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News Round-up

- ▶ Anil Ambani group co. Reliance MediaWorks along with two other group firms, has purchased another 0.11% in Fame India (FAME IN), hiking their combined stake in the multiplex chain to 15.88%. (ECNT)
- ▶ Reliance Industries (RIL IN) said it could not give natural gas to new customers by cutting supplies to power plants, as suggested by the oil ministry, adding the order was in violation of the gas utilisation policy. (BSTD)
- ▶ Reliance Industries (RIL IN) is in talks to invest in the Hyderabad-based Notion Ink, which is developing a "made in India" tablet computer that is already pitched against Apple's iPad. (THBL)
- ▶ Fortis Healthcare Holdings, the promoter firm that owns majority stake in Fortis Healthcare (FORH IN), pledged 33 mn additional shares, around 10% of the 329.59 mn shares it owns, on July 9. Now 46% of Singh family holding in company pledged. (BSTD)
- ▶ Nagarjuna Construction Company (NJCC IN) said it is confident of reviving the controversial thermal power plant in Sompeta, Srikakulam, despite the National Environment Appellate authority (NEAA) quashing the clearance granted to the project. (FNLE)
- ▶ Glodyne Technoserve (GLOT IN) may allow private equity players to increase their stake in the company. (BSTD)
- ▶ Alstom Holdings and Schneider Electric Group today postponed their open offer to buy a 20% stake in Areva T&D India (ATD IN) till further notice. (BSTD)
- ▶ As part of its USD 14.89 bn expansion programme SAIL (SAIL IN) commissioned a newly renovated unit at its Bokaro Steel Plant. (FNLE)
- ▶ IDBI Bank (IDBI IN) plans to raise USD 663 mn through preferential issue of equity shares to the Government. (THBL)
- ▶ Tata Motors (TTMT IN) is expanding capacity of its Ace pickup to 2.75mn units from 2.25mn units at its Pantnagar facility. (THBL)

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

EQUITY MARKETS

India	Change %			
	20-Jul	1-day	1-mo	3-mo
Sensex	17,878	(0.3)	0.0	2.3
Nifty	5,368	(0.3)	0.3	2.3
Global/Regional indices				
Dow Jones	10,230	0.7	(2.0)	(8.0)
Nasdaq Composite	2,222	1.1	(2.9)	(11.3)
FTSE	5,139	(0.2)	(3.0)	(10.2)
Nikkie	9,323	0.2	(8.9)	(15.9)
Hang Seng	20,378	0.6	(2.6)	(5.3)
KOSPI	1,747	0.6	0.4	(0.0)
Value traded – India				
Cash (NSE+BSE)	142		168	170
Derivatives (NSE)	758		987	896
Deri. open interest	1,607		1,502	1,293

Forex/money market

	Change, basis points			
	20-Jul	1-day	1-mo	3-mo
Rs/US\$	47.4	24	161	285
10yr govt bond, %	7.6	1	4	(36)
Net investment (US\$m)				
	19-Jul		MTD	CYTD
FIs	43		1,933	8,633
MFs	(37)		(313)	(282)

Top movers -3mo basis

Best performers	Change, %			
	20-Jul	1-day	1-mo	3-mo
HPCL IN Equity	436.8	(2.6)	27.5	46.2
BJFIN IN Equity	432.4	1.6	3.6	35.7
IOCL IN Equity	371.3	(1.5)	11.0	31.9
BPCL IN Equity	641.1	(2.2)	21.7	28.3
AL IN Equity	71.0	(2.4)	12.2	27.8
Worst performers				
ABAN IN Equity	834.6	(1.3)	12.0	(32.4)
RNR IN Equity	44.3	(1.2)	(30.1)	(29.9)
TATA IN Equity	509.4	(0.4)	0.9	(23.8)
SESA IN Equity	353.9	1.6	(8.8)	(23.4)
ICEM IN Equity	107.8	(0.3)	(6.3)	(23.0)

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RESULT

Coverage view: **Neutral**

Price (Rs): **309**

Target price (Rs): **270**

BSE-30: **17,878**

In-line 1QFY11 operating performance but rich valuations. Zee reported 1QFY11 EBITDA at Rs1.87 bn (+2% qoq), in line with our Rs1.9 bn estimate; (1) stronger-than-expected advertising revenues of Rs3.77 bn (Rs3.5 bn estimate) were negated by (2) sharp 17% qoq increase in content costs to Rs3.05 bn, likely due to large number of Sports broadcasting properties. However, 1QFY11 adjusted PAT (ex. one-off gains of Rs291 mn) at Rs1.25 bn came in below our estimate of Rs1.35 bn and that of the street at Rs1.4 bn. We retain our REDUCE rating with a 12-month DCF-based TP of Rs270 given valuations at 23X and 15X average FY2011E-12E 'sustainable' EPS and EBITDA.

Company data and valuation summary

Zee Entertainment Enterprises

Stock data				Forecasts/Valuations			
				2010	2011E	2012E	
52-week range (Rs) (high,low)				326-171			
Market Cap. (Rs bn)				134.2			
Shareholding pattern (%)							
Promoters				41.5			
FIs				28.7			
MFs				12.8			
Price performance (%)				1M	3M	12M	
Absolute				4.9	5.5	68.1	
Rel. to BSE-30				3.1	3.1	42.8	
				EPS (Rs)	10.6	11.8	14.4
				EPS growth (%)	25.0	12.0	21.5
				P/E (X)	29.3	26.2	21.5
				Sales (Rs bn)	20.9	23.7	26.8
				Net profits (Rs bn)	4.6	5.1	6.2
				EBITDA (Rs bn)	5.8	7.2	8.9
				EV/EBITDA (X)	21.8	17.3	13.8
				ROE (%)	13.1	13.8	16.0
				Div. Yield (%)	0.8	0.9	1.2

In-line 1QFY11 operating performance; 'sustainable' EPS likely below street expectations

- ▶ Zee reported in-line operating performance in 1QFY11 with EBITDA at Rs1.87 bn (+2% qoq) largely in line with our expectation (Rs1.9 bn). 1QFY11 financials are not comparable on a yoy basis given merger of regional entertainment channels from Zee News effective 4QFY10. Qoq comparisons are valid despite the acquisition of Ten Sports and ETC Networks effective 1QFY11 since these channels have been previously consolidated with ZEEL.
- ▶ However, 1QFY11 adjusted PAT (ex. one-off gains) at Rs1.25 bn came in below our Rs1.35 bn estimate and the street estimate of Rs1.39 bn. The negative variance resulted from 1QFY11 other income at Rs1.26 bn versus our Rs2.75 bn expectation. With intra-group loans (13-14% interest rate) converted to liquid investments (6-7% interest rate), 'sustainable' EPS (Rs2.6 in 1QFY11) will likely be below street expectations for FY2011E (Rs12.8) and beyond.
- ▶ Zee reported 1QFY11 advertising revenues of Rs3.77 bn (+7% qoq), ahead of our Rs3.5 bn estimate; the positive variance likely resulted from the large number of sports properties in 1QFY11, notably India-Sri-Lanka-Zimbabwe series and UEFA Champions League, resulting in 35% qoq growth in Sports revenues at Rs832 mn (revenues ex. Sports were flat).
- ▶ However, 1QFY11 content costs at Rs3.05 bn (+17% qoq) exceeded our expectation, negating the gains from strong advertising revenues; Sports business was likely the key driver here as well with 99% yoy growth in operating expenses, resulting in Sports business reporting loss of Rs354 mn in 1QFY11 (versus profit of Rs20 mn in 4QFY10).
- ▶ 1QFY11 employee costs at Rs597 mn (-13% qoq) surpassed our expectations; a qoq comparisons is not valid since Zee booked a one-time employee bonus for FY2010 in 4QFY10. However, high employee costs were negated by lower-than-expected SG&A expenses; 1Q seems to have some seasonality in this respect from our analysis of past trends.

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Interim results of Zee Entertainment (ZEEL), March fiscal year-ends (Rs mn)

	1QFY11	1QFY11E	1QFY10	4QFY10	(% chg)			FY2010	FY2009	(% chg)
					1QFY11E	1QFY10	4QFY10			
Total revenues	6,770	6,550	4,759	6,493	3	42	4	21,966	21,730	1
Advertising revenues	3,769	3,500	1,980	3,517	8	90	7	10,680	10,618	1
Subscription revenues	2,614	2,650	2,410	2,513	(1)	8	4	9,824	9,014	9
--Domestic subscription	1,604	1,600	1,318	1,504	0	22	7	5,652	4,523	25
--International subscription	1,010	1,050	1,092	1,009	(4)	(7)	0	4,173	4,490	(7)
Others (incl. syndication)	387	400	370	463	(3)	5	(17)	1,462	2,098	(30)
Total expenditure	(4,900)	(4,650)	(3,589)	(4,657)	5	37	5	(15,880)	(16,398)	(3)
Cost of revenues	(3,050)	(2,700)	(2,392)	(2,609)	13	28	17	(9,536)	(9,904)	(4)
Employee costs	(597)	(550)	(390)	(689)	9	53	(13)	(1,893)	(2,025)	(7)
SG&A expenses	(1,252)	(1,400)	(808)	(1,358)	(11)	55	(8)	(4,451)	(4,468)	(0)
EBITDA	1,870	1,900	1,170	1,836	(2)	60	2	6,087	5,332	14
OPM (%)	27.6	29.0	24.6	28.3				27.7	24.5	
Other income	126	275	325	291	(54)	(61)	(57)	1,230	1,403	(12)
Interest expense	(51)	(50)	(91)	(110)	1	(44)	(54)	(350)	(881)	(60)
D&A expenses	(62)	(75)	(75)	(56)	(17)	(17)	11	(284)	(304)	(6)
Pretax profits	1,884	2,050	1,329	1,961	(8)	42	(4)	6,682	5,549	20
Extraordinaries	291	—	—	(11)				302	1,201	
Tax provision	(673)	(675)	(416)	(662)	(0)	62	2	(2,210)	(1,552)	42
Minority interest	38	(25)	106	(25)		(64)	(251)	212	(23)	(1,023)
Reported PAT	1,539	1,350	1,019	1,263	14	51	22	4,987	5,175	(4)
Adjusted PAT	1,249	1,350	1,019	1,273	(8)	23	(2)	4,685	3,974	18
Tax rate (%)	35.7	32.9	31.3	33.8				33.1	28.0	
EPS (Rs/share)	2.6	2.8	2.3	2.6	(8)	10	(2)	10.5	9.2	15

Source: Company data, Kotak Institutional Equities estimates

- ▶ Zee reported 1QFY11 subscription revenue at Rs2.61 bn (+4% qoq) in line with our estimates. 1QFY11 DTH revenues increased 9% qoq to Rs710 mn (Rs683 mn in 4QFY10 but including Rs30 mn one-time gains), marginally below expectation; we expected 1QFY11 (and 4QFY10) to be a strong quarter for DTH given the sports calendar. However, 1QFY11 cable revenues also increased 9% qoq (after a relatively subdued 4QFY10 despite inclusion of regional channels) likely due to sports broadcasting.
- ▶ International subscription revenues, however, continue to be marginalized at Rs1.01 bn (flat qoq) potentially on account of continued weak economic environment in US and UK, the two key markets for Zee, and rising competition. Zee has launched a new channel (Zee Café) to support its existing bouquet in international markets.
- ▶ Zee reported one-off gains of Rs291 mn during 1QFY11 on account of sale of its stake in Asianet Communications and associated entities (present in the balance sheet in the form of investments with book value of around Rs260 mn).

Retain REDUCE; rich valuations despite aggressive assumptions

Zee stock is current trading at 23X and 15X our average FY2011E-12E EPS and EBITDA estimates (including Zee News regional channels and acquisition of Ten Sports and ETC Networks), rich in our view given the operational challenges for Zee in specific markets. We retain our REDUCE rating with 12-month DCF-based target price of Rs270 (Rs265 previously) largely on account of the DCF roll-forward. As highlighted previously, our EPS estimates and that of the street may have been colored by high interest rates (13-14%) Zee charged on loans to group companies. Thus, 'sustainable' EPS (at 6-8% rate of interest on risk-free liquid instruments) will likely be much lower versus street expectations. Thus, we have also fine-tuned our FY2011E and FY2012E EPS estimates to Rs12.4 (Rs12.5 previously) and Rs15.1 (Rs15.4) reducing Zee's interest rate on cash to 8% from 10% previously; our DCF-valuation remains unchanged on account of these changes.

Market fragmentation—the key challenge. The continuous influx of new channels in the Indian broadcasting segment, which is already cluttered with over 500 channels on air currently on largely analog cable networks (capable of carrying a maximum of around 100 channels), remains the key challenge for incumbent broadcasters. The entry of new channels results in (1) fragmentation of advertising market (attraction of advertising market growing at the rate 15-20% CAGR) and (2) increased cost of doing business (carriage fees, even on digital platforms; content and employee costs) for existing players. Media inflation is already starting to pick up (employee expenses; cost of movie telecast rights).

Exhibits 2-3 present market share fragmentation on certain Zee channels in specific markets; the influx continues with two large players, IBN18 (Network18 group) and RBN (Reliance Broadcasting Network) planning to launch new channels in Zee markets in 2HFY11, after a brief period of inactivity in FY2010-1HFY11. We do not believe the street has even started to build in the potential impact of creation of new bouquets led by these large players (Sun18 by IBN18) and the resulting fragmentation of the subscription revenue market (logical follow-up to advertising fragmentation).

Quarterly trends in HSM GRPs for Hindi GE channels

	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11
Colors	—	—	—	—	—	122	219	267	259	287	322	312	275
Imagine TV	—	—	—	67	81	84	69	69	93	115	106	108	98
SAB TV	60	41	30	30	31	30	39	48	53	67	73	84	84
Sony TV	117	137	100	87	87	103	92	87	83	126	173	153	154
Star One	74	68	59	67	70	84	78	65	58	51	48	42	45
Star Plus	348	348	351	323	331	314	250	300	259	277	256	294	337
Zee TV	234	291	279	273	222	219	178	206	229	256	250	264	255

Source: TAM Media Research, Kotak Institutional Equities

Quarterly trends in West Bengal GRPs for Bengali channels

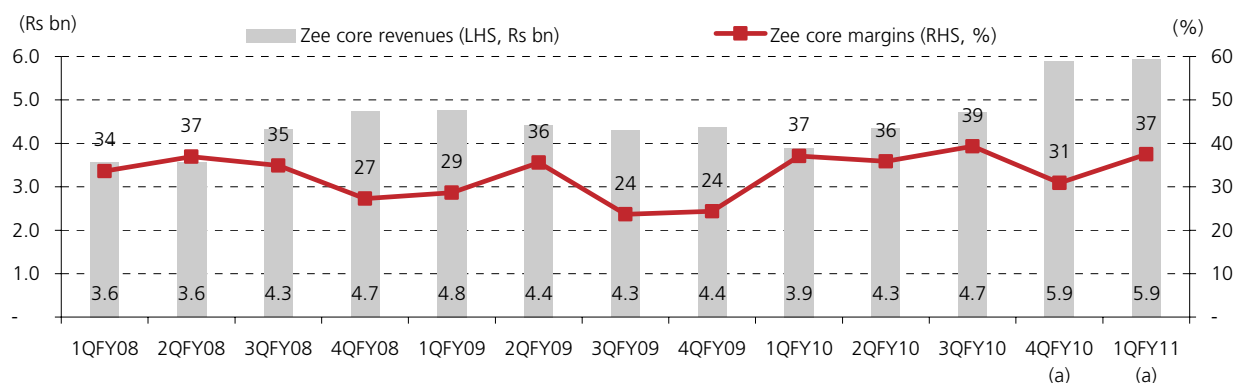
	1QFY08	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11
Akash Bangla	108	127	111	106	80	87	72	102	92	89	80	57	49
Sony Aath	—	—	4	42	58	61	51	49	28	37	49	73	64
ETV Bangla	351	371	331	327	306	352	320	292	257	223	220	207	145
Star Jalsha	—	—	—	—	—	27	173	247	326	457	559	486	454
Zee Bangla	309	326	363	435	356	335	314	367	275	312	272	217	183

Source: TAM Media Research, Kotak Institutional Equities

Valuations in the context of sustainable growth (market share) and margins. Existing broadcasters, faced with the entry of new broadcasters and new channel launches (market fragmentation), have only two potential responses—(1) aggressively counter new broadcasters by launching of new niche channels themselves to protect their network market share or (2) continue to focus on keeping the existing franchise but at the cost of slower-than-market growth (loss of network market share over time).

In the first instance, existing broadcasters will have to continually make investments in new channels, resulting in relatively lower overall operating margins (and not without the risk of failure as in case of Zee Tamil and Zee Next). In the second instance, market fragmentation will result in slower-than-industry growth (potential 12-15% but not 18-20%). Exhibit 4 presents Zee's peak Core (ex. Sports) EBITDA margins (39% in 3QFY10) since competitive intensity has been subdued (advertising downturn in 2HFY09-1HFY10) and Zee has not felt the need to augment its network by adding new channels (so far). We would be wary of giving high multiples on top of peak operating margins.

ZEEL's quarterly revenues and Core (excl. Sports) operating margins



Note:

(a) 4QFY10 and 1QFY11 include ZEEN regional channels and thus, revenues are not comparable with previous quarters.

Source: Company data, Kotak Institutional Equities

Turnaround in Sports business—potential trigger but likely some time away. Exhibit 5 presents the summary of 1QFY11 financials, our expected financials of Zee for FY2011E and the gap that the company needs to bridge to meet our below-consensus (even before the current revision) EBITDA and EPS estimates for FY2011E. We highlight that Sports broadcasting has been a key drag on Zee financials/stock since long; the complete acquisition (95% stake now versus 50:50 JV with Bukhatir Group previously) may provide Zee with the control required to turn around the business.

However, this is unlikely to be a near-term trigger and may require potentially even more investments. The macro environment is not conducive for Sports broadcasting in India since C&S distribution is largely analog (un-addressable); the strong growth in digital platforms (DTH and digital cable, led by Sports broadcasting) holds hope for the future but it will take at least another 3-5 years. Additionally, we note (1) the maximum returns from sports broadcasting are usually captured by the owner of the rights to the sports property (BCCI in case of Indian cricket) and (2) most of the lucrative cricket rights lie with Zee competitors—Sony TV (IPL T20 cricket), ESPN (ICC cricket Rights, not including T20 Champions League, which may be revamped) and Nimbus (BCCI India cricket rights)—with more on the way (Sony TV launching dedicated sports channel).

Analysis of Zee financial performance for FY2011E (Rs bn)

	1QFY11		
	Core	Sports	Consol
Revenues	5,938	832	6,770
EBITDA	2,224	(354)	1,870
Margin (%)	37	(43)	28

	ZEEL			Comments
	1QFY11	FY2011E	2Q-4Q	
Revenues	6,770	28,560	7,263	Impact of ODI World Cup/IPL Season 4 in 4Q
Advertising	3,769	15,604	3,945	Sports likely to contribute marginally beyond 2Q
Subscription	2,614	11,319	2,902	Significant risk unless DTH picks up further
EBITDA	1,870	8,610	2,247	Does not factor in new channel launches in 2H
Margin (%)	28	30	31	Sports business needs to turn around, and quickly
EPS	2.6	12.4	3.3	Challenging even under favorable circumstances

Source: Company data, Kotak Institutional Equities

Estimated consolidated financials of ZEEL + ZEEN R-GECs, March fiscal year-ends, 2009-20E (Rs mn)

	Actuals		KIE estimates									
	2009	2010	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
ZEEL + ZEEN R-GECs												
Total revenues	21,773	21,966	28,560	32,544	36,929	41,358	45,888	50,870	55,996	61,449	67,377	73,893
--Advertising revenues	10,593	10,680	15,604	18,112	20,878	23,891	26,921	30,419	34,293	38,466	43,062	48,207
--Subscription revenues	9,038	9,824	11,319	12,631	14,151	15,463	16,854	18,222	19,353	20,506	21,705	22,936
Operating income	5,480	6,087	8,610	10,693	12,904	14,601	15,965	18,247	20,141	22,414	24,707	27,268
Margin (%)	25.2	27.7	30.1	32.9	34.9	35.3	34.8	35.9	36.0	36.5	36.7	36.9
--Other income	1,572	1,230	934	1,042	952	984	990	824	813	804	804	814
--Interest expense	(889)	(350)	(147)	(147)	(147)	(147)	(147)	(147)	(147)	(147)	(147)	(147)
--Depreciation	(310)	(284)	(384)	(424)	(464)	(453)	(451)	(437)	(431)	(368)	(397)	(427)
Profit before tax	5,853	6,682	9,013	11,164	13,245	14,985	16,357	18,486	20,375	22,703	24,966	27,508
--Tax expense	(1,633)	(2,210)	(2,969)	(3,788)	(4,494)	(5,077)	(5,537)	(6,237)	(6,866)	(7,605)	(8,375)	(9,222)
--Minority interest	(98)	212	(50)	(57)	(65)	(70)	(75)	(81)	(84)	(86)	(87)	(87)
Adj. net income	4,123	4,685	5,994	7,318	8,686	9,838	10,744	12,169	13,426	15,012	16,505	18,199
EPS (Rs)	9.5	10.5	12.4	15.1	17.9	20.3	22.1	25.1	27.7	30.9	34.0	37.5
Change (%)			4.4	4.8	6.8	8.0	9.7	10.9	11.7	11.3	11.2	11.0
P/E (X)			25.0	20.5	17.3	15.2	14.0	12.3	11.2	10.0	9.1	8.2
EV/EBITDA (X)			16.5	13.3	11.0	9.7	8.9	7.8	7.0	6.3	5.7	5.2
ZEEL												
Total revenues	21,773	20,871	23,746	26,838	30,127	33,574	37,002	40,842	44,816	49,120	53,763	58,865
--Advertising revenues	10,593		11,444	13,205	15,145	17,296	19,336	21,919	24,768	27,926	31,401	35,306
--Subscription revenues	9,038		10,665	11,833	13,083	14,274	15,552	16,693	17,698	18,717	19,752	20,809
Operating income	5,480	5,797	7,192	8,926	10,624	11,904	12,823	14,549	15,968	17,844	19,713	21,808
Margin (%)	25.2	27.8	30.3	33.3	35.3	35.5	34.7	35.6	35.6	36.3	36.7	37.0
EPS (Rs)	9.5		11.8	14.4	16.8	18.8	20.2	22.6	24.8	27.8	30.6	33.8
ZEEN R-GECs												
Total revenues	3,403	4,043	4,814	5,706	6,801	7,784	8,886	10,029	11,180	12,329	13,615	15,028
--Advertising revenues			4,160	4,907	5,733	6,595	7,584	8,500	9,526	10,539	11,661	12,901
--Subscription revenues			654	799	1,068	1,189	1,302	1,529	1,655	1,789	1,954	2,127
Operating income	797	1,261	1,417	1,766	2,280	2,697	3,142	3,698	4,172	4,570	4,993	5,460
Margin (%)	23.4	31.2	29.4	31.0	33.5	34.7	35.4	36.9	37.3	37.1	36.7	36.3
(ZEEL + ZEEN R-GECs) number of shares calculation												
Number of ZEEL shares (mn)	435											
New ZEEL shares issued (mn)	50 In the ratio of 4 ZEEL shares for every 19 ZEEN shares											
Number of ZEEL shares (mn)	485											

Source: Company data, Kotak Institutional Equities estimates

JULY 20, 2010

UPDATE

Coverage view: **Attractive**

Price (Rs): **262**

Target price (Rs): **230**

BSE-30: **17,878**

Selling gold at the price of silver will fetch as much volumes as you desire.

Competitive pricing in detergents is likely leading to good near-term volumes for HUL—(1) aided by a low base (2% in 1QFY10) and (2) higher household inventory due to price promotions; which doesn't translate into higher per diem consumption. Repeat of virtuous cycle of volumes-pricing-profits is a mirage, in our view. Current relative price index in detergents is not sustainable and could hurt profitability in medium term.

Company data and valuation summary

Hindustan Unilever

Stock data

52-week range (Rs) (high,low)	307-218
Market Cap. (Rs bn)	572.4

Shareholding pattern (%)

Promoters	52.0
FIs	14.5
MFs	3.2

Price performance (%)

	1M	3M	12M
Absolute	1.9	15.3	(1.6)
Rel. to BSE-30	0.1	12.6	(16.4)

Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	9.7	10.4	11.8
EPS growth (%)	1.7	7.3	14.0
P/E (X)	27.1	25.3	22.2
Sales (Rs bn)	175.2	191.4	217.4
Net profits (Rs bn)	21.1	22.6	25.8
EBITDA (Rs bn)	29.0	29.7	34.6
EV/EBITDA (X)	18.3	17.2	14.5
ROE (%)	91.6	82.2	80.8
Div. Yield (%)	2.9	3.2	3.7

Show me the money

► HUL results on July 27; low base for volumes (+2% in base)

Some investors believe that likely recovery in volumes is a lead indicator of HUL's ability to win back market shares. We differ. We note that a substantial boost to volumes is likely due to the extra grammage offer and price promotions (in detergents, soaps etc.). We highlight that the company reports value-adjusted volume growth and hence extra grammage offer does not directly boost volumes as, (1) consumers typically stock up during such periods (household inventory increases) and (2) price differentiation was an inducement for the consumer to choose a particular brand (lesser relevance for brand equity per se).

We forecast good volume growth for HUL in 1QFY11—sales growth of +9% (+12% volumes and pricing decline of ~3%). Volume growth is likely aided by a low base (2% in 1QFY10). We forecast EBITDA growth of +4% (price cuts in detergents, higher adspends), PBT growth of +9% (likely higher other operational income) and PAT growth of +5% (higher effective tax rate).

Repeat of virtuous cycle of volumes-pricing-profits is a mirage

We note that higher household inventory in detergents does not translate into higher per diem consumption, and hence we have limited excitement on sustainability of this volume growth. Moreover, likely return of pricing power at a later date compensating for the current value loss is also unlikely (as detergents is an important category for P&G to build scale and recruit new consumers in India). However, one upside risk to our call is if the organized players (HUL, P&G, Henkel etc.) start gaining shares from unorganized/regional players.

QUICK NUMBERS

- We forecast 12% volume growth in 1QFY11 on the back of 2% growth in base
- Surf, priced at 2.2X Rin now versus 1.7X in Jan-2010 encourages downtrading
- Repeat of virtuous cycle of volumes-pricing-profits is a mirage, in our view
- Is P&G creating a new segment in detergents?

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Current relative price index is not sustainable and hurts profitability in medium term

We highlight that the relative price index of Surf (premium) versus Rin (mid-segment) is likely a deterrent for consumer uptrading to Surf and encourages downtrading to Rin (Exhibit 1)—Surf is priced 2.2X Rin now versus 1.7X in Jan-2010. However, the price cut in Rin has brought down its relative pricing versus Wheel (mass segment) favorable for consumers—Rin retails at 1.7X Wheel versus 2.3X in Jan-2010.

We have limited excitement over this (for HUL) as P&G is likely to benefit disproportionately, in our view. P&G predominantly operates in the mid-segment and premium segment and has leading market shares in most of the top-23 cities—typically 1 mn+ population cities—these cities have a higher proportion of mid and premium segment sales, in our view.

Is P&G creating a new segment in detergents?

P&G has recently launched a new variant of Tide as 'Tide Plus' with an effective price increase of 11%. This cannot be construed as a signaling effect—is this bottom for P&G-HUL price war in detergents—not yet, in our view. The competitive environment continues to be irrational as P&G is likely operating at negative EBITDA in mass segment detergents.

However, whether 'Tide Plus' replaces 'original Tide' (meaning this is a product relaunch) or is this just another variant launch is not known at this point.

Potentially, it could be an effort by P&G to create a sub-segment between premium and mid-segment. Hence, the new 'Tide Plus' at effective price of Rs63/kg could well be an effort to wean away some of the Surf consumers and also to uptrade the core Tide users (mostly the urban SEC A consumer).

Reiterate REDUCE on account of irrational competition in mature categories

We reiterate our REDUCE rating as ~65% of the revenues are from categories which are mature and growing at best at 3% in volumes (where the company also faces irrational competition). Maintain estimates, reiterate REDUCE and target price of Rs230. We continue to believe that (1) there is a likelihood of increasing competition in other categories, including personal care, (2) high likelihood of pre-emptive price corrections (by HUL) to align right price/value equation in other categories and (3) gross margin (expansion) comfort prevalent in FY2010 is unlikely to repeat in FY2011E.

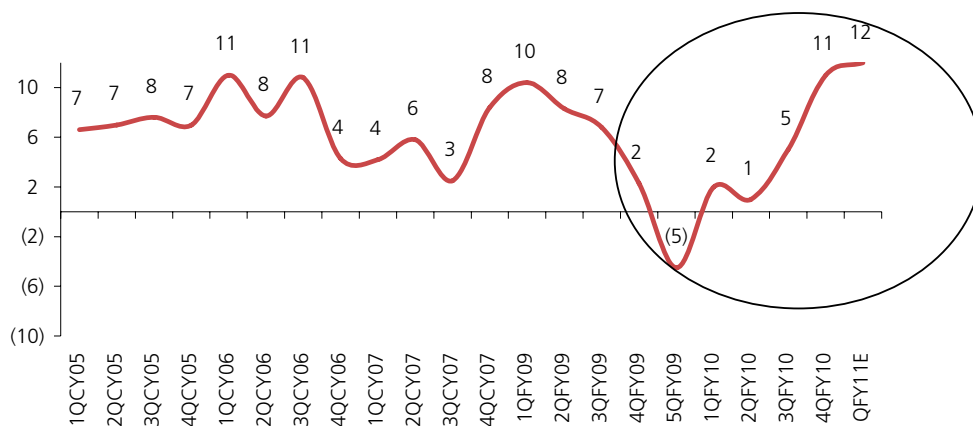
Exhibit 1: Current relative price index is not sustainable and hurts profitability in medium term

Brand	Price (Rs)/ Kilogram		Remarks
	Jan-10	Jul-10	
Surf	120	110	Most profitable segment; accounts for two-thirds of category profits
Rin	70	50	Important price-point, will be difficult to change the MRP
Wheel	30	30	

Price index (x)			
Surf / Rin	1.7	2.2	Hurts consumer uptrading to Surf and encourages downtrading to Rin
Surf / Wheel	4.0	3.7	
Rin / Wheel	2.3	1.7	Encourages uptrading to Rin, however, mid-segment pricing is still irrational

Source: Kotak Institutional Equities estimates

Exhibit 2: Surprising high volatility for consumer business
HUL's FMCG volume growth (%)



Source: Company, Kotak Institutional Equities estimates

Exhibit 3: HUL: Profit model, balance sheet, cash model, calendar year-ends 2006-07, March fiscal year-ends 2009-12E (Rs mn)

	2006	2007	15 months 2009 (a)	2010E	2011E	2012E
Profit model (Rs mn)						
Net sales	121,034	136,754	202,393	175,238	191,387	217,423
EBITDA	16621	18787	26780	25484	26535	31181
Other income	3,545	4,315	5,678	3,496	5,195	5,765
Interest	(107)	(255)	(253)	(70)	(34)	(54)
Depreciation	(1,302)	(1,384)	(1,953)	(1,840)	(2,144)	(2,476)
Pretax profits	18,757	21,463	30,251	27,071	29,552	34,416
Tax	(3,218)	(4,049)	(5,729)	(5,981)	(6,928)	(8,630)
Net profit	15539	17415	24522	21090	22624	25785
Earnings per share (Rs)	7.0	7.9	11.3	9.7	10.4	11.8
Balance sheet (Rs mn)						
Total equity	27,235	14,392	20,615	25,518	29,613	34,281
Total borrowings	726	885	4,219	4,219	4,219	4,219
Current liabilities	45,231	51,110	57,838	51,426	62,771	70,918
Total liabilities and equity	73191	66387	82673	81163	96603	109419
Cash	4,169	2,009	17,773	24,034	33,733	39,448
Current assets	27,527	30,765	38,236	26,794	29,671	33,551
Total fixed assets	15,110	17,081	20,789	24,656	27,701	31,119
Investments	24,139	14,408	3,326	3,326	3,326	3,326
Deferred tax asset	2,245	2,124	2,548	2,352	2,173	1,975
Total assets	73191	66387	82673	81163	96603	109419
Free cash flow (Rs mn)						
Operating cash flow, excl. working capital	20,209	20,674	26,581	23,498	24,947	28,460
Working capital	(471)	3,091	(2,592)	6,199	7,570	3,087
Capital expenditure	(1,576)	(3,355)	(5,660)	(5,708)	(5,188)	(5,894)
Investments	(3,997)	9,731	11,082	0	0	0
Free cash flow	14164	30141	29410	23988	27329	25652
Key assumptions						
Revenue Growth (%)	9.4	13.0	48.0	(13.6)	9.4	13.6
EBITDA Margin(%)	13.9	13.7	13.2	14.8	13.9	14.3
EPS Growth (%)	18.3	12.1	42.7	(14.0)	7.3	14.0

Note:

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

Source: Company, Kotak Institutional Equities estimates

JULY 20, 2010
UPDATE

Coverage view: **Cautious**

Price (Rs): **354**

Target price (Rs): **340**

BSE-30: **17,878**

Slowdown as China effect irons out gains. We cut iron ore price forecast to US\$120, US\$101 and US\$90 for FY2011-13E. Spot iron ore prices have declined by 32% over the past two months on mounting concerns of slowdown in China. We expect iron ore prices to trend lower over the next few years as the demand imbalances reduce and new projects by mining majors come on stream. We cut EPS estimate by 4.5%, 25.8% and 14.1% from FY2011-13E and 12-month DCF based target price to Rs340.

Company data and valuation summary

Sesa Goa

Stock data

52-week range (Rs) (high,low) 495-208

Market Cap. (Rs bn) 314.8

Shareholding pattern (%)

Promoters 57.0

FIs 26.6

MFs 0.3

Price performance (%)

Absolute 0.0 (22.4) 49.6

Rel. to BSE-30 (1.7) (24.2) 27.1

Forecasts/Valuations

2010 2011E 2012E

EPS (Rs) 29.6 58.6 46.3

EPS growth (%) 23.5 98.4 (21.0)

P/E (X) 12.0 6.0 7.6

Sales (Rs bn) 58.6 101.8 101.8

Net profits (Rs bn) 26.3 52.2 41.2

EBITDA (Rs bn) 31.4 64.1 57.2

EV/EBITDA (X) 9.9 4.2 4.1

ROE (%) 35.8 41.5 23.7

Div. Yield (%) 1.0 1.0 1.0

Lowering iron ore price forecast

Iron ore spot prices (63% Fe China CFR) have declined 32% from the recent peak. Weaker demand in China is the principal cause as a rapid softening in steel prices has forced many smaller mills to curtail output. China's transition to lower growth will likely have an impact across the steel sector and consequently iron ore market. We expect iron ore prices to decline steadily in the near term as well as over the next few years as the demand imbalances reduce and new projects by mining majors come on stream. We cut iron ore price forecast (63.5% Fe grade India FOB price) to US\$120, US\$101 and US\$90 for FY2011E, FY2012E and FY2013E, respectively.

Cut earnings estimates and target price

Our iron ore price forecast translates into realization of US\$81, US\$66 and US\$61/ton for FY2011E, FY2012E and FY2013E, respectively. Note that volumes reported by Sesa on wet metric basis, we accordingly adjust Sesa's iron ore realization. We lower our EPS estimates by 4.5%, 25.8% and 14.1% to Rs58.6, Rs46.3 and Rs50.3 for FY2011E, FY2012E and FY2013E, respectively. We cut our 12-month DCF-based target price to Rs340.

Stock expensive even after building aggressive assumptions

We find Sesa Goa's valuations expensive even after building in (1) aggressive long-term iron ore price of US\$90/dmt (long-term benchmark price, fob basis) and (2) further reserve accretion of about 80 mn. We retain our REDUCE rating with a revised DCF-based target price of Rs340 (Rs420 earlier). Our sensitivity suggests that US\$5/ton increase in long-term iron ore price raises our target price by Rs38.

Highlights from 1QFY11 earnings call

Key highlights include (1) CFR sales to China has increased to 70%; Sesa indicates potential arbitrage between FOB and CFR prices in higher price realization; (2) reiterates confidence of 20-25% volumes growth in FY2011E; (3) gap between 58% Fe grade iron ore and benchmark 63.5% Fe iron ore has increased to US\$35/ton from US\$25-30/ton earlier; and (4) no impact on Sesa's volumes from ban of lower than 60% Fe grade iron ore imports by Chinese traders.

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Update on capacity expansion plans

Sesa intends to increase its iron ore capacity to 50 mn tons per annum by FY2013E from 25 mn tons currently. The company intends to expand mine production capacity to 30 mn tons in Goa (including Dempo mines), and 10 mn tons each in Karnataka and Orissa.

The company has environmental clearance for up to 25 mn tons of mining. Sesa is awaiting environment clearance to expand Goa mine capacity. Sesa indicates that that any decision on mine expansion/acquisition is embargoed by MOEF pending new mining policy likely be tabled in this assembly session in Goa.

Karnataka mines have approval of up to 6 mn tons of mining, which Sesa expects to increase to 10 mn tons per annum. Expansion of Orissa mines may take time as Sesa is yet to renew mining lease agreement with partners.

Sesa Goa, Change in estimates, March fiscal year ends, 2010-13E (Rs mn)

	Revised estimates			Old estimates			Change (%)		
	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E
Blended iron ore realizations (Rs/ton)	3,705	3,019	2,775	4,132	3,744	3,233	(10.3)	(19.4)	(14.2)
Iron ore volumes ('000 tons)	24,967	30,486	37,613	21,366	25,042	29,393	16.9	21.7	28.0
Net revenues	101,810	101,761	114,052	112,358	116,944	114,996	(9.4)	(13.0)	(0.8)
EBITDA	64,091	57,215	60,485	74,039	73,100	64,880	(13.4)	(21.7)	(6.8)
PAT	52,151	41,198	44,735	54,585	55,546	52,056	(4.5)	(25.8)	(14.1)
EPS (Rs)	58.6	46.3	50.3	61.4	62.4	58.5	(4.5)	(25.8)	(14.1)
USD INR	46.0	46.0	45.5	45.0	45.0	45.0	2.2	2.2	1.2

Source: Kotak Institutional Equities estimates

Our DCF-based valuation for Sesa Goa

DCF valuation of Sesa, March fiscal year-ends, 2011E-20E

	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBITDA	64,091	57,215	60,485	70,325	68,714	64,851	62,110	59,294	56,394	53,404
Tax expense	(12,600)	(18,686)	(19,618)	(22,784)	(22,156)	(20,799)	(19,825)	(18,826)	(17,798)	(16,741)
Changes in working capital	(2,982)	1	(373)	(630)	(36)	70	39	39	38	38
Cash flow from operations	48,509	38,530	40,494	46,911	46,522	44,121	42,324	40,507	38,634	36,701
Capital expenditure	(6,710)	(6,290)	(6,290)	(4,290)	(2,080)	(2,080)	(2,080)	(2,080)	(2,080)	(2,080)
Free cash flow to the firm	41,800	32,241	34,204	42,621	44,442	42,042	40,244	38,427	36,554	34,622
Discounted cash flow-now	38,274	26,010	24,312	26,691	24,521	20,438	17,237	14,501	12,154	10,142
Discounted cash flow-1 year forward	-	29,521	27,594	30,295	27,831	23,197	19,564	16,458	13,794	11,511
Discounted cash flow-2 year forward	-	-	31,319	34,384	31,589	26,328	22,205	18,680	15,656	13,065

Discount rate	13.5%
Growth from to perpetuity	0.0%

Fiscal Year end	March-11	March-12	March-13	March-14	March-15	March-16	March-17	March-18	March-19	March-20
Today	20-Jul-10	20-Jul-10	20-Jul-10	20-Jul-10	20-Jul-10	20-Jul-10	20-Jul-10	20-Jul-10	20-Jul-10	20-Jul-10
Days left	254	619	984	1,349	1,714	2,079	2,444	2,809	3,174	3,539
Years left	0.7	1.7	2.7	3.7	4.7	5.7	6.7	7.7	8.7	9.7
Discount factor at WACC	0.92	0.81	0.71	0.63	0.55	0.49	0.43	0.38	0.33	0.29

	+ 1-year	+ 2-years		
Total PV of free cash flow (a)	199,765	100%	193,227	100%
PV of terminal value (b)	-	0%	-	0%
EV (a) + (b)	199,765		193,227	
EV (US\$ mn)	4,343		4,201	
Net debt	(99,595)		(133,069)	
Equity value	299,360		326,296	
No. of shares	889.7		889.7	
Implied share price (Rs)	336		367	

Source: Kotak Institutional Equities estimates

Sensitivity of consolidated 2011 EPS to varying blended realization levels and Re/US\$ rates

	Blended realisation (US\$/ton)				
	71	76	81	86	91
44	53.1	54.0	54.9	55.8	56.7
45	54.9	55.8	56.8	57.7	58.6
46	56.7	57.7	58.6	59.6	60.5
47	58.6	59.5	60.5	61.4	62.4
48	60.4	61.3	62.3	63.3	64.3

Source: Company, Kotak Institutional Equities estimates

Sensitivity of consolidated 2011 EPS to varying sales and blended realization levels

	Iron ore Sales ('000 tons)				
	16,072	18,072	20,072	22,072	24,072
71	43.7	50.2	56.7	63.2	69.7
76	44.7	51.2	57.7	64.2	70.7
81	45.6	52.1	58.6	65.1	71.6
86	46.6	53.1	59.6	66.1	72.5
91	47.5	54.0	60.5	67.0	73.5

Source: Company, Kotak Institutional Equities estimates

Sesa Goa, Key assumptions (standalone), March fiscal year-ends, 2008-13E (Rs mn)

	2008	2009	2010	2011E	2012E	2013E
Tonnages ('000 ton)						
Iron ore production	7,754	10,689	12,845	13,873	17,063	20,988
Iron ore purchases	5,165	4,485	5,740	6,199	7,644	9,402
Iron ore sales	12,391	15,103	16,875	20,072	24,707	30,390
Metallurgical coke sales	260	217	263	250	250	250
Tonnages (consolidated)						
Iron ore production	7,754	10,689	12,845	15,265	18,943	23,338
Iron ore purchases	5,165	4,485	5,740	9,088	11,543	14,276
Iron ore sales	12,391	15,103	16,875	24,967	30,486	37,613
Metallurgical coke sales	260	217	263	250	250	250
Realizations						
Weighted average ore realization (Rs/ton)	2,617	3,036	2,512	3,705	3,019	2,775
Average ore realization (US\$/ton)	61	62	53	81	66	61
Iron ore EBITDA/ton (US\$)	38	31	27	51	36	31
Metallurgical coke prices	11,901	21,415	13,545	20,786	21,293	21,085
Costs (Rs/ton)						
Iron ore purchase cost	458.9	588.8	539.3	647.2	679.5	713.5
Coking coal purchased	5,875.6	7,861.2	9,189.9	11,027.9	11,303.6	11,303.6
Raw material cost per ton of iron ore produced	434.2	436.4	443.8	583.1	550.2	529.2
Employee cost per ton of iron ore produced	43.3	55.7	63.7	67.9	63.4	59.3

Source: Company, Kotak Institutional Equities estimates

Sesa Goa (consolidated), Profit model, balance sheet and cash flow model, March fiscal year-ends, 2008-2013E (Rs mn)

	2008	2009	2010E	2011E	2012E	2013E
Profit model (Rs mn)						
Net sales	38,227	49,591	58,583	101,810	101,761	114,052
EBITDA	23,032	25,388	31,448	64,091	57,215	60,485
Other income	744	2,240	4,260	4,940	7,002	9,020
Interest	(28)	(10)	(517)	(963)	(963)	(484)
Depreciaton	(500)	(517)	(745)	(1,092)	(1,602)	(2,097)
Profit before tax	23,249	27,102	34,446	66,975	61,652	66,924
Taxes	(7,760)	(7,153)	(8,056)	(14,735)	(20,345)	(22,085)
Net profit	15,489	19,949	26,390	52,241	41,307	44,839
Minority interest	(74)	(68)	(99)	(89)	(109)	(104)
PAT	15,416	19,881	26,291	52,151	41,198	44,735
Earnings per share (Rs)	17.3	23.9	29.6	58.6	46.3	50.3
Balance sheet (Rs mn)						
Equity	29,435	47,157	79,177	128,182	166,234	227,976
Deferred tax liability	664	664	750	750	750	750
Total Borrowings	—	19	19,606	19,606	19,606	—
Minority interest	266	334	433	522	631	735
Current liabilities	3,763	5,840	12,400	12,482	12,478	13,488
Total liabilities	34,128	54,015	112,366	161,542	199,699	242,950
Net fixed assets	4,975	5,930	22,557	28,174	32,862	37,055
Investments	20,510	31,252	45,649	45,649	45,649	45,649
Cash	210	177	23,918	64,414	97,888	135,564
Other current assets	8,433	16,656	20,242	23,306	23,300	24,683
Miscellaneous expenditure	0	0	(0)	—	—	—
Total assets	34,128	54,015	112,366	161,542	199,699	242,950
Free cash flow (Rs mn)						
Operating cash flow excl. working capital	15,561	18,221	23,922	48,490	35,907	37,916
Working capital changes	(1,699)	3,199	1,791	(2,982)	1	(373)
Capital expenditure	(575)	(1,363)	(1,316)	(6,630)	(6,210)	(6,210)
Free cash flow	13,286	20,058	24,397	38,878	29,698	31,333
Ratios						
Debt/equity (%)	—	0.0	0.2	0.2	0.1	—
Net debt/equity (%)	(0.7)	(0.6)	(0.7)	(0.8)	(0.8)	(0.8)
RoAE (%)	67.8	52.4	35.8	41.5	23.7	19.0
RoACE (%)	67.8	52.4	31.4	34.9	20.8	18.1

Source: Company, Kotak Institutional Equities estimates

JULY 21, 2010

UPDATE

Coverage view: **Attractive**

Price (Rs): **1,405**

Target price (Rs): **1,300**

BSE-30: **17,878**

Results disappointment led by decline in lead distance and terminal revenues.

Conference call key takeaways: (1) Revenue growth (1% yoy) lagged volume growth (7.3% yoy) led by decrease in average lead distance and lower terminal revenues, (2) unable to pass on full rail-charge hike to customers to maintain competitiveness versus roads, (3) potential additional rail-charge hike in near future to put further pressure on margins, (4) lower exim gap leads to better empties control. Reiterate REDUCE.

Company data and valuation summary

Container Corporation

Stock data		Forecasts/Valuations			
		2010	2011E	2012E	
52-week range (Rs) (high,low)	1,500-956	EPS (Rs)	60.5	73.1	84.6
Market Cap. (Rs bn)	182.6	EPS growth (%)	(0.7)	20.9	15.7
Shareholding pattern (%)		P/E (X)	23.2	19.2	16.6
Promoters	63.1	Sales (Rs bn)	37.0	40.8	46.9
FIs	23.4	Net profits (Rs bn)	7.9	9.5	11.0
MFs	4.3	EBITDA (Rs bn)	10.1	12.0	13.8
Price performance (%)		EV/EBITDA (X)	16.3	13.6	11.4
Absolute	1M 3M 12M	ROE (%)	19.4	20.3	20.3
Rel. to BSE-30	8.2 (2.1) 19.7	Div. Yield (%)	1.0	1.2	1.4

Revenue growth lags volume growth as average lead distance declines

The 1QFY11 revenue disappointment of Concor was primarily led by (1) lower-than-expected volume growth of 7.2% (versus estimate of 10%; 7.7% exim growth and 6% domestic) and (2) decrease in average lead distance for Concor. Despite the 7.2% volume growth, the lower lead distance led to a revenue growth of only 1% for the quarter. The decline in lead distance in 1QFY11 was led by (1) higher proportion of volumes to Mundra and Pipavav versus JNPT, (2) lower scrap volumes to Ludhiana and (3) lower volumes of several domestic commodities which have very high lead distances.

Lower empties; but rail-charge hike, low terminal revenues lead to domestic margins contraction

Concor reported much better empties rate of 3.8%, versus 6.2% in 1QFY10 and an average of 4.9% in FY2010 led by lower exim gap in 1QFY11. Domestic segment witnessed a sharp decline in profitability likely led by (1) inability of the company to pass on the full rail-charge hike (5.5% in Jan 2010) on to its customers in order to remain competitive versus roads and (2) decrease in revenues of terminal service business which is a high margin business. The management cited a potential further rail-charge hike in the near future which would put further pressure on the domestic margins.

Maintains full-year volume growth guidance; new policies not to materially impact near-term nos.

The management has maintained its full-year volume growth guidance of about 8-10% in FY2011E. This would be led by about 12% growth in domestic volumes and about 5-8% growth in exim volumes. We have currently built in about 10% growth in the overall volumes of Concor. The company is evaluating various options for participation in the recent PFT and SFTO policies; however, it is unlikely to materially impact the revenue/volume numbers for the current year.

Marginally revise estimates; reiterate REDUCE with a target price of Rs1,300/share

We have marginally revised our earnings estimates to Rs73.1 and Rs84.6 for FY2011E and FY2012E, respectively. We retain our REDUCE rating (TP: Rs1,300/share) based on relatively expensive valuations and increasing competition likely to partake market share.

QUICK NUMBERS

- Volume growth of 7.2% while revenues grew by 1%
- Empty runnings down to 3.8% versus 6.2% last year
- Maintains volume growth guidance of 8-10% for FY2011E

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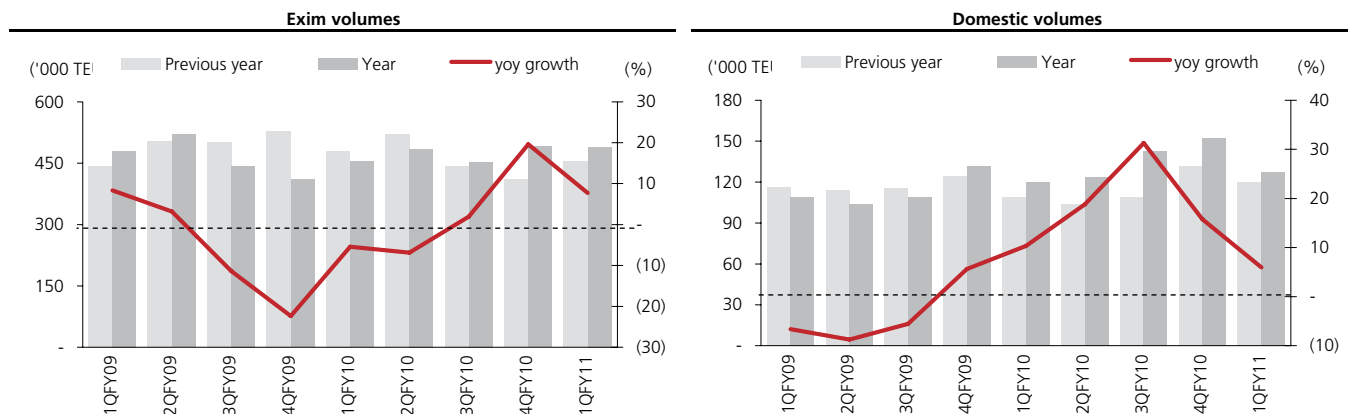
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Revenue disappoints led by lower-than-expected volumes, shorter lead distance

Concor reported revenues of Rs9.2 bn, relatively flat on a yoy basis and about 6% below our estimates. Total volumes grew at about 7.3% on a yoy basis to 616,696 TEUs versus 574,542 TEUs in 1QFY10; this was led by 7.7% yoy growth in exim volumes and 5.9% growth in domestic volumes. We had expected an overall volume growth of about 10%.

Exim and domestic volume growth has been lower than expected

Quarterly exim and domestic volume numbers handled by Concor, March fiscal year-ends, 2008-10 ('000 TEUs)



Source: Company, Kotak Institutional Equities

Despite the 7.3% growth in overall volumes, the revenues for the quarter recorded only 1% yoy growth. This was primarily led by decline in average lead distances and lower terminal service revenues.

Lower lead distance leads to slower revenue growth versus volume growth

The overall lead distance for Concor declined to 1,186 km in 1QFY11 from 1,284 km in 1QFY10 (Domestic declined to 1,418 from 1,507 and international to 1,097 from 1,203). The primary reasons for the decrease in exim lead distances were:

- ▶ Higher volume share from Pipavav and Mundra ports versus JNPT
- ▶ Decline in scrap volumes transported to Ludhiana which typically has very long lead distance

The decline in domestic lead distance was led by drop in volumes of several commodities such as:

- ▶ Pig iron and sponge iron which is typically transported from East India to Northern India (about 2,000 km lead distance)
- ▶ Also Pig iron and sponge iron is also moved from South-Central areas (such as Bellary) to Punjab
- ▶ CP Coke cargo which is transported from North-East India (Guwahati) to Northern India

While the decline in lead distance due to drop in volumes of certain commodities might be a temporary effect, we believe that the shift of incremental volume share from Mundra and Pipavav is structural in nature. We expect this trend to continue going forward, and hence do not expect the exim lead distance to significantly pick up. Highlight that the average lead distance of Concor is much higher than that of the Indian Railways (about 630-640 km).

Overall sales remains flat despite 7% growth in volumes due to lower average lead distance
Container Corporation - 1QFY11 results - key numbers (Rs mn)

	1QFY11	1QFY11E	1QFY10	4QFY10	% change			FY2011E	FY2010	%change
					1QFY11E	1QFY10	4QFY10			
Net Sales	9,159	9,720	9,074	9,505	(5.8)	0.9	(3.6)	40,537	37,023	9.5
Staff cost	(202)	(190)	(198)	(190)	6.4	2.5	6.4	(926)	(785)	17.9
Rail freight exp	(5,274)	(5,589)	(5,269)	(5,571)	(5.6)	0.1	(5.3)	(22,558)	(21,272)	6.0
Others	(1,213)	(1,264)	(1,129)	(1,543)	(4.0)	7.4	(21.4)	(5,586)	(5,203)	6.6
Total exp	(6,689)	(7,043)	(6,595)	(7,305)	(5.0)	1.4	(8.4)	(29,069)	(27,260)	7.3
EBITDA margin	2,470	2,677	2,478	2,201	(7.7)	(0.3)	12.2	11,468	9,763	17.5
Other Income	359	467	413	383	(23.2)	(13.0)	(6.2)	1,869	1,616	15.6
PBDIT	2,829	3,144	2,891	2,584	(10.0)	(2.2)	9.5	13,336	11,379	17.2
Depreciation	(352)	(421)	(316)	(365)	(16.2)	11.5	(3.4)	(1,682)	(1,343)	25.2
PBT	2,476	2,724	2,575	2,219	(9.1)	(3.8)	11.6	11,654	10,036	16.1
Tax	(541)	(599)	(566)	(487)	(9.7)	(4.4)	11.1	(2,217)	(2,245)	(1.2)
PAT	1,935	2,125	2,009	1,727	(8.9)	(3.7)	12.0	9,437	7,786	21.2
Key ratios (%)										
Rail freight exps/Sales	57.6	57.5	58.1	58.6				55.6	57.5	
Other exp/Sales	13.2	13.0	12.4	16.2				13.8	14.1	
Employee exp/Sales	2.2	2.0	2.2	2.0				2.3	2.1	
EBITDA margin	27.0	27.5	27.3	23.2				28.3	26.4	
PBT margin	27.0	28.0	28.4	23.3				28.7	27.1	
Effective tax rate	21.9	22.0	22.0	22.0				19.0	22.4	
PAT margin	21.1	21.9	22.1	18.2				23.3	21.0	
Segmental										
Volumes (TEUs)										
Exim	489,312	499,762	454,329	490,681	(2.1)	7.7	(0.3)	2,060,859	1,882,277	9.5
(% of total)	79.3	78.6	79.1	76.3				77.9	77.7	
Domestic	127,384	135,763	120,213	152,434	(6.2)	6.0	(16.4)	583,816	538,970	8.3
(% of total)	20.7	21.4	20.9	23.7				22.1	22.3	
Sales (Rs mn)										
Exim	7,202	7,687	7,243	7,257	(6.3)	(0.6)	(0.8)	31,861	28,953	10.0
(% of total)	78.6	79.1	79.8	76.3				78.6	78.2	
Domestic	1,957	2,033	1,831	2,249	(3.7)	6.9	(13.0)	8,676	8,069	7.5
(% of total)	21.4	20.9	20.2	23.7				21.4	21.8	
EBIT (Rs mn)										
Exim	1,986		1,961	1,603		1.3	23.9	8,047	7,561	6.4
Margin (%)	27.6		27.1	22.1				25.3	26.1	
Domestic	266		307	362		(13.4)	(26.5)	1,357	1,300	4.3
Margin (%)	13.6		16.8	16.1				15.6	16.1	
per TEU realization (Rs)										
Exim	14,719	15,382	15,943	14,789	(4.3)	(7.7)	(0.5)	15,460	15,382	0.5
Domestic	15,361	14,972	15,227	14,752	2.6	0.9	4.1	14,862	14,972	(0.7)
Total	14,852	15,294	15,793	14,780	(2.9)	(6.0)	0.5	15,328	15,291	0.2

Source: Company, Kotak Institutional Equities estimates

Revenues also impacted by decline in terminal service business; might also have affected domestic margins

The revenue growth for the quarter was also adversely affected by decline in terminal service revenues of about 13% yoy. Highlight that this is also a high EBITDA margin business, and lower share from this business might be one of the reasons for the lower profitability in the domestic segment.

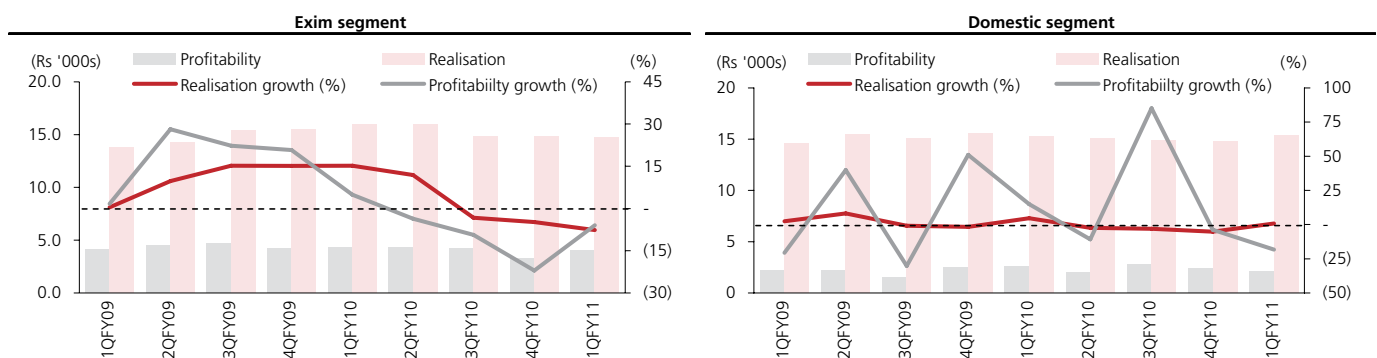
Exim margin improvement led by reduced exim gap and empties management

Concor was able to improve empty runnings in the quarter—was controlled at 3.8% versus 6.2% in 1QFY10 and an average of 4.9% in FY2010. This was primarily led by improvement in export volumes leading to a reduction in the export-import gap. Exports were at about 45% of the total exim volumes versus 40% in 1QFY10; exim gap declined to about 45,000 TEUs versus about 95,000 TEUs in 1QFY10.

Rail charge hike not fully passed on to customers; potential for another freight hike in the near future

The company was not able to pass on the entire 5.5% hike in railway haulage rate on to their customers. Concor passed on about 80% of the total hike and absorbed the remaining 20% hike in charges leading to lower margins for the quarter. The management highlighted that in order to maintain its competitiveness versus roads it was not viable to pass on the entire rail freight hike to the customers. The Indian Railway was contemplating another rail-charge hike in July. Such a hike would put further pressure on the margins of the company.

Quarterly realization and profitability of exim segment, March fiscal year-ends, 2008-1QFY11 (Rs '000s)



Source: Company, Kotak Institutional Equities

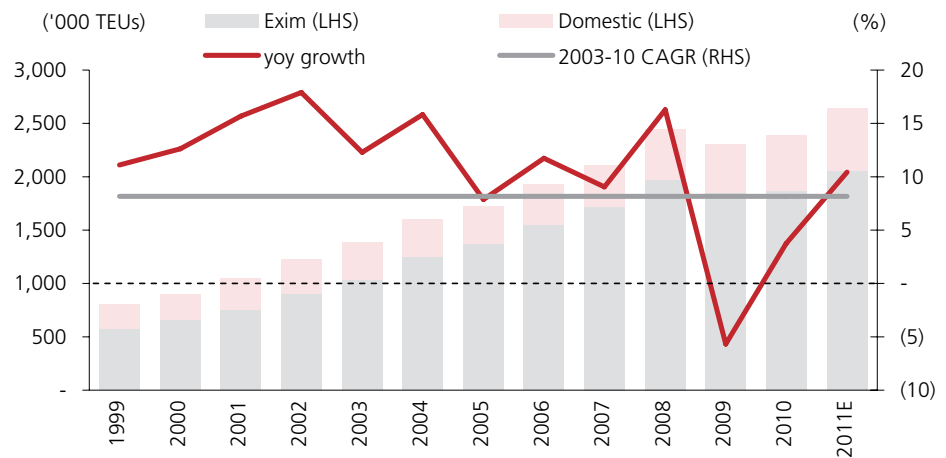
Evaluating PFT and SFTO policies; but will not materially impact current year nos.

The company is contemplating various options for participation in the recent PFT and SFTO policies introduced by the Ministry of Railways. For PFT, Concor is evaluating how to optimally use its existing terminal infrastructure/capacity in order to minimize the capex requirement. Under SFTO, Concor is evaluating the option to run car-carriers through this scheme for its 50:50 JV company with NYK Line. However, impact of both these policies would not be significant in the near future.

Guides for volume growth of about 8-10% in FY2011E

The Concor management does not expect the very strong growth seen in domestic volumes in FY2010 to continue this year as well—expect about 10-12% growth in domestic volumes. The management has guided for a total volume growth of about 8-10% in FY2011E. This is led by about 12% growth in domestic volumes and about 5-8% growth in exim volumes. We have currently built in about 10% growth in the overall volumes of Concor.

Historical volumes handled by Concor, March fiscal year-ends, 1999-11E (TEUs)



Source: Company, Kotak Institutional Equities

Marginally revise estimates and target price to Rs1,300; reiterate REDUCE

We have marginally revised our earnings estimates to Rs73.1 and Rs84.6 from Rs74.3 and Rs85.9 earlier for FY2011E and FY2012E, respectively. Our revisions are based on slightly lower average lead distance for Concor. Our SOTP-based target price of Rs1,300/share is comprised of (1) Rs1,268/share from the core rail operations valued at 15X FY2012E earnings and (2) Rs32/share from the investment in JNPT terminal—based on FY2012E-based DCF valuation.

Revised estimates for Container Corporation, March fiscal year-ends, 2011E-12E (Rs mn)

	New estimates		Old estimates		% revision	
	FY2011E	FY2012E	FY2011E	FY2012E	FY2011E	FY2012E
Key numbers (Rs mn)						
Revenues	40,821	46,896	42,489	48,810	(3.9)	(3.9)
EBITDA	11,568	13,330	11,805	13,592	(2.0)	(1.9)
EBITDA margin (%)	28.3	28.4	27.8	27.8		
PAT	9,503	10,995	9,660	11,168	(1.6)	(1.6)
EPS (Rs)	73.1	84.6	74.3	85.9	(1.6)	(1.6)
Volumes ('000 TEUs)						
Exim	2,071	2,278	2,061	2,267	0.5	0.5
Domestic	593	652	584	642	1.6	1.6
Growth (%)						
Revenues	10.3	14.9	15.3	14.9		
EBITDA	18.5	15.2	21.2	15.1		
EPS	22.0	15.7	21.7	15.6		
Exim volumes	10.0	10.0	10.0	10.0		
Domestic volumes	10.0	10.0	12.0	10.0		

Source: Company, Kotak Institutional Equities estimates

We reiterate our REDUCE rating on the stock based on (1) relatively high valuations and (2) likely decline in market share as competitors' contribution to capacity aligns with market share.

Key risks arise from (1) increasing competition from private players, (2) slower-than-expected growth in Indian containerized trade, (3) continued sluggishness in the domestic segment and (4) further haulage rate hikes by Indian Railways making container-based transportation incrementally less competitive. We also highlight that Concor has a vision of building businesses in several areas of logistics services like shipping, air cargo, port terminals, auto carrier etc. to emerge as a more comprehensive and end-to-end provider of logistics solutions. However, effective execution of these projects may pose challenges and hence it may likely take time before the upside is visible, in our view.

Other key highlights:

- ▶ Added only two rakes in this quarter; total rake of Concor stands at 232 at end-1QFY11; plans to add 20 new rakes totally in FY2011E
- ▶ Plans to add 6 new terminals in FY2011E to current terminal base of 59 terminals
- ▶ Planned capital expenditure of Rs6.1 bn in FY2011E
- ▶ Overall market share stand at about 75-77%
- ▶ Originating volumes handled of about 432,739 TEUs comprised of 372,968 TEUs of exim volumes and 59,771 TEUs of domestic volumes
- ▶ Current cash balance of Rs21 bn

Key financials of Container Corporation, March fiscal year-ends, 2007-12E (Rs mn)

	2007	2008	2009	2010E	2011E	2012E
Income statement						
Net revenues	30,573	33,473	34,172	37,023	40,821	46,896
Total operating cost	(21,661)	(24,569)	(24,861)	(27,260)	(29,252)	(33,566)
EBIDTA	8,912	8,904	9,311	9,763	11,568	13,330
Other income	846	1,645	2,111	1,616	1,869	2,255
PBDIT	9,758	10,548	11,422	11,379	13,437	15,585
Depreciation	(936)	(1,063)	(1,159)	(1,343)	(1,682)	(1,888)
Pre tax profits	8,823	9,485	10,262	10,036	11,755	13,698
Tax	(1,862)	(1,980)	(2,347)	(2,245)	(2,252)	(2,702)
PAT	6,961	7,505	7,915	7,791	9,503	10,995
EPS (Rs)	53.6	57.7	60.9	59.9	73.1	84.6
One time items	77	17	(3)	—	—	—
PAT (reported)	7,038	7,522	7,912	7,791	9,503	10,995
Volume handled ('000 TEUs)						
Exim	1,716	1,977	1,855	1,882	2,071	2,278
Domestic	58	71	453	539	593	652
Balance sheet						
Networth	26,298	31,839	37,622	43,316	50,262	58,299
Share capital	650	650	1,300	1,300	1,300	1,300
Reserves & surplus	25,648	31,189	36,322	42,017	48,962	56,999
Total sources of funds	26,298	31,839	37,622	43,316	50,262	58,299
Net block	15,515	16,652	19,490	25,321	28,780	30,378
CWIP	2,028	1,721	2,457	818	818	818
Investments	1,317	1,554	2,031	3,031	4,031	5,031
Net current assets	9,051	13,650	15,582	16,084	18,571	24,009
Net deferred tax asset	(1,613)	(1,737)	(1,938)	(1,938)	(1,938)	(1,938)
Total application of funds	26,298	31,839	37,622	43,316	50,262	58,299

Source: Company, Kotak Institutional Equities estimates

JULY 21, 2010

UPDATE

Coverage view: **Attractive**

Price (Rs): **68**

Target price (Rs): **77**

BSE-30: **17,878**

Gas on the anvil? According to media reports, LITL's 732 MW gas-based project at Kondapalli is likely to receive allocations in the forthcoming meeting of the empowered group of ministers (EGOM). We contain our optimism on account of the fragile demand-supply scenario of gas, further complicated by Reliance Power's claim for 28 mmscmd of gas. We continue to remain positive on the near-term earnings prospects of LITL and reiterate BUY with a revised TP of Rs77/share.

Company data and valuation summary

Lanco Infratech

Stock data

52-week range (Rs) (high,low) 71-37

Market Cap. (Rs bn) 164.4

Shareholding pattern (%)

Promoters 67.9

FIs 19.1

MFs 2.1

Price performance (%)

Absolute (0.1) 19.3 81.3

Rel. to BSE-30 (1.9) 16.5 54.1

Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	2.0	3.7	5.0
EPS growth (%)	35.1	87.6	34.9
P/E (X)	34.8	18.6	13.8
Sales (Rs bn)	80.7	115.1	132.9
Net profits (Rs bn)	4.4	8.2	11.0
EBITDA (Rs bn)	14.9	35.4	44.2
EV/EBITDA (X)	20.4	8.7	8.2
ROE (%)	15.8	21.2	22.7
Div. Yield (%)	0.0	0.0	0.0

Kondapalli III closes in on gas allocation

As per media reports, Kondapalli ext. (732 MW) is likely to get gas allocation at the forthcoming meeting of the empowered group of ministers (EGOM) to be held on July 27, 2010. We note that the allocation of gas will meet an important milestone in the development of the project, though we contain our optimism on account of the fragile demand-supply scenario for gas. Kondapalli ext. is the third phase of the Kondapalli power plant which already has an operational capacity of 734 MW. The project has an estimated cost of Rs25.2 bn and management has guided for commissioning by end FY2012. We currently do not ascribe value to the project owing to uncertainty over fuel supply and financial tie-ups, though we acknowledge that increased visibility on project execution could add Rs4/share to our target price.

Several claimants but supply of domestic gas slipping

We note that the EGoM has already committed 60 mcm/d of gas from RIL's KG D-6 block and made fallback arrangements for another 30 mcm/d. As against this, the gas supply from the block is ramping up at a slower-than-expected-pace. As per news articles, the gas supply may be stuck at 60 mcm/d for some time due to technical difficulties. In addition, we highlight slippages in several E&P projects which were earlier expected to come online by FY2012E. These include RIL's NEC-25, GSPC's Deen Dayal, ONGC's KG DWN-98/2. In addition, the lack on clarity on Reliance Power's claim for 28 mcm/d of gas adds to the confusion on the eventual claimants for the gas. The government has received applications for 350 mcm/d of gas for the current round of allocations, of which Lanco, GMR and Reliance Power are amongst the more notable applicants. Exhibit 2 gives the potential demand of gas from the power sector.

Reiterate BUY with a revised target price of Rs77/share

We reiterate our BUY rating on Lanco with a revised target price of Rs77/share (Rs70/share previously) as we roll forward to a March 2012-based SOTP and factor in improved execution in construction business.

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Our SOTP-based target price now comprises (1) DCF-equity of power project portfolio at Rs61/share, (2) construction business valued at Rs17/share at EV/EBITDA of 6X on FY2012E, (3) real estate project at 50% of NAV ~Rs3/share, (4) DCF equity of BOT road projects at Rs1/share and (5) value from sale of carbon credits of Rs1/share. We have revised our FY2012E EPS estimate from Rs4.6/share to Rs5/share factoring in higher construction revenues from an expanded portfolio of power projects.

Exhibit 1: Traction on Babandh, Vidarbha and Kondapalli III projects to be the next level catalyst
SOTP-based valuation of LITL

	Capacity (MW)		Est. CoD	Equity value	Equity Inv.		Attributable value		
	Gross	tributable		(Rs mn)	(Rs mn)	P/BV (X)	(%)	(Rs mn)	(Rs/share)
Operating power plants									
Lanco Kondapalli	368	217		5,662	3,400	1.7	59	3,341	
Aban Power	120	61		1,887	1,318	1.4	51	963	
Lanco Electric Utility (Power trading)				1,294	212	6.1	100	1,291	
Power plants under construction									
Lanco Amarkantak	600	600	Feb-10/April-10	30,489	5,598	5.4	100	30,489	
Lanco Green	70	63	May-10	1,375	840	1.6	90	1,238	
Vamshi Hydro	10	9	Mar-09	154	155	1.0	91	140	
Vamshi Industrial	10	9	Sep-09	178	153	1.2	91	162	
Nagarjuna Power	1,200	1,200	Apr-10/Sep-10	23,593	13,440	1.8	100	23,593	
Lanco Energy - Teesta VI	500	370	Sep-12	10,917	5,900	1.9	74	8,079	
Anpara 'C'	1,200	1,200	Jun-11/Sept-11	16,583	8,800	1.9	100	16,583	
Lanco Kondapalli extn.	366	216	Dec-09	15,879			59	9,369	
Lanco Amarkantak Extn	1,320		Jan-13 / Apr-14	55,600	13,200	4.2	100	55,600	
Lanco Hydro	150	137	Mar-13	4,906	2,079	2.4	91	4,468	
Sub total	4,444	3,945		160,361	55,095	2.9		155,317	65
Net equity funding requirement								(8,846)	(4)
Power (A)								146,471	61
Construction (B)								41,698	17
Property development (C)								6,442	3
Road projects (D)								1,370	1
Net debt (E)								(11,643)	(5)
Carbon credits (F)								1,340	1
Grand total (A+B+C+D+E+F)								185,677	77

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Potential demand from power sector to be large
Potential demand for gas from power sector (mcm/d)

	Capacity (MW)	Gas demand (mcm/d)			Net demand
		Gross demand	Pre KG D-6 supply	KG D-6 gas	
Existing stations	18,190	71.8	28.7	28.2	14.9
NTPC	6,174	24.4	13.7	0.6	10.7
Andhra Pradesh	3,150	12.4	4.1	4.6	8.3
<i>Gautami (GVKPL)</i>	464	2.2	—	2.2	2.2
<i>Konaseema</i>	445	2.1	—	2.1	2.1
<i>Lanco Kondapalli Extn (Lanco Infratech)</i>	366	1.4	—	1.5	1.4
Maharashtra	3,312	13.1	2.8	1.0	10.3
<i>Ratnagiri</i>	2,220	8.8	0.5	5.7	8.2
Gujarat	4,195	16.6	4.1	6.6	12.5
<i>Sugen Power (Torrent Power)</i>	1,147	4.5	0.9	3.3	3.6
Others	1,358	5.4	3.6	0.5	1.8
Plants operating on liquid fuel required to switch over to gas	220	0.9	—	—	0.9
Tanir Bavi (GMR)	220	0.9	—	—	0.9
Plants likely to be commissioned in 2010-12E	3,065	12.1	—	—	12.1
Rithala (NDPL)	108	0.4	—	—	0.4
GSCE, Utran	370	1.5	—	—	1.5
APGCL, Lakwa	37	0.1	—	—	0.1
GSPC, Pipavav	700	2.8	—	—	2.8
GSCE, Hazira extn.	350	1.4	—	—	1.4
Pragati Power	1,500	5.9	—	—	5.9
Plants likely to be commissioned in 2012-15E	25,830	101.9	—	—	101.9
Dadri (Reliance Power)	7,480	29.5	—	—	29.5
Shahapur (Reliance Power)	2,800	11.1	—	—	11.1
NTPC (Kawas, Gandhar)	2,600	10.3	—	—	10.3
Essar, Hazira	1,500	5.9	—	—	5.9
Others	11,450	45.2	—	—	45.2
Total	47,305	187	29	28	130

Source: Kotak Institutional Equities estimates

Visibility on upcoming projects to be the next level catalyst

With near-term commissioning of 2,533 MW of capacities along with merchant sale from entire 300 MW from Amarkantak I already priced in, we believe that upside to our target price is contingent upon visibility for Babandh (2,640 MW), Vidarbha (1,320 MW) and Kondapalli III (732 MW) projects. We currently do not ascribe value to these projects as we await key milestones. We note that the projects could add another Rs19/share (March 2012 based SOTP) to our target price. We highlight below the status of these projects:

- ▶ Babandh (2,640 MW): The project has been granted a tapering linkage of 1000 MW and a linkage of 660 MW from MCL. Management expects to achieve financial closure of the project by end June 2010. We note that the project could add ~Rs10/share to our target price.
- ▶ Kondapalli III (732 MW): LITL has awarded the EPC contract for Kondapalli and construction has commenced. However, financial closure is still in the offing, and we await clarity on the same before ascribing value to the project. Management has indicated an expected COD of 4QFY12.
- ▶ Vidarbha (1,320 MW) - Ministry of Coal has awarded coal linkages to the 1st unit of Vidarbha project (660 MW) suggesting that the 1st unit is likely to be commissioned in the XIth plan period itself. Although this provides a better visibility on the project in terms of fuel supply, we await clarity in terms of financial closure and approval status before ascribing value to this project. We note that the project could add ~Rs5/share to our target price

Exhibit 3: Upcoming projects could provide an upside of ~Rs18/share to our target price
Execution status of upcoming projects of LITL

Project	Capacity (MW)	Cost (Rs bn)	Fuel	Land	Environmental clearance	Fuel arrangement	Financial closure	Expected value (Rs/share)
Kondapalli III	732	25.2	Thermal	✓	✓	✗	✗	4.0
Babandh	2,640	139.0	Thermal	WIP	✓	WIP	WIP	10.0
Vidarbha	1,320	69.5	Thermal	WIP	✗	WIP	✗	5.0
Total	4,692	233.7						19.0

Source: Company, Kotak Institutional Equities estimates

Near-term projects on track

LITL's near-term projects (expected to be commissioned in FY2011) are progressing well and are expected to commission on schedule. These projects include 1,320 MW at Udupi and another 1,320 MW at Anpara. Exhibit 4 highlights the capex schedule for projects under construction. As evident, most of the capex has already been incurred for the projects likely to commission in FY2011. However, we note that limited capex has been incurred till date for projects under development (Kondapalli III, Vidarbha and Babandh).

Exhibit 4: Most of the capex for Anpara and Udupi has already been incurred
Capex schedule for LITL's power projects (Rs mn)

	Project cost (Rs mn)	Capex incurred (Rs mn)				%age capex (%)
		till FY2010	2011E	2012E	2013E	
Lanco Green	4,200	4,000	200			95.2
Vamshi Hydro	775	775	-			100.0
Vamshi Industrial	765	765	-			100.0
Amarkantak I	13,995	13,995				100.0
Amarkantak II	13,995	13,995				100.0
Nagarjuna Power	48,000	47,031	969			98.0
Anpara C	44,000	29,191	12,125	2,684	-	66.3
Lanco Hydro - Teesta	32,490	9,325	10,200	10,200	2,765	28.7
Lanco Energy - Uttaranchal	10,395	2,139	3,250	3,250	1,756	20.6
Lanco - kondapalli - II	11,880	11,880	-			100.0
Lanco Hydro	10,395	-				0.0
Lanco - Amanrkantak - III & IV	52,800	1,036	10,560	18,480	22,724	2.0
Babandh	110,880	1,258	27,720	38,808	43,094	1.1
Kondapalli III	26,132	2,891	10,000	10,000	3,241	11.1
Total	354,570		75,024	83,422	70,339	

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: Lanco: Profit model, balance sheet, cash model 2007-2012E, March fiscal year-ends (Rs mn)

	2007	2008	2009	2010E	2011E	2012E
Profit model (Rs mn)						
Net sales	16,058	32,413	60,720	80,718	115,083	132,918
EBITDA	4,198	6,993	8,874	14,912	35,169	44,188
Other income	416	708	562	1,978	1,304	1,491
Interest	(829)	(920)	(1,773)	(3,554)	(10,546)	(14,416)
Depreciation	(656)	(776)	(1,073)	(3,479)	(10,747)	(13,379)
Pretax profits	3,130	6,005	6,590	9,857	15,181	17,883
Tax	(471)	(1,404)	(1,674)	(3,643)	(3,990)	(4,110)
Minority Interest	(778)	(1,304)	(1,684)	(1,849)	(3,001)	(2,727)
Net profits	1,881	3,297	3,232	4,366	8,190	11,046
Extraordinary items	(1)	245	(429)	219	—	—
Earnings per share (Rs)	0.8	1.6	1.3	2.1	3.7	5.0
Balance sheet (Rs mn)						
Total equity	15,105	18,333	20,976	34,294	43,018	54,508
Deferred taxation liability	92	173	175	624	1,293	(444)
Total borrowings	20,821	37,200	62,962	162,833	171,582	237,297
Current liabilities	11,424	27,038	31,331	48,417	45,139	42,354
Minority Interest	41	41	41	41	42	43
Total liabilities and equity	47,482	82,785	115,485	246,209	261,074	333,757
Cash	5,050	7,411	9,905	22,489	29,675	39,904
Current assets (excl cash)	12,013	30,379	39,438	49,864	50,726	53,405
Total fixed assets	24,390	38,029	56,306	172,164	178,981	238,755
Investments	6,029	6,966	9,837	1,692	1,692	1,692
Deferred Expenditure	0	0	0	1	1	1
Total assets	47,482	82,785	115,485	246,209	261,074	333,757
Free cash flow (Rs mn)						
Operating cash flow, excl. working capital	3,739	5,632	6,919	11,068	28,566	36,553
Working capital	95	(2,752)	(4,766)	6,660	(4,140)	(5,465)
Capital expenditure	(24,637)	(14,415)	(19,350)	(119,337)	(17,564)	(73,153)
Investments	(5,014)	(936)	(2,871)	8,145	—	—
Free cash flow	(25,817)	(12,472)	(20,068)	(93,464)	6,863	(42,065)

Source: Company, Kotak Institutional Equities estimates

JULY 20, 2010

UPDATE

Coverage view: **Attractive**

Price (Rs): **318**

Target price (Rs): **400**

BSE-30: **17,878**

Biocon could be a transformed company starting 2012E; reiterate BUY. We believe BIOS should form a key holding for any long-term investor. BIOS could be the first integrated Indian biopharma co. with 2012 as the inflexion point, when BIOS could enter EU with human insulin biosimilar. What distinguishes Biocon (1) is its FDA compliant capacities for Insulin/MABs, largest in Asia, which are critical to its global strategy and (2) debt-free, positive cash flow business that allows it to invest in R&D. In the interim, we believe BIOS's near-term earnings remain on a strong wicket due to its strategy of first commercializing products in India/emerging markets leading to BIOS reporting EBITDA margin of 30% on business ex-Axicorp in FY2010. BIOS is trading at 14X FY2012E earnings, lower than its 5-year average of 18X. We leave estimates unchanged and upgrade PT to Rs400.

Company data and valuation summary

Biocon				Forecasts/Valuations		
Stock data				2010	2011E	2012E
52-week range (Rs) (high,low)	331-200			EPS (Rs)	14.8	22.1
Market Cap. (Rs bn)	63.6			EPS growth (%)	216.4	22.3
Shareholding pattern (%)				P/E (X)	21.4	14.4
Promoters	60.9			Sales (Rs bn)	23.7	30.6
FII's	3.9			Net profits (Rs bn)	2.9	4.4
MFs	9.4			EBITDA (Rs bn)	4.7	6.5
Price performance (%)				EV/EBITDA (X)	13.4	9.1
Absolute	1M	3M	12M	ROE (%)	17.9	20.1
Rel. to BSE-30	2.6	5.3	52.3	Div. Yield (%)	0.0	0.1
	0.8	2.8	29.4			

Biocon could be a transformed company starting 2012E

We believe transformation in Biocon is underway with 2012E as the inflexion point when Biocon could enter EU with its human insulin finished dosage, marketed in India as "Insugen". By FY2015E, BIOS expects—(1) its finished dosage formulation business in India to account for 25% of its revenues (from 10% currently) and (2) aspires to be among the top 10 companies worldwide in diabetes management. (currently selling insulin finished dosage in India/ROW).

Biocon has tied up for insulin in US and begins Phase I in US and III in Europe

BIOS has tied up with a partner in US (undisclosed) for marketing insulin. The partner is currently undertaking trials for insulin in US. In 2009, Axicorp and BIOS have completed phase I trials for human insulin with phase III expected to begin soon. The market size in Germany for human insulin alone was Euro460 mn in 2009. BIOS is also looking to outlicense Insulin to a marketing partner for rest of Europe in the immediate future.

Near-term earnings on a strong wicket—22% earnings growth in FY2011-12E

We believe BIOS's long term strategy overshadows its near-term earnings potential which remains on a strong wicket. Over FY2011-12E, we expect its key businesses to report strong growth. BIOS reported EBITDA margin of 30% on business ex-Axicorp in FY2010, despite a significant share of business from Statin API (20-25% of sales).

We upgrade PT to Rs400 (from Rs345), maintain BUY

BIOS is trading at 14X FY2012E earnings, lower than its 5-year average of 18X. We leave our estimates unchanged and upgrade PT to Rs400 (18X FY2012E earnings). Near-term stock triggers include: (1) Oral Insulin phase III data in India, (2) launch of pen-based insulin in India in 2H2010, (3) tender contracts for Axicorp and (4) insulin licensing for rest of EU.

QUICK NUMBERS

- Biocon has tied up for insulin in US; begins phase I in US and Phase III in Europe
- Near-term earnings on a strong wicket—22% earnings growth in FY2011-12E
- We upgrade PT to Rs400 (from Rs345)

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We upgrade PT to Rs400 (from Rs345), maintain BUY

BIOS is trading at 14X FY2012E earnings, lower than its 5-year average of 18X. We leave our estimates unchanged and upgrade PT to Rs400 (18X FY2012E earnings).

BIOS reported EBITDA margin of 30% on business ex-Axicorp in FY2010, despite a significant share of business from Statin API (20-25% of sales). We expect margin to increase as share from branded finished dosage business in India and emerging markets increases. With potential launch of insulin in EU starting 2012, Axicorp margin is expected to increase significantly from mid-single digits currently.

Near-term stock triggers include: (1) Oral Insulin phase III data in India, (2) launch of pen-based insulin in India in 2H2010, (3) tender contracts for Axicorp, (4) insulin licensing for rest of EU and (5) additional long-term contracts for Syngene.

Biocon developing two product portfolios for foray into developed markets

BIOS is developing two key biosimilars for developed markets—insulin and MABs. Insulin, currently in clinical trials in US and Germany, could emerge as a major revenue driver starting 2012E. However, MABs are a longer-term play as they are currently in pre-clinical development in partnership with Mylan.

Critical to its global strategy is its FDA compliant capacities and debt-free positive cash flow business

Critical to this developed market strategy is—(1) Biocon's FDA compliant manufacturing capacities for insulin/MABs which are largest in Asia and (2) debt-free, positive cash flow business which allows BIOS to invest in innovative R&D and biosimilar development programs. Total R&D spend in FY2010 was Rs1,126 mn (6% of revenues) and net costs were Rs784 mn after reimbursement of costs from Mylan.

Insulin business grew 11% while domestic finished dosage grew 36% in FY2010

- ▶ Biocon's branded business in India consists of 36 brands across 4 divisions and grew 36% yoy in FY2010. Biocon's diabetology division, largest contributor to its domestic sales, grew 24% yoy in FY2010 driven by strong sales from its two main brands of insulin. Its human insulin brand "Insugen" has garnered 10% market share, and is placed 3rd in the vial market. Biocon also entered the insulin analog market in India (Rs1.25 bn with glargine market size of around Rs500 mn) with its launch of "Basalog" in FY2010, which is priced 40% lower than Lantus. BIOS will be launching pen-based insulin in 2H2010.
- ▶ During the year, Biocon has entered several key emerging markets such as Brazil and Chile with its insulin formulations. As of March 2010, BIOS had vial and cartridge registrations in around 40 countries. BIOS has opted for marketing tie-ups in emerging markets in Latin America, Mexico, Middle East, North Africa, Asia, China, Turkey, etc. with strong regional players for insulin and other products. Emerging markets accounts for 40% of BIOS's products sales and BIOS expects this to be a key revenue driver in the short term.
- ▶ Both "Insugen" and "Basalog" are being developed for EU/US with potential launch between 2012 and 2016. BIOS has tied up with a partner in US (undisclosed) for marketing insulin in US. The partner is currently undertaking clinical trials for insulin in US. In 2009, Axicorp and BIOS completed phase I trials for human insulin with phase III expected to begin soon. The market size in Germany for human insulin alone was Euro460 mn in 2009. BIOS is also looking to outlicense Insulin to a marketing partner for rest of Europe.

MABs (currently in pre-clinicals) fetch BIOS US\$8-10 mn in milestone income in FY2010

Biocon is developing biosimilar version of MABs (monoclonal antibodies) in partnership with Mylan. The deal involves sharing R&D costs in bringing products to market with a profit-sharing arrangement. The products (undisclosed) are currently in pre-clinical development and although launch is still years away in developed markets, BIOS has garnered US\$8-10 mn in licensing income in FY2010. BIOS expects to commence clinical trials in India at a fast pace for two biosimilar MABs.

While BIOS has not disclosed product details or number of products, we believe BIOS's MABs portfolio may include the following five MABs— Avastin, Herceptin, Rituxan, Humira and Remicade. According to Datamonitor, in 2007, the total global MAB sales reached US\$26 bn and are forecast to almost double to US\$49 bn by 2013. Traditionally, the 'big five' MABs have dominated the market, cornering almost 80% of sales in 2007.

Teva has already started phase I trials for its generic version of Rituxan (rituximab), Roche's blockbuster MAB (patent protection in the US until 2018 and in the rest of the world through 2013). According to media reports, Teva aims to gain regulatory approval for this product by the end of 2014 in Europe.

Near-term earnings on a strong wicket—22% earnings growth in FY2011-12E

We believe BIOS's long-term strategy overshadows its near-term earnings potential which remains on a strong wicket due to its stated strategy of marketing products in India and emerging markets first followed by developed markets. In the medium term, BIOS plans to commercialize its MAB portfolio in India and emerging markets and insulin in developed markets. Over FY2011-12E, we expect BIOS's four key businesses to report strong growth driven by

- ▶ **India finished dosage** segment sales expected to grow at 30% p.a. driven by
 - market share gains across existing brands
 - launch of pen-based insulin in 2H2010
 - launch of two new marketing segments - Immunotherapy and comprehensive care
 - tapping the hospital segment and extra-urban areas
 - Biocon is also developing new products in Ophthalmics, which it intends to commercialize soon
- ▶ **Axicorp sales expected to grow 14% p.a. in local currency** driven by products introductions (100 planned in 2010) and tender contracts for other products in addition to Metformin which it won in 2009. In 2009, Axicorp achieved total revenue of Euro133 mn, up from Euro91 mn in 2008 driven by a basket of 430 products and on the back of winning tender for Metformin which helped it achieved market share of 25% for the product.
- ▶ **Research services expected to grow 25% p.a.** driven by ramp-up in BMS contract and turnaround in profitability in Clinigene.
- ▶ **Immunosuppressants** driven by tacrolimus API sales in developed markets upon partners securing ANDA approvals. In FY2010, Immunosuppressants portfolio comprising Mycophenolate Mofetil (MMF) Sirolimus and Tacrolimus grew 28% yoy.

Profit and loss statement, March fiscal year-ends, 2007-2012E (Rs mn)

	2007	2008	2009	2010	2011E	2012E
Net sales	9,857	10,538	16,086	23,678	27,321	30,551
Total expenditure	(7,022)	(7,552)	(12,853)	(18,963)	(21,868)	(24,049)
EBITDA	2,834	2,986	3,233	4,715	5,454	6,502
Depreciation and amortisation	(665)	(939)	(1,103)	(1,401)	(1,580)	(1,800)
EBIT	2,169	2,047	2,131	3,314	3,874	4,702
Net finance cost	(98)	(102)	(177)	(169)	(120)	0
Other income	38	364	646	370	500	500
Loss/(gain) on forward covers	—	—	(1,472)	—	—	—
Pretax profits before extra-ordinaries	2,109	2,309	1,128	3,515	4,254	5,202
Current tax	(18)	(97)	(98)	(445)	(552)	(676)
Deferred tax	(151)	(17)	(1)	(42)	—	—
Fringe benefit tax	—	(15)	(19)	—	—	—
Reported net profit	1,940	2,180	1,009	3,028	3,702	4,526
Profit/(loss)in minority interest	(62)	(65)	79	96	81	100
Reported net profit after minority interests	2,002	2,245	930	2,932	3,620	4,426
Exceptional items	—	2,394	—	—	—	—
Reported net profit after minority interests a	2,002	4,639	930	2,932	3,620	4,426

Source: Kotak Institutional Equities estimates, Company

Balance sheet, cash model, March fiscal year-ends, 2007-2012E (Rs mn)

	2007	2008	2009	2010	2011E	2012E
Balance sheet						
Total equity	10,686	14,841	15,107	17,578	20,289	23,806
Total debt	1,868	2,551	5,239	5,136	—	—
Current liabilities	2,749	3,005	4,375	5,799	7,020	7,980
Minority interests	(8)	(73)	248	338	419	519
Deferred tax liabilities	448	465	466	508	508	508
Total equity and liabilities	15,744	20,789	25,436	29,359	28,237	32,813
Cash and cash equivalents	87	96	118	1,399	150	150
Current assets	5,209	5,250	7,806	9,520	11,705	13,410
Net assets incl intangibles	9,657	10,695	13,836	14,134	15,054	14,754
Investments	790	4,748	3,676	4,306	1,328	4,498
Total uses of funds	15,744	20,789	25,436	29,359	28,237	32,813
Free cash flow						
Operating cash flow, excl. working ca	2,660	2,872	3,009	4,256	4,951	5,891
Working capital	(1,557)	(20)	(1,302)	(363)	(1,099)	(746)
Capital expenditure	(2,040)	(1,836)	(4,243)	(1,547)	(2,500)	(1,500)
Investments	(212)	3,957	(1,071)	630	(2,978)	3,170
Free cash flow	(1,148)	4,974	(3,607)	2,976	(1,626)	6,815

Source: Kotak Institutional Equities estimates, Company

JULY 20, 2010

UPDATE

BSE-30: 17,878

In a comfortable zone. We see US\$70-80/bbl as a comfortable band for crude oil prices. We do not expect a sharp surge in crude oil prices given (1) high level of inventories, (2) large OPEC spare capacity despite slippage in new projects and (3) downside risk to demand given concerns on economic recovery in several countries. However, we believe crude oil prices will find support at the lower end of our band given economics of marginal oil production. We prefer ONGC/OIL over Cairn given the relative risk-reward balance; Cairn is discounting US\$94/bbl in perpetuity.

Recovery in demand led by non-OECD countries; recent macro-economic developments important

The IEA's most recent forecasts estimate global crude oil demand to increase by 1.8 mn b/d in CY2010E and 1.3 mn b/d in CY2011E. We note that the demand growth is driven entirely by non-OECD countries with China and India accounting for 0.8 mn b/d growth in CY2010E and 0.5 mn b/d in CY2011E. We do not rule out downside risks to demand estimates given (1) concerns on potential slowdown in China, (2) partial deregulation of oil sector in India making demand more price-sensitive and (3) concerns over the state of European economy.

Large OPEC spare capacity despite slippage in new projects

OPEC NGL production is expected to increase by 1.2 mn b/d in CY2010-11E which is lower versus earlier estimates of 1.6 mn b/d due to slippages in projects in Iran and Saudi Arabia. OPEC crude capacity is expected to decline by a moderate 0.2 mn b/d in CY2011E due to lower volumes from Iran and Venezuela. However, OPEC spare capacity will likely remain comfortable at ~6 mn b/d in CY2010-11E.

Inventory levels at above 10-year range

Inventory levels continue to remain very high with OECD inventory levels of products and crude at nearly 61 days of forward cover. We note that the level of inventories continues to be at the higher end of its 10-year range, which should mitigate the impact of stronger-than-expected demand.

Refining margins remain subdued, weakness to remain for another 12 months

Refining margins continue to remain subdued given the global demand-supply balance. We expect refining capacity addition of 2.3 mn b/d over CY2010-11E. The supply would be further boosted by increase in NGLs by 1.2 mn b/d. Thus, we estimate an incremental supply of 3.5 mn b/d versus a demand growth of 3.1 mn b/d over CY2010-11E. Indian refiners will likely have better refining margins led by (1) higher proportion of diesel in the product slate given strength in diesel cracks and (2) displacement of liquid fuels by gas for heating purposes.

Stock view—prefer ONGC/OIL over Cairn India

We would prefer ONGC and OIL over Cairn India given their better relative risk-reward balance. We are encouraged by the strong operations of ONGC and OIL over the past few years which have been largely clouded over by the subsidy issue. These include (1) large 2P reserves compared to 1P reserves, (2) high reserve-replacement ratio (RRR) over the past few years, (3) exciting new oil and gas discoveries, (4) volume growth and (5) overseas prospects. We advise investors to book profits in Cairn given that the stock price is discounting US\$94/bbl in perpetuity. We do not see any positive triggers for the stock in the near term.

QUICK NUMBERS

- **2.3 mn b/d of new refining capacity + 1.2 mn b/d of new NGL capacity > 3.1 mn b/d of oil demand growth in CY2010-11E**
- **Over 6 mn b/d of OPEC spare capacity in CY2010-11E**
- **61 days of forward demand cover at current levels of OECD inventory**

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Demand driven by non-OECD countries—watch out for recent macro-economic developments

IEA expects global oil demand to rise by 1.3 mn b/d in CY2011E after a growth of 1.8 mn b/d in CY2010E. Exhibit 1 gives the global demand-supply of oil.

We expect high OPEC spare capacity in CY2010-11E

Estimated global crude demand, supply and prices, Calendar year-ends, 2005-15E

	2005	2006	2007	2008	2009	2010E	2011E	2012E	2013E	2014E	2015E
Demand (mn b/d)											
Total demand	84.1	85.2	86.4	86.0	84.7	86.5	87.8	89.0	90.1	91.2	92.1
Yoy growth	1.6	1.1	1.2	(0.4)	(1.3)	1.8	1.3	1.2	1.1	1.0	0.9
Supply (mn b/d)											
Non-OPEC	49.8	50.4	50.9	50.8	51.6	52.4	52.8	52.6	52.3	52.7	52.7
Yoy growth	1.0	0.6	0.5	(0.1)	0.8	0.8	0.4	(0.2)	(0.3)	0.4	(0.0)
OPEC											
Crude	30.4	30.5	30.5	31.2	28.7	28.8	29.1	30.0	31.2	31.6	32.4
NGLs	4.3	4.4	4.3	4.4	4.7	5.3	5.9	6.3	6.6	6.8	7.0
Total OPEC	34.7	34.9	34.8	35.6	33.4	34.1	35.0	36.4	37.8	38.4	39.4
Total supply	84.7	85.6	85.7	86.4	85.0	86.5	87.8	89.0	90.1	91.2	92.1
Total stock change	0.7	0.2	(0.8)	0.4	0.3						
OPEC crude capacity			34.4	34.2	34.9	35.6	35.4	35.2	35.5	36.5	36.8
Implied OPEC spare capacity			3.1	3.3	6.5	6.8	6.2	5.2	4.3	4.9	4.4
Demand growth (yoy, %)											
	1.9	1.3	1.4	(0.4)	(1.5)	2.1	1.5	1.3	1.2	1.1	1.0
Supply growth (yoy, %)											
Non-OPEC	2.0	1.2	1.0	(0.2)	1.6	1.6	0.8	(0.3)	(0.6)	0.8	(0.0)
OPEC	3.0	0.6	(0.3)	2.4	(6.4)	2.2	2.8	3.8	4.0	1.6	2.4
Total	1.6	1.1	0.1	0.8	(1.7)	1.8	1.5	1.3	1.2	1.1	1.0
Dated Brent (US\$/bbl)											
	54.4	65.8	72.7	102.0	62.0	75.0	75.0	80.0	80.0	80.0	80.0

Source: IEA, Kotak Institutional Equities estimates

- ▶ **Non-OECD demand.** We note that the demand growth is driven by non-OECD countries where the IEA expects demand to grow by 1.6 mn b/d in CY2011E. We note that the pace of growth in non-OECD countries is lower in CY2011E versus CY2010E. Exhibit 2 gives the detailed break-up of global oil demand.

Oil demand growth driven by Non-OECD countries
Summary of global oil demand (mn b/d)

	2009	2010E	2011E	2012E	2013E	2014E	2015E
OECD demand							
North America	23.29	23.64	23.56	23.49	23.39	23.27	23.14
Europe	14.49	14.25	14.22	14.15	14.04	13.91	13.77
Pacific	7.66	7.61	7.51	7.32	7.18	7.04	6.91
Total OECD	45.44	45.50	45.29	44.96	44.61	44.22	43.82
Non-OECD demand							
FSU	3.99	4.17	4.29	4.35	4.43	4.49	4.53
Europe	0.74	0.72	0.73	0.77	0.79	0.81	0.82
China	8.37	9.13	9.56	10.10	10.59	11.07	11.53
Other Asia	9.94	10.14	10.46	10.73	10.99	11.23	11.45
Latin America	5.99	6.23	6.44	6.62	6.82	7.02	7.21
Middle East	7.06	7.37	7.72	8.00	8.31	8.61	8.90
Africa	3.20	3.24	3.35	3.49	3.59	3.70	3.81
Total Non-OECD	39.29	41.00	42.55	44.06	45.52	46.93	48.25
Total demand	84.73	86.50	87.84	89.02	90.13	91.15	92.07
USA	18.77	18.95	18.86	18.68	18.58	18.47	18.35
Japan	4.37	4.30	4.18	3.96	3.83	3.69	3.55
Korea	2.18	2.19	2.19	2.22	2.21	2.21	2.20
Mexico	2.08	2.16	2.19	2.15	2.17	2.18	2.18
Canada	2.15	2.23	2.21	2.15	2.13	2.12	2.10
Brazil	2.57	2.70	2.81	2.87	2.96	3.06	3.15
India	3.26	3.32	3.43	3.53	3.63	3.72	3.81

Source: IEA, Kotak Institutional Equities estimates

- **OECD demand.** OECD will likely see a decline of 0.1 mn b/d in oil demand in CY2011E led by lower demand in Europe and Pacific.

We do not rule out downside risks to demand estimates given (1) concerns on potential slowdown in China as the government withdraws its fiscal and monetary stimuli, (2) partial deregulation of the oil sector in India making demand more price-sensitive and (3) concerns over the state of European economy.

Moderate decline in OPEC capacity; spare capacity remains significant

The IEA expects OPEC capacity to decline by a moderate 0.2 mn b/d to 35.4 mn b/d in CY2011E led by lower volumes from Iran and Venezuela. However, despite the moderate decline in CY2011E, crude capacity is expected to increase by 1.9 mn b/d by CY2015E. The increase is led by new projects in Iraq, Libya, Saudi Arabia and Angola which will mitigate the impact of lower volumes in Iran. Exhibit 3 gives the breakdown of OPEC crude capacity and Exhibit 4 gives details of the new projects coming online in OPEC countries.

OPEC crude production capacity to increase by 1.9 mn b/d
OPEC sustainable crude production capacity (mn b/d)

	2009	2010E	2011E	2012E	2013E	2014E	2015E
Algeria	1.39	1.37	1.38	1.45	1.49	1.49	1.45
Angola	2.06	2.03	2.02	2.02	2.12	2.36	2.48
Ecuador	0.49	0.48	0.45	0.46	0.46	0.44	0.42
Iran	3.97	3.93	3.79	3.66	3.56	3.46	3.29
Kuwait	2.62	2.59	2.55	2.52	2.56	2.67	2.66
Libya	1.77	1.78	1.81	1.78	1.78	1.95	2.03
Nigeria	2.66	2.70	2.70	2.58	2.52	2.49	2.56
Qatar	0.93	1.00	1.02	1.00	0.98	0.98	1.03
Saudi Arabia	11.23	12.09	12.04	11.83	11.65	11.63	11.66
United Arab Emirates	2.72	2.71	2.72	2.84	2.98	3.05	3.12
Venezuela	2.51	2.42	2.33	2.33	2.37	2.60	2.62
OPEC-11	32.35	33.10	32.81	32.47	32.47	33.12	33.32
Iraq	2.49	2.50	2.55	2.77	3.05	3.39	3.46
Total OPEC	34.84	35.60	35.36	35.24	35.52	36.51	36.78

Source: IEA, Kotak Institutional Equities

Significant new capacity additions to offset the decline in mature fields
Capacity addition projects in OPEC ('000 b/d)

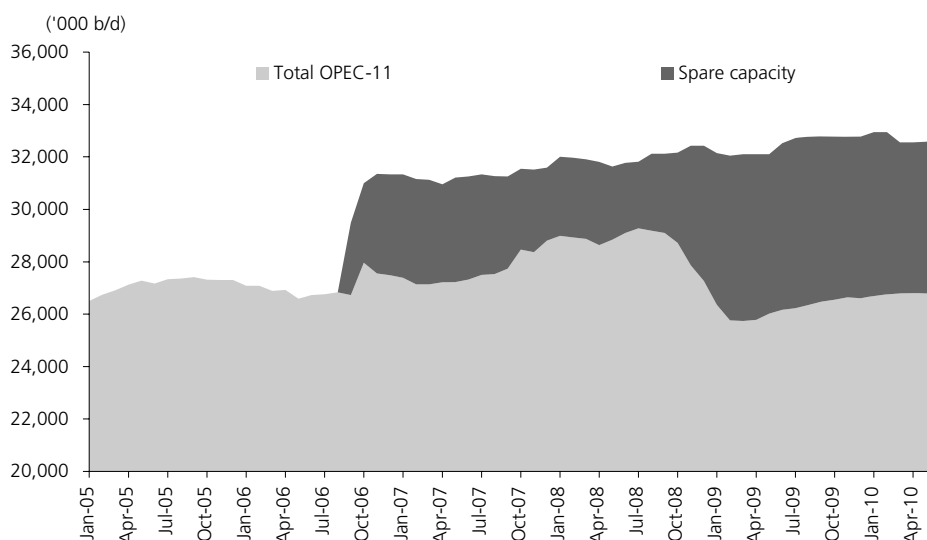
	Capacity	Estimated Completion
Algeria		
El Merk	135	CY2012
Bir Seba	36	CY2011
IAN EOR	30	CY2012
Takouazet	50	CY2013
Angola		
Block 17 (CLOV)	160	4QCY15
Cabaca Norte	200	4QCY15
Iran		
Azadegan II	100	CY2015
Yadavaran	85	CY2015
Kuwait		
GC-24	90	1QCY14
Burgan	100	CY2015
Saudi Arabia		
Manifa	900	4QCY15
United Arab Emirates		
Upper Zakum	250	2HCY15
Lower Zakum	100	CY2012
Asab, Sahil and Shah	75	CY2012
Qusahwira	30	CY2013
Nasr	25	4QCY15
Venezuela		
Junin Block 2	200	CY2013
Junin Block 5	240	CY2015
Carabobo 1	400	CY2013

Source: IEA, Kotak Institutional Equities

We estimate OPEC spare capacity at over 6 mn b/d in CY2010-11E which is higher than the historical spare OPEC capacity (see Exhibit 5). The supply-demand balance looks tighter in the outer years of our projections. However, supply may be higher due to (1) higher production from Iraq based on planned capacity of 6 mn b/d from recently-awarded technical contract projects versus production capacity at 3.5 mn b/d, (2) contribution from Brazilian sub-salt plays and (3) new discoveries off the coast of West Africa (the belt stretching from Sierra Leone to Equatorial Guinea with two billion-barrel discoveries already off the coast of Ghana).

OPEC has large spare capacity

Monthly OPEC production, 2005-10YTD ('000 b/d)



Source: OPEC, Kotak Institutional Equities

Non-OPEC supply—moderate growth but still impressive

The IEA expects non-OPEC supply to increase by 0.4 mn b/d in CY2011E. We note that supply growth is impressive given strong growth of 0.7 mn b/d in CY2009 and 0.8 mn b/d in CY2010E. The growth is concentrated in a few areas—(1) Brazil, (2) Azerbaijan, (3) Colombia, (4) Oman and (5) Canada.

NGL supply to be lower due to delay in project start-ups

The IEA expects NGL supply to increase by 1.2 mn b/d in CY2010-11E; this is lower versus the earlier estimate of 1.4 mn b/d increase over CY2010-11E. The downward revision to NGL supply estimates reflects delay in start-up of several key projects.

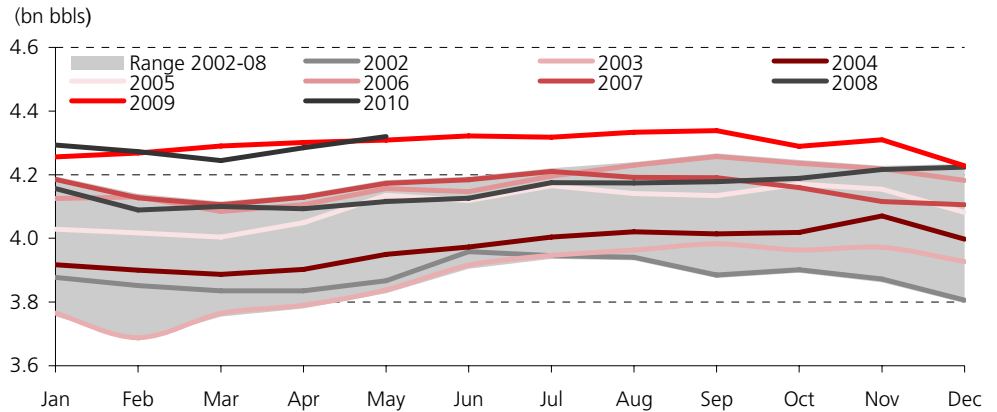
- ▶ **Khursaniyah in Saudi Arabia.** The project is expected to come online by 3QCY10 versus earlier estimate of early-2010. The nameplate capacity is 210 kb/d but the ramp-up is expected to be slow.
- ▶ **Bid Boland in Iran.** The project is expected to be commissioned by end-CY2013E versus the earlier estimate of 2011. The project is currently only 10% complete. The project is slated to produce 120 kb/d of NGLs.
- ▶ **South Pars 9 and 10.** These projects continue to be marred by delays and are now expected to be operational by CY2011E. The delay in the projects has been on account of sanctions imposed on Iran which has created problems in procurement of equipment and materials.

Crude and product inventories look ample, especially in the light of declining OECD consumption

Exhibits 6 and 7 show OECD inventories in terms of absolute and number of days of forward cover. We note that OECD demand has declined over the past few years and the IEA predicts that OECD demand may in fact have peaked. OECD demand has declined 1.35 mn b/d on an average over the past three years; the decline in demand may have been accelerated in the past two years by the global credit crisis (see Exhibit 8).

OECD crude stocks continue to remain high in the current year

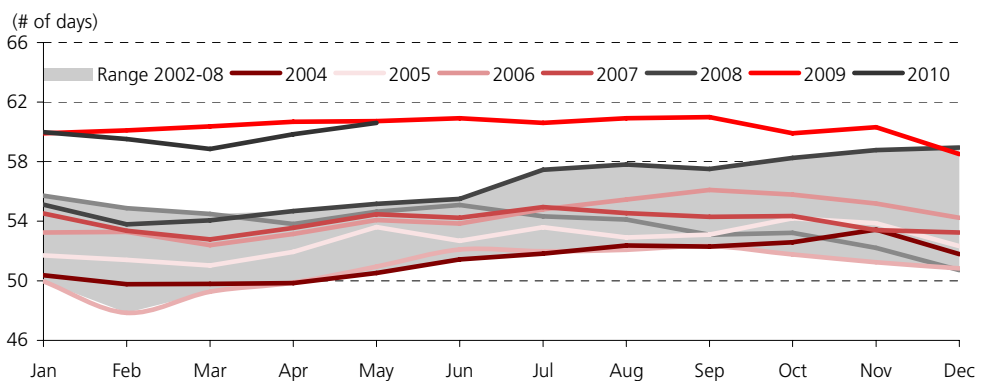
Total industry and government-controlled crude and product stocks in OECD countries (bn bbls)



Source: IEA, Kotak Institutional Equities

Current levels of inventory to cover 61 days of forward demand

Global demand-supply balance for crude (# of days)



Note:
(a) Days of forward cover based on average demand over the next four quarters.

Source: IEA, Kotak Institutional Equities estimates

Decline in OECD-demand have accelerated in the past two years
Summary of global oil demand (mn b/d)

	2006	2007	2008	2009	2010E	2011E	2012E	2013E	2014E	2015E
OECD demand										
North America	25.4	25.5	24.2	23.3	23.6	23.6	23.5	23.4	23.3	23.1
Europe	15.7	15.3	15.4	14.5	14.3	14.2	14.2	14.0	13.9	13.8
Pacific	8.5	8.4	8.0	7.7	7.6	7.5	7.3	7.2	7.0	6.9
Total OECD	49.5	49.2	47.6	45.4	45.5	45.3	45.0	44.6	44.2	43.8
FSU	4.0	4.1	4.2	4.0	4.2	4.3	4.4	4.4	4.5	4.5
Europe	0.7	0.8	0.8	0.7	0.7	0.7	0.8	0.8	0.8	0.8
China	7.2	7.6	7.8	8.4	9.1	9.6	10.1	10.6	11.1	11.5
Other Asia	9.0	9.5	9.6	9.9	10.1	10.5	10.7	11.0	11.2	11.5
Latin America	5.4	5.7	6.0	6.0	6.2	6.4	6.6	6.8	7.0	7.2
Middle East	6.3	6.5	6.8	7.1	7.4	7.7	8.0	8.3	8.6	8.9
Africa	3.0	3.1	3.2	3.2	3.2	3.4	3.5	3.6	3.7	3.8
Total Non-OECD	35.7	37.2	38.4	39.3	41.0	42.6	44.1	45.5	46.9	48.3
Total demand	85.2	86.4	86.0	84.7	86.5	87.8	89.0	90.1	91.2	92.1

Source: IEA, Kotak Institutional Equities estimates

Stock view—prefer ONGC/OIL over Cairn; avoid refiners

- ▶ **ONGC/OIL**—sharing of 33.3% subsidy lends certainty to earnings, potential upside. We prefer ONGC and OIL given (1) potential upside of 15.4% for ONGC and 7.4% for OIL to our fair value, (2) clarity on earnings with share of upstream companies of under-recoveries being fixed at 33.3% and (3) positive trigger from exciting new discoveries and overseas projects.

We highlight the slew of recent developments which have been positive for these companies—(1) increase in APM natural gas price, (2) deregulation of petrol (immediate) and diesel prices (eventually), (3) hike in retail prices of petrol, diesel, LPG and kerosene and (4) clarity on subsidy-sharing scheme with share of upstream companies finalized at 33.3% of total under-recoveries.

- ▶ **Cairn**—too hot to handle. We maintain our SELL rating on the stock given (1) expensive valuations and (2) lack of positive triggers. Our reverse analysis exercise suggests that Cairn stock is discounting US\$94/bbl in perpetuity assuming (1) 1.43 bn bbls of gross reserves (1 bn bbls net to Cairn) in its Rajasthan block versus the company's current guidance of 1.13 bn bbls of gross reserves (0.79 bn bbls net to Cairn), (2) exchange rate of ₹45/US\$ in perpetuity and (3) discount of US\$6/bbl for Rajasthan crude. Exhibit 9 gives the implied crude price discounted at various levels of stock price.

Cairn stock is discounting crude oil price of US\$94/bbl

Crude price discounted at various levels of stock price of Cairn

Stock price (Rs/share)	Crude price discounted (US\$/bbl)
325	98
310	94
295	90
280	86
265	82
250	79
235	76
220	72
205	68
190	65

Note:

- (1) Crude price discounted from FY2011E in perpetuity.
- (2) Long-term exchange rate assumption (FY2013E onwards) is Rs45.25/US\$.
- (3) Exchange-rate assumptions for FY2011E and FY2012E are Rs45/US\$ and Rs45.25/US\$.

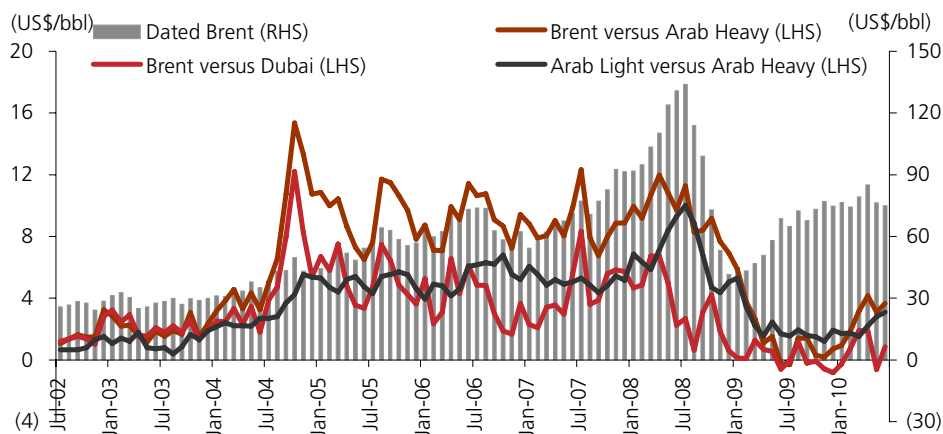
Source: Kotak Institutional Equities estimates

- **Refiners.** We would advise investors to avoid refiners as the demand-supply balance continues to reflect continued weakness in refining margins. We expect refining margins to remain subdued over the next 12 months led by significant refining capacity addition. We expect demand to increase by 3.1 mn b/d over CY2010-11E and a refining capacity addition of 2.3 mn b/d over the same period. The supply would be further boosted by increase in NGLs by 1.2 mn b/d. Thus, we estimate an incremental supply of 3.5 mn b/d versus a demand growth of 3.1 mn b/d over CY2010-11E.

The impact of subdued benchmark refining margins would be mitigated to a certain extent for complex refiners due to expansion in light-heavy differential. Light-heavy differential as measured by Arab Light and Arab Heavy differential has improved to US\$3.1/bbl in June 2010 and US\$2.7/bbl in YTD FY2011 versus US\$1.7/bbl in FY2010 (see Exhibit 10).

Light-heavy differential has improved recently

Light-heavy differential (US\$/bbl)



Source: Bloomberg, Kotak Institutional Equities

However, we have an ADD rating on BPCL, HPCL and IOCL given the potential upside from the partial de-regulation of the sector. See our report *'Buying opportunity'* released on July 16, 2010. Our earnings for these assume weak refining margins in FY2011E.

Profit model, balance sheet, cash model of Cairn, calendar year-ends, 2006-07, March fiscal year-ends, 2009-14E (Rs mn)

	2006	2007	2009 (a)	2010E	2011E	2012E	2013E	2014E
Profit model (Rs mn)								
Net sales	18,417	16,561	25,156	21,913	103,297	145,396	204,193	201,958
EBITDA	7,435	6,705	8,663	9,805	76,381	106,274	127,669	110,062
Other income	1,100	1,324	5,945	4,077	4,507	5,636	5,994	6,252
Interest	(201)	(27)	(64)	(148)	(3,740)	(5,380)	(5,020)	(2,810)
Depreciation	(497)	(4,589)	(4,382)	(3,570)	(7,267)	(9,580)	(12,516)	(12,740)
Pretax profits	7,837	3,413	10,162	10,163	69,881	96,951	116,127	100,763
Extraordinary items	—	(2,120)	(283)	—	—	—	—	—
Tax	(2,273)	(740)	(1,221)	(739)	(15,802)	(21,064)	(24,861)	(21,316)
Deferred taxation	(22)	(764)	(623)	1,087	(58)	5	102	(273)
Net profits	5,543	(212)	8,035	10,511	54,021	75,892	91,368	79,174
Earnings per share (Rs)	3.1	(0.1)	4.3	5.5	28.5	40.0	48.2	41.7
Balance sheet (Rs mn)								
Total equity	292,804	294,358	328,023	338,683	392,704	435,306	482,286	494,879
Deferred tax liability	4,258	4,916	5,540	4,453	4,511	4,505	4,403	4,676
Total borrowings	5,122	3,124	43,564	34,007	61,007	75,007	52,007	19,000
Current liabilities	39,716	8,372	16,132	14,806	2,190	3,295	8,137	10,462
Total liabilities and equity	341,900	310,771	393,259	391,949	460,412	518,113	546,833	529,018
Cash	61,348	1,504	18,968	9,293	48,446	74,869	98,380	89,577
Current assets	6,470	19,029	53,712	14,439	9,905	13,942	19,580	19,366
Total fixed assets	17,609	25,157	62,660	85,656	31,876	33,908	36,684	35,847
Net producing properties	2,354	4,390	3,014	12,243	99,868	125,077	121,872	113,911
Investments	4	7,129	1,713	17,124	17,124	17,124	17,124	17,124
Goodwill	254,115	253,193	253,193	253,193	253,193	253,193	253,193	253,193
Deferred expenditure	—	370	—	—	—	—	—	—
Total assets	341,900	310,771	393,259	391,949	460,412	518,113	546,833	529,018
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	4,598	6,387	8,213	6,285	54,439	78,330	96,338	84,485
Working capital changes	34,256	(908)	1,213	37,946	(8,081)	(2,932)	(796)	2,540
Capital expenditure	(5,619)	(11,739)	(31,613)	(33,163)	(38,711)	(35,321)	(10,637)	(2,492)
Investments/Goodwill	(252,717)	(53,863)	(25,062)	(15,411)	—	—	—	—
Other income	1,100	1,298	1,518	4,077	4,507	5,636	5,994	6,252
Free cash flow	(218,382)	(58,824)	(45,730)	(267)	12,153	45,713	90,898	90,784
Key assumptions								
Gross production ('000 boe/d)	91.0	75.4	68.1	64.3	162.0	210.4	263.9	258.2
Net production ('000 boe/d)	25.1	19.4	17.8	21.0	92.0	128.1	167.5	165.5
Dated Brent (US\$/bbl)	65.3	70.3	87.4	65.0	75.0	75.0	80.0	80.0
Discount of Rajasthan oil to Dated Brent (US\$/bbl)	—	—	—	5.0	6.0	6.0	6.0	6.0

Note:

(a) 15 months period starting from January 1, 2008 to March 31, 2009.

Source: Company, Kotak Institutional Equities estimates

Profit model, balance sheet, cash model of OIL, March fiscal year-ends, 2006-2014E (Rs mn)

	2006	2007	2008	2009	2010E	2011E	2012E	2013E	2014E
Profit model (Rs mn)									
Net sales	55,502	53,892	60,819	72,414	80,728	89,526	102,379	108,778	110,424
EBITDA	26,554	22,292	23,852	28,339	38,756	46,967	56,295	60,558	60,779
Other income	3,639	5,335	6,770	9,372	7,869	9,223	9,906	10,931	12,135
Interest	(152)	(151)	(383)	(26)	(37)	(24)	(9)	—	—
Depreciation and depletion	(3,314)	(2,595)	(3,093)	(3,768)	(7,638)	(9,110)	(11,455)	(12,641)	(13,975)
Pretax profits	26,728	24,881	27,145	33,916	38,951	47,056	54,737	58,848	58,939
Tax	(9,347)	(7,406)	(8,538)	(11,910)	(11,598)	(15,505)	(18,204)	(19,565)	(19,591)
Deferred tax	(498)	(1,020)	(707)	(343)	(1,211)	(125)	22	17	13
Net profits	16,883	16,454	17,901	21,663	26,142	31,425	36,555	39,300	39,361
Earnings per share (Rs)	78.9	76.9	83.6	101.2	115.0	130.7	152.0	163.4	163.7
Balance sheet (Rs mn)									
Total equity	58,483	68,491	79,330	93,310	137,697	156,785	179,320	203,198	227,138
Deferred tax liability	7,013	8,033	8,655	8,998	10,209	10,334	10,312	10,296	10,283
Liability for abandonment cost	10	11	11	15	19	19	19	19	19
Total borrowings	3,341	8,140	1,749	565	375	213	—	—	—
Current liabilities	11,668	10,320	17,541	30,914	32,693	32,496	33,437	34,106	34,165
Total liabilities and equity	80,515	94,995	107,286	133,801	180,992	199,846	223,088	247,619	271,605
Cash	31,015	32,757	42,808	60,700	85,487	92,205	105,047	121,547	139,206
Current assets	14,540	22,350	18,957	22,853	37,266	40,015	42,370	43,542	43,843
Total fixed assets	30,658	35,813	40,633	45,361	49,460	58,848	66,893	73,752	79,777
Investments	4,302	4,075	4,887	4,887	8,594	8,594	8,594	8,594	8,594
Deferred expenditure	—	—	—	—	184	184	184	184	184
Total assets	80,515	94,995	107,286	133,801	180,992	199,846	223,088	247,619	271,605
Free cash flow (Rs mn)									
Operating cash flow, excl. working capital	19,843	18,357	20,104	27,246	24,645	27,938	34,082	36,994	37,188
Working capital changes	5,884	(8,696)	7,435	2,368	(12,813)	(2,946)	(1,413)	(503)	(242)
Capital expenditure	(6,108)	(9,370)	(9,492)	(8,496)	(9,224)	(14,998)	(15,500)	(15,500)	(16,000)
Investments	(2,482)	226	(811)	—	(3,708)	—	—	—	—
Other income	1,670	2,892	4,214	5,470	7,869	9,223	9,906	10,931	12,135
Free cash flow	18,807	3,409	21,450	26,587	6,769	19,217	27,074	31,921	33,081
Ratios (%)									
Debt/equity	5.7	11.9	2.2	0.6	0.3	0.1	—	—	—
Net debt/equity	(33.1)	(32.8)	(31.9)	(31.9)	(38.3)	(38.1)	(39.9)	(43.0)	(46.2)
RoAE	28.1	23.2	21.8	22.8	20.9	20.0	20.5	19.5	17.5
RoACE	28.0	23.0	21.5	22.7	20.9	19.9	20.5	19.5	17.5
Key assumptions									
Rs/dollar rate	44.3	45.3	40.3	45.8	47.4	45.0	45.3	45.3	45.3
Crude fob price (US\$/bbl)	57.2	64.8	78.9	83.0	67.1	75.0	75.0	80.0	80.0
Ceiling/actual natural gas price (Rs/'000 cm)	3,515	3,200	3,200	3,200	3,200	6,783	7,500	7,500	7,500
Subsidy loss (Rs bn)	9.8	19.9	23.1	30.2	15.5	19.8	14.7	17.0	17.6

Source: Company, Kotak Institutional Equities estimates

Consolidated profit model, balance sheet, cash model of ONGC, March fiscal year-ends, 2006-2014E (Rs mn)

	2006	2007	2008	2009	2010E	2011E	2012E	2013E	2014E
Profit model (Rs mn)									
Net sales	807,603	966,542	1,091,644	1,200,176	1,090,473	1,216,504	1,342,039	1,502,009	1,500,352
EBITDA	310,054	357,707	407,481	418,299	468,954	529,826	595,843	650,822	643,377
Other income	27,350	45,378	53,565	56,197	29,934	33,332	48,601	65,255	80,598
Interest	(537)	394	(12,027)	(11,442)	(6,212)	(1,454)	(1,382)	(6,860)	(6,140)
Depreciation and depletion	(97,726)	(119,550)	(138,624)	(153,985)	(186,996)	(167,845)	(200,524)	(195,662)	(188,121)
Pretax profits	239,141	283,928	310,395	309,069	305,680	393,858	442,538	513,555	529,713
Tax	(71,196)	(88,986)	(102,908)	(111,333)	(94,961)	(122,189)	(137,424)	(153,040)	(155,432)
Deferred tax	(13,612)	(9,264)	(6,471)	(3,495)	(12,077)	(2,149)	(953)	(4,094)	(5,548)
Net profits	154,596	178,119	202,767	200,063	198,832	269,520	304,160	356,421	368,733
Net profits after minority interests	153,542	176,627	199,156	196,679	195,675	267,240	301,814	355,219	366,937
Earnings per share (Rs)	71.8	82.6	93.1	92.0	91.5	124.9	141.1	166.1	171.6
Balance sheet (Rs mn)									
Total equity	578,830	670,137	786,657	929,353	1,045,186	1,207,091	1,388,672	1,598,389	1,814,000
Deferred tax liability	71,557	80,976	87,227	92,076	104,153	106,302	107,255	111,349	116,897
Liability for abandonment cost	128,675	151,857	129,325	171,451	175,368	175,368	175,368	175,368	175,368
Total borrowings	28,767	21,826	22,039	73,633	57,256	39,724	119,124	111,274	96,674
Current liabilities	142,435	187,051	251,797	293,480	237,041	243,772	258,662	284,445	293,919
Total liabilities and equity	950,264	1,111,847	1,277,045	1,559,994	1,619,004	1,772,257	2,049,081	2,280,826	2,496,858
Cash	90,743	206,262	249,807	224,671	212,010	339,207	572,045	834,646	1,094,768
Current assets	240,210	192,652	257,384	309,494	295,048	329,942	346,390	371,749	376,334
Total fixed assets	565,722	643,219	695,227	871,287	950,589	936,809	964,348	908,133	859,458
Goodwill	14,172	27,686	22,847	111,108	111,108	111,108	111,108	111,108	111,108
Investments	35,753	36,888	45,041	36,926	43,744	48,684	48,684	48,684	48,684
Deferred expenditure	3,663	5,141	6,739	6,506	6,506	6,506	6,506	6,506	6,506
Total assets	950,264	1,111,848	1,277,045	1,559,994	1,619,005	1,772,257	2,049,081	2,280,826	2,496,859
Free cash flow (Rs mn)									
Operating cash flow, excl. working capital	216,736	252,772	284,517	274,321	262,045	327,885	382,382	417,414	408,297
Working capital changes	46,461	(4,990)	(24,929)	(109,306)	(41,073)	21,836	58,443	33,489	4,888
Capital expenditure	(113,738)	(135,049)	(166,427)	(208,137)	(154,415)	(75,767)	(153,409)	(65,938)	(65,938)
Investments	(28,912)	53,822	(7,348)	(92,159)	(6,817)	—	—	—	—
Other income	14,537	20,422	22,822	31,612	29,934	33,332	48,601	65,255	80,598
Free cash flow	135,083	186,976	108,636	(103,668)	89,674	307,285	336,017	450,219	427,844
Ratios (%)									
Debt/equity	5.0	3.3	2.8	7.9	5.5	3.3	8.6	7.0	5.3
Net debt/equity	(10.7)	(27.5)	(29.0)	(16.3)	(14.8)	(24.8)	(32.6)	(45.3)	(55.0)
RoAE	25.9	25.5	24.8	21.0	18.3	22.0	21.8	22.4	20.4
RoACE	22.0	22.0	21.9	18.3	16.1	19.2	19.3	20.3	18.7
Key assumptions									
Rs/dollar rate	44.3	45.3	40.3	45.8	47.4	45.0	45.3	45.3	45.3
Crude fob price (US\$/bbl)	57.2	64.8	78.9	83.0	67.1	75.0	75.0	80.0	80.0
Ceiling/actual natural gas price (Rs/'000 cm)	3,515	3,200	3,200	3,200	3,200	6,783	7,500	7,500	7,500
Subsidy loss (Rs bn)	119.6	170.2	220.0	282.3	115.5	143.7	106.7	124.0	128.0

Source: Company, Kotak Institutional Equities estimates

June 2010: Earnings announcement calendar

Mon	Tue	Wed	Thu	Fri	Sat
19-Jul	20-Jul	21-Jul	22-Jul	23-Jul	24-Jul
		Alstom Projects	ACC	Allahabad Bank	Balrampur Chini Mills
		Aries Agro	Ambuja Cements	Areva T&D	Godrej Consumers
		Bajaj Finserv	Bajaj Auto	BHEL	Hindustan Zinc
		Birla Corp	Bajaj Holdings & Investments	Biocon	Indiabulls Financial Services
		Century Plyboard	Crisil	CESC	Indian Bank
		Engineers India	DishTV	HPCL	IOCL
		Indiabulls Power	Dr Reddy Laboratories	IFCI	Jaiprakash Power Ventures
		Kotak Mahindra Bank	Gujarat Gas	Jaiprakash Associates	Maruti Suzuki
		Mastek	IDBI Bank	Jet Airways	
		Rural Electrification Corp	Idea Cellular	Mahindra & Mahindra Financials	
		Thermax	ITC	Praj Industries	
		TVS Motor	Power Finance	UCO Bank	
		United Breweries	Punjab Natiaol Bank	Wipro	
		United Breweries Holdings	Shriram Transport		
		Yes Bank	Thermax		
			Varun Industries		
			Vijaya Bank		
26-Jul	27-Jul	28-Jul	29-Jul	30-Jul	31-Jul
Bharat Forge	Ashok Leyland	Chennai Petroleum	Aban Offshore	ABB	EIH
Century Textiles	Asian Paints	Corporation Bank	Alok Industries	Bharat Electronics	Grasim Industries
Dabur India	Cadila Healthacare	Essel Propack	Bank of Baroda	BPCL	GVK Power & Infra
Essar Oils	Cairn India	GTL Infra	Federal Bank	Hindustan Construction	ICICI Bank
Glaxosmithkline Pharma	Everest Kanto	Gujarat Mineral Development Corp.	GE Shipping	Indian Hotels	Syndicate Bank
Mahindra Holidays	Glenmark Pharmaceuticals	Havells India	GHCL	Max India	
NTPC	Godrej Industries	Jindal Steel & Power	GSPL	NMDC	
Sterlite Industries	GTL	Lupin	HCL Technologies	PSL	
Tech Mahindra	Hindustan Unilever	Mahindra & Mahindra	Hero Honda	REI Agro	
Union Bank	IRB Infrastructure	MMTC	ONGC	Religare Enterprises	
United Phosporus	JSW Steel	Neyveli Lignite	Oriental Bank of Commerce	Shipping Corp	
	Jubilant Organosys	Phoenix Mills	Petronet LNG	Tata Chemicals	
	L&T	Sobha Develpoers	SAIL	Torrent Power	
	Manglore Refinery and Petrochemicals	Sun Pharmaceuticals	Siemens		
	Reliance Industries	SunTV Network	Tata Tea		
	Titan Industries	Tata Communications	Tata Teleservices		
		Voltas	Ultratech Cement		
2-Aug	3-Aug	4-Aug	5-Aug	6-Aug	7-Aug
Glaxosmithkline Consumer	Hindalco Industries	IDFC			GMR Infra
India Cements					
Madras Cement					
Nestle India					
9-Aug	10-Aug	11-Aug	12-Aug	13-Aug	14-Aug
	Nagarjuna Constructions		Ranbaxy Laboratories		Lanco Infratech

Source: BSE, Kotak Institutional Equities

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	20-Jul-10		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target		
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	shares (mn)	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)
Automobiles																													
Ashok Leyland	71	ADD	94,384	1,993	1,330	2.8	4.1	5.5	84.5	46.1	34.3	25.1	17.2	12.8	14.6	10.5	8.7	2.4	2.2	2.0	2.1	1.4	1.4	11.1	13.4	16.2	65	(8.4)	10.4
Bajaj Auto	2,398	ADD	346,966	7,326	145	117.5	166.0	182.9	159.8	41.3	10.1	20.4	14.4	13.1	12.8	9.7	8.6	10.8	6.6	4.6	0.8	0.8	0.8	66.6	56.3	41.0	2,500	4.2	10.8
Bharat Forge	333	ADD	80,085	1,691	240	0.7	11.4	18.7	(92.0)	1,553.7	64.6	484.3	29.3	17.8	24.0	11.4	7.9	2.2	2.0	1.8	—	—	—	0.9	13.9	18.2	335	0.6	4.5
Hero Honda	1,945	SELL	388,387	8,201	200	111.8	121.5	135.7	74.1	8.7	11.7	17.4	16.0	14.3	11.2	10.5	9.0	10.8	7.4	5.5	1.7	1.9	59.1	56.6	43.8	1,800	(7.4)	17.8	
Mahindra & Mahindra	602	BUY	348,254	7,353	578	34.9	40.7	48.7	132.5	16.6	19.8	17.3	14.8	12.4	11.4	9.7	8.0	4.3	3.4	2.7	1.6	1.5	1.6	30.0	25.9	24.7	680	12.9	26.0
Maruti Suzuki	1,359	ADD	392,607	8,290	289	86.4	94.1	104.2	104.9	8.9	10.8	15.7	14.4	13.0	8.5	7.9	6.8	3.3	2.7	2.3	0.4	0.5	0.5	23.3	20.6	18.9	1,400	3.1	18.8
Tata Motors	813	ADD	484,724	10,235	596	23.9	27.2	35.5	138.9	13.5	30.6	34.0	29.9	22.9	13.3	13.3	11.7	2.4	2.1	1.9	0.7	0.7	0.7	8.1	7.5	8.6	900	10.7	88.4
Automobiles		Cautious	2,135,407	45,089					109.8	21.0	17.4	20.9	17.3	14.7	11.8	10.4	8.9	3.9	3.2	2.7	1.0	1.0	1.1	18.6	18.6	18.1			
Banks/Financial Institutions																													
Andhra Bank	150	BUY	72,653	1,534	485	21.0	21.1	25.4	56.1	0.6	20.0	7.1	7.1	5.9	—	—	—	1.5	1.3	1.1	2.8	2.8	3.4	24.4	20.2	20.7	160	6.8	4.9
Axis Bank	1,369	ADD	554,663	11,712	405	62.1	78.1	98.3	22.7	25.9	25.9	22.1	17.5	13.9	—	—	—	3.5	3.0	2.6	0.9	1.1	1.4	19.2	18.3	19.9	1,500	9.6	50.1
Bank of Baroda	733	BUY	267,822	5,655	366	83.7	93.2	114.7	37.3	11.4	23.0	8.8	7.9	6.4	—	—	—	1.9	1.6	1.4	2.0	2.3	2.8	24.4	22.6	23.2	825	12.6	10.2
Bank of India	399	REDUCE	209,630	4,426	526	33.1	42.7	56.7	(42.1)	28.9	32.8	12.0	9.3	7.0	—	—	—	1.6	1.4	1.3	1.8	2.3	3.0	14.2	16.4	19.1	360	(9.7)	6.7
Canara Bank	487	ADD	199,465	4,212	410	73.7	82.2	98.3	45.8	11.6	19.5	6.6	5.9	5.0	—	—	—	1.6	1.3	1.0	1.6	2.1	2.5	22.4	20.8	20.8	580	19.2	7.6
Corporation Bank	554	BUY	79,500	1,679	143	81.6	86.7	100.3	31.1	6.3	15.7	6.8	6.4	5.5	—	—	—	1.4	1.2	1.0	3.0	3.2	3.7	21.9	19.9	19.8	650	17.3	1.1
Federal Bank	363	BUY	62,162	1,313	171	27.2	38.7	48.0	(7.2)	42.3	24.2	13.4	9.4	7.6	—	—	—	1.3	1.2	1.1	1.4	2.0	2.4	10.3	13.4	14.8	360	(0.9)	6.1
HDFC	3,014	ADD	865,235	18,269	287	98.4	116.1	138.9	22.7	17.9	19.6	30.6	26.0	21.7	—	—	—	5.7	5.0	4.4	1.2	1.3	1.6	20.0	20.6	21.7	3,450	14.5	37.7
HDFC Bank	2,044	BUY	935,810	19,760	458	64.4	87.2	113.8	22.1	35.4	30.5	31.7	23.4	18.0	—	—	—	4.3	3.8	3.3	0.6	0.8	1.0	16.1	17.3	19.5	2,400	17.4	30.6
ICICI Bank	887	REDUCE	988,739	20,877	1,115	36.1	47.5	58.4	6.9	31.7	22.9	24.6	18.7	15.2	—	—	—	1.9	1.8	1.7	1.4	1.8	2.2	8.0	10.0	11.5	980	10.5	83.5
IDFC	189	ADD	276,361	5,835	1,459	8.2	9.2	11.3	41.1	13.3	22.8	23.2	20.5	16.7	—	—	—	3.9	2.6	2.1	0.7	0.9	1.1	16.1	15.2	14.5	205	8.2	23.9
India Infoline	99	BUY	30,868	652	312	8.1	8.9	10.0	59.2	9.8	12.5	12.2	11.1	9.9	—	—	—	1.9	1.6	1.3	3.2	1.9	2.4	16.4	15.9	16.1	140	41.4	3.9
Indian Bank	241	BUY	103,746	2,191	430	35.1	35.5	43.8	25.5	1.1	23.6	6.9	6.8	5.5	—	—	—	1.6	1.3	1.1	2.5	2.5	3.1	24.0	20.3	21.2	280	16.0	4.3
Indian Overseas Bank	116	BUY	63,061	1,332	545	13.0	15.4	26.4	(46.7)	18.9	71.3	8.9	7.5	4.4	—	—	—	1.0	0.9	0.7	3.5	3.9	4.3	9.6	10.6	16.3	120	3.7	4.1
J&K Bank	825	BUY	39,997	845	48	105.7	112.3	140.6	25.1	6.3	25.2	7.8	7.3	5.9	—	—	—	1.4	1.2	1.1	2.7	2.8	3.5	17.3	16.9	18.5	850	3.0	0.6
UC Housing Finance	1,033	ADD	98,158	2,073	95	69.7	100.7	109.9	11.5	44.5	9.1	14.8	10.3	9.4	—	—	—	3.0	2.5	2.1	1.5	2.1	2.3	23.6	25.5	23.2	1,250	21.0	19.9
Mahindra & Mahindra Financial	493	BUY	47,366	1,000	96	35.7	42.6	49.8	59.3	19.3	16.8	13.8	11.6	9.9	—	—	—	2.8	2.4	2.0	1.5	1.8	2.1	21.4	21.7	21.6	500	1.3	1.2
Oriental Bank of Commerce	365	ADD	91,372	1,929	251	45.3	52.8	58.6	25.3	16.5	11.0	8.1	6.9	6.2	—	—	—	1.3	1.1	1.0	2.5	2.9	3.2	14.1	15.4	15.3	400	9.7	4.3
PFCL	332	REDUCE	380,715	8,039	1,148	20.5	22.5	25.9	53.5	9.9	15.1	16.2	14.7	12.8	—	—	—	3.0	2.6	2.3	1.5	1.7	2.0	18.8	18.0	18.2	240	(27.6)	3.6
Punjab National Bank	1,061	BUY	334,552	7,064	315	123.8	138.8	169.6	26.3	12.1	22.2	8.6	7.6	6.3	—	—	—	2.1	1.7	1.4	2.1	2.6	3.2	26.4	24.5	24.7	1,150	8.4	8.3
Reliance Capital	803	ADD	197,679	4,174	246	13.8	16.1	14.1	(64.9)	17.0	(12.4)	58.2	49.7	56.8	—	—	—	2.9	2.8	2.7	0.8	0.8	0.7	5.0	5.7	4.8	875	9.0	39.5
Rural Electrification Corp.	302	ADD	298,241	6,297	987	20.3	24.6	30.7	23.2	21.2	24.9	14.9	12.3	9.8	—	—	—	2.7	2.4	2.0	2.2	2.4	3.0	22.0	20.5	22.2	300	(0.7)	14.0
Shriram Transport	604	ADD	134,665	2,843	223	39.2	49.1	62.4	30.1	25.4	27.2	15.4	12.3	9.7	—	—	—	3.6	3.1	2.6	1.9	2.4	3.1	28.4	26.1	27.8	600	(0.6)	4.0
SREI	89	NR	10,297	217	116	8.3	7.9	9.9	17.8	(4.8)	25.8	10.7	11.2	8.9	—	—	—	0.9	0.8	0.8	1.4	1.4	1.4	11.1	10.5	12.3	—	—	4.2
State Bank of India	2,449	BUY	1,554,827	32,830	635	144.4	170.9	210.6	0.5	18.3	23.2	17.0	14.3	11.6	—	—	—	2.4	2.1	1.8	1.2	1.3	1.4	14.8	15.5	16.7	2,900	18.4	97.6
Union Bank	326	BUY	164,744	3,479	505	41.1	45.8	57.3	20.2	11.5	25.0	7.9	7.1	5.7	—	—	—	1.9	1.5	1.3	1.7	2.1	2.6	26.2	23.7	24.3	380	16.5	4.1
Yes Bank	297	BUY	101,034	2,133	340	15.0	17.9	22.7	46.7	18.9	27.0	19.8	16.7	13.1	—	—	—	3.3	2.8	2.3	0.5	0.6	0.8	20.3	18.1	19.4	335	12.6	19.7
Banks/Financial Institutions		Attractive	8,163,364	172,368					14.7	18.8	23.4	16.2	13.7	11.1	—	—	—	2.5	2.2	1.9	1.4	1.6	1.9	15.5	16.1	17.2			
Cement																													
ACC	810	SELL	152,183	3,213	188	83.2	61.8	63.4	47.9	(25.7)	2.6	9.7	13.1	12.8	5.2	6.1	5.3	2.4	2.1	1.8	2.9	2.9	2.9	29.3	19.4	17.7	830	2.5	8.0
Ambuja Cements	108	SELL	164,340	3,470	1,522	8.0	7.9	8.1	11.4	(1.8)	2.6	13.5	13.7	13.4	7.5	7.8	7.1	2.4	2.1	1.9	1.7	2.0	2.0	19.3	16.7	15.3	98	(9.2)	5.2
Grasim Industries	1,816	ADD	166,546	3,517	92	301.0	240.1	282.0	26.1	(20.2)	17.5	6.0	7.6	6.4	3.9	3.9	3.0	1.3	1.2	1.0	1.8	1.9	1.9	22.9	16.4	16.7	2,150	18.4	8.3
India Cements	108	SELL	33,081	699	307	10.0	11.8	12.9	(43.5)	17.7	9.0	10.7	9.1	8.4	5.4	5.0													

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	20-Jul-10		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)	
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E				
Consumer products																														
Asian Paints	2,479	BUY	237,756	5,020	96	71.5	81.5	101.1	85.3	13.9	24.2	34.7	30.4	24.5	21.4	18.9	15.1	14.8	11.8	9.5	1.1	1.4	1.7	51.8	44.4	44.0	2,500	0.9	3.2	
Colgate-Palmolive (India)	841	REDUCE	114,343	2,414	136	31.1	34.5	39.6	44.2	10.9	14.6	27.0	24.4	21.3	22.1	18.0	15.4	35.1	29.9	25.6	2.4	3.1	3.5	156.1	132.3	129.4	830	(1.3)	2.2	
Dabur India	205	BUY	177,936	3,757	866	5.8	6.8	8.2	28.1	17.6	20.8	35.4	30.1	24.9	26.3	21.1	17.5	16.9	13.9	11.4	1.5	1.7	2.1	54.3	51.1	50.7	200	(2.6)	2.8	
GlaxoSmithKline Consumer (a)	1,780	ADD	74,855	1,581	42	55.4	70.0	82.9	23.6	26.5	18.4	32.2	25.4	21.5	17.7	15.0	12.3	8.4	6.9	5.8	1.0	1.3	1.5	27.9	29.6	29.2	1,800	1.1	0.6	
Godrej Consumer Products	362	NR	111,611	2,357	308	8.7	9.8	11.6	29.7	13.2	18.2	41.7	36.9	31.2	29.6	26.4	22.2	9.5	8.3	8.3	1.1	1.1	1.1	30.7	24.1	27.8	—	—	3.1	
Hindustan Unilever	263	REDUCE	572,436	12,087	2,179	9.7	10.4	11.8	1.7	7.3	14.0	27.1	25.3	22.2	18.3	17.2	14.5	22.4	19.3	16.7	2.9	3.2	3.7	91.6	82.2	80.8	230	(12.4)	12.1	
ITC	291	BUY	1,098,361	23,192	3,769	10.8	12.4	14.5	24.4	15.2	17.0	27.0	23.5	20.1	16.6	14.7	12.3	7.7	6.6	5.7	3.4	1.9	2.1	29.9	32.2	32.1	315	8.1	22.2	
Jubilant Foodworks	334	REDUCE	21,624	457	65	5.5	7.7	9.7	340.6	39.3	25.3	60.2	43.2	34.5	32.5	22.8	16.1	18.4	12.9	9.4	—	—	—	46.6	35.1	31.5	290	(13.1)	6.4	
Jyothy Laboratories	268	NR	19,434	410	73	11.0	12.9	15.3	99.6	17.0	18.3	24.3	20.8	17.5	18.7	14.2	11.6	4.8	4.1	3.5	1.7	1.3	1.7	18.6	20.2	20.5	—	—	1.3	
Nestle India (a)	3,000	REDUCE	289,223	6,107	96	74.4	87.0	105.5	27.0	17.0	21.3	40.3	34.5	28.4	26.6	23.6	20.3	49.8	39.5	31.2	1.6	2.0	2.4	136.0	127.8	122.7	3,000	0.0	2.2	
Tata Global Beverages	122	BUY	75,383	1,592	618	6.6	7.4	8.4	23.4	11.1	13.8	18.4	16.6	14.6	11.7	9.6	8.6	1.5	1.4	1.3	1.8	2.0	2.2	10.9	11.4	12.0	125	2.5	3.8	
Consumer products																														
Attractive																														
			2,792,962	58,973					23.7	13.6	17.3	29.3	25.8	22.0	18.9	16.7	14.0	10.0	8.6	7.5	2.5	2.1	2.4	34.1	33.5	34.0				
Constructions																														
IVRCL	188	BUY	50,078	1,057	267	7.8	10.3	12.4	(7.7)	32.4	19.7	24.0	18.1	15.1	12.6	10.3	8.7	2.5	2.2	1.9	0.2	0.2	0.2	10.9	12.8	13.5	215	14.6	6.9	
Nagarjuna Construction Co.	182	BUY	46,724	987	257	7.1	11.5	14.3	6.1	61.1	24.1	25.5	15.8	12.8	12.4	9.3	7.7	2.1	1.9	1.7	0.9	1.1	1.1	9.3	12.5	13.9	210	15.3	3.7	
Punjab Lloyds	136	REDUCE	46,156	975	339	(12.9)	9.8	12.0	79.2	(175.4)	22.4	(10.5)	13.9	11.4	37.4	7.3	6.7	1.5	1.4	1.2	(0.1)	0.3	0.8	(15.8)	10.3	11.4	140	2.8	11.9	
Sadbhav Engineering	1,312	BUY	19,679	416	15	43.1	62.0	84.0	(15.8)	43.9	35.5	30.5	21.2	15.6	17.0	11.0	9.0	4.7	3.2	2.7	0.3	0.5	0.5	13.3	14.1	17.4	1,450	10.5	0.3	
Construction																														
Attractive																														
			162,636	3,434					(96.9)	14,481	24.4	2,402.0	16.5	13.2	17.0	8.9	7.7	2.1	1.9	1.7	0.3	0.5	0.7	0.1	11.3	12.5				
Energy																														
Aban Offshore	835	ADD	36,305	767	43	106.6	172.3	103.6	10.0	61.6	(39.8)	7.8	4.8	8.1	8.4	6.2	6.7	1.6	0.9	0.9	0.4	0.4	0.5	24.3	20.8	11.1	900	7.8	48.9	
Bharat Petroleum	641	ADD	231,765	4,894	362	62.1	54.3	67.6	201	(12)	24.5	10	12	9.5	5.7	5.8	4.9	1.6	1.5	1.3	2.2	2.8	3.5	15.6	12.3	13.9	660	3.0	24.6	
Cairn india	312	SELL	591,380	12,487	1,897	5.5	28.5	40.0	29.0	413.9	40.5	56.3	10.9	7.8	44.4	7.5	5.3	1.7	1.5	1.3	—	—	—	4.8	3.1	14.6	18.1	250	(19.8)	16.6
Castrol India (a)	458	REDUCE	113,316	2,393	247	15.4	20.7	21.2	45	34	2.4	30	22	21.7	17.7	13.7	13.2	24.6	23.1	21.9	2.7	3.6	3.7	83.8	107.4	103.7	380	(17.1)	1.1	
GAIL (India)	448	ADD	568,850	12,011	1,268	24.8	26.2	38.8	11.7	5.8	48.0	18.1	17.1	11.6	10.1	10.6	8.3	3.1	2.8	2.4	1.7	1.9	2.8	17.4	16.3	21.1	495	10.4	17.0	
GSPL	105	REDUCE	58,832	1,242	562	7.4	8.9	9.1	235	22	1.3	14	12	11.5	7.3	6.1	5.5	3.5	2.8	2.5	1.0	2.1	3.5	27.3	26.3	22.5	80	(23.5)	4.3	
Hindustan Petroleum	437	ADD	148,080	3,127	339	52.6	45.0	62.0	210.1	(14.5)	38.0	8.3	9.7	7.0	3.0	3.5	2.7	1.1	1.0	0.9	2.7	3.2	4.4	13.3	10.3	13.0	500	14.5	30.2	
Indian Oil Corporation	371	ADD	901,498	19,035	2,428	49.9	34.0	37.4	407	(32)	10.0	7	11	9.0	5.1	6.0	5.0	1.6	1.5	1.4	3.5	2.8	3.0	22.7	13.8	14.0	410	10.4	17.0	
Oil India	1,335	BUY	321,115	6,780	240	115.1	130.7	152.0	13.8	13.5	16.3	11.6	10.2	8.8	4.9	3.9	3.1	2.2	1.9	1.7	2.5	3.3	3.7	16.7	17.8	18.2	1,440	7.8	7.4	
Oil & Natural Gas Corporation	1,259	BUY	2,693,180	56,866	2,139	91.4	124.9	141.1	1	37	12.9	14	10	8.9	5.0	4.2	3.4	2.0	1.8	1.6	2.6	3.3	3.8	14.6	17.9	18.0	1,450	15.2	36.9	
Petronet LNG	85	REDUCE	63,713	1,345	750	5.4	5.5	8.2	(22.0)	2.6	47.8	15.8	15.3	10.4	9.4	8.8	7.1	2.5	2.2	1.9	2.1	2.4	3.2	15.9	14.3	18.6	82	(3.5)	3.5	
Reliance Industries	1,053	SELL	3,133,579	66,165	2,976	49.6	62.9	80.2	(2)	27	27.5	21	17	13.1	10.7	8.1	6.7	2.1	1.9	1.7	1.4	1.8	2.2	11.4	13.2	15.3	985	(6.5)	113.8	
Energy																														
Cautious																														
			8,861,611	187,112					38.0	21.0	20.8	14.7	12.1	10.0	7.2	6.0	5.0	2.0	1.8	1.6	2.0	2.4	3.1	13.8	15.0	16.3				
Industrials																														
ABB	858	REDUCE	181,807	3,839	212	16.7	23.3	37.2	(35.2)	39.2	59.8	51.3	36.8	23.0	29.4	21.7	13.4	7.5	6.4	5.1	0.2	0.4	0.4	15.6	18.8	24.7	840	(2.1)	6.5	
BGR Energy Systems	740	BUY	53,294	1,125	72	16.0	28.0	39.7	32.2	74.6	41.9	46.2	26.4	18.6	26.0	15.0	10.9	9.5	7.6	5.8	0.4	0.9	1.1	22.3	31.8	35.1	800	8.1	3.2	
Bharat Electronics	1,791	REDUCE	143,264	3,025	80	93.9	111.8	127.4	(9.6)	19.1	13.9	19.1	16.0	14.1	9.2	7.4	6.2	3.2	2.8	2.4	1.4	1.4	1.4	17.9	18.7	18.5	1,790	(0.0)	2.2	
Bharat Heavy Electricals	2,414	REDUCE	1,181,603	24,949	490	88.1	113.1	137.5	37.9	28.4	21.6	27.4	21.3	17.6	15.3	11.5	9.4	7.4	5.9	4.7	0.8	1.0	1.2	29.9	30.8	29.8	2,500	3.6	27.9	
Crompton Greaves	266	BUY	170,396	3,598	642	12.8	13.3	15.8	46.5	3.2	19.0	20.7	20.0	16.8	12.0	11.0	9.1	6.5	5.1	4.1	0.7	0.7	0.8	36.8	28.5	26.8	290	9.2	7.8	
Larsen & Toubro	1,904	BUY	1,144,279	24,161	601	58.1	71.4	90.7	16.0	22.8	27.1	32.8	26.7	21.0	17.2	14.6	12.0	5.1	4.3	3.6	0.6	0.6	0.7	18.6	17.6	18.8	2,100	10.3	53.7	
Maharashtra Seamless	395	BUY	27,877	589	71	40.2	43.6	49.8	12.1	8.5	14.2	9.8	9.1	7.9	5.2	4.6	3.6	1.7	1.5	1.3	1.5	2.0	2.5	19.3	17.9	17.7	450	13.9	0.4	
Siemens	716	REDUCE	241,390	5,097	337	25.0	29.6	34.3	55.2	18.6	16.0	28.7	24.2	20.8	16.9	13.8	11.7	7.1	5.8	4.8	0.7	0.8	0.9	27.3	26.3	25.1	635	(11.3)	6.9	
Suzlon Energy	59	REDUCE	94,039	1,986	1,594	(5.9)	0.3	5.3	(182.3)	(104.4)	1,931.8	(9.9)	227.4	11.2	17.1	8.8	5.7	0.9	0.9	0.8	—									

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	20-Jul-10		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	(Rs)	(%)	(US\$ mn)
Infrastructure																													
Container Corporation	1,405	REDUCE	182,635	3,856	130	61.1	74.3	85.9	0.3	21.7	15.6	23.0	18.9	16.4	16.3	13.3	11.1	4.2	3.6	3.1	1.0	1.2	1.4	19.6	20.6	20.5	1,250	(11.0)	1.8
GMR Infrastructure	61	ADD	225,154	4,754	3,667	0.4	0.2	0.1	(43.8)	(48.9)	(40.0)	142.5	278.9	464.5	24.5	15.9	14.8	2.1	1.8	1.8	—	—	—	2.4	1.2	0.7	65	5.9	5.9
GVK Power & Infrastructure	47	BUY	73,828	1,559	1,579	0.8	1.1	1.4	6.7	33.5	32.4	57.5	43.0	32.5	19.2	17.5	17.9	2.3	2.2	2.1	—	0.6	0.6	4.7	5.3	6.7	54	15.5	5.5
IRB Infrastructure	272	RS	90,303	1,907	332	9.7	12.6	12.1	83.8	29.2	(3.7)	27.9	21.6	22.5	13.2	11.8	10.9	3.9	3.0	2.4	—	—	—	15.6	15.7	11.9	—	—	5.5
Mundra Port and SEZ	732	REDUCE	295,395	6,237	403	15.1	24.1	35.7	40.8	59.5	48.4	48.5	30.4	20.5	31.2	20.0	14.3	8.1	6.3	4.7	—	—	—	18.5	23.2	26.1	725	(1.0)	6.4
Infrastructure	Attractive		867,315	18,313		12.7	29.5	24.1	43.1	33.3	26.8	21.5	15.9	13.7	3.6	3.1	2.7	—	—	—	0.4	0.4	0.4	8.4	9.2	10.2			
Media																													
DB Corp	236	ADD	42,942	907	182	10.6	12.6	15.5	286.5	18.4	23.2	22.2	18.8	15.2	12.4	10.5	8.5	6.6	5.4	4.7	0.8	1.3	1.7	40.3	31.6	32.9	275	16.4	0.2
DishTV	46	ADD	48,597	1,026	1,063	(2.5)	(1.2)	0.5	(62.6)	(49.9)	(141.4)	(18.6)	(37.1)	89.7	60.5	22.0	12.0	11.7	17.1	14.4	—	—	—	250.2	(37.4)	17.4	47	2.8	3.5
HT Media	159	NR	37,389	789	235	6.1	7.8	9.4	623.3	27.0	20.9	26.1	20.5	17.0	13.1	10.8	8.9	3.8	3.4	3.1	0.6	1.3	2.5	15.6	17.6	19.2	—	—	0.3
Jagran Prakashan	122	ADD	36,758	776	301	5.8	6.4	7.5	91.9	9.5	16.7	20.9	19.1	16.3	12.6	11.1	9.5	6.0	5.4	4.8	2.9	2.9	3.3	30.0	29.8	31.0	130	6.5	0.6
Sun TV Network	465	REDUCE	183,385	3,872	394	13.1	17.9	22.8	44.8	36.0	27.5	35.4	26.0	20.4	20.1	15.0	11.9	9.5	8.0	6.6	1.6	1.6	1.9	28.4	33.5	35.5	420	(9.7)	1.8
Zee Entertainment Enterprises	309	REDUCE	134,236	2,834	434	10.5	12.0	14.7	24.4	14.4	22.2	29.4	25.7	21.0	21.9	17.4	13.8	3.6	3.5	3.3	0.8	0.9	1.2	13.0	14.1	16.4	265	(14.3)	9.4
Media	Neutral		483,307	10,205					185.8	39.8	36.4	39.8	28.4	20.9	19.2	14.7	11.4	5.8	5.4	4.8	1.2	1.3	1.7	14.7	18.8	23.0			
Metals																													
Hindalco Industries	153	ADD	292,451	6,175	1,914	5.7	12.6	15.1	(64.5)	122.5	19.4	26.9	12.1	10.1	7.9	8.4	8.6	1.3	1.2	1.1	0.9	0.9	0.9	10.3	10.4	11.2	185	21.1	41.5
Hindustan Zinc	980	BUY	414,039	8,742	423	95.6	102.5	116.0	48.2	7.2	13.1	10.2	9.6	8.4	6.3	5.0	3.4	2.2	1.8	1.5	0.6	0.6	0.6	24.1	20.8	19.4	1,240	26.5	4.3
Jindal Steel and Power	619	SELL	574,751	12,136	928	38.5	48.7	50.8	17.2	26.5	4.3	16.1	12.7	12.2	10.1	8.1	7.6	5.0	3.6	2.8	0.2	0.2	0.2	37.3	33.0	25.7	575	(7.2)	29.0
JSW Steel	1,122	REDUCE	223,006	4,709	199	80.4	106.4	136.9	447.0	32.3	28.7	14.0	10.5	8.2	8.6	7.2	5.8	1.9	1.6	1.3	0.8	0.4	0.4	15.4	16.4	17.3	1,150	2.5	53.2
National Aluminium Co.	432	SELL	278,567	5,882	644	10.1	28.0	27.7	(49.0)	178.6	(1.2)	42.9	15.4	15.6	19.1	7.5	6.9	2.6	2.2	2.0	0.5	0.5	0.5	6.1	15.4	13.3	320	(26.0)	1.0
Sesa Goa	354	REDUCE	314,821	6,647	890	29.6	61.4	62.4	32.2	107.6	1.8	12.0	5.8	5.7	9.7	3.5	2.8	4.1	2.4	1.7	0.8	0.8	0.8	36.7	48.0	34.1	420	18.7	77.4
Sterilite Industries	166	ADD	559,211	11,808	3,362	12.0	14.2	19.2	2.8	18.3	35.1	13.8	11.7	8.7	11.8	10.2	6.7	1.5	1.4	1.2	0.6	0.6	0.6	12.9	12.2	14.5	210	26.2	48.3
Tata Steel	509	BUY	451,998	9,544	887	3.2	78.7	93.5	(97.1)	2,331.6	18.7	157.3	6.5	5.4	17.5	5.9	5.0	1.8	1.4	1.2	1.6	1.6	1.6	1.1	24.7	23.8	700	37.4	107.2
Metals	Cautious		3,108,845	65,643					(28.9)	81.0	15.1	17.4	9.6	8.3	10.7	6.9	5.8	2.1	1.8	1.5	0.7	0.7	0.7	12.3	18.4	17.7			
Pharmaceutical																													
Biocon	318	BUY	63,630	1,344	200	14.7	18.7	23.0	212.6	27.7	23.0	21.7	17.0	13.8	12.4	10.4	8.5	3.6	3.1	2.6	—	—	0.1	17.9	19.7	20.7	345	8.4	3.5
Cipla	327	REDUCE	262,234	5,537	803	13.5	12.8	15.6	35.9	(4.9)	21.9	24.2	25.5	20.9	17.9	16.9	14.1	4.4	3.9	3.4	0.8	0.8	0.8	19.9	16.3	17.4	280	(14.3)	9.5
Cadila Healthcare	636	REDUCE	130,179	2,749	205	24.7	29.6	34.9	66.9	20.0	17.6	25.7	21.5	18.2	16.6	13.9	12.1	8.1	6.2	5.0	0.8	0.9	1.1	36.1	32.8	30.3	535	(15.9)	1.6
Dishman Pharma & chemicals	216	BUY	17,576	371	81	14.4	17.2	28.8	(19.7)	19.4	67.0	15.0	12.5	7.5	10.8	9.0	6.3	2.2	1.9	1.5	—	—	—	15.5	16.3	22.7	300	38.8	0.5
Divi's Laboratories	767	ADD	101,281	2,139	132	25.8	34.3	43.9	(18.3)	33.3	27.9	29.8	22.3	17.5	22.2	16.4	12.5	6.7	5.5	4.5	—	—	—	24.8	27.2	28.4	800	4.4	3.0
Dr Reddy's Laboratories	1,431	REDUCE	242,346	5,117	169	48.1	66.7	70.8	48.3	38.8	6.1	29.8	21.4	20.2	16.4	12.4	11.5	6.4	5.1	4.2	0.5	0.6	0.6	22.2	26.3	22.6	1,150	(19.6)	16.0
GlaxoSmithkline Pharmaceuticals (a)	2,027	REDUCE	171,685	3,625	85	59.1	69.1	79.2	8.1	17.0	14.5	34.3	29.3	25.6	19.7	16.8	14.4	9.6	8.2	7.0	—	—	—	29.8	30.2	29.5	1,800	(11.2)	1.5
Glenmark Pharmaceuticals	282	NR	77,275	1,632	274	12.7	19.2	20.3	14.7	50.6	5.6	22.1	14.7	13.9	14.2	9.2	8.8	3.3	2.7	2.3	—	—	—	16.7	19.9	17.6	—	—	4.7
Jubilant Organosys	366	BUY	58,112	1,227	159	26.5	34.2	39.3	49.0	29.1	14.9	13.8	10.7	9.3	9.9	8.7	7.2	2.6	2.1	1.8	0.5	0.7	0.8	26.3	22.3	21.0	400	9.3	2.5
Lupin	1,872	ADD	165,783	3,500	89	76.9	104.1	122.5	27.8	35.3	17.6	24.3	18.0	15.3	20.8	15.1	11.9	7.1	5.3	4.1	0.7	0.8	0.8	36.6	34.4	30.7	1,920	2.6	6.7
Piramal Healthcare	499	REDUCE	104,187	2,200	209	23.4	13.4	11.0	35.5	(42.9)	(17.6)	21.3	37.3	45.3	15.7	6.1	4.4	6.2	1.1	1.0	1.1	1.2	0.7	32.1	141.2	16.6	490	(1.7)	31.3
Ranbaxy Laboratories	446	SELL	191,088	4,035	428	7.1	28.0	11.7	(128.4)	297.1	(58.3)	63.2	15.9	38.2	15.5	9.3	18.5	4.9	3.8	3.6	—	0.9	0.9	6.9	24.6	9.1	220	(50.7)	10.2
Sun Pharmaceuticals	1,723	REDUCE	356,909	7,536	207	65.2	67.7	77.6	(25.7)	3.8	14.6	26.4	25.4	22.2	19.9	17.9	15.1	4.3	3.8	3.3	0.8	0.8	0.8	17.8	16.2	16.2	1,560	(9.5)	8.8
Pharmaceuticals	Attractive		1,942,284	41,011					44.7	27.4	5.8	27.0	21.2	20.0	16.8	13.0	12.2	5.1	3.7	3.1	0.5	0.6	0.6	18.9	17.3	15.6			
Property																													
DLF	321	ADD	549,096	11,594	1,708	9.6	16.3	25.1	(64.0)	69.4	53.8	33.4	19.7	12.8	21.0	13.3	10.0	2.0	1.9	1.7	0.9	0.9	1.5	6.4	9.9	13.8	340	5.8	48.1
Indiabulls Real Estate	167	RS	66,965	1,414	401	1.6	4.0	8.0	109.7	151.7	101.7	105.2	41.8	20.7	(75)	37.3	9.7	0.7	0.7	0.7	—	—	—	0.8	1.8	3.5	285	70.8	19.8
Mahindra Life Space Developer	491	ADD	20,638	436	42	18.9	20.3	27.5	82.4	7.3	35.8	26.0	24.2	17.8	22.0	18.4	10.2	2.2	2.1	1.9	0.8	0.8	0.8	8.4	8.5	10.			

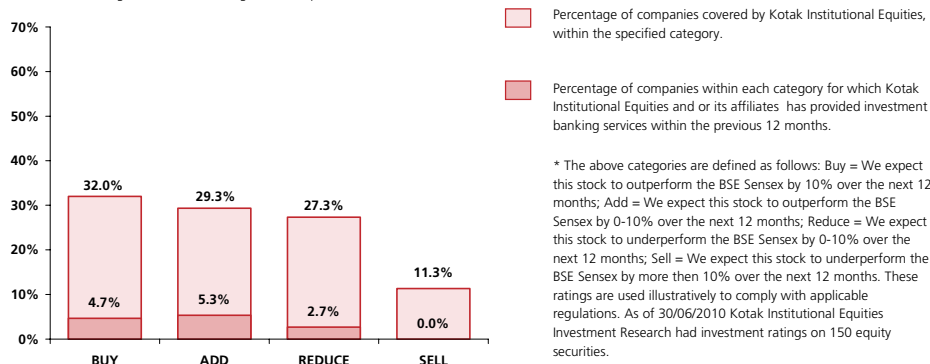
Kotak Institutional Equities: Valuation summary of key Indian companies

Company	20-Jul-10		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target		
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)
Retail																													
Titan Industries	2,665	ADD	118,275	2,497	44	62.7	76.1	96.2	41.5	21.3	26.5	42.5	35.0	27.7	30.1	23.6	18.5	15.0	11.2	8.4	0.4	0.5	0.5	40.7	36.6	34.8	2,400	(9.9)	4.4
Retail		Neutral	118,275	2,497					41.5	21.3	26.5	42.5	35.0	27.7	30.1	23.6	18.5	15.0	11.2	8.4	0.4	0.5	0.5	35.2	32.0	30.5			
Sugar																													
Bajaj Hindustan	115	SELL	21,930	463	191	9.7	9.9	8.9	201.1	2.2	(10.4)	11.8	11.5	12.9	7.0	5.8	5.4	0.9	0.8	0.8	0.6	0.6	0.6	8.1	7.5	6.3	99	(13.6)	6.3
Balrampur Chini Mills	81	ADD	20,784	439	257	3.7	10.4	7.0	(51.9)	183.7	(32.7)	22.0	7.8	11.5	9.4	5.3	5.8	1.5	1.3	1.2	0.6	0.6	0.6	7.0	18.1	11.0	92	13.7	5.8
Shree Renuka Sugars	66	BUY	44,274	935	670	9.9	7.6	7.8	196.4	(23.2)	3.1	6.7	8.7	8.4	4.6	5.2	4.4	1.7	1.4	1.2	0.6	0.5	0.5	32.0	18.1	15.7	76	15.0	14.5
Sugar		Cautious	86,988	1,837					96.1	2.5	(9.4)	9.2	9.0	9.9	6.1	5.4	5.1	1.4	1.2	1.1	0.6	0.6	0.6	14.9	13.3	10.8			
Technology																													
HCL Technologies	371	REDUCE	255,990	5,405	690	17.8	25.1	28.5	2.0	40.6	13.6	20.8	14.8	13.0	10.6	9.1	7.5	4.0	3.3	2.8	1.1	1.1	1.6	20.8	24.9	23.3	370	(0.3)	12.8
Hexaware Technologies	81	REDUCE	11,650	246	144	9.3	5.1	9.4	127.7	(45.4)	84.0	8.7	15.9	8.6	4.4	9.0	4.9	1.4	1.3	1.1	1.2	1.2	1.2	17.8	8.4	14.0	72	(11.2)	2.9
Infosys Technologies	2,760	BUY	1,584,039	33,447	574	108.3	124.1	150.0	5.7	14.5	20.9	25.5	22.2	18.4	18.6	15.2	12.3	6.9	5.7	4.7	0.9	1.3	1.5	30.1	28.0	28.0	3,100	12.3	59.5
Mphasis BFL	616	REDUCE	128,378	2,711	208	43.6	49.0	45.6	207.5	12.5	(7.0)	14.1	12.6	13.5	11.2	10.0	9.1	5.5	3.9	3.1	0.6	0.6	0.7	48.1	36.4	25.8	550	(10.7)	8.1
Mindtree	539	REDUCE	22,179	468	41	52.2	32.6	51.6	294.3	(37.5)	58.1	10.3	16.5	10.5	8.9	9.4	6.2	3.3	2.8	2.2	0.4	0.6	1.0	35.2	19.2	23.7	550	2.1	2.2
Patni Computer Systems	518	REDUCE	69,051	1,458	133	36.6	42.3	38.6	36.4	15.6	(8.7)	14.2	12.3	13.4	7.4	6.5	5.7	1.9	1.8	1.6	1.4	1.6	1.5	18.2	15.8	12.8	450	(13.2)	6.5
Polaris Software Lab	184	SELL	18,295	386	100	15.4	19.1	18.8	16.9	24.3	(1.7)	11.9	9.6	9.8	6.0	7.7	6.5	2.1	1.8	1.6	1.9	2.0	2.1	18.6	20.1	17.2	180	(1.9)	4.8
TCS	827	BUY	1,619,094	34,187	1,957	35.1	42.1	48.2	32.8	19.8	14.5	23.6	19.7	17.2	17.8	14.3	11.9	7.7	6.4	5.3	2.4	2.0	2.3	37.6	35.6	33.9	965	16.7	30.6
Wipro	408	ADD	998,240	21,078	2,447	18.9	21.9	25.0	22.1	16.2	14.4	21.6	18.6	16.3	16.3	13.5	11.1	5.1	4.2	3.5	0.9	1.1	1.3	26.5	24.6	23.2	465	14.0	15.0
Technology		Attractive	4,706,916	99,386					22.9	17.2	15.1	22.5	19.2	16.7	16.2	13.5	11.1	6.0	5.0	4.1	1.4	1.5	1.7	26.7	25.9	24.9			
Telecom																													
Bharti Airtel	298	REDUCE	1,130,356	23,867	3,798	24.0	21.4	24.2	7.5	(10.8)	13.2	12.4	13.9	12.3	7.0	6.6	5.7	2.6	2.2	1.9	1.0	1.3	1.7	24.1	17.0	16.5	290	(2.6)	50.1
IDEA	65	REDUCE	215,972	4,560	3,300	2.7	1.3	2.3	(5.8)	(51.7)	71.9	23.9	49.6	28.8	8.3	8.2	6.7	1.9	1.8	1.7	—	—	—	7.2	3.8	6.3	50	(23.6)	11.1
MTNL	64	SELL	40,572	857	630	(15.6)	(10.4)	(9.1)	(750.8)	(33.7)	(11.9)	(4.1)	(6.2)	(7.0)	(0.4)	(0.5)	(0.7)	0.4	0.4	0.4	—	—	—	(8.5)	(6.1)	(5.7)	50	(22.4)	2.7
Reliance Communications	189	SELL	401,980	8,488	2,133	22.1	14.1	18.2	(30.2)	(36.2)	29.1	8.5	13.4	10.4	7.6	8.5	6.4	1.0	1.0	0.9	0.4	—	—	11.7	7.4	8.9	175	(7.2)	41.5
Tata Communications	281	REDUCE	80,114	1,692	285	14.0	15.2	15.7	3.2	8.2	3.5	20.1	18.5	17.9	8.2	7.6	7.2	1.1	1.1	1.1	2.3	2.7	3.0	5.2	5.5	5.5	225	(20.0)	1.7
Telecom		Cautious	1,868,993	39,464					(15.1)	(19.8)	20.7	13.1	16.3	13.5	7.6	7.5	6.2	1.7	1.5	1.4	0.8	0.9	1.1	12.7	9.3	10.2			
Utilities																													
Adani Power	125	ADD	273,045	5,765	2,180	0.8	4.9	16.4	—	524.1	235.3	159.9	25.6	7.6	124.3	17.0	6.2	5.0	4.2	2.7	—	—	—	4.4	17.7	42.8	130	3.8	2.9
CESC	408	ADD	50,918	1,075	125	35.2	42.2	45.7	9.3	19.6	8.4	11.6	9.7	8.9	7.3	6.6	7.4	1.2	1.1	1.0	1.1	1.3	1.4	11.1	11.7	11.4	439	7.7	1.9
Lanco Infratech	68	BUY	164,382	3,471	2,405	2.0	3.6	4.5	35.1	82.2	26.4	34.8	19.1	15.1	20.5	8.7	8.5	4.8	3.8	3.1	—	—	—	15.8	20.6	21.0	70	2.4	8.6
NHPC	30	REDUCE	369,637	7,805	12,301	1.9	1.3	1.6	74.9	(27.2)	20.1	16.2	22.3	18.5	10.5	10.7	8.7	1.5	1.4	1.3	1.8	1.2	1.4	9.7	6.5	7.4	28	(6.8)	19.7
NTPC	203	REDUCE	1,675,478	35,377	8,245	10.8	12.5	14.7	9.6	16.2	17.4	18.9	16.3	13.8	14.4	12.6	10.5	2.6	2.4	2.2	2.0	2.3	2.7	14.5	15.4	16.6	200	(1.6)	10.4
Reliance Infrastructure	1,143	ADD	281,272	5,939	246	61.8	62.7	80.3	(1.5)	1.6	28.0	18.5	18.2	14.2	19.8	19.0	13.0	1.5	1.4	1.3	0.7	0.8	0.9	6.3	7.3	10.1	1,100	(3.8)	47.7
Reliance Power	172	SELL	411,882	8,697	2,397	2.9	3.1	5.4	179.7	7.4	76.4	60.2	56.1	31.8	98.0	33.7	2.8	2.7	2.5	—	—	—	—	4.8	5.0	8.2	135	(21.4)	22.8
Tata Power	1,328	ADD	327,895	6,923	247	60.2	69.2	88.5	20.1	15.0	27.8	22.1	19.2	15.0	13.9	12.5	10.7	2.5	2.3	2.0	0.9	1.1	1.1	12.9	12.5	14.3	1,420	6.9	10.4
Utilities		REDUCE	3,554,509	75,053					23.5	16.2	34.7	22.5	19.4	14.4	17.7	14.3	10.8	2.4	2.2	2.0	1.3	1.4	1.6	10.6	11.3	13.8			
Others																													
Havells India	646	SELL	38,869	821	60	5.3	31.6	45.0	3.7	497.9	42.6	122.3	20.5	14.3	16.9	10.4	8.5	10.7	7.1	4.8	—	—	—	6.6	41.6	39.7	480	(25.7)	6.8
Jaiprakash Associates	127	BUY	270,361	5,709	2,129	1.5	5.9	7.9	(27.2)	305.4	34.4	87.2	21.5	16.0	21.9	13.9	10.2	3.2	2.8	2.4	—	—	—	4.1	13.9	16.3	183	44.1	32.8
Jindal Saw	201	ADD	59,064	1,247	294	25.0	18.6	17.9	110.8	(25.4)	(4.0)	8.0	10.8	11.2	5.3	6.0	5.8	1.5	1.3	1.2	—	—	—	20.5	12.9	11.1	256	27.5	4.4
PSL	133	BUY	7,129	151	53	22.9	25.4	28.2	3.3	10.6	11.0	5.8	5.3	4.7	3.3	2.7	2.9	0.8	0.7	0.6	4.9	4.9	5.2	12.6	11.7	12.0	175	31.2	0.7
Sintex	339	BUY	46,231	976	136	24.1	28.3	33.3	0.5	17.4	17.5	14.1	12.0	10.2	11.8	7.9	6.7	2.2	1.8	1.5	—	—	—	15.5	15.3	15.2	380	12.2	4.3
Tata Chemicals	325	ADD	79,079	1,670	243	26.4	32.4	37.3	(27.1)	22.6	15.1	12.3	10.0	8.7	6.6	5.6	4.8	1.7	1.5	1.3	2.7	2.8	2.8	16.0	18.4	18.3	360	10.8	3.0
Welspun Corp	249	REDUCE	51,183	1,081	205	25.1	23.0	24.4	44.9	(8.1)	5.8	9.9	10.8	10.2	5.4	5.6	5.0	1.7	1.5	1.3	0.8	0.8	0.9	20.6	14.8	13.5	245	(1.6)	5.9
United Phosphorus	176	BUY	81,433	1,719	463	11.9	15.6	19.0	18.8	30.2	22.1	14.7	11.3	9.3	8.5	7.1	5.7	2.4	2.0	1.7	0.8	1.1	1.1	17.7	19.0	19.5	250	42.0	

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Source: Kotak Institutional Equities

As of June 30, 2010

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