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News Roundup

Corporate

- The government-appointed board of Satyam Computer Services on Thursday decided to allow non-IT firms to join the race to buy the software firm. PE firms with a partner will also qualify as bidders, said a person privy to the development. (ET)
- The world's cheapest car, the widely-awaited Nano, will be launched on March 23, Tata Motors said on Thursday. The company will display the Nano at dealerships from the first week of April and will accept bookings from the second week of April. (ET)
- Royal Bank of Scotland may sell ABN Amro Bank's retail and commercial business in India, after it reported a record loss of £24.1 bn—the largest in British history. Following the loss, the bank has decided to carve out businesses, from which it will exit, into a 'non-core portfolio'. (ET)

Economic and political

- Inflation dropped to a 14-month low of 3.36% in the week ended February 14 on the back of easing prices of food items, metals and machinery, helped also by the statistical effect of high prices that prevailed a year ago. Annual wholesale price inflation was at 3.92% in the week before and at 5.65% in the corresponding week last year. With inflation ceasing to be a major concern, aggressive rate cuts are expected from the Reserve Bank to stimulate the economy. (ET)
- A special package of Rs3.25 bn for the employment-intensive leather and textiles export sector, fast settlement of duty credit scrips for duty paid in export production and extension of such scrips for import of even restricted items after payment of duty are the key features of the trade facilitation measures the government unveiled on Thursday. (BL)
- The Income Tax Department has moved the Bombay High Court to recover nearly Rs5 bn from top stock brokers, who have managed to avoid paying income tax on the pretext of claiming depreciation on their Bombay Stock Exchange membership card. (BS)

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

EQUITY MARKETS

India	Change, %			
	26-Feb	1-day	1-mo	3-mo
Sensex	8,955	0.6	3.2	(0.8)
Nifty	2,786	0.8	4.0	1.2

Global/Regional indices				
Dow Jones	7,182	(1.2)	(11.5)	(17.7)
FTSE	3,916	1.7	(7.0)	(5.7)
Nikkei	7,492	0.5	(7.1)	(10.5)
Hang Seng	12,895	(0.8)	2.5	(4.8)
KOSPI	1,064	0.9	(2.7)	0.0

Value traded - India	Moving avg, Rs bn		
	26-Feb	1-mo	3-mo
Cash (NSE+BSE)	95.9	110.8	72.1
Derivatives (NSE)	501.4	368.1	489
Deri. open interest	672.6	569	592

Forex/money market

	Change, basis points			
	26-Feb	1-day	1-mo	3-mo
Rs/US\$	50.5	0	151	98
10yr govt bond, %	6.1	(7)	27	(89)

Commodity market

	Change, %			
	26-Feb	1-day	1-mo	3-mo
Gold (US\$/OZ)	941.1	(0.5)	4.7	15.3
Silver (US\$/OZ)	13.1	(0.2)	8.3	26.4
Crude (US\$/BBL)	45.3	0.9	5.8	(10.5)

Net investment (US\$m)

	25-Feb	MTD	CYTD
	FIs	(112)	(102)
MFs	26	(250)	(433)

Top movers -3mo basis

Best performers	Change, %			
	26-Feb	1-day	1-mo	3-mo
Grasim Industries Lt	1,459	3.7	23.6	59.1
Jindal Steel & Powe	1,063	3.9	21.2	47.1
Gmr Infrastructure	79	4.7	4.8	43.7
Mmtc Limited	14,170	(0.9)	1.6	42.1
Acc Limited	560	0.7	15.0	38.9

Worst performers				
Housing Developme	76	0.5	(16.6)	(1.7)
Satyam Computer S	45	-	(4.4)	(80.9)
Glenmark Pharmac	142	1.9	(24.5)	(56.4)
Aban Offshore Limi	349	(1.8)	(23.5)	(50.7)
Punj Lloyd Limited	83	0.3	(10.9)	(39.8)

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Strategy

Sector coverage view

N/A

Till debt do us apart

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- **Stress-case scenarios reveal cause for concern**
- **Availability of and ability to raise funding is very limited**
- **Pledging of shares—promoters are already quite leveraged**
- **Life after debt: Group restructuring, asset disposals are some afterlife options**

We analyze the balance sheets and debt positions of 15 highly leveraged companies (within our coverage universe) under hypothetical stress-case scenarios. We see some of them vulnerable to further deterioration in their operating environments (decline in volumes and pricing). Investors should expect that in case the stress-case scenarios come true companies/groups may have to explore the sale of assets and/or companies in the absence of traditional funding options—equity/debt.

Stress-case scenarios reveal cause for concern

Our stress-case scenarios for 15 companies show a high degree of vulnerability to further declines in volumes and pricing in case of (1) weak balance sheets and (2) uncertain operating cash flows. We do not rule out the possibility of a significant decline in volumes in the real estate and metals sectors, which could make those companies more vulnerable to an extended downturn in business conditions.

Availability of and ability to raise funding is very limited

(1) Likely weak capital markets restrict the ability of companies to raise equity capital and (2) companies' weak balance sheets preclude further raising of debt in certain cases. Also compounding issues over the next 1-2 years is the repayment of (1) ECB, FCCB money raised in 2006-08 (US\$16 bn) and (2) outstanding domestic debt.

Pledging of shares—promoters are already quite leveraged

We estimate that promoters have raised more than US\$11 bn from domestic banks and other financiers by pledging their personal stakes to banks. We note that promoters may have not much room for further financing through this route.

Life after debt: Group restructuring, asset disposals are some afterlife options

Diversified groups could well have to consider selling certain assets/investments to protect other group companies with vulnerable balance sheets. We see a higher scope of stake sale of companies in the telecom sector given the significant interest from foreign telecom companies. In our view, companies in the real estate sector would find it hard to dispose of assets; a steep cut in property prices to drive volume growth and generate cash flows may be their only option.

Balance sheet of the select companies is significantly stretched under stress-case assumptions

Analysis of net debt/EBITDA under base-case and stress-case assumptions, March fiscal year-ends, 2010E-2011E (X)

		Base-case		Stress-case		Capex (Rs bn)		Free cash flow (Rs bn)	
		2010E	2011E	2010E	2011E	2010E	2011E	2010E	2011E
Aban Offshore	Others	3.7	3.1	5.7	5.2	1	1	20	23
DLF	Real Estate	2.3	2.1	4.4	4.1	31	—	39	—
Hindalco Industries	Metals	5.6	4.8	7.5	6.1	15	17	25	(3)
Housing Development & Infrastructure	Real Estate	4.1	3.3	5.7	4.2	0	—	6	—
Idea	Telecom	2.4	2.2	3.3	3.0	63	48	(32)	(6)
Jaiprakash Associates	Others	5.3	6.0	6.0	6.8	34	77	(16)	(55)
JSW Steel	Metals	5.7	3.7	25.8	15.1	17	10	12	44
Jubilant Organosys	Pharma	4.0	3.1	4.7	3.6	3	3	4	3
Pantaloon Retail	Retail	3.8	3.8	4.2	4.7	2	2	(2)	(4)
Reliance Communications	Telecom	3.3	2.6	4.3	3.6	135	94	(81)	25
Suzlon Energy	Industrials	5.0	3.7	6.3	5.2	13	10	14	3
Tata Motors	Automobiles	5.2	5.4	6.3	8.7	35	28	(7)	(4)
Tata Steel	Metals	2.8	2.2	11.2	14.2	111	—	45	—
Unitech	Real Estate	5.9	6.7	6.4	8.5	2	—	(4)	—
United Spirits	Consumers	4.5	3.7	5.9	8.3	1	1	2	4

Source: Kotak Institutional Equities estimates

Pharmaceuticals**RANB.BO, Rs170**

Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	340
52W High -Low (Rs)	660 - 161
Market Cap (Rs bn)	71

Financials

December y/e	2007	2008E	2009E
Sales (Rs bn)	67.4	72.2	81.6
Net Profit (Rs bn)	8.7	(3.3)	5.0
EPS (Rs)	23.3	(8.1)	11.6
EPS gth	70.4	(134.7)	-
P/E (x)	7.3	(21)	14.6
EV/EBITDA (x)	7.3	(104.5)	5.1
Div yield (%)	4.5	6.1	7.0

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
(14.6)	(20.4)	(66.8)	(61.0)

Shareholding, December 2008

	% of Pattern Portfolio	Over/(under) weight
Promoters	63.9	-
FII's	5.9	0.1 (0.3)
MFI's	2.0	0.2 (0.2)
UTI	-	- (0.4)
LIC	7.3	0.7 0.3

Ranbaxy Laboratories : FDA alleges falsification of data from Paonta facility

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- **FDA alleges Paonta Sahib facility falsified data and stability test results for approved and pending ANDAs**
- **FDA gives Ranbaxy 10 days to respond, Ranbaxy maintains it will analyze the letter and respond appropriately in a timely manner**
- **Maintain ADD rating with price target at Rs340**

US FDA has said Ranbaxy falsified data and stability test results in support of pending and approved ANDAs from the Paonta Sahib site. It has halted review of all drug applications relying on data submitted from this facility. However, the FDA has admitted it has not identified any health risks associated with the currently marketed Ranbaxy products. FDA will assess the validity of the data and information in all of Ranbaxy's affected applications which contain data developed at the Paonta Sahib site. The outcome of these investigations and potential downside for share price is a new risk for shareholders. Ranbaxy trades at 15X CY2009E earnings. Maintain ADD rating with price target at Rs340. Price target excluding benefits of first-to-file in US would be Rs220.

FDA alleges Paonta Sahib facility falsified data and stability test results for approved and pending ANDAs.

FDA said the Paonta Sahib facility had falsified data and test results to support approved and pending drug applications. The FDA is continuing to investigate this matter to ensure the safety and efficacy of marketed drugs associated with Paonta Sahib site.

The affected applications are for drugs that fall into three categories.

1. Approved drugs made at the Paonta Sahib site
2. Drugs pending approval at the FDA that are not yet marketed. The company has around 98 ANDAs (including 18 first to file) pending with the FDA. While the company has admitted it has some key first to file applications filed from this site, we do not know how many applications out of this 98 have been filed using data from this site.
3. Certain drugs manufactured in the United States relied on data from the Paonta Sahib facility.

Deborah Autor, director of the drug evaluation center's Office of Compliance, said there is no reason to believe Ranbaxy drugs on US shelves pose any safety threat. She said all 80 samples tested met application specifications. "We feel comfortable leaving those products on the US market at this time," she said.

Some of the drugs affected by the announcement likely reached the US months back due to the September import ban. Three drugs tested at the Paonta Sahib plant are still in US market because they are manufactured at the company's New Jersey plant. These drugs are generic versions of loratadine, simvastatin and pravastatin.

The findings concern the submission of information, such as from stability test results in support of pending and approved drug applications from Paonta Sahib facility. The following are examples of the observations contained in the letter sent to Ranbaxy.

1. hundreds of stability samples, many of which were being used for room temperature or accelerated stability studies, were being stored in refrigerators
2. the corrected stability test reports for Fluconazole, Ciprofloxacin tablets show instances where stability test dates that previously had been submitted were false
3. Ranbaxy reported stability test results for a given batch as occurring at the required accelerated or long term (e.g., 3, 6, 9, 12 month) time intervals, but actually conducted all of these tests on the same day, or within a period of days
4. Exhibit batch records previously submitted for FDA approval of the pending ANDA contained the signatures or initials of Ranbaxy employees who were not present in the facility on the dates documented in the batch records.

To address the falsified data, the FDA has invoked its Application Integrity Policy (AIP) against the Paonta Sahib facility.

The AIP is invoked when a company's actions raise significant questions about the integrity of data in drug applications. This AIP covers applications that rely on data generated by the Paonta Sahib facility only. Under the AIP, the FDA has asked Ranbaxy to cooperate with the agency to resolve the questions of data integrity and reliability. This would include implementing a Corrective Action Operating Plan (CAOP) to provide assurance of the integrity and reliability of data from the Paonta Sahib facility. A CAOP includes, but is not limited to, conducting a third-party independent audit of applications associated with Paonta Sahib.

FDA gives Ranbaxy 10 days to respond; Ranbaxy maintains that it will analyze the letter and respond appropriately in a timely manner

Ranbaxy said it will analyze the letter and other information fully and respond appropriately in a timely manner. Ranbaxy will continue to cooperate with the USFDA. Further, no effort or action will be spared to timely protect key ANDAs from Paonta Sahib, which include some first to file applications.

Daiichi Sankyo's responded by saying it takes the issue very seriously, and both Daiichi Sankyo and Ranbaxy have already formed a team to solve this issue.

In September 2008, FDA issued an import ban for 30 drugs manufactured at the Paonta Sahib and Dewas facility and banned the approval of new products from this facilities.

The FDA warning letters and import alert do not apply to Ranbaxy's other facilities including its three manufacturing facilities in the US, Ohm's Laboratories facilities in New Brunswick, NJ, North Brunswick, NJ and Gloversville, NY. Ranbaxy has four other manufacturing plants in India besides Paonta Sahib, Dewas, which are not part of the investigation. (see Exhibit 1)

Changes made to earnings forecasts for 2009 and 2010.

We revise our Rs/US\$ forecasts for CY2009-10E to 48 from 45

1. Based on the new Rs/US\$ rate and factoring in a 40% yoy US sales decline in dollar terms in CY2009 (earlier 30%) leads to marginal change in net sales forecasts. Our estimates are based on all existing products continuing in the US market for 2009. If US FDA decides to cancel any of these approvals, revenue estimates will have to be lowered. Such a decision will also adversely impact valuation of Ranbaxy.
2. We factor in forex loss of Rs800 mn in CY2009-10E on long-term forward cover taken on international sales at rates lower than prevailing Rs/US\$ rates.
3. All other assumptions left unchanged. This leads to PAT declining by 11% and 7% for CY2009E and CY2010E compared to our previous estimates.

Maintain ADD rating with price target at Rs340.

It is worth noting that share price target includes Rs110 as the present value of its patent challenge settlements for generic Lipitor, Nexium, Valtrex, Flomax. We assume approvals of these products will not be adversely impacted by recent FDA decision. Price target will go down to Rs220 if Ranbaxy fails to convert all the above exclusivity opportunities into cash.

Exhibit 1: Manufacturing sites in India

Location	Type	Details
Mohali	API	Penicillins, Flouroquinolones, bulk cephalosporins
Toansa	API	Antibiotics, anti-allergens, anti-ulcerants
Dewas	Formulation	Cephalosporins, semi-synthetic penicillins, non-beta-lactum products
Paonta Sahib	Formulation	Tablets, soft-gelatin capsules
New Delhi	Formulation	Effervescent tablets
Goa	Formulation	Steroidal and non-steroidal creams, ointments, lotions, non-beta-lactum tablets

Source: Company.

Exhibit 2: Forecasts and valuation, December fiscal year-ends, 2006-2010E

	Net sales		Adjusted EBITDA		Net Profit		EPS	ROCE	ROE	P/E
	(Rs mn)	Growth(%)	(Rs mn)	Growth(%)	(Rs mn)	Growth(%)	(Rs)	(%)	(%)	(X)
2006	60,183	18.1	11,529	84.0	5,103	95.0	13.7	10.4	20.3	12.4
2007	67,440	12.1	11,045	(4.2)	8,705	70.6	23.3	6.8	32.3	7.3
2008E	72,218	7.1	11,624	5.2	(9,146)	NM	(8.1)	5.7	(8.8)	NM
2009E	81,566	12.9	13,628	17.2	5,049	NM	11.6	5.0	7.6	14.6
2010E	93,422	14.5	16,804	23.3	6,318	25.1	14.0	5.9	7.4	12.1

Source: Company data, Kotak Institutional Equities.

Exhibit 3: SOTP-based price target, 2009-2010E

	PAT (Rs mn)		P/E	Valuation (Rs mn)	
	2009E	2010E	(X)	2009E	2010E
Finished dosage - India	474	572	14.4	6,828	8,236
Finished dosage - USA Generic/OTC	379	382	12.0	4,545	4,583
Finished dosage - Rest of World	3,483	4,666	13.0	45,282	60,657
Romania	410	514	13.0	5,328	6,677
API Global	67	33	10.0	672	326
Global consumer business	127	139	14.4	1,823	2,005
USA - branded business	30	13	13.2	397	169
Total	4,970	6,318		64,874	82,653
Value per share (Rs)				149	183
Value of patent challenge pipeline (Rs)				61	65
Value of Nexium deal (Rs)				35	43
Cash per share				42	37
Share price target (Rs)					329

Source: Company data, Kotak Institutional Equities.

Consumer products**GLSM.BO, Rs616**

Rating	ADD
Sector coverage view	Cautious
Target Price (Rs)	700
52W High -Low (Rs)	766 - 452
Market Cap (Rs bn)	25.9

Financials

December y/e	2007	2008E	2009E
Sales (Rs bn)	12.8	15.4	17.6
Net Profit (Rs bn)	1.6	1.9	2.1
EPS (Rs)	38.7	44.8	50.4
EPS gth	26.9	15.8	13
P/E (x)	15.9	14	12.2
EV/EBITDA (x)	8.2	7.4	6.4
Div yield (%)	1.9	2.4	2.7

Pricing performance

	Perf-1m	Perf-3m	Perf-6m	Perf-1y
	7.1	22.8	(5.7)	(0.5)

Shareholding, December 2008

	% of Pattern Portfolio	Over/(under) weight
Promoters	43.2	-
FII's	2.7	-
MFs	12.3	-
UTI	1.0	-
LIC	7.5	-

Glaxo SmithKline Consumer India : Life beyond MFD

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- **We met Mr Zubair Ahmed, MD**
- **Plans to take Horlicks beyond malted food drink (MFD)**
- **Consumer business is key focus for parent under new global CEO**
- **Payout ratio likely to remain stable in CY2009, can potentially increase in CY2010**

GSK Consumer Healthcare India (GSK) aims to leverage the Horlicks brand for new category launches to target the nutrition space beyond malted food drink (MFD). GSK has recently launched Horlicks Nutribar (energy bar of 30gm for Rs15). Consumer business is key focus for parent under the new CEO, Mr Andrew Witty. Hence, the ability for GSK India to venture into newer product lines with active support from parent is high. Payout ratio (35% in CY2008) likely to remain stable in CY2009, can potentially increase in CY2010. The company plans to preserve the current net cash position of ~Rs4.5 bn (Rs107/share) for (1) pursuing inorganic opportunities and (2) capex requirements of existing plants (modernization), capacity expansions for current product portfolio (MFD) and new capacity for product launches. We highlight that GSK can potentially implement a buyback as well—the last buyback by the company was in April 2005 at Rs340/share with Rs2.5 bn surplus cash. We highlight that while the earlier acquisition (Viva, Maltova) has likely missed the key objective of expanding the reach of MFD to the masses; it has likely helped GSK in blocking the entry of competition into the MFD space. The MFD category demand drivers continue to be (1) convalescence, (2) exam season for kids and (3) monsoons. We believe the impact of likely rationalization in consumer spending, particularly in urban areas, can impact GSK in CY2009E. We model 14% sales growth (8% volume growth and 6% pricing/mix growth) in CY09E. We believe the volume growth in CY2009E will likely moderate to ~8% on the back of 15% growth in CY2008. Maintain estimates; we model EPS growth of 12.6% for CY2009E, EPS of Rs50.4/share. Reiterate ADD and TP Rs700/share. At our TP, the stock would trade at 14XCY2009E.

Plans to take Horlicks beyond MFD

We recently met Mr. Zubair Ahmed, MD and Mr. Ramakrishnan Subramanian, Director – Finance and IT, GSK Consumer Healthcare India (GSK). The company aims to leverage the Horlicks brand for new category launches under the health and wellness platform with plans to target the nutrition space beyond malted food drink (MFD). GSK has recently launched Horlicks Nutribar (energy bar of 30 gm for Rs15). The company highlighted that (1) the category potential for GSK is significantly higher as compared with other FMCG players and (2) the opportunity to leverage the internal (brand) assets is higher for GSK in comparison with other FMCG players. We agree. GSK believes there is opportunity to extend the Horlicks brand to top-end biscuits where nutrition-based product differentiator can provide pricing power. According to the management, the top-end biscuits segment is the fastest growing (~27%) and there is opportunity to be tapped by having a relevant offering based on nutrition.

Consumer business is key focus for parent under the new CEO, Mr Andrew Witty

The company highlighted that with Mr Andrew Witty taking over as global CEO of GSK Plc, the consumer business is a key focus for the parent. Hence, the ability for GSK India to venture into newer product lines with active support from parent is high. Some of the recent statements by the GSK Plc management confirm this view—

“Our consumer healthcare business is a key part of GSK. It is a profitable, logical, complement to our pharmaceutical operation with a powerful portfolio and a healthy pipeline. It has excellent prospects, particularly in developing economies.”

“Our Consumer Healthcare business offers long-term, steady cash flow. A broad portfolio of pharmaceutical and OTC products can help mitigate the impact of losses to generics and help smooth the more volatile nature of the pharmaceutical markets.”

We believe some of the products from the global basket which are being considered for an India launch include the brain energy drink Lucozade, chewable high fibre lozenges Fibre Choice, Sensodyne toothpaste and quit smoking aid Ni Quitin.

Payout ratio likely to remain stable in CY2009, can potentially increase in CY2010

The company plans to preserve the current net cash position of ~Rs4.5 bn (Rs107/share) for (1) pursuing inorganic opportunities in the nutrition space, (2) capex requirements of existing plants (modernization) and capacity expansions for current product portfolio (MFD) and new capacity for product launches. The company intends to maintain the current dividend payout ratio of ~35% in the near term. GSK is likely to increase the payout after 12-18 months, in our view. We highlight that GSK can potentially implement a buyback as well—the last buyback was in April 2005 at Rs340/share with Rs2.5 bn surplus cash.

Inorganic growth is a possibility

The company reiterated they are actively scouting for acquisitions in the nutrition space. We recall GSK had acquired the brands Viva and Maltova from Jagatjit Industries Limited in 2000 for Rs862 mn. The brands clocked a combined turnover of about Rs1.25 bn in CY2008 (our estimate) vis-à-vis Rs720 mn in CY2000 (at the time of acquisition). In our view, while this acquisition has likely missed the key objective of expanding the MFD category reach to the masses, it has likely helped GSK in blocking the entry of competition into the MFD space.

Healthy growth in core

The 5.5% weighted price increase in January 2009 indicates improving competitive scenario—initial market response to HUL Amaze, Dabur Chyawan Junior and Nestle Milo Smart Plus is likely muted. We highlight that a spate of new entrants in the past year seems to be driving faster growth in the category—GSK has maintained market shares indicating strong brand salience. We are surprised by lack of activation programs or consumer communication by Nestle regarding their price cut in Milo brand, even after seven months of implementation. We highlight that Nestle had reduced the prices of Milo by 28% for the 500 gm SKU (to Rs88 from Rs121) in 1HCY08. We have always believed higher competitive activity will necessitate increased brand investments for GSK, the increased spends will likely expand the category and GSK with a 70% market share is well positioned to garner a bigger share of a faster growing pie. The current trends are in line with our category views.

BOP opportunity for MFD

We are excited about the company's plans to launch a product addressing the BOP (bottom of the pyramid) market. The health food drink (HFD) category in India is predominantly urban focused with over 75% of sales accruing from urban markets. While there is a latent demand for a branded nutritional drink in the low-end of the economic strata; lack of scale, ability and willingness to invest has hampered product innovations and launches to address this market need. Market sources indicate that the largest selling SKU in the health food drink category is the 500 gm SKU which is priced at about Rs120. There is no viable offering at a lower price-point to induce trial purchases. Companies in MFD industry does have smaller SKUs, however the quality of distribution (availability at point of purchase) is poor.

MFD category drivers remain the same

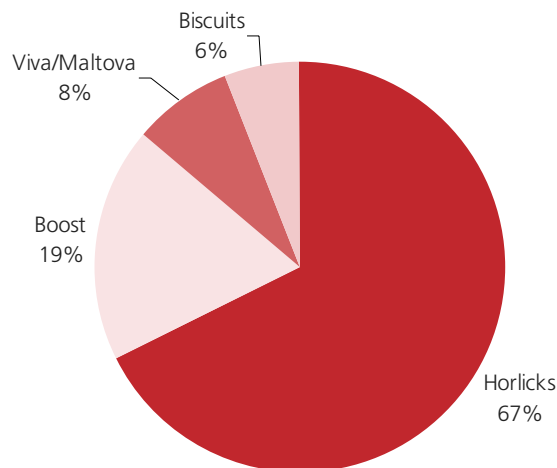
The MFD category demand drivers continue to be (1) convalescence, (2) exam season for kids and (3) monsoons. While the category characteristics does not fall in the impulse category (wherein demand can be impacted due to cutback on consumer discretionary spending), it continues to be a 'nice-to-have' consumption item. Net, we believe the impact of likely rationalization in consumer spending, particularly in urban areas, can impact GSK in CY2009E. We model 14% sales growth (8% volume growth and 6% pricing/mix growth) in CY2009E. We believe the volume growth in CY2009E will likely moderate to ~8% on the back of 15% growth in CY2008.

The company expects inflation in soft commodities to continue with expectations of sugar (+15% yoy), wheat (+12% yoy) and malt (+20% yoy). We model flat EBITDA margins for CY2009E at 15.6%. The company highlighted that the likely savings in media costs will be reinvested to increase GRPs. However, we believe GSK can likely cutback adspends to maintain margins, if need be.

Maintain estimates; we model EPS growth of 12.6% for CY2009E, EPS of Rs50.4/share. Reiterate ADD and TP Rs700/share. At our TP, the stock would trade at 14XCY09E. GSK Consumer has been one of the strong outperformers in the FMCG sector with 33% outperformance (vis-à-vis Sensex) over past year.

Horlicks continues to be the mainstay

Sales mix of GSK Consumer for CY08, %



Source : Company, Kotak Institutional Equities

GSK Consumer: Profit model, balance sheet, cash model 2006-2010E, December fiscal year-ends (Rs mn)

	2006	2007	2008	2009E	2010E
Profit model (Rs mn)					
Net sales	11,079	12,778	15,427	17,604	19,647
EBITDA	1,859	2,244	2,376	2,707	3,089
Other income	392	440	478	496	473
Interest	95	203	405	477	529
Depreciation	(427)	(435)	(419)	(497)	(580)
Pretax profits	1,918	2,451	2,840	3,183	3,511
Tax	(636)	(824)	(957)	(1,064)	(1,155)
Net profits	1,282	1,627	1,883	2,120	2,356
Earnings per share (Rs)	30.5	38.7	44.8	50.4	56.0
Dividend per share (Rs)	10.0	12.0	15.0	16.9	18.8
Balance sheet (Rs mn)					
Total equity	5,427	6,464	7,608	8,897	10,330
Current liabilities	2,326	2,668	3,091	3,500	3,891
Total liabilities and equity	7,753	9,131	10,700	12,398	14,221
Cash	479	937	1,678	2,419	3,471
Current assets	2,498	2,783	3,287	3,779	4,272
Total fixed assets	2,579	2,433	2,756	3,221	3,500
Investments	2,197	2,978	2,978	2,978	2,978
Total assets	7,753	9,131	10,700	12,398	14,221
Free cash flow (Rs mn)					
Operating cash flow, excl. working capital	1,615	1,923	2,176	2,479	2,771
Working capital	(82)	125	(62)	(66)	(71)
Capital expenditure	(168)	(289)	(742)	(962)	(859)
Investments	(421)	(505)	(631)	(710)	(789)
Free cash flow	944	1,254	742	741	1,052
Key assumptions					
Revenue growth (%)	14.6	15.3	20.7	14.1	11.6
EBITDA margin(%)	16.8	17.6	15.4	15.4	15.7
EPS growth (%)	22.7	26.9	15.8	12.6	11.1

Source: Kotak Institutional Equities estimates.

Banking

Sector coverage view

Attractive

Company	Rating	Price, Rs	
		26-Feb	Target
SBI	BUY	1,023	1,600
HDFC Bank	BUY	875	1,350
ICICI Bank	ADD	325	465
Corp Bk	BUY	163	310
BoB	ADD	212	330
PNB	BUY	324	650
OBC	ADD	110	200
Canara Bk	REDUCE	160	220
Axis Bank	ADD	346	750
IOB	BUY	46	120
Andhra	ADD	44	75
Federal Bank	BUY	121	280
J&K Bank	ADD	234	480
Indian Bank	BUY	87	195
Union Bank	BUY	123	220
Bank of India	ADD	220	330

Investing during times of pessimism may be a smart move

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- **Bank stocks have corrected 10-20% over the past month**
- **Market prices appear to excessively factor in gloomy outlook in perpetuity**
- **Reiterate preference for SBI, PNB, Union Bank and BoB among public banks; HDFC Bank, Axis Bank and Federal Bank among private banks**

The announcement by the government of higher expenditure and tax breaks over the past few weeks have led to concerns on hardening of Gsec yields and put pressure on banking stock prices. We believe the market reaction appears to be excessive and current prices likely factor in rather gloomy prospects in perpetuity, which is inappropriate, in our view. Our earnings estimates for banks assume a sharp rise in stressed assets over the next five quarters, apart from assuming a 20-25 bps decline in NIM and modest treasury gains in FY2010E. These estimates likely capture the investor apprehensions of higher NPLs, lower treasury gains and greater government intervention in credit functions of banks. Valuations juxtaposed against our modest assumptions are attractive. We prefer SBI, PNB, BoB and Union Bank amongst public banks, while we like HDFC Bank, Axis Bank and Federal Bank amongst private banks. Note that some of the small public banks like Andhra Bank, Corporation Bank and IOB are trading at dividend yields of close to 7-8% (FY2009E) providing good investment opportunities.

Rationale for investing in bank stocks continues to remain intact. The business performance of banks is likely supported by the following factors: (1) low levels of current NPLs, (2) diversified loan book of banks, (3) improved systems and processes at banks compared to the previous cycle, (4) better creditor rights and (5) likely lower Gsec yields in an lower economic growth environment that would lead to higher treasury gains for banks. While the recent measures by government are likely to lead to hardening of Gsec yields and reduce the treasury gains for banks (though these are likely to exceed our current estimates), other aforesaid factors continue to remain firmly in place. Finally, our fair value estimates after factoring in a reasonably stressed business outlook over the next 1-2 years are significantly higher than the current market prices.

Technical factors could have accentuated the fall in stock prices. The correction in banking stock prices by 10-20% over the past month was also likely due to over ownership of the sector by institutional investors particularly, the foreign investors. This particular technical factor may have accentuated the impact of negative developments like higher government borrowing on the stock prices.

Valuations attractive at the current market prices. We get back to basics to justify our view that current valuations of Indian banks are attractive. Banks typically play an important role in maturity transformation, i.e. convert short-term liabilities into long-term assets, which expose them to certain vulnerabilities particularly in times of extreme risk aversion. This regular business arrangement (short-term liabilities and long-term assets) for banks/financial institutions is likely to be stable when all liability holders do not demand a return of their funds at the same time. However, in the event of widespread concerns (perceived or otherwise) on viability of banks/financial institutions—these entities could come under serious liquidity stress due to their high leverage, which could threaten their existence and in turn justify the concerns of the liability holders and further depress market valuations.

We believe the probability of such self-fulfilling concerns on viability of banks/financial institutions playing out in case of Indian banks as extremely remote. The reasons for this confidence are as follows: (1) Indian banks have a mandatory requirement of having 24% of their demand liabilities in the form of government securities (statutory liquidity ratio), SLR ratio of banks is around 28% as of January 2009—have no counterparty/credit risk, (2) cash reserve ratio (CRR), i.e. reserves placed with RBI are at 5%, bear no credit or interest rate risk and (3) market share of public banks is currently around 73%—deposits with these entities are widely perceived to enjoy sovereign guarantee (although there is no legal basis for such confidence) and are unlikely face a run.

Hence, we believe the current valuations of banks at 0.5-0.9X PBR FY2010E appear to factor extremely poor profitability (well below cost of equity) in perpetuity. We do not share this pessimism of the street and believe the normalized RoE of most banks are likely to be in the range of 14-18%, which could justify valuations in the range of 1.2-1.5X PBR FY2010E.

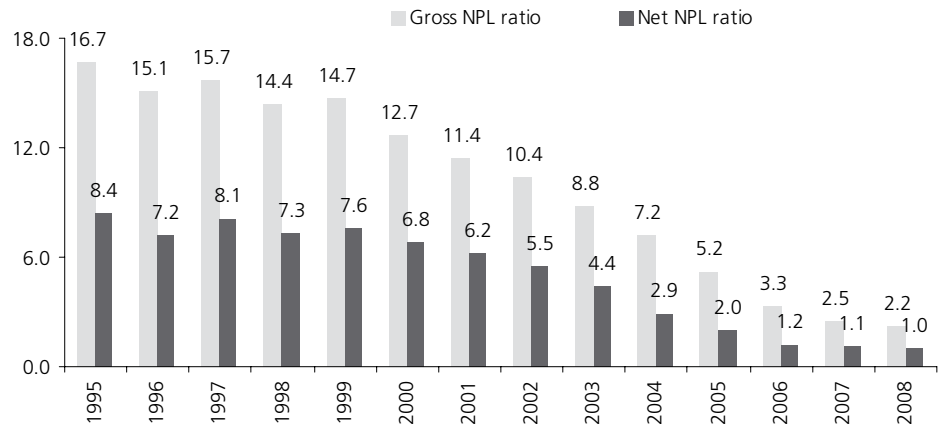
Dividend yields for some of the small public banks are compelling. The dividend yields on some of the small public banks like Andhra Bank, Corporation Bank and IOB are in the range of 7-8% (FY2009E). Even assuming halving of profits and dividend payout ratios for FY2010E compared to FY2009E, the returns from dividends alone could be around 10-12% (post-tax) over the next one year. These returns are much above the current 1-year deposit rate offered by SBI of 8.5% (pre-tax). This is in stark contrast to the scenario of minimal dividend yields and higher deposit rates that was prevailing in January 2008 likely indicating opportune times for investing.

Government spending likely to lead to higher yields, yet provides limited downside risk to our estimates. The government of India has sharply increased its overall spending apart from announcing a series of tax benefits to provide stimulus to the sagging economy. This has led to a sharp rise in the fiscal deficit and increased pressure on Gsec yields. These developments in turn will likely lead to lower treasury profits for the banks in FY2010E. We highlight that our projections of treasury profits are modest and factor in only around 10-30% of the overall treasury gains for banks assuming the benchmark 10-year Gsec yield at 7% by March 2010. Secondly, enhanced government spending and tax breaks can imply certain positives for the banking sector—(1) these measures could help improve the macroeconomic situation and reduce concerns on asset quality; (2) higher Gsec yields could help NIM of banks as the yield on their investments book is better. It is quite likely that these positives are being ignored by the market at the current prices.

Sharp rise in NPLs over the next five quarters factored in our estimates. We expect the gross NPLs of the banks under coverage to rise to Rs1 tn by March 2010 from Rs425 bn as of December 2008, which in turn is likely to result in the gross NPL ratio rising to 4.6% from the current level of 2.3%. This likely captures a fair amount of stress on asset quality of Indian banks. Note that we net off the entire net NPLs against the net worth to arrive at our fair value estimates without reducing the provision requirements in later years, which we believe is conservative.

Current NPL ratios are low and provide comfort on asset quality

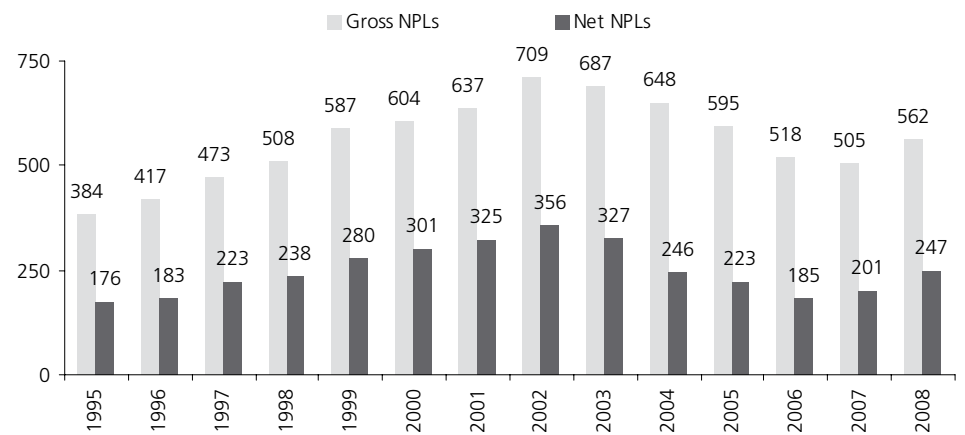
Trend in gross and net NPL ratio of banks, March fiscal year-ends, 1995-2008 (%)



Source: RBI, KIE Estimates

Even in absolute levels the reported NPLs have been trending downwards since 2002 and increased modestly in 2008

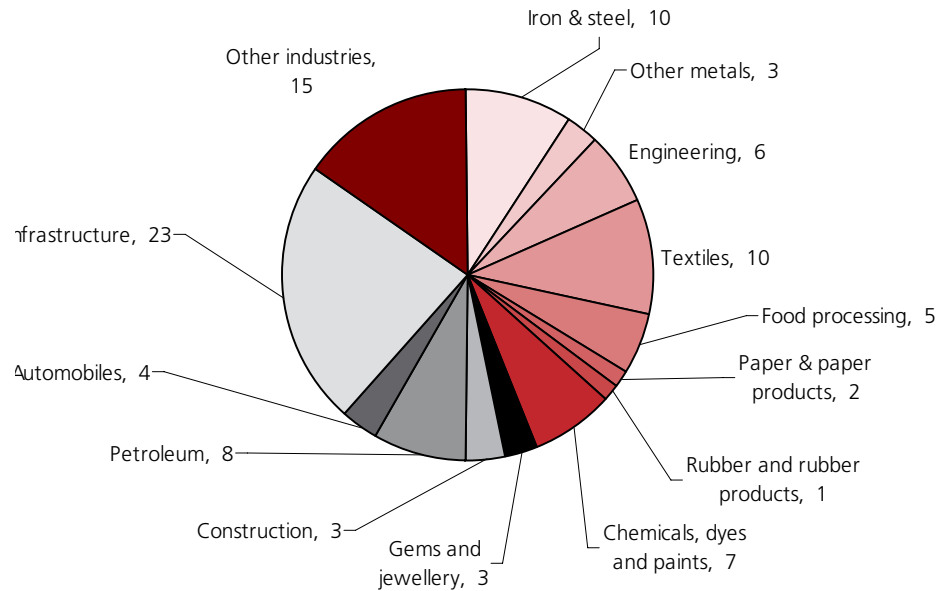
Trend in gross and net NPLs of banks, March fiscal year-ends, 1995-2008 (Rs bn)



Source: RBI.

Industrial credit is well diversified as of December 2008

Break-up of industrial credit as of December 2008 (%)



Source: RBI.

Foreign investors had increased their preference for the banking sector in 3QFY09

Over/under ownership (%)

	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08
Automobiles	0.9	0.8	0.5	0.4	0.5	0.6	0.6	0.6	0.6
Banking	11.2	12.2	12.4	13.8	13.2	13.4	11.2	12.8	14.2
Cement	0.9	0.7	0.3	0.4	0.3	0.3	0.2	0.3	0.4
Chemicals	0.5	0.7	0.6	—	0.1	0.1	(0.0)	0.1	0.1
Consumers	(1.8)	(1.9)	(1.8)	(1.2)	(0.8)	(0.8)	(0.8)	(0.8)	(0.3)
Energy	(6.1)	(7.2)	(7.1)	(6.7)	(8.3)	(8.7)	(7.1)	(7.6)	(6.8)
Industrial	(1.2)	(1.3)	(1.7)	(1.4)	(1.2)	(1.2)	(1.1)	(1.1)	(0.7)
Media	(0.0)	(0.1)	0.3	(0.1)	(0.0)	(0.0)	(0.1)	—	0.1
Metals	(3.3)	(3.2)	(2.2)	(0.8)	(0.8)	(0.6)	(1.6)	(2.0)	(3.9)
Pharmaceuticals	(0.4)	(0.4)	(0.9)	(0.3)	(0.0)	0.2	0.6	0.4	0.6
Property	—	—	—	(2.7)	(3.0)	(2.2)	(1.4)	(1.2)	(0.9)
Technology	3.4	2.9	2.4	2.1	2.1	3.2	5.2	4.9	6.2
Telecom	(0.7)	(0.3)	(0.7)	(0.8)	(0.8)	(0.1)	(0.7)	(0.3)	0.6
Utilities	(2.9)	(3.1)	(2.8)	(3.2)	(4.0)	(4.7)	(5.2)	(5.7)	(6.7)
Others	(0.6)	0.1	0.7	0.5	2.9	0.6	0.1	(0.3)	(3.5)

Note:

(1) With effect from September 2007 quarter, Reliance Industries is reclassified from Chemicals to Energy.

Source: BSE, Kotak Institutional Equities.

Valuations of banks are reasonable for their expected RoE

Valuations of key financial companies, March fiscal year-ends

	Reco.	Target price		Market cap. US \$bn	EPS (Rs)				PER (X)				BVPS (Rs)				PBR (X)				RoE (%)			
		(Rs)	(Rs)		2007	2008	2009E	2010E	2007	2008	2009E	2010E	2007	2008	2009E	2010E	2007	2008	2009E	2010E	2007	2008	2009E	2010E
Public banks																								
Andhra Bank	ADD	75	44	0.4	11.1	11.9	12.4	10.8	4.0	3.7	3.5	4.1	65	67	76	83	0.7	0.7	0.6	0.5	17.8	18.0	17.4	13.6
BoB	ADD	330	212	1.5	28.1	39.3	52.0	50.5	7.6	5.4	4.1	4.2	232	259	298	337	0.9	0.8	0.7	0.6	12.4	14.6	16.3	14.2
Bol	ADD	330	220	2.3	23.0	40.6	54.1	49.9	9.6	5.4	4.1	4.4	118	168	215	259	1.9	1.3	1.0	0.9	21.2	27.6	28.2	21.1
Canara Bank	REDUCE	220	160	1.3	34.7	38.2	45.8	42.0	4.6	4.2	3.5	3.8	198	202	241	307	0.8	0.8	0.7	0.5	16.3	15.0	16.7	12.3
Corporation Bank	BUY	310	163	0.5	37.4	51.2	62.3	55.8	4.4	3.2	2.6	2.9	263	295	342	385	0.6	0.6	0.5	0.4	15.0	18.4	19.6	15.4
Indian Bank	BUY	195	87	0.7	16.8	22.5	27.4	28.0	5.2	3.9	3.2	3.1	75	107	130	154	1.2	0.8	0.7	0.6	26.4	24.8	23.1	19.7
IOB	BUY	120	46	0.5	18.5	22.1	26.5	21.7	2.5	2.1	1.7	2.1	73	89	112	130	0.6	0.5	0.4	0.4	28.1	27.2	26.4	18.0
OBC	ADD	200	110	0.5	33.0	23.9	36.5	27.3	3.3	4.6	3.0	4.0	224	231	298	316	0.5	0.5	0.4	0.3	10.9	6.2	13.8	8.9
PNB	BUY	650	324	2.0	48.8	65.0	91.6	89.9	6.6	5.0	3.5	3.6	324	342	412	481	1.0	0.9	0.8	0.7	15.5	18.0	21.7	18.5
SBI	BUY	1,600	1,023	12.9	86.3	106.6	135.3	125.5	11.9	9.6	7.6	8.2	595	776	887	986	1.7	1.3	1.2	1.0	15.4	16.8	16.3	13.4
SBI incl. banking subs	BUY	1,315	738	9.3	114.9	157.7	148.6	145.2	6.4	4.7	5.0	5.1	747	955	1,086	1,207	1.0	0.8	0.7	0.6	15.5	16.7	14.7	14.7
SBI standalone	BUY	1,127	566	7.1	74.9	122.1	129.0	118.5	7.6	4.6	4.4	4.8	546	707	817	916	1.0	0.8	0.7	0.6	14.6	19.5	16.9	13.7
Union Bank	BUY	250	123	1.2	16.7	27.5	34.6	33.3	7.4	4.5	3.6	3.7	94	111	140	167	1.3	1.1	0.9	0.7	19.2	26.8	27.5	21.7
Old private banks																								
Federal Bank	BUY	280	121	0.4	34.2	34.4	31.7	31.6	3.6	3.5	3.8	3.8	175	229	254	279	0.7	0.5	0.5	0.4	21.2	13.6	13.1	11.8
J&K Bank	ADD	480	234	0.2	56.6	74.2	82.7	72.3	4.1	3.2	2.8	3.2	414	470	533	587	0.6	0.5	0.4	0.4	14.4	16.8	16.5	12.9
New private banks																								
Axis Bank	ADD	750	346	2.5	23.4	32.2	46.8	53.1	14.8	10.7	7.4	6.5	121	245	282	323	2.9	1.4	1.2	1.1	21.0	17.6	17.8	17.6
HDFC Bank	BUY	1,350	875	7.4	35.7	46.0	53.5	66.9	24.5	19.0	16.3	13.1	201	324	348	403	4.3	2.7	2.5	2.2	19.5	17.7	17.3	17.8
ICICI Bank	ADD	465	325	7.2	34.6	39.9	34.3	32.8	9.4	8.1	9.5	9.9	270	418	440	462	1.2	0.8	0.7	0.7	13.4	11.7	8.0	7.3
ICICI standalone	ADD	318	161	3.5	29.6	28.9	29.4	27.4	5.4	5.6	5.5	5.9	225	341	334	343	0.7	0.5	0.5	0.5	13.4	10.2	8.7	8.1

Source: Bloomberg, Companies, Kotak Institutional Equities estimates.

Dividend yields for some of the small public banks are attractive

Dividends and dividend yields of banks, March fiscal year-ends, 2007-2010E

	Reco.	Price (Rs)	DPS (Rs)				Dividend yield (%)			
			2007	2008	2009E	2010E	2007	2008	2009E	2010E
Public banks										
Andhra Bank	ADD	44	3.8	4.0	3.1	2.7	8.6	9.1	7.1	6.2
BoB	ADD	212	6.9	8.0	10.6	10.3	3.3	3.8	5.0	4.8
Bol	ADD	220	4.0	4.0	5.7	5.2	1.8	1.8	2.6	2.4
Canara Bank	REDUCE	160	7.0	8.0	6.0	6.0	4.4	5.0	3.7	3.7
Corporation Bank	BUY	163	9.0	10.5	12.8	11.4	5.5	6.4	7.8	7.0
Indian Bank	BUY	87	3.0	3.0	3.5	3.6	3.4	3.4	4.0	4.1
IOB	BUY	46	3.0	3.2	3.5	3.2	6.6	7.0	7.7	7.0
OBC	ADD	110	4.7	4.7	7.3	5.5	4.3	4.3	6.6	5.0
PNB	BUY	324	13.0	13.0	18.3	18.0	4.0	4.0	5.7	5.6
SBI	BUY	1,023	14.0	25.4	21.5	22.5	1.4	2.5	2.1	2.2
Union Bank	BUY	123	3.5	4.0	5.2	5.0	2.8	3.2	4.2	4.1
Old private banks										
Federal Bank	BUY	121	4.0	4.0	5.9	5.9	3.3	3.3	4.9	4.9
J&K Bank	ADD	234	11.5	15.0	17.3	17.3	4.9	6.4	7.4	7.4
New private banks										
Axis Bank	ADD	346	5.3	5.7	8.9	10.1	1.5	1.6	2.6	2.9
HDFC Bank	BUY	875	7.0	8.7	11.5	13.2	0.8	1.0	1.3	1.5
ICICI Bank	ADD	325	10.0	11.8	10.3	9.2	3.1	3.6	3.2	2.8

Source: Bloomberg, Companies, Kotak Institutional Equities estimates.

We expect NIM to decline by 20-25 bps in 2010E

NIM, March fiscal year-ends, 2008-2010E (%)

	2008	2009E	2010E
Public banks			
Andhra Bank	2.8	2.8	2.6
Bank of Baroda	2.7	2.7	2.5
Bank of India	2.7	2.9	2.6
Canara Bank	2.1	2.4	2.4
Corporation Bank	2.6	2.4	2.2
Indian Bank	3.4	3.6	3.4
IOB	3.0	2.9	2.7
OBC	2.1	2.1	1.8
PNB	3.4	3.3	3.2
SBI	2.8	2.9	2.7
Union Bank	2.7	3.1	2.9
Old private banks			
Federal Bank	3.2	4.0	3.8
J&K Bank	2.7	2.9	2.8
New private banks			
Axis Bank	2.9	2.9	2.8
HDFC Bank	5.1	5.2	5.1
ICICI Bank	2.1	2.3	2.5

Source: Companies, Kotak Institutional Equities estimates.

Treasury gains for banks are likely around 6-8% of their net worth at 10-year Gsec yield of 7%

	Investment book details as of December 2008			Duration of AFS book (years)	Gains on AFS book (Rs bn)	Gains on HTM book (Rs bn)	Overall gains (Rs bn)	Overall post-tax gains (Rs bn)	Net worth (FY2010E) (Rs bn)	Gains as % of net worth (Rs bn)
	Overall (Rs bn)	HTM (Rs bn)	AFS (Rs bn)							
Public banks										
Andhra Bank	164	120	44	1.8	1	8	8	6	41	7
Bank of Baroda	461	298	163	1.8	(2)	19	17	11	124	5
Bank of India	466	368	98	2.0	(2)	24	22	14	138	5
Canara Bank	524	379	145	1.6	0	24	25	16	112	7
Corporation Bank	233	186	47	1.8	1	12	13	8	55	7
Indian Bank	215	135	80	2.3	1	9	10	7	66	5
IOB	279	209	70	2.0	(1)	13	12	8	69	6
OBC	279	184	95	2.9	3	12	14	9	79	6
PNB	632	567	66	2.0	2	36	38	25	152	8
SBI	2,450	1,622	828	1.8	21	104	124	81	627	6
Union Bank	412	260	152	1.4	5	17	22	14	85	8
Old private banks										
Federal Bank	97	56	41	2.6	2	4	6	4	48	4
J&K Bank	114	80	34	1.6	1	5	6	4	28	7

Note:

(1) 10-year Gsec yield assumed at 7% as of March 2010.

(2) Gains on AFS book equal

AFS book (as of December 2008) X Duration X (8.6-7.0)/100 - treasury gains booked in 3QFY09 - investment depreciation losses written-back in 3QFY09.

(3) Gains on HTM book equal

HTM book (as of December 2008) X 4.0 X (8.6-7.0)/100.

(4) Duration of HTM book assumed uniformly at 4 years for all banks.

(5) Assuming only 50% of potential gains are realized.

Source: Companies, Kotak Institutional Equities.

Our treasury gain assumptions are not aggressive

Treasury profits of banks, March fiscal year-ends, 2008-2010E

	Treasury gains (Rs mn)			Treasury gains (2010E) modeled as % of potential gains
	2008	2009E	2010E	
Public banks				
Andhra Bank	1,192	1,000	1,000	12
Bank of Baroda	5,322	7,500	5,000	29
Bank of India	3,662	6,500	4,000	18
Canara Bank	4,351	4,000	3,000	12
Corporation Bank	1,357	1,800	1,800	14
Indian Bank	2,412	1,500	1,800	18
IOB	1,912	4,500	3,000	24
OBC	1,537	4,500	2,500	17
PNB	4,419	5,300	4,300	11
SBI	9,463	12,000	16,000	13
Union Bank	2,898	1,200	1,400	6
Old private banks				
Federal Bank	750	700	700	12
J&K Bank	958	650	400	7

Source: Companies, Kotak Institutional Equities estimates.

Our base-case assumptions factor in a sharp rise in reported NPLs to account for likely deterioration of asset quality

Gross NPLs, Net NPLs of banks

	Gross NPLs (Rs bn)			Gross NPLs (%)			Net NPLs (Rs bn)			Net NPLs (%)		
	3QFY09	2009E	2010E	3QFY09	2009E	2010E	3QFY09	2009E	2010E	3QFY09	2009E	2010E
Public banks												
Andhra Bank	4	6	17	0.9	1.4	3.3	1	1	7	0.2	0.2	1.5
Bank of Baroda	19	24	52	1.5	1.8	3.4	5	2	18	0.4	0.2	1.2
Bank of India	22	27	60	1.6	1.8	3.6	7	4	21	0.5	0.3	1.3
Canara Bank	25	28	71	1.9	2.1	4.6	17	12	36	1.3	0.9	2.3
Corporation Bank	6	9	24	1.2	1.9	4.1	1	2	13	0.3	0.5	2.3
Indian Bank	5	9	15	0.8	1.7	2.5	1	1	2	0.2	0.2	0.4
IOB	17	19	38	2.4	2.5	4.2	9	8	18	1.3	1.1	2.0
OBC	11	16	33	1.7	2.3	4.1	5	6	17	0.8	0.9	2.1
PNB	33	46	79	2.3	3.0	4.4	6	11	26	0.4	0.7	1.5
State Bank of India	133	182	318	2.6	3.5	5.2	69	86	150	1.4	1.7	2.5
Union Bank	16	24	45	1.7	2.5	4.0	1	2	10	0.1	0.2	1.0
Overall public banks	290	390	752	2.0	2.6	4.4	121	136	319	0.9	0.9	1.9
Old private banks												
Federal Bank	6	9	14	2.8	3.7	5.1	1	1	1	0.3	0.4	0.5
J&K Bank	5	7	12	2.6	2.9	4.6	3	3	6	1.2	1.2	2.3
Overall old private banks	12	15	27	2.7	3.3	4.8	3	4	7	0.8	0.8	1.4
New private banks												
Axis Bank	8	14	36	0.9	1.7	3.5	3	4	14	0.4	0.5	1.4
HDFC Bank	19	24	55	1.9	2.8	5.1	6	3	14	0.6	0.3	1.3
ICICI Bank	96	116	163	4.5	5.1	6.7	45	46	67	2.1	2.1	2.9
Overall new private banks	123	153	255	3.1	3.9	5.6	54	53	94	1.3	1.0	1.9
Total	425	558	1,033	2.3	2.9	4.6	178	192	420	1.0	1.0	1.9

Source: Companies, Kotak Institutional Equities estimates.

Our long-term estimates are likely conservative

Our long-term assumptions of return on equity (%)

Public banks	
Andhra Bank	14.0
BoB	14.0
BoI	15.0
Canara Bank	14.0
Corporation Bank	12.4
Indian Bank	14.8
IOB	14.7
OBC	13.0
PNB	15.1
SBI (standalone)	15.0
Union Bank	15.0
Old private banks	
Federal Bank	14.1
J&K Bank	13.8
New private banks	
Axis Bank	17.0
HDFC Bank	17.5
ICICI Bank (standalone)	14.0

Source: Kotak Institutional Equities estimates.

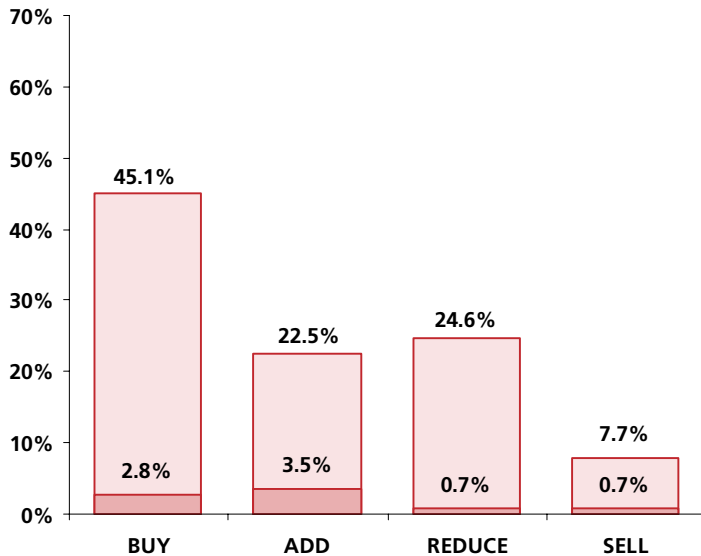
Kotak Institutional Equities: Valuation Summary of Key Indian Companies

Company	-26-Feb-09 Price (Rs)	Rating	Mkt cap. (Rs mn)	Shares (mn)	EPS (Rs)		EPS growth (%)		PER (X)		EV/EBITDA (X)		Price/BV (X)		Dividend Yield (%)		RoE (%)		Target price (Rs)	Upside (%)	ADVR-3mo (US\$ mn)															
					2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E				2010E														
Retail																																				
Pantaloon Retail	134	REDUCE	21,338	423	159	7.9	8.3	10.2	90.0	4.4	23.3	16.9	16.2	13.2	9.2	7.5	6.7	1.2	1.1	1.0	0.6	0.6	0.7	8.2	6.7	7.8	165	23.2	1.1							
Titan Industries	762	REDUCE	33,840	671	44	35.1	41.4	46.5	55.2	18.2	12.2	21.7	18.4	16.4	14.8	11.2	9.8	7.2	5.5	4.4	1.0	1.2	1.4	37.7	33.8	29.7	930	22.0	3.0							
Vishal Retail	38	ADD	848	17	22	18.1	10.6	10.8	37.2	(41.2)	1.9	2.1	3.6	3.5	4.5	4.3	3.5	0.3	0.3	0.3	—	—	—	20.2	8.3	7.8	75	98.2	0.2							
Retail																																				
Technology																																				
HCL Technologies	99	REDUCE	68,875	1,365	695	15.3	18.7	17.3	(19.0)	22.4	(7.7)	6.5	5.3	5.7	2.8	3.7	3.4	1.4	1.1	1.0	8.1	12.1	12.1	21.4	21.3	18.1	140	41.3	4.0							
Hexaware Technologies	24	SELL	3,461	69	142	7.7	4.1	3.0	(13.7)	(46.4)	(27.8)	3.2	5.9	8.2	0.2	0.6	1.5	0.5	0.5	0.5	3.7	4.1	4.1	15.1	8.6	6.3	25	2.7	1.3							
Infosys Technologies	1,236	BUY	709,464	14,060	574	79.1	101.6	107.7	18.0	28.5	5.9	15.6	12.2	11.5	11.9	8.5	7.6	5.1	3.9	3.2	2.7	2.0	2.1	36.1	36.6	30.5	1,500	21.4	51.2							
Infosys BFL	172	REDUCE	35,766	709	208	12.2	22.3	23.4	67.6	81.7	5.0	14.0	7.7	7.3	8.3	4.9	4.0	3.1	0.4	1.9	2.0	2.3	2.6	23.6	34.6	28.4	190	10.8	0.5							
Mindtree	205	BUY	8,109	161	40	26.7	21.0	37.1	12.3	(21.6)	(76.9)	7.7	9.8	5.7	6.8	3.1	2.9	1.5	1.3	1.0	1.3	—	—	21.3	11.9	17.8	400	94.8	0.2							
Patni Computer Systems	100	SELL	12,849	255	128	33.2	26.8	17.5	29.2	(19.3)	(34.7)	3.0	3.7	5.7	(0.1)	(0.1)	(0.4)	0.5	0.4	0.2	1.8	3.5	19.2	16.2	7.9	130	29.9	0.3								
Polaris Software Lab	43	SELL	4,261	84	98	7.4	14.9	12.7	(27.6)	(100.0)	(14.9)	5.8	2.9	3.4	2.1	0.8	0.6	0.5	0.5	0.4	4.0	4.0	4.0	11.7	20.4	15.0	50	15.3	1.9							
TCS	482	REDUCE	471,886	9,352	979	51.3	53.9	55.7	21.5	5.1	3.3	9.4	8.9	8.7	7.4	6.3	5.9	3.8	3.0	2.6	2.9	3.9	4.6	47.0	37.8	32.1	550	14.1	18.5							
Tech Mahindra	258	BUY	32,140	637	125	59.1	67.6	58.7	25.7	14.5	(13.2)	4.4	3.8	4.4	3.8	2.2	2.1	2.6	1.5	1.2	2.1	2.3	2.4	70.7	53.1	31.6	320	24.1	2.4							
Wipro	215	ADD	314,549	6,234	1,462	22.2	25.1	26.2	12.6	12.8	4.3	9.7	8.6	8.2	7.7	5.8	5.1	2.4	2.0	1.7	2.9	3.4	3.7	27.9	25.7	22.6	280	30.1	9.7							
Technology																																				
Telecom																																				
Bharti Airtel Ltd	652	BUY	1,237,810	24,531	1,898	35.3	44.2	52.1	65.0	25.1	18.0	18.5	14.8	12.5	11.2	8.5	7.1	5.5	4.0	3.0	—	0.6	0.9	39.1	31.4	27.5	725	11.2	59.3							
IDEA	49	REDUCE	157,125	3,114	3,236	3.9	2.6	2.8	78.5	(33.2)	6.0	12.3	18.4	17.4	9.4	6.4	5.8	4.4	1.2	1.1	—	—	—	36.4	10.1	6.7	55	13.3	4.9							
MTNL	64	SELL	40,383	800	630	7.1	4.0	4.1	(11.0)	(44.3)	2.6	9.0	16.1	15.7	0.9	2.9	2.1	0.3	0.3	0.3	6.2	9.4	9.4	3.5	1.6	1.6	50	(22.0)	1.1							
Reliance Communications	159	SELL	327,973	6,500	2,064	26.5	26.7	22.2	86.4	0.7	(16.5)	6.0	6.0	7.1	5.7	6.5	6.1	1.1	1.0	0.8	0.5	0.5	—	16.8	18.4	12.9	200	25.9	56.3							
Tata Communications	406	REDUCE	115,753	2,294	285	10.9	13.6	14.0	(36.3)	24.0	3.2	37.1	29.9	29.0	15.5	12.8	11.6	1.7	1.7	1.6	1.1	1.2	1.6	4.4	5.4	5.2	400	(1.5)	2.7							
Telecom																																				
Transportation																																				
Container Corporation	642	REDUCE	83,480	1,654	130	57.7	68.3	72.9	7.8	18.3	6.8	11.1	9.4	8.8	7.4	6.1	5.5	2.6	2.2	1.8	2.0	2.4	2.6	25.8	25.3	22.6	800	24.6	0.6							
Transportation																																				
Utilities																																				
CEEC	205	BUY	25,549	506	125	27.8	31.9	36.9	(23.3)	14.9	15.8	7.4	6.4	5.5	3.8	3.6	4.8	0.8	0.7	0.6	2.0	2.2	2.6	12.5	11.7	11.9	385	88.3	0.8							
Lanco InfraTech	125	BUY	27,743	550	222	14.8	15.2	19.9	75.2	2.6	30.9	8.4	8.2	6.3	8.2	16.2	10.9	1.5	1.3	1.1	—	—	—	19.7	16.9	18.5	320	156.4	6.7							
NTPC	185	REDUCE	1,523,350	30,189	8,245	9.3	10.9	10.9	7.9	0.1	16.7	19.8	19.8	17.0	13.8	13.8	12.7	2.8	2.6	2.4	1.9	1.9	2.2	14.9	13.6	14.6	180	(2.6)	26.5							
Reliance Infrastructure	509	BUY	117,626	2,331	231	37.6	59.9	56.2	13.9	59.4	(6.2)	13.5	8.5	9.1	9.1	9.1	9.3	0.7	0.7	1.3	1.4	1.6	4.3	6.2	6.7	970	90.4	88.3								
Reliance Power	98	REDUCE	233,683	4,631	2,397	0.4	1.3	2.5	—	252.9	82.7	256.4	72.7	39.8	—	—	—	—	—	—	1.7	1.6	1.6	—	—	—	13	2.3	4.2	120	23.1	11.6				
Tata Power	732	BUY	162,896	3,228	223	31.8	65.8	95.2	19.5	106.7	44.5	23.0	11.1	7.7	11.3	8.7	8.3	1.9	1.6	1.3	1.5	1.5	1.5	1.6	9.6	15.4	18.8	1,140	55.8	10.2						
Utilities																																				
Others																																				
Aban Offshore	349	REDUCE	13,211	262	38	72.3	140.2	342.5	(1,066)	94.0	144.3	4.8	2.5	1.0	10.8	7.5	4.1	1.5	0.8	0.5	1.0	1.1	1.4	51.7	44.2	52.4	500	43.4	11.3							
Educomp Solutions	1,569	BUY	29,842	591	19	35.2	64.2	108.1	114	82.7	68.3	44.6	24.4	14.5	23.9	10.6	6.4	9.7	4.1	3.3	0.1	0.4	0.6	33.5	23.4	24.3	2,550	62.5	81.2							
Havells India	107	REDUCE	6,457	128	61	26.6	(1.0)	10.3	40	(103.7)	###	4.0	###	10.4	4.9	6.6	5.7	0.9	0.9	0.9	2.2	3.1	3.9	33.7	(0.9)	8.5	120	12.5	0.2							
Jayprakash Associates	68	BUY	94,804	1,879	1,403	4.9	5.3	7.1	7	8.6	33.4	13.8	12.7	9.5	11.4	10.0	8.6	1.9	1.6	1.5	0.0	0.0	0.0	15.4	13.9	16.3	105	55.4	38.7							
JindalSaw	161	BUY	9,871	196	61	66.6	86.9	82.9	(48)	30.6	(4.7)	2.4	1.9	1.9	2.4	1.1	0.7	0.3	0.2	0.3	4.5	8.1	9.3	12.5	14.4	12.3	500	210.7	0.4							
PSL	67	BUY	2,926	58	44	21.1	24.3	31.7	4	15.3	79.6	3.2	2.8	1.5	3.1	3.5	2.6	0.5	0.4	0.4	7.6	7.4	8.9	11.3	10.6	14.2	145	115.9	0.1							
Welspun Gujarat Stahl Rohren	63	BUY	11,846	235	189	20.6	20.9	21.0	94	1.5	0.7	3.1	3.0	3.0	5.2	3.7	3.0	0.7	0.6	0.5	2.1	2.9	2.0	27.1	20.0	17.3	100	59.4	3.5							
United Phosphorus	87	BUY	40,402	801	462	9.3	11.4	14.8	30	21.7	30.4	9.4	7.7	5.9	6.0	4.5	3.0	1.8	1.3	1.1	1.1	1.7	2.3	20.0	18.7	20.0	190	117.3	0.9							
Others																																				
KS universe (b)																																				
KS universe (c) ex-Energy																																				

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Source: Kotak Institutional Equities

As of December 31, 2008

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