kotak® Institutional Equities

INDIA DAILY

October 27, 2010

Contents

Results

NTPC: Write-backs boost reported income

Jindal Steel and Power: Strong standalone results overshadowed by weak performance of JPL

Sterlite Industries: No surprises; upgrade to BUY on attractive valuations

JSW Steel: Earnings fall short'valuations and pricing environment constrain our outlook

UltraTech Cement: Earnings disappoint, downgrade to REDUCE

Idea Cellular: Cut estimates; fundamentals challenging, valuations rich. REDUCE

Tech Mahindra: 2QFY11 - revenues meet, margins beat estimates

Voltas: Results below expectations; EMP segment leads disappointment

Marico: Input cost inflation hurts margins

Dish TV: Robust 2QFY11 operationally as well as financially; rich valuations limit upside

J&K Bank: Steady margins; loan growth yet to pick up

Updates

Cairn India: No more exploration?

EQUITY MARKETS

		Change %		
India	**26-Oct**	**1-day**	**1-mo**	**3-mo**
Sensex	20,221	(0.4)	0.5	11.9
Nifty	6,082	(0.4)	0.8	12.0
Global/Regional indices				
Dow Jones	11,169	0.0	3.3	6.0
Nasdaq Composite	2,497	0.3	5.4	9.1
FTSE	5,707	(0.8)	2.4	6.4
Nikkie	9,445	0.7	(1.7)	(0.5)
Hang Seng	23,544	(0.2)	5.4	12.3
KOSPI	1,916	(0.2)	3.0	8.3
Value traded – India				
Cash (NSE+BSE)	203		218	203
Derivatives (NSE)	1,444		1,451	969
Deri. open interest	1,959		2,137	1,701

Forex/money market				
		Change, basis points		
	26-Oct	**1-day**	**1-mo**	**3-mo**
Rs/US$	44.4	(1)	(58)	(230)
10yr govt bond, %	8.2	2	30	50
Net investment (US$mn)				
	25-Oct		**MTD**	**CYTD**
FIIs	257		5,052	24,306
MFs	40		(1,213)	(282)

Top movers -3mo basis				
		Change, %		
Best performers	**26-Oct**	**1-day**	**1-mo**	**3-mo**
IDBI IN Equity	171.2	1.0	11.5	42.4
TTMT IN Equity	1194.8	0.8	10.2	41.5
HNDL IN Equity	217.8	(1.6)	10.6	38.5
BOB IN Equity	979.5	(0.8)	12.0	35.3
RBXY IN Equity	600.3	(1.9)	5.9	34.7
Worst performers				
MMTC IN Equity	1320.4	0.4	(2.5)	(13.3)
IVRC IN Equity	152.8	(0.3)	(10.4)	(13.2)
FTECH IN Equity	1120.8	(1.8)	(9.0)	(12.6)
SCS IN Equity	80.9	(0.7)	(15.8)	(10.8)
GMRI IN Equity	52.7	(1.2)	(9.7)	(10.7)

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kotak Institutional Equities

NTPC (NATP)

Utilities

REDUCE

OCTOBER 27, 2010

RESULT

Coverage view: Attractive

Price (Rs): 205

Target price (Rs): 210

BSE-30: 20,221

Write-backs boost reported income. NTPC reported net income of Rs21 bn for 2QFY11, boosted by write-back of depreciation previously provided due to a change in accounting policy, and other prior period items. Adjusted PAT met estimates, though we need to ascertain the tax implications of various provisions made. We maintain our REDUCE rating and target price of Rs210/share and highlight that NTPC continues to lag capex guidance suggesting further delays in project execution.

Company data and valuation summary

NTPC

Stock data			
52-week range (Rs) (high,low)			242-190
Market Cap. (Rs bn)			1,692.4
Shareholding pattern (%)			
Promoters			84.5
FIIs			2.6
MFs			1.9
Price performance (%)	**1M**	**3M**	**12M**
Absolute	(1.9)	1.7	(5.4)
Rel. to BSE-30	(2.8)	(9.3)	(21.7)

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	10.8	12.5	14.7
EPS growth (%)	9.6	16.2	17.4
P/E (X)	19.1	16.4	14.0
Sales (Rs bn)	463.2	542.9	647.0
Net profits (Rs bn)	88.8	103.1	121.0
EBITDA (Rs bn)	124.6	162.0	206.7
EV/EBITDA (X)	14.5	12.7	10.6
ROE (%)	14.5	15.4	16.6
Div. Yield (%)	2.0	2.3	2.7

Reported numbers marred by one offs and prior period items

NTPC reported revenues of Rs129.9 bn, operating profit of Rs17.5 bn and net income of Rs21.1 bn against our estimate of Rs124.2 bn, Rs27.7 bn and Rs16.3 bn, respectively. We note that reported numbers were distorted by a number of one offs and prior period items which we discuss in greater detail below. Adjusting for prior period items, net sales at Rs126 bn were ahead of our estimates primarily on account of higher-than-estimated fuel cost. Estimated gross generation for 2QFY11 was 52.2 BU, a sequential decline of 7% primarily on account of lower PLFs during the quarter despite commercial generation from Dadri (490 MW.

Adjusting for one offs and prior period items, results broadly in line

Reported revenues were ahead of our estimate primarily due to (1) prior period sales of Rs1.8 bn recognized during the quarter and (2) Rs770 mn of income tax recoverable from customers. Further, provisioning of Rs12.6 bn with respect to debtors led to significantly lower-than-estimated EBITDA. Reported PAT was significantly ahead of our estimates, primarily on account of NTPC retrospectively changing its depreciation policy (with effect from April 2009) aligning it with CERC notified depreciation rates. As a result, the write back of prior period depreciation amounting to Rs10.2 bn and excess AAD amounting to Rs7.4 bn were recognised as income during 2QFY11. We seek clarity on the tax implications on account of the various provisions and write-backs.

Retain REDUCE rating with a target price of Rs210/share

We retain our REDUCE rating on NTPC with a target price of Rs210/share based on March 2012 valuations. NTPC currently trades at 2.2X FY2012E book value and 14X FY2012E earnings which is a rich premium to the valuation of regional utilities (1.4X book value and 12.5X earnings). We see some downside risk to our earnings estimate and will revisit our assumptions after the earnings call organized by the company.

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NTPC has traditionally commanded a premium to regional peers due to (1) superior return profile and (2) premium for growth as NTPC envisages 50 GW of capacity by FY2012E. In our view, NTPC is richly valued in comparison to domestic as well as regional peers and risks to earnings from delayed project execution will continue to be a bane on the stock's performance.

Exhibit 1: Reported number marred by one-offs
Interim results for NTPC, March fiscal year-ends (Rs bn)

Includes provisioning of Rs12.6 bn with respect to debtors

Includes write back of prior period depreciation amounting to Rs10.2 bn and excess AAD of Rs7.4 bn

Lower by Rs1.1 bn due to change in depriciation policy

					(% Chg.)					
	2QFY11	**2QFY11E**	**2QFY10**	**1QFY11**	**2QFY11E**	**2QFY10**	**1QFY11**	**FY2010**	**FY2011E**	**(% Chg.)**
Net sales	**129.9**	**124.2**	**105.1**	**129.4**	**5**	**24**	**0**	**463.2**	**542.9**	**17**
Operating costs										
Cost of fuel	(86.1)	(83.5)	(66.1)	(87.0)	3	30	(1)	(294.6)	(325.0)	10
Personnel costs	(7.1)	(7.0)	(5.0)	(6.8)	1	41	4	(24.1)	(30.9)	28
Other expenses	(19.3)	(6.0)	(5.4)	(5.7)	221	256	237	(20.3)	(25.4)	25
Total expenses	(112.4)	(96.5)	(76.5)	(99.6)				(339.0)	(381.3)	
EBITDA	**17.5**	**27.7**	**28.6**	**29.9**	**(37)**	**(39)**	**(41)**	**124.2**	**161.5**	**30**
EBITDA margin (%)	13.5	22.3	27.2	23.1				26.8	29.8	
Other income	23.8	6.0	7.4	5.8				29.2	27.0	
Interest & finance charges	(5.9)	(5.6)	(5.4)	(5.4)				(16.6)	(31.7)	
Depreciation	(5.1)	(7.0)	(6.4)	(6.8)				(26.5)	(28.6)	
PBT	**30.3**	**21.1**	**24.1**	**23.5**	**44**	**26**	**29**	**110.3**	**128.2**	**16**
Provision for tax (net)	(9.2)	(4.8)	(6.2)	(5.1)				(21.6)	(25.1)	
Net profit	**21.1**	**16.3**	**18.0**	**18.4**	**29**	**17**	**14**	**88.8**	**103.1**	**16**
Extraordinary	—	—	3.6	—				—	—	
EBITDA margin (%)	13.5	22.3	27.2	23.1				26.8	29.8	
Tax rate (%)	30.4	22.7	25.6	21.7				19.6	19.6	

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Adjusted for one offs, results broadly in line
One offs and prior period adjustment for 2QFY11 result (Rs bn)

Adjustments	Comment	Amount	Impact on
(1) Prior period sales	Included in current sales	1.8	Sales and PAT
(2) Tax recoverable from customers in sales			
Income tax	Included in current sales	0.5	Sales and PAT
Deferred tax	Included in current sales	0.3	Sales and PAT
(3) Tax expense for prior period	Prior period tax in current year's tax	—	
(4) Provision for employee expenses	Provision in employee expenses of current year	—	
(5) Interest and finance cost	Arising out of exchange difference	0.4	PAT
(6) Provisions provided for in the quarter		12.6	PAT
(7) Adjustments for change in dep. Policy			
Write back of prior period depriciation	Prior period adjustment	10.2	PAT
Excess AAD recognised as prior period sales	Prior period adjustment	7.4	PAT
Effect of changed policy on depriciation	Effect in 2QFY11	1.1	PAT
Effect of changed policy on AAD	Effect in 2QFY11	0.6	PAT
Total adjustments		**8.8**	

Source: Company, Kotak Institutional Equities estimates

Analysis of 1QFY11 results

We discuss below some key highlights of 2QFY11 results:

- Sales of Rs129.9 bn include (1) Rs1.8 bn mn of prior period sales and (2) Rs770 mn of income tax and deferred tax recoverable from customers.
- NTPC provided a provisioning of Rs12.6 bn with respect to debtors. We seek more clarity on the nature of the debtor and reasons for provisioning, given a favorable court order in the Appellate Tribunal for Electricity (APTEL).
- NTPC retrospectively changed its depreciation policy (with effect from April 2009) aligning it with CERC notified depreciation rates as directed by the Office of the Comptroller and Auditor General. Deprecation for 2QFY11 was lower by Rs1.1 bn on account of the change.
- Change in deprecation policy also resulted in write back of prior period depreciation amounting to Rs10.2 bn and excess AAD amounting to Rs7.4 bn recognised as prior period sales during 2QFY11.
- Interest cost includes Rs423 mn of adjustments made for foreign exchange variation.
- Estimated gross generation for 2QFY11 was 52.2 BU, a sequential decline of 7% primarily on account of lower PLFs during the quarter

Balance sheet analysis for 1HFY11 – capex continues to be muted, likely to miss FY2011E guidance

NTPC incurred an estimated capex of Rs50.3 bn in 1HFY11 and we believe that it will likely fall short of its FY2011E capex guidance of Rs223 bn. We highlight that in FY2010, NTPC's actual capex at Rs101 bn was significantly lower than the initial full year guidance of Rs177 bn (see Exhibit 4). We remain skeptical of NTPC's proposed capacity addition and highlight slippages in execution and corresponding commissioning delays as a key risk to our earnings estimates.

Some other key takeaways from balance sheet are as follows:

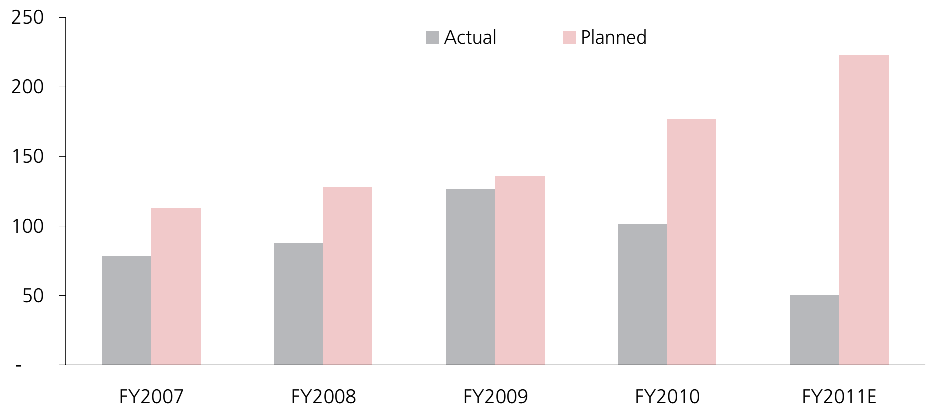
- One of the hydro projects under NTPC's development portfolio (which had been put under suspension since February 2009) has now been scrapped. Investment of Rs6.9 bn continues to be carried as CWIP and no provisioning has been made for the same as management has indicated confidence in reimbursement.
- CWIP includes Rs1.9 bn spent on a thermal project which will not be carried out owing to its location in a coal bearing area. NTPC has not made any provisioning for the same.

Exhibit 3: NTPC incurred capex of Rs50.3 bn in 1HFY11
Balance sheet of NTPC as of September 2010 (Rs bn)

	Sep-10	Sep-09	Mar-10
Sources of funds			
Share capital	82.5	82.5	82.5
Reserves and surplus	581.4	534.7	541.9
Defferred revenue on acount of AAD	8.1	16.2	16.1
Deferred income from FCF	1.3	4.6	0.0
Secured loans	96.8	92.4	90.8
Unsecured loans	296.0	254.6	287.2
Deferred FCF liability	0.7	0.6	0.6
Deferred tax liability	5.8	1.6	2.1
Total	**1,072.6**	**987.1**	**1,021.2**
Utilization of funds			
Net fixed assets	717.3	621.9	668.7
Investments	133.7	164.6	148.1
Deferred FCF assets	4.9	8.5	3.7
Inventories	30.5	27.0	33.5
Sundry debtors	47.1	56.1	66.5
Cash and bank balances	191.7	163.9	144.6
Other current assets	9.0	10.2	8.4
Loans and advances	57.5	35.3	55.1
Liabilities	99.4	81.3	76.9
Provisions	19.9	19.1	30.7
Net current assets	216.5	192.1	200.6
Deferred expense from FCF	0.2	0.0	0.2
Total	**1,072.6**	**987.1**	**1,021.2**

Source: Company, Kotak Institutional Equities

Exhibit 4: NTPC has incurred Rs50.3 bn out of total FY2011E capex guidance of Rs223 bn
Planned and actual capital expenditure for NTPC, March fiscal year-ends, FY2007-11E (Rs bn)



Note:
Actual capex in FY2011 is capex done in 1HFY11

Source: Kotak Institutional Equities, Company

Synchronizes unit 1 of Jhajjar (500 MW) in October, 490 MW at Dadri declared commercial during 2QFY11.

NTPC has successfully synchronized the first 500 MW unit of Indira Gandhi Super Thermal Power Project at Jhajjar. Another 490 MW at Dadri achieved COD in July 2010. However, we believe that NTPC would still fall short of its capacity addition target of 4,150 MW in FY2011E. We believe that out of the guided capacity addition of 4,150 MW in FY2011E, some of the projects are expected to be delayed and NTPC will likely add 2000-2500 MW in FY2011E.We also highlight that for projects to be commissioned beyond FY2011, NTPC is lagging in the amount of capex incurred till date. Exhibit 5 highlights the status of NTPC's under construction.

Exhibit 5: Slippages in execution remains a key risk to our earnings estimates
Status of NTPC's projects under construction

				Capex (Rs bn)				
Projects/Units	**Capacity (MW)**	**Expected COD**	**Cost (Rs bn)**	**Up to Mar 2009**	**FY2010**	**Up to March**	**(%)**	**Remarks**
FY2011 projects								
Sipat Stage I, Unit 1	660	Jan-11	83.2	60.0	7.5	67.5	81.1	TG box up completed
Jhajjar, Unit 1	500	Nov-10	78.9	23.7	22.7	46.4	58.8	Synchronized in Oct 2010
Jhajjar, Unit 2	500	Apr-11	78.9	23.7	22.7	46.4	58.8	TG erection commenced
Korba Stage III, Unit 7	500	Jan-11	24.5	15.0	4.7	19.7	80.4	Delay in civil works and supplies. Steam blowing completed
NCTPP Stage II, Unit 6	490	Jul-10	51.4	27.2	12.4	39.6	77.2	COD
Simhadri, Stage II, Unit 3&4	1,000	Mar-11	50.4	15.5	14.3	29.8	59.1	TG erection commenced for unit 3
Farakka, Stage III, Unit 6	500	Mar-11	25.7	11.9	5.3	17.2	66.9	Slow pace on boiler erection by BHEL
Total	**4,150**							
Other projects under construction/development								
Jhajjar, Unit 3	500	Nov-11	78.9	23.7	22.7	46.4	58.8	TG erection commenced
Sipat Stage I, Unit 2&3	1,320	Jan-12	83.2	60.0	7.5	67.5	81.1	Delay in TG and aux. equipment supplies
Vallur TPP Stage I, Phase I	1,000	Feb-12	55.5	10.2	25.0	35.2	63.3	TG erection started for unit I
Bongaigaon TPP	750	Apr-12	43.8	4.0	6.8	10.8	24.6	Slow progress on civil front
Vindhyanachal STPP	1,000	Jul-12	59.2	2.9	4.3	7.2	12.2	Boiler erection commenced for 1 unit
Mauda TPP	1,000	Nov-12	54.6	4.6	6.0	10.5	19.2	Boiler erection started for both the units
Rihand STPP	1,000	Nov-12	62.3	2.9	3.1	6.0	9.6	Boiler erection commenced for 1 unit.
Vallur TPP Stage I, Phase II	500	Jan-13	30.9	0.0	2.1	2.1	6.9	Boiler erection commenced
Barh STPP Stage II	1,320	Sep-13	73.4	4.9	4.7	9.6	13.1	Boiler erection commenced for both the units
Barh STPP	1,980	Dec-13	86.9	13.2	33.4	46.6	53.6	Boiler erection started fro unit 3, still to be finalized for unit 1
Nabinagar TPP	1,000	Feb-14	53.5	5.4				Land acquisition in progress.
Total	**11,370**							
Grand total	**15,520**							

Source: CEA, Company, Kotak Institutional Equities

Exhibit 6: Profit model, balance sheet, cash model of NTPC 2008-13E, March fiscal year-ends (Rs mn)

	2008	2009	2010E	2011E	2012E	2013E
Profit model (Rs mn)						
Net sales	**370,910**	**419,752**	**463,226**	**542,859**	**647,025**	**718,472**
EBITDA	**108,176**	**98,989**	**114,774**	**151,354**	**199,622**	**230,547**
Other income	29,203	30,607	29,241	26,994	20,022	19,416
Interest	(10,678)	(13,396)	(7,181)	(21,540)	(33,919)	(39,413)
Depreciation	(21,385)	(23,645)	(26,501)	(28,590)	(37,869)	(44,207)
Pretax profits	105,316	92,555	110,333	128,218	147,857	166,343
Tax	(28,401)	(11,582)	(21,573)	(25,120)	(26,836)	(29,197)
Net profits	**76,915**	**80,973**	**88,760**	**103,098**	**121,021**	**137,146**
Extraordinary items	(2,752)	1,040	—	—	—	—
Earnings per share (Rs)	**9.3**	**9.8**	**10.8**	**12.5**	**14.7**	**16.6**
Balance sheet (Rs mn)						
Total equity	526,386	573,701	624,375	682,242	750,170	827,148
Deferred taxation liability	13,735	15,704	14,348	14,348	14,348	14,408
Total borrowings	274,460	346,223	378,581	538,146	644,224	744,728
Currrent liabilities	79,299	106,886	107,581	123,312	140,635	153,308
Total liabilities and equity	**893,880**	**1,042,514**	**1,124,885**	**1,358,049**	**1,549,377**	**1,739,592**
Cash	149,332	162,716	144,595	86,007	73,185	70,976
Current assets	106,156	146,537	163,563	182,359	213,273	234,319
Total fixed assets	485,720	593,426	668,656	962,129	1,148,333	1,336,226
Investments	152,672	139,835	148,071	127,554	114,586	98,071
Total assets	**893,880**	**1,042,514**	**1,124,885**	**1,358,049**	**1,549,377**	**1,739,592**
Free cash flow (Rs mn)						
Operating cash flow, excl. working capital	95,555	105,734	115,261	131,688	158,890	181,353
Working capital	(8,439)	(12,776)	(17,265)	(4,460)	(15,334)	(9,942)
Capital expenditure	(82,232)	(131,351)	(101,731)	(322,064)	(224,073)	(232,100)
Investments	8,271	12,837	(8,236)	20,517	12,969	16,515
Free cash flow	**13,155**	**(25,556)**	**(11,971)**	**(174,318)**	**(67,549)**	**(44,174)**
Key assumptions						
Realization (Rs/unit)	2.0	2.2	2.2	2.3	0.0	0.0
Energy sales (MU)	187,988	193,688	210,892	231,205	0	0

Source: Company, Kotak Institutional Equities estimates

Jindal Steel and Power (JSP)

Metals

REDUCE

OCTOBER 27, 2010

RESULT

Coverage view: Cautious

Price (Rs): 706

Target price (Rs): 625

BSE-30: 20,221

Strong standalone results overshadowed by weak performance of JPL. JSP's 2QFY10 standalone performance exceeded our estimate, led by better-than-expected realizations. Consolidated net income of Rs8.9 bn grew 10.6% yoy but declined 6.3% qoq. Jindal Power's (JPL) performance was weak, impacted by 5% qoq and 17% yoy decline in realization. We will revisit our earnings and valuations post our earnings call.

Company data and valuation summary
Jindal Steel and Power

Stock data			
52-week range (Rs) (high,low)			796-550
Market Cap. (Rs bn)			667.9
Shareholding pattern (%)			
Promoters			58.4
FIIs			22.7
MFs			2.4
Price performance (%)	**1M**	**3M**	**12M**
Absolute	3.4	12.0	3.2
Rel. to BSE-30	2.1	(0.6)	(14.9)

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	38.4	50.9	56.0
EPS growth (%)	17.3	32.7	9.9
P/E (X)	18.7	14.1	12.8
Sales (Rs bn)	110.9	141.7	154.6
Net profits (Rs bn)	35.7	47.4	52.1
EBITDA (Rs bn)	58.5	75.6	82.0
EV/EBITDA (X)	12.8	9.3	7.8
ROE (%)	37.8	34.9	28.0
Div. Yield (%)	0.2	0.3	0.3

Standalone performance better than our estimate

Jindal Steel and Power (JSP) reported 2QFY11 net income of 4.8 bn (+9.8% qoq, 56.8%yoy), 5.7% ahead of our estimate. Steel deliveries were strong during the quarter, growing 14.5% qoq and 14.4% yoy to 462K tons. EBITDA of Rs8.6 bn exceeded our estimate and grew 8.2% qoq and 55.3% yoy. We are surprised by the rather modest decline in realization and stable EBITDA/ ton on a sequential basis. Note that peers have reported a steep decline in profitability during the quarter. Raw material costs hardly changed despite an uptick in volumes and an increase in contract coking coal prices. Pellet sales were negligible for the quarter. Consolidated EBITDA of Rs15 bn, grew 15% yoy and -3.9% qoq. JSPL reported consolidated net income of Rs8.9 bn (+10.6% yoy).

Jindal Power— revenues decline on weaker short-term market and lower generation

Jindal Power (JPL) reported 2QFY11 net sales at Rs7.9 bn and PAT of Rs4.6 bn on generation of 1,972 MU. The implied realizations (assuming 8% AuX) dropped marginally from Rs4.6/kwh in 1QFY11 to Rs4.3/kwh in 2QFY11. Gross generation declined 12% sequentially on account of the shutdown of two units for annual maintenance. Management has indicated that it sold ~75% of power on a merchant basis while the balance was sold at a rate of Rs3.1/kwh, implying an average merchant realization of Rs4.9/kwh during the quarter. JSPL has maintained healthy merchant tariffs as it has locked-in contracts for 6-9 months at lucrative tariffs of Rs5/kwh. We note that tariffs in the bilateral market have declined marginally Rs4.92/kwh in the month of August as compared to an average tariff of Rs5.83/kwh in 1QFY11.

Review estimates post quarterly earnings call

We will revisit earnings estimates after the quarterly earnings call once we gain clarity on a number of issues. Currently, we value JSP at an SOTP-based target price of Rs625/share. We currently value the steel business at Rs265/ share. We value the power business at Rs361/share comprising (1) Rs183/share for the 1,000 MW merchant power plant (Jindal Power), (2) Rs87/share as value enhancement from the proposed 2,400 MW merchant power plant at Raigarh and (3) R91/share for the 1,350 MW captive power plant being set up at Angul and Raigarh — we assume the power generated out of this plant will be sold on a merchant basis.

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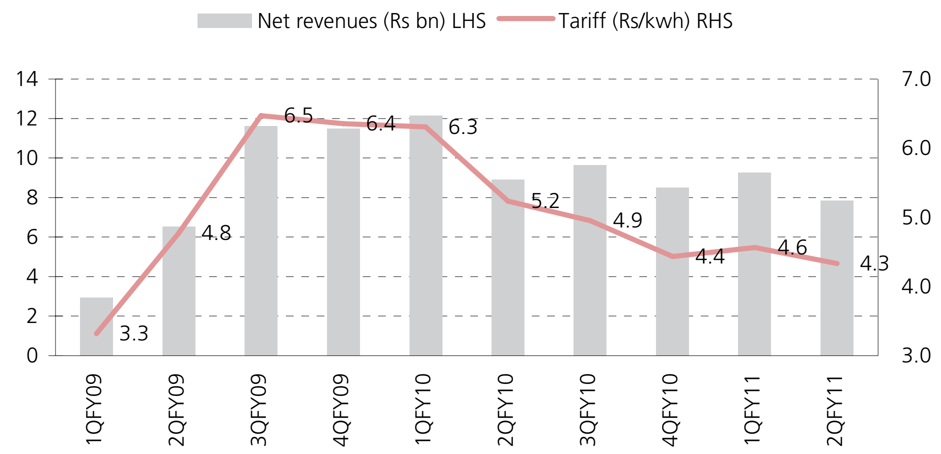
Exhibit 1: Average realizations dropped by 5% qoq
Net revenues and average realizations of JPL, 1QFY09-2QFY11 (Rs bn, Rs/kwh)



Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Interim results of Jindal Steel & Power (standalone), March fiscal year-ends (Rs mn)

					(% chg.)		
	2QFY11	**2QFY11E**	**2QFY10**	**1QFY11**	**2QFY11E**	**2QFY10**	**1QFY11**
Net sales	**22,996**	**24,434**	**15,982**	**21,216**	**(5.9)**	**43.9**	**8.4**
Total expenditure	(14,436)	(16,260)	(10,469)	(13,303)	(11.2)	37.9	8.5
Inc/(Dec) in stock	327	(500)	567	1,504	-	(42.5)	(78.3)
Raw materials	(6,549)	(8,415)	(4,861)	(7,650)	(22.2)	34.7	(14.4)
Stores and spares consumed	(2,780)	(2,348)	(1,937)	(2,280)	18.4	43.5	21.9
Power & Fuel	(1,521)	(1,209)	(1,382)	(1,151)	25.8	10.1	32.1
Staff cost	(694)	(648)	(498)	(617)	7.1	39.2	12.4
Other expenditure	(3,219)	(3,140)	(2,359)	(3,109)	2.5	36.5	3.5
EBITDA	**8,560**	**8,174**	**5,514**	**7,913**	**4.7**	**55.3**	**8.2**
OPM (%)	**37.2**	**33.5**	**34.5**	**37.3**			
Other income	60	62	205	62	(3.2)	(70.7)	(3.2)
Interest	(781)	(816)	(545)	(742)	(4.3)	43.2	5.2
Depreciation	(1,638)	(1,622)	(1,270)	(1,475)	0.9	28.9	11.0
Pretax profits	**6,202**	**5,798**	**3,903**	**5,759**	**7.0**	**58.9**	**7.7**
Extraordinaries	—	—	—	—	—	—	—
Tax	(1,420)	(1,276)	(853)	(1,402)	11.3	66.6	1.3
Net income	**4,782**	**4,523**	**3,050**	**4,357**	**5.7**	**56.8**	**9.8**
Income tax rate (%)	22.9	22.0	21.8	24.3			
Ratios							
EBITDA margin (%)	37.2	33.5	34.5	37.3			
ETR (%)	22.9	22.0	21.8	24.3			
EPS (Rs)	5.1	4.9	3.3	4.7			
Per ton analysis							
Revenue/ton	46,811	42,390	29,561	46,854	10.4	58.4	(0.1)
EBITDA/ton	17,425	14,182	10,198	17,476	22.9	70.9	(0.3)
Segmental revenue							
Iron & Steel	21,967	23,570	15,001	20,347	(6.8)	46.4	8.0
Power	2,768	2,807	2,621	2,719	(1.4)	5.6	1.8
Others	444	220	176	209	102.0	152.1	112.1
Segmental PBIT							
Iron & Steel	6,488	—	3,761	5,947	—	72.5	9.1
Power	1,447	—	1,479	1,413	—	(2.2)	2.4
Others	(18)	—	42	20	—	(142.2)	(186.7)

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Interim results of Jindal Steel & Power (consolidated), March fiscal year-ends (Rs mn)

	2QFY11	2QFY10	1QFY11	(% chg.) 2QFY10	1QFY11
Net sales	**30,821**	**24,453**	**29,982**	**26.0**	**2.8**
Total expenditure	(15,804)	(11,396)	(14,362)	38.7	10.0
Inc/(Dec) in stock	411	624	1,746	—	(76.5)
Raw materials	(6,424)	(4,861)	(7,360)	32.1	(12.7)
Stores and spares consumed	(2,798)	(1,946)	(2,292)	43.8	22.1
Power & Fuel	(2,063)	(1,584)	(1,763)	30.3	17.1
Staff cost	(1,008)	(643)	(826)	56.7	22.0
Other expenditure	(3,923)	(2,987)	(3,869)	31.3	1.4
EBITDA	**15,017**	**13,056**	**15,621**	**15.0**	**(3.9)**
OPM (%)	**48.7**	**53.4**	**52.1**		
Other income	37	451	89	(91.7)	(58.2)
Interest	(782)	(1,172)	(861)	(33.3)	(9.2)
Depreciation	(2,731)	(2,474)	(2,509)	10.4	8.8
Pretax profits	**11,542**	**9,862**	**12,339**	**17.0**	**(6.5)**
Extraordinaries	—	—	—	—	—
Tax	(2,600)	(1,778)	(2,797)	46.2	(7.1)
Net income	**8,942**	**8,084**	**9,542**	**10.6**	**(6.3)**
Ratios					
EBITDA margin (%)	48.7	53.4	52.1		
ETR (%)	22.5	18.0	22.7		
EPS (Rs)	9.6	8.7	10.2		
Segmental revenue					
Iron & Steel	21,967	15,001	20,347	46.4	8.0
Power	10,386	11,091	11,467	(6.4)	(9.4)
Others	651	176	255	269.8	155.2
Segmental PBIT					
Iron & Steel	6,488	3,761	5,947	72.5	9.1
Power	6,230	8,094	8,363	(23.0)	(25.5)
Others	29	18	(86)	56.3	(133.4)
Segmental PBIT (%)					
Iron & Steel	29.5	25.1	29.2		
Power	60.0	73.0	72.9		
Others	4.4	10.4	(33.6)		

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Sterlite Industries (STLT)

Metals

BUY

OCTOBER 27, 2010

RESULT

Coverage view: Cautious

Price (Rs): 172

Target price (Rs): 200

BSE-30: 20,221

No surprises; upgrade to BUY on attractive valuations. Sterlite reported 2QFY11 EBITDA of Rs15.3 bn, 5.2% ahead of our estimate and led by solid performance from the zinc business. Net income of Rs10.1 bn beat our estimate with the help of forex gains. Sterlite has progressed well in its lead-silver capacity expansion and power projects; however, the future of aluminium expansion remains unclear. Upgrade to BUY from ADD on attractive valuation with a target price of Rs200, which is based on conservative assumptions and builds in negative Rs20/share for VAL.

Company data and valuation summary

Sterlite Industries

Stock data			
52-week range (Rs) (high,low)			232-149
Market Cap. (Rs bn)			578.9
Shareholding pattern (%)			
Promoters			52.8
FIIs			27.2
MFs			3.5
Price performance (%)	**1M**	**3M**	**12M**
Absolute	(0.1)	(0.9)	(16.3)
Rel. to BSE-30	(1.0)	(11.7)	(30.7)

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	12.0	13.7	18.3
EPS growth (%)	2.8	13.9	33.5
P/E (X)	14.3	12.6	9.4
Sales (Rs bn)	244.1	283.0	356.1
Net profits (Rs bn)	40.4	46.0	61.4
EBITDA (Rs bn)	60.7	73.7	115.7
EV/EBITDA (X)	9.2	7.5	4.7
ROE (%)	12.9	11.8	13.9
Div. Yield (%)	0.5	0.5	0.5

2QFY11 performance broadly in line with our estimates

Sterlite's 2QFY11 EBITDA of Rs15.3 bn (+12% yoy and +2.1%qoq) was 5.2% ahead of our estimate of Rs14.5 bn. Performance was led by the zinc-lead business with EBITDA of Rs11 bn (+4.7% yoy, 10.2% qoq) and aluminium segment EBITDA of Rs1.4 bn (+69.4% qoq, 23.1% yoy), while power EBITDA of Rs0.7 bn (-7.5% yoy, -46.8% qoq) and copper EBITDA of Rs2.1 bn (+3% yoy, -19.3% qoq) lagged. Net income of Rs 10.1 bn (flat qoq, +5.1% yoy) was helped by forex gains of Rs715 mn versus a loss of Rs690 mn in 1QFY11 and Rs262 mn in 2QFY10.

New projects to power performance in FY2012E and FY2013E

We forecast EBITDA growth of 57.1% for FY2012E and 16.7% for FY2013E. Growth will be powered by (1) full benefits of zinc-lead capacity expansion; (2) expansion of silver refinery and (3) strong contribution from power business. Revenues from the first unit of the 2400 MW (4X600 MW) Jharsugda will start accruing in November 2010; Sterlite expects synchronization of the second unit by 3QFY11 and the balance units at a 3-month interval each from December 2010. Synchronization of the first unit of 1200MW (4X300 MW) power plant of Balco will start by end-FY2011E — the remaining units will come up with a 3-month interval. The management indicated it may not start metal tapping from new aluminium smelting capacity of VAL and Balco until it gets a go-ahead for the Lanjigarh alumina refinery expansion and alternative source for bauxite. The company may instead sell power on a merchant basis from the power plants set up for producing aluminium.

Deep-value but requires resolution of disputes/ recent alleged violations, Upgrade to BUY

We have broadly retained our estimates on the companies for the next three years. Key changes to our estimates include (1) increase in zinc-lead and aluminium price assumption; (2) we assume that Balco will not start aluminium smelter and instead sell power from CPP and (3) revision in Re/US$ rate. Upgrade to BUY from ADD earlier on attractive valuations, with a target price of Rs200 based on end-FY2012E financials. Our estimates and target price are based on conservative commodity price assumptions. We do not ascribe any equity value to VAL project, loans extended by Sterlite to VAL and investments in new 325ktpa aluminum smelter of Balco.

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Significant value unlocking on resolution of issues with the Government

In addition to eliminating all investments in VAL, we assume Sterlite will provide further funding of Rs67 bn to VAL. This effectively results in negative equity value of Rs67 bn equating to Rs20/ share of Sterlite. We believe that unlocking of value is possible upon the resolution of disputes and alleged violation of environment protection norms.

We believe that availability of bauxite mines for Vedanta Aluminium (VAL) can add at least Rs50/share to our fair value. We also believe that the company has an inefficient capital structure on account of a lack of fungibility of cash of subsidiaries, i.e. Hindustan Zinc and Balco. Clarity on the exercise of the call option for the acquisition of Government stake in HZ and Balco can be a further catalyst. Sterlite expects a decision from the arbitration panel on Balco/ HZ call option by mid to end-November 2010. Resolving the issues regarding alleged violations of the approval process for expansion and environmental clearances could refocus investors on the value of core operations.

Vedanta Aluminium — no resolution in sight

Sterlite has a 29.5% stake in Vedanta Aluminium (VAL). VAL has already spent Rs267 bn on the Lanjigarh alumina, aluminium smelter and associated power plants. VAL has 0.5 mtpa aluminium smelter and 1.4 mtpa alumina smelter already operational. In the second phase, VAL intends to increase alumina refinery capacity to 5 mtpa and aluminium capacity to 1.75 mtpa. Sterlite management indicated that it has stalled ramp up of Lanjigarh refinery after the recent directive of MOEF. Sterlite may complete the 1.25 mtpa aluminium smelter expansion though it would not start metal tapping till it receives a go-ahead for the Lanjigarh alumina refinery and is able to secure bauxite supply. Note that VAL has already spent US$1.8 bn out of the US$2.9 bn planned capex for 1.25 mtpa aluminium smelting capacity. VAL has also spent US$671 mn at end-FY2010E out of the proposed US$1.6 bn for alumina refinery expansion.

Funding for the Rs267 bn investment has been done through (1) Rs132 bn from promoters. This includes equity and debt funding and (2) Rs135 bn from non-promoter debt funding. Most of the non-promoter debt is via buyer credit and short-term loans. VAL has not drawn down the long-term loan facility as yet; the long-term loan has a 10-year tenure with a moratorium on interest payments for the first two years. VAL indicates that the borrowing cost is ~8.5%. VAL has laid out a 60:40 debt/ equity financing structure.

Out of the Rs112 bn invested by the promoters (this includes debt and quasi –equity investments), Sterlite provided funding of Rs62 bn for the VAL project. The funding provided by Sterlite is higher than its stake in VAL. Sterlite indicates that surplus financing of Rs23 bn provided for VAL operations may be refunded/ reduced.

We believe VAL may struggle to meet even interest obligations. VAL's cost of production stands at US$1800/ton at present. The management indicates that the cost of production will reduce on the commissioning of logistics infrastructure and stabilization of ports. Even after assuming that the company reduces cost of production to US$1,600/ ton, the company will generate maximum EBITDA of US$400 mn at the current aluminium and operational aluminium capacity of 0.5 mn tons. This may be barely sufficient to meet annual interest obligation exceeding US$300 mn.

We believe VAL promoters may have to infuse equity/ debt. We have assumed that Sterlite would provide additional funding of Rs67 bn (Rs20 / share)— this is over and above Rs62 bn already invested in VAL.

Balco expansion—story similar to VAL

Balco has outlined a US$1.9 bn capex for 325ktpa smelter and 1200 MW (4X300 MW) power plant. The company has already spent close to US$620 mn and has unspent commitments of US$513 mn at end-FY2010E. Balco is dependent on Lanjigarh Alumina refinery for its alumina requirements. However, with the recent stay on refinery expansion, Balco's aluminium smelting capacity expansion may no longer be viable. Similar to VAL, Balco may complete the construction of its aluminium smelter though it may not start commercial operations till it is able to source alumina from Lanjigarh refinery. Balco had outlined capex of US$840 mn for 325 ktpa aluminium smelter.

Balco indicates that it may instead sell power from the proposed 1200 MW captive power plant on a merchant basis. We are still not confident of Balco selling power on merchant basis given that the company is required to consume at least 51% of the captive power generated for it to qualify as CPP. Balco has received coal linkage for 600MW and is at the advanced stage of developing coal block allocated for this CPP.

Discussion on divisional performance

Sterlite's 2QFY11 result surpassed our estimate. Performance was strong in the zinc-lead and aluminium business and weak in the power and copper segments.

- **Zinc, lead and silver segment** HZ's reported 2QFY11 net profit of Rs9.5 bn (+1.5% yoy, +6.5% qoq) was ahead of our expectation of Rs8.6 bn. EBITDA of Rs11.3 bn (+10.1%qoq, 4.6% yoy) was also ahead of our estimate of Rs10.4 bn. Growth in EBITDA/net income was led by (1) higher volumes—refined zinc production grew 7.1% qoq and 25.3% yoy to 176K tons and (2) higher realizations—zinc realization for quarter was US$2,154/ ton (+0.5% qoq, 11.6% yoy) and lead realization was US$2,262/ ton (+0.4% qoq, 6.3% yoy).

  HZ's 2QFY11 net zinc metal cost of production increased by 21% yoy to US$977/ton. HZ attributes this to multiple reasons, a part of which will reverse in subsequent quarters. Key areas highlighted include (1) weak ore grade leading to lower metal recovery and (2) the lack of water availability forcing it to buy power rather than use its captive power plant. This along with increase in coal charges pushed up power and fuel costs and (3) increase in strip ratio for Rampura Agucha mine. The company expects the strip ratio to remain at 15 for the next 12-18 months before it reduces again to 6-7X. HZ expects cost/ ton reduction of up to US$100 over the next two-three quarters

- **Copper business**. Copper EBITDA of Rs2.1 bn (+3% yoy, -19.3% qoq) was lower than our estimate of Rs2.3 bn. Sterlite had a planned shutdown of copper smelter for a few days at the beginning of the quarter, impacting performance. We can expect volumes to pick up in the coming quarters. The copper smelting business suffers from significant overcapacity; we expect flat trends on Tc/Rc margins over the next few quarters.

- **Power business**: Power business EBITDA declined 46.8% qoq and 7.5% yoy to Rs0.7 bn. Even after accounting for seasonality, performance was lower than our estimate. Power realization declined 30.6% qoq and 15.3% yoy to Rs3.5/ unit. We expect power business performance to pick up in subsequent quarters.

- **Aluminium business**. The aluminium segment reported EBITDA of Rs1.4 bn (+23.1% yoy, 69.4% qoq). EBITDA was helped by (1) realization of US$2,272/ ton — an improvement of 11.8% yoy and -1.9% qoq and (2) 1QFY11 quarter performance was impacted by additional employee gratuity provisioning to the extent of Rs400 mn. Cost of production of US$1,748 ton is at the higher end of the cost curve.

Interim results of Sterlite Industries (Consolidated) , March fiscal year-ends (Rs mn)

	2QFY11	2QFY11E	2QFY10	1QFY11	(% chg.) 2QFY11E	2QFY10	1QFY11
Net sales	**60,844**	**59,603**	**61,291**	**59,703**	**2.1**	**(0.7)**	**1.9**
Total expenditure	(45,554)	(47,548)	(47,637)	(44,729)	(4.2)	(4.4)	1.8
Inc/(Dec) in stock	3,935	—	1,681	2,463	—	134.0	59.7
Raw materials	(31,640)	(29,545)	(34,297)	(29,253)	7.1	(7.7)	8.2
Staff cost	(2,225)	(2,979)	(2,058)	(2,837)	(25.3)	8.1	(21.6)
Other expenditure	(9,880)	(9,328)	(8,327)	(9,518)	5.9	18.7	3.8
EBITDA	**15,289**	**14,531**	**13,654**	**14,974**	**5.2**	**12.0**	**2.1**
OPM (%)	**25.1**	**24.4**	**22.3**	**25.1**			
Other income	5,779	5,165	3,887	6,915	11.9	48.6	(16.4)
Interest	3	(1,549)	(576)	(1,409)	(100.2)	(100.6)	(100.2)
Depreciation	(2,123)	(2,279)	(1,734)	(2,170)	(6.8)	22.5	(2.2)
Pretax profits	**18,948**	**15,867**	**15,231**	**18,310**	**19.4**	**24.4**	**3.5**
Extraordinaries/sales tax benefit	(212)	—	(234)	—	—	—	—
Tax	(4,555)	(3,332)	(2,593)	(3,685)	36.7	75.7	23.6
Net income before minority interest	**14,181**	**12,535**	**12,403**	**14,625**	**13.1**	**14.3**	**(3.0)**
Minority interest	(3,853)	(3,314)	(3,677)	(3,756)	16.3	4.8	2.6
Share of associates	(247)	(200)	863	(785)	23.6	(128.6)	(68.5)
PAT after minority interest	**10,080**	**9,021**	**9,589**	**10,084**	**11.7**	**5.1**	**(0.0)**
Adjusted PAT	**10,292**	**9,021**	**9,823**	**10,084**	**14.1**	**4.8**	**2.1**
Ratios							
EBITDA margin (%)	25.1	24.4	22.3	25.1			
ETR (%)	24.3	21.0	17.3	20.1			
EPS (Rs)	3.0	2.7	2.9	3.0			
Volume details ('000 tons)							
Copper mined metal content	6	7	5	7	(14.3)	20.0	(14.3)
Copper cathode	68	70	81	77	(2.9)	(16.0)	(11.7)
Balco	68	68	64	63	—	6.3	7.9
Zinc mined metal content	205	180	193	182	13.6	6.2	12.6
Zinc cathode	176	166	152	165	6.1	15.9	7.1
Silver (tons)	44	45	30	43	(3.2)	46.7	1.6
Wheeled units (mn units)	414	440	336	480	(5.9)	23.2	(13.8)
Average realizations (Rs/ton)							
Copper	392,834	398,052	398,998	345,942	(1.3)	(1.5)	13.6
Aluminium	105,584	108,610	98,281	105,703	(2.8)	7.4	(0.1)
Zinc and lead	111,747	122,513	114,799	107,096	(8.8)	(2.7)	4.3
Power (Rs/unit)	3.5	3.6	4.1	5.0	(4.1)	(15.3)	(30.6)
EBITDA (Rs mn)							
Copper	2,090	2,264	2,030	2,590	(7.7)	3.0	(19.3)
Aluminium	1,440	1,449	1,170	850	(0.6)	23.1	69.4
Zinc and lead	11,020	9,600	10,530	10,000	14.8	4.7	10.2
Power	740	975	800	1,390	(24.1)	(7.5)	(46.8)
Others	243	243	—	—	—	—	—
Average INR:USD	46.5	46.5	48.4	45.6	—	(3.9)	1.9
LME Zinc prices (US$/ ton)	2,013	2,015	1,792	2,018	(0.1)	12.3	(0.2)
Spot aluminium prices (US$/ ton)	2,089	2,089	1,844	2,091	—	13.3	(0.1)

Source: Company, Kotak Institutional Equities estimates

Sterlite Industries (consolidated), change in estimates, March fiscal year-ends, 2011E-13E (Rs mn)

	Revised estimates			Old estimates			% change		
	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E
Net sales	282,987	356,122	378,883	273,033	359,499	395,135	3.6	(0.9)	(4.1)
EBITDA	73,650	115,676	134,989	75,051	120,475	134,056	(1.9)	(4.0)	0.7
PAT	46,010	61,420	70,381	45,917	62,757	70,586	0.2	(2.1)	(0.3)
EPS (Rs)	**13.7**	**18.3**	**20.9**	**13.7**	**18.7**	**21.0**	**0.2**	**(2.1)**	**(0.3)**
Prices (US$/ton)									
Aluminium	2,050	2,150	2,300	1,950	2,050	2,200	5.1	4.9	4.5
Zinc	2,000	2,150	2,250	1,900	2,000	2,100	5.3	7.5	7.1
Copper	7,500	7,600	7,220	6,700	7,100	7,242	11.9	7.0	(0.3)
Lead	2,000	2,150	2,250	1,900	2,000	2,100	5.3	7.5	7.1
Re/ US$ rate	45.5	44.5	44.1	46.0	46.0	46.0	(1.1)	(3.3)	(4.2)

Source: Kotak Institutional Equities estimates

SOTP-based target price of Sterlite Industries is Rs200/share

SOTP-based target price of Sterlite, March fiscal year-ends, 2012E basis (Rs mn)

	EBITDA (Rs bn)	Multiple (X)	EV (Rs bn)	Net debt (Rs bn)	Implied M Cap (Rs bn)	Sterlite's stake (%)	Attributable M Cap (Rs bn)	Contribution Rs/ share
BALCO	19	6.0	116	40	76	51.0	39	11
Copper business								
Copper smelting business	7	6.0	43	(122)	165	100.0	165	49
Copper mining								2
Zinc business								
Hindustan Zinc	63	6.5	410	(195)	605	64.9	393	117
Other businesses								21
Target price (Rs/ share)								**200**

Source: Kotak Institutional Equities estimates

Capex spending pattern as on 31st March, 2010

Sector	Project	Volume mtpa	Cost (US$ mn)	Upto 31st March, 2010 Spent (US$ mn)	Unspent (US$ mn)
Alumina					
	Lanjigarh I Alumina refinery	1.4	1,015	942	32
	Debottlenecking Lanjigarh 1	0.6	150	61	13
	Lanjigarh II Alumina refinery	3.0	1,570	671	284
Aluminium					
	Jharsuguda I smelter (including 1215 MW CPP)	0.5	2,310	2,230	71
	Jharsuguda II smelter	1.25	2,920	1,504	547
Copper					
	SIIL Expansion project	0.4	500	52	376
Power					
	Talwandi Saboo power project	1980MW	2,150	216	1,479
	SEL IPP	2400MW	1,900	1,287	219
Zinc					
	Smelting projects (including 160 MW CPP)		720	608	85
	Mining projects				
TOTAL			**13,235**	**7,571**	**3,105**

Source: Company, Kotak Institutional Equities estimates

Sterlite Industries, Valuation matrix, March fiscal year-ends, 2008-13E (Rs mn)

	2008	2009	2010E	2011E	2012E	2013E
Valuation Matrix						
P/E (X)	11.0	14.0	14.3	12.6	9.4	8.2
EV/EBITDA (X)	4.7	7.8	7.5	5.9	3.4	2.4
EV/ EBITDA (X)- proportionate	7.5	11.0	11.3	7.6	4.2	3.2
Price to Book (X)	2.2	1.9	1.6	1.4	1.2	1.1
Ratios						
EBITDA margin (%)	31.8	22.2	24.9	26.0	32.5	35.6
EBIT margin (%)	29.4	18.9	21.8	22.4	28.3	31.1
PAT margin (%)	25.8	23.5	22.2	22.6	23.7	25.8
Return ratios						
ROE (year-end) (%)	20.0	13.6	10.9	11.2	13.1	13.1
ROE (average) (%)	27.6	14.5	12.9	11.8	13.9	14.0
ROCE (year-end) (%)	17.8	9.7	7.8	8.1	11.0	11.5
ROCE (average) (%)	21.7	10.3	9.7	8.5	11.3	11.6
Leverage ratios						
Debt/ Equity (X)	0.2	0.3	0.3	0.4	0.3	0.3
Net debt/ Equity (X)	(0.5)	(0.5)	(0.3)	(0.3)	(0.4)	(0.5)
Debt/ Capitalization (X)	(0.2)	(0.3)	(0.2)	(0.2)	(0.3)	(0.4)
Net debt/ EBITDA (X)	(1.5)	(2.6)	(2.0)	(1.9)	(1.6)	(1.9)

Source: Company, Kotak Institutional Equities estimates

Sterlite Industries (consolidated), Key assumptions, March fiscal year ends 2008-13E (Rs mn)

	2008	2009	2010	2011E	2012E	2013E
Volumes (tons)						
Zinc	425,532	552,330	577,685	703,200	782,310	835,050
Lead	58,298	60,564	64,391	83,250	148,000	155,400
Copper	337,073	312,572	333,244	328,981	337,093	337,117
Aluminium metal	358,328	356,513	267,802	266,135	267,453	268,770
Silver	82	103	139	151	318	360
Power (mn units)	—	—	—	4,327	17,597	18,374
Average realization (Rs/ton)						
Zinc	125,946	70,353	99,421	98,939	103,757	107,424
Lead	122,771	86,385	105,922	99,026	102,718	106,426
Copper cathode	330,044	272,349	303,652	361,223	357,963	336,780
Aluminium ingots	119,772	113,566	96,607	106,514	110,125	116,292
Silver (Rs mn/ton)	19	20	25	29	31	31
Power (Rs/unit)				2.6	2.5	2.4
LME assumptions (US$/ton)						
Zinc	2,992	1,563	1,936	2,000	2,150	2,250
Lead	2,875	1,655	1,990	2,000	2,150	2,250
Copper	7,588	5,885	6,500	7,500	7,600	7,220
Aluminium	2,624	2,227	1,900	2,050	2,150	2,300
Divisional EBITDA mix (US$ mn)						
Hindustan Zinc	1,336	597	988	1,060	1,418	1,628
Sterlite (standalone)	213	184	108	158	161	159
BALCO	330	167	182	202	434	644
Power	—	(2)	(2)	137	518	571
Others	73	81	9	61	69	62
Total	**1,952**	**1,027**	**1,285**	**1,619**	**2,599**	**3,064**
USD:INR	**40.3**	**45.8**	**47.3**	**45.5**	**44.5**	**44.1**

Source: Company, Kotak Institutional Equities estimates

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

	2008	2009	2010	2011E	2012E	2013E
Profit model (Rs mn)						
Net sales	247,054	211,442	244,103	282,987	356,122	378,883
EBITDA	**78,584**	**47,041**	**60,718**	**73,650**	**115,676**	**134,989**
Other income	15,623	21,543	19,594	25,495	27,464	31,621
Interest	(3,051)	(3,973)	(3,424)	(5,344)	(11,344)	(12,986)
Depreciaiton	(5,949)	(7,007)	(7,498)	(10,367)	(14,857)	(17,323)
Profit before tax	**85,207**	**57,604**	**69,390**	**83,434**	**116,938**	**136,301**
Extraordinaries	**(665)**	**2,258**	**(2,970)**	**—**	**—**	**—**
Current tax	(18,555)	(8,795)	(11,038)	(16,373)	(26,368)	(31,206)
Deferred tax	(2,336)	(1,461)	(1,291)	(2,997)	(6,135)	(7,331)
Net income before minorities	**63,652**	**49,607**	**54,091**	**64,065**	**84,434**	**97,764**
Minority interest	(19,616)	(12,671)	(17,241)	(16,275)	(21,679)	(26,648)
Share of profit/loss from associates	(42)	(1,536)	588	(1,780)	(1,335)	(734)
Net income	**43,994**	**35,400**	**37,437**	**46,010**	**61,420**	**70,381**
Adjusted net income	**44,522**	**34,847**	**40,407**	**46,010**	**61,420**	**70,381**
EPS (Rs)	**15.7**	**12.3**	**12.0**	**13.7**	**18.3**	**20.9**
Balance sheet (Rs mn)						
Equity	223,026	256,132	370,120	412,443	470,176	536,870
Deferred tax liability	13,537	14,076	15,524	18,521	24,656	31,987
Total Borrowings	50,745	70,135	92,600	145,639	157,214	163,991
Minority Interest	56,233	68,132	84,096	100,371	122,050	148,698
Current liabilities	31,943	42,051	49,319	48,658	47,769	48,363
Total liabilities	**375,484**	**450,526**	**611,659**	**725,631**	**821,864**	**929,908**
Net fixed assets	99,754	102,319	122,656	191,321	247,965	282,985
Capital work-in-progress	24,613	69,786	110,844	128,930	110,410	99,694
Investments	162,941	162,062	203,045	226,045	253,545	273,545
Cash	24,536	55,048	33,378	82,552	104,422	162,912
Other current assets	63,640	61,312	141,737	96,784	105,523	110,772
Miscellaneous expenditure	0	—	0	—	—	—
Total assets	**375,484**	**450,526**	**611,659**	**725,631**	**821,864**	**929,908**
Free cash flow (Rs mn)						
Operating cash flow excl. working capital	58,433	40,654	44,554	50,154	76,628	90,063
Working capital changes	2,032	13,636	(8,487)	44,292	(9,628)	(4,655)
Capital expenditure	(30,119)	(40,095)	(61,819)	(97,117)	(52,982)	(41,628)
Free cash flow	**30,345**	**14,195**	**(25,752)**	**(2,672)**	**14,017**	**43,780**
Ratios						
Debt/equity (X)	0.2	0.3	0.3	0.4	0.3	0.3
Net debt/equity (X)	(0.5)	(0.5)	(0.3)	(0.3)	(0.4)	(0.5)
RoE (%)	27.6	14.5	12.9	11.8	13.9	14.0
RoACE (%)	**21.7**	**10.3**	**9.7**	**8.5**	**11.7**	**12.1**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

JSW Steel (JSTL)

Metals

REDUCE

OCTOBER 27, 2010

RESULT

Coverage view: Cautious

Price (Rs): 1,226

Target price (Rs): 1,115

BSE-30: 20,221

Earnings fall short—valuations and pricing environment constrain our outlook.

JSW reported 2QFY10 EBITDA of Rs10.2 bn (-4.9% yoy, -5.2% qoq), about 6% lower than our estimate. Net income of Rs3.7 bn (+26% qoq, +16% yoy) beat our Rs3.3 bn estimate—entirely by forex gains of Rs1.57 bn. We like JSW's volume-led growth approach and strong execution capabilities. However, expensive valuations, likely softness in steel prices and limited raw material integration constrain a more positive view. We lower our target price to Rs1,115.

Company data and valuation summary

JSW Steel

Stock data			
52-week range (Rs) (high,low)			1,400-652
Market Cap. (Rs bn)			309.2
Shareholding pattern (%)			
Promoters			45.0
FIIs			28.8
MFs			0.2
Price performance (%)	**1M**	**3M**	**12M**
Absolute	(3.9)	4.7	50.5
Rel. to BSE-30	(4.8)	(6.7)	24.6

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	80.4	73.6	108.0
EPS growth (%)	481.1	(8.5)	46.8
P/E (X)	15.2	16.7	11.4
Sales (Rs bn)	190.7	240.5	307.5
Net profits (Rs bn)	16.0	18.3	26.8
EBITDA (Rs bn)	41.9	48.1	64.8
EV/EBITDA (X)	11.2	9.6	6.5
ROE (%)	16.0	12.6	13.0
Div. Yield (%)	0.6	0.7	0.8

EBITDA falls short of our estimates; net income helped by forex gains

JSW Steel reported consolidated 2QFY11 EBITDA of Rs10.2 bn (-5.2%qoq and -4.9% yoy), 6% lower than our estimate of Rs10.9 bn. EBITDA/ ton was US$126, (-22.1% yoy, -31.4% qoq) about 6.6% lower than our estimate. We attribute the entire deviation to lower-than-expected steel realization (-7.5% qoq, 15.2% yoy). Net income of Rs3.7 bn (+26.4% qoq, +15.6% yoy) was 14.7% ahead of our estimate, largely on account of forex gain of Rs 1.6 bn. Steel deliveries recovered in 2QFY11 to 1.6 mn tons (+32.9% qoq and +8.9% yoy) owing to an increase in production levels and lower 1Q inventory by 128K tons in the quarter.

Lowers FY2011E steel deliveries guidance to 6.25 mn tons

JSW lowered FY2011E steel deliveries guidance to 6.25 mn tons (+9.5% growth) from 6.75 mn earlier. This is perhaps not a surprise noting the strong impact on the industry volumes from the influx of imports in 1QFY11. Crude steel production guidance of 9.75 mn tons in FY2012E appears a tad aggressive. Note that industry capacity addition in flats of 18 mn tons (81% of end-FY2010E capacity) from FY2010-12E may be significantly higher than domestic markets can absorb in a short span. We model steel deliveries of 8.5 mn tons in FY2012E.

Large capex plans announced; greenfield steel plant in West Bengal at Rs160 bn

JSW approved implementation of 4.5 mtpa steel plant in West Bengal using BF-BOF-CCP route at a total cost of Rs160 bn. The project will be funded with a debt equity ratio of 2:1. The 3.2 mtpa capacity expansion at Vijaynagar is on track for completion by end-FY2011E. JSW also announced 2 mtpa steel capacity expansion through debottlenecking; further details on this project will be announced by the company in due course.

Marginal changes on Re/US$ rate revision; Maintain REDUCE

We have made marginal changes to our estimates. We like the volume growth story and impressive execution track record of JSW. However, expensive valuations (trading at 6.5X FY2012E EBITDA and 11.4X earnings), likely pressure on steel prices and limited raw material integration constrain a more positive view. We maintain our REDUCE rating and lower our target price by 3% to Rs1,115/share.

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Exhibit 1: JSW Steel, Change in estimates, March fiscal year-ends, 2011E-13E (Rs mn)

	Revised estimates			Old estimates			% change		
	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E
Net sales	240,546	307,457	351,527	244,997	314,196	357,619	(1.8)	(2.1)	(1.7)
EBITDA	48,104	64,760	75,389	49,980	67,353	77,684	(3.8)	(3.9)	(3.0)
EPS	**73.6**	**108.0**	**142.2**	**71.9**	**112.2**	**145.8**	**2.3**	**(3.7)**	**(2.4)**
Saleable steel volumes ('000 tons)	6,223	8,508	9,914	6,283	8,508	9,914	(1.0)	—	—
HRC price (US$/ton)	723	703	703	723	696	696	0.0	0.9	0.9
Average realizations, net (Rs/ton)	37,286	34,993	34,236	37,621	35,747	34,816	(0.9)	(2.1)	(1.7)
Iron ore cost (US$/ton)	51	50	52	51	49	50	(0.1)	1.1	3.4
EBITDA/ton (US$/ton)	**167**	**169**	**170**	**170**	**170**	**171**	**(1.8)**	**(0.6)**	**(0.2)**

Source: Kotak Institutional Equities estimates

Update on raw material and capacity expansion projects

- The 3.2 mtpa expansion at Vijayanagar is on course and scheduled for completion by end- FY2011E. This will increase Vijayanagar's crude steel capacity to10 mtpa. Further, the company intends to increase capacity by a further 2 mtpa through debottlenecking operations. The company did not share further details on the process.

- Delay in grant of permits may delay shipments of iron ore and coking coal. JSW expects shipment of coking coal from US to start in Jan 2011 and iron ore by end-2010. Chile iron ore mine will act as a hedge against the iron ore price and will be sold in the market. The company expects shipments of ~80 kt / month from Dec at a cost of production of ~US$60/ ton. Note that JSW Steel owns 70% economic interest in this mine. JSW Steel also expects shipments from US coking coal mine from January 2011 of 70kt/ month. The approx cost of mining in US coking coal operations is ~US$120/ ton; in addition incremental freight costs from to US to India (over sourcing from Australia) will likely be US$20/ ton leading to total landed cost of US$140/ ton in India.

Greenfield expansion plan announced

JSW board approved implementation of 4.5 mtpa steel plant in West Bengal using BF-BOF-CCP route. This project will be implemented through an SPV; West Bengal Industrial Development Corporation will own 6% in this SPV. JSW management has outlined capex of Rs160 bn for this expansion, which includes equity investment in SPV for mines development and SPV for captive power plant. The project will funded through a debt equity mix of 2:1 (Rs53 bn equity and 107 bn debt) and is expected to be commissioned by end FY2014E. JSW intends to invest the equity portion over a period of three years starting1QFY12. Exhibit 2 gives the break up of capex to be spent, together with the project timelines. The company was non-committal on JFE's involvement in this project

Exhibit 2: West Bengal project overview (Rs bn)

	Commencement	Implementation Period	Debt: Equity Ratio	Capex (Rs bn)
4.5 mtpa Greenfield HRC plant	Apr-11	36 months	2:1	153.5
660 MW power plant (26% stake in SPV)	Apr-11	36 months	3:1	2.2
2.4 mtpa Kulti Sitarampur coking coal mines	Jan-11	39 months	3:1	3.4
2.6mtpa Ichhapur thermal coal mines (26% stake in SPV)	Jan-11	39 months	3:1	1.0
				160.0

Source: Company, Kotak Institutional Equities estimates

Balance sheet deleveraged; to help fund expansion projects

JSW converted FCD issued to JFE into 32 mn equity shares at Rs1,500/ share. This conversion happened after JSW stock closed above Rs1,365 for five consecutive trading sessions, triggering mandatory conversion clause. As a result, JSW Steel received Rs48 bn which it used to deleverage its balance sheet by prepaying debt amounting of Rs26 bn during the quarter. The balance was invested in mutual funds and fixed deposits. Interest cost reduced 6.9%qoq and 13.2% yoy to Rs2 bn. JFE's holding is JSW stands at 14.61%. JSW board has approved issuance (subject to regulatory and shareholder approvals) of 977K share and 3.1 mn non-voting GDRs, with each GDR equivalent to 1 local share. These issuance will be made a the higher of (1) 10% premium to the minimum price payable under the SEBI rules or (2) Rs1,500/ share. JSW will raise additional Rs6 bn through this issuance.

Exhibit 3: Equity capital that JSW can potentially raise between 2010-2012E
JFE is obligated to keep stake at 14.99% in JSW

	# of shares	Equity raised	Conversion price
	mn	Rs mn	Rs
Conversion of shares at Rs1,500			
Shares outstanding	187		
Sale of stake to JFE	32	48,007	1,500
Existing	**219**	**48,007**	
Warrants to promoters	18	21,175	1,210
Second tranche of stock issue to JFE	4	6,000	1,500
FCCB conversion, mid-2012	12	11,098	953
Third tranche to JFE	2	3,165	1,500
Potentially raised	**35**	**41,438**	
Total	**254**	**89,445**	
JFE's ownership (mn shares)	**38**	**57,172**	
JFE's equity ownership (%)	**14.99**		

Note
(1) Promoters have 18-month window from June 2010 to convert warrnts into equity share

Source: Company, Kotak Institutional Equities estimates

Key results highlights and commentary for FY2011E

- 2QFY11 steel deliveries were back on track growing 32.9% qoq and 8.9% yoy to 1.6 mn tons. Steel deliveries was in line with our estimate, JSW liquidated inventory to the extent of 128K tons during the quarter. JSW reduced crude steel production and steel deliveries guidance to 6.6mn tons and 6.25 mn tons from 7 mn tons and 6.75 mn tons earlier.

- Average realization increased 15.2% yoq but declined 7.5% qoq to Rs 36,089/ton (US$777/ ton). Decline in realization is consistent with our expectation though more severe than our forecast. On the positive side, commissioning of HSM strip has led to decline in semis sales (-20%qoq, -79%yoy). Rolled flat product rolled flat products grew 41% qoq and 40% yoy to 1.2 mn tons. Management indicated EBITDA level benefit of Rs2.1 bn from change in product mix.

- Iron ore cost increased marginally above Rs2,800 from 1QFY11 cost of US$61.4/ ton (Rs2800/ton) despite increase in contract iron ore prices. We understand that the company procured iron ore fines at attractive prices of Rs1,100-1,200 ton after the Karnataka banned exports of iron ore.

- Net income of Rs4.5 bn grew 27.2% qoq but declined 1.4% yoy. Net income on sequential basis was boosted by forex gain of Rs.1.57 bn versus loss of Rs0.98 bn in the previous quarter,

- On a consolidated basis, JSW reported revenues of Rs59.1 bn (+22.6% qoq, +24.9% yoy), EBITDA of Rs10.2 bn (-5.2% qoq, -4.9% yoy) and net income of Rs3.7bn (+26.4% qoq, 15.6% yoy). These were 14.7% higher than our estimate of 3.3 bn. Deviation was primarily on account of a FX gain of Rs 1.6 bn.
- JSW's US subsidiary reported EBITDA of US$0.8 mn as against US$7.6 mn in the previous quarter. Performance impacted by weak demand resulting in drop in utilization rates. At the net income level, US subsidiary reported loss of US$13 mn.

Exhibit 4: Interim results of JSW Steel (standalone), March fiscal year-ends (Rs mn)

					(% chg.)		
	2QFY11	2QFY11E	2QFY10	1QFY11	2QFY11E	2QFY10	1QFY11
Net sales	**57,128**	**58,579**	**45,539**	**46,469**	**(2.5)**	**25.4**	**22.9**
Other operating income	631	366	254	333	72.2	148.7	89.4
Total expenditure	(47,838)	(48,525)	(34,121)	(36,458)	(1.4)	40.2	31.2
Inc/(Dec) in stock	(3,288)	—	447	8,721	—	(835.8)	(137.7)
Raw materials	(33,643)	(37,932)	(25,846)	(34,576)	(11.3)	30.2	(2.7)
Power & Fuel	(3,041)	(2,942)	(2,497)	(2,692)	3.4	21.8	13.0
Staff cost	(1,291)	(1,084)	(956)	(1,410)	19.0	35.1	(8.5)
Other expenditure	(6,574)	(6,567)	(5,269)	(6,500)	0.1	24.8	1.1
EBITDA	**9,922**	**10,420**	**11,672**	**10,345**	**(4.8)**	**(15.0)**	**(4.1)**
OPM (%)	**18.5**	**18.4**	**26.2**	**23.0**			
Other income	1,634	31	13	31	5,103.2	12,664.1	5,103.2
Interest	(1,993)	(1,842)	(2,298)	(2,142)	8.2	(13.2)	(6.9)
Depreciation	(3,324)	(3,236)	(2,805)	(3,172)	2.7	18.5	4.8
Profit before tax	**6,238**	**5,374**	**6,582**	**5,062**		**(5.2)**	**23.2**
Extraordinaries	—	—	—	—	—	—	—
Tax	(1,783)	(1,612)	(2,066)	(1,560)	10.6	(13.7)	14.3
Net income	**4,454**	**3,762**	**4,515**	**3,503**	**18.4**	**(1.4)**	**27.2**
Income tax rate (%)	30.0	30.0	31.4	30.8	—	(4.4)	(2.6)
Ratios							
EBITDA margin (%)	18.5	18.4	26.2	23.0			
ETR (%)	30.0	30.0	31.4	30.8			
EPS (Rs)	22.4	18.9	22.7	17.6			
Per ton analysis (Rs)							
Revenues	36,089	36,612	31,320	39,017	(1.4)	15.2	(7.5)
Raw material consumption	21,253	23,707	17,775	29,031	(10.4)	19.6	(26.8)
Power & Fuel	1,921	1,839	1,718	2,260	4.5	11.8	(15.0)
Staff cost	815	678	657	1,184	20.3	24.1	(31.1)
Other expenditure	4,153	4,104	3,624	5,458	1.2	14.6	(23.9)
EBITDA	5,869	9,363	7,853	8,406	(37.3)	(25.3)	(30.2)
Per ton analysis (US$)							
Revenues	777	788	647	855	(1.4)	20.1	(9.2)
Raw material consumption	457	510	367	636	(10.4)	24.6	(28.1)
Power & Fuel	41	40	35	50	4.5	16.5	(16.6)
Staff cost	18	15	14	26	20.3	29.2	(32.4)
Other expenditure	89	88	75	120	1.2	19.4	(25.3)
EBITDA	126	135	162	184	(6.6)	(22.1)	(31.4)

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: Interim results of JSW Steel (consolidated), March fiscal year-ends (Rs mn)

					(% chg.)		
	2QFY11	2QFY11E	2QFY10	1QFY11	2QFY11E	2QFY10	1QFY11
Net sales	**59,081**	**60,825**	**47,297**	**48,180**	**(2.9)**	**24.9**	**22.6**
Operating other income	641		268	400		139.0	60.3
Total expenditure	(49,495)		(36,812)	(37,796)		34.5	31.0
Inc/(Dec) in stock	(3,233)		87	8,450		(3,828.5)	(138.3)
Raw materials	(34,971)		(27,695)	(35,255)		26.3	(0.8)
Power & Fuel	(3,131)		(2,569)	(2,757)		21.9	13.6
Staff cost	(1,563)		(1,217)	(1,682)		28.4	(7.1)
Other expenditure	(6,597)		(5,418)	(6,551)		21.8	0.7
EBITDA	**10,227**	**10,885**	**10,753**	**10,784**	**(6.0)**	**(4.9)**	**(5.2)**
OPM (%)	17	18	23	22	—	—	—
Other income	1,634	35	13	32	4,567.7	12,466.9	5,005.3
Interest	(2,614)	(2,640)	(3,019)	(2,731)	(1.0)	(13.4)	(4.3)
Depreciation	(3,791)	(3,681)	(3,255)	(3,612)	3.0	16.5	4.9
Pretax profits	**5,456**	**4,529**	**4,491**	**4,473**	**20.5**	**21.5**	**22.0**
Extraordinaries	—	—	—	—	—	—	—
Tax	(1,816)	(1,343)	(1,367)	(1,587)	35.2	32.8	14.4
Net income	**3,640**	**3,186**	**3,124**	**2,886**	**14.3**	**16.5**	**26.1**
Minority interest	(61)	(34)	(68)	(34)	78.2	(10.4)	78.8
Share of profit from associates	32	35	36	34	(9.7)	(11.2)	(6.0)
PAT after minority interest	**3,733**	**3,255**	**3,228**	**2,954**	**14.7**	**15.6**	**26.4**
Income tax rate (%)	33	30	30	35	12.2	9.3	(6.2)
Ratios							
EBITDA margin (%)	17.3	17.9	22.7	22.4			
ETR (%)	33.3	7.4	30.4	35.5			
EPS (Rs)	18.8	16.4	16.2	14.9			

Source: Company, Kotak Institutional Equities estimates

Exhibit 6: JSW Steel, Valuation details, March fiscal-year ends 2012E basis (Rs mn)

	EBITDA	Multiple	Value	
	(Rs mn)	(X)	(Rs mn)	(Rs/share)
Consolidated EBITDA	64,760	6.0	388,560	1,565
Net debt			111,797	450
Arrived market capitalization			**276,762**	**1,115**
Target price (Rs)				**1,115**

Source: Company, Kotak Institutional Equities estimates

Exhibit 7: JSW Steel, key assumptions, March fiscal year-ends, 2008-13E

	2008	2009	2010E	2011E	2012E	2013E
Crude steel capacity ('000 tons)	3,800	5,100	7,900	7,900	11,100	11,100
Saleable steel volumes ('000 tons)	3,405	3,421	5,705	6,223	8,508	9,914
HRC price (US$/ton)	753	819	632	723	703	703
Average realizations, net (US$/ ton)	780	879	678	819	786	777
Average realizations, net (Rs/ton)	33,534	41,298	32,030	37,286	34,993	34,236
Iron ore cost (US$/ton)	47	53	41	51	50	52
Hard coking coal prices (US$/ton-fob)	106	260	160	215	225	220

Source: Company, Kotak Institutional Equities estimates

Exhibit 8: JSW Steel (standalone), Profit model, balance sheet and cash flow model, March fiscal year-ends, 2008-2013E (Rs mn)

	2008	2009	2010	2011E	2012E	2013E
Profit model (Rs mn)						
Net sales	114,200	141,265	182,741	232,012	297,719	339,407
EBITDA	**33,546**	**29,852**	**43,741**	**47,391**	**63,946**	**74,377**
Other income	2,571	(6,827)	4,225	2,006	417	975
Interest	(4,404)	(7,973)	(8,627)	(8,133)	(7,291)	(5,661)
Depreciaiton	(6,872)	(8,277)	(11,234)	(13,273)	(17,048)	(17,748)
Profit before tax	**24,841**	**6,776**	**28,105**	**27,992**	**40,025**	**51,943**
Current tax	(5,168)	(2,191)	(5,738)	(6,438)	(9,206)	(11,947)
Deferred tax	(2,392)	—	(2,231)	(1,959)	(2,802)	(3,636)
Net profit	**17,282**	**4,585**	**20,136**	**19,594**	**28,017**	**36,360**
Earnings per share (Rs)	**78.0**	**23.1**	**101.3**	**78.9**	**112.9**	**146.5**
Balance sheet (Rs mn)						
Equity	76,773	79,593	97,063	166,990	218,787	252,049
Deferred tax liability	12,518	14,212	19,650	21,609	24,411	28,047
Total Borrowings	75,465	112,726	115,851	112,435	92,518	62,602
Current liabilities	41,018	75,572	76,219	79,944	57,953	71,693
Total liabilities	**205,775**	**282,103**	**308,783**	**380,978**	**393,668**	**414,390**
Net fixed assets	165,679	223,285	235,504	292,231	295,184	285,436
Investments	9,235	12,501	17,684	16,475	16,475	16,475
Cash	3,392	4,200	2,871	6,873	2,784	23,369
Other current assets	27,468	42,117	52,724	65,398	79,226	89,111
Miscellaneous expenditure	—	—	—	—	—	—
Total assets	**205,775**	**282,103**	**308,783**	**380,977**	**393,668**	**414,390**
Free cash flow (Rs mn)						
Operating cash flow excl. working capital	29,721	19,855	40,232	34,826	47,867	57,744
Working capital changes	5,806	20,706	(7,353)	(9,276)	(35,949)	3,855
Capital expenditure	(49,699)	(55,511)	(26,530)	(70,000)	(20,000)	(8,000)
Free cash flow	**(14,172)**	**(14,950)**	**6,349**	**(44,449)**	**(8,082)**	**53,599**
Ratios						
Debt/equity (X)	0.8	1.2	1.0	0.6	0.4	0.2
Net debt/equity (X)	0.8	1.2	1.0	0.6	0.4	0.1
RoAE (%)	22.2	5.0	19.1	12.8	13.0	13.9
RoACE (%)	**11.5**	**4.9**	**11.5**	**8.6**	**9.9**	**12.6**

Source: Company, Kotak Institutional Equities estimates

Exhibit 9: JSW Steel (consolidated), Profit model, balance sheet and cash flow model, March fiscal year-ends, 2008-2013E (Rs mn)

	2008	2009	2010	2011E	2012E	2013E
Profit model (Rs mn)						
Net sales	124,567	159,348	190,738	240,546	307,457	351,527
EBITDA	**34,780**	**29,818**	**41,873**	**48,104**	**64,760**	**75,389**
Other income	1,537	2,717	4,194	2,006	417	975
Interest	(5,730)	(11,556)	(11,080)	(9,725)	(8,848)	(7,203)
Depreciaiton	(7,419)	(9,878)	(12,987)	(14,706)	(18,450)	(19,136)
Miscellaneous expenditure w/o	—	—	—	—	—	—
Profit before tax	**23,168**	**11,101**	**22,000**	**25,679**	**37,879**	**50,026**
Extra-ordinary items	1,075	(7,948)	—	—	—	—
Current tax	(7,658)	(726)	(4,294)	(5,744)	(8,562)	(11,372)
Deferred tax	—	—	(2,173)	(1,959)	(2,802)	(3,636)
Net profit	**16,585**	**2,427**	**15,533**	**17,975**	**26,515**	**35,018**
Minority interest	(41)	205	332	162	150	134
Share of earnings from associates	(143)	117	111	123	136	151
PAT	**16,400**	**2,749**	**15,976**	**18,260**	**26,802**	**35,304**
Adjusted PAT	**15,665**	**8,867**	**15,976**	**18,260**	**26,802**	**35,304**
Earnings per share (Rs)	**82.5**	**13.8**	**80.4**	**73.6**	**108.0**	**142.2**
Balance sheet (Rs mn)						
Equity	78,888	78,040	92,572	161,224	211,866	244,131
Deferred tax liability	12,517	12,768	16,848	18,807	21,609	25,245
Total Borrowings	121,362	165,502	161,730	161,135	139,218	107,302
Current liabilities	47,064	82,628	80,727	85,028	86,884	89,327
Minority interest	1,919	2,732	2,187	2,025	1,874	1,740
Total liabilities	**261,751**	**341,670**	**354,063**	**428,218**	**461,451**	**467,745**
Net fixed assets	208,017	278,943	284,090	342,884	346,434	337,299
Goodwill on consolidation	7,831	7,831	8,992	8,992	8,992	8,992
Investments	4,696	3,966	6,282	6,405	6,541	6,692
Cash	4,715	5,093	3,030	11,152	27,421	32,371
Other current assets	36,492	45,836	51,669	58,786	72,063	82,392
Miscellaneous expenditure	—	—	—	—	—	—
Total assets	**261,751**	**341,670**	**354,063**	**428,218**	**461,451**	**467,745**
Free cash flow (Rs mn)						
Operating cash flow excl. working capital	30,938	19,143	38,323	34,641	47,767	57,790
Working capital changes	1,719	26,781	(4,710)	(2,816)	(11,421)	(7,886)
Capital expenditure	(96,084)	(57,279)	(27,245)	(73,500)	(22,000)	(10,000)
Free cash flow	**(63,427)**	**(11,355)**	**6,368**	**(41,675)**	**14,345**	**39,904**
Ratios						
Debt/equity (X)	1.7	2.4	1.9	1.1	0.7	0.5
Net debt/equity (X)	1.5	2.1	1.7	0.9	0.5	0.3
RoAE (%)	20.8	3.5	17.3	11.3	12.7	14.5
RoACE (%)	**10.1**	**4.8**	**9.4**	**7.8**	**9.4**	**11.5**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

UltraTech Cement (1,070)

Cement

REDUCE

OCTOBER 26, 2010

RESULT, CHANGE IN RECO.

Coverage view: Neutral

Price (Rs): 1,100

Target price (Rs): 1,070

BSE-30: 20,221

Earnings disappoint, downgrade to REDUCE. We downgrade Ultratech to REDUCE, taking cognizance of higher input cost and lower realizations as reflected in the 1,240 bps contraction in operating margins at 12%. UTCEM is currently trading at 12X on FY2012E EPS and US$135/ton on FY2012E production and offers 3% downside to our revised target price of Rs1,070/share. Higher-than-estimated increase in cement prices in the coming quarters remains the key upside risk to our investment rationale.

Company data and valuation summary

UltraTech Cement

Stock data			
52-week range (Rs) (high,low)			1,174-700
Market Cap. (Rs bn)			301.5
Shareholding pattern (%)			
Promoters			54.8
FIIs			11.1
MFs			1.7
Price performance (%)	1M	3M	12M
Absolute	7.1	32.7	41.1
Rel. to BSE-30	6.2	18.2	16.8

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	88.2	54.6	93.4
EPS growth (%)	12.0	(38.1)	71.1
P/E (X)	12.5	20.1	11.8
Sales (Rs bn)	70.5	136.0	185.9
Net profits (Rs bn)	11.0	15.0	25.6
EBITDA (Rs bn)	20.7	31.1	49.1
EV/EBITDA (X)	14.5	9.9	5.9
ROE (%)	25.9	15.1	21.6
Div. Yield (%)	0.2	0.3	0.3

Results marred by weak realizations and higher input costs

UTCEM reported revenues of Rs32.1 bn (-9.1% yoy, -19.4% qoq), operating profits of Rs4.1 bn (-65.6% yoy, -59% qoq) and net income of Rs1.1 bn (-81% qoq) against our estimate of Rs32.9 bn, Rs5.6 bn and Rs2.5 mn, respectively. We note that all comparisons are on a like-for-like basis (on a post-merger basis). Reported PAT of Rs1.16 bn includes prior period tax reversal of Rs102 mn.

Volumes at 9.1 mn tons (-7% yoy, -13.2% qoq) were in line with our estimates while average realizations at Rs3,533/ton were marginally lower than our estimate of Rs3,619/ton. Lower-than-estimated EBITDA was primarily on account of (1) higher raw material cost (Rs485/ton against our estimate of Rs416/ton) and higher power and fuel cost (Rs927/ton against our estimate of Rs873/ton). Operating margins contracted to 12.7% in 2QFY11 from 25.1% in 1QFY11.

Pricing weakness in 2QFY11 – South and West worst hit

UTCEM sells ~60% of its output in South and West, leading to 7.2% sequential decline in realizations to Rs3,533/ton in 2QFY11 from Rs3,807/ton in 1QFY11. We highlight that the decline in cement prices in 2QFY11 was much more magnified in South and West India as compared to other regions. Average cement prices in South were down from Rs228/bag in May 2010 to Rs217/bag in September 2010 while in West they were down from Rs232/bag in May 2010 to Rs217/bag in September 2010. We believe that price hikes in September and plans for another round of hikes in October will likely help improve realizations in 3QFY11E.

Downgrade to REDUCE with a revised target price of Rs1,070/share

We downgrade UTCEM to REDUCE (ADD previously) and recommend investors book profits on the back of the recent outperformance and mid-cycle trading multiples. We have reduced our target price to Rs1,070/share (previously 1,100/share), which implies an EV/EBITDA of 5.7X on FY2012E earnings and EV/ton of US$131/ton on FY2012E production. We have revised our EPS estimate to Rs54/share (previously Rs66/share) in FY2011E and to Rs93/share (previously Rs99/share) in FY2012E, taking cognizance of higher input costs and weak realizations.

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Exhibit 1: Margins contracted sharply on lower realizations and higher input costs
Quarterly results for UltraTech Cement, March fiscal year-ends (Rs mn)

					Change (%)					
	2QFY11	**2QFY11E**	**2QFY10**	**1QFY11**	**2QFY11E**	**2QFY10**	**1QFY11**	**2011E**	**2012E**	***(% chg)***
Net sales	**32,147**	**32,932**	**15,408**	**39,898**	**(2)**	**109**	**(19)**	**136,036**	**185,861**	***36.6***
Raw materials	(4,416)	(3,784)	(1,157)	(4,712)				(18,667)	(23,042)	
Employee costs	(1,911)	(1,743)	(635)	(1,670)				(6,568)	(8,197)	
Power costs	(8,434)	(7,942)	(3,162)	(8,916)				(33,591)	(43,418)	
Freight costs	(6,505)	(6,893)	(2,861)	(7,628)				(26,630)	(36,028)	
Purchase of finished goods	(229)	(311)	(121)	(431)				(900)	(700)	
Other costs	(6,575)	(6,610)	(2,772)	(6,544)				(22,006)	(30,266)	
EBITDA	**4,078**	**5,650**	**4,700**	**9,997**	**(28)**	**(13)**	**(59)**	**27,674**	**44,209**	***59.7***
EBITDA (%)	**12.7**	**17.2**	**30.5**	**25.1**				**20.3**	**23.8**	
Other income	684	847	308	858				3,426	4,939	
Interest	(845)	(819)	(299)	(787)				(2,868)	(3,234)	
Depreciation	(2,184)	(2,178)	(967)	(2,132)				(7,399)	(8,977)	
PBT	1,733	3,500	3,743	7,936	(50)	(54)	*(78)*	20,833	36,938	*77.3*
Tax	(575)	(1,024)	(1,234)	(2,359)				(5,497)	(10,796)	
Deferred tax	—	—	-	—				(370)	(542)	
PAT	**1,158**	**2,476**	**2,509**	**5,577**	**(53)**	**(54)**	**(79)**	**14,966**	**25,600**	***71.1***
Extraordinaries	102	—	—	—				—	—	
Reported PAT	**1,260**	**2,476**	**2,509**	**5,577**				**14,966**	**25,600**	
Sales (mn tons)	**9.1**	**9.1**	**4.2**	**10.5**	**-**	**117**	**(13)**	**37.6**	**48.3**	***28.5***
Realization (Rs/ton)	**3,533**	**3,619**	**3,669**	**3,807**	**(2)**	**(4)**	**(7)**	**3,621**	**3,851**	***6.3***
Cost (Rs/ton)	3,085	2,998	2,550	2,853				2,885	2,935	
Raw materials	485	416	275	450				497	477	
Employee costs	210	192	151	159				175	170	
Power & fuel costs	927	873	753	851				894	900	
Freight costs	715	757	681	728				709	746	
Purchase of finished goods	25	34	29	41				24	15	
Other costs	722	726	660	624				586	627	
Profitability (Rs/ton)	**448**	**621**	**1,119**	**954**	**(28)**	**(60)**	***(53)***	**737**	**916**	***24.3***
Tax rate (%)	33.2	29.3	33.0	29.7				28.2	30.7	

Note:
(a) Numbers not comparable with 2QFY10 as 2QFY11 numbers are consolidated earnings of merged entity while 2QFY10 is for standalone Ultratech
(b) 1QFY11 numbers are conolidated numbers and includes Grasim's cement business
(b) FY2011E numbers do not include 1QFY11 numbers for Samruddhi

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Volumes have declined by 7% yoy on a like-for-like comparison
Like on like comparison of key metrics of UTCEM

					Change (%)		
	2QFY11	**2QFY11E**	**2QFY10**	**1QFY11**	**2QFY11E**	**2QFY10**	**1QFY11**
Revenues (Rs mn)	32,147	32,932	35,380	39,898	(2.4)	(9.1)	(19.4)
EBITDA (Rs mn)	4,078	5,650	11,840	9,997	(27.8)	(65.6)	(59.2)
PAT (Rs mn)	1,158	2,476	6,310	5,577	(53.3)	(81.7)	(79.2)
Volumes (mn tons)	9.1	9.1	9.8	10.5	0.0	(7.0)	(13.2)
Realizations (Rs/ton)	3,533	3,619	3,616	3,807	(2.4)	(2.3)	(7.2)
EBITDA/ton (Rs/ton)	448	621	1,210	954	(27.8)	(63.0)	(53.0)

Note:
2QFY10 and 1QFY11 numbers are shown on a post-merger basis

Source: Company, Kotak Institutional Equities estimates

Detailed analysis of quarterly results

We discuss below some key highlights of 2QFY11 results. We note that all yearly and sequential comparisons are on a like-for-like basis by consolidating Grasim's standalone cement results for 2QFY10 and 1QFY11.

- **Volumes:** Total volumes declined to 9.1 mn tons in 2QFY11 (-7% yoy, -13.2% qoq) primarily due to seasonal weakness which was aggravated by an elongated monsoon.

- **Realization:** Blended realizations decreased to Rs3,533/ton in 2QFY11 (-2.3% yoy, -7.2% qoq) on account of pricing weakness witnessed across the country. We highlight that price hikes in South by ~Rs20-25/bag and in West by Rs10-15/bag had a limited impact on average realizations as (1) they were taken during the end of the quarter and (2) were taken on back of equivalent or higher price correction during previous months of July and August.

- **Power and fuel cost:** UTCEM's power and fuel cost increased from Rs851/ton in 1QFY11 to Rs927/ton in 2QFY11 driven by increase in the price of imported coal.

- **Freight cost:** Freight cost remained stable at Rs715/ton in 2QFY11 (Rs728/ton in 1QFY11).

- **Raw material cost**: Raw material cost increased from Rs450/ton in 1QFY11 to Rs485/ton in 2QFY11.

Balance sheet analysis for 1HFY11

We discuss below some key takeaways from UTCEM balance sheet as of September 2010. We note that for like-for-like comparison, we have approximated the balance sheet as of March 2010 on a post-merger basis.

- UTCEM incurred a capex of ~Rs4.5 bn in 1HFY11 against our estimate of Rs14 bn for entire FY2011E.

- Increase in working capital: UTCEM moved from negative net current assets of Rs397 mn to Rs2.9 bn primarily on account of increase in inventory levels from Rs15.9 bn as of March 2010 to Rs20.1 bn as of September 2010. However, inventories as days of sales remained stable at 51 days.

- Total debt declined marginally from Rs41.5 bn as of March 2010 to Rs40.9 bn as of September 2010.

Exhibit 3: UTCEM incurred a capex of ~Rs4.5 bn in 1HFY11
Balance Sheet of UTCEM (Rs mn)

	Sep-10	Sep-09	Mar-10
Sources of funds			
Share capital	2,740	1,245	2,740
Reserves and surplus	95,355	41,465	89,392
Loan funds	40,944	16,643	41,473
Deferred tax liability	17,583	8,065	17,487
Total	**156,622**	**67,418**	**151,093**
Utilization of funds			
Fixed Assets	120,626	51,912	120,475
Investments	31,496	10,889	29,082
Inventories	20,111	8,686	15,940
Sundry debtors	5,244	2,234	4,574
Cash and bank balances	1,547	789	1,933
Loans and advances	9,047	4,217	9,624
Current liabilities	26,429	10,180	26,432
Provisions	5,020	1,129	4,103
Net current assets (ex cash)	2,953	3,829	(397)
Total	**156,622**	**67,418**	**151,093**

Note:
Balance sheet as of March 2010 has been restated to include Samruddhi cements

Source: Company, Kotak Institutional Equities

Exhibit 4: Merger has diversified the geographic exposure of UTCEM
Region wise sale mix of UTCEM (%)

	Ultratech		Samruddhi		Ultratech+Samruddhi	
	FY2011E	FY2012E	FY2011E	FY2012E	FY2011E	FY2012E
North	0.0	0.0	37.6	39.2	19.9	21.1
Central	5.8	5.8	24.6	25.7	15.8	16.5
East	15.9	15.8	7.4	7.1	11.4	11.2
West	42.7	42.5	15.3	14.0	28.1	27.2
South	32.7	33.2	15.1	13.9	23.3	22.9
Exports	2.9	2.6	0.0	0.0	1.4	1.2
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: Profit model, balance sheet and cash model of Ultratech, March fiscal year-ends, 2008-13E (Rs mn)

	2008	2009	2010	2011E	2012E	2013E
Profit model (Rs mn)						
Net sales	55,092	63,831	70,497	136,036	185,861	209,625
EBITDA	**17,198**	**17,075**	**19,430**	**27,674**	**44,209**	**54,915**
Other income	999	1,036	1,227	3,426	4,939	4,973
Interest	(757)	(1,255)	(1,175)	(2,868)	(3,234)	(3,132)
Depreciation	(2,372)	(3,230)	(3,881)	(7,399)	(8,977)	(9,357)
Pretax profits	15,067	13,625	15,601	20,833	36,938	47,399
Tax	(4,994)	(3,844)	(4,949)	(5,867)	(11,338)	(14,449)
Net profits	**10,073**	**9,781**	**10,652**	**14,966**	**25,600**	**32,950**
Extraordinary items	—	—	—	—	—	—
Earnings per share (Rs)	**81.4**	**78.8**	**88.2**	**54.6**	**93.4**	**120.2**
Balance sheet (Rs mn)						
Total equity	26,970	36,021	46,087	106,079	130,659	162,589
Deferred taxation liability	5,424	7,229	8,307	17,858	18,400	18,948
Total borrowings	17,405	21,416	16,045	36,278	31,578	27,861
Currrent liabilities	12,786	12,427	12,991	26,822	35,523	39,963
Total liabilities and equity	**62,584**	**77,094**	**83,430**	**187,036**	**216,159**	**249,362**
Cash	1,007	1,045	837	8,520	22,349	46,064
Current assets	12,032	12,571	13,887	30,053	40,325	45,170
Total fixed assets	47,836	53,130	52,011	127,076	132,098	136,741
Investments	1,709	10,348	16,696	21,386	21,386	21,386
Total assets	**62,584**	**77,094**	**83,430**	**187,036**	**216,159**	**249,362**
Free cash flow (Rs mn)						
Operating cash flow, excl. working capital	11,008	13,732	14,433	24,425	38,239	46,448
Working capital	3,615	193	(752)	3,629	(1,571)	(404)
Capital expenditure	(17,741)	(8,226)	(2,592)	(14,000)	(14,000)	(14,000)
Investments	3,087	(8,639)	(6,348)	0	0	0
Free cash flow	**(31)**	**(2,940)**	**4,741**	**14,054**	**22,668**	**32,044**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

IDEA (IDEA)

Telecom

REDUCE

OCTOBER 26, 2010

RESULT

Coverage view: Cautious

Price (Rs): 69

Target price (Rs): 55

BSE-30: 20,221

Cut estimates; fundamentals challenging, valuations rich. REDUCE. We cut our revenue and EBITDA estimates for FY2011-13E by 2-4% and 6-7%, respectively. High operating and financial leverage leads to a much higher 27-43% cut in our EPS estimates for these years. Idea remains the most leveraged to the evolving competitive and regulatory dynamics in the Indian wireless industry. Valuations appear rich in the backdrop of potential risks and possibility of earnings downgrades ahead. REDUCE.

Company data and valuation summary

IDEA

Stock data			
52-week range (Rs) (high,low)			80-47
Market Cap. (Rs bn)			229.2
Shareholding pattern (%)			
Promoters			47.0
FIIs			6.1
MFs			1.1
Price performance (%)	1M	3M	12M
Absolute	(10.2)	2.8	22.5
Rel. to BSE-30	(11.0)	(8.4)	1.4

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	2.7	1.6	0.9
EPS growth (%)	(5.8)	(42.7)	(44.9)
P/E (X)	25.4	44.3	80.5
Sales (Rs bn)	124.5	150.5	180.9
Net profits (Rs bn)	9.0	5.3	3.1
EBITDA (Rs bn)	34.1	35.9	44.6
EV/EBITDA (X)	8.7	10.2	8.6
ROE (%)	7.2	4.5	2.6
Div. Yield (%)	0.0	0.0	0.0

Cut estimates to factor in 2QFY11 volume/pricing disappointment and competitive dynamics

Before we delve into the details of our earnings changes, we note that Idea's high operating and financial leverage results in modest changes in EBITDA estimate translating into substantial % change in EPS estimates—hence, looking at EPS estimate changes or EPS-based relative multiples may not yield the true picture.

Exhibit 1 depicts the key changes to our earnings estimates for Idea. We reduce our revenue and EBITDA estimates for FY2011-13E by 2-4% and 6-7%, respectively, driven by (1) 2% reduction in network traffic estimate for FY2011E and 3-4% increase in the same for FY2012-13E, (2) 1% reduction in our RPM estimate for FY2012/13E, (3) higher-than-earlier estimated 3G network rollout-related opex, and (4) lower wireless margin assumptions, on account of lower RPM, and higher employee and network expenses. Increase in revenue/EBITDA assumptions for Indus mitigates some of the reduction in standalone wireless estimates.

The above changes translate into a 29% cut in FY2011E EPS to Rs1.57, 43% cut in FY2012E EPS to Rs0.86, and 27% cut in FY2013E EPS to Rs2.05. We also note that we have reduced our subscriber assumptions for Idea noting recent weak trajectory and potential impact of ongoing subs verification process. Even as subs-based metrics serve little purpose, our ARPU estimates are up 0.2-0.9% for FY2011-13E to Rs177-162 and MOU estimates are up 2% each for FY2012E and FY2013E. We now build in MOU of 418, 413 and 409 min/sub/month for FY2011E, FY2012E and FY2013E, respectively.

Valuations remain expensive; reiterate REDUCE

Idea trades at 10.2X FY2011E and 8.6XFY2012E EBTIDA, a substantial premium to Bharti and other emerging market players, even after using benign assumptions on competition and tariffs. We continue to believe that the Idea stock has an in-built M&A premium, which could sustain the stock at levels higher than our fair value estimates. However, returns from the current levels would hinge on further earnings upgrades—Idea would need to deliver positive surprise on execution over the coming quarters, not an easy task, in our view. We like Idea's execution and strategic moves but find the competitive challenge daunting. We reiterate our REDUCE rating on the stock. Our DCF-based target price remains unchanged at Rs55/share (builds in Rs15/share from Indus).

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Key earnings call highlights

- One-time retiral cost impact on margins was only about 35 bps for 2QFY11; management indicated that the rest of the sharp increase in wage costs is recurring in nature, driven by wage hikes during the quarter.
- Idea management categorically suggested that Sep quarter seasonality is becoming increasingly more pronounced on account of rising contribution of rural business to total.
- Idea also indicated improved mom network minutes trajectory in September and October MTD.
- Even as the pace of RPM decline has reduced, Idea suggested sustained price discounting in the market by newer players.
- Idea attributed improved revenue/ EBITDA performance at Indus to improvement across metrics – towers, tenancy, rentals and cost controls.
- The company is preparing to launch its 3G network in a phased manner from Jan – Mar 2011.

Exhibit 1: Idea Cellular--summary of key changes to the earnings model, March fiscal year-ends, 2010-2017E

	2010	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Revenues (Rs mn)								
Revised	124,471	150,500	180,924	204,396	222,073	233,311	241,312	247,143
Old	124,471	153,633	187,407	213,564	233,054	245,475	254,320	260,769
Change (%)	**-**	**(2.0)**	**(3.5)**	**(4.3)**	**(4.7)**	**(5.0)**	**(5.1)**	**(5.2)**
EBITDA (Rs mn)								
Revised	34,072	35,909	44,574	53,824	60,505	66,189	69,805	72,121
Old	34,072	38,665	47,229	57,154	63,999	68,975	72,285	74,830
Change (%)	**-**	**(7.1)**	**(5.6)**	**(5.8)**	**(5.5)**	**(4.0)**	**(3.4)**	**(3.6)**
EBITDA margin (%)								
Revised	27.4	23.9	24.6	26.3	27.2	28.4	28.9	29.2
Old	27.4	25.2	25.2	26.8	27.5	28.1	28.4	28.7
Change (bps)	**-**	**(131)**	**(56)**	**(43)**	**(22)**	**27**	**50**	**49**
EBIT Margin (%)								
Revised	11.2	7.6	8.3	10.1	11.5	12.6	13.0	13.0
Old	11.2	9.2	9.3	11.1	12.2	12.9	13.0	13.0
Change (bps)	**-**	**(160)**	**(103)**	**(98)**	**(75)**	**(25)**	**2**	**4**
EPS (Rs)								
Revised	2.73	1.57	0.86	2.05	3.23	4.42	5.26	5.65
Old	2.73	2.19	1.52	2.82	4.01	4.99	5.72	6.33
Change (%)	**-**	**(28.6)**	**(43.1)**	**(27.3)**	**(19.5)**	**(11.4)**	**(8.0)**	**(10.6)**
Subscribers (mn)								
Revised	63.8	85.8	101.4	112.3	120.0	125.4	129.4	132.5
Old	63.8	89.0	106.5	118.7	127.1	133.2	137.7	141.1
Change (%)	**-**	**(3.6)**	**(4.8)**	**(5.3)**	**(5.7)**	**(5.9)**	**(6.0)**	**(6.1)**
MOU (min/month)								
Revised	383	418	413	409	405	402	399	396
Old	383	418	405	401	398	394	391	388
Change (%)	**-**	**0.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.1**
ARPU (Rs/month)								
Revised	207	177	163	162	162	161	160	160
Old	207	176	162	161	161	160	159	158
Change (%)	**-**	**0.2**	**0.9**	**0.9**	**0.9**	**0.9**	**1.0**	**1.0**
RPM (Rs/min)								
Revised	0.54	0.423	0.396	0.396	0.400	0.401	0.402	0.404
Old	0.54	0.422	0.400	0.400	0.404	0.405	0.407	0.408
Change (%)	**-**	**0.2**	**(1.1)**	**(1.1)**	**(1.1)**	**(1.1)**	**(1.1)**	**(1.1)**
EPM (Rs/min)								
Revised	0.12	0.062	0.059	0.066	0.070	0.075	0.078	0.080
Old	0.12	0.068	0.063	0.070	0.074	0.077	0.079	0.081
Change (%)	**-**	**(8.9)**	**(6.6)**	**(5.8)**	**(4.6)**	**(2.1)**	**(0.9)**	**(1.0)**
Capex (Rs mn)								
Revised	33,024	104,118	43,374	34,731	32,234	31,601	32,267	32,711
Old	33,024	106,924	44,442	36,612	34,506	33,882	34,878	35,772
Change (%)	**-**	**(2.6)**	**(2.4)**	**(5.1)**	**(6.6)**	**(6.7)**	**(7.5)**	**(8.6)**
Capex/sales (%)								
Revised	26.5	69.2	24.0	17.0	14.5	13.5	13.4	13.2
Old	26.5	69.6	23.7	17.1	14.8	13.8	13.7	13.7
Change (bps)	**-**	**(42)**	**26**	**(15)**	**(29)**	**(26)**	**(34)**	**(48)**

Source: Kotak Institutional Equities estimates

Exhibit 2: Our March-12E DCF-based target price for Idea is Rs55/share

	2009	2010	2011E	2012E	2013E	2014E	2015E	2016E	2017E
EBITDA	28,353	34,072	35,909	44,574	53,824	60,505	66,189	69,805	72,121
Tax	(135)	(403)	(855)	(3,956)	(5,087)	(5,720)	(6,320)	(6,687)	(7,718)
Change in working capital	3,673	(21,908)	1,928	(3,554)	(6,698)	(3,149)	(1,477)	(370)	(169)
Post-tax operating cash flow	**31,892**	**11,760**	**36,982**	**37,064**	**42,040**	**51,636**	**58,392**	**62,749**	**64,234**
Capex	(61,402)	(33,024)	(104,118)	(43,374)	(34,731)	(32,234)	(31,601)	(32,267)	(32,711)
Free cash flow	**(29,511)**	**(21,264)**	**(67,136)**	**(6,310)**	**7,309**	**19,402**	**26,791**	**30,481**	**31,524**

		WACC and growth in perpetuity assumptions	
PV of cash flows	104,283	**Terminal growth - g (%)**	**5.0**
PV of terminal value	213,205	**WACC (%)**	**12.5**
EV	317,487		
Net debt	137,000		
Equity value (Rs mn)	**180,487**		
Equity value (US$ mn)	**3,881**		
Shares outstanding (mn)	3,300		
Equity value (Rs/Idea share)	**55**		
Exit FCF multiple (X)	13.3		
Exit EBITDA multiple (X)	**6.1**		

Key assumptions (%)	2009	2010	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Revenue growth	51.0	22.7	20.9	20.2	13.0	8.6	5.1	3.4	2.4
EBITDA growth	25.9	20.2	5.4	24.1	20.8	12.4	9.4	5.5	3.3
EBITDA margin	**27.9**	**27.4**	**23.9**	**24.6**	**26.3**	**27.2**	**28.4**	**28.9**	**29.2**
Capex/sales	60.5	26.5	69.2	24.0	17.0	14.5	13.5	13.4	13.2
Cash tax rate	0.9	2.8	6.8	24.2	23.3	21.5	20.7	20.6	23.1
Effective tax rate	3.9	11.9	6.3	12.0	14.6	18.4	20.0	20.4	23.4
ROCE	**10.4**	**7.6**	**4.9**	**4.2**	**5.7**	**7.1**	**8.3**	**9.1**	**9.2**

Source: Kotak Institutional Equities estimates

Exhibit 3: Idea 2QFY11E quarterly performance (Rs mn)

	2QFY10	1QFY11	2QFY11	qoq (%)	yoy (%)	2QFY11E	Deviation (%)
Idea Cellular (standalone)							
Revenues	28,909	36,897	36,891	(0.0)	27.6		
EBITDA	**7,307**	**7,937**	**7,618**	**(4.0)**	**4.3**		
EBIT	3,107	2,777	2,353	(15.3)	(24.3)		
PAT	**2,507**	**1,965**	**1,630**	**(17.0)**	**(35.0)**		
EBITDA margin (%)	25.3	21.5	20.7				
EBIT margin (%)	10.7	7.5	6.4				
Idea Cellular (consolidated, with Spice and Indus)							
Revenues	**29,739**	**36,537**	**36,592**	**0.2**	**23.0**	**37,608**	**(2.7)**
Standalone	28,909	36,897	36,891	(0.0)	27.6	37,994	(2.9)
Spice	1,401	-	-			-	
Indus	1,925	2,554	2,777	8.7	44.3	2,682	3.6
Eliminations	(2,496)	(2,914)	(3,075)	5.5	23.2	(3,068)	0.2
Costs							
Interconnection costs	(4,184)	(5,761)	(5,825)			(5,942)	(2.0)
License fee and spectrum charges	(3,320)	(4,242)	(4,178)			(4,363)	(4.2)
Network operating costs	(7,614)	(10,159)	(10,091)			(10,229)	(1.4)
Employee costs	(1,663)	(1,715)	(2,155)			(1,768)	21.9
SG&A expenses	(4,864)	(5,776)	(5,555)			(6,092)	(8.8)
Total	**(21,644)**	**(27,653)**	**(27,804)**			(28,394)	(2.1)
EBITDA	**8,095**	**8,884**	**8,788**	**(1.1)**	**8.6**	**9,214**	(4.6)
EBITDA margin (%)		**24.3**	**24.0**			**24.5**	
EBIT	3,299	3,228	2,968	(8.0)	(10.0)	3,340	(11.1)
PAT	**2,202**	**2,014**	**1,797**	**(10.8)**	**(18.4)**	**1,742**	**3.2**
Extraordinaries		**-**	**-**			**-**	
Reported net income		**2,014**	**1,797**			**1,742**	**3.2**
Wireless metrics							
Wireless ARPU (Rs/sub/month)	209	182	167	(8.2)	(20.1)	176	(5.2)
Wireless MOU (min/sub/month)	375	415	394	(5.1)	5.1	412	(4.4)
Wireless RPM (Rs/min)	0.557	0.439	0.424	(3.4)	(23.9)	0.428	(0.9)
Wireless EPM (Rs/min)	0.15	0.10					
Total minutes (bn min)	50.3	82.3	84.8	3.1	68.5	88.9	(4.5)
Wireless subscribers (mn)	46.8	68.9	74.2				
VAS as % of revenues (%)	10.6	12.6	12.9				
Number of cellsites (#)	50,915	66,725	67,980				
Pre-paid churn (%)	7.4	8.4	8.2				
Post paid churn (%)	3.0	2.9	2.9				
Blended churn	7.2	8.2	8.0				
Capex (Rs mn)	9,600	3,205	4,824				

(a) Wireless metrics for 2QFY10 are for Idea standalone (ex-Spice) and including Spice for 1QFY11 and 2QFY11.
(b) Idea cellular standalone excludes Indus and Spice for 2QFY10 and excludes Indus for 1QFY11 and 2QFY11.

Source: Company, Kotak Institutional Equities estimates

Exhibit 4: Idea Cellular's condensed financial statements, March year ends, 2009-2013E

	2009	2010	2011E	2012E	2013E
Profit model (Rs mn)					
Revenue	101,484	124,471	150,500	180,924	204,396
EBITDA	28,353	34,072	35,909	44,574	53,824
EBIT	14,314	13,922	11,490	14,979	20,733
Net interest income / (expense)	(4,943)	(3,689)	(5,876)	(11,477)	(12,427)
Tax	(362)	(1,214)	(355)	(421)	(1,209)
Recurring Net profit	9,009	9,019	5,172	2,848	6,770
Extraordinaries	-	520	-	-	-
Adjusted net profit	9,009	9,539	5,172	5,007	9,314
Fully diluted EPS	**2.90**	**2.73**	**1.57**	**0.86**	**2.05**
Balance sheet (Rs mn)					
Cash	51,316	14,204	16,593	21,842	19,802
Other current assets	21,540	25,080	30,313	37,373	43,613
Fixed assets	149,516	171,382	186,215	203,500	209,673
Other long term assets	44,722	15,823	80,688	77,182	72,649
Short tem debt	8,846	8,846	8,846	8,846	8,846
Other current liabilities	39,009	32,032	39,771	43,278	42,819
Long term debt	80,319	69,747	144,747	164,747	164,747
Other long term liabilities	714	2,142	1,464	964	164
Shareholders funds (incl. minorities)	138,206	113,722	118,894	121,742	128,512
Net (debt)/ cash	(37,849)	(64,389)	(137,000)	(151,751)	(153,791)
Free cash flow (Rs mn)					
EBITDA	**28,353**	**34,072**	**35,909**	**44,574**	**53,824**
Change in working capital	(21,908)	1,928	(3,554)	(6,698)	(3,149)
Cash tax (paid)	(162)	(364)	(455)	(921)	(2,009)
Cash interest (paid)	(4,943)	(4,005)	(7,001)	(12,868)	(13,532)
Capex on PP&E and intangibles	(76,741)	(33,024)	(104,118)	(43,374)	(34,731)
Miscallenous	19,227	(23,836)	5,481	3,144	(3,549)
Free cash flow	**(56,174)**	**(25,230)**	**(73,736)**	**(16,142)**	**(3,145)**
Ratios (%)					
Sales growth	51.0	22.7	20.9	20.2	13.0
EBITDA growth	25.9	20.2	5.4	24.1	20.8
EPS growth	(26.5)	(5.8)	(42.7)	(44.9)	137.7
FCF growth	NM	NM	NM	NM	NM
EBITDA margin	**27.9**	**27.4**	**23.9**	**24.6**	**26.3**
Net margin	8.9	7.2	3.4	1.6	3.3
FCF margin	(55.4)	(20.3)	(49.0)	(8.9)	(1.5)
RoAE	10.4	7.6	4.4	2.4	5.4
ROAE (excl. cash and int. income)	**15.2**	**9.2**	**4.0**	**1.6**	**5.5**
RoACE	8.6	6.5	5.0	4.4	5.6
ROACE (excl. cash and int. income)	**10.4**	**7.6**	**4.9**	**4.2**	**5.7**
Net debt/EBITDA (X)	1.3	1.9	3.8	3.4	2.9
Net debt/equity (X)	0.3	0.6	1.2	1.2	1.2
Total debt/capital (X)	0.6	0.7	1.3	1.4	1.4

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Tech Mahindra (TECHM)

Technology

REDUCE

OCTOBER 26, 2010

UPDATE

Coverage view: Attractive

Price (Rs): 786

Target price (Rs): 760

BSE-30: 20,221

2QFY11 – revenues meet, margins beat estimates. Tech Mahindra (TM) reported a handsome beat of our EBITDA and net income estimate for 2QFY11 despite a modest revenue miss. Outperformance was driven by better-than-expected OPM (underlying core margins 400 bps higher than estimate), aided by strong currency tailwinds and sharp jump in utilization. We increase our EPS estimates for FY2011/12E by 3.3/3.8% to Rs71.1/70.4, respectively. Raise target price to Rs760 (Rs735 earlier). Retain REDUCE.

Company data and valuation summary

Tech Mahindra

Stock data			
52-week range (Rs) (high,low)			1,158-617
Market Cap. (Rs bn)			97.4
Shareholding pattern (%)			
Promoters			73.8
FIIs			1.2
MFs			0.8
Price performance (%)	**1M**	**3M**	**12M**
Absolute	1.7	6.6	(16.3)
Rel. to BSE-30	0.8	(5.0)	(30.7)

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	65.1	71.1	70.4
EPS growth (%)	(9.6)	9.2	(1.0)
P/E (X)	12.1	11.1	11.2
Sales (Rs bn)	46.3	52.1	56.8
Net profits (Rs bn)	8.3	9.3	9.2
EBITDA (Rs bn)	11.3	10.3	10.8
EV/EBITDA (X)	9.6	10.4	9.7
ROE (%)	34.5	29.1	24.1
Div. Yield (%)	0.4	0.3	0.3

2QFY11 – strong quarter, on balance

TM's reported results for 2QFY11 were boosted by one-time pass-through revenue booking of Rs3 bn (with an EBITDA margin of 5%). Adjusted revenues of US$265 mn (+5.4% qoq, +12% yoy) fell 1% short of our estimate; however, adjusted EBITDA of Rs2.68 bn was 24% higher than our estimate and net income of Rs1.74 bn beat our estimate by 15%. Adjusted OPM surprise (400 bps higher than expectation) was aided by (1) strong currency tailwinds – Re/USD as well as cross-currencies, and (2) sharp 600 bps jump in utilization to 75% as the company reported a net headcount decline of 1,260 for the quarter. Volume growth was a reasonable 4.5% qoq.

Non-BT revenue momentum improving

We have been positive on non-BT revenue growth potential for TM. Our positive stance is on the back of return of telco capex cycle across countries – this reflected in a strong 8.5% qoq growth in US$ revenues from TM's non-BT relationships in the Sep 2010 quarter and we expect the strength to sustain in the coming quarters. Our confidence reflects in our above-Street revenue growth estimate for TM – we build in a strong 18% US$ revenue growth for FY2012E, essentially translating into a ~25% growth from non-BT accounts (assuming low single digit currency-led US$ revenue growth in the BT account). The company also announced a BPO deal win with Bharti Africa – TM will take over assets and employees from the current set-up.

Margins likely to come under pressure ahead

We remain cautious on TM's margin profile, however. Supply-side situation in the industry remains challenging – TM with a high attrition rate of ~30% could face wage pressure ahead; also, Re appreciation and impact of recent margin-dilutive deals (in our view) will likely add to the margin pressure. We, accordingly build in 19% OPM for FY2012E, 270 bps lower than 2QFY11 levels.

Raise estimates to build in 2QFY11 outperformance and modest increase in OPM assumptions

We increase our FY2011/12E cons. EPS estimate for TM to Rs71.1/70.4 (up 3.3/3.8%) and raise our SOTP target price to Rs760 (Rs735 earlier). Retain REDUCE on the stock noting the 3% valuation downside. Stock is likely to trade on Satyam-TM merger ratio speculation in the near term.

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Details on the one-time pass-through revenues

The one-time pass through revenues of US$64 mn booked by TM in 2QFY11 is part of a larger US$400 mn 10-year deal TM had signed with Etisalat DB Telecom in India nearly a year back. TM indicated that it has done a lease-financing accounting treatment for this investment – essentially, the amount of US$64 mn now forms a part of TM's balance sheet under the 'loans and advances' line item. The contract now moves to a managed services model and Etisalat will pay a lease financing charge for these assets over the next 10 quarters. We do note that Etisalat DB has not launched commercial services in India yet, and we do not see any material upside from this deal in the next few quarters.

Exhibit 1: Tech Mahindra: Quarterly financial performance, fiscal year ends March (Rs mn)

	Sep-09	Jun-10	Reported financials Sep-10	Adjusted for one time revenues Sep-10	Change (%) - adjusted financials qoq	yoy	Sep-2010E	Deviation (%) vs adjusted
Revenues (US$ mn)	**237**	**251**	**328**	**265**	**5.4**	**11.9**	**267**	**(0.9)**
Revenues	**11,418**	**11,337**	**15,339**	**12,350**	**8.9**	**8.2**	**12,205**	**1.2**
Cost of revenues	(6,986)	(7,458)	(10,701)	(7,849)			(8,210)	
Gross profit	**4,432**	**3,879**	**4,638**	**4,500**	**16.0**	**1.5**	**3,995**	**12.7**
SG&A expenses	(1,507)	(1,752)	(1,820)	(1,820)			(1,830)	
EBITDA	**2,925**	**2,127**	**2,818**	**2,680**	**26.0**	**(8.4)**	**2,165**	**23.8**
Depreciation	(312)	(354)	(347)	(347)			(347)	
EBIT	**2,613**	**1,773**	**2,471**	**2,333**	**31.6**	**(10.7)**	**1,818**	**28.4**
Other income	270	253	83	83			178	
Interest	(843)	(264)	(270)	(270)			(180)	
Profit before tax	**2,040**	**1,762**	**2,285**	**2,147**	**21.9**	**5.2**	**1,816**	**18.2**
Tax	(345)	(312)	(418)	(418)			(302)	
Net profit before minority	**1,695**	**1,450**	**1,867**	**1,729**	**19.3**	**2.0**	**1,514**	**14.2**
Minority interest	(5)	(6)	7	7			-	
Net profit after minority	**1,690**	**1,444**	**1,874**	**1,736**	**20.2**	**2.7**	**1,514**	**14.7**
Extraordinaries	-	-	(367)	(229)			-	
Net profit- reported	**1,690**	**1,444**	**1,507**	**1,507**	**4.3**	**(10.9)**	**1,514**	**(0.5)**
EPS (Rs/ share)	**12.9**	**11.0**	**11.5**	**11.5**	**4.3**	**(10.9)**	**11.6**	**(0.5)**
Shares outstanding (mn)	131.0	131.0	131.0	131.0			131.0	
Margins								
Gross margin	38.8	34.2	30.2	36.4			32.7	
EBITDA margin	25.6	18.8	18.4	21.7			17.7	
EBIT margin	22.9	15.6	16.1	18.9			14.9	
PBT margin	17.9	15.5	14.9	17.4			14.9	
PAT margin	14.8	12.7	9.8	12.2			12.4	
Tax rate	16.9	17.7	18.3	19.5			16.6	
SG&A as % of revenues	13.2	15.5	11.9	14.7			15.0	

Note:
(a) Deviation from KIE estimates is computed by adjusting the one time revenues of Rs2,989.5 mn and reported margins of 21.7%

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Key changes in FY2011-12 estimates, March fiscal year-ends

	New		Old		Change (%)	
	2011E	2012E	2011E	2012E	2011E	2012E
Revenues (Rs mn)	**52,129**	**56,816**	**49,544**	**58,097**	**5.2**	**(2.2)**
Revenues (US$ mn)	**1,145**	**1,276**	**1,078**	**1,265**	**6.2**	**0.9**
Revenue growth (%)	**17.2**	**11.4**	**10.4**	**17.3**		
EBITDA (Rs mn)	10,266	10,805	9,018	10,027	13.8	7.8
Net Profit (Rs mn)	9,318	9,226	9,020	8,886	3.3	3.8
Fully diluted EPS (Rs/share)	**71.1**	**70.4**	**68.9**	**67.8**	**3.3**	**3.8**
Re/$ rate	45.5	44.5	45.9	45.9	(0.9)	(3.1)
EBITDA margin (%)	19.7	19.0	18.2	17.3		

Source: Kotak Institutional Equities estimates

Exhibit 3: SOTP valuation of Tech Mahindra

Valuation	**Methodology**	**Rs/share**
Tech Mahindra core business	10X FY2012E core EPS of Rs37.7	377
Cash received from BT	Cash received from BT at par	74
Mahindra Satyam stake (42.7%)	Stake valued based on our fair value estimate of Satyam stock	306
Total		**757**

Computations	
FY2012E earnings from core business (Rs/share)	37.7
P/E multiple (X)	10
Cash received from BT (Rs/share)	74
Mahindra Satyam fair value estimate (Rs/share)	80
No of shares of Mahindra Satyam (mn)	1,176
Mahindra Satyam market cap (Rs mn)	94,104
Tech Mahindra stake in Mahindra Satyam (%)	42.7
Value of Tech Mahindra stake (Rs mn)	40,145
Value per Tech Mahindra share (Rs/share)	306

Source: Kotak Institutional Equities estimates

Exhibit 4: Key assumptions driving TM earnings model, 2009-2013E, March fiscal year-ends

	2009	2010	2011E	2012E	2013E
Key assumptions					
Revenues (US$ mn)	**985**	**977**	**1,081**	**1,276**	**1,478**
Revenue growth (US$ terms) (%)	5.4	(0.8)	10.7	18.0	15.9
Total employees (#)	23,222	31,709	34,987	41,984	48,282
Employee additions	1,838	8,487	3,278	6,997	6,298
Utilization rate (%)	69.6	71.0	71.3	72.0	72.5
SG&A expense as % of revenues	13.7	13.4	14.0	14.2	14.2
Re/US$ rate	45.3	47.4	45.5	44.5	44.1

Source: Kotak Institutional Equities estimates

Exhibit 5: Condensed consolidated financials for Tech Mahindra, 2009-2013E, March fiscal year-ends (Rs mn)

	2009	2010	2011E	2012E	2013E
Profit model					
Revenues	44,647	46,254	52,129	56,816	65,179
EBITDA	**11,902**	**11,325**	**10,266**	**10,805**	**12,207**
Interest (expense)/income	(23)	(2,184)	(1,094)	(1,094)	(1,046)
Depreciation	(1,097)	(1,339)	(1,405)	(1,699)	(2,154)
Other income	(381)	754	592	355	439
Pretax profits	**10,401**	**8,556**	**8,359**	**8,367**	**9,446**
Tax	(1,179)	(1,440)	(1,567)	(1,843)	(2,142)
Minority Interest	(1)	(28)	1	-	-
Profit after tax (recurring)	**9,221**	**7,087**	**6,793**	**6,525**	**7,304**
Earnings in associates	-	1,251	2,525	2,701	3,400
Net profit (incl Mahindra Satyam)	**9,221**	**8,339**	**9,318**	**9,226**	**10,704**
Diluted earnings per share (Rs)	**72.0**	**65.1**	**71.1**	**70.4**	**81.7**
Balance sheet					
Total equity	19,432	28,865	37,270	44,048	50,601
Total borrowings	—	13,672	13,672	13,672	12,472
Minority interest	112	139	139	139	139
Current liabilities	8,888	8,665	9,397	10,149	12,652
Deferred revenue	—	7,677	5,630	3,583	1,535
Total liabilities and equity	**28,432**	**59,018**	**66,108**	**71,591**	**77,400**
Cash	5,382	2,187	4,120	5,855	7,183
Other current assets	11,988	17,159	19,995	20,858	22,857
Tangible fixed assets	6,520	9,251	9,414	11,756	13,539
Investments	4,346	30,145	32,303	32,846	33,545
Deferred tax assets	196	276	276	276	276
Total assets	**28,432**	**59,018**	**66,108**	**71,591**	**77,400**
Free cash flow					
Operating CF, excl. working capital	9,712	20,197	6,284	6,915	8,018
Working capital changes	2,944	(5,778)	(1,892)	(111)	(656)
Capital expenditure	(2,513)	(4,108)	(1,568)	(4,040)	(3,937)
Investment changes/acquisition	(3,713)	(25,799)	—	—	—
Free cash flow	**6,430**	**(15,488)**	**2,824**	**2,763**	**3,425**
Ratios (%)					
EBITDA margin	26.7	24.5	19.7	19.0	18.7
EBIT margin	24.2	21.6	17.0	16.0	15.4
Debt/equity	—	0.5	0.4	0.3	0.2
RoAE	57.6	34.5	26.1	21.8	18.8

Source: Company, Kotak Institutional Equities estimates

Exhibit 6: Quarterly metrics for Tech Mahindra

	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
Revenues (US$ mn)	270	232	212	228	237	254	259	251	265
Revenues (Rs mn)	11,648	11,322	10,513	11,130	11,418	11,873	11,833	11,337	12,350
Re-US$ exchange rate	43.2	48.8	49.7	48.9	48.3	46.8	45.8	45.1	46.7
Employee metrics									
Software professionals	20,273	20,779	20,060	20,227	20,038	22,199	24,405	25,711	24,449
BPO professionals	3,734	3,527	3,769	4,189	5,450	7,199	8,067	8,426	8,489
Sales & support	1,128	1,123	1,143	1,066	1,027	1,006	1,052	1,130	1,069
Total	25,135	25,429	24,972	25,482	26,515	30,404	33,524	35,267	34,007
Net hiring	766	294	(457)	510	1,033	3,889	3,120	1,743	(1,260)
Utilization (%)	69.0	67.0	70.0	71.0	75.0	73.0	73.0	69.0	75.0
Revenue split by geography (%)									
North America	23.0	26.0	30.0	29.0	28.0	30.0	30.0	32.0	31.1
Europe	69.0	65.0	62.0	61.0	61.0	56.0	57.0	55.0	53.4
Rest of the world	8.0	9.0	8.0	10.0	11.0	14.0	13.0	13.0	15.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Revenue split by segment (%)									
Telecom service provider	87.8	86.6	84.9	85.5	85.6	86.4	86.1	87.3	86.7
Telecom equipment manufacturer	4.7	5.5	6.8	5.9	6.1	4.9	5.9	5.1	5.5
BPO	5.5	6.0	5.1	6.1	5.9	5.3	5.8	5.9	6.2
Others	2.0	1.9	3.1	2.5	2.3	3.4	2.2	1.7	1.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Revenue mix - onsite/offshore (%)									
Onsite	40	40	39	38	38	39	38	37	37
Offshore	60	60	61	62	62	61	62	63	63
Client metrics									
Total number of active clients	110	110	110	110	110	110	113	117	124
>= US$1 mn clients	45	46	44	47	47	49	48	52	52
>= US$2 mn clients	30	29	31	29	29	30	33	36	39
>= US$5 mn clients	14	14	13	15	17	18	18	20	21
>= US$10 mn clients	8	8	8	8	9	9	11	13	14
>= US$15 mn clients	7	7	7	8	7	8	8	8	8
>= US$20 mn clients	4	4	4	4	5	5	5	6	7
>= US$25 mn clients	4	4	4	4	4	4	4	4	5
>= US$50 mn clients	2	2	2	2	2	2	2	2	3
Client contribution to revenue (%)									
Top client	60.0	57.0	52.0	52.0	49.8	46.0	46.0	45.0	43.4
Top 5 clients	82.0	79.0	78.0	78.0	75.0	75.0	72.0	74.0	71.5
Top 10 clients	89.0	87.0	84.0	86.0	84.0	82.0	81.0	82.0	80.2

Note:
(a) Metrics and revenues are adjusted for one-time passthrough revenues of Rs2,989 mn except the number of clients metrics

Source: Company, Kotak Institutional Equities

kotak Institutional Equities

Voltas (VOLT)

Industrials

REDUCE

OCTOBER 26, 2010

RESULT

Coverage view: Attractive

Price (Rs): 241

Target price (Rs): 225

BSE-30: 20,221

Results below expectations; EMP segment leads disappointment. Voltas reported disappointing results at revenue (15% below estimates) as well as margin (90 bps below estimate) level. The disappointment was led by the EMP segment which reported an 8% revenue decline and lower-than-expected margins. The UCP and Engg products segments also reported relatively sedate numbers. Order inflows of Rs17 bn in 1HFY11 is just about keeping pace with our full-year estimate of Rs37 bn. Retain REDUCE.

Company data and valuation summary

Voltas

Stock data			
52-week range (Rs) (high,low)			258-140
Market Cap. (Rs bn)			79.7
Shareholding pattern (%)			
Promoters			30.5
FIIs			8.1
MFs			14.9
Price performance (%)	1M	3M	12M
Absolute	3.4	18.3	57.9
Rel. to BSE-30	2.5	5.4	30.8

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	10.9	11.8	13.5
EPS growth (%)	57.4	8.3	14.3
P/E (X)	22.2	20.5	17.9
Sales (Rs bn)	48.2	55.2	62.7
Net profits (Rs bn)	3.6	3.9	4.4
EBITDA (Rs bn)	4.8	5.2	6.0
EV/EBITDA (X)	15.2	13.1	11.0
ROE (%)	37.8	31.8	29.8
Div. Yield (%)	0.8	1.5	1.7

Results far below expectations on revenue as well as margin front

Voltas reported 2QFY11 consolidated revenues of Rs10.6 bn, down 3% yoy and significantly (15%) below our estimate. Margins contracted by 140 bps yoy on the back of high raw material expenses as a percentage of sales. The revenue and margin disappointment led to a net PAT of Rs784 mn, down 15% yoy and about 21% below our estimate.

EMP segment leads the disappointment on both fronts; other segments remain sedate as well

- **EMP segment leads disappointment on both revenue and margins:** EMP segment reported an 8% yoy revenue decline versus our expectation of a 10% growth. EBIT margin at 8% was also below our estimate of 9%. The sedate quarter was attributed to execution delays of large projects caused by various external factors as well as certain one-time adjustments.

- **UCP disappoints on revenue; margins improvement ahead of expectations:** UCP segment also reported disappointing growth (at 16% versus estimated 30%). Margin at 12.3% was ahead of our estimate of 9.5% (and up from 9.5% in 2QFY10).

- **Engineering products and services; revenue growth below par:** The segment reported 8% yoy revenue growth versus our expectation of 20% growth. Margin improved significantly to 21% versus 18.3% last year but was below our expectation of 23% (1QFY11 level).

Order inflow just about keeps pace with full-year estimate; backlog flat on a qoq basis

Voltas reported an order backlog of Rs49.75 bn, flat on a qoq basis. This implies order inflow of Rs7 bn during the quarter and Rs17 bn in 1HFY11. Hence, Voltas is just about keeping pace with our full-year order inflow expectations of Rs37 bn in FY2011E.

Reiterate REDUCE with a target price of Rs225/share; retain estimates

We retain our estimates of Rs11.8 and Rs13.5 for FY2011E and FY2012E, respectively. Reiterate REDUCE with a target price of Rs225 based on (1) limited upside to target price, (2) potential headwind of margin pressure and (3) slow pick-up in execution of new projects.

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Numbers well below expectations on revenue and margins

Voltas reported 2QFY11 consolidated revenues of Rs10.6 bn, significantly (about 15%) below our estimate of Rs12.5 bn. The revenues recorded a 3% de-growth on a yoy basis. EBITDA at 10.1% was about 90 bps below our estimates likely led by negative operating leverage due to the lower-than-expected sales. Margins contracted by 140 bps on a yoy basis on the back of higher raw material expenses as a percentage of sales (up 240 bps yoy). Note that absolute level of employee expenses have declined on a yoy as well as sequential basis. Voltas reported employee expenses of Rs1.2 bn versus Rs1.4 bn in 2QFY10 and Rs1.35 bn in 1QFY11.

The revenue and EBITDA margin disappointment led to a net PAT miss of about 22% versus our estimate. Voltas reported a PAT (before exceptional items) of Rs784 mn in 2QFY11, down 15% yoy from Rs917 mn in 2QFY10. The company reported an exceptional income of Rs178 mn (Rs118 mn net of tax) on profit on sale of property which helped in reporting a net PAT of Rs902 mn.

For the half year ending September 30, 2010, Voltas reported revenues of Rs24.7 bn recording a moderate growth of 5% yoy. EBITDA margins contracted by about 60 bps yoy, leading to a net PAT of Rs1.7 bn in 1HFY11, relatively flat on a yoy basis.

Voltas (consolidated) - 2QFY11 results - key numbers (Rs mn)

					% change								
	2QFY11	2QFY11E	2QFY10	1QFY11	vs est.	yoy	qoq	1HFY11	1HFY10	%chg.	FY2011E	FY2010	%chg.
Sales	**10,651**	**12,543**	**10,996**	**14,083**	**(15.1)**	**(3.1)**	**(24.4)**	**24,735**	**23,507**	**5.2**	**54,537**	**48,236**	**13.1**
Expenses	**(9,576)**	**(11,164)**	**(9,738)**	**(12,807)**	**(14.2)**	**(1.7)**	**(25.2)**	**(22,383)**	**(21,131)**	**5.9**	**(49,298)**	**(43,467)**	**13.4**
Stock	8		78	403		(89.3)	(97.9)	411	(514)	(180)	—	700	
Raw material	(7,287)		(7,324)	(10,509)		(0.5)	(30.7)	(17,796)	(15,309)	16.2	(37,712)	(33,692)	
Employee costs	(1,268)		(1,426)	(1,347)		(11.1)	(5.9)	(2,615)	(2,734)	(4.4)	(5,505)	(5,357)	
Other expenses	(1,029)		(1,065)	(1,354)		(3.3)	(24.0)	(2,383)	(2,575)	(7.5)	(6,081)	(5,118)	
EBITDA	**1,075**	**1,380**	**1,259**	**1,276**	**(22.1)**	**(14.6)**	**(15.7)**	**2,352**	**2,376**	**(1.0)**	**5,239**	**4,769**	**9.9**
Other income	193	170	145	200	13.8	32.9	(3.4)	394	264	48.9	710	612	16.1
Interest	(37)	(6)	(16)	(53)	555.4	127.4	(29.2)	(90)	(49)	85.6	(17)	(98)	(82.6)
Depreciation	(53)	(52)	(56)	(50)	2.2	(4.3)	6.6	(104)	(105)	(1.4)	(207)	(214)	(3.4)
Profit before tax	**1,178**	**1,492**	**1,332**	**1,374**	**(21.0)**	**(11.6)**	**(14.2)**	**2,552**	**2,487**	**2.6**	**5,725**	**5,068**	**13.0**
Tax	(394)	(492)	(415)	(429)	(20.0)	(5.1)	(8.2)	(823)	(802)	2.6	(1,832)	(1,472)	24.4
Profit after tax	**784**	**999**	**917**	**945**	**(21.6)**	**(14.5)**	**(17.0)**	**1,729**	**1,685**	**2.6**	**3,893**	**3,595**	**8.3**
Extraordinary items	118	—	(0)	(7)				111	28		—	250	
Reported PAT	**902**	**999**	**916**	**937**	**(9.7)**	**(1.5)**	**(3.7)**	**1,839**	**1,712**		**3,893**	**3,846**	
Key ratios (%)													
RM cost/sales	68.3		65.9	71.8				70.3	67.3		69.1	68.4	
Employee cost/sales	11.9		13.0	9.6				10.6	11.6		10.1	11.1	
Other exp./sales	9.7		9.7	9.6				9.6	11.0		11.2	10.6	
EBITDA margin	**10.1**	**11.0**	**11.4**	**9.1**				**9.5**	**10.1**		**9.6**	**9.9**	
Effective tax rate	33.4	33.0	31.2	31.2				32.3	32.2		32.0	29.1	
PAT margin	7.4	8.0	8.3	6.7				7.0	7.2		7.1	7.5	
EPS (Rs)	**2.4**	**3.0**	**2.8**	**2.9**				**5.2**	**5.1**		**11.8**	**10.9**	
Order details													
Order booking	6,756		4,622	9,986		46.2	(32.3)	16,741	11,103	50.8	37,200	30,954	20.2
Order backlog	49,750		43,590	50,060		14.1	(0.6)	49,750	43,590	14.1	50,110	47,000	6.6

Source: Company, Kotak Institutional Equities estimates

EMP segment leads disappointment on both fronts; other segments also sedate

Electromechanical Projects: Disappoints on both revenue and margins; may be partially led by one-off costs

Electromechanical Projects segment reported a yoy decline in revenues to Rs7 bn from Rs7.7 bn last year, down 8% yoy. We had expected this segment to report a 10% yoy growth (revenues of Rs8.5 bn). The segment also reported lower EBIT margin of 8.2% versus our expectation of 9% and an exceptionally high margin of 11.7% in 2QFY10. The management attributed the sedate revenues in the quarter to delay in execution of certain large orders caused by various external factors. The management has also cited certain one-time adjustments which further impacted the profitability of the segment.

Unitary Cooling Products: Disappoints on revenue while margins were ahead of expectations; 2Q is seasonally weak (only 40-45% of 1Q level)

Unitary Cooling Products segment also did not report growth as per expectation with a yoy revenue growth of 16% to Rs2.3 bn. This was versus our expectation of a 30% growth. Margins expanded significantly on a sequential as well as yoy basis to 12.3% from 9.5% in 2QFY10. We had expected margins to remain relatively flat on a yoy basis. Note that the second quarter is seasonally a week quarter with revenues typically at 405-45% of 1Q revenues. 2QFY11 revenues of Rs2.3 bn was about 40% of 1QFY11 revenues of Rs5.9 bn.

Engineering Products and Services: Revenue growth below par, margins improve but not enough

Engineering Products and Services reported revenues of Rs1.3 bn recording a moderate growth of 8% yoy versus our expectation of a 20% growth. Margins improved significantly on a yoy basis to 21.4% in 2QFY11 from 18% in 2QFY10. This was, however, below our estimate of 23% EBIT margin—in line with 1QFY11 margin levels.

Voltas - segmental numbers on consolidated basis, 2QFY11 (Rs mn)

					% change					
	2QFY11	2QFY11E	2QFY10	1QFY11	vs est.	yoy	qoq	1HFY11	1HFY10	% change
Revenues										
Electromechanical Projects	7,066	8,461	7,692	6,926	(16.5)	(8.1)	2.0	13,991	14,693	(4.8)
Engg products and services	1,267	1,403	1,170	1,203	(9.7)	8.3	5.3	2,470	2,309	7.0
Unitary cooling products	2,281	2,558	1,968	5,868	(10.8)	15.9	(61.1)	8,149	6,122	33.1
Total	**10,636**	**12,543**	**10,930**	**14,031**	**(15.2)**	**(2.7)**	**(24.2)**	**24,666**	**23,348**	**5.6**
PBIT										
Electromechanical Projects	580	762	898	586	(23.9)	(35.5)	(1.1)	1,165	1,510	(22.8)
Engg products and services	264	323	215	276	(18.1)	23.1	(4.2)	540	372	45.2
Unitary Cooling Products	280	243	187	547	15.4	49.9	(48.7)	828	576	43.6
Total Profit before tax	**1,356**	**1,327**	**1,332**	**1,366**	**2.1**	**1.8**	**(0.8)**	**2,722**	**2,514**	**8.3**
Revenue mix										
Electromechanical Projects	66.4	67.5	70.4	49.4				56.7	62.9	
Engg products and services	11.9	11.2	10.7	8.6				10.0	9.9	
Unitary Cooling Products	21.4	20.4	18.0	41.8				33.0	26.2	
EBIT Margin										
Electromechanical Projects	8.2	9.0	11.7	8.5				8.3	10.3	
Engg products and services	20.9	23.0	18.3	22.9				21.9	16.1	
Unitary Cooling Products	12.3	9.5	9.5	9.3				10.2	9.4	
Total	**12.7**	**10.6**	**12.2**	**9.7**				**11.0**	**10.8**	

Source: Company, Kotak Institutional Equities

Estimates imply strong growth requirement in 2H; limited potential for upside

Our estimates build in a revenue growth of 13% yoy in FY2011E to Rs54.5 bn from Rs48.2 bn in FY2010. This implies a strong revenue growth requirement of 20.5% (Rs29.8 bn) in 2HFY11E at the consolidated level. FY2011E EBITDA margin of 9.6% implies relatively flat yoy margins in 2HFY11E. Our full-year PAT estimate of Rs3.9 bn implies a PAT requirement of Rs2.16 bn in 2HFY11E, up 16.4% yoy (versus Rs1.7 bn reported in 1HFY10). We believe that these estimates build in strong assumptions of growth pick-up and hence may have limited potential for upside.

Voltas (consolidated) - 2QFY11 results - key numbers (Rs mn)

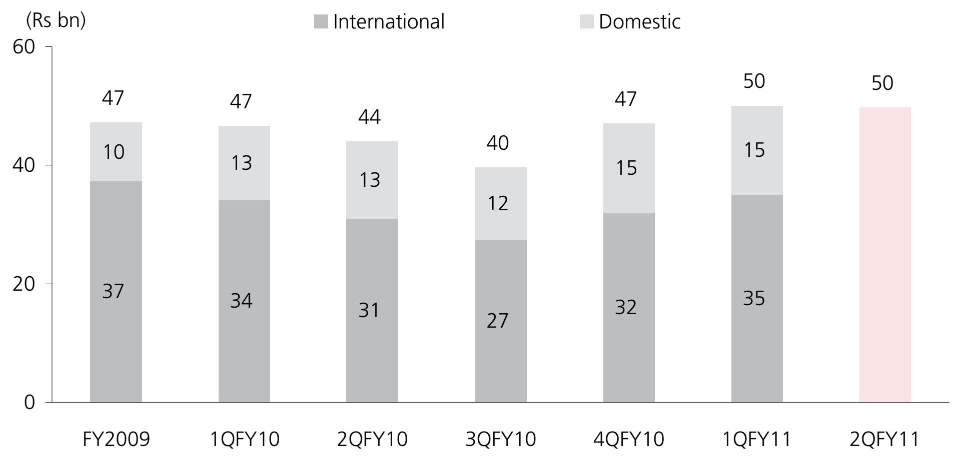
	1HFY11	1HFY10	%change	2HFY11E-implied	2HFY10	%change	FY2011E	FY2010	%change
Sales	**24,735**	**23,507**	**5.2**	**29,802**	**24,729**	**20.5**	**54,537**	**48,236**	**13.1**
Expenses	(22,383)	(21,131)	5.9	(26,915)	(22,336)	20.5	(49,298)	(43,467)	13.4
EBITDA	**2,352**	**2,376**	**(1.0)**	**2,887**	**2,393**	**20.7**	**5,239**	**4,769**	**9.9**
Other income	394	264	48.9	316	347	(9.0)	710	612	16.1
Interest	(90)	(49)	85.6	73	(50)	(246.1)	(17)	(98)	(82.6)
Depreciation	(104)	(105)	(1.4)	(103)	(109)	(5.2)	(207)	(214)	(3.4)
Profit before tax	**2,552**	**2,487**	**2.6**	**3,173**	**2,581**	**22.9**	**5,725**	**5,068**	**13.0**
Tax	(823)	(802)	2.6	(1,009)	(671)	50.5	(1,832)	(1,472)	24.4
Profit after tax	**1,729**	**1,685**	**2.6**	**2,164**	**1,911**	**13.3**	**3,893**	**3,595**	**8.3**
Key ratios (%)									
EBITDA margin	**9.5**	**10.1**		**9.7**	**9.7**		**9.6**	**9.9**	
Effective tax rate	32.3	32.2		31.8	26.0		32.0	29.1	
PAT margin	7.0	7.2		7.3	7.7		7.1	7.5	
Segmental									
Revenues									
Electromechanical Projects	13,991	14,693	(4.8)	20,145	16,441	22.5	34,136	31,134	9.6
Engg products and services	2,470	2,309	7.0	2,989	2,371	26.1	5,459	4,680	16.6
Unitary cooling products	8,149	6,122	33.1	6,934	5,749	20.6	15,083	11,871	27.1
Total	**24,666**	**23,348**	**5.6**	**29,870**	**24,711**	**20.9**	**54,537**	**48,059**	**13.5**
PBIT									
Electromechanical Projects	1,165	1,510	(22.8)	1,907	1,581	20.6	3,072	3,091	(0.6)
Engg products and services	540	372	45.2	552	396	39.2	1,092	768	42.1
Unitary Cooling Products	828	576	43.6	605	627	(3.4)	1,433	1,203	19.1
Total Profit before tax	**2,722**	**2,514**	**8.3**	**3,003**	**2,804**	**7.1**	**5,725**	**5,318**	**7.6**

Source: Company, Kotak Institutional Equities estimates

Order inflow just about keeps pace; backlog flat on a qoq basis

Voltas has reported an order backlog of Rs49.75 bn, relatively flat on a qoq basis. This implies order inflow of Rs6.8 bn during the quarter and Rs17 bn during 1HFY11. We expect Voltas to order inflow of Rs37.2 bn for the full year 2011E. Hence, the company is just about keeping pace with our expectations in terms of order inflows. The order inflows in 1QFY11 were boosted by four international orders including a tunnel ventilation project for Metro Rail in Singapore. The exact mix of domestic and international backlog or inflows in 2QFY11 is not yet known.

Order backlog trend of Voltas, FY2009-2QFY11



Source: Company, Kotak Institutional Equities

Retain earning estimates; reiterate REDUCE with a target price of Rs225/share

We have retained our earning estimates of Rs11.8 and Rs13.5 for FY2011E and FY2012E, respectively. Our target price of Rs225/share is based on 17X FY2012E earnings estimates. We would revisit our estimates and target price post today's conference call.

We retain our REDUCE rating on the company based on (1) limited upside to our FY2012E-based target price, (2) potential headwind of margins pressure and (3) slow pick-up in execution of new projects. Key upside risks to our estimates could come from stronger-than-expected order inflows and execution pick-up in the EMP segment, particularly from international markets.

Consolidated balance sheet, profit model and cash flow statement of Voltas, March fiscal year-ends, 2006-12E (Rs mn)

	2006	2007	2008	2009	2010	2011E	2012E
Balance sheet							
Shareholders funds	**2,714**	**4,237**	**5,772**	**7,897**	**10,852**	**13,369**	**16,247**
Minority Interest	3	4	5	159	139	139	139
Loan funds	901	1,116	737	1,814	352	352	352
Total source of funds	**3,617**	**5,358**	**6,515**	**9,871**	**11,342**	**13,860**	**16,737**
Net block	1,521	1,473	1,701	2,148	2,069	2,502	2,799
CWIP	114	128	197	132	193	193	193
Net fixed assets	**1,635**	**1,601**	**1,898**	**2,280**	**2,262**	**2,695**	**2,992**
Investments & Goodwill	461	1,248	2,585	2,238	3,103	3,103	3,103
Cash balances	1,298	1,677	3,002	4,571	4,689	8,264	10,899
Net current assets excluding cash	**(33)**	**553**	**(1,160)**	**558**	**1,085**	**(405)**	**(460)**
Total application of funds	**3,617**	**5,358**	**6,515**	**9,871**	**11,342**	**13,860**	**16,737**
Profit Model							
Total operating income	**19,544**	**25,267**	**32,029**	**43,617**	**48,236**	**55,227**	**62,717**
Total operating costs	(18,427)	(23,988)	(29,499)	(40,428)	(43,467)	(49,298)	(55,943)
EBITDA	**1,118**	**1,280**	**2,531**	**3,189**	**4,769**	**5,239**	**5,991**
Other income	310	703	483	604	611	710	813
PBDIT	**1,428**	**1,982**	**3,013**	**3,793**	**5,380**	**5,949**	**6,803**
Financial charges	(64)	(99)	(90)	(128)	(98)	(17)	(17)
Depreciation	(141)	(156)	(167)	(210)	(214)	(207)	(243)
Pre-tax profit	1,222	1,728	2,757	3,456	5,068	5,725	6,543
Taxation	(224)	(407)	(997)	(1,172)	(1,472)	(1,832)	(2,094)
Adjusted PAT	**999**	**1,321**	**1,760**	**2,284**	**3,595**	**3,893**	**4,449**
Minority interest & Associate Profits	(0)	(1)	1	(31)	(36)	—	—
PAT for equity holders	998	1,319	1,761	2,253	3,560	3,893	4,449
Extraordinary items, net of tax	(262)	696	316	261	250	—	—
Reported PAT	**737**	**2,017**	**2,076**	**2,545**	**3,846**	**3,893**	**4,449**
Cash flow statement							
Operating profit before WCap changes	1,159	1,593	2,099	2,589	3,908	4,117	4,709
Change in working capital / other adjustments	248	(586)	1,713	(1,718)	(527)	1,490	55
Net cashflow from operating activites	**1,407**	**1,007**	**3,812**	**871**	**3,381**	**5,607**	**4,764**
Fixed Assets	(663)	(122)	(464)	(591)	(196)	(640)	(540)
Investments	(156)	(786)	(1,337)	347	(865)	—	—
Cash (used) / realised in investing activities	**(819)**	**(908)**	**(1,802)**	**(244)**	**(1,062)**	**(640)**	**(540)**
Borrowings	(364)	215	(378)	1,077	(1,463)	—	—
Dividend paid	(226)	(410)	(523)	(619)	(772)	(1,375)	(1,572)
Interest charges	(64)	(99)	(90)	(128)	(98)	(17)	(17)
Cash (used) /realised in financing activities	**(647)**	**(375)**	**(1,008)**	**683**	**(2,473)**	**(1,392)**	**(1,589)**
Cash generated /utilised	(321)	379	1,325	1,569	97	3,575	2,635
Cash at beginning of year	1,618	1,298	1,677	3,002	4,571	4,689	8,264
Cash at end of year	**1,298**	**1,677**	**3,002**	**4,571**	**4,667**	**8,264**	**10,899**
Key ratios (%)							
EBITDA margin	5.7	5.1	7.9	7.3	9.9	9.5	9.6
PAT margin	5.1	5.2	5.5	5.2	7.5	7.0	7.1
RoE	40.7	38.0	35.2	33.0	38.0	32.1	30.0
RoCE	29.7	31.1	30.6	28.5	34.2	31.0	29.2
EPS (Rs)	**3.0**	**4.0**	**5.3**	**6.9**	**10.9**	**11.8**	**13.5**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Marico (MRCO)

Consumer products

ADD

OCTOBER 26, 2010

RESULT

Coverage view: Cautious

Price (Rs): 133

Target price (Rs): 140

BSE-30: 20,221

Input cost inflation hurts margins. Marico reported sales growth of 13% led by 10% volume growth in Parachute and 18% in Saffola. Timing mismatch between input cost inflation and price hike led to contraction in gross margin by ~250 bps. The company has taken price hikes in Parachute (+5%) and Saffola (+5%) in August and September, the impact of which will likely be seen in 3QFY11E. International business performed well and Kaya is likely seeing a turnaround with the Derma Rx acquisition. Retain ADD.

Company data and valuation summary

Marico

Stock data			
52-week range (Rs) (high,low)			153-90
Market Cap. (Rs bn)			81.5
Shareholding pattern (%)			
Promoters			63.5
FIIs			22.9
MFs			4.9
Price performance (%)	1M	3M	12M
Absolute	3.2	6.8	33.3
Rel. to BSE-30	2.3	(4.9)	10.4

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	4.4	5.2	6.1
EPS growth (%)	32.9	16.9	17.0
P/E (X)	30.0	25.7	21.9
Sales (Rs bn)	26.6	30.8	35.4
Net profits (Rs bn)	2.7	3.2	3.7
EBITDA (Rs bn)	4.1	4.6	5.4
EV/EBITDA (X)	20.5	17.8	14.6
ROE (%)	48.9	40.6	35.2
Div. Yield (%)	0.5	0.7	0.8

QUICK NUMBERS

- 10% volume growth in Parachute rigid packs
- Input price inflation likely getting mitigated—price hike of 5% in Aug, 7% in Oct/Nov 2010

Timing difference between input cost inflation and price hikes hurts margins

Marico reported consolidated net sales of Rs7.8 bn (+13%, KIE estimate Rs8.2 bn), EBITDA of Rs1.1 bn (+0%, KIE estimate Rs1.3 bn) and PAT of Rs815 mn (-2%, KIE estimate Rs898 mn).

Overall sales growth during the quarter was led by 15% underlying volume growth. Key brands Parachute (rigid packs) and Saffola grew by 10% and 18% in volume terms, respectively. Timing mismatch between input cost inflation and price hike led to contraction in gross margin by ~250 bps. However, impact on EBITDA margin was limited to ~175 bps due to lower adspends (on the back of higher base and shift in Kaya advertising to mass media). During the quarter, the company made excise provision of Rs82 mn which we have accounted for as an extraordinary item.

Key takeaways from the results, conference call and our views

- **Coconut oil** – Parachute coconut oil (rigid packs) reported10% volume growth in 2QFY11. The company took weighted average price hike of ~5% in August 2010 and proposes to take another 7% price hike in November 2010 to manage the 15% inflation in copra prices in 1HFY11. We continue to be positive on the coconut oil business led by (1) increasing conversion from loose oil to branded coconut oil, (2) introduction of low-unit packs to drive rural growth, and (3) promoting Nihar in price-sensitive regions to counter low-price competition.

- **Edible oil** – Marico has effected a price increase of ~5% in the edible oil portfolio in September and October 2010. Price hike was taken to offset the impact of higher cost of key raw material—rice bran oil (+23% over 2QFY10). Prices of safflower oil declined by ~6% during the quarter. We believe that Saffola is favorably placed to grow in high teens on the back of rising income levels, growing awareness of cardiac-related health problems and opportunity for penetration-led growth—(1) urban penetration of branded edible oils is 31% and rural penetration is a low 9%, and (2) only~16% of households in India consume branded edible oils.

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- **Value added hair oils** – this segment grew 14% in 2QFY11. The company's initiative of price-led competition in Shanti Badam Amla (brand is priced 60% lower to Dabur Amla) has met with limited success, in our view (market leader in various sub segments of hair oil have first-mover advantage). While we expect Marico to potentially gain some incremental market shares driven by this move, we do not expect any significant impact of the same on Dabur, given the limited scale and size of Shanti Badam Amla hair oil.

  We are enthused by the launch of hair fall solution oil under Parachute Advansed—indicates the inherent opportunity to sub-segment the oil market and grow (by providing differentiated product propositions).

- **International business** – the international business showed sales growth of 23% in constant currency terms driven by 18% volume growth and 5% pricing growth. Key markets – (1) in Bangladesh, Parachute contribute ~90% of the sales and continued to show strong growth during the quarter. Leveraging on the market presence in the country, the company launched Saffola edible oil in 1QFY11. The edible oil market is Rs5 bn and the premium market is ~10% of it, (2) The MENA region is led by Parachute cream and coconut oil as well as acquired brands Fiancée and Hair Code. As per management, this region is likely to contribute ~35% of international business sales in FY2011E, and (3) the South African business reported 31% sales growth in 2QFY11. The company is targeting sales of Rs800 mn in FY2011E from this region—Ingwe sales will be consolidated for 6 months during this fiscal.

International business is driven by (1) launch of products customized in line with the preferences of the local population, (2) using the existing geographies as a launch pad to enter new neighboring countries, and (3) expanding product range to include gels, hair cream, hair dye, etc. As per management, international business margins are currently at ~11% and supply chain efficiencies (commissioning of new Greenfield factory in Egypt) will likely improve it towards domestic margins.

- **Kaya** – Kaya skin care business performance received a boost with acquisition of Derma Rx. It reported 28% sales growth yoy after accounting for the additional contribution from Derma Rx. Organic sales growth was 2% in 2QFY11. We believe that acquisition of Derma Rx reiterates Marico's commitment towards its skin care business, contrary to Street perception that the company may consider exiting this segment due to the losses in the Kaya business.

  In 2QFY11, Kaya reported PBT of Rs8.5 mn. In 2QFY11, six clinics were closed in India and one new clinic was opened in Middle East and Bangladesh. Kaya has 81 clinics in India, 14 in Middle East, 2 in Bangladesh and 4 in Singapore and Malaysia (Derma).

- **New products** – Marico has been actively diversifying its product portfolio to include cooling hair oil, functional foods, hair cream, gels etc. Most of the new products have been launched as extensions of Parachute, Nihar and Saffola, thus leveraging the strength and brand equity of these two flagship brands.

  New launches include: (1) Saffola Arise was nationally launched in 4QFY10 and is meeting internal management expectations. (2) More recently Saffola Oats has been launched and is being prototyped in modern retail formats in 10-12 cities in India. (3) Two variants of cooling oil—Nihar Naturals Coconut Cooling Oil being prototyped in Bihar (the brand will likely be extended nationally in FY2012E) and Parachute Advansed Coconut Cooling Oil in Andhra Pradesh. (4) Entry in the niche ayurvedic hair oil market under the Parachute brand in Tamil Nadu. There are no national players in this sub segment. (5) Launched Nihar Almond hair oil at Rs27 versus Bajaj Almond Drops at Rs42.

Retain ADD and TP Rs140

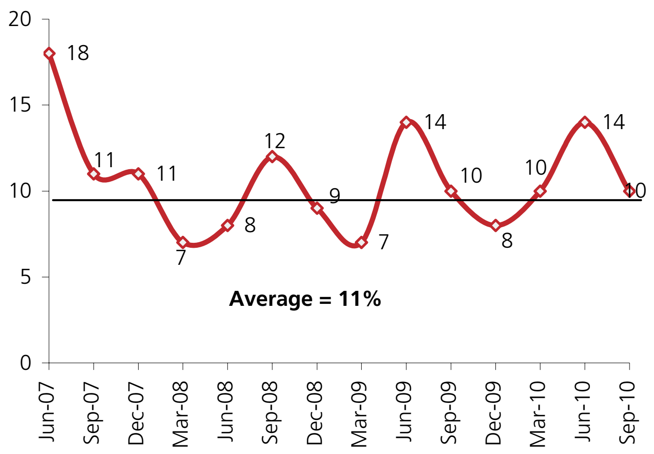
We tweak estimates marginally and retain ADD rating and target of Rs140. Our EPS estimates are Rs5.2 and Rs6.1. Key risks are (1) Marico dominates both the coconut oil and high-end edible oil business; regardless of this, its product pricing is closely linked to underlying commodity prices, (2) exposure to currency risk and (3) lack of meaningful success in new ventures.

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

					(% chg)		
	2QFY11	2QFY11E	2QFY10	1QFY11	2QFY11E	2QFY10	1QFY11
Net sales	**7,788**	**8,194**	**6,922**	**7,901**	**(5)**	**13**	**(1)**
Total expenditure	6,713	6,935	5,845	6,758	(3)	15	(1)
Material cost	3,880	4,038	3,275	4,033	(4)	18	(4)
Staff cost	582	596	503	540	(2)	16	8
Advertising and sales promotion	949	968	928	938	(2)	2	1
Other expenditure	1,303	1,332	1,140	1,247	(2)	14	4
EBITDA	**1,075**	**1,260**	**1,077**	**1,143**	**(15)**	**(0)**	**(6)**
OPM (%)	**13.8**	**15.4**	**15.6**	**14.5**			
Other income	71	52	42	44		71	61
Interest	65	69	55	70		18	(8)
Depreciation	140	136	97	120		44	16
Pretax profits	**942**	**1,106**	**967**	**997**	**(15)**	**(3)**	**(6)**
Tax	126	208	133	162		(5)	(22)
Net income	**815**	**898**	**834**	**835**	**(9)**	**(2)**	**(2)**
Extraordinary items	(82)	-	(210)	(88)			
Reported PAT	**733**	**898**	**624**	**747**	**(18)**	**17**	**(2)**
Income tax rate (%)	13.4	18.8	13.7	16.2			
Cost as a % of sales							
Material cost	49.8	49.3	47.3	51.0			
Staff cost	7.5	7.3	7.3	6.8			
Advertising and sales promotion	12.2	11.8	13.4	11.9			
Other expenditure	16.7	16.3	16.5	15.8			
Segment results of Marico							
Revenue							
Consumer products	7,169		6,428	7,402		12	(3)
Others	619		494	500		25	24
PBIT							
Consumer products	837		790	995		6	(16)
Others	45		(18)	(50)		(351)	(190)
Capital employed							
Consumer products	6,744		6,002	6,807		12	(1)
Others	2,622		1,418	2,190		85	20
Unallocable	(1,094)		(1,717)	(1,695)		(36)	(35)

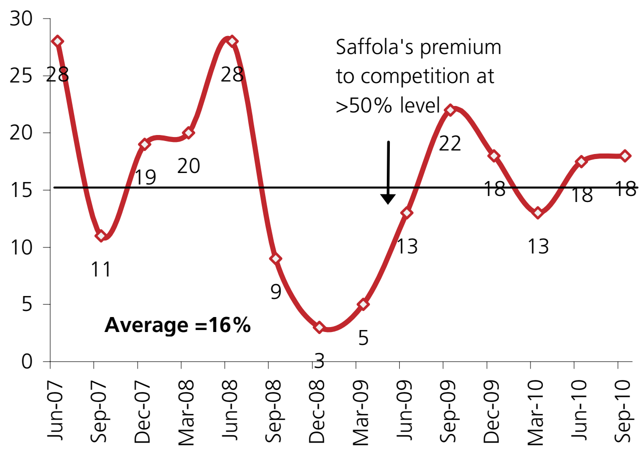
Source: Company, Kotak Institutional Equities estimates

Parachute volume growth in rigid packs at 10%
Parachute volume growth (%)



Source: Kotak Institutional Equities

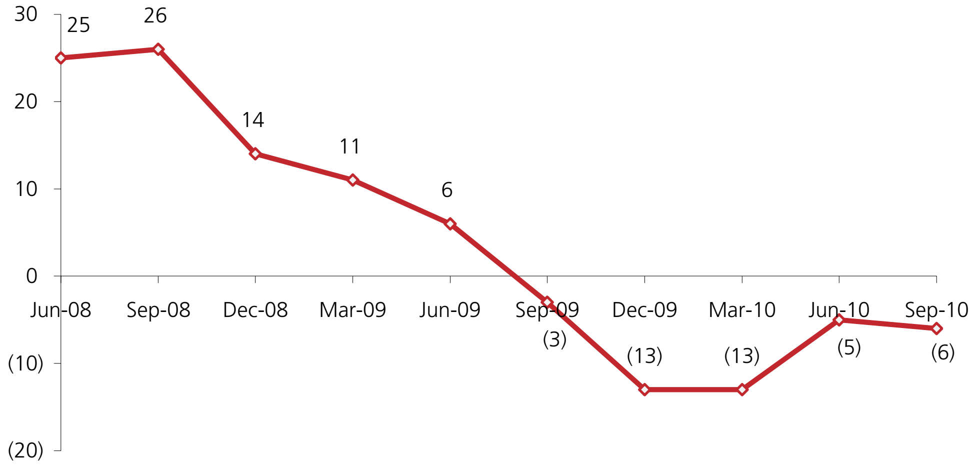
Strong growth in Saffola
Saffola volume growth (%)



Source: Company, Kotak Institutional Equities

Same store sales growth in India still declining

Kaya same store growth, (%)



Source: Company, Kotak Institutional Equities

Interim standalone results of Marico, March fiscal year-ends (Rs mn)

				(% chg)	
	2QFY11	**2QFY10**	**1QFY11**	**2QFY10**	**1QFY11**
Net sales	**5,401**	**5,173**	**5,877**	**4**	**(8)**
Total expenditure	4,605	4,286	4,929	7	(7)
Material cost	2,928	2,685	3,268	9	(10)
Staff cost	291	263	278	11	5
Advertising and sales promotion	547	612	584	(11)	(6)
Other expenditure	840	725	799	16	5
EBITDA	**796**	**887**	**948**	**(10)**	**(16)**
OPM (%)	**14.7**	**17.1**	**16.1**		
Other income	24	20	28	18	(17)
Interest	49	37	47	34	5
Depreciation	68	42	52	62	31
Pretax profits	**702**	**828**	**878**	**(15)**	**(20)**
Tax	23	144	114	(84)	(79)
Net income	**679**	**684**	**764**	**(1)**	**(11)**
Extraordinary items	(82)	(163)	(88)		
Reported PAT	**597**	**521**	**676**	**14**	**(12)**
Income tax rate (%)	3.3	17.4	13.0		
Cost as a % of sales					
Material cost	54.2	51.9	55.6	205	128
Staff cost	5.4	5.1	4.7	241	(56)
Advertising and sales promotion	10.1	11.8	9.9	(244)	79
Other expenditure	15.5	14.0	13.6	358	(63)

Source: Company, Kotak Institutional Equities estimates

Profit model, balance sheet, cash model of Marico, March fiscal year-ends, 2007-2013E

	2007	2008	2009	2010	2011E	2012E	2013E
Profit model							
Net sales	**15,569**	**19,050**	**23,884**	**26,608**	**30,766**	**35,390**	**40,377**
EBITDA	1,986	2,462	3,040	4,045	4,429	5,229	6,085
Other income	102	67	65	72	137	173	190
Interest (expense)/income	(206)	(276)	(301)	(146)	(182)	(146)	(111)
Depreciation	(521)	(308)	(358)	(601)	(616)	(626)	(702)
Pretax profits	1,361	1,945	2,447	3,370	3,769	4,630	5,462
Tax	(372)	(360)	(409)	(643)	(603)	(926)	(1,092)
Net income	989	1,586	2,037	2,727	3,166	3,704	4,370
Earnings per share (Rs)	**1.7**	**2.6**	**3.3**	**4.4**	**5.2**	**6.1**	**7.2**
Balance sheet							
Total shareholder's equity	1,923	3,146	4,536	6,540	9,054	11,995	15,466
Total borrowings	2,510	3,579	3,743	4,459	3,867	3,017	2,767
Deferred tax liability	(1,152)	(982)	(641)	(616)	(616)	(616)	(616)
Minority interest	0	1	—	125	125	125	125
Total liabilities and equity	**3,281**	**5,745**	**7,637**	**10,507**	**12,429**	**14,521**	**17,741**
Net fixed assets	1,654	2,573	3,111	3,997	3,997	4,079	4,185
Goodwill	450	842	850	850	850	850	850
Investments	—	—	121	827	1,217	1,217	1,217
Cash	429	753	902	1,115	3,364	4,946	7,604
Net current assets	747	1,577	2,653	3,719	3,001	3,428	3,885
Total assets	**3,281**	**5,745**	**7,637**	**10,507**	**12,429**	**14,521**	**17,741**
Free cash flow							
Operating cash flow, excl. working capital	1,788	2,055	2,319	2,977	3,779	4,350	5,082
Working capital changes	(68)	(896)	(1,007)	(1,086)	484	(531)	(570)
Capital expenditure	(3,030)	(1,226)	(916)	(1,486)	(616)	(708)	(808)
Free cash flow	**(1,310)**	**(67)**	**396**	**405**	**3,647**	**3,110**	**3,703**
Ratios							
Sales growth (%)	36.1	22.4	25.4	11.4	15.6	15.0	14.1
EBITDA margin (%)	12.8	12.9	12.7	15.2	14.4	14.8	15.1
EPS growth (%)	11.9	55.2	28.6	32.9	16.9	17.0	18.0

Source: Kotak Institutional Equities estimates

kotak Institutional Equities

DishTV (DITV)

Media

REDUCE

OCTOBER 26, 2010

RESULT

Coverage view: Neutral

Price (Rs): 59

Target price (Rs): 57

BSE-30: 20,221

Robust 2QFY11 operationally as well as financially; rich valuations limit upside.

Dish TV reported robust 2QFY11 EBITDA of Rs498 mn (+95% yoy; +55% qoq) versus our Rs450 mn expectation with solid operational metrics (barring ARPUs) from (1) gross addition of 0.76 mn subs (0.66 mn expectation) (2) annualized churn rate of 8.6% (9.0%) and (3) content cost at 39% of DTH revenues (40%). Retain REDUCE with a revised TP of Rs57 (Rs55 previously) after a 3.6X increase in EBITDA in FY2011E-14E (35% EBITDA margin in FY2014E). The stock is valued at 8X FY2014E EV/EBITDA in line with global peers (growth over the next 3-4 years captured in valuation).

Company data and valuation summary

DishTV

Stock data			
52-week range (Rs) (high,low)			60-32
Market Cap. (Rs bn)			63.0
Shareholding pattern (%)			
Promoters			64.8
FIIs			16.7
MFs			5.7
Price performance (%)	**1M**	**3M**	**12M**
Absolute	9.2	32.3	42.9
Rel. to BSE-30	8.3	17.9	18.3

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	(2.5)	(1.9)	0.4
EPS growth (%)	(61.9)	(25.7)	(122.5)
P/E (X)	(23.7)	(31.8)	141.4
Sales (Rs bn)	10.8	14.1	18.7
Net profits (Rs bn)	(2.7)	(2.0)	0.4
EBITDA (Rs bn)	0.9	2.4	5.4
EV/EBITDA (X)	78.1	29.5	13.5
ROE (%)	249.0	(63.6)	19.0
Div. Yield (%)	0.0	0.0	0.0

Robust 2QFY11 results with all operational and financial parameters in line (except ARPU)

- Dish TV reported robust 2QFY11 EBITDA of Rs498 mn (+95% yoy; +55% qoq) versus our Rs450 mn expectation; the positive variance was largely on account of robust cost control though ARPUs continued to remain subdued at Rs139/sub-month.

- Dish TV reported robust subscriber volumes of 0.76 mn versus our 0.66 mn expectation and churn at 0.14 mn was in line with expectation (annualized churn rate at 8.6% was lower versus our 9.0% expectation). We do not reckon FY2011E to be the right subs addition benchmark given (1) a strong sports calendar, (2) shift of rural subs from FTA DD Direct to pay-TV DTH and (3) one-off technical issues with Sun Direct, which have been resolved.

- However, the ability of Dish TV to control cost was the key driving force behind the continued positive operating leverage. (1) Content cost increased only 9% yoy, 9% below our expectation. (2) Advertising cost at Rs177 mn also came in below our expectation. However, the company noted higher advertising spends ahead in 3QFY11 (festival season).

With due respect to the past, the future looks 'good' for pricing but not 'rosy'

We have previously discussed our investment rationale for Dish TV in our report "*Towards a blue-sky valuation scenario*" dated October 18, 2010. We maintain that though volume growth has the potential to surprise positively, the trade-off will be on account of pricing at scheme as well as package level. (1) We highlight that Dish TV revised its initial festival scheme recently (see Exhibit 2; with a 100% cash back offer in the form of content) on account of new schemes from competition; the revised scheme will likely help Dish TV meet its volume targets but with higher cost of doing business. (2) We also highlight that Sun Direct and Tata Sky have launched new basic packages at Rs99 (Rs110 previously) and Rs150 (Rs160 previously). Dish TV has the option of raising its basic package price in future (Rs135 from Rs125 recently) but the strategy risks market share loss to mass (Sun Direct) and premium (Tata Sky) players.

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Dish TV's 2QFY11 result review: continued

Interim results of Dish TV India (DITV), March fiscal year-ends (Rs mn)

					(% chg)					
	2QFY11	2QFY11E	2QFY10	1QYF11	2QFY11E	2QFY10	1QYF11	1HFY11	1HFY10	(% chg)
Total revenues	**3,262**	**3,350**	**2,575**	**3,043**	***(3)***	***27***	***7***	**6,305**	**5,042**	***25***
DTH service revenues	3,158	3,250	2,370	2,945	*(3)*	*33*	*7*	6,103	4,640	*32*
--Subscription	2,698	2,750	2,000	2,495	*(2)*	*35*	*8*			
--Rental Income	460	500	370	450	*(8)*	*24*	*2*			
Bandwidth revenue	59	50	40	55	*18*	*47*	*7*	114	67	*70*
Other operating revenues	45	50	165	43	*(11)*	*(73)*	*4*	88	335	*(74)*
Total expenditure	**(2,763)**	**(2,900)**	**(2,320)**	**(2,721)**	***(5)***	***19***	***2***	**(5,485)**	**(4,642)**	***18***
Direct operating costs	(1,824)	(1,950)	(1,714)	(1,794)	*(6)*	*6*	*2*	(3,618)	(3,357)	*8*
--Programming cost	**(1,232)**	**(1,350)**	**(1,128)**	**(1,220)**	***(9)***	***9***	***1***			
--Other direct cost	(592)	(600)	(586)	(574)	*(1)*	*1*	*3*			
Advertising expenses	**(177)**	**(250)**	**(153)**	**(249)**	***(29)***	***16***	***(29)***	**(426)**	**(303)**	***41***
Distribution expenses	**(481)**	**(400)**	**(256)**	**(421)**	***20***	***88***	***14***	**(902)**	**(573)**	***57***
Employee expenses	(130)	(150)	(98)	(123)	*(13)*	*32*	*6*	(253)	(199)	*27*
Overhead expenses	(152)	(150)	(99)	(134)	*1*	*54*	*14*	(286)	(209)	*36*
EBITDA	**498**	**450**	**255**	**322**	***11***	***95***	***55***	**820**	**400**	***105***
OPM (%)	**15.3**	**13.4**	**9.9**	**10.6**				**13.0**	**7.9**	
Other income	25	25	4	69		*520*	*(64)*	93	58	*61*
Interest expense	(131)	(125)	(91)	(134)	*5*	*45*	*(2)*	(265)	(293)	*(10)*
Depreciation	**(843)**	**(950)**	**(730)**	**(889)**	***(11)***	***15***	***(5)***	**(1,732)**	**(1,420)**	***22***
Pretax profits	**(452)**	**(600)**	**(562)**	**(632)**	***(25)***	***(20)***	***(29)***	**(1,083)**	**(1,254)**	***(14)***
PBTM (%)	**(13.8)**	**(17.9)**	**(21.8)**	**(20.8)**				**(17.2)**	**(24.9)**	
Extraordinaries	—	—	—	—				—	—	
Tax provision	—	—	—	—				—	—	
Minority interest	—	—	—	—				—	—	
Net income	**(452)**	**(600)**	**(562)**	**(632)**	***(25)***	***(20)***	***(29)***	**(1,083)**	**(1,254)**	***(14)***
Operational data										
Gross subscribers (mn)	8.30	8.20	5.92	7.54	*1*	*40*	*10*			
Net paying subscribers (mn)	6.80	6.70	4.98	6.18	*1*	*37*	*10*			
Subs ARPU (Rs/sub/month)	139	142	139	139	*(2)*	—	—			

Source: Company data, Kotak Institutional Equities estimates

- However, we would like to highlight that Dish TV had agreed to fixed fee content deals with a slew of broadcasters in FY2009, which has benefitted the company given strong volume growth. A number of these deals come up for renewal in FY2012E-13E and Dish TV may have to agreed to higher content costs; nonetheless, Dish TV holds significant bargaining power due to its large subscriber base.

- Dish TV reported an SAC of Rs2,083/sub-addition in 2QFY11 from Rs2,147/sub-addition in 2QFY10, largely on account of reduced advertising spends and higher subscriber addition. However, the company noted that SAC will likely increase in 3QFY11 on account of (1) higher advertising spends and (2) higher subsidies on account of the new schemes launched during the festival season.

- Dish TV missed its revenue estimates with ARPU at Rs139 below our Rs142 expectation; we expected Dish TV's new packages (Silver Saver at Rs150/sub-month and Gold Saver at Rs270/month) to result in upgrades from low-value packages. Dish TV has now increased the cost of its basic package to Rs135/sub-month (Rs125/sub-month previously), which will help it achieve its target ARPU of Rs150/sub-month by 4QFY10.

- Dish TV's depreciation expenses declined to Rs843 mn in 2QFY11 from Rs889 mn in 1QFY11, despite robust addition of 0.76 mn subs. The trend in this metric remains unclear and we will seek further clarifications from the company on this account though it has limited bearing on our valuation, as discussed below.

Various DTH offers in the upcoming festival season

	Tata Sky	Dish TV (previous)	Sun Direct	Videocon D2H	Airtel DTV	Dish TV (revised)
Cost to consumer						
Cost of offer	999	990	—	888	999	990
Installation cost	—	200	890	300	—	200
Cost to consumer	**999**	**1,190**	**890**	**1,188**	**999**	**1,190**
Free content	no	no	no	yes	yes	yes
Value of content	—	—	—	265	200	990 (a)

Note:
(a) Assuming ~80% fixed content cost for Dish TV, cost of free content to company would be ~Rs200.

Source: Company data, Kotak Institutional Equities estimates

Potential blue-sky valuation scenario already factored into estimates

We continue to remain sanguine on the growth potential of Dish TV with (1) strong volume growth (notwithstanding FY2011E being a unique year) driving (2) positive operating leverage and EBITDA margin expansion given large fixed costs. However, expectations of (1) simultaneous strong growth in pricing as well as volumes (notably in a competitive environment with 6 DTH players and incumbent cable operators) as well as (2) significant upside from potential regulatory drivers may be a tad speculative.

Dish TV is currently trading at 11.5X FY2013E EV/EBITDA on consensus estimates and 10X FY2013E EV/EBITDA on our estimates (we factor in reduction in license fee to 6% of gross revenues in FY2012E from 10% of gross revenues currently). Dish TV is further trading at 10X FY2014E EV/EBITDA on consensus estimates and 8X EV/EBITDA on our estimates; this translates into growth for the next 3-4 years already factored into valuations (mature C&S distribution companies trade between 5-7X FY2011E EBITDA).

Indian and global C&S distribution valuation comparables

	Year Ending	Price 27-Oct	Market cap (US$ mn)	EV (US$ mn)	Sales (US$ mn)	EV/EBITDA 2010E	EV/EBITDA 2011E	EV/EBITDA 2012E	P/E (X) 2010E	P/E (X) 2011E	P/E (X) 2012E
India											
Dish Tv India Ltd (Rs)	Mar	59.3	1,418	1,664	166	32.6	16.8	11.5	(33.2)	(155.1)	269.3
Hathway Cable and Datacom (Rs)	Mar	185.8	597	613	165	11.0	7.9	5.4	63.5	30.1	23.5
Den Networks Ltd (Rs)	Mar	236.6	695	666	205	19.0	12.1	5.7	55.4	35.0	—
Asia											
Jupiter Telecommunications (Yen)	Dec	86,100	7,340	9,588	4,095	5.1	4.9	4.8	16.6	15.9	—
Beijing Gehua Catv Network-A (CNY)	Dec	15.1	2,397	2,142	223	13.9	13.0	11.1	44.7	41.7	31.4
Austar United Communications (Au$)	Dec	1.0	1,226	1,226	664	5.2	4.8	4.4	23.9	18.8	18.1
US & Europe											
Time Warner Cable (US$)	Dec	57.5	20,444	41,181	17,868	6.0	5.8	5.5	16.3	13.7	11.7
Cablevision Systems-Ny Grp-A (US$)	Dec	26.4	8,032	18,994	7,773	7.3	6.7	6.5	19.2	13.6	11.3
Virgin Media Inc (US$)	Dec	25.0	8,285	10,871	3,804	7.4	6.8	6.6	(49.5)	58.7	19.3
Sky Deutschland Ag (EUR)	Dec	1.0	966	1,318	1,249	(4.1)	(9.1)	(76.6)	(1.6)	(3.1)	(5.7)
Directv-Class A (US$)	Dec	43.5	37,666	45,025	21,565	7.1	6.5	5.9	18.5	13.7	11.2
Dish Network Corp-A (US$)	Dec	19.8	8,862	12,774	11,664	4.4	4.2	4.2	9.9	8.9	8.6

Notes:
(a) For Indian companies, any year corresponds to next year ending March; for example, 2010E corresponds to fiscal year-end March 2011 or FY2011E.

Source: Bloomberg data, Kotak Institutional Equities

kotak Institutional Equities

J&K Bank (J&KBK)

Banks/Financial Institutions

ADD

OCTOBER 26, 2010

RESULT

Coverage view: Attractive

Price (Rs): 862

Target price (Rs): 1,000

BSE-30: 20,303

Steady margins; loan growth yet to pick up. J&K Bank reported strong earnings growth of 22% yoy to ₹ 1.6 bn driven by healthy NII growth (48% yoy). NIMs were stable and remain above average at 3.66%. Loan growth continued to be subdued at 10% yoy. The management maintains that this will pick up in 2HFY11E. Valuations are attractive, offering reasonable comfort at 1.1X FY2012 PBR for RoEs at about 18% and negligible NPLs. We maintain our ADD rating with a target price of ₹1000.

Company data and valuation summary

J&K Bank

Stock data					Forecasts/Valuations	2010	2011E	2012E
52-week range (Rs) (high,low)				924-540	EPS (Rs)	105.7	119.3	139.6
Market Cap. (Rs bn)				41.8	EPS growth (%)	25.0	12.9	17.1
Shareholding pattern (%)					P/E (X)	8.2	7.2	6.2
Promoters				53.2	NII (Rs bn)	11.2	14.7	16.1
FIIs				30.0	Net profits (Rs bn)	5.1	5.8	6.8
MFs				2.6	BVPS	612.2	681.3	760.6
Price performance (%)		1M	3M	12M	P/B (X)	1.4	1.3	1.1
Absolute		7.9	8.3	35.6	ROE (%)	18.2	17.9	18.3
Rel. to BSE-30		6.6	(3.2)	12.3	Div. Yield (%)	2.6	2.9	3.4

QUICK NUMBERS

- NII grew by 48% yoy; NIMs at 3.7%
- Asset quality stable. Provision coverage healthy at 95%
- Revise TP to ₹1000. Maintain ADD

NII growth impressive at 48% yoy; NIMs maintained qoq at 3.7%

J&K Bank's net interest income (NII) increased by 48% yoy (2% qoq) to ₹3.7 bn in 2QFY11. NIMs were maintained qoq despite the decline in CD ratio as the bulk of deposits raised during the quarter was parked in investments. Sequentially, yields on advances increased by 10 bps to 11% while yield on investments was maintained at 6.1%; cost of funds increased by 11 bps qoq. With a low CD ratio and better pricing power, we believe the bank has comfortably strong margins as loan book traction picks up.

Marginal deterioration in asset quality; provision coverage maintained at high levels of 94%

J&K Bank's gross NPLs increased by 7% yoy (14% qoq) to ₹5.1 bn. Net NPLs increased from the low of ₹81 mn to ₹309mn. The net NPL ratio stands at 0.1%, lowest in the industry, and we see the recent increase fairly insignificant compared to the total loans. Loan loss provisions for the quarter were at ₹ 390 mn (0.7% of loans). We do not expect the bank to maintain provisions at such levels but it does provide reasonable comfort against any large slippage.

Loan growth remains subdued at 10% yoy -YTD at 0.5%; CD ratio at 58%

Loan growth continued to slow down to 10% yoy (12% in 1QFY11) to ₹ 232 bn (0.6% qoq). YTD growth was at 0.5% and we believe that the recent change in management has resulted in the bank slowing down its balance sheet growth, a trend which we expect to reverse with the appointment of Mr. Mushtaq Ahmed as the new CMD of the bank. Deposit growth was marginally stronger at 5.5% qoq (22% yoy) to ₹397 bn. CASA ratio for the quarter improved to 41%, partly driven by seasonality. The bank is well positioned to grow its loan book with a CD ratio at 58% (flat qoq).

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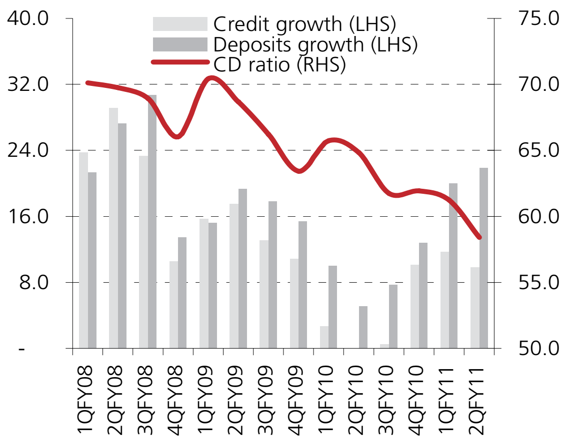
Other highlights for the quarter

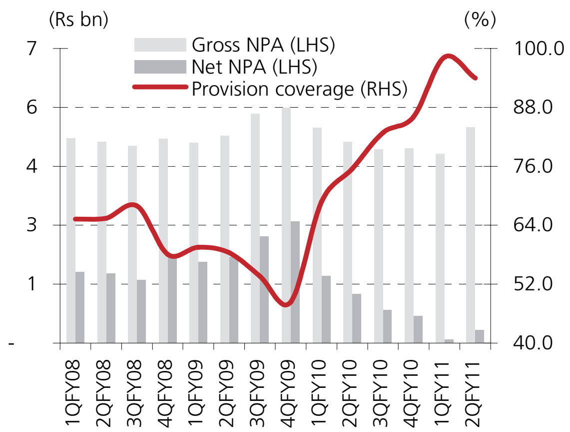
- Non-interest income was at ₹745 mn (26% yoy decline) as income from treasury gains declined 65%. Income (excluding treasury) grew by 12% yoy
- Cost-income ratio for the quarter was at 36% as against 37% in 1QFY11
- Overall capital adequacy stands comfortable at 15.6% with Tier-1 ratio at 12.8%

Strong scope for improvement in business growth
Credit growth and deposit growth, CD ratio, March year-ends, 2QFY08-2QFY11



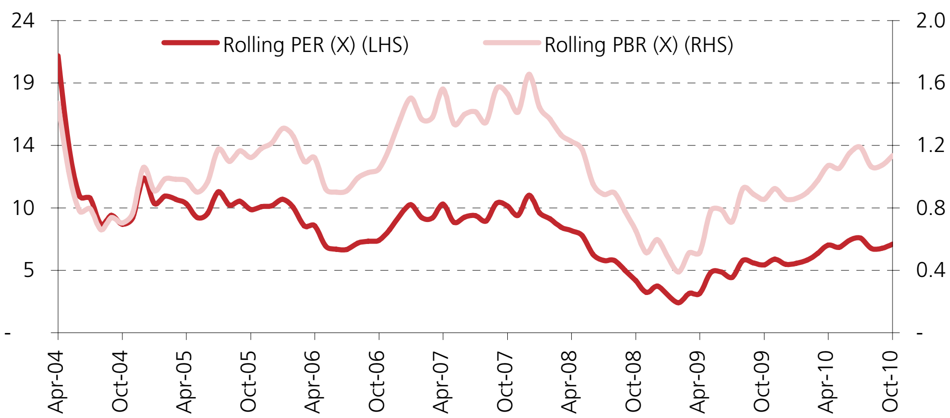
Source: Kotak Institutional Equities, Company

Asset quality continues to remain healthy
Gross NPA, net NPA and provision coverage (ex write-off), March year-ends, 2QFY08-2QFY11



Source: Kotak Institutional Equities, Company

Jammu and Kashmir Bank-Rolling PBR and PER
October 2004-October 2010 (X)



Source: Kotak Institutional Equities

Jammu and Kashmir Bank, Quarterly Results
Quarterly results summary, March fiscal year-ends

	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	% chg	2QFY11	Actual Vs KS
Interest income	7,463	7,616	7,735	8,667	8,989	20	9,077	(1)
Loans	5,820	5,832	5,767	6,270	6,354	9	6,579	(3)
Investments	1,634	1,766	1,949	2,364	2,595	59	2,432	7
Balance with RBI & banks	9	18	19	33	41	347	67	(38)
Interest expense	4,944	4,681	4,648	4,999	5,263	6	5,362	(2)
Net interest income	**2,519**	**2,935**	**3,087**	**3,668**	**3,726**	**48**	**3,716**	**0**
Non-interest income	**1,012**	**958**	**1,017**	**937**	**745**	**(26)**	**743**	**0**
Other income exld treasury	505	550	881	601	565	12	631	(11)
Treasury income	507	408	136	336	180	(64)	112	61
Total income	**3,531**	**3,893**	**4,104**	**4,605**	**4,471**	**27**	**4,459**	**0**
Operating expenses	1,318	1,447	1,757	1,712	1,627	23	1,881	(14)
Employee cost	780	930	1,147	1,197	1,074	38	1,209	(11)
Other cost	538	517	609	514	553	3	672	(18)
Operating profit pre provisions	**2,213**	**2,446**	**2,347**	**2,893**	**2,844**	**29**	**2,578**	**10**
Provisions and cont.	166	307	390	701	388	135	417	(7)
Investment depreciation	-	-	(394)	259	(50)			
Provisions for NPA	97	200	584	440	390	303	367	6
Standard asset provisions	-	-						
PBT	2,048	2,138	1,957	2,192	2,456	20	2,162	14
Tax	705	739	757	729	823	17	760	8
Net profit	**1,343**	**1,400**	**1,200**	**1,464**	**1,633**	**22**	**1,402**	**16**
Tax rate (%)	34.4	34.5	38.7	33.2	33.5	-	35.2	-
PBT-invt gains+ provisions	**1,638**	**1,930**	**2,012**	**2,555**	**2,664**	**63**	**2,466**	**8**
Key balance sheet items (Rs bn)								
Total Deposits	326	337	372	376	397	22		
Savings deposits	85	91	103	104	110	30		
Current deposits	36	47	49	38	53	48		
Term deposits	205	198	221	234	234	14		
CASA ratio (%)	37.0	41.1	40.7	37.8	41.0			
Advances	211	208	231	230	232	10		
Investments	124	150	140	169	171	39		
AFS	35	56	44	67	-			
HTM	88	94	96	102	-			
Assets	374	392	425	438	-			
Asset quality details								
Gross NPLs (Rs mn)	4,784	4,603	4,623	4,501	5,127	7		
Gross NPL ratio (%)	2.2	2.2	2.0	1.9	2.2			
Net NPLs (Rs mn)	1,170	788	643	81	309	(74)		
Net NPL ratio (%)	0.6	0.4	0.3	0.0	0.1			
Provision coverage (%)	75.6	82.9	86.1	98.2	94.0			
Provision coverage (%, ex write-off)	-	-	-	-	95.5			
Yield management measures (%)								
Cost of Deposits	5.9	5.4	4.9	5.1	5.2			
Yield on Advances	11.2	11.1	10.5	10.9	11.0			
Yield on Investments	5.4	5.2	5.4	6.1	6.1			
Net Interest Margins	3.0	3.3	3.3	3.7	3.7			
Capital adequacy details (%)								
CAR	15.2	18.1	15.9	14.8	15.6			
Tier I	14.6	14.5	12.8	13.1	12.8			
Tier II	0.6	3.5	3.1	2.8	2.8			

Source: Kotak Institutional Equities, Company

Break-up of balance sheet
Quarterly balance sheet, March Fiscal year-ends, 2QFY10-2QFY11 (Rs mn)

	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11
Balance sheet snapshot (Rs mn)					
Capital	485	485	485	485	485
Reserves and surplus	28,267	29,667	29,620	31,073	29,620
Deposits	325,629	336,637	372,372	376,294	396,879
Borrowings	9,954	9,954	11,002	16,002	11,159
Other liabilities and provisions	9,871	15,293	11,990	11,302	13,399
Total	**374,206**	**392,036**	**425,468**	**435,156**	**451,542**
Cash and balance with RBI	24,832	16,427	27,447	27,409	28,836
Balance with banks etc	7,187	8,242	18,695	3,054	8,451
Investments	123,681	149,752	139,563	168,681	171,385
Advances	211,084	207,844	230,572	230,353	231,833
Fixed assets	1,993	2,020	2,041	2,055	3,836
Other assets	5,430	7,752	7,150	6,303	7,200
Total	**374,206**	**392,036**	**425,468**	**437,856**	**442,447**

Source: Kotak Institutional Equities, Company

Broadly maintained our estimates for FY2011-2013E
Old and new estimates, March fiscal year-ends, 2011-2013E (Rs mn)

	Old estimates			New estimates			% change		
	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E
Net Interest income	14,720	16,121	18,750	15,158	16,671	18,807	3.0	3.4	0.3
NIM (%)	3.3	3.1	3.2	3.4	3.3	3.2			
Loan (Rs bn)	273	330	409	265	319	388	(2.7)	(3.5)	(5.2)
Other income	3,306	3,623	3,985	3,406	3,823	4,385	3.0	5.5	10.0
Treasury	600	600	600	700	800	1,000	16.7	33.3	66.7
Total income	18,026	19,745	22,735	18,565	20,494	23,192	3.0	3.8	2.0
Operating expense	6,527	7,168	7,841	7,060	7,636	8,227	8.2	6.5	4.9
Employee expense	4,082	4,340	4,614	4,697	4,994	5,308	15.1	15.1	15.0
Other expense	2,445	2,827	3,227	2,363	2,642	2,919	(3.3)	(6.6)	(9.5)
Provisions	2,579	2,135	2,348	2,306	2,095	2,282	(10.6)	(1.9)	(2.8)
NPLs	1,560	1,266	1,479	1,537	1,226	1,413	(1.5)	(3.1)	(4.4)
Invt depreciation	750	600	600	500	600	600			
PBT	8,920	10,442	12,546	9,198	10,764	12,682	3.1	3.1	1.1
Tax	3,137	3,672	4,411	3,234	3,785	4,459	3.1	3.1	1.1
PAT	**5,784**	**6,770**	**8,135**	**5,964**	**6,979**	**8,223**	**3.1**	**3.1**	**1.1**
PBT - treasury + provisions	10,630	11,708	14,025	10,535	11,790	13,696	(0.9)	0.7	(2.3)

Source: Kotak Institutional Equities

Jammu and Kashmir Bank, Growth rates and key ratios
March Fiscal year-ends, 2008-2013E (Rs mn)

	2008	2009	2010	2011E	2012E	2013E
Growth rates (%)						
Net loan	10.6	10.8	10.2	15.1	20.0	21.8
Customer assets	10.0	11.1	11.1	13.6	18.7	20.7
Investments excld. CPs and debentures growth	25.4	9.0	10.6	41.9	10.0	10.4
Net fixed and leased assets	4.6	3.9	2.4	36.3	6.2	(4.9)
Cash and bank balance	22.8	18.9	(12.5)	(21.9)	11.5	13.2
Total Asset	14.3	15.1	12.9	14.3	14.1	15.8
Deposits	13.5	15.4	12.8	15.1	14.8	16.6
Current	23.4	7.7	5.8	5.1	14.8	16.6
Savings	5.4	15.2	29.0	15.1	14.8	16.6
Fixed	9.6	17.4	8.1	17.3	14.8	16.6
Net interest income	5.5	23.4	11.9	35.4	10.0	12.8
Loan loss provisions	(54.4)	82.4	79.4	(13.9)	(20.2)	15.3
Total other income	34.5	0.0	69.9	(18.2)	12.2	14.7
Net fee income	(7.3)	0.2	24.5	15.0	15.0	15.0
Net capital gains	116.3	(12.7)	176.6	(59.6)	14.3	25.0
Net exchange gains	36.2	21.9	25.0	20.0	20.0	20.0
Operating expenses	8.4	16.7	22.6	22.3	8.1	7.7
Employee expenses	2.6	23.5	31.4	28.2	6.3	6.3
Key ratios (%)						
Yield on average earning assets	8.2	8.7	7.8	8.4	8.6	8.6
Yield on average loans	10.4	11.5	10.6	10.7	10.7	10.6
Yield on average investments	6.9	7.0	5.8	6.6	6.6	6.6
Average cost of funds	5.8	6.2	5.3	5.3	5.6	5.8
Interest on deposits	5.8	6.2	5.2	5.3	5.7	5.9
Difference	**2.3**	**2.5**	**2.5**	**3.1**	**2.9**	**2.8**
Net interest income/earning assets	2.7	2.9	2.9	3.4	3.3	3.2
Spreads on lending business	4.6	5.3	5.3	5.4	5.0	4.8
Spreads on lending business (incl. Fees)	5.1	5.7	5.8	5.8	5.5	5.2
New provisions/average net loans	0.3	0.5	0.8	0.6	0.4	0.4
Total provisions/gross loans	2.4	2.6	3.1	3.3	3.1	2.9
Interest income/total income	76.8	80.3	72.9	81.7	81.3	81.1
Other income / total income	23.2	19.7	27.1	18.3	18.7	18.9
Fee income to total income	7.9	6.7	6.8	6.4	6.7	6.8
Fee income to advances	0.5	0.4	0.5	0.5	0.5	0.4
Fees income to PBT	14.5	13.2	13.1	13.0	12.8	12.5
Net trading income to PBT	9.1	3.3	26.8	2.2	1.9	3.2
Exchange income to PBT	2.1	2.3	1.8	1.9	1.9	2.0
Operating expenses/total income	38.2	37.8	37.6	38.0	37.3	35.5
Operating expenses/assets	1.3	1.3	1.4	1.5	1.5	1.4
Operating profit /AWF	1.7	1.7	1.6	1.9	2.0	2.0
Tax rate	37.5	35.2	35.2	35.2	35.2	35.2
Dividend payout ratio	20.9	20.0	20.8	20.8	20.8	20.8
Share of deposits						
Current	15.0	14.0	13.1	12.0	12.0	12.0
Savings	24.1	24.1	27.6	27.6	27.6	27.6
Loans-to-deposit ratio	66.0	63.4	61.9	61.9	64.8	67.7
Equity/assets (EoY)	7.0	7.0	7.1	7.1	7.2	7.2
Dupont analysis (%)						
Net interest income	2.6	2.8	2.8	3.3	3.2	3.1
Loan loss provisions	0.2	0.3	0.4	0.3	0.2	0.2
Net other income	0.8	0.7	1.0	0.7	0.7	0.7
Operating expenses	1.3	1.3	1.5	1.6	1.5	1.4
Invt. depreciation	0.1	0.1	(0.1)	0.1	0.1	0.1
(1- tax rate)	62.5	64.8	64.7	64.8	64.8	64.8
ROA	1.2	1.2	1.3	1.3	1.3	1.4
Average assets/average equity	14.3	14.4	14.2	14.1	14.0	13.9
ROE	16.8	16.7	18.2	18.4	18.7	19.1

Source: Kotak Institutional Equities, Company

Jammu and Kashmir Bank, Income statement and balance sheet
March Fiscal year-ends, 2008-2013E (Rs mn)

	2008	2009	2010	2011E	2012E	2013E
Income statement						
Total interest income	24,342	29,881	30,569	37,121	43,394	50,612
Loans	18,776	22,949	23,417	26,410	31,096	37,457
Investments	5,413	6,620	7,046	10,218	11,726	12,512
Cash and deposits	153	312	106	493	572	643
Total interest expense	16,238	19,879	19,375	21,963	26,723	31,805
Deposits from customers	15,728	19,148	18,406	21,379	26,139	31,221
Net interest income	8,104	10,003	11,193	15,158	16,671	18,807
Loan loss provisions	545	995	1,785	1,537	1,226	1,413
Net interest income (after prov.)	7,559	9,008	9,408	13,621	15,445	17,394
Other income	2,450	2,451	4,162	3,406	3,823	4,385
Net fee income	832	834	1,039	1,195	1,374	1,580
Net capital gains	718	627	1,734	700	800	1,000
Net exchange gains	120	147	144	173	207	249
Operating expenses	4,036	4,709	5,774	7,060	7,636	8,227
Employee expenses	2,258	2,788	3,664	4,697	4,994	5,308
Depreciation on investments	192	421	(388)	500	600	600
Other Provisions	21	8	269	269	269	269
Pretax income	5,760	6,321	7,916	9,198	10,764	12,682
Tax provisions	2,160	2,223	2,792	3,234	3,785	4,459
Net Profit	3,600	4,098	5,124	5,964	6,979	8,223
% growth	31.2	13.8	25.0	16.4	17.0	17.8
PBT - Treasury + Provisions	5,800	7,117	7,848	10,804	12,059	13,965
% growth	11.0	22.7	10.3	37.7	11.6	15.8
Balance sheet						
Cash and bank balance	44,372	52,748	46,142	36,047	40,177	45,498
Cash	1,173	1,520	1,305	1,305	1,305	1,305
Balance with RBI	31,027	21,509	26,142	27,947	32,077	37,398
Balance with banks	1,105	4,496	524	524	524	524
Net value of investments	87,577	107,363	139,562	174,839	185,961	199,031
Govt. and other securities	69,363	76,052	84,421	121,236	133,640	147,863
Shares	607	494	633	633	633	633
Debentures and bonds	9,471	11,010	14,238	12,815	11,533	10,380
Net loans and advances	188,826	209,304	230,572	265,390	318,581	388,156
Fixed assets	1,920	1,994	2,041	2,783	2,956	2,810
Net leased assets	-	-	-	-	-	-
Net Owned assets	1,920	1,994	2,041	2,783	2,956	2,810
Other assets	4,865	5,523	7,150	7,150	7,150	7,150
Total assets	**327,560**	**376,933**	**425,468**	**486,210**	**554,825**	**642,644**
Deposits	285,933	330,041	372,372	428,602	491,939	573,538
Borrowings and bills payable	10,748	13,102	14,613	14,613	14,613	14,613
Other liabilities	8,071	7,561	8,378	8,378	8,378	8,378
Total liabilities	**304,752**	**350,704**	**395,363**	**451,594**	**514,930**	**596,530**
Paid-up capital	485	485	485	485	485	485
Reserves & surplus	22,323	25,744	29,620	34,131	39,410	45,630
Total shareholders' equity	**22,808**	**26,229**	**30,105**	**34,616**	**39,894**	**46,114**

Source: Kotak Institutional Equities, Company

kotak Institutional Equities

Cairn India (CAIR)

Energy

RS

OCTOBER 27, 2010

UPDATE

Coverage view: Cautious

Price (Rs): 328

Target price (Rs): NA

BSE-30: 20,221

No more exploration? The recent decision of the Management Committee of Cairn's Rajasthan block to discontinue all exploration work in the block may affect the valuation of Cairn's Rajasthan block. We are not sure how this will affect the resource potential and Cairn's targeted plateau production of 240,000 bpd. We note that Cairn had (1) included 250 mn boe of risked prospective resources in its overall reserves and resources figure and (2) increased estimates of initial in-place volumes by 2.5 bn boe to 6.5 bn boe in March 2010.

Company data and valuation summary

Cairn India

Stock data			
52-week range (Rs) (high,low)			368-248
Market Cap. (Rs bn)			621.8
Shareholding pattern (%)			
Promoters			62.4
FIIs			10.6
MFs			2.3
Price performance (%)	**1M**	**3M**	**12M**
Absolute	(0.4)	(1.0)	17.0
Rel. to BSE-30	(1.3)	(11.8)	(3.2)

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	5.5	20.5	36.6
EPS growth (%)	29.0	270.1	78.3
P/E (X)	59.2	16.0	9.0
Sales (Rs bn)	22.6	93.5	144.3
Net profits (Rs bn)	10.6	38.9	69.3
EBITDA (Rs bn)	14.0	68.6	110.9
EV/EBITDA (X)	46.6	9.6	5.8
ROE (%)	3.1	10.7	17.2
Div. Yield (%)	0.0	0.0	4.6

Will the discontinuation of exploration work affect estimates of resources and production?

We note that Cairn had upgraded its estimate of gross initial in-place (GIIP) volumes in the Rajasthan block to 6.5 bn boe in March 2010 from 3.7 bn boe previously and included 2.5 bn boe of initial oil in-place from 35+ prospects, which are yet to be explored. We are not sure if the decision to discontinue exploration work affects the entire 2.5 bn boe of prospective resources and the 250 mn boe of gross risked prospective resources estimated by Cairn based on a study done by DeGolyer and MacNaughton.

Government is enforcing regulations strictly in accordance with PSCs

Being a somewhat technical and legal matter, we cannot comment on the ban on exploration work and its ramifications with complete confidence at the current juncture. The management has clarified that the Management Committee has not approved the exploratory program for the next year; however, it has not disclosed the reasons for the same. However, we would note that the regulator has been very firm in (1) not granting extensions beyond the stipulated period of the PSCs to various contractors or (2) recognizing discoveries if they do conform to standard practices.

We already model 1.42 bn boe of production from Rajasthan block

We model 1.42 bn boe of oil production from Cairn's Rajasthan block over the life of the fields. This compares with 1.4 bn boe of reserves, contingent resources and gross risked prospective resources identified by Cairn. See our Exhibit 1 for a breakdown of Cairn's reserves and resource potential. As such, we are being quite generous in our assumptions — the exploration ban poses large downside risks to our production estimates.

Enough problems in the Cairn-VED deal

We are not sure if the new development will affect the Cairn-VED deal. There are other issues holding up the transaction including (1) legal status of ONGC's pre-emptive rights in blocks where it has a participating interest along with Cairn India and (2) payment of royalty by ONGC for the entire production from the Rajasthan block despite a significant change in ownership of Cairn India.

QUICK NUMBERS

- 6.5 bn boe of gross in-place volumes includes 2.5 bn boe of resources from 35+ prospects
- 250 mn boe of gross risked prospective resources from 2.5 bn boe of prospective resources
- We assume 1.42 bn boe of recoverable reserves versus 1.4 bn boe of 2P, 2C , EOR and risked prospective resources

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Gross oil in place is about 6.5 bn barrels
Original oil in place and reserves of RJ-ON-90/1 block (mn bbls)

	Orginal oil in place	2P + 2C + Risked prospective resources	Working Interest
MBA	2.05	0.69	0.49
MBA EOR		0.31	0.22
Rajasthan other fields	1.98	0.15	0.11
35+ prospects	2.50	0.25	0.18
Total RJ-ON-90/1	**6.53**	**1.40**	**0.98**

Source: Company, Kotak Institutional Equities

We compute average price of ₹282-₹320 for a minority shareholder assuming all shares are tendered in an open offer
Weighted average price for non-promoter holding in Cairn India (₹)

	Scenario A	Scenario B
Number of shares outstanding for Cairn India (mn)	1,897	1,897
Cairn Energy PLC holding in Cairn India (%)	62.36	62.36
Non-promoter shareholding (%)	37.64	37.64
Open-offer size (%)	20	20
Open-offer price (Rs)	355	355
Fair value of Cairn India (Rs)	280	200
Weighted average price (Rs)	**320**	**282**

Note:
(a) Scenario A assumes open-offer price of Rs355.
(b) Scenario B assumes open-offer price of Rs355 and payment of royalty by Cairn India for its share in Rajasthan block.

Source: Kotak Institutional Equities estimates

We value Cairn India stock at ₹280
EV and equity value of Cairn (US$ mn)

	Now	+ 1-year	+ 2-years
RJ-ON-90/1	11,101	11,960	12,022
CB-OS-2	87	60	39
Ravva	225	199	174
Upside potential (KG-DWN-98/2)	100	112	125
Total	**11,513**	**12,331**	**12,361**
Net debt	603	776	575
Equity value	**10,910**	**11,556**	**11,786**
Equity shares (mn)	1,897	1,897	1,897
Equity value per share (Rs/share)	**265**	**280**	**286**

Source: Kotak Institutional Equities estimates

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

	2006	2007	2009 (a)	2010	2011E	2012E	2013E	2014E
Profit model (Rs mn)								
Net sales	18,417	16,561	25,156	22,627	93,507	144,302	202,587	204,664
EBITDA	**7,633**	**6,817**	**9,098**	**9,874**	**67,058**	**109,067**	**129,214**	**114,193**
Other income	1,100	1,324	5,510	4,077	1,552	1,871	2,010	2,477
Interest	(201)	(27)	(64)	(148)	(2,678)	(3,384)	(2,070)	(357)
Depreciation	(497)	(4,589)	(4,382)	(3,570)	(11,055)	(16,212)	(20,346)	(20,525)
Pretax profits	8,035	3,524	10,162	10,232	54,876	91,342	108,808	95,788
Extraordinary items	—	(2,120)	(283)	(69)	—	—	—	—
Tax	(2,273)	(740)	(1,221)	(739)	(14,005)	(20,966)	(24,291)	(21,290)
Deferred taxation	(22)	(764)	(623)	1,087	(1,973)	(1,031)	(398)	(348)
Net profits	**5,740**	**(100)**	**8,035**	**10,511**	**38,898**	**69,345**	**84,119**	**74,150**
Earnings per share (Rs)	**3.3**	**(0.1)**	**4.3**	**5.5**	**20.5**	**36.6**	**44.3**	**39.1**
Balance sheet (Rs mn)								
Total equity	292,804	294,358	328,023	338,683	377,582	413,637	453,368	460,937
Deferred tax liability	4,258	4,916	5,540	4,453	6,427	7,457	7,855	8,203
Total borrowings	5,122	3,124	43,564	34,007	61,007	51,007	14,007	5,232—
Currrent liabilities	39,716	8,372	16,132	14,806	2,260	2,681	7,634	10,219
Total liabilities and equity	**341,900**	**310,771**	**393,259**	**391,949**	**447,275**	**474,782**	**482,865**	**484,592**
Cash	61,348	1,504	18,968	6,269	25,334	24,551	33,313	51,298
Current assets	6,470	19,029	53,712	17,465	23,016	29,279	36,464	36,721
Total fixed assets	17,609	25,157	62,660	92,904	28,623	28,651	28,746	24,956
Net producing properties	2,354	4,390	3,014	4,995	99,985	121,985	114,025	101,300
Investments	4	7,129	1,713	17,124	17,124	17,124	17,124	17,124
Goodwill	254,115	253,193	253,193	253,193	253,193	253,193	253,193	253,193
Deferred expenditure	—	370	—	—	—	—	—	—
Total assets	**341,900**	**310,771**	**393,259**	**391,949**	**447,275**	**474,782**	**482,865**	**484,592**
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	4,598	6,387	8,213	6,501	47,906	82,372	101,173	91,057
Working capital changes	34,256	(908)	1,213	(7,082)	(18,097)	(5,841)	(2,233)	2,329
Capital expenditure	(5,619)	(11,739)	(31,613)	(33,662)	(39,295)	(35,894)	(10,801)	(2,521)
Investments/Goodwill	(252,717)	(53,863)	(25,062)	25,194	—	—	—	—
Other income	1,100	1,298	1,518	2,360	1,552	1,871	2,010	2,477
Free cash flow	**(218,382)**	**(58,824)**	**(45,730)**	**(6,689)**	**(7,935)**	**42,507**	**90,149**	**93,341**
Key assumptions								
Gross production ('000 boe/d)	91.0	75.4	68.1	64.3	151.6	212.5	265.4	259.3
Net production ('000 boe/d)	25.1	19.4	17.8	21.0	84.1	128.9	168.0	165.9
Dated Brent (US$/bbl)	65.3	70.3	87.4	67.0	75.0	75.0	80.0	81.6
Discount of Rajasthan crude to Dated Brent (US$/bbl)	—	—	—	5.0	8.0	8.0	8.0	8.0

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

Source: Company, Kotak Institutional Equities estimates

September 2010: Results calendar

Mon	Tue	Wed	Thu	Fri	Sat	Sun
25-Oct	**26-Oct**	**27-Oct**	**28-Oct**	**29-Oct**	**30-Oct**	**31-Oct**
			Adani Enterprises	ABB	Aditya Birla Nuvo	Jaiprakash Associates
			Alok Industries	Bharat Electronics	Areva T&D	
			Andhra Bank	BHEL	D B Realty	
			Balaji Telefilms	Federal Bank	Godrej Consumer Products	
			Bank of Baroda	GE Shipping	GVK Power	
			BGR Energy	Hero Honda	Jaiprakash Power Ventures	
			Cairn India	Hindustan Construction Co	Jaypee Infratech	
			Colgate Palmolive	ICICI Bank	Maruti Suzuki	
			Dhanlakshmi Bank	Indian Overseas Bank	National Aluminium Co.	
			EIH	ITC	Reliance Industries	
			Glaxosmithkline Pharma	Jet Airways	Sun Pharma	
			Grasim Industries	Maharashtra Seamless	Suzlon Energy	
			Gujarat Gas	Mahindra & Mahindra		
			Hexaware Technologies	Moser Baer		
			IDBI Bank	Motherson Sumi		
			IRB Infrastructure	National Fertilizers		
			Jyothy Laboratories	Nestle India		
			Monsanto India	Puravanka Projects		
			Network18 Media	Shipping Corp		
			NHPC	SJVN		
			NMDC	Syndicate Bank		
			ONGC	Tata Chemicals		
			Phoenix Mills	UCO Bank		
			PTC India	Welspun Corp		
			Punjab National Bank			
			SAIL			
			SREI Infra			
			Sun TV Network			
			Tata Communications			
			Tata Global Beverages			
			United Breweries			
			Zee Entertainment Enterprises			
1-Nov	**2-Nov**	**3-Nov**	**4-Nov**	**5-Nov**	**6-Nov**	
Century Textiles	Fortis Healthcare	Aurobindo Pharma	Engineers India			
GTL Infra	Godrej Cosumer Products	CESC				
Havells India	Jai Corp	GAIL				
JSW Energy	Jubilant Foodworks	MTNL				
Lupin	Neyveli Lignite	Oriental Bank				
Punj Lloyd	Oracle Financial Services					
8-Nov	**9-Nov**	**10-Nov**	**11-Nov**	**12-Nov**	**13-Nov**	
IDFC	Financial Technologies	Bharti Airtel	Apollo Tyres	HPCL	Indian Oil Corp	
Jindal Saw	GMR Infrastructure	BPCL	Lanco Infratech	Tata Power		

Source: BSE, Kotak Institutional Equities

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	26-Oct-10 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS (Rs) 2012E	EPS growth (%) 2010E	EPS growth (%) 2011E	EPS growth (%) 2012E	PER (X) 2010E	PER (X) 2011E	PER (X) 2012E	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	EV/EBITDA (X) 2012E	Price/BV (X) 2010E	Price/BV (X) 2011E	Price/BV (X) 2012E	Dividend yield (%) 2010E	Dividend yield (%) 2011E	Dividend yield (%) 2012E	RoE (%) 2010E	RoE (%) 2011E	RoE (%) 2012E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Automobiles																													
Ashok Leyland	78	ADD	104,228	2,345	1,330	2.8	4.9	6.5	84.5	75.1	31.9	27.8	15.9	12.0	15.8	10.7	8.6	2.6	2.3	2.0	1.9	1.3	1.3	10.9	15.4	17.9	85	8.5	8.3
Bajaj Auto	1,499	REDUCE	433,703	9,759	289	58.8	91.0	103.6	160.2	54.6	13.9	25.5	16.5	14.5	16.4	11.7	10.1	14.8	8.9	6.0	0.7	1.3	1.3	70.9	67.4	49.6	1,450	(3.3)	21.5
Bharat Forge	376	ADD	89,815	2,021	239	0.7	12.4	20.3	(92.0)	1,707.0	63.3	546.5	30.2	18.5	27.5	12.5	8.7	2.4	2.3	2.0	—	—	—	0.9	16.2	20.6	400	6.5	4.7
Hero Honda	1,864	REDUCE	372,281	8,377	200	111.8	114.9	129.8	74.1	2.8	12.9	16.7	16.2	14.4	10.5	10.4	8.9	10.3	7.2	5.4	1.6	1.7	1.9	59.0	52.1	42.7	1,800	(3.4)	24.2
Mahindra & Mahindra	717	BUY	426,923	9,607	595	33.9	44.1	51.7	125.8	30.1	17.3	21.2	16.3	13.9	13.9	11.7	9.8	5.3	4.2	3.4	1.3	1.3	1.4	30.0	29.0	27.3	760	6.0	26.2
Maruti Suzuki	1,567	REDUCE	452,664	10,186	289	86.4	80.7	93.3	105.0	(6.7)	15.6	18.1	19.4	16.8	9.9	10.1	8.4	3.8	3.2	2.7	0.4	0.4	0.4	23.3	17.8	17.4	1,330	(15.1)	23.7
Tata Motors	1,195	ADD	748,165	16,835	626	27.4	94.8	109.2	(182.5)	246.1	15.2	43.6	12.6	10.9	14.8	7.7	6.7	4.8	3.4	2.6	1.1	0.5	0.5	8.7	11.9	11.1	1,150	(3.7)	98.5
Automobiles		**Cautious**	**2,627,779**	**59,131**					**276.0**	**60.6**	**16.6**	**25.2**	**15.7**	**13.4**	**13.6**	**9.6**	**8.2**	**5.3**	**4.1**	**3.2**	**1.0**	**0.9**	**1.0**	**20.9**	**25.9**	**23.8**			
Banks/Financial Institutions																													
Andhra Bank	186	BUY	90,259	2,031	485	21.6	22.9	26.7	60.1	6.4	16.4	8.6	8.1	7.0	—	—	—	2.0	1.7	1.5	2.7	2.9	3.3	26.0	23.1	22.7	190	2.1	7.2
Axis Bank	1,460	ADD	591,352	13,307	405	62.1	78.6	99.9	22.7	26.6	27.2	23.5	18.6	14.6	—	—	—	3.7	3.2	2.7	0.8	1.0	1.3	19.2	18.4	20.2	1,700	16.5	44.9
Bank of Baroda	980	BUY	358,034	8,057	366	83.7	95.1	115.7	37.3	13.7	21.7	11.7	10.3	8.5	—	—	—	2.6	2.2	1.8	1.5	1.7	2.1	24.4	23.0	23.3	1,000	2.1	8.7
Bank of India	524	ADD	275,395	6,197	526	33.1	56.3	63.2	(42.1)	70.2	12.2	15.8	9.3	8.3	—	—	—	2.2	1.8	1.6	1.3	2.3	2.6	14.2	21.3	20.4	580	10.8	15.6
Canara Bank	734	ADD	300,920	6,771	410	73.7	90.7	102.8	45.8	23.1	13.4	10.0	8.1	7.1	—	—	—	2.4	1.9	1.5	1.4	1.4	1.6	22.5	22.8	21.4	740	0.8	11.9
Corporation Bank	789	ADD	113,144	2,546	143	82.0	86.7	100.7	31.8	5.7	16.2	9.6	9.1	7.8	—	—	—	2.0	1.7	1.4	2.1	2.2	2.6	22.0	19.9	19.9	800	1.4	2.0
Federal Bank	465	ADD	79,488	1,789	171	27.2	36.4	49.0	(7.2)	34.1	34.4	17.1	12.8	9.5	—	—	—	1.7	1.5	1.4	1.1	1.4	1.9	10.3	12.6	15.2	430	(7.5)	7.7
HDFC	696	REDUCE	999,645	22,494	1,436	19.7	24.0	28.1	22.7	21.8	17.2	35.4	29.0	24.8	—	—	—	6.6	5.8	5.1	1.0	1.2	1.4	20.0	21.2	21.9	720	3.4	54.7
HDFC Bank	2,301	REDUCE	1,053,450	23,705	458	64.4	84.9	111.2	22.1	31.8	31.0	35.7	27.1	20.7	—	—	—	4.9	4.3	3.7	0.5	0.7	0.9	16.1	16.9	19.2	2,500	8.6	43.7
ICICI Bank	1,131	REDUCE	1,261,107	28,378	1,115	36.1	45.2	57.3	6.9	25.3	26.6	31.3	25.0	19.8	—	—	—	2.4	2.3	2.2	1.1	1.3	1.7	8.0	9.5	11.3	1,000	(11.6)	91.5
IDFC	209	ADD	304,577	6,854	1,458	8.4	9.4	11.2	44.9	12.4	18.7	24.9	22.1	18.7	—	—	—	4.3	2.8	2.4	0.6	0.8	1.1	16.6	15.5	14.3	205	(1.8)	25.3
India Infoline	116	BUY	36,044	811	312	8.1	7.2	8.7	59.2	(11.9)	21.6	14.2	16.1	13.3	—	—	—	2.3	1.9	1.6	2.7	1.3	1.8	16.4	12.9	14.4	130	12.5	6.2
Indian Bank	305	ADD	131,123	2,951	430	35.1	35.7	44.9	25.5	1.6	25.9	8.7	8.6	6.8	—	—	—	2.0	1.7	1.4	2.1	2.1	2.6	24.1	20.5	21.8	350	14.7	6.1
Indian Overseas Bank	168	BUY	91,635	2,062	545	13.0	16.7	24.8	(46.7)	29.0	48.4	13.0	10.1	6.8	—	—	—	1.4	1.3	1.1	2.1	2.3	2.5	9.6	11.6	15.4	160	(4.9)	5.5
J&K Bank	851	ADD	41,247	928	48	105.7	119.3	139.6	25.0	12.9	17.1	8.1	7.1	6.1	—	—	—	1.4	1.2	1.1	2.6	2.9	3.4	18.2	17.9	18.3	850	(0.1)	3.7
LIC Housing Finance	1,376	REDUCE	130,720	2,942	95	69.7	109.0	119.0	11.5	56.3	9.2	19.7	12.6	11.6	—	—	—	4.0	3.3	2.8	1.1	1.7	1.9	23.6	27.4	24.6	1,325	(3.7)	35.5
Mahindra & Mahindra Financial	712	BUY	68,366	1,538	96	35.9	51.3	60.3	60.0	43.0	17.5	19.9	13.9	11.8	—	—	—	4.0	3.4	2.8	1.1	1.5	1.8	21.5	25.7	25.0	750	5.3	5.7
Oriental Bank of Commerce	502	ADD	125,809	2,831	251	45.3	57.8	66.8	25.3	27.6	15.5	11.1	8.7	7.5	—	—	—	1.7	1.5	1.3	1.8	2.3	2.7	14.5	16.5	16.9	450	(10.4)	9.1
PFC	372	SELL	427,430	9,618	1,148	20.5	22.9	27.6	53.5	11.9	20.3	18.2	16.3	13.5	—	—	—	3.3	2.9	2.5	1.4	1.5	1.9	18.8	18.3	19.2	275	(26.2)	3.9
Punjab National Bank	1,345	BUY	424,019	9,541	315	123.9	133.4	163.3	26.4	7.7	22.4	10.9	10.1	8.2	—	—	—	2.6	2.1	1.8	1.6	2.0	2.5	26.2	23.2	23.7	1,450	7.8	8.9
Reliance Capital	859	NR	211,415	4,757	246	12.9	13.7	9.8	(67.3)	6.5	(28.6)	66.8	62.7	87.9	—	—	—	3.1	3.0	2.9	0.7	0.6	0.5	4.7	4.8	3.4	—	—	30.5
Rural Electrification Corp.	367	REDUCE	361,977	8,145	987	20.3	26.5	31.8	23.2	30.8	19.8	18.1	13.8	11.5	—	—	—	3.3	2.8	2.4	1.8	2.2	2.6	22.0	22.0	22.8	350	(4.5)	11.2
Shriram Transport	777	ADD	173,391	3,902	223	39.2	53.3	65.1	30.1	36.2	22.0	19.8	14.6	11.9	—	—	—	4.7	4.0	3.3	1.5	2.1	2.5	28.4	28.2	28.6	800	3.0	8.3
SKS Microfinance	989	ADD	72,865	1,640	74	26.9	48.9	77.5	61.1	81.3	58.6	36.7	20.2	12.8	—	—	—	7.7	3.5	2.7	—	—	—	21.7	23.9	24.7	1,400	41.6	—
SREI	119	NR	13,780	310	116	8.3	7.9	9.9	17.8	(4.8)	25.8	14.3	15.0	11.9	—	—	—	1.2	1.1	1.0	1.0	1.0	1.0	11.1	10.5	12.3	—	—	5.5
State Bank of India	3,181	BUY	2,019,435	45,442	635	144.4	176.8	209.3	0.5	22.4	18.4	22.0	18.0	15.2	—	—	—	3.1	2.7	2.4	0.9	1.0	1.1	14.8	15.9	16.6	3,400	6.9	132.3
Union Bank	418	BUY	211,089	4,750	505	41.1	48.8	60.2	20.2	18.8	23.5	10.2	8.6	6.9	—	—	—	2.4	1.9	1.6	1.3	1.6	1.9	26.2	25.1	25.1	450	7.7	6.2
Yes Bank	379	BUY	128,683	2,896	340	15.0	21.0	26.6	46.7	40.2	26.6	25.2	18.0	14.2	—	—	—	4.2	3.5	2.8	0.4	0.6	0.7	20.3	21.0	22.0	400	5.6	15.5
Banks/Financial Institutions		**Attractive**	**10,096,398**	**227,192**					**15.0**	**23.1**	**21.2**	**20.0**	**16.2**	**13.4**	**—**	**—**	**—**	**3.1**	**2.7**	**2.3**	**1.1**	**1.3**	**1.6**	**15.5**	**16.5**	**17.4**			
Cement																													
ACC	1,014	REDUCE	190,492	4,286	188	83.2	56.4	63.6	47.9	(32.3)	12.9	12.2	18.0	15.9	6.5	8.5	6.8	3.0	2.7	2.4	2.7	2.3	2.3	29.3	17.5	17.6	940	(7.3)	11.2
Ambuja Cements	142	SELL	215,492	4,849	1,522	8.0	8.1	9.0	11.4	1.4	10.6	17.7	17.4	15.8	9.8	9.6	8.0	3.1	2.7	2.4	1.3	1.5	1.5	19.3	17.1	16.8	108	(23.7)	7.4
Grasim Industries	2,269	ADD	208,026	4,681	92	301.0	242.3	292.5	26.1	(19.5)	20.7	7.5	9.4	7.8	4.5	4.8	3.6	1.7	1.4	1.2	1.5	1.5	1.5	22.9	16.5	17.2	2,500	10.2	6.7
India Cements	116	SELL	35,617	801	307	10.0	7.4	9.4	(43.5)	(26.5)	27.5	11.6	15.7	12.3	6.2	8.2	5.8	0.8	0.8	0.8	1.8	2.8	2.8	8.2	5.7	7.0	100	(13.8)	5.4
Shree Cement	2,070	BUY	72,118	1,623	35	208.0	200.4	265.2	19.0	(3.7)	32.4	10.0	10.3	7.8	4.9	4.8	3.1	4.0	2.9	2.2	0.5	0.5	0.5	48.0	32.4	31.6	2,400	15.9	1.5
UltraTech Cement	1,100	ADD	301,467	6,784	274	88.2	66.2	99.5	12.0	(25.0)	50.4	12.5	16.6	11.1	14.5	9.2	5.8	5.5	2.4	2.0	0.2	0.3	0.3	25.9	18.0	22.3	1,100	(0.0)	6.0
Cement		**Neutral**	**1,023,212**	**23,025**					**19.3**	**(5.5)**	**26.6**	**13.3**	**14.1**	**11.1**	**7.0**	**7.1**	**5.2**	**2.7**	**2.1**	**1.8**	**1.2**	**1.3**	**1.3**	**20.6**	**14.8**	**16.1**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	26-Oct-10 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS (Rs) 2012E	EPS growth (%) 2010E	EPS growth (%) 2011E	EPS growth (%) 2012E	PER (X) 2010E	PER (X) 2011E	PER (X) 2012E
Consumer products														
Asian Paints	2,592	ADD	248,619	5,594	96	71.5	89.0	104.3	85.3	24.4	17.3	36.2	29.1	24.8
Colgate-Palmolive (India)	862	SELL	117,287	2,639	136	31.1	34.5	39.6	44.2	10.9	14.6	27.7	25.0	21.8
Dabur India	105	ADD	181,689	4,088	1,731	2.9	3.4	4.2	28.2	16.8	23.3	36.2	31.0	25.1
GlaxoSmithkline Consumer (a)	2,150	ADD	90,411	2,034	42	55.4	68.8	83.9	23.6	24.3	22.0	38.8	31.3	25.6
Godrej Consumer Products	412	ADD	133,368	3,001	324	11.3	13.5	18.0	69.5	18.9	33.4	36.4	30.6	22.9
Hindustan Unilever	298	SELL	650,688	14,642	2,182	9.4	10.2	12.0	(0.9)	8.4	17.5	31.6	29.2	24.8
ITC	172	ADD	1,313,981	29,568	7,651	5.3	6.4	7.5	22.6	20.5	17.8	32.4	26.9	22.8
Jubilant Foodworks	515	SELL	32,867	740	64	5.5	10.0	13.1	340.6	79.9	31.4	92.9	51.6	39.3
Jyothy Laboratories	301	ADD	23,068	519	77	11.0	14.3	17.0	99.6	30.1	18.2	27.3	21.0	17.8
Marico	133	ADD	81,521	1,834	612	4.4	5.3	6.4	32.9	20.2	20.4	30.0	24.9	20.7
Nestle India (a)	3,449	REDUCE	332,567	7,483	96	74.4	90.7	109.8	27.0	22.0	21.0	46.4	38.0	31.4
Tata Global Beverages	127	ADD	78,753	1,772	618	6.1	7.3	8.7	14.5	20.7	19.0	21.0	17.4	14.7
Consumer products		**Cautious**	**3,284,819**	**73,916**					**23.8**	**18.4**	**19.0**	**33.6**	**28.4**	**23.8**
Constructions														
IVRCL	153	BUY	40,786	918	267	7.9	9.1	11.6	(6.7)	15.0	27.9	19.3	16.8	13.2
Nagarjuna Construction Co.	153	BUY	39,155	881	257	7.1	8.9	11.6	6.1	24.3	31.1	21.4	17.2	13.1
Punj Lloyd	127	REDUCE	42,936	966	339	(12.9)	9.8	12.0	79.2	(175.4)	22.4	(9.8)	13.0	10.6
Sadbhav Engineering	1,483	BUY	22,249	501	15	42.8	61.8	87.2	(16.3)	44.3	41.0	34.6	24.0	17.0
Construction		**Attractive**	**145,126**	**3,266**					**(91.1)**	**4,479**	**28.0**	**743.6**	**16.2**	**12.7**
Energy														
Aban Offshore	821	ADD	35,704	803	44	94.5	151.1	129.7	(2.5)	59.9	(14.2)	8.7	5.4	6.3
Bharat Petroleum	710	BUY	256,513	5,772	362	58.6	57.0	65.4	230	(3)	14.8	12	12	10.8
Cairn india	328	RS	621,828	13,993	1,897	5.5	20.5	36.6	29.0	270.1	78.3	59.2	16.0	9.0
Castrol India (a)	474	SELL	117,310	2,640	247	15.4	21.0	21.7	45	36	3.5	31	23	21.8
GAIL (India)	497	BUY	630,117	14,179	1,268	24.8	26.8	40.3	11.7	8.2	50.4	20.1	18.5	12.3
GSPL	122	SELL	68,647	1,545	562	7.3	7.1	8.0	233	(3)	12.6	17	17	15.3
Hindustan Petroleum	492	BUY	166,759	3,752	339	51.6	52.1	58.5	204.2	1.0	12.4	9.5	9.4	8.4
Indian Oil Corporation	425	ADD	1,031,150	23,203	2,428	49.1	37.9	41.9	399	(23)	10.7	9	11	10.1
Oil India	1,437	REDUCE	345,497	7,774	240	115.2	131.9	149.0	13.9	14.6	12.9	12.5	10.9	9.6
Oil & Natural Gas Corporation	1,324	BUY	2,832,314	63,733	2,139	90.3	116.4	136.7	(1)	29	17.5	15	11	9.7
Petronet LNG	118	SELL	88,238	1,986	750	5.4	6.9	8.3	(22.0)	28.1	20.2	21.8	17.0	14.2
Reliance Industries	1,099	REDUCE	3,270,178	73,586	2,976	49.6	57.7	74.4	(2)	16	28.9	22	19	14.8
Energy		**Cautious**	**9,464,254**	**212,967**					**36.6**	**16.0**	**23.9**	**15.8**	**13.6**	**11.0**
Industrials														
ABB	901	REDUCE	190,898	4,296	212	16.7	18.3	33.1	(35.2)	9.3	80.7	53.8	49.3	27.3
BGR Energy Systems	774	BUY	55,728	1,254	72	16.0	28.0	41.1	32.2	74.4	46.9	48.3	27.7	18.8
Bharat Electronics	1,765	REDUCE	141,224	3,178	80	96.1	105.9	120.3	(7.4)	10.2	13.6	18.4	16.7	14.7
Bharat Heavy Electricals	2,489	REDUCE	1,218,611	27,421	490	87.9	114.3	135.5	37.7	30.0	18.5	28.3	21.8	18.4
Crompton Greaves	326	REDUCE	209,418	4,712	642	12.8	14.5	16.9	46.5	12.9	16.4	25.4	22.5	19.3
Larsen & Toubro	2,041	ADD	1,228,819	27,651	602	57.9	76.7	90.5	15.6	32.3	18.1	35.2	26.6	22.5
Maharashtra Seamless	415	BUY	29,281	659	71	40.2	43.6	49.8	12.1	8.5	14.2	10.3	9.5	8.3
Siemens	830	REDUCE	279,759	6,295	337	25.2	27.0	31.9	56.4	7.3	18.0	33.0	30.7	26.0
Suzlon Energy	58	REDUCE	92,755	2,087	1,594	(6.2)	(0.8)	3.3	(185.4)	(86.8)	(504.1)	(9.4)	(71.7)	17.7
Thermax	784	ADD	93,455	2,103	119	21.7	29.5	39.7	(10.4)	35.9	34.4	36.1	26.6	19.8
Voltas	241	REDUCE	79,740	1,794	331	10.9	11.8	13.4	57.4	8.2	14.3	22.2	20.5	17.9
Industrials		**Attractive**	**3,619,687**	**81,451**					**1.3**	**36.2**	**24.9**	**34.2**	**25.1**	**20.1**

Company	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	EV/EBITDA (X) 2012E	Price/BV (X) 2010E	Price/BV (X) 2011E	Price/BV (X) 2012E	Dividend yield (%) 2010E	Dividend yield (%) 2011E	Dividend yield (%) 2012E	RoE (%) 2010E	RoE (%) 2011E	RoE (%) 2012E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Consumer products															
Asian Paints	22.4	18.1	15.3	15.5	12.1	9.7	1.0	1.5	1.7	51.8	47.9	44.4	3,000	15.7	8.0
Colgate-Palmolive (India)	22.7	18.5	15.8	36.0	30.6	26.2	2.3	3.0	3.4	156.1	132.3	129.4	830	(3.8)	3.1
Dabur India	26.9	21.6	17.6	17.3	13.3	11.0	1.5	1.7	2.1	54.3	49.0	48.4	115	9.6	5.1
GlaxoSmithkline Consumer (a)	21.9	18.8	15.0	10.1	8.4	7.0	0.8	1.0	1.3	27.9	29.1	29.6	2,200	2.3	1.0
Godrej Consumer Products	28.9	21.7	16.3	13.9	7.5	6.8	0.9	0.8	0.8	44.6	31.9	31.1	450	9.2	2.6
Hindustan Unilever	21.8	20.9	17.1	25.2	21.8	18.8	2.5	2.8	3.3	71.1	80.2	81.3	250	(16.2)	15.6
ITC	19.7	16.9	14.1	8.8	7.4	6.3	2.9	1.6	1.7	29.2	31.6	31.3	175	1.9	26.8
Jubilant Foodworks	49.4	29.5	19.7	27.9	18.1	12.4	—	—	—	46.6	42.6	37.5	400	(22.3)	25.8
Jyothy Laboratories	22.2	14.1	11.3	5.6	3.8	3.2	1.5	1.2	1.6	16.0	18.4	19.6	320	6.3	0.8
Marico	20.5	16.7	13.9	12.2	8.8	6.6	0.5	0.7	0.8	48.9	41.6	36.7	140	5.0	2.0
Nestle India (a)	30.7	25.4	21.5	57.2	43.3	33.2	1.4	1.8	2.1	136.0	129.7	119.5	3,100	(10.1)	4.0
Tata Global Beverages	10.1	7.7	6.5	1.6	1.5	1.4	1.6	1.9	2.3	10.2	11.7	12.9	130	2.1	4.8
Consumer products	**21.5**	**18.4**	**15.2**	**11.4**	**9.4**	**8.0**	**2.2**	**1.8**	**2.1**	**33.8**	**33.1**	**33.7**			
Constructions															
IVRCL	10.0	9.5	7.5	2.0	1.8	1.6	0.3	0.3	0.3	11.0	11.3	12.9	205	34.2	7.7
Nagarjuna Construction Co.	10.9	9.5	7.9	1.7	1.6	1.5	0.9	1.3	1.3	9.3	9.8	11.8	205	34.3	4.8
Punj Lloyd	35.9	7.0	6.4	1.4	1.3	1.2	(0.1)	0.3	0.8	(15.8)	10.3	11.4	140	10.5	13.9
Sadbhav Engineering	19.0	12.7	9.8	5.5	3.6	3.0	0.2	0.4	0.4	15.8	15.1	17.8	1,750	18.0	0.4
Construction	**15.3**	**8.7**	**7.4**	**1.9**	**1.7**	**1.5**	**0.3**	**0.6**	**0.7**	**0.3**	**10.3**	**11.8**			
Energy															
Aban Offshore	8.3	6.9	6.6	1.6	1.5	1.3	0.4	0.4	0.5	21.7	32.9	21.9	915	11.5	35.4
Bharat Petroleum	6.8	6.5	6.1	1.8	1.7	1.5	2.0	2.6	3.0	14.9	13.3	13.8	855	20.5	26.8
Cairn india	46.6	9.6	5.8	1.8	1.6	1.5	—	—	4.6	3.1	10.7	17.2	—	—	31.3
Castrol India (a)	18.3	14.0	13.4	25.5	24.2	23.0	2.6	3.6	3.7	83.8	109.9	107.9	390	(17.8)	2.4
GAIL (India)	11.3	11.2	8.7	3.5	3.1	2.6	1.5	1.7	2.5	17.4	16.6	21.7	550	10.7	17.6
GSPL	8.3	8.2	6.9	4.0	3.3	3.0	0.8	1.4	2.6	27.1	21.2	20.6	83	(32.0)	7.1
Hindustan Petroleum	3.4	3.1	2.9	1.2	1.1	1.0	2.4	3.3	3.7	13.1	11.9	12.1	625	27.1	27.6
Indian Oil Corporation	6.2	6.3	5.6	1.9	1.7	1.6	3.1	2.7	3.0	22.4	15.3	15.4	480	13.0	13.5
Oil India	5.7	4.3	3.7	2.3	2.1	1.8	2.4	3.1	3.5	16.8	17.9	17.9	1,550	7.9	3.4
Oil & Natural Gas Corporation	5.1	4.5	3.9	2.1	1.9	1.7	2.5	3.2	3.6	14.4	16.8	17.7	1,500	13.3	33.2
Petronet LNG	12.3	10.1	8.9	3.4	2.9	2.6	1.5	1.7	2.3	15.9	17.7	18.2	90	(23.5)	10.6
Reliance Industries	11.1	8.9	7.3	2.2	2.0	1.8	0.6	0.7	0.9	11.4	12.1	13.9	1,015	(7.6)	136.8
Energy	**7.7**	**6.6**	**5.5**	**2.2**	**2.0**	**1.7**	**1.6**	**1.9**	**2.6**	**13.7**	**14.3**	**15.8**			
Industrials															
ABB	30.9	28.4	15.9	7.9	7.0	5.7	0.2	0.3	0.4	15.6	15.0	23.0	725	(19.5)	4.7
BGR Energy Systems	27.1	15.9	11.3	9.9	7.9	6.0	0.4	0.9	1.1	22.3	31.7	36.1	950	22.7	4.5
Bharat Electronics	8.6	7.5	6.3	3.2	2.8	2.4	1.1	1.4	1.4	17.5	17.7	17.6	1,800	2.0	3.4
Bharat Heavy Electricals	15.8	12.3	10.2	7.7	6.1	4.9	0.8	1.0	1.2	29.8	31.1	29.3	2,600	4.4	31.0
Crompton Greaves	14.8	12.7	10.7	8.3	6.3	5.0	0.4	0.6	0.7	37.9	32.0	28.8	330	1.1	8.5
Larsen & Toubro	19.4	14.1	11.9	5.5	4.5	3.8	0.6	0.6	0.7	18.6	18.8	18.5	2,200	7.8	53.6
Maharashtra Seamless	5.6	4.9	3.9	1.8	1.6	1.4	1.5	1.9	2.4	19.3	17.9	17.7	450	8.4	0.6
Siemens	20.3	18.5	15.4	8.2	6.8	5.7	0.6	0.6	0.8	27.6	24.2	23.8	635	(23.5)	8.9
Suzlon Energy	14.9	12.5	8.3	1.4	1.2	1.2	—	—	0.3	(11.4)	(1.8)	6.9	55	(5.5)	24.8
Thermax	18.6	14.6	10.8	8.7	7.1	5.8	0.6	1.1	1.5	25.0	29.5	32.2	865	10.3	1.3
Voltas	13.4	11.7	9.8	7.5	6.0	4.9	1.3	1.4	1.6	38.3	32.5	30.2	225	(6.7)	5.9
Industrials	**17.1**	**13.4**	**10.9**	**5.8**	**4.8**	**4.0**	**0.6**	**0.8**	**0.9**	**17.1**	**19.2**	**20.1**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	26-Oct-10 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS (Rs) 2012E	EPS growth (%) 2010E	EPS growth (%) 2011E	EPS growth (%) 2012E	PER (X) 2010E	PER (X) 2011E	PER (X) 2012E	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	EV/EBITDA (X) 2012E	Price/BV (X) 2010E	Price/BV (X) 2011E	Price/BV (X) 2012E	Dividend yield (%) 2010E	Dividend yield (%) 2011E	Dividend yield (%) 2012E	RoE (%) 2010E	RoE (%) 2011E	RoE (%) 2012E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Infrastructure																													
Container Corporation	1,298	REDUCE	168,682	3,796	130	61.1	74.3	85.9	0.3	21.7	15.6	21.2	17.5	15.1	14.9	12.1	10.1	3.9	3.3	2.9	1.1	1.3	1.5	19.6	20.6	20.5	1,250	(3.7)	2.6
GMR Infrastructure	53	ADD	193,068	4,344	3,667	0.4	0.2	0.1	(43.8)	(48.9)	(40.0)	122.2	239.1	398.3	22.2	14.3	13.4	1.8	1.6	1.6	—	—	—	2.4	1.2	0.7	65	23.5	6.6
GVK Power & Infrastructure	43	BUY	68,380	1,539	1,579	0.8	1.1	1.4	6.7	33.5	32.4	53.2	39.9	30.1	18.3	16.7	17.2	2.2	2.1	2.0	—	0.7	0.7	4.7	5.3	6.7	54	24.7	6.9
IRB Infrastructure	252	RS	83,839	1,887	332	9.7	12.6	12.1	83.8	29.2	(3.7)	25.9	20.1	20.8	12.5	11.2	10.5	3.6	2.8	2.2	—	—	—	15.6	15.7	11.9	—	—	14.0
Mundra Port and SEZ	164	REDUCE	330,559	7,438	2,017	3.3	4.5	7.2	55.7	34.2	61.6	49.1	36.6	22.6	36.5	24.0	16.8	9.3	7.7	6.0	—	—	—	20.8	23.1	29.8	150	(8.5)	6.7
Infrastructure		**Attractive**	**844,527**	**19,004**					**16.3**	**22.3**	**28.2**	**40.7**	**33.2**	**25.9**	**21.4**	**15.8**	**13.6**	**3.5**	**3.0**	**2.7**	—	**0.3**	**0.4**	**8.7**	**9.1**	**10.5**			
Media																													
DB Corp	291	BUY	52,845	1,189	182	10.6	13.0	15.7	286.5	22.4	21.0	27.4	22.3	18.5	15.2	12.6	10.4	8.1	6.6	5.7	0.7	1.0	1.4	40.3	32.6	33.2	290	(0.3)	0.6
DishTV	59	REDUCE	63,006	1,418	1,063	(2.5)	(2.0)	0.2	(61.9)	(20.7)	(111.0)	(23.7)	(29.8)	270.8	78.1	31.2	14.2	15.4	31.7	28.4	—	—	—	249.0	(69.3)	11.0	55	(7.2)	3.9
HT Media	170	NR	39,891	898	235	6.1	7.7	9.2	623.3	25.9	19.8	27.8	22.1	18.4	13.9	11.7	9.7	4.1	3.7	3.3	0.6	1.2	2.4	15.6	17.5	18.9	—	—	0.4
Jagran Prakashan	134	BUY	40,234	905	301	5.8	6.6	7.7	92.0	13.4	17.0	22.9	20.2	17.2	13.8	11.7	10.0	6.6	6.0	5.5	2.6	3.0	3.7	30.0	31.1	33.3	145	8.5	1.8
Sun TV Network	513	REDUCE	202,163	4,549	394	13.1	18.0	22.5	44.8	36.9	25.2	39.0	28.5	22.8	22.2	16.4	13.3	10.4	8.8	7.3	1.5	1.5	1.8	28.4	33.7	35.1	420	(18.1)	3.4
Zee Entertainment Enterprises	278	REDUCE	120,672	2,715	435	10.6	11.8	14.8	25.7	11.0	25.2	26.1	23.6	18.8	19.1	15.3	11.8	3.1	3.0	2.9	0.9	1.1	1.4	12.8	13.2	16.0	300	8.1	15.0
Media		**Neutral**	**518,811**	**11,674**					**185.8**	**33.9**	**40.7**	**42.7**	**31.9**	**22.7**	**20.5**	**15.8**	**12.1**	**6.1**	**5.7**	**5.2**	**1.1**	**1.2**	**1.6**	**14.4**	**17.9**	**22.9**			
Metals																													
Hindalco Industries	218	ADD	416,774	9,378	1,914	20.0	14.5	16.3	25.0	(27.4)	12.7	10.9	15.0	13.3	6.2	8.4	8.6	1.9	1.7	1.6	0.6	0.6	0.6	20.4	12.2	12.3	225	3.3	32.2
Hindustan Zinc	1,255	BUY	530,447	11,936	423	95.6	95.4	116.4	48.2	(0.2)	22.0	13.1	13.2	10.8	8.8	7.9	5.3	2.8	2.3	1.9	0.5	0.5	0.5	25.1	20.2	20.4	1,430	13.9	4.9
Jindal Steel and Power	706	REDUCE	657,405	14,793	931	38.4	50.9	56.0	17.3	32.7	9.9	18.4	13.9	12.6	12.7	9.1	7.7	5.8	4.1	3.1	0.2	0.3	0.3	37.8	34.9	28.0	625	(11.5)	22.3
JSW Steel	1,226	REDUCE	309,224	6,958	252	80.4	71.9	112.2	481.1	(10.6)	56.1	15.2	17.1	10.9	11.2	9.2	6.3	2.8	1.7	1.3	0.6	0.7	0.8	16.0	12.5	13.6	1,150	(6.2)	35.9
National Aluminium Co.	397	SELL	255,501	5,749	644	12.6	14.3	17.3	(34.9)	13.3	20.5	31.4	27.7	23.0	14.9	12.3	10.1	2.5	2.3	2.2	0.6	1.3	1.3	8.1	8.6	9.8	260	(34.4)	1.7
Sesa Goa	330	REDUCE	293,335	6,601	890	29.6	52.5	54.0	23.5	77.6	2.8	11.2	6.3	6.1	9.2	4.1	5.8	3.7	2.4	1.7	1.1	1.1	1.1	35.8	34.9	31.5	320	(2.9)	43.4
Sterlite Industries	172	ADD	578,877	13,026	3,362	12.0	13.7	18.7	2.8	13.6	36.7	14.3	12.6	9.2	9.2	7.9	4.8	1.6	1.4	1.2	0.5	0.5	0.5	12.9	11.7	14.2	200	16.1	35.5
Tata Steel	606	REDUCE	553,812	12,462	914	(3.6)	66.5	70.0	(103.6)	(1,968.8)	5.2	(170.1)	9.1	8.7	11.1	6.0	5.7	2.4	1.8	1.5	1.3	1.3	—	(1.5)	22.4	18.8	650	7.3	106.8
Metals		**Cautious**	**3,595,374**	**80,904**					**(19.7)**	**46.7**	**17.0**	**17.8**	**12.1**	**10.4**	**9.7**	**7.5**	**6.3**	**2.5**	**2.0**	**1.7**	**0.6**	**0.7**	**0.5**	**14.3**	**16.8**	**16.4**			
Pharmaceutical																													
Apollo Hospitals	513	BUY	66,000	1,485	129	10.9	14.1	17.8	28.8	28.4	26.5	46.8	36.5	28.8	22.6	16.5	13.8	3.9	3.7	3.3	—	—	—	8.3	9.8	11.4	520	1.4	2.0
Biocon	432	ADD	86,320	1,942	200	14.8	17.0	24.4	216.4	14.7	43.6	29.1	25.4	17.7	16.9	14.4	11.2	4.8	4.2	3.5	—	—	—	17.9	18.1	22.2	470	8.9	11.1
Cipla	355	REDUCE	285,398	6,422	803	13.7	14.0	16.6	38.1	1.9	19.2	25.9	25.5	21.4	18.6	17.1	14.6	4.8	4.2	3.6	0.6	0.7	0.7	21.1	17.6	18.2	295	(17.0)	12.7
Cadila Healthcare	718	REDUCE	147,040	3,309	205	24.7	33.9	39.3	66.9	37.2	16.1	29.1	21.2	18.3	18.8	14.4	12.4	9.0	6.7	5.3	0.7	0.9	1.1	36.0	36.4	32.3	600	(16.5)	2.0
Dishman Pharma & chemicals	182	ADD	14,766	332	81	14.4	17.8	22.8	(19.7)	23.7	28.0	12.6	10.2	7.9	9.6	7.8	6.1	1.9	1.6	1.3	—	—	—	15.5	16.8	18.3	230	26.7	0.8
Divi's Laboratories	720	REDUCE	94,002	2,115	131	26.1	34.0	44.9	(18.2)	30.4	32.1	27.6	21.2	16.0	20.4	15.6	11.2	6.2	5.1	4.1	—	—	—	24.7	26.4	28.5	800	11.2	3.1
Dr Reddy's Laboratories	1,652	REDUCE	280,540	6,313	170	48.0	68.4	72.2	48.1	42.6	5.5	34.4	24.1	22.9	19.0	13.7	12.9	7.4	5.8	4.8	0.7	0.5	0.5	22.2	27.0	22.9	1,150	(30.4)	15.0
GlaxoSmithkline Pharmaceuticals (a)	2,309	REDUCE	195,562	4,401	85	59.1	69.7	79.2	8.1	18.0	13.5	39.1	33.1	29.2	22.7	19.3	16.7	10.9	9.3	8.0	—	—	—	29.8	30.4	29.4	1,880	(18.6)	2.0
Glenmark Pharmaceuticals	312	NR	85,636	1,927	274	12.7	19.2	20.3	14.7	50.6	5.6	24.5	16.3	15.4	15.4	10.1	9.7	3.6	3.0	2.6	—	—	—	16.7	19.9	17.6	—	—	6.3
Jubilant Organosys	307	BUY	48,783	1,098	159	26.5	31.8	38.9	49.0	19.8	22.4	11.6	9.7	7.9	8.8	7.9	6.3	2.2	1.8	1.5	0.6	0.8	1.0	26.3	21.7	21.1	400	30.2	1.9
Lupin	441	ADD	195,162	4,392	442	15.4	19.8	25.5	27.9	28.7	28.7	28.6	22.3	17.3	24.2	17.6	13.9	8.4	7.9	7.0	3.0	3.3	3.5	36.6	37.2	43.6	400	(9.3)	9.4
Piramal Healthcare	490	REDUCE	102,458	2,306	209	22.4	4.1	8.8	29.7	(81.7)	113.0	21.9	119.3	56.0	15.9	(7.9)	(10.2)	6.1	0.7	0.6	1.1	1.2	0.7	30.7	159.4	11.4	490	(0.0)	29.6
Ranbaxy Laboratories	600	SELL	257,169	5,787	428	7.1	27.5	14.8	(128.4)	289.4	(46.0)	85.0	21.8	40.4	20.4	12.5	20.7	6.6	4.7	4.3	—	0.7	0.7	6.9	22.9	10.5	340	(43.4)	16.0
Sun Pharmaceuticals	2,128	REDUCE	440,845	9,920	207	65.2	90.4	87.4	(25.7)	38.6	(3.3)	32.6	23.5	24.3	25.3	17.7	17.3	5.3	4.4	3.9	0.6	0.6	0.6	17.8	21.0	17.3	1,835	(13.8)	8.9
Pharmaceuticals		**Attractive**	**2,299,680**	**51,748**					**45.2**	**31.7**	**7.5**	**31.2**	**23.7**	**22.0**	**19.3**	**14.3**	**13.2**	**5.8**	**3.8**	**3.3**	**0.6**	**0.8**	**0.8**	**18.6**	**16.2**	**15.0**			
Property																													
DLF	370	ADD	632,285	14,228	1,708	10.7	16.3	25.1	(60.0)	53.1	53.8	34.7	22.7	14.8	23.2	14.8	11.2	2.4	2.2	2.0	0.8	0.8	1.3	7.1	9.9	13.8	378	2.1	49.3
Housing Development & Infrastructure	266	ADD	102,426	2,305	385	12.4	14.2	16.7	(41.2)	14.2	17.9	21.5	18.8	15.9	10.7	12.1	8.0	1.5	1.3	1.2	1.1	1.9	1.9	10.0	9.3	9.9	311	16.9	37.2
Indiabulls Real Estate	205	RS	82,091	1,847	401	0.3	2.5	7.4	(62.7)	777.3	195.3	718.5	81.9	27.7	(37.7)	(398.8)	17.1	0.9	0.9	0.9	—	—	—	0.1	1.1	3.2	285	39.3	21.6
Mahindra Life Space Developer	475	ADD	19,393	436	41	19.2	20.1	32.1	69.7	4.9	59.7	24.8	23.6	14.8	22.7	17.7	8.4	2.0	1.9	1.7	0.7	0.8	0.8	8.6	8.4	12.3	546	14.9	0.9
Phoenix Mills	254	BUY	36,783	828	145	4.1	6.6	7.6	(16.7)	59.0	15.6	61.4	38.6	33.4	49.2	27.1	22.7	2.4	2.3	2.2	0.4	0.6	0.8	3.9	6.0	6.7	303	19.3	0.7
Puravankara Projects	126	REDUCE	26,988	607	213	6.8	8.2	8.0	0.6	20.1	(1.9)	18.6	15.5	15.8	20.7	15.7	15.2	1.9	1.7	1.6	1.6	1.6	1.6	10.5	11.6	10.5	122	(3.5)	0.7
Sobha Developers	377	ADD	36,970	832	98	14.1	17.0	26.2	(7.1)	20.8	54.0	26.8	22.2	14.4	19.3	15.0	10.0	2.1	2.0	1.7	0.3	0.3	0.4	9.7	9.2	12.8	414	9.8	2.8
Unitech	90	SELL	239,167	5,382	2,666	3.0	3.8	5.1	(58.8)	25.0	34.0	29.6	23.7	17.7	28.7	20.7	13.5	2.3	1.9	1.8	—	—	1.7	9.0	8.7	10.6	74	(17.5)	53.6
Property		**Cautious**	**1,176,103**	**26,465**					**(48.8)**	**44.6**	**45.8**	**33.5**	**23.2**	**15.9**	**22.6**	**16.2**	**11.4**	**2.0**	**1.8**	**1.7**	**0.7**	**0.7**	**1.3**	**5.9**	**7.8**	**10.5**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	26-Oct-10 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS (Rs) 2012E	EPS growth (%) 2010E	EPS growth (%) 2011E	EPS growth (%) 2012E	PER (X) 2010E	PER (X) 2011E	PER (X) 2012E	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	EV/EBITDA (X) 2012E	Price/BV (X) 2010E	Price/BV (X) 2011E	Price/BV (X) 2012E	Dividend yield (%) 2010E	Dividend yield (%) 2011E	Dividend yield (%) 2012E	RoE (%) 2010E	RoE (%) 2011E	RoE (%) 2012E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Retail																													
Titan Industries	3,491	ADD	154,965	3,487	44	57.3	83.9	110.9	29.3	46.5	32.2	61.0	41.6	31.5	38.8	28.0	21.4	21.0	14.7	10.4	0.4	0.3	0.4	38.7	41.7	38.8	3,600	3.1	13.8
Retail		**Neutral**	**154,965**	**3,487**					**29.3**	**46.5**	**32.2**	**61.0**	**41.6**	**31.5**	**38.8**	**28.0**	**21.4**	**21.0**	**14.7**	**10.4**	**0.4**	**0.3**	**0.4**	**34.5**	**35.4**	**33.2**			
Sugar																													
Bajaj Hindustan	131	SELL	25,125	565	191	4.3	1.8	13.3	34.1	(57.7)	626.9	30.3	71.6	9.9	9.2	8.7	5.8	1.1	1.1	1.0	0.5	0.5	0.5	3.7	1.5	10.3	93	(29.2)	4.5
Balrampur Chini Mills	89	ADD	22,928	516	257	4.5	10.1	10.2	(41.1)	124.1	1.6	19.9	8.9	8.7	9.3	5.7	4.7	1.6	1.4	1.3	0.5	0.5	0.5	8.5	17.3	15.5	102	14.2	4.5
Shree Renuka Sugars	92	REDUCE	61,354	1,381	670	8.8	5.1	5.8	164.2	(42.4)	15.1	10.4	18.0	15.7	6.3	8.4	7.4	2.4	2.0	1.7	0.4	0.4	0.4	29.1	13.0	13.1	80	(12.7)	14.6
Sugar		**Cautious**	**109,407**	**2,462**					**64.0**	**(19.6)**	**43.4**	**13.9**	**17.3**	**12.0**	**7.7**	**7.8**	**6.1**	**1.8**	**1.6**	**1.4**	**0.5**	**0.4**	**0.4**	**12.7**	**9.1**	**11.3**			
Technology																													
HCL Technologies	423	REDUCE	291,905	6,569	690	17.5	22.8	28.3	0.2	29.9	24.3	24.1	18.6	14.9	11.8	11.1	8.8	4.1	3.7	3.1	0.9	1.4	1.4	19.3	21.4	23.0	390	(7.8)	9.4
Hexaware Technologies	84	REDUCE	12,074	272	144	9.3	5.0	9.4	127.7	(46.3)	87.7	9.0	16.7	8.9	4.6	10.7	5.5	1.4	1.3	1.2	1.2	1.2	1.2	17.8	8.2	14.0	72	(14.3)	1.7
Infosys Technologies	3,014	BUY	1,729,950	38,928	574	108.3	122.4	153.4	5.7	13.0	25.3	27.8	24.6	19.6	20.4	16.9	13.5	7.5	6.7	5.5	0.8	2.0	1.5	30.1	28.7	30.5	3,400	12.8	67.4
Mphasis BFL	625	SELL	131,744	2,965	211	43.6	50.3	45.6	207.5	15.5	(9.3)	14.3	12.4	13.7	11.5	9.9	9.3	5.6	4.0	3.2	0.6	0.6	0.7	48.1	37.5	25.8	550	(12.0)	6.8
Mindtree	520	REDUCE	21,382	481	41	52.2	27.4	39.3	294.3	(47.5)	43.3	10.0	19.0	13.2	8.6	10.4	7.1	3.2	2.9	2.4	0.4	0.3	0.8	35.2	16.1	20.2	450	(13.4)	0.9
Patni Computer Systems	466	REDUCE	62,032	1,396	133	36.6	41.3	37.5	36.4	12.8	(9.1)	12.7	11.3	12.4	6.3	5.5	4.6	1.7	1.6	1.5	1.5	1.8	1.6	18.2	15.1	12.4	450	(3.4)	13.8
Polaris Software Lab	173	SELL	17,233	388	100	15.4	19.4	19.8	16.9	26.2	2.2	11.2	8.9	8.7	5.5	7.0	5.9	2.0	1.7	1.5	2.0	2.1	2.3	18.6	20.4	18.0	180	4.1	2.8
Satyam Computer Services	81	REDUCE	95,080	2,140	1,176	2.5	5.0	5.4	(190.7)	102.3	7.0	32.5	16.1	15.0	16.1	10.3	7.6	5.1	5.3	3.9	—	—	—	58.5	32.2	30.0	80	(1.1)	38.5
TCS	1,063	BUY	2,079,721	46,798	1,957	35.1	43.0	50.0	32.8	22.4	16.3	30.3	24.7	21.2	23.1	18.0	14.9	9.9	8.2	6.8	1.9	1.6	1.9	37.6	36.3	34.9	1,100	3.5	38.2
Tech Mahindra	786	REDUCE	97,429	2,192	124	65.1	71.1	70.4	(9.6)	9.2	(1.0)	12.1	11.1	11.2	9.6	10.4	9.7	3.4	2.8	2.4	0.4	0.3	0.3	34.5	29.1	24.1	760	(3.4)	8.8
Wipro	430	ADD	1,053,045	23,696	2,447	18.9	21.1	24.3	22.1	12.1	15.0	22.8	20.4	17.7	17.3	14.4	12.0	5.4	4.4	3.7	0.8	1.0	1.2	26.5	23.8	22.8	465	8.0	15.3
Technology		**Attractive**	**5,591,593**	**125,823**					**24.0**	**17.0**	**16.7**	**25.4**	**21.7**	**18.6**	**18.4**	**15.4**	**12.6**	**6.7**	**5.7**	**4.7**	**1.2**	**1.5**	**1.5**	**26.3**	**26.2**	**25.5**			
Telecom																													
Bharti Airtel	329	REDUCE	1,248,651	28,097	3,798	23.6	20.0	20.7	5.8	(15.6)	3.9	13.9	16.5	15.9	7.9	8.6	7.1	3.0	2.5	2.2	—	—	—	24.4	16.5	14.7	305	(7.2)	42.9
IDEA	69	REDUCE	229,171	5,157	3,300	2.7	1.6	0.9	(5.8)	(42.7)	(44.9)	25.4	44.3	80.5	8.7	10.2	8.6	2.0	1.9	1.9	—	—	—	7.2	4.5	2.6	55	(20.8)	9.3
MTNL	69	SELL	43,533	980	630	(15.6)	(10.4)	(9.1)	(750.8)	(33.7)	(11.9)	(4.4)	(6.7)	(7.6)	(0.8)	(0.9)	(1.3)	0.4	0.4	0.4	—	—	—	(8.5)	(6.1)	(5.7)	50	(27.6)	2.5
Reliance Communications	176	SELL	374,790	8,434	2,133	22.1	6.0	9.4	(30.2)	(72.8)	56.1	8.0	29.3	18.7	7.3	9.9	8.2	1.0	0.9	0.9	0.4	—	—	11.7	3.2	4.9	125	(28.9)	19.4
Tata Communications	314	REDUCE	89,533	2,015	285	14.0	15.2	15.7	3.2	8.2	3.5	22.4	20.7	20.0	9.1	8.4	8.0	1.3	1.2	1.2	2.1	2.4	2.7	5.2	5.5	5.5	225	(28.4)	3.0
Telecom		**Cautious**	**1,985,678**	**44,682**					**(15.9)**	**(34.6)**	**9.7**	**14.0**	**21.4**	**19.5**	**8.1**	**9.3**	**7.6**	**1.8**	**1.7**	**1.5**	**0.2**	**0.1**	**0.1**	**12.8**	**7.8**	**7.9**			
Utilities																													
Adani Power	133	ADD	289,395	6,512	2,180	0.8	3.5	19.0	NM	351.8	436.1	169.4	37.5	7.0	139.0	29.5	6.4	5.0	4.4	2.7	—	—	—	4.2	12.5	48.0	143	7.7	5.0
CESC	383	ADD	47,869	1,077	125	35.2	37.3	44.3	9.3	5.7	18.9	10.9	10.3	8.6	6.9	5.8	6.3	1.1	1.0	0.9	1.2	1.2	1.5	11.1	10.4	11.3	466	21.6	2.5
Lanco Infratech	68	BUY	163,059	3,669	2,405	2.1	4.1	5.4	46.6	92.8	30.4	31.8	16.5	12.6	16.8	9.1	7.8	4.9	3.8	2.9	—	—	—	17.4	23.9	24.2	83	22.4	6.2
NHPC	32	SELL	395,469	8,899	12,301	1.9	1.4	1.7	74.9	(25.2)	19.7	17.4	23.2	19.4	11.1	11.7	9.0	1.6	1.5	1.4	1.7	1.1	1.4	9.7	6.6	7.6	28	(12.9)	7.8
NTPC	205	REDUCE	1,692,382	38,082	8,245	10.8	12.5	14.7	9.6	16.2	17.4	19.1	16.4	14.0	14.5	12.7	10.6	2.6	2.4	2.2	2.0	2.3	2.7	14.5	15.4	16.6	210	2.3	13.9
Reliance Infrastructure	1,071	ADD	263,556	5,931	246	61.8	65.0	84.5	(1.5)	5.3	30.0	17.3	16.5	12.7	18.6	16.4	11.5	1.4	1.3	1.2	0.8	0.9	1.0	6.3	7.3	10.1	1,160	8.3	24.6
Reliance Power	160	SELL	383,001	8,618	2,397	2.9	3.1	5.3	179.7	9.8	70.0	56.0	51.0	30.0	(521.6)	229.7	35.8	2.6	2.5	2.3	—	—	—	4.8	5.1	8.1	135	(15.5)	7.4
Tata Power	1,413	ADD	348,752	7,848	247	60.2	69.2	88.5	20.1	15.0	27.8	23.5	20.4	16.0	14.4	13.0	11.1	2.7	2.4	2.2	0.8	1.0	1.1	12.9	12.5	14.3	1,420	0.5	12.2
Utilities		**Attractive**	**3,583,483**	**80,636**					**23.8**	**15.2**	**40.3**	**22.6**	**19.7**	**14.0**	**17.7**	**15.1**	**10.7**	**2.4**	**2.2**	**2.0**	**1.3**	**1.4**	**1.6**	**10.6**	**11.3**	**14.2**			
Others																													
Havells India	412	SELL	24,783	558	60	5.3	31.6	45.0	3.7	497.9	42.6	78.0	13.0	9.1	12.2	7.5	6.0	6.8	4.5	3.0	0.6	0.6	0.7	6.6	41.6	39.7	497	20.7	8.5
Jaiprakash Associates	127	BUY	270,467	6,086	2,129	1.5	5.5	7.4	(27.2)	279.8	34.1	87.2	23.0	17.1	21.9	16.1	11.4	3.2	2.7	2.4	—	—	—	4.1	12.8	14.9	170	33.8	26.4
Sintex	413	REDUCE	56,400	1,269	136	24.1	29.3	33.7	0.5	21.6	14.9	17.1	14.1	12.3	14.0	9.3	8.0	2.7	2.2	1.9	0.3	0.3	0.3	15.5	15.8	15.3	420	1.6	7.5
Tata Chemicals	440	REDUCE	107,033	2,408	243	26.4	35.1	39.2	(27.1)	32.9	11.7	16.6	12.5	11.2	8.0	6.4	5.4	2.3	2.0	1.7	2.0	2.2	2.2	16.0	19.6	18.9	370	(15.9)	7.5
United Phosphorus	201	BUY	92,908	2,091	463	11.9	13.8	17.4	18.8	15.8	25.9	16.8	14.5	11.5	9.6	8.8	7.0	2.7	2.3	2.0	0.7	1.0	1.0	17.7	17.2	18.3	225	12.1	7.8
Others			**551,591**	**12,412**					**(13.2)**	**74.7**	**24.8**	**29.5**	**16.9**	**13.6**	**14.6**	**11.5**	**9.0**	**2.9**	**2.5**	**2.1**	**0.6**	**0.6**	**0.7**	**9.7**	**14.6**	**15.6**			
KS universe (b)			**50,672,487**	**1,140,245**					**16.2**	**21.2**	**22.1**	**21.3**	**17.6**	**14.4**	**12.4**	**10.4**	**8.6**	**3.2**	**2.8**	**2.4**	**1.1**	**1.3**	**1.5**	**15.0**	**15.7**	**16.7**			
KS universe (b) ex-Energy			**41,208,233**	**927,278**					**10.6**	**23.0**	**21.5**	**23.1**	**18.8**	**15.5**	**15.1**	**12.4**	**10.1**	**3.6**	**3.0**	**2.6**	**1.0**	**1.1**	**1.2**	**15.5**	**16.2**	**17.0**			
KS universe (d) ex-Energy & ex-Commodities			**36,589,647**	**823,349**					**16.0**	**21.2**	**22.0**	**24.3**	**20.1**	**16.4**	**17.1**	**14.1**	**11.3**	**3.8**	**3.2**	**2.8**	**1.1**	**1.2**	**1.3**	**15.4**	**16.1**	**17.1**			

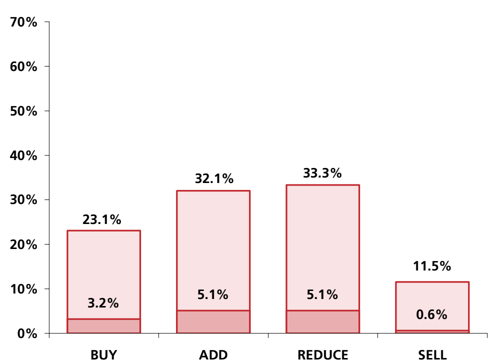
Note:
(1) For banks we have used adjusted book values.
(2) 2010 means calendar year 2009, similarly for 2011 and 2012 for these particular companies.
(3) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.
(4) Rupee-US Dollar exchange rate (Rs/US$)= 44.44

Source: Company, Bloomberg, Kotak Institutional Equities estimates

"Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Sanjeev Prasad, Kawaljeet Saluja, Rohit Chordia, Murtuza Arsiwalla, Gundeep Singh, Amit Kumar,"

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Percentage of companies covered by Kotak Institutional Equities, within the specified category.

Percentage of companies within each category for which Kotak Institutional Equities and or its affiliates has provided investment banking services within the previous 12 months.

* The above categories are defined as follows: Buy = We expect this stock to outperform the BSE Sensex by 10% over the next 12 months; Add = We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months; Reduce = We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months; Sell = We expect this stock to underperform the BSE Sensex by more then 10% over the next 12 months. These ratings are used illustratively to comply with applicable regulations. As of 30/09/2010 Kotak Institutional Equities Investment Research had investment ratings on 156 equity securities.

Source: Kotak Institutional Equities As of September 30, 2010

Ratings and other definitions/identifiers

Definitions of ratings

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

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

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

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

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

Other definitions

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

Other ratings/identifiers

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

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

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

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

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