

February 26, 2010

BSE-30:16,430

**A good start to a long journey of fiscal correction.** We view the FY2011E Union Budget as the first step in the process of fiscal correction by the Government of India. The government is targeting bringing down the central GFD/GDP ratio to 4.1% by FY2013E (5.5% in FY2011E, 4.8% in FY2012E) with pragmatic changes to both indirect (GST) and direct (DTC) taxation. However, this would necessitate some hard decisions on taxation; we have seen some of these in the FY2011E Union Budget.

### FY2011E GFD/GDP at 5.5% helped by revenue buoyancy, 3G and divestment; oil subsidy key

We see the government's 5.5% GFD/GDP ratio for FY2011E as achievable on the back of (1) likely strong growth in gross taxation revenues (+17.9% yoy to Rs7.47 tn), (2) non-tax receipts of Rs1.48 tn (13.4% of total receipts) supported by 3G license auction (Rs360 bn) and divestment (Rs400 bn). On the expenditure side, the government has increased expenditure on social sectors (to Rs1.37 tn, 37% of total plan outlay) but tried to control subsidies on fertilizer, food and fuel (-11% to Rs1.16 tn). However, we do not rule out higher subsidies on oil later.

### Government committed to introduce GST and DTC from April 1, 2011

The finance minister reiterated the government's commitment to introduce the Goods and Service Tax (GST) and a revised Direct Tax Code (DTC) from April 1, 2011. However, the government did not make any specific announcements on (1) FDI policy (increase in long-anticipated FDI limits in certain sectors such as insurance, civil aviation), (2) deregulation of pricing or a roadmap for deregulation of the oil sector and (3) infrastructure.

### Sector impact: Excise duty roll-back, wider services tax ambit and additional taxes on oil sector

The government increased excise duty by 2 ppts to 10% (median rate) and left service tax unchanged at 10% but widened its scope. The negative impact on affected sectors—automobiles, cement, consumer and pharmaceuticals—may be largely discounted in the stock prices. However, widening the base of the services tax is likely to be negative for some sectors, most notably aviation and real estate. The government's tax revenues would be boosted by (1) increase in import duty on crude oil to 5% from 0% previously (Rs130 bn) and (2) additional Rs1/liter excise duty on diesel and gasoline (Rs90 bn).

### No change in portfolio or market view: 18,000 end-CY2010 target for BSE-30 Index

We have made minor changes to our Model Portfolio but retain our end-CY2010 target of 18,000 for the BSE-30 Index. We model earnings of the BSE-30 Index to grow 23% in FY2011E and 19% in FY2012E. The Indian market (BSE-30 Index) is trading at 15X FY2011E 'EPS' (Rs1,097 unadjusted for free float) and 12.6 X FY2012E 'EPS' (Rs1,306).

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The prices in this report are based on the market close of February 26, 2010

## UNION BUDGET 2011: IMPACT BY SECTORS AND COMPANIES

We see the upstream oil sector as the only beneficiary of the FY2011 Union Budget (even in this case, the impact of higher import duty on crude oil will be subsumed into the larger issue of under-recoveries) and see the automobiles, cigarette and downstream oil sectors as the losers from the budget. The 2 ppt increase in excise duty will have a small negative impact on corporate earnings but the impact will depend on the companies' ability to pass on the increase in taxes to the customers. We expect most companies to eventually pass on the higher excise duty to customers. The modest reduction in corporate tax rate (33.22% from 33.99% previously) will be a modest positive for high tax-paying companies but the increase in MAT rate to 19.93% from 16.995% will be a negative for low tax-paying companies.

### Impact on various sectors and companies

Exhibit 1 gives the impact of the FY2011 Union Budget on sectors while Exhibit 2 shows the impact of the same on companies.

Exhibit 1: Budget impact on sectors at a glance

Sector	Net impact	Proposals	Implications
<b>Automobiles</b>			
	↓	2% point increase in excise duties to 10% for small cars and 22% for large cars and SUVs. No change in the specific component of Rs15,000	<b>Negative:</b> Largely in line with expectations. We expect the increase to be passed on to the consumer. This price increase could reduce growth rates by about 4% and is largely reflected in our low-teen growth estimate for the industry
		Decision on Kirit Parikh recommendations to be taken in due course	<b>Positive:</b> The decision to defer implementation of Kirit Parikh committee recommendations lifts hangover of higher taxes on diesel passenger vehicles. This is positive for M&M and Tata Motors
		Increase in central excise on petrol and diesel by Rs1 per liter	<b>Negative:</b> Higher fuel prices could reduce freight operator profitability if operators are not able increase freight rates. Importantly, freight rates have sustained at current levels despite strong underlying growth
<b>Banking &amp; Finance</b>			
	↑	Lower-than-expected borrowings program and move towards fiscal consolidation likely to reduce pressure on interest rates	<b>Positive:</b> Pressure on interest rates likely to be lower, resulting in lower MTM losses, especially for public sector banks
		Additional limit for tax deduction on infrastructure bonds of Rs20,000	<b>Positive:</b> Another source of liquidity for infrastructure finance companies; somewhat positive for their margins as well
		Extension of NPL recognition on agriculture loans	<b>Positive for 4Q:</b> Banks like BOB, PNB can write back the provisions already made in 3QFY10. SBI, Union Bank need not classify agri loans related to loan waiver as NPLs in 4QFY10
<b>Cement</b>			
	↓	Excise rate increased from 8% to 10%; increase in excise on clinker from Rs300/ton to Rs375/ton and increase in excise for cement sold below Rs190/bag from Rs230/ton to Rs290/ton	<b>Negative:</b> 2% increase in excise was on anticipated lines and cement companies have proposed to hike prices by Rs5-6 bag to pass on the incidence of higher excise duties
		Hike in diesel prices by Rs2.6/liter	<b>Negative:</b> Will increase cost of road-freight
		Higher allocation of Rs100 bn towards Indira Awas Yojana, which promotes mid-income housing for rural India	<b>Positive:</b> Will likely help sustain demand growth from rural India
		Green coal cess of Rs50-100/ton on use of domestic as well as imported coal	<b>Negative:</b> Will increase the power and fuel costs for cement companies

Source: Kotak Institutional Equities estimates

## Budget impact on sectors at a glance

Sector	Net impact	Proposals	Implications
<b>Consumers</b>			
	↓	Excise duty increased to 10% from 8%	<b>Neutral:</b> Impacts Asian Paints, GSK Consumer, HUL. However, they are likely to pass this on. Minimal impact on Colgate, Dabur, GCPL, Nestle as they mostly manufacture in tax-free zones
		About 15% increase in excise on cigarettes	<b>Negative:</b> A price increase of ~8% would be required to pass on higher excise. Looks negative at the outset (if VAT also is increased to 20%). However, we believe there is room for pricing increases
		MAT rate increased to 19.9% from 17%	<b>Negative:</b> About 3% impact on Dabur and GCPL FY2011E EPS
		Effective reduction in personal income tax	<b>Positive:</b> Beneficiaries include retail businesses, notably Titan
<b>Energy</b>			
	↓	Provision of Rs150 bn as government contribution towards under-recoveries for FY2010E	<b>Negative:</b> Potentially higher subsidy burden to be borne by upstream and downstream companies
		Increase in customs duty on crude oil to 5.15% versus nil previously	<b>Positive:</b> Higher realization for upstream companies
		Increase in customs duty on petroleum products by 5.15% except LPG, naphtha, kerosene and ATF	<b>Negative:</b> Lower refining margins due to lower tariff protection (0.5% from 2.4% previously)
		Price hike of Rs2.71/liter on petrol and Rs2.55/liter on diesel	<b>Positive:</b> Higher marketing margins to result in lower subsidy burden
		Hike of Rs1/liter in excise duty on petrol and gasoline	<b>Negative:</b> Higher under-recoveries due to lower marketing margins
		Higher MAT rate at 18% versus 15% previously	<b>Negative:</b> Negative for RIL
<b>Industrials</b>			
	↔	Strong outlay on infrastructure of Rs1.73 tn; about 46% of the total planned allocation; Increased allocations to roads (NHAI: Rs199 bn, up 13%), power (Rs51.3 bn), railways (Rs167 bn, up Rs9.5 bn), APDRP	<b>Positive:</b> (1) Higher allocations to APDRP would boost ordering activity, thereby increasing demand for T&D equipment - positive for T&D players such as Crompton, Siemens, ABB (2) Strong road sector allocations would lead to higher award of projects - positive for IRB Infra, L&T, GMR Infra, IVRCL etc.
		IIFCL refinancing of infrastructure related loans of banks to double next year (based on 'take-out financing' scheme introduced earlier)	<b>Moderate positive:</b> Would partially help alleviate financing difficulties faced by infrastructure projects. Likely to increase the number of projects achieving financial closure
		Higher allocations to new and renewable energy projects to Rs10 bn from Rs6.2 bn earlier; lower customs duties for several import components used in rotor blades	<b>Positive:</b> Wind equipment manufacturers like Suzlon to benefit; higher allocation could help boost domestic equipment demand
		Increase in MAT rate to 19.9% of book profits from 17% earlier	<b>Negative:</b> Most companies to be impacted by higher tax rate
		Increase in excise duty to 10% from 8% earlier	<b>Negative:</b> Equipment manufacturers like BHEL and L&T to be impacted
<b>Media</b>			
	↑	Expansion in tax slabs to result in reduction in personal income tax levels	<b>Positive:</b> Greater spending ability with consumers to benefit consumer-discretionary and derivative sectors such as media; positive for advertising spends of broadcasting and print players such as ZEE, SUNTV, JAGP, DBCL and HMVL
		Lower-than-expected increase in excise duty on goods and no change in service tax rate likely to magnify the purchasing power of consumers	<b>Positive:</b> Greater purchasing power positive for advertising spends and thus, for leading broadcasting and print players as given above
		Reduction in basic customs duty on digital head-ends to 5% from 10%	<b>Positive:</b> Moderate reduction in capital expenditure required for execution of digital strategy and expansion; positive for C&S distribution players like DEN

Source: Kotak Institutional Equities estimates

## Budget impact on sectors at a glance

Sector	Net impact	Proposals	Implications
Metals	↓	Increase in excise duty to 10% from 8% earlier	<b>Neutral:</b> Companies will likely pass on the hike in excise by raising prices. We believe metal companies will be able to pass on the price hike to customers
		Rs50-100/ton cess imposed on Indian and imported coal	<b>Negative:</b> Marginal increase in the cost of production for metal companies
Pharmaceuticals	↔	Increase in weighted deduction of expenditure on in-house R&D to 200% from 150% earlier	<b>Selectively positive:</b> Favorable impact on tax for companies conducting in-house R&D
		Anomaly in computing SEZ tax exemption now corrected with retrospective effect from FY2006 as opposed to FY2010 earlier	<b>Positive:</b> Companies such as Divis which had provided for shortfall in tax paid for FY2009 in 1QFY10 will now reverse the charge
		Excise duty on finished dosage products retained at 4%	<b>Positive:</b> Favorable given status quo in pricing of drugs
		Increase in MAT rate to 18% from 15%	<b>Negative:</b> Increase in effective tax rate for companies paying MAT rate
		Increase in excise duty on APIs to 10% from 8%	<b>Selectively negative:</b> May lead to increase in raw material costs for companies situated in excise free zones buying/utilizing APIs from non-excise free zones
Real estate	↓	Levy of service tax on the sale of under-construction buildings	<b>Neutral-Negative:</b> We await more clarity on this proposal. Affordability will reduce to the extent customers have to bear service tax, affecting demand. If companies pay, it will affect their margins. We need further clarity on whether this service tax is to be paid by the buyer or is for the services between the builder and contractor
		Tax benefits under Section 80-IB(10) extended (from existing 4 years) to 5 years from the end of the financial year in which the housing project was approved	<b>Positive:</b> Would benefit developers like Unitech with projects under execution, which have been approved post March 2005 and pre March 2008.
		Lower income tax rates and change in income tax slabs	<b>Positive:</b> Higher disposable income would result in higher demand for housing
		Increase in MAT tax rate to 18% from 15%	<b>Moderate negative:</b> Most companies were coming out of MAT in FY2011E as proportion of profits exempt under Section 80-IB reduced
		Increase in allocation of funds to Rajiv Awas Yojna (RAY) to Rs12.7 bn for FY2011E from Rs1.5 bn in FY2010. The scheme is for slum dwellers and urban poor which was announced last year to extend support to States that are willing to provide property rights to slum dwellers	<b>Positive:</b> This will benefit developers as it provides more growth opportunities in slum rehabilitation projects
		Imposition of service tax on certain additional services provided by a builder to prospective buyers - such as providing preferential location or external or internal development of complexes on extra charges. However, the service of providing vehicle-parking space would not be subjected to tax	<b>Marginally negative:</b> This will result in higher unit cost for the customers to the extent of service tax on cost of additional services (<5% of the total cost) provided by the builder

Source: Kotak Institutional Equities estimates

## Budget impact on sectors at a glance

Sector	Net impact	Proposals	Implications
<b>Technology</b>	↓	Increase in MAT rate to 19.9% from 17%	<b>Moderate negative:</b> Higher cash tax outflow, but only for FY2011E as these companies will all move out of STPI tax exemption and hence, beyond MAT rate after FY2011E; creation of MAT credit entitlement asset will mean little impact on ETR and earnings
		Clarification on SEZ taxation: 100% tax exemption available on 100% of SEZ profits (and not in the proportion of SEZ profits to total profits) with retrospective effect from FY2007 instead of from FY2010 as per last year's budget	<b>Positive:</b> Companies that had interpreted the clause conservatively to benefit; Infosys the prime beneficiary, in our view
<b>Telecom</b>	↓	Increase in MAT rate to 18% from 15%	<b>Negative:</b> Higher cash tax outflow; creation of MAT credit entitlement asset implies little impact on ETR and earnings
<b>Utilities</b>	↓	Increase in MAT rate to 19.9% from 17%	<b>Neutral:</b> Higher tax incidence will be reimbursed under the cost-plus tariff mechanism and under the 'Change of Law' clause for competitively-bid tariffs but will have to be borne by the generation company under merchant sale of power
		Green coal cess of Rs50-100/ton on use of domestic as well as imported coal	<b>Neutral:</b> This increase in coal cost will also be reimbursed under the cost-plus tariff mechanism and under 'Change of Law' clause for competitively-bid tariffs. As with higher costs due to increased MAT rate, the differential will have to be borne by the generation company under merchant sale of power
		Allocation for power sector increased to Rs51 bn from Rs22 bn in the previous year	<b>Positive:</b> Higher investment will help augment transmission and distribution infrastructure

Source: Kotak Institutional Equities

Exhibit 2: Companies from our universe most impacted by the budget

Companies	Industry	Net impact	Key positives	Key negatives
ITC	Consumer	Negative	Introduction of new tax slab will facilitate the launch of filter cigarette of <59 mm	15% increase in excise duty would require ~8% price increase. Cigarette volume growth could be impacted adversely
DEN	C&S distribution	Positive	Reduction in basic customs duty on digital headends to 5% from 10%	Lower-than-expected capex for digitalization
BPCL, HPCL, IOCL	Energy	Negative	Price hike of Rs2.71/liter on petrol and Rs2.55/liter on diesel	(1) Significantly lower-than-expected compensation from the government increases risk of higher-than-expected burden on downstream companies, (2) lack of a roadmap for deregulation of pricing of petroleum products, (3) increase in customs duty on crude oil to 5.15% versus nil previously and (4) hike of Rs1/liter in excise duty on petrol and gasoline
Cairn India	Energy	Positive	Increase in custom duty on crude oil to 5.15% from nil previously; positive for realization but impact will depend on price negotiation; current pricing mechanism does not include import tariffs	Higher realization on crude oil a positive
ONGC, OIL	Energy	Negative	Increase in custom duty on crude oil to 5.15% from nil previously	Lower-than-expected provision of Rs150 bn as government contribution towards under-recoveries for FY2010E could result in potentially higher-than-expected burden on upstream companies
RIL	Energy	Negative		Lower tariff protection and higher MAT rate at 19.9% versus 17% previously
Infosys	Technology	Positive	Clarification on SEZ taxation: 100% tax exemption to become available on 100% of SEZ profits (and not in the proportion of SEZ profits to total profits) with retrospective effect from FY2007 instead of beginning from FY2010 as stated in last year's budget; positive for companies that had interpreted the clause conservatively; Infosys is the prime beneficiary, in our view	
RCOM, Bharti	Telecom	Negative	Increase in MAT rate to 19.9% from 17% implies higher cash tax outflow, however, the MAT credit entitlement asset would blunt any impact on ETR and earnings	
JSPL	Utilities	Negative		Higher tax incidence on account of the increase in MAT and the new green cess on coal will have to be borne by the generating company, impacting long-term profitability under merchant sale

Source: Kotak Institutional Equities estimates

Exhibit 3 gives the major changes to direct taxation (individual and corporate tax) while Exhibit 4 presents the major changes to indirect taxation (customs, excise and service tax).

**Exhibit 3: Significant savings in personal income tax are positive but higher MAT to hurt some companies**

Proposed income tax rates and slabs for individuals and companies (including proposed DTC), March fiscal year-ends, 2010-12E

	Existing (2010)	Revised (2011)	Proposed (2012, DTC)
<b>Individual income tax</b>			
Individual tax rates	Total income <=Rs1,60,000: Nil	Total income <=Rs1,60,000: Nil	Total income <=Rs1,60,000: Nil
	> 1,60,000 <= 3,00,000: 10%	> 1,60,000 <= 5,00,000: 10%	> 1,60,000 <= 10,00,000: 10%
	> 3,00,000 <= 5,00,000: 20%	> 5,00,000 <= 8,00,000: 20%	> 10,00,000 <= 25,00,000: 20%
	>5,00,000: 30%	> 8,00,000: 30%	>25,00,000: 30%
Education cess	3%	3%	NA
Exemption limit	1,00,000	1,20,000 (a)	3,00,000
<b>Corporate income tax</b>			
Tax rates	30%	30%	25%
Surcharge rate	10%	7.5%	NA
Education cess	3%	3%	NA
Minimum Alternative Tax	16.99% of book profits	19.93% of book profits	2% of value of gross assets (b)
<b>Capital markets</b>			
STT	Applicable	Applicable	Abolished
Capital gains tax	STCG taxed at 10%; LTCG: Nil	STCG taxed at 10%; LTCG: Nil	Differentiation between STCG and LTCG abolished; LTCG would now be taxed at applicable tax slab rates
<b>Other incentives</b>			
R&D weighted deduction	150% of expenditure	200% of expenditure	NA
Outsourced R&D (c)	125% of expenditure	175% of expenditure	NA

Note:

(a) Additional exemption of Rs20,000 for investment in infrastructure bonds.

(b) 0.25% in case of banking companies.

(c) Outsourced to an approved university or scientific research association.

Source: Ministry of Finance, Kotak Institutional Equities



**Exhibit 4: Higher tax rates and expansion in coverage list signals withdrawal of fiscal stimulus**  
Proposed indirect tax rates on major goods and services, March fiscal year-ends, 2010-11 (%)

	Existing (2010)	Revised (2011)	Comments
<b>Excise duty</b>			
Standard rate	8%	10%	
Cigarettes under 60 mm in length	Rs819	Rs669	Specific duty per thousand
Cigarettes over 60 mm in length	Rs819-Rs2,163	Rs969-Rs2,363	Specific duty; 9-18% increase
Chewing or branded tobacco	42%-50%	50%-60%	
Smoking or manufactured tobacco	8%	10%	
Cement	8%	10%	
Petrol/Diesel	Rs3.60-Rs14.50	Rs4.60-Rs15.50	Increase of Rs1 per liter
Clean Energy Cess	Rs0	Rs50-100	On coal, lignite and peat; pending clarification
Serially-numbered gold bars	8%	Rs280	Per 10 grams
Specified IT products	0%	4%	Microprocessors and plugged-in devices
Capital goods for mega power plants	8%	0%	Tariff-based competitive bidding
Wind electricity	8%	0%	Rotor blades
Electric automobiles	8%	4%	
Large cars and SUVs	20%	22%	Ad-valorem component
<b>Customs duty</b>			
Crude petroleum	0%	5%	
Petrol/Diesel	2.5%	7.5%	
Petroleum products	5%	10%	
Serially-numbered gold bars	Rs200	Rs300	Per 10 grams
Gold/Silver	Rs500-Rs1,000	Rs1,000-Rs1,500	Increase of Rs500
Pre-packaged goods or goods for retail	4%	0%	Additional duty of customs; mobiles, watches
Food and Agro-processing	7.5%-10%	5%	Cold storage, truck refrigeration etc.
Mono-rail projects	10%	5%	
Electric automobile parts	10%	0%	Electric motors, Motor controllers etc.
Solar power equipment	10%	5%	
Digital head-ends	10%/4%	5%/0%	Basic customs duty and special additional duty
<b>Service tax</b>			
Standard rate	10%	10%	Unchanged
Port services	0%	10%	
Coaching centre	0%	10%	
Property sale	0%	10%	
Air travel	0%	10%	
Property rental	0%	10%	
Sponsorship or promotion	0%	10%	
Health check-up	0%	10%	
Electricity trading	0%	10%	
Copyright sale	0%	10%	

Source: Ministry of Finance, Kotak Institutional Equities

## ECONOMY: FISCAL CORRECTION BEGINS

The FY2011 Union Budget has rightly begun the process of fiscal correction and targets a GFD/GDP ratio of 5.5% for FY2011E after 6.9% in FY2010E. It has targeted strong growth in revenues (+18.2% over FY2010E revenues to Rs6.82 tn) driven by (1) higher gross tax revenues (+17.9% yoy to Rs7.47 tn before adjusting for share of states), (2) 3G license receipts of Rs360 bn and (3) divestment target of Rs400 bn. On the expenditure side, the budget attempts to control subsidies through (1) its recently-announced increase in urea prices and (2) no additional provisions for fuel subsidies. The latter raises questions about the eventual subsidy amount and GFD for FY2011E.

### Process of fiscal correction begins—and about time

The FY2011 Union Budget was largely in line with our expectations and the government's target of 5.5% GFD/GDP ratio for FY2011E. The FY2011E GFD/GDP figure of 5.5% shows a marked improvement in its fiscal position compared to 6.9% in FY2010E and 6.0% in FY2009. However, in absolute terms, the quantum of fiscal deficit is Rs3.81 tn, marginally lower than Rs4.14 tn in FY2010E but ahead of Rs3.37 tn in FY2009. The government has also announced a medium-term target of 4.8% for FY2012 and 4.1% for FY2013. We believe the government is committed to fiscal consolidation now after two years of a higher-than-expected fiscal deficit, which was driven by the need to provide fiscal stimulus to the Indian economy following the global credit crisis in late 2008. Exhibit 5 presents the major budgetary items for FY2011E and for the past two years.

We estimate the combined central and states' fiscal deficit (including off-budget items) at 8.8% in FY2011E. This is meaningfully lower than the consolidated GFD/GDP ratio of 10.6% in FY2010E and FY2009. However, we caution that the government may have to provide more if it decides to compensate for the under-recoveries of the downstream oil companies. The government has provided for only Rs150 bn so far, of our estimated Rs490 bn of total under-recoveries on auto and cooking fuels in FY2010E. Also, the government may have to provide more for under-recoveries in FY2011E if (1) global oil prices increase significantly from FY2010E levels of US\$68/bbl and (2) the government is unable to raise the price of auto and cooking fuels and/or deregulate the oil sector. Exhibit 6 shows the consolidated GFD/GDP for the country broken down between central government, state governments and off-budget items.

We see the gains from fiscal consolidation in this budget as outweighing the loss from the budget's near-term inflationary potential arising from tax increases. We also see this as one of the key drivers in sustaining capital inflows to India. The long-term inflationary potential of large fiscal deficits may not be highly visible, but it is nevertheless significant.

Exhibit 5: Government delivers fiscal consolidation path; execution holds the key  
Major budgetary items of the central government, March fiscal year-ends, 2009A-2011BE (Rs bn)

	2009A	2010BE	2010RE	2011BE	Change (%)	
					2010RE/ 20109BE	2011BE(I)/ 2010RE
Receipts						
1. Revenue receipts (2 + 3)	5,403	6,145	5,773	6,822	(6)	18
2. Gross tax revenue (a + b )	6,053	6,411	6,331	7,467	(1)	18
2.a. Direct taxes	3,359	3,716	3,886	4,317	5	11
DTC additionality						
2.a.1. Corporation tax	2,134	2,567	2,551	3,013	(1)	18
2.a.2. Income tax	1,206	1,129	1,314	1,281	16	(3)
2.a.3. Other taxes	19	20	21	23	5	6
2.b. Indirect taxes	2,694	2,695	2,445	3,150	(9)	29
CGST/IGST additionality						
2.b.1. Customs duty	999	980	845	1,150	(14)	36
2.b.2. Excise duty	1,086	1,065	1,020	1,320	(4)	29
2.b.3. Service tax	609	650	580	680	(11)	17
(2.c) Transfers to States and UTs	1,620	1,669	1,680	2,126	1	27
o/w: GST compensations/transfers						
2.d Net tax revenue	4,433	4,742	4,651	5,341	(2)	15
3. Non-tax revenue	969	1,403	1,122	1,481	(20)	32
4. Capital receipts (4a + 4b + 4c)	3,437	4,063	4,443	4,265	9	(4)
4.a Recovery of loans	61	42	43	51	1	21
4.b Other receipts (Disinvestments)	6	11	260	400	2,218	54
4.c Borrowings and other liabilities	3,370	4,010	4,140	3,814	3	(8)
4.c.1 Net market borrowing	2,336	3,980	3,984	3,450	0	(13)
5. Total receipts (1 + 4)	8,840	10,208	10,215	11,087	0	9
Expenditures						
11. Non-plan expenditure (12 + 13)	6,087	6,957	7,064	7,361	2	4
12. Non-plan revenue expenditure	5,590	6,188	6,419	6,436	4	0
12.a. Interest payments	1,922	2,255	2,195	2,487	(3)	13
12.b. Subsidies	1,297	1,113	1,310	1,162	18	(11)
12.b.1. Food	438	525	560	556	7	(1)
12.b.2. Fertilizer	766	500	530	500	6	(6)
12.b.3. Others (incl. on-budget oil)	94	88	220	107	150	(52)
12.c. Grants to States and UTs	384	486	466	460	(4)	(1)
12.d. Others	2,014	2,335	2,448	2,327	5	(5)
13. Non-plan capital exp.	497	769	644	925	(16)	44
14. Plan expenditure (15 + 16)	2,752	3,251	3,152	3,731	(3)	18
15. Plan revenue expenditure	2,348	2,784	2,644	3,151	(5)	19
16. Plan capital expenditure	405	468	508	580	9	14
17. Total expenditure (11 + 14)	8,840	10,208	10,215	11,087		
18. Revenue expenditure	7,938	8,972	9,064	9,587	1	6
19. Capital expenditure	975	1,236	1,152	1,505	(7)	31
Deficit						
Primary Deficit (PD)	1,448	1,755	1,945	1,327	11	(32)
Revenue Deficit (RD)	2,535	2,827	3,291	2,765	16	(16)
Gross fiscal deficit (GFD)	3,370	4,010	4,140	3,814	3	(8)
GDP FY2000 base	53,218	58,566	59,604	67,054	2	13
PD/GDP (%)	2.5	3.0	3.3	2.0	9	(39)
RD/GDP (%)	4.5	4.8	5.5	4.1	14	(25)
GFD/GDP (%)	6.1	6.8	6.9	5.7	1	(18)
GDP FY2005 base	55,744	61,642	61,642	69,347	0	12
PD/GDP (%)	2.5	3.0	3.2	1.9	5	(39)
RD/GDP (%)	4.5	4.8	5.3	4.0	11	(25)
GFD/GDP (%)	6.1	6.5	6.7	5.5	3	(18)

Note:

(1) 2009A represents actual government financials for FY2009.

(2) 2010BE represents FY2010 Budget estimates in the final budget presented in July; 2011BE the present budget estimates.

(3) 2012E are KIE estimates; 2012E (a) is KIE estimate with GST and DTC roll out.

Source: Ministry of Finance, Kotak Institutional Equities estimates

**Exhibit 6: Path of rapid fiscal consolidation possible ahead**  
GFD/GDP ratios in India, March fiscal year-ends, 2008-12E (%)

	2008A	2009A	2010BE	2010RE	2011BE	2012E	2012E (a)
Center	2.7	7.9	7.0	7.1	5.5	5.0	4.3
On-budget	2.7	6.1	6.8	6.9	5.5	4.8	4.1
Off-budget	NA	1.8	0.2	0.2	-	0.2	0.2
State	2.3	2.6	3.2	3.5	3.3	2.9	2.3
<b>Total</b>	<b>5.0</b>	<b>10.6</b>	<b>10.6</b>	<b>10.6</b>	<b>8.8</b>	<b>7.9</b>	<b>6.6</b>

Note:

(1) 2008A represents actual government financials for FY2008.

(2) 2009RE represents FY2009 revised estimates.

(3) 2010BE (F) represents FY2010 Budget estimates.

(4) 2010E-2012E are KIE estimates; 2012E (a) are estimates with GST and DTC implementation.

Source: Ministry of Finance, Kotak Institutional Equities estimates

### Net market borrowing of Rs3.45 tn lower than Rs3.98 tn in FY2010

The FY2011 Union Budget targets Rs3.45 tn of net market borrowing of the central government, is marginally lower than our expectations and those of the street. The figure is Rs0.53 tn lower than the likely net borrowing in FY2010E. However, net of OMO purchases and MSS, G-sec issuances in FY2011E could turn out to be higher by Rs1.07 tn versus FY2010E's Rs2.38 tn. This, along with expected monetary tightening, will likely push up the 10-year benchmark G-Sec yields to 8.25% by early FY2011E from the current 7.86%. However, as a base case, we expect the yield in the latter half of FY2011E. The key assumptions in our expected yield movement are:

- ▶ Market borrowing in FY2011E being front-loaded slightly more than usual.
- ▶ State government will likely borrow Rs1.2 tn in FY2011E, similar to FY2010E.
- ▶ In FY2010, RBI released Rs0.85 tn of Market Stabilization Scheme (MSS) bonds and absorbed Rs0.75 tn of securities through open market operations. We do not see a case for either of these extraordinary measures in FY2011E due to (1) the central bank likely pursuing a tighter monetary policy and (2) the central bank may not want to further support the government's fiscal profligacy as per the government's stated commitment to FRBM. It had made an exception in FY2010 in light of the then-prevalent extraordinary circumstances of tight liquidity and near-crisis in the economy in late 2008.
- ▶ There could be significant easing of inflation since 2QFY11E, so that end-FY2011E headline inflation could drop to 5-6%.

### Revenue projections look reasonable; government trying to control expenditure items

The decline in FY2011E GFD figure to Rs3.81 tn from Rs4.14 tn in FY2010E reflects stronger growth in revenues versus expenditure, unlike in FY2010E when expenditure increased sharply while revenues grew more slowly on the back of cuts in excise and service tax rates and the slowdown in the economy. We are heartened by the government's keenness to control expenditure particularly on 'wasteful' expenditure such as subsidies on fertilizer, food and fuel items. However, we believe the government may have to provide additional subsidies on oil if it is unable to increase prices on auto fuels and/or deregulate pricing of auto fuels.

We discuss key items of revenues below.

- ▶ **Revenues set to increase 18% in FY2011E.** The government has built a 18% increase in FY2011E revenues on the back of an 18% increase in tax collection and 15% increase in non-tax revenue. We find the government's revenue projections reasonable in the context of a 12.5% increase in nominal GDP growth. If growth accelerates to 8.5% in FY2011E as projected in the government's Economic Survey, the nominal GDP growth as well as tax collections could surpass the budget estimates.

- **Indirect taxes.** The government targets 29% (+Rs300 bn) growth in excise revenues and 36% growth (+Rs305 bn) in customs revenues in FY2011E. The growth in excise revenues reflects (1) a 2 ppt increase in excise duty rates; this is as per our expectations and that of the street, and (2) additional excise duty of Rs1/liter on diesel and gasoline, which alone would contribute Rs90 bn of additional excise receipts. In a surprise move, the government has re-imposed a 5% import/customs duty on crude oil, which it had lifted in June 2008; this would provide Rs130 bn of additional revenues for the government on a full-year basis—of the Rs300 bn additional customs receipts targeted by the government. Exhibit 7 gives our computation of additional revenues for the government from the changes in taxation of the oil sector announced in the budget.

Exhibit 7: Impact of higher duties on government's finances for FY2011E

Calculation of impact of 5.15% import duty on crude oil and Rs1/liter additional excise duty on diesel and gasoline (Rs bn)

Imported crude oil (mn tons)	104
Crude price (US\$/bbl)	70
Hike in import duty (%)	5.15
<b>Impact of higher import duty on crude oil (A)</b>	<b>126</b>
Consumption of petrol (mn tons)	14
Consumption of diesel (mn tons)	62
Hike in excise duty of petrol and diesel (Rs/liter)	1
<b>Impact of higher excise duty on petrol and diesel (B)</b>	<b>94</b>
<b>Total impact of higher custom and excise duties</b>	<b>220</b>

Source: Industry, Kotak Institutional Equities estimates

- **Corporation tax.** The government has assumed a 18.1% increase in corporation tax, which is below our estimate of 23% increase in earnings for BSE-30 Index and 22% increase in earnings of the KIE Universe (admittedly these are very small samples). The government has made small changes to the corporation tax rates. It has reduced the surcharge to 7.5% from 10% previously; this will result in effective tax rate for Indian companies declining to 33.22% in FY2011 from 33.99% in FY2010. However, it has increased MAT rate to 18% (effective 19.93%) from 15% (16.995%) previously.
- **Income tax.** The FY2011E Union Budget has assumed a 2.5% decline in income tax to Rs1.28 tn (-Rs33.6 bn). The decline reflects that fact that the government has increased the cut-off points for the income tax slabs (see Exhibit 3), which will result in a reduced tax burden for an individual tax payer versus previously.
- **Service tax.** The government has targeted a 17.2% increase in service tax to Rs680 bn by bringing more services under the purview of service tax. It has left the tax rate unchanged at 10% to align with the median rate of excise duty. We see this as an important step to facilitate implementation of GST next year. Some of the new services brought under service tax include (1) port services, (2) air travel, (3) property sale and rental (more clarity is required on the same), (4) health check-ups, (5) electricity trading as well as (6) sponsorships and promotions.
- **Non-taxation receipts.** The government has targeted Rs1.48 tn of non-tax receipts in FY2011E versus Rs1.12 tn in FY2010. It has also targeted capital receipts of Rs400 bn from divestment in FY2011E compared to its target of Rs250 bn in FY2010E. We see this as possible in the context of the government's large holdings in several large blue-chip companies. Exhibit 8 shows the likely divestment proceeds in FY2010E and Exhibit 9 is a hypothetical exercise on the amount the government can raise by selling 5-10% in various government-owned companies. The government has also assumed Rs360 bn from auction of 3G licenses; it has already started the process on February 25, 2010 by inviting applications for participation in a 3G auction. The auction will start on April 9, 2010. Exhibit 10 shows the sharp growth in non-tax revenues of the government in FY2009-FY2011E.

Exhibit 8: The government completed divestment of Rs130 bn in FY2010 so far  
Divestment proceeds to the government of India, March fiscal year-end, 2010 (Rs bn)

Name	Public issue	Offer for sale	Shares (mn)	Issue price (Rs)	Proceeds (Rs bn)	Divestment (Rs bn)
<b>Completed so far in 2010</b>						
NTPC	—	412	412	202	83	83
Oil India	26	21	48	1,050	50	22
NHPC	1,118	559	1,677	36	60	20
Rural Electrification Corp.	129	43	172	105	18	5
United Bank of India	50	—	50	66	3	—
<b>Total completed</b>					<b>215</b>	<b>130</b>
<b>To be completed in 2010 (a)</b>						
NMDC	—	332	332		171	171
<b>Total upcoming</b>					<b>171</b>	<b>171</b>
<b>Total divestment</b>					<b>386</b>	<b>302</b>

Note:

(a) Expected proceeds from divestment.

Source: Prime Database, Kotak Institutional Equities

**Exhibit 9: The Indian government may accelerate divestment of listed public companies**  
Likely receipts from divestment by the government of India (Rs bn)

	Net sales (Rs bn)	Net income (Rs bn)	Market capitalization (Rs bn)	Government stake (%)	Divestment	
					Dilution (%)	Proceeds (Rs bn)
Oil & Natural Gas Corp.	636	161	2,355	74.1	5	118
MMTC	368	1	1,750	99.3	10	175
NTPC	419	82	1,670	89.5	—	—
State Bank of India	638	91	1,239	59.4	—	—
NMDC	76	44	1,923	98.4	—	—
Bharat Heavy Electricals	262	31	1,174	67.7	5	59
Indian Oil Corp.	3,046	29	755	78.9	—	—
Steel Authority of India	431	62	886	85.8	10	89
GAIL India	238	28	521	57.3	5	26
Power Grid Corp.	67	17	452	86.4	10	45
NHPC	27	11	402	86.4	—	—
Punjab National Bank	193	31	281	57.8	—	—
Oil India	72	22	275	78.4	5	14
Power Finance Corp.	66	20	279	89.8	10	28
Hindustan Copper	12	(0)	538	99.6	10	54
National Aluminium	51	13	246	87.2	10	25
Neyveli Lignite Corp.	34	8	256	93.6	10	26
Bank of India	163	30	176	64.5	—	—
Bank of Baroda	151	22	211	53.8	—	—
Bharat Petroleum Corp.	1,352	7	205	54.9	—	—
Rural Electrification Corp.	47	13	191	81.8	—	—
Canara Bank	171	21	158	73.2	—	—
Container Corp.	34	8	161	63.1	5	8
Union Bank of India	119	17	126	55.4	—	—
Bharat Electronics	46	7	165	75.9	5	8
Hindustan Petroleum Corp.	1,248	6	118	51.1	—	—
IDBI Bank	115	9	86	52.7	—	—
Engineers India	15	3	115	90.4	10	11
Indian Bank	68	12	75	80.0	—	—
Oriental Bank of Commerce	89	9	68	51.1	—	—
Indian Overseas Bank	96	13	50	61.2	—	—
Central Bank of India	105	6	67	80.2	—	—
Corporation Bank	61	9	62	57.2	—	—
Allahabad Bank	74	8	60	55.2	—	—
Andhra Bank	54	7	49	51.6	—	—
Shipping Corporation of India	42	9	65	80.1	5	3
HMT Limited	2	(1)	74	98.9	10	7
Syndicate Bank	96	9	44	66.5	—	—
Mahanagar Telephone Nigam	45	2	47	56.3	5	2
BEML	28	3	48	54.0	—	—
Rashtriya Chemicals & Fertilizers	84	2	57	92.5	10	6
Jammu & Kashmir Bank	30	4	30	53.2	—	—
UCO Bank	81	6	32	63.6	—	—
National Fertilizers	51	1	70	97.6	10	7
Vijaya Bank	52	3	22	53.9	—	—
Dena Bank	34	4	23	51.2	—	—
Bank of Maharashtra	43	4	22	76.8	—	—
Dredging Corporation of India	7	—	18	78.6	5	1
Fertilisers & Chemicals Travancore	21	—	23	98.1	10	2
ITI Limited	17	(7)	16	93.0	10	2
India Tourism Development Corp.	4	—	9	92.1	10	1
<b>Total divestment proceeds</b>						<b>716</b>

Source: Prime Database, Kotak Institutional Equities

Exhibit 10: Reliance on non-tax revenues significant in FY2011BE as well  
Trends in non-tax revenues of the government, 2009-2011BE (Rs bn)

	2009RE	2010BE	2010RE	2011BE
<b>1. Interest receipts</b>	<b>207</b>	<b>192</b>	<b>192</b>	<b>193</b>
1.a. States and UTs	119	116	113	106
1.b. Railways	47	55	55	66
1.c. Other receipts	24	21	24	21
<b>2. Dividends and profits</b>	<b>386</b>	<b>498</b>	<b>520</b>	<b>513</b>
2.a. PSEs and others	210	211	229	238
2.b. RBI and banks	176	286	291	275
<b>3. Other non-tax revenues</b>	<b>368</b>	<b>706</b>	<b>399</b>	<b>766</b>
o/w Communications	132	483	138	498
o/w 3G licenses	—	350	—	360
4. UT non-tax revenues	8	8	11	9
<b>Non-tax revenues (1 + 2 + 3 + 4)</b>	<b>969</b>	<b>1,403</b>	<b>1,122</b>	<b>1,481</b>

Source: Ministry of Finance, Kotak Institutional Equities

We discuss the key items of expenditure below.

- **Subsidies.** The government has provided for Rs1.16 tn of subsidies for FY2011E against Rs1.31 tn in FY2010E. The lower figure reflects lower provision for subsidies on oil at Rs31 bn in FY2011E against Rs149 bn in FY2010E. We do not rule out higher subsidies on oil eventually—if the government is not able to address the very difficult issue of under-recoveries. It has provided for Rs32 bn of subsidy payment only on LPG and kerosene in FY2011E against Rs320 bn estimated by us (crude oil price at US\$70/bbl and no further changes in retail selling prices of diesel, gasoline, kerosene and LPG). Exhibit 11 shows that the under-recoveries on selling auto and cooking fuels below market prices is well above the amount provided by the government in the FY2011 Union Budget.

Exhibit 11: Downstream oil companies to bear high subsidy burden in FY2010-11E  
Share of various participants of under-recoveries, March fiscal year-ends, 2006-2011E (Rs bn)

	2007	2008	2009	2010E	2011E
Dated Brent crude oil price (US\$/bbl)	65	82	85	68	70
<b>Gross under-recoveries</b>	<b>521</b>	<b>798</b>	<b>1,061</b>	<b>491</b>	<b>322</b>
<b>Direct budgetary support</b>	<b>27</b>	<b>27</b>	<b>29</b>	<b>30</b>	<b>32</b>
<b>Payment by government (oil bonds/cash)</b>	<b>241</b>	<b>353</b>	<b>713</b>	<b>150</b>	<b>—</b>
Share of BPCL	53	86	162	33	—
Share of HPCL	49	77	147	30	—
Share of IOCL	138	190	404	88	—
<b>Net under-recovery of oil companies</b>	<b>253</b>	<b>418</b>	<b>319</b>	<b>311</b>	<b>290</b>
Share of refining companies	—	—	—	—	—
<b>Share of upstream companies</b>	<b>205</b>	<b>257</b>	<b>329</b>	<b>132</b>	<b>107</b>
Share of ONGC	170	220	282	104	85
Share of GAIL	15	14	18	14	11
Share of Oil India	20	23	29	15	11
<b>Net under-recovery of R&amp;M companies (BPCL, HPCL, IOCL)</b>	<b>48</b>	<b>161</b>	<b>(10)</b>	<b>179</b>	<b>183</b>

Note:

(a) For FY2011E, we assume government paying one-third of the total subsidy loss.

Source: Kotak Institutional Equities estimates



## STRATEGY: CONSOLIDATION FOR SOME MORE TIME

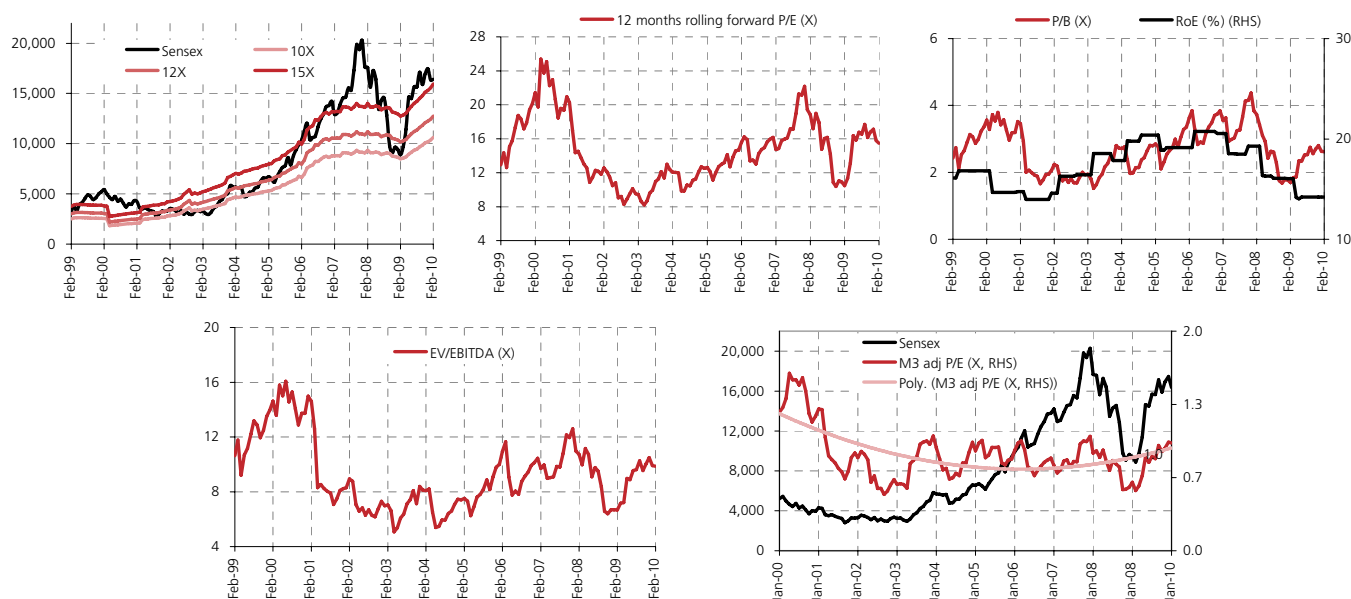
We find the Indian market fairly valued on FY2011E basis at 15X FY2011E 'EPS' but attractively valued on FY2012E basis at 12.6X FY2012E 'EPS'. Several factors may result in the market being range-bound in 1H CY10: (1) A likely 50 bps increase in policy rates in the RBI's April 2010 credit policy, (2) further monetary tightening, (3) lingering concerns about the strength of global economic recovery and (4) fair valuations. However, the market's increasing focus on FY2012E earnings and valuations from 2H CY10 may result in moderate performance in 2H CY10.

### Consolidation in 1H CY10; likely performance in 2H CY10

Exhibit 12 shows that the market (BSE-30 Index) is trading at 15.5X one-year forward earnings, close to the upper end of the historical trading band of 12-16X. We rule out a significant expansion in market multiples given (1) likely increase in policy rates in RBI's April credit policy, (2) further monetary tightening given continued high inflation, (3) lingering concerns about the strength of global economic recovery and (4) limited visibility on earnings upgrades.

**Exhibit 12: 1-year rolling forward P/E of BSE-30 Index is trading at full valuations**

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



Source: BSE, RBI, Kotak Institutional Equities estimates

Exhibit 13 gives valuation and earnings growth broken down by sectors. As can be seen, the market is trading at 15X FY2011E 'EPS' and 15.3X FY2011E 'EPS' on an ex-energy, ex-commodities basis. However, the market is more reasonably valued on FY2012E 'EPS' trading at 12.6X FY2012E 'EPS' and 13.8X FY2012E 'EPS' on an ex-energy, ex-commodities basis.

Exhibit 13: BSE-30 Index is trading at 15X FY2011E and 18.4X FY2010E basis  
Valuation summary of BSE-30 sectors, March fiscal year-ends, 2009-2011E

	Adj. mkt		EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Div. yield (%)		RoE (%)		
	Mkt cap.	cap.																	
	(US\$ mn)	(US\$ mn)	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2009	2010E	2011E
Automobiles	32,098	18,540	(30.8)	109.8	10.5	38.9	18.5	16.8	21.6	11.3	10.0	4.6	3.5	2.9	0.7	0.8	11.9	18.8	17.3
Banking	80,368	60,535	16.7	13.2	18.7	21.3	18.8	15.8	—	—	—	2.7	2.4	2.2	1.2	1.3	12.8	12.9	13.8
Cement	9,122	6,089	(15.0)	32.2	(14.9)	13.0	9.8	11.5	7.0	5.2	5.5	2.5	2.1	1.8	1.8	1.8	19.3	21.1	15.6
Consumers	30,142	18,867	8.6	17.2	19.9	26.0	22.2	18.5	17.2	13.8	11.4	8.3	7.4	6.6	2.4	2.8	32.0	33.4	35.4
Diversified	6,037	3,321	(30.8)	115.0	65.5	66.1	30.7	18.6	22.1	15.0	13.4	4.2	3.4	3.0	0.0	0.0	6.4	11.2	15.9
Energy	113,756	41,328	0.5	0.9	30.3	15.1	15.0	11.5	7.5	6.7	5.2	2.1	1.8	1.6	1.7	1.8	13.6	12.1	14.3
Industrials	45,324	27,076	19.4	27.5	23.7	34.5	27.0	21.9	20.1	15.1	12.3	7.4	5.5	4.5	0.7	0.8	21.6	20.2	20.6
Metals	32,044	18,868	(0.3)	(61.9)	187.9	11.5	30.2	10.5	7.7	10.6	6.2	2.0	1.7	1.5	0.9	0.5	17.1	5.6	14.2
Pharmaceuticals	6,915	2,766	22.3	(31.8)	6.9	17.5	25.7	24.1	13.8	18.6	16.7	4.4	3.9	3.5	0.9	0.9	25.1	15.1	14.4
Property	10,945	2,736	(42.3)	(54.7)	32.1	11.1	24.6	18.6	11.0	15.1	13.1	2.1	2.0	1.8	1.0	1.0	18.8	8.0	9.8
Technology	86,196	41,523	15.9	18.7	17.4	26.8	22.6	19.2	19.6	15.5	12.6	8.1	6.4	5.3	0.8	1.1	30.3	28.3	27.5
Telecom	30,019	10,507	21.6	(14.0)	(17.2)	9.0	10.4	12.6	6.5	6.2	6.5	1.9	1.6	1.4	0.7	0.8	20.9	15.4	11.4
Utilities	47,726	13,194	14.5	13.2	12.5	20.7	18.3	16.3	12.6	11.9	11.1	2.6	2.3	2.1	1.5	1.8	12.4	12.7	13.1
BSE-30	530,692	265,349	3.7	1.5	22.9	18.7	18.4	15.0	10.8	9.8	8.2	3.0	2.6	2.3	1.2	1.3	16.3	14.2	15.5
BSE-30 ex-Energy	416,936	224,021	4.9	1.7	20.2	20.0	19.6	16.3	12.5	11.5	9.7	3.5	3.0	2.6	1.1	1.2	17.5	15.2	16.1
BSE-30 ex-Energy, Com.	375,769	199,064	6.9	10.6	12.6	21.6	19.5	17.3	14.2	12.1	10.8	3.8	3.2	2.8	1.1	1.3	17.5	16.5	16.4

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

Source: BSE, Kotak Institutional Equities estimates

### No changes to earnings post FY2011 Union Budget; some minor changes later

We have not made any changes to our earnings forecasts for FY2011E and FY2012E post the FY2011 Union Budget. However, we expect minor changes to our earnings estimates based on the minor changes to corporate taxes (lower tax rate is a minor positive for most companies but higher MAT rate is a negative for low tax-paying companies). Exhibit 14 tracks changes to our earnings estimates by sector for FY2010E and FY2011E over the past 12 months.

**Exhibit 14: No major upgrades in Index earnings though significant upgrades/downgrades in earnings of various sectors**  
Earnings growth of BSE-30 Index sectors, March fiscal year-end, 2010E-11E (%)

	Earnings growth (%)														Current
	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	
<b>2010E</b>															
Automobiles	(5)	19	21	20	25	31	30	52	54	61	105	97	100	110	110
Banking	5	3	0	0	(1)	(4)	(4)	1	1	12	12	14	13	13	13
Cement	(21)	(22)	(22)	(21)	(21)	(12)	(1)	14	14	14	29	29	29	33	32
Consumers	15	14	14	14	14	12	13	16	16	16	19	19	19	17	17
Diversified	31	33	33	33	33	20	126	124	124	124	100	102	102	115	115
Energy	21	12	7	18	18	7	18	4	7	20	11	10	10	1	1
Industrials	26	29	29	26	29	31	27	30	34	36	31	31	31	28	28
Metals	(19)	(34)	(49)	(46)	(45)	(48)	(48)	(48)	(50)	(50)	(41)	(49)	(49)	(55)	(62)
Pharmaceuticals	NA	49	45	48	48	5	8	(46)	(46)	(46)	(34)	(34)	(34)	(34)	(32)
Property	6	(26)	(24)	(24)	(24)	(45)	(45)	(45)	(50)	(50)	(50)	(51)	(51)	(55)	(55)
Technology	6	5	5	9	6	1	0	7	9	10	13	13	15	19	19
Telecom	23	3	3	(4)	(4)	(1)	(1)	1	3	3	(2)	(19)	(19)	(19)	(14)
Utilities	14	11	18	19	20	19	14	15	18	17	16	14	14	13	13
<b>BSE-30 Index</b>	<b>10.8</b>	<b>3.5</b>	<b>—</b>	<b>3.0</b>	<b>3.2</b>	<b>(1.7)</b>	<b>1.4</b>	<b>0.7</b>	<b>2.0</b>	<b>7.4</b>	<b>6.9</b>	<b>4.0</b>	<b>4.2</b>	<b>1.5</b>	<b>1.5</b>
<b>BSE-30 ex-Energy</b>	<b>6.7</b>	<b>0.1</b>	<b>(2.6)</b>	<b>(2.6)</b>	<b>(2.5)</b>	<b>(5.1)</b>	<b>(4.7)</b>	<b>(0.6)</b>	<b>0.2</b>	<b>2.8</b>	<b>5.3</b>	<b>1.8</b>	<b>2.1</b>	<b>1.8</b>	<b>1.7</b>
<b>2011E</b>															
Automobiles							13	14	7	7	10	9	9	11	10
Banking							17	17	15	15	18	18	18	19	19
Cement							(7)	(7)	(5)	(5)	(17)	(17)	(17)	(15)	(15)
Consumers							14	15	15	15	17	17	17	20	20
Diversified							50	46	70	70	82	84	84	65	65
Energy							29	26	30	31	29	32	32	30	30
Industrials							17	17	17	19	25	26	26	24	24
Metals							55	62	79	79	79	65	92	150	188
Pharmaceuticals							41	30	35	35	13	13	13	13	7
Property							8	7	7	19	18	18	28	32	32
Technology							10	11	12	13	14	13	13	14	17
Telecom							11	11	11	12	12	(11)	(9)	(13)	(17)
Utilities							12	12	12	12	11	11	11	12	12
<b>BSE-30 Index</b>							<b>20.7</b>	<b>19.9</b>	<b>21.0</b>	<b>21.7</b>	<b>22.0</b>	<b>19.9</b>	<b>21.1</b>	<b>21.2</b>	<b>22.9</b>
<b>BSE-30 ex-Energy</b>							<b>16.9</b>	<b>17.2</b>	<b>17.5</b>	<b>18.1</b>	<b>19.1</b>	<b>15.5</b>	<b>17.0</b>	<b>17.1</b>	<b>20.2</b>

Source: BSE, Kotak Institutional Equities estimates

#### Exhibit 15 gives the breakdown of the net profit of the BSE-30 Index by sectors.

We note that the energy and metals sectors will contribute a significant portion of the growth in net profits of the BSE-30 Index in FY2011E and FY2012E. We are sanguine about our earnings forecasts for FY2011E and FY2012E as (1) we expect growth in volumes to drive revenues and earnings, particularly in the case of automobiles, energy (RIL), IT and metals sectors (Hindalco, Sterlite and Tata Steel) and (2) we model modest improvement in prices and profitability/margins; in a few cases, automobiles in particular, we model a decline in EBITDA margins.

**Exhibit 15: Scope for upside surprises may be limited in FY2011E given our 23% earnings growth**

Break-up of earnings of BSE-30 Index across sectors, March fiscal year-ends, 2008-12E

	Net Profit (Rs bn)					Contribution (%)					2010E		2011E		2012E	
	2008	2009	2010E	2011E	2012E	2008	2009	2010E	2011E	2012E	(Rs bn)	(%)	(Rs bn)	(%)	(Rs bn)	(%)
Automobiles	55	38	80	88	98	4	3	6	5	5	42	219	8	3	10	3
Banking	149	174	197	234	280	12	13	15	14	14	23	121	37	12	46	15
Cement	38	32	43	37	41	3	2	3	2	2	10	55	(6)	(2)	5	2
Consumers	49	53	63	75	85	4	4	5	5	4	9	48	12	4	10	3
Diversified	6	4	9	15	21	0	0	1	1	1	5	25	6	2	6	2
<b>Energy</b>	<b>346</b>	<b>347</b>	<b>350</b>	<b>457</b>	<b>552</b>	<b>27</b>	<b>26</b>	<b>26</b>	<b>28</b>	<b>28</b>	<b>3</b>	<b>16</b>	<b>106</b>	<b>35</b>	<b>95</b>	<b>31</b>
Reliance Industries	147	153	158	226	267	12	12	12	14	14	5	24	68	22	42	13
Industrials	51	61	77	96	114	4	5	6	6	6	17	87	18	6	19	6
Metals	129	128	49	141	166	10	10	4	9	9	(80)	(417)	92	30	25	8
Pharmaceuticals	15	18	12	13	16	1	1	1	1	1	(6)	(30)	1	0	3	1
Property	79	45	21	27	38	6	3	2	2	2	(25)	(130)	7	2	11	3
Technology	128	148	176	207	238	10	11	13	13	12	28	145	31	10	32	10
Telecom	127	154	133	110	132	10	12	10	7	7	(22)	(113)	(23)	(8)	22	7
Utilities	93	106	120	135	164	7	8	9	8	8	14	73	15	5	28	9
<b>BSE-30</b>	<b>1,264</b>	<b>1,311</b>	<b>1,330</b>	<b>1,634</b>	<b>1,945</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>19</b>	<b>100</b>	<b>304</b>	<b>100</b>	<b>312</b>	<b>100</b>
<b>BSE-30 change (%)</b>		<b>3.7</b>	<b>1.5</b>	<b>22.9</b>	<b>19.1</b>											
<b>BSE-30 ex-energy change (%)</b>		<b>4.9</b>	<b>1.7</b>	<b>20.2</b>	<b>18.4</b>											

Source: Company, Kotak Institutional Equities estimates

However, we see downside risks to earnings from unfavorable developments in taxation. We highlight (1) the IT sector, where the government may not extend income tax exemption on units located in software technology parks beyond FY2011; the benefit is currently available until March 31, 2011; however, we note that the larger companies have shifted their units to tax-free SEZs, (2) companies availing Section 80-IA or 80-IB benefits, which expire on March 31, 2011; we expect capex-related exemption to replace Section 80-IA/IB benefits and thus, the impact would be marginal and (3) RIL, where income tax exemption may not be available for production of gas in NELP-I-VII blocks; the latter may impact RIL's FY2011E EPS by Rs9 (13.1%) and FY2012E EPS by Rs11 (13.5%). However, we note that the Draft Direct Tax Code treats natural gas on par with crude oil and thus, income tax exemption may be available for natural gas production eventually.

### No major change in Model Portfolio; Top-10 List unchanged

Exhibit 16 gives our Model Portfolio with minor modifications and Exhibit 17 gives our unchanged Top-10 List. We continue to be overweight on banking (both private and public banks), consumer (positive bias towards ITC), industrials/infrastructure, metals, IT and utilities. Our stock picks are based on visibility of volume growth in FY2011E and FY2012E rather than an aggressive view of improving pricing and margins; the latter is more difficult to forecast in the current uncertain environment.

**Exhibit 16: We are overweight on Banking, Consumers, Industrials and Technology**  
Kotak Institutional Equities Model Portfolio

Company	26-Feb Price (Rs)	Rating	Weightage (%)		Diff. (bps)
			BSE-30	KS reco.	
Hero Honda	1,778	REDUCE	1.5	—	(145)
Mahindra & Mahindra	1,008	ADD	1.8	2.3	50
Maruti Suzuki	1,460	REDUCE	1.7	1.2	(50)
Tata Motors	711	ADD	2.0	—	(199)
<b>Automobiles</b>			<b>7.0</b>	<b>3.5</b>	<b>(344)</b>
Bank of Baroda	584	BUY	—	1.5	150
Punjab National Bank	901	BUY	—	1.0	100
State Bank of India	1,974	BUY	4.6	4.6	—
Union Bank	256	BUY	—	1.0	100
<b>PSU Banking</b>			<b>4.6</b>	<b>8.1</b>	<b>350</b>
HDFC	2,500	ADD	5.2	5.2	—
HDFC Bank	1,705	BUY	5.0	6.5	150
ICICI Bank	872	ADD	7.9	7.9	—
<b>Pvt. Banking/Financing</b>			<b>18.2</b>	<b>19.7</b>	<b>150</b>
ACC	923	REDUCE	0.8	—	(78)
Grasim Industries	2,696	REDUCE	1.5	—	(152)
Jaiprakash Associates	132	BUY	1.3	2.8	150
<b>Cement</b>			<b>3.5</b>	<b>2.8</b>	<b>(79)</b>
Hindustan Unilever	236	BUY	2.1	2.6	50
ITC	232	BUY	5.0	6.5	150
<b>Consumers</b>			<b>7.1</b>	<b>9.1</b>	<b>200</b>
Oil & Natural Gas Corporation	1,118	REDUCE	3.9	2.9	(100)
Reliance Industries	979	SELL	11.7	6.2	(545)
<b>Energy</b>			<b>15.6</b>	<b>9.1</b>	<b>(645)</b>
Bharat Heavy Electricals	2,349	ADD	3.3	3.3	—
IVRCL	322	BUY	—	1.0	100
Larsen & Toubro	1,564	BUY	6.9	7.9	100
Nagarjuna Construction Co.	155	BUY	—	1.0	100
<b>Industrials/Construction</b>			<b>10.2</b>	<b>13.2</b>	<b>300</b>
Hindalco Industries	163	ADD	1.8	—	(178)
Sterlite Industries	782	ADD	2.4	3.9	150
Tata Steel	574	BUY	2.9	4.4	150
<b>Metals</b>			<b>7.1</b>	<b>8.3</b>	<b>122</b>
Sun Pharmaceuticals	1,540	ADD	1.0	—	—
<b>Pharmaceuticals</b>			<b>1.0</b>	<b>—</b>	<b>(104)</b>
DLF	298	REDUCE	1.0	—	(103)
<b>Real estate</b>			<b>1.0</b>	<b>—</b>	<b>(103)</b>
Infosys Technologies	2,602	BUY	10.4	11.9	150
TCS	762	BUY	3.7	4.7	100
Wipro	678	ADD	1.6	2.6	100
<b>Technology</b>			<b>15.6</b>	<b>19.1</b>	<b>350</b>
Bharti Airtel	279	REDUCE	3.0	—	(303)
Reliance Communications	158	SELL	0.9	—	(93)
<b>Telecom</b>			<b>4.0</b>	<b>—</b>	<b>(396)</b>
NTPC	203	NR	2.1	1.1	(100)
Reliance Infrastructure	1,003	BUY	1.2	2.7	150
Tata Power	1,213	ADD	1.7	3.2	150
<b>Utilities</b>			<b>5.0</b>	<b>7.0</b>	<b>200</b>
<b>BSE-30</b>	<b>16,430</b>		<b>100.0</b>	<b>100.0</b>	<b>—</b>

Note:

(a) Weights are with respect to February 26, 2010 prices.

Source: Company, Kotak Institutional Equities estimates

Exhibit 17: We include Sterlite Industries, Tata Steel and HDFC Bank in Top-10 list  
Kotak Institutional Equities Top-10 List

Companies	Sector	Rating	Mkt cap.	CMP	Target	EPS (Rs)			P/E (X)			EV/EBDITA (X)		
			(US\$ mn)	(Rs)	(Rs)	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E
ITC	Consumer products	BUY	18,979	232	300	8.7	10.7	13.0	26.8	21.8	17.9	16.4	13.1	11.0
HDFC Bank	Banking	BUY	16,711	1,705	1,800	52.8	64.8	84.4	32.3	26.3	20.2	—	—	—
Tata Steel	Metals	BUY	11,052	574	700	110.1	3.2	78.7	5.2	177.4	7.3	5.7	18.5	6.2
Sterlite Industries	Metals	ADD	14,251	782	850	46.8	44.9	54.2	16.7	17.4	14.4	12.3	9.5	7.2
Jaiprakash Associates	Diversified	BUY	6,037	132	170	2.0	4.3	7.1	66.1	30.7	18.6	25.5	16.0	14.0
Infosys Technologies	Technology	BUY	32,386	2,602	3,000	102.4	108.5	124.2	25.4	24.0	21.0	19.2	16.9	13.7
Reliance Infrastructure	Utilities	BUY	4,927	1,003	1,250	62.7	63.7	68.6	16.0	15.8	14.6	20.0	18.5	14.8
Tata Power	Utilities	ADD	6,493	1,213	1,485	50.2	57.9	71.9	24.2	21.0	16.9	11.6	13.2	12.1
Larsen & Toubro	Industrials	BUY	20,386	1,564	1,700	50.1	53.7	64.5	31.2	29.1	24.2	20.1	16.0	13.7
<b>PSU bank basket</b>														
Bank of Baroda	Banking	BUY	4,625	584	650	60.9	75.0	77.2	9.6	7.8	7.6	—	—	—
Punjab National Bank	Banking	BUY	6,160	901	1,020	98.0	116.3	129.1	9.2	7.7	7.0	—	—	—
Union Bank	Banking	BUY	2,801	256	310	34.2	37.9	38.7	7.5	6.7	6.6	—	—	—
<b>BSE-30</b>			<b>16,430</b>											

Source: Company, Kotak Institutional Equities estimates

Source: Company, Kotak Institutional Equities estimates

26-Feb-10			Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price		
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)	Upside (%)	ADVT-3mo (US\$ mn)
Automobiles																													
Ashok Leyland	50	ADD	66,051	1,432	1,330	1.5	3.1	3.9	(57.8)	105.8	24.5	32.5	15.8	12.7	17.8	10.7	8.3	1.8	1.6	1.5	2.0	2.0	2.0	6.2	12.1	12.4	55	10.8	4.8
Bajaj Auto	1,818	BUY	262,984	5,703	145	45.2	110.0	133.6	(13.4)	143.1	21.5	40.2	16.5	13.6	21.1	10.2	9.0	14.0	8.5	5.6	1.1	1.1	1.1	37.7	63.7	49.3	1,875	3.2	12.1
Hero Honda	1,778	REDUCE	354,997	7,698	200	64.2	107.4	116.0	32.4	67.3	8.0	27.7	16.6	15.3	16.6	10.3	9.0	9.0	6.4	4.8	1.1	1.2	1.2	36.4	45.1	35.8	1,625	(8.6)	18.4
Mahindra & Mahindra	1,008	ADD	297,027	6,441	295	30.0	64.4	72.7	(19.8)	114.5	12.8	33.6	15.6	13.9	23.6	10.2	9.2	5.6	3.8	3.0	0.9	0.9	0.9	17.4	29.9	23.9	1,230	22.1	23.8
Maruti Suzuki	1,460	REDUCE	421,926	9,149	289	42.2	85.1	90.3	(29.6)	101.7	6.1	34.6	17.2	16.2	20.8	9.7	8.8	4.4	3.5	2.9	0.2	0.3	0.3	13.5	23.0	19.8	1,350	(7.5)	24.8
Tata Motors	711	ADD	406,279	8,810	571	10.0	26.2	30.1	(78.2)	161.0	15.0	71.0	27.2	23.6	25.8	14.1	12.4	3.1	2.4	2.1	0.8	0.8	0.8	9.1	14.4	11.6	810	13.9	63.4
Automobiles			Cautious	1,809,263	39,233				(30.7)	114.3	12.8	38.8	18.1	16.0	21.3	11.1	9.8	4.8	3.6	3.0	0.8	0.9	0.9	12.4	20.2	18.8			
Banks/Financial Institutions																													
Andhra Bank	99	BUY	48,039	1,042	485	13.5	19.4	14.7	13.5	44.1	(24.4)	7.4	5.1	6.7	—	—	—	1.3	1.1	1.0	4.5	3.9	3.0	18.9	23.5	15.3	125	26.2	3.1
Axis Bank	1,125	ADD	427,318	9,266	380	50.6	63.3	74.5	56.9	25.1	17.7	22.2	17.8	15.1	—	—	—	4.2	2.7	2.3	0.8	1.1	1.4	19.1	18.4	17.5	1,160	3.2	45.8
Bank of Baroda	584	BUY	213,304	4,625	366	60.9	75.0	77.2	55.1	23.1	2.9	9.6	7.8	7.6	—	—	—	1.9	1.6	1.3	1.5	1.9	2.0	21.4	22.0	19.1	650	11.4	11.5
Bank of India	333	REDUCE	175,314	3,802	526	57.2	38.9	47.8	40.7	(32.0)	22.9	5.8	8.6	7.0	—	—	—	1.5	1.3	1.1	2.4	1.6	2.0	29.2	16.2	17.3	360	8.0	5.8
Canara Bank	393	ADD	161,130	3,494	410	50.5	75.2	69.7	32.4	48.8	(7.3)	7.8	5.2	5.6	—	—	—	1.6	1.3	1.1	2.0	2.0	2.5	18.8	22.8	17.8	470	19.6	5.6
Corporation Bank	441	BUY	63,206	1,371	143	62.3	71.1	65.0	21.5	14.1	(8.5)	7.1	6.2	6.8	—	—	—	1.3	1.1	1.0	2.8	3.2	3.0	19.6	19.3	15.5	540	22.5	0.5
Federal Bank	258	BUY	44,186	958	171	29.3	30.6	38.0	(14.8)	4.5	24.1	8.8	8.4	6.8	—	—	—	1.0	0.9	0.8	1.9	2.0	2.5	12.1	11.5	13.0	340	31.6	3.2
HDFC	2,500	ADD	711,210	15,422	284	80.2	98.5	115.4	(6.4)	22.7	17.2	31.2	25.4	21.7	—	—	—	5.4	4.9	4.4	1.2	1.4	1.6	18.2	19.7	20.3	2,700	8.0	42.0
HDFC Bank	1,705	BUY	770,670	16,711	452	52.8	64.8	84.4	17.6	22.8	30.2	32.3	26.3	20.2	—	—	—	5.1	3.6	3.2	0.6	0.7	0.9	16.9	16.1	16.7	1,800	5.6	35.1
ICI Bank	872	ADD	970,956	21,055	1,113	33.8	37.3	47.0	(15.4)	10.6	26.0	25.8	23.4	18.5	—	—	—	2.0	1.9	1.8	1.3	1.4	1.8	7.8	8.2	9.8	890	2.0	96.5
IDFC	160	REDUCE	206,726	4,483	1,295	5.8	8.4	9.1	1.9	45.4	8.0	27.6	19.0	17.6	—	—	—	3.4	2.9	2.6	0.8	0.9	0.9	12.9	16.4	15.6	145	(9.1)	18.4
India Infoline	114	BUY	35,670	773	312	5.1	7.7	9.2	(8.7)	50.4	19.2	22.4	14.9	12.5	—	—	—	2.9	2.4	1.9	2.2	2.9	1.9	11.9	17.6	18.7	170	48.6	5.8
Indian Overseas Bank	164	BUY	70,504	1,529	430	28.0	34.2	34.7	24.1	22.4	1.4	5.9	4.8	4.7	—	—	—	1.3	1.1	0.9	3.0	3.6	3.6	22.9	23.3	20.0	230	40.2	2.5
Indian Overseas Bank	88	BUY	48,051	1,042	545	24.3	22.7	13.3	10.3	(6.9)	(41.1)	3.6	3.9	6.6	—	—	—	0.8	0.7	0.6	6.0	4.2	4.7	22.1	16.1	8.6	150	70.1	3.0
J&K Bank	622	BUY	30,160	654	48	84.5	105.5	112.3	13.8	24.8	6.4	7.4	5.9	5.5	—	—	—	1.3	1.1	1.0	2.7	3.4	3.6	16.7	18.1	16.9	700	12.5	0.8
LIC Housing Finance	752	ADD	67,709	1,468	90	62.5	82.6	77.4	37.3	32.0	(6.2)	12.0	9.1	9.7	—	—	—	3.4	2.1	1.8	1.7	2.4	2.4	26.2	26.2	19.8	925	22.9	13.6
Mahindra & Mahindra Financial	337	BUY	32,284	700	96	22.4	31.9	37.2	7.5	42.2	16.5	15.1	10.6	9.1	—	—	—	2.3	2.0	1.7	1.6	2.4	2.8	15.4	19.3	19.6	415	23.0	0.7
Oriental Bank of Commerce	274	REDUCE	68,711	1,490	251	36.1	41.3	47.7	51.4	14.3	15.5	7.6	6.6	5.7	—	—	—	1.1	1.0	0.9	2.7	3.0	3.5	13.7	13.3	14.0	280	2.1	3.9
PFC	250	SELL	287,287	6,230	1,148	13.3	19.7	21.4	17.4	47.7	8.6	18.8	12.7	11.7	—	—	—	2.6	2.3	2.0	1.6	2.0	2.1	18.9	18.4	17.6	210	(16.1)	4.0
Punjab National Bank	901	BUY	284,088	6,160	315	98.0	116.3	129.1	50.9	18.7	10.9	9.2	7.7	7.0	—	—	—	2.2	1.8	1.5	2.2	2.6	2.9	25.8	25.2	23.2	1,020	13.2	7.9
Reliance Capital	786	ADD	193,593	4,198	246	39.3	17.7	17.5	(5.6)	(55.1)	(1.1)	20.0	44.5	45.0	—	—	—	2.9	2.7	2.6	0.8	0.3	0.3	15.3	6.3	5.9	875	11.3	49.5
Shriram Transport	461	ADD	106,647	2,313	232	30.1	36.6	48.3	56.7	21.6	32.0	15.3	12.6	9.5	—	—	—	4.7	2.8	2.4	1.0	2.4	3.1	29.6	26.5	25.1	500	8.6	2.9
SREI	65	NR	7,530	163	116	7.0	8.3	7.9	(24.7)	17.8	(4.8)	9.2	7.8	8.2	—	—	—	0.7	0.6	0.6	1.5	1.9	1.9	12.8	11.1	10.5	115	77.6	3.8
State Bank of India	1,974	BUY	1,253,444	27,180	635	143.7	154.8	174.4	34.8	7.7	12.7	13.7	12.8	11.3	—	—	—	2.2	1.9	1.7	1.5	1.5	1.6	17.1	15.9	15.8	2,400	21.6	110.7
Union Bank	256	BUY	129,184	2,801	505	34.2	37.9	38.7	24.5	11.0	2.0	7.5	6.7	6.6	—	—	—	1.8	1.5	1.3	2.0	2.2	2.2	27.2	24.4	20.7	310	21.2	3.9
Banks/Financial Institutions			Attractive	6,615,730	143,458				27.0	15.3	10.7	15.2	13.2	11.9	—	—	—	2.4	2.1	1.8	1.4	1.6	1.8	16.1	15.8	15.4			
Cement																													
ACC	923	REDUCE	173,432	3,761	188	56.3	83.2	53.2	(12.2)	47.9	(36.1)	16.4	11.1	17.4	8.3	6.0	7.7	3.3	2.7	2.4	2.5	2.5	2.5	24.7	29.3	17.1	800	(13.3)	10.7
Ambuja Cements	107	REDUCE	162,818	3,531	1,522	7.2	8.0	6.9	(5.0)	11.4	(13.5)	14.9	13.4	15.5	8.0	7.4	7.8	2.7	2.3	2.1	2.8	1.8	2.0	19.7	19.3	14.7	92	(14.0)	5.9
Grasim Industries	2,696	REDUCE	247,238	5,361	92	238.6	297.3	289.2	(16.2)	24.6	(2.7)	11.3	9.1	9.3	6.4	4.8	4.7	2.1	1.8	1.5	1.2	1.2	1.3	21.1	21.4	17.6	2,500	(7.3)	10.7
India Cements	118	REDUCE	33,228	721	282	17.8	13.7	12.4	n/a	(23.1)	(9.1)	6.6	8.6	9.5	4.9	5.1	5.3	0.9	0.8	0.8	1.5	1.8	2.7	14.8	10.5	9.0	100	(15.0)	5.4
Shree Cement	2,140	BUY	74,552	1,617	35	174.8	267.3	228.9	93.8	52.9	(14.4)	12.2	8.0	9.3	8.0	4.9	4.5	6.2	3.5	2.6	0.5	0.5	0.5	65.7	56.1	31.8	2,400	12.1	0.9
UltraTech Cement	1,040	REDUCE	129,476	2,808	124	78.8	90.1	64.5	(3.1)	14.3	(28.4)	13.2	11.5	16.1	7.7	6.3	7.7	3.0	2.4	2.1	0.6	0.8	0.8	31.1	27.3	16.2	900	(13.5)	4.9
Cement			Neutral	820,743	17,797				(8.0)	23.6	(16.2)	12.8	10.3	12.3	7.2	5.6	6.0	2.5	2.1	1.8	1.7	1.5	1.6	20.0	20.5	15.0			
Consumer products																													
Asian Paints	1,810	BUY	173,610	3,765	96	38.6	72.9	83.4	(1.7)	88.8	14.4	46.9	24.8	21.7	28.0	15.6	13.4	15.2	12.4	10.2	1.0	2.2	2.5	36.6	57.2	53.4	2,100	16.0	1.8
Colgate-Palmolive (India)	688	REDUCE	93,597	2,030	136	21.6	29.4	33.4	26.3	36.1	13.8	31.9	23.4	20.6	26.4	19.1	15.8	43.3	39.0	35.0	2.2	3.4	3.9	155.1	174.9	178.8	700	1.7	1.6
Dabur India	169	BUY	146,620	3,179	866	4.5	5.8	7.3	17.0	27.6	25.6	37.4	29.3	23.3	28.7	21.2	17.1	17.8	13.9	11.3	1.0	1.8	2.2	55.3	53.9	53.9	200	18.2	2.5
GlaxoSmithkline Consumer (a)	1,432	ADD	60,226	1,306	42	44.8	55.3	70.3	15.8	23.6	27.0	30.2	25.9	20.4	18.7	14.7	12.1	7.8	6.8	6.0	1.0	1.6	2.5	26.8	28.4	31.4	1,500	4.7	0.8
Godrej Consumer Products	2,477	ADD	63,624	1,380	258	6.7	10.8	12.4	(5.3)	62.0	14.3	36.9	22.7	19.9	25.5	16.3	13.6	11.1	6.5	5.4	1.6	1.6	1.6	46.9	36.2	29.6	270	9.5	1.0
Hindustan Unilever	236	BUY	514,789	11,163	2,179	9.5	10.3	12.0	19.0	7.8	16.9	24.8	23.0	19.7	18.8	16.6	14.5	25.0	24.8	24.7	3.7	4.3	5.0	112.4	108.4	125.9	300	27.0	17.1
ITC	232	BUY	875,260	18,979	3,769	8.7	10.7	13.0	2.8	23.1	21.5	26.8	21.8	17.9	16.4														

## Kotak Institutional Equities: Valuation summary of key Indian companies

Company	26-Feb-10		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target	Upside	ADVT-3mo
	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)		
Energy																													
Bharat Petroleum	564	RS	184,874	4,009	328	20.6	58.1	61.7	(50.1)	181.9	6.2	27.4	9.7	9.1	5.6	4.8	4.2	1.4	1.3	1.2	1.4	4.5	4.8	5.3	14.1	13.7	—	—	10.2
Cairn India	266	REDUCE	504,608	10,942	1,897	4.3	6.0	20.9	—	41	245.8	62	44	12.7	43.4	34.6	10.0	1.5	1.5	1.5	—	—	7.5	2.5	3.4	11.5	265	(0.4)	17.0
Castrol India (a)	649	REDUCE	80,224	1,740	124	21.3	30.8	39.8	20.8	44.7	29.2	30.5	21.0	16.3	17.6	12.9	9.9	17.9	17.4	15.6	2.3	3.9	4.6	61.2	83.8	101.1	640	(1.4)	2.4
GAIL (India)	399	REDUCE	505,870	10,969	1,268	22.2	22.7	23.5	8.7	2.3	3.7	18.0	17.6	17.0	9.7	10.3	10.7	3.1	2.8	2.6	1.8	2.0	2.0	17.5	15.9	15.0	370	(7.2)	16.3
GSPL	85	REDUCE	48,038	1,042	563	2.2	7.5	12.4	21.9	241.9	64.6	38.9	11.4	6.9	13.0	6.2	4.0	3.6	3.0	2.5	0.9	3.0	7.2	9.6	28.7	38.9	95	11.2	7.3
Hindustan Petroleum	347	RS	117,586	2,550	339	17.0	46.3	49.7	(49.3)	173.1	7.2	20.5	7.5	7.0	3.1	2.6	2.3	1.0	0.9	0.9	1.5	7.5	8.0	4.4	11.2	11.4	—	—	10.2
Indian Oil Corporation	317	RS	752,774	16,323	2,372	9.8	33.0	32.1	(67.9)	235.4	(2.7)	32.2	9.6	9.9	8.6	6.0	5.0	1.6	1.4	1.2	1.2	2.1	2.0	4.8	15.3	13.1	—	—	6.2
Oil India	1,158	ADD	263,109	5,705	227	101.1	110.5	111.7	—	9.2	1.1	11.4	10.5	10.4	5.3	3.8	3.1	2.6	1.8	1.6	2.5	3.2	3.4	20.1	16.3	15.6	1,150	(0.7)	—
Oil & Natural Gas Corporation	1,118	ADD	2,390,420	51,835	2,139	90.8	90.1	107.8	(2.1)	(0.8)	19.7	12.3	12.4	10.4	4.6	4.4	3.7	2.0	1.8	1.7	2.9	3.2	3.9	16.6	14.4	15.8	1,200	7.4	21.9
Petronet LNG	74	ADD	55,425	1,202	750	6.9	5.3	8.1	—	(22.7)	51.2	10.7	13.8	9.1	7.6	8.3	5.9	2.5	2.2	1.8	2.4	2.0	2.7	23.9	15.8	20.5	90	21.8	4.5
Reliance Industries	979	SELL	2,855,597	61,922	2,917	50.6	48.0	68.7	(3.7)	(5.2)	43.3	19.4	20.4	14.2	12.9	9.9	7.2	2.1	1.8	1.6	0.7	0.7	0.9	13.6	10.6	13.3	950	(3.0)	142.2
		Cautious	7,758,525	168,239					(9.5)	20.8	27.0	17.3	14.3	11.3	7.9	6.7	5.4	2.0	1.7	1.6	1.5	2.0	2.8	11.4	12.2	14.2			
Industrials																													
ABB	795	REDUCE	168,382	3,651	212	25.8	21.6	30.4	11.3	(16.6)	41.3	30.8	36.9	26.1	18.3	20.7	14.8	7.9	6.8	5.5	0.3	0.4	0.4	29.2	19.8	23.3	720	(9.4)	6.0
BGR Energy Systems	489	ADD	35,222	764	72	16.0	21.0	29.7	32.2	31.2	41.0	30.5	23.3	16.5	17.3	12.9	9.9	6.3	5.1	4.1	0.6	0.7	1.0	22.3	24.3	27.7	500	2.2	2.5
Bharat Electronics	2,001	REDUCE	160,052	3,471	80	103.8	117.7	126.2	1.8	13.4	7.2	19.3	17.0	15.8	10.2	8.4	7.5	4.1	3.4	2.9	0.9	1.2	1.2	20.7	22.0	20.1	1,870	(6.5)	3.8
Bharat Heavy Electricals	2,349	ADD	1,150,029	24,938	490	63.9	92.0	115.8	9.4	44.1	25.8	36.8	25.5	20.3	20.1	14.2	11.1	8.9	7.0	5.6	0.7	0.8	1.1	26.4	30.8	30.7	2,500	6.4	38.4
Crompton Greaves	416	BUY	152,652	3,310	367	15.3	20.7	23.7	37.3	35.2	14.1	27.1	20.1	17.6	14.5	11.0	9.5	8.3	6.1	4.7	0.5	0.7	0.7	35.6	35.1	30.4	450	8.1	6.5
Larsen & Toubro	1,564	BUY	940,123	20,386	601	50.1	53.7	64.5	32.1	7.2	20.2	31.2	29.1	24.2	20.1	16.0	13.7	6.2	4.3	3.6	0.7	0.7	0.8	21.7	17.4	16.3	1,700	8.7	60.1
Maharashtra Seamless	355	BUY	25,059	543	71	35.9	40.2	41.1	22.2	12.0	2.3	9.9	8.8	8.6	5.6	4.5	4.2	1.9	1.6	1.4	1.5	1.7	2.1	20.3	19.2	16.9	400	12.6	1.1
Siemens	684	REDUCE	230,702	5,003	337	14.2	16.1	24.6	(22.2)	13.5	52.7	48.3	42.5	27.9	23.6	20.5	16.3	10.2	8.4	6.8	0.4	0.7	0.7	23.3	21.6	27.0	635	(7.2)	8.6
Suzlon Energy	72	REDUCE	120,669	2,617	1,679	7.2	(2.2)	2.9	9.9	(130.8)	(231.4)	9.9	(32.3)	24.6	7.4	12.2	7.7	1.1	1.0	1.0	—	—	0.3	11.5	(3.4)	4.2	80	11.3	65.5
Volta	156	BUY	51,462	1,116	331	6.9	9.4	10.3	29.8	36.2	9.0	22.5	16.5	15.2	12.3	8.9	7.9	6.4	5.1	4.1	1.0	1.6	1.7	33.0	34.1	29.8	185	18.9	4.6
		Attractive	3,034,355	65,798					13.5	6.6	31.9	29.9	28.1	21.3	16.6	14.2	11.4	5.9	4.6	3.9	0.6	0.8	0.9	19.7	16.5	18.4			
Infrastructure																													
GMR Infrastructure	55	ADD	200,971	4,358	3,667	0.8	0.6	0.6	(33.5)	(24.5)	(3.1)	71.4	94.6	97.7	26.6	19.0	14.0	2.4	2.0	1.8	—	—	—	4.4	3.2	3.0	68	24.1	7.7
GVK Power & Infrastructure	43	ADD	68,380	1,483	1,579	0.8	0.8	1.0	(20.6)	2.5	34.2	56.8	55.4	41.3	51.8	18.3	16.7	2.9	2.2	2.1	—	—	0.7	4.8	4.5	5.1	50	15.5	10.7
IRB Infrastructure	253	ADD	83,922	1,820	332	5.3	10.6	13.5	54.3	101.2	27.0	47.7	23.7	18.7	23.7	12.1	10.8	4.6	3.6	2.7	0.5	—	—	10.1	17.0	16.6	200	(20.8)	5.8
Mundra Port and SEZ	674	BUY	271,892	5,896	403	10.7	15.1	24.1	105.6	40.8	59.5	62.9	44.6	28.0	36.8	28.9	18.6	9.2	7.5	5.8	(0.4)	—	—	15.5	18.5	23.2	725	7.6	7.6
		Attractive	625,164	13,556					48.6	30.5	38.0	62.8	48.1	34.9	31.3	19.8	15.0	4.1	3.3	2.8	(0.1)	—	0.1	6.5	6.8	8.1			
Media																													
DishTV	37	REDUCE	39,505	857	1,063	(6.6)	(2.5)	(1.1)	(31.9)	(61.6)	(57.6)	(5.7)	(14.7)	(34.7)	(36.5)	58.0	17.7	(6.3)	9.7	13.4	—	—	—	83.9	248.6	(32.4)	38	2.3	5.9
HT Media	139	NR	32,642	708	235	0.8	5.7	7.3	(80.5)	572.1	29.5	164.5	24.5	18.9	37.1	11.8	9.9	3.8	3.4	3.0	0.2	0.7	1.4	2.3	14.6	17.0	—	—	0.5
Jagran Prakashan	119	ADD	35,824	777	301	3.0	5.9	6.6	(6.6)	92.8	13.2	39.1	20.3	17.9	22.2	12.2	10.5	6.4	5.8	5.3	1.7	3.0	3.3	16.7	30.1	31.1	130	9.3	0.7
Sun TV Network	369	REDUCE	145,494	3,155	394	9.1	12.1	14.6	9.5	32.7	20.8	40.7	30.6	25.4	21.6	17.6	14.2	8.2	7.1	6.2	0.7	1.1	1.6	22.5	25.3	26.3	295	(20.1)	3.7
Zee Entertainment Enterprises	247	REDUCE	107,198	2,325	434	8.4	10.3	12.7	(4.8)	22.2	22.9	29.2	23.9	19.5	20.3	17.4	13.7	3.1	2.8	2.6	0.8	1.0	1.3	11.8	12.6	14.1	235	(4.9)	6.0
Zee News	56	NR	13,477	292	240	1.9	2.4	2.9	20.4	28.2	20.0	30.2	23.5	19.6	14.8	11.5	9.8	5.5	4.6	3.9	0.7	0.7	1.2	20.1	21.8	22.0	—	—	1.1
		Neutral	374,140	8,113					(21.0)	141.4	42.0	88.3	36.6	25.8	27.1	17.1	13.2	5.9	4.6	4.2	0.7	1.1	1.5	6.7	12.5	16.3			
Metals																													
Hindalco Industries	163	ADD	310,881	6,741	1,911	2.8	4.3	13.3	(77.9)	56.9	205.5	58.7	37.4	12.3	16.0	8.5	7.3	1.7	1.2	1.1	—	—	—	9.6	6.3	7.8	160	(1.6)	47.9
National Aluminium Co.	385	SELL	248,092	5,380	644	19.7	10.1	28.0	(22.0)	(49.0)	178.6	19.5	38.2	13.7	9.6	16.6	6.5	2.4	2.3	2.0	1.3	0.5	0.5	12.8	6.1	15.4	320	(16.9)	7.3
Jindal Steel and Power	632	SELL	586,814	12,725	928	32.8	40.6	47.0	139.1	23.7	15.9	19.3	15.6	13.4	12.7	10.0	8.1	7.6	5.1	3.7	0.2	0.1	0.1	50.9	39.2	31.8	530	(16.2)	49.1
JSW Steel	1,070	SELL	200,208	4,341	187	14.7	68.1	93.7	(83.2)	363.6	37.5	72.8	15.7	11.4	12.2	8.3	7.3	2.2	1.7	1.4	0.1	0.3	0.5	11.7	12.4	13.3	850	(20.6)	54.0
Hindustan Zinc	1,124	BUY	474,905	10,298	423	64.6	93.5	105.4	(38.0)	44.8	12.8	17.4	12.0	10.7	13.8	8.0	5.9	3.2	2.5	2.0	0.4	0.4	0.4	20.2	23.5	21.3	1,400	24.6	15.8
Sesa Goa	400	REDUCE	355,030	7,699	887	25.3	25.9	38.9	29.0	2.5	50.5	15.9	15.5	10.3	14.0	12.8	7.5	7.4	4.8	3.4	0.6	0.8	0.8	46.6	32.8	33.8	350	(12.6)	43.1
Sterilite Industries	782	ADD	657,202	14,251	840	46.8	44.9	54.2	(25.8)	(4.0)	20.7	16.7	17.4	14.4	12.3	9.5	7.2	2.4	1.8	1.6	—	—	—	14.0	11.0	11.9	850	8.7	39.8
Tata Steel	574	BUY	509,679	11,052	887	110.1																							

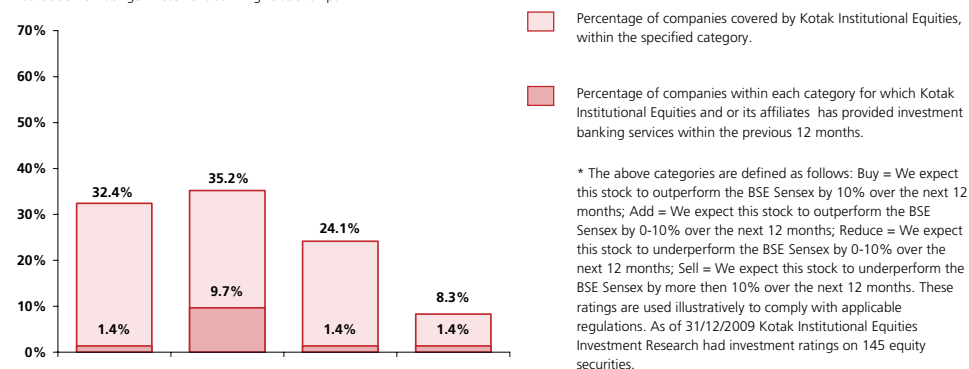
Kotak Institutional Equities: Valuation summary of key Indian companies

	26-Feb-10		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target			
Company	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	shares (mn)	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	(Rs)	price	Upside	
Retail																														
Titan Industries	1,746	REDUCE	77,515	1,681	44	44.3	60.4	68.1	26.4	36.3	12.7	39.4	28.9	25.7	23.6	19.9	16.9	13.4	9.7	7.5	0.6	0.6	0.7	37.5	39.1	32.9	1,300	(25.6)	3.3	
Retail		Neutral	77,515	1,681					26.4	36.3	12.7	39.4	28.9	25.7	23.6	19.9	16.9	13.4	9.7	7.5	0.6	0.6	0.7	34.1	33.7	29.1				
Sugar																														
Bajaj Hindustan	153	SELL	29,259	634	191	(12.6)	(1.0)	23.7	—	(92.1)	(2,471.7)	(12.2)	(153.3)	6.5	36.9	11.3	5.3	2.4	1.4	1.1	0.3	0.4	0.4	(13.1)	(1.2)	19.3	150	(1.9)	21.5	
Balrampur Chini Mills	106	ADD	27,036	586	256	3.1	7.6	14.0	—	147.4	83.5	34.2	13.8	7.5	12.3	7.5	4.8	2.4	2.1	1.7	0.3	—	0.4	7.4	16.2	25.3	140	32.6	10.3	
Shree Renuka Sugars	167	BUY	55,828	1,211	335	4.3	6.9	29.7	23.9	60.4	329.7	38.7	24.1	5.6	24.2	13.7	3.7	6.3	3.4	1.9	0.1	0.6	0.2	17.2	18.4	43.1	260	56.0	20.9	
Sugar		Attractive	112,123	2,431					(25.3)	2,436.2	342.9	697.3	27.5	6.2	22.3	10.9	4.4	3.5	2.3	1.6	0.2	0.5	0.3	0.5	8.2	25.1				
Technology																														
HCL Technologies	367	REDUCE	255,135	5,532	695	17.5	17.8	25.1	14.5	1.7	41.2	21.0	20.6	14.6	11.7	10.4	9.1	4.4	4.0	3.3	1.9	1.1	1.1	20.9	20.6	24.7	350	(4.7)	10.3	
Hexaware Technologies	65	REDUCE	9,301	202	144	4.1	9.4	7.5	(46.4)	127.7	(19.5)	15.8	6.9	8.6	5.2	2.5	2.9	1.4	1.2	1.1	0.8	1.5	1.5	8.6	18.6	13.1	80	23.6	1.6	
Infosys Technologies	2,602	BUY	1,493,519	32,386	574	102.4	108.5	124.2	29.6	5.9	14.4	25.4	24.0	21.0	19.2	16.9	13.7	8.2	6.6	5.4	0.9	1.0	1.3	36.7	30.4	28.4	3,000	15.3	63.2	
Mphasis BFL	663	REDUCE	138,218	2,997	208	14.2	43.6	47.6	15.7	207.5	9.2	46.8	15.2	13.9	35.6	12.1	10.7	9.6	5.9	4.3	0.6	0.5	0.6	22.8	48.1	35.5	570	(14.0)	14.6	
Mindtree	533	BUY	21,936	476	41	13.2	49.4	55.1	(50.5)	273.2	11.6	40.3	10.8	9.7	6.9	8.6	6.1	4.0	2.9	2.3	0.4	0.4	1.0	5.5	31.1	26.3	825	54.8	1.8	
Patni Computer Systems	475	REDUCE	61,041	1,324	129	26.8	36.6	44.2	(19.3)	36.4	20.9	17.7	13.0	10.7	9.2	6.4	6.0	2.4	2.0	1.8	0.4	1.5	1.9	16.2	19.7	17.9	450	(5.3)	4.4	
Polaris Software Lab	147	SELL	14,504	315	99	13.2	15.6	16.1	77.3	18.3	3.7	11.2	9.4	9.1	4.8	4.4	4.3	1.9	1.6	1.4	1.9	2.0	2.2	18.2	18.5	16.7	160	8.9	5.9	
TCS	762	BUY	1,490,995	32,331	1,957	26.4	34.5	41.0	3.1	30.6	18.8	28.8	22.1	18.6	20.3	16.4	13.6	9.5	7.3	6.0	0.9	1.1	2.2	36.9	37.5	35.6	900	18.1	36.3	
Wipro	678	ADD	990,505	21,478	1,462	25.7	31.5	37.6	15.8	22.4	19.5	26.3	21.5	18.0	19.4	16.0	12.9	6.6	5.2	4.3	0.6	1.3	1.6	26.9	27.1	26.3	830	22.5	21.6	
Technology		Attractive	4,475,154	97,041					15.3	22.3	17.9	26.3	21.5	18.2	18.5	15.2	12.6	7.4	5.9	4.8	0.9	1.1	1.6	28.1	27.2	26.5				
Telecom																														
Bharti Airtel	279	REDUCE	1,060,692	23,000	3,797	22.3	23.8	20.6	26.4	6.6	(13.5)	12.5	11.7	13.6	7.5	6.8	7.1	3.4	2.7	2.2	0.7	1.1	1.4	31.4	25.3	18.0	300	7.4	56.9	
IDEA	61	REDUCE	189,646	4,112	3,104	2.9	2.5	1.2	(26.5)	(13.9)	(51.2)	21.1	24.5	50.1	8.0	7.7	8.1	1.4	1.3	1.3	—	—	—	10.4	5.5	2.8	50	(18.2)	7.4	
MTNL	72	SELL	45,266	982	630	2.4	(15.6)	(10.4)	(66.3)	(750.8)	(33.7)	29.9	(4.6)	(6.9)	(1.6)	0.3	0.4	0.4	0.4	0.4	1.4	—	—	—	1.2	(8.5)	(6.1)	50	(30.4)	3.5
Reliance Communications	158	SELL	325,186	7,051	2,064	31.6	18.5	13.4	19.4	(41.4)	(27.8)	5.0	8.5	11.8	6.5	7.6	7.9	0.8	0.7	0.7	0.5	—	—	18.9	8.9	6.0	150	(4.8)	22.3	
Tata Communications	283	REDUCE	80,541	1,746	285	13.6	14.0	15.2	24.0	3.2	8.2	20.8	20.2	18.6	9.1	8.2	7.6	1.2	1.1	1.1	1.8	2.3	2.7	5.4	5.2	5.5	400	41.5	3.0	
Telecom		Cautious	1,701,330	36,892					16.6	(20.2)	(17.0)	10.1	12.7	15.2	7.2	7.4	7.7	1.6	1.4	1.3	0.7	0.8	1.0	15.8	11.3	8.7				
Transportation																														
Container Corporation	1,206	ADD	156,743	3,399	130	60.9	63.9	76.6	5.5	5.0	19.9	19.8	18.9	15.7	14.3	13.0	10.7	4.2	3.6	3.1	1.2	1.2	1.5	22.8	20.4	21.0	1,250	3.7	2.1	
Transportation		Cautious	156,743	3,399					5.5	5.0	19.9	19.8	18.9	15.7	14.3	13.0	10.7	4.2	3.6	3.1	1.2	1.2	1.5	21.0	19.0	19.5				
Utilities																														
CESC	383	ADD	47,894	1,039	125	32.3	33.1	42.8	16.2	2.6	29.5	11.9	11.6	8.9	6.5	6.4	6.2	1.3	1.1	1.0	1.0	1.1	1.4	11.7	10.4	12.0	410	7.0	2.4	
Lanco Infratech	46	BUY	110,390	2,394	2,405	1.5	1.8	3.7	(1.9)	25.4	105.7	31.6	25.2	12.2	18.4	20.2	8.4	5.3	3.2	2.6	—	—	—	16.4	14.7	21.5	58	26.4	15.1	
Reliance Infrastructure	1,003	BUY	227,231	4,927	226	62.7	63.7	68.6	66.7	1.6	7.8	16.0	15.8	14.6	20.0	18.5	14.8	1.3	1.3	1.2	0.7	0.8	0.9	4.9	6.1	7.8	1,250	24.6	37.5	
Reliance Power	138	REDUCE	330,992	7,177	2,397	1.0	2.5	3.1	—	141.5	24.4	135.4	56.0	45.1	—	—	—	2.4	2.3	2.2	—	—	—	1.8	4.2	5.0	160	15.9	8.7	
Tata Power	1,213	ADD	299,447	6,493	247	50.2	57.9	71.9	57.5	15.3	24.3	24.2	21.0	16.9	11.6	13.2	12.1	3.0	2.4	2.1	0.9	1.0	1.2	12.0	12.6	13.2	1,485	22.4	13.4	
Utilities		Attractive	2,690,195	58,335					15.7	15.8	16.3	23.2	20.0	17.2	17.4	16.6	14.1	2.6	2.3	2.1	1.3	1.5	1.7	11.0	11.5	12.3				
Others																														
Aban Offshore	1,183	BUY	51,464	1,116	43	96.9	114.8	265.5	34	18.4	131.3	12.2	10.3	4.5	12.0	8.9	6.0	2.9	1.4	1.1	0.3	0.3	0.3	26.9	15.0	27.1	1,500	26.8	57.5	
Havells India	519	SELL	31,215	677	60	5.1	22.6	30.2	(81)	343.8	33.8	101.9	23.0	17.2	14.2	11.5	9.1	5.2	8.3	5.6	0.5	0.5	0.5	4.6	27.7	39.0	350	(32.5)	16.6	
Jaiprakash Associates	132	BUY	278,424	6,037	2,107	2.0	4.3	7.1	(40)	115.0	65.5	66.1	30.7	18.6	25.5	16.0	14.0	4.2	3.4	3.0	—	—	—	7.3	12.3	17.1	170	28.6	40.9	
Jindal Saw	194	ADD	57,093	1,238	294	12.4	26.5	19.3	(47)	113.8	(27.2)	15.7	7.3	10.1	9.7	5.3	5.8	2.0	1.5	1.3	0.5	0.5	0.4	11.3	19.8	13.0	235	21.1	14.6	
PSL	145	BUY	7,736	168	53	22.2	29.8	25.4	5	34.1	(14.8)	6.5	4.9	5.7	4.8	3.0	2.9	1.1	0.8	0.8	2.8	4.5	4.5	11.9	13.6	11.7	175	20.9	1.8	
Sintex	238	BUY	32,486	704	136	24.0	21.3	26.8	23	(11.4)	26.2	9.9	11.2	8.9	8.5	8.2	6.2	1.8	1.5	1.3	0.5	0.5	0.5	17.6	13.6	14.5	280	17.6	4.5	
Tata Chemicals	288	ADD	70,120	1,521	243	26.6	27.3	31.0	(33)	2.5	13.4	10.8	10.6	9.3	6.7	5.9	5.1	1.5	1.4	1.2	3.0	3.0	3.0	17.9	15.6	15.7	340	18.1	4.5	
Welspun Gujarat Stahl Rohren	240	REDUCE																												



**Kotak Institutional Equities Research coverage universe**

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of December 31, 2009

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