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News Round-up

- ▶ SEBI tightened the rules governing warrant issues, which in past allowed promoters to enrich themselves when the markets soared, but get away lightly when they crashed. If promoters don't exercise warrants by stipulated date, they can't buy shares or warrants for a year. *(ECNT)*
- ▶ Reliance Ind. (RIL IN) will achieve peak output of 80 million standard cubic metres per day from its KG-D6 block in about 12 months, bringing down the delay in its ramp up by a year. *(ECNT)*
- ▶ Bharti Airtel (BHARTI IN) will award call centre contracts for its African operations to IBM, Tech Mahindra (TECHM IN) & Spanco, marking the second significant step in replicating its hugely successful outsourcing model in that continent. *(ECNT)*
- ▶ ONGC (ONGC IN) may go off selloff list as govt. likely to cap sale at USD 8.89bn this year. *(ECNT)*
- ▶ Vedanta Resources is set to miss the October 30 deadline for seeking shareholders' nod for its USD 9.6 bn buyout of Cairn India (CAIR IN), apparently due to regulatory hurdle. *(BSTD)*
- ▶ NTPC (NATP IN) will invest about USD 4.5 bn to set up a 3,960 MW coal-based power project in Madhya Pradesh. *(BSTD)*
- ▶ IBM, Tech Mahindra (TECHM IN) and Spanco have bagged the Bharti Zain BPO deal. Spread across 16 African countries, the BPO contract is pegged at USD 500 mn. The agreement is expected to be finalized soon. *(BSTD)*
- ▶ IVRCL Infrastructures (IVRC IN) bags USD 448 mn project overseas. *(FNLE)*
- ▶ Man Infraconstruction Ltd gets USD 870 mn. *(FNLE)*
- ▶ Dr Reddy's (DRRD IN) to sell Cipla (CIPLA IN) drugs in Russia, Ukraine. The company has entered into an agreement with Vitabiotics for Nutraceutical products. *(FNLE)*

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

EQUITY MARKETS

India	Change %			
	25-Oct	1-day	1-mo	3-mo
Sensex	20,303	0.7	1.3	12.7
Nifty	6,106	0.7	1.5	12.7
Global/Regional indices				
Dow Jones	11,164	0.3	2.8	6.1
Nasdaq Composite	2,491	0.5	4.6	8.5
FTSE	5,752	0.2	2.7	7.5
Nikkie	9,377	(0.3)	(1.0)	(1.3)
Hang Seng	23,628	0.5	6.8	13.4
KOSPI	1,915	(0.0)	3.7	8.3
Value traded – India				
Cash (NSE+BSE)	193		220	203
Derivatives (NSE)	1,608		1,451	1,047
Deri. open interest	1,931		2,137	1,715

Forex/money market

	Change, basis points			
	25-Oct	1-day	1-mo	3-mo
Rs/US\$	44.4	(1)	(66)	(257)
10yr govt bond, %	8.2	1	28	47
Net investment (US\$m)				
	22-Oct		MTD	CYTD
FIs	310		4,742	23,995
MFs	40		(1,214)	(282)

Top movers -3mo basis

Best performers	Change, %			
	25-Oct	1-day	1-mo	3-mo
TTMT IN Equity	1185.7	3.2	10.5	44.4
IDBI IN Equity	169.5	(1.0)	10.8	42.3
HNDL IN Equity	221.2	4.4	15.7	42.2
RBXY IN Equity	612.2	1.1	7.3	37.4
BOB IN Equity	987.1	(0.3)	12.7	36.8
Worst performers				
IVRC IN Equity	153.2	0.8	(11.1)	(14.7)
MMTC IN Equity	1314.6	1.1	(3.3)	(13.3)
SCS IN Equity	81.4	0.5	(18.8)	(10.7)
FTECH IN Equity	1141.8	(0.4)	(6.6)	(9.9)
GMRI IN Equity	53.3	(0.7)	(8.6)	(9.1)

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

It is still a case of either (sales), or (profits). Volume growth of 14% (+1% in base) during 2Q was in line (our est. 13%). EBITDA declined 8% due to higher royalty and mould costs. We are not enthused by consumer inducements-driven volume growth which poses a threat to brand equity scores, in our view (compelling sustained higher ad support). We highlight that HUL's adspends' linkage to gross margins is fairly high—and not linked to market demands alone, as perceived by the Street (Exhibits 3, 4).

Company data and valuation summary

Hindustan Unilever

Stock data

52-week range (Rs) (high,low)	320-218
Market Cap. (Rs bn)	668.3

Shareholding pattern (%)

Promoters	52.0
FIs	16.2
MFs	2.7

Price performance (%)

	1M	3M	12M
Absolute	(2.7)	16.9	9.1
Rel. to BSE-30	(4.0)	4.4	(9.6)

Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	9.4	10.2	12.0
EPS growth (%)	(0.9)	8.4	17.5
P/E (X)	32.5	30.0	25.5
Sales (Rs bn)	175.2	190.2	216.1
Net profits (Rs bn)	20.6	22.3	26.2
EBITDA (Rs bn)	27.7	28.8	35.0
EV/EBITDA (X)	22.4	21.5	17.6
ROE (%)	71.1	80.2	81.3
Div. Yield (%)	2.5	2.7	3.2

2QFY11 results: Optical illusion of double-digit volume growth, other income boost to PAT

HUL reported net sales of Rs46.8 bn (+11%, KIE Rs47.7 bn), EBITDA of Rs5.6 bn (-8%, KIE Rs6.9 bn) and PAT of Rs5.3 bn (+7%, KIE Rs5.8 bn)

- ▶ Underlying volume growth of 14% (1% growth in base) during 2Q was in line with our estimates of 13%. We highlight that a substantial part of this volume growth is still consumer inducements-driven, which poses a threat to brand equity scores, in our view.
- ▶ We reiterate that despite higher brand investments, HUL's core volume growth is just ~6-7% (adjusting for low base)
- ▶ Gross margin was broadly maintained (modest 30 bps decline) due to:
 - Likely higher throughput in own units in fiscal-benefit zones (company has expanded capacities in Himachal and Uttaranchal prior to March 31, 2010—as evidenced by higher depreciation)
 - Higher production at third party units in fiscal zones (as evidenced by higher 'purchase of traded goods')
 - Likely savings from margin-accretive ingredients in key products
- ▶ On a segmental basis, soaps and detergents reported sales growth of 6%, personal products 15% and foods 26% on a low base (4% sequentially). Personal products margin decline of 330 bps to 23% was disappointing—despite favorable base and lower number of new launches. Soaps and detergents PBIT declined 8%, margins declined 190 bps to 11.7%

SELL

OCTOBER 25, 2010

RESULT

Coverage view: **Cautious**

Price (Rs): **306**

Target price (Rs): **250**

BSE-30: **20,303**

QUICK NUMBERS

- **In-line volume growth of 14% (1% in base)**
- **Three components in higher other expenditure – royalty, freight (recurring) and mould costs (one-off)**
- **Other income up 65% (lumpy operational income and higher financial income)**

Manoj Menon
manoj.menon@kotak.com
Mumbai: +91-22-6634-1391

Amrita Basu
amrita.basu@kotak.com
Mumbai: +91-22-6634-1147

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

ITC threat not to be ignored

Discussion on some of the line items—other expenses and adspends

Other expenditure (up 27%), as a percentage of sales jumped 220 bps to 18%. We discuss the likely reasons, (1) higher royalty (~70 bps, in our view), (2) higher freight (~60 bps, in our view), (3) inflation impact on SG&A (30 bps) and (4) mould costs accounting for the balance 60 bps (mould costs were likely incurred for the new launches—for example, the Dove relaunch).

Adspends: HUL's adspends to sales increased a modest 30 bps in 2QFY11. Some investors believe that this is a leading indicator of brand strength. We highlight that HUL's adspends' linkage to gross margins is fairly high—company channelized the gross margin expansion of FY2010 into adspends to correct the likely mistakes/under investments of prior years and also taking cognizance of higher competitive intensity.

Retain SELL due to prevalence of heightened competition in mature categories

We maintain our EPS estimates of Rs10.2 and Rs12 for FY2011E and FY2012E, respectively. We reiterate our SELL rating and target price of Rs250 as ~65% of the revenues are from categories which are mature and growing at best at 3% in volumes (where the company also faces heightened competition).

While the acute competitive scenario seems to have abated in detergents, for now, we highlight that HUL faces an equally formidable competitor in ITC in soaps category (soaps accounts for ~30% of HUL's profits). ITC has achieved a market share of >5% in soaps—a highly notable achievement in less than 3 years of category entry. We are worried about the potential threat to HUL's market position/standing in soaps (and just not market shares per se).

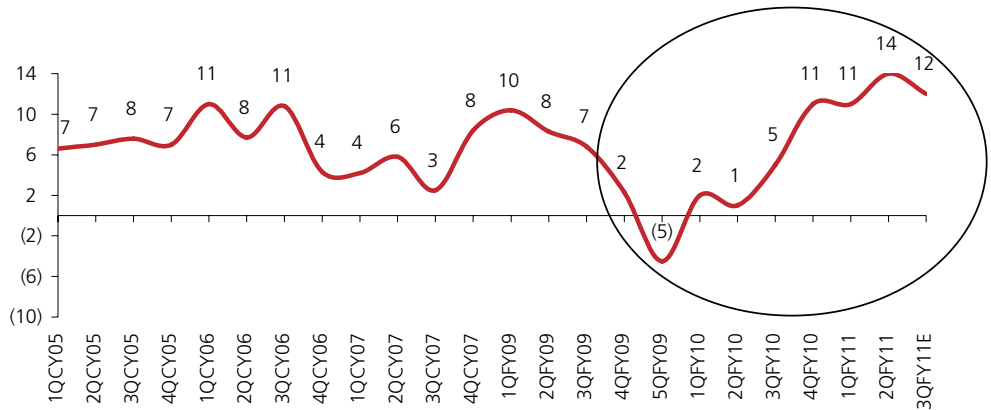
A key risk to our rating is significant reduction in competitive intensity in HUL's core categories.

Exhibit 1: Interim results of Hindustan Unilever, March fiscal year-ends (Rs mn)

	2QFY11	2QFY11E	2QFY10	1QFY11	(% chg.)		
					2QFY11E	2QFY10	1QFY11
Net sales	46,809	47,697	42,281	47,939	(2)	11	(2)
Total expenditure	(41,178)	(40,807)	(36,173)	(41,953)		14	(2)
Material cost	(23,830)	(24,043)	(21,441)	(24,466)		11	(3)
Employee cost	(2,450)	(2,388)	(2,358)	(2,506)		4	(2)
Advertising and promotion	(6,465)	(6,266)	(5,709)	(7,512)		13	(14)
Other expenditure	(8,433)	(8,110)	(6,664)	(7,469)		27	13
EBITDA	5,631	6,890	6,108	5,986	(18)	(8)	(6)
OPM (%)	12.0	14.4	14.4	12.5			
Other income	1,606	1,197	975	1,245			
Interest	(1)	(3)	(15)	(1)			
Depreciation	(554)	(536)	(462)	(535)			
Pretax profits	6,683	7,548	6,606	6,695	(11)	1	(0)
Tax	(1,346)	(1,668)	(1,549)	(1,571)	(19)	(13)	(14)
PAT	5,337	5,880	5,058	5,124	(9)	6	4
Extraordinary items	325	0	(773)	208			
Net profit (reported)	5,661	5,880	4,285	5,332	(4)	32	6
Income tax rate (%)	20.1	22.1	23.4	23.5			
Costs as a % of sales							
Material cost	50.9	50.4	50.7	51.0			
Employee cost	5.2	5.0	5.6	5.2			
Advertising and promotion	13.8	13.1	13.5	15.7			
Other expenditure	18.0	17.0	15.8	15.6			
Segment results of Hindustan Unilever							
Revenues							
Soaps and detergents	21,294		20,037	22,645		6	(6)
Personal products	13,649		11,902	13,655		15	(0)
Beverages	5,700		5,216	5,378		9	6
Foods	2,195		1,739	2,111		26	4
Icecreams	549		504	1,046		9	(48)
Exports	2,647		2,270	2,648		17	(0)
Others	1,527		1,071	1,126		43	36
Total segment revenue	47,560		42,738	48,609			
Segment PBIT margins							
Soaps and detergents	2,501		2,726	2,488		(8)	1
Personal products	3,140		3,134	3,388		0	(7)
Beverages	876		887	695		(1)	26
Foods	100		(9)	106		(1178)	(5)
Icecreams	55		25	153		117	(64)
Exports	189		172	227		10	(17)
Others	(183)		(98)	(266)		86	(31)
Total segment EBIT	6,678		6,836	6,790			
Segment PBIT margins, %							
Soaps and detergents	11.7		13.6	11.0			
Personal products	23.0		26.3	24.8			
Beverages	15.4		17.0	12.9			
Foods	4.6		(0.5)	5.0			
Icecreams	10.0		5.0	14.6			
Exports	7.1		7.6	8.6			
Others	(12.0)		(9.2)	(23.6)			
Capital employed							
Soaps and detergents	(5671)		(956)	(6,218)		493	(9)
Personal products	(1708)		(1,530)	(1,092)		12	56
Beverages	350		(88)	1,422		(497)	(75)
Foods	26		(74)	(34)		(136)	(177)
Icecreams	219		375	159		(42)	37
Exports	2195		2,028	1,915		8	15
Others	(612)		(1,300)	(874)		(53)	(30)
Unallocated corporate	42,084		24,381	35,961		73	17
Total	36,884		22,836	31,238		62	18

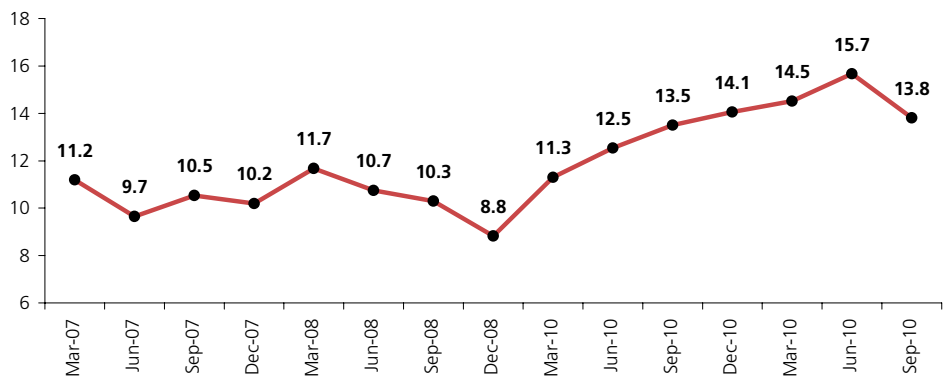
Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Same old story – low base gives the optical illusion of double-digit volume growth
HUL's volume growth (%)



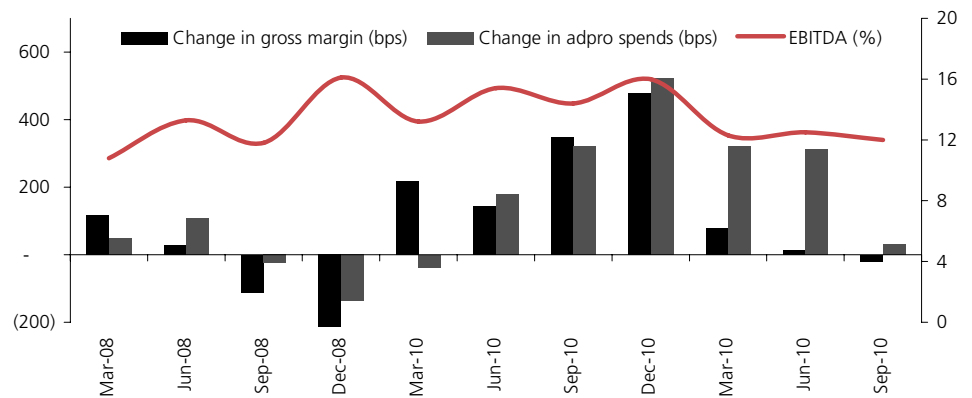
Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Adspends seems to be getting rationalized..
HUL's adspends to sales (%)



Source: Company, Kotak Institutional Equities

Exhibit 4: .. Whereas it is linked to gross margins!
Change in gross margins (bps), change in adspends (bps) and EBITDA (%)



Source: Company, Kotak Institutional Equities estimates

Exhibit 5: Companies with good franchise value have outperformed
Performance of consumer companies under KIE universe

	Rating	Target price	CMP	Upside /	Price performance (%)			
		(Rs)	(Rs)	(downside)	1-mo	3-mo	6-mo	1-year
Titan	ADD	3,600	3,290	9	(2)	19	59	142
Jyothy Laboratories	ADD	320	313	2	6	14	91	128
GlaxoSmithKline Consumer	ADD	2,200	2,100	5	4	18	34	68
Asian Paints	ADD	3,000	2,621	14	(6)	4	25	56
Godrej Consumer Products	ADD	450	407	11	(1)	13	33	52
Tata Global Beverages	ADD	130	128	1	3	6	24	48
Dabur	ADD	115	104	11	(1)	(2)	17	38
Nestle India	REDUCE	3,100	3,443	(10)	4	17	26	37
ITC	ADD	175	169	3	(6)	12	29	33
Marico	ADD	140	131	7	1	5	16	31
Colgate-Palmolive	SELL	830	858	(3)	(7)	1	14	21
Hindustan Unilever	SELL	250	306	(18)	(3)	17	28	9
Jubilant Foodworks	SELL	400	513	(22)	3	49	46	—
Sensex					1	12	15	21

Source: Bloomberg, Kotak Institutional Equities

Exhibit 6: HUL: Profit model, balance sheet, cash model, calendar year-ends 2006-07, March fiscal year-ends 2009-13E (Rs mn)

	2006	2007	15 months 2009 (a)	2010	2011E	2012E	2013E
Profit model (Rs mn)							
Net sales	121,034	136,754	202,393	175,238	190,224	216,111	244,823
EBITDA	16621	18787	26560	25484	26023	31905	37256
Other income	3,545	4,315	5,897	3,496	5,187	5,317	5,984
Interest	(107)	(255)	(253)	(70)	0	0	0
Depreciation	(1,302)	(1,384)	(1,953)	(1,840)	(2,228)	(2,565)	(2,947)
Pretax profits	18,757	21,463	30,251	27,071	28,982	34,657	40,293
Tax	(3,218)	(4,049)	(5,729)	(6,484)	(6,686)	(8,469)	(10,523)
Net profit	15539	17415	24523	20587	22296	26188	29770
Earnings per share (Rs)	7.0	7.9	11.3	9.4	10.2	12.0	13.7
Balance sheet (Rs mn)							
Total equity	27,235	14,392	20,615	25,835	29,872	34,612	40,002
Total borrowings	726	885	4,219	0	0	0	0
Current liabilities	45,231	51,110	57,838	67,332	69,924	75,216	84,832
Total liabilities and equity	73191	66387	82673	93167	99796	109828	124834
Cash	4,169	2,009	17,773	18,922	19,460	21,547	27,452
Current assets	27,527	30,765	38,236	34,756	37,953	42,637	48,073
Total fixed assets	15,110	17,081	20,789	24,361	27,387	30,791	34,607
Investments	24,139	14,408	3,326	12,641	12,641	12,641	12,641
Deferred tax asset	2,245	2,124	2,548	2,488	2,355	2,213	2,061
Total assets	73191	66387	82673	93167	99796	109828	124834
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	20,209	20,674	26,581	24,640	24,676	29,056	33,053
Working capital	(471)	3,091	(2,592)	13,473	(1,407)	(1,023)	2,642
Capital expenditure	(1,576)	(3,355)	(5,660)	(5,412)	(5,254)	(5,969)	(6,763)
Free cash flow	18162	20410	18329	32700	18014	22064	28933
Key assumptions							
Revenue Growth (%)	9.4	13.0	48.0	(13.4)	8.6	13.6	13.3
EBITDA Margin(%)	13.9	13.7	13.2	14.5	13.7	14.8	15.2
EPS Growth (%)	18.3	12.1	42.7	(16.2)	8.3	17.7	13.7

Note:

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

Source: Company, Kotak Institutional Equities estimates

PAT grows 25% yoy at Rs6.1 bn; retain REDUCE. REC reported PAT of Rs6.1 bn, up 25% yoy and 4% above estimates. Business traction was somewhat lower with flat disbursements and loan growth at 25% as compared to 27-29% in the past. A rise in borrowing cost pulled down margins. Asset quality performance was stable despite fears of slippages. We tweak estimates and retain our REDUCE rating with a price target of Rs350 (Rs325 earlier).

Company data and valuation summary

Rural Electrification Corp.

Stock data

52-week range (Rs) (high,low)	414-188
Market Cap. (Rs bn)	368.8

Shareholding pattern (%)

Promoters	66.8
FIs	19.3
MFs	4.1

Price performance (%)

	1M	3M	12M
Absolute	9.0	22.9	86.3
Rel. to BSE-30	7.6	9.7	54.2

Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	20.3	26.5	31.8
EPS growth (%)	23.2	30.8	19.8
P/E (X)	18.4	14.1	11.8
NII (Rs bn)	25.2	33.9	40.8
Net profits (Rs bn)	20.0	26.2	31.4
BVPS	112.1	129.4	150.0
P/B (X)	3.3	2.9	2.5
ROE (%)	22.0	22.0	22.8
Div. Yield (%)	1.7	2.1	2.6

Growth moderated qoq

REC's reported NII was up 29% yoy on the back of 25% loan growth and higher other income. Loan approvals declined by 37% while overall disbursements were flat. Incremental lending to the T&D sector declined sharply, offset by higher lending to generation sector. Infrastructure finance business tends to be lumpy and challenging to track on a qoq basis; nevertheless, this may be early sign of moderation in growth.

Spreads compress marginally

REC reported margins of 4.4% during the quarter somewhat below 4.6% in 1QFY11, higher than 4.25% reported in 2QFY10. Spreads, as per KIE estimates, declined to 3.1% from 3.3% and 3.2% in 1QFY11 and 2QFY10, respectively. During the quarter, REC raised forex debt of US\$400 mn, of which US\$200 mn was hedged. REC recognized MTM gain of Rs272 mn – reflected in other income. One-time fees for raising forex debt (Rs346 mn) increased the reported borrowings cost (this is adjusted in our spread calculation). We believe the rise in bulk borrowings rates over the past few weeks will likely be reflected in REC's financials over the next 1-2 quarters. Lending rates have been stable for the past few quarters, the company will likely raise its PLR to support spreads. We are modeling a marginal (15-20 bps) decline in NIM for the next six quarters.

Asset quality performance stable

REC's gross NPLs remained stable at 0.03%. Consequently, NPL cost was NIL as compared to Rs200 mn considered in our estimates due to default risk of Konaseema power project, Andhra Pradesh. According to sources, the power project has managed a likely liquidity crunch and hence the asset was classified as 'performing'.

Raising estimates; retain REDUCE

We are revising up our estimates by 5% and 2% for FY2011E and FY2012E on the back of better NIM, somewhat offset by marginally lower loan growth (25-26% from 27-28% factored in the past) and higher operating expenses. The private sector will play a more important role in XII five-year plan and hence will have a more crucial role in REC's loan growth. However, margins will likely moderate in this segment due to higher competition.

REDUCE

OCTOBER 25, 2010

RESULT

Coverage view: **Attractive**

Price (Rs): **374**

Target price (Rs): **350**

BSE-30: **20,303**

QUICK NUMBERS

- PAT of Rs6.1 bn, up 25% yoy and 4% above estimates
- NII was up 29% yoy
- Loan growth – 25%

Nischint Chawathe
nischint.chawathe@kotak.com
Mumbai: +91-22-6634-1545

Manish Karwa
manish.karwa@kotak.com
Mumbai: +91-22-6634-1350

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

Rural Electrification Corporation - Quarterly data
Rs mn

	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	YoY (%)	2Q11E	Actual vs KS (%)
Income statement									
Interest income	14,494	15,330	16,532	17,959	18,771				
Other income	480	410	345	360	225				
Interest costs	8,735	9,413	10,279	10,685	11,012				
Net interest income	6,239	6,327	6,598	7,634	7,984	8,356	32	8,225	2
Other operational income	115	490	185	377	292	390	(20)	300	30
Net total income	6,354	6,817	6,783	8,011	8,275	8,746	28	8,525	3
Provisioning expenses	1	—	—	—	—	1		200	(99)
Net income (post provisions)	6,353	6,817	6,783	8,011	8,275	8,744	28	8,325	5
Operating expenses	300	351	338	482	343	385	10	390	(1)
Staff expenses	252	282	265	373	261	260	(8)	300	(14)
Other operating expenses	45	65	70	98	75	118	80	80	47
Depreciation expenses	4	4	4	11	7	8	108	10	(25)
PBT before extraordinaries	6,053	6,466	6,445	7,529	7,933	8,360	29	7,935	5
PBT post extraordinaries	6,053	6,466	6,445	7,529	7,933	8,360	29	7,935	5
Tax	1,598	1,628	1,705	1,917	2,059	2,178	34	1,984	10
PAT	4,718	4,945	4,741	5,612	5,874	6,182	25	5,951	4
EPS (Rs)	5.5	5.8	5.8	5.8	6.0	6.3	8.7	6.0	3.9
Tax rate (%)	22	24	26	25	26	26	—	25	—
Balance sheet									
Assets									
Loans	547,510	586,650	636,310	664,520	697,910	735,433	25	756,779	(3)
Investments	10,040	10,040	9,570	9,100	9,330	10,321			
Fixed assets	810	860	890	900	890	889			
Current assets	(13,810)	(310)	(12,370)	(4,310)	(16,590)	18,123			
Total assets	544,550	597,240	634,400	670,210	691,540	764,766			
Liabilities									
Borrowings	468,370	516,020	530,000	559,480	574,930	604,277			
Deferred tax liability	9,560	(70)	(70)	(70)	(70)	(77)			
Current liabilities and provisions	—	70	21,530	—	—	37,707			
Total liabilities	477,930	516,020	551,460	559,410	574,860	641,907			
Shareholders funds	66,620	81,220	82,940	110,800	116,680	122,859			
Key operating parameters (%)									
Approvals (Rs bn)	151	164	106	33	228	103			
YoY(%)	26	8	69	(53)	51	(37)			
Disbursements (Rs mn)	36	55	60	60	46	56			
YoY(%)	35	16	14	14	28	1			
Interest yield (KS - calc)	10.6	10.8	10.8	11.0	11.0	11.1			
Interest cost (KS- calc)	7.6	7.6	7.9	7.8	7.8	8.0			
Spreads (KS -calc)	3.0	3.2	3.0	3.2	3.3	3.1			
NIMs (KS- calc)	4.4	4.5	4.3	4.7	4.7	4.7			
Operating costs/ net income (post provisions)	4.7	5.1	5.0	6.0	4.1	4.4			
Yield on loans	11.1	11.0	11.0	11.0	11.1	11.2			
Borrowings cost	7.6	7.7	7.7	7.7	7.8	8.0			
NIMs	4.4	4.3	4.2	4.5	4.6	4.4			
Reported spreads	3.5	3.4	3.3	3.4	3.4	3.3			
Gross NPLs (Rs mn)	320.0	210.0	200.0	200.0	200.0	200.0			
Net NPLs (Rs mn)	20.0	20.0	20.0	20.0	20.0	20.0			
Gross NPLs (%)	0.06	0.04	0.03	0.03	0.03	0.03			
Net NPLs (%)	0.03	0.00	0.00	0.00	0.00	0.00			
Debt/ equity (X)	7.0	6.4	6.4	5.0	4.9	4.9			
RoE (reported)	29.4	26.8	23.1	23.2	20.7	20.6			

Source: Company, Kotak Institutional Equities estimates

REC, old and new estimates

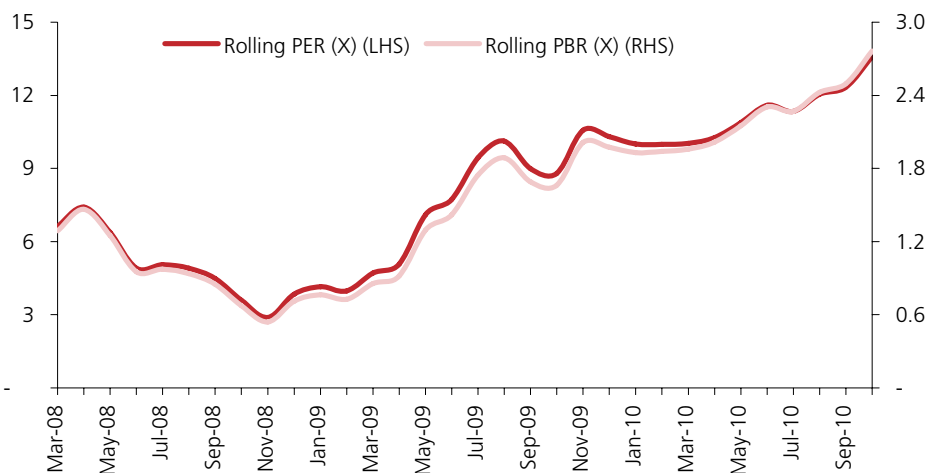
March fiscal years 2011-2012E (Rs mn)

	Old estimates		New estimates		% change	
	2011E	2012E	2011E	2012E	2011E	2012E
Net interest income	32,469	40,191	33,910	40,846	4	2
Loan growth (%)	28	27	26	26		
NIM (%)	4.3	4.2	4.5	4.3	5.2	3.5
NPL provisions	3	3	3	3		
Other operational income	2,927	3,362	2,927	3,362		
Other income (forex etc)	—	—	—	—		
Operating expenses	1,702	1,970	1,678	1,943	—	(1)
Employee	1,347	1,549	1,323	1,522	(2)	(2)
Others	355	422	355	422	(0)	
PBT	33,692	41,580	35,156	42,261	4	2
Tax	8,760	10,811	8,965	10,882	2	1
PAT	24,932	30,769	26,191	31,379	5	2

Source: Kotak Institutional Equities estimates

Rural Electrification Corporation – Rolling PBR and PER

March 2008-October 2010 (X)



Source: Kotak Institutional Equities

Rural Electrification Corporation, Key ratios, March fiscal year-ends, 2008-2013E (%)

	2008	2009	2010E	2011E	2012E	2013E
Growth in key parameters (%)						
Interest income	28.5	32.6	37.9	30.4	29.4	21.3
Interest costs	17.5	39.8	35.0	27.7	35.5	22.8
Net interest income	48.5	22.4	42.5	34.6	20.5	18.9
PAT	30.3	47.9	57.3	30.9	19.8	18.4
Disbursements	19.3	34.0	24.9	22.3	23.3	23.5
Loans	22.5	30.7	29.3	26.4	25.7	25.2
Borrowings	13.2	31.1	24.5	27.7	26.7	26.1
Shareholders funds	33.8	15.3	79.0	15.3	15.9	16.3
Key ratios (%)						
Interest yield	9.85	10.29	10.92	11.14	11.45	11.08
Interest cost	6.42	7.31	7.75	7.84	8.36	8.12
Spreads	3.43	2.97	3.16	3.30	3.09	2.95
NIMs	4.05	3.90	4.28	4.51	4.31	4.09
Tax rate	29	26	24	26	26	26
Debt/ equity+DTL (X)	5.5	6.3	5.1	5.6	6.1	6.6
Du Pont analysis						
(% of average assets)						
Net interest income	3.7	3.6	4.0	4.2	4.1	3.9
Other income	0.1	0.5	0.4	0.4	0.3	0.3
Credit costs	0.1	0.0	—	—	—	—
Operating expenses	0.3	0.2	0.2	0.2	0.2	0.2
PBT post extraordinary	3.3	3.9	4.2	4.4	4.2	4.0
1-tax rate	0.7	0.7	0.8	0.7	0.7	0.7
RoA	2.2	2.6	3.1	3.3	3.1	3.0
Average assets / average equity (X)	8.4	8.6	7.4	6.7	7.3	7.8
RoE	18.3	22.0	23.2	22.0	22.7	23.2

Source: Company, Kotak Institutional Equities estimates

Rural Electrification Corporation, Key financials March fiscal year-ends, 2008-2013E (Rs mn)

	2008	2009	2010E	2011E	2012E	2013E
Income statement (Rs mn)						
Interest income	35,174	46,650	64,309	83,847	108,518	131,673
Interest costs	(20,728)	(28,970)	(39,112)	(49,938)	67,672	83,099
Net interest income	14,447	17,680	25,197	33,910	40,846	48,574
Other income	202	2,660	2,768	2,927	3,362	3,870
Fees	177	1,740	1,189	1,427	1,712	2,055
Net total income	14,649	20,340	27,965	36,837	44,208	52,444
Provisioning expenses	(400)	(20)	(2)	(3)	3	4
Net income (post provisions)	14,249	20,320	27,962	36,834	44,205	52,440
Operating expenses	(1,119)	(1,120)	(1,470)	(1,678)	1,943	2,252
PBT before extraordinaries	13,130	19,200	26,492	35,156	42,261	50,189
Extraordinary income	(6)	—	—	—	—	—
PBT post extraordinaries	13,124	19,200	26,492	35,156	42,261	50,189
Tax	(3,749)	(5,070)	(6,473)	(8,965)	10,882	13,049
Provision for DTL	(774)	(1,410)	(5)	—	—	1
PAT	8,602	12,720	20,014	26,191	31,379	37,139
PAT (add. back DTL)	9,376	14,130	20,019	26,191	31,379	37,140
EPS (adding back DTL) (Rs)	11	16	20	27	32	38
BVPS (adding back DTL) (Rs)	72	83	112	129	150	174
ABVPS (adding back DTL) (Rs)	69	83	112	129	150	174
Balance sheet (Rs mn)						
Assets						
Loans	393,165	513,810	664,520	840,224	1,055,823	1,321,615
Investments	11,474	10,060	9,100	9,100	9,100	9,100
Fixed assets	779	810	900	1,035	1,190	1,369
Current assets	23,725	34,890	37,876	42,419	47,791	54,151
Total assets	429,143	559,570	712,396	892,778	1,113,905	1,386,234
Liabilities						
Borrowings	342,828	449,360	559,480	714,420	905,047	1,141,112
Deferred tax liability	8,170	9,570	(70)	(70)	(70)	(69)
Current liabilities and provisions	24,468	38,740	42,186	50,623	60,747	72,897
Total liabilities	375,466	497,670	601,596	764,972	965,724	1,213,940
Share capital	8,586	8,586	9,874	9,874	9,874	9,874
Reserves and surplus	45,090	53,314	100,926	117,932	138,306	162,421
Shareholders funds	53,676	61,900	110,800	127,806	148,180	172,294

Source: Company, Kotak Institutional Equities estimates

OCTOBER 25, 2010

RESULT

Coverage view: **Attractive**

Price (Rs): **164**

Target price (Rs): **150**

BSE-30: **20,303**

Broadly in-line results; one-offs impact margin, SEZ sales remain elusive. Strong revenue growth (26% yoy) was in line with estimates. EBITDA margin at 66.2% (down 520 bps) was likely impacted by one-off costs related to heavy rain. Increased coal requirement for the recently commissioned unit of Adani power plant and closure of JNPT boosted volumes. SEZ sales remained sedate with no significant sale made during 2Q. Retain REDUCE on valuations and limited potential for upside to estimates.

Company data and valuation summary

Mundra Port and SEZ

Stock data

52-week range (Rs) (high,low)	185-93
Market Cap. (Rs bn)	331.5

Shareholding pattern (%)

Promoters	77.5
FIs	9.7
MFs	0.8

Price performance (%)

	1M	3M	12M
Absolute	0.9	13.2	58.1
Rel. to BSE-30	(0.4)	1.1	30.9

Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	3.3	4.5	7.2
EPS growth (%)	55.7	34.2	61.6
P/E (X)	49.2	36.7	22.7
Sales (Rs bn)	15.0	20.1	27.4
Net profits (Rs bn)	6.7	9.0	14.6
EBITDA (Rs bn)	9.7	13.8	19.0
EV/EBITDA (X)	37.8	25.9	18.4
ROE (%)	20.8	23.1	29.8
Div. Yield (%)	0.5	0.0	0.0

Revenues in line but margins disappoint potentially on one-off costs; SEZ sales remain elusive

Mundra reported strong revenue growth of 26% yoy to Rs4.1 bn in 2QFY11, marginally (~2%) below our estimate. EBITDA margin at 66.2% was about 180 bps below our estimates and down 520 bps on a yoy basis. Strong margin contraction was led by lower operating expenses as a percentage of sales—possibly a result of one-off operating expenses related to heavy rains in the quarter. However, lower-than-expected interest expense (likely led by debt restructuring) helped the company report a net PAT of Rs2.1 bn, about 5% above our estimate. SEZ sales continued to remain relatively sedate with no significant sale made during the quarter.

Volume growth led by bulk (COD of third unit of Adani power) and container (closure of JNPT)

Strong volume growth (24%) was led by (1) strong bulk cargo growth (40% yoy), especially coal (up 54% yoy) likely on account of the increased coal requirement for Adani's power plant post the commissioning of the third unit of 330 MW in the previous quarter and (2) container volumes (up 39% yoy) likely aided by non-operations of JNPT in August 2010. The closure of Panipat refinery for expansion works likely led the decline in crude volume handled at IOCL SPM (down 28% yoy).

Indonesia port project and start of operation of Dahej port - key positive developments

Other key developments (1) MPSEZ is setting up a 35 MTPA port facility to handle coal cargo in Indonesia based on an agreement signed between Adani Enterprises, regional Govt. of Sumatra Selatan, Indonesia and PT Bukit Asam—this is in addition to the potential port development project in Australia, and (2) start of commercial operations of Dahej port in August 2010.

Retain REDUCE (TP: Rs150) on high valuations and limited potential for upside to estimates

We have retained our earnings estimates of Rs4.5 and Rs7.2 for FY2011E and FY2012E. We retain our REDUCE rating on the stock with a target price of Rs150/share based on (1) relatively expensive valuations, (2) strong estimates in the near term as well as long term leaves limited potential for upside and (3) slower-than-expected pick-up in SEZ land sales. The company (adjusted for SEZ and other assets) is presently trading at an EV/EBITDA of about 17.2X FY2012E. Indonesia and Australia projects are still too early to be valued.

Lokesh Garg

lokesh.garg@kotak.com
Mumbai: +91-22-6634-1496

Supriya Subramanian

supriya.subramanian@kotak.com
Mumbai: +91-22-6634-1383

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

In line revenues; EBITDA margin disappoints potentially led by one-off costs**Strong revenue growth of 26% - broadly in line**

MPSEZ reported 2QFY11 revenues of Rs4.1 bn, up 26.3% yoy from Rs3.3 bn in 2QFY10, marginally (about 2%) below our revenue estimate of Rs4.2 bn.

Significant disappointment in EBITDA margins

EBITDA margin contracted by about 520 bps on a yoy basis and 350 bps on a sequential basis to 66.2% in 2QFY11. We had expected EBITDA margin of 68% in 2QFY11. The decline in margins was primarily led by an increase in core operating expenses as a percentage of sales. We believe that core operating expenses increased as a % of sales led by one-off operating expenses related to heavy rains during the quarter. Employee expenses have also increased on a yoy basis potentially led by compensation increases. The lower-than-expected margins led to an EBITDA-level miss of about 5% versus our estimates.

Lower-than-expected interest expense help beat PAT-level estimates

Despite the miss at the EBITDA level, MPSEZ beat our PAT estimate by about 5%. The company reported a net PAT of Rs2.11 bn, up 21% yoy, versus our estimate of Rs2 bn primarily led by lower-than-expected interest expense of Rs92 mn; this is versus interest cost of Rs204 mn in 2QFY10 and Rs247 mn in 1QFY11. We also note that total loans reported at end-Sept 2010 were Rs30.1 bn versus Rs25.5 bn as at end-Sept, 2009 and Rs31.5bn at end-FY2010. We believe interest cost may have declined based on the debt restructuring carried out. As part of debt restructuring, Rupee term loans of Rs15 bn were replaced with NCDs (Rs10 bn), commercial paper (Rs 5 bn) and short term loans (Rs3.75 bn) and foreign currency term loans were also increased. Since this restructuring was complete by March 2010, 1QFY2011 should also have reflected a similar benefit but that was not the case.

SEZ sales remain extremely sedate

No significant SEZ sales have been made during the quarter. An agreement for 18 acres of land has been signed but that has not been included in this quarter's numbers.

For the half year ending September 30, 2010, MPSEZ has reported revenues of Rs8.3 bn, up 30.8% yoy. EBITDA margins have declined by about 360 bps yoy to 68% leading to a net PAT of Rs4.2 bn in 1HFY11, up 22% yoy from Rs3.45 bn in 1HFY10.

Mundra Port and SEZ Ltd - 2QFY11 - key numbers (Rs mn)

	2QFY11	2QFY11E	2QFY10	1QFY11	% change			1HFY11	1HFY19	% change
					vs est.	yoy	qoq			
Net operating income	4,135	4,229	3,274	4,157	(2.2)	26.3	(0.5)	8,292	6,341	30.8
Operating expenses	(1,003)		(600)	(855)		67.1	17.3	(1,858)	(1,226)	51.5
Employee costs	(194)		(127)	(147)		52.7	31.6	(341)	(240)	42.1
Admin and other exp.	(202)		(210)	(259)		(3.8)	(22.1)	(461)	(337)	36.5
Total expenditure	(1,398)	(1,353)	(937)	(1,261)	3.3	49.3	10.9	(2,659)	(1,803)	47.5
EBITDA	2,737	2,876	2,337	2,895	(4.8)	17.1	(5.5)	5,633	4,538	24.1
Other income	95	8	100	8	1,135.9	(4.9)	1,135.9	102	246	(58.3)
PBDIT	2,832	2,884	2,437	2,903	(1.8)	16.2	(2.5)	5,735	4,784	19.9
Interest expense	(92)	(270)	(204)	(247)	(66.1)	(55.0)	(62.9)	(338)	(337)	0.4
Depreciation	(485)	(511)	(389)	(476)	(5.1)	24.6	1.8	(961)	(747)	28.6
PBT	2,256	2,103	1,844	2,180	7.3	22.3	3.5	4,436	3,700	19.9
Tax expense	(139)	(84)	(96)	(67)	65.3	44.5	107.5	(206)	(244)	(15.7)
PAT	2,117	2,019	1,748	2,113	4.9	21.1	0.2	4,230	3,455	22.4
Key ratios (%)										
Operating exp./ sales	24.2		18.3	20.6				22.4	19.3	
Employee costs/ sales	4.7		3.9	3.5				4.1	3.8	
Admin and other exp./ sales	4.9		6.4	6.2				5.6	5.3	
EBITDA margin	66.2	68.0	71.4	69.7				67.9	71.6	
PBT margin	54.5	49.7	56.3	52.4				53.5	58.3	
PAT margin	51.2	47.7	53.4	50.8				51.0	54.5	
Effective tax rate	6.2	4.0	5.2	3.1				4.6	6.6	

Source: Company, Kotak Institutional Equities estimates

Strong port volume growth led by bulk (especially coal) and container

Strong revenue growth in 2QFY11 was primarily led by strong volume growth during the quarter. Total volumes handled at the port grew by 24.4% yoy to 12.6 MMT in 2QFY11 (flat on a sequential basis) from 10.1 MMT in 2QFY10. The volume growth was led by bulk and container cargo.

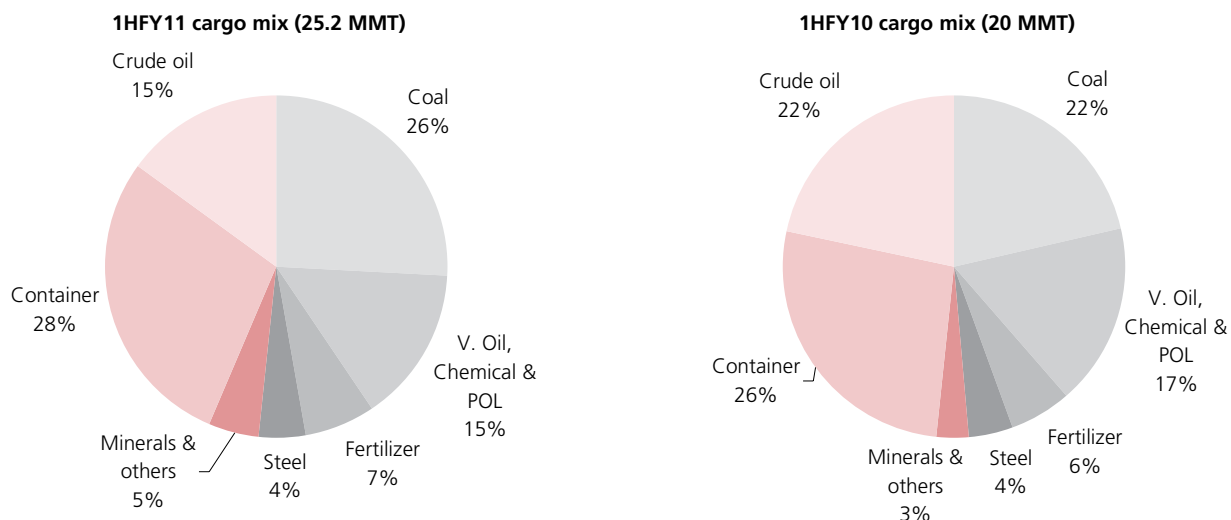
- ▶ **Bulk cargo:** Bulk cargo handled at Mundra port grew by 40% yoy primarily led by strong coal cargo growth, up 54.4% yoy. The strong growth in coal cargo is likely to have been due to increased coal imports for the power plant being developed by Adani Power Ltd. The company had commissioned the third unit of 330 MW in the previous quarter taking the total installed capacity up to 990 MW.
- ▶ **Container cargo:** Container cargo at Mundra port grew by 39% yoy to 313,640 TEUs in 2QFY11 from 226,610 TEUs in 2QFY10. We believe that part of the growth in container cargo may have been due to the closure of JNPT in the month of August.
- ▶ **Crude cargo:** Mundra port reported a 28% yoy decline in the crude cargo for the IOCL SPM likely due to closure of Panipat refinery for expansion works.

Mundra Port and SEZ Ltd - 2QFY11 - volumes (Rs mn)

	2QFY11	2QFY10	1QFY11	% change		1HFY11	1HFY10	% change
				yoy	qoq			
Volumes (MMT)								
Bulk total	7.13	5.08	7.10	40.4	0.4	14.23	10.34	37.6
Coal	3.01	1.95	3.52	54.4	(14.5)	6.53	4.30	51.9
Other bulk	4.12	3.13	3.58	31.6	15.1	7.70	6.04	27.5
Crude oil	1.66	2.31	2.15	(28.1)	(22.8)	3.81	4.33	(12.0)
Container	3.79	2.72	3.37	39.3	12.5	7.16	5.33	34.3
Total cargo	12.58	10.11	12.62	24.4	(0.3)	25.20	20.00	26.0
Per MT realisation (Rs)	328.7	323.8	329.4	1.5	(0.2)	329.0	317.1	3.8
Volume mix (%)								
Bulk total	56.7	50.2	56.3			56.5	51.7	
Container	30.1	26.9	26.7			28.4	26.7	
Crude oil	13.2	22.8	17.0			15.1	21.7	
Total cargo	100.0	100.0	100.0			100.0	100.0	
Other details								
Vessels called at port	614	578	621			1,235	1,168	
Railway rakes (nos)	2,041	1,170	1,571			3,612	2,472	
Cargo moved by rail (mmt)	4.4	2.3	3.5			7.8	5.6	

Source: Kotak Institutional Equities

Commodity mix of cargo handled at Mundra port, 1HFY11 and 1HFY10



Source: Company, Kotak Institutional Equities

Port has outperformed the sector in terms of volume growth

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

Volumes handled at Mundra port in 2QFY11 versus major ports of the country

	Total cargo (MMT)			Container cargo ('000 TEUs)			Total cargo (MMT)			Container cargo ('000 TEUs)		
	2QFY11	2QFY10	% change	2QFY11	2QFY10	% change	1HFY11	1HFY10	% change	1HFY11	1HFY10	% change
Kolkata	3.5	3.1	11.6	97	95	2.1	6.4	6.0	6.7	186	186	—
Haldia	9.0	8.9	1.2	37	29	27.6	16.6	17.2	(3.5)	74	55	34.5
Paradip	12.9	12.5	2.7	1	1	—	26.5	26.7	(0.7)	2	2	—
Visakhapatnam	16.8	16.3	3.1	31	27	14.8	32.5	33.0	(1.5)	60	45	33.3
Ennore	2.4	2.5	(1.7)	—	—	NA	4.7	5.4	(13.0)	—	—	NA
Chennai	16.3	16.4	(0.1)	384	308	24.7	31.9	30.5	4.6	758	581	30.5
Tuticorin	6.3	6.0	4.1	115	116	(0.9)	12.2	11.7	4.3	227	219	3.7
Cochin	4.5	3.9	15.3	87	79	10.1	9.0	7.5	20.0	171	151	13.2
New Mangalore	7.1	8.7	(18.6)	9	8	12.5	15.2	17.7	(14.1)	20	16	25.0
Mormugao	5.0	4.2	17.9	3	7	(57.1)	17.8	16.7	6.6	6	10	(40.0)
Mumbai	13.2	13.6	(3.1)	19	12	58.3	27.4	26.5	3.4	37	27	37.0
J.N.P.T	14.9	14.7	1.1	1,019	1,020	(0.1)	30.9	29.7	4.0	2,110	1,993	5.9
Kandla	20.4	20.5	(0.5)	35	35	—	40.3	39.3	2.5	73	69	5.8
Major ports	132.2	131.3	0.7	1,837	1,737	5.8	271	268	1.3	3,724	3,354	11.0
Mundra	12.6	10.1	24.8	314	227	38.1	25.2	20.0	26.0	591	444	33.2

Source: Company, Indian Ports Association

Coal port in Indonesia, commissioning of Dahej port - key positive developments

MPSEZ would be participating in an Indonesian project to set up a 35 MTPA coal handling port facility. In August 2010, Adani Enterprises entered into an agreement with the regional government of Sumatra Selatan, Indonesia and PT Bukit Asam (Govt of Indonesia coal mining company) to set up a dedicated rail and port project. This agreement provides coal purchase rights to AEL and the infrastructure created (rail + port) would have a minimum capacity of 35 MTPA on a take or pay basis from PT Bukit Asam. The estimated project cost is about US\$1.65 bn with a construction period of about 48 months. We also highlight that AEL had recently acquired a 100% stake in one of the largest coal tenements in Australia as well. The coal from these sources would be potentially used to support Adani Power's upcoming thermal power plants as well as the coal trading business of Adani Enterprises.

Other key developments during the quarter

- ▶ August 30, 2010: Commences operations of 20 MMT dry bulk port at Dahej
- ▶ September 03, 2010: Completion of merger of promoter entities of MPSEZ with AEL
- ▶ September 24, 2010: Stock split of equity share of Rs10 each to five shares of Rs2 each

Retain earnings estimates; reiterate REDUCE with a target price of Rs150/share

We have retained our consolidated earnings estimates of Rs4.5 and Rs7.2 for FY2011E and FY2012E, respectively. We have retained our SOTP-based target price of Rs150/share comprised of (1) Rs118/share from the Mundra port business (Sept-11E-based DCF valuation), (2) Rs23/share from the SEZ business (Sept-11E-based FCFE valuation), (3) Rs4/share from Dahej port value, (4) Rs4/share from Mormugao and Hazira ports, and (5) Rs2/share from book value of investments in Adani Logistics.

We arrive at an SOTP-based target price of Rs150/share for MPSEZ

	Valuation (Rs mn)	P/B multiple (X)	MPSEZ stake (%)	Value of MPSEZ stake (Rs mn)	Per share value (Rs)	Method of valuation
Mundra port	237,248		100	237,248	117.6	Sep11E-based DCF
SEZ	45,746		100	45,746	22.7	Sep11E-based DCF
Dahej port	11,109		74	8,221	4.1	Sep11E-based DCF
Mormugao port	1,644		100	1,644	0.8	Sep11E-based DCF
Hazira port	5,749		100	5,749	2.8	Sep11E-based DCF
Adani Logistics		2.0		3,500	1.7	2.0X book value
Total				302,107	150	

Source: Company, Kotak Institutional Equities estimates

We retain our REDUCE rating on the company based on (1) relatively expensive valuations and (2) strong estimates in the near term as well as long term leaves limited potential for upside. Key downside risks to our estimates are (1) delays in progress of the power projects, which would lead to lower-than-expected coal volumes, (2) slower-than-expected SEZ area absorption with competing SEZs vying for clients, and (3) removal of SEZ-related tax benefits. Key upside risks to our estimates include (1) stronger-than-expected performance of other upcoming port projects and (2) higher-than-expected SEZ land sales.

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

	2008	2009	2010	2011E	2012E	2013E	2014E	2015E
Income statement								
Net sales	8,170	11,949	14,955	20,098	27,416	37,010	45,865	55,005
Total operating costs	(2,813)	(4,393)	(5,293)	(4,729)	(6,416)	(8,724)	(10,769)	(12,079)
EBITDA	5,357	7,557	9,663	13,847	19,028	25,809	32,051	38,866
Other income	279	446	321	1,069	1,717	2,896	5,140	8,015
Depreciation	(1,023)	(1,468)	(1,868)	(3,199)	(3,411)	(3,602)	(3,934)	(4,081)
Financial charges	(1,079)	(1,459)	(559)	(2,362)	(2,232)	(2,040)	(2,294)	(2,206)
Pre-tax profit	3,535	5,075	7,556	9,356	15,102	23,063	30,962	40,594
Taxation	(1,534)	(533)	(601)	(313)	(486)	(861)	(1,589)	(2,704)
Adjusted PAT	2,001	4,542	6,955	9,042	14,616	22,202	29,374	37,889
Extraordinary items, net of tax	104	(217)	(220)	—	—	—	—	—
Reported PAT	2,104	4,325	6,736	9,042	14,616	22,202	29,374	37,889
EPS (Rs)	5.2	10.7	16.7	22.4	36.2	55.0	72.8	93.9
Balance sheet								
Shareholders funds	26,216	29,306	34,637	42,139	54,336	71,713	94,669	124,464
Share capital	4,035	4,035	4,035	4,035	4,035	4,035	4,035	4,035
Reserves and surplus	22,164	25,261	30,602	38,104	50,302	67,678	90,634	120,429
Loan funds	20,680	28,957	37,062	43,932	30,908	29,808	30,907	30,906
Amt received under LT lease	6,568	6,505	6,291	6,075	5,924	5,773	5,622	5,470
Deferred tax liability (net)	1,771	2,296	2,817	2,812	2,812	2,812	2,812	2,812
Total sources of funds	55,252	67,156	81,629	95,617	94,855	111,034	135,062	165,027
Total fixed assets	36,673	51,792	67,682	71,997	74,557	76,816	78,396	92,360
Investments	8,886	2,072	2,249	7,754	7,754	7,754	7,754	7,754
Cash and bank balance	9,029	12,951	9,997	18,261	14,160	26,179	47,067	61,939
Net current assets excl. cash	663	321	1,701	(195)	(110)	171	120	353
Total application of funds	55,252	67,156	81,629	97,928	96,472	111,032	133,448	162,517
Key ratios								
Debt/equity (X)	0.8	1.0	0.9	0.8	0.5	0.3	0.3	0.2
Net debt/equity (X)	0.4	0.5	0.7	0.6	0.2	(0.0)	(0.3)	(0.4)
RoAE (%)	12.5	15.6	18.7	23.6	26.5	28.8	29.3	28.6
RoACE (%)	6.5	9.2	11.4	14.6	18.0	21.8	23.6	24.0

Source: Company, Kotak Institutional Equities estimates

OCTOBER 26, 2010

RESULT

Coverage view: **Attractive**

Price (Rs): **134**

Target price (Rs): **143**

BSE-30: **20,303**

Capacity ramp-up continues, maintain ADD. APL reported in-line results though it disappointed marginally on generations due to lower PLF (82%) and higher auxiliary consumption (10.8%) due to stabilization phase of new units. We like APL's execution progress as it continues to steadily add capacities and incur capex for its portfolio of projects under construction (6,600 MW), most of which will likely be commissioned by end FY2012E. We maintain our ADD rating and target price of Rs143/share.

Company data and valuation summary

Adani Power

Stock data

52-week range (Rs) (high,low)	146-90
Market Cap. (Rs bn)	293.0

Shareholding pattern (%)

Promoters	73.5
FIs	8.5
MFs	1.7

Price performance (%)

	1M	3M	12M
Absolute	(1.2)	5.2	0.0
Rel. to BSE-30	(2.4)	(6.0)	0.0

Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	0.8	3.5	19.0
EPS growth (%)	(5,707.2)	351.8	436.1
P/E (X)	171.5	38.0	7.1
Sales (Rs bn)	4.3	24.0	111.2
Net profits (Rs bn)	1.7	7.7	41.4
EBITDA (Rs bn)	2.4	14.7	77.1
EV/EBITDA (X)	158.7	31.6	6.6
ROE (%)	4.2	12.5	48.0
Div. Yield (%)	0.0	0.0	0.0

Results broadly in line, capacity addition drives growth

APL reported revenues of Rs4 bn, operating profit of Rs2 bn and net income of Rs1.3 bn against our estimate of Rs4.3 bn, Rs2.4 bn and Rs1.3 bn, respectively. Lower-than-estimated revenues were primarily on account of lower net generation at 1,334 MU against our estimate of 1,450 MU. We note that although the gross generation was in line with our estimates, higher auxiliary consumption (10.8%) due to synchronization of new unit during the quarter resulted in lower net generation. Fuel cost remained stable at Rs1.05/kwh lending credence to our assumption of APL securing imported coal at US\$36/ton.

APL sold ~160 MU (12% of net generation) on merchant basis at an average rate of Rs4.9/kwh during 2QFY11 where overall blended realization was Rs2.96/kwh (-17% qqq). Decline in blended realization was on account of (1) lower proportion of power sold on a merchant basis and (2) seasonal weakness in short-term merchant rates.

Commissioning on track albeit some marginal delays; Strong capex lends comfort

APL's 6,600 MW of capacity under construction is progressing satisfactorily although we note that there have been some marginal delays primarily due to issuance of visa to Chinese experts. First three units of 330 MW at Mundra 1&2 have been commissioned taking APL's total operational capacity to 990 MW. We expect APL's capacity to reach 1,980 MW by end FY2011E and 5,940 MW by end FY2012E. We highlight that APL has incurred a capex of ~Rs35.8 bn for Mundra projects in 1HFY11 and has likely infused equity to the tune of Rs12.2 bn into Tiroda (and other subsidiaries) and other projects. Exhibit 4 highlights the status of the projects under construction.

Maintain ADD with a target price of Rs143/share

We maintain our ADD rating on APL with a target price of Rs143/share. Our target price implies a P/B of 2.7X on FY2012E net worth. Our target price includes value for 7,920 MW of power projects under implementation, and implies a ratio of 5.7X on sustainable earnings beyond FY2014E.

Murtuza Arsiwalla
murtuza.arsiwalla@kotak.com
Mumbai: +91-22-6634-1125

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

We highlight that achievement of key project milestones at Kawai, which can add Rs8/share to our target price could be a key upside risk to our valuation estimates. We note that Kawai has secured land for the project and TOR has been approved and the Environmental Impact Assessment is underway. Exhibit 4 highlights the status of the pipeline projects of APL.

We have revised our EPS estimate to Rs3.5/share (previously Rs4.8/share) for FY2011E as we factor in delays in COD of the fourth unit of Mundra 1&2 and first unit of Mundra 3. We have delayed the COD of fourth unit to November 2010 (previously October 2010) and first unit of Mundra 3 to March 2011 (previously January 2011). We have also increased our assumption for auxiliary consumption during FY2011E. We note that even a 30-60 day delay in commissioning will have significant impact on earnings as it reduces the window for pre-PPA merchant sale of power.

Exhibit 1: Revenues jump 12% qoq aided by generation from Unit III at Mundra 1&2

Interim results for RPWR, March fiscal year-ends (Rs mn)

	2QFY11	2QFY11E	1QFY11	(% Chg.)		FY2010	FY2011E	(% Chg.)
				2QFY11E	1QFY11			
Net sales	3,952	4,337	3,531	(9)	12	4,349	24,046	453
Operating costs								
Cost of fuel	(1,576)	(1,633)	(1,098)	(4)	43	(1,667)	(8,056)	383
O&M	(281)	(351)	(301)	(20)	(7)	(236)	(1,261)	435
EBITDA	2,095	2,353	2,132	(11)	(2)	2,446	14,729	502
EBITDA margin (%)	53	54	60			56	61	
Other income	506	120	79			319	1,621	
Interest & finance charges	(773)	(520)	(433)			(377)	(2,890)	
Depreciation	(358)	(380)	(279)			(354)	(2,899)	
PBT	1,469	1,573	1,499	(7)	(2)	2,035	10,560	419
Provision for tax (net)	(211)	(269)	(354)			(327)	(2,155)	
Net profit	1,258	1,304	1,145	(3)	10	1,708	8,406	392
Extraordinary	—	—	—			—	—	
EBITDA margin (%)	53	54	60			56	61	
Tax rate (%)	14	17	24			16	20	
Key operating parameters								
Units generated (mn units)	1,334	1,450	1,030	(8)	30			
Average realization (Rs/kwh)	2.96	2.99	3.56	(1)	(17)			
Fuel cost (Rs/kwh)	1.05	1.07	0.95	(1)	11			
O&M (Rs/kwh)	0.19	0.23	0.26	(18)	(28)			

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Our STOP-based target price of APL is Rs143/share
SOTP APL

Project	Type	Capacity (MW)	Cost		Equity			Ownership (%)	Value (Rs bn)	CoE (%)
			(Rs bn)	(Rs mn / MW)	(%)	Invested	To be invested			
Mundra 1&2	Thermal	1,320	44	33	16	6	1.0	100	78	12
Mundra 3	Thermal	1,320	58	44	24	10	3.7	100	49	12
Mundra 4	Thermal	1,980	110	55	20	17	5.2	100	77	12
Tiroda 1	Thermal	1,320	66	50	20	7	5.9	74	51	12
Tiroda 2	Thermal	660	27	41	20	1	4.7	74	25	12
Tiroda 3	Thermal	1,320	67	50	20	-	13.3	74	11	15
Total		7,920	370	273	17	40.7	33.9		292	
Cash									19	
Total value									311	
No. of Shares									2	
Value per share									143	

Source: Company, Kotak Institutional Equities estimates

Key highlights of 2QFY11 results

- ▶ **Generation** – APL’s net generation for the quarter was 1,334 MU implying a PLF of 82% (80% in 1QFY11). Sharp sequential jump of 30% in gross generation was on account of commissioning of third unit of Mundra 1&2. We highlight that the low PLF and high auxiliary consumptions are on account of stabilization phase of the new units. Management has also cited instances of step-down of generation due to high grid frequency and shutdown on Unit 1 for annual inspection for lower PLF.
- ▶ **Sale mix and realizations** – APL sold ~160 MU (12% of net generation) on merchant basis at an average rate of Rs4.9/kwh during 2QFY11 whereas overall blended realization was Rs2.96/kwh (-17% qoq). Decline in blended realization was on account of (1) lower proportion of power sold on a merchant basis and (2) seasonal weakness in short-term merchant rates.
- ▶ **Fuel cost** – fuel cost remained stable at Rs1.05/kwh highlighting that APL continues to use the Indonesian coal at the contracted price of US\$36/ton (CIF Mundra).
- ▶ **O&M** – average O&M in 2QFY11 declined to 19p/kwh (-28% qoq) reflecting the benefit of scale on higher operational capacities.
- ▶ **Interest and depreciation** – sequential increase in interest expense (79% qoq) and depreciation (28% qoq) was primarily on account of commissioning of third unit at Mundra 1&2.
- ▶ **Debt refinancing** – during the quarter, APL refinanced its debt for Mundra 1&2. Management has indicated that this would reduce the average interest cost to ~7.8% from 11.5%.

Balance sheet analysis for 1HFY11 – capex continues to be robust

Exhibit 3 below highlights the balance sheet of APL as of September 2010 and we discuss some key takeaways below:

- ▶ Capex at Mundra continues to be robust with APL incurring ~Rs35.8 bn in 1HFY11 signaling strong and brisk execution for 4,620 MW of capacity at Mundra.
- ▶ Investments increased by Rs12.2 bn in 1HFY11 indicating strong equity infusion into projects held through subsidiaries (primarily Tiroda).
- ▶ Further infusion of capital into subsidiaries is indicated by sharp increase in loans and advances from Rs13.8 bn as of March 2010 to Rs28 bn as of September 2010 likely on account of loans and advances to subsidiaries.

Exhibit 3: Capex of Rs35.8 bn in Mundra in 1HFY11
Balance sheet of APL (Rs mn)

	Sep-10	Sep-09	Mar-10
Share capital	21,800	21,800	21,800
Reserves and surplus	38,593	35,071	36,196
Shareholder's fund	60,393	56,871	57,996
Loan funds	156,221	61,781	97,491
Deferred tax liability	685	—	120
Total sources of funds	217,298	118,652	155,607
Fixed assets	169,508	94,680	134,363
Investments	19,661	10,924	7,466
Inventories	308	—	95
Debtors	2,494	—	2,563
Cash and bank balances	6,947	8,207	10,267
Loans and advances	34,911	11,602	13,425
Current liabilities	16,493	7,101	12,541
Provisions	37	11	31
Net current assets	28,130	12,697	13,778
Misc. expenditure	—	351	—
Utilization of funds	217,298	118,652	155,607

Source: Company, Kotak Institutional Equities

Exhibit 4: Most of the under construction projects are progressing satisfactorily

Execution status of APL's under construction projects

Project	Capacity (MW)	Cost (Rs bn)	Fuel	Land	Environmental clearance	Fuel arrangement	Financial closure	Expected CoD	Remarks
Mundra 1&2	1,320	43.5	Thermal	✓	✓	✓	✓	Oct-10	First 3 units commissioned totalling 990 MW commissioned
Mundra 3	1,320	58.0	Thermal	✓	✓	✓	✓	Aug-11	Marginal delays due to availability of Visa for Chinese experts
Mundra 4	1,980	109.6	Thermal	✓	✓	✓	✓	Feb-12	TG condenser erection in progress. Marginal delays due to availability of Visa for Chinese experts
Tiroda 1	1,320	65.6	Thermal	✓	✓	✓	✓	Jan-12	Boiler erection started for both the units. TG erection to start for unit I
Tiroda 2	660	27.0	Thermal	✓	✓	✓	✓	Apr-12	Boiler erection started. Condenser erection expected to start in November 2010
Tiroda 3	1,320	66.6	Thermal	WIP	✓	WIP	WIP	Jul-13	Part land for the project in place.
Total	7,920	370							

Source: Company, CEA, Kotak Institutional Equities

Exhibit 5: Another 5,280 MW in pipeline though with limited visibility
Execution status of APL's pipeline projects

Project	Capacity (MW)	Fuel	Land	Environmental clearance	Fuel arrangement	Financial closure
Kawai	1,320	Thermal	✓	TOR approved & EIA study under progress	Applied for coal linkage	WIP
Dahej	2,640	Thermal	✓	TOR approved & EIA study under progress	Applied for coal linkage	✗
Chindwada	1,320	Thermal	WIP	Applied for TOR	Applied for coal linkage	✗
Total	5,280					

Source: Company, Kotak Institutional Equities

Exhibit 6: Profit model, balance sheet, cash model of APL, March fiscal year-ends, 2009-15E (Rs mn)

	2009	2010E	2011E	2012E	2013E	2014E	2015E
Profit model							
Net revenues	—	4,349	24,046	111,236	151,834	173,650	166,034
EBITDA	(28)	2,446	14,729	77,131	93,793	103,948	93,069
Other income	—	319	932	1,539	4,624	8,939	13,370
Interest (expense)/income	—	(377)	(2,890)	(13,081)	(25,862)	(25,510)	(23,191)
Depreciation	—	(354)	(2,899)	(11,066)	(12,148)	(12,148)	(12,148)
Pretax profits	(28)	2,035	9,871	54,522	60,408	75,229	71,099
Tax	—	—	—	(2,778)	(4,515)	(6,568)	(4,943)
Deferred taxation	—	(327)	(2,155)	(7,993)	(7,291)	(7,844)	(6,170)
Minority interest	2	—	—	(2,380)	(4,077)	(5,818)	(4,329)
Net income	(26)	1,708	7,717	41,372	44,525	54,999	55,657
Extraordinary items	—	—	—	—	—	—	—
Reported profit	(26)	1,708	7,717	41,372	44,525	54,999	55,657
Earnings per share (Rs)	(0.0)	0.8	3.5	19.0	20.4	25.2	25.5
Balance sheet							
Paid-up common stock	18,420	21,800	21,800	21,800	21,800	21,800	21,800
Total shareholders' equity	22,743	57,780	65,497	106,868	151,393	206,392	262,049
Deferred taxation liability	—	120	2,515	10,507	17,799	25,643	31,813
Minority interest	703	1,023	3,067	7,938	13,632	20,398	24,727
Total borrowings	49,897	105,705	188,842	263,206	284,761	279,709	257,955
Total liabilities and equity	73,343	164,628	259,921	388,520	467,584	532,142	576,545
Net fixed assets	3,368	27,871	75,260	268,373	283,256	337,708	325,561
Capital work-in progress	65,845	127,691	161,946	46,729	50,784	2,433	2,433
Investments	—	—	—	—	—	—	—
Goodwill	—	—	—	—	—	—	—
Cash	5,585	11,654	19,238	57,799	111,740	167,119	224,547
Net current assets (excl. cash)	(1,456)	(2,587)	3,477	15,618	21,804	24,882	24,004
Net current assets (incl. cash)	4,129	9,066	22,715	73,418	133,544	192,001	248,551
Total assets	73,343	164,628	259,921	388,520	467,584	532,142	576,545
Free cash flow							
Operating cash flow, excl. working capital	(28)	2,389	12,771	62,811	68,041	80,809	78,304
Working capital changes	(1,142)	1,131	(6,064)	(12,141)	(6,186)	(3,078)	878
Capital expenditure	(44,709)	(86,923)	(84,543)	(88,963)	(31,086)	(18,248)	—
Free cash flow	(45,879)	(83,403)	(77,837)	(38,294)	30,769	59,482	79,181
Ratios							
Net debt/equity (%)	189.0	159.9	247.4	178.9	104.8	49.6	11.6
Return on equity (%)	(0.1)	4.2	12.5	48.0	34.5	30.7	23.8
Book value per share (Rs)	12.3	26.6	31.2	53.8	77.6	106.4	134.8
ROCE (%)	(0.1)	1.4	3.6	14.4	12.4	13.5	11.7

Source: Company, Kotak Institutional Equities estimates

OCTOBER 25, 2010
RESULT

Coverage view: **Cautious**

Price (Rs): **72**

Target price (Rs): **55**

BSE-30: **20,303**

Weak quarter – not just seasonality. Idea's weak 2QFY11 earnings report, especially the reported 3.4% qoq decline in wireless RPM should dispel any notion of return of pricing power in the industry, in our view. Reported revenues of Rs36.6 bn (flat qoq) fell 2.7% short of estimates, while EBITDA of Rs8.8 bn (down 1% qoq) came in 4.6% short. We remain Cautious on the sector and Idea on account of challenging industry dynamics and rich valuation. Estimates under review pending earnings call.

Company data and valuation summary

IDEA				
Stock data	Forecasts/Valuations			
	2010	2011E	2012E	
52-week range (Rs) (high,low)	80-47	2.7	2.2	1.5
Market Cap. (Rs bn)	236.3	(5.8)	(19.7)	(30.8)
Shareholding pattern (%)				
Promoters	47.0	26.2	32.6	47.2
FIs	6.1	124.5	153.6	187.4
MFs	1.1	9.0	7.3	5.2
Price performance (%)				
	1M	3M	12M	EBITDA (Rs bn)
Absolute	(7.4)	4.3	21.7	34.1
Rel. to BSE-30	(8.6)	(6.9)	0.7	38.7
				47.2
				8.9
				9.7
				8.2
				7.2
				6.2
				4.2
				0.0
				0.0
				0.0

Weak quarter, even adjusted for expected seasonality

Idea reported a weak quarter with consolidated revenues of Rs36.6 bn (flat qoq) and EBITDA of Rs8.8 bn (down 1.1% qoq) missing estimates by 2.7% and 4.6%, respectively. Net income of Rs1.8 bn beat our expectation by 3.2% on account of lower-than-expected net interest cost, boosted by forex gains. **Standalone wireless results disappointed particularly** with flat revenues qoq (Rs36.9 bn), EBITDA down 4% qoq to Rs7.6 bn, and EBIT down 15% qoq and 24% yoy to Rs1.6 bn. Even as weak network minutes growth (+3% qoq) can be attributed to seasonality, the same does not explain the weakness in RPM (down 3.4% qoq to Rs0.424). ARPU declined 8% qoq to Rs167, while MOU was down 5% qoq to 394 min/sub/month.

Two quarters away from a quarterly loss?

Idea capitalized Rs1.2 bn of 3G debt-related interest in 2QFY11 on top of Rs404 mn interest capitalization in 1QFY11. The company is likely to start expensing 3G interest (Rs1.2 bn per quarter on current run rate), 3G spectrum payout amortization (~Rs750 mn per quarter), incremental depreciation on 3G capex and associated interest cost once its 3G services are commercially launched (4QFY11, per management). These expenses could result in Idea reporting a net loss in 4QFY11E/1QFY12E unless EBITDA expands significantly by then. We understand the timing mismatch between 3G expenses and revenues; nevertheless, we note that the damage to the P&L is real and visible while any 3G-led revenue/EBITDA upside is mired in uncertainties – low-uncertainty data uptake and high-uncertainty data pricing.

Idea's results should dispel any 'pricing power returning to incumbents' notion

A few upward price tweaks like reduction in talk time on select micro-recharge vouchers (in 1/2 circles only) and introduction of customer care call charges had certain sections of the Street concluding that pricing power has started returning to the incumbents – a clear case of selective reporting, forgetting the sustained launch of discount plans in the market. Idea's reported RPM decline, in the absence of any headline tariff cuts, and despite these tweaks, clearly reflects the challenging competitive (pricing) environment in the industry. We reiterate our view that pricing power has not returned to the industry, and is unlikely to do so, over the coming quarters, either.

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

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

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

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

Do not blame seasonality alone for weak wireless metric trends; competitive intensity remains high

It would be easy to pin the blame for a weak quarter on seasonality – September quarter is typically the weakest volume growth quarter for Indian wireless companies on account of monsoons, sowing season in rural agri belts, end of Hindu wedding season, and lower number of festivals. Even as one can attribute weak volume growth to seasonality, the same has little impact on RPM, in our view; **RPM trends are independent of seasonal volume weakness by and large, and reflect the underlying competitive dynamics of the industry, in our view.**

Weak RPM trend continued in 2QFY11 with Idea reporting a 3.4% qoq and 24% yoy drop in RPM to Rs0.424/min – the drop was higher than our as well as Street expectations (for the 2nd consecutive quarter). The RPM trend clearly depicts the intense competition in the market, even as some of the competitive pricing moves in the industry do not find their way to media headlines. Idea management, in their post-earnings interview with the media also indicated that “prices have not bottomed out; new operators are cutting prices in absence of choice”.

Idea’s contrasting established/new circle performance a microcosm of industry dynamics

Idea’s performance in its 13 established circles versus the 9 new circles presents an interesting contrast – revenues and EBITDA in the established circles declined 1% and 3.1% qoq, respectively, while the company reported 10%+ qoq revenue growth and maintained its absolute EBITDA loss levels in the new circles. We note that Idea has been aggressive on pricing in its new circles while holding on to prices (at premium to new players) in its established circles. See Exhibit 4 for Idea’s key tariff moves (not exhaustive in any way) in the past three months.

Essentially, the contrast depicts an underlying trend in the industry – discount players, with reasonable networks, are gaining market share, however gradually and with quarterly quirks, from ‘inflexible or selectively flexible on pricing’ incumbents. We also note another interesting data point supporting this argument – Uninor has guided for a 112% qoq jump in its revenues for the Sep 2010 quarter, an absolute revenue addition of ~Rs850 mn. This compares to **zero absolute wireless revenue growth** for Idea. There is some element of seasonality impact also at play here, possibly – monsoon seasonality is particularly stark in rural areas, where they see little competition from new players. Rural revenue growth can make up for the high revenue pressure in the urban areas for the incumbents – higher seasonality in rural revenues could have made Sep quarter particularly challenging for incumbents.

Other results highlights

- ▶ **Network rollout** was slow again with the company adding 1,255 cell sites during the quarter, a qoq growth of <2%. The company attributed slow rollout to equipment import security clearance issues and also indicated that things are smoother on this front, now.
- ▶ **Indus towers** – Idea’s report suggests a strong quarter for Indus with 8.7% qoq revenues growth and an impressive qoq EBITDA margin expansion of 510 bps.
- ▶ **3G** – the company indicated likely 3G services launch in Jan-Mar 2011; we note that Tata Docomo has indicated its 3G launch in early-Nov 2010, while Bharti and Vodafone have indicated a Dec 2010 – Jan 2011 timeframe for the same. Idea capitalized a further Rs1.2 bn of 3G-related interest (after capitalizing Rs404 mn in 1QFY11) taking the cumulative 3G capitalized interest to Rs1.6 bn.

- ▶ **Balance sheet, others** – Idea reported a capex of Rs4.8 bn for the quarter, taking the total for 1HFY11 to Rs8 bn; the company reiterated the lower-end of its earlier FY2011E standalone capex guidance of Rs40 bn, indicating sharp (3G-rollout-led) acceleration in capex in 2HFY11E. Consolidated net debt at end-Sep 2010 stood at Rs107 bn, roughly unchanged from end-June 2010 levels, reflecting low capex for the quarter. Net debt to EBITDA (annualized Sep 2010 EBITDA) stood at 3X, reasonable but not comfortable in the wake of impending 3G network capex and launch expenses.
- ▶ **Churn** – remained high at 8.2% in the pre-paid segment.
- ▶ VAS as % of revenues increased to 12.9% from 12.6% in 1QFY11.
- ▶ Idea continued its tight control on costs with all expenses heads (except employee expenses, which were impacted by wage revisions in the quarter) flat or down qoq.

Valuations expensive in the backdrop of challenging competitive environment and other potential risks; reiterate REDUCE

Idea trades at 9.6X FY2011E and 8.2X FY2012E EBITDA, 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. We shall review our estimates and target price post the company's earnings call tomorrow.

Exhibit 1: Idea 2QFY11 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				
		34,120					
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	24.3	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
Net debt							
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 2: Break-up of financials across established and new service areas (Rs mn)

	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11
Established service areas									
Revenues	22,985	25,726	27,462	27,456	27,087	28,226	30,250	33,833	33,507
EBITDA	6,405	7,570	8,069	8,345	8,137	8,491	9,750	9,337	9,047
EBITDA margin (%)	27.9	29.4	29.4	30.4	30.0	30.1	32.2	27.6	27.0
New service areas									
Revenues	52	483	985	1,427	1,822	2,384	2,761	3,063	3,384
EBITDA	(337)	(765)	(654)	(644)	(830)	(1,288)	(1,422)	(1,401)	(1,429)
EBITDA margin (%)	(648.1)	(158.4)	(66.4)	(45.1)	(45.6)	(54.0)	(51.5)	(45.7)	(42.2)

Note:

(a) Financials of established service areas include Spice from March 1, 2010

Source: Company, Kotak Institutional Equities

Exhibit 3: Segmental financials for Idea (Rs mn)

	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
Revenues						
Idea - Standalone	28,883	28,909	30,610	33,011	36,897	36,891
Revenue contribution from Spice (@41.09%)	1,359	1,401	1,490	989	-	-
Contribution from Indus (@16%)	1,990	1,925	2,216	2,335	2,554	2,777
Eliminations	(2,472)	(2,496)	(2,822)	(2,858)	(2,914)	(3,075)
Total	29,760	29,739	31,494	33,477	36,537	36,593
EBITDA						
Idea - Standalone	7,700	7,307	7,203	8,328	7,937	7,618
EBITDA contribution from Spice (@41.09%)	294	182	167	73	-	-
Contribution from Indus (@16%)	605	606	771	835	947	1,170
Total	8,599	8,095	8,141	9,236	8,884	8,788
EBITDA margins (%)						
Idea - Standalone	26.7	25.3	23.5	25.2	21.5	20.7
EBITDA margins - Spice	21.6	13.0	11.2	7.4	-	-
Indus - Derived	30.4	31.5	34.8	35.8	37.1	42.1
Total	28.9	27.2	25.8	27.6	24.3	24.0
EBIT						
Idea - Standalone	3,636	3,424	2,781	3,745	2,776	2,353
EBIT contribution from Spice (@41.09%)	33	(80)	(109)	46	-	-
Contribution from Indus (@16%)	375	271	339	297	452	615
Total	4,044	3,615	3,011	4,088	3,228	2,968

Note:

(a) Idea Standalone numbers include 100% of Spice from March 1, 2010.

Source: Company, Kotak Institutional Equities

Exhibit 4: Select tariff cuts by Idea in various circles

Date of launch	Circle	Offer Details	Coupon Value (Rs)	Validity (days)
23-Oct	Mumbai	Local Idea to Idea Calls @ 10 ps/min	18	30
18-Oct	MP & AP	Free assured gifts to all new Idea subscribers	NA	NA
16-Oct	Tamilnadu	Unlimited On-net calls + Rs25 min of talktime	149	30
11-Oct	Gujarat	220 free on-net local minutes free during the night (call @10p/min)	22	15
	Gujarat	Local on-net calls at Re 1 for 20 min during night time	17	30
9-Oct	Kerala	1500 Local and National SMS free	29	7
8-Oct	Punjab	Local on-net calling at 10p/min	10	7
	Punjab	Local and STD calls @40p/min	10	7
	Punjab	Free 250 local and national SMS	10	7
26-Sep	Delhi	Postpaid plan: 400 local/national min free and 400 local/national SMS free; 1GB GPRS usage	249	30
23-Sep	Rajasthan	Talktime of Rs200 + 600 local/national SMS free + 200 Mb of data usage	250	30
21-Sep	Rajasthan	All local calls @1p/2 sec	10	7
19-Sep	Kolkata & WB	20 Mb free usage or 500 Mb usage with Rs5/16 each	5/16	1/3
18-Sep	Mumbai & Delhi	GPRS usage of 50 Mb for Delhi circle and 70 Mb for Mumbai circle	5	1
	Mumbai & Delhi	Unlimited internet access (no cap)	98	30
	Mumbai & Delhi	150 Mb of data usage	13	3
18-Sep	Delhi	11 STD or local minutes or 60 local on-net night minute or 125 local/National SMS	5	1
18-Sep	Karnataka	All STD calls @ Re 1/3 min	23	30
	Karnataka	On-net calls across AP, Karnataka, TN, Kerala and MH&G for just 40p/minute	15	30
	Karnataka	STD calls for just 50paise/minute	18	365
20-Aug	Orissa	Local on-net calls @ 1p/4 sec, 100 SMS free everyday (1st 3 SMS @60p)	42	60
16-Aug	Kolkata & WB	All local and STD calls @40p /min	8	365
13-Aug	Kolkata & WB	All local and STD calls @40p /min; talktime of 15/37; 100 free SMS everyday for 60 days(1st 3 SMS @ 60p)	21/37	365
30-Jul	Assam & NE	Local calls @ Re 1/min; STD @ Rs 1.5/min while on roaming	NA	NA
25-Jul	Mumbai	Full talktime on recharges of Rs 9 / Rs 111	9/111	2/ account validity
	Mumbai	120 free local minutes	40	30
	Mumbai	US/Canada @ 4p/sec, Gulf @14 p/sec, South east Asia @ 8p/sec	60	15
22-Jul	Mumbai	Local calls across Mumbai, Maharashtra & Goa at 30paise /minute & STD calls @ 50p/min	19	30
15-Jul	Mumbai	On-net Local calls across Mumbai, Maharashtra & Goa at 10p/min; rest rates as existing	18	30
12-Jul	Kolkata & WB	75 local and National SMS free or 200 local and National SMS free	13/27	15/30
	Kolkata & WB	Unlimited on-net calling	15/249	1/30
	Kolkata & WB	Local on-net calls @ 10p/min	17/26	15/30

Source: Industry sources, Kotak Institutional Equities

Exhibit 5: Indian telecom companies valuation analysis, March fiscal year-ends, 2009-2013E

	Price (Rs)	Target price	P/E (X)					EV/EBITDA (X)				
	25-Oct-10	(Rs)	2009	2010	2011E	2012E	2013E	2009	2010	2011E	2012E	2013E
Bharti	337	305	15.1	14.3	16.9	16.3	13.9	8.9	8.1	8.8	7.2	6.1
Idea	72	55	24.7	26.2	32.6	47.2	25.4	9.7	8.8	9.6	8.2	6.8
MTNL	70	50	29.3	(4.5)	(6.8)	(7.7)	(8.4)	(2.1)	(0.8)	(2.5)	(4.8)	(6.9)
RCOM	180	125	5.7	8.1	29.9	19.2	13.0	8.1	7.4	10.0	8.3	6.7
TCOM	319	225	23.5	22.8	21.0	20.3	20.0	11.7	10.5	9.6	7.9	7.7

	KS rating	Market cap.	Revenues (Rs bn)					EBITDA (Rs bn)				
		(US\$ bn)	2009	2010	2011E	2012E	2013E	2009	2010	2011E	2012E	2013E
Bharti	REDUCE	28.9	370	418	620	721	797	152	168	219	262	298
Idea	REDUCE	5.3	101	124	154	187	214	28	34	39	47	57
MTNL	SELL	1.0	45	37	38	40	42	2	(9)	(7)	(5)	(4)
RCOM	SELL	8.6	229	223	214	253	288	93	79	68	83	99
TCOM	REDUCE	2.0	38	42	46	49	52	8	9	10	10	11

	Net Income (Rs bn)					EPS (Rs/share)				
	2009	2010	2011E	2012E	2013E	2009	2010	2011E	2012E	2013E
Bharti	84	90	76	79	92	22.3	23.6	20.0	20.7	24.2
Idea	9	9	7	5	9	2.90	2.73	2.19	1.52	2.82
MTNL	1	(10)	(7)	(6)	(5)	2.4	(15.6)	(10.4)	(9.1)	(8.4)
RCOM	67	47	13	20	29	31.6	22.1	6.0	9.4	13.8
TCOM	4	4	4	4	5	13.6	14.0	15.2	15.7	15.9

Source: Companies, Kotak Institutional Equities estimates

Currency turn favors overseas subsidiaries; full-year earnings could beat estimates.

Crompton reported in-line results at the consolidated as well as standalone level. Subsidiaries (adjusted for currency movement) recorded very strong revenue growth of 16.8% yoy. We believe overseas subsidiaries may help the company beat estimates led by a base effect and a partial reversal in the Euro depreciation. Industrials and consumer segments continue on a strong growth path, power remains relatively sedate.

Company data and valuation summary

Crompton Greaves

Stock data		Forecasts/Valuations			
		2010	2011E	2012E	
52-week range (Rs) (high,low)	341-187	EPS (Rs)	12.8	14.5	16.9
Market Cap. (Rs bn)	206.6	EPS growth (%)	46.5	12.9	16.4
Shareholding pattern (%)		P/E (X)	25.1	22.2	19.1
Promoters	40.9	Sales (Rs bn)	91.4	102.5	118.9
FIs	17.7	Net profits (Rs bn)	8.2	9.3	10.8
MFs	17.2	EBITDA (Rs bn)	12.8	14.4	16.4
Price performance (%)		EV/EBITDA (X)	15.6	13.6	11.5
Absolute	1M 3M 12M	ROE (%)	37.9	32.0	28.8
Rel. to BSE-30	0.5 11.6 62.7	Div. Yield (%)	0.4	0.6	0.7
	(0.8) (0.3) 34.7				

In-line results at revenue as well as margin level

Crompton reported 2QFY11 consolidated revenues of Rs24 bn, up 9.5% yoy and marginally above (about 1.5%) our estimate of Rs23.6 bn. EBITDA margin remained relatively flat at 13.9% in 2QFY11 – in line with our estimates (13.8%). The company reported net PAT of Rs2.1 bn in 2QFY11, up 10.5% yoy, versus our estimate of Rs2.05 bn. Standalone results were also in line with our estimates. Standalone 2QFY11 revenues of Rs14.4 bn were up 14% yoy and about 2% higher than our estimate. EBITDA margin was down 50 bps yoy to 16% (in line with estimates) in 2QFY11 led by higher raw material expenses as a percentage of sales.

Strong growth in international subsidiaries (in Euro terms); potential for full-year earnings surprises

Crompton reported a moderate 3.5% yoy revenue growth in subsidiary revenues to Rs9.5 bn in 2QFY11. However, adjusted for the Euro depreciation versus the Rupee (of 13.3%) the subsidiary revenues would have recorded a strong growth of 16.8% yoy in Euro terms. This was also aided by low base effect (13.7% yoy decline in 2QFY10 revenues in local currency terms). The overseas subsidiaries may help deliver a positive surprise versus our estimates led by low base effect of 2HFY10. Furthermore, adverse currency movement may also wear off partially as Euro is already at Rs62.3 versus Rs60 that was average of 2QFY11.

Strong growth continues in industrial and consumer segments; power segment remains sedate

Crompton's standalone revenue growth was primarily led by very strong consumer and industrial segments which recorded 24% and 17.6% yoy growth, respectively. The power revenues showed some recovery versus a weak 1Q but still remained relatively sedate growing by about 6.6% at the standalone and 6.8% at the consolidated level. This is versus relatively flat revenue growth in 1Q.

Revise estimates; Reiterate REDUCE with a revised target price of Rs330/share

We revise our estimates to Rs14.5 and Rs16.9 from Rs14 and Rs16.3 for FY2011E and FY2012E. We reiterate our REDUCE rating with a revised TP of Rs330 (from Rs320) based on (1) limited upside to our target price, (2) limited to potential for upside to our estimates, (3) may not fully benefit from the domestic capex revival, and (4) relatively expensive valuations.

REDUCE

OCTOBER 25, 2010

RESULT

Coverage view: **Attractive**

Price (Rs): **322**

Target price (Rs): **330**

BSE-30: **20,303**

Lokesh Garg
lokesh.garg@kotak.com
Mumbai: +91-22-6634-1496

Supriya Subramanian
supriya.subramanian@kotak.com
Mumbai: +91-22-6634-1383

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

In-line results at revenue as well as margin level

Crompton reported consolidated revenues of Rs24 bn in 2QFY11, up 9.5% yoy from Rs22 bn in 2QFY10, marginally (about 1.5%) above our estimates. The consolidated margins remained relatively flat on a yoy basis at 13.9% – in line with our estimate. Crompton reported a consolidated net profit of Rs2.1 bn, up 10.5% yoy and versus our estimate of Rs2.05 bn. For the half year ended September 30, 2010, Crompton reported consolidated revenues of Rs47 bn, up 7% yoy. This along with an 80 bps yoy margin expansion led to a net profit growth of 14% in 1HFY11 to Rs4 bn from Rs3.5 bn in 1HFY10.

Crompton Greaves - 2QFY11 consolidated revenue model (Rs mn)

	2QFY11	2QFY11E	2QFY10	1QFY11	% change			1HFY11	1HFY10	% chg.
					vs est.	yoy	qoq			
Sales	23,979	23,627	21,890	23,022	1.5	9.5	4.2	47,001	43,866	7.1
Expenses	(20,647)	(20,378)	(18,823)	(20,049)	1.3	9.7	3.0	(40,695)	(38,322)	6.2
Stock	636		512	891		24.3	(28.6)	1,527	827	84.6
Raw material	(15,273)		(13,892)	(15,074)		9.9	1.3	(30,347)	(27,786)	9.2
Employee	(3,093)		(2,829)	(2,994)		9.4	3.3	(6,087)	(5,694)	6.9
Other Exp	(2,917)		(2,615)	(2,871)		11.6	1.6	(5,788)	(5,670)	2.1
EBITDA	3,332	3,249	3,067	2,973	2.6	8.6	12.1	6,306	5,543	13.7
Other income	228	267	153	183	(14.8)	48.8	24.5	411	392	4.8
PBDIT	3,560	3,516	3,220	3,156	1.3	10.6	12.8	6,716	5,936	13.2
Interest	(49)	(87)	(52)	(50)	(44.0)	(5.8)	(3.2)	(99)	(97)	2.1
Depreciation	(458)	(415)	(388)	(415)	10.3	18.1	10.3	(873)	(759)	15.0
PBT	3,054	3,014	2,781	2,691	1.3	9.8	13.5	5,745	5,080	13.1
Tax	(920)	(965)	(849)	(794)	(4.7)	8.3	15.8	(1,713)	(1,544)	11.0
Net profit	2,134	2,050	1,932	1,897	4.1	10.5	12.5	4,032	3,536	14.0
Key ratios (%)										
Raw material/Sales	61.0		61.1	61.6				61.3	61.5	
Employee exp./Sales	12.9		12.9	13.0				13.0	13.0	
Other exp./Sales	12.2		11.9	12.5				12.3	12.9	
EBITDA margin	13.9	13.8	14.0	12.9				13.4	12.6	
PBT Margin	12.7	12.8	12.7	11.7				12.2	11.6	
Tax rate	30.1	32.0	30.5	29.5				29.8	30.4	
PAT margin	8.9	8.7	8.8	8.2				8.6	8.1	

Source: Company, Kotak Institutional Equities estimates

In-line results at the standalone level as well

Standalone results were also in line with our estimates. Crompton reported 2QFY11 revenues of Rs14.4 bn at the standalone level, up 14% yoy and about 2% higher than our estimate. EBITDA margin was down 50 bps yoy to 16% (in line with estimates) in 2QFY11 led by higher raw material expenses as a percentage of sales. Relatively strong revenue growth and margin expansion led to a PAT of Rs1.6 bn in 2QFY11, up 16.5% yoy, from Rs1.4 bn in 2QFY10, versus our estimate of Rs1.5 bn.

Crompton Greaves - 2QFY11 standalone revenue model (Rs mn)

	2QFY11	2QFY11E	2QFY10	1QFY11	%change			1HFY11	1HFY10	% chg.
					vs est.	yoy	qoq			
Sales	14,448	14,132	12,686	13,429	2.2	13.9	7.6	27,877	24,420	14.2
Expenses	(12,139)	(11,871)	(10,591)	(11,335)	2.3	14.6	7.1	(23,474)	(20,586)	14.0
Stock	104		25	1,067		311.1	(90.3)			
Raw material	(9,962)		(8,529)	(10,171)		16.8	(2.1)	(18,963)	(16,375)	15.8
Employee	(741)		(655)	(726)		13.1	2.1	(1,467)	(1,285)	14.2
Other Exp	(1,540)		(1,432)	(1,505)		7.5	2.3	(3,044)	(2,926)	4.1
EBITDA	2,309	2,261	2,094	2,094	2.1	10.3	10.3	4,403	3,835	14.8
Other income	193	190	99	148	1.3	94.3	30.5	341	184	85.5
Interest	7	(49)	(0)	6	(114.1)	(2,400.0)	9.5	13	6	135.7
Depreciation	(195)	(172)	(129)	(172)	13.2	50.9	13.2	(368)	(258)	42.7
PBT	2,314	2,230	2,064	2,075	3.7	12.1	11.5	4,389	3,766	16.5
Tax	(729)	(740)	(703)	(654)	(1.6)	3.7	11.5	(1,383)	(1,258)	9.9
Net profit	1,585	1,490	1,361	1,422	6.4	16.5	11.5	3,007	2,508	19.9
Key ratios (%)										
Raw material/Sales	68.2		67.0	75.7				68.0	67.1	
Employee exp./Sales	5.1		5.2	5.4				5.3	5.3	
Other exp./Sales	10.7		11.3	11.2				10.9	12.0	
EBITDA margin	16.0	16.0	16.5	15.6				15.8	15.7	
PBT Margin	16.0	15.8	16.3	15.5				15.7	15.4	
Tax rate	31.5	33.2	34.1	31.5				31.5	33.4	
PAT margin	11.0	10.5	10.7	10.6				10.8	10.3	

Source: Company, Kotak Institutional Equities estimates

Subsidiaries record strong growth in Euro terms; also aided by positive base effect

Crompton subsidiaries recorded a moderate 3.5% yoy revenue growth (in Rupee terms) to Rs9.5 bn from Rs9.2 bn in 2QFY10. However, adjusted for the depreciation of the Euro versus the Rupee by 13.3% (average 2QFY11 rate versus average 2QFY10 rate) the subsidiary revenues would have recorded a very strong growth of 16.8% yoy in local currency terms. Note that this growth was also aided by low base effect; revenues in 2QFY10 had recorded a 13.7% yoy decline in local currency terms.

Crompton Greaves - 2QFY11 subsidiary numbers (Rs mn)

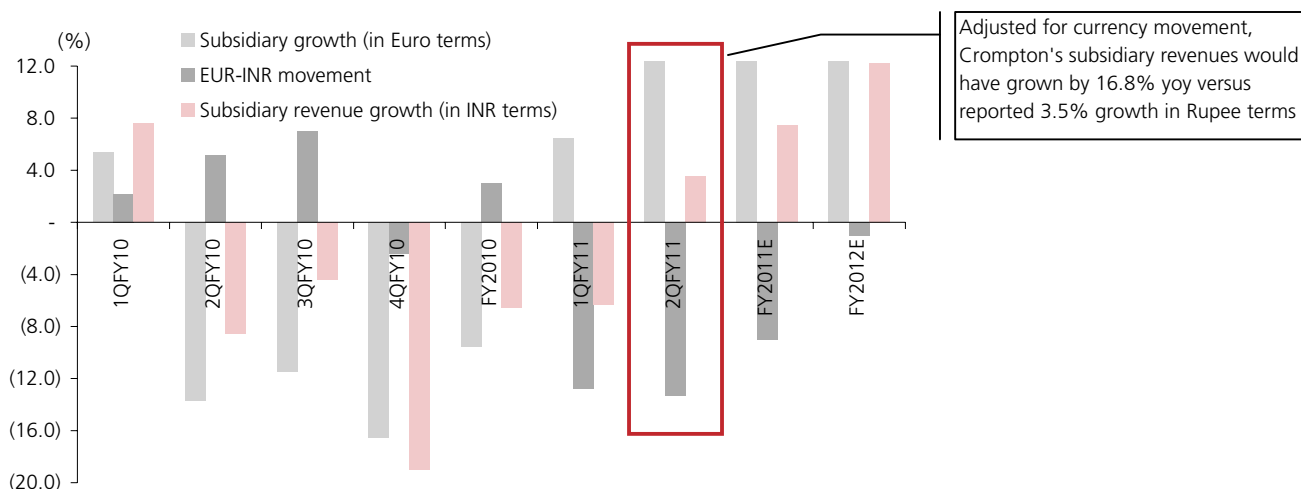
	2QFY11	2QFY10	1QFY11	%change		1HFY11	1HFY10	% chg.
				yoy	qoq			
Sales	9,531	9,205	9,593	3.5	(0.6)	19,124	19,445	(1.7)
Expenses	(8,508)	(8,232)	(8,713)	3.4	(2.4)	(17,221)	(17,737)	(2.9)
Stock	533	487	(176)	9.4	(403.0)	357	316	12.8
Raw material	(5,312)	(5,363)	(4,903)	(1.0)	8.3	(10,214)	(10,900)	(6.3)
Employee	(2,352)	(2,174)	(2,268)	8.2	3.7	(4,620)	(4,408)	4.8
Other Exp	(1,377)	(1,182)	(1,367)	16.5	0.8	(2,744)	(2,744)	(0.0)
EBITDA	1,023	973	880	5.2	16.3	1,903	1,709	11.3
Other income	35	54	35	(35.1)	(0.9)	70	208	(66.4)
Interest	(55)	(51)	(56)	8.2	(1.8)	(112)	(102)	9.4
Depreciation	(263)	(259)	(243)	1.6	8.2	(505)	(502)	0.8
PBT	740	717	616	3.2	20.2	1,356	1,314	3.2
Tax	(191)	(146)	(140)	30.5	36.0	(331)	(286)	15.8
Net profit	549	571	476	(3.8)	15.5	1,025	1,028	(0.3)
Key ratios (%)								
Raw material/Sales	55.7	58.3	51.1			53.4	56.1	
Employee exp./Sales	24.7	23.6	23.6			24.2	22.7	
Other exp./Sales	14.4	12.8	14.2			14.3	14.1	
EBITDA margin	10.7	10.6	9.2			9.9	8.8	
PBT Margin	7.8	7.8	6.4			7.1	6.8	
Tax rate	25.8	20.4	22.8			24.4	21.7	
PAT margin	5.8	6.2	5.0			5.4	5.3	

Source: Company, Kotak Institutional Equities

Overseas subsidiaries may help deliver a positive surprise versus expectations led by base effect and partial reversal in Euro depreciation

Base effect would remain positive for 3QFY11E and 4QFY11E as well (Euro terms business declined by 12% and 17%, respectively). This favorable base effect would be counteracted by currency movement (Euro depreciated 10-12% in 1QFY11). Adverse currency movement may also wear off partially as Euro is already at Rs62.3 versus Rs60 that was average of 2QFY11.

Quarterly subsidiary revenues of Crompton in local currency and INR terms



Source: Company, Bloomberg, Kotak Institutional Equities estimates

Industrial, consumers segments remain strong; some recovery in power segment

The strong growth trend of industrials and consumer segments seen in the past few quarters continued in 2QFY11 as well. At the standalone level, industrial segment revenues grew by 17.6% yoy to Rs3.4 bn while consumer segment grew by 23.9% yoy to Rs4.6 bn. This is in line with the trend seen in the product segment revenues for several companies such as ABB, Siemens etc. in 2HFY10. We believe that this is a harbinger of a pick-up in industrial capex activity and expect these segments to record strong growth going forward as well.

Some recovery seen in power segment but still remains relatively sedate

The power segment revenues of Crompton recorded some recovery in 2QFY11 versus a sedate 1Q. Power segment revenues grew by 6.6% at the standalone level to Rs6.4 bn versus flat yoy revenues in 1QFY11. On a consolidated basis, power segment revenues grew by 6.8% yoy (versus decline of 2% in 1Q) implying 7% yoy revenue growth at the subsidiary level. Adjusted for the EUR-INR currency movement, the subsidiary power segment might have recorded a very strong growth of about 20% yoy.

Segment-wise standalone and consolidated revenues and EBIT for Crompton (Rs mn)

	Consolidated							
	2QFY11	2QFY10	1QFY11	%change		1HFY11	1HFY10	% chg.
				yoy	qoq			
Revenues								
Power Systems	15,778	14,773	14,564	6.8	8.3	30,342	29,611	2.5
Consumer Products	4,634	3,740	5,318	23.9	(12.9)	9,952	7,869	26.5
Industrial systems	3,606	3,182	3,210	13.3	12.3	6,816	5,976	14.1
Others	89	282	86	(68.4)	4.0	175	590	(70.4)
Total	23,979	21,890	23,022	9.5	4.2	47,001	43,866	7.1
Revenue mix (%)								
Power Systems	65.8	67.5	63.3			64.6	67.5	
Consumer Products	19.3	17.1	23.1			21.2	17.9	
Industrial systems	15.0	14.5	13.9			14.5	13.6	
Others	0.4	1.3	0.4			0.4	1.3	
PBIT margins (%)								
Power Systems	12.3	12.1	10.7			11.5	10.8	
Consumer Products	14.5	14.0	15.1			14.8	14.0	
Industrial systems	19.5	20.8	18.6			19.1	19.9	
Others	11.2	26.0	18.6			14.8	21.2	
Total	13.8	13.9	12.9			13.4	12.8	

	Standalone							
	2QFY11	2QFY10	1QFY11	%change		1HFY11	1HFY10	% chg.
				yoy	qoq			
Revenues								
Power Systems	6,440	6,043	5,101	6.6	26.3	11,541	11,127	3.7
Consumer Products	4,634	3,740	5,318	23.9	(12.9)	9,952	7,869	26.5
Industrial systems	3,442	2,926	3,112	17.6	10.6	6,554	5,466	19.9
Others	60	62	54	(3.9)	9.9	114	138	(17.3)
Total	14,448	12,686	13,429	13.9	7.6	27,877	24,420	14.2
Revenue mix (%)								
Power Systems	44.6	47.6	38.0			41.4	45.6	
Consumer Products	32.1	29.5	39.6			35.7	32.2	
Industrial systems	23.8	23.1	23.2			23.5	22.4	
Others	0.4	0.5	0.4			0.4	0.6	
PBIT margins (%)								
Power Systems	17.5	18.6	16.6			17.1	17.3	
Consumer Products	14.5	14.0	15.1			14.8	14.0	
Industrial systems	20.5	21.6	20.6			20.5	20.9	
Others	11.2	6.9	17.5			14.2	8.6	
Total	17.4	18.0	17.1			17.3	17.1	

Source: Company, Kotak Institutional Equities

Full-year estimates imply some pick-up in growth in 2HFY11E

We have presently built in a 12% yoy consolidated revenue growth for Crompton in FY2011E led by about 15.5% yoy revenue growth for the standalone entity and a 7.5% revenue growth (in Rupee terms) for the subsidiary companies. We expect EBITDA margins remain relatively flat at about 14% in FY2011E. Our assumptions imply a 16.7% yoy consolidated revenue growth requirement and a 12% PAT growth requirement for the second half of FY2011E. At the standalone level, our assumptions would imply a revenue growth of 16.7% for 2HFY11E.

Crompton Greaves - 2HFY11 implied numbers (Rs mn)

Consolidated									
	1HFY11	1HFY10	% change	2HFY11E-implied	2HFY10	% change	FY2011E	FY2010	% change
Sales	47,001	43,866	7.1	55,476	47,543	16.7	102,477	91,409	12.1
Expenses	(40,695)	(38,322)	6.2	(47,407)	(40,317)	17.6	(88,102)	(78,639)	12.0
EBITDA	6,306	5,543	13.7	8,069	7,226	11.7	14,375	12,770	12.6
Other income	411	392	4.8	736	545	35.1	1,147	937	22.4
Interest	(99)	(97)	2.1	(255)	(168)	51.4	(353)	(265)	33.4
Depreciation	(873)	(759)	15.0	(678)	(792)	(14.4)	(1,551)	(1,551)	0.0
PBT	5,745	5,080	13.1	7,872	6,811	15.6	13,617	11,891	14.5
Tax	(1,713)	(1,544)	11.0	(2,599)	(2,106)	23.4	(4,313)	(3,650)	18.2
Net profit	4,032	3,536	14.0	5,273	4,704	12.1	9,305	8,241	12.9
Key ratios (%)									
EBITDA margin	13.4	12.6		14.5	15.2		14.0	14.0	
PBT Margin	12.2	11.6		14.2	14.3		13.3	13.0	
Tax rate	29.8	30.4		4.7	4.4		31.7	30.7	
PAT margin	8.6	8.1		9.5	9.9		9.1	9.0	

Standalone									
	1HFY11	1HFY10	% change	2HFY11E-implied	2HFY10	% change	FY2011E	FY2010	% change
Sales	27,877	24,420	14.2	33,156	28,420	16.7	61,033	52,840	15.5
Expenses	(23,474)	(20,586)	14.0	(27,718)	(23,677)	17.1	(51,192)	(44,262)	15.7
EBITDA	4,403	3,835	14.8	5,438	4,743	14.6	9,841	8,578	14.7
Other income	341	184	85.5	516	504	2.4	857	688	24.6
Interest	13	6	135.7	(208)	(49)	324.6	(195)	(44)	348.9
Depreciation	(368)	(258)	42.7	(170)	(261)	(35.0)	(537)	(519)	3.6
PBT	4,389	3,766	16.5	5,575	4,936	12.9	9,965	8,703	14.5
Tax	(1,383)	(1,258)	9.9	(1,926)	(1,675)	15.0	(3,308)	(2,933)	12.8
Net profit	3,007	2,508	19.9	3,650	3,261	11.9	6,656	5,770	15.4
Key ratios (%)									
EBITDA margin	15.8	15.7		16.4	16.7		16.1	16.2	
PBT Margin	15.7	15.4		16.8	17.4		16.3	16.5	
Tax rate	31.5	33.4		5.8	5.9		33.2	33.7	
PAT margin	10.8	10.3		11.0	11.5		10.9	10.9	

Source: Company, Kotak Institutional Equities estimates

Revise estimates; reiterate REDUCE with a revised target price of Rs330/share

We have marginally revised our EPS estimates to Rs14.5 and Rs16.9 from Rs14 and Rs16.3 for FY2011E and FY2012E, respectively. The revision is based on higher revenue growth assumption for the international subsidiaries in Rupee terms. We have correspondingly revised our target price to Rs330/share (from Rs320/share) comprised of (1) 19X March-12E earnings of Rs16.9 and (2) Rs10/share for stake in Avantha Power.

Change in earnings estimates of Crompton, March fiscal year-ends, 2011E-12E (Rs mn)

	New estimates		Old estimates		% revision	
	2011E	2012E	2011E	2012E	2011E	2012E
Consolidated						
Revenues	102,477	118,891	98,444	114,354	4.1	4.0
Operating profit	14,375	16,372	13,955	15,900	3.0	3.0
Operating profit margin (%)	14.0	13.8	14.2	13.9		
Profit after tax	9,305	10,827	8,983	10,472	3.6	3.4
EPS (Rs)	14.5	16.9	14.0	16.3	3.6	3.4
EPS growth (%)	12.9	16.4	9.0	16.6		

Source: Company, Kotak Institutional Equities estimates

We reiterate our REDUCE rating on the stock based on (1) limited upside to our target price despite assigning a high FY2012E earnings multiple of 19X, (2) limited to potential for upside to our estimates, (3) may not fully benefit from the domestic capex revival, (4) exposure to overseas markets poses risks in terms of slowdown and currency fluctuations and (5) relatively expensive valuations—trading at significant premium to historical levels.

Consolidated financials of Crompton Greaves, March fiscal year-ends, 2006-12E (Rs mn)

	2006	2007	2008	2009	2010	2011E	2012E
Income statement							
Operating income	41,265	56,396	68,323	87,373	91,409	102,477	118,891
Total operating expenses	(38,023)	(51,567)	(60,884)	(77,417)	(78,639)	(88,102)	(102,519)
EBITDA	3,242	4,828	7,439	9,956	12,770	14,375	16,372
Other income	653	1,068	757	587	937	1,147	1,388
Interest expense	(360)	(583)	(781)	(655)	(265)	(353)	(271)
Depreciation	(762)	(954)	(1,263)	(1,216)	(1,551)	(1,551)	(1,654)
Pre-tax profit	2,773	4,360	6,152	8,672	11,891	13,617	15,835
Tax	(453)	(1,495)	(2,054)	(3,047)	(3,650)	(4,313)	(5,009)
Net profits	2,320	2,865	4,098	5,625	8,241	9,305	10,827
EPS (Rs)	8.9	7.8	11.2	15.3	12.8	14.5	16.9
Balance sheet							
Shareholders funds	7,854	9,688	13,018	18,310	25,043	32,945	42,159
Equity share capital	524	733	733	733	1,283	1,283	1,283
Reserves and surplus	7,330	8,955	12,285	17,577	23,760	31,662	40,876
Minority interest	117	284	123	139	43	43	43
Loan funds	4,222	9,045	8,420	7,182	5,010	1,552	552
Secured	3,895	8,726	8,120	6,923	4,766	1,423	423
Unsecured	327	319	300	260	244	130	130
Total sources of funds	12,192	19,017	21,560	25,631	30,095	34,541	42,754
Net block	5,196	9,852	11,968	13,248	12,623	15,165	16,424
Capital work in progress	207	1,021	476	537	1,137	580	580
Net fixed assets	5,403	10,873	12,444	13,785	13,760	15,745	17,005
Investments	651	645	934	1,672	5,536	5,536	5,536
Net current assets (excl. cash)	3,639	4,667	5,149	4,035	4,161	5,751	6,617
Cash	2,073	2,415	2,445	5,656	6,688	7,559	13,646
Net deferred tax asset	426	418	588	482	(49)	(49)	(49)
Total application of funds	12,192	19,017	21,560	25,631	30,095	34,541	42,754
Free cash flow							
Net profit before tax and extraordinary items	2,773	4,360	6,152	8,672	11,891	13,617	15,835
Add: Depreciation / amortisation / non-cash prov	762	954	1,263	1,216	1,551	1,551	1,654
Add: Financial Charges	360	583	781	655	265	353	271
Tax paid	(885)	(1,486)	(2,224)	(2,941)	(3,119)	(4,313)	(5,009)
Operating profit before wcap. changes	3,010	4,410	5,972	7,602	10,588	11,209	12,752
Change in working capital / other adjustments	(1,333)	(1,028)	(481)	1,113	(125)	(1,590)	(867)
Net cashflow from operating activities	1,677	3,382	5,491	8,716	10,462	9,619	11,885
Fixed Assets	(2,618)	(6,424)	(2,834)	(2,557)	(1,526)	(3,536)	(2,913)
Investments	85	6	(290)	(738)	(3,864)	—	—
Cash (used) / realised in investing activities	(2,533)	(6,418)	(3,124)	(3,295)	(5,389)	(3,536)	(2,913)
Free cash flow	(856)	(3,036)	2,367	5,421	5,073	6,083	8,972
Ratios							
EBITDA margin (%)	7.9	8.6	10.9	11.4	14.0	14.0	13.8
Debt/equity	0.5	0.9	0.6	0.4	0.2	0.0	0.0
Net debt/equity	0.3	0.7	0.5	0.1	(0.1)	(0.2)	(0.3)
RoAE (%)	38.5	32.7	35.7	35.7	39.6	32.1	28.8
RoACE (%)	27.0	21.1	22.8	25.7	31.6	29.6	28.5

Source: Company, Kotak Institutional Equities estimates

OCTOBER 25, 2010

RESULT

Coverage view: **Neutral**

Price (Rs): **3,290**

Target price (Rs): **3,600**

BSE-30: **20,303**

Retains sparkle. Sales growth of 34% was led by 37% growth in jewelry (~13% volume growth) and 21% growth in watches. Jewelry margins were the highest in the past eight quarters – the shift to variable billing is likely aiding this, in our view. Favorable macro-economic factors, mix improvement in favor of diamond jewelry (higher gold prices are aiding uptrading to diamond), expanding reach to Tier-III towns and achieving break-even in eyewear and precision engineering business are key factors

Company data and valuation summary

Titan Industries

Stock data		Forecasts/Valuations			
		2010	2011E	2012E	
52-week range (Rs) (high,low)	3,460-1,210	EPS (Rs)	57.3	83.9	110.9
Market Cap. (Rs bn)	146.0	EPS growth (%)	29.3	46.5	32.2
Shareholding pattern (%)		P/E (X)	57.4	39.2	29.7
Promoters	53.3	Sales (Rs bn)	46.8	63.1	79.4
FIs	11.0	Net profits (Rs bn)	2.5	3.7	4.9
MFs	8.6	EBITDA (Rs bn)	4.0	5.5	7.2
Price performance (%)		EV/EBITDA (X)	36.6	26.4	20.2
Absolute	1M 3M 12M	ROE (%)	38.7	41.7	38.8
	(1.7) 18.7 141.8	Div. Yield (%)	0.5	0.4	0.4
Rel. to BSE-30	(3.0) 6.0 100.2				

All is well

Titan reported net sales of Rs15.4 bn (+34%, KIE estimate Rs15.5 bn), EBITDA of Rs1.7 bn (+60%, KIE estimate Rs1.6 bn) and PAT of Rs1,278 mn (+65%, KIE estimate Rs1,239 mn).

Jewelry business showed strong sales growth of 37% with likely volume growth of ~13%. Margins expanded to 8.9%, the highest in the last 8 quarters likely on the back of mix improvement, lower adspends (likely phasing out to wedding season) and shift in billing system to variable billing (making charges as a % of gold value). Beginning of the festive and wedding season from October will give further boost to this business, in our view.

Watches sales also grew strong by 21% and margins improved ~160 bps to 21.3% on the back of mix improvement with consumers uptrading to premium-end watches (brands like Titan-Edge, Titan-Bandhan, Nebula, Xyls).

While the watches business has higher margins, growth potential in the business is relatively lower than jewelry business due to the higher level of penetration. Hence, we expect the company to focus on the jewelry business which is growing at more than 30% levels, though margins are lower at ~8% levels, on an average.

The relatively new eyewear and precision engineering businesses showed sales growth of 85%. Loss improved to Rs47 mn against Rs111 mn in 2QFY10. The company has recently launched Manhattan collection of eyewear targeting working professionals.

Key variables to watch: External factors, mix improvement in jewelry and reach

► **Favorable external factors.** We believe that there is huge opportunity for penetration and consumption-led growth with rising disposable income pushing up aspiration levels and encouraging conversion from unbranded to branded jewelry and watches. We believe that with sustaining consumer spending, discretionary spends will continue to be robust in the near term. We expect jewelry sales to increase at a CAGR of 35% with volume growth of 21% between FY2010 and FY2012E and watches sales to increase at a CAGR of 16% with 13% volume growth.

QUICK NUMBERS

- Jewelry margins at 8.9% is the highest in the last eight quarters
- Watches margins improved 160 bps, likely led by mix improvement

Manoj Menon
manoj.menon@kotak.com
Mumbai: +91-22-6634-1391

Amrita Basu
amrita.basu@kotak.com
Mumbai: +91-22-6634-1147

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

- ▶ **Mix improvement.** We like the company's efforts to encourage mix improvement in favor of diamond jewelry and thus aid margin expansion. We highlight that the jewelry segment profitability is largely driven by the growth in diamond and studded jewelry which generate substantially higher margins than plain gold sales (>5X, in our view). With increasing contribution of diamond and studded jewelry to overall sales mix, the vulnerability of the company to volatility in gold prices will reduce.
- ▶ **Expanding reach.** The company is in the process of expanding its presence to Tier-III cities. It has recently introduced Titan One – small format watch stores that houses brands such as Titan Tycoon, Raga Flora, Titan Octane, Sonata Superfibre and Fastrack. Based on media reports, the company plans to launch 20 such outlets in FY2011E.
- ▶ **Targeting break-even in eyewear and precision engineering.** This segment reported loss of Rs389 mn in FY2010. In our view, it will break even in a couple of years and further boost profitability for the company.

Maintain estimates; retain ADD

We maintain estimates and retain our ADD rating with TP of Rs3,600. Our EPS estimates are Rs83 (+47%) and Rs110 (+32%) for FY2011E and FY2012E respectively. Our optimism stems from the fact that Titan had delivered EPS CAGR of 36% over FY2007-10, we forecast EPS CAGR of 39% over FY2010-12E.

Key risks are (1) any slowdown in discretionary spending, (2) higher competitive intensity in the branded jewelry market (Reliance's venture, Rajesh Exports' venture etc.), (3) higher-than-expected competitive activity in watches from any global player (this could hurt Titan in terms of higher adspends, will not affect sales, in our view) and (4) higher-than-estimated losses in the eyewear business.

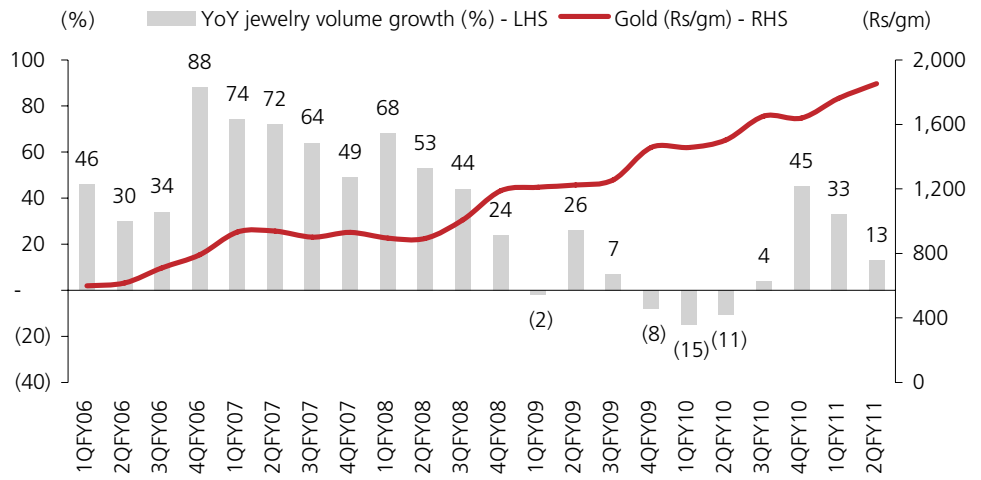
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Titan, Interim results (standalone), March fiscal year-ends, (Rs mn)

	2QFY11	2QFY11E	2QFY10	1QFY11	(% change)		
					2QFY11E	2QFY10	1QFY11
Net sales	15,361	15,463	11,469	12,528	(1)	34	23
Total expenditure	(13,624)	(13,853)	(10,387)	(11,415)	(2)	31	19
Material cost	(11,148)	(11,314)	(8,470)	(9,203)	(1)	32	21
Staff cost	(824)	(848)	(652)	(779)	(3)	26	6
Advertising	(615)	(635)	(516)	(630)	(3)	19	(2)
Other expenditure	(1,038)	(1,055)	(750)	(803)	(2)	38	29
EBITDA	1,737	1,611	1,082	1,113	8	60	56
OPM (%)	11.3	10.4	9.4	8.9			
Other income	81	62	31	80		161	0
Interest	(24)	(32)	(50)	(25)		(53)	(6)
Depreciation	(86)	(107)	(89)	(82)		(3)	5
Pretax profits	1,707	1,534	974	1,086	11	75	57
Tax	(430)	(295)	(198)	(274)		117	57
Net income	1,278	1,239	776	813	3	65	57
Income tax rate (%)	25.2	19.2	20.3	25.2			
Cost as % of sales							
Material cost	72.6	73.2	73.8	73.5			
Staff cost	5.4	5.5	5.7	6.2			
Advertising	4.0	4.1	4.5	5.0			
Other expenditure	6.8	6.8	6.5	6.4			
Segmental revenues							
Watches	3,584		2,955	2,540		21	41
Jewelry	11,246		8,226	9,505		37	18
Others	531		287	483		85	10
Segmental EBIT							
Watches	764		583	416		31	83
Jewelry	998		577	683		73	46
Others	(47)		(111)	17		(58)	(380)
Segmental EBIT margin (%)							
Watches	21.3		19.7	16.4			
Jewelry	8.9		7.0	7.2			
Segmental capital employed							
Watches	2,832		2,858	2,688		(1)	5
Jewelry	2,179		3,525	2,763		(38)	(21)
Others	986		903	957		9	3
Unallocated	4,080		393	2,414		938	69

Source: Company, Kotak Institutional Equities estimates

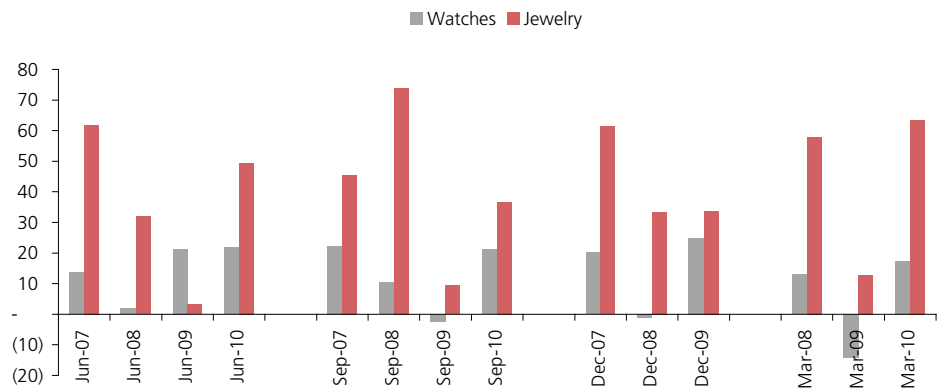
Uptick in jewelry volumes despite higher gold prices indicates consumer acceptance
Trend in jewelry volume growth and gold prices



Source: Kotak Institutional Equities estimates

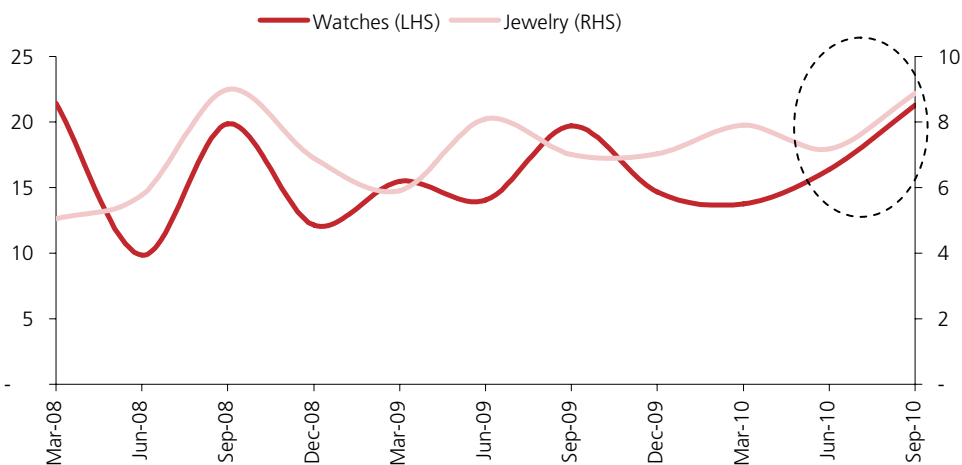
Strong 1HFY11 performance

Quarterly sales growth in watches and jewelry (%)



Source: Company, Kotak Institutional Equities

Margins at a high
Quarterly watches and jewelry business EBIT margins (%)



Source: Company, Kotak Institutional Equities

Titan, Financial assumptions, March fiscal year-ends, 2006-2013E (Rs mn)

	2007	2008	2009	2010	2011E	2012E	2013E
Jewelry							
Revenues (Rs mn)	12,903	20,252	27,563	34,975	49,375	63,312	76,092
EBITDA (Rs mn)	913	1,152	2,030	2,643	3,872	4,970	6,207
Volumes ('000 pcs)							
Jewelry	720	1,139	1,365	1,422	1,742	2,090	2,382
Coins	1,925	1,017	772	670	857	986	1,084
Average realisation (Rs/pc)							
Jewelry	14,325	15,032	16,596	20,830	23,954	25,871	27,671
Coins	1,343	3,080	6,364	8,006	8,933	9,380	9,376
Average gold price							
US\$/oz	675	835	905	1,088	1,252	1,314	1,341
Rs/gm	969	1,081	1,326	1,659	1,851	1,944	1,943
Diamond share							
Share of diamond jewelry (%)	33	33	37	37	38	39	40
Watches							
Revenues (Rs mn)	7,408	8,828	8,941	9,924	11,523	13,376	15,076
EBITDA (Rs mn)	1,191	1,418	1,585	1,809	2,109	2,448	2,729
Volumes ('000 pcs)							
Watches	8,964	10,286	9,694	11,036	12,420	14,085	15,457
Table clocks	149	125	72	24	29	32	33
Average realisation (Rs/pc)							
Watches	796	814	879	860	894	921	949
Table clocks	448	1,053	572	826	851	860	868
Eyewear							
Revenues (Rs mn)	253	406	648	954	1,317	1,693	2,028
EBITDA (Rs mn)	99	50	(210)	(11)	(162)	101	279
Sunglasses							
Volume ('000 pcs)	380	437	480	785	942	1,084	1,192
Average realisation (Rs/pc)	665	711	768	845	896	940	988
Titan Eye+							
No. of stores	1	10	69	82	107	127	147
Annual revenue per store (Rs mn)	—	19	7	4	5	6	6

Source: Kotak Institutional Equities estimates

Profit model, balance sheet, cash model for Titan Industries, 2007-2012E, March fiscal year-ends (Rs mn)

	2007	2008	2009	2010	2011E	2012E	2013E
Profit model							
Net sales	20,906	29,969	38,326	46,772	63,092	79,361	94,256
EBITDA	2,013	2,388	3,329	3,960	5,503	7,175	8,836
Interest (expense)/income	(212)	(208)	(288)	(254)	(111)	(130)	(142)
Depreciation	(260)	(333)	(423)	(607)	(513)	(518)	(538)
Other income	(47)	45	53	127	154	214	224
Pretax profits	1,494	1,892	2,671	3,226	5,032	6,742	8,381
Tax	(404)	(373)	(697)	(818)	(1,275)	(1,709)	(2,682)
Deferred taxation	27	(73)	65	134	(33)	(112)	84
Profit after tax	1,117	1,446	2,039	2,542	3,724	4,921	5,783
Associate income / (loss)	(116)	110	—	—	—	—	—
Adjusted net profit	1,001	1,556	2,039	2,542	3,724	4,921	5,783
Earnings per share (Rs)	22.6	35.1	44.3	57.3	83.9	110.9	130.3
Balance sheet							
Total equity	3,371	4,458	5,579	7,319	10,420	14,640	19,540
Deferred taxation liability	181	252	188	54	87	198	114
Total borrowings	2,478	2,103	1,666	730	1,126	1,126	1,126
Current liabilities	5,958	9,123	10,401	12,949	14,736	15,662	18,475
Total liabilities and equity	11,988	15,936	17,833	21,052	26,369	31,627	39,255
Cash	510	554	564	1,973	1,735	2,533	6,710
Other current assets	8,402	12,481	14,259	16,262	21,780	26,309	29,697
Total fixed assets	2,717	2,877	2,995	2,801	2,838	2,769	2,832
Misc. exp. not written off	42	—	—	—	—	—	—
Investments	316	23	16	16	16	16	16
Total assets	11,988	15,936	17,833	21,052	26,369	31,627	39,255
Free cash flow							
Operating cash flow, excl. working capital	1,544	1,742	2,363	2,373	4,116	5,337	6,013
Working capital changes	(188)	(905)	(906)	781	(3,578)	(3,681)	(758)
Capital expenditure	(983)	(509)	(665)	(426)	(550)	(450)	(600)
Investments	(265)	(213)	7	—	—	—	—
Other income	50	50	77	111	154	214	224
Free cash flow	159	165	876	2,839	143	1,421	4,879
Key assumptions							
Revenue growth	45.2	43.3	27.9	22.0	34.9	25.8	18.8
EBITDA margin	9.6	8.0	8.7	8.5	8.7	9.0	9.4
EPS growth	21.7	55.2	26.4	29.3	46.5	32.2	17.5

Source: Kotak Institutional Equities estimates

OCTOBER 26, 2010
RESULT

 Coverage view: **Cautious**

 Price (Rs): **122**

 Target price (Rs): **90**

 BSE-30: **20,303**

Better-than-expected results; valuation concerns persist. PLNG reported 2QFY11 net income at ₹1.3 bn (+17.7% qoq and +8.7% yoy) versus our expected ₹1.2 bn. The positive variance was led by (1) higher-than-expected re-gasification volumes at 99.8 tn BTU versus our estimate of 96.5 tn BTU, (2) lower other expenditure and (3) higher other income. Re-gasification tariffs came in at ₹30.4/mn BTU versus our expected ₹31.3/mn BTU. We maintain our SELL rating on the stock given potential downside of 26% to our 12-month DCF-based target price of ₹90.

Company data and valuation summary

Petronet LNG

Stock data

52-week range (Rs) (high,low) 130-61

Market Cap. (Rs bn) 91.3

Shareholding pattern (%)

Promoters 50.0

FIs 8.5

MFs 7.0

Price performance (%)

	1M	3M	12M
Absolute	10.9	43.9	68.8
Rel. to BSE-30	9.5	28.5	39.8

Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	5.4	6.9	8.3
EPS growth (%)	(22.0)	28.1	20.2
P/E (X)	22.6	17.6	14.7
Sales (Rs bn)	106.5	127.3	160.7
Net profits (Rs bn)	4.0	5.2	6.2
EBITDA (Rs bn)	8.5	11.0	13.2
EV/EBITDA (X)	12.7	10.4	9.1
ROE (%)	15.9	17.7	18.2
Div. Yield (%)	1.4	1.6	2.3

QUICK NUMBERS

- **Re-gasification tariffs at ₹30.4/mn BTU (-1.3% qoq)**
- **Ramp-up to 11 mn tons of LNG volumes in FY2013E**
- **26% downside to fair value of PLNG from current levels**

Better-than-expected results; volumes 12% lower yoy

PLNG reported 2QFY11 net income at ₹1.3 bn (+17.7% qoq and +8.7% yoy) versus our expected ₹1.2 bn. 2QFY11 results were better versus expectations due to (1) higher-than-expected volumes at 99.8 tn BTU (+5% qoq and -12% yoy) versus our estimate of 96.5 tn BTU, (2) lower other expenditure at ₹261 mn versus our estimate of ₹350 mn and (3) higher other income of ₹186 mn versus our estimate of ₹150 mn. However, the positive impact was partially contained by lower-than-expected re-gasification tariffs at ₹30.4/mn BTU versus our estimate of ₹31.3/mn BTU (₹30.8/mn BTU in 1QFY11).

Surplus LNG at Dahej terminal reflects weak demand; restart of Panna-Mukta may add to woes

As per an industry journal, slackening demand from power and fertilizer sector during the heavy monsoon season has resulted in excess LNG in four storage tanks at Dahej LNG re-gasification terminal. Although the monsoons have subsided, we do not expect a sharp improvement in the demand-supply balance given restart of gas production from Panna-Mukta fields in the current week. Panna-Mukta fields were producing over 6 mcm/d of gas before the unexpected shutdown in July 2010. The restart of Panna-Mukta field will likely rebalance the supply-demand scenario in favor of domestic gas, as end-consumers will revert back to Panna-Mukta gas supply from spot LNG imports.

Fine-tuned earnings; maintain SELL with a revised target price of ₹90

We have fine-tuned our EPS estimates for FY2011-13E to ₹6.9 (+6.3%), ₹8.3 (+4.8%) and ₹8.7 (+1.8%) to reflect (1) 2QFY11 earnings, (2) stronger rupee (+ve impact), (3) lower other expenditure and (4) other minor changes. We assume total volumes (contracted plus spot) at 8.2 mn tons for FY2011E, 9.6 mn tons for FY2012E and 11 mn tons for FY2013E. We model PLNG's re-gasification tariff to increase by 5% in each year in FY2011-13E and remain flat thereafter. We maintain our SELL rating on the stock with a revised 12-month DCF-based target price of ₹90 (₹88 previously) noting (1) the stock offers 26% downside to our 12-month target price and (2) the stock is trading at 15X FY2012E EPS.

Gundeep Singh
gundeep.singh@kotak.com
Mumbai: +91-22-6634-1286

Tarun Lakhotia
tarun.lakhotia@kotak.com
Mumbai: +91-22-6634-1188

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

Key highlights from 2QFY11 results

Exhibit 1 gives the details of PLNG's 2QFY11 results and compares the same with 1QFY11 and 2QFY10 results.

Interim results of Petronet LNG, March fiscal year-ends (₹ mn)

	2QFY11	2QFY11E	2QFY10	1QFY11	(% chg.)			yoy			2011E
					2QFY11E	2QFY10	1QFY11	1HFY11	1HFY10	(% chg.)	
Net sales	30,577	26,092	34,067	25,260	17.2	(10.2)	21.1	55,837	60,190	(7.2)	127,293
Total expenditure	(27,861)	(23,489)	(31,529)	(22,782)	18.6	(11.6)	22.3	(50,643)	(55,835)	(9.3)	(116,245)
Raw material	(27,547)	(23,069)	(31,189)	(22,333)	19.4	(11.7)	23.3	(49,880)	(55,209)	(9.7)	(114,751)
Staff cost	(53)	(70)	(41)	(73)	(24.4)	29.7	(27.9)	(126)	(82)	54.6	(233)
Other expenditure	(261)	(350)	(299)	(376)	(25.5)	(12.8)	(30.7)	(637)	(545)	17.0	(1,261)
EBITDA	2,716	2,603	2,537	2,477	4.3	7.1	9.7	5,194	4,355	19.3	11,048
Other income	186	150	191	126	23.9	(2.6)	47.6	312	479	(34.9)	530
Depreciation	(466)	(465)	(430)	(461)	0.2	8.3	1.0	(927)	(687)	35.1	(1,855)
Interest	(495)	(500)	(511)	(498)	(1.0)	(3.1)	(0.7)	(993)	(794)	25.0	(1,966)
Profit before tax	1,941	1,788	1,787	1,644	8.5	8.6	18.1	3,585	3,353	6.9	7,758
Extraordinary/prior period items	—	—	—	—	—	—	—	—	—	—	—
Current tax	(550)	(594)	(260)	(450)	—	—	—	(1,000)	(780)	—	(1,570)
Deferred tax liabilities/assets	(80)	—	(320)	(80)	—	—	—	(160)	(332)	—	(1,007)
Fringe benefit tax	—	—	—	—	—	—	—	—	(2)	—	—
Profit after tax	1,311	1,195	1,207	1,114	9.8	8.7	17.7	2,425	2,240	8.3	5,181
Adj Profit after tax	1,311	1,195	1,207	1,114	9.8	8.7	17.7	2,425	2,240	8.3	5,181
Tax rate (%)	32.5	33.2	32.5	32.2	—	—	—	32.4	33.2	—	33.2
Sales quantity (tn BTU)	99.8	96.5	113.5	95.1	3.4	(12.1)	4.9	194.9	212.3	(8.2)	419.9
Re-gasification tariff (Rs/mn BTU)	30.4	31.3	25.4	30.8	(3.1)	19.8	(1.3)	30.6	23.5	30.2	29.9

Source: Company, Kotak Institutional Equities estimates

- ▶ **Sharp yoy decline in re-gasification volumes.** PLNG reported 12% yoy decline in volumes despite capacity expansion at Dahej terminal reflecting the impact of (1) lower demand from fertilizer and power sectors and (2) heavy rainfalls which resulted in abundant availability of cheap hydroelectric power.
- ▶ **Modest qoq decline in re-gasification tariffs.** We compute implied re-gasification tariff at ₹30.4/mn BTU in 2QFY11 versus ₹30.8/mn BTU in 1QFY11 and ₹25.4/mn BTU in 2QFY10.
- ▶ **Qoq decline in other expenditure.** PLNG reported other expenditure at ₹261 mn for 2QFY11 versus ₹376 mn in 1QFY11. The other expenditure was lower qoq due to (1) higher efficiencies at the plant and (2) foreign exchange loss of ~₹55 mn in 1QFY11.
- ▶ **Qoq increase in other income.** PLNG reported other income at ₹186 mn for 2QFY11 versus ₹126 mn in 1QFY11. The other income was higher qoq due to foreign exchange gain of ~₹90 mn in 2QFY11.

Update on key projects

- ▶ **Kochi terminal.** The Kochi project has achieved ~60% completion with expenditure of ~₹16.2 bn incurred till date. The contracts have already been awarded to (1) IHI for storage tanks, (2) AFCON for barren work and (3) CTCI Taiwan for re-gasification terminals. The project is expected to be completed by end-FY2012E at a cost of ~₹37 bn.
- ▶ **Second Jetty at Dahej.** The contracts for the second jetty are expected to be awarded in a month. The second jetty will likely be complete by 1QCY13E and will likely cost ₹9 bn. Petronet LNG can handle maximum 10.5 mtpa of imported cargo till the completion of the second jetty and will be able to handle an additional 1.5 mtpa post the completion of the same.

Key assumptions behind our earnings model

We discuss our key assumptions underlying our earnings assumptions below (see Exhibit 2).

We model Petronet's volumes ramping up to 11 mtpa by FY2013E

Key volume/price assumptions for Petronet LNG, March fiscal year-ends, 2006-14E

	2006	2007	2008	2009	2010	2011E	2012E	2013E	2014E
Volume assumptions									
Contract LNG volume (mn tons)	4.8	5.1	4.8	4.8	7.1	7.5	7.5	8.0	10.5
Spot LNG volume (mn tons)	—	0.6	1.5	1.5	0.8	0.7	2.1	3.0	3.0
Total volumes	4.8	5.6	6.3	6.3	7.9	8.2	9.6	11.0	13.5
Price assumptions									
LNG purchase price (FOB) (US\$/mn BTU)	2.5	3.3	3.7	4.2	4.7	5.3	5.9	6.2	6.1
Landed cost (incl. import tariff) (US\$/mn BTU)	2.9	3.8	4.2	4.7	5.3	6.0	6.6	7.0	6.9
Base re-gasification charges (US\$/mn BTU)	0.57	0.58	0.69	0.64	0.65	0.71	0.76	0.80	0.80
Base re-gasification charges (Rs/mn BTU)	25.2	26.5	27.8	29.2	30.6	32.2	33.8	35.5	35.5
Escalation in re-gasification charges (%)		5.0	5.0	5.0	5.0	5.0	5.0	5.0	—
Sales price (US\$/mn BTU)	3.5	4.4	4.9	5.4	5.9	6.7	7.4	7.8	7.7
Other assumptions									
Rupee/US dollar exchange rate	44.3	45.3	40.1	45.8	47.4	45.5	44.5	44.5	44.5

Source: Company, Kotak Institutional Equities estimates

- ▶ **Volumes.** We model contract LNG volume at 7.5 mn tons, 7.5 mn tons and 8 mn tons in FY2011E, FY2012E and FY2013E. In addition, we model spot LNG imports of 0.7 mn tons in FY2011E, 2.1 mn tons in FY2012E and 3 mn tons in FY2013E.
- ▶ **Re-gasification tariffs.** We model PLNG's re-gasification tariff to increase by 5% in each year in FY2011-13E and remain flat thereafter until FY2020E, the terminal year of our DCF model (see Exhibit 3).
- ▶ **Exchange rate.** We have revised our exchange rate assumptions for FY2011E and FY2012E to ₹45.5/US\$ and ₹44.5/US\$ versus ₹46/US\$ and ₹46/US\$.

Our DCF-based fair value for PLNG is ₹90

Calculation of equity value of PLNG using discounted cash flow analysis (₹ mn)

	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
EBITDA	11,048	13,158	15,612	19,420	22,722	23,409	23,324	23,234	23,138	23,029	23,029	23,029
Adjusted tax expense	(1,967)	(3,036)	(2,717)	(3,034)	(3,681)	(3,811)	(4,414)	(6,161)	(6,593)	(6,920)		
Change in working capital	(2,791)	(1,232)	(1,683)	(3,231)	(1,209)	(379)	754	883	(343)	(412)		
Operating cash flow	6,290	8,890	11,212	13,155	17,832	19,218	19,664	17,956	16,201	15,697		
Capital expenditure	(10,000)	(10,000)	(19,816)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(2,500)		
Free cash flow	(3,710)	(1,110)	(8,605)	12,155	16,832	18,218	18,664	16,956	15,201	13,197	13,197	13,197
Discounted cash flow-now	(3,528)	(938)	(6,463)	8,115	9,989	9,607	8,749	7,065	5,630	4,343		
Discounted cash flow-1 year forward		(1,056)	(7,271)	9,130	11,237	10,812	9,842	7,948	6,334	4,888	4,343	
Discounted cash flow-2 year forward			(8,182)	10,271	12,642	12,163	11,076	8,942	7,126	5,499	4,888	4,343
	Now	+ 1-year	+ 2-years									
Discount rate (%)	12.5%	12.5%	12.5%									
Total PV of free cash flow	42,570	56,208	68,767									
Terminal value assumption				Sensitivity of 12-month fair value to WACC and perpetual growth								
Growth in perpetuity	0.0%	0.0%	0.0%	Perpetual growth (%)								
FCF in 2021E	13,197	13,197	13,197									
Exit FCF multiple (X)	8.0	8.0	8.0									
Exit EV/EBITDA multiple (X)	4.6	4.6	4.6									
Terminal value	105,577	105,577	105,577									
PV of terminal value	34,747	34,747	34,747									
Total company value	77,316	90,954	103,514									
				WACC (%)								
Net debt	16,207	23,168	28,891		-1.0%	-0.5%	0.0%	0.5%	1.0%			
Equity value	61,109	67,786	74,623		97.4	100.1	102.9	106.0	109.4			
Shares outstanding (mn)	750	750	750		91.5	93.9	96.4	99.1	102.1			
Estimated share price using DCF	81	90	99		86.0	88.1	90.4	92.8	95.5			
					80.9	82.8	84.8	87.0	89.4			
					76.2	77.9	79.7	81.7	83.8			
Fiscal Year end (March 31, XXXX)	March-11	March-12	March-13	March-14	March-15	March-16	March-17	March-18	March-19	March-20	March-21	March-22
Today	26-Oct-10	26-Oct-10	26-Oct-10	26-Oct-10	26-Oct-10	26-Oct-10	26-Oct-10	26-Oct-10	26-Oct-10	26-Oct-10	26-Oct-10	26-Oct-10
Days left	156	522	887	1,252	1,617	1,983	2,348	2,713	3,078	3,444	3,809	4,174
Years left	0.43	1.43	2.43	3.43	4.43	5.43	6.43	7.43	8.43	9.44	10.44	11.44
Discount factor at WACC	0.95	0.84	0.75	0.67	0.59	0.53	0.47	0.42	0.37	0.33	0.29	0.26

Source: Kotak Institutional Equities estimates

Petronet LNG: Profit model, balance sheet, cash model March fiscal year-ends, 2007-2014E (₹ mn)

	2007	2008	2009	2010	2011E	2012E	2013E	2014E
Profit model (Rs mn)								
Net sales	55,090	65,553	84,287	106,491	127,293	160,747	193,290	234,529
EBITDA	6,481	8,661	9,013	8,465	11,048	13,158	15,612	19,420
Other income	366	536	765	978	530	538	537	535
Interest	(1,070)	(1,024)	(1,012)	(1,839)	(1,966)	(2,441)	(3,829)	(4,775)
Depreciation	(1,020)	(1,022)	(1,025)	(1,609)	(1,855)	(1,933)	(2,517)	(4,732)
Extraordinary items	—	—	—	—	—	—	—	—
Pretax profits	4,756	7,152	7,740	5,995	7,758	9,322	9,803	10,448
Tax	(6)	(2,185)	(2,526)	(1,410)	(1,570)	(2,406)	(1,954)	(2,082)
Deferred taxation	(1,617)	(220)	(30)	(540)	(1,007)	(691)	(1,302)	(1,388)
Net profits	3,133	4,747	5,184	4,045	5,181	6,226	6,547	6,978
Earnings per share (Rs)	4.2	6.3	6.9	5.4	6.9	8.3	8.7	9.3
Balance sheet (Rs mn)								
Total equity	12,755	16,185	19,834	22,349	25,780	29,601	33,524	37,878
Deferred taxation liability	2,472	2,692	2,722	3,262	4,269	4,960	6,263	7,651
Total borrowings	13,832	15,776	22,817	24,998	30,998	36,498	50,998	44,498
Current liabilities	5,877	8,588	8,922	9,006	9,889	11,773	13,567	15,811
Total liabilities and equity	34,936	43,242	54,295	59,614	70,937	82,832	104,351	105,838
Cash	3,405	3,586	6,578	3,405	2,443	2,221	2,418	2,162
Current assets	7,478	7,890	11,519	8,811	12,486	15,602	19,079	24,554
Total fixed assets	21,273	26,293	33,156	42,012	50,622	59,623	77,468	73,735
Investments	2,780	5,473	3,043	5,386	5,386	5,386	5,386	5,386
Total assets	34,936	43,242	54,295	59,614	70,937	82,832	104,351	105,838
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	4,927	6,982	5,378	5,513	7,049	7,377	9,283	12,563
Working capital	(710)	1,589	(3,384)	3,026	(2,791)	(1,232)	(1,683)	(3,231)
Capital expenditure	(36)	(263)	(27)	(15,757)	(10,000)	(10,000)	(19,816)	(1,000)
Investments	(1,211)	(2,780)	2,462	(2,339)	—	—	—	—
Free cash flow	2,970	5,528	4,429	(9,556)	(5,742)	(3,855)	(12,216)	8,332
Other income	326	(414)	695	452	530	538	537	535
Ratios (%)								
Debt/equity	91	84	101	98	103	106	128	98
Net debt/equity	68	65	72	84	95	99	122	93
RoAE	23.6	27.8	25.0	16.8	18.6	19.3	17.6	16.4
RoACE	14.5	17.0	14.7	11.0	11.6	11.9	11.3	11.2
Adjusted CROCI	29.6	33.2	28.7	19.2	22.8	23.7	13.1	15.9
Key assumptions								
Contract LNG volume (mn tons)	5.1	4.8	4.8	7.1	7.5	7.5	8.0	10.5
LNG purchase price (FOB) (US\$/mn BTU)	3.3	3.7	4.2	4.7	5.3	5.9	6.2	6.1
Base re-gasification charges (US\$/mn BTU)	0.58	0.69	0.64	0.65	0.71	0.76	0.80	0.80
Sales price (US\$/mn BTU)	4.4	4.9	5.4	5.9	6.7	7.4	7.8	7.7
Rupee/US dollar exchange rate	45.3	40.1	45.8	47.4	45.5	44.5	44.5	44.5

Source: Company, Kotak Institutional Equities estimates

OCTOBER 26, 2010

UPDATE

Coverage view: **Cautious**

Price (Rs): **1,090**

Target price (Rs): **1,015**

BSE-30: **20,303**

Is the pressure fine? Mustang Engineering's press release about RIL awarding it a contract for the design of an onshore compression facility at KG D-6 onshore terminal raises questions about KG D-6 reservoir behavior and production profile. The new facility will boost natural gas pressure to meet the required inlet pressure of RGTIL's pipeline. We are not sure if this implies that reservoir pressure and behavior is different from initial expectations. We await more clarity on this issue.

Company data and valuation summary

Reliance Industries

Stock data

52-week range (Rs) (high,low)	1,185-841
Market Cap. (Rs bn)	3,244.9

Shareholding pattern (%)

Promoters	41.1
FIs	20.9
MFs	2.6

Price performance (%)

	1M	3M	12M
Absolute	8.9	2.8	6.5
Rel. to BSE-30	7.5	(8.2)	(11.8)

Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	49.6	57.7	74.4
EPS growth (%)	(1.8)	16.2	28.9
P/E (X)	22.0	18.9	14.7
Sales (Rs bn)	1,924.6	2,576.0	2,693.2
Net profits (Rs bn)	162.4	188.6	243.2
EBITDA (Rs bn)	309.4	370.5	418.5
EV/EBITDA (X)	11.8	9.3	7.6
ROE (%)	11.4	12.1	13.9
Div. Yield (%)	0.6	0.7	0.8

QUICK NUMBERS

- We model KG D-6 gas production at 72 mcm/d for FY2012E and 88 mcm/d for FY2013E
- RIL's FY2012E EPS will decline by 6.4% if gas production continues at 60 mcm/d

FEED award for onshore compression facility at KG D-6 onshore terminal to Mustang Engineering

According to a press release of Mustang Engineering, RIL has awarded it the contract to develop the front-end engineering and design (FEED) of a gas compression system at the onshore terminal of KG D-6 block. As per the press release of Mustang, "This onshore compression facility will be one of the world's largest facilities in a single location and **will serve to boost the natural gas pressure to meet the inlet operating pressure conditions** of the Reliance Gas Transportation Infrastructure Limited (RGTIL) East-West gas transmission system."

Not sure whether this is as per field development plan (FDP) and design expectations

The fact that KG D-6 gas requires additional compression suggests that the pressure in the fields is lower than during the initial phase of operations. We are not sure whether this is as per the FDP or whether it is an unforeseen development. If it is the former, it is not a cause for worry. If it is the latter, it could be a cause of concern since the reservoir pressure has dropped faster than expected and it may impact the overall production profile versus that in the FDP.

Limited information on reasons for delay in ramp-up in production

RIL and the DGH have not offered an explanation for the delay in ramp-up of KG D-6 gas production to 80 mcm/d. We would note reservoir modeling is very complex and RIL may simply be gathering more data to better understand the reservoir and the full potential of the fields; trade journals have ascribed the delay to additional studies. We dismiss speculation by a section of the Street that RIL may have curtailed production as it would get a higher price for gas in the future.

Downside risks to earnings exist from lower-than-expected production

Various press articles have reported that RIL will produce gas at 53-54 mcm/d from the D1 and D3 fields and 7-8 mcm/d from the MA field until it has completed certain ongoing reservoir studies. It has not given a time-frame for the same although press articles have put the same at 6-18 months. We model KG D-6 gas production to increase to 72 mcm/d in FY2012E and 88 mcm/d in FY2013E. Our FY2012E and FY2013E EPS will decline by 6.4% and 12.1% if gas production continues at 60 mcm/d instead of ramping up as per our expectations.

Sanjeev Prasad
sanjeev.prasad@kotak.com
Mumbai: +91-22-6634-1229

Gundeep Singh
gundeep.singh@kotak.com
Mumbai: +91-22-6634-1286

Tarun Lakhota
tarun.lakhota@kotak.com
Mumbai: +91-22-6634-1188

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

SOTP valuation of Reliance is ₹1,015 per share on FY2012E estimates

Sum-of-the-parts valuation of Reliance Industries, March fiscal year-end, 2012E (₹)

	Valuation base (Rs bn)		Multiple (X)		EV (Rs bn)	Valuation (Rs/share)
	Other	EBITDA	Multiple	EV/EBITDA		
Chemicals		99		7.0	692	232
Refining & Marketing		142		7.0	993	333
Oil and gas—producing (PMT and Yemen)		25		4.5	113	38
Gas—producing and developing (DCF-based) (a)	799				799	268
KG D-6	441				441	148
NEC-25	122				122	41
CBM	66				66	22
KG D-3	99				99	33
KG D-9	10				10	3
MN D-4	61				61	20
Oil—KG-DWN-98/3 (b)	83				83	28
Investments other than valued separately	105				105	35
Loans & advances to affiliates	4				4	1
Cash with subsidiary from sale of treasury shares	86				86	29
Retailing	52		80%		42	14
SEZ development	30		80%		24	8
Total enterprise value					2,941	987
Net debt adjusted for 50% of C-WIP of E&P assets					(88)	(30)
Implied equity value					3,029	1,017

Note:

(a) We value KG D-6, NEC-25, CBM, KG D-3, KG D-9 and MN D-4 blocks on DCF.

(b) 180 mn bbls of recoverable reserves based on gross OOIP of 0.5 bn bbls.

(c) We use 2.978 bn shares (excluding treasury shares) for per share computations.

Source: Kotak Institutional Equities estimates

RIL: Profit model, balance sheet, cash model, March fiscal year-ends, 2007-14E (₹ mn)

	2007	2008	2009	2010	2011E	2012E	2013E	2014E
Profit model (Rs mn)								
Net sales	1,114,927	1,334,430	1,418,475	1,924,610	2,576,007	2,693,165	2,822,512	2,840,282
EBITDA	198,462	233,056	233,139	305,807	366,934	414,921	463,601	464,466
Other income	4,783	8,953	20,599	24,605	24,390	22,358	35,302	58,643
Interest	(11,889)	(10,774)	(17,452)	(19,972)	(21,617)	(6,958)	(3,865)	(2,911)
Depreciation & depletion	(48,152)	(48,471)	(51,953)	(104,965)	(132,487)	(130,091)	(152,338)	(156,056)
Pretax profits	143,205	182,764	184,332	205,474	237,219	300,231	342,700	364,143
Extraordinary items	2,000	47,335	—	—	—	—	—	—
Tax	(16,574)	(26,520)	(12,634)	(31,118)	(47,925)	(60,887)	(83,675)	(100,637)
Deferred taxation	(9,196)	(8,999)	(18,605)	(12,000)	(707)	3,830	15,542	20,491
Net profits	119,434	194,580	153,093	162,357	188,586	243,174	274,567	283,996
Adjusted net profits	117,789	152,605	153,093	162,357	188,586	243,174	274,567	283,996
Earnings per share (Rs)	40.5	52.5	50.6	49.6	57.7	74.4	84.0	86.8
Balance sheet (Rs mn)								
Total equity	673,037	847,853	1,263,730	1,371,706	1,532,508	1,740,952	1,973,842	2,216,162
Deferred taxation liability	69,820	78,725	97,263	109,263	109,970	106,140	90,598	70,107
Minority interest	33,622	33,622	—	—	—	—	—	—
Total borrowings	332,927	493,072	739,045	624,947	342,592	111,866	110,598	109,382
Current liabilities	192,305	251,427	357,019	404,148	404,593	420,186	432,141	432,572
Total liabilities and equity	1,301,712	1,704,700	2,457,057	2,510,064	2,389,663	2,379,144	2,607,178	2,828,223
Cash	18,449	42,822	221,765	134,626	47,906	83,829	371,523	667,354
Current assets	286,566	402,721	325,358	489,165	516,606	528,692	544,165	545,739
Total fixed assets	899,403	1,081,638	1,693,869	1,653,987	1,592,864	1,534,337	1,459,204	1,382,844
Investments	97,294	177,519	216,065	232,286	232,286	232,286	232,286	232,286
Deferred expenditure	—	—	—	—	—	—	—	—
Total assets	1,301,712	1,704,700	2,457,057	2,510,064	2,389,663	2,379,144	2,607,178	2,828,223
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	164,285	180,718	174,508	222,605	293,182	341,293	372,837	356,906
Working capital	(13,075)	(31,071)	(37,983)	(53,015)	(26,997)	3,507	(3,518)	(1,142)
Capital expenditure	(247,274)	(239,691)	(247,128)	(219,427)	(61,640)	(65,780)	(73,982)	(75,684)
Investments	(105,760)	(78,953)	(10,392)	14,206	—	—	—	—
Other income	4,143	6,132	16,195	22,043	24,390	22,358	35,302	58,643
Free cash flow	(197,681)	(162,865)	(104,800)	(13,587)	228,934	301,378	330,639	338,723
Ratios (%)								
Debt/equity	44.8	53.2	54.3	42.2	20.9	6.1	5.4	4.8
Net debt/equity	42.3	48.6	38.0	33.1	17.9	1.5	(12.6)	(24.4)
RoAE	20.3	18.9	13.6	11.8	12.3	14.1	14.2	13.2
RoACE	13.9	12.7	11.2	9.3	10.2	12.6	12.8	11.7

Source: Company, Kotak Institutional Equities estimates

OCTOBER 26, 2010

UPDATE

Coverage view: **Cautious**

Price (Rs): **377**

Target price (Rs): **400**

BSE-30: **20,303**

Exports early beneficiary of overseas recovery. We raised our FY2012E earnings estimate slightly for Bharat Forge to reflect the stronger-than-expected cadence in exports. The company's exports are benefiting from strong CV volumes in the US. Our target increases to Rs400 from Rs385 to reflect higher estimates. We maintain our ADD rating but see limited earnings upside as our estimates are largely discounting a recovery overseas and continued domestic strength.

Company data and valuation summary

Bharat Forge

Stock data

52-week range (Rs) (high,low) 391-232

Market Cap. (Rs bn) 90.1

Shareholding pattern (%)

Promoters 42.1

FIs 14.2

MFs 7.3

Price performance (%)

	1M	3M	12M
Absolute	5.4	13.5	38.2
Rel. to BSE-30	4.1	1.4	14.5

Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	0.7	12.4	20.3
EPS growth (%)	(92.0)	1,707.0	63.3
P/E (X)	548.1	30.3	18.6
Sales (Rs bn)	33.3	43.6	54.1
Net profits (Rs bn)	0.2	3.0	4.8
EBITDA (Rs bn)	3.9	8.1	11.5
EV/EBITDA (X)	27.6	12.5	8.7
ROE (%)	0.9	16.2	20.6
Div. Yield (%)	0.3	0.3	0.3

Raising our FY2012E EPS estimate by 3% to reflect stronger export revenues

We are tweaking up our FY2012E EPS estimate to Rs20.3 from Rs19.7 to reflect stronger export volumes. Exports grew at a faster-than-expected pace in 2QFY11 and we expect the strength to continue into 2HFY11E and FY2012E. We now expect exports to grow 45% in FY2011E 15% and another 15% in FY2012E on the back of continued recovery in the US and European commercial vehicles demand. Our FY2012E EPS estimate of Rs12.3 is based on 24% consolidated revenue growth and 250 bps of margin improvement. The 24% revenue growth is driven by strong growth in non auto revenues and continued recovery in European and US CV markets. The margin recovery is driven by European subsidiaries and higher margins of the non-auto business to 7.5% levels.

Conference call highlights

Management indicated that utilization at the company's overseas subsidiaries were at the 40-45% range while domestic utilizations were at the 70% range. The utilization rate at the new non-auto facilities were 39% and revenues from these facilities totaled Rs1 bn for the quarter. On the JV front, the company indicated that they have invested Rs300 mn into the Alstom JV till date. Total equity investment by Bharat Forge into the JV is expected to be in the Rs3.5 bn range.

Raising target to Rs400 in-line with higher earnings estimates

We are raising our target to Rs400 from Rs385 to reflect the 3% higher standalone EBITDA estimate for FY2012E. Our SOTP-based valuation assigns a Rs357 valuation for the wholly owned component operations and a Rs42 valuation for the company's stake in its JV with Alstom. We give a 20% discount to the DCF-based value for the JV. We now value the stake at 2.6X book value. The increase was driven by the higher revenue assumptions in our DCF valuation driven by the increased visibility given the determination of the Alstom JV as the lowest bidder for the NTPC contract.

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

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

Bharat Forge, Profit model and Balance Sheet, March fiscal year-ends, 2008-2013E (Rs mn)

	2008	2009	2010	2011E	2012E	2013E
Profit model (Rs mn)						
Net sales	46,523	47,751	33,276	43,610	54,068	58,754
EBITDA	7,045	5,577	3,385	7,551	10,875	12,029
Other income	993	675	511	571	583	597
Interest	(1,269)	(1,291)	(1,303)	(1,293)	(1,293)	(1,218)
Depreciation	(2,271)	(2,517)	(2,451)	(2,495)	(2,978)	(3,013)
Profit before tax	4,498	1,107	(645)	4,334	7,188	8,394
Current tax	(1,437)	(207)	(522)	(1,300)	(2,156)	(2,518)
Deferred tax	(152)	(489)	403	(130)	(216)	(252)
Adjusted net profit	3,013	1,919	153	2,970	4,849	5,641
Adjusted earnings per share (Rs)	13.4	8.6	0.7	12.4	20.3	23.6
Balance sheet (Rs mn)						
Equity	17,717	18,512	15,589	21,122	25,871	31,416
Total Borrowings	16,544	21,908	22,527	18,238	18,238	16,238
Current liabilities	17,120	13,035	14,857	17,973	22,161	24,097
Total liabilities	51,381	53,455	52,973	57,332	66,269	71,751
Net fixed assets	25,284	22,661	26,065	24,070	21,592	19,079
Investments	4	2	2,737	4,737	6,737	8,737
Cash	24,781	25,316	5,977	5,366	9,560	13,142
Other current assets	18,428	19,533	18,194	23,159	28,380	30,794
Miscellaneous expenditure	—	—	—	—	—	—
Total assets	68,498	67,513	52,973	57,332	66,269	71,751
Free cash flow (Rs mn)						
Operating cash flow	6,199	4,735	2,212	6,364	8,831	9,623
Working capital changes	(1,916)	(2,123)	3,210	(1,896)	(1,113)	(573)
Capital expenditure and strategic investments	(7,599)	(5,355)	(4,085)	(2,500)	(2,500)	(2,500)
Free cash flow	(3,317)	(2,743)	1,337	1,967	5,218	6,550
Ratios						
Operating margin (%)	15.1	11.7	10.2	17.3	20.1	20.5
PAT margin (%)	6.5	4.0	0.5	6.8	9.0	9.6
Debt/equity (X)	0.9	1.2	1.4	0.9	0.7	0.5
Net debt/equity (X)	0.6	0.9	0.9	0.4	0.1	(0.2)
Book Value (Rs/share)	79.0	83.1	70.0	88.3	108.2	131.4
RoAE (%)	17.9	10.6	0.9	16.2	20.6	19.7
RoACE (%)	9.1	3.0	2.8	8.7	12.7	13.2

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 Power	Birla Corp	Asian Paints	Adani Enterprises	ABB	Aditya Birla Nuvo	Havells India
Aventis Pharma	Bosch	Cummins India	Andhra Bank	Bharat Electronics	Areva T&D	Jaiprakash Associates
Crompton Greaves	Central Bank of India	Dabur India	Balaji Telefilms	BHEL	D B Realty	
EID Parry	Deepak Fertilisers	Glenmark Pharma	Bank of Baroda		Godrej Consumer Products	
Hindustan Oil Exploration	Dena Bank	Godrej Industries	BGR Energy	Federal Bank	GVK Power	
Hindustan Uniliver	DishTV India	Gujarat State Petronet	Cairn India	GE Shipping	Jaiprakash Power Ventures	
Idea Cellular	HCL Infosystems	Hindustan Copper	Colgate Palmolive	Hero Honda	Jaypee Infratech	
Madras Cement	JB Chemicals	IFCI	Dhanlakshmi Bank	Hindustan Construction Co	Maruti Suzuki	
Mahindra Holidays & Resorts	Jindal Steel & Power	Indian Hotels	EIH	ICICI Bank	National Aluminium Co.	
Mundra Port & SEZ	JSW Steel	Max India	Glaxosmithkline Pharma	Indian Overseas Bank	Reliance Industries	
Petronet LNG	Marico	Patni Computer	Grasim Industries	ITC	Sun Pharma	
Procter & Gamble	MRPL	Shriram Transport	Gujarat Gas	Jet Airways	Suzlon Energy	
Rolta India	NTPC	Thermax	Hexaware Technologies	Mahindra & Mahindra		
Rural Electrification Corp	Sterlite Industries	Torrent Power	IDBI Bank	Motherson Sumi		
Tata Teleservices	Tech Mahindra	Union Bank	IRB Infrastructure	National Fertilizers		
Titan Industries	Ultratech Cement	United Spirits	Jyothy Laboratories	Nestle India		
United Bank of India	United Phosphorus	Zee News	Monsanto India	Puravanka Projects		
	Voltas		NHPC	Shipping Corp		
			NMDC	SJVN		
			ONGC	Syndicate Bank		
			Phoenix Mills	Tata Chemicals		
			PTC India	UCO Bank		
			Punjab National Bank	Welspun Corp		
			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	Jai Corp	GAIL				
JSW Energy	Neyveli Lignite	MTNL				
Lupin	Oracle Financial Services	Oriental Bank				
Punj Lloyd						
8-Nov	9-Nov	10-Nov	11-Nov	12-Nov	13-Nov	
IDFC	GMR Infrastructure	Bharti Airtel	Apollo Tyres	Tata Power	Indian Oil Corp	
Jindal Saw	Hindalco Industries	BPCL	Lanco Infratech	HPCL		
		Power Finance Corp	Ranbaxy Laboratories			
			Shree Cement			

Source: BSE, Kotak Institutional Equities

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	25-Oct-10		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E
Automobiles																													
Ashok Leyland	75	ADD	99,838	2,251	1,330	2.8	4.9	6.5	84.5	75.1	31.9	26.6	15.2	11.5	15.2	10.3	8.3	2.5	2.2	1.9	2.0	1.3	1.3	10.9	15.4	17.9	85	13.3	8.3
Bajaj Auto	1,490	REDUCE	431,186	9,721	289	58.8	91.0	103.6	160.2	54.6	13.9	25.3	16.4	14.4	16.3	11.6	10.0	14.7	8.8	6.0	0.7	1.3	1.3	70.9	67.4	49.6	1,450	(2.7)	21.7
Bharat Forge	377	ADD	90,078	2,031	239	0.7	12.4	20.3	(92.0)	1,707.0	63.3	548.1	30.3	18.6	27.6	12.5	8.7	2.4	2.3	2.0	—	—	—	0.9	16.2	20.6	400	6.2	4.7
Hero Honda	1,863	REDUCE	372,031	8,388	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	5.3	1.6	1.7	1.9	59.0	52.1	42.7	1,800	(3.4)	24.2
Mahindra & Mahindra	715	BUY	425,583	9,595	595	33.9	44.1	51.7	125.8	30.1	17.3	21.1	16.2	13.8	13.9	11.6	9.7	5.3	4.2	3.4	1.3	1.3	1.4	30.0	29.0	27.3	760	6.3	26.0
Maruti Suzuki	1,507	REDUCE	435,387	9,816	289	86.4	80.7	93.3	105.0	(6.7)	15.6	17.4	18.7	16.2	9.5	9.6	8.0	3.6	3.1	2.6	0.4	0.4	0.4	23.3	17.8	17.4	1,330	(11.7)	22.8
Tata Motors	1,186	ADD	742,466	16,739	626	27.4	94.8	109.2	(182.5)	246.1	15.2	43.3	12.5	10.9	14.7	7.7	6.7	4.8	3.4	2.6	1.2	0.5	0.5	8.7	11.9	11.1	1,150	(3.0)	98.9
Automobiles																													
Cautious																													
			2,596,570	58,541					276.0	60.6	16.6	24.9	15.5	13.3	13.4	9.5	8.1	5.2	4.0	3.2	1.0	0.9	1.0	20.9	25.9	23.8			
Banks/Financial Institutions																													
Andhra Bank	186	BUY	90,210	2,034	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	2.2	7.2
Axis Bank	1,465	ADD	593,398	13,378	405	62.1	78.6	99.9	22.7	26.6	27.2	23.6	18.6	14.7	—	—	—	3.7	3.2	2.7	0.8	1.0	1.3	19.2	18.4	20.2	1,700	16.1	45.2
Bank of Baroda	987	BUY	360,794	8,134	366	83.7	95.1	115.7	37.3	13.7	21.7	11.8	10.4	8.5	—	—	—	2.6	2.2	1.8	1.5	1.7	2.1	24.4	23.0	23.3	1,000	1.3	8.7
Bank of India	520	ADD	273,370	6,163	526	33.1	56.3	63.2	(42.1)	70.2	12.2	15.7	9.2	8.2	—	—	—	2.1	1.8	1.6	1.3	2.3	2.6	14.2	21.3	20.4	580	11.6	15.6
Canara Bank	725	ADD	297,353	6,704	410	73.7	90.7	102.8	45.8	23.1	13.4	9.8	8.0	7.1	—	—	—	2.4	1.9	1.5	1.4	1.4	1.7	22.5	22.8	21.4	740	2.0	11.9
Corporation Bank	784	ADD	112,498	2,536	143	82.0	86.7	100.7	31.8	5.7	16.2	9.6	9.0	7.8	—	—	—	1.9	1.7	1.4	2.1	2.2	2.6	22.0	19.9	19.9	800	2.0	2.0
Federal Bank	477	ADD	81,557	1,839	171	27.2	36.4	49.0	(7.2)	34.1	34.4	17.6	13.1	9.7	—	—	—	1.7	1.6	1.4	1.0	1.4	1.9	10.3	12.6	15.2	430	(9.8)	7.7
HDFC	707	REDUCE	1,014,216	22,866	1,436	19.7	24.0	28.1	22.7	21.8	17.2	35.9	29.4	25.1	—	—	—	6.7	5.9	5.2	1.0	1.2	1.4	20.0	21.2	21.9	720	1.9	54.8
HDFC Bank	2,305	REDUCE	1,054,961	23,784	458	64.4	84.9	111.2	22.1	31.8	31.0	35.8	27.2	20.7	—	—	—	4.9	4.3	3.7	0.5	0.7	0.9	16.1	16.9	19.2	2,500	8.5	44.0
ICICI Bank	1,142	REDUCE	1,273,315	28,707	1,115	36.1	45.2	57.3	6.9	25.3	26.6	31.6	25.2	19.9	—	—	—	2.5	2.3	2.2	1.1	1.3	1.7	8.0	9.5	11.3	1,000	(12.4)	92.2
IDFC	206	ADD	300,421	6,773	1,458	8.4	9.4	11.2	44.9	12.4	18.7	24.6	21.8	18.4	—	—	—	4.3	2.8	2.3	0.6	0.8	1.1	16.6	15.5	14.3	205	(0.5)	25.3
India Infoline	118	BUY	36,777	829	312	8.1	7.2	8.7	59.2	(11.9)	21.6	14.5	16.5	13.5	—	—	—	2.3	2.0	1.6	2.7	1.3	1.7	16.4	12.9	14.4	130	10.2	6.2
Indian Bank	304	ADD	130,607	2,945	430	35.1	35.7	44.9	25.5	1.6	25.9	8.7	8.5	6.8	—	—	—	2.0	1.7	1.4	2.1	2.1	2.7	24.1	20.5	21.8	350	15.2	6.1
Indian Overseas Bank	163	BUY	88,939	2,005	545	13.0	16.7	24.8	(46.7)	29.0	48.4	12.6	9.8	6.6	—	—	—	1.4	1.2	1.1	2.1	2.4	2.6	9.6	11.6	15.4	160	(2.0)	5.5
J&K Bank	862	ADD	41,795	942	48	105.7	119.3	139.6	25.0	12.9	17.1	8.2	7.2	6.2	—	—	—	1.4	1.3	1.1	2.6	2.9	3.4	18.2	17.9	18.3	850	(1.4)	3.7
LIC Housing Finance	1,370	REDUCE	130,136	2,934	95	69.7	109.0	119.0	11.5	56.3	9.2	19.7	12.6	11.5	—	—	—	4.0	3.3	2.8	1.1	1.7	1.9	23.6	27.4	24.6	1,325	(3.3)	35.9
Mahindra & Mahindra Financial	701	BUY	67,258	1,516	96	35.9	51.3	60.3	60.0	43.0	17.5	19.5	13.7	11.6	—	—	—	4.0	3.3	2.8	1.1	1.6	1.8	21.5	25.7	25.0	750	7.1	5.7
Oriental Bank of Commerce	501	ADD	125,458	2,828	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	(10.1)	9.1
PFC	375	SELL	430,815	9,713	1,148	20.5	22.9	27.6	53.5	11.9	20.3	18.3	16.4	13.6	—	—	—	3.3	2.9	2.6	1.4	1.5	1.8	18.8	18.3	19.2	275	(26.7)	4.0
Punjab National Bank	1,351	BUY	425,926	9,603	315	123.9	133.4	163.3	26.4	7.7	22.4	10.9	10.1	8.3	—	—	—	2.6	2.2	1.8	1.6	2.0	2.5	26.2	23.2	23.7	1,450	7.3	8.9
Reliance Capital	826	NR	203,365	4,585	246	12.9	13.7	9.8	(67.3)	6.5	(28.6)	64.3	60.3	84.5	—	—	—	3.0	2.9	2.8	0.7	0.7	0.5	4.7	4.8	3.4	—	—	30.0
Rural Electrification Corp.	374	REDUCE	368,790	8,315	987	20.3	26.5	31.8	23.2	30.8	19.8	18.4	14.1	11.8	—	—	—	3.3	2.9	2.5	1.7	2.1	2.6	22.0	22.0	22.8	350	(6.3)	11.2
Shriram Transport	767	ADD	171,048	3,856	223	39.2	53.3	65.1	30.1	36.2	22.0	19.6	14.4	11.8	—	—	—	4.6	3.9	3.2	1.5	2.1	2.5	28.4	28.2	28.6	800	4.4	8.3
SKS Microfinance	1,010	ADD	74,442	1,678	74	26.9	48.9	77.5	61.1	81.3	58.6	37.5	20.7	13.0	—	—	—	7.8	3.6	2.8	—	—	—	21.7	23.9	24.7	1,400	38.6	—
SREI	121	NR	14,089	318	116	8.3	7.9	9.9	17.8	(4.8)	25.8	14.6	15.4	12.2	—	—	—	1.2	1.1	1.0	1.0	1.0	1.0	11.1	10.5	12.3	—	—	5.6
State Bank of India	3,239	BUY	2,056,512	46,365	635	144.4	176.8	209.3	0.5	22.4	18.4	22.4	18.3	15.5	—	—	—	3.1	2.7	2.4	0.9	1.0	1.0	14.8	15.9	16.6	3,400	5.0	132.7
Union Bank	411	BUY	207,780	4,684	505	41.1	48.8	60.2	20.2	18.8	23.5	10.0	8.4	6.8	—	—	—	2.4	1.9	1.5	1.3	1.6	2.0	26.2	25.1	25.1	450	9.4	6.3
Yes Bank	372	BUY	126,475	2,851	340	15.0	21.0	26.6	46.7	40.2	26.6	24.8	17.7	14.0	—	—	—	4.1	3.4	2.8	0.4	0.6	0.7	20.3	21.0	22.0	400	7.4	15.5
Banks/Financial Institutions																													
Attractive																													
			10,152,305	228,887					15.0	23.1	21.2	20.1	16.3	13.5	—	—	—	3.1	2.7	2.3	1.1	1.3	1.6	15.5	16.5	17.4			
Cement																													
ACC	1,025	REDUCE	192,492	4,340	188	83.2	56.4	63.6	47.9	(32.3)	12.9	12.3	18.2	16.1	6.6	8.6	6.9	3.0	2.7	2.4	2.6	2.3	2.3	29.3	17.5	17.6	940	(8.3)	11.2
Ambuja Cements	144	SELL	218,613	4,929	1,522	8.0	8.1	9.0	11.4	1.4	10.6	17.9	17.7	16.0	10.0	9.8	8.1	3.1	2.8	2.5	1.3	1.4	1.5	19.3	17.1	16.8	108	(24.8)	7.4
Grasim Industries	2,274	ADD	208,494	4,701	92	301.0	242.3	292.5	26.1	(19.5)	20.7	7.6	9.4	7.8	4.5	4.8	3.6	1.7	1.4	1.2									

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	25-Oct-10		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target	Upside	ADVT-3mo
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	(Rs)	(%)	(US\$ mn)
Consumer products																													
Asian Paints	2,621	ADD	251,377	5,667	96	71.5	89.0	104.3	85.3	24.4	17.3	36.6	29.5	25.1	22.6	18.3	15.4	15.7	12.2	9.8	1.0	1.4	1.7	51.8	47.9	44.4	3,000	14.5	8.0
Colgate-Palmolive (India)	858	SELL	116,709	2,631	136	31.1	34.5	39.6	44.2	10.9	14.6	27.6	24.9	21.7	22.6	18.4	15.8	35.8	30.5	26.1	2.3	3.0	3.5	156.1	132.3	129.4	830	(3.3)	3.1
Dabur India	104	ADD	179,785	4,053	1,731	2.9	3.4	4.2	28.2	16.8	23.3	35.8	30.7	24.9	26.6	21.4	17.4	17.1	13.2	10.9	1.5	1.7	2.1	54.3	49.0	48.4	115	10.7	5.1
GlaxoSmithkline Consumer (a)	2,100	ADD	88,317	1,991	42	55.4	68.8	83.9	23.6	24.3	22.0	37.9	30.5	25.0	21.3	18.4	14.7	9.9	8.2	6.8	0.9	1.1	1.3	27.9	29.1	29.6	2,200	4.8	1.1
Godrej Consumer Products	407	ADD	131,636	2,968	324	11.3	13.5	18.0	69.5	18.9	33.4	35.9	30.2	22.6	28.5	21.5	16.1	13.7	7.4	6.7	1.0	0.8	0.8	44.6	31.9	31.1	450	10.6	2.6
Hindustan Unilever	306	SELL	668,251	15,066	2,182	9.4	10.2	12.0	(0.9)	8.4	17.5	32.5	30.0	25.5	22.4	21.5	17.6	25.9	22.4	19.3	2.5	2.7	3.2	71.1	80.2	81.3	250	(18.4)	15.6
ITC	169	ADD	1,294,089	29,176	7,651	5.3	6.4	7.5	22.6	20.5	17.8	31.9	26.4	22.5	19.4	16.7	13.9	8.7	7.3	6.2	3.0	1.6	1.8	29.2	31.6	31.3	175	3.5	26.9
Jubilant Foodworks	513	SELL	32,736	738	64	5.5	10.0	13.1	340.6	79.9	31.4	92.5	51.4	39.2	49.2	29.3	19.7	27.8	18.1	12.4	—	—	—	46.6	42.6	37.5	400	(22.0)	26.2
Jyothy Laboratories	313	ADD	24,010	541	77	11.0	14.3	17.0	99.6	30.1	18.2	28.4	21.8	18.5	23.1	14.8	11.9	5.8	3.9	3.4	1.4	1.2	1.6	16.0	18.4	19.6	320	2.1	0.8
Marico	131	ADD	79,931	1,802	612	4.4	5.3	6.4	32.9	20.2	20.4	29.4	24.5	20.3	20.1	16.4	13.6	12.0	8.6	6.5	0.5	0.7	0.9	48.9	41.6	36.7	140	7.1	1.9
Nestle India (a)	3,443	REDUCE	331,930	7,483	96	74.4	90.7	109.8	27.0	22.0	21.0	46.3	37.9	31.4	30.6	25.4	21.5	57.1	43.2	33.1	1.4	1.8	2.1	136.0	129.7	119.5	3,100	(10.0)	4.1
Tata Global Beverages	128	ADD	79,433	1,791	618	6.1	7.3	8.7	14.5	20.7	19.0	21.2	17.6	14.8	10.2	7.7	6.6	1.6	1.5	1.4	1.6	1.9	2.2	10.2	11.7	12.9	130	1.2	4.8
Consumer products		Cautious	3,278,205	73,908					23.8	18.4	19.0	33.5	28.3	23.8	21.5	18.4	15.2	11.3	9.4	8.0	2.2	1.8	2.1	33.8	33.1	33.7			
Constructions																													
IVRCL	153	BUY	40,893	922	267	7.9	9.1	11.6	(6.7)	15.0	27.9	19.4	16.9	13.2	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	33.9	7.7
Nagarjuna Construction Co.	152	BUY	38,962	878	257	7.1	8.9	11.6	6.1	24.3	31.1	21.3	17.1	13.1	10.8	9.4	7.9	1.7	1.6	1.5	0.9	1.3	1.3	9.3	9.8	11.8	205	35.0	4.8
Punj Lloyd	128	REDUCE	43,292	976	339	(12.9)	9.8	12.0	79.2	(175.4)	22.4	(9.9)	13.1	10.7	36.1	7.1	6.5	1.4	1.3	1.2	(0.1)	0.3	0.8	(15.8)	10.3	11.4	140	9.6	14.0
Sadbhav Engineering	1,490	BUY	22,351	504	15	42.8	61.8	87.2	(16.3)	44.3	41.0	34.8	24.1	17.1	19.1	12.7	9.8	5.5	3.6	3.0	0.2	0.4	0.4	15.8	15.1	17.8	1,750	17.4	0.4
Construction		Attractive	145,498	3,280					(91.1)	4,479	28.0	745.5	16.3	12.7	15.4	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	829	ADD	36,052	813	44	94.5	151.1	129.7	(2.5)	59.9	(14.2)	8.8	5.5	6.4	8.3	7.0	6.6	1.6	1.5	1.3	0.4	0.4	0.5	21.7	32.9	21.9	915	10.4	35.9
Bharat Petroleum	723	BUY	261,502	5,896	362	58.6	57.0	65.4	230	(3)	14.8	12	13	11.1	6.9	6.6	6.2	1.9	1.7	1.5	1.9	2.6	3.0	14.9	13.3	13.8	855	18.2	27.1
Cairn India	337	RS	639,280	14,413	1,897	5.5	20.5	36.6	29.0	270.1	78.3	60.8	16.4	9.2	47.8	9.8	6.0	1.9	1.7	1.5	—	—	4.5	3.1	10.7	17.2	—	—	31.6
Castrol India (a)	475	SELL	117,532	2,650	247	15.4	21.0	21.7	45	36	3.5	31	23	21.9	18.4	14.1	13.4	25.5	24.3	23.0	2.6	3.6	3.7	83.8	109.9	107.9	390	(17.9)	2.4
GAIL (India)	505	BUY	640,709	14,445	1,268	24.8	26.8	40.3	11.7	8.2	50.4	20.4	18.9	12.5	11.5	11.3	8.9	3.5	3.1	2.6	1.5	1.7	2.5	17.4	16.6	21.7	550	8.9	17.7
GSPL	124	SELL	69,491	1,567	562	7.3	7.1	8.0	233	(3)	12.6	17	17	15.5	8.4	8.3	7.0	4.1	3.4	3.0	0.8	1.4	2.6	27.1	21.2	20.6	83	(32.8)	7.1
Hindustan Petroleum	501	BUY	169,895	3,830	339	51.6	52.1	58.5	204.2	1.0	12.4	9.7	9.6	8.6	3.5	3.2	2.9	1.3	1.1	1.0	2.4	3.2	3.7	13.1	11.9	12.1	625	24.7	28.0
Indian Oil Corporation	431	ADD	1,045,232	23,565	2,428	49.1	37.9	41.9	399	(23)	10.7	9	11	10.3	6.3	6.4	5.6	1.9	1.8	1.6	3.0	2.7	2.9	22.4	15.3	15.4	480	11.5	13.7
Oil India	1,466	REDUCE	352,446	7,946	240	115.2	131.9	149.0	13.9	14.6	12.9	12.7	11.1	9.8	5.9	4.4	3.8	2.4	2.1	1.9	2.3	3.0	3.5	16.8	17.9	17.9	1,550	5.7	3.5
Oil & Natural Gas Corporation	1,347	BUY	2,880,760	64,948	2,139	90.3	116.4	136.7	(1)	29	17.5	15	12	9.8	5.2	4.6	4.0	2.2	2.0	1.7	2.5	3.1	3.6	14.4	16.8	17.7	1,500	11.4	33.3
Petronet LNG	122	SELL	91,275	2,058	750	5.4	6.9	8.3	(22.0)	28.1	20.2	22.6	17.6	14.7	12.7	10.4	9.1	3.6	3.0	2.6	1.4	1.6	2.3	15.9	17.7	18.2	90	(26.0)	10.6
Reliance Industries	1,090	REDUCE	3,244,882	73,157	2,976	49.6	57.7	74.4	(2)	16	28.9	22	19	14.7	11.0	8.8	7.3	2.2	2.0	1.8	0.6	0.7	0.9	11.4	12.1	13.9	1,015	(6.9)	137.6
Energy		Cautious	9,549,056	215,287					36.6	16.0	23.9	16.0	13.8	11.1	7.8	6.6	5.6	2.2	2.0	1.8	1.6	1.9	2.5	13.7	14.3	15.8			
Industrials																													
ABB	913	REDUCE	193,515	4,363	212	16.7	18.3	33.1	(35.2)	9.3	80.7	54.6	49.9	27.6	31.4	28.8	16.1	8.0	7.1	5.8	0.2	0.3	0.4	15.6	15.0	23.0	725	(20.6)	4.8
BGR Energy Systems	782	BUY	56,282	1,269	72	16.0	28.0	41.1	32.2	74.4	46.9	48.8	28.0	19.0	27.4	16.1	11.4	10.0	8.0	6.0	0.4	0.9	1.1	22.3	31.7	36.1	950	21.5	4.6
Bharat Electronics	1,779	REDUCE	142,296	3,208	80	96.1	105.9	120.3	(7.4)	10.2	13.6	18.5	16.8	14.8	8.7	7.6	6.4	3.2	2.8	2.4	1.1	1.4	1.4	17.5	17.7	17.6	1,800	1.2	3.5
Bharat Heavy Electricals	2,527	REDUCE	1,236,797	27,884	490	87.9	114.3	135.5	37.7	30.0	18.5	28.7	22.1	18.6	16.1	12.5	10.4	7.8	6.1	4.9	0.7	1.0	1.1	29.8	31.1	29.3	2,600	2.9	31.2
Crompton Greaves	322	REDUCE	206,595	4,658	642	12.8	14.5	16.9	46.5	12.9	16.4	25.1	22.2	19.1	14.5	12.6	10.6	8.2	6.3	4.9	0.4	0.6	0.7	37.9	32.0	28.8	330	2.5	8.5
Larsen & Toubro	2,035	ADD	1,225,266	27,624	602	57.9	76.7	90.5	15.6	32.3	18.1	35.1	26.5	22.5	19.4	14.0	11.8	5.5	4.5	3.8	0.6	0.6	0.7	18.6	18.8	18.5	2,200	8.1	54.0
Maharashtra Seamless	424	BUY	29,912	674	71	40.2	43.6	49.8	12.1	8.5	14.2	10.5	9.7	8.5	5.7	5.0	4.0	1.9	1.6	1.4	1.4	1.9	2.3	19.3	17.9	17.7	450	6.1	0.6
Siemens	839	REDUCE	282,978	6,380	337	25.2	27.0	31.9	56.4	7.3	18.0	33.4	31.1	26.3	20.6	18.8	15.6	8.3	6.9	5.7	0.6	0.6	0.7	27.6	24.2	23.8	635	(24.3	

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	25-Oct-10		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E
Infrastructure																													
Container Corporation	1,300	REDUCE	168,942	3,809	130	61.1	74.3	85.9	0.3	21.7	15.6	21.3	17.5	15.1	15.0	12.2	10.2	3.9	3.3	2.9	1.1	1.3	1.5	19.6	20.6	20.5	1,250	(3.8)	2.6
GMR Infrastructure	53	ADD	195,451	4,407	3,667	0.4	0.2	0.1	(43.8)	(48.9)	(40.0)	123.7	242.1	403.2	22.4	14.4	13.5	1.9	1.6	1.6	—	—	—	2.4	1.2	0.7	65	22.0	6.6
GVK Power & Infrastructure	44	BUY	68,775	1,551	1,579	0.8	1.1	1.4	6.7	33.5	32.4	53.5	40.1	30.3	18.3	16.8	17.2	2.2	2.1	2.0	—	0.7	0.7	4.7	5.3	6.7	54	24.0	7.0
IRB Infrastructure	261	RS	86,880	1,959	332	9.7	12.6	12.1	83.8	29.2	(3.7)	26.9	20.8	21.6	12.8	11.5	10.7	3.8	2.9	2.3	—	—	—	15.6	15.7	11.9	—	—	14.1
Mundra Port and SEZ	164	REDUCE	331,467	7,473	2,017	3.3	4.5	7.2	55.7	34.2	61.6	49.2	36.7	22.7	36.6	24.0	16.8	9.3	7.7	6.0	—	—	—	20.8	23.1	29.8	150	(8.7)	6.8
Infrastructure		Attractive	851,514	19,198					16.3	22.3	28.2	41.0	33.5	26.2	21.5	15.9	13.7	3.6	3.1	2.7	—	0.3	0.4	8.7	9.1	10.5			
Media																													
DB Corp	293	BUY	53,208	1,200	182	10.6	13.0	15.7	286.5	22.4	21.0	27.5	22.5	18.6	15.3	12.7	10.4	8.2	6.6	5.8	0.7	1.0	1.4	40.3	32.6	33.2	290	(1.0)	0.6
DishTV	57	REDUCE	60,933	1,374	1,063	(2.5)	(2.0)	0.2	(61.9)	(20.7)	(111.0)	(22.9)	(28.9)	261.9	75.7	30.3	13.8	14.9	30.6	27.4	—	—	—	249.0	(69.3)	11.0	55	(4.0)	3.8
HT Media	170	NR	39,891	899	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	40,249	907	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	517	REDUCE	203,917	4,597	394	13.1	18.0	22.5	44.8	36.9	25.2	39.4	28.7	23.0	22.3	16.6	13.4	10.5	8.9	7.3	1.4	1.4	1.7	28.4	33.7	35.1	420	(18.8)	3.5
Zee Entertainment Enterprises	285	REDUCE	123,759	2,790	435	10.6	11.8	14.8	25.7	11.0	25.2	26.8	24.2	19.3	19.6	15.8	12.2	3.2	3.1	3.0	0.9	1.1	1.3	12.8	13.2	16.0	300	5.4	15.0
Media		Neutral	521,956	11,768					185.8	33.9	40.7	42.9	34.2	22.8	20.6	15.9	12.2	6.2	5.7	5.2	1.1	1.2	1.6	14.4	17.9	22.9			
Metals																													
Hindalco Industries	221	ADD	423,377	9,545	1,914	20.0	14.5	16.3	25.0	(27.4)	12.7	11.1	15.3	13.5	6.3	8.4	8.6	2.0	1.8	1.6	0.6	0.6	0.6	20.4	12.2	12.3	225	1.7	32.5
Hindustan Zinc	1,263	BUY	533,447	12,027	423	95.6	95.4	116.4	48.2	(0.2)	22.0	13.2	13.2	10.8	8.9	7.9	5.4	2.8	2.3	1.9	0.5	0.5	0.5	25.1	20.2	20.4	1,430	13.3	5.0
Jindal Steel and Power	717	REDUCE	667,928	15,059	931	38.4	50.9	56.0	17.3	32.7	9.9	18.7	14.1	12.8	12.8	9.3	7.8	5.9	4.1	3.1	0.2	0.3	0.3	37.8	34.9	28.0	625	(12.9)	22.4
JSW Steel	1,239	REDUCE	312,630	7,048	252	80.4	71.9	112.2	481.1	(10.6)	56.1	15.4	17.2	11.0	11.3	9.3	6.3	2.9	1.7	1.3	0.6	0.7	0.8	16.0	12.5	13.6	1,150	(7.2)	35.9
National Aluminium Co.	399	SELL	257,273	5,800	644	12.6	14.3	17.3	(34.9)	13.3	20.5	31.6	27.9	23.1	15.1	12.4	10.2	2.5	2.4	2.2	0.6	1.3	1.3	8.1	8.6	9.8	260	(34.9)	1.7
Sesa Goa	336	REDUCE	298,673	6,734	890	29.6	52.5	54.0	23.5	77.6	2.8	11.4	6.4	6.2	9.4	4.2	5.9	3.7	2.4	1.8	1.1	1.1	1.1	35.8	34.9	31.5	320	(4.7)	43.4
Sterlite Industries	173	ADD	580,054	13,078	3,362	12.0	13.7	18.7	2.8	13.6	36.7	14.4	12.6	9.2	9.2	8.0	4.9	1.6	1.4	1.2	0.5	0.5	0.5	12.9	11.7	14.2	200	15.9	35.6
Tata Steel	620	REDUCE	567,163	12,787	914	(3.6)	66.5	70.0	(103.6)	(1,968.8)	5.2	(174.2)	9.3	8.9	11.2	6.1	5.8	2.5	1.8	1.5	1.3	1.3	—	(1.5)	22.4	18.8	650	4.8	106.5
Metals		Cautious	3,640,543	82,077					(19.7)	46.7	17.0	18.0	12.3	10.5	9.8	7.5	6.4	2.6	2.1	1.7	0.6	0.7	0.5	14.3	16.8	16.4			
Pharmaceutical																													
Apollo Hospitals	512	BUY	65,962	1,487	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	1.5	1.9
Biocon	439	ADD	87,830	1,980	200	14.8	17.0	24.4	216.4	14.7	43.6	29.6	25.8	18.0	17.2	14.7	11.4	4.9	4.3	3.6	—	—	—	17.9	18.1	22.2	470	7.0	11.2
Cipla	353	REDUCE	283,271	6,386	803	13.7	14.0	16.6	38.1	1.9	19.2	25.7	25.3	21.2	18.5	17.0	14.4	4.8	4.2	3.6	0.6	0.7	0.7	21.1	17.6	18.2	295	(16.4)	12.6
Cadila Healthcare	715	REDUCE	146,405	3,301	205	24.7	33.9	39.3	66.9	37.2	16.1	28.9	21.1	18.2	18.7	14.4	12.4	9.0	6.7	5.2	0.7	0.9	1.1	36.0	36.4	32.3	600	(16.1)	2.0
Dishman Pharma & chemicals	183	ADD	14,876	335	81	14.4	17.8	22.8	(19.7)	23.7	28.0	12.7	10.2	8.0	9.6	7.8	6.1	1.9	1.6	1.4	—	—	—	15.5	16.8	18.3	230	25.8	0.8
Dii's Laboratories	721	REDUCE	94,146	2,123	131	26.1	34.0	44.9	(18.2)	30.4	32.1	27.7	21.2	16.1	20.5	15.6	11.2	6.2	5.1	4.1	—	—	—	24.7	26.4	28.5	800	11.0	3.1
Dr Reddy's Laboratories	1,639	REDUCE	278,331	6,275	170	48.0	68.4	72.2	48.1	42.6	5.5	34.1	23.9	22.7	18.8	13.6	12.7	7.4	5.8	4.7	0.7	0.5	0.5	22.2	27.0	22.9	1,150	(29.8)	15.0
GlaxoSmithkline Pharmaceuticals (a)	2,352	REDUCE	199,251	4,492	85	59.1	69.7	79.2	8.1	18.0	13.5	39.8	33.7	29.7	23.2	19.7	17.0	11.2	9.5	8.1	—	—	—	29.8	30.4	29.4	1,880	(20.1)	2.0
Glenmark Pharmaceuticals	319	NR	87,513	1,973	274	12.7	19.2	20.3	14.7	50.6	5.6	25.1	16.6	15.8	15.7	10.3	9.8	3.7	3.1	2.6	—	—	—	16.7	19.9	17.6	—	—	6.3
Jubilant Organosys	316	BUY	50,124	1,130	159	26.5	31.8	38.9	49.0	19.8	22.4	11.9	9.9	8.1	8.9	8.0	6.5	2.3	1.9	1.5	0.6	0.8	1.0	26.3	21.7	21.1	400	26.7	1.9
Lupin	455	ADD	201,134	4,535	442	15.4	19.8	25.5	27.9	28.7	28.7	29.5	22.9	17.8	24.9	18.1	14.3	8.7	8.2	7.2	2.9	3.2	3.4	36.6	37.2	43.6	400	(12.0)	9.4
Piramal Healthcare	494	REDUCE	103,242	2,328	209	22.4	4.1	8.8	29.7	(81.7)	113.0	22.0	120.2	56.4	16.0	(7.6)	(9.9)	6.1	0.7	0.7	1.1	1.2	0.7	30.7	159.4	11.4	490	(0.8)	30.0
Ranbaxy Laboratories	612	SELL	262,266	5,913	428	7.1	27.5	14.8	(128.4)	289.4	(46.0)	86.7	22.3	41.2	20.8	12.7	21.2	6.7	4.8	4.4	—	0.6	0.7	6.9	22.9	10.5	340	(44.5)	16.1
Sun Pharmaceuticals	2,138	REDUCE	442,771	9,982	207	65.2	90.4	87.4	(25.7)	38.6	(3.3)	32.8	23.7	24.5	25.4	17.8	17.4	5.3	4.5	3.9	0.6	0.6	0.6	17.8	21.0	17.3	1,835	(14.2)	9.0
Pharmaceuticals		Attractive	2,317,123	52,240					45.2	31.7	7.5	31.4	23.8	22.2	19.5	14.4	13.3	5.8	3.9	3.3	0.6	0.8	0.8	18.6	16.2	15.0			
Property																													
DLF	366	ADD	624,854	14,088	1,708	10.7	16.3	25.1	(60.0)	53.1	53.8	34.3	22.4	14.6	23.0	14.7	11.1	2.3	2.2	1.9	0.8	0.8	1.4	7.1	9.9	13.8	378	3.3	49.5
Housing Development & Infrastructure	269	ADD	103,600	2,336	385	12.4	14.2	16.7	(41.2)	14.2	17.9	21.7	19.0	16.1	10.8	12.2	8.1	1.5	1.3	1.2	1.0								

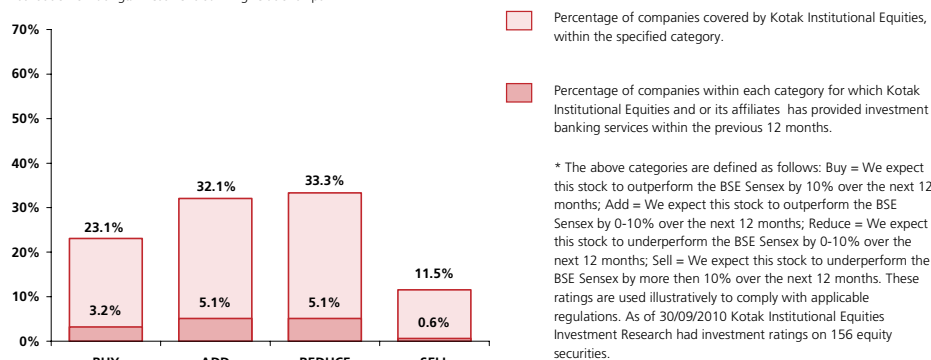
Kotak Institutional Equities: Valuation summary of key Indian companies

Company	25-Oct-10		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)		
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E					
Retail																															
Titan Industries	3,290	ADD	146,036	3,292	44	57.3	83.9	110.9	29.3	46.5	32.2	57.4	39.2	29.7	36.6	26.4	20.2	19.8	13.9	9.8	0.5	0.4	0.4	38.7	41.7	38.8	3,600	9.4	13.0		
Retail		Neutral	146,036	3,292					29.3	46.5	32.2	57.4	39.2	29.7	36.6	26.4	20.2	19.8	13.9	9.8	0.5	0.4	0.4	34.5	35.4	33.2					
Sugar																															
Bajaj Hindustan	130	SELL	24,924	562	191	4.3	1.8	13.3	34.1	(57.7)	626.9	30.1	71.1	9.8	9.2	8.7	5.7	1.1	1.1	0.9	0.5	0.5	0.5	3.7	1.5	10.3	93	(28.6)	4.5		
Balrampur Chini Mills	89	ADD	22,954	518	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	14.1	4.5		
Shree Renuka Sugars	89	REDUCE	59,813	1,349	670	8.8	5.1	5.8	164.2	(42.4)	15.1	10.1	17.6	15.3	6.1	8.2	7.2	2.4	1.9	1.6	0.4	0.4	0.4	29.1	13.0	13.1	80	(10.4)	14.5		
Sugar		Cautious	107,691	2,428					64.0	(19.6)	43.4	13.6	17.0	11.8	7.6	7.7	6.0	1.7	1.5	1.3	0.5	0.4	0.4	12.7	9.1	11.3					
Technology																															
HCL Technologies	425	REDUCE	292,940	6,604	690	17.5	22.8	28.3	0.2	29.9	24.3	24.2	18.6	15.0	11.8	11.1	8.8	4.2	3.7	3.2	0.9	1.4	1.4	19.3	21.4	23.0	390	(8.1)	9.5		
Hexaware Technologies	85	REDUCE	12,189	275	144	9.3	5.0	9.4	127.7	(46.3)	87.7	9.1	16.9	9.0	4.6	10.9	5.5	1.4	1.3	1.2	1.2	1.2	1.2	17.8	8.2	14.0	72	(15.1)	1.8		
Infosys Technologies	3,019	BUY	1,732,992	39,071	574	108.3	122.4	153.4	5.7	13.0	25.3	27.9	24.7	19.7	20.5	17.0	13.6	7.5	6.7	5.5	0.8	2.0	1.5	30.1	28.7	30.5	3,400	12.6	67.6		
Mphasis BFL	624	SELL	131,565	2,966	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	(11.9)	6.9		
Mindtree	520	REDUCE	21,419	483	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	2.5	0.4	0.3	0.8	35.2	16.1	20.2	450	(13.5)	0.9		
Patni Computer Systems	465	REDUCE	61,978	1,397	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	(3.3)	14.0		
Polaris Software Lab	173	SELL	17,253	389	100	15.4	19.4	19.8	16.9	26.2	2.2	11.3	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	4.0	2.8		
Satyam Computer Services	81	REDUCE	95,726	2,158	1,176	2.5	5.0	5.4	(190.7)	102.3	7.0	32.7	16.2	15.1	16.3	10.4	7.7	5.1	5.3	4.0	—	—	—	58.5	32.2	30.0	80	(1.7)	38.8		
TCS	1,067	BUY	2,088,235	47,080	1,957	35.1	43.0	50.0	32.8	22.4	16.3	30.4	24.8	21.3	23.2	18.1	15.0	10.0	8.2	6.8	1.9	1.6	1.9	37.6	36.3	34.9	1,100	3.1	38.1		
Tech Mahindra	765	REDUCE	94,740	2,136	124	65.1	68.9	67.8	(9.6)	5.7	(1.5)	11.7	11.1	11.3	9.4	11.5	10.2	3.3	2.7	2.2	0.5	0.3	0.3	29.5	20.3	16.2	735	(3.9)	8.7		
Wipro	430	ADD	1,052,923	23,739	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	8.1	14.8		
Technology		Attractive	5,601,960	126,298					24.0	16.9	16.7	25.5	21.8	18.6	18.4	15.5	12.7	6.7	5.7	4.7	1.2	1.5	1.5	26.3	26.2	25.4					
Telecom																															
Bharti Airtel	337	REDUCE	1,280,551	28,870	3,798	23.6	20.0	20.7	5.8	(15.6)	3.9	14.3	16.9	16.3	8.1	8.8	7.2	3.0	2.6	2.2	—	—	—	24.4	16.5	14.7	305	(9.5)	43.3		
IDEA	72	REDUCE	236,266	5,327	3,300	2.7	2.2	1.5	(5.8)	(19.7)	(30.8)	26.2	32.6	47.2	8.9	9.7	8.2	2.1	2.0	1.9	—	—	—	7.2	6.2	4.2	55	(23.2)	9.4		
MTNL	70	SELL	44,384	1,001	630	(15.6)	(10.4)	(9.1)	(750.8)	(33.7)	(11.9)	(4.5)	(6.8)	(7.7)	(0.8)	(1.1)	(1.4)	0.4	0.4	0.5	—	—	—	(8.5)	(6.1)	(5.7)	50	(29.0)	2.5		
Reliance Communications	180	SELL	382,894	8,632	2,133	22.1	6.0	9.4	(30.2)	(72.8)	56.1	8.1	29.9	19.2	7.4	10.0	8.3	1.0	1.0	0.9	0.4	—	—	11.7	3.2	4.9	125	(30.4)	19.5		
Tata Communications	319	REDUCE	90,944	2,050	285	14.0	15.2	15.7	3.2	8.2	3.5	22.8	21.0	20.3	9.2	8.5	8.1	1.3	1.2	1.2	2.0	2.4	2.7	5.2	5.5	5.5	225	(29.5)	3.0		
Telecom		Cautious	2,035,037	45,881					(15.9)	(33.1)	9.5	14.4	21.5	19.6	8.3	9.3	7.7	1.8	1.7	1.6	0.2	0.1	0.1	12.8	7.9	8.0					
Utilities																															
Adani Power	134	ADD	292,992	6,606	2,180	0.8	3.5	19.0	NM	351.8	436.1	171.5	38.0	7.1	140.3	29.7	6.4	5.1	4.5	2.7	—	—	—	4.2	12.5	48.0	143	6.4	5.0		
CESC	382	ADD	47,763	1,077	125	35.2	37.3	44.3	9.3	5.7	18.9	10.8	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	21.9	2.5		
Lanco Infratech	66	BUY	159,091	3,587	2,405	2.1	4.1	5.4	46.6	92.8	30.4	31.0	16.1	12.3	16.5	9.0	7.7	4.8	3.7	2.9	—	—	—	17.4	23.9	24.2	83	25.5	6.2		
NHPC	32	SELL	391,779	8,833	12,301	1.9	1.4	1.7	74.9	(25.2)	19.7	17.2	23.0	19.2	11.0	11.6	9.0	1.6	1.5	1.4	1.7	1.1	1.4	9.7	6.6	7.6	28	(12.1)	7.9		
NTPC	208	REDUCE	1,711,346	38,583	8,245	10.8	12.5	14.7	9.6	16.2	17.4	19.3	16.6	14.1	14.7	12.8	10.7	2.7	2.5	2.2	1.9	2.3	2.7	14.5	15.4	16.6	210	1.2	13.9		
Reliance Infrastructure	1,062	ADD	261,256	5,890	246	61.8	65.0	84.5	(1.5)	5.3	30.0	17.2	16.3	12.6	18.5	16.3	11.4	1.4	1.3	1.2	0.8	0.9	1.0	6.3	7.3	10.1	1,160	9.2	24.7		
Reliance Power	160	SELL	384,200	8,662	2,397	2.9	3.1	5.3	179.7	9.8	70.0	56.2	51.2	30.1	(522.7)	230.0	35.9	2.7	2.5	2.3	—	—	—	4.8	5.1	8.1	135	(15.8)	7.5		
Tata Power	1,414	ADD	348,925	7,867	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	12.3		
Utilities		Attractive	3,597,351	81,104					23.8	15.2	40.3	22.7	19.7	14.1	17.7	15.2	10.7	2.4	2.2	2.0	1.3	1.4	1.6	10.6	11.3	14.2					
Others																															
Havells India	414	SELL	24,934	562	60	5.3	31.6	45.0	3.7	497.9	42.6	78.4	13.1	9.2	12.2	7.5	6.0	6.9	4.5	3.1	0.6	0.6	0.7	6.6	41.6	39.7	497	19.9	8.6		
Jaiprakash Associates	126	BUY	267,274	6,026	2,129	1.5	5.5	7.4	(27.2)	279.8	34.1	86.2	22.7	16.9	21.8	16.0	11.4	3.1	2.7	2.4	—	—	—	4.1	12.8	14.9	170	35.4	26.7		
Sintex	426	REDUCE	58,079	1,309	136	24.1	29.3	33.7	0.5	21.6	14.9	17.7	14.5	12.6	14.4	9.5	8.3	2.7	2.3	1.9											

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Corporate Office

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

Overseas Offices

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

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

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