estimate
JSAW, Interim results (standalone), December year-ends (Rs mn)

					(% change)		
	2QCY09	2QCY09E	2QCY08	1QCY09	2QCY09E	2QCY08	1QCY09
Net sales	**15,002**	**14,304**	**10,248**	**14,637**	**4.9**	**46.4**	**2.5**
Total expenditure	**(12,621)**	**(12,459)**	**(8,562)**	**(12,791)**	**1.3**	**47.4**	**(1.3)**
Inc/(Dec) in stock	(34)	—	203	(329)	—	(116.8)	(89.7)
Raw materials	(10,026)	—	(6,752)	(10,015)	—	48.5	0.1
Staff cost	(383)	—	(291)	(387)	—	31.5	(1.1)
Outsourcing expense	(194)	—	(88)	(455)	—	119.1	(57.5)
Other expenditure	(1,985)	—	(1,633)	(1,605)	—	21.5	23.7
EBITDA	**2,381**	**1,845**	**1,686**	**1,846**	**29.0**	**41.2**	**28.9**
OPM (%)	**15.9**	**12.9**	**16.4**	**12.6**			
Other income	14	20	20	21	(30.0)	(31.0)	(33.3)
Interest	(381)	(330)	(545)	(371)	15.5	(30.0)	2.7
Depreciation	(211)	(200)	(155)	(205)	5.5	36.4	2.9
Reported pre-tax profits	**1,803**	**1,335**	**935**	**1,291**	**35.0**	**92.9**	**39.6**
Tax	(443)	(334)	(233)	(313)	32.7	90.5	41.6
Reported net income	**1,360**	**1,001**	**702**	**979**	**35.8**	**93.7**	**39.0**
Tax rate (%)	24.6	25.0	24.9	24.2			
Volumes (tons)							
Large dia pipes	96,400	101,000	110,836	99,500	(4.6)	(13.0)	(3.1)
Ductile iron pipes	63,700	67,000	54,940	68,200	(4.9)	15.9	(6.6)
Pig iron	1,400	4,000	2,967	5,300	(65.0)	(52.8)	(73.6)
Seamless tubes	28,500	17,000	17,472	18,800	67.6	63.1	51.6

Source: Company, Kotak Institutional Equities

kotak Institutional Equities

Mahindra & Mahindra Financial (MMFS)

Banks/Financial Institutions

ADD

JULY 28, 2009

RESULT

Coverage view: Attractive

Price (Rs): 259

Target price (Rs): 270

BSE-30: 15,375

Strong PAT growth in 1QFY10, sub-normal monsoon could be dampener. Strong traction in margins and lower provisions saw high (49% yoy) earnings growth. Loan growth was, however, muted as disbursements were up 8% yoy. A strong macro environment in rural India will likely drive higher loan growth in the next few quarters though the monsoon remains the key sensitivity to our call. We revise estimates, rollover to FY2011E, retain ADD with a new price target of Rs270 (from Rs240).

Company data and valuation summary

Mahindra & Mahindra Financial

Stock data			
52-week range (Rs) (high,low)			298-162
Market Cap. (Rs bn)			24.8
Shareholding pattern (%)			
Promoters			61.3
FIIs			24.3
MFs			0.3
Price performance (%)	**1M**	**3M**	**12M**
Absolute	5.7	22.3	6.4
Rel. to BSE-30	1.5	(9.5)	(1.2)

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	22.4	26.7	28.8
EPS growth (%)	21.2	19.0	8.1
P/E (X)	11.5	9.7	9.0
NII (Rs bn)	7.6	8.0	8.9
Net profits (Rs bn)	2.1	2.6	2.8
BVPS	146.9	169.5	190.4
P/B (X)	1.8	1.5	1.4
ROE (%)	15.4	16.4	15.8
Div. Yield (%)	2.1	2.6	2.8

Strong reported earnings, core business muted

Mahindra Finance reported strong earnings - PAT of Rs400 mn, up 49% yoy and 23% above estimates. However, core growth - PBT before provisions and other income was up 5% yoy and 4% below estimates. A yoy improvement in margins and moderate (2% yoy) loan growth supported core income; lower NPL provisions (Rs778 mn in 1QFY10 down from Rs880 mn in 1QFY09) further boosted reported earnings.

Benefit of low interest rates passed on to consumers; margins may remain stable

Mahindra Finance's NIM (based on our calculations) moved up to 10.8% in 1QFY10 from 10.1% in 1QFY09. However, we observe a sharp qoq dip (NIMs were 12.4% in 4QFY09) as the company passed on the benefit of soft interest rates to its consumers. The business mix appears to be stable qoq. Rise in NPL (Rs1 bn qoq) also accounted for about 30 bps decline in margins. We are reducing our earnings estimates to factor lower NIMs (stable at the current levels) over the next few quarters.

Loan growth muted, traction will likely pick up on low base

Mahindra Finance reported 8% growth in disbursements resulting in low (about 2%) growth in outstanding loan book. We believe that the pace of disbursements will move up in 2HFY10 as the festive season drives demand. A strong macro environment (on the back of higher MSP prices, elections, pay commission hikes) and low base of 2HFY09 will result in better growth—we continue to retain 20% disbursements growth estimate for FY2010E.

QUICK NUMBERS

- PAT up 49% to Rs400 mn
- Gross NPL at 9.8% - stable yoy, above 8.7% in 4QFY09
- Disbursements growth of 8% yoy

NPLs provisions down, gross NPL ratio stable yoy

Mahindra Finance reported gross NPL ratio of 9.8% in 1QFY10 – stable yoy. The ratio was, however, above the 8.7% reported in 4QFY09 as NPLs increased 15% qoq. The management highlighted this as a seasonal trend and the rise is more akin to delinquencies which will likely be recovered in 2HFY10. We are assuming provisioning cost to rise by 5% yoy for next nine months versus 12% yoy decline reported in 1QFY10—this will imply an improvement in the annual NPL provisioning cost ratio (provision-to-average-assets)—13.6% in FY2010E, down from 3.9% in FY2009.

Normal monsoon crucial for steady performance

The rural economy and Mahindra Finance continue to have linkages with monsoon. As per the latest available data (till mid-July), monsoon was about 19% deficient. In a conference call organized by KIE, Dr S.M. Jharwal, Principal Advisor, Ministry of Agriculture, Government of India, told investors that the likely shortfall in kharif will likely be made up by the rabi crop. Monsoons are more deficient in western UP and Bihar—both are fortunately more irrigated states. According to the management of Mahindra Finance, these states contribute for about 20% of its business.

Mahindra Finance
Quarterly results, 1QFY09-1QFY10 (Rs mn)

	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	YoY (%)	1QFY10	Actual vs KS (%)
Total interest income	2,800	3,118	3,320	3,433	3,075	10		
Total interest expense	1,103	1,312	1,412	1,272	1,210	10		
Net interest income	**1,697**	**1,806**	**1,907**	**2,161**	**1,865**	**10**	**1,968**	**(5)**
Provisions and write/off	**880**	**698**	**788**	**458**	**778**	**(12)**	**880**	**(12)**
Net interest income (after prov.)	818	1,109	1,119	1,703	1,088	33	1,088	(0)
Other income	194	191	247	544	218	12	162	34
Income from securitization	146	158	213	460	127	(13)	112	13
Others	48	33	34	83	91	89	50	82
Total income pre loan loss provision	1,891	1,998	2,154	2,705	2,083	10	2,130	(2)
Operating expenses	**593**	**754**	**679**	**642**	**703**	**19**	**764**	**(8)**
Employee expenses	260	313	295	304	354	36	325	9
Depreciation	21	19	22	25	23	12	25	(6)
Other expenses	311	421	362	313	325	5	413	(21)
Pretax income	**419**	**546**	**687**	**1,605**	**602**	**44**	**486**	**24**
Tax provisions	151	194	242	524	202	34	161	26
Net Profit	**268**	**352**	**445**	**1,081**	**400**	**49**	**326**	**23**
Tax rate	36	36	35	33	34		33	2
PBT bef. secu.,provisions and other i	**1,105**	**1,053**	**1,228**	**1,519**	**1,162**	**5**	**1,204**	**(4)**
PBT bef sec income post prov	**225**	**355**	**440**	**1,061**	**384**	**71**	**324**	**18**
Other operational details								
Disbursements (Rs bn)	**15.0**	**19.8**	**14**	**14**	**16**	**8**		
Outstanding assets (Rs bn)	72.1	79.0	75	74	75			
Outstanding loans (Rs bn)	**68.3**	**74.8**	**71**	**68**	**70**	**2**	**75**	
Receivables securitised during the period	1,280	1,450	2,010	5,622	1,480			
Income on securitisation/ loans securitised during the period(%)	11	11	11	8	9			
Total income/ average assets (%)	16.1	16.4	17.9	19.1	16.9			
Interest / average assets (%)	6.1	6.3	6.9	6.9	6.3			
Difference (%)	**10.0**	**10.1**	**11.0**	**12.2**	**10.6**			
NIMs - KS calculations (%)	**10.1**	**10.1**	**10.5**	**12.4**	**10.8**		11.0	
Gross NPLs (Rs mn)	7,501	7,866	8,082	6,909	7,934			
Gross NPL ratio (%)	**9.8**	**9.4**	**10.1**	**8.7**	**9.8**			
NPAs (Rs mn)	3,084	3,137	2,857	1,943	2,343			
Net NPL ratio (%)	**4.3**	**4.0**	**3.8**	**2.6**	**3.1**			
CAR (%)	19.9	17.8	18.9	19.5	18.8			
Tier I (%)	**16.6**	**15.8**	**16.8**	**17.4**	**17.2**			
Exp/ ave assets (%)	3.7	3.7	3.8	3.6	3.7			
Balance sheet (Rs mn)								
Sharecapital	954	955	955	957	958			
Reserves	12,452	12,805	13,251	13,722	14,124			
ESOP	12	13	14	13	13			
Total Borrowings	52,073	59,212	53,737	52,130	51,502			
Current Liabilities	6,645	6,061	7,067	7,617	8,869			
Total liabilities and shareholders funds	**72,136**	**79,046**	**75,024**	**74,439**	**75,466**			
Loans & Avd	68,267	74,772	70,857	68,384	69,630			
Investments	58	58	57	1,097	1,248			
Deferred tax	1,316	1,418	1,560	1,787	1,916			
Current Assets	2,190	2,444	2,207	2,814	2,321			
Fixed assets	305	354	343	357	351			
Total assets	**72,136**	**79,046**	**75,024**	**74,439**	**75,466**			

Source: Company, Kotak Institutional Equities estimates

Mahindra Finance - quarterly data

	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10
Segmentwise mix					
Disbursements (% of total)					
Auto/ utility vehicles	40	36	41	40	39
Tractors	23	20	22	22	22
Cars	23	29	24	25	25
Commercial vehcles	8	8	7	6	6
Refinance and others	6	7	6	7	8
AUMs					
Disbursements (% of total)					
Auto/ utility vehicles	38	39	39	38	39
Tractors	25	24	24	25	22
Cars	23	24	24	24	26
Commercial vehcles	7	8	8	7	6
Refinance and others	7	5	5	6	8
Funding Mix					
(Rs mn)	63,390	70,090	65,270	67,170	66,270
Banks	30,870	37,280	36,300	40,020	40,230
Insurance	1,800	5,100	7,150	7,150	6,980
Mutual funds	28,390	25,300	19,370	16,830	15,580
Others	2,330	2,410	2,450	3,170	3,480
%age of total					
Banks	49	53	56	60	61
Insurance	3	7	11	11	11
Mutual funds	45	36	30	25	24
Others	4	3	4	5	5

Source: Company

Mahindra Finance - change in estimates (Rs mn)

	Old estimates		New estimates		% change	
	2010E	2011E	2010E	2011E	2010E	2011E
Net interest income	8,387	9,274	7,989	8,877	(4.7)	(4.3)
Loan book (Rs bn)	78.7	93.0	78.7	93.0		
Loan growth (%)	16	18	16	18		
NIM (%)	10.5	10.0	10.0	9.6		
NPL provisions	2,825	3,090	2,825	3,090		
Other income	1,550	1,650	1,700	1,750	10	6
Securitization	1,400	1,500	1,400	1,500	0	0
Operating expenses	3,050	3,417	3,088	3,457	1	1
Employee	1,302	1,423	1,361	1,488	5	5
Others	1,748	1,994	1,727	1,970	(1)	(1)
PBT	**4,062**	**4,418**	**3,776**	**4,080**	**(7)**	**(8)**
Tax	1,426	1,551	1,224	1,322	(14)	(15)
PAT	**2,636**	**2,867**	**2,553**	**2,758**	**(3)**	**(4)**
PBT-securitisation income	2,662	2,918	2,376	2,580	(11)	(12)
PBT-secu income+ provisions	5,487	6,007	5,201	5,670	(5)	(6)
EPS(Rs)	**28**	**30**	**27**	**29**	**(3)**	**(4)**

Source: Kotak Institutional Equities

kotak Institutional Equities

Hindustan Unilever (HUVR)

Consumer Products

BUY

JULY 28, 2009

UPDATE

Coverage view: Attractive

Price (Rs): 300

Target price (Rs): 320

BSE-30: 15,375

Improving outlook, mostly priced in. HUL stock was up 6% yesterday (flat market) on expectations that the company would beat Street estimates in 1QFY10. We expect good volume growth (>10%) in personal products and a positive outlook to be highlights of the quarter. Our channel checks indicate favorable trends for HUL and we believe that the soaps business is not slippery anymore with a rising share-of-shelf—market shares will likely follow. Retain BUY, recommend buying on dips.

Company data and valuation summary

Hindustan Unilever

Stock data			
52-week range (Rs) (high,low)			307-185
Market Cap. (Rs bn)			653.1
Shareholding pattern (%)			
Promoters			52.1
FIIs			14.3
MFs			4.6
Price performance (%)	1M	3M	12M
Absolute	12.6	29.8	28.5
Rel. to BSE-30	8.2	(4.0)	19.3

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	9.5	10.6	12.2
EPS growth (%)	19.0	11.1	15.0
P/E (X)	31.5	28.3	24.6
Sales (Rs bn)	164.8	186.0	210.5
Net profits (Rs bn)	20.7	23.1	26.5
EBITDA (Rs bn)	25.7	29.4	33.8
EV/EBITDA (X)	24.2	21.3	18.4
ROE (%)	112.4	105.9	108.9
Div. Yield (%)	2.9	3.2	3.6

1QFY10 results today. Expect a modest quarter; volume growth for rest of FY2010 looks promising

- We forecast 12% EBITDA growth and 8% earnings growth (higher adspends—on relaunches and higher trade spends—and higher income tax rates) for HUL in 1QFY10
- We forecast 6% FMCG sales growth—Soaps & detergents segment +1%, Personal products +12%, Beverages and Foods +10%
- Higher personal products volume growth (likely in double digits) will be the highlight of the quarter, in our view

Volume growth to improve by 2QFY10

- Growth in personal care is led by shampoo—within shampoo by Dove—and within Dove by sachets
- Getting back focus on core SKUs in Fair & Lovely—9 gm sachet and 25 gm pack (likely withdrawal of 15 gm SKU from select markets which was cannibalizing the 25gm pack sales)

Soaps not slippery anymore, in our view

- Share-of-shelf of soaps category has likely gone up, market share growth will likely follow. Repositioning of Lux with higher consumer offer augurs well for the brand and for HUL's soaps category
- Reverting to old Rexona
- Play the game as per market rules—offering higher trade promotions matching competition

QUICK NUMBERS

- We forecast steady improvement in volume growth; 0%-1%, +3.5%, +6% and +7% in four quarters of FY2010
- We forecast 6% FMCG sales growth, 12% EBITDA growth, 8% PAT growth
- Likely 10%+ volume growth in personal products

1QFY10 results today. Expect a modest quarter; volume growth for rest of FY2010 looks promising

We forecast 12% EBITDA growth and 8% earnings growth (higher adspends—on relaunches and higher trade spends—and higher income tax rates) for HUL in 1QFY10. We forecast 6% FMCG sales growth—Soaps & detergents segment +1%, Personal products +12%, Beverages and Foods +10%. Exceptional employee cost of Rs225 mn likely as media reports suggest VRS to 30 managers.

Higher personal products volume growth (likely in double digits) will be the highlight of the quarter, in our view. Soaps and detergent volumes are likely negative for the quarter (month-on-month trends are improving) as the full impact of brand activation, trade spends and price corrections will be visible from 2QFY10 onwards (price correction taken in detergent bars in June, detergent bars account for about 10% of sales).

We forecast steady improvement in volume growth for HUL in FY2010E; 0-1%, +3.5%, +6% and +7% in four quarters of FY2010E. We retain BUY on HUL. We continue to believe that factors favoring HUL are intact (1) likely return of inflation, (2) stability in market shares as price cuts take effect and a revamped AC Nielsen consumer panel, (3) likely major relaunches/brand activities in 2HFY10 and (4) renewed focus on regional jewel brands. We model EPS of Rs10.6 for FY2010E (+15.1%) and Rs12.2 (+15%) for FY2011E. We continue to value HUL at 26X FY2011E, at the last three years average PE. Key risks to our BUY rating are (1) continued market share loss, (2) emergence of irrational competition and (3) failure of monsoons, if any.

KIE estimates of 1QFY10 results of Hindustan Unilever, March fiscal year-ends (Rs mn)

				(% chg.)	
	1QFY10E	1QFY09	5QFY09	1QFY09	5QFY09
Net sales	**43,590**	**42,157**	**39,883**	**3.4**	**9.3**
Total expenditure	37,436	36,642	34,391	2.2	8.9
Material cost	23,126	22,672	20,856	2.0	10.9
Employee cost	2,793	2,539	2,344	10.0	19.2
Advertising and promotion	4,736	4,385	4,506	8.0	5.1
Other expenditure	6,782	7,046	6,685	(3.7)	1.4
EBITDA	**6,154**	**5,515**	**5,493**	**11.6**	**12.0**
OPM (%)	14.1	13.1	13.8		
Other income	1,367	1,560	673	(12.3)	103.1
Interest	102	0	22	-	361.5
Depreciation	417	379	413	9.9	1.0
Pretax profits	**7,002**	**6,695**	**5,731**	**4.6**	**22.2**
Tax	1,190	1,294	710	(8.0)	67.6
PAT	**5,812**	**5,401**	**5,021**	**7.6**	**15.8**
Extraordinary items	(225)	180	(1071)	(224.7)	(79.0)
Net profit (reported)	**5,587**	**5,582**	**3,950**	**0.1**	**41.4**
Income tax rate (%)	17.0	19.3	12.4		
Costs as a % of sales					
Material cost	53.1	53.8	52.3		
Employee cost	6.4	6.0	5.9		
Advertising and promotion	10.9	10.4	11.3		
Other expenditure	15.6	16.7	16.8		

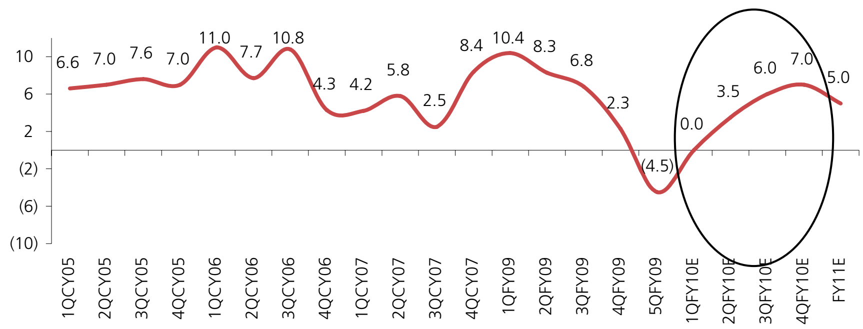
Source: Company, Kotak Institutional Equities

Volume growth to improve by 2QFY10

Channel checks indicate that effective price cuts in soaps and detergents and higher promotional spends in personal care (to match competition) is helping HUL regain volumes. Our recent channel checks indicate trends which are mostly favoring HUL:

- Growth in personal care is led by shampoo—within shampoo by Dove—and within Dove by sachets. Dove sachets are witnessing distribution led growth after transferring the distribution of the brand to normal general trade channel from U2 channel ('Urban 2' channel which is a niche channel servicing beauty shops, chemist stores etc)
- Getting back focus on core SKUs in Fair & Lovely—9 gm sachet and 25 gm pack (likely withdrawal of 15 gm SKU from select markets which was cannibalizing the 25gm pack sales)
- Higher trade promotions by CavinKare is countered by consumer offer (extra grammage) in Clinic Plus shampoo
- Price cuts in Pepsodent (Rs13 to Rs10 for 40 gms carton pack, Rs6 to Rs5 for 30 gms reusable sachet)
- Withdrawal of 'Pepsodent Germicheck' (PG) from select markets and focusing on core variant as PG was likely cannibalizing the core variant sales
- South and East India is performing well with topline growth of about 13%, while North (particularly areas around Delhi) and West are underperforming
- Increasing competition in shampoo (for Clinic Plus) due to launch and aggressive trade push of 'Meera' shampoo by CavinKare

Volumes likely to pick up by 2QFY10
HUL FMCG volume growth (%)



Source: Kotak Institutional Equities estimates

Soaps are not slippery anymore, in our view

In the soaps category, underlying trends seems to be improving, in our view. We highlight the following as reasons for the likely turn around:

- **Share-of-shelf of HUL's soaps has likely gone up, market share growth will likely follow.** We view the 25% extra grammage offer in Lux as an important driver for repositioning the Lux brand helping rejuvenate brand growth. In our view, over the last five years, HUL's attempt to upgrade Lux to premium positioning (through the variant Lux International)—was met by limited success. However, the recent consumer offer confirms our view that probably HUL has taken a course correction in the soaps brand portfolio with Dove being the clear vehicle for premium forays and Lux for competing effectively with players who have become aggressive recently (Santoor, Godrej No.1, Dyna etc). We do not attribute these views to management as the company is in closed period prior to results announcement today

- **Reverting to old Rexona.** As part of the ongoing brand rationalization, HUL attempted to migrate Rexona brand to Hamam in FY2009, in our view. As per our channel checks, this was not accepted by consumer and the company has reverted to original Rexona in 1QFY10

- **Play the game as per market rules.** HUL is currently matching the higher trade spends by Santoor in relevant territories (Andhra Pradesh, Karnataka and parts of Maharashtra)

Relaunches will drive market shares

Lack of brand renovation was one of the major reasons for HUL's continued market share loss in FY2008 and FY2009, in our view. We highlight that HUL's brands typically respond favorably to major activities/relaunches. During FY2008 and FY2009, given the intensity of input cost inflation, the focus of FMCG players including HUL was gross margin preservation, leaving very little resources for incremental brand activation spends. We see this situation improving in FY2010 and FY2011, wherein the company is likely to invest in major brand activation programs in soaps (Lux) and shampoo (Clinic portfolio – Plus and All Clear). Clinic All Clear was relaunched in June as Clear.

Detergents market share will face pressure in near term

Channel sources indicate that HUL is facing severe price-based competition in low-end detergent Wheel. While the company has implemented effective price cuts, the competition from smaller players is acute. Detergent market shares will likely face pressure in near term, in our view. We continue to worry about industry volume decline in detergents, as consumers have opted for rationalizing on quantum of usage (resulting in longer-than-expected consumer purchase cycles).

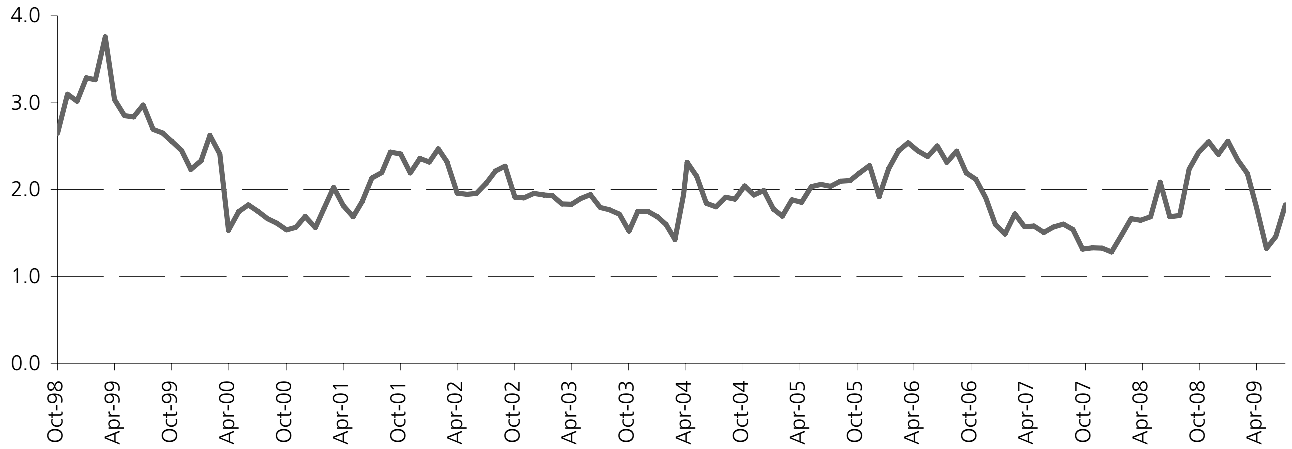
Both ITC and HUL have provided similar returns over the last one year

Company	Price (Rs)	Mkt Cap (Rs bn)	Rating	TP (Rs)	Absolute Change, % 1-mo	6-mo	1-Year	Relative Change, % 1-mo	6-mo	1-Year	52 Week High	Low
Hindustan Unilever	300	653	BUY	320	13	18	28	8	(31)	19	307	185
ITC	239	900	BUY	255	21	40	26	17	(18)	17	244	132
Nestle India	2,170	209	ADD	2,100	16	45	40	11	(15)	30	2,220	1,220
Colgate-Palmolive	671	91	REDUCE	620	17	60	84	12	(6)	71	686	341
Godrej Consumer Products	224	58	ADD	210	28	66	84	23	(3)	71	235	90
GlaxoSmithkline Consumer	1,042	44	ADD	1,050	12	81	67	7	6	55	1,075	452
Asian Paints	1,353	130	ADD	1,400	17	69	21	13	(1)	12	1,390	681
Jyothy Laboratories	103	8	ADD	145	3	88	14	(1)	10	-	122	42
Tata Tea	806	50	BUY	900	11	30	7	6	(24)	(1)	846	430
Consumer Products		**2143**	**Attractive**		**17**	**36**	**31**	**13**	**(20)**	**22**		
Sensex	**15,375**				**4**	**71**	**8**					

Note : Closing prices as of July 27, 2009

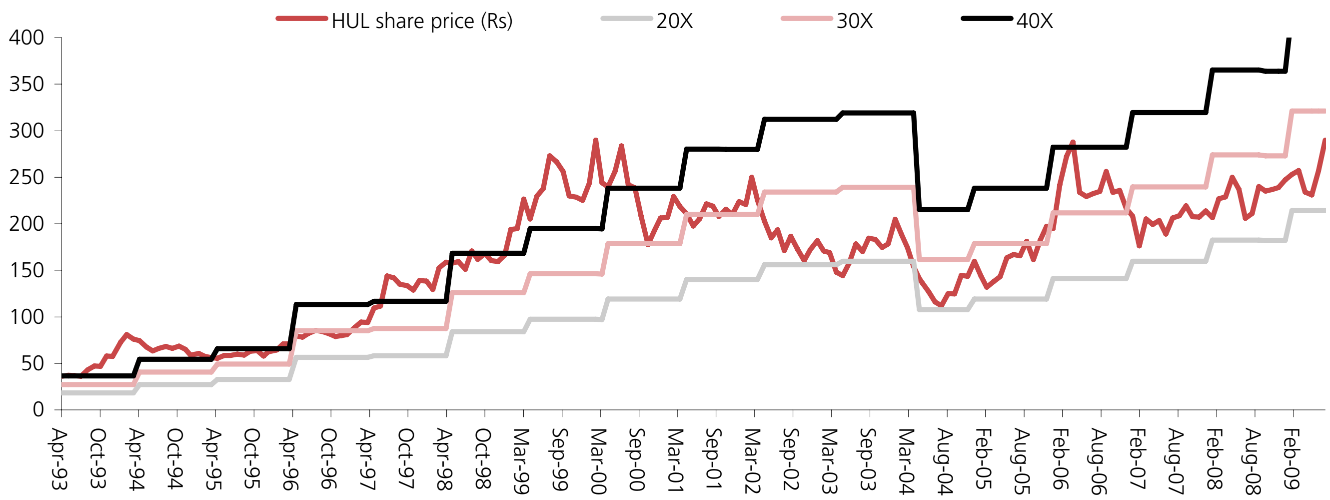
Source: Kotak Institutional Equities

Relative P/E of HUL over Sensex (x)



Source: Kotak Institutional Equities

HUL - P/E bands (one year forward)



Source: Kotak Institutional Equities

We value HUL stock at the last three-year average PE
One-year forward PE of HUL (x)

	Minimum	Maximum	Average
1-year	21.8	27.4	24.9
3-years	21.8	36.3	26.2
5-years	20.8	40.8	27.2
10-years	18.1	59.5	30.6

Source: Kotak Institutional Equities estimates

HUL: Profit model, balance sheet, cash model, calendar year-ends 2006-07, March fiscal year-ends 2009-11E (Rs mn)

	2006	2007	15 months 2009 (a)	2010E	2011E
Profit model (Rs mn)					
Net sales	121,034	136,754	202,393	185,987	210,525
EBITDA	**16621**	**18787**	**26780**	**25788**	**29873**
Other income	3,545	4,315	5,678	5,073	6,049
Interest	(107)	(255)	(253)	(391)	(434)
Depreciation	(1,302)	(1,384)	(1,953)	(1,677)	(1,998)
Pretax profits	18,757	21,463	30,251	28,794	33,489
Tax	(2,950)	(3,660)	(5,729)	(5,548)	(6,795)
Deferred taxation	(268)	(389)	0.2	(195)	(191)
Net profit	**15,539**	**17,415**	**24,522**	**23,050**	**26,504**
Earnings per share (Rs)	**7.0**	**7.9**	**11.3**	**10.6**	**12.2**
Balance sheet (Rs mn)					
Total equity	27,235	14,392	20,615	23,008	25,760
Total borrowings	726	885	4,219	4,219	4,219
Currrent liabilities	45,231	51,110	57,838	54,185	61,272
Total liabilities and equity	**73,191**	**66,387**	**82,673**	**81,413**	**91,251**
Cash	4,169	2,009	17,773	15,731	17,580
Current assets	27,527	30,765	38,236	34,919	39,391
Total fixed assets	15,110	17,081	20,789	25,083	28,792
Investments	24,139	14,408	3,326	3,326	3,326
Deferred tax asset	2,245	2,124	2,548	2,353	2,163
Total assets	**73,191**	**66,387**	**82,673**	**81,413**	**91,251**
Free cash flow (Rs mn)					
Operating cash flow, excl. working capital	20,209	20,674	26,581	24,922	28,693
Working capital	(471)	3,091	(2,592)	(1,035)	1,203
Capital expenditure	(1,576)	(3,355)	(5,660)	(5,972)	(5,707)
Investments	(4,309)	9,464	10,657	0	0
Free cash flow	**13,852**	**29,873**	**28,986**	**17,915**	**24,190**
Key assumptions					
Revenue Growth (%)	9.4	13.0	48.0	(8.1)	13.2
EBITDA Margin(%)	13.9	13.7	13.2	13.9	14.2
EPS Growth (%)	18.3	12.1	42.7	(6.0)	15.0

Note:
(a) 15 month period starting January 1, 2008 to March 31, 2009

Source: Kotak Institutional Equities estimates

kotak Institutional Equities

Economy

Monetary Policy

INDIA

JULY 28, 2009

UPDATE

BSE-30: 15,375

RBI voices fiscal and inflation concerns on policy eve. In its pre-policy document released by RBI on the eve of its scheduled policy announcement of July 28 has voiced concerns that: (1) the large fiscal stimulus has aggravated the fiscal position and (2) negative WPI inflation is essentially due to the statistical factor while CPI inflation remains elevated. RBI cites a return to normal levels from the (present) accommodative monetary policy stance as a condition for low inflation to prevail.

RBI hints at gradual monetary tightening ahead

In a preview of the RBI's Macro-economic and Monetary Developments (MMD) for 1QFY10, the central bank hints at a change in monetary policy stance. Most significantly, it cites a return to normal levels from the (present) accommodative monetary policy as a condition for low inflation to prevail.

RBI notes mixed signs of recovery; states that inflation could firm up by the end of the year

RBI's MMD notes that some lead indicators suggest a recovery from slowdown, even while other factors may dampen growth outlook. It also states that the momentum of the WPI since end-March 2009 indicates the existence of price pressures, with an increase of 3.5% on YTD basis.

Market forecasts suggest faster growth and lower inflation

Market forecasts for FY2010E growth increased to 6.5% from 5.7%; that for average inflation lowered to 1.6% from 1.8%. However, this is in sharp contrast to the central bank's own increasing worries on the return of inflation. We agree with the assessment of RBI in this respect, which is directionally in keeping with our off-consensus call of inflation touching 8% by end-FY2010E.

Credit growth decelerate across most sectors; drops sharply for credit cards

Bank credit to industry decelerates to 21.2% yoy from 27.2% yoy a year ago. The growth falls across industries except iron and steel, engineering, gems and jewelry and construction. Loan growth falls sharply against credit cards to 1.4% yoy from 36.5% a year ago. Not withstanding the credit slowdown, in the latest quarter, a bulk of the credit expansion has occurred in the form of loans to industry, while personal loans have declined.

QUICK NUMBERS

- Market expects growth at 6.5% and average WPI inflation at 1.6% in FY2010E
- Industrial outlook survey—net response rate for better business in 2QFY10 at 26.3% versus 11.2% in 1QFY10
- Bank credit to housing decelerates to 5.0% yoy; to real estate accelerate to 52% yoy

RBI hints at gradual monetary tightening ahead

We retain our view that RBI may keep policy rates and CRR on hold in its policy announcement due at 11.15 am today (July 28, 2009) and prepare the markets for gradual tightening ahead (see our Economy note of July 27, 2009, 'Monetary policy easing cycle has ended').

RBI's Macroeconomic and Monetary Developments (MMD) for 1QFY10 lends support to our view as it has for the first time hinted at a possible gradual monetary tightening. Signs of this are visible from the overview provided on page iv of this pre-policy report:

- *"On the inflation front, there are indications of inflation firming up by the end of the year due to waning of base effects of last year, increase in commodity prices, delayed progress of monsoon potentially driving up food prices, expansionary fiscal policy, accommodative monetary policy and inflation expectations not declining in step with the WPI inflation in the face of CPI inflation remaining firm."*

- *"The low inflation environment, on the other hand, could prevail if the protracted global recession leads to dampened commodity prices, agriculture growth remains unaffected despite delayed monsoon, and the accommodative monetary stance returns to normal levels.'*

We read the last of the phrase that predicates continuation of low inflation environment to return to "*normal levels*" from "*accommodative monetary policy stance*" as indicative of the central bank wanting to move possibly neutral monetary policy stance in forthcoming policy, before starting to tighten later in the year.

Ample liquidity also points to the need for withdrawing liquidity later

We read further hints of possible gradual tightening coming from:

- Its assessment that ample liquidity exists with actual/potential liquidity injections of Rs5.6 tn (excluding Rs0.4 tn under SLR reduction). Our calculations that factor in the impact of RBI's forex interventions suggest that potential liquidity increase has been of an order of Rs4.0 tn and actual Rs2.5 tn (excluding Rs0.4 tn under SLR reduction).

- Stark absence of any mention over the need to preserve this excess liquidity till such time as growth recovery gains momentum.

- Its inflation concerns reflected in various parts of the report, especially its analysis of the price situation which says that "the momentum of the WPI since end-March 2009, however, indicates the existence of price pressures" citing that WPI has increased 3.5% in FY2010 on a YTD basis (page 71).

- Its assessment that current negative inflation reflects the statistical factor of high base and that CPI inflation continues to be at elevated levels.

- Its mentioning that "lead information indicating firming up of inflation by the end of the current fiscal year" and its citing the "inflationary implications of fiscal stimulus and accommodative monetary policy, if sustained longer (page 92)"

MMD forthright in raising alarm over deteriorating fiscal position

Apart from its heightened inflation concerns, the MMD would stand out of for the RBI for the first time unequivocally raising concern over the current deterioration in fiscal position. The MMD notes that:

- Deceleration in growth necessitated the use of large fiscal stimulus coupled with accommodative monetary policy to enable offsetting expansion in government expenditure, which ensured the overall growth remained at 6.7%

- However, the resultant fiscal stance has led to considerable deterioration in the fiscal position, and faster return to the Fiscal Responsibility and Budget Management (FRBM) guided fiscal consolidation path remains a key macroeconomic challenge.

- While the fiscal stimulus raised aggregate demand, there is a need to address the challenges for fiscal consolidation with a view to returning to the high growth path at the earliest.

Bold, clear statements in the latest MMD is a refreshing change from the past

Avid central bank watchers may be surprised at the MMD's phraseology. The report released on the eve of the scheduled monetary policy announcement on July 28 stands out as a lot bolder-than-before pre-policy document. It takes a clear stand on issues such as fiscal position, inflation and excess liquidity. It appears that for the first time MMD is being used as a communication tool by the central bank.

In the past, the MMD has been bland as the central bank typically used to give facts without much analysis. It wanted to avoid any language that may give any cues regarding the stance of monetary policy that is due for announcement the next day. This time around, the MMD provides a fair amount of clarity on the central bank's thinking on key-macro issues: fiscal position, inflation, growth and liquidity.

Market sanguine on low inflation, in contrast with RBI's and our view

RBI's MMD spells out its worries over the current and future inflation. We see this directionally in keeping with our off-consensus call of April 2009 that headline inflation is headed for 8.0% by the end of FY2010 in contrast with RBI's Annual policy projection of 4.5% in the same month.

Exhibit 1: Market expects recovery to set in 2HFY10E, gain momentum in FY2011E

Forecasts of key macro-economic parameters (%), March fiscal year-ends, 2010E-11E

		Market consenus			KIE forecast		
		2,010		2,011	2,010		2,011
		Previous	Existing	Existing	Previous	Existing	Existing
1	**Real GDP growth**	**5.7**	**6.5**	**7.5**	**6.0**	**6.5**	**7.2**
	Sector						
1.1.1	Agriculture and Allied Activities	3.0	2.5	3.0	3.5	(2.9)	6.8
1.1.2	Industry	4.1	4.8	7.4	4.1	6.1	8.2
1.1.3	Services	7.5	8.3	9.0	7.3	9.1	7.0
	Quarter						
1.2.1	1QFY	5.3	6.0	7.5	5.5	6.4	6.7
1.2.2	2QFY	5.6	6.3	NA	5.7	6.1	NA
1.2.3	3QFY	6.2	6.9	NA	6.2	6.9	NA
1.2.4	4QFY	6.5	7.1	NA	6.5	6.4	NA
	Other metrics						
2	**WPI Inflation**	**1.8**	**1.6**	**5.5**	**0.8**	**2.8**	**6.0**
3	Saving rate	34.6	35.0	36.0	33.9	35.6	36.8
4	Investment rate	35.4	36.6	37.9	34.8	36.6	37.8
5	Corporate PAT	9.0	7.5	15.0	8.0	6.0	9.0
6	91-day T-bill yield (end-year)	5.0	4.6	5.0	5.5	4.1	5.9
7	10-year G-sec yield (end-year)	6.5	7.0	7.0	7.5	7.5	8.8
8	Export growth	(4.0)	(0.5)	12.0	(6.5)	(13.0)	19.1
9	Import growth	(8.4)	(3.5)	14.0	(10.2)	(18.5)	19.1
10	INR/US$ end-period	48.0	46.5	44.5	50.5	48.5	50.0

Source: Reserve Bank of India, Kotak Institutional Equities

However, the market thinks otherwise as revealed by the median forecasts of key macro-economic parameters obtained from professional forecasters' survey represented as market consensus below (see Exhibit 1). We continue to stand by our off-consensus call of 8.0% by end-March 2010. We also expect RBI to revise its 4.5% inflation forecast to about 5.5-6.0% range in its Annual policy due later today.

In contrast, market expectations on growth are in line with ours. We have long since maintained a 6.0% growth view for FY2010E, similar to the RBI estimate. We had, however, noted that on current assessment growth is likely to be higher, but formal revision would wait till greater clarity emerges on the monsoon. We had also revised our IIP growth forecast for FY2010E upwards to 6.2% from 4.8% earlier. As such, our growth projection in the professional forecasters' survey was 6.5%, same as the market consensus. We expect RBI to revise its forecast also upwards to 6.5% in line with the consensus, albeit with rider of downside risks of growth falling below 6.5% if monsoon is sub-normal in August and September.

We also see larger trade contraction and higher bond yields than the market. We retain our view that the 10-year benchmark bond yield may be near 7.5% by end-March 2010 — another off-consensus call that we took in December 2008 when the benchmark yield had touched 5.0% and markets were bidding for sub-5% and sub-4% bond rally. Our bond yield view is based on (1) fiscal deterioration and (2) the return of inflation.

Credit growth decelerates, but less sharply for industry

Bank credit to industry decelerates to 21.2% yoy from 27.2% yoy a year ago. The growth falls across industries except iron and steel, engineering, gems and jewelry and construction. Loan growth falls sharply against credit cards to 1.4% yoy from 36.5% a year ago. Not withstanding the credit slowdown, in the latest quarter, bulk of the credit expansion has occurred in the form of loans to industry, while personal loans have declined.

Exhibit 2: Credit growth slows down for industry, but credit declines for personal loans and most services
Deployment of gross bank credit in major sectors (Rs bn)

						yoy growth (%)			yoy share (%) (3)		qoq share (%) (3)	
	23-May-08	23-May-08	19-Dec-08	27-Feb-09	22-May-09	latest	year ago	quarter ago	latest	year ago	latest	quarter ago
Non-food Gross Bank Credit (1 to 4)	**17,516**	**21,748**	**24,702**	**24,927**	**25,583**	***17.6***	***24.2***	***19.5***	***100.0***	***100.0***	***100.0***	***100.0***
1 Agriculture and Allied Activities	**2,220**	**2,648**	**2,895**	**2,978**	**3,298**	***24.5***	***19.3***	***21.5***	***16.9***	***10.1***	***48.8***	***36.6***
2 Industry (Small, Medium and Large)	**6,757**	**8,585**	**10,186**	**10,398**	**10,404**	***21.2***	***27.1***	***25.8***	***47.4***	***43.2***	***0.8***	***94.4***
Small enterprises	1,167	2,009	1,468	2,394	2,695	*34.1*	*72.1*	*35.4*	*17.9*	*19.9*	*45.9*	*411.0*
3 Personal Loans	**4,554**	**5,282**	**5,685**	**5,554**	**5,575**	***5.5***	***16.0***	***8.5***	***7.6***	***17.2***	***3.2***	***(58.1)***
(i) Housing	2,308	2,625	2,717	2,724	2,755	*5.0*	*13.8*	*7.5*	*3.4*	*7.5*	*4.8*	*3.1*
(ii) Advances against Fixed Deposits	391	422	501	458	458	*8.5*	*8.0*	*6.7*	*0.9*	*0.7*	*0.0*	*(19.0)*
(iii) Credit Cards	195	266	294	289	270	*1.4*	*36.5*	*8.8*	*0.1*	*1.7*	*(3.0)*	*(1.9)*
(iv) Education	154	214	268	278	287	*34.4*	*38.3*	*33.8*	*1.9*	*1.4*	*1.3*	*4.8*
(v) Consumer Durables	88	83	91	82	80	*(3.6)*	*(6.0)*	*(14.5)*	*(0.1)*	*(0.1)*	*(0.3)*	*(4.0)*
4 Services	**3,984**	**5,232**	**5,936**	**5,997**	**6,306**	***20.5***	***31.3***	***19.2***	***28.0***	***29.5***	***47.2***	***27.1***
(vi) Transport Operators	253	352	381	386	390	*10.7*	*39.1*	*17.6*	*1.0*	*2.3*	*0.6*	*2.2*
(vii) Professional & Other Services	248	319	407	398	447	*39.8*	*28.6*	*48.8*	*3.3*	*1.7*	*7.4*	*(3.6)*
(viii) Trade	1,055	1,224	1,401	1,382	1,420	*16.0*	*16.0*	*14.9*	*5.1*	*4.0*	*5.9*	*(8.7)*
(ix) Real Estate Loans	452	622	765	908	945	*52.0*	*37.7*	*61.4*	*8.4*	*4.0*	*5.7*	*63.5*
(x) Non-Banking Financial Companies	444	720	861	905	947	*31.5*	*62.0*	*41.7*	*5.9*	*6.5*	*6.3*	*19.5*
memo: Priority sector	**6,262**	**7,535**	**7,641**	**8,289**	**9,080**	***20.5***	***20.3***	***19.2***	***40.3***	***30.1***	***120.6***	***287.9***

Notes:
(1) Sector-wise deployment of credit (SDC) data are provisional and based on select banks and select branches
(2) Full break-up of personal loans and services is not available
(3) Shares are calculated on flow, i.e. incremental credit during the period

Source: Reserve Bank of India, compiled by Kotak Institutional Equities

Major drivers of credit are reflected in:

- Priority sector driving most of the lending in the latest quarter. Nearly half of the credit flow went to agriculture
- Infrastructure still is the key driver of bank lending and accounted for most of the credit flow in the last quarter
- Loans to housing has decelerated sharply, while that to real estate remains vigorous
- Personal loans, especially to consumer durables and outstanding on credit cards, have come to a virtual standstill

Exhibit 3: Infrastructure sole driver of credit flows in latest quarter amidst credit slowdown
Deployment of gross bank credit in major industries (Rs bn)

						yoy growth (%)			yoy share (%) (2)		qoq share (%) (2)	
	23-May-07	23-May-08	19-Dec-08	27-Feb-09	22-May-09	latest	year ago	quarter ago	latest	year ago	latest	quarter ago
Industry (Small, Medium and Large)	**6,757**	**8,585**	**10,186**	**10,398**	**10,404**	***21.2***	***27.1***	***25.8***	***100.0***	***100.0***	***100***	***100***
Industry (excl. petro, steel and metals)	**5,630**	**7,073**	**8,130**	**8,366**	**8,566**	***21.1***	***26.7***	***21.5***	***82.1***	***78.9***	***3,693***	***111***
1 Food Processing	374	505	527	539	534	*5.7*	*31.7*	*10.7*	*1.6*	*7.2*	*(85)*	*6*
2 Textiles	774	939	1,020	1,037	1,017	*8.3*	*22.4*	*12.5*	*4.3*	*9.0*	*(369)*	*8*
3 Paper & Paper Products	114	138	158	165	158	*14.4*	*22.7*	*23.4*	*1.1*	*1.3*	*(125)*	*3*
4 Petroleum, Coal Products & Nuclear Fuels	290	473	797	728	508	*7.5*	*22.2*	*78.2*	*2.0*	*10.0*	*(4,044)*	*(33)*
5 Chemicals and Chemical Products	521	654	747	733	708	*8.2*	*13.8*	*19.4*	*2.9*	*7.3*	*(463)*	*(7)*
6 Rubber, Plastic & their Products	89	111	128	133	134	*20.6*	*15.9*	*34.0*	*1.3*	*1.2*	*25*	*2*
7 Iron and Steel	634	788	968	1,004	1,024	*29.9*	*18.9*	*37.0*	*13.0*	*8.5*	*379*	*17*
8 Other Metal & Metal Products	202	251	291	301	305	*21.5*	*18.0*	*26.5*	*3.0*	*2.7*	*73*	*5*
9 Engineering	426	526	637	669	653	*24.2*	*26.3*	*31.2*	*7.0*	*5.4*	*(296)*	*15*
10 Vehicles, Parts and Transport Equipments	237	300	358	355	330	*9.9*	*34.9*	*25.2*	*1.6*	*3.5*	*(463)*	*(1)*
11 Gems & Jewellery	234	248	281	272	279	*12.2*	*9.1*	*9.9*	*1.7*	*0.8*	*114*	*(4)*
12 Construction	201	261	349	382	378	*44.7*	*32.2*	*58.8*	*6.4*	*3.3*	*(84)*	*16*
13 Infrastructure	1,435	2,033	2,372	2,569	2,748	*35.1*	*41.5*	*35.1*	*39.3*	*32.7*	*3,302*	*92*
14 Others	1,225	1,357	1,553	1,513	1,628	*20.0*	*19.5*	*4.4*	*14.9*	*7.2*	*2,137*	*(19)*

Notes:
(1) Credit data for industries is based on Sector-wise deployment of credit (SDC) data, which are provisional and based on select banks and select branches
(2) Shares are calculated on flow, i.e. incremental credit during the period

Source: Reserve Bank of India, compiled by Kotak institutional Equities

Kotak Institutional Equities: Valuation summary of key Indian companies

	27-Jul-09		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US$ mn)	(mn)	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	(Rs)	(%)	(US$ mn)
Automobiles																													
Ashok Leyland	35	ADD	46,495	965	1,330	1.5	1.8	2.4	(57.8)	18.5	32.7	22.8	19.3	14.5	15.2	9.9	7.7	1.2	1.2	1.2	2.9	2.9	2.9	6.2	6.4	8.3	32	(8.4)	3.8
Bajaj Auto	1,200	ADD	173,613	3,604	145	45.2	85.0	100.9	(13.4)	87.9	18.7	26.5	14.1	11.9	15.5	8.7	7.7	9.3	6.4	4.6	1.7	1.7	1.7	37.7	53.1	44.0	1,260	5.0	5.4
Hero Honda	1,682	REDUCE	335,816	6,971	200	64.2	83.8	91.2	32.4	30.5	8.8	26.2	20.1	18.4	17.6	13.7	12.2	8.6	6.6	5.3	1.2	1.3	1.3	36.6	37.4	31.9	1,000	(40.5)	17.0
Mahindra & Mahindra	817	ADD	216,605	4,497	265	21.7	40.4	43.6	(42.9)	86.0	8.0	37.6	20.2	18.7	32.7	15.1	13.5	4.5	3.4	3.0	1.1	1.1	1.1	12.3	19.3	17.0	670	(18.0)	21.0
Maruti Suzuki	1,370	SELL	395,901	8,219	289	42.2	70.0	73.0	(29.6)	65.9	4.3	32.5	19.6	18.8	28.6	12.9	11.4	4.1	3.4	2.9	0.4	0.3	0.4	13.4	19.0	16.8	1,100	(19.7)	22.1
Tata Motors	374	SELL	208,114	4,320	556	20.8	23.7	26.0	(58.3)	14.1	9.6	18.0	15.8	14.4	23.0	11.4	10.2	1.5	1.4	1.3	1.5	1.5	1.5	9.0	9.3		335	(10.5)	38.8
Automobiles		**Cautious**	**1,376,545**	**28,577**					**(169.6)**	**303.0**	**82.1**	**163.7**	**109.1**	**96.8**	**132.6**	**71.7**	**62.7**	**29.3**	**22.5**	**18.2**	**8.7**	**8.7**	**8.8**	**115.1**	**144.6**	**117.9**			
Banks/Financial Institutions																													
Andhra Bank	91	REDUCE	43,893	911	485	13.5	13.3	15.2	13.5	(1.5)	14.4	6.7	6.8	6.0				1.2	1.1	0.9	5.0	3.7	4.2	18.9	16.6	16.9	105	16.0	1.8
Axis Bank	938	BUY	336,872	6,993	359	50.6	59.1	68.2	56.9	16.8	15.6	18.6	15.9	13.7				3.6	3.3	2.8	1.1	1.2	1.4	19.1	19.2	19.2	850	(9.4)	74.1
Bank of Baroda	418	REDUCE	152,754	3,171	366	60.9	60.9	62.1	55.1	0.0	1.9	6.9	6.9	6.7				1.3	1.2	1.0	2.2	2.2	2.2	18.7	16.3	14.7	480	14.9	10.9
Bank of India	333	ADD	175,103	3,635	526	57.2	51.5	56.2	40.7	(9.9)	9.1	5.8	6.5	5.9				1.5	1.2	1.1	2.4	2.2	2.4	29.2	21.0	19.3	370	11.1	15.6
Canara Bank	274	ADD	112,402	2,333	410	50.5	41.4	51.1	32.4	(18.1)	23.3	5.4	6.6	5.4				1.4	1.4	1.2	2.9	2.9	3.6	18.3	13.2	14.7	295	7.6	5.8
Corporation Bank	342	BUY	49,084	1,019	143	62.2	51.5	55.3	21.4	(17.3)	7.4	5.5	6.6	6.2				1.0	0.9	0.8	3.7	3.1	3.3	19.6	14.3	13.8	395	15.4	1.0
Federal Bank	246	BUY	42,125	875	171	27.8	31.4	38.2	(19.2)	13.1	21.5	8.9	7.8	6.4				1.0	0.9	0.8	2.1	2.4	2.9	11.5	11.8	13.0	320	29.9	3.3
Future Capital Holdings	277	BUY	17,501	363	63	4.5	28.8		(198.6)	546.1	(100.0)	62.2	9.6					2.3	1.9					3.8	21.4		440	59.0	1.2
HDFC	2,357	NR	670,363	13,917	284	80.2	91.5	103.6	(6.5)	14.0	13.3	29.4	25.8	22.7				5.1	4.6	4.1	1.3	1.4	1.5	18.2	18.3	18.3		(100.0)	63.8
HDFC Bank	1,433	REDUCE	647,981	13,452	452	52.8	63.3	73.5	17.6	20.0	16.0	27.2	22.6	19.5				4.3	3.0	2.7	0.7	0.8	1.0	16.9	15.8	14.7	1,430	(0.2)	51.3
ICICI Bank	758	REDUCE	843,762	17,516	1,113	33.8	34.3	40.4	(15.4)	1.7	17.6	22.5	22.1	18.8				1.7	1.6	1.5	1.5	1.5	1.8	7.8	7.5	8.4	685	(9.6)	191.8
IDFC	135	ADD	175,251	3,638	1,295	5.8	7.7	8.7	1.9	33.9	12.6	23.4	17.5	15.5				2.8	2.5	2.2	0.9	1.0	1.1	12.9	15.4	15.3	120	(11.3)	51.2
India Infoline	129	ADD	40,285	836	312	5.1	7.7	8.2	(8.7)	50.5	7.3	25.3	16.8	15.7	10.0	7.4	6.3	3.6	2.9	2.5	1.8	2.3	2.7	11.9	17.5	17.2	145	12.2	13.5
Indian Bank	143	BUY	61,565	1,278	430	28.0	27.6	30.2	24.1	(1.4)	9.7	5.1	5.2	4.7				1.1	1.0	0.8	3.5	3.3	3.6	22.9	19.2	18.2	185	29.1	3.1
Indian Overseas Bank	90	BUY	48,978	1,017	545	24.3	16.6	22.2	10.3	(31.9)	33.8	3.7	5.4	4.1				0.8	0.7	0.6	5.9	4.2	4.6	24.7	14.5	17.0	130	44.6	4.3
J&K Bank	473	BUY	22,939	476	48	84.5	86.6	96.3	13.8	2.4	11.2	5.6	5.5	4.9				1.0	0.9	0.8	3.6	3.7	4.1	16.7	15.1	14.9	550	16.3	0.5
LIC Housing Finance	589	NR	50,097	1,040	85	62.5	68.8	80.3	37.3	10.0	16.8	9.4	8.6	7.3				2.1	1.7	1.4	2.3	2.6	3.0	26.2	23.9	23.4		(100.0)	20.7
Mahindra & Mahindra Financial	259	ADD	24,762	514	96	22.4	26.7	28.8	7.5	19.0	8.1	11.5	9.7	9.0				1.8	1.5	1.4	2.1	2.6	2.8	15.4	16.4	15.8	270	4.3	1.0
Oriental Bank of Commerce	168	REDUCE	42,203	876	251	36.1	29.1	31.5	51.4	(19.4)	8.3	4.7	5.8	5.3				0.8	0.8	0.8	4.3	3.5	3.8	13.7	9.6	9.7	190	12.8	3.0
PFC	219	SELL	251,074	5,212	1,148	13.0	18.0	20.0	14.3	38.6	11.1	16.8	12.1	10.9				2.2	2.0	1.8	1.2	2.5	2.7	13.8	17.3	17.2	185	(15.4)	6.1
Punjab National Bank	727	BUY	229,225	4,759	315	98.0	98.5	115.1	50.9	0.5	16.8	7.4	7.4	6.3				1.9	1.6	1.5	2.7	2.7	3.2	23.0	19.9	20.1	800	10.0	16.8
Reliance Capital	902	ADD	221,938	4,607	246	39.3	29.0	28.9	(5.6)	(26.2)	(0.5)	22.9	31.1	31.2				3.3	3.0	2.8	0.7	0.5	0.5	15.3	10.2	9.3	875	(3.0)	159.2
Rural Electrification Corp.	176	BUY	151,157	3,138	859	16.5	17.5	20.8	50.7	6.5	18.8	10.7	10.0	8.5				2.1	1.8	1.6	1.1	1.8	2.2	21.2	19.6	20.3	155	(12.0)	5.1
Shriram Transport	303	ADD	64,107	1,331	212	30.1	32.5	36.9	56.8	7.9	13.7	10.1	9.3	8.2				2.9	2.5	2.1	2.9	3.2	3.7	29.6	27.0	25.8	350	15.5	2.5
SREI	69	ADD	8,059	167	116	7.7	6.9	8.2	(32.8)	(10.1)	18.6	9.0	10.0	8.5				0.7	0.7	0.7	3.3	4.0	4.6	14.0	11.5	13.0	95	37.1	4.1
State Bank of India	1,711	BUY	1,086,676	22,559	635	143.6	121.1	139.2	34.8	(15.7)	14.9	11.9	14.1	12.3				2.2	2.2	1.9	1.7	1.8	1.9	17.1	12.7	13.3	1,870	9.3	112.2
Union Bank	234	BUY	118,299	2,456	505	34.2	32.4	35.4	24.5	(5.1)	9.2	6.9	7.2	6.6				1.7	1.4	1.2	2.1	2.0	2.2	27.2	21.2	19.5	280	19.6	7.9
Banks/Financial Institutions		**Attractive**	**5,688,454**	**118,091**					**329.2**	**624.5**	**250.4**	**383.4**	**313.0**	**270.4**	**10.0**	**7.4**	**6.3**	**55.6**	**48.5**	**41.1**	**62.9**	**62.9**	**70.9**	**487.7**	**446.3**	**423.1**			
Cement																													
ACC	848	REDUCE	159,397	3,309	188	56.3	74.0	57.1	(12.2)	31.6	(22.8)	15.1	11.5	14.9	7.6	5.8	6.7	3.0	2.5	2.2	2.8	2.8	2.8	24.7	27.1	18.4	875	3.1	13.0
Ambuja Cements	95	REDUCE	145,006	3,010	1,522	7.2	7.9	6.6	(5.0)	10.2	(16.8)	13.3	12.0	14.5	7.1	6.6	7.4	2.4	2.1	1.9	3.1	2.0	2.2	19.7	19.1	14.1	85	(10.8)	6.9
Grasim Industries	2,885	REDUCE	264,498	5,491	92	238.5	235.7	239.1	(16.2)	(1.2)	1.4	12.1	12.2	12.1	6.7	6.1	5.9	2.4	2.1	1.8	1.2	1.2	1.2	21.7	18.2	16.0	2,300	(20.3)	11.7
India Cements	140	ADD	39,526	821	282	17.8	19.4	15.2	(27.4)	9.1	(21.8)	7.9	7.2	9.2	5.5	4.3	4.9	1.0	0.9	0.9	1.3	1.5	2.3	14.8	14.6	10.4	155	10.8	9.3
Shree Cement	1,540	BUY	53,635	1,113	35	174.7	209.9	195.6	93.7	20.1	(6.8)	8.8	7.3	7.9	6.0	4.2	3.9	4.5	2.7	2.0	0.7	0.7	0.7	65.7	46.0	29.4	2,000	29.9	0.7
UltraTech Cement	798	BUY	99,306	2,062	124	78.8	90.2	73.8	(3.1)	14.5	(18.2)	10.1	8.8	10.8	6.0	4.7	5.3	2.3	1.9	1.6	0.7	1.0	1.0	31.1	27.3	18.3	900	12.8	5.8
Cement		**Neutral**	**761,369**	**15,806**					**29.8**	**84.3**	**(85.0)**	**67.2**	**59.1**	**69.3**	**38.9**	**31.8**	**34.1**	**15.6**	**12.2**	**10.4**	**9.8**	**9.1**	**10.2**	**177.6**	**152.4**	**106.5**			
Constructions																													
Consolidated Construction Co.	265	ADD	9,793	203	37	19.7	26.5	31.4	(18.1)	34.6	18.3	13.5	10.0	8.4	8.6	6.3	5.3	1.9	1.6	1.4	0.9	1.4	1.6	15.0	17.6	17.9	190	(28.3)	0.1
IVRCL	340	BUY	46,075	956	135	16.7	17.9	22.1	7.4	7.4	23.1	20.4	19.0	15.4	13.7	10.3	8.2	2.5	2.2	2.0	0.2	0.2	0.2	13.2	12.6	13.6	350	2.8	31.7
Nagarjuna Construction Co.	141	BUY	32,210	669	229	6.7	7.5	8.5	(6.4)	11.9	13.3	21.0	18.7	16.5	12.8	9.8	8.4	1.9	1.8	1.6	1.0	1.1	1.4	9.4	9.8	10.3	145	3.1	8.3
Punj Lloyd	243	BUY	75,693	1,571	311	(7.2)	17.6	20.6	(172.4)	(343.2)	17.2	(33.7)	13.9	11.8	23.4	8.2	7.3	3.0	2.5	2.1	0.1	0.3	0.4	(8.6)	19.9	19.4	300	23.3	42.3
Sadbhav Engineering	730	BUY	9,130	190	13	50.6	55.6	77.9	25.0	9.8	40.2	14.4	13.1	9.4	10.2	7.7	6.3	2.6	2.2	1.8	0.7	0.8	1.0	18.0	16.8	19.4	830	13.6	0.2
Constructions		**Attractive**	**172,901**	**3,589**					**(164.5)**	**(279.4)**	**112.1**	**35.5**	**74.7**	**61.6**	**68.6**	**42.3**	**35.5**	**12.0**	**10.4**	**8.9**	**2.9**	**3.9**	**4.6**	**47.0**	**76.7**	**80.7**			
Consumer Products																													
Asian Paints	1,353	ADD	129,818	2,695	96	38.6	56.1	65.6	(1.7)	45.4	16.9	35.1	24.1	20.6	20.9	14.5	12.3	11.4	9.4	7.8	1.3	2.0	2.3	36.6	44.4	42.8	1,400	3.4	1.0
Colgate-Palmolive (India)	671	REDUCE	91,238	1,894	136	21.6	28.0	31.0	26.3	29.7	10.7	31.1	24.0	21.7	25.7	20.2	16.9	42.2	38.2	42.4	2.2	3.3	4.2	155.1	167.1	185.2	620	(7.6)	3.0
GlaxosmithKline Consumer	1,042	ADD	43,822	910	42	44.8	56.1	63.6	15.8	25.2	13.5	23.3	18.6	16.4	13.2	10.7	9.4	5.7	4.9	4.3	1.4	2.0	2.8	26.8	28.5	28.0	1,050	0.8	0.9
Godrej Consumer Products	224	ADD	57,919	1,202	258	6.7	8.7	10.0	(5.3)	30.3	14.9	33.6	25.8	22.4	27.1	18.5	16.1	10.1	6.3	5.4	1.8	1.8	1.8	46.9	30.2	26.0	210	(6.4)	0.8
Hindustan Unilever	300	BUY	653,076	13,558	2,179	9.5	10.6	12.2	19.0	11.1	15.0	31.5	28.3	24.6	24.2	21.3	18.4	31.7	28.4	25.4	2.9	3.2	3.6	112.4	105.9	108.9	320	6.8	22.9
ITC	239	BUY	900,133	18,687	3,769	8.7	10.3	11.8	2.8	19.3	14.3	27.6	23.1	20.2	16.9	14.2	12.5	6.2	5.4	4.7	1.6	1.7	1.9	25.3	26.3	26.0	255	6.8	35.4
Jyothy Laboratories	103	ADD	7,504	156	73	5.6	10.1	12.6	(11.2)	78.5	25.0	18.4	10.3	8.2	11.8	7.0	5.5							10.7	16.7	19.4	145	40.2	0.2
Nestle India	2,170	ADD	209,193	4,343	96	58.6	70.5	82.4	31.0	20.4	16.8	37.0	30.8	26.3	23.6	20.1	17.4	44.2	36.3	30.0	2.0	2.4	2.8	126.7	129.6	124.8	2,100	(3.2)	1.7
Tata Tea	806	BUY	49,871	1,035	62	57.0	62.8	69.2	5.3	10.1	10.2	14.1	12.8	11.7	7.5	6.7	5.5	1.0	1.0	0.9	2.1	2.3	2.6	9.8	10.1	10.4	900	11.6	3.1
Consumer Products		**Attractive**	**2,142,573**	**44,479**					**81.9**	**270.0**	**137.2**	**251.6**	**197.8**	**172.2**	**170.9**	**133.3**	**114.1**	**152.5**	**129.8**	**120.9**	**15.3**	**18.6**	**21.9**	**550.3**	**558.7**	**571.5**			
Energy																													
Bharat Petroleum	452	SELL	163,381	3,392	362	20.4	32.1	41.8	(50.7)	57.8	30.1	22.2	14.1	10.8	8.2	7.8	6.1	1.2	1.1	1.1	1.5	2.7	3.5	5.2	7.7	9.4	475	5.1	10.6
Cairn India	247	REDUCE	467,814	9,712	1,897	4.3	9.2	31.2	(3,703.0)	115.1	238.0	57.4	26.7	7.9	37.8	13.8	5.6	1.4	1.3	1.3			10.1	2.5	5.1	16.5	225	(8.8)	35.6
Castrol India	440	BUY	54,445	1,130	124	21.3	31.1	32.0	20.8	45.9	3.0	20.7	14.2	13.7	11.8	8.4	8.1	12.1	10.7	9.6	3.4	5.0	5.2	61.2	80.2	73.5	480	9.0	0.9
GAIL (India)	340	ADD	430,964	8,947	1,268	22.1	20.6	22.1	8.4	(6.8)	7.2	15.4	16.5	15.4	8.1	9.3	9.4	2.6	2.4	2.1	1.4	1.6	1.6	17.6	14.4	13.9	330	(2.9)	17.0
GSPL	66	REDUCE	37,257	773	563	2.2	3.5	6.7	21.7	58.3	92.7	30.2	19.1	9.9	10.8	6.3	4.0	2.8	2.5	2.6	1.1	1.8	10.1	9.6	13.9	25.7	65	(1.8)	7.2
Hindustan Petroleum	323	SELL	109,432	2,272	339	17.0	16.7	34.9	(49.3)	(1.6)	109.2	19.0	19.3	9.2	7.1	7.4	5.8	0.9	0.8	0.8	1.6	3.7	7.8	4.4	3.9	7.8	350	8.4	13.6
Indian Oil Corporation	516	REDUCE	615,442	12,776	1,192	18.9	44.3	43.1	(69.1)	133.8	(2.6)	27.3	11.7	12.0	10.1	5.4	5.2	1.3	1.2	1.2	1.5	3.5	3.4	4.6	10.2	9.3	550	6.6	8.7
Oil & Natural Gas Corporation	1,096	BUY	2,344,541	48,672	2,139	91.4	95.8	114.6	(1.5)	4.9	19.6	12.0	11.4	9.6	4.3	4.0	3.5	2.1	1.9	1.7	2.9	3.3	3.8	17.3	16.2	17.5	1,200	9.5	59.7
Petronet LNG	69	REDUCE	51,938	1,078	750	6.9	7.2	8.6	9.2	3.6	19.6	10.0	9.7	8.1	7.2	6.5	5.6	2.3	1.9	1.6	2.5	2.9	3.2	23.9	20.6	20.6	64	(7.6)	8.5
Reliance Industries	1,941	SELL	3,053,399	63,388	1,573	103.4	103.1	148.2	(1.5)	(0.2)	43.6	18.8	18.8	13.1	13.5	9.8	7.1	2.6	2.3	2.1	0.6	0.7	0.9	15.1	13.0	16.6	1,600	(17.6)	235.0
Reliance Petroleum	121	NR	542,475	11,262	4,500	0.2	3.1	10.0		1,544.9	226.9	645.8	39.3	12.0	302.4	17.3	9.2	4.0	3.9	3.1		1.7	1.7	0.6	10.1	29.0		(100.0)	24.9
Energy		**Cautious**	**7,871,087**	**163,402**					**(3,815.2)**	**1,955.7**	**787.2**	**878.7**	**200.7**	**121.7**	**421.3**	**96.1**	**69.6**	**33.3**	**30.1**	**27.1**	**16.6**	**26.8**	**51.3**	**162.0**	**195.2**	**239.8**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

	27-Jul-09		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US$ mn)	(mn)	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	(Rs)	(%)	(US$ mn)
Industrials																													
ABB	744	REDUCE	157,745	3,275	212	25.0	29.6		(3.4)	18.7	(100.0)	29.8	25.1		18.8	15.5		6.2	5.1		0.4	0.4		22.6	22.2		500	(32.8)	8.4
BGR Energy Systems	362	REDUCE	26,082	541	72	15.6	23.5	28.2	29.0	50.1	19.9	23.2	15.4	12.9	12.8	9.4	7.8	4.6	3.7	3.0	0.8	1.1	1.3	21.6	26.4	25.7	360	(0.6)	1.6
Bharat Electronics	1,468	REDUCE	117,468	2,439	80	101.9	113.7	121.2	(0.0)	11.5	6.6	14.4	12.9	12.1	6.4	6.5	5.8	3.0	2.5	2.2	1.7	1.7	1.7	22.4	21.3	19.5	1,450	(1.2)	2.8
Bharat Heavy Electricals	2,261	REDUCE	1,106,707	22,975	490	64.1	93.0	116.3	9.8	45.0	25.0	35.2	24.3	19.4	26.5	16.6	12.7	8.5	6.8	5.4	0.7	0.9	1.1	26.4	31.0	30.7	2,100	(7.1)	57.6
Crompton Greaves	297	ADD	108,715	2,257	367	15.3	17.7	20.3	37.3	15.3	15.0	19.3	16.8	14.6	10.9	9.6	8.1	5.9	4.6	3.6	0.7	0.8	0.9	35.9	30.8	27.6	315	6.2	5.3
Larsen & Toubro	1,500	ADD	895,229	18,585	597	52.6	60.1	71.7	38.7	14.3	19.3	28.5	25.0	20.9	19.0	16.5	14.1				0.7	0.7	0.8	22.5	19.7	19.0	1,425	(5.0)	111.1
Maharashtra Seamless	253	BUY	17,830	370	71	35.9	33.0	35.3	22.2	(7.9)	6.9	7.1	7.7	7.2	4.0	4.1	3.5	1.3	1.1	1.0	2.1	2.0	2.5	20.3	16.0	15.0	285	12.7	1.4
Siemens	470	REDUCE	158,398	3,288	337	22.8	22.7	26.3	61.0	(0.5)	15.9	20.6	20.7	17.9	11.7	11.8	9.8	5.8	4.8	3.9	1.5	1.0	1.1	30.8	25.2	24.2	450	(4.2)	7.8
Suzlon Energy	106	BUY	167,122	3,469	1,571	7.4	6.4	9.4	12.8	(14.1)	47.0	14.3	16.7	11.4	11.1	10.7	8.4	1.8	1.5	1.3	0.5	0.5	0.9	12.6	9.8	12.6	140	31.6	157.0
Industrials		**Neutral**	**2,755,296**	**57,199**					**207.3**	**132.3**	**55.5**	**192.5**	**164.6**	**116.3**	**121.2**	**100.5**	**70.3**	**37.1**	**30.1**	**20.5**	**9.0**	**9.0**	**10.3**	**215.1**	**202.4**	**174.2**			
Infrastructure																													
GVK Power & Infrastructure	44	BUY	70,196	1,457	1,579	0.8	0.7	1.0	(20.6)	(13.6)	54.9	58.3	67.4	43.5	52.7	17.5	16.1	3.0	2.2	2.2			0.7	4.8	3.8	5.0	50	12.5	22.4
IRB Infrastructure	194	BUY	64,594	1,341	332	5.8	11.3	12.7	69.2	95.7	11.7	33.5	17.1	15.3	17.5	9.3	8.0	3.5	2.8	2.3				11.0	18.1	16.5	190	(2.2)	10.5
Infrastructure		**Attractive**	**134,790**	**2,798**					**48.6**	**82.1**	**66.6**	**91.8**	**84.6**	**58.9**	**70.2**	**26.8**	**24.1**	**6.5**	**5.0**	**4.5**	**-**	**-**	**0.7**	**15.7**	**21.9**	**21.6**			
Media																													
DishTV	44	REDUCE	41,545	862	946	(7.3)	(4.1)	(3.2)	(23.9)	(44.4)	(22.6)	(6.0)	(10.8)	(13.9)	(25.9)	(159.0)	50.3	-6.4	-20.5	-8.3				86.1	91.1	84.8	32	(27.1)	14.9
HT Media	113	ADD	26,459	549	234	0.9	4.8	6.6	(78.8)	422.4	37.4	123.2	23.6	17.2	28.1	11.5	9.4	3.1	2.9	2.7	0.4	0.7	2.3	2.5	12.8	16.3	125	10.7	0.5
Jagran Prakashan	90	BUY	27,030	561	301	2.9	4.2	5.5	(12.1)	47.2	29.6	31.4	21.3	16.4	17.6	11.8	9.4	4.9	4.6	4.2	2.2	2.8	3.3	15.8	22.1	26.5	92	2.5	0.9
Sun TV Network	253	REDUCE	99,525	2,066	394	9.1	11.1	13.0	9.3	22.9	16.5	27.9	22.7	19.5	14.6	12.6	10.6	5.7	5.0	4.5	1.0	1.6	2.4	22.5	23.8	24.4	215	(14.9)	2.4
Zee Entertainment Enterprises	176	REDUCE	76,376	1,586	435	8.3	10.0	12.0	(6.5)	20.6	19.5	21.2	17.6	14.7	15.2	12.6	10.2	2.3	2.1	2.0	1.3	1.5	1.8	11.9	13.0	14.4	160	(8.9)	8.1
Zee News	42	ADD	10,046	209	240	1.9	2.2	2.7	21.3	14.7	23.4	22.3	19.5	15.8	11.5	9.4	8.0	4.1	3.5	3.0	1.0	1.0	1.4	20.1	19.6	20.7	45	7.4	1.5
Media		**Neutral**	**280,981**	**5,833**					**(90.9)**	**483.4**	**103.9**	**220.0**	**93.9**	**69.7**	**61.2**	**(101.1)**	**97.8**	**13.6**	**-2.4**	**8.0**	**5.8**	**7.5**	**11.2**	**158.9**	**182.4**	**187.1**			
Metals																													
Hindalco Industries	93	BUY	163,168	3,387	1,753	7.7	2.0	10.0	(44.4)	(73.3)	386.0	12.1	45.4	9.3	6.7	9.4	7.1	0.5	0.4	0.4				10.3	5.2	6.7	135	45.0	24.7
Hindustan Zinc	702	BUY	296,491	6,155	423	64.6	57.3	74.1	(38.0)	(11.2)	29.3	10.9	12.2	9.5	7.0	7.0	4.6	2.0	1.7	1.5	0.6	0.7	0.7	20.1	15.1	16.7	825	17.6	5.6
Jindal Steel and Power	3,088	REDUCE	475,386	9,869	154	198.0	172.4	196.2	139.3	(12.9)	13.8	15.6	17.9	15.7	10.3	10.6	9.0	6.5	4.8	3.7	0.2	0.2	0.2	53.1	31.0	26.4	2,000	(35.2)	43.4
JSW Steel	684	SELL	127,866	2,654	187	13.1	36.8	65.9	(84.7)	180.1	79.1	52.0	18.6	10.4	9.8	9.3	7.0	1.4	1.2	1.0	0.1	0.4	0.7	11.7	5.1	10.7	440	(35.6)	53.1
National Aluminium Co	303	SELL	195,097	4,050	644	19.7	13.7	20.4	(22.0)	(30.6)	48.8	15.3	22.1	14.9	9.5	9.7	6.3	1.9	1.7	1.6	1.2	0.7	0.7	12.7	8.1	11.1	290	(4.2)	3.8
Sesa Goa	228	BUY	179,648	3,729	787	24.8	25.5	34.2	30.8	3.0	34.0	9.2	8.9	6.7	6.0	5.4	3.4	4.0	2.9	2.1	1.5	1.5	1.5	52.8	37.1	36.0	240	5.2	47.4
Sterlite Industries	652	REDUCE	548,338	11,383	840	49.2	29.8	38.0	(23.6)	(39.3)	27.2	13.3	21.9	17.2	9.5	9.4	7.0	2.1	1.5	1.4				14.3	8.1	8.4	550	(15.7)	59.7
Tata Steel	459	BUY	407,139	8,452	887	110.0	41.2	78.8	45.3	(62.6)	91.6	4.2	11.1	5.8	5.0	8.2	6.1	1.0	1.0	0.8	3.1	3.5	3.5	36.3	15.5	25.7	465	1.4	138.2
Metals		**Neutral**	**2,393,135**	**49,681**					**2.7**	**(46.9)**	**709.8**	**132.6**	**158.2**	**89.5**	**63.7**	**68.9**	**50.4**	**19.3**	**15.2**	**12.4**	**6.8**	**7.0**	**7.3**	**211.4**	**125.3**	**141.8**			
Others																													
Aban Offshore	988	SELL	37,414	777	38	87.8	125.3	214.6	21.5	42.7	71.3	11.2	7.9	4.6	9.2	7.9	6.6	2.7	2.0	1.4	0.4	0.5	0.5	33.7	33.3	36.7	365	(63.0)	85.7
Havells India	310	REDUCE	18,776	390	61	4.5	12.2	19.0	(83.0)	170.4	55.5	68.6	25.4	16.3	10.6	8.6	7.7	2.9	3.4	2.9	0.8	0.8	0.8	4.1	12.5	19.3	175	(43.6)	2.7
Jaiprakash Associates	240	REDUCE	337,392	7,004	1,403	3.0	6.7	11.4	(38.7)	123.8	70.2	80.1	35.8	21.0	25.8	15.6	13.9	6.1	5.1	4.2	0.0	0.0	0.0	8.0	15.5	21.9	220	(8.5)	107.7
Jindal Saw	459	BUY	25,173	523	55	64.3	47.8	41.7	(0.8)	(25.6)	(12.8)	7.1	9.6	11.0	4.5	4.7	4.6	0.7	0.7	0.7	1.1	0.9	0.9	10.8	7.4	6.2	300	(34.6)	3.6
PSL	120	BUY	5,221	108	44	22.0	36.8	30.0	4.3	67.4	(18.5)	5.4	3.3	4.0	4.8	3.7	3.1	0.8	0.7	0.6	4.2	5.4	5.4	10.2	13.4	11.1	160	33.6	1.0
Sintex	208	BUY	28,398	590	136	23.8	25.2	27.6	21.9	5.6	9.6	8.7	8.3	7.5	6.3	5.7	4.8	1.4	1.2	1.1	0.5	0.6	0.6	16.6	15.0	14.2	275	32.2	4.7
Tata Chemicals	230	ADD	53,971	1,120	235	27.6	23.1	27.2	(30.4)	(16.4)	17.9	8.3	10.0	8.4	5.5	4.5	3.8	1.1	1.0	1.0	4.0	3.9	3.9	17.9	12.9	13.7	200	(12.9)	5.4
United Phosphorus	172	BUY	79,256	1,645	462	10.7	13.9	18.0	27.8	29.7	29.6	16.0	12.4	9.5	11.1	7.6	6.1	2.6	2.2	1.8	0.7	0.9	1.2	18.1	19.1	20.8	160	(6.7)	6.2
Welspun Gujarat Stahl Rohren	211	REDUCE	39,813	827	189	17.3	24.0	17.8	(15.7)	38.7	(25.8)	12.2	8.8	11.8	7.0	5.0	5.9	2.2	1.7	1.5	1.0	0.7	0.8	17.8	21.7	13.4	145	(31.2)	24.7
Others		**-**	**625,413**	**12,983**					**(93.1)**	**436.3**	**196.9**	**217.8**	**121.3**	**94.3**	**84.7**	**63.2**	**56.5**	**20.7**	**18.2**	**15.2**	**12.7**	**13.7**	**14.1**	**137.3**	**150.8**	**157.3**			
Pharmaceuticals																													
Biocon	218	BUY	43,670	907	200	4.7	14.4	18.6	(79.9)	206.8	29.3	46.6	15.2	11.7	14.0	9.8	7.9	2.8	2.5	2.1	0.0	0.1	0.1	6.2	17.8	20.0	270	23.7	5.8
Cipla	283	ADD	220,246	4,572	777	9.9	13.9	15.5	9.5	40.6	11.9	28.7	20.4	18.2	21.7	15.3	13.4	5.1	4.3	3.7	0.9	1.1	1.2	19.1	23.0	21.8	250	(11.8)	10.5
Dishman Pharma & chemicals	191	BUY	15,535	322	81	18.0	21.2	27.3	22.1	17.9	28.7	10.6	9.0	7.0	8.7	6.9	5.4	2.2	1.8	1.5	0.0	0.0	0.0	22.8	21.9	22.9	280	46.6	0.5
Divi's Laboratories	1,165	BUY	76,059	1,579	65	63.8	74.6	86.5	19.9	16.9	16.0	18.3	15.6	13.5	15.5	12.5	10.0	6.2	4.5	3.5	0.1	0.1	0.1	39.8	33.5	29.3	1,375	18.0	3.5
Dr Reddy's Laboratories	816	BUY	138,227	2,870	169	32.4	49.3	52.5	24.3	52.2	6.4	25.2	16.5	15.5	11.2	8.9	7.9	3.9	3.3	2.8	0.8	0.9	1.0	13.6	21.4	19.2	860	5.4	8.1
Glenmark Pharmaceuticals	264	BUY	70,092	1,455	266	11.1	11.6	15.7	(57.0)	4.2	35.1	23.7	22.7	16.8	13.8	13.0	10.4	3.4	3.0	2.5	0.0	0.0	0.0	15.9	13.8	16.2	315	19.5	10.8
Jubilant Organosys	177	BUY	30,291	629	171	16.6	24.5	32.9	(26.1)	48.2	34.2	10.7	7.2	5.4	12.2	7.7	6.1	2.3	1.8	1.5	0.7	0.7	1.0	16.2	28.7	30.8	250	41.1	0.5
Lupin	954	BUY	84,499	1,754	89	60.7	66.0	71.3	21.9	8.7	8.0	15.7	14.5	13.4	15.2	12.7	10.8	5.0	3.9	3.2	1.2	1.2	1.4	33.7	30.3	26.1	1,075	12.7	3.6
Piramal Healthcare	315	BUY	65,919	1,368	209	17.3	22.1	28.5	(1.9)	28.0	29.0	18.3	14.3	11.1	13.4	9.6	7.7	5.0	3.9	3.0	1.3	1.4	1.4	26.2	30.9	31.1	390	23.7	2.1
Ranbaxy Laboratories	274	REDUCE	117,039	2,430	427	(8.1)	4.7	5.1	(134.7)	(158.6)	6.6	(33.9)	57.8	54.2	(81.8)	24.2	23.5	2.8	2.8	2.8		1.4	1.5	(9.6)	4.9	5.3	165	(39.8)	17.0
Sun Pharmaceuticals	1,243	ADD	257,409	5,344	207	87.8	78.5	82.5	17.6	(10.6)	5.2	14.2	15.8	15.1	11.3	11.6	10.3	3.8	3.1	2.7	1.1	1.1	1.1	31.6	22.6	19.9	1,665	34.0	22.3
Pharmaceuticals		**Attractive**	**1,118,985**	**23,230**					**(184.2)**	**254.4**	**210.3**	**178.0**	**209.1**	**182.0**	**55.4**	**132.1**	**113.5**	**42.4**	**34.9**	**29.1**	**6.2**	**7.9**	**8.8**	**215.5**	**248.8**	**242.5**			
Property																													
DLF	411	REDUCE	705,879	14,654	1,716	29.3	16.3	17.5	(36.6)	(44.4)	7.2	14.1	25.3	23.6	14.0	20.2	17.2	2.9	2.6	2.4	0.7	0.7	1.0	22.5	10.8	10.6	320	(22.2)	168.2
Housing Development & Infrastructur	275	NR	75,760	1,573	275	30.6	19.8	24.8	(40.1)	(35.3)	25.1	9.0	13.9	11.1	11.7	13.5	11.0	1.8	1.6	1.5	1.8	2.2	2.9	21.2	12.1	13.9		(100.0)	122.5
Indiabulls Real Estate	238	ADD	95,605	1,985	401	3.0	3.1	7.5	(81.8)	3.8	141.1	79.5	76.5	31.7	(251.9)	65.9	15.8	1.4	1.0	1.0	0.0	0.0	0.0	1.3	1.6	3.2	235	(1.4)	73.8
Mahindra Life Space Developer	280	BUY	11,765	244	42	10.2	10.8	15.4	(39.2)	5.3	42.5	27.4	26.0	18.2	42.3	24.5	12.6	1.3	1.3	1.2	1.4	1.4	1.4	4.8	4.9	6.7	410	46.6	1.1
Phoenix Mills	114	BUY	16,541	343	145	5.2	5.6	8.1	63.1	8.2	44.6	22.1	20.4	14.1	25.1	14.7	10.7	1.1	1.1	1.0	0.9	0.9	1.3	5.1	5.3	7.3	210	83.9	0.3
Puravankara Projects	99	REDUCE	21,182	440	213	6.8	7.0	7.4	(39.8)	2.8	6.9	14.7	14.3	13.3	21.3	17.4	14.0	1.6	1.5	1.4		2.0	2.0	11.5	10.8	10.7	55	(44.6)	0.3
Sobha	210	ADD	20,564	427	98	15.1	14.3	16.1	(52.3)	(5.6)	12.5	13.9	14.7	13.1	14.2	11.1	10.0	1.8	1.2	1.1	1.4	1.9	1.9	10.4	9.8	8.8	215	2.5	1.7
Unitech	88	SELL	198,979	4,131	2,261	7.7	4.5	4.6	(25.8)	(41.0)	0.9	11.5	19.5	19.3	15.4	13.2	12.9	4.3	2.0	1.8				29.4	13.5	10.1	60	(31.8)	164.1
Property		**Cautious**	**1,146,275**	**23,796**					**(252.6)**	**(106.1)**	**280.8**	**192.0**	**210.5**	**144.4**	**(107.9)**	**180.4**	**104.2**	**16.3**	**12.4**	**11.5**	**6.2**	**9.1**	**10.5**	**106.2**	**68.8**	**71.4**			
Retail																													
Titan Industries	1,336	REDUCE	59,324	1,232	44	44.3	49.4	58.5	26.4	11.6	18.4	30.2	27.0	22.8	18.2	16.6	13.9	10.3	7.9	6.2	0.7	0.7	0.9	37.5	33.1	30.5	1,040	(22.2)	2.3

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

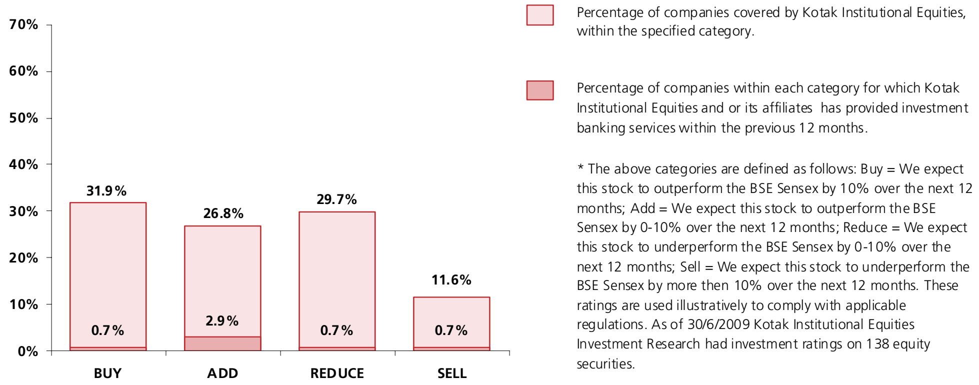
Company	27-Jul-09 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2009	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS growth (%) 2009	EPS growth (%) 2010E	EPS growth (%) 2011E	PER (X) 2009	PER (X) 2010E	PER (X) 2011E	EV/EBITDA (X) 2009	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	Price/BV (X) 2009	Price/BV (X) 2010E	Price/BV (X) 2011E	Dividend yield (%) 2009	Dividend yield (%) 2010E	Dividend yield (%) 2011E	RoE (%) 2009	RoE (%) 2010E	RoE (%) 2011E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Retail		**Neutral**	**59,324**	**1,232**					**26.4**	**11.6**	**18.4**	**30.2**	**27.0**	**22.8**	**18.2**	**16.6**	**13.9**	**10.3**	**7.9**	**6.2**	**0.7**	**0.7**	**0.9**	**37.5**	**33.1**	**30.5**			
Technology																													
HCL Technologies	239	REDUCE	166,036	3,447	695	16.2	13.1	17.0	6.0	(19.0)	29.5	14.8	18.2	14.1	8.2	8.1	7.7	2.7	2.6	2.4	5.0	5.0	5.0	18.6	14.4	17.7	135	(43.5)	6.2
Hexaware Technologies	58	SELL	8,332	173	144	3.6	4.0		(12.7)	11.5	(100.0)	16.2	14.5		4.4	4.3		1.2	1.1		1.7	1.7		7.6	8.0		35	(39.7)	1.5
Infosys Technologies	2,028	BUY	1,164,015	24,165	574	102.4	102.5	112.8	29.6	0.1	10.1	19.8	19.8	18.0	14.6	14.0	11.8	6.4	5.2	4.4	1.2	1.2	1.6	36.7	28.9	26.3	1,900	(6.3)	66.3
Mindtree	448	BUY	18,417	382	41	13.2	37.0	43.9	(50.5)	179.5	18.5	33.8	12.1	10.2	5.8	8.4	6.4	3.3	2.6	2.1	0.4		1.0	5.5	24.0	22.5	500	11.7	5.0
Mphasis BFL	422	REDUCE	87,983	1,827	208	14.2	38.9	33.5	15.7	174.5	(13.9)	29.8	10.8	12.6	22.6	7.8	7.2	6.1	4.1	3.2	0.9	1.1	1.2	22.8	45.4	28.8	335	(20.6)	4.8
Patni Computer Systems	276	REDUCE	35,408	735	129	24.7	26.8		(7.8)	8.5	(100.0)	11.1	10.3		4.0	3.8		1.2	1.1		1.8	1.9		11.0	11.2		220	(20.1)	2.2
Polaris Software Lab	108	SELL	10,669	221	99	13.1	13.8	12.9	76.0	5.4	(6.4)	8.2	7.8	8.4	3.1	3.7	3.9	1.4	1.2	1.1	2.5	1.8	1.8	18.1	16.4	13.6	80	(26.0)	3.6
TCS	480	ADD	940,043	19,515	1,957	26.4	30.5	33.8	3.1	15.2	10.8	18.2	15.8	14.2	12.6	11.1	9.8	6.0	4.8	4.1	1.5	1.9	2.8	36.9	33.9	31.1	510	6.2	37.7
Wipro	460	ADD	672,959	13,970	1,462	25.7	27.5	32.0	15.8	6.6	16.6	17.9	16.8	14.4	13.1	11.7	9.6	4.5	3.7	3.1	0.9	1.7	2.0	26.9	24.0	23.3	520	13.0	16.4
Technology		**Attractive**	**3,103,860**	**64,436**					**75.2**	**382.3**	**(134.8)**	**169.7**	**126.1**	**91.8**	**88.5**	**72.7**	**56.5**	**32.7**	**26.3**	**20.3**	**15.9**	**16.4**	**15.5**	**184.1**	**206.2**	**163.2**			
Telecom																													
Bharti Airtel	424	ADD	1,605,717	33,334	3,792	22.3	26.9	30.6	26.4	20.5	13.8	19.0	15.7	13.8	11.1	9.3	8.0	5.1	3.9	3.0	0.5	0.7	0.9	31.4	28.0	24.6	425	0.4	90.7
IDEA	80	REDUCE	248,153	5,152	3,104	2.9	3.4	3.6	(26.5)	15.8	7.3	27.5	23.8	22.2	10.1	8.4	7.5	1.9	1.8	1.6				10.4	7.4	8.0	65	(18.7)	22.8
MTNL	106	SELL	66,906	1,389	630	5.1	5.5	6.5	(28.4)	7.6	17.7	20.8	19.3	16.4	6.3	5.9	5.4	0.6	0.6	0.6	5.6	5.6	5.6	2.2	2.4	2.9	50	(52.9)	4.8
Reliance Communications	282	SELL	601,157	12,480	2,133	27.7	20.3	21.1	4.7	(26.6)	3.9	10.2	13.9	13.3	9.1	8.6	6.7	1.7	1.5	1.4	0.3			18.6	11.7	10.9	200	(29.1)	80.3
Tata Communications	481	REDUCE	137,199	2,848	285	13.6	14.0	15.2	24.0	3.2	8.2	35.4	34.4	31.8	15.1	13.7	12.7	2.0	1.9	1.9	1.0	1.4	1.6	5.4	5.2	5.5	400	(16.9)	8.8
Telecom		**Cautious**	**2,659,133**	**55,203**					**0.3**	**20.4**	**50.9**	**112.9**	**107.0**	**97.5**	**51.7**	**46.0**	**40.4**	**11.3**	**9.7**	**8.5**	**7.4**	**7.7**	**8.2**	**67.8**	**54.7**	**51.9**			
Transportation																													
Container Corporation	1,123	ADD	145,981	3,031	130	64.4	67.8	80.3	11.6	5.3	18.5	17.4	16.6	14.0	12.7	11.5	9.5	3.9	3.3	2.8	1.3	1.4	1.6	24.0	21.4	21.7	1,125	0.2	1.3
Transportation		**Cautious**	**145,981**	**3,031**					**11.6**	**5.3**	**18.5**	**17.4**	**16.6**	**14.0**	**12.7**	**11.5**	**9.5**	**3.9**	**3.3**	**2.8**	**1.3**	**1.4**	**1.6**	**24.0**	**21.4**	**21.7**			
Utilities																													
CESC	309	ADD	38,568	801	125	32.3	37.9	42.0	16.2	17.4	11.0	9.6	8.1	7.3	5.3	5.5	5.7	1.0	0.9	0.8	1.3	1.5	1.7	11.7	11.9	11.6	345	11.8	2.7
Lanco Infratech	442	ADD	98,168	2,038	222	14.5	20.2	35.1	(2.5)	39.7	73.7	30.5	21.9	12.6	24.8	17.5	8.6	4.5	3.7	2.8				16.1	18.6	25.3	385	(12.8)	27.5
NTPC	215	SELL	1,768,652	36,717	8,245	9.4	10.8	12.2	1.1	14.7	12.6	22.7	19.8	17.6	17.3	14.6	13.8	3.0	2.8	2.5	1.6	1.9	2.1	13.7	14.5	15.0	180	(16.1)	41.0
Reliance Infrastructure	1,164	BUY	263,520	5,471	226	64.1	58.8	62.9	70.5	(8.2)	6.9	18.2	19.8	18.5	19.5	19.9	15.4	1.6	1.5	1.4	0.6	0.7	0.8	6.3	7.0	9.0	1,250	7.4	116.9
Reliance Power	174	REDUCE	416,915	8,655	2,397	1.0	2.5	3.1	168.2	140.3	25.3	170.5	71.0	56.6	138.6	1,130.4	88.1	3.0	2.9	2.8				1.8	4.2	5.0	160	(8.0)	37.5
Tata Power	1,241	ADD	276,342	5,737	223	56.2	76.6	86.5	76.6	36.2	12.9	22.1	16.2	14.4	11.8	12.1	11.3	2.7	2.4	2.1	0.9	1.0	1.1	13.4	15.8	15.7	1,100	(11.4)	14.0
Utilities		**Attractive**	**2,862,165**	**59,418**					**330.1**	**240.1**	**142.4**	**273.6**	**156.8**	**127.0**	**217.3**	**1,200.0**	**143.0**	**15.9**	**14.1**	**12.4**	**4.5**	**5.1**	**5.8**	**63.0**	**71.9**	**81.6**			
KS universe (b)			**24,376,367**	**487,771**					**26.0**	**2.0**	**7.8**	**12**	**12.1**	**11.2**	**7.9**	**8.0**	**7.0**	**2.2**	**1.9**	**1.7**	**1.7**	**1.7**	**2.0**	**17.9**	**15.3**	**14.8**			
KS universe (b) ex-Energy			**18,082,077**	**361,822**					**30.8**	**5.1**	**(0.2)**	**12.1**	**11.5**	**11.5**	**8.6**	**8.6**	**8.1**	**2.3**	**1.9**	**1.7**	**1.7**	**1.7**	**1.9**	**19.2**	**16.8**	**14.9**			
KS universe (d) ex-Energy & ex-Commodities			**16,258,901**	**325,341**					**36.0**	**6.2**	**6.9**	**13.6**	**12.8**	**12.0**	**10.6**	**10.3**	**9.0**	**2.6**	**2.2**	**1.9**	**1.7**	**1.7**	**1.9**	**18.7**	**16.8**	**15.9**			

Note:
(1) For banks we have used adjusted book values.
(2) 2009 means calendar year 2008, similarly for 2010 and 2011 for these particular companies.
(3) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.
(4) Rupee-US Dollar exchange rate (Rs/US$)= 48.17

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities — As of June 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 Sensexby 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

NR = Not Rated. The investment rating and target price, if any, have been suspended temporarily. Such suspension is in compliance with applicable regulation(s) and/or Kotak Securities policies in circumstances when Kotak Securities or its affiliates is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.

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NM = Not Meaningful. The information is not meaningful and is therefore excluded.

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