

### Contents

#### Results

**Sintex Industries:** Growth trajectory continues to improve

#### Updates

**Ranbaxy Laboratories:** Management meeting update

**Economy:** May 2010 IIP: What goes up must come down

**Automobiles:** Auto tracker - July 2010

**Telecom:** Fundamentals don't justify the excitement

### News Round-up

- ▶ NTPC (NATP IN) has scrapped its plan to set up a 4000mw power plant in Uttar Pradesh over differences with the state govt., & instead moved the coal-fired project to Bareilly in Madhya Pradesh. (BSTD)
- ▶ NTPC (NATP IN) may invest USD 1.70bn in Gujarat power project. (ECNT)
- ▶ The country's industrial output rose at its slowest pace in seven months in May. However, at 11.52%, it stayed in double digits for the eighth consecutive month, heightening expectation that RBI would raise interest rates later this month. (BSTD)
- ▶ Tata Chemicals has received the approval of the shareholders to raise USD 85 mn through issue of 11.5 mn shares on a preferential basis to promoter Tata Sons. (THBL)
- ▶ Adani Group, India biggest coal importer, was picked to develop an export facility for the fuel in Australia. (BSTD)
- ▶ Tata Steel's (TATA IN) exclusive option to participate in massive iron ore projects of its Canada based partner, New Millenium Capital Corp., has been extended to Dec 31. (BSTD)
- ▶ Union Bank (UNBK IN) has put its non-performing assets, worth USD 106.38mn (principal value of assets), on the block to improve its financial health. (BSTD)
- ▶ Procter & Gamble (PG IN) is in process of taking control of the Ambi Pur air care brand in India after a complicated three way transaction also involving the Godrej Group & Sara Lee. (ECNT)
- ▶ GMR Group hikes Karur Vysya Bank (KVB IN) stake to 4.9%, sparking speculation of banking foray. (ECNT)
- ▶ GMR Infra (GMRI IN) seeks shareholder's approval to raise USD 1.06bn through various instruments to fund expansion & capex plans. (ECNT)
- ▶ The Steel ministry called for a complete ban on Iron ore export, saying the mineral is a non-renewable resource like coal and petroleum products and should be preserved. (FNLE)
- ▶ National Aluminum (NACL IN) eyes assets in Namibia & Indonesia. (FNLE)
- ▶ Titagarh Wagons (TWL IN) has acquired French rail wagon-maker IGF Industries-Arbel Fauvet Rail (AFR) for around USD 2.55 mn. (FNLE)
- ▶ TVS Group raises stake in tyre subsidiary. The promoters had bought the stake in TVS Srichakra (SRTY IN) from the open market. (FNLE)

Source: ECNT= Economic Times, BSTD = Business Standard, FNLE = Financial Express, THBL = Business Line.

### EQUITY MARKETS

India	Change %			
	12-Jul	1-day	1-mo	3-mo
Sensex	17,937	0.6	5.1	0.6
Nifty	5,383	0.6	5.2	1.1
<b>Global/Regional indices</b>				
Dow Jones	10,139	1.2	2.4	(7.8)
Nasdaq Composite	2,175	0.7	0.8	(11.4)
FTSE	5,110	0.1	0.5	(11.4)
Nikkei	9,585	0.5	1.5	(14.5)
Hang Seng	20,379	1.6	3.9	(8.2)
KOSPI	1,723	1.4	4.6	(0.1)
<b>Value traded – India</b>				
Cash (NSE+BSE)	150		168	171
Derivatives (NSE)	745		865	755
Deri. open interest	1,423		1,278	1,140

### Forex/money market

	Change, basis points			
	12-Jul	1-day	1-mo	3-mo
Rs/US\$	46.7	(14)	(30)	245
10yr govt bond, %	7.6	(1)	13	(26)
<b>Net investment (US\$m)</b>				
	7-Jul		MTD	CYTD
FIs	7		107	6,807
MFs	10		(28)	(282)

### Top movers -3mo basis

Best performers	Change, %			
	12-Jul	1-day	1-mo	3-mo
HPCL IN Equity	476.6	(2.5)	37.4	54.7
IOCL IN Equity	392.0	(2.2)	15.7	38.2
BPCL IN Equity	689.9	(2.9)	27.5	35.9
MM IN Equity	637.8	(0.1)	5.3	25.6
AL IN Equity	69.7	0.2	11.0	25.0
<b>Worst performers</b>				
RNR IN Equity	44.1	(1.8)	(15.5)	(31.3)
ABAN IN Equity	863.3	(0.6)	31.2	(30.2)
TATA IN Equity	497.8	0.4	5.1	(28.1)
EDSL IN Equity	577.0	6.1	4.7	(23.0)
SESA IN Equity	355.8	1.0	0.5	(22.0)

Kotak Institutional Equities Research  
kotak.research@kotak.com . Mumbai: +94-22-6634-1100

JULY 12, 2010

**RESULT**

Coverage view:

 Price (Rs): **324**

 Target price (Rs): **380**

 BSE-30: **17,937**

**Growth trajectory continues to improve.** Sintex reported 1QFY11 PAT of Rs788 bn, above our estimated Rs687 bn, and revenues of Rs9.1 bn again above our estimated Rs8 bn. Monolithic revenues are up 89% yoy and we expect this segment to drive growth with an order book of Rs23 bn (two years visibility). The stock is currently trading at 11.5X FY2011E and 9.7X FY2012E EPS. We retain our BUY rating with 12-month target price of Rs380 at 12X Sept. 2011E EPS.

**Company data and valuation summary**

Sintex

**Stock data**

52-week range (Rs) (high,low)	337-183
Market Cap. (Rs bn)	44.2

**Shareholding pattern (%)**

Promoters	30.2
FIs	25.9
MFs	18.1

**Price performance (%)**

	1M	3M	12M
Absolute	13.8	3.6	60.7
Rel. to BSE-30	8.3	3.1	21.0

**Forecasts/Valuations**

	2010	2011E	2012E
EPS (Rs)	24.1	28.3	33.3
EPS growth (%)	0.5	17.4	17.5
P/E (X)	13.4	11.5	9.7
Sales (Rs bn)	33.2	38.1	41.5
Net profits (Rs bn)	3.3	3.9	4.5
EBITDA (Rs bn)	5.4	6.7	7.4
EV/EBITDA (X)	11.4	7.6	6.4
ROE (%)	15.5	15.3	15.2
Div. Yield (%)	0.4	0.4	0.4

**1QFY11 results are better than expected**

Sintex's 1QFY11 results are better than expected with revenues, EBITDA and net profit 14%, 6% and 15% above KIE estimates.

- ▶ Revenues were Rs9.1 bn (+38% yoy and -17% qoq) versus KIE estimate of Rs8 bn. Revenues in all segments, except Zeppelin and Bright, were above KIE estimates. Monolithic revenues are Rs1.8 bn versus KIE estimate of Rs1.5 bn.
- ▶ EBITDA margin improved to 15.1% (+190 bps yoy and -260 bps qoq) versus KIE estimate of 16.2%. We believe this margin expansion has been led by better revenue mix for plastics (monolithic and domestic revenues growing faster) and stability in the textiles business.
- ▶ Adjusted PAT of Rs788 bn (+30% yoy and -43% qoq) is 15% above our estimated Rs687 mn. PAT growth has lagged EBITDA growth due to lower other income (FCCB mark-to-market) and higher interest expenses as the expansion in working capital cycle visible in 4QFY10 seems to have continued in 1QFY11.
- ▶ Building products revenues of Rs3.6 bn (+43% yoy) versus KIE expectation of Rs3.2 bn were driven by monolithic and prefab revenue growth.
- ▶ After four consecutive quarters of revenue decline, textiles revenue grew 30% yoy to Rs987 mn lending credence to our expectation of a 2HFY11 recovery in the textiles business.

**Retain BUY on reasonable valuations and improving growth trajectory**

The stock is currently trading at 11.5X FY2011E and 9.7X FY2012E EPS. We are retaining our target price of Rs380 based on 12X Sept. FY2011E earnings. We are reducing our EPS estimates by 5%/3% for FY2011E/12E due to a modest downward revision in custom molding revenue estimates and higher interest expense. Continued growth in the monolithic segment (order book increased to Rs23 bn versus Rs22 bn as of end-4QFY10), a rebound in pre-fabs and a 2HFY11E rebound in BT shelter and textiles business could be potential triggers over FY2011E.

**QUICK NUMBERS**

- **1QFY11 revenues up 38% yoy to Rs9.1 bn**
- **1QFY11 PAT up 30% yoy to Rs788 mn**

Ajay Mathrani

 ajay.mathrani@kotak.com  
 Mumbai: +91-22-6634-1376

Jasdeep Walia

 jasdeep.w@kotak.com  
 Mumbai: +91-22-6634-1328

 Kotak Institutional Equities Research  
 kotak.research@kotak.com  
 Mumbai: +91-22-6634-1100

### 1QFY11 - revenues 14% above KIE estimates led by monolithic and textile segments

- ▶ Consolidated revenues are Rs9.1 bn (+38% yoy and -17% qoq) versus our expectation of Rs8 bn. This has been led by better-than-expected growth in almost all segments except Zeppelin (-15% yoy), Nief (+17% yoy) and Bright Auto (+47% yoy).
- ▶ Sintex reported monolithic revenues of Rs1.8 bn (+89% yoy, -54% qoq) versus our expectation of Rs1.5 bn. Monolithic order book inched up qoq to Rs23 bn versus Rs22 bn as of end-FY2010 and is to be executed over next 24 months.
- ▶ Textiles revenues are 16% above KIE estimates at Rs987 mn (+30% yoy, - 6% qoq) versus our expectation of Rs850 mn; textiles segment has registered yoy growth after four quarters of yoy revenue decline.

Monolithic revenues are above KIE estimates for second quarter in a row  
Segmental revenue breakup (consolidated), March fiscal year-ends (Rs mn)

	1QFY11	1QFY11E	1QFY10	4QFY10	(% chg.)		
					KIE est.	yoy	qoq
<b>Building products</b>							
Pre-fabs	1,137	900	877	990	26.3	29.6	14.8
Monolithic	1,760	1,500	930	3,810	17.3	89.2	(53.8)
Zeppelin	243	350	287	361	(30.6)	(15.2)	(32.7)
Tanks	444	400	420	300	11.0	5.7	48.0
<b>Total building products [A]</b>	<b>3,584</b>	<b>3,150</b>	<b>2,514</b>	<b>5,461</b>	<b>13.8</b>	<b>42.6</b>	<b>(34.4)</b>
<b>Custom molding</b>							
Stand alone	1,281	700	552	1,090	83.0	132.0	17.5
Nief	2,261	2,300	1,935	2,220	(1.7)	16.8	1.9
Wasaukee	411	390	380	390	5.4	8.3	5.4
Bright	554	600	377	610	(7.7)	47.0	(9.2)
<b>Total custom molding [B]</b>	<b>4,507</b>	<b>3,990</b>	<b>3,244</b>	<b>4,310</b>	<b>13.0</b>	<b>38.9</b>	<b>4.6</b>
Others [C]	29	20	107	113	43.0	(73.3)	(74.8)
<b>Total plastics [A+B+C]</b>	<b>8,120</b>	<b>7,160</b>	<b>5,865</b>	<b>9,884</b>	<b>13.4</b>	<b>38.4</b>	<b>(17.9)</b>
<b>Textiles</b>	<b>987</b>	<b>850</b>	<b>759</b>	<b>1,052</b>	<b>16.1</b>	<b>30.0</b>	<b>(6.2)</b>
<b>Total seg revenues</b>	<b>9,106</b>	<b>8,010</b>	<b>6,624</b>	<b>10,937</b>	<b>13.7</b>	<b>37.5</b>	<b>(16.7)</b>

Source: Company, Kotak Institutional Equities estimates

### EBIT margin expansion across business segments drives EBIT 12% over KIE

EBIT margin for the textiles business expanded 260 bps yoy while for plastics expanded 210 bps. We believe this margin expansion has been led by better revenue mix for plastics (monolithic and domestic revenues growing faster) and stability in the textiles business.

## Sintex's 1QFY11 results are better than KIE estimates

Interim results of Sintex (consolidated) , March fiscal year-ends (Rs mn)

	1QFY11	1QFY11E	1QFY10	4QFY10	(% chg.)		
					KIE est.	yoy	qoq
<b>Net sales</b>	<b>9,106</b>	<b>8,010</b>	<b>6,624</b>	<b>10,936</b>	<b>13.7</b>	<b>37.5</b>	<b>(16.7)</b>
<b>Total expenditure</b>	<b>(7,733)</b>	<b>(6,711)</b>	<b>(5,750)</b>	<b>(9,003)</b>	<b>15.2</b>	<b>34.5</b>	<b>(14.1)</b>
Raw material cost	(5,218)	—	(3,324)	(6,175)	—	57.0	(15.5)
Stock adjustment	200	—	152	(308)	—	NM	(164.9)
Employee expenses	(1,175)	—	(1,067)	(1,268)	—	10.1	(7.4)
Other expenses	(1,540)	—	(1,511)	(1,252)	—	1.9	23.0
<b>EBITDA</b>	<b>1,374</b>	<b>1,299</b>	<b>874</b>	<b>1,932</b>	<b>5.8</b>	<b>57.2</b>	<b>(28.9)</b>
<b>OPM (%)</b>	<b>15.1</b>	<b>16.2</b>	<b>13.2</b>	<b>17.7</b>			
Other income	202	150	359	222	34.8	(43.6)	(8.9)
Depreciation	(363)	(365)	(366)	(351)	(0.5)	(0.8)	3.5
Interest	(249)	(225)	(142)	(257)	10.5	75.5	(3.4)
<b>Pretax profits</b>	<b>964</b>	<b>859</b>	<b>725</b>	<b>1,546</b>	<b>12.2</b>	<b>33.0</b>	<b>(37.6)</b>
Tax	(174)	(172)	(114)	(156)	1.0	52.4	11.3
<b>Net income</b>	<b>791</b>	<b>687</b>	<b>611</b>	<b>1,390</b>	<b>15.0</b>	<b>29.4</b>	<b>(43.1)</b>
Minority interest	(2)	—	(5)	(2)	NM	NM	(12.9)
<b>Adjusted PAT</b>	<b>788</b>	<b>687</b>	<b>606</b>	<b>1,387</b>	<b>14.7</b>	<b>30.1</b>	<b>(43.2)</b>
Extraordinaries	—	—	—	—	—	—	—
<b>Reported PAT</b>	<b>788</b>	<b>687</b>	<b>606</b>	<b>1,387</b>	<b>14.7</b>	<b>30.1</b>	<b>(43.2)</b>
<b>Segmental</b>							
<b>Revenues (including other income)</b>							
Textiles	987	850	759	1,052	16.1	30.0	(6.2)
Plastics	8,120	7,160	5,865	9,883	13.4	38.4	(17.8)
Un allocated	202	150	359	222	34.8	(43.6)	(8.9)
<b>Total</b>	<b>9,309</b>	<b>8,160</b>	<b>6,983</b>	<b>11,158</b>	<b>14.1</b>	<b>33.3</b>	<b>(16.6)</b>
<b>EBIT (including other income)</b>							
Textiles	114	77	68	96	49.2	67.8	18.8
Plastics	1,086	895	662	1,400	21.3	64.1	(22.4)
Un allocated	13	113	137	307	(88.5)	(90.6)	(95.8)
<b>Total</b>	<b>1,213</b>	<b>1,084</b>	<b>867</b>	<b>1,803</b>	<b>11.9</b>	<b>39.9</b>	<b>(32.7)</b>
<b>EBIT margin (%)</b>							
Textiles	11.6	9.0	9.0	9.1			
Plastics	13.4	12.5	11.3	14.2			
Un allocated	6.4	75.0	38.1	138.4			
<b>Total</b>	<b>13.0</b>	<b>13.3</b>	<b>12.4</b>	<b>16.2</b>			

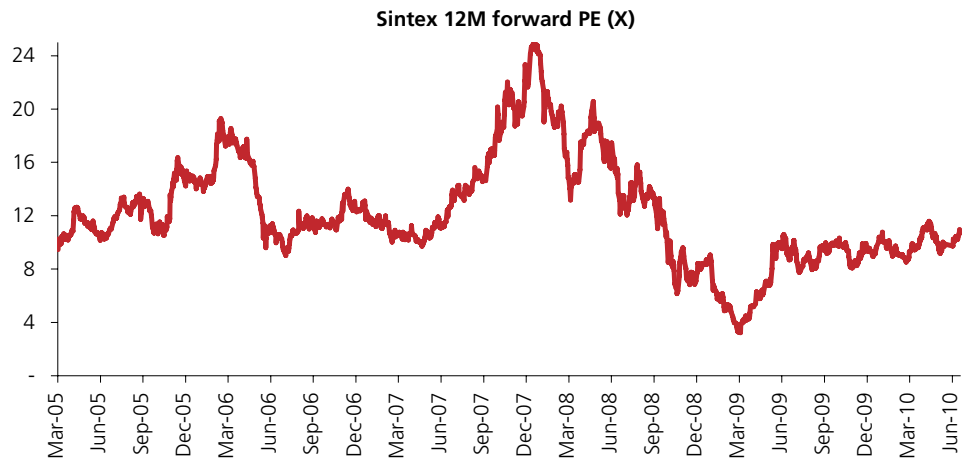
Source: Kotak Institutional Equities

**Adjust estimates, retain BUY on reasonable valuations**

We are reducing our EPS estimates for FY2011E and FY2012E to Rs28.3 and Rs33.3 from Rs29.8 and Rs34.3, respectively. We have now assumed (1) lower revenue growth in custom molding (consolidated revenue estimate reduced 2.4% / 4.1% for FY2011E/12E), (2) a modest increase in EBITDA margin (due to the change in growth in various segments) for FY2011E and FY2012E to 17.2% and 17.4% from 17.2% and 17.4%, respectively but (3) higher interest expense due to an increasing working capital cycle.

We are retaining our target price to Rs380 based on 12X Sept. FY2011E earnings. The stock is currently trading at 11.5X FY2011E and 9.7X FY2012E EPS. Continued growth in the monolithic segment (order book increased to Rs23 bn versus Rs22 bn as of end-4QFY10), a rebound in pre-fabs and a 2HFY11E rebound in BT shelter and textiles business could be potential triggers over FY2011E.

Sintex is currently trading at 10.7X 1-year forward earnings  
Sintex, P/E chart, March fiscal year-ends (X)



Source: Bloomberg, Kotak Institutional Equities estimates

We moderately revise our revenue and margin assumptions

Sintex, summary of key changes to estimates, March fiscal year-ends, 2011-12E (Rs mn)

	New estimates		Old estimates		Change (%)	
	2011E	2012E	2011E	2012E	2011E	2012E
<b>Revenues</b>						
Building products	17,957	19,928	17,941	19,911	0.1	0.1
Custom molding	15,838	16,896	16,820	18,595	(5.8)	(9.1)
Textiles	3,917	4,278	3,884	4,205	0.9	1.7
Others	409	430	409	430	—	—
<b>Total</b>	<b>38,121</b>	<b>41,531</b>	<b>39,054</b>	<b>43,298</b>	<b>(2.4)</b>	<b>(4.1)</b>
<b>EBITDA margin (%)</b>						
Building products	19.6	19.2	19.3	19.0		
Custom molding	15.6	16.0	15.4	15.6		
Textiles	22.8	24.0	22.1	24.0		
Others	3.0	3.0	3.0	3.0		
<b>Total (incl unallocated)</b>	<b>17.6</b>	<b>17.7</b>	<b>17.2</b>	<b>17.4</b>		

Source: Company, Kotak Institutional Equities estimates

## Key operating assumptions

Sintex, operating assumptions, March fiscal year-ends, 2008-13E (Rs mn)

	2008	2009	2010E	2011E	2012E	2013E
<b>Revenues</b>						
<b>Plastics</b>						
<b>Building products [A]</b>	<b>10,270</b>	<b>12,780</b>	<b>14,456</b>	<b>17,957</b>	<b>19,928</b>	<b>22,133</b>
Monolithic	2,100	4,520	7,200	9,720	10,692	11,761
Standalone prefab business	5,497	5,740	4,297	4,927	5,642	6,464
Zeppelin (consolidated)	1,273	1,108	1,339	1,593	1,790	2,015
Water Tanks	1,400	1,411	1,620	1,717	1,803	1,893
<b>Custom molding [B]</b>	<b>9,033</b>	<b>14,174</b>	<b>14,901</b>	<b>15,838</b>	<b>16,896</b>	<b>18,316</b>
Standalone	3,828	3,439	3,506	4,016	4,584	5,235
Wasaukee	1,016	2,049	1,549	1,604	1,765	1,857
Nief Plastics	3,785	7,420	7,938	7,880	7,743	7,999
Bright AutoPlast	404	1,266	1,908	2,337	2,805	3,225
<b>Others [C]</b>	<b>191</b>	<b>653</b>	<b>372</b>	<b>409</b>	<b>430</b>	<b>451</b>
<b>Total plastics [A+B+C]</b>	<b>19,494</b>	<b>27,607</b>	<b>29,729</b>	<b>34,204</b>	<b>37,254</b>	<b>40,900</b>
<b>Textiles</b>						
Collection	930	991	923	1,046	1,142	1,235
RMG	2,300	2,447	2,278	2,583	2,819	3,047
Others	253	273	262	288	317	349
<b>Total textiles</b>	<b>3,483</b>	<b>3,711</b>	<b>3,463</b>	<b>3,917</b>	<b>4,278</b>	<b>4,631</b>
<b>Total revenues</b>	<b>22,977</b>	<b>31,318</b>	<b>33,192</b>	<b>38,121</b>	<b>41,531</b>	<b>45,531</b>

## EBITDA margin (%)

<b>Plastics</b>						
<b>Building products [A]</b>	<b>18.1</b>	<b>19.6</b>	<b>19.6</b>	<b>19.6</b>	<b>19.2</b>	<b>19.4</b>
Monolithic	15.5	18.0	18.0	18.5	18.0	18.0
Standalone prefab business	23.1	24.4	26.4	25.3	25.4	25.4
Zeppelin (consolidated)	14.1	18.0	20.9	21.2	18.4	18.5
Water Tanks	6.1	6.0	8.0	8.0	8.0	8.0
<b>Custom molding [B]</b>	<b>15.3</b>	<b>14.4</b>	<b>15.2</b>	<b>15.6</b>	<b>16.0</b>	<b>16.2</b>
Standalone	23.9	24.7	25.7	23.6	23.9	23.9
Wasaukee	6.5	5.0	8.0	10.5	11.0	11.0
Nief Plastics	9.3	12.0	12.0	12.5	12.5	12.5
Bright AutoPlast	13.0	15.2	15.0	16.0	16.0	16.0
<b>Others [C]</b>	<b>2.1</b>	<b>3.0</b>	<b>3.0</b>	<b>3.0</b>	<b>3.0</b>	<b>3.0</b>
<b>Total plastics [A+B+C]</b>	<b>16.7</b>	<b>16.5</b>	<b>17.2</b>	<b>17.6</b>	<b>17.6</b>	<b>17.8</b>
<b>Textiles</b>						
Collection	32.1	33.6	25.0	28.0	30.0	30.0
RMG	26.5	27.7	17.0	21.0	22.0	22.0
Others	22.0	23.0	20.0	20.0	20.0	20.0
<b>Total textiles</b>	<b>28.4</b>	<b>28.9</b>	<b>19.4</b>	<b>22.8</b>	<b>24.0</b>	<b>24.0</b>
<b>Total consolidated</b>	<b>17.7</b>	<b>16.6</b>	<b>17.0</b>	<b>17.6</b>	<b>17.7</b>	<b>17.9</b>

Source: Company, Kotak Institutional Equities estimates

## Summary financials of Sintex

Profit model, balance sheet, cash model (consolidated) for Sintex, March fiscal year-ends, 2008-2013E (Rs mn)

	2008	2009	2010E	2011E	2012E	2013E
<b>Profit model</b>						
Revenues	22,977	31,318	33,192	38,121	41,531	45,531
<b>EBITDA</b>	<b>4,061</b>	<b>5,180</b>	<b>5,380</b>	<b>6,713</b>	<b>7,366</b>	<b>8,153</b>
Depreciation	(765)	(1,144)	(1,445)	(1,547)	(1,641)	(1,735)
Interest expense	(643)	(820)	(731)	(765)	(507)	(462)
Finance income	140	645	600	554	695	841
Other income	226	238	278	33	101	255
<b>Reported PBT</b>	<b>3,020</b>	<b>4,100</b>	<b>4,083</b>	<b>4,989</b>	<b>6,013</b>	<b>7,053</b>
Tax	(442)	(476)	(498)	(748)	(1,082)	(1,270)
Deferred taxation	(256)	(350)	(274)	(349)	(361)	(423)
Profit after tax	2,322	3,274	3,311	3,891	4,570	5,360
Minority interest	(19)	(23)	(21)	(28)	(30)	(30)
<b>Adjusted PAT</b>	<b>2,303</b>	<b>3,251</b>	<b>3,290</b>	<b>3,863</b>	<b>4,540</b>	<b>5,330</b>
Earnings per share (Rs)	19.5	24.0	24.1	28.3	33.3	39.0
<b>Balance sheet</b>						
Total equity	16,449	18,467	21,185	25,189	29,867	35,396
Total borrowings	19,466	23,227	26,470	19,546	17,964	17,319
Current liabilities	10,046	9,348	8,015	10,720	11,356	12,060
<b>Total liabilities and equity</b>	<b>45,961</b>	<b>51,042</b>	<b>55,670</b>	<b>55,456</b>	<b>59,186</b>	<b>64,775</b>
Cash	13,713	11,685	9,295	12,862	14,945	18,706
Other current assets	12,575	15,541	21,688	17,755	19,343	21,206
Goodwill	1,845	2,198	2,665	2,665	2,665	2,665
Tangible fixed assets	14,577	19,799	19,551	19,704	19,763	19,728
Investments	3,252	1,819	2,470	2,470	2,470	2,470
<b>Total assets</b>	<b>45,961</b>	<b>51,042</b>	<b>55,670</b>	<b>55,456</b>	<b>59,186</b>	<b>64,775</b>
<b>Free cash flow</b>						
Operating cash flow, excl. working capital	3,047	3,998	3,839	5,238	5,745	6,237
Working capital changes	(3,383)	(3,514)	(7,495)	6,623	(969)	(1,159)
Capital expenditure	(9,902)	(7,897)	(1,197)	(1,700)	(1,700)	(1,700)
Investment changes	32	—	—	—	—	—
Other income	159	663	878	587	796	1,096
<b>Free cash flow</b>	<b>(10,047)</b>	<b>(6,751)</b>	<b>(3,975)</b>	<b>10,747</b>	<b>3,873</b>	<b>4,474</b>
<b>Ratios (%)</b>						
EBITDA margin	17.7	16.5	16.2	17.6	17.7	17.9
Debt/equity	118.3	125.8	124.9	77.6	60.1	48.9
Net debt/equity	15.4	53.3	70.0	17.2	2.2	(10.6)
RoAE	14.0	17.6	15.5	15.3	15.2	15.1
RoACE	11.2	10.1	8.7	9.7	10.6	11.3
RoACE (excl. cash)	18.8	13.2	9.5	12.0	14.1	15.3

Source: Kotak Institutional Equities

JULY 12, 2010

UPDATE

Coverage view: **Attractive**

Price (Rs): **461**

Target price (Rs): **220**

BSE-30: **17,937**

**Management meeting update.** (1) US revenues ex-FTF and ANDA filings to remain muted in absence of Dewas/Mohali inspection, (2) lack of clarity on timelines for inspection, (3) revenue growth in 2010E dependent on emerging markets, (4) India sales growth to pick up from 4Q10E, (4) limited profitability from Lipitor in Canada given heavy generic-isation and (5) quick closure of initiatives to realize synergies from hybrid model, were the key takeaways from our meeting with management. We leave our estimates unchanged. We estimate (1) US revenues ex-Nexium API at US\$195 mn, (2) 20-30% sales growth for key emerging markets, and (3) 10% for India in 2010E.

#### Company data and valuation summary

Ranbaxy Laboratories

##### Stock data

52-week range (Rs) (high,low) 538-236

Market Cap. (Rs bn) 197.5

##### Shareholding pattern (%)

Promoters 63.9

FIs 8.8

MFs 2.7

##### Price performance (%)

Absolute 1M 3M 12M

6.8 (0.6) 88.4

Rel. to BSE-30 1.6 (1.1) 41.9

##### Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	7.1	28.0	11.7
EPS growth (%)	(128.4)	297.1	(58.3)
P/E (X)	65.3	16.5	39.4
Sales (Rs bn)	73.3	79.7	83.7
Net profits (Rs bn)	3.0	11.9	5.0
EBITDA (Rs bn)	12.4	20.1	9.6
EV/EBITDA (X)	17.4	10.2	21.5
ROE (%)	6.9	24.6	9.1
Div. Yield (%)	0.0	0.9	0.9

#### QUICK NUMBERS

- US revenues ex-FTF/ANDA filings to remain muted in absence of Dewas/Mohali inspection
- US, India and Japan to remain key focus markets for Ranbaxy over medium term

#### US, India and Japan to remain key focus markets for Ranbaxy over medium term

Ranbaxy's key focus markets over medium term will remain (1) US: Ranbaxy intends to file 5-6 ANDAs per annum from Ohm in US and the pace of filings will accelerate to around 20 in case of early resolution of Dewas and early approval of SEZ facility in 2010, (2) India: Since project Viraat has been implemented starting Jan 2010, the complete benefits of the program are likely to play out in 2011E and (3) Japan: This is a long-term play; currently the identified products are being developed and there have been no filings for the Japanese market as of now.

#### US revenues (ex-FTF) likely to remain around US\$200 mn, until Mohali SEZ/Dewas get cleared

US revenues excluding FTF products are likely to remain around US\$200 mn per annum. Ranbaxy filed 5 ANDAs in 2009 out of its Ohm facility in US. Ranbaxy does not intend to transfer the manufacturing of all affected products to its Ohm facility given that (1) some products are nearing their lifecycle and do not warrant additional cost of transferring a product and (2) Ranbaxy's Ohm facility is a small facility with no production lines for penicillin, cephalosporin, cytotoxics, which have not been transferred so far. However, products such as Pravastatin, Simvastatin and Sumatriptan have been transferred through a process of filing ANDAs, approval of which takes 6-15 months. Ranbaxy maintains that accounts with most customers in US are active currently. The pace of filings in US will accelerate if (1) Mohali SEZ facility is approved by US FDA and (2) Dewas problems are resolved.

#### Price target remains unchanged at Rs220

Ranbaxy expects revenues of Rs78 bn and PAT of Rs4.6 bn based on US\$ = Rs46 in 2010E. It will report a forex loss in 2Q10E. RBXY does not expect significant profit contribution from Lipitor launch in Canada given heavy generic-isation. We leave our estimates unchanged post the management meeting. We estimate US revenues at US\$195 mn in 2010E excluding revenues from Nexium supplies and factor in 20-30% sales growth rates for key emerging markets such as CIS, Africa, Latin America and 10% for India in 2010E.

Prashant Vaishampayan  
prashant.vaishampayan@kotak.com  
Mumbai: +91-22-6634-1127

Priti Arora  
priti.arora@kotak.com  
Mumbai: +91-22-6634-1551

Kotak Institutional Equities Research  
kotak.research@kotak.com  
Mumbai: +91-22-6634-1100



### No update on the pending inspection of Dewas facility

Ranbaxy's quality assurance team in US is headed by Dale Atkinson, an executive with experience in big pharma while Chairman, Dr. Une, and CEO of Ranbaxy are part of the senior team meeting FDA.

- ▶ Dewas inspection: Dewas has been cleared by Ranbaxy's 3rd party consultant and is now awaiting FDA approval (since August 2009). Ranbaxy is confident of gaining FDA approval once the facility is inspected by FDA, given that the 3rd party consultant has given the facility a clean chit.
- ▶ DOJ investigation: While DOJ investigation is a parallel process, Ranbaxy believes the investigation might see a composite resolution along with the above.
- ▶ Paonta: Resolution of problems here is a 3-stage process: (1) Review by GMP consultants followed by (2) data validation and (3) corrective action plan (CIP) which has to be first approved by US FDA and then implemented. Currently, the internal review by GMP consultants has been completed and submitted for review to FDA.
- ▶ Gloversville facility: This is a small liquids facility accounting for 1% of US revenues. This plant was to be shut down given its minimal revenue contribution when it received a warning letter. Ranbaxy intends to put this plant on the block once the problems are resolved and products are transferred to Ohm.

### US revenues (ex-FTF) likely to remain around US\$200 mn, until Mohali SEZ/Dewas get cleared by FDA

US revenues excluding FTF products are likely to remain around US\$200 mn due to

- ▶ **Low number of ANDA filings.** RBXY filed 5 ANDAs in 2009 out of its Ohm facility in US. The pace of filings in US will accelerate to 20 per annum if (1) Mohali SEZ facility is approved by US FDA, and (2) Dewas problems are resolved. Ranbaxy has 65 ANDAs pending with US FDA which includes 8-10 FTFs.
- ▶ **Ranbaxy does not intend to transfer the manufacturing of all affected products to its Ohm facility** given that (1) some products are nearing their lifecycle and do not warrant additional cost of transferring a product and (2) Ranbaxy's Ohm facility is a small facility with no production lines for penicillin, cephalosporin, cytotoxics, which have not been transferred so far. Products such as Pravastatin, Simvastatin and Sumatriptan have been transferred through a process of filing ANDAs, approval of which takes 6-15 months. sANDA maintains that accounts with most customers in US are active currently.

### Mohali SEZ—built for advanced markets

Ranbaxy built a new finished dosage plant in SEZ at Mohali. This is a large facility built to cater to developed markets of US/EU/Japan/Canada. The facility has a capacity of 2 bn tablets and 500 mn capsules per annum.

As a start, the first ANDA was filed out of this facility in 2009 which triggered the facility-wide inspection. Meanwhile, the facility has been approved by Canadian and Japanese regulatory agencies. According to Ranbaxy, this facility will only be completely utilized when it starts supplying to US.

### Europe—focus on generating higher profits rather than topline

After the extensive, cost-cutting initiatives undertaken in Europe in 2009, Ranbaxy claims it is now profitable for the first time in Europe. Some of the cost-cutting measures undertaken are below—

- ▶ Ranbaxy has shut down its facility in Bucharest, it now has two manufacturing facilities in Romania and Ireland in Europe. Some of the products to CIS markets are being supplied from the Romanian facility while Ireland is manufacturing for Western Europe. Ranbaxy has also started selling in smaller markets like Netherlands, Belgium.
- ▶ It has downsized sales force and shifted to a contract sales force where the MRs are free to work with other companies too. Sales force productivity has increased post this change.
- ▶ 3 corporate offices have been shut down in EU with many more changes brought about at the corporate level.
- ▶ Romania bioequivalence facility is now doing a lot of global work and costs are at par with India.

### Growth in India to pick up to above-market rates only by year-end

Given that Project Viraat just started in Jan 2010, growth in domestic market is likely to pick up to 15% by 4Q10. In 2009, domestic market grew 9% with supernormal growth of 21% in 2Q09 due to tenders.

- ▶ Through the new initiative, Ranbaxy expects to expand its doctor coverage to greater than 350,000 by 2012, up from the 200,000 currently.
- ▶ Ranbaxy has hired nearly 1,500 MRs taking its total salesforce to 4,300. The salesforce teams have been reorganized into 26 teams with focus in new areas such as women's health/pain mgmt/hospitals.
- ▶ Products have been divided into two categories—one for the masses and one for the "classes", or residents of metros and cities. For instance, drugs for cancer, hypertension, etc., will need a more class-based approach because that is where the market is. But the anti-infectives and OTC products will be marketed through a more mass-based approach.
- ▶ Benefits of partnerships in Zenotech/Krebs/Jupiter/Biovel are still some time away. Warrants for increasing shareholding in Jupiter, have not been converted given that conversion price is greater than current market price.
- ▶ Vaccines pipeline acquired in Jan 2010 from Biovel will kick in from 2014E with launch in India first followed by emerging markets.
- ▶ Prasugrel, second product to be launched from Daiichi portfolio is not product patented in India. This product was first licensed to Lilly for India and then subsequently launched by Ranbaxy in India. The number of launches from Daiichi portfolio will be limited due to small pipeline of NCEs at Daiichi. Moreover, some products had been already licensed to 3rd parties, an arrangement which will have to be reworked as in the case of Prasugrel or GLXO deal with Daiichi in the case of Olmesartan.

### Africa will be a key market among Ranbaxy's non-advanced markets

Ranbaxy is looking to increase its revenues from Africa over next three years to US\$250 mn per annum from around US\$125 in 2009 implying 26% CAGR. Ranbaxy's new facility in S. Africa can produce 2.3 bn tablets, making it one of the largest oral dose facilities in that country. This will enable it to gain a good share of local tender business, where it plans to remain active.

### Various Initiatives to realize synergies from Daiichi-Ranbaxy hybrid model have been implemented

Three important initiatives to realize these synergies have now been implemented. Other synergies relating to backend initiatives/supply chain will occur overtime. These are—

- ▶ **DS has no presence in Mexico, Africa**, while these are markets where Ranbaxy is present. Towards this end, a separate marketing division, Daiichi Sankyo Division, was created within Ranbaxy's Mexican subsidiary and two products—Olmesartan and Prasugrel will be launched through this division. Similarly, Ranbaxy will launch Olmesartan in six African countries as soon as the necessary measures have been completed in each country.
- ▶ **Establishment of Daiichi Espha** for Japanese generics market. Since Japan is a brand conscious market requiring local partnership, a subsidiary named Daiichi Espha has been established for marketing off patent/generic products in Japan. As of now, no filings have been made, and the identified products are being developed. These products will first be sold on 3rd party manufacturing and later through Ranbaxy's manufacturing unit in India.
- ▶ **NDDR deal**: Ranbaxy's New Drug Discovery Research (NDDR) has been transferred to Daiichi Sankyo.
  - Annual R&D spend is US\$100 mn with 20-25% of the total spend in NDDR, and Ranbaxy will likely save 70% of this NDDR spend until the FDA issues are resolved. Once the Dewas/Mohali facility are approved by US FDA, Ranbaxy believes savings on NDDR front will be covered by increased spend on ANDA filings.
  - Ranbaxy will continue to independently develop and later commercialize the anti-malaria combination drug—arterolane and piperazine, which is currently in Phase III trials. The Malaria compound is likely to be launched in India in 2011E. Ranbaxy believes the cost of trials will not be large due to assistance from govt agencies (Department of Science and Technology, will cover part of the trial costs done in India).
  - Ranbaxy R&D will retain the GSK R&D partnership where Ranbaxy is working on late-stage programs for GSK in areas of anti-infectives, metabolic disorders and respiratory products.

## Profit and loss statement, December fiscal year-ends, 2006-2011E

	2,006	2,007	2,008	2009	2010E	2011E
<b>Net sales</b>	<b>60,183</b>	<b>67,440</b>	<b>72,245</b>	<b>73,294</b>	<b>79,698</b>	<b>83,882</b>
<b>Operating expenses</b>						
Materials	(23,733)	(27,217)	(31,831)	(32,080)	(27,006)	(29,749)
Selling and administration	(17,822)	(21,187)	(23,844)	(22,591)	(25,787)	(28,580)
Employee cost	(7,955)	(8,918)	(12,626)	(13,537)	(15,568)	(17,903)
Others	(3,099)	(3,353)	—	(637)	—	—
<b>Total expenditure</b>	<b>(52,608)</b>	<b>(60,675)</b>	<b>(68,301)</b>	<b>(68,845)</b>	<b>(68,361)</b>	<b>(76,231)</b>
<b>EBITDA</b>	<b>7,574</b>	<b>6,765</b>	<b>3,944</b>	<b>4,449</b>	<b>11,338</b>	<b>7,650</b>
Depreciation and amortisation	(1,843)	(2,183)	(2,825)	(2,676)	(3,200)	(3,450)
<b>EBIT</b>	<b>5,731</b>	<b>4,581</b>	<b>1,119</b>	<b>1,773</b>	<b>8,137</b>	<b>4,200</b>
Net finance cost	(1,036)	(1,412)	(2,055)	(710)	(848)	(800)
Other income	1,815	7,776	(14,064)	9,036	10,094	3,200
<b>Pretax profits before extra-ordinaries</b>	<b>6,510</b>	<b>10,946</b>	<b>(15,000)</b>	<b>10,099</b>	<b>17,384</b>	<b>6,600</b>
Current tax	(535)	(1,056)	(860)	(1,103)	(4,840)	(786)
Deferred tax	(822)	(1,063)	6,510	(5,888)	(500)	(600)
<b>Reported net profit</b>	<b>5,153</b>	<b>8,827</b>	<b>(9,350)</b>	<b>3,108</b>	<b>12,043</b>	<b>5,214</b>
Minority Interests	50	122	162	142	146	200
<b>Reported net profit after minority interests</b>	<b>5,103</b>	<b>8,705</b>	<b>(9,512)</b>	<b>2,966</b>	<b>11,898</b>	<b>5,014</b>
Exceptional items	—	—	—	—	—	—
<b>Reported net profit after minority interests and excep. Items</b>	<b>5,103</b>	<b>8,705</b>	<b>(9,512)</b>	<b>2,966</b>	<b>11,898</b>	<b>5,014</b>

Source: Kotak Institutional Equities estimates, Company

## Balance sheet, cash model, December fiscal year-ends, 2006-2011E

	2006	2007	2008	2009	2010E	2011E
<b>Balance sheet</b>						
Total equity	25,859	28,034	42,962	43,434	53,386	56,395
Total debt	39,556	41,416	42,848	36,295	18,451	20,236
Current liabilities	17,597	21,327	45,883	41,112	45,997	42,855
Minority Interests	334	571	675	533	679	879
Deferred tax liabilities	654	1,434	(12,229)	(4,745)	(4,245)	(3,645)
<b>Total equity and liabilities</b>	<b>84,001</b>	<b>92,782</b>	<b>120,139</b>	<b>116,629</b>	<b>114,267</b>	<b>116,719</b>
Cash and cash equivalents	2,951	4,379	23,957	12,416	5,000	5,500
Current assets	38,153	40,381	41,144	47,670	53,227	55,914
<b>Net fixed assets</b>	<b>19,587</b>	<b>19,909</b>	<b>21,365</b>	<b>21,393</b>	<b>21,490</b>	<b>21,405</b>
Intangible assets	19,366	22,136	23,535	23,512	22,912	22,262
Capital -WIP	3,581	3,574	4,707	6,231	6,231	6,231
Investments	362	2,403	5,431	5,407	5,407	5,407
<b>Total assets</b>	<b>84,001</b>	<b>92,782</b>	<b>120,139</b>	<b>116,629</b>	<b>114,267</b>	<b>116,719</b>
<b>Free cash flow</b>						
Operating cash flow, excl. working capital	7,021	11,170	(5,900)	5,096	14,331	7,698
Working capital	(4,403)	1,119	26,413	(11,297)	(2,658)	(5,848)
Capital expenditure	(19,239)	(4,509)	(7,385)	(2,368)	(2,098)	—
Investments	—	—	—	—	—	—
<b>Free cash flow</b>	<b>(16,621)</b>	<b>7,780</b>	<b>13,127</b>	<b>(8,569)</b>	<b>9,576</b>	<b>1,850</b>

Source: Kotak Institutional Equities estimates, Company

JULY 12, 2010

UPDATE

BSE-30: 17,937

**May 2010 IIP: What goes up must come down.** After the April surprise on the upside, IIP growth surprised the markets on the downside in no small measure. May outturn came in at 11.5% against market expectations of 16.2%. Also, the April growth was revised downwards to 16.5% from 17.6%. Manufacturing sector growth decelerated to 12.3% against 17.9% in April, a month ahead of deceleration expected on account of waning away of strong positive base effects.

### IIP growth rate at 11.5%, markets expected 16.2%

Contrary to market expectations, IIP growth for May 2010 dropped to 11.5% (see Exhibit 1). Though still a double-digit growth, it gave a wake-up call to markets that 'what goes up, must come down' and that growth is unlikely to stay in double digits forever. Mining and quarrying, expectedly, was weaker than the previous few months. However, disappointment came from (1) sharp deceleration in manufacturing and (2) CSO putting the electricity growth at 6.1% lower than the 6.5% growth evident from power ministry's data. Manufacturing typically shows a seasonal m/m jump of about 5% in May, but this year it contracted by 0.6%. The last time May saw a negative m/m growth was in 1998. Surprise downward revision in April data further magnified the lower y/y growth in May.

### Capital and consumer goods deceleration dampens manufacturing outturn

An m/m drop of 9.7% in capital goods and 0.7% in consumer durables contributed to the manufacturing deceleration (see Exhibit 2). Capital goods growth decelerated to 34.3% y/y from about 70% y/y in the preceding month. The m/m drop in consumer durables was also a bit surprising as May was distinctly better than April for autos with cars and 2-wheelers recording an m/m expansion and CVs staying flat (see Exhibit 3). Non-durable consumer goods still continue to disappoint despite good Rabi crop. Food products that form a major component of these grew at 5.7% against April growth of 22.9%. Machinery and equipments sector also witnessed a drop in the growth rate to 25% compared to 55% in April. On m/m basis, the aforementioned sectors (food products and machinery and equipment) fell by 17% and 11%, respectively, from April. The slowdown in mining sector came from dismal performance of crude oil and coal that are the part of the six core industries (see Exhibit 4).

### We now expect single-digit IIP growth from June; 8-9% in FY2011E

Considering that IIP growth has weakened ahead of June when base effects start waning, we are reverting back to our earlier IIP growth forecast of 8-9% for FY2011E. We had earlier after seeing the strong April IIP growth of 17.6% said that a double digit growth was possible. We continue to acknowledge the fact that there could be an upside if the investment demand kicks in a big way and downside in case of event risks like a contagion from euro region or a monsoon failure again. However, as a base case we see single-digit IIP growth in almost all the months for the rest of the year, with the possibility that the June IIP growth may drop further to around 6.5%.

### RBI's calibrated hikes unlikely to be influenced

In our assessment, even though today's outturn has taken the markets by surprise, it is unlikely to deter the RBI's stance on gradual increase in policy rates. We expect June WPI inflation (data release due at noon on July 14) to rise further to 10.6% from 10.2% in May. We also expect April inflation to be revised upwards to 10.5% from 9.6%. We see these developments giving sufficient headroom to hike policy rates by another 25 bps in RBI's July 27 meeting (see our Economy note of July 5, 2010, 'RBI rate action amidst monetary policy inertia').

### QUICK NUMBERS

- IIP growth rate lower-than-expected at 11.5%; April number revised down to 16.5% from 17.6%
- Manufacturing sector production at 12.3% after 17.9% in April; Capital goods sector grows at 34.3%
- June IIP likely to be at 6.5%; FY2011E at 8-9%
- We still expect a 25 bps rate hike in the July 27 meeting

Mridul Saggar  
mridul.saggar@kotak.com  
Mumbai: +91-22-6634-1245

Suvodeep Rakshit  
suvodeep.rakshit@kotak.com  
Mumbai: +91-22-6634-1409

Exhibit 1: May IIP growth slows down after an unexpected April outturn  
Sectoral classification of IIP growth, March fiscal year-ends, 2009-2011 (%)

	Mining (%)			Manufacturing (%)			Electricity (%)			General (%)		
	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010	2011
<b>Weights (%)</b>	<b>10.5</b>			<b>79.4</b>			<b>10.2</b>			<b>100.0</b>		
April	6.1	3.4	11.7	6.7	0.4	17.9	1.4	7.1	6.5	6.2	1.1	16.5
May	5.5	3.4	8.7	4.5	1.8	12.3	2.0	3.3	6.1	4.4	2.1	11.5
June	0.1	14.2		6.1	8.0		2.6	8.0		5.4	8.3	
July	2.8	8.7		6.9	7.4		4.5	4.2		6.4	7.2	
August	2.8	11.0		1.7	10.6		0.8	10.6		1.7	10.6	
September	5.8	7.4		6.2	9.7		4.4	7.5		6.0	9.3	
October	3.2	9.1		(0.6)	10.9		4.4	4.0		0.1	10.2	
November	0.7	10.7		2.7	13.1		2.6	1.8		2.5	12.0	
December	2.2	11.1		(0.6)	19.4		1.6	5.4		(0.2)	17.7	
January	0.7	15.3		1.0	17.4		1.8	5.6		1.0	16.3	
February	(0.2)	11.0		0.2	15.7		0.7	7.3		0.2	14.7	
March	1.9	11.8		(0.3)	14.7		6.3	7.7		0.3	13.9	
<b>April-March (FY)</b>	<b>2.6</b>	<b>9.8</b>		<b>2.7</b>	<b>10.9</b>		<b>2.8</b>	<b>6.0</b>		<b>2.7</b>	<b>10.4</b>	

Source: Central Statistical Organization, Kotak Institutional Equities

Exhibit 2: Capital goods production registers a sharp fall  
Use-based classification of IIP growth, March fiscal year-ends, 2009-2011 (%)

	Basic goods			Capital goods			Intermediate goods			Consumer goods			Consumer durables			Consumer non-durables		
	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010	2011
<b>Weights (%)</b>	<b>35.6</b>			<b>9.3</b>			<b>26.5</b>			<b>28.7</b>			<b>5.4</b>			<b>23.3</b>		
April	4.0	4.5	9.0	12.4	(5.9)	69.9	3.1	7.9	10.6	8.5	(4.6)	11.9	3.2	17.6	32.8	10.0	(10.5)	4.5
May	3.0	3.8	7.9	4.3	(3.6)	34.3	1.9	6.6	10.1	7.4	(1.1)	8.2	2.8	13.2	23.7	9.0	(5.5)	2.4
June	2.2	10.7		7.8	13.4		2.8	7.9		9.9	4.4		4.6	16.2		11.6	0.7	
July	5.3	4.7		17.9	1.7		3.0	9.8		5.9	9.7		13.9	22.1		3.4	5.3	
August	3.9	7.7		0.9	9.2		(5.5)	14.4		6.4	10.9		3.9	24.7		7.3	6.1	
September	5.0	5.3		20.8	13.5		(2.5)	11.0		7.4	9.7		14.7	24.1		4.8	4.1	
October	3.2	4.0		4.2	10.2		(4.4)	15.5		(0.9)	12.1		(1.6)	20.0		(0.6)	9.0	
November	2.2	6.0		0.5	11.1		(3.9)	19.6		9.4	12.2		0.3	38.1		12.4	4.5	
December	2.0	8.4		6.6	38.7		(8.9)	22.8		1.7	13.1		(4.2)	45.9		3.2	5.2	
January	(0.7)	11.5		15.9	53.7		(7.2)	21.9		3.6	3.0		2.1	31.7		4.0	(4.7)	
February	(0.1)	8.5		11.8	44.0		(3.0)	14.8		(1.3)	8.4		6.0	30.3		(3.4)	1.6	
March	1.9	10.4		(6.3)	28.4		1.9	13.1		1.3	10.7		8.4	32.6		(1.0)	3.3	
<b>April-March (FY)</b>	<b>2.6</b>	<b>7.1</b>		<b>7.3</b>	<b>19.1</b>		<b>(1.9)</b>	<b>13.6</b>		<b>4.7</b>	<b>7.3</b>		<b>4.5</b>	<b>26.2</b>		<b>4.8</b>	<b>1.3</b>	

Source: Central, Statistical Organization, Kotak Institutional Equities

Exhibit 3: May automobile sales were clearly better than sales in April and June  
Sales of cars, CVs and 2-wheelers consolidated across firms

Month	Cars	CVs	2-wheeler	YOY % growth			MoM % growth		
				Cars	CVs	2Ws	Cars	CVs	2Ws
Apr-10	157,294	49,086	855,670	38	64	22	(8)	(27)	(7)
May-10	165,143	48,580	936,555	32	58	29	5	(1)	9
Jun-10	155,697	52,211	933,101	32	44	32	(6)	7	(0)

Source: SIAM, Kotak Institutional Equities

## Exhibit 4: Core sector growth muted in May

Sector-wise growth rates in production for six infrastructure industries, March fiscal year-ends, 2009-2011 (%)

	Crude Oil			Refinery			Coal			Electricity			Cement			Finished Steel			General		
	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010	2011
<b>Weights (%)</b>	<b>4.2</b>			<b>2.0</b>			<b>3.2</b>			<b>10.2</b>			<b>2.0</b>			<b>5.1</b>			<b>26.7</b>		
April	1.0	(3.1)	5.2	4.3	(4.5)	5.3	10.3	14.3	(2.3)	1.4	6.7	6.0	6.9	11.9	8.7	7.5	(1.3)	4.7	4.6	3.7	5.1
May	3.2	(4.3)	5.8	0.1	(4.3)	7.7	8.8	10.2	0.1	2.0	3.3	6.4	3.8	11.8	8.6	8.3	2.8	2.5	4.4	3.2	4.9
June	(4.7)	4.0		5.6	(3.8)		6.1	14.7		2.6	8.0		6.6	12.7		8.1	3.6		4.4	6.3	
July	(3.0)	(0.4)		11.8	(14.4)		5.5	9.7		4.5	4.2		5.5	13.8		6.3	4.0		5.2	3.2	
August	(1.0)	(2.6)		2.5	3.1		5.9	12.9		0.8	10.6		1.9	17.5		3.3	0.3		2.0	6.5	
September	(0.4)	(0.5)		2.8	3.4		11.2	6.5		4.4	7.9		8.1	6.5		2.3	0.8		4.1	4.5	
October	(0.2)	(2.2)		5.0	7.2		10.6	5.0		4.4	4.7		6.2	5.3		(3.8)	2.5		2.4	3.8	
November	0.5	(1.5)		(1.1)	4.9		9.7	4.7		2.6	3.3		8.7	9.0		(6.3)	11.7		0.8	6.0	
December	(0.3)	1.1		3.0	0.8		11.2	2.5		1.5	6.7		11.6	11.0		(8.0)	9.6		0.7	6.4	
January	(8.1)	9.7		(1.3)	3.8		6.7	5.9		1.8	6.7		8.3	12.4		3.2	15.3		2.2	9.5	
February	(6.2)	3.9		0.5	0.7		6.0	6.8		0.6	7.3		8.3	7.9		2.4	0.9		1.9	4.7	
March	(2.3)	3.5		3.3	(0.4)		5.3	9.2		6.3	7.8		10.1	7.8		(1.8)	9.2		3.3	7.3	
<b>April-March (FY)</b>	<b>(1.8)</b>	<b>0.5</b>		<b>3.0</b>	<b>(0.4)</b>		<b>8.0</b>	<b>8.2</b>		<b>2.7</b>	<b>6.4</b>		<b>7.2</b>	<b>10.5</b>		<b>1.6</b>	<b>4.9</b>		<b>3.0</b>	<b>5.5</b>	

Source: Central Statistical Organization, Kotak Institutional Equities

JULY 12, 2010

UPDATE

BSE-30: 17,937

**Auto tracker –July 2010.** Demand remained strong in June though passenger car and UV disbursements were impacted by shutdowns and component shortages. CVs performed the best among segments with a 7.5% sequential improvement while two-wheelers were flat and passenger cars were down sequentially. Our raw material index has declined 15% from April levels and could drive earnings upgrades. We expect 1QFY11E margins to decline sequentially as they reflect pre-May commodity spot prices.

### 2-wheelers: Volumes sustain at recent highs

2-wheeler sales for June were flat from May and up 32% on a yoy basis. Within 2-wheeler segments, scooters experienced a 5% increase while motorcycle volumes declined slightly. Hero Honda's domestic motorcycle volumes declined 2.4% sequentially while Bajaj's domestic motorcycle volumes were down 3% sequentially. On the new entrant front, HMSI shipped close to 14,700 units of CB Twister 110cc bike and Mahindra's scooter volumes totaled 9,140 units in June. On the market share front, Hero Honda lost 60 bps of share from May and 730 bps of share from June'09. On an mom basis, Yamaha and HMSI totally gained close to 100 bps of share.

### Domestic passenger car sales declined 6% from May on Maruti's maintenance shutdown

Industry car sales grew 32% yoy and were down 6% from May. The sequential decline was largely driven by scheduled maintenance at Maruti, which saw its domestic volumes decline 20% from May. As a result, Maruti's share declined 800 bps from May. Share declined on a yoy basis as well by 610 bps, reflecting the higher competition in the compact segment. Ford continued to ship over 6,000 units of the Figo in May and maintained 6% share of compact segment while GM saw its compact segment sales bounce back to 6,700 units. Ford and GM combined gained 880 bps of share in the compact segment. M&M's UV volumes decreased 2.6% yoy and 5.4% from May as the company also had a week-long maintenance shutdown that was taken in May last year. So the comparisons are not fair.

### M&HCV volumes jump 14% sequentially resulting in stronger-than-expected 1QFY11

Industry CV sales were up 7.5% from May and up 44% on a yoy basis. Volumes bounced back after a slightly weaker-than-anticipated May. M&HCV volumes were up 14% sequentially while LCVs were up 2% from May. Tata Motors lost 630 bps of share yoy in the M&HCV segment while Ashok Leyland gained 660 bps of share over the same time period. The company's share in the LCV segment also saw a decline of 390 bps yoy as new entrants enter the segment. M&M's "less than 3.5 ton" LCV volumes increased 54% yoy on new products such as the GIO and Maxximo.

### FY2011E volume estimates may see upside; earnings may track volumes if commodities co-operate

We believe total automotive industry volumes are on track to grow at the 15-20% range in FY2011E. But our earnings growth estimates could have upside if commodity prices stay at current levels as we have modeled 100-150 bps of margin decline for most companies. This possibility and more reasonable valuations make us selectively positive on the sector. M&M remains our top pick, followed by Tata Motors. We like the volume growth story at M&M and recently upped our tractor growth estimates. We would be opportunistic on Maruti and accumulate at lower levels as we think concerns regarding competition and currency might cap upside on the stock. On Tata Motors, we believe the turnaround at JLR could be stronger than anticipated. We are cautious on the 2-wheeler space given high volume expectations. While strong demand is masking competitive pressure for now, we see increased chances of a price war as and when growth slows down.

Jairam Nathan CFA  
jairam.nathan@kotak.com  
Mumbai: +91-22-6634-1327

Kotak Institutional Equities Research  
kotak.research@kotak.com  
Mumbai: +91-22-6634-1100



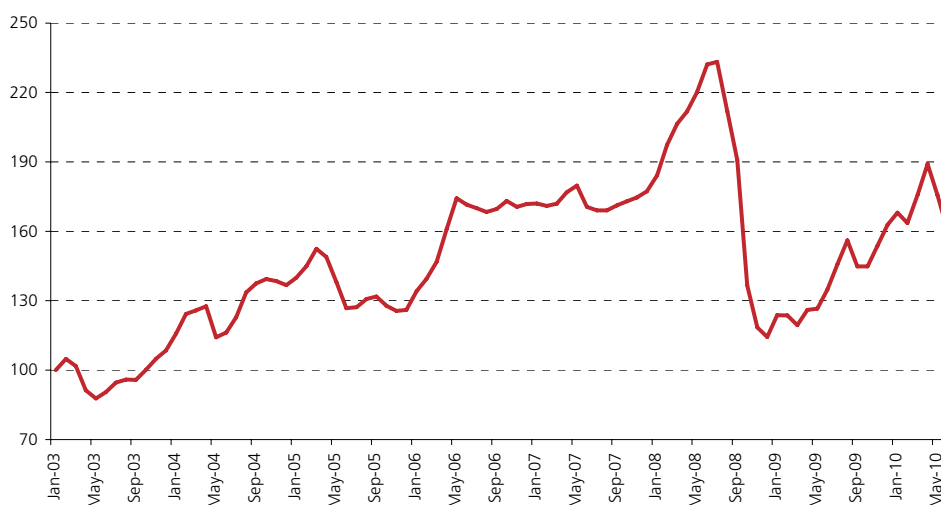
## Automobile Industry Summary: May 2010

	YOY			MOM			YTD		
	May-10	May-09	% chg yoy	May-10	Apr-10	% chg mom	FY2011	FY2010	% chg yoy
<b>Industry: domestic sales (units)</b>									
Scooters	157,509	108,265	45.5	157,509	148,247	6.2	305,756	205,394	48.9
Motorcycles	725,311	576,537	25.8	725,311	656,119	10.5	1,381,430	1,138,894	21.3
Mopeds	53,735	42,433	26.6	53,735	51,304	4.7	105,039	83,348	26.0
<b>Total two-wheelers</b>	<b>936,555</b>	<b>727,923</b>	<b>28.7</b>	<b>936,555</b>	<b>855,670</b>	<b>9.5</b>	<b>1,792,225</b>	<b>1,428,918</b>	<b>25.4</b>
<b>Three-wheelers</b>	<b>33,141</b>	<b>30,036</b>	<b>10.3</b>	<b>33,141</b>	<b>33,144</b>	<b>(0.0)</b>	<b>66,285</b>	<b>57,561</b>	<b>15.2</b>
M&HCVs	22,892	12,181	87.9	22,892	22,327	2.5	45,219	23,204	94.9
LCVs	25,688	18,622	37.9	25,688	26,759	(4.0)	52,447	37,441	40.1
<b>Total CVs</b>	<b>48,580</b>	<b>30,803</b>	<b>57.7</b>	<b>48,580</b>	<b>49,086</b>	<b>(1.0)</b>	<b>97,666</b>	<b>60,645</b>	<b>61.0</b>
Passenger cars	165,143	124,679	32.5	165,143	157,294	5.0	322,437	238,384	35.3
Utility vehicles	25,432	16,266	56.4	25,432	24,887	2.2	50,319	38,588	30.4
<b>Company: domestic sales (units)</b>									
Hero Honda: motorcycles	401,320	359,145	11.7	401,320	338,708	18.5	740,028	707,277	4.6
Bajaj Auto: motorcycles	191,726	113,630	68.7	191,726	187,994	2.0	379,720	220,146	72.5
Bajaj Auto: three-wheelers	11,752	12,537	(6.3)	11,752	11,540	1.8	23,292	22,734	2.5
TVS Motor: motorcycles	52,319	43,165	21.2	52,319	49,008	6.8	101,327	87,403	15.9
Maruti: passenger cars	89,073	70,497	26.4	89,073	79,322	12.3	168,395	134,449	25.2
Tata Motors: passenger cars	22,327	16,286	37.1	22,327	22,426	(0.4)	44,753	30,242	48.0
Tata Motors: M&HCVs	13,860	8,624	60.7	13,860	13,157	5.3	27,017	16,677	62.0
Tata Motors: LCVs	13,755	10,861	26.6	13,755	14,834	(7.3)	28,589	22,681	26.0
Ashok Leyland: M&HCVs	5,890	1,643	258.5	5,890	5,950	(1.0)	11,840	3,234	266.1
M&M: utility vehicles	13,476	8,033	67.8	13,476	12,614	6.8	26,090	21,944	18.9
<b>Domestic market shares (%)</b>									
Hero Honda: motorcycles	55.3	62.3	(7.0)	55.3	51.6	3.7	53.6	62.1	(8.5)
Bajaj Auto: motorcycles	26.4	19.7	6.7	26.4	28.7	(2.2)	27.5	19.3	8.2
Bajaj Auto: three-wheelers	35.5	41.7	(6.3)	35.5	34.8	0.6	35.1	39.5	(4.4)
TVS Motor: motorcycles	7.2	7.5	(0.3)	7.2	7.5	(0.3)	7.3	7.7	(0.3)
Maruti: passenger cars	53.9	56.5	(2.6)	53.9	50.4	3.5	52.2	56.4	(4.2)
Tata Motors: passenger cars	13.5	13.1	0.5	13.5	14.3	(0.7)	13.9	12.7	1.2
Tata Motors: M&HCVs	60.5	70.8	(10.3)	60.5	58.9	1.6	59.7	71.9	(12.1)
Tata Motors: LCVs	53.5	58.3	(4.8)	53.5	55.4	(1.9)	54.5	60.6	(6.1)
Ashok Leyland: M&HCVs	25.7	13.5	12.2	25.7	26.6	(0.9)	26.2	13.9	12.2
M&M: utility vehicles	53.0	49.4	3.6	53.0	50.7	2.3	51.8	56.9	(5.0)

Source: SIAM, Kotak Institutional Equities estimates

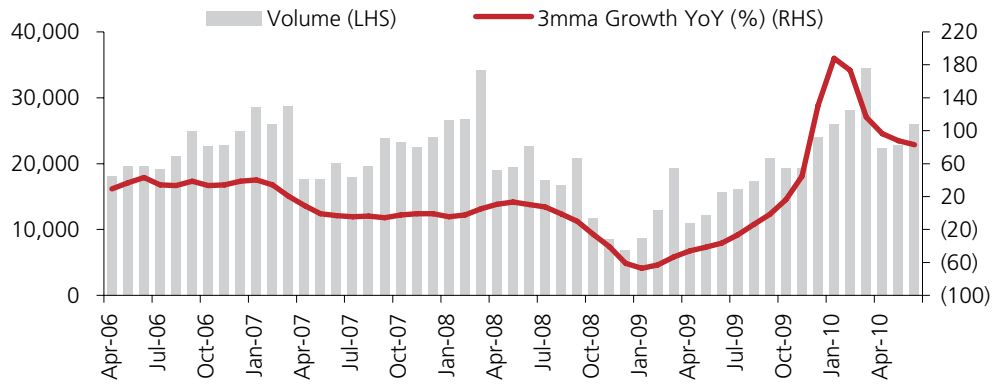
## Commodity prices have eased a bit recently

Kotak's automotive raw material index (Base Jan'03= 100)



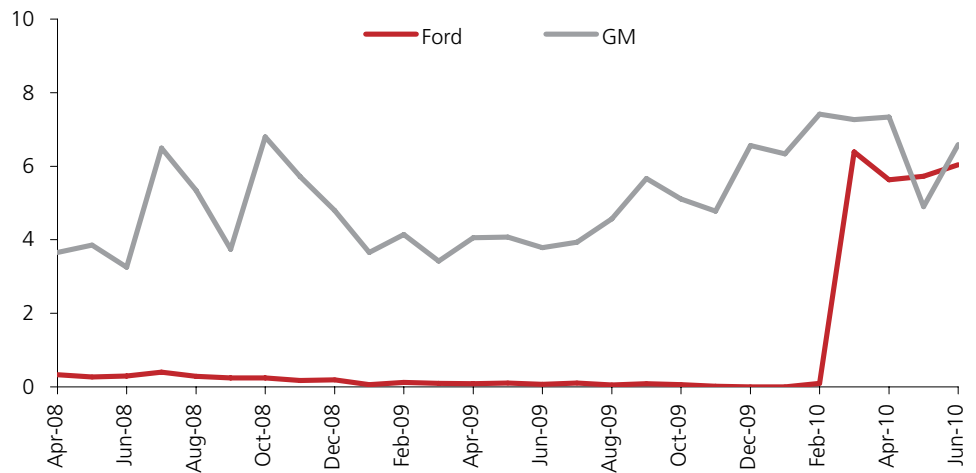
Source: Datastream, Kotak Institutional Equities estimates

**M&HCV volumes have a strong showing in June**  
Honda—motorcycle segment share performance



Source: SIAM, Kotak Institutional Equities estimates

**New launches have boosted market shares of Ford and GM, which has primarily come from Hyundai**  
Ford & GM compact segment share



Source: SIAM, Kotak Institutional Equities estimates

JULY 12, 2010

UPDATE

BSE-30: 17,937

**Fundamentals don't justify the excitement.** We reiterate our Cautious coverage view on the Indian telecom sector. Bharti, RCOM and Idea are all trading at expensive valuations, at or above the pre-3G-auction-start levels, on the back of perceived reduction in competitive intensity in the market and of course, the post-facto justification of 3G/BWA spectrum payouts! We view the recent bounce as a great opportunity to sell Indian telcos.

**Price wars continue in subtle, non-headline-grabbing ways; we expect pressure to sustain**

A lull in headline tariff cuts in the market has certain sections of the market believe that the competitive intensity in the Indian wireless market has started waning. We would be wary of extrapolating the recent 'non-activity' on tariffs as the end of price competition in the Indian wireless industry. As depicted in Exhibit 1 (we have taken the Kolkata circle as an example), tariff competition continues unabated in the form of 'special tariff voucher (STV)' launches, which serve as precursors to another round of tariff wars in the market, in our view.

**Focus on absolute revs; 'reasonable' mkt share protection in a shrinking pie is no good**

Even as the leading incumbents have done reasonably well protecting their revenue market share despite the onslaught of new competition in the market, we highlight that competition has impacted the industry structure in several ways –

- ▶ The overall size of the industry has barely grown in the past 5 quarters (since Dec 2008) – reported SIM-cards-in-use (SCIU) growth of 70% over the timeframe has translated into just 2.4% net revenue growth for the industry,
- ▶ Changed consumer behavior – sustained new tariff launches, in addition to wide availability of 'dual-sim' handsets, has meant that the price-sensitive, value-seeking section of the subscriber base now proactively seeks deals in the market for her outgoing usage, while keeping her primary SIM for incoming calls, and
- ▶ Increased the fight for distribution presence, resulting in an increase in commissions paid to the trade channel.

**Recent surge in stock prices a great opportunity to sell**

A (misplaced, in our view) view of pricing stability, post-facto justification of 3G payouts, and expectation of regulatory relief (in the form of TRAI recommendations not being accepted 100%) has driven the recent uptick in the stock prices of the Indian telcos. More importantly, prices are back to (or above, in case of RCOM) their pre-3G-auction levels despite –

- ▶ Results of the 3G/BWA auctions – more than the payout levels, what worries us is that players like RCOM (in Mumbai and Delhi), TTSL, and Aircel have participated aggressively – with a clear eye on the leading incumbents' top-end subs, in our view; also, we would be wary of ignoring the payouts made for BWA spectrum and RIL's re-entry into the market through these auctions,
- ▶ TRAI recommendations – negative for the sector, even if accepted partially, and
- ▶ New network launches – Uninor recently launched operations in 5 circles, after a zero-new-network-rollout March 2010 quarter; Aircel has also launched operations in 2 more circles.

Rohit Chordia  
rohit.chordia@kotak.com  
Mumbai: +91-22-6634-1397

Kawaljeet Saluja  
kawaljeet.saluja@kotak.com  
Mumbai: +91-22-6634-1243

Vineet Thodge  
vineet.thodge@kotak.com  
Mumbai: +91-22-6634-1225

Kotak Institutional Equities Research  
kotak.research@kotak.com  
Mumbai: +91-22-6634-1100

### Post-facto justification of 3G payouts surprising

We continue to find the competition-driven (and hence not irrational) stretched payouts for the 3G spectrum (clearing price of US\$3.7 bn for a pan-India slot) value destructive. We also highlight that the high payouts for BWA spectrum (and the re-entry of RIL into the industry through BWA auctions) increases the amount of capital chasing the expected data upside in the country.

A positive spin on the sustained entry of fresh capital in the industry (new UAS licenses bought in 2008 and subsequent network rollouts, a total payout of Rs767 bn for 3G/BWA spectrum by private players) can be the still-untapped rural penetration and data upside potential in the country. We agree with the possibility of S-curve growth in both rural telephony and data business in India, but note that fresh capital (especially coming from a new entrant) chases subscriber/revenue market share in initial years, without worrying about profitability.

**A new player does not worry about the shrinkage of current revenue pie as long as it can grow revenues by gaining market share. Market share gain for a new player demands pricing aggressiveness, given weakness on coverage, brand, and distribution strength as compared to incumbents.** Rationality (a new player can not build a business case being a price warrior) argument does not hold when the only chance (however feeble) that a new operator has, of building a business case, is to play the price card in the initial phase – rationality bounded by the market/competitive dynamics.

Let's also not forget that companies like Aircel, TTSL, and even RCOM (in Mumbai and Delhi) have bid aggressively for 3G spectrum in circles where they do not command high revenue market share. For example, it does not make sense to us that an Aircel has forked out Rs15.8 bn for 3G spectrum in the Karnataka circle, if it is content to play in the low-end segment and let Bharti continue to enjoy its 52% wireless AGR market share in the circle.

MNP rollout would further facilitate these companies' drive for high-end-subscribers market share and will likely result in some serious price action in the top-end segment of the market. For us, it would be naïve to assume that the number-sensitive (typically high-end) sub in the market would not succumb to the temptation of a lower monthly mobile bill, if she gets to keep her number with the same service quality; it would be equally naïve to assume that the aggression shown by the Indian operators in 3G auctions has little to do with this segment of the market.

### **We do not see competitive intensity easing; valuations do not excite either. Reiterate Cautious coverage view**

Competitive intensity in the low-end voice segment is already high with the recent 2G entrants focusing on urban low-end churn to gain subscribers. **We expect competitive intensity in the high-end segment of the market to increase with MNP rollout and 3G network launches. Data usage increase, expected to usher the next phase of strong growth in the Indian telecom market, has already attracted enough interest to keep operators honest and returns in check.** Traditional M&A-led consolidation does not seem imminent with unfavorable regulations and stretched balance sheets of most incumbents (a new player buying stake in an incumbent does not consolidate the industry).

Most importantly, negatives are still not in the price - Bharti, Idea, and RCOM, trade at adjusted (for Zain/3G/BWA in Bharti's case, for 3G in Idea's and RCOM's) FY2012E EV/EBITDA of 6.3 X, 8.5X and 7.6X, respectively, expensive, in our view. We reiterate our Cautious coverage view on the sector.

Exhibit 1: Tariff wars continue in a subtle way - offers by operators in the Kolkata circle over the past few months

Date of launch	Operator	Offer Details	Coupon Value (Rs)	Validity (days)
29-Dec	Idea	Local calls @15p/min (day) and @ 25p/min (night)	23	30
29-Dec	Idea	Unlimited on-net calling for Rs 11	11	1
<b>10-Jan</b>	<b>Tata Docomo</b>	<b>Local calls @ 1p/2sec</b>	<b>45</b>	<b>30</b>
10-Jan	Tata Docomo	Night calls @ 1p/3sec and day calls @ 1p/2sec	65	30
<b>17-Jan</b>	<b>Aircel</b>	<b>Night on-net calling free</b>	<b>39</b>	<b>7</b>
17-Jan	Aircel	5000 SMS (local and national) free	49	30
23-Jan	Airtel	On-net calling at 30p/min	17	30
16-Feb	Tata Docomo	9000 sec of free local calling	60	10
<b>24-Feb</b>	<b>Idea</b>	<b>Local calls @ 1p/2sec</b>	<b>28</b>	<b>30</b>
<b>24-Feb</b>	<b>Idea</b>	<b>Local calls @ 30p/min, 100 SMS free every day (1st 2 SMS @ 60p)</b>	<b>60</b>	<b>30</b>
<b>24-Feb</b>	<b>Idea</b>	<b>Unlimited on-net calling</b>	<b>249</b>	<b>30</b>
24-Feb	Idea	Full talktime on recharges	25	30
1-Mar	Aircel	Local calls @1p/2sec, 100 SMS free every day (1st 2 SMS @ 60p)	45	30
1-Mar	Aircel	250 local and national SMS free	30	30
<b>1-Mar</b>	<b>Aircel</b>	<b>Unlimited on-net calling and all other calls @ 1p/sec</b>	<b>299</b>	<b>30</b>
1-Mar	Aircel	Unlimited mobile internet	98	30
1-Mar	Airtel	Full talktime on recharges	25	2
5-Mar	MTS	10p/SMS	15	15
<b>6-Mar</b>	<b>Airtel</b>	<b>Full talktime on recharges</b>	<b>150</b>	<b>15</b>
6-Mar	Tata Docomo	Local bulk packs to reduce call rates upto 25p/min	35-500	5-30
6-Mar	Tata Docomo	Bonus talktime of 10% on recharge vouchers	200-500	NA
6-Mar	Tata Docomo	10000 sec free on-net calling	14	1
11-Mar	Airtel	Rs 1/20 min on net calling between 11pm to 6 am	28	90
<b>13-Mar</b>	<b>Tata Docomo</b>	<b>Local calls @ 1p/2sec, 100 free SMS every day (rates applicable after initial 180 sec and 3 SMS)</b>	<b>61</b>	<b>180</b>
15-Mar	Vodafone	Roaming rates @ flat 50p/min, free min for post-paid customers	NA	NA
15-Mar	Vodafone	Free 10-30 SMS on recharge vouchers	10-30	3
<b>19-Mar</b>	<b>Vodafone</b>	<b>New GPRS Pack - 200 MB download</b>	<b>21</b>	<b>2</b>
<b>23-Mar</b>	<b>Airtel</b>	<b>Full talktime on e-recharges</b>	<b>160</b>	<b>Unlimited</b>
29-Apr	Airtel	Local on-net calls at 25p/min from 11PM-6PM	12	30
29-Apr	Airtel	Unlimited SMS for 10 days for Rs 26, FUP- 300 SMS per day	26	10
5-May	Aircel	On-net local calls @10p/min, off-net local @40p/min, others 50p/min	35	30
<b>7-May</b>	<b>MTS</b>	<b>Unlimited local and national SMS; FUP of 500 SMS/day</b>	<b>104</b>	<b>30</b>
11-May	Vodafone	10-30 GB data usage free	499-1400	30-90
17-May	Tata Docomo	Rs0.60 and Rs1.20 for first local and national SMS, 200 local and national SMS free	24	90
25-May	Idea	New GPRS pack - 3GB per month	98	30
26-May	Idea	Local calls @30p/min and STD calls @50p/min	6	365
26-May	<b>Vodafone</b>	<b>Full talktime on subsequent recharges, local on-net calling @1p/2sec</b>	<b>92</b>	<b>365</b>
3-Jun	BSNL	Unlimited local and STD on-net calling	28-500	1-30
		Unlimited GPRS usage	8-274	1-30
10-Jun	BSNL	2000 local and national SMS free	31	30
	BSNL	Local on-net calling @10p/min	65	30
15-Jun	Aircel	Local calls @1p/2sec	4	2
	Aircel	Local on-net calling @ 29p/min; local off-net calling @ 59p/min	34	Lifetime
	<b>Aircel</b>	<b>Local on-net calling @ 10p/min; local off-net calling @ 40p/min</b>	<b>35</b>	<b>30</b>
	Aircel	4000 local minutes free	900	30
12-Jul	Uninor	Free 1000 minutes of local on-net calling; only through e-recharge	32	30
	<b>Uninor</b>	<b>50-100 STD minutes free; only through e-recharge</b>	<b>21-41</b>	<b>30</b>
12-Jul	Idea	Local on-net calls at 10p/min	26	30
12-Jul	Idea	Unlimited on-net calling; FUP - 100 on-net minutes free	249	30
<b>12-Jul</b>	<b>Idea</b>	<b>200 Local and National SMS free</b>	<b>27</b>	<b>30</b>

Source: Companies, www.telecomtalk.info

Exhibit 2: Growth in subscribers and revenues for Indian telecom industry

	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
Gross revenues (Rs mn)	262,601	271,396	263,223	263,374	265,388	277,639
Adjusted gross revenues (Rs mn)	201,160	205,025	205,883	204,107	197,536	205,915
Subscribers (mn)	340	386	422	466	519	578
<b>Growth (qoq) (%)</b>						
Gross revenues	6.4	3.3	(3.0)	0.1	0.8	4.6
Adjusted gross revenues	9.3	1.9	0.4	(0.9)	(3.2)	4.2
Subscribers	11.9	13.7	9.2	10.5	11.4	11.3
<b>Growth over last 5 quarters (%)</b>						
Gross revenues						5.7
Adjusted gross revenues						2.4
Subscribers						70.2

Source: TRAI, COAI, AUSPI,, Kotak Institutional Equities

Exhibit 3: 3G spectrum winners and respective revenue market share

Rs mn	3G spectrum winners				Key players who missed out on 3G
<b>Metros</b>					
<b>Delhi</b>	Bharti	Vodafone	RCOM		TTSL
AGR market share (%)	39.6	24.7	10.2		12.6
<b>Mumbai</b>	Vodafone	Bharti	RCOM		TTSL
AGR market share (%)	32.2	19.6	13.5		17.3
<b>Chennai + TN</b>	Bharti	Aircel	Vodafone		
AGR market share (%)	34.4	23.3	20.3		
<b>Kolkata</b>	Vodafone	RCOM	Aircel		Bharti
AGR market share (%)	31.5	17.6	4.3		29.5
<b>A circles</b>					
<b>Andhra Pradesh</b>	Bharti	Idea	Aircel		Idea
AGR market share (%)	41.2	16.3	1.0		16.3
<b>Gujarat</b>	Vodafone	Idea	TTSL		Bharti
AGR market share (%)	42.3	17.7	5.0		19.0
<b>Karnataka</b>	Bharti	TTSL	Aircel		Vodafone
AGR market share (%)	52.2	11.0	0.8		12.8
<b>Maharashtra</b>	Idea	Vodafone	TTSL		Bharti
AGR market share (%)	31.7	19.9	12.6		20.7
<b>B circles</b>					
<b>Haryana</b>	Vodafone	Idea	TTSL		Bharti
AGR market share (%)	22.4	20.7	14.1		17.6
<b>Kerala</b>	Idea	TTSL	Aircel		Bharti
AGR market share (%)	33.6	5.7	1.8		15.7
<b>Madhya Pradesh</b>	Idea	RCOM	TTSL		Bharti
AGR market share (%)	32.8	16.8	8.1		30.7
<b>Punjab</b>	Idea	TTSL	RCOM	Aircel	Bharti
AGR market share (%)	19.2	7.1	2.5	-	39.5
<b>Rajasthan</b>	Bharti	TTSL	RCOM		Vodafone
AGR market share (%)	47.5	6.0	5.7		23.5
<b>Uttar Pradesh (east)</b>	Vodafone	Idea	Aircel		Bharti
AGR market share (%)	31.7	9.4	0.9		30.5
<b>Uttar Pradesh (west)</b>	Idea	Bharti	TTSL		Vodafone
AGR market share (%)	29.2	17.7	7.4		24.6
<b>West Bengal and A&amp;N islands</b>	Vodafone	Bharti	RCOM	Aircel	
AGR market share (%)	39.4	29.3	8.3	6.7	
<b>C circles</b>					
<b>Assam</b>	Bharti	Aircel	RCOM		
AGR market share (%)	37.5	30.4	19.4		
<b>Bihar</b>	Bharti	RCOM	Aircel	S Tel	
AGR market share (%)	50.6	13.7	5.2	0.2	
<b>Himachal Pradesh</b>	Bharti	RCOM	Idea	S Tel	
AGR market share (%)	45.6	15.9	3.8	0.5	
<b>North East</b>	Bharti	Aircel	RCOM		
AGR market share (%)	37.0	34.5	3.8		
<b>Orissa</b>	RCOM	Aircel	S Tel		Bharti
AGR market share (%)	13.8	8.1	0.0		41.2
<b>J&amp;K</b>	Bharti	Aircel	RCOM	Idea	
AGR market share (%)	20.4	19.6	3.0	0.4	

3G spectrum winner but less than 10% revenue market share

Source: DoT, TRAI

Exhibit 4: 3G auctions have leveled the playing field in terms of spectrum held

Metro and Circle	Bharti			Reliance			Vodafone/Essar			Idea			Aircel			TTSL		
	2G	3G	Total	2G	3G	Total	2G	3G	Total	2G	3G	Total	2G	3G	Total	2G	3G	Total
Calcutta	8.0		8.0	6.2	5.0	11.2	9.8	5.0	14.8	4.4		4.4	4.4	5.0	9.4	4.4		4.4
Chennai and TN	9.2	5.0	14.2	4.4		4.4	8.0	5.0	13.0	4.4		4.4	9.8	5.0	14.8	4.4		4.4
Delhi	10.0	5.0	15.0	4.4	5.0	9.4	10.0	5.0	15.0	8.0		8.0	4.4		4.4	4.4		4.4
Mumbai	9.2	5.0	14.2	4.4	5.0	9.4	10.2	5.0	15.2	4.4		4.4	4.4		4.4	4.4		4.4
Andhra Pradesh	10.0	5.0	15.0	4.4		4.4	6.2		6.2	8.0	5.0	13.0	4.4	5.0	9.4	4.4		4.4
Gujarat	6.2		6.2	4.4		4.4	9.8	5.0	14.8	6.2	5.0	11.2	4.4		4.4	4.4	5.0	9.4
Karnataka	10.0	5.0	15.0	4.4		4.4	8.0		8.0	6.2		6.2	4.4	5.0	9.4	4.4	5.0	9.4
Maharashtra	8.2		8.2	4.4		4.4	6.2	5.0	11.2	9.8	5.0	14.8	4.4		4.4	4.4	5.0	9.4
<b>Circle B</b>																		
Haryana	6.2		6.2	4.4		4.4	6.2	5.0	11.2	6.2	5.0	11.2	4.4		4.4	4.4	5.0	9.4
Kerala	6.2		6.2	4.4		4.4	6.2		6.2	8.0	5.0	13.0	4.4	5.0	9.4	4.4	5.0	9.4
Madhya Pradesh	8.0		8.0	6.2	5.0	11.2	4.4		4.4	8.0	5.0	13.0	4.4		4.4	4.4	5.0	9.4
Punjab	7.8		7.8	4.4	5.0	9.4	6.2		6.2	7.8	5.0	12.8	4.4	5.0	9.4	4.4	5.0	9.4
Rajasthan	8.2	5.0	13.2	4.4	5.0	9.4	6.2		6.2	6.2		6.2	4.4		4.4	4.4	5.0	9.4
Uttar Pradesh (E)	7.2		7.2	4.4		4.4	8.2	5.0	13.2	6.2	5.0	11.2	4.4	5.0	9.4	4.4		4.4
Uttar Pradesh (W)	6.2	5.0	11.2	4.4		4.4	6.2		6.2	8.0	5.0	13.0	4.4		4.4	4.4	5.0	9.4
West Bengal	6.2	5.0	11.2	6.2	5.0	11.2	6.2	5.0	11.2	4.4		4.4	4.4	5.0	9.4	4.4		4.4
<b>Circle C</b>																		
Assam	6.2	5.0	11.2	6.2	5.0	11.2	4.4		4.4	4.4		4.4	6.2	5.0	11.2	4.4		4.4
Bihar	9.2	5.0	14.2	8.0	5.0	13.0	4.4		4.4	4.4		4.4	4.4	5.0	9.4	4.4		4.4
Himachal Pradesh	6.2	5.0	11.2	6.2	5.0	11.2	4.4		4.4	4.4	5.0	9.4	4.4		4.4	4.4		4.4
North East	6.2	5.0	11.2	6.2	5.0	11.2	4.4		4.4	4.4		4.4	4.4	5.0	9.4	4.4		4.4
Orissa	8.0		8.0	6.2	5.0	11.2	4.4		4.4	4.4		4.4	4.4	5.0	9.4	4.4		4.4
J&K	6.2	5.0	11.2	4.4	5.0	9.4	4.4		4.4	4.4	5.0	9.4	4.4	5.0	9.4	4.4		4.4

Source: DoT

Exhibit 5: Indian telecom companies valuation analysis, March fiscal year-ends, 2008-2012E

	Price (Rs)	Target price	P/E (X)					EV/EBITDA (X)				
	12-Jul-10	(Rs)	2008	2009	2010	2011E	2012E	2008	2009	2010	2011E	2012E
Bharti	306	290	17.3	13.7	12.7	14.3	12.6	10.6	8.1	7.2	6.8	5.8
Idea	70	50	17.7	24.2	25.6	53.1	30.9	12.9	9.5	8.7	8.6	7.1
MTNL	67	50	9.3	27.7	(4.3)	(6.4)	(7.3)	1.1	(3.6)	(0.6)	(2.1)	(4.4)
RCOM	191	175	7.2	6.0	8.6	13.6	10.5	8.0	8.4	7.7	8.5	6.4
TCOM	277	225	25.3	20.4	19.8	18.3	17.7	13.3	10.2	9.1	8.3	6.8
	KS rating	Market cap. (US\$ bn)	Revenues (Rs bn)					EBITDA (Rs bn)				
			2008	2009	2010	2011E	2012E	2008	2009	2010	2011E	2012E
Bharti	REDUCE	24.8	270	370	396	422	482	113	152	160	162	181
Idea	REDUCE	5.0	67	101	124	141	175	23	28	34	35	43
MTNL	SELL	0.9	47	45	37	38	40	7	2	(9)	(7)	(5)
RCOM	SELL	8.7	191	229	223	223	260	82	93	79	67	83
TCOM	REDUCE	1.7	33	38	42	46	49	6	8	9	10	10
	Net Income (Rs bn)					EPS (Rs)						
	2008	2009	2010	2011E	2012E	2008	2009	2010	2011E	2012E		
Bharti	66	84	89	79	89	17.7	22.3	24.0	21.4	24.2		
Idea	10	9	9	4	7	3.9	2.9	2.7	1.3	2.3		
MTNL	4	1	(10)	(7)	(6)	7.1	2.4	(15.6)	(10.4)	(9.1)		
RCOM	56	67	47	30	39	26.5	31.6	22.1	14.1	18.2		
TCOM	3	4	4	4	4	10.9	13.6	14.0	15.2	15.7		

Note:

(a) Financials for Bharti do not include 3G/BWA and Zain impact, for Idea/RCOM does not include impact of 3G

Source: Kotak Institutional Equities estimates



## June 2010: Earnings announcement calendar

Mon	Tue	Wed	Thu	Fri	Sat
<b>12-Jul</b>	<b>13-Jul</b>	<b>14-Jul</b>	<b>15-Jul</b>	<b>16-Jul</b>	<b>17-Jul</b>
CMC	Exide Industries	HDFC	Axis Bank	Chambal Fertilisers & Chemicals	Canara Bank
Moser-Baer	Hotel Leela		Castrol India		Vardhman Textiles
Pfizer	Infosys		Colgate-Palmolive		
Sintex Industries			LIC Housing Finance		
			Polaris Software Lab		
			TCS		
<b>19-Jul</b>	<b>20-Jul</b>	<b>21-Jul</b>	<b>22-Jul</b>	<b>23-Jul</b>	<b>24-Jul</b>
Aventis Pharma	Jindal Hotels	Alstom Projects	Ambuja Cements	Allahabad Bank	Maruti Suzuki
Container Corp	Manglore Refinery and Petrochemicals	Aries Agro	Bajaj Auto	Areva T&D	
Crompton Greaves	United Spirits	Kotak Mahindra Bank	Bajaj Holdings & Investments	BHEL	
HDFC Bank	Zee Entertainment Enterprises	Rural Electrification Corp	Dr Reddy Laboratories	Biocon	
PTC India		Thermax	IDBI Bank	CESC	
Sesa Goa		TVS Motor	Power Finance	Mahindra & Mahindra Financials	
		Yes Bank	Thermax	Wipro	
			Varun Industries		
<b>26-Jul</b>	<b>27-Jul</b>	<b>28-Jul</b>	<b>29-Jul</b>	<b>30-Jul</b>	<b>31-Jul</b>
Century Textiles	Ashok Leyland	Chennai Petroleum	Alok Industries	ABB	GVK Power & Infra
Dabur India	Asian Paints	Gujarat Mineral Development Corp.		Bharat Electronics	
Glaxosmithkline Pharma	Cadila Healthacare	Mahindra & Mahindra		BPCL	
Tech Mahindra	Cairn India	Phoenix Mills		Indian Hotels	
	Godrej Industries				
	Titan Industries				
<b>2-Aug</b>	<b>3-Aug</b>	<b>4-Aug</b>	<b>5-Aug</b>	<b>6-Aug</b>	<b>7-Aug</b>
India Cements	Hindalco Industries				
Madras Cement					

Source: BSE, Kotak Institutional Equities





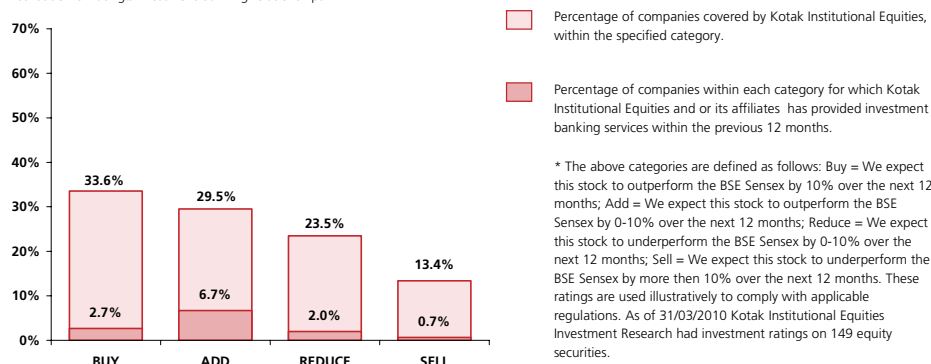




"Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Dr. Mridul Saggar, Prashant Vaishampayan, Jairam Nathan, Ajay Mathrani, Rohit Chordia."

#### Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of March 31, 2010

## Ratings and other definitions/identifiers

### Definitions of ratings

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

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

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

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

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

### Other definitions

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

### Other ratings/identifiers

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

**CS = Coverage Suspended.** Kotak Securities has suspended coverage of this company.

**NC = Not Covered.** Kotak Securities does not cover this company.

**RS = Rating Suspended.** Kotak Securities Research has suspended the investment rating and price target, if any, for this stock, because there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.

**NA = Not Available or Not Applicable.** The information is not available for display or is not applicable.

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

## Corporate Office

Kotak Securities Ltd.  
Bakhtawar, 1st Floor  
229, Nariman Point  
Mumbai 400 021, India  
Tel: +91-22-6634-1100

## Overseas Offices

Kotak Mahindra (UK) Ltd  
6th Floor, Portsoken House  
155-157 The Minories  
London EC 3N 1 LS  
Tel: +44-20-7977-6900 / 6940

Kotak Mahindra Inc  
50 Main Street, Suite No.310  
Westchester Financial Centre  
White Plains, New York 10606  
Tel:+1-914-997-6120

Copyright 2010 Kotak Institutional Equities (Kotak Securities Limited). All rights reserved.

1. Note that the research analysts contributing to this report may not be registered/qualified as research analysts with FINRA; and
2. Such research analysts may not be associated persons of Kotak Mahindra Inc and therefore, may not be subject to NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

Kotak Securities Limited and its affiliates are a full-service, integrated investment banking, investment management, brokerage and financing group. We along with our affiliates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationships with a significant percentage of the companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. Investors should assume that Kotak Securities Limited and/or its affiliates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material and that the research professionals who were involved in preparing this material may participate in the solicitation of such business. Our research professionals are paid in part based on the profitability of Kotak Securities Limited, which include earnings from investment banking and other business. Kotak Securities Limited generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, Kotak Securities Limited generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of Kotak Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. Kotak Securities Limited does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment.

Certain transactions -including those involving futures, options, and other derivatives as well as non-investment-grade securities - give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavor to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so. We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. For the purpose of calculating whether Kotak Securities Limited and its affiliates holds beneficially owns or controls, including the right to vote for directors, 1% of more of the equity shares of the subject issuer of a research report, the holdings does not include accounts managed by Kotak Mahindra Mutual Fund. Kotak Securities Limited and its non US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies affectively assume currency risk. In addition options involve risks and are not suitable for all investors. Please ensure that you have read and understood the current derivatives risk disclosure document before entering into any derivative transactions.

This report has not been prepared by Kotak Mahindra Inc. (KMIInc). However KMIInc has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed. Any reference to Kotak Securities Limited shall also be deemed to mean and include Kotak Mahindra Inc.