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### EQUITY MARKETS

| India                          | Change % |       |       |       |
|--------------------------------|----------|-------|-------|-------|
|                                | 11-Jan   | 1-day | 1-mo  | 3-mo  |
| Sensex                         | 19,196   | (0.1) | (1.6) | (5.6) |
| Nifty                          | 5,754    | (0.2) | (1.8) | (6.2) |
| <b>Global/Regional indices</b> |          |       |       |       |
| Dow Jones                      | 11,672   | 0.3   | 2.3   | 6.0   |
| Nasdaq Composite               | 2,717    | 0.3   | 3.0   | 13.1  |
| FTSE                           | 6,014    | 1.0   | 3.5   | 6.0   |
| Nikkei                         | 10,561   | 0.5   | 3.4   | 12.5  |
| Hang Seng                      | 23,760   | 1.0   | 2.6   | 2.8   |
| KOSPI                          | 2,090    | 0.1   | 5.2   | 11.9  |
| <b>Value traded – India</b>    |          |       |       |       |
| Cash (NSE+BSE)                 | 175      |       | 48    | 16    |
| Derivatives (NSE)              | 1,612    |       | 1,249 | 748   |
| Deri. open interest            | 1,403    |       | 1,431 | 1,664 |

#### Forex/money market

|                   | Change, basis points |       |      |      |
|-------------------|----------------------|-------|------|------|
|                   | 11-Jan               | 1-day | 1-mo | 3-mo |
| Rs/US\$           | 45.0                 | (10)  | (10) | 36   |
| 10yr govt bond, % | 8.2                  | (4)   | 8    | 20   |

#### Net investment (US\$m)

|     | 10-Jan | MTD   | CYTD  |
|-----|--------|-------|-------|
| FIs | (239)  | (11)  | (11)  |
| MFs | (85)   | (209) | (282) |

#### Top movers -3mo basis

| Best performers         | Change, % |       |        |        |
|-------------------------|-----------|-------|--------|--------|
|                         | 11-Jan    | 1-day | 1-mo   | 3-mo   |
| TCS IN Equity           | 1098.5    | (2.9) | 2.2    | 15.5   |
| NEST IN Equity          | 3811.0    | 0.6   | 0.7    | 15.5   |
| GNP IN Equity           | 349.6     | 3.1   | (0.3)  | 15.0   |
| SUNP IN Equity          | 475.8     | (0.3) | 6.0    | 13.8   |
| HCLT IN Equity          | 475.3     | 2.2   | 10.1   | 10.6   |
| <b>Worst performers</b> |           |       |        |        |
| UT IN Equity            | 55.4      | (6.7) | (12.4) | (40.2) |
| HDIL IN Equity          | 160.6     | (5.3) | (12.2) | (40.1) |
| IBREL IN Equity         | 120.7     | (0.1) | (9.5)  | (35.2) |
| FTECH IN Equity         | 771.8     | (2.7) | (5.7)  | (33.3) |
| DLFU IN Equity          | 257.4     | (0.7) | (8.8)  | (31.3) |

JANUARY 12, 2011

CHANGE IN RECO.

Coverage view: **Cautious**

Price (Rs): 140

Target price (Rs): 160

BSE-30: 19,224

### 20% underperformance prompts upgrade for durable cash generating asset.

Upgrade to BUY (from REDUCE) based on (1) recent 20% underperformance, (2) reasonable valuations (15X FY2012E and 11X F2013E EV/EBITDA for an asset with durable and growing cash generation, sustainable competitive advantage, low cyclicality (volumes primarily relate to energy imports) and (5) long-term potential. Tariff assumptions, slow SEZ absorption and cash flow utilization are key risks.

#### Company data and valuation summary

Mundra Port and SEZ

##### Stock data

|                               |         |
|-------------------------------|---------|
| 52-week range (Rs) (high,low) | 185-105 |
| Market Cap. (Rs bn)           | 280.5   |

##### Shareholding pattern (%)

|           |      |
|-----------|------|
| Promoters | 77.5 |
| FIs       | 10.4 |
| MFs       | 0.6  |

##### Price performance (%)

|                | 1M    | 3M     | 12M  |
|----------------|-------|--------|------|
| Absolute       | (5.2) | (21.2) | 11.0 |
| Rel. to BSE-30 | (3.6) | (16.5) | 1.4  |

##### Forecasts/Valuations

|                     | 2010 | 2011E | 2012E |
|---------------------|------|-------|-------|
| EPS (Rs)            | 3.3  | 4.1   | 6.8   |
| EPS growth (%)      | 55.7 | 22.2  | 66.8  |
| P/E (X)             | 41.6 | 34.1  | 20.4  |
| Sales (Rs bn)       | 15.0 | 18.9  | 26.1  |
| Net profits (Rs bn) | 6.7  | 8.2   | 13.7  |
| EBITDA (Rs bn)      | 9.7  | 13.0  | 18.1  |
| EV/EBITDA (X)       | 32.5 | 23.8  | 16.6  |
| ROE (%)             | 20.8 | 21.3  | 28.7  |
| Div. Yield (%)      | 0.6  | 0.0   | 0.0   |

### ~20% underperformance prompts upgrade; valuations reasonable for durable cash generation

MPSEZ has recorded a very sharp correction of about 22% in the past three months on an absolute basis and has under performed the market (SENSEX) by 18% in the same period. The current price provides a 14% upside to our target price of Rs160/share. We believe present valuations (about 15X FY2012E and 11.3X FY2013E EV/EBITDA - adjusted for SEZ and other assets) provide a reasonable opportunity for an asset with growing and durable cash generation.

### Capacity planning beyond FY2013 with visible volumes; expansion at other ports constrained

The company is planning capacity expansions at Mundra port beyond FY2013E such as (1) additional container terminal and RO-RO facilities, (2) doubling of the 64 km railway line and (3) construction of a dedicated LNG berth which would be operated on a toll basis. Significant capacity expansion at other ports on the west coast remains difficult due to a variety of limitations such as (1) absence of backward linkages, (2) congestion related to evacuation of cargo from the port, (3) delays in take-off of several projects etc. Mundra already ranks #7 in terms of volumes and is likely to grow to about 100 MT based on (1) commissioning of power plants, (2) growth spill over from congested west ports, (3) capacity addition at Mundra and Panipat refineries.

### Upgrade to BUY on recent correction; revise target price to Rs160/share from Rs150/share earlier

We have changed our earnings estimates to Rs4.1, Rs6.8 and Rs10.5 for FY2011E, FY2012E and FY2013E from Rs4.5, Rs7.2 and Rs11.1, respectively, based on (1) lower-than-earlier expected SEZ area absorption and (2) realignment of volume pick to project status in key projects driving take off. We upgrade our rating to BUY (TP: Rs160/share) from REDUCE earlier based on (1) sharp correction, (2) about 15% upside to our target price, (3) reasonable valuations, (4) good cash flow generation characteristics, (5) strong operational asset with long-term potential, (4) relatively low dependence on market cycles.

### Key risks: Sustaining and increasing tariff, optimal cash flow utilization and SEZ valuation

We believe key risks relate to (1) sustaining and increasing tariffs (2-4% annual increase), (2) optimal utilization of cash flows that would be generated and (3) slower-than-expected SEZ area absorption may lead to even lower valuation versus our estimates (Rs21/share).

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### Almost 20% underperformance in the recent past—valuations reasonable

MPSEZ has seen a very sharp correction of about 22% in the past three-month period on an absolute basis and has under performed the market (SENSEX) by 18% in the same period. The stock has corrected by about 7.2% on an absolute basis and 18% on a relative basis since end-April 2010. The present levels of Rs140/share provide a 14% upside to our target price of Rs160/share.

#### Relative and absolute performance of MPSEZ versus SENSEX (%)

|                    | Absolute |        |       |      |              | Relative |        |        |     |              |
|--------------------|----------|--------|-------|------|--------------|----------|--------|--------|-----|--------------|
|                    | 1M       | 3M     | 6M    | 12M  | End-Apr 2010 | 1M       | 3M     | 6M     | 12M | End-Apr 2010 |
| Mundra Port & SEZ  | (3.0)    | (21.7) | (1.8) | 19.2 | (7.2)        | (2.1)    | (17.1) | (10.2) | 9.0 | (17.6)       |
| Benchmark (SENSEX) | (0.9)    | (4.6)  | 8.4   | 10.2 | 10.3         |          |        |        |     |              |

Source: Bloomberg

### Valuations reasonable particularly on FY2013E basis

MPSEZ (adjusted for Rs32/share from value from the SEZ and other subsidiary assets) is currently trading at a relatively cheap valuation of about 15X FY2012E and 11X FY2013E EV/EBITDA. Our target price of Rs160/share implies an EV/EBITDA 16.9X for FY2012E and 11.8X FY2013E. We believe this premium is justified based on higher growth potential led by strong and visible volume pick-up.

#### Trading at relatively cheap valuation

Key valuation metrics of Mundra port

|  | At market price |             |             |            | At target price |             |             |             |
|--|-----------------|-------------|-------------|------------|-----------------|-------------|-------------|-------------|
|  | FY2010          | FY2011E     | FY2012E     | FY2013E    | FY2010          | FY2011E     | FY2012E     | FY2013E     |
| Current market price (Rs)                      | 140             |             |             |            | 160             |             |             |             |
| <b>Adjusted for SEZ and other subsidiaries</b> | <b>107</b>      |             |             |            | <b>127</b>      |             |             |             |
| <b>Financial summary (Rs mn)</b>               |                 |             |             |            |                 |             |             |             |
| Revenues                                       | 13,925          | 16,917      | 22,015      | 29,578     | 13,925          | 16,917      | 22,015      | 29,578      |
| EBIDTA   | 9,611           | 11,856      | 15,599      | 21,232     | 9,611           | 11,856      | 15,599      | 21,232      |
| PAT  | 7,010           | 8,299       | 12,257      | 18,833     | 7,010           | 8,299       | 12,257      | 18,833      |
| Net debt                                       | 22,985          | 15,669      | 6,886       | (6,289)    | 22,985          | 15,669      | 6,886       | (6,289)     |
| Enterprise Value                               | 239,735         | 232,419     | 223,635     | 210,461    | 280,084         | 272,768     | 263,984     | 250,809     |
| Equity shares o/s                              | 2,017           | 2,017       | 2,017       | 2,017      | 2,017           | 2,017       | 2,017       | 2,017       |
| <b>Key ratios (%)</b>                          |                 |             |             |            |                 |             |             |             |
| Revenue growth                                 | 22.7            | 21.5        | 30.1        | 34.4       | 22.7            | 21.5        | 30.1        | 34.4        |
| EPS growth                                     | 52.0            | 18.4        | 47.7        | 53.7       | 52.0            | 18.4        | 47.7        | 53.7        |
| EBIDTA margin                                  | 69.0            | 70.1        | 70.9        | 71.8       | 69.0            | 70.1        | 70.9        | 71.8        |
| <b>Per share (Rs)</b>                          |                 |             |             |            |                 |             |             |             |
| EPS  | 3.5             | 4.1         | 6.1         | 9.3        | 3.5             | 4.1         | 6.1         | 9.3         |
| BVPS   | 17.3            | 20.4        | 24.9        | 31.9       | 17.3            | 20.4        | 24.9        | 31.9        |
| <b>Valn multiples (X)</b>                      |                 |             |             |            |                 |             |             |             |
| P/E  | 40.3            | 34.0        | 23.0        | 15.0       | 46.0            | 38.9        | 26.3        | 17.1        |
| P/B  | 8.1             | 6.9         | 5.6         | 4.4        | 9.3             | 7.9         | 6.4         | 5.0         |
| <b>EV/EBITDA</b>                               | <b>24.9</b>     | <b>19.6</b> | <b>14.3</b> | <b>9.9</b> | <b>29.1</b>     | <b>23.0</b> | <b>16.9</b> | <b>11.8</b> |
| EV/Sales                                       | 17.2            | 13.7        | 10.2        | 7.1        | 20.1            | 16.1        | 12.0        | 8.5         |

Note:

(1) MPSEZ value adjusted for Rs21/share for the SEZ value and Rs11/share for other ports/subsidiaries to arrive at Mundra port value

Source: Company, Kotak Institutional Equities estimates

**Capacity planning beyond FY2013E with visible volumes as well**

The company is planning several capacity expansions at Mundra port beyond FY2013E such as (1) development of an addition container terminal (container terminal -3) at the South port in addition to two RO-RO cum service berths, (2) doubling of the 64 km privately developed railway line (in a phased manner) and (3) construction on a dedicated LNG berth which would be operated on a toll basis. The company has recently commissioned the dedicated coal berths at West port with a capacity to handle volumes to the tune of about 45-50 mn tons.

**Capacity addition at other ports remains difficult**

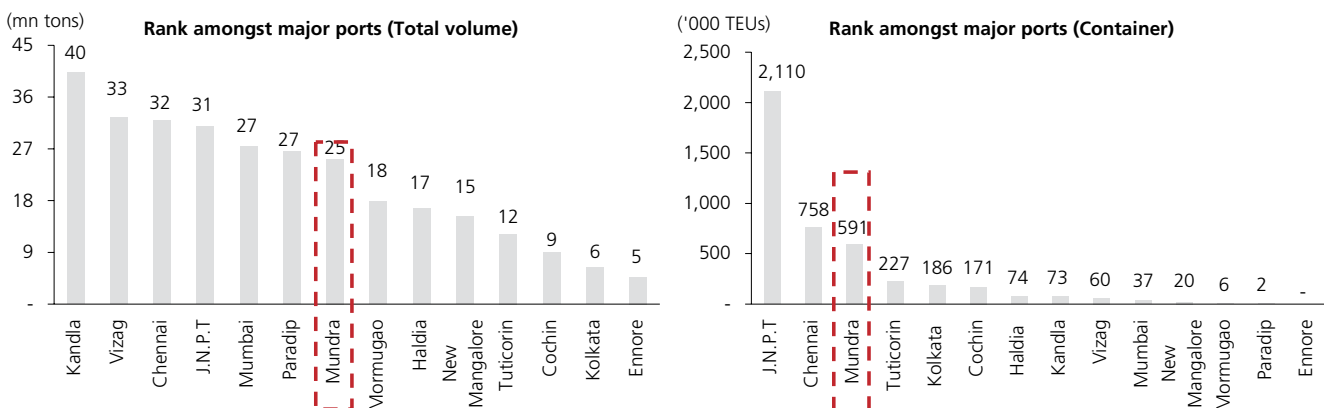
We believe significant capacity expansion at other ports on the west coast remains difficult due to a variety of limitations. Several ports have been commissioned recently but are yet to develop rail connectivity. For instance, Dighi port which achieved commercial operations of one berth in 2010, does not yet have any rail lines connecting the port to the main Indian Railways trunk line. Even in key ports such as JNPT, backward linkages are already capacity-choked and hence even if there is a potential for sea-side capacity expansion, land-side evacuation remains a constraint. Expansion at certain ports could also be restricted due to environmental issues (for instance Dhamra port).

We also note that there has been limited/no progress in several of the port projects awarded in Gujarat (Bedi, Khambhat, Mahuva etc.). There has been almost no physical implementation in any of the projects versus all of them being awarded by FY2007-08 and some even scheduled to be operational by FY2011.

**Mundra is among the largest operational port of the country**

Mundra port ranked at the 7th position amongst major ports of the country in terms of total volumes handled at the port in 1HFY11. Also, Mundra port ranks third in terms of container cargo handled in 1HFY11 amongst major ports. We note that the port has improved its ranking since FY2010. Based on volumes handled in FY2010, Mundra port stood at #8 amongst the major ports versus its present ranking of #7.

**Already in the top league of Indian ports - Mundra ranks 7th in terms of total volume handled in 1HFY11**  
Mundra's rank in terms of volume handled at the port versus major ports of the country - 1HFY11



Source: Company, Indian Ports Association, Kotak Institutional Equities

**Strong operational performance so far - likely to continue in 2H as well**

MPSEZ reported strong revenue growth of about 31% in 1HFY11, primarily led by strong volume growth during the same period. Total volumes handled at the port grew by 26% yoy to 25.2 MMT in 1HFY11. The volume growth was led by bulk and container cargo.

- ▶ **Bulk cargo:** Bulk cargo handled at Mundra port grew by 37.6% yoy primarily led by strong coal cargo growth, up 52% yoy. The strong growth in coal cargo is likely to have been due to increased coal imports for the power plant being developed by Adani Power Ltd. The company had commissioned the third unit of 330 MW in 1QFY11 taking the total installed capacity up to 990 MW.
- ▶ **Container cargo:** Container cargo at Mundra port grew by 34% yoy to 591,440 TEUs in 1HFY11 from 444,080 TEUs in 1HFY10.
- ▶ **Crude cargo:** Mundra port reported a 12% yoy decline in the crude cargo for the IOCL SPM (decline concentrated in 2Q) likely due to the closure of Panipat refinery for expansion works.

### Port has outperformed the sector in terms of volume growth

In 2QFY11, Mundra port recorded total cargo growth of 25%. This is versus marginal growth of just 0.7% for major ports in India. In the container segment, Mundra port recorded growth of 38% versus a yoy growth of 5.8% in the average container volumes handled at major ports. The port has also performed better (in terms of growth) versus its nearest peer, Kandla port, which recorded a marginal decline (0.5%) in total cargo in 2QFY11 and flat yoy container cargo. We expect the port to handle volumes of about 51.7 MMT in FY2011E, recording a growth of about 28% yoy, implying a 28-30% growth requirement in 2HFY11E.

### Strong volume growth of 26% at Mundra port versus relatively flat volumes for major ports Volumes handled at Mundra port in 1HFY11 versus major ports of the country

|                    | Total cargo (MMT) |              |             | Container cargo ('000 TEUs) |              |             | Total cargo (MMT) |              |             | Container cargo ('000 TEUs) |              |             |
|--------------------|-------------------|--------------|-------------|-----------------------------|--------------|-------------|-------------------|--------------|-------------|-----------------------------|--------------|-------------|
|                    | 1HFY11            | 1HFY10       | % change    | 1HFY11                      | 1HFY10       | % change    | FY2010            | FY2009       | % change    | FY2010                      | FY2009       | % change    |
| Kolkata            | 6.4               | 6.0          | 6.7         | 186                         | 186          | —           | 13.0              | 12.4         | 4.8         | 377                         | 302          | 24.8        |
| Haldia             | 16.6              | 17.2         | (3.5)       | 74                          | 55           | 34.5        | 33.3              | 41.8         | (20.3)      | 124                         | 127          | (2.4)       |
| Paradip            | 26.5              | 26.7         | (0.7)       | 2                           | 2            | —           | 57.0              | 46.4         | 22.8        | 4                           | 2            | 100.0       |
| Visakhapatnam      | 32.5              | 33.0         | (1.5)       | 60                          | 45           | 33.3        | 65.5              | 63.9         | 2.5         | 98                          | 88           | 11.4        |
| Ennore             | 4.7               | 5.4          | (13.0)      | —                           | —            | NA          | 10.7              | 11.5         | (7.0)       | —                           | —            | NA          |
| Chennai            | 31.9              | 30.5         | 4.6         | 758                         | 581          | 30.5        | 61.1              | 57.5         | 6.3         | 1,225                       | 1,144        | 7.1         |
| Tuticorin          | 12.2              | 11.7         | 4.3         | 227                         | 219          | 3.7         | 23.8              | 22.0         | 8.2         | 440                         | 439          | 0.2         |
| Cochin             | 9.0               | 7.5          | 20.0        | 171                         | 151          | 13.2        | 17.4              | 15.2         | 14.5        | 290                         | 261          | 11.1        |
| New Mangalore      | 15.2              | 17.7         | (14.1)      | 20                          | 16           | 25.0        | 35.5              | 36.7         | (3.3)       | 31                          | 29           | 6.9         |
| Mormugao           | 17.8              | 16.7         | 6.6         | 6                           | 10           | (40.0)      | 48.8              | 41.7         | 17.0        | 17                          | 14           | 21.4        |
| Mumbai             | 27.4              | 26.5         | 3.4         | 37                          | 27           | 37.0        | 54.5              | 51.9         | 5.0         | 58                          | 92           | (37.0)      |
| J.N.P.T            | 30.9              | 29.7         | 4.0         | 2,110                       | 1,993        | 5.9         | 60.7              | 57.3         | 5.9         | 4,061                       | 3,953        | 2.7         |
| Kandla             | 40.3              | 39.3         | 2.5         | 73                          | 69           | 5.8         | 79.5              | 72.2         | 10.1        | 146                         | 137          | 6.6         |
| <b>Major ports</b> | <b>271.4</b>      | <b>267.9</b> | <b>1.3</b>  | <b>3,724</b>                | <b>3,354</b> | <b>11.0</b> | <b>560.8</b>      | <b>530.5</b> | <b>5.7</b>  | <b>6,871</b>                | <b>6,588</b> | <b>4.3</b>  |
| <b>Mundra</b>      | <b>25.2</b>       | <b>20.0</b>  | <b>26.0</b> | <b>591</b>                  | <b>444</b>   | <b>33.2</b> | <b>40.3</b>       | <b>35.7</b>  | <b>12.9</b> | <b>924</b>                  | <b>806</b>   | <b>14.6</b> |

Very strong volume growth at the port versus other major ports of the country

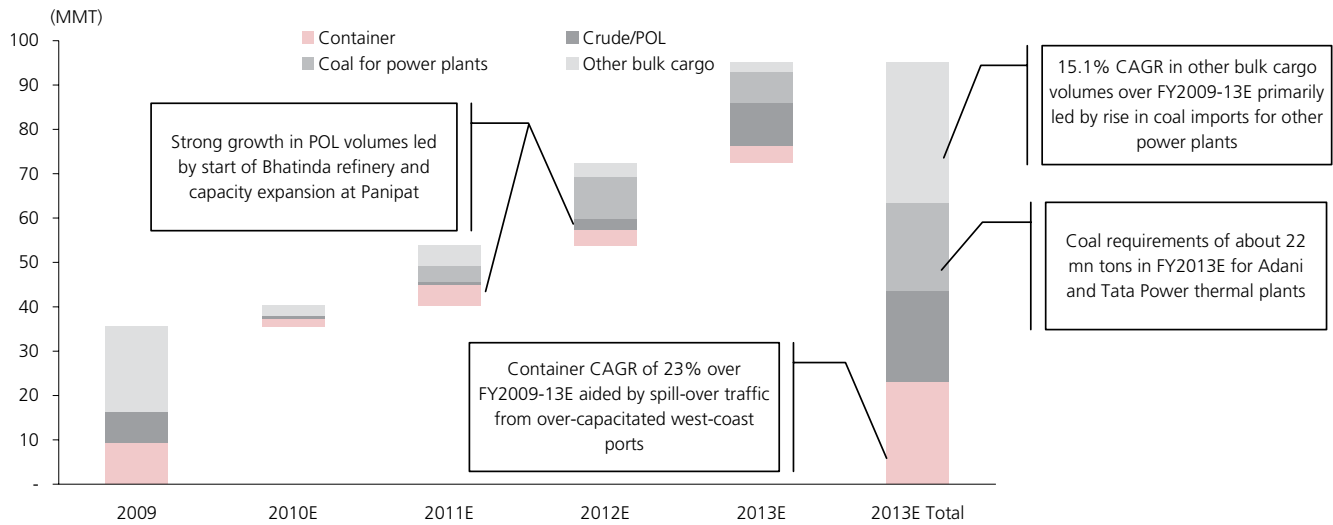
Source: Indian Ports Association, Company

### Potential to be a 100 MMT port by FY2013E

We expect the port to handle volumes of about 96 MMT by FY2013 including bulk, container and crude volumes led by (1) 22 MMT of coal cargo for the two upcoming power plants (Adani Power and Tata Power), (2) increase in HPCL crude volumes for the upcoming Bhatinda refinery to 8 MMT, (3) increase in IOCL crude volumes to about 11 MMT from 4.8 MMT in FY2009 (led by increased capacity of Panipat refinery), (4) ramp-up in container volumes to about 1.8 mn TEUs (about 23 MMT, from 0.8 mn TEUs in FY2009) and (5) bulk volumes of about 32 MMT (excluding coal for Adani and Tata power plants) versus current levels of 19 MMT in FY2009.

**We estimate the port to handle volumes of about 100 mn tons in FY2013E**

Commodity-wise pattern of estimated increase in Mundra port volumes, March fiscal year-ends, 2009-13E



Source: Company, Kotak Institutional Equities estimates

**Upgrade to BUY with a revised target price of Rs160/share**

We have revised our earnings estimates to Rs4.1 and Rs6.8 from Rs4.5 and Rs7.2 for FY2011E and FY2012E based on lower-than-expected SEZ sales volumes and realignment coal volumes for the upcoming power plants with actual development timelines.

We have revised our SOTP-based target price to Rs160/share from Rs150/share earlier based on shift to FY2012E based valuation (from Sept-11E basis earlier). Our SOTP-based value of Rs160/share is comprised of (1) Rs125/share from the Mundra port business (FY2012E-based DCF valuation), (2) Rs21/share from the SEZ business, (3) Rs4.6/share from Dahej port value, (4) Rs4.3/share from Mormugao and Hazira ports, and (5) Rs1.7/share from book value of investments in Adani Logistics.

**We arrive at an SOTP-based target price of Rs160/share for MPSEZ**

FY2012E-based Sum-Of-Total-Parts valuation of Mundra Port and SEZ

|                 | Valuation<br>(Rs mn) | P/B multiple<br>(X) | MPSEZ stake<br>(%) | Value of MPSEZ stake<br>(Rs mn) | Per share value<br>(Rs) | Method of valuation |
|-----------------|----------------------|---------------------|--------------------|---------------------------------|-------------------------|---------------------|
| Mundra port     | 251,748              |                     | 100                | 251,748                         | 124.8                   | March12E-based DCF  |
| SEZ             | 41,477               |                     | 100                | 41,477                          | 20.6                    | March12E-based DCF  |
| Dahej port      | 12,548               |                     | 74                 | 9,286                           | 4.6                     | March12E-based DCF  |
| Mormugao port   | 2,000                |                     | 100                | 2,000                           | 1.0                     | March12E-based DCF  |
| Hazira port     | 6,694                |                     | 100                | 6,694                           | 3.3                     | March12E-based DCF  |
| Adani Logistics |                      | 2.0                 |                    | 6,237                           | 3.1                     | 2.0X book value     |
| <b>Total</b>    |                      |                     |                    | <b>317,441</b>                  | <b>157</b>              |                     |

Source: Kotak Institutional Equities estimates

We upgrade our rating in MPSEZ to BUY based on (1) recent correction provides about 15% upside to our target price and more reasonable valuations, (2) strong likely near-term earnings growth led by long-term fixed contracts, (3) visible strong cash flow generation (expected EBITDA of Rs13 bn in FY2011E), (4) low dependence on market cycles as majority of port volumes are linked to energy imports (coal for upcoming power plants), and (5) long-term potential to add capacity at Mundra port led by availability of large waterfront, and (6) good historical track record in terms of capacity and volume ramp-up.

Key risks relate to (1) inability to sustain tariffs at current/projected levels, (2) potential utilization of strong cash flows, (3) delays in associated infrastructure projects (power plant, refineries etc) and (4) slower-than-expected SEZ area absorption.

Consolidated income statement and balance sheet of Mundra port and SEZ, March fiscal year-ends, 2007-15E (Rs mn)

|                                      | 2008          | 2009          | 2010          | 2011E         | 2012E         | 2013E          | 2014E          | 2015E          |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|----------------|
| <b>Income statement</b>              |               |               |               |               |               |                |                |                |
| <b>Net sales</b>                     | <b>8,170</b>  | <b>11,949</b> | <b>14,955</b> | <b>18,906</b> | <b>26,135</b> | <b>35,515</b>  | <b>44,696</b>  | <b>54,958</b>  |
| Total operating costs                | (2,813)       | (4,393)       | (5,293)       | (5,109)       | (6,689)       | (8,937)        | (11,159)       | (12,121)       |
| <b>EBITDA</b>                        | <b>5,357</b>  | <b>7,557</b>  | <b>9,663</b>  | <b>13,036</b> | <b>18,138</b> | <b>24,820</b>  | <b>31,272</b>  | <b>38,861</b>  |
| Other income                         | 279           | 446           | 321           | 1,069         | 1,717         | 2,897          | 5,141          | 8,017          |
| Depreciation                         | (1,023)       | (1,468)       | (1,868)       | (3,199)       | (3,411)       | (3,602)        | (3,934)        | (4,081)        |
| Financial charges                    | (1,079)       | (1,459)       | (559)         | (2,362)       | (2,232)       | (2,040)        | (2,294)        | (2,206)        |
| <b>Pre-tax profit</b>                | <b>3,535</b>  | <b>5,075</b>  | <b>7,556</b>  | <b>8,544</b>  | <b>14,212</b> | <b>22,075</b>  | <b>30,185</b>  | <b>40,591</b>  |
| Taxation                             | (1,534)       | (533)         | (601)         | (313)         | (486)         | (861)          | (1,589)        | (2,705)        |
| <b>Adjusted PAT</b>                  | <b>2,001</b>  | <b>4,542</b>  | <b>6,955</b>  | <b>8,231</b>  | <b>13,725</b> | <b>21,214</b>  | <b>28,596</b>  | <b>37,886</b>  |
| Extraordinary items, net of tax      | 104           | (217)         | (220)         | —             | —             | —              | —              | —              |
| <b>Reported PAT</b>                  | <b>2,104</b>  | <b>4,325</b>  | <b>6,736</b>  | <b>8,231</b>  | <b>13,725</b> | <b>21,214</b>  | <b>28,596</b>  | <b>37,886</b>  |
| <b>EPS (Rs)</b>                      | <b>1.0</b>    | <b>2.1</b>    | <b>3.3</b>    | <b>4.1</b>    | <b>6.8</b>    | <b>10.5</b>    | <b>14.2</b>    | <b>18.8</b>    |
| <b>Balance sheet</b>                 |               |               |               |               |               |                |                |                |
| <b>Shareholders funds</b>            | <b>26,216</b> | <b>29,306</b> | <b>34,637</b> | <b>41,327</b> | <b>52,685</b> | <b>69,137</b>  | <b>91,314</b>  | <b>121,106</b> |
| Share capital                        | 4,035         | 4,035         | 4,035         | 4,035         | 4,035         | 4,035          | 4,035          | 4,035          |
| Reserves and surplus                 | 22,164        | 25,261        | 30,602        | 37,292        | 48,650        | 65,102         | 87,279         | 117,072        |
| <b>Loan funds</b>                    | <b>20,680</b> | <b>28,957</b> | <b>37,062</b> | <b>43,932</b> | <b>30,908</b> | <b>29,808</b>  | <b>30,907</b>  | <b>30,906</b>  |
| Amt received under LT lease          | 6,568         | 6,505         | 6,291         | 6,075         | 5,924         | 5,773          | 5,622          | 5,470          |
| Deferred tax liability (net)         | 1,771         | 2,296         | 2,817         | 2,812         | 2,812         | 2,812          | 2,812          | 2,812          |
| <b>Total sources of funds</b>        | <b>55,252</b> | <b>67,156</b> | <b>81,629</b> | <b>94,806</b> | <b>93,203</b> | <b>108,458</b> | <b>131,708</b> | <b>161,671</b> |
| <b>Total fixed assets</b>            | <b>36,673</b> | <b>51,792</b> | <b>67,682</b> | <b>71,997</b> | <b>74,557</b> | <b>76,816</b>  | <b>78,396</b>  | <b>92,360</b>  |
| Investments                          | 8,886         | 2,072         | 2,249         | 5,219         | 5,219         | 5,219          | 5,219          | 5,219          |
| Cash and bank balance                | 9,029         | 12,951        | 9,997         | 17,780        | 13,536        | 26,250         | 47,969         | 63,739         |
| <b>Net current assets excl. cash</b> | <b>663</b>    | <b>321</b>    | <b>1,701</b>  | <b>(190)</b>  | <b>(108)</b>  | <b>173</b>     | <b>125</b>     | <b>353</b>     |
| <b>Total application of funds</b>    | <b>55,252</b> | <b>67,156</b> | <b>81,629</b> | <b>94,805</b> | <b>93,203</b> | <b>108,457</b> | <b>131,708</b> | <b>161,671</b> |
| <b>Key ratios</b>                    |               |               |               |               |               |                |                |                |
| Debt/equity (X)                      | 0.8           | 1.0           | 0.9           | 0.8           | 0.5           | 0.3            | 0.3            | 0.2            |
| Net debt/equity (X)                  | 0.4           | 0.5           | 0.7           | 0.6           | 0.2           | (0.0)          | (0.3)          | (0.4)          |
| RoAE (%)                             | 12.5          | 15.6          | 18.7          | 23.6          | 26.5          | 28.8           | 29.3           | 28.6           |
| RoACE (%)                            | 6.5           | 9.2           | 11.4          | 14.6          | 18.0          | 21.8           | 23.6           | 24.0           |

Source: Company, Kotak Institutional Equities estimates

**JANUARY 11, 2011**
**UPDATE**

 Coverage view: **Cautious**

 Price (Rs): **1,158**

 Target price (Rs): **1,235**

 BSE-30: **19,196**

**JLR masking weak domestic business.** We believe stock prices factor in positives of JLR turnaround and recent fall factors in expectation of moderation in growth of CV volumes. We expect JLRs profitability to remain strong as we see strong volume growth, cost cutting and moderate improvement in average selling prices to support margins at current levels, we are concerned on slowdown in CV volumes and market share losses in passenger car business. Retain our ADD rating with Rs 1,235 TP.

**Company data and valuation summary**

Tata Motors

**Stock data**

|                               |           |
|-------------------------------|-----------|
| 52-week range (Rs) (high,low) | 1,382-634 |
| Market Cap. (Rs bn)           | 745.6     |

**Shareholding pattern (%)**

|           |      |
|-----------|------|
| Promoters | 37.0 |
| FII's     | 35.6 |
| MFs       | 3.6  |

**Price performance (%)**

|                | 1M    | 3M  | 12M  |
|----------------|-------|-----|------|
| Absolute       | (7.2) | 0.6 | 46.6 |
| Rel. to BSE-30 | (5.7) | 6.6 | 33.8 |

**Forecasts/Valuations**

|                     | 2011    | 2012E   | 2013E   |
|---------------------|---------|---------|---------|
| EPS (Rs)            | 133.2   | 143.8   | 166.5   |
| EPS growth (%)      | 621.6   | 7.9     | 15.8    |
| P/E (X)             | 8.7     | 8.1     | 7.0     |
| Sales (Rs bn)       | 1,124.6 | 1,262.1 | 1,439.6 |
| Net profits (Rs bn) | 88.5    | 95.5    | 110.7   |
| EBITDA (Rs bn)      | 156.4   | 168.4   | 187.1   |
| EV/EBITDA (X)       | 6.2     | 5.7     | 5.0     |
| ROE (%)             | 60.7    | 37.4    | 31.3    |
| Div. Yield (%)      | 0.5     | 0.5     | 0.5     |

**Domestic business profitability under pressure**

We expect standalone earnings growth to slow to 7% yoy in FY2012E driven by slower volume growth expected in trucks, likelihood of market share loss in LCV and passenger car businesses and escalating commodity cost pressures (notably steel and rubber). We expect MHCV volume growth to moderate to 12% yoy in FY2012E due to increased interest rates, a sharp increase in fuel and vehicle prices which are likely to weigh down truck operator's profitability. The passenger car business is likely to remain under pressure due to market share losses to competitors, in our view. The only silver lining, in our view, is robust growth expected in the LCV business which should likely support falling margins to some extent.

**JLR profitability is likely to remain strong**

We expect JLR volumes to remain strong driven by strong demand from emerging economies (China, Russia and Middle East) and robust recovery in US sales. We expect European sales to remain muted. We estimate 11% CAGR in volumes over FY2011-2013E while we believe margins are likely to decline slightly from current levels driven by improving market mix, increase in sourcing from low-cost countries, lower discounts, robust volume growth offsetting raw material cost pressures. The launch of new Evoque in CY2011 is likely to further boost volume growth.

**Retain our ADD rating with a target price of Rs 1,235**

We retain our ADD rating on the stock based on our sum-of-parts valuation methodology. We ascribe Rs 556/share value to the domestic business, Rs 560/share to the JLR business and Rs119/share to rest of the subsidiaries. Our standalone business is valued at 9.0X EV/EBITDA (mid cycle multiple) and JLR business is valued at 4.5X EV/EBITDA in line with the valuations of global luxury car manufacturers. We see limited upside from current levels and believe risk reward is unfavorable at this juncture to enter the stock given 80% of the consolidated profits come from JLR business which is volatile while valuations leave little room for error.

**QUICK NUMBERS**

- Valuations pricing in positives of strong JLR performance
- Domestic business profitability to remain under pressure
- Retain our ADD rating but believe risk-reward is unfavorable at this juncture

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### Retain ADD rating with a SOTP price of Rs 1,235

We retain our ADD rating on Tata Motors but believe there is limited upside from current levels considering moderating growth in the domestic business and current valuations pricing in the strong growth expected in the JLR business. We value the stock with a sum-of-parts valuation methodology. We ascribe Rs556/share value to the domestic business, Rs560/share to the JLR business and Rs119/share to rest of the subsidiaries. Our standalone business is valued at 9.0X EV/EBITDA in line with the mid-cycle multiple and JLR business is valued at 4.5X EV/EBITDA in line with the valuations of global luxury car manufacturers (after deducting for 50% of the total R&D costs which are assumed as recurring expenses in line with the accounting treatment followed by global luxury car manufacturers). We also compare JLR valuations with those of global luxury car manufacturers automotive EV/EBITDA which is much lower as compared to overall EV/EBITDA of the businesses due to high financial debt in the EV. Our SOTP-based target price is Rs1,235, implying 5% upside from current levels.

Global luxury car manufacturers expense 50-70% of their R&D expenses in the P&L while JLR expenses only 15% of the R&D expenses in the P&L. According to the company, for most of the new products which have been launched, Ford had already expensed the R&D expenses related to those products before Tata Motors acquired JLR. We believe product development expense is likely to increase significantly as new products like Evoque are launched in the market. However, for a like-to-like comparison with global luxury car players, we have deducted 50% of R&D expenses from JLR EBITDA in FY2012E for valuing the JLR business.

#### Tata Motors: Sum of Parts Valuation March fiscal year ends

|                               | EBITDA<br>(Rs mn) | Multiple<br>(X) | Value<br>(Rs mn) | Value per<br>share<br>(Rs) | Comments   |
|-------------------------------|-------------------|-----------------|------------------|----------------------------|--|
| Tata Motors standalone EV     | 48,037            | 9.0             | 432,330          | 689                        | based on 9.0X FY2012E EBITDA   |
| JLR standalone EV             | 92,931            | 4.5             | 418,188          | 667                        | based on 4.5X FY2012E EBITDA, deducting 400 mn pounds of R&D expense |
| Less: Net debt - consol       |                   |                 | 150,311          | 240                        | ex vehicle financing debt  |
| <b>Total standalone + JLR</b> |                   |                 | <b>700,207</b>   | <b>1,116</b>               |  |
| Value of subsidiaries         |                   |                 |                  | 119                        |  |
| <b>SOTP-based value</b>       |                   |                 |                  | <b>1,235</b>               |  |
| <b>Target price</b>           |                   |                 |                  | <b>1,235</b>               |  |

Source: Kotak Institutional Equities

#### Valuation comp table of global luxury car manufacturers December year ends

| Company        | EV/Sales   |            | EV/EBITDA  |            | P/E         |             |
|----------------|------------|------------|------------|------------|-------------|-------------|
|                | 2010E      | 2011E      | 2010E      | 2011E      | 2010E       | 2011E       |
| BMW            | 0.8        | 0.7        | 3.5        | 3.0        | 13.3        | 10.7        |
| Daimler        | 0.7        | 0.6        | 5.0        | 4.6        | 12.2        | 10.6        |
| Fiat           | 0.5        | 0.5        | 5.5        | 5.0        | 43.3        | 20.3        |
| Audi           | 0.6        | 0.6        | 4.8        | 4.1        | 15.1        | 12.1        |
| <b>Average</b> | <b>0.7</b> | <b>0.6</b> | <b>4.7</b> | <b>4.2</b> | <b>21.0</b> | <b>13.4</b> |

Notes:

Automotive EV = Market cap + total net debt – cash balance – financial services debt – financial services equity value + minority interest. Sales, EBITDA and EPS are all related to automotive business. EBITDA is adjusted for recurring R&D expense

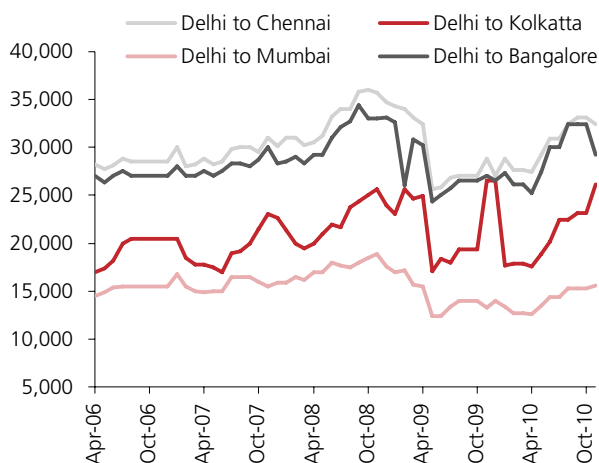
Source: Bloomberg

**MHCV volume growth expected to moderate to 12% YoY in FY2012**

Past trends in the commercial vehicle cycle indicate that after a sharp fall in volumes, the commercial vehicle cycle shows robust growth for a period of 3-4 years. However, given a sharp increase in the cost of ownership of vehicle due to a rise in prices after the emission changeover from BS2 to BS3, a likely increase in interest rates, escalating input costs, especially for tyres and diesel prices without any significant improvement in truck freight rates, could lead to a slowdown in commercial vehicle volume growth in FY2012E.

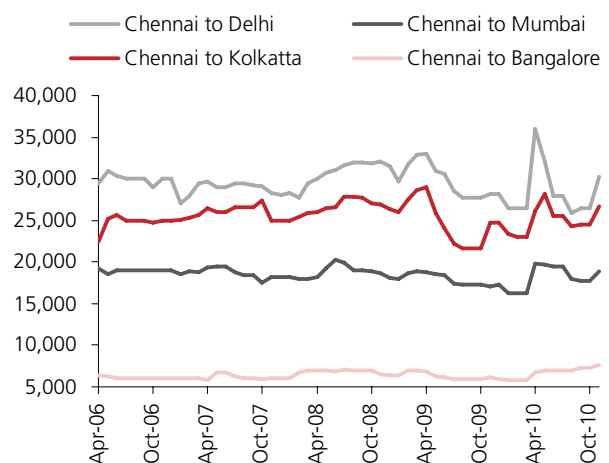
Average truck freight rates across major Indian cities have increased by 9% since Jan 2010 while the diesel prices have risen 15% during this period, indicating that the supply of trucks have grown at a faster rate than demand. We are concerned about rising tyre prices and likely increases in interest rates due to high inflation which could further pressure truck operators' profitability. Hence, we believe truck operators will delay their purchases until freight volumes increase significantly to cover their costs. We forecast Tata Motor's domestic MHCV truck volumes to grow at 12% yoy in FY2012E after a strong two-year run.

**Truck freight rates: Delhi to major cities**  
Rs/tonne



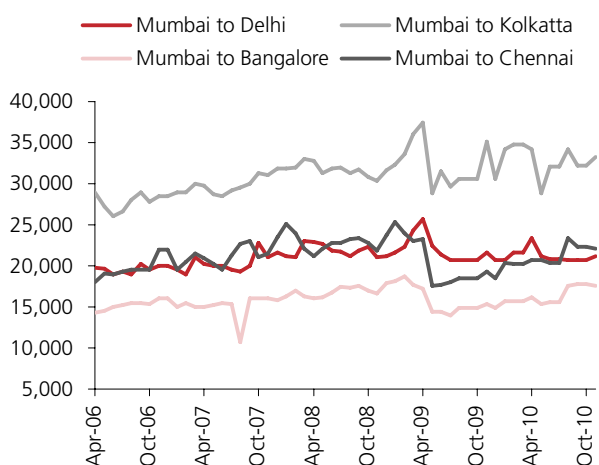
Source: Business Line

**Truck freight rates: Chennai to major cities**  
Rs/tonne



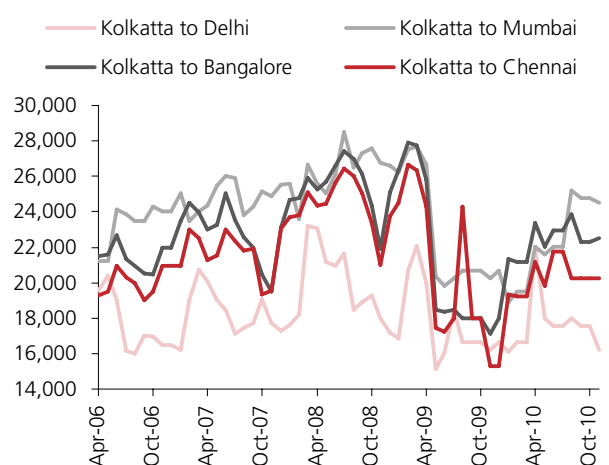
Source: Business Line

**Truck freight rate: Mumbai to major cities**  
Rs/tonne



Source: Business Line

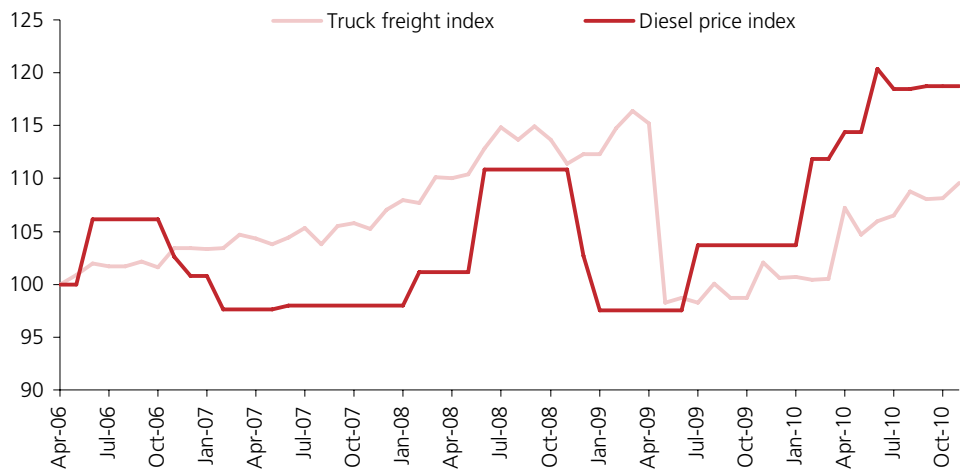
**Truck freight rate: Kolkatta to major cities**  
Rs/tonne



Source: Business Line

**Diesel prices rising faster than truck freight rates**

Index based on April 2006 as base



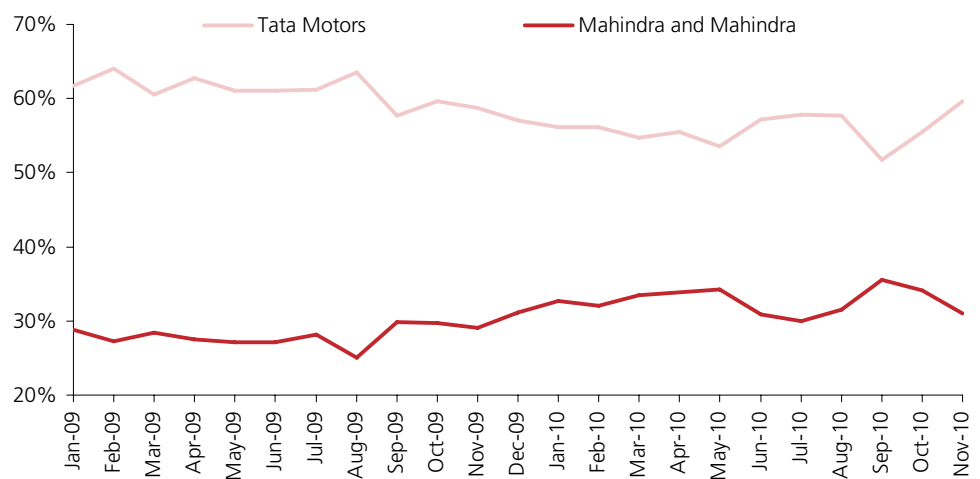
Source: Business Line, Bloomberg, Kotak Institutional Equities

**Ace to drive growth of LCV business but likely to lose market share to M&M**

Tata Motors has lost 2.6% market share in the LCV segment notably to Mahindra due to success of Maxximo. We expect demand of LCV segment to outpace the MHCV segment and grow at 18% CAGR over the next two years due to last mile connectivity. Tata Motors is likely to lose market share to Mahindra due to aggressive product launch schedule of the latter. We estimate Tata Motors LCV business to grow at 15% CAGR over FY2011-2013E which augurs well for profitability given superior margins of Ace.

**Mahindra has gained market share from Tata Motors in LCV segment**

monthly market share trend, %



Source: SIAM

### Passenger car and UV businesses expected to remain lacklustre

Tata Motors has managed to hold on to its 13% market share in passenger car business in FY2011 (till Nov'10) due to success of Indigo CS and Manza models, while Indica sales have declined by 14% in YTD FY11 (till Nov'10). We expect Tata Motors to cede market share to new players like Toyota which has launched Etios sedan (likely to impact Indigo) and Etios hatchback which could take market share from Indica given its depleting brand perception. Maruti is likely to have a stronger product portfolio and is likely to be less impacted by new players than Tata Motors in our view. Nano sales have nosedived due to concerns related to safety, limited distribution of Nano and limited financing options. However, Tata Motors has launched new finance schemes at low rates, four-year free warranty scheme and adding safety features in Nano car which led to a rebound in Nano sales in December. We believe Nano sales are likely to pick up but unlikely to make a meaningful contribution to Tata Motors' profitability over the next two years.

In the UV segment, Tata Motors has likely to lose market share to Maruti new UV and Toyota Motors due to aggressive plans of these competitors in the UV segment. Among the new launches this year, Tata Motors has launched Tata Aria and Tata Venture (in Rajasthan at Rs 405,000-507,000 ex showroom Jaipur) to boost their UV portfolio but we believe Maruti poses a credible threat to both Mahindra and Tata Motors and could take market share from these players. We forecast UV volumes to grow at 12% CAGR over the next two years.

#### Tata Motors Standalone: Volume Estimates

March fiscal year ends, 2009-2013E

|                               | 2009           | 2010           | 2011E          | 2012E          | 2013E            |
|-------------------------------|----------------|----------------|----------------|----------------|------------------|
| <b>M&amp;HCVs</b>             | <b>123,011</b> | <b>167,829</b> | <b>205,132</b> | <b>229,748</b> | <b>257,318</b>   |
| M&HCVs-domestic               | 113,674        | 155,137        | 189,267        | 211,979        | 237,417          |
| M&HCVs-exports                | 9,337          | 12,692         | 15,865         | 17,769         | 19,901           |
| <b>LCVs</b>                   | <b>168,495</b> | <b>233,697</b> | <b>291,949</b> | <b>335,741</b> | <b>386,102</b>   |
| LCVs-domestic                 | 151,338        | 218,478        | 259,989        | 298,987        | 343,835          |
| LCVs-exports                  | 17,157         | 15,219         | 31,960         | 36,754         | 42,267           |
| <b>UVs</b>                    | <b>39,981</b>  | <b>34,124</b>  | <b>39,943</b>  | <b>44,736</b>  | <b>50,104</b>    |
| UVs-domestic                  | 39,303         | 33,531         | 39,231         | 43,939         | 49,212           |
| UVs-exports                   | 678            | 593            | 712            | 797            | 893              |
| <b>Passenger vehicles</b>     | <b>166,660</b> | <b>207,036</b> | <b>260,227</b> | <b>302,182</b> | <b>336,149</b>   |
| Passenger vehicles-domestic   | 160,422        | 171,049        | 191,575        | 210,732        | 231,806          |
| Passenger vehicles-exports    | 6,238          | 5,637          | 6,652          | 7,450          | 8,344            |
| Small car                     |                | 30,350         | 62,000         | 84,000         | 96,000           |
| Total domestic sales          | 464,737        | 608,545        | 742,062        | 849,638        | 958,269          |
| Total export sales            | 33,410         | 34,141         | 55,188         | 62,770         | 71,404           |
| <b>Total vehicle sales</b>    | <b>498,147</b> | <b>642,686</b> | <b>797,250</b> | <b>912,407</b> | <b>1,029,674</b> |
| Total vehicle sales (ex-Nano) | 498,147        | 612,336        | 735,250        | 828,407        | 933,674          |

#### Volume growth (yoy %)

|                                      | 2009          | 2010          | 2011E       | 2012E       | 2013E       |
|--------------------------------------|---------------|---------------|-------------|-------------|-------------|
| <b>M&amp;HCVs</b>                    | <b>(31.4)</b> | <b>36.4</b>   | <b>22.2</b> | <b>12.0</b> | <b>12.0</b> |
| M&HCVs-domestic                      | (31.5)        | 36.5          | 22.0        | 12.0        | 12.0        |
| M&HCVs-exports                       | (30.1)        | 35.9          | 25.0        | 12.0        | 12.0        |
| <b>LCVs</b>                          | <b>(2.8)</b>  | <b>38.7</b>   | <b>24.9</b> | <b>15.0</b> | <b>15.0</b> |
| LCVs-domestic                        | 2.7           | 44.4          | 19.0        | 15.0        | 15.0        |
| LCVs-exports                         | (34.3)        | (11.3)        | 110.0       | 15.0        | 15.0        |
| <b>UVs</b>                           | <b>(20.5)</b> | <b>(14.6)</b> | <b>17.1</b> | <b>12.0</b> | <b>12.0</b> |
| UVs-domestic                         | (17.6)        | (14.7)        | 17.0        | 12.0        | 12.0        |
| UVs-exports                          | (73.9)        | (12.5)        | 20.0        | 12.0        | 12.0        |
| <b>Passenger vehicles</b>            | <b>(7.0)</b>  | <b>24.2</b>   | <b>25.7</b> | <b>16.1</b> | <b>11.2</b> |
| Passenger vehicles-domestic          | (4.0)         | 6.6           | 12.0        | 10.0        | 10.0        |
| Passenger vehicles-exports           | (48.9)        | (9.6)         | 18.0        | 12.0        | 12.0        |
| Small car                            |               |               | 104.3       | 35.5        | 14.3        |
| Total domestic sales                 | (12.0)        | 30.9          | 21.9        | 14.5        | 12.8        |
| Total export sales                   | (38.4)        | 2.2           | 61.6        | 13.7        | 13.8        |
| <b>Total vehicle sales</b>           | <b>(14.5)</b> | <b>29.0</b>   | <b>24.0</b> | <b>14.4</b> | <b>12.9</b> |
| <b>Total vehicle sales (ex-Nano)</b> | <b>(14.5)</b> | <b>22.9</b>   | <b>20.1</b> | <b>12.7</b> | <b>12.7</b> |

Source: Company, Kotak Institutional Equities

### EBITDA margins for standalone business is likely to remain under pressure

We believe EBITDA margins are likely to remain under pressure due to (1) slower volume growth of heavy trucks, (2) competitive pressures in passenger car and UV businesses and (3) sharp hike in raw material costs (notably steel and rubber). However, we expect pricing power in the CV segment to remain strong, which should protect margins from falling significantly. We estimate margins to fall by 70 bps over the next two years and we see no visible triggers of margin improvement in light of our expectation of slowing growth in the MHCV segment.

#### Tata Motors standalone: Financial Summary March fiscal year ends, 2009-2013E

|   | 2009            | 2010           | 2011E          | 2012E          | 2013E          |
|---|-----------------|----------------|----------------|----------------|----------------|
| <b>Profit model (Rs mn)</b>               |                 |                |                |                |                |
| Net sales                                 | 253,541         | 353,738        | 443,549        | 513,533        | 592,946        |
| <b>EBITDA</b>                             | <b>13,293</b>   | <b>37,454</b>  | <b>44,244</b>  | <b>48,037</b>  | <b>55,322</b>  |
| Other income                              | 7,144           | 2,710          | 2,743          | 3,012          | 3,307          |
| Interest                                  | (6,737)         | (11,038)       | (12,315)       | (12,591)       | (12,323)       |
| Depreciation                              | (8,745)         | (10,339)       | (13,458)       | (14,878)       | (16,440)       |
| <b>Profit before tax</b>                  | <b>4,956</b>    | <b>18,787</b>  | <b>21,214</b>  | <b>23,580</b>  | <b>29,866</b>  |
| Extra ordinary income/(expenses)          | 5,183           | 9,509          | 622            | —              | —              |
| Current tax                               | (150)           | —              | (1,422)        | (1,533)        | (1,941)        |
| Deferred tax                              | 25              | (5,895)        | (3,062)        | (3,419)        | (4,331)        |
| <b>Net profit</b>                         | <b>10,013</b>   | <b>22,401</b>  | <b>17,352</b>  | <b>18,629</b>  | <b>23,594</b>  |
| <b>Adjusted net profit</b>                | <b>4,831</b>    | <b>12,892</b>  | <b>16,730</b>  | <b>18,629</b>  | <b>23,594</b>  |
| <b>Reported Diluted EPS (Rs)</b>          |                 |                |                |                |                |
|   | <b>20.8</b>     | <b>39.0</b>    | <b>26.1</b>    | <b>28.0</b>    | <b>35.5</b>    |
| <b>Adjusted Diluted EPS (Rs)</b>          |                 |                |                |                |                |
|   | <b>10.0</b>     | <b>22.8</b>    | <b>25.2</b>    | <b>28.0</b>    | <b>35.5</b>    |
| <b>Balance sheet (Rs mn)</b>              |                 |                |                |                |                |
| Equity                                    | 122,302         | 149,655        | 205,351        | 219,576        | 238,767        |
| Deferred tax liability                    | 8,658           | 15,086         | 18,149         | 21,568         | 25,899         |
| Total borrowings                          | 131,656         | 166,259        | 157,221        | 151,221        | 139,221        |
| Current liabilities                       | 109,996         | 173,726        | 185,958        | 197,315        | 212,025        |
| <b>Total liabilities</b>                  | <b>372,612</b>  | <b>504,726</b> | <b>566,679</b> | <b>589,680</b> | <b>615,912</b> |
| Net fixed assets                          | 145,993         | 164,360        | 178,402        | 191,024        | 202,085        |
| Investments                               | 129,681         | 223,369        | 223,369        | 223,369        | 223,369        |
| Cash                                      | 11,418          | 17,533         | 35,586         | 26,227         | 18,258         |
| Other current assets                      | 85,499          | 97,847         | 127,705        | 147,443        | 170,583        |
| Miscellaneous expenditure                 | 20              | 1,617          | 1,616          | 1,617          | 1,616          |
| <b>Total assets</b>                       | <b>372,612</b>  | <b>504,726</b> | <b>566,678</b> | <b>589,680</b> | <b>615,911</b> |
| <b>Free cash flow (Rs mn)</b>             |                 |                |                |                |                |
| Operating cash flow excl. working capital | 13,901          | 38,354         | 42,860         | 46,504         | 53,380         |
| Working capital changes                   | (950)           | 27,506         | (17,626)       | (8,381)        | (8,429)        |
| Capital expenditure                       | (40,113)        | (23,102)       | (27,500)       | (27,500)       | (27,500)       |
| <b>Free cash flow</b>                     | <b>(27,162)</b> | <b>42,759</b>  | <b>(2,266)</b> | <b>10,623</b>  | <b>17,451</b>  |
| <b>Ratios</b>                             |                 |                |                |                |                |
| EBITDA margin (%)                         | 5.2             | 10.6           | 10.0           | 9.4            | 9.3            |
| Debt/equity (X)                           | 1.1             | 1.1            | 0.8            | 0.7            | 0.6            |
| Net debt/equity (X)                       | 1.0             | 1.0            | 0.6            | 0.6            | 0.5            |
| RoAE (%)                                  | 4.8             | 9.5            | 9.4            | 8.8            | 10.3           |

Source: Company, Kotak Institutional Equities

### JLR volume growth will be driven by US, China and other emerging countries

JLR volumes have improved significantly in FY2011 (25% yoy) driven by strong growth in emerging economies (including China) and stable growth in US markets despite weakness in the European markets. We expect the same trend to continue and expect volume CAGR of 11% over the next two years. Falling inventory levels of luxury car players in the US coupled with an improving economy should aid strong growth of JLR volumes in US, in our view. We see limited impact of restrictions of registrations of cars in Beijing on JLR as it is likely to impact small cars more than luxury cars because of significantly higher numbers.

We believe current EBITDA margins looks sustainable despite increasing commodity cost pressures due to the following reasons:

- ▶ Volume growth is expected to remain strong as JLR models have a 4-6 week waiting period.
- ▶ The company plans to source 35% of its raw material requirements from Eastern Europe versus 20% currently over the next two years, which should lead to savings in raw material costs.
- ▶ Average selling prices increased by 19% yoy in FY2011 driven by favorable currency movements, significant increase in model prices and improvement in product mix. We expect base model prices to increase by only 1-2% in FY2012E buy lower discounts and improved market mix is likely to aid the increase in net selling prices.
- ▶ **Currency volatility could lead to wide fluctuation in margins:** Of total JLR sales, 40-45% of sales is dollar denominated and ~19% is Euro denominated. 30-35% of net sales are raw material components sourced from Eastern Europe in Euros. The company is a net exporter in dollars and net importer in Euro. Hence, depreciation of GBP vs. USD and appreciation of GBP vs. Euro is favorable for the company. The company has entered into forward covers for these unhedged exposures but the exact quantum of exposure hedged is still not known.

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**JLR Volume assumptions: FY2010-2013E**

March fiscal year ends

|                       | 2010           | 2011E          | 2012E          | 2013E          |
|-----------------------|----------------|----------------|----------------|----------------|
| North America         | 41,700         | 51,000         | 58,650         | 67,448         |
| UK                    | 57,100         | 59,000         | 61,950         | 65,048         |
| Europe (excl Russia)  | 50,600         | 46,000         | 48,300         | 50,715         |
| Russia                | 8,800          | 12,000         | 13,800         | 15,870         |
| China                 | 17,000         | 27,000         | 31,050         | 35,708         |
| Asia Pac (excl China) | 8,000          | 15,000         | 17,250         | 19,838         |
| Rest of World         | 10,683         | 32,000         | 36,800         | 42,320         |
| <b>Total Volumes</b>  | <b>193,883</b> | <b>242,000</b> | <b>267,800</b> | <b>296,945</b> |
| % YoY chg             |                | 24.8           | 10.7           | 10.9           |

Source: Company, Kotak Institutional Equities

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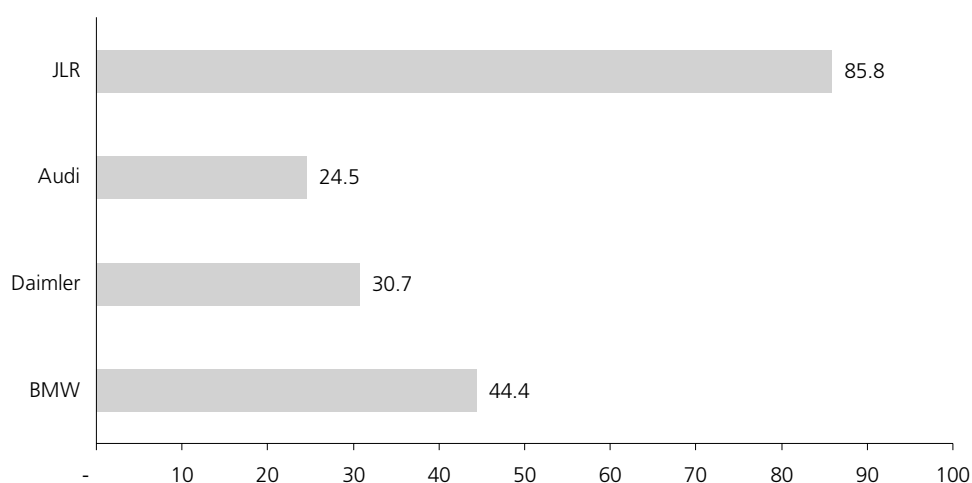
**JLR: Profit and Loss Statement: FY2010-2013E**

in mn pounds, March fiscal year ends

|                                | 2010         | 2011E        | 2012E         | 2013E         |
|--------------------------------|--------------|--------------|---------------|---------------|
| Volumes                        | 193,883      | 242,000      | 267,800       | 296,945       |
| ASPs                           | 33,787       | 40,206       | 40,809        | 41,625        |
| <b>Sales</b>                   | <b>6,554</b> | <b>9,730</b> | <b>10,929</b> | <b>12,360</b> |
| Raw Material                   | 4,439        | 6,062        | 6,962         | 8,071         |
| % of sales                     | 67.7         | 62.3         | 63.7          | 65.3          |
| Labour                         | 730          | 810          | 875           | 945           |
| % of sales                     | 11.1         | 8.3          | 8.0           | 7.6           |
| SG&A and manufacturing expense | 953          | 1,256        | 1,335         | 1,420         |
| % of sales                     | 14.5         | 12.9         | 12.2          | 11.5          |
| Cost of sales                  | 6,122        | 8,128        | 9,172         | 10,437        |
| % of sales                     | 93.4         | 83.5         | 83.9          | 84.4          |
| <b>EBITDA</b>                  | <b>432</b>   | <b>1,602</b> | <b>1,757</b>  | <b>1,924</b>  |
| % of sales                     | 6.6          | 16.5         | 16.1          | 15.6          |
| Product development            | 48           | 85           | 115           | 125           |
| Depreciation                   | 310          | 361          | 368           | 372           |
| Interest expense               | 53           | 47           | 40            | 30            |
| Profit before tax              | 21           | 1,109        | 1,234         | 1,397         |
| Tax expenses                   | 29           | 83           | 111           | 126           |
| Forex gain                     | 11           | (8)          |               |               |
| <b>Profit after tax</b>        | <b>3</b>     | <b>1,034</b> | <b>1,123</b>  | <b>1,271</b>  |

Source: Company, Kotak Institutional Equities

**JLR capitalizes most of the R&D costs while other competitors expense only 25-50% of the R&D costs**  
R&D capitalized as a % of total R&D costs



Note:

(a) Audi, Daimler and BMW R&amp;D figures are for CY09

Source: Company annual reports, Kotak Institutional Equities

Base prices of luxury car models increasing at a lower rate than last year for JLR  
Base prices in US in dollars, calendar year end

|                   | CY09   | CY10   | CY11   | yoy increase (CY10<br>vs. CY09) | yoy increase (CY11<br>vs. CY10) |
|-------------------|--------|--------|--------|---------------------------------|---------------------------------|
| <b>Jaguar</b>     |        |        |        |                                 |                                 |
| XF                | 49,975 | 52,000 | 53,375 | 4.1                             | 2.6                             |
| XJ                | 66,475 | 72,500 | 73,575 | 9.1                             | 1.5                             |
| XK                | 77,975 | 83,000 | 83,875 | 6.4                             | 1.1                             |
| <b>Land Rover</b> |        |        |        |                                 |                                 |
| LR2               | 36,150 | 36,350 | 36,550 | 0.6                             | 0.6                             |
| Range Rover       | 59,150 | 60,495 | 60,495 | 2.3                             | —                               |
| Rover Sport       | 78,450 | 79,275 | 79,685 | 1.1                             | 0.5                             |
| LR4               | 45,700 | 48,100 | 48,550 | 5.3                             | 0.9                             |
| <b>Audi</b>       |        |        |        |                                 |                                 |
| A3                | 27,745 | 28,095 | 28,145 | 1.3                             | 0.2                             |
| A4                | 33,525 | 32,275 | 32,825 | (3.7)                           | 1.7                             |
| A5                | 41,525 | 36,825 | 37,375 | (11.3)                          | 1.5                             |
| A8                | 74,875 | 75,375 | 78,925 | 0.7                             | 4.7                             |
| Q5                | 38,025 | 38,175 | 36,075 | 0.4                             | (5.5)                           |
| <b>BMW</b>        |        |        |        |                                 |                                 |
| 3 series          | 34,225 | 33,675 | 34,025 | (1.6)                           | 1.0                             |
| 5 series          | 46,325 | 46,625 | 46,625 | 0.6                             | —                               |
| 7 series          | 82,425 | 81,280 | 71,025 | (1.4)                           | (12.6)                          |
| Z4                | 42,915 | 46,575 | 46,875 | 8.5                             | 0.6                             |
| X3                | 40,225 | 39,575 | 37,625 | (1.6)                           | (4.9)                           |
| X5                | 47,925 | 48,345 | 46,675 | 0.9                             | (3.5)                           |
| <b>Mercedes</b>   |        |        |        |                                 |                                 |
| C-Class           | 33,775 | 33,775 | 34,865 | —                               | 3.2                             |
| E-Class           | 54,025 | 48,925 | 49,725 | (9.4)                           | 1.6                             |
| S-Class           | 99,375 | 88,825 | 91,875 | (10.6)                          | 3.4                             |

Source: Wards auto

JLR US dealer inventory is declining which augurs well for JLR US sales growth  
Dealer inventory days

|        | JLR | BMW | Mercedes |
|--------|-----|-----|----------|
| Jan-09 | 122 | 64  | 101      |
| Feb-09 | 90  | 54  | 57       |
| Mar-09 | 80  | 42  | 59       |
| Apr-09 | 97  | 42  | 66       |
| May-09 | 96  | 32  | 62       |
| Jun-09 | 92  | 36  | 63       |
| Jul-09 | 97  | 32  | 54       |
| Aug-09 | 96  | 25  | 48       |
| Sep-09 | 93  | 22  | 50       |
| Oct-09 | 104 | 28  | 50       |
| Nov-09 | 85  | 33  | 47       |
| Dec-09 | 32  | 39  | 49       |
| Jan-10 | 64  | 54  | 63       |
| Feb-10 | 55  | 41  | 56       |
| Mar-10 | 48  | 28  | 56       |
| Apr-10 | 48  | 22  | 64       |
| May-10 | 50  | 18  | 60       |
| Jun-10 | 43  | 21  | 55       |
| Jul-10 | 54  | 28  | 54       |
| Aug-10 | 51  | 25  | 53       |
| Sep-10 | 63  | 23  | 50       |
| Oct-10 | 57  | 28  | 53       |
| Nov-10 | 57  | 27  | 56       |
| Dec-10 | 50  | 30  | 47       |

Source: Wards Auto



Tata Motors consolidated: Financial summary  
March fiscal year ends, 2009-2013E

|   | 2009             | 2010            | 2011E            | 2012E            | 2013E            |
|---|------------------|-----------------|------------------|------------------|------------------|
| <b>Profit model (Rs mn)</b>                             |                  |                 |                  |                  |                  |
| Net sales   | 709,389          | 925,193         | 1,124,640        | 1,262,150        | 1,439,637        |
| <b>EBITDA</b>   | <b>18,488</b>    | <b>81,160</b>   | <b>156,374</b>   | <b>168,367</b>   | <b>187,091</b>   |
| Other income  | 7,990            | 416             | 2,743            | 3,012            | 3,307            |
| Interest  | (19,309)         | (22,397)        | (15,605)         | (15,331)         | (14,378)         |
| Depreciation  | (25,068)         | (38,871)        | (44,678)         | (47,963)         | (50,484)         |
| <b>Profit before tax</b>                                | <b>(17,900)</b>  | <b>20,307</b>   | <b>98,834</b>    | <b>108,086</b>   | <b>125,536</b>   |
| Extra ordinary income/(expenses)                        | (3,393)          | 14,919          | 622              | —                | —                |
| Tax   | (3,358)          | (10,058)        | (10,294)         | (12,557)         | (14,882)         |
| <b>Net profit</b>                                       | <b>(25,053)</b>  | <b>25,711</b>   | <b>89,162</b>    | <b>95,528</b>    | <b>110,654</b>   |
| <b>Adjusted net profit</b>                              | <b>(21,660)</b>  | <b>10,791</b>   | <b>88,540</b>    | <b>95,528</b>    | <b>110,654</b>   |
| <b>Reported Diluted EPS (Rs)</b>                        |                  |                 |                  |                  |                  |
|   | <b>(52.0)</b>    | <b>44.0</b>     | <b>134.2</b>     | <b>143.8</b>     | <b>166.5</b>     |
| <b>Adjusted Diluted EPS (Rs)</b>                        |                  |                 |                  |                  |                  |
|   | <b>(44.9)</b>    | <b>18.5</b>     | <b>133.2</b>     | <b>143.8</b>     | <b>166.5</b>     |
| <b>Adjusted Diluted EPS (ex recurring R&amp;D) (Rs)</b> |                  |                 |                  |                  |                  |
|   | <b>(122.0)</b>   | <b>(35.7)</b>   | <b>96.4</b>      | <b>102.5</b>     | <b>125.3</b>     |
| <b>Balance sheet (Rs mn)</b>                            |                  |                 |                  |                  |                  |
| Equity  | 59,406           | 82,065          | 209,533          | 300,658          | 406,909          |
| Deferred tax liability                                  | 6,802            | 15,796          | 18,209           | 18,209           | 18,209           |
| Total borrowings  | 349,739          | 351,924         | 329,357          | 299,674          | 253,630          |
| Current liabilities                                     | 311,618          | 417,208         | 462,181          | 501,402          | 532,469          |
| <b>Total liabilities</b>                                | <b>731,595</b>   | <b>869,128</b>  | <b>1,021,416</b> | <b>1,122,078</b> | <b>1,213,351</b> |
| Net fixed assets  | 357,333          | 385,063         | 450,885          | 507,036          | 552,552          |
| Goodwill  | 37,187           | 34,229          | 35,217           | 35,217           | 35,217           |
| Investments   | 12,574           | 22,191          | 15,000           | 15,000           | 15,000           |
| Cash  | 41,213           | 87,433          | 99,463           | 89,363           | 64,914           |
| Other current assets                                    | 276,062          | 337,863         | 418,503          | 473,114          | 543,321          |
| Miscellaneous expenditure                               | 7,226            | 2,348           | 2,348            | 2,348            | 2,348            |
| <b>Total assets</b>                                     | <b>731,595</b>   | <b>869,128</b>  | <b>1,021,416</b> | <b>1,122,078</b> | <b>1,213,351</b> |
| <b>Free cash flow (Rs mn)</b>                           |                  |                 |                  |                  |                  |
| Operating cash flow excl. working capital               | (2,928)          | 38,707          | 128,127          | 147,696          | 172,209          |
| Working capital changes                                 | (13,441)         | 26,009          | (35,667)         | (15,390)         | (39,140)         |
| Capital expenditure                                     | (207,360)        | (84,754)        | (90,500)         | (96,000)         | (96,000)         |
| <b>Free cash flow</b>                                   | <b>(223,728)</b> | <b>(20,039)</b> | <b>1,960</b>     | <b>36,306</b>    | <b>37,069</b>    |
| <b>Ratios</b>   |                  |                 |                  |                  |                  |
| EBITDA margin (%)                                       | 2.6              | 8.8             | 13.9             | 13.3             | 13.0             |
| Debt/equity (X)   | 5.9              | 4.3             | 1.6              | 1.0              | 0.6              |
| Net debt/equity (X)                                     | 5.2              | 3.2             | 1.1              | 0.7              | 0.5              |

Source: Company, Kotak Institutional Equities

JANUARY 12, 2011

UPDATE

BSE-30: 19,196

## Chemical Monthly Tracker, January 2011

Asia ethylene prices rise sharply

Plastics margins contract for key polymers

Margins expand for PSF and PFY

### Asia ethylene prices rise sharply

Ethylene prices increased 16.1% mom in December 2010 led by higher naphtha prices, which in turn were driven by (1) higher crude oil prices and (2) severe naphtha shortage as refineries concentrated on gasoil production in China for thermal power generation. We expect ethylene prices to soften led by likely reduced buying activity from mid-January before the Lunar New Year holidays starting February 3, 2011.

### Plastics margins contract for key polymers

Asia polyethylene margins contracted in December 2010 led by (1) sharp increase in naphtha prices (+US\$63/ton) and (2) relatively stable product prices. Asia HDPE, LDPE and PP margins contracted by 15.5%, 2.1% and 2.8% mom in December led by (1) seasonal year-end low end-user demand and (2) sufficient inventories. PVC margins contracted sharply by 28% mom led by sluggish demand in China during the winter season. We expect India HDPE, LLDPE and PP margins to decline by 13.8%, 13.8% and 3.9% in January 2011.

### Margins expand for PSF and PFY

Asia polyester margins rose sharply (PSF +US\$252/ton and PFY +US\$117/ton) in December 2010 led by (1) sharp increase in product prices (PSF +US\$295/ton and PFY +US\$160/ton) and (2) relatively lower increase in input prices (PTA +US\$33/ton and MEG +US\$46/ton). We expect India margins for PSF to increase by 7.8% mom in January 2011 led by relatively higher increase in the PSF price versus input prices. However, we expect margins for PFY to remain stable in January 2011.

We have included some key exhibits here. For more details, please refer our Chemical Monthly Tracker, January 2011.

### QUICK NUMBERS

- **Asia HDPE/LLDPE margins contracted by 15.5% in the recent month**
- **Asia polyester margins expanded by 14-65% mom**
- **India margins for HDPE/LLDPE to decline in January 2011**

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Chemical product prices remained stable in the recent month  
Asia chemical prices, calendar year-ends (US\$/ton)

|                        | Annual average prices |       |       |       | Quarterly average |       |       |       |         | Monthly average |       |       |       |         | Recent |        |        |       |
|------------------------|-----------------------|-------|-------|-------|-------------------|-------|-------|-------|---------|-----------------|-------|-------|-------|---------|--------|--------|--------|-------|
|                        | 2007                  | 2008  | 2009  | 2010  | 1Q10              | 2Q10  | 3Q10  | 4Q10  | qoq (%) | Sep             | Oct   | Nov   | Dec   | mom (%) | Dec 17 | Dec 24 | Dec 31 | Jan 7 |
|                        |                       |       |       |       |                   |       |       |       |         |                 |       |       |       |         |        |        |        |       |
| Naphtha                | 696                   | 827   | 557   | 723   | 717               | 707   | 666   | 803   | 20.5    | 685             | 753   | 797   | 859   | 7.9     | 859    | 872    | 881    | 870   |
| Benzene                | 1,021                 | 980   | 683   | 913   | 963               | 903   | 832   | 954   | 14.7    | 854             | 932   | 936   | 994   | 6.3     | 992    | 1,017  | 1,039  | 1,051 |
| <b>Ethylene chain</b>  |                       |       |       |       |                   |       |       |       |         |                 |       |       |       |         |        |        |        |       |
| Ethylene               | 1,137                 | 1,162 | 831   | 1,079 | 1,214             | 1,102 | 928   | 1,072 | 15.5    | 1,044           | 1,089 | 984   | 1,142 | 16.1    | 1,136  | 1,146  | 1,146  | 1,199 |
| High-density PE        | 1,325                 | 1,437 | 1,113 | 1,211 | 1,280             | 1,213 | 1,107 | 1,242 | 12.2    | 1,161           | 1,200 | 1,269 | 1,258 | (0.8)   | 1,265  | 1,255  | 1,250  | 1,300 |
| Linear low-density PE  | 1,339                 | 1,497 | 1,150 | 1,285 | 1,400             | 1,271 | 1,135 | 1,333 | 17.4    | 1,187           | 1,248 | 1,390 | 1,360 | (2.1)   | 1,371  | 1,355  | 1,355  | 1,395 |
| Low-density PE         | 1,445                 | 1,602 | 1,174 | 1,462 | 1,519             | 1,415 | 1,319 | 1,595 | 20.9    | 1,399           | 1,505 | 1,618 | 1,663 | 2.8     | 1,675  | 1,675  | 1,660  | 1,660 |
| <b>Propylene chain</b> |                       |       |       |       |                   |       |       |       |         |                 |       |       |       |         |        |        |        |       |
| Propylene              | 1,069                 | 1,180 | 892   | 1,177 | 1,223             | 1,180 | 1,115 | 1,191 | 6.8     | 1,131           | 1,139 | 1,201 | 1,233 | 2.6     | 1,239  | 1,232  | 1,222  | 1,282 |
| Polypropylene          | 1,324                 | 1,457 | 1,052 | 1,295 | 1,294             | 1,280 | 1,219 | 1,386 | 13.7    | 1,259           | 1,303 | 1,405 | 1,451 | 3.2     | 1,475  | 1,450  | 1,459  | 1,480 |
| <b>Styrene chain</b>   |                       |       |       |       |                   |       |       |       |         |                 |       |       |       |         |        |        |        |       |
| Styrene                | 1,320                 | 1,261 | 951   | 1,190 | 1,276             | 1,158 | 1,066 | 1,259 | 18.2    | 1,128           | 1,239 | 1,240 | 1,300 | 4.9     | 1,299  | 1,330  | 1,349  | 1,383 |
| Polystyrene            | 1,426                 | 1,397 | 1,065 | 1,305 | 1,397             | 1,292 | 1,193 | 1,337 | 12.1    | 1,240           | 1,282 | 1,374 | 1,356 | (1.3)   | 1,365  | 1,358  | 1,358  | 1,405 |
| <b>Vinyl chain</b>     |                       |       |       |       |                   |       |       |       |         |                 |       |       |       |         |        |        |        |       |
| PVC                    | 945                   | 1,026 | 800   | 988   | 1,020             | 988   | 935   | 1,009 | 7.9     | 972             | 990   | 1,018 | 1,019 | 0.1     | 1,015  | 1,015  | 1,015  | 999   |
| EDC                    | 426                   | 384   | 359   | 500   | 494               | 512   | 460   | 533   | 15.9    | 489             | 538   | 559   | 502   | (10.2)  | 500    | 485    | 485    | 485   |
| <b>Polyester chain</b> |                       |       |       |       |                   |       |       |       |         |                 |       |       |       |         |        |        |        |       |
| PSF                    | 1,452                 | 1,433 | 1,194 | 1,533 | 1,432             | 1,483 | 1,435 | 1,783 | 24.3    | 1,465           | 1,625 | 1,715 | 2,010 | 17.2    | 2,010  | —      | —      | —     |
| PFY                    | 1,669                 | 1,665 | 1,350 | 1,842 | 1,708             | 1,770 | 1,757 | 2,133 | 21.4    | 1,830           | 1,950 | 2,145 | 2,305 | 7.5     | 2,305  | —      | —      | —     |
| Pure terephthalic acid | 881                   | 906   | 835   | 968   | 959               | 910   | 880   | 1,124 | 27.7    | 905             | 1,023 | 1,158 | 1,190 | 2.8     | 1,185  | 1,195  | 1,235  | 1,235 |
| Monoethylene glycol    | 1,115                 | 932   | 634   | 883   | 963               | 808   | 760   | 1,000 | 31.6    | 800             | 931   | 1,013 | 1,058 | 4.5     | 1,057  | 1,081  | 1,094  | 1,142 |
| Paraxylene             | 1,131                 | 1,164 | 979   | 1,043 | 1,037             | 968   | 914   | 1,254 | 37.1    | 976             | 1,153 | 1,275 | 1,335 | 4.7     | 1,360  | 1,367  | 1,378  | 1,389 |

Source: Kotak Institutional Equities

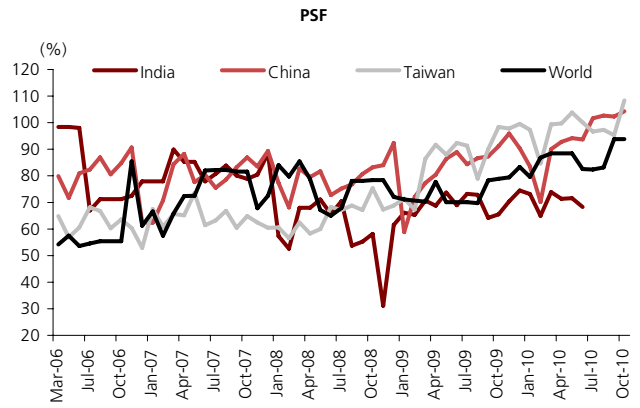
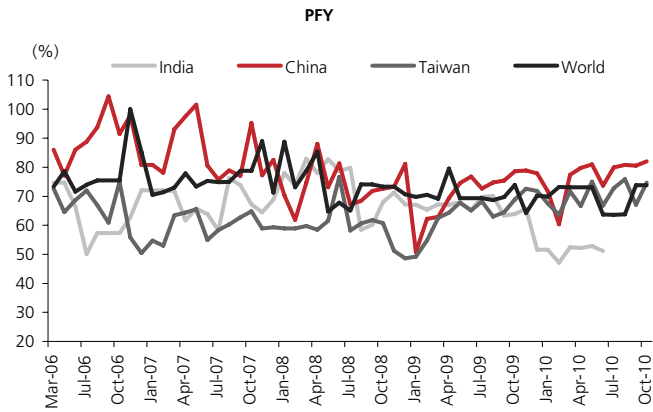
Chemical margins have contracted in the recent month  
Asia chemical margins, calendar year-ending (US\$/ton)

|   | Annual average prices |      |      |      | Quarterly average |      |      |      |         | Monthly average |     |     |     |         | Recent |        |        |       |
|---|-----------------------|------|------|------|-------------------|------|------|------|---------|-----------------|-----|-----|-----|---------|--------|--------|--------|-------|
|   | 2007                  | 2008 | 2009 | 2010 | 1Q10              | 2Q10 | 3Q10 | 4Q10 | qoq (%) | Sep             | Oct | Nov | Dec | mom (%) | Dec 17 | Dec 24 | Dec 31 | Jan 7 |
|   |                       |      |      |      |                   |      |      |      |         |                 |     |     |     |         |        |        |        |       |
| <b>Ethylene chain</b>                           |                       |      |      |      |                   |      |      |      |         |                 |     |     |     |         |        |        |        |       |
| Ethylene – naphtha                              | 441                   | 336  | 274  | 355  | 497               | 395  | 261  | 268  | 2.8     | 359             | 335 | 187 | 283 | 51.3    | 277    | 274    | 265    | 329   |
| HDPE – 1.015 x ethylene                         | 171                   | 258  | 270  | 116  | 48                | 95   | 166  | 154  | (6.8)   | 101             | 94  | 270 | 99  | (63.5)  | 112    | 92     | 87     | 83    |
| LLDPE – 1.015 x ethylene                        | 185                   | 317  | 307  | 190  | 168               | 152  | 194  | 245  | 26.7    | 128             | 143 | 391 | 201 | (48.6)  | 218    | 192    | 192    | 178   |
| LDPE – 1.015 x ethylene                         | 291                   | 422  | 331  | 367  | 287               | 297  | 378  | 507  | 34.3    | 340             | 400 | 619 | 503 | (18.7)  | 522    | 512    | 497    | 443   |
| HDPE – naphtha                                  | 629                   | 611  | 556  | 488  | 564               | 507  | 441  | 439  | (0.4)   | 476             | 446 | 472 | 399 | (15.5)  | 406    | 383    | 369    | 430   |
| LLDPE – naphtha                                 | 643                   | 670  | 594  | 561  | 683               | 564  | 469  | 530  | 13.0    | 503             | 495 | 593 | 501 | (15.5)  | 512    | 483    | 474    | 525   |
| LDPE – naphtha                                  | 749                   | 775  | 618  | 739  | 802               | 709  | 653  | 792  | 21.3    | 715             | 751 | 821 | 804 | (2.1)   | 816    | 803    | 779    | 790   |
| <b>Propylene chain</b>                          |                       |      |      |      |                   |      |      |      |         |                 |     |     |     |         |        |        |        |       |
| Propylene – naphtha                             | 373                   | 353  | 336  | 454  | 506               | 473  | 449  | 388  | (13.6)  | 447             | 386 | 405 | 374 | (7.7)   | 380    | 360    | 341    | 412   |
| PP – 1.01 x propylene                           | 244                   | 265  | 151  | 106  | 59                | 88   | 92   | 183  | 98.4    | 116             | 153 | 192 | 205 | 7.2     | 224    | 206    | 225    | 185   |
| PP – naphtha                                    | 628                   | 630  | 495  | 571  | 577               | 573  | 552  | 583  | 5.6     | 574             | 549 | 608 | 591 | (2.8)   | 616    | 578    | 578    | 610   |
| <b>Styrene chain</b>                            |                       |      |      |      |                   |      |      |      |         |                 |     |     |     |         |        |        |        |       |
| Benzene – naphtha                               | 325                   | 153  | 126  | 190  | 247               | 197  | 165  | 151  | (8.6)   | 169             | 179 | 139 | 135 | (2.7)   | 133    | 145    | 158    | 181   |
| Styrene – 0.81 x benzene<br>– 0.29 x ethylene   | 163                   | 131  | 157  | 137  | 143               | 107  | 123  | 176  | 43.0    | 134             | 168 | 196 | 163 | (17.0)  | 166    | 173    | 175    | 184   |
| Polystyrene – 0.98 styrene                      | 132                   | 161  | 132  | 139  | 147               | 157  | 148  | 103  | (30.6)  | 135             | 67  | 159 | 82  | (48.3)  | 92     | 55     | 35     | 50    |
| PS – naphtha                                    | 730                   | 571  | 508  | 581  | 681               | 585  | 526  | 534  | 1.5     | 556             | 528 | 577 | 497 | (13.9)  | 506    | 486    | 476    | 535   |
| <b>Vinyl chain</b>                              |                       |      |      |      |                   |      |      |      |         |                 |     |     |     |         |        |        |        |       |
| EDC – (0.3 x ethylene)                          | 85                    | 35   | 109  | 176  | 130               | 181  | 182  | 211  | 16.4    | 176             | 211 | 264 | 159 | (39.6)  | 159    | 141    | 141    | 125   |
| PVC – 1.025 (0.235 x ethylene<br>+ 0.864 x EDC) | 294                   | 405  | 283  | 286  | 290               | 269  | 305  | 279  | (8.4)   | 287             | 251 | 286 | 299 | 4.6     | 299    | 309    | 309    | 281   |
| PVC – naphtha                                   | 249                   | 199  | 244  | 265  | 303               | 281  | 269  | 206  | (23.4)  | 287             | 237 | 221 | 160 | (27.8)  | 156    | 143    | 134    | 129   |
| <b>Polyester/intermediates</b>                  |                       |      |      |      |                   |      |      |      |         |                 |     |     |     |         |        |        |        |       |
| PSF – 0.85 x PTA – 0.34 x MEG                   | 324                   | 347  | 269  | 390  | 290               | 435  | 429  | 488  | 13.9    | 424             | 439 | 387 | 639 | 65.1    | 643    | —      | —      | —     |
| PFY – 0.85 x PTA – 0.34 x MEG                   | 541                   | 578  | 425  | 688  | 566               | 721  | 750  | 838  | 11.7    | 789             | 764 | 817 | 934 | 14.3    | 938    | —      | —      | —     |
| PTA – 0.67 x PX                                 | 123                   | 126  | 179  | 269  | 264               | 262  | 267  | 283  | 6.1     | 251             | 251 | 303 | 296 | (2.5)   | 274    | 279    | 312    | 305   |
| PX – naphtha                                    | 435                   | 337  | 422  | 320  | 320               | 261  | 248  | 451  | 81.8    | 292             | 399 | 478 | 475 | (0.6)   | 501    | 495    | 497    | 519   |
| MEG – naphtha                                   | 419                   | 105  | 77   | 160  | 246               | 102  | 94   | 197  | 109.9   | 116             | 177 | 216 | 199 | (7.8)   | 198    | 209    | 213    | 272   |
| MEG – 0.6 x ethylene                            | 433                   | 235  | 135  | 236  | 235               | 147  | 204  | 357  | 75.3    | 174             | 277 | 422 | 373 | (11.7)  | 375    | 393    | 406    | 423   |

Source: Kotak Institutional Equities

**Operating rates improved in October 2010**

Global operating rates for PSF and PFY (%)



Source: Kotak Institutional Equities

JANUARY 11, 2011

UPDATE

BSE-30: 19,196

**3QFY11E results preview.** We expect upstream companies to report strong results yoy led by (1) higher net realized crude prices and (2) higher APM gas prices. RIL's earnings will likely be stable qoq as higher chemical and refining margins qoq will be offset by (1) lower gas production from KG D-6 block and (2) a stronger rupee. We expect the downstream oil companies to report losses assuming no compensation from the government for subsidy losses in 3QFY11E.

**Indian energy companies valuation analysis, March fiscal year-ends, 2010-2013E**

|                           | Price (Rs) | P/E (X) |       |       |       | EV/EBITDA (X) |       |       |       |
|---------------------------|------------|---------|-------|-------|-------|---------------|-------|-------|-------|
|                           | 11-Jan-11  | 2010    | 2011E | 2012E | 2013E | 2010          | 2011E | 2012E | 2013E |
| Aban Offshore             | 704        | 8.0     | 6.7   | 5.7   | 5.2   | 8.1           | 6.9   | 6.3   | 6.0   |
| Bharat Petroleum Corp.    | 610        | 10.6    | 11.2  | 10.2  | 9.1   | 10.3          | 8.7   | 7.8   | 6.7   |
| Cairn India               | 329        | 59.3    | 12.8  | 7.5   | 7.0   | 66.0          | 8.5   | 5.0   | 4.3   |
| Castrol                   | 433        | 28.1    | 20.6  | 19.9  | 19.2  | 17.7          | 13.3  | 12.8  | 12.3  |
| GAIL (India)              | 501        | 20.2    | 17.6  | 12.6  | 11.4  | 13.0          | 11.9  | 9.3   | 8.2   |
| Gujarat State Petronet    | 109        | 14.9    | 15.0  | 13.5  | 12.1  | 7.8           | 7.7   | 6.3   | 5.7   |
| Hindustan Petroleum Corp. | 381        | 7.4     | 7.3   | 7.8   | 7.1   | 7.8           | 6.4   | 6.4   | 5.9   |
| Indian Oil Corp.          | 328        | 6.9     | 8.7   | 8.2   | 7.7   | 7.7           | 6.4   | 5.9   | 5.1   |
| Oil and Natural Gas Corp. | 1,185      | 13.1    | 10.2  | 8.6   | 8.0   | 5.2           | 4.3   | 3.7   | 3.4   |
| Oil India                 | 1,333      | 11.6    | 9.2   | 8.4   | 8.1   | 6.8           | 4.5   | 3.8   | 3.4   |
| Petronet LNG              | 122        | 22.6    | 17.6  | 14.7  | 13.9  | 13.3          | 10.8  | 9.5   | 9.0   |
| Reliance Industries       | 1,014      | 20.4    | 17.4  | 14.0  | 12.6  | 12.4          | 9.9   | 7.8   | 6.6   |

Source: Company, Kotak Institutional Equities estimates

**Strong yoy growth for government-owned upstream oil companies**

We expect ONGC and OIL to report strong yoy growth in earnings despite higher subsidy burden, led by (1) higher net realized crude prices and (2) higher APM gas prices yoy; increase in APM gas price was implemented from June 1, 2010. We expect 3QFY11E net income of ₹59.5 bn (+10.4% qoq, +94.9% yoy) for ONGC and ₹9.7 bn (+5.6% qoq, +35.3% yoy) for OIL.

**RIL will likely report stable earnings qoq**

We expect RIL to report 3QFY11E net income at ₹49.9 bn (+1.4% qoq, 24.5% yoy). We expect RIL's earnings to benefit qoq from (1) higher chemical prices and margins and (2) higher refining margins. However, the earnings will be impacted negatively by (1) lower gas production from KG D-6 block and (2) stronger rupee (₹44.9/US\$ versus ₹46.5/US\$ in 2QFY11). We estimate RIL's 3QFY11E blended refining margins at US\$8.7/bbl versus US\$7.9/bbl in 2QFY11 reflecting (1) a modest improvement in benchmark refining margins and (2) expansion in light-heavy differential. We expect decline in KG D-6 gas production to 54.5 mcm/d in 3QFY11E from 57.9 mcm/d in 2QFY11.

**Losses for government-owned OMCs**

We expect the oil marketing companies (OMCs) to report losses due to likely nil compensation from the government for subsidy losses in 3QFY11. We estimate gross under-recovery of ₹170 bn and net under-recovery of ₹113 bn in 3QFY11E. We expect the upstream companies to bear one-third of the overall subsidy burden in 3QFY11E, similar to the subsidy-sharing mechanism in 1HFY11. We estimate moderately higher refining margins qoq. However, we note that the oil ministry has sought an interim relief of ₹100 bn for the downstream companies.

**QUICK NUMBERS**

- 3QFY11E net income of ONGC likely up 10.4% qoq to ₹59.5 bn
- RIL's 3QFY11E net income to remain stable qoq (+1.4%) at ₹49.9 bn
- Expect OMCs to report losses in 3QFY11E led by net under-recoveries of ₹113 bn

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### GAIL to benefit from higher petchem prices qoq

GAIL will likely report a qoq increase in EBITDA due to higher petchem prices, which will be partly mitigated by a higher subsidy burden. We estimate GAIL to report 3QFY11E net income at ₹11 bn (+19.4% qoq and 28.2% yoy). The qoq increase in net income reflects (1) higher transmission volumes (118.3 mcm/d versus 114.9 mcm/d in 2QFY11), (2) higher petchem prices and (3) higher other income due to receipt of special dividend from ONGC (₹32/share).

#### Interim result estimates, 3QFY11E (₹ mn)

|                         | Dec-09  | Sep-10  | Dec-10E  | Change (%) |         | Comments  |
|-------------------------|---------|---------|----------|------------|---------|---|
|                         |         |         |          | yoy        | qoq     |   |
| <b>Aban Offshore</b>    |         |         |          |            |         |   |
| Net sales               | 8,413   | 8,281   | 7,893    | (6.2)      | (4.7)   |   |
| EBITDA                  | 5,193   | 5,563   | 4,983    | (4.0)      | (10.4)  | Qoq decline in reported EBITDA reflects lag in commencement of new contracts which expired recently   |
| EBIT                    | 3,841   | 4,333   | 3,697    | (3.7)      | (14.7)  |   |
| PBT                     | 1,281   | 1,950   | 1,484    | 15.9       | (23.9)  | Lower net income yoy despite higher utilization of rigs reflects the impact of sinking of Aban Pearl  |
| PAT                     | 894     | 891     | 810      | (9.4)      | (9.1)   |   |
| Extraordinaries         | —       | (139)   | —        | —          | (100.0) |   |
| PAT-reported            | 894     | 752     | 810      | (9.4)      | 7.8     |   |
| <b>Bharat Petroleum</b> |         |         |          |            |         |   |
| Net sales               | 321,829 | 354,348 | 348,384  | 8.3        | (1.7)   |   |
| EBITDA                  | 6,444   | 24,865  | (8,221)  | (227.6)    | (133.1) | Yoy comparison not meaningful due to fluctuation in timing and quantum of compensation from the government  |
| EBIT                    | 2,628   | 20,846  | (12,271) | (567.0)    | (158.9) |   |
| PBT                     | 4,771   | 23,402  | (11,121) | (333.1)    | (147.5) |   |
| PAT                     | 3,791   | 21,422  | (9,294)  | (345.2)    | (143.4) | We assume BPCL to receive Rs13.1 bn from upstream companies resulting in a net under-recovery of Rs26.1 bn  |
| Extraordinaries         | —       | —       | —        | —          | —       |   |
| PAT-reported            | 3,791   | 21,422  | (9,294)  | (345.2)    | (143.4) |   |
| <b>Cairn India</b>      |         |         |          |            |         |   |
| Net sales               | 4,955   | 26,864  | 27,299   | 451.0      | 1.6     |   |
| EBITDA                  | 3,473   | 21,506  | 24,732   | 612.2      | 15.0    | Significantly higher EBITDA yoy reflects (1) ramp up in production from Rajasthan block and (2) higher crude oil prices   |
| EBIT                    | 2,733   | 18,328  | 21,475   | 685.9      | 17.2    |   |
| PBT                     | 3,471   | 17,329  | 21,424   | 517.2      | 23.6    |   |
| PAT                     | 2,910   | 15,851  | 16,833   | 478.5      | 6.2     | Higher net income qoq reflects (1) higher crude oil production (+9 kb/d) from Rajasthan field and (2) higher crude oil prices (+US\$10/bbl); this is partly mitigated by stronger rupee |
| Extraordinaries         | —       | —       | —        | —          | —       |   |
| PAT-reported            | 2,910   | 15,851  | 16,833   | 478.5      | 6.2     |   |
| <b>Castrol India</b>    |         |         |          |            |         |   |
| Net sales               | 6,124   | 6,430   | 7,306    | 19.3       | 13.6    |   |
| EBITDA                  | 1,279   | 1,697   | 1,970    | 54.0       | 16.1    | Higher EBITDA margin yoy at 27% versus 20.9% in 4QCY09 despite higher LOBS prices reflects (1) higher realizations resulting from price hikes and (2) stronger rupee                    |
| EBIT                    | 1,211   | 1,634   | 1,904    | 57.2       | 16.5    |   |
| PBT                     | 1,228   | 1,700   | 1,981    | 61.3       | 16.5    |   |
| PAT                     | 808     | 1,169   | 1,345    | 66.5       | 15.1    | Qoq higher revenues reflects seasonally strong quarter, we estimate sales volumes at 56.9 mn liters versus 50.5 mn liters in 3QCY10 and 53.7 mn liters in 4QCY09                        |
| Extraordinaries         | —       | —       | —        | —          | —       |   |
| PAT-reported            | 808     | 1,169   | 1,345    | 66.5       | 15.1    |   |
| <b>GAIL (India)</b>     |         |         |          |            |         |   |
| Net sales               | 62,057  | 81,282  | 83,887   | 35.2       | 3.2     |   |
| EBITDA                  | 12,875  | 14,570  | 14,749   | 14.6       | 1.2     | Higher EBITDA qoq due to higher petchem prices, partly mitigated by higher subsidy burden   |
| EBIT                    | 11,466  | 12,944  | 13,028   | 13.6       | 0.6     |   |
| PBT                     | 12,583  | 14,326  | 15,920   | 26.5       | 11.1    |   |
| PAT                     | 8,600   | 9,236   | 11,028   | 28.2       | 19.4    | We assume Rs4.1 bn of subsidy burden for 3QFY11E versus Rs3.5 bn in 2QFY11 and Rs4.6 bn in 3QFY10   |
| Extraordinaries         | —       | —       | —        | —          | —       |   |
| PAT-reported            | 8,600   | 9,236   | 11,028   | 28.2       | 19.4    |   |
| <b>GSPL</b>             |         |         |          |            |         |   |
| Net sales               | 2,685   | 2,545   | 2,583    | (3.8)      | 1.5     |   |
| EBITDA                  | 2,531   | 2,336   | 2,375    | (6.1)      | 1.7     | Lower revenues yoy despite moderately higher volumes is on account of lower tariffs   |
| EBIT                    | 1,935   | 1,577   | 1,600    | (17.3)     | 1.5     |   |
| PBT                     | 1,750   | 1,403   | 1,425    | (18.6)     | 1.6     |   |
| PAT                     | 1,154   | 915     | 952      | (17.5)     | 4.0     | We estimate gas volumes at 36 mcm/d versus 35.3 mcm/d in 2QFY11 and 35.1 mcm/d in 3QFY10  |
| Extraordinaries         | —       | —       | —        | —          | —       |   |
| PAT-reported            | 1,154   | 915     | 952      | (17.5)     | 4.0     |   |

Source: Company, Kotak Institutional Equities estimates

## Interim result estimates, 3QFY11E (₹ mn)

|  | Dec-09   | Sep-10  | Dec-10E  | Change (%) |         | Comments  |
|--|----------|---------|----------|------------|---------|---|
|  |          |         |          | yoy        | qoq     |   |
| <b>Hindustan Petroleum</b>               |          |         |          |            |         |   |
| Net sales                                | 278,742  | 308,702 | 300,584  | 7.8        | (2.6)   | Yoy comparison not meaningful due to fluctuation in timing and quantum of oil bonds   |
| EBITDA                                   | 3,544    | 24,829  | (8,838)  | (349.4)    | (135.6) |   |
| EBIT                                     | 537      | 21,596  | (12,113) | (2,357.4)  | (156.1) |   |
| PBT                                      | 585      | 21,610  | (12,023) | (2,156.3)  | (155.6) |   |
| PAT                                      | 314      | 20,701  | (11,329) | (3,707.9)  | (154.7) | We assume HPCL to receive Rs12.9 bn from upstream companies resulting in a net under-recovery of Rs25.7 bn  |
| Extraordinaries                          | —        | 199     | —        | —          | (100.0) |   |
| PAT-reported                             | 314      | 20,900  | (11,329) | (3,707.9)  | (154.2) |   |
| <b>Indian Oil Corporation</b>            |          |         |          |            |         |   |
| Net sales                                | 704,098  | 773,358 | 912,580  | 29.6       | 18.0    | Yoy comparison not meaningful due to fluctuation in timing and quantum of compensation from the government  |
| EBITDA                                   | 27,705   | 68,901  | 3,563    | (87.1)     | (94.8)  |   |
| EBIT                                     | 19,708   | 57,723  | (8,187)  | (141.5)    | (114.2) |   |
| PBT                                      | 22,400   | 61,262  | (312)    | (101.4)    | (100.5) |   |
| PAT                                      | 24,198   | 52,940  | (1,767)  | (107.3)    | (103.3) | We assume IOC to receive Rs30.4 bn from upstream companies resulting in a net under-recovery of Rs60.7 bn   |
| Extraordinaries                          | (17,232) | —       | —        | (100.0)    | —       |   |
| PAT-reported                             | 6,966    | 52,940  | (1,767)  | (125.4)    | (103.3) |   |
| <b>Oil India</b>                         |          |         |          |            |         |   |
| Net sales                                | 20,844   | 24,673  | 25,466   | 22.2       | 3.2     | Higher revenues qoq led by higher net crude price realizations  |
| EBITDA                                   | 11,061   | 13,976  | 14,353   | 29.8       | 2.7     |   |
| EBIT                                     | 9,306    | 12,152  | 12,065   | 29.6       | (0.7)   |   |
| PBT                                      | 11,095   | 13,802  | 14,527   | 30.9       | 5.3     |   |
| PAT                                      | 7,089    | 9,187   | 9,701    | 36.9       | 5.6     | We assume subsidy loss of Rs5.8 bn in 3QFY11E versus Rs4 bn in 2QFY11 and Rs4.7 bn in 3QFY10  |
| Extraordinaries                          | 84       | —       | —        | (100.0)    | —       |   |
| PAT-reported                             | 7,173    | 9,187   | 9,701    | 35.3       | 5.6     |   |
| <b>Oil &amp; Natural Gas Corporation</b> |          |         |          |            |         |   |
| Net sales                                | 155,061  | 184,303 | 189,206  | 22.0       | 2.7     | Sharply higher yoy revenues and net income due to (1) higher net crude price realizations and (2) higher APM gas prices   |
| EBITDA                                   | 93,347   | 113,218 | 122,213  | 30.9       | 7.9     |   |
| EBIT                                     | 46,589   | 69,217  | 78,116   | 67.7       | 12.9    |   |
| PBT                                      | 46,258   | 78,270  | 86,566   | 87.1       | 10.6    |   |
| PAT                                      | 30,536   | 53,888  | 59,507   | 94.9       | 10.4    | We assume (1) subsidy loss of Rs44 bn in 3QFY11E versus Rs30.2 bn in 2QFY11 and Rs35 bn in 3QFY10 and (2) net realised crude price of US\$62.7/bbl versus US\$62.8/bbl in 2QFY11 and US\$57.7/bbl in 3QFY10 |
| Extraordinaries                          | —        | —       | —        | —          | —       |   |
| PAT-reported                             | 30,536   | 53,888  | 59,507   | 94.9       | 10.4    |   |
| <b>Petronet LNG</b>                      |          |         |          |            |         |   |
| Net sales                                | 22,446   | 30,577  | 28,779   | 28.2       | (5.9)   | Yoy increase in net income reflects (1) higher volumes and (2) higher re-gasification tariffs   |
| EBITDA                                   | 2,088    | 2,716   | 2,795    | 33.9       | 2.9     |   |
| EBIT                                     | 1,622    | 2,250   | 2,325    | 43.4       | 3.3     |   |
| PBT                                      | 1,255    | 1,941   | 2,018    | 60.8       | 4.0     |   |
| PAT                                      | 832      | 1,311   | 1,362    | 63.7       | 3.9     | We model volumes at 103 tn BTU versus 99.78 tn BTU in 2QFY11 and 95.24 tn BTU in 3QFY10   |
| Extraordinaries                          | —        | —       | —        | —          | —       |   |
| PAT-reported                             | 832      | 1,311   | 1,362    | 63.7       | 3.9     |   |
| <b>Reliance Industries</b>               |          |         |          |            |         |   |
| Net sales                                | 568,560  | 574,790 | 663,224  | 16.6       | 15.4    | Increase in EBITDA qoq despite lower production from KG D-6 block led by (1) higher chemical prices and margins and (2) higher refining margins   |
| EBITDA                                   | 78,440   | 93,960  | 94,912   | 21.0       | 1.0     |   |
| EBIT                                     | 50,490   | 60,190  | 60,583   | 20.0       | 0.7     |   |
| PBT                                      | 50,070   | 61,490  | 62,221   | 24.3       | 1.2     |   |
| PAT                                      | 40,080   | 49,230  | 49,901   | 24.5       | 1.4     | We assume refining margins at US\$8.7/bbl (including adventitious/inventory losses) for the merged entity in 3QFY11E versus US\$7.9/bbl in 2QFY11 and US\$5.9/bbl in 3QFY10                                 |
| Extraordinaries                          | —        | —       | —        | —          | —       |   |
| PAT-reported                             | 40,080   | 49,230  | 49,901   | 24.5       | 1.4     |   |

Source: Company, Kotak Institutional Equities estimates

## ONGC standalone interim results, March fiscal year-ends (₹ mn)

|                                       | 3QFY11E        | 3QFY10        | 2QFY11         | (% chg.)    |              |
|---------------------------------------|----------------|---------------|----------------|-------------|--------------|
|                                       |                |               |                | 3QFY10      | 2QFY11       |
| Net sales                             | 189,206        | 155,061       | 184,303        | 22.0        | 2.7          |
| Total expenditure                     | (66,993)       | (61,715)      | (71,085)       | 8.6         | (5.8)        |
| Increase/(decrease) in stock in trade | —              | 83            | 49             |             |              |
| Raw materials (a)                     | (1,416)        | (1,342)       | (1,460)        | 5.6         | (3.0)        |
| Trading purchase                      | —              | (46)          | (29)           |             |              |
| Staff expenditure                     | (2,963)        | (3,047)       | (3,059)        | (2.8)       | (3.2)        |
| Statutory levies                      | (37,137)       | (31,033)      | (38,696)       | 19.7        | (4.0)        |
| Other expenditure                     | (25,476)       | (26,330)      | (27,889)       | (3.2)       | (8.6)        |
| <b>EBITDA</b>                         | <b>122,213</b> | <b>93,347</b> | <b>113,218</b> | <b>30.9</b> | <b>7.9</b>   |
| Other income                          | 8,463          | (301)         | 9,062          | (2,908.7)   | (6.6)        |
| Interest                              | (13)           | (29)          | (9)            | (57.0)      | 38.4         |
| DD&A                                  | (44,097)       | (46,758)      | (44,001)       | (5.7)       | 0.2          |
| Depletion                             | (12,815)       | (12,250)      | (12,210)       | 4.6         | 5.0          |
| Depreciation                          | (5,406)        | (3,280)       | (4,990)        | 64.8        | 8.3          |
| Dry wells written off                 | (20,250)       | (24,800)      | (24,410)       | (18.3)      | (17.0)       |
| Survey expenses                       | (5,625)        | (6,440)       | (2,370)        | (12.7)      | 137.3        |
| Impairment loss and other adjustments | —              | 10            | (10)           |             |              |
| <b>Pretax profits</b>                 | <b>86,566</b>  | <b>46,258</b> | <b>78,270</b>  | <b>87.1</b> | <b>10.6</b>  |
| Extraordinary/Prior period adjustment | —              | —             | —              |             |              |
| Tax                                   | (25,603)       | (17,805)      | (22,320)       | 43.8        | 14.7         |
| Deferred tax                          | (1,456)        | 2,083         | (2,063)        |             |              |
| <b>Net income</b>                     | <b>59,507</b>  | <b>30,536</b> | <b>53,888</b>  | <b>94.9</b> | <b>10.4</b>  |
| Tax rate (%)                          | 31.3           | 34.0          | 31.2           |             |              |
| <b>Volume data</b>                    |                |               |                |             |              |
| Subsidy loss                          | 43,978         | 34,970        | 30,191         | 25.8        | 45.7         |
| Crude sales ('000 tons)               | 5,833          | 5,670         | 5,910          | 2.9         | (1.3)        |
| Gas sales (mcm)                       | 5,163          | 5,250         | 5,040          | (1.7)       | 2.4          |
| LPG (000 tons)                        | 275            | 278           | 254            | (1.1)       | 8.3          |
| Naphtha/NGL                           | 390            | 358           | 355            | 9.0         | 9.9          |
| C2/C3                                 | 105            | 139           | 87             | (24.5)      | 20.7         |
| SKO                                   | 41             | 43            | 32             | (3.8)       | 29.3         |
| <b>Pricing data (US\$/bbl)</b>        |                |               |                |             |              |
| Gross crude price realization         | 89.5           | 76.7          | 79.2           | 16.7        | 13.0         |
| Subsidy discount                      | 26.8           | 19.0          | 16.5           | 41.2        | 62.8         |
| <b>Net crude price realization</b>    | <b>62.7</b>    | <b>57.7</b>   | <b>62.8</b>    | <b>8.7</b>  | <b>(0.1)</b> |

Note:

(a) Represents consumption of stores &amp; spares.

Source: Company, Kotak Institutional Equities estimates



Interim results of Reliance Industries , March fiscal year-ends (₹ mn)

|   | 3QFY11E        | 3QFY10         | 2QFY11         | (% chg.)    |             |
|---|----------------|----------------|----------------|-------------|-------------|
|   |                |                |                | 3QFY10      | 2QFY11      |
| <b>Net sales</b>                                      | <b>663,224</b> | <b>568,560</b> | <b>574,790</b> | <b>16.6</b> | <b>15.4</b> |
| Total expenditure                                     | (568,312)      | (490,120)      | (480,830)      | 16.0        | 18.2        |
| Inc/(Dec) in stock                                    | —              | (17,880)       | 3,340          |             |             |
| Raw materials   | (522,066)      | (434,130)      | (438,880)      | 20.3        | 19.0        |
| Staff cost  | (6,875)        | (5,760)        | (6,600)        | 19.4        | 4.2         |
| Other expenditure                                     | (39,371)       | (32,350)       | (38,690)       | 21.7        | 1.8         |
| <b>EBITDA</b>   | <b>94,912</b>  | <b>78,440</b>  | <b>93,960</b>  | <b>21.0</b> | <b>1.0</b>  |
| Other income  | 6,875          | 5,080          | 6,720          | 35.3        | 2.3         |
| Interest  | (5,238)        | (5,500)        | (5,420)        | (4.8)       | (3.4)       |
| Depreciation  | (34,329)       | (27,950)       | (33,770)       | 22.8        | 1.7         |
| <b>Pretax profits</b>                                 | <b>62,221</b>  | <b>50,070</b>  | <b>61,490</b>  | <b>24.3</b> | <b>1.2</b>  |
| Extraordinaries/sales tax benefit                     | —              | —              | —              |             |             |
| Tax   | (12,320)       | (6,990)        | (10,260)       | 76.2        | 20.1        |
| Deferred taxation                                     | —              | (3,000)        | (2,000)        | (100.0)     | (100.0)     |
| <b>Net income</b>                                     | <b>49,901</b>  | <b>40,080</b>  | <b>49,230</b>  | <b>24.5</b> | <b>1.4</b>  |
| Income tax rate (%)                                   | 19.8           | 20.0           | 19.9           |             |             |
| <b>Chemicals production</b>                           |                |                |                |             |             |
| Polymer volumes ('000 tons)                           | 1,129          | 1,086          | 1,069          | 4.0         | 5.6         |
| <b>Refining</b>                                       |                |                |                |             |             |
| Crude throughput (mn tons)                            | 16.9           | 16.6           | 16.9           | 1.5         | (0.2)       |
| Refining margin (US\$/bbl) incl. sales tax incentives | 8.7            | 5.9            | 7.9            | 48.1        | 10.6        |
| Average exchange rate                                 | 44.9           | 46.6           | 46.5           | (3.7)       | (3.5)       |
| <b>E&amp;P</b>  |                |                |                |             |             |
| Crude oil production (000 tons)                       | 370            | 254            | 288            | 45.7        | 28.4        |
| Gas production (bcf)                                  | 170            | 146            | 177            | 16.3        | (4.1)       |
| KG D-6 gas production (mcm/d)                         | 54.5           | 45.7           | 57.9           | 19.4        | (5.8)       |

Source: Company, Kotak Institutional Equities estimates

JANUARY 11, 2011

UPDATE

BSE-30: 19,196

**Spiraling coal prices.** As global coal prices retrace historical peaks—thermal coal at US\$130/ton and coking coal at US\$230/ton, we identify companies that are positioned to ride the commodity rally such as Coal India and Tata Power. We also look closely at companies in the cement and metal space that will likely bear the brunt of inflating input cost. Earnings of cement (India Cement, Ambuja), non-integrated steel (JSW Steel) and power (JSW Energy) sectors will likely be more vulnerable than others.

#### International coal prices surge on cold spell in Europe, flash floods in Australia

International coal prices (both thermal and coking coal) have surged over the past few months on the back of (1) heavy floods in Australia's Queensland region that have disrupted mining activities, (2) forecasts for cold weather in USA and (3) robust manufacturing growth in Asia. While prices of South African thermal coal have reached US\$128/ton, +65% yoy (Richard Bay Index), Australian coking coal has surged to US\$230/ton levels (+32% yoy). We highlight that Australian floods will have a significantly higher impact on prices of coking coal as Queensland is a major global supplier of high quality coking coal.

#### Dependence on imported coal to increase as ramp-up of domestic supplies slows

Dependence on imported coal will likely increase from 68 mtpa currently as supplies from CIL and captive coal blocks will fall short of the overall requirement. For FY2011, CIL has achieved production of 55.6% of full year target (as of November 2010) hampered by environmental hurdles on development of new coal blocks and a cramped railway infrastructure. We note that as per the prevailing coal distribution policy, power sector is accorded a priority over cement and steel for allocation of domestic supplies, which makes the latter more dependent on supplementing coal requirement through high-priced coal imports.

#### Align with resource owners, avoid the dependants—pretty straight forward

In a scenario of spiraling prices of imported coal, we recommend companies with own large coal resources (Tata Power, Coal India Ltd), or are less dependent on imports compared to peers and will benefit from the cost-push inflation in realizations. We avoid companies with a large dependence on imported coal for their operations (JSW Steel, India Cement). We note that power, steel and cement (in that order) are high coal consuming industries, though power utilities are largely insulated from inflating fuel cost due to the cost-plus nature of their operations, which makes the latter two industries more vulnerable.

#### Utilities – selective impact contingent on fuel and sale mix

Power utilities have traditionally adopted the cost-plus tariff framework that insulates their earnings from volatility in input costs. However, spiraling input costs could pare the profitability of merchant power plants, especially those that are dependent on the purchase of coal from the open markets or imports. JSW Energy amongst the listed space, currently imports majority of its coal requirements through the open market and sells the output through the short-term market. JSW Energy needs 6 mtpa of imported coal for its operations at Vijay Nagar (860 MW) and Ratnagiri (300 MW). Amongst the other listed players with significant merchant exposure, both Lanco Infratech and Adani Power will have negligible impact of rising prices of imported coal as their merchant capacities are either based on domestic coal or gas (Lanco) or contracted imported coal (Adani Power).

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Contrary to the business model of power utilities, Tata Power benefits from rising prices of imported coal due to its 30% ownership in the coal mines jointly owned with PT Bumi Resources. We highlight that Tata Power's fair value increases by ~Rs87/share for every US\$10/ton increase in the price of imported coal, and we see significant upside to our sustainable coal price assumption of US\$65/ton, in stark comparison to the spot price of US\$128/ton.

**Exhibit 1: US\$10/ton increase in price could add ~Rs87/share to our target price of TPWR**  
Sensitivity of fair value of TPWR to blended realization of Bumi Resources

| Cost of equity (%) | Target price                               |              |              |              |              |
|--------------------|--|--------------|--------------|--------------|--------------|
|                    | Blended sustainable realization (US\$/ton) |              |              |              |              |
|                    | 40   | 55           | 65           | 75           | 80           |
| 8.0                | 1,207                                      | 1,367        | 1,474        | 1,581        | 1,635        |
| <b>10.0</b>        | <b>1,204</b>                               | <b>1,334</b> | <b>1,420</b> | <b>1,507</b> | <b>1,550</b> |
| 12.0               | 1,202                                      | 1,312        | 1,385        | 1,458        | 1,494        |
| 14.0               | 1,201                                      | 1,296        | 1,360        | 1,423        | 1,455        |

Source: Company (TPWR), Kotak Institutional Equities estimates

**Exhibit 2: JSW Energy to be the worst impacted amongst utilities**

Fuel and sales mix of JSW Energy, Lanco and Adani Power for capacities dependent on imported coal

|                    | Capacity (MW) | Fuel source (near term)                                    | Sale mix (%) |     |          | Remarks  |
|--------------------|---------------|--|--------------|-----|----------|--|
|                    |               |  | Regulated    | Bid | Merchant |  |
| <b>JSW Energy</b>  |               |  |              |     |          |  |
| JSWEL-SBU I        | 260           | Spot purchase of SA coal + Corex gas                       | —            | —   | 100      | Large dependence on spot purchase  |
| JSWEL-SBU II       | 600           | Spot purchase of SA coal + Sungai Belati coal + SACMH coal | —            | —   | 100      | Large near-term dependence as delays in ramp up of Sungai Belati mines     |
| Ratnagiri I        | 300           | Spot purchase of SA coal + Sungai Belati coal              | —            | —   | 75       | Large near-term dependence as delays in ramp up of Sungai Belati mines     |
| Barmer             | 270           | Spot purchase of SA coal + Tapering linkage                | 100          | —   | —        | Insulated as sale is through regulated route                               |
| <b>Adani Power</b> |               |  |              |     |          |  |
| Mundra I&II        | 1330          | 70% imported coal from Bunyu + 30% domestic                | —            | 82  | 18       | No fuel pass through in bid but coal contracted at US\$36/ton (CIF Mundra) |
| Mundra III         | 1330          | 70% imported coal from Bunyu + 30% domestic                | —            | 82  | 18       | No fuel pass through in bid but coal contracted at US\$36/ton (CIF Mundra) |
| Mundra IV          | 1980          | 70% domestic coal + 30% imported coal from Bunyu           | —            | 76  | 24       | No fuel pass through in bid but coal contracted at US\$36/ton (CIF Mundra) |
| <b>Lanco</b>       |               |  |              |     |          |  |
| Udupi              | 1200          | Imported Indonesian coal                                   | 100          | —   | —        | Insulated as sale is through regulated route                               |

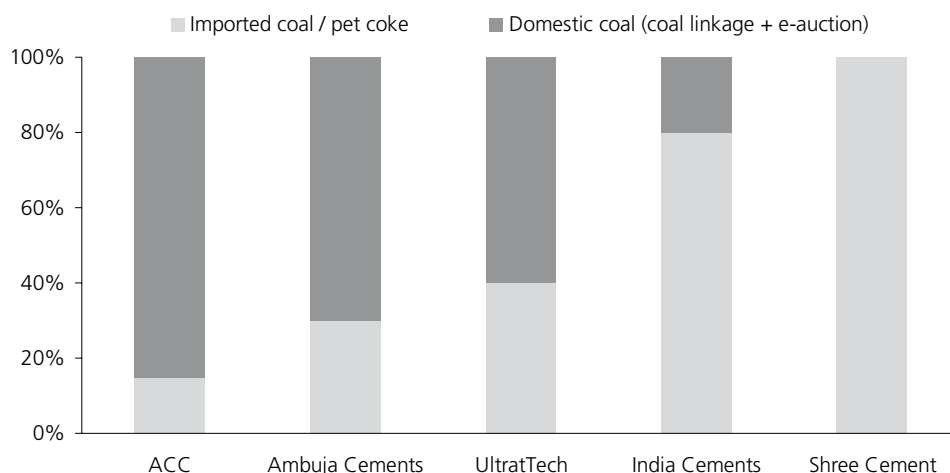
Source: Company, Kotak Institutional Equities estimates

### Cement – companies with large exposure to imported coal to be worse off

Ambuja, India Cement and Ultratech have higher exposure to imported coal due to coastal location of their plants that facilitates more imports. India Cements, with ~80% of its coal being imported, will be the worst impacted while the impact will be muted for ACC due to its relatively lower dependence on imported coal. We highlight that a 10% increase in price of imported coal could impact FY2012E EPS of India Cements by ~31%. We also note that Shree Cements, with almost 100% dependence on pet coke, will be severely impacted as pet coke (used for both cement and power capacities) prices tend to follow the pricing trends of global coal market.

Cement companies consume ~0.2 mn tons of thermal coal per ton of cement production—both directly in the kiln as well as indirectly through the captive power plant. Companies have varying exposures to imported coal, depending on the location of their plant and pricing and availability of coal.

Exhibit 3: India Cements and Shree Cements most impacted by surge in global commodity prices  
Mix of coal sourcing for cement companies under coverage (%)



Source: Kotak Institutional Equities estimates

### Coal India – benefit to accrue from better e-auction realizations

A 10% improvement blended realizations could increase CIL's target price by Rs84/share and FY2012E EPS by 29%. Although CIL sells ~85% of its coal at notified prices (linked largely to its own cost structure), benefits of surging global coal prices could accrue from improved realizations in (1) sale of coal through e-auction route (~10% of total volumes), pricing for which is more aligned with prevalent demand supply dynamics and (2) sale of high grade thermal and coking coal to select consumers, pricing for which is linked to import parity prices.

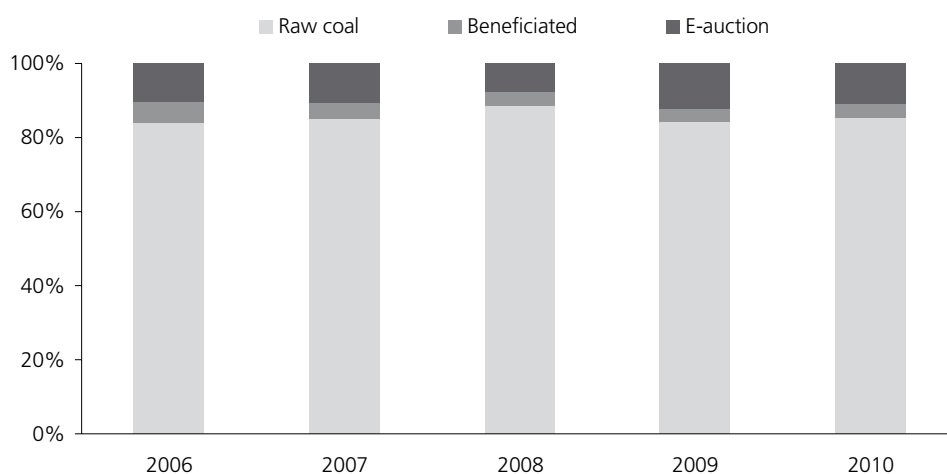
We note that the spiraling prices of imported coal have given rise to speculation of a revision in base notified prices, since the last price revision took place in end-CY2009 and is likely due in CY2011.

Exhibit 4: A 20% improvement blended realizations could increase CIL's target price by Rs175/share  
Sensitivity of target price to blended realization and P/E multiple

|                        | Target price                            |       |       |       |       |
|------------------------|---|-------|-------|-------|-------|
|                        | Blended realization in FY2012E (Rs/ton) |       |       |       |       |
|                        | -20%                                    | -10%  | Base  | +10%  | +20%  |
|                        | 985                                     | 1,094 | 1,216 | 1,338 | 1,471 |
| P/E on FY2012E EPS (X) |   |       |       |       |       |
| 10.0                   | 163                                     | 225   | 294   | 362   | 438   |
| 11.0                   | 173                                     | 240   | 314   | 389   | 471   |
| 12.5                   | 187                                     | 262   | 345   | 429   | 521   |
| 14.0                   | 201                                     | 284   | 377   | 469   | 571   |
| 15.0                   | 210                                     | 299   | 397   | 496   | 604   |

Source: Company (CIL), Kotak Institutional Equities estimates

**Exhibit 5: CIL sells ~85% of its output at notified prices**  
Sales mix of CIL, March fiscal year-ends, 2006-10 (%)



Source: Company (CIL), Kotak Institutional Equities

### Metals— companies with steel production through BF-BOF route to be impacted severely.

All domestic steel companies are reliant either partially or fully on importing coking coal to meet their captive needs with Australia being the main exporter. Australia accounts for 2/3<sup>rd</sup> of the global seaborne trade in met coke with Queensland being the dominant export region. Seasonal dip in met coke from Australia in the first quarter is common (Exhibit 6). However, the current disruption is earlier than usual (quite common for disruptions in February).

The recent floods in Queensland have impacted both the coal mines and railways, which bring the coal to the ports for the purpose of export thereby hindering supply. Leading miners i.e. Rio Tinto and BHP Billiton, have already invoked *force majeure* clauses in their contracts. We understand that most of the Indian players have adequate inventory to run production till mid March 2011. A US\$10/ ton increase in coking coal prices impact profitability by US\$6-7/ ton; companies with low profitability and steel production through BF-BOF route will be impacted severely.

JSW Steel has no captive sources of coking coal and is dependant on external sources to meet its requirements. The impact on JSPL will be lower since it uses a mix of DRI and pig iron in EAF for its steel production.

**Exhibit 6: Seasonal dip in met coke from Australia in the first quarter is common**  
Seasonal trend in coal exports from Australia, 1QCY2008 - 3QCY2010 ('000 tons)

|                                   | Q1 2008     | Q2 2008     | Q3 2008     | Q4 2008     | Q1 2009     | Q2 2009     | Q3 2009     | Q4 2009     | Q1 2010     | Q2 2010     | Q3 2010     |
|-----------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Australia coal exports</b>     |             |             |             |             |             |             |             |             |             |             |             |
| Hard Coking Coal                  | 17,669      | 22,949      | 23,115      | 20,116      | 15,555      | 20,844      | 24,343      | 23,741      | 20,989      | 28,120      | 25,940      |
| Semi Soft Coal and PCI Coal       | 11,898      | 13,734      | 13,147      | 12,029      | 8,188       | 12,201      | 14,403      | 15,174      | 14,085      | 15,498      | 14,014      |
| Total                             | 29,567      | 36,683      | 36,262      | 32,145      | 23,743      | 33,045      | 38,746      | 38,915      | 35,074      | 43,618      | 39,954      |
| <b>(as a % of yearly exports)</b> | <b>22.0</b> | <b>27.2</b> | <b>26.9</b> | <b>23.9</b> | <b>17.7</b> | <b>24.6</b> | <b>28.8</b> | <b>28.9</b> | <b>29.6</b> | <b>36.8</b> | <b>33.7</b> |

Note:

1. Export data is available upto 3Q CY2010

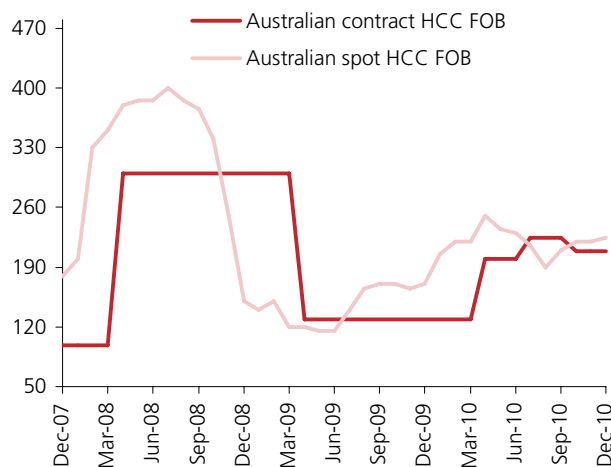
Source: CRU, Kotak Institutional Equities

Exhibit 7: South African thermal coal has reached US\$128/ton  
Coal prices at Richard Bay (US\$/ton)



Source: Bloomberg, Kotak Institutional Equities

Exhibit 8: Australian coal prices, December fiscal year-ends (US\$/ton)



Source: CRU, Kotak Institutional Equities

Exhibit 9: Domestic coal supplies will have to increase at a CAGR of 11% per annum to meet the increased demand from the power sector

Details of demand and supply for coal, March fiscal year-ends, 2002-12E (mn tons)

|                 | 2002       | 2007       | 2008        | 2009        | 2010        | 2012E       | CAGR (%)    |              |
|-----------------|------------|------------|-------------|-------------|-------------|-------------|-------------|--------------|
|                 |            |            |             |             |             |             | 2002-10     | 2010-12E     |
| <b>Demand</b>   |            |            |             |             |             |             |             |              |
| Power           | 243        | 298        | 364         | 416         | 455         | 520         | 8.2         | 6.9          |
| Other           | 83         | 123        | 129         | 139         | 149         | 193         | 7.6         | 13.8         |
| <b>Total</b>    | <b>326</b> | <b>421</b> | <b>493</b>  | <b>555</b>  | <b>604</b>  | <b>713</b>  | <b>8.0</b>  | <b>8.6</b>   |
| <b>Supply</b>   |            |            |             |             |             |             |             |              |
| CIL             | 280        | 361        | 386         | 401         | 415         | 487         | 5.0         | 8.3          |
| SCCL            | 31         | 38         | 41          | 44          | 49          | 47          | 6.0         | (2.3)        |
| Others          | 12         | 32         | 37          | 44          | 49          | 96          | 19.1        | 40.0         |
| <b>Domestic</b> | <b>323</b> | <b>431</b> | <b>463</b>  | <b>489</b>  | <b>513</b>  | <b>630</b>  | <b>6.0</b>  | <b>10.8</b>  |
| <b>Gap</b>      | <b>(3)</b> | <b>10</b>  | <b>(29)</b> | <b>(66)</b> | <b>(91)</b> | <b>(83)</b> | <b>52.3</b> | <b>(4.4)</b> |

Notes:

Gap between demand and domestic supply of 91 mn tons was partially met by 68 mn tons of imports in FY2010

Source: Ministry of Coal, Kotak Institutional Equities

Exhibit 10: Summary valuation of Coal India, Utilities, Cement and Metal and Mining companies

|                           | Mkt Cap<br>(US\$ bn) | Price<br>11-Jan | Rating | Target<br>Price | EV/EBITDA (X) |       |       | P/E (X) |       |       | P/B (X) |       |       |
|---------------------------|----------------------|-----------------|--------|-----------------|---------------|-------|-------|---------|-------|-------|---------|-------|-------|
|                           |                      |                 |        |                 | 2010          | 2011E | 2012E | 2010    | 2011E | 2012E | 2010    | 2011E | 2012E |
| <b>Coal</b>               |                      |                 |        |                 |               |       |       |         |       |       |         |       |       |
| Coal India Ltd            | 43.9                 | 309             | ADD    | 345             | 13.8          | 11.3  | 9.7   | 20.3    | 17.4  | 14.9  | 7.6     | 6.0   | 4.8   |
| Coal India Ltd (adjusted) | 43.9                 | 309             | ADD    | 345             | 10.9          | 9.3   | 8.0   | 15.8    | 12.6  | 10.8  |         |       |       |
| <b>Utilities</b>          |                      |                 |        |                 |               |       |       |         |       |       |         |       |       |
| Reliance Infrastructure   | 4.4                  | 803             | BUY    | 1,060           | 14.7          | 13.0  | 9.0   | 13.0    | 12.4  | 9.5   | 1.0     | 0.9   | 0.9   |
| Tata Power                | 7.5                  | 1,371           | ADD    | 1,420           | 13.9          | 12.4  | 10.7  | 22.8    | 19.8  | 15.5  | 2.6     | 2.3   | 2.1   |
| CESC                      | 1.0                  | 364             | BUY    | 480             | 7.7           | 5.9   | 5.1   | 10.3    | 8.6   | 8.0   | 1.4     | 1.2   | 1.1   |
| NTPC                      | 34.6                 | 190             | ADD    | 195             | 13.5          | 11.9  | 10.0  | 17.6    | 15.2  | 12.9  | 2.4     | 2.2   | 2.0   |
| Lanco Infratech           | 2.9                  | 55              | BUY    | 80              | 27.3          | 9.9   | 7.8   | 30.4    | 16.2  | 12.0  | 3.9     | 3.1   | 2.4   |
| Reliance Power            | 7.9                  | 148             | SELL   | 135             | 909.0         | 90.8  | 30.1  | 60.1    | 48.4  | 27.4  | 2.5     | 2.4   | 2.2   |
| Adani Power               | 5.9                  | 123             | ADD    | 143             | 147.9         | 22.4  | 6.2   | 150.7   | 25.7  | 6.4   | 4.6     | 3.8   | 2.2   |
| NHPC                      | 7.4                  | 27              | SELL   | 28              | 10.2          | 12.0  | 9.1   | 14.6    | 20.3  | 16.8  | 1.4     | 1.3   | 1.2   |
| <b>Cement</b>             |                      |                 |        |                 |               |       |       |         |       |       |         |       |       |
| ACC                       | 4.4                  | 1,029           | REDUCE | 940             | 6.6           | 8.6   | 7.0   | 12.4    | 18.3  | 16.2  | 3.0     | 2.7   | 2.4   |
| Ambuja Cements            | 4.3                  | 126             | SELL   | 108             | 8.4           | 8.3   | 6.9   | 15.8    | 15.6  | 14.1  | 2.8     | 2.4   | 2.2   |
| Grasim Industries         | 4.8                  | 2,315           | ADD    | 2,500           | 4.8           | 5.9   | 4.4   | 7.7     | 11.9  | 9.7   | 1.7     | 1.5   | 1.3   |
| India Cements             | 0.7                  | 103             | SELL   | 95              | 6.1           | 9.2   | 7.0   | 10.3    | 19.7  | 13.1  | 0.8     | 0.7   | 0.7   |
| Jaiprakash Associates     | 4.7                  | 95              | BUY    | 155             | 17.8          | 13.2  | 10.1  | 54.1    | 21.4  | 15.1  | 2.5     | 2.2   | 1.9   |
| Shree Cement              | 1.5                  | 1,873           | BUY    | 2,400           | 4.1           | 4.4   | 2.6   | 9.0     | 12.3  | 7.8   | 3.6     | 2.9   | 2.2   |
| UltraTech Cement          | 6.3                  | 1,014           | REDUCE | 1,070           | 6.0           | 9.1   | 5.4   | 11.5    | 18.6  | 10.9  | 2.3     | 2.2   | 1.9   |
| <b>Metals</b>             |                      |                 |        |                 |               |       |       |         |       |       |         |       |       |
| Hindalco Industries       | 9.8                  | 231             | ADD    | 255             | 6.0           | 8.2   | 8.3   | 11.5    | 15.4  | 13.7  | 2.0     | 1.8   | 1.6   |
| Hindustan Zinc            | 12.8                 | 1,372           | BUY    | 1,430           | 9.6           | 8.6   | 5.9   | 14.3    | 14.4  | 11.8  | 3.2     | 2.7   | 2.2   |
| Jindal Steel and Power    | 13.9                 | 676             | REDUCE | 625             | 12.4          | 10.4  | 7.8   | 17.7    | 15.2  | 12.4  | 5.6     | 3.7   | 2.9   |
| JSW Steel                 | 5.2                  | 942             | REDUCE | 1,115           | 9.6           | 8.2   | 5.5   | 11.7    | 12.8  | 8.7   | 2.2     | 1.5   | 1.2   |
| National Aluminium Co.    | 5.3                  | 373             | SELL   | 285             | 18.0          | 11.5  | 9.9   | 29.5    | 22.0  | 19.6  | 1.3     | 1.3   | 1.2   |
| Sesa Goa                  | 6.5                  | 332             | REDUCE | 300             | 7.2           | 3.5   | 5.5   | 11.2    | 6.0   | 6.2   | 3.7     | 2.4   | 1.7   |
| Sterlite Industries       | 12.7                 | 171             | BUY    | 200             | 7.5           | 5.9   | 3.4   | 14.2    | 12.5  | 9.4   | 1.6     | 1.4   | 1.2   |
| Tata Steel                | 13.7                 | 647             | BUY    | 725             | 13.3          | 6.8   | 5.9   | NM      | 9.8   | 8.7   | 7.1     | 3.6   | 2.7   |

## Notes:

(1) Adjusted multiples of CIL are calculated after removing the effect of OBR adjustment and interest income

Source: Bloomberg, Kotak Institutional Equities estimates

## December 2010: Results calendar

| Mon                 | Tue                    | Wed                      | Thu             | Fri                        | Sat                       |
|---------------------|------------------------|--------------------------|-----------------|----------------------------|---------------------------|
| <b>10-Jan</b>       | <b>11-Jan</b>          | <b>12-Jan</b>            | <b>13-Jan</b>   | <b>14-Jan</b>              | <b>15-Jan</b>             |
|                     |                        | Coromandel International | CMC             | Godrej Properties          | Jaiprakash Power Ventures |
|                     |                        | Geojit BNP               | Infosys         | HDFC                       |                           |
|                     |                        |                          | SAIL            | HMVL                       |                           |
|                     |                        |                          | Sintex          | REI Agro                   |                           |
|                     |                        |                          |                 | Zee Entertainment          |                           |
| <b>17-Jan</b>       | <b>18-Jan</b>          | <b>19-Jan</b>            | <b>20-Jan</b>   | <b>21-Jan</b>              | <b>22-Jan</b>             |
| Axis Bank           | Bajaj Finserv          | Bajaj Auto               | Biocon          | Bank of India              | Ashok Leyland             |
| Essar Oil           | Cadila Healthcare      | Bajaj Holdings           | JSW Energy      | BHEL                       |                           |
| Indusind Bank       | Container Corp         | Gail India               | TVS Motor       | Hindustan Construction Co. |                           |
| Larsen & Toubro     | Exide industries       | HCL Technologies         | Yes Bank        | Punjab National Bank       |                           |
| Power Finance Corp. | HT Media               | Hindustan Zinc           |                 | Tech Mahindra              |                           |
| TCS                 | Indiabulls Real Estate | LIC Housing Finance      |                 | Wipro                      |                           |
|                     | Mindtree               |                          |                 |                            |                           |
|                     | Opto Circuits          |                          |                 |                            |                           |
|                     | Petronet LNG           |                          |                 |                            |                           |
| <b>24-Jan</b>       | <b>25-Jan</b>          | <b>26-Jan</b>            | <b>27-Jan</b>   | <b>28-Jan</b>              | <b>29-Jan</b>             |
| Asian Paints        | Dr Reddys Laboratories |                          | HDFC Bank       | Bharat Electronics         | Maruti Suzuki             |
| Century Textiles    | IOCL                   |                          | HPCL            | Procter & Gamble           |                           |
| Godrej Industries   |                        |                          | Neyveli Lignite | Siemens                    |                           |
| ICICI Bank          |                        |                          | Tata Chemicals  | Titan Industries           |                           |
| Sesa Goa            |                        |                          | Thermax         |                            |                           |
| <b>31-Jan</b>       | <b>1-Feb</b>           | <b>2-Feb</b>             | <b>3-Feb</b>    | <b>4-Feb</b>               | <b>5-Feb</b>              |
| BPCL                |                        |                          |                 |                            |                           |
| Colgate Palmolive   |                        |                          |                 |                            |                           |
| Dabur India         |                        |                          |                 |                            |                           |
| IDFC                |                        |                          |                 |                            |                           |
| Shree Cement        |                        |                          |                 |                            |                           |
| <b>7-Feb</b>        | <b>8-Feb</b>           | <b>9-Feb</b>             | <b>10-Feb</b>   | <b>11-Feb</b>              | <b>12-Feb</b>             |
| Lanco Infratech     |                        | Mahindra & Mahindra      |                 |                            |                           |

Source: BSE, Kotak Institutional Equities



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

| Company                             | 11-Jan-11  |                   | 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)      |                 | 2010     | 2011E | 2012E | 2010           | 2011E        | 2012E       | 2010        | 2011E       | 2012E       | 2010          | 2011E      | 2012E      | 2010         | 2011E      | 2012E      | 2010               | 2011E      | 2012E      | 2010        | 2011E       | 2012E       |                   |            |                    |
| <b>Automobiles</b>                  |            |                   |                  |                |                 |          |       |       |                |              |             |             |             |             |               |            |            |              |            |            |                    |            |            |             |             |             |                   |            |                    |
| Ashok Leyland                       | 59         | SELL              | 39,339           | 874            | 665             | 18.5     | 133.2 | 143.8 | (141.1)        | 621.6        | 7.9         | 3.2         | 0.4         | 0.4         | 3.7           | 1.7        | 1.5        | 0.5          | 0.2        | 0.1        | 21.8               | 9.6        | 9.6        | 15.3        | 60.7        | 37.4        | 60                | 1.4        | 7.7                |
| Bajaj Auto                          | 1,306      | REDUCE            | 867,651          | 19,273         | 665             | 18.5     | 133.2 | 143.8 | (141.1)        | 621.6        | 7.9         | 7.0         | 9.8         | 9.1         | 13.9          | 6.9        | 6.3        | 10.3         | 4.1        | 2.9        | 1.0                | 0.4        | 0.4        | 15.3        | 60.7        | 37.4        | 1,462             | 12.0       | 20.6               |
| Bharat Forge                        | 348        | ADD               | 83,240           | 1,849          | 239             | 0.1      | 12.1  | 19.6  | (98.7)         | 11,693       | 61.5        | 3,383.5     | 28.7        | 17.8        | 25.6          | 12.2       | 8.3        | 5.3          | 3.9        | 3.2        | —                  | —          | —          | 5.2         | 8.0         | 16.2        | 400               | 14.9       | 4.0                |
| Hero Honda                          | 1,846      | REDUCE            | 368,546          | 8,186          | 200             | 111.8    | 103.3 | 110.6 | 73.9           | (7.6)        | 7.2         | 16.5        | 17.9        | 16.7        | 10.4          | 11.4       | 10.1       | 10.2         | 7.4        | 5.7        | 1.6                | 1.6        | 1.6        | 59.0        | 48.0        | 38.6        | 1,494             | (19.0)     | 33.0               |
| Mahindra & Mahindra                 | 735        | BUY               | 439,287          | 9,758          | 598             | 33.9     | 45.9  | 51.8  | 125.8          | 35.4         | 12.9        | 21.7        | 16.0        | 14.2        | 14.3          | 11.4       | 9.9        | 5.4          | 4.0        | 3.3        | 1.3                | 1.3        | 1.4        | 30.0        | 28.8        | 25.4        | 875               | 19.1       | 35.4               |
| Maruti Suzuki                       | 1,318      | BUY               | 380,913          | 8,461          | 289             | 86.4     | 80.5  | 95.0  | 105.0          | (6.8)        | 18.0        | 15.3        | 16.4        | 13.9        | 8.1           | 8.4        | 6.9        | 3.2          | 2.7        | 2.3        | 0.5                | 0.4        | 0.5        | 23.3        | 17.8        | 17.7        | 1,701             | 29.0       | 12.8               |
| Tata Motors                         | 1,158      | ADD               | 769,536          | 17,093         | 665             | 18.5     | 133.2 | 143.8 | (141.1)        | 621.6        | 7.9         | 62.7        | 8.7         | 8.1         | 12.7          | 6.3        | 5.7        | 9.1          | 3.6        | 2.5        | 1.1                | 0.5        | 0.5        | 15.3        | 60.7        | 37.4        | 1,235             | 6.6        | 105.5              |
| <b>Automobiles</b>                  |            | <b>Cautious</b>   | <b>2,948,514</b> | <b>65,493</b>  |                 |          |       |       | <b>(433.4)</b> | <b>240.3</b> | <b>9.4</b>  | <b>29.5</b> | <b>8.7</b>  | <b>7.9</b>  | <b>10.4</b>   | <b>6.0</b> | <b>5.4</b> | <b>5.8</b>   | <b>3.1</b> | <b>2.3</b> | <b>1.3</b>         | <b>0.8</b> | <b>0.9</b> | <b>19.8</b> | <b>35.5</b> | <b>28.6</b> |                   |            |                    |
| <b>Banks/Financial Institutions</b> |            |                   |                  |                |                 |          |       |       |                |              |             |             |             |             |               |            |            |              |            |            |                    |            |            |             |             |             |                   |            |                    |
| Andhra Bank                         | 134        | BUY               | 65,063           | 1,445          | 485             | 21.6     | 24.0  | 26.7  | 60.1           | 11.5         | 11.1        | 6.2         | 5.6         | 5.0         | —             | —          | —          | 1.5          | 1.2        | 1.0        | 3.7                | 4.2        | 4.6        | 26.0        | 24.1        | 22.6        | 210               | 56.5       | 5.9                |
| Axis Bank                           | 1,300      | ADD               | 526,807          | 11,702         | 405             | 62.1     | 78.6  | 99.9  | 22.7           | 26.6         | 27.2        | 21.0        | 16.6        | 13.0        | —             | —          | —          | 3.3          | 2.8        | 2.4        | 0.9                | 1.2        | 1.5        | 19.2        | 18.4        | 20.2        | 1,700             | 30.7       | 51.9               |
| Bank of Baroda                      | 860        | BUY               | 314,317          | 6,982          | 366             | 83.7     | 103.0 | 121.2 | 37.3           | 23.1         | 17.7        | 10.3        | 8.3         | 7.1         | —             | —          | —          | 2.3          | 1.9        | 1.6        | 1.7                | 2.1        | 2.5        | 24.4        | 24.7        | 24.0        | 1,250             | 45.4       | 9.8                |
| Bank of India                       | 442        | ADD               | 232,191          | 5,158          | 526             | 33.1     | 56.3  | 63.2  | (42.1)         | 70.2         | 12.2        | 13.3        | 7.8         | 7.0         | —             | —          | —          | 1.8          | 1.5        | 1.3        | 1.6                | 2.7        | 3.0        | 14.2        | 21.3        | 20.4        | 580               | 31.4       | 17.6               |
| Canara Bank                         | 586        | ADD               | 240,076          | 5,333          | 410             | 73.7     | 90.7  | 102.8 | 45.8           | 23.1         | 13.4        | 7.9         | 6.5         | 5.7         | —             | —          | —          | 1.9          | 1.5        | 1.2        | 1.7                | 1.7        | 2.0        | 22.5        | 22.8        | 21.4        | 740               | 26.4       | 23.1               |
| Corporation Bank                    | 556        | ADD               | 79,759           | 1,772          | 143             | 82.0     | 86.7  | 100.7 | 31.8           | 5.7          | 16.2        | 6.8         | 6.4         | 5.5         | —             | —          | —          | 1.4          | 1.2        | 1.0        | 3.0                | 3.1        | 3.6        | 22.0        | 19.9        | 19.9        | 800               | 43.9       | 1.5                |
| Federal Bank                        | 376        | ADD               | 64,326           | 1,429          | 171             | 27.2     | 34.7  | 47.2  | (7.1)          | 27.7         | 35.9        | 13.8        | 10.8        | 8.0         | —             | —          | —          | 1.4          | 1.2        | 1.1        | 1.3                | 1.7        | 2.3        | 10.3        | 10.2        | 14.7        | 530               | 40.9       | 7.3                |
| HDFC                                | 659        | REDUCE            | 946,530          | 21,025         | 1,436           | 19.7     | 24.0  | 28.1  | 22.7           | 21.8         | 17.2        | 33.5        | 27.5        | 23.5        | —             | —          | —          | 6.2          | 5.5        | 4.8        | 1.1                | 1.3        | 1.5        | 20.0        | 21.0        | 19.9        | 720               | 9.2        | 47.0               |
| HDFC Bank                           | 2,147      | ADD               | 982,592          | 21,826         | 458             | 64.4     | 84.9  | 109.9 | 22.1           | 31.8         | 29.5        | 33.3        | 25.3        | 19.5        | —             | —          | —          | 4.6          | 4.0        | 3.4        | 0.6                | 0.7        | 1.0        | 16.1        | 16.9        | 19.0        | 2,500             | 16.5       | 42.4               |
| ICICI Bank                          | 1,023      | ADD               | 1,177,302        | 26,151         | 1,151           | 36.1     | 45.0  | 58.0  | 6.9            | 24.6         | 29.0        | 28.3        | 22.7        | 17.6        | —             | —          | —          | 2.3          | 2.1        | 2.0        | 1.1                | 1.3        | 1.7        | 8.0         | 9.7         | 11.6        | 1,230             | 20.2       | 115.1              |
| IDFC                                | 161        | ADD               | 235,451          | 5,230          | 1,458           | 8.4      | 9.6   | 11.5  | 44.9           | 14.1         | 20.4        | 19.2        | 16.9        | 14.0        | —             | —          | —          | 3.4          | 2.2        | 1.8        | 0.8                | 1.1        | 1.4        | 16.6        | 15.7        | 14.6        | 220               | 36.3       | 25.7               |
| India Infoline                      | 78         | BUY               | 24,242           | 538            | 312             | 8.1      | 7.5   | 8.8   | 59.2           | (8.0)        | 17.1        | 9.6         | 10.4        | 8.9         | —             | —          | —          | 1.5          | 1.3        | 1.1        | 4.1                | 2.1        | 2.6        | 14.7        | 13.3        | 14.3        | 130               | 67.2       | 4.6                |
| Indian Bank                         | 218        | ADD               | 93,776           | 2,083          | 430             | 35.1     | 35.7  | 44.9  | 25.5           | 1.6          | 25.9        | 6.2         | 6.1         | 4.9         | —             | —          | —          | 1.4          | 1.2        | 1.0        | 3.0                | 2.9        | 3.7        | 24.1        | 20.5        | 21.8        | 350               | 60.4       | 3.8                |
| Indian Overseas Bank                | 131        | BUY               | 71,505           | 1,588          | 545             | 13.0     | 16.8  | 24.1  | (46.7)         | 29.8         | 43.2        | 10.1        | 7.8         | 5.4         | —             | —          | —          | 1.1          | 1.0        | 0.9        | 2.7                | 2.9        | 3.2        | 9.6         | 11.6        | 15.0        | 200               | 52.4       | 4.5                |
| J&K Bank                            | 729        | ADD               | 35,348           | 785            | 48              | 105.7    | 123.0 | 143.9 | 25.0           | 16.4         | 17.0        | 6.9         | 5.9         | 5.1         | —             | —          | —          | 1.2          | 1.1        | 0.9        | 3.0                | 3.5        | 4.1        | 18.2        | 18.4        | 18.7        | 1,000             | 37.2       | 1.9                |
| LIC Housing Finance                 | 169        | ADD               | 80,314           | 1,784          | 475             | 13.9     | 21.4  | 21.1  | 11.5           | 53.7         | (1.4)       | 12.1        | 7.9         | 8.0         | —             | —          | —          | 2.5          | 2.0        | 1.7        | 1.8                | 2.7        | 2.7        | 23.6        | 27.0        | 22.2        | 206               | 21.8       | 64.4               |
| Mahindra & Mahindra Financial       | 641        | NR                | 61,536           | 1,367          | 96              | 35.9     | 51.3  | 60.3  | 60.0           | 43.0         | 17.5        | 17.9        | 12.5        | 10.6        | —             | —          | —          | 3.6          | 3.0        | 2.5        | 1.2                | 1.7        | 2.0        | 21.5        | 25.7        | 25.0        | —                 | —          | 4.9                |
| Oriental Bank of Commerce           | 362        | ADD               | 90,796           | 2,017          | 251             | 45.3     | 59.0  | 65.8  | 25.3           | 30.2         | 11.6        | 8.0         | 6.1         | 5.5         | —             | —          | —          | 1.2          | 1.1        | 0.9        | 2.5                | 3.3        | 3.6        | 14.5        | 16.8        | 16.6        | 580               | 60.0       | 9.2                |
| PFC                                 | 288        | REDUCE            | 330,558          | 7,342          | 1,148           | 20.5     | 24.1  | 28.7  | 54.0           | 17.5         | 19.1        | 14.0        | 11.9        | 10.0        | —             | —          | —          | 2.6          | 2.2        | 1.9        | 1.6                | 1.7        | 2.0        | 19.0        | 19.3        | 19.8        | 325               | 12.8       | 3.8                |
| Punjab National Bank                | 1,174      | BUY               | 370,228          | 8,224          | 315             | 123.9    | 139.8 | 165.9 | 26.4           | 12.9         | 18.6        | 9.5         | 8.4         | 7.1         | —             | —          | —          | 2.2          | 1.9        | 1.6        | 1.9                | 2.4        | 2.9        | 26.2        | 24.2        | 23.9        | 1,500             | 27.7       | 10.6               |
| Reliance Capital                    | 608        | REDUCE            | 149,641          | 3,324          | 246             | 13.7     | 13.0  | 14.5  | (65.2)         | (4.7)        | 11.5        | 44.4        | 46.7        | 41.9        | —             | —          | —          | 2.2          | 2.1        | 2.1        | 1.1                | 0.9        | 1.0        | 5.2         | 4.6         | 5.0         | 800               | 31.6       | 23.5               |
| Rural Electrification Corp.         | 271        | REDUCE            | 267,138          | 5,934          | 987             | 20.3     | 25.7  | 30.0  | 23.2           | 26.7         | 16.9        | 13.3        | 10.5        | 9.0         | —             | —          | —          | 2.4          | 2.1        | 1.8        | 2.4                | 2.8        | 3.3        | 22.0        | 21.3        | 21.7        | 300               | 10.9       | 18.4               |
| Shriram Transport                   | 710        | ADD               | 158,318          | 3,517          | 223             | 39.2     | 55.4  | 68.1  | 30.1           | 41.4         | 23.0        | 18.1        | 12.8        | 10.4        | —             | —          | —          | 4.3          | 3.6        | 3.0        | 1.7                | 2.3        | 2.9        | 28.4        | 29.1        | 29.6        | 850               | 19.8       | 8.4                |
| SKS Microfinance                    | 651        | BUY               | 47,986           | 1,066          | 74              | 26.9     | 35.5  | 55.9  | 61.1           | 31.9         | 57.4        | 24.2        | 18.3        | 11.6        | —             | —          | —          | 5.0          | 2.4        | 2.0        | —                  | —          | —          | 21.7        | 18.0        | 19.3        | 950               | 45.9       | 21.5               |
| SREI                                | 100        | NR                | 11,629           | 258            | 116             | 8.3      | 7.9   | 9.9   | 17.8           | (4.8)        | 25.8        | 12.1        | 12.7        | 10.1        | —             | —          | —          | 1.0          | 0.9        | 0.9        | 1.2                | 1.2        | 1.2        | 11.1        | 10.5        | 12.3        | —                 | —          | 6.2                |
| State Bank of India                 | 2,613      | BUY               | 1,658,853        | 36,847         | 635             | 144.4    | 176.6 | 224.1 | 0.5            | 22.3         | 26.9        | 18.1        | 14.8        | 11.7        | —             | —          | —          | 2.5          | 2.2        | 1.9        | 1.1                | 1.2        | 1.3        | 14.8        | 15.9        | 17.6        | 3,500             | 34.0       | 190.9              |
| Union Bank                          | 320        | BUY               | 161,865          | 3,595          | 505             | 41.1     | 42.4  | 56.1  | 20.2           | 3.1          | 32.6        | 7.8         | 7.6         | 5.7         | —             | —          | —          | 1.8          | 1.5        | 1.2        | 1.7                | 1.8        | 2.3        | 26.2        | 22.1        | 24.1        | 450               | 40.4       | 7.6                |
| Yes Bank                            | 272        | BUY               | 92,356           | 2,051          | 340             | 15.0     | 21.0  | 26.6  | 46.7           | 40.2         | 26.6        | 18.1        | 12.9        | 10.2        | —             | —          | —          | 3.0          | 2.5        | 2.0        | 0.5                | 0.8        | 1.0        | 20.3        | 21.0        | 22.0        | 400               | 47.1       | 18.7               |
| <b>Banks/Financial Institutions</b> |            | <b>Attractive</b> | <b>8,570,502</b> | <b>190,371</b> |                 |          |       |       | <b>15.0</b>    | <b>23.8</b>  | <b>22.2</b> | <b>17.0</b> | <b>13.7</b> | <b>11.2</b> | <b>—</b>      | <b>—</b>   | <b>—</b>   | <b>2.6</b>   | <b>2.3</b> | <b>2.0</b> | <b>1.3</b>         | <b>1.5</b> | <b>1.8</b> | <b>15.5</b> | <b>16.6</b> | <b>17.5</b> |                   |            |                    |
| <b>Cement</b>                       |            |                   |                  |                |                 |          |       |       |                |              |             |             |             |             |               |            |            |              |            |            |                    |            |            |             |             |             |                   |            |                    |
| ACC                                 | 1,029      | REDUCE            | 193,357          | 4,295          | 188             | 83.2     | 56.4  | 63.6  | 47.9           | (32.3)       | 12.9        | 12.4        | 18.3        | 16.2        | 6.6           | 8.6        | 7.0        | 3.0          | 2.7        | 2.4        | 2.6                | 2.3        | 2.3        | 29.3        | 17.5        | 17.6        | 940               | (8.7)      | 11.5               |
| Ambuja Cements                      | 126        | SELL              | 192,504          | 4,276          | 1,522           | 8.0      | 8.1   | 9.0   | 11.4           | 1.4          | 10.6        | 15.8        | 15.6        | 14.1        | 8.7           | 8.6        | 7.1        | 2.8          | 2.4        | 2.2        | 1.5                | 1.6        | 1.7        | 19.3        | 17.1        | 16.8        | 108               | (14.6)     | 6.6                |
| Grasim Industries                   | 2,315      | ADD               | 212,285          | 4,715          | 92              | 301.0    | 194.9 | 238.6 | 26.1           | (35.2)       | 22.4        | 7.7         | 11.9        | 9.7         | 4.6           | 5.7        | 4.2        | 1.7          | 1.5        | 1.3        | 1.4                | 1.5        | 1.5        | 22.9        | 13.5        | 14.7        | 2,500             | 8.0        | 3.7                |
| India Cements                       |            |                   |                  |                |                 |          |       |       |                |              |             |             |             |             |               |            |            |              |            |            |                    |            |            |             |             |             |                   |            |                    |

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

| Company                       | 11-Jan-11  |        | 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) |                 | 2010     | 2011E | 2012E | 2010           | 2011E   | 2012E   | 2010    | 2011E  | 2012E | 2010          | 2011E | 2012E | 2010         | 2011E | 2012E | 2010               | 2011E | 2012E | 2010    | 2011E  | 2012E |                   |            |                    |      |
| <b>Consumer products</b>      |            |        |           |           |                 |          |       |       |                |         |         |         |        |       |               |       |       |              |       |       |                    |       |       |         |        |       |                   |            |                    |      |
| Asian Paints                  | 2,703      | ADD    | 259,305   | 5,760     | 96              | 71.5     | 86.0  | 102.5 | 85.3           | 20.3    | 19.1    | 37.8    | 31.4   | 26.4  | 23.3          | 19.6  | 16.3  | 16.2         | 12.7  | 10.2  | 1.0                | 1.4   | 1.6   | 51.8    | 46.6   | 44.0  | 3,000             | 11.0       | 4.9                |      |
| Colgate-Palmolive (India)     | 834        | SELL   | 113,432   | 2,520     | 136             | 31.1     | 33.6  | 38.4  | 44.2           | 8.0     | 14.2    | 26.8    | 24.8   | 21.7  | 21.9          | 18.5  | 15.9  | 34.8         | 29.8  | 25.5  | 2.4                | 3.0   | 3.5   | 156.1   | 129.2  | 126.3 | 830               | (0.5)      | 3.2                |      |
| Dabur India                   | 103        | ADD    | 178,140   | 3,957     | 1,731           | 2.9      | 3.3   | 4.1   | 28.1           | 13.2    | 25.2    | 35.5    | 31.4   | 25.1  | 26.8          | 22.3  | 17.6  | 18.8         | 13.0  | 9.9   | 1.0                | 1.1   | 1.4   | 57.4    | 49.6   | 45.3  | 115               | 11.8       | 4.3                |      |
| GlaxoSmithkline Consumer (a)  | 2,150      | ADD    | 90,428    | 2,009     | 42              | 55.4     | 70.5  | 83.9  | 23.6           | 27.3    | 19.1    | 38.8    | 30.5   | 25.6  | 21.9          | 18.7  | 15.1  | 10.1         | 8.3   | 6.9   | 0.8                | 1.1   | 1.3   | 27.9    | 29.7   | 29.5  | 2,400             | 11.6       | 1.0                |      |
| Godrej Consumer Products      | 392        | BUY    | 126,702   | 2,814     | 324             | 11.3     | 14.3  | 18.9  | 69.5           | 25.8    | 32.6    | 34.5    | 27.5   | 20.7  | 27.4          | 19.8  | 14.9  | 13.2         | 7.0   | 6.3   | 1.0                | 0.8   | 0.8   | 44.6    | 33.5   | 32.1  | 490               | 25.1       | 2.4                |      |
| Hindustan Unilever            | 308        | SELL   | 671,850   | 14,923    | 2,182           | 9.4      | 10.2  | 12.0  | (0.9)          | 8.4     | 17.5    | 32.7    | 30.1   | 25.7  | 22.6          | 21.7  | 17.7  | 26.0         | 22.5  | 19.4  | 2.5                | 2.7   | 3.2   | 71.1    | 80.2   | 81.3  | 250               | (18.8)     | 15.6               |      |
| ITC                           | 170        | ADD    | 1,301,357 | 28,906    | 7,651           | 5.3      | 6.5   | 7.6   | 22.6           | 22.0    | 17.8    | 32.0    | 26.3   | 22.3  | 19.5          | 16.6  | 13.8  | 8.8          | 7.3   | 6.2   | 2.9                | 1.6   | 1.8   | 29.2    | 32.0   | 31.5  | 180               | 5.8        | 27.8               |      |
| Jubilant Foodworks            | 560        | SELL   | 35,743    | 794       | 64              | 5.6      | 10.0  | 13.1  | 347.1          | 78.3    | 30.4    | 99.7    | 55.9   | 42.9  | 53.4          | 32.2  | 21.6  | 30.4         | 19.7  | 13.5  | —                  | —     | —     | 47.3    | 42.8   | 37.4  | 400               | (28.5)     | 16.4               |      |
| Jyothy Laboratories           | 271        | ADD    | 20,766    | 461       | 77              | 11.0     | 13.6  | 16.4  | 99.6           | 23.3    | 20.9    | 24.6    | 19.9   | 16.5  | 19.8          | 13.4  | 10.4  | 5.0          | 3.4   | 2.9   | 1.6                | 1.4   | 1.8   | 16.1    | 17.6   | 19.3  | 300               | 10.7       | 0.5                |      |
| Marico                        | 122        | ADD    | 74,641    | 1,658     | 612             | 4.4      | 5.2   | 6.1   | 32.9           | 16.9    | 17.0    | 27.5    | 23.5   | 20.1  | 18.8          | 16.3  | 13.3  | 11.2         | 8.1   | 6.2   | 0.5                | 0.7   | 0.9   | 48.9    | 40.6   | 35.2  | 140               | 14.7       | 1.1                |      |
| Nestle India (a)              | 3,811      | REDUCE | 367,440   | 8,162     | 96              | 74.4     | 88.4  | 108.0 | 27.0           | 18.8    | 22.1    | 51.2    | 43.1   | 35.3  | 33.9          | 29.0  | 23.9  | 63.2         | 49.3  | 38.1  | 1.3                | 1.6   | 1.9   | 136.0   | 128.5  | 121.8 | 3,100             | (18.7)     | 3.3                |      |
| Tata Global Beverages         | 102        | ADD    | 63,015    | 1,400     | 618             | 6.1      | 7.3   | 8.7   | 14.5           | 20.7    | 19.0    | 16.8    | 14.0   | 11.7  | 8.0           | 6.0   | 5.0   | 1.3          | 1.2   | 1.1   | 2.0                | 2.4   | 2.8   | 10.2    | 11.7   | 12.9  | 130               | 27.6       | 3.5                |      |
| Titan Industries              | 3,305      | ADD    | 146,684   | 3,258     | 44              | 57.3     | 83.9  | 110.9 | 29.3           | 46.5    | 32.2    | 57.7    | 39.4   | 29.8  | 36.7          | 26.5  | 20.2  | 19.9         | 14.0  | 9.9   | 0.5                | 0.4   | 0.4   | 38.7    | 41.7   | 38.8  | 3,600             | 8.9        | 28.4               |      |
| United Spirits                | 1,288      | ADD    | 161,809   | 3,594     | 126             | 27.3     | 33.1  | 47.0  | 49.9           | 21.5    | 41.9    | 47.2    | 38.9   | 27.4  | 17.7          | 16.5  | 13.6  | 4.3          | 3.9   | 3.4   | 0.2                | 0.2   | 0.2   | 9.8     | 10.5   | 13.3  | 1,550             | 20.3       | 7.8                |      |
| <b>Consumer products</b>      |            |        |           |           |                 |          |       |       |                |         |         |         |        |       |               |       |       |              |       |       |                    |       |       |         |        |       |                   |            |                    |      |
| <b>Constructions</b>          |            |        |           |           |                 |          |       |       |                |         |         |         |        |       |               |       |       |              |       |       |                    |       |       |         |        |       |                   |            |                    |      |
| IVRCL                         | 115        | BUY    | 30,586    | 679       | 267             | 7.9      | 7.7   | 10.3  | (6.6)          | (2.3)   | 33.7    | 14.5    | 14.8   | 11.1  | 8.5           | 9.3   | 7.5   | 1.7          | 1.5   | 1.3   | 0.7                | 0.3   | 0.3   | 11.5    | 10.6   | 12.7  | 190               | 65.9       | 6.0                |      |
| Nagarjuna Construction Co.    | 125        | BUY    | 32,124    | 714       | 257             | 7.1      | 8.9   | 11.6  | 6.1            | 24.3    | 31.1    | 17.5    | 14.1   | 10.8  | 9.4           | 8.2   | 6.9   | 1.4          | 1.3   | 1.2   | 1.1                | 1.6   | 1.6   | 9.3     | 9.8    | 11.8  | 205               | 63.7       | 4.5                |      |
| Punj Lloyd                    | 100        | REDUCE | 34,010    | 755       | 340             | (3.4)    | 9.8   | 12.0  | (52.6)         | (385.6) | 22.6    | (29.3)  | 10.2   | 8.4   | 19.9          | 6.3   | 5.8   | 1.1          | 1.0   | 0.9   | 0.1                | 0.4   | 1.0   | (4.2)   | 10.4   | 11.6  | 140               | 39.8       | 11.2               |      |
| Sadbhav Engineering           | 109        | BUY    | 16,305    | 362       | 150             | 5.1      | 6.2   | 8.7   | 0.5            | 20.2    | 41.0    | 21.1    | 17.6   | 12.5  | 14.7          | 9.8   | 8.0   | 4.0          | 3.1   | 3.0   | 0.3                | 5.5   | 5.5   | 15.8    | 17.8   | 23.9  | 175               | 61.0       | 0.3                |      |
| <b>Construction</b>           |            |        |           |           |                 |          |       |       |                |         |         |         |        |       |               |       |       |              |       |       |                    |       |       |         |        |       |                   |            |                    |      |
| <b>Energy</b>                 |            |        |           |           |                 |          |       |       |                |         |         |         |        |       |               |       |       |              |       |       |                    |       |       |         |        |       |                   |            |                    |      |
| Aban Offshore                 | 704        | BUY    | 30,628    | 680       | 44              | 94.5     | 105.2 | 123.7 | (2.5)          | 11.3    | 17.5    | 7.4     | 6.7    | 5.7   | 8.1           | 6.9   | 6.3   | 1.4          | 1.4   | 1.2   | 0.5                | 0.5   | 0.6   | 21.7    | 26.0   | 22.6  | 915               | 30.0       | 16.0               |      |
| Bharat Petroleum              | 610        | BUY    | 220,467   | 4,897     | 362             | 58.6     | 54.3  | 59.9  | 230            | (7)     | 10.4    | 10      | 11     | 10.2  | 6.1           | 6.2   | 5.9   | 1.6          | 1.4   | 1.3   | 2.3                | 2.9   | 3.2   | 14.9    | 12.7   | 12.8  | 860               | 41.0       | 14.4               |      |
| Cairn India                   | 329        | RS     | 623,630   | 13,852    | 1,897           | 5.5      | 25.7  | 43.9  | 29.0           | 364.6   | 70.4    | 59.3    | 12.8   | 7.5   | 46.7          | 8.3   | 4.9   | 1.8          | 1.6   | 1.4   | —                  | —     | —     | 4.6     | 3.1    | 13.3  | 19.8              | —          | 16.4               |      |
| Castrol India (a)             | 428        | SELL   | 105,910   | 2,353     | 247             | 15.4     | 21.0  | 21.7  | 45             | 36      | 3.5     | 28      | 20     | 19.7  | 16.5          | 12.6  | 12.0  | 23.0         | 21.9  | 20.7  | 2.9                | 4.0   | 4.1   | 83.8    | 109.9  | 107.9 | 390               | (8.9)      | 1.1                |      |
| GAIL (India)                  | 501        | BUY    | 635,065   | 14,106    | 1,268           | 24.8     | 28.4  | 39.7  | 11.7           | 14.9    | 39.7    | 20.2    | 17.6   | 12.6  | 11.4          | 10.6  | 8.5   | 3.5          | 3.1   | 2.6   | 1.5                | 1.7   | 2.5   | 17.4    | 17.6   | 21.1  | 565               | 12.9       | 14.8               |      |
| GSPL                          | 109        | SELL   | 61,504    | 1,366     | 562             | 7.3      | 7.3   | 8.1   | 233            | (0)     | 11.4    | 15      | 15     | 13.5  | 7.6           | 7.5   | 6.2   | 3.6          | 3.0   | 2.7   | 0.9                | 1.7   | 3.0   | 27.1    | 21.8   | 20.9  | 87                | (20.4)     | 6.3                |      |
| Hindustan Petroleum           | 381        | BUY    | 129,129   | 2,868     | 339             | 51.6     | 52.2  | 48.7  | 204.2          | 1.2     | (6.7)   | 7.4     | 7.3    | 7.8   | 2.6           | 2.6   | 2.6   | 1.0          | 0.9   | 0.8   | 3.1                | 4.3   | 4.0   | 13.1    | 11.9   | 10.1  | 585               | 53.6       | 12.7               |      |
| Indian Oil Corporation        | 328        | BUY    | 797,096   | 17,705    | 2,428           | 49.1     | 37.9  | 40.3  | 399            | (23)    | 62.7    | 7       | 9      | 8.2   | 5.1           | 5.5   | 4.9   | 1.5          | 1.3   | 1.2   | 4.0                | 3.5   | 3.7   | 22.4    | 15.3   | 14.8  | 500               | 52.3       | 9.4                |      |
| Oil India                     | 1,333      | BUY    | 320,586   | 7,121     | 240             | 115.2    | 144.8 | 159.2 | 13.9           | 25.8    | 9.9     | 11.6    | 9.2    | 8.4   | 5.2           | 3.5   | 3.1   | 2.2          | 1.9   | 1.7   | 2.6                | 3.4   | 3.8   | 16.8    | 19.4   | 18.6  | 1,630             | 22.3       | 2.6                |      |
| Oil & Natural Gas Corporation | 1,185      | BUY    | 2,534,153 | 56,290    | 2,139           | 90.3     | 115.0 | 137.9 | (1)            | 27      | 19.9    | 13      | 10     | 8.6   | 4.5           | 3.9   | 3.4   | 1.9          | 1.8   | 1.6   | 2.8                | 6.1   | 4.1   | 14.4    | 16.2   | 18.7  | 1,500             | 26.6       | 29.0               |      |
| Petronet LNG                  | 122        | SELL   | 91,238    | 2,027     | 750             | 5.4      | 6.9   | 8.3   | (22.0)         | 28.1    | 20.2    | 22.6    | 17.6   | 14.7  | 12.7          | 10.4  | 9.1   | 3.6          | 3.0   | 2.6   | 1.4                | 1.6   | 2.3   | 15.9    | 17.7   | 18.2  | 90                | (26.0)     | 7.8                |      |
| Reliance Industries           | 1,014      | REDUCE | 3,016,920 | 67,013    | 2,976           | 49.6     | 58.1  | 72.3  | (2)            | 17      | 24.2    | 20      | 17     | 14.0  | 10.3          | 8.1   | 6.4   | 2.0          | 1.8   | 1.6   | 0.7                | 0.8   | 1.0   | 11.4    | 12.2   | 13.6  | 1,055             | 4.1        | 123.7              |      |
| <b>Energy</b>                 |            |        |           |           |                 |          |       |       |                |         |         |         |        |       |               |       |       |              |       |       |                    |       |       |         |        |       |                   |            |                    |      |
| <b>Industrials</b>            |            |        |           |           |                 |          |       |       |                |         |         |         |        |       |               |       |       |              |       |       |                    |       |       |         |        |       |                   |            |                    |      |
| ABB                           | 738        | REDUCE | 156,463   | 3,475     | 212             | 16.7     | 10.8  | 31.4  | (35.2)         | (35.4)  | 190.2   | 44.1    | 68.3   | 23.5  | 25.2          | 35.7  | 13.4  | 6.5          | 6.1   | 5.0   | 0.3                | 0.4   | 0.4   | 15.6    | 9.2    | 23.2  | 725               | (1.8)      | 1.8                |      |
| BGR Energy Systems            | 631        | BUY    | 45,418    | 1,009     | 72              | 16.0     | 28.0  | 41.7  | 32.2           | 74.6    | 49.1    | 39.3    | 22.5   | 15.1  | 22.2          | 12.8  | 9.3   | 8.1          | 6.4   | 4.9   | 0.5                | 1.1   | 1.3   | 22.3    | 31.8   | 36.6  | 860               | 36.3       | 8.3                |      |
| Bharat Electronics            | 1,683      | REDUCE | 134,652   | 2,991     | 80              | 96.1     | 105.9 | 120.3 | (7.4)          | 10.2    | 13.6    | 17.5    | 15.9   | 14.0  | 8.1           | 7.0   | 5.9   | 3.0          | 2.6   | 2.3   | 1.1                | 1.5   | 1.5   | 17.5    | 17.7   | 17.6  | 1,800             | 6.9        | 2.3                |      |
| Bharat Heavy Electricals      | 2,227      | ADD    | 1,090,234 | 24,217    | 490             | 87.9     | 115.5 | 138.6 | 37.7           | 31.4    | 20.0    | 25.3    | 19.3   | 16.1  | 14.0          | 11.0  | 9.0   | 6.8          | 5.4   | 4.3   | 0.8                | 1.1   | 1.3   | 29.8    | 31.3   | 29.9  | 2,500             | 12.3       | 32.9               |      |
| Crompton Greaves              | 294        | BUY    | 188,633   | 4,190     | 642             | 12.8     | 14.5  | 17.3  | 46.5           | 12.9    | 19.6    | 22.9    | 20.3   | 17.0  | 13.2          | 11.4  | 9.3   | 7.5          | 5.7   | 4.4   | 0.4                | 0.6   | 0.7   | 37.9    | 32.0   | 29.5  | 340               | 15.6       | 7.7                |      |
| Larsen & Toubro               | 1,780      | ADD    | 1,077,528 | 23,934    | 605             | 57.9     | 76.3  | 87.6  | 15.6           | 31.8    | 14.7    | 30.7    | 23.3   | 20.3  | 17.3          | 12.6  | 10.9  | 4.8          | 4.0   | 3.4   | 0.7                | 0.7   | 0.8   | 18.6    | 18.7   | 18.0  | 2,125             | 19.4       | 55.0               |      |
| Maharashtra Seamless          | 369        | ADD    | 26,026    | 578       | 71              | 38.6     | 44.2  | 39.3  | 7.7            | 14.3    | (10.9)  | 9.6     | 8.4    | 9.4   | 5.0           | 4.0   | 4.2   | 1.1          | 1.0   | 1.0   | 1.6                | 2.2   | 2.1   | 14.8    | 12.8   | 10.5  | 418               | 13.3       | 0.5                |      |
| Siemens                       | 763        | REDUCE | 257,371   | 5,717     | 337             | 22.4     | 28.4  | 34.0  | 39.5           | 26.5    | 19.7    | 34.0    | 26.9   | 22.5  | 18.1          | 15.8  | 12.9  | 7.9          | 6.5   | 5.3   | 0.7                | 0.7   | 0.9   | 25.2    | 26.5   | 25.9  | 735               | (3.7)      | 6.8                |      |
| Suzlon Energy                 | 48         | REDUCE | 75,702    | 1,682     | 1,594           | (6.2)    | (0.8) | 3.3   | (185.4)        | (86.8)  | (504.1) | (7.7)   | (58.5) | 14.5  | 13.6          | 11.3  | 7.5   | 1.1          | 1.0   | 1.0   | —                  | —     | —     | 0.4     | (11.4) | (1.8) | 6.9               | 55         | 15.8               | 22.8 |
| Thermax                       | 794        | BUY    | 94,623    | 2,102     | 119             | 21.7     |       |       |                |         |         |         |        |       |               |       |       |              |       |       |                    |       |       |         |        |       |                   |            |                    |      |

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

| Company                              | 11-Jan-11  |                   | 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)      |                 | 2010     | 2011E | 2012E | 2010           | 2011E       | 2012E       | 2010        | 2011E       | 2012E       | 2010          | 2011E       | 2012E       | 2010         | 2011E      | 2012E      | 2010               | 2011E      | 2012E      | 2010        | 2011E       | 2012E       |                   |            |                    |
| <b>Media</b>                         |            |                   |                  |                |                 |          |       |       |                |             |             |             |             |             |               |             |             |              |            |            |                    |            |            |             |             |             |                   |            |                    |
| DB Corp                              | 248        | BUY               | 45,086           | 1,001          | 182             | 10.6     | 12.5  | 14.5  | 286.5          | 17.2        | 16.2        | 23.3        | 19.9        | 17.2        | 13.0          | 11.1        | 9.6         | 7.0          | 5.6        | 4.6        | 0.8                | 1.2        | 1.6        | 40.3        | 31.0        | 29.2        | 320               | 29.0       | 0.3                |
| DishTV                               | 62         | REDUCE            | 66,356           | 1,474          | 1,063           | (2.5)    | (1.9) | 0.4   | (61.9)         | (25.7)      | (122.5)     | (24.9)      | (33.5)      | 149.0       | 82.1          | 30.9        | 14.1        | 16.2         | 31.3       | 25.9       | —                  | —          | —          | 249.0       | (62.6)      | 19.0        | 57                | (8.7)      | 5.8                |
| Hindustan Media Ventures             | 168        | BUY               | 12,317           | 274            | 73              | 2.5      | 9.6   | 11.3  | NM             | 289.8       | 18.4        | 68.5        | 17.6        | 14.8        | 21.5          | 15.7        | 12.8        | 3.4          | 2.9        | 2.4        | 4.5                | 4.5        | 6.0        | 17.9        | 28.1        | 17.8        | 225               | 34.0       | 21.5               |
| HT Media                             | 150        | ADD               | 35,297           | 784            | 235             | 6.1      | 6.8   | 8.5   | 623.3          | 11.1        | 25.5        | 24.6        | 22.1        | 17.6        | 12.8          | 10.0        | 7.7         | 3.5          | 2.5        | 2.4        | 0.2                | 1.3        | 2.7        | 15.3        | 13.3        | 14.0        | 170               | —          | 0.8                |
| Jagran Prakashan                     | 123        | BUY               | 36,966           | 821            | 301             | 5.8      | 6.9   | 7.8   | 92.0           | 18.3        | 12.4        | 21.0        | 17.8        | 15.8        | 12.6          | 10.3        | 9.2         | 6.0          | 5.4        | 5.0        | 2.9                | 3.3        | 4.1        | 30.0        | 32.2        | 33.0        | 150               | 22.2       | 0.5                |
| Sun TV Network                       | 496        | REDUCE            | 195,286          | 4,338          | 394             | 13.1     | 18.3  | 22.7  | 44.0           | 39.7        | 24.1        | 37.9        | 27.1        | 21.9        | 21.5          | 15.7        | 12.8        | 10.1         | 8.5        | 7.1        | 1.5                | 1.5        | 2.0        | 28.3        | 34.2        | 35.5        | 450               | (9.2)      | 2.1                |
| Zee Entertainment Enterprises        | 131        | REDUCE            | 113,500          | 2,521          | 869             | 5.3      | 5.4   | 6.8   | 26.6           | 0.7         | 25.4        | 24.4        | 24.2        | 19.3        | 17.8          | 15.4        | 11.8        | 2.9          | 2.7        | 2.6        | 0.9                | 1.1        | 1.3        | 12.9        | 11.8        | 13.9        | 135               | 3.4        | 10.5               |
| <b>Media</b>                         |            | <b>Cautious</b>   | <b>504,809</b>   | <b>11,213</b>  |                 |          |       |       | <b>189.2</b>   | <b>34.4</b> | <b>39.3</b> | <b>41.0</b> | <b>30.5</b> | <b>21.9</b> | <b>19.9</b>   | <b>14.9</b> | <b>11.5</b> | <b>5.9</b>   | <b>5.0</b> | <b>4.5</b> | <b>1.1</b>         | <b>1.3</b> | <b>1.7</b> | <b>14.3</b> | <b>16.5</b> | <b>20.7</b> |                   |            |                    |
| <b>Metals &amp; Mining</b>           |            |                   |                  |                |                 |          |       |       |                |             |             |             |             |             |               |             |             |              |            |            |                    |            |            |             |             |             |                   |            |                    |
| Coal India                           | 309        | ADD               | 1,952,072        | 43,360         | 6,316           | 15.2     | 17.8  | 20.8  | 363.0          | 16.8        | 16.7        | 20.3        | 17.4        | 14.9        | 12.3          | 9.9         | 8.6         | 7.2          | 5.7        | 4.6        | 1.1                | 1.7        | 2.0        | 40.4        | 36.4        | 34.0        | 345               | 11.6       | 21.5               |
| Hindalco Industries                  | 231        | ADD               | 441,368          | 9,804          | 1,914           | 20.0     | 15.0  | 16.9  | 25.0           | (25.1)      | 12.7        | 11.5        | 15.4        | 13.7        | 6.5           | 8.5         | 8.7         | 2.0          | 1.8        | 1.6        | 0.6                | 0.6        | 0.6        | 20.4        | 12.5        | 12.6        | 255               | 10.6       | 43.1               |
| Hindustan Zinc                       | 1,372      | BUY               | 579,650          | 12,875         | 423             | 95.6     | 95.4  | 116.4 | 48.2           | (0.2)       | 22.0        | 14.3        | 14.4        | 11.8        | 9.9           | 8.9         | 6.1         | 3.1          | 2.5        | 2.1        | 0.4                | 0.4        | 0.4        | 25.1        | 20.2        | 20.4        | 1,430             | 4.2        | 4.0                |
| Jindal Steel and Power               | 676        | REDUCE            | 629,095          | 13,974         | 931             | 38.2     | 45.7  | 56.2  | 16.9           | 19.4        | 23.1        | 17.7        | 14.8        | 12.0        | 12.2          | 10.0        | 7.4         | 5.6          | 3.7        | 2.8        | 0.2                | 0.3        | 0.3        | 37.7        | 30.3        | 26.8        | 625               | (7.5)      | 22.4               |
| JSW Steel                            | 942        | REDUCE            | 233,863          | 5,195          | 248             | 80.4     | 73.6  | 108.0 | 481.1          | (8.5)       | 46.8        | 11.7        | 12.8        | 8.7         | 9.4           | 8.0         | 5.4         | 2.1          | 1.3        | 1.0        | 0.8                | 1.0        | 1.0        | 16.0        | 12.6        | 13.0        | 1,115             | 18.3       | 27.3               |
| National Aluminium Co.               | 373        | SELL              | 240,585          | 5,344          | 644             | 12.2     | 17.0  | 19.1  | (37.2)         | 39.6        | 12.2        | 30.7        | 22.0        | 19.6        | 14.1          | 10.0        | 8.6         | 2.3          | 2.2        | 2.0        | 0.7                | 1.3        | 1.3        | 7.8         | 10.2        | 10.6        | 285               | (23.7)     | 0.6                |
| Sesa Goa                             | 332        | REDUCE            | 295,470          | 6,563          | 890             | 29.6     | 55.5  | 53.8  | 23.5           | 87.7        | (3.0)       | 11.2        | 6.0         | 6.2         | 9.3           | 3.8         | 5.8         | 3.7          | 2.3        | 1.7        | 1.1                | 1.1        | 1.1        | 35.8        | 36.5        | 30.7        | 300               | (9.7)      | 31.2               |
| Sterlite Industries                  | 171        | BUY               | 574,675          | 12,765         | 3,362           | 12.0     | 13.7  | 18.3  | 2.8            | 13.9        | 35.5        | 14.2        | 12.5        | 9.4         | 9.1           | 7.5         | 4.7         | 1.6          | 1.4        | 1.2        | 0.5                | 0.5        | 0.5        | 12.9        | 11.8        | 13.9        | 200               | 17.0       | 24.6               |
| Tata Steel                           | 647        | BUY               | 618,285          | 13,734         | 956             | (3.5)    | 66.3  | 74.5  | (103.6)        | (1,993.1)   | 12.4        | (184.6)     | 9.8         | 8.7         | 11.8          | 6.4         | 5.8         | 2.7          | 2.0        | 1.6        | 1.1                | 1.2        | —          | (1.5)       | 23.2        | 20.5        | 725               | 12.1       | 99.8               |
| <b>Metals &amp; Mining</b>           |            | <b>Attractive</b> | <b>5,565,064</b> | <b>123,613</b> |                 |          |       |       | <b>9.4</b>     | <b>38.3</b> | <b>17.7</b> | <b>18.7</b> | <b>13.5</b> | <b>11.5</b> | <b>10.3</b>   | <b>8.0</b>  | <b>6.7</b>  | <b>3.3</b>   | <b>2.6</b> | <b>2.2</b> | <b>0.8</b>         | <b>1.1</b> | <b>1.1</b> | <b>17.7</b> | <b>19.3</b> | <b>18.9</b> |                   |            |                    |
| <b>Pharmaceutical</b>                |            |                   |                  |                |                 |          |       |       |                |             |             |             |             |             |               |             |             |              |            |            |                    |            |            |             |             |             |                   |            |                    |
| Apollo Hospitals                     | 469        | BUY               | 60,425           | 1,342          | 129             | 10.9     | 15.3  | 20.5  | 28.8           | 40.2        | 33.6        | 42.9        | 30.6        | 22.9        | 20.7          | 14.5        | 11.4        | 3.6          | 3.4        | 2.9        | —                  | —          | —          | 8.3         | 10.7        | 13.1        | 580               | 23.6       | 1.1                |
| Biocon                               | 388        | ADD               | 77,500           | 1,721          | 200             | 14.8     | 17.0  | 24.4  | 216.4          | 14.7        | 43.6        | 26.1        | 22.8        | 15.9        | 15.1          | 12.9        | 10.0        | 4.3          | 3.8        | 3.2        | —                  | —          | —          | 17.9        | 18.1        | 22.2        | 470               | 21.3       | 10.2               |
| Cipla                                | 347        | REDUCE            | 278,333          | 6,182          | 803             | 13.7     | 14.0  | 16.6  | 38.1           | 1.9         | 19.2        | 25.3        | 24.8        | 20.8        | 18.2          | 16.7        | 14.2        | 4.7          | 4.1        | 3.5        | 0.6                | 0.7        | 0.7        | 21.1        | 17.6        | 18.2        | 295               | (14.9)     | 15.6               |
| Cadila Healthcare                    | 767        | REDUCE            | 157,001          | 3,487          | 205             | 24.7     | 33.9  | 39.3  | 66.9           | 37.2        | 16.1        | 31.0        | 22.6        | 19.5        | 20.0          | 15.4        | 13.3        | 9.6          | 7.2        | 5.6        | 0.7                | 0.9        | 1.0        | 36.0        | 36.4        | 32.3        | 600               | (21.8)     | 1.3                |
| Dishman Pharma & chemicals           | 142        | ADD               | 11,541           | 256            | 81              | 14.4     | 15.8  | 20.7  | (19.7)         | 9.7         | 30.7        | 9.8         | 9.0         | 6.9         | 8.2           | 7.2         | 5.6         | 1.4          | 1.3        | 1.1        | —                  | —          | —          | 15.5        | 15.1        | 17.0        | 210               | 48.0       | 0.8                |
| Divi's Laboratories                  | 622        | REDUCE            | 81,248           | 1,805          | 131             | 26.1     | 27.4  | 38.4  | (18.2)         | 5.1         | 40.3        | 23.9        | 22.7        | 16.2        | 17.5          | 16.9        | 11.5        | 5.4          | 4.6        | 3.9        | —                  | —          | —          | 24.7        | 21.9        | 26.1        | 700               | 12.5       | 2.8                |
| Dr Reddy's Laboratories              | 1,671      | REDUCE            | 283,818          | 6,304          | 170             | 48.0     | 68.4  | 72.2  | 48.1           | 42.6        | 5.5         | 34.8        | 24.4        | 23.2        | 19.2          | 13.9        | 13.0        | 7.5          | 5.9        | 4.8        | 0.7                | 0.5        | 0.5        | 22.2        | 27.0        | 22.9        | 1,150             | (31.2)     | 15.2               |
| GlaxoSmithkline Pharmaceuticals (a)  | 2,384      | REDUCE            | 201,898          | 4,485          | 85              | 59.1     | 70.2  | 79.6  | 8.1            | 18.7        | 13.5        | 40.3        | 34.0        | 29.9        | 23.5          | 19.9        | 17.2        | 11.3         | 9.7        | 8.2        | —                  | —          | —          | 29.8        | 30.7        | 29.7        | 2,000             | (16.1)     | 1.1                |
| Glenmark Pharmaceuticals             | 350        | NR                | 95,819           | 2,128          | 274             | 12.7     | 19.2  | 20.3  | 14.7           | 50.6        | 5.6         | 27.4        | 18.2        | 17.3        | 16.9          | 11.1        | 10.6        | 4.1          | 3.4        | 2.9        | —                  | —          | —          | 16.7        | 19.9        | 17.6        | —                 | —          | 7.0                |
| Jubilant Life Sciences               | 261        | BUY               | 41,454           | 921            | 159             | 26.5     | 17.5  | 25.2  | 49.0           | (34.2)      | 44.1        | 9.8         | 15.0        | 10.4        | 7.9           | 10.7        | 8.0         | 1.9          | 1.9        | 1.6        | 0.7                | 0.8        | 1.0        | 26.3        | 13.7        | 17.1        | 350               | 34.1       | 1.7                |
| Lupin                                | 452        | ADD               | 200,960          | 4,464          | 445             | 15.3     | 19.7  | 24.3  | 27.3           | 28.4        | 23.4        | 29.5        | 23.0        | 18.6        | 24.6          | 18.3        | 14.5        | 7.7          | 6.1        | 4.8        | 0.6                | 0.8        | 1.0        | 34.1        | 30.0        | 29.3        | 490               | 8.4        | 15.1               |
| Piramal Healthcare                   | 472        | NR                | 98,592           | 2,190          | 209             | 22.4     | 4.1   | 8.8   | 29.7           | (81.7)      | 113.0       | 21.1        | 114.8       | 53.9        | 15.4          | (9.4)       | (11.3)      | 5.9          | 0.7        | 0.6        | 1.1                | 1.3        | 0.7        | 30.7        | 159.4       | 11.4        | —                 | —          | 7.0                |
| Ranbaxy Laboratories                 | 560        | SELL              | 240,011          | 5,331          | 428             | 7.2      | 24.0  | 14.6  | (128.9)        | 234.8       | (39.4)      | 78.0        | 23.3        | 38.5        | 19.1          | 12.5        | 19.6        | 6.1          | 4.4        | 4.0        | —                  | 0.7        | 0.7        | 7.0         | 20.1        | 10.4        | 340               | (39.3)     | 14.9               |
| Sun Pharmaceuticals                  | 476        | BUY               | 492,738          | 10,945         | 1,036           | 13.0     | 18.0  | 19.6  | (25.7)         | 38.2        | 8.8         | 36.5        | 26.4        | 24.3        | 29.2          | 19.7        | 16.3        | 5.8          | 4.9        | 4.1        | 0.6                | 0.6        | 0.6        | 17.2        | 20.7        | 19.0        | 482               | 1.3        | 8.7                |
| <b>Pharmaceuticals</b>               |            | <b>Cautious</b>   | <b>2,321,338</b> | <b>51,562</b>  |                 |          |       |       | <b>45.3</b>    | <b>25.4</b> | <b>11.5</b> | <b>31.5</b> | <b>25.1</b> | <b>22.5</b> | <b>19.5</b>   | <b>15.0</b> | <b>13.3</b> | <b>5.8</b>   | <b>3.8</b> | <b>3.3</b> | <b>0.4</b>         | <b>0.5</b> | <b>0.6</b> | <b>18.4</b> | <b>15.3</b> | <b>14.6</b> |                   |            |                    |
| <b>Property</b>                      |            |                   |                  |                |                 |          |       |       |                |             |             |             |             |             |               |             |             |              |            |            |                    |            |            |             |             |             |                   |            |                    |
| DLF                                  | 257        | ADD               | 441,199          | 9,800          | 1,714           | 10.6     | 13.6  | 21.1  | (60.1)         | 27.8        | 55.2        | 24.2        | 19.0        | 12.2        | 18.5          | 12.9        | 9.5         | 1.4          | 1.4        | 1.3        | 0.8                | 1.2        | 1.9        | 6.6         | 7.4         | 10.7        | 375               | 45.7       | 41.9               |
| Housing Development & Infrastructure | 161        | ADD               | 66,650           | 1,480          | 415             | 15.9     | 21.6  | 28.7  | (24.4)         | 35.5        | 32.9        | 10.1        | 7.4         | 5.6         | 7.9           | 7.5         | 4.2         | 0.9          | 0.7        | 0.6        | 1.6                | 3.1        | 3.3        | 10.0        | 11.1        | 12.7        | 310               | 93.0       | 29.2               |
| Indiabulls Real Estate               | 121        | RS                | 48,466           | 1,077          | 402             | (0.4)    | 3.1   | 8.5   | (134.9)        | (865.5)     | 178.9       | (302.5)     | 39.5        | 14.2        | (47.9)        | 54.2        | 16.1        | 0.4          | 0.4        | 0.4        | —                  | —          | —          | (0.2)       | 1.0         | 2.9         | —                 | —          | 27.3               |
| Mahindra Life Space Developer        | 347        | ADD               | 14,165           | 315            | 41              | 19.2     | 20.1  | 32.1  | 69.7           | 4.9         | 59.7        | 18.1        | 17.3        | 10.8        | 16.2          | 12.2        | 5.5         | 1.5          | 1.4        | 1.2        | 1.0                | 1.2        | 1.2        | 8.6         | 8.4         | 12.3        | 546               | 57.3       | 0.3                |
| Oberoi Realty                        | 242        | BUY               | 79,749           | 1,771          | 330             | 13.7     | 20.1  | 30.4  | 57.1           | 46.9        | 51.3        | 17.7        | 12.0        | 8.0         | 15.6          | 7.7         | 4.1         | 4.3          | 2.3        | 1.8        | 0.1                | 0.4        | 0.6        | 27.7        | 24.8        | 25.4        | 334               | 38.1       | 21.5               |
| Phoenix Mills                        | 214        | BUY               | 31,033           | 689            | 145             | 4.1      | 6.6   | 7.7   | (16.7)         | 59.4        | 16.5        | 51.8        | 32.5        | 27.9        | 43.2          | 24.3        | 20.3        | 2.0          | 1.9        | 1.8        | 0.6                | 0.7        | 0.9        | 3.9         | 6.1         | 6.7         | 303               | 41.4       | 0.4                |
| Puravankara Projects                 | 104        | REDUCE            | 22,185           | 493            | 213             |          |       |       |                |             |             |             |             |             |               |             |             |              |            |            |                    |            |            |             |             |             |                   |            |                    |

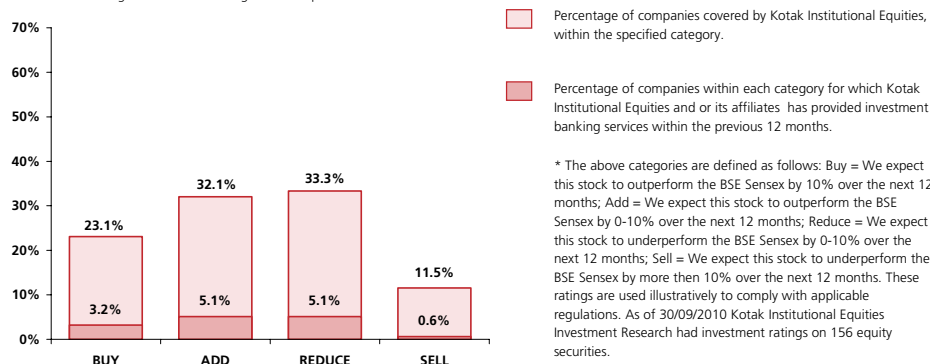
## Kotak Institutional Equities: Valuation summary of key Indian companies

| Company                 | 11-Jan-11  |                   | 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)      |                 | 2010     | 2011E  | 2012E | 2010           | 2011E         | 2012E       | 2010        | 2011E       | 2012E         | 2010        | 2011E       | 2012E        | 2010       | 2011E      | 2012E              | 2010       | 2011E      | 2012E      | 2010        | 2011E       |                   |            |                    | 2012E |
| <b>Sugar</b>            |            |                   |                  |                |                 |          |        |       |                |               |             |             |             |               |             |             |              |            |            |                    |            |            |            |             |             |                   |            |                    |       |
| Bajaj Hindustan         | 103        | SELL              | 19,624           | 436            | 191             | (7.8)    | 4.9    | 12.7  | (340.2)        | (162.7)       | 160.5       | (13.2)      | 21.1        | 8.1           | 13.1        | 7.0         | 5.4          | 0.9        | 0.9        | 0.8                | 0.7        | 0.7        | 0.7        | (7.0)       | 4.4         | 10.4              | 98         | (4.4)              | 4.4   |
| Balrampur Chini Mills   | 81         | ADD               | 20,694           | 460            | 257             | 4.3      | 9.9    | 10.7  | (44.3)         | 131.9         | 8.3         | 18.9        | 8.2         | 7.5           | 9.6         | 5.3         | 4.1          | 1.5        | 1.3        | 1.2                | 0.6        | 0.6        | 0.6        | 8.0         | 17.1        | 16.3              | 102        | 26.6               | 3.9   |
| Shree Renuka Sugars     | 83         | REDUCE            | 55,828           | 1,240          | 670             | 8.8      | 5.1    | 5.8   | 164.2          | (42.4)        | 15.1        | 9.5         | 16.4        | 14.3          | 5.8         | 7.7         | 6.7          | 2.2        | 1.8        | 1.5                | 0.5        | 0.4        | 0.4        | 29.1        | 13.0        | 13.1              | 90         | 8.0                | 23.8  |
| <b>Sugar</b>            |            | <b>Cautious</b>   | <b>96,146</b>    | <b>2,136</b>   |                 |          |        |       | <b>14.7</b>    | <b>24.5</b>   | <b>32.3</b> | <b>17.4</b> | <b>14.0</b> | <b>10.6</b>   | <b>8.2</b>  | <b>6.8</b>  | <b>5.6</b>   | <b>1.6</b> | <b>1.4</b> | <b>1.2</b>         | <b>0.5</b> | <b>0.5</b> | <b>0.5</b> | <b>9.2</b>  | <b>10.0</b> | <b>11.5</b>       |            |                    |       |
| <b>Technology</b>       |            |                   |                  |                |                 |          |        |       |                |               |             |             |             |               |             |             |              |            |            |                    |            |            |            |             |             |                   |            |                    |       |
| HCL Technologies        | 475        | REDUCE            | 327,957          | 7,285          | 690             | 17.5     | 23.1   | 28.7  | 0.2            | 32.0          | 24.1        | 27.1        | 20.5        | 16.5          | 13.2        | 12.3        | 9.8          | 4.7        | 4.1        | 3.5                | 0.8        | 1.3        | 1.3        | 19.3        | 21.5        | 23.1              | 440        | (7.4)              | 8.5   |
| Hexaware Technologies   | 118        | BUY               | 16,972           | 377            | 144             | 9.3      | 5.1    | 10.4  | 127.7          | (45.6)        | 104.3       | 12.6        | 23.2        | 11.4          | 7.0         | 15.7        | 7.9          | 2.0        | 1.8        | 1.6                | 0.8        | 0.8        | 0.8        | 17.8        | 8.2         | 15.0              | 125        | 5.8                | 6.0   |
| Infosys Technologies    | 3,326      | BUY               | 1,908,952        | 42,402         | 574             | 108.3    | 122.4  | 160.9 | 5.7            | 13.0          | 31.4        | 30.7        | 27.2        | 20.7          | 22.7        | 18.9        | 14.4         | 8.3        | 7.4        | 6.0                | 0.8        | 1.8        | 1.4        | 30.1        | 28.7        | 31.9              | 3,800      | 14.3               | 72.6  |
| Mahindra Satyam         | 68         | REDUCE            | 79,850           | 1,774          | 1,176           | 2.5      | 2.7    | 4.1   | (190.7)        | 7.2           | 55.0        | 27.3        | 25.5        | 16.4          | 12.8        | 12.9        | 8.0          | 4.2        | 4.3        | 4.0                | —          | —          | —          | 58.5        | 16.9        | 25.4              | 70         | 3.1                | 19.1  |
| Mindtree                | 518        | REDUCE            | 21,300           | 473            | 41              | 52.2     | 27.6   | 40.6  | 294.3          | (47.2)        | 47.4        | 9.9         | 18.8        | 12.7          | 8.5         | 10.3        | 6.9          | 3.2        | 2.9        | 2.4                | 0.4        | 0.3        | 0.8        | 35.2        | 16.2        | 20.8              | 500        | (3.4)              | 0.6   |
| Mphasis BFL             | 674        | SELL              | 142,048          | 3,155          | 211             | 43.6     | 51.8   | 48.9  | 207.6          | 18.8          | (5.5)       | 15.5        | 13.0        | 13.8          | 12.4        | 11.1        | 9.7          | 6.1        | 4.3        | 3.4                | 0.5        | 0.6        | 0.7        | 48.1        | 38.6        | 47.4              | 610        | (9.5)              | 5.9   |
| Patni Computer Systems  | 445        | REDUCE            | 59,334           | 1,318          | 133             | 36.6     | 40.9   | 36.7  | 36.4           | 11.8          | (10.2)      | 12.2        | 10.9        | 12.1          | 5.9         | 6.7         | 5.7          | 1.6        | 2.1        | 1.8                | 0.6        | 14.8       | 1.6        | 18.2        | 17.4        | 15.9              | 435        | (2.3)              | 7.1   |
| Polaris Software Lab    | 166        | SELL              | 16,595           | 369            | 100             | 15.4     | 19.5   | 21.2  | 16.9           | 27.1          | 8.5         | 10.8        | 8.5         | 7.8           | 5.2         | 6.6         | 5.2          | 1.9        | 1.6        | 1.4                | 2.1        | 2.2        | 2.3        | 18.6        | 20.5        | 19.1              | 190        | 14.1               | 3.1   |
| TCS                     | 1,099      | BUY               | 2,149,984        | 47,756         | 1,957           | 35.1     | 43.4   | 53.2  | 32.8           | 23.6          | 22.5        | 31.3        | 25.3        | 20.7          | 23.9        | 18.5        | 14.6         | 10.3       | 8.4        | 6.9                | 1.8        | 1.6        | 1.9        | 37.6        | 36.6        | 36.9              | 1,250      | 13.8               | 38.8  |
| Tech Mahindra           | 682        | REDUCE            | 84,543           | 1,878          | 124             | 65.1     | 63.1   | 69.3  | (9.6)          | (3.2)         | 9.8         | 10.5        | 10.8        | 9.9           | 8.5         | 9.0         | 8.1          | 2.9        | 2.4        | 2.0                | 0.5        | 0.3        | 0.3        | 34.5        | 25.8        | 23.5              | 735        | 7.7                | 3.6   |
| Wipro                   | 467        | ADD               | 1,143,694        | 25,404         | 2,447           | 18.9     | 21.6   | 25.7  | 22.1           | 14.7          | 18.7        | 24.8        | 21.6        | 18.2          | 18.8        | 15.7        | 12.7         | 5.8        | 4.8        | 4.0                | 0.8        | 0.9        | 1.2        | 26.5        | 24.3        | 23.8              | 525        | 12.3               | 17.9  |
| <b>Technology</b>       |            | <b>Attractive</b> | <b>5,951,231</b> | <b>132,191</b> |                 |          |        |       | <b>24.0</b>    | <b>16.6</b>   | <b>22.5</b> | <b>27.0</b> | <b>23.2</b> | <b>18.9</b>   | <b>19.6</b> | <b>16.6</b> | <b>13.0</b>  | <b>7.1</b> | <b>6.1</b> | <b>5.0</b>         | <b>1.1</b> | <b>1.6</b> | <b>1.5</b> | <b>26.3</b> | <b>26.3</b> | <b>26.6</b>       |            |                    |       |
| <b>Telecom</b>          |            |                   |                  |                |                 |          |        |       |                |               |             |             |             |               |             |             |              |            |            |                    |            |            |            |             |             |                   |            |                    |       |
| Bharti Airtel           | 338        | REDUCE            | 1,285,298        | 28,549         | 3,798           | 23.6     | 17.3   | 20.4  | 5.8            | (26.9)        | 17.9        | 14.3        | 19.6        | 16.6          | 8.1         | 9.3         | 7.4          | 3.0        | 2.6        | 2.3                | —          | —          | —          | 24.4        | 14.4        | 14.7              | 305        | (9.9)              | 42.6  |
| IDEA                    | 67         | REDUCE            | 220,262          | 4,893          | 3,300           | 2.7      | 1.6    | 0.9   | (5.8)          | (42.7)        | (44.9)      | 24.4        | 42.6        | 77.3          | 8.4         | 10.0        | 8.4          | 1.9        | 1.9        | 1.8                | —          | —          | —          | 7.2         | 4.5         | 2.6               | 55         | (17.6)             | 7.2   |
| MTNL                    | 52         | SELL              | 32,792           | 728            | 630             | (15.6)   | (10.4) | (9.1) | (750.8)        | (33.7)        | (11.9)      | (3.3)       | (5.0)       | (5.7)         | 0.4         | 0.5         | 0.7          | 0.3        | 0.3        | 0.3                | —          | —          | —          | (8.5)       | (6.1)       | (5.7)             | 50         | (3.9)              | 2.4   |
| Reliance Communications | 138        | SELL              | 293,541          | 6,520          | 2,133           | 21.8     | 7.0    | 9.2   | (23.0)         | (67.7)        | 30.8        | 6.3         | 19.5        | 14.9          | 7.5         | 9.2         | 7.7          | 0.7        | 0.7        | 0.6                | 0.6        | —          | —          | 11.0        | 3.4         | 4.3               | 125        | (9.2)              | 22.1  |
| Tata Communications     | 256        | REDUCE            | 72,832           | 1,618          | 285             | 14.0     | 15.2   | 15.7  | 3.2            | 8.2           | 3.5         | 18.2        | 16.9        | 16.3          | 7.5         | 6.9         | 6.6          | 1.0        | 1.0        | 1.0                | 2.5        | 2.9        | 3.3        | 5.2         | 5.5         | 5.5               | 225        | (12.0)             | 1.1   |
| <b>Telecom</b>          |            | <b>Cautious</b>   | <b>1,904,724</b> | <b>42,308</b>  |                 |          |        |       | <b>(12.7)</b>  | <b>(40.0)</b> | <b>18.0</b> | <b>13.5</b> | <b>22.5</b> | <b>19.1</b>   | <b>8.2</b>  | <b>9.5</b>  | <b>7.6</b>   | <b>1.7</b> | <b>1.5</b> | <b>1.4</b>         | <b>0.2</b> | <b>0.1</b> | <b>0.1</b> | <b>12.3</b> | <b>6.9</b>  | <b>7.5</b>        |            |                    |       |
| <b>Utilities</b>        |            |                   |                  |                |                 |          |        |       |                |               |             |             |             |               |             |             |              |            |            |                    |            |            |            |             |             |                   |            |                    |       |
| Adani Power             | 123        | ADD               | 267,813          | 5,949          | 2,180           | 0.8      | 3.5    | 19.0  | NM             | 351.8         | 436.1       | 156.8       | 34.7        | 6.5           | 131.2       | 28.1        | 6.1          | 4.6        | 4.1        | 2.5                | —          | —          | —          | 4.2         | 12.5        | 48.0              | 143        | 16.4               | 3.4   |
| CESC                    | 361        | BUY               | 45,071           | 1,001          | 125             | 34.6     | 36.6   | 42.7  | 8.5            | 5.8           | 16.8        | 10.4        | 9.9         | 8.4           | 6.2         | 5.6         | 6.3          | 1.1        | 0.9        | 0.9                | 1.2        | 1.3        | 1.5        | 10.8        | 10.2        | 10.8              | 480        | 33.1               | 1.5   |
| Lanco Infratech         | 55         | BUY               | 132,516          | 2,943          | 2,405           | 2.1      | 3.6    | 4.9   | 46.6           | 67.4          | 36.8        | 25.9        | 15.4        | 11.3          | 14.7        | 9.7         | 7.3          | 4.0        | 3.1        | 2.4                | —          | —          | —          | 17.4        | 21.0        | 22.5              | 80         | 45.2               | 7.2   |
| NHPC                    | 27         | SELL              | 332,735          | 7,391          | 12,301          | 1.9      | 1.3    | 1.6   | 74.9           | (28.2)        | 21.4        | 14.6        | 20.3        | 16.8          | 9.7         | 10.5        | 8.0          | 1.3        | 1.3        | 1.2                | 2.0        | 1.3        | 1.6        | 9.7         | 6.4         | 7.4               | 28         | 3.5                | 4.9   |
| NTPC                    | 190        | ADD               | 1,564,577        | 34,753         | 8,245           | 10.5     | 10.4   | 12.0  | 6.8            | (0.4)         | 14.7        | 18.1        | 18.2        | 15.8          | 13.8        | 14.1        | 12.6         | 2.4        | 2.3        | 2.1                | 2.0        | 1.9        | 2.2        | 14.1        | 13.0        | 13.7              | 195        | 2.8                | 14.2  |
| Reliance Infrastructure | 803        | BUY               | 196,744          | 4,370          | 245             | 62.0     | 54.8   | 69.8  | (1.0)          | (11.7)        | 27.4        | 12.9        | 14.7        | 11.5          | 12.8        | 10.6        | 8.1          | 1.0        | 0.9        | 0.8                | 0.9        | 1.2        | 1.3        | 6.5         | 7.2         | 9.1               | 1,060      | 32.0               | 20.7  |
| Reliance Power          | 148        | SELL              | 355,199          | 7,890          | 2,397           | 2.9      | 3.9    | 5.3   | 179.7          | 36.6          | 34.9        | 51.9        | 38.0        | 28.2          | (350.6)     | 244.7       | 35.1         | 2.5        | 2.3        | 2.1                | —          | —          | —          | 4.8         | 6.3         | 7.9               | 135        | (8.9)              | 15.8  |
| Tata Power              | 1,371      | ADD               | 338,373          | 7,516          | 247             | 60.2     | 69.2   | 88.5  | 20.1           | 15.0          | 27.8        | 22.8        | 19.8        | 15.5          | 13.5        | 12.7        | 10.9         | 2.6        | 2.4        | 2.1                | 0.9        | 1.0        | 1.1        | 13.0        | 12.7        | 14.7              | 1,420      | 3.6                | 7.6   |
| <b>Utilities</b>        |            | <b>Cautious</b>   | <b>3,233,027</b> | <b>71,813</b>  |                 |          |        |       | <b>22.0</b>    | <b>4.3</b>    | <b>40.1</b> | <b>20.7</b> | <b>19.9</b> | <b>14.2</b>   | <b>15.6</b> | <b>15.4</b> | <b>10.9</b>  | <b>2.2</b> | <b>2.0</b> | <b>1.8</b>         | <b>1.3</b> | <b>1.2</b> | <b>1.4</b> | <b>10.4</b> | <b>10.0</b> | <b>12.7</b>       |            |                    |       |
| <b>Others</b>           |            |                   |                  |                |                 |          |        |       |                |               |             |             |             |               |             |             |              |            |            |                    |            |            |            |             |             |                   |            |                    |       |
| Havells India           | 365        | ADD               | 45,543           | 1,012          | 125             | 6.1      | 23.2   | 28.9  | 141.3          | 278.2         | 24.5        | 59.4        | 15.7        | 12.6          | 16.8        | 10.6        | 8.4          | 10.7       | 6.6        | 4.5                | 0.5        | 0.7        | 0.8        | 14.3        | 52.1        | 42.4              | 425        | 16.4               | 2.2   |
| Jaiprakash Associates   | 95         | BUY               | 209,477          | 4,653          | 2,214           | 1.7      | 4.4    | 6.2   | (12.7)         | 153.2         | 41.1        | 54.1        | 21.4        | 15.1          | 22.7        | 14.6        | 10.6         | 2.5        | 2.2        | 1.9                | —          | —          | —          | 5.1         | 10.8        | 13.5              | 155        | 63.8               | 29.6  |
| Jet Airways             | 723        | BUY               | 62,421           | 1,387          | 86              | (69.8)   | 44.7   | 93.9  | (71.7)         | (164.1)       | 110.0       | (10.4)      | 16.2        | 7.7           | 13.8        | 7.9         | 6.1          | 3.6        | 3.0        | 2.1                | —          | —          | —          | —           | 20.1        | 32.2              | 1,220      | 68.7               | 21.5  |
| Sintex                  | 163        | REDUCE            | 44,254           | 983            | 272             | 12.1     | 14.7   | 16.9  | (49.6)         | 21.6          | 14.9        | 13.5        | 11.1        | 9.6           | 11.7        | 7.5         | 6.4          | 2.1        | 1.7        | 1.5                | 0.7        | 0.8        | 0.9        | 15.3        | 15.7        | 15.4              | 210        | 29.1               | 7.2   |
| SpiceJet                | 74         | BUY               | 29,681           | 659            | 403             | 2.5      | 6.0    | 9.2   | (117.4)        | 136.6         | 53.5        | 29.0        | 12.3        | 8.0           | 34.0        | 6.9         | 4.6          | (8.7)      | 6.5        | 3.6                | —          | —          | —          | (15.9)      | 424.8       | 57.9              | 120        | 62.9               | 21.5  |
| Tata Chemicals          | 380        | REDUCE            | 92,389           | 2,052          | 243             | 26.4     | 27.6   | 35.6  | (27.1)         | 4.5           | 29.0        | 14.4        | 13.7        | 10.7          | 7.2         | 6.3         | 4.8          | 2.0        | 1.7        | 1.5                | 2.4        | 2.5        | 2.5        | 16.0        | 17.3        | 19.4              | 370        | (2.6)              | 6.4   |
| United Phosphorus       | 158        | BUY               | 73,165           | 1,625          | 462             | 11.9     | 12.9   | 17.6  | 18.1           | 8.4           | 36.6        | 13.3        | 12.3        | 9.0           | 7.3         | 6.6         | 5.1          | 2.4        | 2.1        | 1.7                | 1.2        | 1.2        | 1.2        | 19.1        | 18.3        | 20.8              | 220        | 39.1               | 10.2  |
| <b>Others</b>           |            |                   | <b>556,930</b>   | <b>12,371</b>  |                 |          |        |       | <b>(539.8)</b> | <b>146.8</b>  | <b>42.1</b> | <b>38.5</b> | <b>15.6</b> | <b>11.0</b>   | <b>14.1</b> | <b>10.0</b> | <b>7.8</b>   | <b>2.8</b> | <b>2.3</b> | <b>1.9</b>         | <b>0.7</b> | <b>0.7</b> | <b>0.7</b> | <b>7.2</b>  | <b>14.7</b> | <b>17.5</b>       |            |                    |       |
| <b>KS universe (b)</b>  |            |                   | <b>49</b>        |                |                 |          |        |       |                |               |             |             |             |               |             |             |              |            |            |                    |            |            |            |             |             |                   |            |                    |       |

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Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of September 30, 2010

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

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

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

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