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News Round-up

- ▶ Sesa Goa (SESA IN) is planning an investment of USD 6.72 bn in the steel space in Orissa and Jharkhand and may rope in a global company to jointly run the ventures. The company plans to complete land acquisition for a 1-1.5 mn tones steel plant in Jharkhand by the end of this year. (BSTD)
- ▶ Sterlite Energy has revised the outlay for its proposed power project in Punjab upwards by over USD 674 mn taking the total investment commitment to around USD 2.91 bn. The diversified metal group will now invest over USD 2.91 bn on the Talwandi Sabo project in the state, making the new 2,640 Mw project the single largest investment by Vedanta in the domestic power sector. (BSTD)
- ▶ R-Power (RPWR IN) has placed an order with US-based power equipment maker GE Energy for its 2,400 Mw gas-based project planned at Samalkot in Andhra Pradesh. (BSTD)
- ▶ The Reliance Anil Dhirubhai Ambani Group (ADAG) said it would scale up its quantum of investment in Madhya Pradesh to USD 16.81 bn from USD 11.21 bn over the next five years in sectors like power and cement. (BSTD-Sun)
- ▶ The Ajay Piramal promoted Piramal Healthcare (PIHC IN), which sold off its main formulation business to Abbott for over USD 3.81 bn has announced a buy-back of up to 20% of the outstanding share capital of the company at INR 600 per share. The total spending involved will be over USD 564 mn. (BSTD-Sun)
- ▶ Wipro (WPRO IN) has developed a hardware product that can improve the power Generation in a solar plant by as much as 20%. (FNLE)
- ▶ GAIL (GAIL IN) starts work on pipeline connecting UP and Uttarakhand. (FNLE-Sat)

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

EQUITY MARKETS

India	Change %			
	22-Oct	1-day	1-mo	3-mo
Sensex	20,166	(0.5)	0.6	11.2
Nifty	6,066	(0.6)	0.8	11.3
Global/Regional indices				
Dow Jones	11,133	(0.1)	2.5	6.8
Nasdaq Composite	2,479	0.8	4.1	9.3
FTSE	5,741	(0.3)	2.6	8.1
Nikkie	9,415	(0.1)	(0.6)	(0.2)
Hang Seng	23,551	0.1	6.5	13.1
KOSPI	1,904	0.3	3.1	8.3
Value traded – India				
Cash (NSE+BSE)	209		221	203
Derivatives (NSE)	1,407		1,541	1,029
Deri. open interest	1,899		2,128	1,692

Forex/money market

	Change, basis points			
	22-Oct	1-day	1-mo	3-mo
Rs/US\$	44.6	(0)	(42)	(233)
10yr govt bond, %	8.1	(1)	19	46
Net investment (US\$m)				
	21-Oct		MTD	CYTD
FIs	220		4,521	23,775
MFs	11		(1,251)	(282)

Top movers -3mo basis

Best performers	Change, %			
	22-Oct	1-day	1-mo	3-mo
IDBI IN Equity	171.1	0.8	11.9	40.6
TTMT IN Equity	1148.9	(1.6)	7.1	37.0
BOB IN Equity	989.7	(0.5)	13.0	36.5
RBXY IN Equity	605.5	1.6	6.1	35.2
HNDL IN Equity	211.9	(0.7)	10.9	34.0
Worst performers				
IVRC IN Equity	152.0	(0.2)	(11.8)	(17.6)
MMTC IN Equity	1300.7	(0.3)	(4.3)	(13.4)
FTECH IN Equity	1146.5	(0.4)	(6.3)	(11.5)
SCS IN Equity	81.0	0.1	(19.2)	(11.1)
RNR IN Equity	39.4	(0.1)	(1.1)	(10.6)

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RESULT

 Coverage view: **Attractive**

 Price (Rs): **449**

 Target price (Rs): **465**

 BSE-30: **20,166**

Under-par quarter; course correction required. Wipro's sub-optimal account mining versus the peer set manifested in another quarter of below-par revenue performance. The company reported 5.7% qoq growth in US\$ revenues, underperforming TCS and Infosys, and missing our estimate by 0.8%. Revenue shortfall and lower Re realization also impacted margin performance. We retain our ADD rating on relative valuation gap. We remain positive on Wipro's capabilities; execution requires improvement.

Company data and valuation summary

Wipro

Stock data

52-week range (Rs) (high,low)	500-321
Market Cap. (Rs bn)	1,098.3

Shareholding pattern (%)

Promoters	79.4
FIs	7.7
MFs	0.6

Price performance (%)

	1M	3M	12M
Absolute	2.1	8.1	29.7
Rel. to BSE-30	1.0	(2.9)	7.9

Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	18.9	21.1	24.3
EPS growth (%)	22.1	12.1	15.0
P/E (X)	23.8	21.2	18.5
Sales (Rs bn)	271.2	309.6	360.9
Net profits (Rs bn)	45.9	51.7	59.5
EBITDA (Rs bn)	59.1	68.6	79.9
EV/EBITDA (X)	18.0	15.1	12.6
ROE (%)	26.5	23.8	22.8
Div. Yield (%)	0.8	0.9	1.1

Another quarter of weaker-than-peers revenue performance; reflects account mining challenge

Wipro reported 5.7% qoq growth in US\$ revenues for the Global IT services business to US\$1.27 bn, falling 0.8% short of our expectations. More importantly, revenue underperformance versus peers TCS, Infosys and CTS continues. We have highlighted Wipro's weak account mining as a concern several times, and the same manifested even stronger this quarter with the company falling behind peers on this parameter even further. Also of concern is Wipro's inability to grow faster than peers in its leadership segments, an area of strength for peers. We dwell deeper on both these aspects later in the note.

Revenue underperformance reflects in margin underperformance as well

Wipro's Global IT services margins, rather unexpectedly, fell 230 bps qoq to 22.2%, versus our expectation of an 80 bps drop. Even as a part of margin pressure can be explained by lower Re/US\$ realization qoq (an anomaly driven by Wipro's cash-flow hedge accounting practice and the adverse qoq swing in quantum of maturing hedges), we attribute the rest of it to sub-par revenue growth. Revenue underperformance in a high-growth, high-attrition industry environment has a margin bearing as companies need to keep compensation levels (rising industry-wide) marked to the market. For example, Wipro took a 130 bps qoq RSU expensing margin hit in the Sep 2010 quarter as it granted options to key employees to drive better retention.

Cut estimates on revenue/margin underperformance; retain ADD on valuation gap

We see Wipro underperforming Infosys, TCS and CTS on revenue growth in FY2011E; more importantly, failure to address account mining issues could sustain revenue underperformance in FY2012E as well. Also, with cost-reduction programs initiated during the downturn having run nearly full-course, margin performance hereon would also be a function of revenue growth. These factors, and a stronger Re assumption drive a 5%/5.6% downgrade in our FY2011/12E EPS estimate to 21.1/24.3. We now build in 18% and 20% revenue growth for Wipro Global IT services in FY2011E and FY2012E, respectively, and lower our margin assumptions by 70 bps and 40 bps. Retain ADD rating with an unchanged target price of Rs465/share; our conviction level on Wipro is lower than that on peers, but valuation discount does not justify a rating cut.

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Reasons for revenue performance obvious; little progress despite several initiatives to address the same discomforting

While Wipro has grown to credible size, it has trailed peers on revenue growth post FY2004 (barring FY2009, when its diversified portfolio helped outperform peers which had a concentrated portfolio of business). We do not see this scenario change soon unless Wipro is able to scale up account sizes, takes a proactive approach in business portfolio management and defend leadership/mindshare in its core areas of competence. Specifically we highlight

- ▶ **Account management.** To Wipro's credit, they have experimented with various structures to improve account mining such as driving focused client sales approach (mega, gama, large account structure), recruiting senior client partners and augmenting the sales force. However, these initiatives have not delivered results in line with our expectations. To put this in perspective, Wipro's revenues from top-10 clients is 31% lower than Cognizant, even though it is 9% larger in overall revenues, while the entire revenue difference with Infosys is explained by difference in revenues from top-10 clients (see Exhibits 1-2). We find the underperformance disappointing since Wipro has all the right ingredients (scalable client base, presence in large-spending verticals, full-service portfolio and a strong delivery engine) to match peers on revenue performance.
- ▶ **Protecting leadership segments.** Wipro leads/ has led the industry in R&D services, infrastructure services, BPO, Asia and Middle East geography and utilities vertical. Some of these areas are high-growth and underpenetrated opportunities. Wipro has a mixed track record on protecting leadership; it has done extremely well in protecting leadership in R&D services. Unfortunately, R&D services has been one of the slower-growing areas for the industry. It has also done reasonably well in relatively small but underpenetrated energy and utilities vertical. However, competition is fast catching up in other segments; CTS has overtaken Wipro in size in the North America geography, TCS is already larger than Wipro in BPO, while HCLT is fast catching up on industry analyst/client mindshare and size in the infrastructure services segment (refer to Exhibit 3).
- ▶ **Service-line oriented go-to-market strategy.** Wipro's strategy to grow revenues has been more service-line oriented than peers – the company has looked to leverage its full-service portfolio to win integrated total IT outsourcing deals, while using its strength in select service lines like IMS/BPO/R&D to open new client relationships. What has been missing, in our view, is (1) a concentrated vertical/domain approach in a few verticals (the benefits of which have been amply demonstrated by Cognizant) and (2) successful translation of account management initiatives into better client mining, an issue we have discussed above.

Exhibit 1: Client metrics for Wipro, TCS and Infosys.

	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
Average size of top 10 accounts (US\$mn) (a)										
Wipro	89	91	89	82	85	84	88	90	95	98
Infosys	139	136	127	120	116	121	136	134	142	160
TCS	150	147	145	147	152	155	164	172	183	192
Cognizant	84	87	90	87	90	103	105	116	137	NA
# accounts > US\$50 mn accounts										
Wipro	14	16	16	17	17	16	16	16	17	20
Infosys	18	20	20	20	19	21	22	26	26	27

Note:

(a) Average annualized revenues of top 10 accounts.

Source: Companies, Kotak Institutional Equities

Exhibit 2: Relative underperformance in Top 10 accounts may lead to underperformance
Size of top-10 clients account for a bulk of difference in revenues between Wipro and Infosys

(US\$ mn)	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
Wipro										
Revenues	1,068	1,110	1,100	1,046	1,033	1,065	1,127	1,166	1,204	1,273
Of which										
Top client	29	30	28	25	27	29	29	29	35	37
Top 5 clients	122	128	124	113	118	120	122	122	131	136
Top 10 clients	223	226	222	206	213	210	220	225	238	244
ex-top 10 clients	844	883	878	840	820	855	907	941	965	1,028
Infosys										
Revenues	1,156	1,218	1,171	1,122	1,122	1,154	1,232	1,296	1,358	1,496
Of which										
Top client	91	93	73	64	50	53	58	60	67	70
Top 5 clients	230	226	203	193	183	190	217	205	209	236
Top 10 clients	348	341	318	301	289	302	339	334	354	399
ex-top 10 clients	808	877	852	821	833	852	893	962	1,004	1,097
Difference: Wipro - Infosys										
Revenues	(88)	(108)	(71)	(76)	(89)	(89)	(105)	(130)	(154)	(223)
Of which										
Top client	(62)	(63)	(45)	(39)	(24)	(24)	(29)	(30)	(32)	(33)
Top 5 clients	(108)	(99)	(78)	(80)	(65)	(70)	(95)	(82)	(78)	(100)
Top 10 clients	(125)	(114)	(96)	(95)	(77)	(93)	(119)	(109)	(116)	(155)
ex-top 10 clients	37	7	26	19	(13)	4	14	(21)	(38)	(68)

Source: Companies, Kotak Institutional Equities

Exhibit 3: Competition is fast catching up in specific segments

(US\$ mn)	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
BPO										
TCS	93	91	86	159	169	181	188	194	201	218
Wipro	92	94	94	95	104	112	119	127	122	125
Infrastructure management										
HCL Tech	76	79	84	85	107	122	132	152	165	179
Wipro	199	216	213	219	216	219	240	252	254	270
HCLT as % of Wipro	38	37	40	39	50	56	55	60	65	66
US geography										
Cognizant	536	577	601	594	621	668	711	758	869	NA
Wipro	638	659	660	633	616	622	643	661	690	711

Note:

(a) TCS BPO revenues includes Citi BPO from March 2009.

Source: Companies, Kotak Institutional Equities

Sep 2010 quarter results – key highlights

- ▶ Consolidated revenues of Rs77.3 bn came in 0.8% ahead of our estimate despite Global IT services miss; outperformance was driven by higher-than-expected IT products and 'Others' segment revenues. Consolidated EBIT of Rs14 bn was 7% lower than estimate on account of weaker-than-expected IT services margins. Underperformance at the net income (Rs12.85 bn, -2.5% qoq, +10% yoy) was restricted to 1.2%, aided by lower-than-expected ETR (14.5% versus expected 19.6%).
- ▶ Global IT services segment disappointed on all parameters. Revenues fell 0.8% short of our estimate of US\$1,283 mn, coming in at US\$1,273 mn (+5.7% qoq, +19.5% yoy). Revenue growth was volume-led with the company registering 6.6% qoq volume growth. Pricing was down 0.4% onsite and 0.9% offshore on a constant currency basis.
- ▶ IT services EBIT margin declined 230 bps qoq to 22.2%. The company attributed the decline to (1) lower Re realization (130 bps impact), (2) RSU expenses (130 bps impact), and (3) SG&A step-up (100 bps impact); total impact was mitigated to an extent through other operational levers.
- ▶ Unlike peers, revenue growth was not broad-based; growth was led by retail (+10% qoq) and healthcare (+9.5% qoq) verticals even as CMSP (down 0.1% qoq), hi-tech (+2% qoq), and manufacturing (+3.7% qoq) verticals lagged. North America weakness continued with a muted 3.2% qoq growth. Rebound in Europe (also reported by peers) was visible in 10.3% qoq growth (aided partially by currency movements, constant currency growth of 7.3%).
- ▶ Strong growth in discretionary service lines was encouraging and consistent with peers – product engineering segment grew 17% qoq, and package implementation was up 6.5% qoq (on the back of a 9.7% growth 1QFY11).
- ▶ Client metrics disappointed again – growth was weak in top-5 and top-10 relationships, # of US\$100 mn accounts declined to 1 from 2, and the company also reported a decline in number of US\$1 mn+ relationships.
- ▶ Net hiring of 2,975 for the IT services segment was weak, a reflection of (1) slower-than-peers growth profile, and (2) rising attrition – quarterly annualized attrition increased 50 bps qoq to 24.9%, historically high levels for the company.
- ▶ Wipro has guided for global IT services revenues of US\$1.32 – 1.34 bn for 3QFY11E, implying a sequential growth of 3.5-5.5%, similar to the revenue growth guidance of Infosys. While solid (in a seasonally weak Dec quarter), this may not be enough to bridge the gap in FY2011E revenue growth with Infosys and TCS.

Exhibit 4: Comments on Wipro 2QFY11 Results (IFRS)

Rs mn	2QFY10	1QFY2011	2QFY2011	% chg.		Kotak estimates	% deviation	Comments
				qoq	yoy			
IT services revenues (US\$ mn)	1,065	1,204	1,273	5.7	19.5	1,283	(0.8)	
- IT Services	49,981	55,002	57,471	4.5	15.0	58,407	(1.6)	Global IT revenues of US\$1,273 mn, below of our estimate of US\$1,283 mn and inline with the company guided range of US\$1,253-1,277 mn.
- IT Products	11,854	8,320	10,693	28.5	(9.8)	9,483	12.8	IT products revenues tend to be lumpy
- Consumer Care and Lighting	5,559	6,414	6,651	3.7	19.6	6,671	(0.3)	
- Others	1,783	2,628	2,490	(5.3)	39.7	2,140	16.4	
Total revenues	69,177	72,364	77,305	6.8	11.7	76,701	0.8	
Operating Income	13,189	14,492	14,033	(3.2)	6.4	15,081	(7.0)	
- IT Services	11,865	13,502	12,746	(5.6)	7.4	13,844	(7.9)	Global IT EBIT margin declined by 230 bps ; we had build in a decline of 80 bps due to impact of promotions and higher RSU charges
- IT Products	612	337	533	58.2	(12.9)	299	78.4	
- Consumer Care and Lighting	732	879	832	(5.3)	13.7	831	0.1	
- Others	(20)	(226)	(78)	(65.5)	290.0	107	(172.9)	
Other income/ (expense)	681	948	955			983	(2.9)	
Pre-tax profits (pre-extraordinary)	13,870	15,440	14,988	(2.9)	8.1	16,065	(6.7)	
Pre-tax profit (after non-recurring)	13,870	15,440	14,988	(2.9)	8.1	16,065	(6.7)	
Income taxes	(2,217)	(2,345)	(2,183)	(6.9)	(1.5)	(3,144)	(30.6)	ETR at 14.6% lower than expectations
Net income	11,653	13,095	12,805	(2.2)	9.9	12,921	(0.9)	Net Income ahead of our expectations, partially due to lower tax provisions
Equity in earnings of affiliates	112	157	192	22.3	71.4	157	-	
Minority interest	(58)	(67)	(148)			(74)		
Income from continuing operations	11,707	13,185	12,849	(2.5)	9.8	13,004	(1.2)	
EPS- Continuing Operations	8.0	5.4	5.3	(2.5)	(34.1)	5.3	(1.2)	
MARGINS								
Operating margin								
IT Services	23.7	24.5	22.2			23.7		
IT Products	5.2	4.1	5.0			3.2		
- Consumer care & Lighting	13.2	13.7	12.5			12.8		
- Others	(1.1)	(8.6)	(3.1)			5.0		
Net Income Margin	16.9	18.2	16.6			17.6		
Billing Rates (US\$/manmonth)								
Onsite	12,340	11,654	11,774	1.0	(4.6)			
Offshore	4,450	4,291	4,296	0.1	(3.5)			
Revenue Mix (%)								
Onsite	49.9	52.2	51.7					
Offshore	50.1	47.8	48.3					

Wipro has guided for US\$1317-US\$1,343 mn of IT services revenues for 3QFY11, up 3.5% - 5.5% qoq.

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: Wipro: Key changes in FY2011E-12E estimates

Rs mn	Revised		Earlier		Change (%)	
	FY2011	FY2012	FY2011	FY2012	FY2011	FY2012
IT Services revenues (US\$ mn)	5,191	6,229	5,243	6,264	(1.0)	(0.6)
- Wipro Technologies	4,676	5,610	4,705	5,567	(0.6)	0.8
- Wipro BPO	515	619	538	697	(4.4)	(11.2)
Revenue growth (%)	18.2	20.0	19.4	19.5		
Rupee/ US\$ rate	45.0	44.5	45.6	46.0	(1.2)	(3.2)
EBITDA margin (%)	26.1	25.5	26.8	25.8		
EBIT margin (%) (ex forex gains)	23.0	22.5	23.7	22.9		
Total EBITDA (Rs mn)	68,589	79,876	71,017	83,103	(3.4)	(3.9)
Total EBITDA margin (%)	22.2	22.1	22.6	22.4		
EPS (Rs/share)	21.1	24.3	22.3	25.7	(5.0)	(5.6)

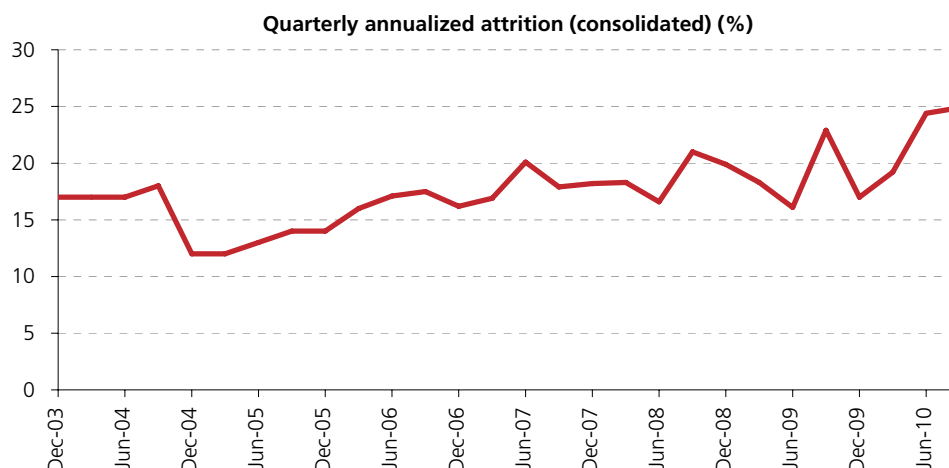
Source: Kotak Institutional Equities estimates

Exhibit 6: Growth rates across verticals, geographies and service lines

	Sep-10	Growth	
		(qoq)	(yoy)
Revenues (US\$ mn)	1,273	5.7	19.5
Service line split of revenues (%)			
Technology Infrastructure practices	270	6.2	23.0
Testing services	145	5.7	13.5
Package Implementation	173	6.5	22.2
BPO	125	2.6	11.5
Product engineering	66	17.0	59.3
ADM	494	4.7	16.8
Consulting	37	17.9	50.7
Vertical split of revenues (%)			
Technology, media and telecom	318	2.9	13.2
- Technology	104	2.0	12.6
- Telecom	104	7.0	21.0
- Communications & media service provider	109	(0.1)	7.0
Financial services	342	5.7	25.1
Manufacturing	188	3.6	13.4
Healthcare and services	112	9.5	29.8
Retail & transportation	197	10.0	21.8
Energy & Utilities	115	6.9	19.5
Geographical split of revenues (%)			
US	711	3.2	14.4
Europe	337	10.3	19.5
Japan	19	5.7	12.0
India and Middle east business	113	4.6	31.3
Other emerging markets	92	12.0	59.3
Customer concentration (%)			
Top customer	37	5.7	28.3
Top 5 customers	136	3.8	13.1
Top 10 customers	244	2.5	16.5

Source: Company, Kotak Institutional Equities

Exhibit 7: Quarterly annualized attrition has increased further



Source: Company, Kotak Institutional Equities

Exhibit 8: Profit model, balance sheet, cash model of Wipro Limited, 2009-2013E, March fiscal year-ends (Rs mn)

	2009	2010	2011E	2012E	2013E
Profit model					
Revenues	254,564	271,242	309,562	360,879	413,051
Cost of revenues (incl. deprn)	(178,368)	(186,299)	(210,708)	(246,455)	(282,645)
Revenues	76,196	84,943	98,854	114,424	130,406
SG&A expenses (incl. deprn)	(32,458)	(33,430)	(39,928)	(45,309)	(52,531)
EBITA	43,738	51,513	58,926	69,115	77,875
Amortization of intangibles	(1,488)	—	—	—	—
EBIT	42,250	51,513	58,926	69,115	77,875
Other income	369	3,369	4,271	6,347	7,402
Pre-tax profits	42,619	54,882	63,198	75,462	85,278
Provision for tax	(5,247)	(9,293)	(11,658)	(15,848)	(18,497)
PAT	37,372	45,589	51,540	59,614	66,781
Equity in earnings of affiliates	362	530	733	768	806
Reported PAT	37,734	46,119	52,273	60,382	67,587
EPS (Rs)	15.4	18.9	21.1	24.3	27.2
Balance Sheet					
Shareholders funds	150,182	196,112	237,617	284,984	336,955
Deferred tax liability/(assets)	—	—	—	—	—
Borrowings	27,563	26,009	9,018	10,513	12,033
Minority interest	235	437	994	1,908	2,914
Total liabilities	177,980	222,558	247,629	297,405	351,902
Net fixed assets	49,862	53,458	59,513	67,438	74,361
Cash and bank balances	65,297	95,298	63,266	95,041	132,718
Net current assets excluding cash	(13,143)	2,846	51,874	59,458	66,795
Other assets	75,964	70,956	72,976	75,468	78,027
Total assets	177,980	222,558	247,629	297,405	351,902
Cashflow statement					
Operating profit before working capital changes	52,193	59,056	68,589	79,876	89,948
Tax paid	(5,247)	(9,293)	(11,658)	(15,848)	(18,497)
Change in working capital/other adjustments	(11,753)	(9,709)	(4,795)	(7,813)	(7,570)
Capital expenditure	(16,234)	(12,979)	(15,718)	(18,686)	(18,995)
Investments/ acquisitions	(6,764)	(5,713)	—	—	—
Free cash flow	12,194	21,362	36,419	37,528	44,886

Note:

(1) US GAAP financials till FY2009; IFRS starting FY2010E.

Source: Company, Kotak Institutional Equities estimates

Exhibit 9: Operating Metrics Pertaining to IT Services Segments

	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
IT services revenues (US\$ mn)	1,110	1,100	1,046	1,033	1,065	1,127	1,166	1,204	1,273
Service line split of revenues (%)									
Technology Infrastructure practices	19.5	19.4	20.9	20.9	20.6	21.3	21.6	21.1	21.2
Testing services	11.1	11.5	11.9	12.1	12.0	11.5	11.7	11.4	11.4
Package Implementation	11.2	11.7	12.8	13.4	13.3	12.8	12.7	13.5	13.6
BPO	8.5	8.5	9.1	10.1	10.5	10.6	10.9	10.1	9.8
Product engineering	6.0	5.8	5.2	4.6	3.9	4.1	4.1	4.7	5.2
ADM	43.7	43.1	40.1	38.9	39.7	39.7	39.0	39.2	38.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Consulting	2.5	2.3	2.1	2.0	2.3	2.3	2.7	2.6	2.9
Vertical split of revenues (%)									
Technology, media and telecom	29.2	28.8	26.9	26.7	26.4	26.1	25.6	25.7	25.0
- Technology	11.2	10.9	9.9	9.4	8.7	8.4	8.6	8.5	8.2
- Telecom	9.5	9.6	8.8	8.4	8.1	7.9	8.2	8.1	8.2
- Communications & media service provider	8.5	8.3	8.2	8.9	9.6	9.8	8.8	9.1	8.6
Financial services	26.3	26.0	26.0	26.3	25.7	25.8	26.1	26.9	26.9
Manufacturing	14.7	15.3	16.3	15.5	15.6	15.1	14.8	15.1	14.8
Healthcare and services	7.9	7.3	7.4	8.0	8.1	8.7	9.2	8.5	8.8
Retail & transportation	13.6	14.5	15.6	15.2	15.2	14.8	14.7	14.9	15.5
Energy & Utilities	8.3	8.1	7.8	8.3	9.0	9.5	9.6	8.9	9.0
Geographical split of revenues (%)									
US	59.4	60.0	60.5	59.7	58.4	57.1	56.7	57.3	55.9
Europe	26.9	26.1	25.5	25.5	26.5	26.3	26.3	25.4	26.5
Japan	2.5	2.4	2.3	1.8	1.6	1.6	1.5	1.5	1.5
India and Middle east business	7.8	7.5	7.7	7.9	8.1	8.9	8.8	9.0	8.9
Other emerging markets	3.4	4.0	4.0	5.1	5.4	6.1	6.7	6.8	7.2
Client metrics									
Customer size distribution (TTM)									
Million dollar clients of which	426	436	427	413	403	398	406	434	425
> US\$50 mn	16	16	17	17	16	16	16	17	20
US\$20 mn - US\$50 mn	34	36	36	36	35	37	40	41	43
US\$10 mn - US\$20 mn	35	37	40	44	48	42	40	42	43
US\$5 mn - US\$10 mn	59	62	60	59	53	61	70	65	58
US\$3 mn - US\$5 mn	77	80	67	63	64	77	60	73	80
US\$1 mn - US\$3 mn	205	205	207	194	187	165	180	196	181
Repeat business (%)	98.4	96.7	96.8	99.5	98.1	97.8	96.5	99.6	99.0
New client additions	28	31	20	26	37	31	27	22	29
Total active customers	906	882	863	830	840	822	845	858	890
Customer concentration (%)									
Top customer	2.7	2.5	2.4	2.6	2.7	2.6	2.5	2.9	2.9
Top 5 customers	11.5	11.3	10.8	11.4	11.3	10.8	10.5	10.9	10.7
Top 10 customers	20.4	20.2	19.7	20.6	19.7	19.5	19.3	19.8	19.2
Employees (IT services)	97,552	96,965	97,810	98,251	97,891	102,746	108,701	112,925	115,900
Utilization (%)									
Global IT Services excl IFOX-Gross (a) (b)	70.3	69.8	68.4	70.0	70.8	73.2	72.1	71.3	70.9
Global IT Services excl IFOX-Net	77.0	76.6	75.4	77.1	78.2	80.7	79.3	78.4	78.0
Attrition (%)									
Global IT Services - Voluntary - Qtrly annualized	11.0	11.9	7.9	8.4	10.5	13.4	17.1	23.0	23.5
Global IT Services - Involuntary Qtrly annualized	10.0	8.0	10.4	7.7	12.4	3.6	2.1	1.4	1.4
Global IT Services (Excluding Infocrossing & BPO). CITOS is included from Q1 FY 09-10									
Revenues by project type (%)									
Fixed price	31.6	36.0	38.1	38.4	40.3	42.5	44.3	44.6	44.0
Time and material	68.4	64.0	61.9	61.6	59.7	57.5	55.7	55.4	56.0
Onsite-offshore revenue split (%)									
Onsite	54.1	53.2	51.2	49.6	49.9	50.3	49.4	52.2	51.7
Offshore	45.9	46.8	48.8	50.4	50.1	49.7	50.6	47.8	48.3
Price realization									
- Onsite	11,999	11,534	11,632	11,787	12,340	12,299	12,254	11,654	11,774
- Offshore	4,482	4,409	4,405	4,302	4,450	4,345	4,352	4,291	4,296
Person manmonths billed									
Onsite	38,449	38,912	34,296	32,876	32,367	33,730	34,396	40,011	41,786
Offshore	87,423	89,706	86,277	91,454	90,093	94,487	99,067	99,698	107,082
Total	125,872	128,618	120,573	124,330	122,460	128,217	133,463	139,709	148,868

Note:

(a) Global IT Services consists of Services provided world-wide except India & Middle East Business

(b) CITOS is included for Utilization computation for Global IT Services from Q1 FY10

Source: Company, Kotak Institutional Equities

OCTOBER 22, 2010

RESULT

Coverage view: **Attractive**

Price (Rs): **537**

Target price (Rs): **580**

BSE-30: **20,166**

High provisions and lower treasury gains result in lower-than-expected earnings.

Bol earnings fell short of expectations mainly due to lower-than-expected treasury gains and higher provisions (floating provisions to meet 70% coverage). NIMs declined marginally by 8 bps to 2.8% due to higher funding costs. Fresh slippages emerged during the quarter, but recoveries are likely to be very strong in 2HFY11E. Maintain ADD rating on the stock with a target price of ₹580.

Company data and valuation summary

Bank of India

Stock data

52-week range (Rs) (high,low) 589-309

Market Cap. (Rs bn) 282.7

Shareholding pattern (%)

Promoters 64.5

FIs 14.0

MFs 1.6

Price performance (%)

Absolute 1M 3M 12M 6.8 33.3 20.0

Rel. to BSE-30 5.6 19.7 (0.1)

Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	33.1	56.3	63.2
EPS growth (%)	(42.1)	70.2	12.2
P/E (X)	16.2	9.5	8.5
NII (Rs bn)	57.6	73.9	85.1
Net profits (Rs bn)	17.4	29.6	33.3
BVPS	243.4	285.8	333.4
P/B (X)	2.2	1.9	1.6
ROE (%)	14.2	21.3	20.4
Div. Yield (%)	1.3	2.2	2.5

Slippages increase; recoveries to improve in 2H

The past few quarters have seen earnings volatility increase for Bol, especially given the rise in fresh slippages (higher provisions and de-recognition of interest income) and lower treasury profits. Margins look to have stabilized with an upward bias but rising funding costs indicate that Bol would need to actively raise interest rates to keep them at current levels. Stickiness in asset quality is a concern but we expect upgradations/recoveries to improve in the coming few quarters. At 1.6X FY2012E PBR, valuations are inexpensive delivering RoE at 20% levels but we should see improved confidence as asset quality shows stability. Post the 2Q earnings, we are broadly maintaining our estimates for FY2011E and FY2012E.

NPLs flat sequentially but write-offs higher during the quarter

Gross NPLs for the quarter were flat qoq but underlying asset quality continues to see higher slippages while a lower recovery/upgradation indicates stickiness in the NPL portfolio. Higher write-offs during the quarter have resulted in sustaining NPLs during the quarter. Gross NPLs were ₹48.7 bn as of September 2010 (up 1% qoq and 24% yoy) while net NPLs were at ₹20.7 bn (up 29% yoy). Provision coverage, including technical write-off, is at 70% in 2QFY11. Slippages for the quarter were at 1.8% mainly from textiles, engineering and chemicals. Upgradation of NPLs from airline sector is expected in the next quarter as the restructuring package was not completed in 2QFY11.

Restructured portfolio stable qoq; overall slippage at 20% of loans

Outstanding restructured book was flat qoq at ₹100 bn (5.4% of loans). Total slippages stand the highest in the industry at about 20% of the restructured book. The quarter saw about ₹3 bn slippages from the restructured book.

QUICK NUMBERS

- NII grew 26% yoy while net profits grew 91% yoy
- NIMs at 2.8% while slippages were at 1.8%
- Maintain ADD with TP of ₹580 (from ₹560 earlier)

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Decline in domestic margins results in overall NIMs declining 8 bps to 2.8%

NIMs which improved in the previous quarter declined qoq by 8 bps to 2.81% mainly due to a sharp increase in cost of domestic deposits, offsetting the benefit of margin expansion in the international book. Cost of deposits increased by about 30 bps qoq to 5.7% while yield on advances increased by 15 bps to 10%. Net interest income (NII) increased by 26% yoy to ₹17.8 bn in 2QFY11. Margin in the domestic book was at 3.2% compared to 3.3% in 1QFY11 while the international margins improved by 17 bps qoq to 1.4%. CD ratio in the domestic book is still low at 71% offering comfort on current margins.

Business growth in line with industry; CASA ratio improves to 33%

Bol's loan book as of September 2010 was ₹1.84 tn (up 23% yoy) with a balanced growth between the domestic (22% yoy) and international loans (24%). Large corporates grew by 43% yoy. Deposits grew 21% yoy to ₹2.41 tn (21% yoy). Overall CASA growth was impressive at 28% yoy to ₹681 bn with savings deposits growing by 30% yoy. Domestic CASA ratio improved by about 100 bps qoq to 33%.

Other operational highlights for the quarter

- ▶ Bol's non-interest income declined 14% yoy to ₹5.9 bn in 2QFY11 mainly due to lower treasury income. Core fee income (ex treasury and recoveries) grew by 20% yoy while foreign exchange income declined 16% yoy to ₹1.1 bn.
- ▶ Cost-income ratio increased by 220 bps qoq to 42%. The bank is yet to estimate pension liability but had an excess cushion of ₹1.6 bn from wage arrears, of which ₹1.2 bn was utilized for an ad-hoc provision for all retirement benefits. The bank had given an estimate of ₹20 bn as pension liability in the previous quarter.
- ▶ The bank has provided ₹1.58 bn as floating provisions during the quarter to meet 70% provision coverage ratio requirements.
- ▶ Tier-1 capital stands at 8.4% (excluding profits for 1HFY11) with overall capital adequacy at 13%.

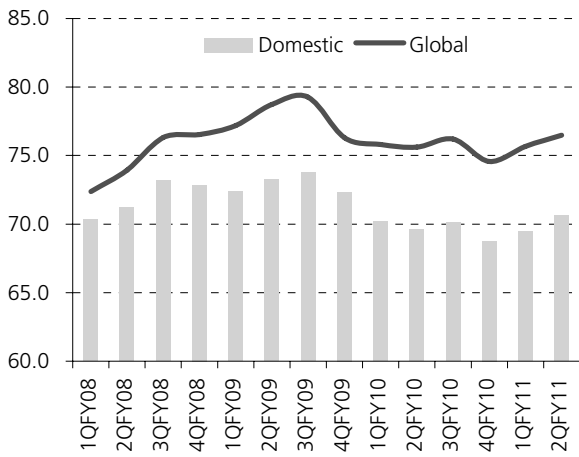
Bank of India quarterly results

March fiscal year-ends, 2QFY10-2QFY11 (Rs mn)

	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	% chg	2QFY11E	Actual Vs KS
Interest Income	44,890	44,862	45,251	48,173	51,553	15	50,555	2
- Loans	33,002	31,758	32,752	34,919	36,598	11	36,489	0
- Investments	10,765	12,303	11,932	11,776	13,072	21	12,589	4
- others	531	803	567	1,478	1,884	255	1,478	27
Interest expense	30,801	29,915	29,734	30,813	33,795	10	32,684	3
-interest on deposits	27,500	26,615	26,068	27,500	29,160	6		
-interest on borrowings	1,384	1,427	1,660	1,250	2,065	235		
-interest on subordinated	1,917	1,873	2,005	2,060	2,570	34		
NII	14,089	14,947	15,517	17,360	17,758	26	17,872	(1)
Other income	6,760	5,716	7,232	5,859	5,845	(14)	8,112	(28)
- treasury	1,511	1,365	661	999	360	(76)	909	(60)
- core fees	3,389	3,261	4,353	3,181	4,074	20	5,025	(19)
- forex income	1,317	758	1,283	1,310	1,110	(16)	1,580	(30)
- recoveries	543	332	935	369	301	(45)	597	(50)
- other income	914	741	1,015	680	1,069	17	1,097	(3)
Total income	20,849	20,663	22,749	23,219	23,603	13	25,983	(9)
Operating expenses	8,789	9,366	9,995	9,158	9,810	12	10,547	(7)
- staff	5,448	6,195	5,987	5,738	6,031	11	6,537	(8)
- others	3,341	3,171	4,008	3,420	3,779	13	4,009	(6)
Operating profit	12,060	11,298	12,754	14,061	13,794	14	15,436	(11)
Provisions	6,021	5,764	8,090	3,859	5,274	(12)	4,943	7
NPLs	4,698	4,465	6,600	3,080	2,863	(39)	4,698	(39)
Invst depreciation	1,343	1,306	1,061	-	628	(53)	269	134
Other provisions	(20)	(7)	429	710	1,783	(9,013)	(24)	—
PBT	6,038	5,534	4,664	10,202	8,520	41	10,494	(19)
Tax	2,805	1,477	385	2,995	2,355	(16)	3,148	(25)
Net profit	3,233	4,057	4,279	7,207	6,166	91	7,346	(16)
Tax rate	46.5	26.7	8.3	29.4	27.6			
Advances (Rs bn)								
Global	1,502	1,570	1,713	1,768	1,844	23		
India	1,183	1,228	1,352	1,394	1,447	22		
Foreign	320	342	361	375	397	24		
Agriculture	164	177	180	178	193	17		
SME	292	265	296	311	273	(7)		
Retail	170	192	158	155	153	(10)		
Residential mortgage	69	71	78	80	74	8		
Business mortgage	20	20	18	17	16	(23)		
Deposits (Rs bn)								
Global	1,987	2,060	2,298	2,337	2,411	21		
India	1,699	1,751	1,966	2,007	2,048	21		
Foreign	288	309	332	330	362	26		
Saving deposits	418	441	473	507	542	29		
Current deposits	112	130	145	142	139	24		
CASA ratio on global deposits(%)	26.7	27.7	26.9	27.8	28.2			
CASA ratio on Indian deposits(%)	31.2	32.6	31.5	32.3	33.2			
Investments (Rs bn)								
Global	597	705	671	686	674	13		
India	536	645	627	631	634	18		
Foreign	61	60	53	55	39	(35)		
SLR investments	536	598	577	579	577	8		
Gsec	530	593	572	574	573	8		
Other approved securities	6	5	5	5	4	(34)		

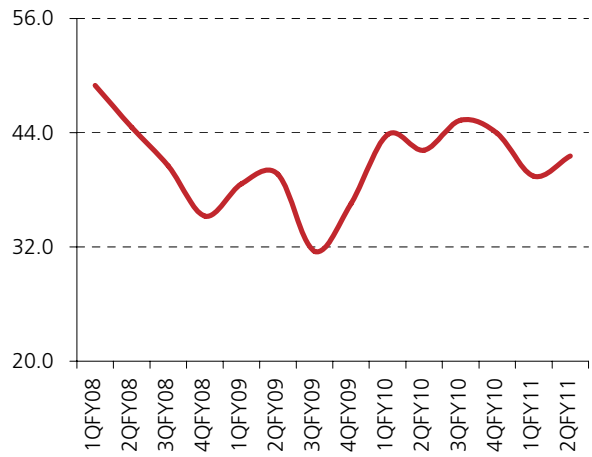
Source: Company, Kotak Institutional Equities estimates.

Credit to deposit ratio has been fairly stable



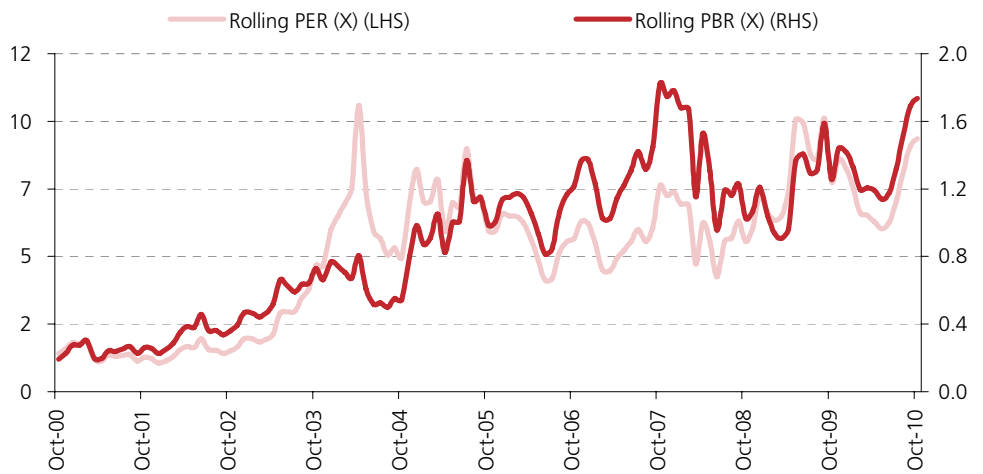
Source: Kotak Institutional Equities, Company

Cost-income ratio for the bank has been stable for the quarter



Source: Kotak Institutional Equities, Company

Bank of India: Rolling PER and PBR (X)
October 2000-October 2010



Source: Kotak Institutional Equities, Company

Bank of India key analytical parameters
March fiscal year-ends, 2QFY10-2QFY11

	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11
Asset quality					
Gross NPLs (Rs bn)	39.2	41.9	48.8	47.9	48.7
Gross NPLs (%)	2.6	2.7	2.9	2.7	2.6
Net NPLs (Rs bn)	16.0	16.0	22.1	20.6	20.7
Net NPLs (%)	1.1	1.0	1.3	1.2	1.1
Yield management measures (%)					
Cost of deposits	5.6	5.3	4.8	4.8	5.0
India	6.2	5.9	5.4	5.4	5.7
Foreign	1.9	1.6	1.3	1.3	1.3
Cost of funds	5.3	4.9	4.5	4.5	4.8
India	5.9	5.5	5.1	5.0	5.3
Foreign	2.4	2.1	2.0	2.0	2.0
Yield on advances	9.0	8.4	8.1	8.4	8.5
India	10.4	9.9	9.6	9.9	10.0
Foreign	3.6	3.0	2.8	2.9	3.1
Yield on investments	7.1	7.4	7.0	6.9	7.3
India	7.4	7.7	7.2	7.1	7.5
Foreign	4.5	4.2	4.2	4.0	4.2
Yield on funds	7.7	7.4	6.9	7.0	7.3
India	8.5	8.2	7.7	7.7	8.1
Foreign	3.6	3.3	3.2	3.2	3.4
Spread	2.4	2.5	2.4	2.5	2.5
India	2.7	2.7	2.6	2.8	2.7
Foreign	1.2	1.1	1.2	1.2	1.4
Margins	2.6	2.6	2.6	2.9	2.8
Domestic	3.1	3.1	3.0	3.3	3.2
Foreign	0.9	0.8	1.0	1.2	1.4
CAR	13.5	13.6	12.9	13.3	13.0
- Tier I	9.2	9.4	8.5	8.5	8.4
- Tier II	4.4	4.3	4.5	4.8	4.7

Source: Company

Incremental slippages have come off in 2QFY11

Movement in gross NPLs, March fiscal year-ends, 4QFY08-2QFY11 (Rs bn)

	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11
Gross NPL (beginning)	19.6	19.3	20.2	19.8	22.1	24.7	27.9	39.2	41.9	48.8	47.9
Recovery	2.9	1.3	2.0	1.6	(0.4)	1.1	1.7	2.4	1.6	2.4	1.9
Upgradation	0.9	0.4	0.8	0.7	(0.7)	0.6	0.4	0.6	1.0	2.1	1.1
Write-off	1.0	0.5	0.9	1.0	1.5	1.1	0.7	0.9	4.7	2.4	3.7
Slippages	4.4	3.0	5.2	5.6	2.9	5.9	13.8	6.8	14.5	6.2	8.2
Closing gross NPLs	19.2	20.2	21.6	22.2	24.6	27.9	38.9	42.2	49.1	48.1	49.5
Slippages	1.5	1.0	1.6	1.7	0.8	1.6	3.7	1.7	3.4	1.4	1.8
Loan loss provisions	0.6	0.5	0.2	0.6	0.5	0.5	1.3	1.1	1.5	0.7	0.6

Source: Company

We reduce our estimates for BoI
March fiscal year-ends, 2011-2013E (Rs mn)

	Old estimates			New estimates			% change		
	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E
Net interest income	74,603	84,535	99,125	73,871	85,123	99,031	(1.0)	0.7	(0.1)
Loan growth (%)	20.1	20.6	20.5	20.1	20.6	20.5			
NIM (%)	2.6	2.5	2.4	2.6	2.5	2.4			
Loan loss provisions	16,688	17,855	20,175	12,980	17,855	20,175	(22.2)	(0.0)	(0.0)
Other income	26,502	30,111	34,800	25,716	28,525	32,181	(3.0)	(5.3)	(7.5)
Treasury income	3,000	3,000	3,500	2,500	2,500	3,000	(16.7)	(16.7)	(14.3)
Others	23,502	27,111	31,300	23,216	26,025	29,181	(1.2)	(4.0)	(6.8)
Operating expenses	40,940	48,432	57,251	39,280	46,486	54,951	(4.1)	(4.0)	(4.0)
Employee expenses	25,922	31,184	37,513	24,276	29,204	35,132	(6.4)	(6.4)	(6.3)
Depreciation on investments	1,500	1,000	1,200	1,500	1,000	1,200			
PBT	40,977	46,559	54,299	42,327	47,508	53,886	3.3	2.0	(0.8)
Net profit	28,684	32,591	38,009	29,629	33,255	37,720	3.3	2.0	(0.8)
PBT-treasury	37,977	43,559	50,799	39,827	45,008	50,886	4.9	3.3	0.2
PBT-treasury + loan loss provisions	54,665	61,414	70,974	52,807	62,862	71,061	(3.4)	2.4	0.1

Source: Company, Kotak Institutional Equities estimates

Bank of India's growth rates and key ratios
 March fiscal year-ends, 2008-2013E (%)

	2008	2009	2010	2011E	2012E	2013E
Growth rates (%)						
Net loan	33.6	25.9	17.9	20.1	20.6	20.5
Customer assets	31.7	25.7	17.1	19.7	20.3	20.3
Investments excld. CPs and debentures growth	24.3	25.8	30.2	17.1	34.3	23.2
Net fixed and leased assets	207.4	4.4	(7.1)	17.4	15.0	2.2
Cash and bank balance	1.8	22.8	43.5	10.8	(12.5)	10.2
Total Asset	26.3	26.1	21.9	17.6	19.5	19.7
Deposits	25.1	26.5	21.1	16.3	21.2	21.1
Current	33.2	0.9	26.3	16.5	22.2	22.1
Savings	14.3	14.2	25.9	19.1	22.2	22.1
Fixed	28.1	33.5	19.3	15.4	20.8	20.8
Net interest income	14.8	30.0	4.7	28.3	15.2	16.3
Loan loss provisions	11.5	(2.6)	112.5	(27.3)	37.6	13.0
Total other income	36.8	44.2	(14.3)	(1.7)	10.9	12.8
Net fee income	31.2	39.4	0.4	12.0	12.0	12.0
Net capital gains	78.7	103.7	(20.4)	(57.9)	—	20.0
Net exchange gains	36.8	103.4	(40.4)	30.0	15.0	15.0
Operating expenses	1.4	17.0	18.5	7.1	18.3	18.2
Employee expenses	2.7	16.9	18.5	5.7	20.3	20.3
Key ratios (%)						
Yield on average earning assets	8.0	8.4	7.4	7.3	7.6	7.8
Yield on average loans	9.3	9.8	8.4	8.2	8.4	8.5
Yield on average investments	6.9	7.2	7.6	7.4	7.5	7.6
Average cost of funds	5.5	5.9	5.3	5.0	5.3	5.6
Interest on deposits	5.2	5.8	5.2	4.5	4.9	5.3
Difference	2.5	2.5	2.1	2.3	2.2	2.2
Net interest income/earning assets	2.7	2.8	2.4	2.6	2.5	2.4
Spreads on lending business	3.9	3.9	3.1	3.2	3.1	2.9
Spreads on lending business (incl. Fees)	4.6	4.8	3.8	3.9	3.7	3.5
New provisions/average net loans	0.9	0.7	1.1	0.7	0.8	0.8
Total provisions/gross loans	2.3	2.4	3.1	3.2	3.3	3.4
Interest income/total income	66.6	64.3	68.7	74.2	74.9	75.5
Other income / total income	33.4	35.7	31.3	25.8	25.1	24.5
Fee income to total income	12.3	12.8	13.1	12.3	12.1	11.7
Fee income to advances	0.8	0.9	0.7	0.7	0.6	0.6
Fees income to PBT	29.2	26.2	44.0	29.0	29.0	28.6
Net trading income to PBT	10.5	6.5	14.0	2.4	3.2	3.3
Exchange income to PBT	11.4	15.0	14.9	11.4	11.7	11.9
Operating expenses/total income	41.7	36.2	43.8	39.4	40.9	41.9
Operating expenses/assets	1.7	1.5	1.5	1.3	1.3	1.3
Operating profit /AWF	1.5	1.8	0.8	1.4	1.3	1.2
Tax rate	25.2	27.8	30.2	30.0	30.0	30.0
Dividend payout ratio	10.5	14.0	21.1	21.1	21.1	21.1
Share of deposits						
Current	9.9	7.9	8.1	8.1	8.1	8.1
Fixed	63.4	68.2	67.5	66.9	66.9	66.9
Savings	26.7	23.9	24.5	25.0	25.0	25.0
Loans-to-deposit ratio	75.6	75.3	73.3	75.7	75.4	74.9
Equity/assets (EoY)	5.9	6.0	5.2	5.1	4.9	4.7
Dupont analysis (%)						
Net interest income	2.7	2.7	2.3	2.5	2.4	2.3
Loan loss provisions	0.5	0.4	0.7	0.4	0.5	0.5
Net other income	1.3	1.5	1.1	0.9	0.8	0.8
Operating expenses	1.7	1.5	1.5	1.4	1.3	1.3
Invt. depreciation	0.1	0.2	0.1	0.1	0.0	0.0
(1- tax rate)	74.8	72.2	69.8	70.0	70.0	70.0
ROA	1.3	1.5	0.7	1.0	0.9	0.9
Average assets/average equity	21.9	19.4	20.2	21.4	21.7	22.3
ROE	27.6	29.2	14.2	21.3	20.4	19.9

Source: Company, Kotak Institutional Equities estimates

Bank of India's P&L and balance sheet
 March fiscal year-ends, 2008-2013E (Rs mn)

	2008	2009	2010	2011E	2012E	2013E
Income statement						
Total interest income	123,552	163,474	178,780	211,681	261,477	322,768
Loans	92,751	125,392	131,032	152,616	188,589	229,977
Investments	26,390	33,703	44,643	52,482	66,400	86,427
Cash and deposits	4,411	4,378	3,105	6,583	6,487	6,364
Total interest expense	81,260	108,485	121,220	137,811	176,354	223,738
Deposits from customers	70,585	97,765	108,122	112,042	145,733	188,585
Net interest income	42,293	54,989	57,559	73,871	85,123	99,031
Loan loss provisions	8,628	8,403	17,855	12,980	17,855	20,175
Net interest income (after prov.)	33,665	46,586	39,704	60,891	67,268	78,856
Other income	21,169	30,519	26,166	25,716	28,525	32,181
Net fee income	7,829	10,916	10,965	12,281	13,755	15,405
Net capital gains	3,662	7,461	5,936	2,500	2,500	3,000
Net exchange gains	3,066	6,235	3,718	4,833	5,558	6,392
Operating expenses	26,450	30,940	36,678	39,280	46,486	54,951
Employee expenses	16,570	19,374	22,961	24,276	29,204	35,132
Depreciation on investments	834	4,741	2,435	1,500	1,000	1,200
Other Provisions	703	(220)	1,820	3,500	800	1,000
Pretax income	26,846	41,644	24,938	42,327	47,508	53,886
Tax provisions	6,753	11,571	7,528	12,698	14,252	16,166
Net Profit	20,094	30,073	17,411	29,629	33,255	37,720
% growth	78.9	49.7	(42.1)	70.2	12.2	13.4
PBT - Treasury + Provisions	33,349	47,107	41,112	57,807	64,662	73,261
% growth	54.5	41.3	(12.7)	40.6	11.9	13.3
Balance sheet						
Cash and bank balance	177,174	217,613	312,301	345,987	302,756	333,686
Cash	4,563	4,580	6,507	6,507	6,507	6,507
Balance with RBI	112,855	84,573	149,519	183,205	139,974	170,904
Balance with banks	19,524	26,101	78,795	78,795	78,795	78,795
Net value of investments	418,029	526,072	670,802	776,991	1,029,820	1,259,644
Govt. and other securities	330,318	425,310	568,693	680,915	934,901	1,165,690
Shares	3,145	3,800	7,925	8,690	9,455	10,220
Debentures and bonds	24,820	28,462	21,362	19,226	17,303	15,573
Net loans and advances	1,134,763	1,429,094	1,684,907	2,023,550	2,440,109	2,939,857
Fixed assets	24,261	25,319	23,518	27,599	31,740	32,444
Net leased assets	—	—	—	—	—	—
Net Owned assets	24,261	25,319	23,518	27,599	31,740	32,444
Other assets	34,073	56,920	58,136	58,136	58,136	58,136
Total assets	1,788,300	2,255,018	2,749,665	3,232,264	3,862,562	4,623,768
Deposits	1,500,120	1,897,085	2,297,619	2,671,592	3,238,237	3,922,657
Borrowings and bills payable	133,562	167,097	235,715	322,471	361,511	410,311
Other liabilities	48,724	55,887	74,030	74,030	74,030	74,030
Total liabilities	1,682,406	2,120,068	2,607,365	3,068,093	3,673,777	4,406,997
Paid-up capital	5,259	5,259	5,259	5,259	5,259	5,259
Reserves & surplus	100,635	129,690	137,041	158,912	183,525	211,511
Revaluation reserves	17,631	17,103	14,286	13,858	13,442	13,039
Total shareholders' equity	105,894	134,949	142,300	164,171	188,785	216,771

Source: Company, Kotak Institutional Equities estimates

OCTOBER 22, 2010

RESULT

Coverage view: **Attractive**

Price (Rs): **303**

Target price (Rs): **350**

BSE-30: **20,166**

No big surprises: Margins sustained; NPLs decline. Indian Bank reported strong operating performance with margins maintained at 3.8% while earnings growth of 12% was ahead of expectations due to lower provisions. Gross NPL declining is positive, especially given the higher slippages reported in 1QFY11. The stock is trading at 1.4X FY2012E PBR; a premium to mid-tier PSU banks, given strong NIMs and RoE at 20%. We maintain ADD, revising target price to ₹350 valuing the bank at 1.6X FY2012E PBR.

Company data and valuation summary

Indian Bank

Stock data

52-week range (Rs) (high,low)	317-146
Market Cap. (Rs bn)	129.7

Shareholding pattern (%)

Promoters	80.0
FIs	12.4
MFs	2.9

Price performance (%)

	1M	3M	12M
Absolute	12.2	22.5	69.4
Rel. to BSE-30	10.4	9.5	40.4

Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	35.1	32.4	44.1
EPS growth (%)	25.5	(7.7)	36.2
P/E (X)	8.6	9.3	6.8
NII (Rs bn)	33.0	39.7	45.2
Net profits (Rs bn)	15.5	14.3	19.3
BVPS	154.5	180.1	214.9
P/B (X)	2.0	1.7	1.4
ROE (%)	24.1	18.8	21.7
Div. Yield (%)	2.2	1.9	2.6

QUICK NUMBERS

- NII grows 30% yoy to ₹9.8 bn. NIMs at 3.8%
- Slippages higher at 1.9% but upgradations improve sharply
- Revising TP to ₹350 (from ₹280 earlier)

Higher upgradations help reduce gross NPL sequentially

Indian Bank's asset quality saw improvement over the previous quarter with gross NPLs declining 9% qoq to ₹9 bn. For the quarter, gross NPL ratio was at 1.3% (1.5% in June 2010) while net NPL was at 0.7% (0.8% in June 2010). Slippages, however, continue to remain above trend lines for the bank at 1.9% annualized for the quarter. Nearly 85% of fresh upgradations (₹2.2 bn) were from slippages of the previous quarter. The higher recoveries reported from accounts slipped in the previous quarter show that slippages would be of shorter duration, mostly technical that requires better monitoring. Provision coverage ratio declined marginally to 44% (including write-off was flat qoq at 83%) compared to 48% as the loan loss provisions declined sharply to 60 bps (2.6% in June 2010). We expect gross NPL ratio at 1.2% with slippages at 1.3% levels and loan loss provisions at about 1.2% levels in FY2011-12E.

Loan growth at 29% yoy driven by SME advances; CASA ratio stable at 32%

Indian Bank's loans grew 29% yoy and 2% qoq as of September 2010. Growth continues to remain focused on SMEs which were up 70% yoy. For the quarter, nearly 60% of incremental loans were disbursed to this sector. The strong growth in SMEs should provide reasonable comfort on lending yields. Deposit growth was healthy at 22% yoy (8% qoq) while CASA deposits grew marginally higher at 27%. CASA ratio for the quarter was stable at 32%.

Margins maintained for the quarter at 3.8%

Indian Bank reported a net interest income (NII) of ₹9.8 bn (up 30% yoy). Net interest margin was stable for the quarter at 3.76% (marginal improvement of 5 bps sequentially), mainly due to improvement in lending yields of 13 bps to 10.2%. The improvement is positive considering the increase in deposit cost of 8 bps to 5.37% and decline in CD ratio of 390 bps to 71%. We have increased our NIM assumptions for FY2011E considering the strong 1HFY11 performance of 10 bps.

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Restructured loans stable for the quarter

Restructured loans for the bank were stable for the quarter at 4.4% of loans compared to 4.1% of loans in June 2010. The slippage from these loans has been marginal at less than ₹0.3 bn for the quarter. Outstanding slippage from the restructured loans stands comfortable at about 8% of loans.

Other operational highlights of the quarter

- ▶ Non interest income grew by 20% yoy to ₹2.8 bn, mainly due to higher treasury gains (95% yoy). Core fee income growth was subdued at 5% yoy (27% decline yoy) at ₹1.8 bn. The bank indicated that the sequential decline was mainly due to a one-off income reported in 1Q. Recoveries for the quarter was at ₹370 mn. Treasury gains for the quarter was at ₹5.9 bn compared to ₹299 mn in 2QFY10.
- ▶ Cost-income ratio was comfortable at 41% for the quarter.
- ▶ Tier-1 capital stands comfortable at 10.2% with overall capital adequacy ratio at 13%.

We reduce our estimates for FY2011E by 9% to factor the results

Old and new estimates, March fiscal year-ends, 2011-13E (Rs mn)

	Old estimates			New estimates			% change		
	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E
Net interest income	39,680	45,164	50,883	40,031	45,615	51,425	0.9	1.0	1.1
Loan growth	21.3	21.2	20.9	21.3	21.2	20.9			
Spread	3.2	3.0	2.9	3.3	3.1	2.9			
NIM	3.69	3.53	3.36	3.72	3.56	3.39			
Loan loss provisions	9,627	7,503	6,054	8,939	8,337	6,054	(7.1)	11.1	-
Other income	11,134	12,454	13,711	12,116	13,339	14,918	8.8	7.1	8.8
Fee income	2,682	3,192	3,766	2,682	3,192	3,766	-	-	-
Treasury income	1,000	1,200	1,200	1,800	1,800	2,000	80.0	50.0	66.7
Operating expenses	19,579	21,318	24,189	19,579	21,318	24,189	-	-	-
Employee expenses	12,973	14,057	15,657	12,973	14,057	15,657	-	-	-
PBT	20,413	27,603	33,157	22,434	28,104	34,906	9.9	1.8	5.3
Tax	6,124	8,281	9,947	6,730	8,431	10,472	9.9	1.8	5.3
Net profit	14,289	19,322	23,210	15,704	19,673	24,434	9.9	1.8	5.3
PBT before treasury and invest. deprn	19,913	26,903	32,457	21,134	26,804	33,406	6.1	(0.4)	2.9
PBT - treasury + invest. deprn + LLP	29,540	34,406	38,511	30,073	35,141	39,460	1.8	2.1	2.5

Source: Company, Kotak Institutional Equities estimates

Indian Bank quarterly results

March fiscal year-ends, 2QFY10-2QFY11 (Rs mn)

	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	% change	2QFY11	Actual Vs KS
Interest Earned	19,372	20,148	20,249	21,218	22,756	17	22,597	1
Interest/Discount on Advances/Bills	14,123	14,656	15,026	15,846	17,259	22	17,103	1
Interest on Investment	5,039	5,369	5,116	5,262	5,388	7	5,384	0
Interest on bal. with RBI & other inter bank funds	210	123	107	110	109	(48)	110	(0)
Interest expense	11,780	11,418	10,908	11,951	12,924	10	12,813	1
Net interest income	7,591	8,730	9,341	9,266	9,832	30	9,784	0
Other Income	2,372	2,935	2,929	3,555	2,837	20	2,884	(2)
Other Income exld treasury	2,073	2,162	2,854	2,985	2,251	9	2,694	(16)
Treasury	299	773	75	570	586	96	190	208
Recovery	286	432	901	401	370	29	487	(24)
Total Income	9,963	11,665	12,270	12,821	12,669	27	12,668	0
Operating Expenses	4,425	4,758	3,546	4,443	5,279	19	4,594	15
Payments to / Provisions for employees	3,114	3,408	2,150	3,215	3,692	19	3,269	13
Other operating expenses	1,312	1,350	1,396	1,228	1,587	21	1,325	20
Operating Profit Before Prov. & Cont.	5,538	6,907	8,723	8,378	7,389	33	8,074	(8)
Provisions & Contingencies	293	320	2,136	3,439	1,330	354	2,698	(51)
Loan loss provisions	350	320	3,110	4,100	1,050	200	2,929	(64)
Investment depreciation	(250)	-	(715)	-	180	-	100	-
Profit before tax	5,245	6,586	6,588	4,939	6,060	16	5,376	13
Provision for Taxes	1,526	2,172	2,488	1,258	1,902	25	1,821	4
Net Profit	3,719	4,414	4,100	3,681	4,158	12	3,555	17
Tax rate	29	33	38	25	31			
Key balance sheet items (Rs bn)								
Deposits	801	847	882	910	980	22		
CASA	248	264	281	298	316			
CASA (%)	31.0	31.1	31.8	32.7	32.2			
Advances	539	575	627	680	694	29		
Others (export)	39	24	27	30	26			
Agriculture	82	88	91	104	103			
Investments	269	286	274	291	324	20		
Yield management measures (%)								
Yield on advances	10.8	10.9	10.2	10.1	10.2			
Cost of deposits	5.9	5.6	5.1	5.3	5.4			
NIM	3.5	3.8	3.9	3.7	3.8			
Asset quality measures								
Gross NPL (Rs bn)	4.8	5.1	5.1	9.9	9.0			
Gross NPL (%)	0.9	0.9	0.8	1.5	1.3			
Net NPL (Rs bn)	1.0	0.9	1.4	5.1	5.1			
Net NPL (%)	0.2	0.2	0.2	0.8	0.7			
Provision coverage ratio (%)	79.7	82.6	71.6	48.3	44.1			
Provision coverage ratio (w/o) (%)			93.7	83.1	83.3			
Slippages (Rs bn)	0.8	0.6	3.9	8.2	3.3			
Slippages ratio (%)	0.6	0.4	2.7	5.3	1.9			
Restructured loans (Rs bn)	57.4	51.0	34.5	51.0	53.6			
Restructured loans (%)	10.6	8.9	5.5	7.5	7.7			
Capital adequacy details								
CAR (%)	13.9	13.2	12.7	12.5	13.0			
Tier I (%)	12.1	11.6	11.1	10.5	10.2			
Tier II (%)	1.8	1.6	1.6	2.0	2.8			

Source: Company, Kotak Institutional Equities estimates

Indian Bank key ratios and growth rates
March fiscal year-ends, 2008-2013E (%)

	2008	2009	2010	2011E	2012E	2013E
Growth rates (%)						
Net loan	37.1	29.2	20.8	21.3	21.2	20.9
Total Asset	25.6	19.3	20.5	18.1	18.1	18.0
Deposits	29.6	18.9	21.6	19.4	19.1	18.8
Current	30.4	11.8	25.2	19.4	19.1	18.8
Savings	15.1	17.7	23.3	19.4	19.1	18.8
Fixed	35.8	20.2	20.5	19.4	19.1	18.8
Net interest income	10.5	26.1	26.7	21.2	13.9	12.7
Loan loss provisions	171.0	(81.7)	478.7	89.3	(6.7)	(27.4)
Total other income	29.7	(3.1)	13.4	3.2	10.1	11.8
Net fee income	21.0	29.5	(3.8)	20.0	19.0	18.0
Net capital gains	389.3	(19.3)	11.7	(17.3)	-	11.1
Net exchange gains	20.0	20.0	20.0	15.0	15.0	15.0
Operating expenses	12.3	13.4	8.9	13.2	8.9	13.5
Employee expenses	10.1	19.2	5.2	7.0	8.4	11.4
Key ratios (%)						
Yield on average earning assets	8.5	9.2	8.8	8.7	8.9	9.0
Yield on average loans	10.2	11.1	10.2	10.2	10.4	10.5
Yield on average investments	8.0	7.7	8.0	7.6	7.6	7.6
Average cost of funds	5.6	6.2	5.6	5.5	5.8	6.2
Interest on deposits	5.5	6.1	5.6	5.5	5.8	6.2
Difference	2.9	3.0	3.2	3.3	3.1	2.9
Net interest income/earning assets	3.2	3.5	3.7	3.7	3.6	3.4
New provisions/average net loans	1.3	0.2	0.8	1.3	1.0	0.6
Interest income/total income	65.9	71.6	73.8	76.8	77.4	77.5
Fee income to total income	5.7	6.4	5.0	5.1	5.4	5.7
Operating expenses/total income	44.6	43.6	38.6	37.5	36.2	36.5
Tax rate	18.3	30.3	33.9	30.0	30.0	30.0
Dividend payout ratio	12.8	17.3	18.0	18.0	18.0	18.0
Share of deposits						
Current	24.6	24.3	24.7	24.7	24.7	24.7
Fixed	67.7	68.4	67.8	67.8	67.8	67.8
Savings	24.6	24.3	24.7	24.7	24.7	24.7
Loans-to-deposit ratio	65.3	70.9	70.4	71.5	72.8	74.1
Equity/assets (EoY)	6.8	8.0	7.8	7.6	7.5	7.5
Dupont analysis (%)						
Net interest income	3.3	3.4	3.6	3.6	3.5	3.3
Loan loss provisions	0.7	0.1	0.5	0.8	0.6	0.4
Net other income	1.7	1.3	1.3	1.1	1.0	1.0
Operating expenses	2.0	2.0	1.9	1.8	1.7	1.6
Invnt. depreciation	0.2	—	(—)	—	—	—
(1- tax rate)	81.7	69.7	66.1	70.0	70.0	70.0
ROA	1.6	1.6	1.7	1.4	1.5	1.6
Average assets/average equity	14.7	14.2	14.4	14.5	14.5	14.4
ROE (incl. preference capital)	23.4	22.9	24.1	20.5	21.8	22.8
ROE (ex- preference capital)	24.8	23.9	24.9	21.2	22.4	23.3

Source: Company, Kotak Institutional Equities estimates

Indian Bank P&L and balance sheet
March fiscal year-ends, 2008-2013E (Rs mn)

	2008	2009	2010	2011E	2012E	2013E
Income statement						
Total interest income	52,278	68,303	78,571	93,866	113,731	136,889
Loans	35,027	50,867	57,998	70,210	86,409	106,123
Investments	16,799	16,873	19,974	23,235	26,849	30,216
Cash and deposits	453	563	599	422	473	550
Total interest expense	31,591	42,218	45,532	53,836	68,116	85,465
Deposits from customers	29,795	40,614	44,742	52,993	67,104	84,453
Net interest income	20,688	26,085	33,039	40,031	45,615	51,425
Loan loss provisions	4,452	816	4,722	8,939	8,337	6,054
Net interest income (after prov.)	16,236	25,269	28,317	31,092	37,278	45,371
Other income	10,684	10,354	11,737	12,116	13,339	14,918
Net fee income	1,793	2,322	2,235	2,682	3,192	3,766
Net capital gains	2,412	1,948	2,176	1,800	1,800	2,000
Net exchange gains	1,000	1,052	1,148	1,321	1,519	1,747
Operating expenses	14,003	15,881	17,302	19,579	21,318	24,189
Employee expenses	9,674	11,528	12,124	12,973	14,057	15,657
Depreciation on investments	1,916	2,027	(960)	500—	500—	500—
Other Provisions	(1,353)	(145)	195	694	694	694
Pretax income	12,355	17,853	23,516	22,434	28,104	34,906
Tax provisions	2,262	5,408	7,966	6,730	8,431	10,472
Net Profit	10,093	12,453	15,550	15,704	19,673	24,434
% growth	32.8	23.4	24.9	1.0	25.3	24.2
PBT - Treasury + Provisions	14,957	18,603	25,297	30,768	35,835	40,154
% growth	8.3	31.2	35.9	21.6	16.5	12.1
Preference Dividend	350	375	400	320	320	320
Balance sheet						
Cash and bank balance	67,728	66,838	81,132	87,477	101,717	118,379
Cash	1,895	2,480	3,038	3,190	3,349	3,517
Balance with RBI	62,435	59,635	67,569	73,762	87,842	104,337
Balance with banks	696	1,590	593	593	593	593
Net value of investments	219,151	228,006	282,682	336,910	379,054	426,715
Govt. and other securities	174,681	188,226	230,861	288,372	331,586	380,210
Shares	4,190	3,069	5,203	5,203	5,203	5,203
Debentures and bonds	15,868	18,295	11,890	10,701	9,631	8,668
Net loans and advances	398,387	514,653	621,461	753,785	913,558	1,104,303
Fixed assets	5,393	15,942	15,796	6,232	6,220	5,551
Net leased assets	—	—	—	—	—	—
Net Owned assets	5,393	15,942	15,796	6,232	6,220	5,551
Other assets	14,418	15,779	12,811	12,811	12,811	12,811
Total assets	705,077	841,217	1,013,882	1,197,215	1,413,360	1,667,758
Deposits	610,459	725,818	882,277	1,053,748	1,254,891	1,490,523
Borrowings and bills payable	18,405	9,960	16,861	16,861	16,861	16,861
Other liabilities	24,105	34,080	32,023	32,023	32,023	32,023
Total liabilities	652,969	769,858	931,161	1,102,632	1,303,775	1,539,407
Preference capital	4,000	4,000	4,000	4,000	4,000	4,000
Paid-up capital	4,298	4,298	4,298	4,298	4,298	4,298
Reserves & surplus	43,810	63,061	74,423	86,285	101,287	120,053
Total shareholders' equity	48,108	67,359	78,721	90,583	105,584	124,351

Source: Company, Kotak Institutional Equities estimates

OCTOBER 25, 2010

RESULT

Coverage view: **Attractive**

Price (Rs): **1,056**

Target price (Rs): **1,400**

BSE-30: **19,872**

Strong growth continues alongside headwinds. SKS Microfinance reported PAT of Rs810 mn, up 117% yoy on the back of 81% growth in loan assets, marginal improvement in NIM and somewhat better operating leverage. Operating performance remains strong though investor confidence in SKS's long-term growth prospects in light of recent regulatory developments is key to near-term stock performance. We believe SKS's business models remains robust through significant headwinds pose risks to near-term growth.

Company data and valuation summary

SKS Microfinance

Stock data

52-week range (Rs) (high,low) 1,492-985

Market Cap. (Rs bn) 77.8

Shareholding pattern (%)

Promoters 57.8

FIs 14.9

MFs 5.5

Price performance (%)

	1M	3M	12M
Absolute	(20.8)	0.0	0.0
Rel. to BSE-30	(21.2)	0.0	0.0

Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	26.9	48.9	77.5
EPS growth (%)	61.1	81.3	58.6
P/E (X)	39.2	21.6	13.6
NII (Rs bn)	6.0	11.2	17.8
Net profits (Rs bn)	1.7	3.6	5.8
BVPS	126.1	273.1	355.1
P/B (X)	8.4	3.9	3.0
ROE (%)	21.7	23.9	24.7
Div. Yield (%)	0.0	0.0	0.0

Loan growth drives earnings

SKS reported strong growth traction – PAT up 117% to Rs810 mn on the back of 81% loan growth. The company expanded its branch network to 2,407 in September 2010 from 1,627 in September 2009 and 2,266 in June 2010.

Active borrowers increased to 6.6 mn from 4.3 mn in September 2010 - up 53% yoy; this is somewhat lower than 65% yoy growth in active borrowers reported in FY2010. The moderation in borrower acquisition in turn pushed average loan size by 18% yoy to Rs8,233 as compared to 7% yoy growth reported in March 2010.

Higher margins, operating leverage supports earnings

SKS NIM (as per KS estimate) increased to 20.1% in 2QFY11 from 19.5% in 1QFY11 and 18.6% in 2QFY10. A change in loan mix, lower share of assigned loans (without any change in lending rates) and capital issuance during the quarter boosted margins even as borrowing cost increased marginally during the quarter. The ratio of operating expenses to income declined to 50% in 2QFY11 from 53% in 1QFY11 and 52% in 2QFY10. We are modeling operating expenses ratio of 53% in FY2011E and 50% in FY2012E.

Regulatory uncertainties temper stock performance

A lack of clarity over the likely impact of recent developments in Andhra Pradesh (MFI Ordinance, risk of dual regulation on SKS and lack of clarity on the recent High Court verdict) affected SKS's stock price over the last few trading sessions. Newsflow this morning suggests that the Central Government may bring in a law to regulate MFIs as it fears overregulation by State Governments could cramp the sector. Key concerns of the proposed act according to media reports: NABARD to be regulator, MFIs may get access to retail deposits, no cap on interest rates and the creation of reserve fund to the tune of 15% of MFI's PAT- the utilization for the reserve is not clear.

QUICK NUMBERS

- PAT up 117%
- Loan growth of 81%

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SKS's model is strong, strong regulatory headwinds may affect near-term performance

The AP High Court has granted an interim relief to MFIs on the recent AP ordinance on MFIs. According to the High Court, MFIs can resume business but will need to get themselves registered within next seven days with the district registration authority.

Key highlights of the ordinance and its likely implication on SKS

Mandatory registration. The new ordinance makes it mandatory for all MFIs in Andhra Pradesh to register with a district level authority. While the ordinance required registration before commencing/resuming business, the High Court Order has allowed MFIs to commence/resume business and get themselves registered within next seven days. The MFIs will be required to submit a monthly statement to the registering authority giving the list of borrowers, the loan given to them and the amount of interest charged on these new loans.

Implication. The district registration authority will likely create another layer of regulation on MFI. Most large MFIs are NBFCs and registered with RBI. As such, SKS will seek a legal clarification, if it is governed by these regulations at all. The proposed law on MFIs by Central Government may empower NABARD as a regulator for MFIs, as per newspapers.

No cap on interest rate. The ordinance does not specify a cap on interest rates that can be charged by MFI. The amount of interest should not be in excess of the principal amount. The MFIs cannot seek collateral from a borrower by way of pawning or any other security. MFIs will now be required to display the rates of interest rates charged by them in prominent places at their offices.

Implication. SKS has highlighted that the yields on their MFI loans is 26.7% (as of September 2010) and this provision is unlikely to create an adverse impact. The Government will likely clamp down on gold loan companies and other NBFCs in order to avoid the regulatory arbitrage as the ordinance disallows pawning and secured lending.

Multiple loans disallowed. MFIs cannot extend a second loan unless the first loan has been fully paid off. The ordinance also mandates that SHG members cannot take a second loan without the permission of the local registering authority that is regulating MFIs.

Implication. In several instances, borrowers would like to access multiple lines of credit. SKS has been conservative in scaling up average loan size – the loan amount can be increased only twice in a year based on client repayment track record. As such, in several cases borrowers need to seek access to other lines of credit in the initial years. Thus, restrictions on accessing multiple channels for credit will likely have an adverse impact on borrowers and may affect collections in the near term.

Recoveries through coercive measures. MFIs following coercive practices can be liable to punishment or imprisonment or both. The state government will soon establish fast track courts after consultation with the High Court for settlement of disputes. According to the High Court's order, MFIs cannot be exposed to criminal liability until its final verdict. While newspapers have indicated that SKS and Spandana's employees have been imprisoned following complaints by some borrowers, SKS has highlighted that these employees have already been released and there is no warrant on the management of SKS.

SKS- Quarterly data

Rs mn

	1Q10	2Q10	1Q11	2Q11	YoY (%)
Interest income	1,150	1,707	2,250	3,020	77
Income on loans sold down	310	187	550	350	87
Other interest income	180	37	45	50	37
Interest expenses	634	639	733	910	42
Net interest income	1,007	1,291	2,112	2,510	94
Credit cost	113	141	120	170	21
NII (post credit cost)	893	1,151	1,993	2,340	103
Other income	80	206	290	310	50
Membership fees	20	50	40	40	(20)
Insurance commission	10	89	40	190	115
Group insurance charges	40	53	170	40	(25)
Others	10	15	40	40	172
Operating expenses	688	783	1,269	1,410	80
Administration expenses	214	257	412	480	87
Employee expenses	450	492	815	880	79
Depreciation	24	33	42	50	50
PBT	285	574	1,014	1,240	116
Tax	103	201	348	430	114
PAT	182	373	666	810	117

Other operational highlights

Members (mn)	4.4	5.3	7.3	7.8	
Active borrowers (mn)	-	4.3	6.2	6.6	
MFI Loans (Rs mn)	25,440	30,000	45,780	54,340	81
Disbursements (Rs mn)	12,680	18,930	22,830	31,710	
Disbursements ('000)	-	1,923	2,181	2,833	
Branches (#)	1,436	1,627	2,266	2,407	
Gross yields (%)		29.6	28.2	29.8	
Portfolio yield (%)		26.2	25.2	26.9	
Borrowings cost (%)			10.2	10.2	
Marginal borrowing cost (%)			9.7	9.8	
Operating cost/ MFI loans (%)	-	11.3	11.4	11.3	
Operating costs/ income (%)	63.3	52.2	52.8	50.0	
NIM (KS- %)	16.1	18.6	19.0	20.1	
RoA (%)	-	5.4	6.0	6.5	
Gross NPL (%)	-	0.2	0.2	0.2	
Net NPLs (%)	0.15	0	0.11	0.1	
Capital adequacy ratio (%)	0	24.8	24.9	33.2	

Balance Sheet (Rs mn)

Networth	-	7,710	10,270	18,040	134
Equity share capital	-	480	650	720	50
Reserves	-	7,230	9,620	17,320	140
Loan funds	-	26,030	27,620	35,000	34
Current liabilities and provisions	-	2,700	4,330	4,390	63
Total liabilities	-	36,440	42,220	57,430	58
Fixed Assets	-	140	220	230	64
Intangible assets	-	60	80	90	50
Investments	-	2	2	40	1,900
Deferred tax assets	-	80	110	260	225
Security deposit	-	1,500	1,720	1,330	(11)
Cash	-	5,700	2,960	4,540	(20)
Sundry debtors	-	60	30	30	(50)
Other current assets	-	588	738	780	33
Loan and advances	-	28,310	36,340	50,130	77
Total assets	-	36,440	42,200	57,430	58

Source: Company

SKS- Key operational highlights and financials
March fiscal year-ends, 2009-2013E

	2009	2010	2011E	2012E	2013E
Operating highlights					
Branches (#)	1,354	2,093	2,693	3,293	3,893
Clients (# mn)	3.9	6.8	9.9	13.4	16.8
Loan book/ branch (Rs mn)	18.1	20.6	30.8	38.0	44.3
Average loan size (Rs '000)	6,298	6,354	8,344	9,345	10,280
Average clients/employee (#)	299	321	331	342	345
Interest yield (%)	40.3	34.9	32.0	31.0	30.0
Interest cost (%)	14.0	12.3	12.5	12.5	12.5
Spreads (%)	26.3	22.6	19.5	18.5	17.5
NII / loans under management (%)	17.8	17.6	17.9	17.1	17.1
Operating costs/ net income (post provisions- %)	64.2	56.7	52.2	49.9	48.6
Debt/ equity (X)	3.0	2.8	3.0	3.5	3.5
Growth in key parameters (%)					
Net interest income	228	91	89	58	43
PAT	381	117	107	62	45
EPS	345	61	81	59	43
Du Pont analysis					
(% of average loans under management)					
Net interest income	17.8	17.6	17.9	17.1	17.1
Other income	2.7	2.2	1.7	1.5	1.4
Credit costs	0.7	1.5	1.6	1.7	1.8
Operating expenses	12.7	10.4	9.3	8.4	8.0
PBT post extraordinary	7.1	7.9	8.5	8.4	8.5
1-tax rate	0.6	0.6	0.7	0.7	0.7
RoA	4.6	5.1	5.7	5.6	5.7
Average assets / average equity (X)	4.0	4.2	4.2	4.4	4.8
RoE	18.5	21.7	23.9	24.7	27.2
Income statement (Rs mn)					
Net interest income	3,125	5,965	11,248	17,817	25,470
Fee income	456	673	1,045	1,505	2,020
Net total income	3,595	6,704	12,317	19,347	27,515
Provisioning expenses	135	517	1,069	1,954	2,915
Operating expenses	2,220	3,511	5,876	8,684	11,945
PBT before extraordinary	1,240	2,676	5,372	8,710	12,655
Tax	438	937	1,773	2,874	4,176
PAT	801	1,739	3,599	5,835	8,479
No. of shares (mn)	48	65	74	75	77
EPS (Rs)	17	27	49	77	111
BVPS (Rs)	137	147	279	355	465
Balance sheet (Rs mn)					
Assets					
Loans (1)	14,127	29,271	59,733	96,601	136,630
Total assets	30,389	40,475	90,754	135,375	185,281
Loans outside books (2)	10,389	13,843	23,079	28,461	35,770
Loans under management (1) + (2)	24,564	43,210	82,812	125,062	172,399
Liabilities					
Borrowings	19,960	26,946	61,168	92,892	125,857
Total liabilities	23,832	30,970	70,179	108,621	149,728
Share capital	479	645	737	753	765
Shareholders funds	6,557	9,503	20,575	26,754	35,553

Source: Company, Kotak Institutional Equities estimates

OCTOBER 22, 2010

RESULT, CHANGE IN RECO.

Coverage view: **Attractive**

Price (Rs): **444**

Target price (Rs): **470**

BSE-30: **20,166**

In-line sales and higher EBITDA margin; expect muted 2H. PAT at Rs892 mn was in line with our estimate, driven by in-line sales and higher EBITDA margin at 21% due to lower R&D expenses. Payments linked to Pfizer Insulin sales in India will remain minimal in FY2012E, though Biocon will qualify for milestone payments. We increase FY2012E EPS by 13% reckoning for licensing fees. We raise our price target to Rs470 (from Rs430) and move to ADD (from BUY). A doubling of R&D expenses is likely to result in a muted 2HFY11E and we advise investors to use the weakness to buy into the stock. Oral insulin out-licensing remains a strong trigger in FY2012E.

Company data and valuation summary

Biocon

Stock data		Forecasts/Valuations	2010	2011E	2012E
52-week range (Rs) (high,low)	473-230	EPS (Rs)	14.8	17.0	24.4
Market Cap. (Rs bn)	88.9	EPS growth (%)	216.4	14.7	43.6
Shareholding pattern (%)		P/E (X)	30.0	26.1	18.2
Promoters	60.9	Sales (Rs bn)	23.7	28.2	31.9
FIs	3.8	Net profits (Rs bn)	2.9	3.4	4.9
MFs	8.4	EBITDA (Rs bn)	4.7	5.5	7.0
Price performance (%)		EV/EBITDA (X)	18.7	15.9	12.4
Absolute	1M 3M 12M	ROE (%)	17.9	18.1	22.2
Rel. to BSE-30	25.2 20.5 35.7	Div. Yield (%)	0.0	0.0	0.0

Sales were 3% lower than our estimate; biopharma sales also fall short of our estimate

Sales were 3% lower than our estimate due to (1) lower contract research revenues at US\$17 mn versus our estimate of US\$19 mn, (2) biopharma sales ex Axicorp at US\$45 mn was 2% lower than our estimate and flat yoy. We believe biopharma sales ex Axicorp will continue to report yoy growth driven by higher immunosuppressant sales; however, research services is likely to report muted top line in 2HFY11E. Axicorp at Rs2.6 bn was flat yoy and 4% lower than our estimate. Licensing income at US\$5 mn was 24% higher than our estimate.

PAT at Rs892 mn was in line with our estimate of Rs899 mn

EBITDA margin at 21% was up 140 bps qoq and 120 bps higher than our estimate primarily due to lower R&D expenses. PAT at Rs892 mn was in line with our estimate despite EBITDA 3% higher than our estimate due to higher interest cost while depreciation and tax rate was in line with our estimate.

We increase FY2012E EPS by 13% on addition of US\$15 mn licensing fees

While the payments linked to Pfizer insulin sales in India will remain minimal in FY2012E, we believe Biocon will qualify for milestone payments upon Pfizer's launch in India. We, therefore, increase FY2012E EPS by 13% on addition of US\$15 mn of licensing income likely once Pfizer launches the two insulin products in India. We retain the earlier US\$12 mn of licensing fees in FY2012E likely from Mylan as timely progress has been made with certain candidates in pre clinics.

We increase PT to Rs470 (from Rs430), move rating a notch lower to ADD

We believe the stock is likely to remain weak in near term due to muted performance in 2HFY11E; however, weakness in 2HFY11E should be used to buy. Oral insulin out-licensing remains a strong trigger starting FY2012E. Biocon expects to out-license IN105 post conducting additional global trials under IND application, which would have pushed forward the licensing timelines. Phase I trials in US have commenced while phase III trial in India is expected to be completed early 2011E.

QUICK NUMBERS

- **PAT at Rs892 mn was in line with our estimate of Rs899**
- **We increase FY2012E EPS by 13% on addition of US\$15 mn licensing fees**
- **We increase PT to Rs470 (from Rs430), move rating a notch lower to ADD**

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Weakness in 2HFY11E should be used to buy

Stock likely to remain weak in near term due to muted performance in 2HFY11E

We estimate 16% sales CAGR over FY2011-12E in sales ex Axicorp/l. income, compared to 26% reported in FY2010.

Biocon's revenue ex Axicorp and licensing income grew 24% and 11% in 1Q-2QFY12E. We believe biopharma sales ex Axicorp will continue to report yoy growth driven by higher immunosuppressant sales; however, research services business is likely to report muted top line in 2HFY11E. We, therefore, estimate sales growth of 12% in 2HFY11E in totals sales ex Axicorp/licensing income.

BIOS maintained EBITDA margin excluding Axicorp at 30% and including Axicorp at 20% in 1QFY11 and 21.2% in 2QFY11. We expect margin to dip in 2HFY11E due to a ramp-up in R&D expenses.

Sales were 3% lower than our estimate in 2QFY11

- ▶ Axicorp grew 22% yoy to Euro45 mn, 4% lower than our estimate on the back of new tender contracts.
- ▶ Licensing income at Rs231 mn was 24% higher than our estimate. We believe the licensing income was largely on account of milestone based income from Mylan as products have moved into pre clinical development.
- ▶ Biopharma sales excluding Axicorp at US\$68 mn were flat yoy, 2% lower than our estimate. We believe this was on account of significant increase in sales of both MMF and Tacrolimus in the US and European markets. Biocon expects sales momentum to continue as it expects three of its partners for each product to gain approval in the near term.
- ▶ India branded finished dosage continues to maintain its high growth rate of 28% yoy in 1QFY11 and 32% in 2QFY11, after reporting growth of 36% in FY2010. Biocon launched two new divisions in Q2FY11 - Comprehensive Care and Immunotherapy.
- ▶ However, research services at Rs780 mn disappointed with 8% increase qoq, 12% lower than our estimate. This was primarily due to strategy of staying away from commoditized research business or the fee-for-service business, thereby getting into higher-value added research services business. Biocon expects Syngene to return to its historical profitability level of 33% EBITDA margin in FY2012E driven by (1) operating leverage benefits of capacity utilization. Syngene is now operating at capacity utilization of 70%, and (2) benefits of new strategy translating into better profitability.

PAT at Rs892 mn was in line with our estimate of Rs899 mn

PAT at Rs892 mn was in line with our estimate despite EBITDA 3% higher than our estimate due to higher interest cost while depreciation and tax rate was in line with our estimate. Interest cost was higher despite lower debt qoq due to higher hedging cost.

EBITDA margin at 21% was up 140 bps qoq and 120 bps higher than our estimate primarily due to lower R&D expenses.

- ▶ R&D expenses at Rs200 mn was 50% lower than our estimate of Rs414 mn.
- ▶ Materials cost as a percentage of sales at 61% was in line.
- ▶ However, other expenses at Rs487 were higher qoq and 40% higher than our estimate due to higher promotional expenses in India.

R&D spend set to double in 2HFY11E due to four clinical development programs

- ▶ With increased R&D spend, BIOS expects net R&D spend to ramp up to Rs1.5 bn in FY2011E from Rs784 mn in FY2010.
- ▶ Oral Insulin is currently in phase III trials in India and phase I trials under IND application have commenced. BIOS expects to commence licensing discussions for oral insulin only post additional phase I trials in US.
- ▶ BIOS' second novel molecule for Psoriasis is undergoing phase III trials in India.
- ▶ Phase III trials for Biocon's biosimilar version of insulin are underway in Europe. Biocon expects the trial duration to be around 12 months from start, post which regulatory approvals etc. will take another year.

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

	2QFY11	2QFY11E	2QFY10	1QFY11	% change		
					2QFY11E	2QFY10	1QFY11
Sales	5,776	5,908	4,963	5,696	(2)	16	1
Contract research fees	781	883	731	720	(12)	7	8
Technology Licensing Fees	231	186	106	206	24	118	12
Expenses							
Materials	3,798	3,939	3,315	4,033	(4)	15	(6)
Power	200	204	161	0	(2)	24	NM
Staff costs	707	675	572	695	5	24	2
Other expenses	684	764	672	561	(10)	2	22
FX Losses(gains)	(37)	—	(52)	20	NM	NM	NM
EBITDA	1,436	1,396	1,132	1,313	3	27	9
R&D expenses	197	414	206	212	(52)	(4)	(7)
EBITDA pre R&D	1,365	1,624	1,180	1,339	(16)	16	2
Interest	65	30	52	70	117	25	(7)
Depreciation	391	385	351	375	2	11	4
Other income	89	100	124	95	(11)	(28)	(6)
PBT	1,069	1,081	853	963	(1)	25	11
Current tax	156	162	100	164	(4)	56	(5)
PAT	913	919	759	799	(1)	20	14
Minority interest	22	20	17	31	8	27	(30)
Profits for shareholders	892	899	742	768	(1)	20	16
Exceptional item	—	—	—	—	NM	NM	NM
Profits for shareholders	892	899	742	768	(1)	20	16
Biopharmaceuticals	5,776	5,908	4,963	5,696	(2)	16	1
Axicorp	2,600	2,701	2,127	2,630	(4)	22	(1)
Contract research	781	883	731	720	(12)	7	8
Technology licensing fees	231	186	106	206	24	118	12
Total	6,788	6,977	5,800	6,622	(3)	17	3

Source: Kotak Institutional Equities estimates, Company

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

	2007	2008	2009	2010	2011E	2012E
Net sales	9,857	10,538	16,086	23,678	28,228	31,939
Total expenditure	(7,022)	(7,552)	(12,853)	(18,963)	(22,688)	(24,944)
EBITDA	2,834	2,986	3,233	4,715	5,539	6,995
Depreciation and amortisation	(665)	(939)	(1,103)	(1,401)	(1,586)	(1,750)
EBIT	2,169	2,047	2,131	3,314	3,953	5,245
Net finance cost	(98)	(102)	(177)	(169)	(225)	—
Other income	38	364	646	370	384	500
Loss/(gain) on forward covers	—	—	(1,472)	—	—	—
Pretax profits before extra-ordinaries	2,109	2,309	1,128	3,515	4,112	5,745
Current tax	(18)	(97)	(98)	(445)	(616)	(747)
Deferred tax	(151)	(17)	(1)	(42)	—	—
Fringe benefit tax	—	(15)	(19)	—	—	—
Reported net profit	1,940	2,180	1,009	3,028	3,496	4,998
Profit/(loss) in minority interest	(62)	(65)	79	96	93	110
Reported net profit after minority interests	2,002	2,245	930	2,932	3,403	4,888
Exceptional items	—	2,394	—	—	—	—
Reported net profit after minority interests a	2,002	4,639	930	2,932	3,403	4,888

Source: Kotak Institutional Equities estimates, Company

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

	2007	2008	2009	2010	2011E	2012E
Balance sheet						
Total equity	10,686	14,841	15,107	17,578	20,072	24,050
Total debt	1,868	2,551	5,239	5,136	1,800	—
Current liabilities	2,749	3,005	4,375	5,799	7,192	8,232
Minority interests	(8)	(73)	248	338	431	541
Deferred tax liabilities	448	465	466	508	508	508
Total equity and liabilities	15,744	20,789	25,436	29,359	30,002	33,331
Cash and cash equivalents	87	96	118	1,399	150	150
Current assets	5,209	5,250	7,806	9,520	12,263	14,065
Net assets incl intangibles	9,657	10,695	13,836	14,134	15,048	17,073
Investments	790	4,748	3,676	4,306	2,541	2,042
Total uses of funds	15,744	20,789	25,436	29,359	30,002	33,331
Free cash flow						
Operating cash flow, excl. working capital	2,660	2,872	3,009	4,256	4,947	6,313
Working capital	(1,557)	(20)	(1,302)	(363)	(1,486)	(762)
Capital expenditure	(2,040)	(1,836)	(4,243)	(1,547)	(2,500)	(3,775)
Investments	(212)	3,957	(1,071)	630	(1,765)	(499)
Free cash flow	(1,148)	4,974	(3,607)	2,976	(804)	1,276

Source: Kotak Institutional Equities estimates, Company

OCTOBER 22, 2010

RESULT

Coverage view: **Cautious**

Price (Rs): **380**

Target price (Rs): **385**

BSE-30: **20,166**

Revenues beat expectations but bottom line stays in line. Bharat Forge reported in-line consolidated PAT of Rs606 mn despite 7% revenue upside. The higher-than-expected revenues were driven by strong 30% sequential growth in non-auto revenues and pass-through of higher raw material prices. Margins at European subsidiaries declined sequentially. Standalone EBITDA per kg was flat from 1QFY11. We are raising our target to Rs385 to reflect higher valuation for the Alstom JV. Maintaining ADD.

Company data and valuation summary

Bharat Forge

Stock data

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

Market Cap. (Rs bn) 90.8

Shareholding pattern (%)

Promoters 42.1

FIs 14.2

MFs 7.3

Price performance (%)

	1M	3M	12M
Absolute	5.3	13.7	37.2
Rel. to BSE-30	4.1	2.1	14.3

Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	0.7	12.4	19.7
EPS growth (%)	(92.0)	1,705.4	59.1
P/E (X)	552.4	30.6	19.2
Sales (Rs bn)	33.3	41.3	50.8
Net profits (Rs bn)	0.2	3.0	4.7
EBITDA (Rs bn)	3.9	7.9	11.0
EV/EBITDA (X)	22.9	10.4	6.6
ROE (%)	0.9	0.4	0.1
Div. Yield (%)	0.0	0.0	0.0

Bharat Forge reported in-line consolidated PAT of Rs606 mn; non-auto revenue growth strong

Bharat Forge reported 2QFY11 PAT of Rs606 mn compared to our estimate of Rs594 mn. Revenues for the quarter totaled Rs11.1 bn and came in better than our estimate of Rs10.3 bn driven by stronger standalone revenues of Rs7.2 bn. Standalone revenues were up a strong 14% sequentially on good CV volumes and further traction in non-auto revenues. Non-auto revenues grew 30% from 1Q FY11 levels and now stand at 38% of standalone revenues, up 500 bps qoq and 900 bps yoy. On a consolidated basis, we estimate non-auto revenues are now closer to 23% of revenues versus 20% reported for FY2010.

Margins decline sequentially at overseas subsidiaries on seasonally weaker utilizations

Consolidated EBITDA for the quarter came in at 17.5%, down 70 bps from 1QFY11 and up 540 bps on a yoy basis. Standalone margins for the quarter came in at 24.2% and declined 100 bps from 1QY11 levels. The margin decline was driven by the impact of increases raw material pass through in revenues. EBITDA per kg actually improved slightly to Rs38 versus Rs37 in 1QFY11.

Margins at the overseas subsidiaries declined to 3% for the quarter from 4.2% reported in 1QFY11. Management attributed the sequential decline to lower utilization levels on account of a seasonal decline in European production during the summer months.

Raising target to Rs385 on higher JV valuation

We are raising our target from Rs360 to Rs385 as we increased our valuation of the company's stake in their JV with Alstom to Rs42 from Rs20 prior. We now value the stake at 1.6X book value compared to 1.3X prior. The increase was driven by the increased prospects and visibility with JV being determined at the lowest bidder for the NTPC contract. Exhibit 1 details the DCF for the JV.

The company is having a conference call today at 9:30 AM post which we may review our earnings estimates and target for the stock.

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Interim results of Bharat Forge, March fiscal year-ends (Rs mn)

	2QFY11	2QFY11E	2QFY10	1QFY11	(% chg.)		
					2QFY11E	2QFY10	1QFY11
Net sales	7,187	6,870	4,276	6,301	4.6	68.1	14.1
Total expenditure	(5,446)	(5,167)	(3,252)	(4,714)	5.4	67.5	15.5
Inc/(Dec) in stock	134	-	148	310	—	(9.2)	(56.8)
Raw materials	(3,441)	(3,092)	(2,033)	(3,116)	11.3	69.3	10.4
Staff cost	(489)	(475)	(357)	(457)	3.0	37.1	7.2
Other expenditure	(1,649)	(1,600)	(1,010)	(1,451)	3.1	63.4	13.7
EBITDA	1,741	1,704	1,024	1,587	2.2	70.0	9.7
OPM (%)	24.2	24.8	24.0	25.2			

Source: Company, Kotak Institutional Equities

Bharat Forge SOTP-based valuation, FY2012E basis (Rs mn)

		EV/EBITDA		Valuation		Comments
		(X)	EV	(Rs/share)		
FY2012E standalone EBITDA	9,137	9.0	82,236	344		FY2012E estimate
FY2012E overseas EBITDA	1,624	5.0	8,122	34		FY2012E estimate
Less: net debt			7,997	33		FY2012E end
Component business valuation			82,362	344		
Alstom JV				42		20% discount to DCF-based valuation, implied P/B of 1.6X
Total valuation				386		
Target price				385		

Source: Company, Kotak Institutional Equities

Order inflows triggering increase in valuation of Alstom JV

DCF valuation of Bharat Forge's equipment JV with Alstom, March fiscal year-ends, 2011E-21E (Rs mn)

	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Capacity	—	—	5000	5000	5000	5500	6000	6000	6000	6000	6000
MW equipment sold	—	—	2,500	2,750	2,750	3,300	4,200	4,500	4,800	5,100	5,100
Realisation per MW (Rs mn)	—	—	12.0	12.0	12.6	13.2	13.9	14.6	15.3	16.1	16.9
Revenues (Rs mn)	—	—	30,000	33,000	34,650	43,659	58,344	65,637	73,514	82,014	86,115
Revenue growth (%)	—	—	10.00	5.00	26.00	33.64	12.50	12.00	11.56	5.00	
EBIT	—	—	1,704	2,228	2,299	3,587	5,839	6,682	7,589	8,562	8,958
EBIT margin (%)	—	—	5.7	6.8	6.6	8.2	10.0	10.2	10.3	10.4	10.4
EBIT*(1 - tax)	—	—	1,138	1,489	1,536	2,396	3,901	4,464	5,069	5,720	5,984
Depreciation	—	—	1,296	1,402	1,512	1,652	1,746	1,851	1,968	2,099	2,237
Capital expenditure	(7,500)	(7,500)	(1,200)	(1,320)	(1,386)	(1,746)	(1,167)	(1,313)	(1,470)	(1,640)	(1,722)
Change in working capital	—	—	(3,600)	(360)	(198)	(1,081)	(1,762)	(875)	(945)	(1,020)	(492)
Free cash flow for the firm	(7,500)	(7,500)	(2,366)	1,210	1,464	1,221	2,717	4,126	4,622	5,159	6,007
No of years	—	-	1	2	3	4	5	6	7	8	9
Discount factor	1.0	1.0	0.9	0.8	0.7	0.6	0.6	0.5	0.4	0.4	0.3
Sum of cash flows	(4,695)										
Terminal value	29,133										
Total value	24,438										
Per share valuation (Rs)	52										
						Discount rate (%)	12.5				
						Terminal growth rate (%)	5.0				

Source: Kotak Institutional Equities estimates

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	41,287	50,779	55,123
EBITDA	7,045	5,577	3,385	7,289	10,423	11,511
Other income	993	675	511	571	583	597
Interest	(1,269)	(1,291)	(1,303)	(1,034)	(1,034)	(974)
Depreciation	(2,271)	(2,517)	(2,451)	(2,495)	(2,978)	(3,013)
Profit before tax	4,498	1,107	(645)	4,330	6,994	8,121
Current tax	(1,437)	(207)	(522)	(1,299)	(2,098)	(2,436)
Deferred tax	(152)	(489)	403	(130)	(210)	(244)
Adjusted net profit	3,013	1,919	153	2,967	4,719	5,457
Adjusted earnings per share (Rs)	13.4	8.6	0.7	12.4	19.7	22.8
Balance sheet (Rs mn)						
Equity	17,717	18,512	15,589	21,119	25,733	31,086
Total Borrowings	16,544	21,908	22,527	18,238	18,238	16,238
Current liabilities	17,120	13,035	14,857	17,060	20,868	22,671
Total liabilities	51,381	53,455	52,973	56,417	64,839	69,995
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	5,715	9,902	13,338
Other current assets	18,428	19,533	18,194	21,896	26,608	28,842
Miscellaneous expenditure	—	—	—	—	—	—
Total assets	68,498	67,513	52,973	56,417	64,839	69,995
Free cash flow (Rs mn)						
Operating cash flow	6,199	4,735	2,212	6,102	8,438	9,188
Working capital changes	(1,916)	(2,123)	3,210	(1,545)	(984)	(527)
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	2,057	4,954	6,161
Ratios						
Operating margin (%)	15.1	11.7	10.2	17.7	20.5	20.9
PAT margin (%)	6.5	4.0	0.5	7.2	9.3	9.9
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	107.6	130.0
RoAE (%)	17.9	10.6	0.9	16.2	20.1	19.2
RoACE (%)	9.1	3.0	2.8	8.3	12.0	12.5

Source: Company, Kotak Institutional Equities estimates

OCTOBER 25, 2010

RESULT

Coverage view: **Attractive**

Price (Rs): **655**

Target price (Rs): **750**

BSE-30: **20,166**

Revvng up the rural rally, upgrade to BUY. Mahindra Finance reported PAT of Rs1.16 bn, up 68% yoy and 8% above estimates. Loan growth acceleration to 33% (from 3% in 2QFY10) and NPL recoveries have lifted earnings. We believe the normal monsoon this year will provide a further boost over the next few quarters, thereby driving earnings for MMFSL despite likely pressure on margins. The stock has corrected recently from its highs even as the business performance is improving. Revise estimates, upgrade to BUY with price target of Rs750.

Company data and valuation summary

Mahindra & Mahindra Financial

Stock data		Forecasts/Valuations			
		2010	2011E	2012E	
52-week range (Rs) (high,low)	735-232	EPS (Rs)	35.9	51.3	60.3
Market Cap. (Rs bn)	62.8	EPS growth (%)	60.0	43.0	17.5
Shareholding pattern (%)		P/E (X)	18.3	12.8	10.9
Promoters	61.0	NII (Rs bn)	9.3	12.3	15.4
FIs	28.0	Net profits (Rs bn)	3.4	4.9	5.8
MFs	6.6	BVPS	177.2	212.4	253.1
Price performance (%)		P/B (X)	3.7	3.1	2.6
Absolute	1M 4.4 24.7 144.7	ROE (%)	21.5	25.7	25.0
Rel. to BSE-30	3.7 12.2 104.0	Div. Yield (%)	1.2	1.7	2.0

QUICK NUMBERS

- PAT up 68% and 8% above estimates
- Loan growth at 33%
- Core PBT up 32% yoy

In for a strong growth traction

Mahindra Finance (MMFSL) reported core PBT of Rs1.9 bn, up 32% yoy - in line with estimates. Loan growth was strong at 33% yoy on the back of 54% growth in disbursements. The share of used vehicles and cars in the overall disbursements has increased by 4%, while UVs have grown at a slower pace. The company now finances about 9,000 Maruti cars per month as compared to 4,500 a year ago. Management highlighted that with an upturn in the CV cycle, financing of CVs is also picking up.

Strong pre-monsoon growth is an encouraging trend. The sharp traction in business volumes before the second half (i.e., getting clear signs of a normal monsoon) indicates the underlying income buoyancy in rural India and clearly inspires confidence in business prospects for the company. We are raising our loan growth estimates to 40% and 24% for FY2011E and FY2012E from 31% and 22%, respectively.

Margins above estimates, we model compression in FY2012E

MMFSL report NIM (as per KS calculations) of 12.5% as compared to 11.5% in 1QFY11 and 11.3% estimated by us. Management has highlighted that change in business mix and strong improvement in recoveries boosted margins. We are modeling NIM of 12.3% and 11.7% for FY2011E and FY2012E. We believe that sharp improvement in recoveries will keep support margins up in 2HFY11 even as spreads may be under some pressure due to a rise in bulk borrowings rates. About 8% of MMFSL's borrowings have a floating rate even as its entire loan book carries a fixed rate.

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Focus on growth, costs move up

MMFSL's operating expenses ratio increased to 37% during 2QFY11 from 33% in 2QFY10. In order to support its growth, MMFSL has recruited about 2,000 employees in its subsidiary company which will outsource its services to the parent. In light of high growth in business, we continue to model 35-36% operating expenses ratio over the next few quarters.

Asset quality performance improves further

MMFSL's credit cost was down 44% yoy and 26% qoq below estimates, clearly indicating strong underlying buoyancy in the rural economy. Gross NPL ratio declined to 5.8% from 9% in 2QFY10 and 6.9% in 1QFY11. We are accordingly reducing our provision cost estimates by 10-15%. We expect provision costs to be at about 1.7-2% of average assets for FY2012E and FY2013E – somewhat lower than the average ratio of 2.5% between FY2001 and FY2010. Notably, MMFSL's provision cost ratio had increased to 3.7-3.9% in FY2008 and FY2009; the average ratio was 2.2% if we exclude these two years.

Revising estimates, upgrade to BUY

We are raising our earnings estimates by 5-10% for FY2011E-FY2013E to factor higher loan growth and somewhat lower provisions. We are raising operating expenses ratio on the back of high growth traction. We continue to model margin contraction.

After the revision in estimates, we expect MMFSL to report 25% medium-term ROE and 26% PAT CAGR over FY2010 and FY2013E. We are raising our price target to Rs750 (from Rs635). At our price target, the stock will trade at 12X PER and 2.8X PBR FY2012E.

We upgrade our rating to BUY from REDUCE. We believe that the business traction at MMFSL will remain strong over the medium term due to a combination of cyclical and structural factors. The strong earnings cycle in rural India will drive business in the near term. Also, sharp increase in non-farm activities (construction, NREGS scheme) have increased the non-farm income in rural India. Higher share of non-farm activities reduces the exposure to vagaries in monsoon, thereby driving consumption expenditure. We believe that the shift to higher non-farm income will augur well for business growth and asset quality trends for Mahindra Finance.

We have not factored the business of Mahindra Rural Finance in our estimates. The business is currently small (loan book of Rs2.1 bn) but growing at a fast pace - disbursements of Rs829 mn in 1HFY11, up 180% yoy. The company expects the housing finance business to be as large as the auto finance book in next 3-4 years. Long tenure of home loans as compared to auto loans will likely drive faster loan accretion.

Mahindra Finance, Quarterly results (Rs mn)

	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	YoY(%)	2Q11E	Actual vs KS (%)
Total interest income	3,075	3,364	3,591	4,177	3,817	4,547			
Total interest expense	1,210	1,205	1,362	1,240	1,315	1,518			
Net interest income	1,865	2,159	2,229	2,937	2,502	3,029	40	2,764	10
Provisions and write/off	778	596	503	339	543	335	(44)	450	(26)
Net interest income (after prov.)	1,088	1,564	1,726	2,598	1,959	2,694	72	2,314	16
Other income	218	261	429	573	197	242	(7)	300	(19)
Income from securitization	127	166	349	459	107	149	(10)	150	(1)
Others	91	95	81	114	90	93	(2)	150	(38)
Total income pre provisions	2,083	2,420	2,659	3,510	2,699	3,271	35	3,064	7
Operating expenses	703	790	754	993	1,046	1,194	51	1,003	19
Employee expenses	354	312	239	376	365	369	19	350	6
Depreciation	23	21	26	28	28	34	59	28	21
Other expenses	325	457	489	589	652	791	73	625	27
Pretax income	602	1,034	1,402	2,178	1,111	1,742	68	1,611	8
Tax provisions	202	342	469	765	366	577	69	532	9
Net Profit	400	692	933	1,412	744	1,165	68	1,079	8
Tax rate (%)	34	33	33	35	33	33	0	-	-
PBT bef. secu.,provisions and other ir	1,253	1,464	1,556	2,058	1,547	1,928	32	1,911	1
PBT bef sec income post prov	475	868	1,054	1,719	1,004	1,593	83	1,461	9

Source: Company, Kotak Institutional Equities estimates

Mahindra Finance , Quarterly operational details

	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	YoY(%)	2Q11E	Actual vs KS (%)
Other operational details									
Value of asset financed (Rs bn)	16	22	24	27	29	34	54		
Outstanding assets (Rs bn)	75	83	86	91	97	111	34	111	0
Outstanding loans (Rs bn)	70	77	79	84	91	103	33	103	(0)
Receivables securitised during the period	1,480	1,650	3,250	4,066	1,580	2,200			
Income on securitisation/ loans securitised during the period(%)	9	10	11	11	7	7			
NIMs - KS calculations (%)	10.8	11.8	11.4	14.4	11.4	12.5		11.3	10
Cost to income (%)	33.8	32.7	28.3	28.3	38.7	36.5			
Exp/ ave assets (%)	3.7	3.6	3.8	3.9	4.3	4.4			
Total income/ average assets (%)	16.9	-	17.9	19.0	16.6	17.0			
Interest / average assets (%)	6.3	-	6.2	6.0	5.5	5.5			
Difference (%)	10.6	-	11.7	13.0	11.1	11.5			
Gross NPLs (Rs mn)	7,934	7,933	7,988	6,112	7,105	6,744			
Gross NPL ratio (%)	9.8	9.0	8.7	6.4	6.9	5.8			
NPAs (Rs mn)	2,343	2,285	2,001	829	1,247	1,182			
Net NPL ratio (%)	3.1	2.8	2.3	0.9	1.3	1.1			
CAR (%)	18.8	17.7	-	18.5	17.4	16.5			
Tier I (%)	17.2	16.2	-	16.1	15.4	14.7			
Segmentwise mix									
Disbursements									
Auto/ utility vehicles	39	35	36	35	34	30			
Tractors	22	19	20	21	22	21			
Cars	25	29	29	29	29	33			
Commercial vehicles	6	9	8	7	7	7			
Refinance and others	8	8	7	8	8	9			
AUMs									
Auto/ utility vehicles	39	35	35	33	33	34			
Tractors	22	23	23	23	23	22			
Cars	26	28	28	30	30	30			
Commercial vehicles	6	9	9	8	8	8			
Refinance and others	8	5	5	6	6	6			
Funding Mix (excludes assignments)									
(Rs mn)	66,270	72,430	76,740	64,570	69,130	82,220			
Banks	40,230	44,510	48,860	39,520	36,990	48,370			
Insurance	6,980	6,980	6,730	6,730	6,730	6,730			
Mutual funds	15,580	17,580	15,530	10,680	14,970	15,690			
Others	3,480	3,360	5,620	7,640	10,440	11,430			
%age of total									
Banks	61	61	64	61	54	59			
Insurance	11	10	9	10	10	8			
Mutual funds	24	24	20	17	22	19			
Others	5	5	7	12	15	14			

Source: Company

Mahindra Finance

Quarterly balance sheet (Rs mn)

	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	YoY(%)
Balance sheet (Rs mn)							
Sharecapital	958	958	958	960	960	961	0
Reserves	14,124	14,816	15,749	16,314	17,060	18,230	23
ESOP	13	14	15	12	11	10	(29)
Total Borrowings	51,502	58,173	61,292	64,577	69,131	82,215	41
Current Liabilities	8,869	8,729	7,614	9,087	10,240	9,571	10
Total liabilities and shareholders funds	75,466	82,690	85,628	90,950	97,402	110,987	34
Loans & Avd	69,630	77,206	78,855	83,788	91,488	102,965	33
Investments	1,248	261	1,809	2,159	831	2,400	820
Deferred tax	1,916	2,028	2,121	2,069	2,130	2,192	8
Current Assets	2,321	2,789	2,434	2,458	2,449	2,819	1
Fixed assets	351	406	409	476	504	611	50
Total assets	75,466	82,690	85,628	90,950	97,402	110,987	34

Source: Company

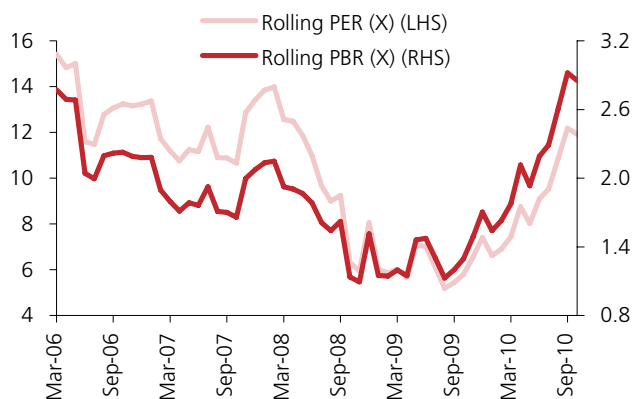
Mahindra Finance

Old and new estimates, March fiscal-years 2011-2012E (Rs mn)

	Old estimates			New estimates			% change		
	2011E	2012E	2013E	2011E	2012E	2012E	2010E	2011E	2012E
Net interest income	10,936	13,560	16,625	12,279	15,379	18,785	12	13	13
Loan book (Rs bn)	110	133	164	117	145	176	7	9	7
Loan growth (%)	31	22	23	40	24	21	-	-	-
NIM (%)	11	11	11	11	11	11	-	-	-
NPL provisions	1,932	2,613	3,351	1,652	2,359	3,129	(14)	(10)	(7)
Other income	1,510	1,727	1,968	1,510	1,727	1,968	-	-	-
Securitization	1,110	1,277	1,468	1,110	1,277	1,468	-	-	-
Operating expenses	3,903	4,661	5,553	4,842	6,166	7,473	24	32	35
Employee	1,535	1,776	2,069	1,464	1,770	2,099	(5)	(0)	1
Others	2,367	2,885	3,484	3,379	4,396	5,373	43	52	54
PBT	6,612	8,012	9,688	7,294	8,580	10,151	10	7	5
Tax	2,156	2,613	3,161	2,372	2,794	3,306	10	7	5
PAT	4,456	5,399	6,528	4,922	5,786	6,845	10	7	5
PBT-securitisation income	5,502	6,736	8,220	6,184	7,303	8,683	12	8	6
PBT-secu income+ provisions	7,433	9,349	11,572	7,837	9,662	11,812	5	3	2
EPS(Rs)	46	56	68	51	60	71	10	7	5

Source: Kotak Institutional Equities estimates

Mahindra Finance
Rolling 1-year forward PER and PBR (X)



Source: Kotak Institutional Equities estimates

Mahindra Finance, Key assumptions and ratios, March fiscal year-ends, 2008-2013E

	2008	2009	2010	2011E	2012E	2013E
Growth in key parameters (%)						
Total interest income	42	15	13	36	31	23
Total interest expense	41	12	(2)	43	41	23
Net interest income	44	17	22	31	25	22
Loan loss provisions	101	15	(22)	(25)	43	33
Total income	48	13	22	29	24	21
Operating expenses	29	6	22	49	27	21
Employee expenses	49	22	9	14	21	19
Net loans	13	3	22	40	24	21
Total assets	12	6	22	37	23	20
Total Borrowings	3	3	24	46	26	22
Shareholders fund	69	12	18	21	21	20
Asset management measures (%)						
Yield on average earning assets	17.8	19.0	18.9	19.4	19.5	19.5
Average cost of funds	9.1	9.9	8.6	9.1	9.5	9.5
Difference	8.7	9.1	10.3	10.4	10.0	10.0
Net interest income/earning assets	9.9	10.6	11.4	11.5	11.1	11.2
Spreads on lending business	8.7	9.1	10.3	10.4	10.0	10.0
Net interest income/EA (after prov)	7	7	9	10	10	10
Tax rate	35	34	34	33	33	33
Dividend payout ratio	25	25	21	21	21	21
Profitability measures (%)						
Interest income/total income	85	87	88	89	90	91
Other income / total income	15	13	12	11	10	9
Operating expenses/total income	33	30	30	35	36	36
Payout ratio	25	25	21	21	21	21
Equity/assets (EoY)	19	20	19	17	17	17
ROA decomposition - % of avg. assets						
Net interest income	9.9	10.6	11.3	11.4	11.1	11.1
Loan loss provisions	3.7	3.9	2.7	1.5	1.7	1.9
Net other income	1.7	1.5	1.6	1.4	1.2	1.2
Gains on securitization	1.6	1.4	1.3	1.0	0.9	0.9
Operating expenses	3.8	3.7	3.9	4.5	4.4	4.4
(1- tax rate)	65.1	65.9	66.1	67.5	67.4	67.4
ROA	2.7	3.0	4.2	4.6	4.2	4.1
Average assets/average equity	6.4	5.2	5.2	5.6	6.0	6.0
ROE	16.9	15.4	21.5	25.7	25.0	24.5

Source: Company, Kotak Institutional Equities estimates

Mahindra Finance, Income statement & balance sheet, March fiscal year-ends, 2008-2013E
Rs mn

	2008	2009	2010	2011E	2012E	2013E
Income statement						
Total interest income	11,120	12,748	14,366	19,469	25,515	31,292
Total interest expense	4,560	5,099	5,017	7,190	10,136	12,507
Net interest income	6,560	7,649	9,349	12,279	15,379	18,785
Provisions and write/off	2,463	2,824	2,215	1,652	2,359	3,129
Other income	1,148	1,098	1,321	1,510	1,727	1,968
Gains on securitisation of loans	1,074	977	1,110	1,110	1,277	1,468
Operating expenses	2,525	2,667	3,250	4,842	6,166	7,473
Pretax income	2,720	3,256	5,205	7,294	8,580	10,151
Tax provisions	950	1,111	1,762	2,372	2,794	3,306
Net Profit	1,770	2,145	3,443	4,922	5,786	6,845
PBT - securitization income + provisioning exp	4,109	5,103	6,310	7,837	9,662	11,812
EPS (Rs)	21	22	36	51	60	71
BPS (Rs)	138	154	180	219	264	317
ABVPS (Rs)	131	147	177	212	253	302
Balance sheet						
Net loans	66,090	68,233	83,510	116,781	145,326	175,590
Total Investments	31	1,097	2,159	2,267	2,380	2,499
Cash & deposits	2,153	2,763	2,420	2,686	2,982	3,310
Loans and advances and other assets	383	186	335	38	38	38
Deferred tax assets	1,254	1,787	2,069	2,069	2,172	2,281
Net fixed assets	305	371	408	360	323	302
Capital work in progress	3	3—	68	70	72	74
Total assets	70,218	74,440	90,969	124,271	153,294	184,094
Liabilities						
Total loans and bonds	50,682	51,406	59,784	91,323	117,435	144,528
Total Borrowings	50,682	52,130	64,577	94,199	118,873	144,528
Current liabilities	6,394	7,617	9,087	9,087	9,087	9,087
Total liabilities	57,075	59,747	73,664	103,286	127,960	153,615
Share capital	953	957	960	960	960	960
Reserves	12,190	13,735	16,326	20,025	24,374	29,518
Shareholders fund	13,143	14,692	17,286	20,985	25,334	30,478

Source: Company, Kotak Institutional Equities estimates

OCTOBER 22, 2010
RESULT

 Coverage view: **Neutral**

 Price (Rs): **277**

 Target price (Rs): **290**

 BSE-30: **20,166**

Solid quarter despite Ranchi launch; retain BUY. DBCL reported strong 2QFY11 EBITDA at Rs951 mn (+14% yoy, -16% qoq) led by stronger-than-expected advertising revenue at Rs2.27 bn (+18% yoy) versus our expectation of Rs2.2 bn. DBCL's entry into Ranchi/Jharkhand with (1) start-up expenses of Rs60 mn and (2) recurring expenses of Rs30 mn were a key drag on financials. We retain our BUY rating with a revised target price of Rs320 (Rs295 previously) on (1) continued strong traction in core operation and (2) relatively fair valuations at 19X FY2012E valuations; fine-tuned estimates.

Company data and valuation summary

DB Corp

Stock data

52-week range (Rs) (high,low) 300-201

Market Cap. (Rs bn) 50.3

Shareholding pattern (%)

Promoters 86.3

FIs 4.8

MFs 2.7

Price performance (%)

	1M	3M	12M
Absolute	(3.6)	16.2	0.0
Rel. to BSE-30	(4.2)	4.4	(16.6)

Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	10.6	13.0	15.7
EPS growth (%)	286.5	22.4	21.0
P/E (X)	26.0	21.2	17.6
Sales (Rs bn)	10.5	12.3	14.2
Net profits (Rs bn)	1.8	2.4	2.9
EBITDA (Rs bn)	3.3	4.0	4.8
EV/EBITDA (X)	15.5	12.7	10.3
ROE (%)	40.3	32.6	33.2
Div. Yield (%)	0.7	1.1	1.4

Solid 2QFY11 results despite Rs100 mn financial impact of entry into Jharkhand/Ranchi market

- ▶ DBCL reported another strong quarter with 2QFY11 EBITDA at Rs951 mn (+14% yoy, -16% qoq), above our Rs900 mn expectation (see Exhibit 1). The strong performance was despite DBCL's entry into the Jharkhand/Ranchi market, which resulted in (1) startup expenses of Rs60 mn and (2) recurring operating losses of Rs30 mn for ~40 days of operation.
- ▶ DBCL reported 2QFY11 PAT at Rs551 mn (+25% yoy, -21% qoq). However, yoy comparisons below the EBITDA line are invalid as DBCL completed its Rs2.7 bn IPO in 4QFY10; DBCL's net interest expenses declined to Rs6 mn in 2QFY11 from Rs80 mn in 2QFY10.
- ▶ DBCL reported 2QFY11 advertising revenues at Rs2.27 bn (+18% yoy; +1% qoq), ahead of our Rs2.2 bn expectation, despite the unfavorable base reflective of continued robust advertising environment; 2QFY10 comprised certain festivities, which have been delayed to 3QFY11E and their potentially positive impact on advertising revenues is also delayed.

Retain BUY on continued robust core business and potential upside from BJH market expansion

We retain our BUY rating with a revised 12-month DCF-based target price of Rs320 (Rs295 previously) to factor in (1) strong 2QFY11 operating (revenue and EBITDA) performance and (2) DCF roll-forward, but more important, (3) continued leadership position in lucrative regional print markets. Key risks include (1) expansion of Patrika in the MPCG market and (2) concerns over risk associated with expansion in BJH market. (1) In our view, Patrika's expansion in MPCG is a fragmentation risk (DBCL will likely retain its leadership position) but may lose market share. DBCL is consolidating its own position in the market, which we discuss later in the report. (2) We also discuss the risk and upside potential for DBCL in BJH market. More important, we continue to believe that core business (Gujarat and CPH markets) holds significant potential (incremental advertising revenues of Rs4.9 bn over FY2010-13E versus Rs0.9 bn from BJH market).

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- ▶ DBCL reported 2QFY11 circulation revenues of Rs532 mn (+1% yoy, -1% qoq), below our expectations, despite entry into the Jharkhand/Ranchi market with ~140K copies. DBCL had proactively reduced cover prices to ~Rs1.5-2.0 from ~Rs2.0-3.0 to counter the expansion of key competitor Patrika in certain markets of MP (Gwalior) as well as Chhattisgarh (Raipur and Durg-Bhilai) in the past few months.
- ▶ DBCL reported 2QFY11 operating expenses of Rs2.06 bn (+15% yoy, +11% qoq) largely in line with our expectation of Rs2.05 bn. We highlight that media cost inflation has come back; however, a significant part of the yoy and qoq increase is also on account of DBCL's entry into the Jharkhand/Ranchi market.
- ▶ DBCL reported 2QFY11 employee expenses at Rs459 mn (+46% yoy, +12% qoq), much ahead of our Rs425 mn expectation. Besides entry into Jharkhand/Ranchi market, DBCL has also been in the process of regularizing its previously temporary/outsourced work force (accounted in other direct and overhead expenses previously).

Interim results of DB Corp (DBCL), March fiscal year-ends (Rs mn)

	2QFY11	2QFY11E	2QFY10	1QFY11	(% chg)			1HFY11	1HFY10	(% chg)
					2QFY11E	2QFY10	1QFY11			
Total revenues	3,010	2,950	2,622	2,987	2	15	1	5,997	5,244	14
Advertising revenues	2,273	2,200	1,921	2,257	3	18	1	4,530	3,840	18
Circulation revenues	532	550	527	537	(3)	1	(1)	1,069	1,054	1
Other operating revenues	205	200	174	193	2	18	6	398	350	14
Total expenditure	(2,059)	(2,050)	(1,785)	(1,851)	0	15	11	(3,910)	(3,469)	13
Raw material costs	(901)	(925)	(825)	(832)	(3)	9	8	(1,733)	(1,645)	5
Other direct costs	(363)	(350)	(345)	(323)	4	5	12	(685)	(679)	1
Employee expenses	(459)	(425)	(315)	(411)	8	46	12	(869)	(621)	40
SG&A expenses	(337)	(350)	(300)	(286)	(4)	12	18	(623)	(524)	19
EBITDA	951	900	838	1,136	6	14	(16)	2,087	1,775	18
OPM (%)	31.6	30.5	31.9	38.0				34.8	33.8	
Other income	32	50	23	43	(36)	41	(26)	75	46	63
Interest expense	(38)	(50)	(103)	(47)	(25)	(63)	(20)	(85)	(181)	(53)
D&A expenses	(107)	(125)	(91)	(104)	(14)	18	3	(211)	(168)	26
PBT	839	775	667	1,028	8	26	(18)	1,867	1,472	27
Extraordinaries	-	-	-	-				-	-	
Tax provision	(308)	(275)	(251)	(349)	12	23	(12)	(656)	(563)	17
Minority interest	20	-	24	16				36	46	(22)
Adjusted PAT	551	500	440	695	10	25	(21)	1,246	955	30
Reported PAT	551	500	440	695	10	25	(21)	1,246	955	30
Tax rate (%)	36.7	35.5	37.6	33.9				35.2	38.2	
EPS (Rs/share)	3.0	2.8	2.6	3.8	10	16	(21)			

Source: Company data, Kotak Institutional Equities estimates

Revised earnings estimates to factor in 2QFY11 results, BJH financials

Our revised earnings estimates for FY2011E and FY2012E are Rs12.5 (Rs13) and Rs14.2 (Rs15.7) largely on account of (1) higher EBITDA from core business/legacy markets but largely negated by (2) inclusion of financials of BJH expansion (near-term operating losses). We model DBCL's core (excluding BJH market) EBITDA in FY2011E and FY2012E at Rs4.05 bn (Rs3.95 bn previously) and Rs4.8 bn (Rs4.75 bn) and BJH market operating losses for FY2011E and FY2012E at Rs250 mn and Rs450 mn. We have increased our FY2011E and FY2012E advertising revenues to Rs9.2 bn (Rs9.0 bn previously) and Rs11.1 bn (Rs10.7 bn) on account of stronger-than-expected advertising environment.

Core business/legacy markets: Solid foundation

DBCL has created a strong foundation in the regional/Hindi print media market over the past few years with (1) leadership position in MPCG with a large gap (>3X in readership terms) over multiple competition, (2) strong runners-up position in Rajasthan with leadership position in key cities of the state, (3) strong runners-up position in Gujarat with leadership position in key cities of the state as well as leadership position in CPH (Chandigarh-Punjab-Haryana) market. Exhibit 2 presents the market potential of the respective regional/Hindi markets; Gujarat and CPH markets are significantly under-monetized due to local competition that under-prices advertising inventory. In our view, there is significant long term potential in the market if DBCL is further able to consolidate its position.

DBCL has already initiated the process of consolidating its presence in existing markets, besides undertaking entry into Bihar-Jharkhand. DBCL has launched its 4th edition from Bhatinda in Punjab market, where it lags leader Punjab Kesari and Jagran Prakashan (JAGP) in terms of overall readership. Additionally, DBCL has launched its 7th edition from Nagour in Gujarat market and plans to launch 2 more editions soon. Finally, it is further aiming for market share gains in the Rajasthan market with 2 new printing centers at Sirohi and Barmer and plans to launch 2 more soon. DBCL lags Rajasthan Patrika in terms of overall readership in the market but aims to consolidate the market in its favor.

Market and advertising potential of various Hindi markets, March fiscal year-end, 2009

State	Readership (mn)	Per-capita GDP (Rs)	Market potential (Rs bn)	Advertising market (Rs bn)
Uttar Pradesh	16.3	18,214		
Uttarakhand	1.4	36,520		
Gujarat	10.0	45,773	458	5.0
Rajasthan	10.5	23,053	242	4.3
Chandigarh	0.3	119,240		
Punjab	2.7	52,879	413	4.0
Haryana	3.4	68,914		
Madhya Pradesh	5.0	18,051		
Chattisgarh	2.2	34,483	166	3.8
Delhi	4.0	78,690	315	2.8
Bihar	5.9	13,663		
Jharkhand	2.5	21,465	134	2.5

Note:

(a) Per-capita-GDP of Hindi population will likely be lower in Chandigarh and Delhi metro markets.

Source: IRS Round1 2010 survey, Reserve Bank of India, Kotak Institutional Equities

Competition in MPCG: potential market fragmentation risk

Two strong competitors in the form of Nai Dunia (including NavDunia in Bhopal) and Patrika (from the Rajasthan Patrika) group have emerged to challenge Dainik Bhaskar in the MPCG market. We view Patrika as a more serious competition versus Nai Dunia given its pedigree (part of Rajasthan Patrika group, the leading print player in Rajasthan) and given the success it has achieved vis-à-vis Nai Dunia in the MPCG market. Exhibit 3 presents the readership in cities of the MPCG market; we highlight that Patrika has very recently entered the Chhattisgarh market (Raipur and Durg-Bhilai) and its readership numbers are not yet completely accounted for (for certain markets in MP as well).

We do not believe DBCL's strong leadership position in the MPCG market (>3X over competition) is at any risk. However, DBCL will likely lose readership on account of even marginal competition in the market, given MPCG is the only Hindi print market (out of six) where one player still maintains a dominant position. Thus, (1) even as the market may expand with the entry of formidable new players such as Patrika, (2) market fragmentation remains a potential risk factor. However, DBCL has been very proactive in MPCG (we previously discuss cover price reductions in key cities); it has already launched a new printing center in Itarasi and plans to launch another in Khandwa soon to further penetrate the market and consolidate its leadership position.

Trends in readership in key cities of MPCG market ('000)

	R1 2007	R2 2007	R1 2008	R2 2008	R1 2009	R2 2009	Q1 2010	Q2 2010	Chg (%)
Indore									
Dainik Bhaskar	497	480	460	451	443	435	439	414	(17)
Nai Dunia	165	137	140	135	186	156	172	172	4
Patrika	-	-	-	-	-	94	134	151	
Bhopal									
Dainik Bhaskar	346	338	320	295	317	301	284	297	(14)
Nai Dunia (a)	12	6	5	24	-	11	18	44	267
Patrika	-	-	-	-	-	194	227	232	
Jabalpur									
Dainik Bhaskar	315	326	294	297	315	291	318	285	(10)
Nai Dunia	1	3	14	34	91	74	81	66	6,500
Patrika	-	-	-	-	-	-	-	41	
Durg-Bhilai									
Dainik Bhaskar	194	177	169	168	158	180	164	150	(23)
Nai Dunia	-	-	-	-	52	51	57	61	
Patrika	-	-	-	-	-	-	-	-	
Gwalior									
Dainik Bhaskar	245	231	225	216	201	180	187	176	(28)
Nai Dunia	42	56	60	55	66	59	82	83	98
Patrika	-	-	-	-	-	-	3	8	
Raipur									
Dainik Bhaskar	149	154	159	152	145	133	124	123	(17)
Nai Dunia	-	-	-	-	17	38	39	49	
Patrika	-	-	-	-	-	-	-	-	
Total									
Dainik Bhaskar	1,746	1,706	1,627	1,579	1,579	1,520	1,516	1,445	(17)
Nai Dunia (a)	220	202	219	248	412	389	449	475	116
Patrika	-	-	-	-	-	288	364	432	

Notes:

(a) Nai Dunia includes NavDunia readership in Bhopal.

Source: Indian Readership Survey, Kotak Institutional Equities

Any market entry is a risk and BJH expansion is no exception

We begin by highlighting the considerable experience and expertise that DBCL has developed over a period of time (1) starting with Rajasthan in CY1996-97, (2) Haryana in CY2000-01, (3) Gujarat in CY2003-04 and Punjab in CY2006-07. Nonetheless, a market entry entails risk and DBCL's entry into the BJH market is no exception. However, we believe the BJH expansion is well within the financial and operating risk limits; DBCL is putting at risk at best ~12-15% of its FY2011E-12E EBITDA (Rs200 cr of capex and operating losses). However, we are a tad surprised by the strategy adopted by DBCL of starting with the Jharkhand market first, notably in light of the strong challenge they face from national players HMVL and JAGP. We highlight our concerns.

- DBCL disclosed its plans for entry into the BJH market sometime in Jan-2010. It plans to enter the Bihar market only in FY2012E, providing HMVL and JAGP ~12-18 month window to and an opportunity to secure the Bihar market. We note that HMVL has already utilized this period to expand its printing press in Patna, the largest city with BJH market, and revamped its existing edition (all-color now).
- Bihar is the larger of the two advertising markets, with advertising potential of Rs1.5 bn versus around Rs1.0 bn for the Jharkhand market. Additionally, given the economic turnaround in Bihar led by revamped political set-up in the state of Bihar; thus, the economy and potential advertising market of Bihar will likely grow at a faster pace versus the relatively mature Jharkhand market.
- The competition in Jharkhand market is more intense with 3 players HMVL, JAGP as well as local player Prabhat Khabar vying for attention. Though HMVL is the leading player in the market in terms of readership, Prabhat Khabar is a strong runner-up, notably in the cities.
- Last but most important, in our view, the potential for readership expansion far exceeds in case of Bihar vis-à-vis Jharkhand (see Exhibit 4). Scope for readership expansion is one of the core tenets for DBCL for selecting a market for entry and Bihar fits the bill better. At least, it has enabled competition to revisit their premise of potential (readership and advertising) of the Bihar market and as discussed previously, competition has been proactive in trying to secure the potential of the market.

State- and State-capital-wise readership penetration (%)

State	Readership (%)	State Capital	Readership (%)
Rajasthan (RJ)	38.2	Jaipur, RJ	70.4
Delhi	31.8	Dehradun, UA	52.4
Gujarat (G)	30.8	Kanpur, UP	51.8
Uttaranchal (UA)	26.9	Ahmedabad, G	51.7
Haryana (H)	24.6	Ranchi, JH	48.2
Chhattisgarh (CG)	21.1	Bhopal, MP	46.5
Jharkhand, JH	20.5	Chandigarh, PH	44.4
Punjab (P)	20.5	Lucknow, UP	43.6
Uttar Pradesh (UP)	20.4	Raipur, CG	41.8
Bihar	17.7	Patna, Bihar	37.3
Madhya Pradesh (MP)	16.9	Delhi, Delhi	31.8

Note:

(a) Delhi is largely an English print market.

Source: IRS Round1 2010 survey, Kotak Institutional Equities

Financial summary of DB Corp Limited, March fiscal year-ends, 2006-13E (Rs mn)

	2006	2007	2008	2009	2010	2011E	2012E	2013E
Profit model								
Net sales	5,277	6,664	8,506	9,490	10,505	12,339	14,580	17,555
EBITDA	742	901	1,709	1,341	3,305	3,811	4,325	5,543
Other income	117	166	237	228	236	237	230	301
Interest	(264)	(282)	(397)	(510)	(357)	(181)	(181)	(40)
Depreciation	(85)	(120)	(220)	(290)	(378)	(453)	(526)	(582)
Pretax profits	510	666	1,328	770	2,806	3,414	3,848	5,222
Extraordinary items	—	(4)	8	—	—	—	—	—
Current tax	(129)	(50)	(560)	(377)	(841)	(1,044)	(1,200)	(1,685)
Deferred taxation	(11)	(30)	(70)	(47)	(216)	(111)	(79)	(51)
Net income	370	582	706	346	1,749	2,260	2,569	3,486
Adjusted net income	370	590	763	464	1,828	2,271	2,574	3,486
Earnings per share (Rs)	2.2	3.5	4.5	2.8	10.6	12.5	14.2	19.2
Balance sheet								
Total equity	1,137	1,676	2,198	2,577	6,487	8,125	9,641	11,433
Deferred taxation liability	247	277	346	393	609	720	799	850
Total borrowings	3,840	3,777	3,436	5,631	3,207	814	814	814
Current liabilities	512	1,092	1,714	2,189	2,073	2,279	2,679	3,296
Total capital	5,737	6,825	7,936	10,914	12,420	11,970	13,960	16,420
Cash	382	199	808	452	1,951	864	1,770	3,262
Other current assets	3,291	3,851	3,404	3,536	3,664	4,093	4,735	5,523
Total fixed assets	2,042	2,764	3,623	6,471	6,475	6,682	7,124	7,305
Investments	1	—	68	238	205	205	205	205
Miscellaneous expenditure	21	11	33	217	126	126	126	126
Total assets	5,737	6,825	7,936	10,914	12,420	11,970	13,960	16,420
Free cash flow								
Operating cash flow, excl. working capital	597	646	1,172	621	2,170	2,586	2,944	3,818
Working capital changes	(1,813)	70	674	122	(174)	(223)	(242)	(171)
Capital expenditure	(1,110)	(841)	(1,081)	(2,966)	(603)	(660)	(968)	(762)
Income from investments	—	—	113	109	111	237	230	301
Free cash flow	(2,326)	(125)	877	(2,113)	1,503	1,940	1,965	3,185
Ratios (%)								
Debt/equity	277	193	135	190	45	9	8	7
Net debt/equity	250	183	103	174	18	(1)	(9)	(20)
ROAE (%)		35	34	17	36	28	27	31
ROACE (%)		15	15	8	21	24	26	29

Source: Company data, Kotak Institutional Equities estimates

OCTOBER 22, 2010
RESULT

Coverage view: **Cautious**

Price (Rs): **371**

Target price (Rs): **408**

BSE-30: **20,166**

Reported numbers sedate; sales and launches remain healthy. Sobha reported adjusted revenues of Rs3.1 bn (9% below our estimate) and EBITDA of Rs717 mn which is 4% below our estimate. Sales volume increased marginally qoq belying fears of seasonality impacting this quarter. Sobha intends to launch 13 mn sq. ft over the next two-three quarters. Debt reduced qoq led by land sales proceeds used for repayment and quarterly operational cash flow is positive. Retain ADD.

Company data and valuation summary

Sobha Developers

Stock data		Forecasts/Valuations			
		2010	2011E	2012E	
52-week range (Rs) (high,low)	404-196	EPS (Rs)	14.1	17.0	26.2
Market Cap. (Rs bn)	36.4	EPS growth (%)	(7.1)	20.8	54.0
Shareholding pattern (%)		P/E (X)	26.4	21.8	14.2
Promoters	60.6	Sales (Rs bn)	11.3	15.6	18.8
FIs	24.3	Net profits (Rs bn)	1.4	1.7	2.6
MFs	9.1	EBITDA (Rs bn)	2.6	3.2	4.6
Price performance (%)		EV/EBITDA (X)	19.1	14.9	9.8
Absolute	1M 3M 12M	ROE (%)	9.7	9.2	12.8
Rel. to BSE-30	(0.2) (1.7) 26.4	Div. Yield (%)	0.3	0.3	0.4

2QFY11 below estimates post adjusting for land sale

Sobha recorded Rs1.1 bn of land sale in 2QFY11. Adjusting for which, 2QFY11 revenues are Rs3.1 bn (+41% yoy, 0.6% qoq), 9% below our estimate of Rs3.4 bn, and EBITDA (based on management commentary of 23% margins excluding land sale) is Rs717 mn (-4% versus KIE estimate, +52% yoy and +19% qoq). With this land sale in Pune (50 acres), there is higher visibility of Sobha achieving its Rs2 bn target of land sales in FY2011E.

Sales and launches are the key positives in 2QFY11

Sobha reported sales volumes of 744,678 sq. ft in 2QFY11 versus 670,883 sq. ft in 1QFY11, 2.1 mn sq. ft in FY2010 and 0.9 mn sq. ft in FY2009. Management indicated they are seeing significantly better volumes in the Bangalore market at current prices which have gone up 5% to 10% over the previous two quarters. We note that Sobha has 8.35 mn sq. ft of ongoing projects (Sobha's share of saleable area) out of which it has already sold 5.7mn sq. ft. Sobha has Rs12 bn worth of unsold stock and has to receive Rs9 bn for the sold portion while incurring an additional cost of Rs10.3 bn for the ongoing projects, resulting in a surplus of Rs10.9 bn.

Sobha has launched four projects with a total area of 1.6 mn sq. ft in the past six months and has an aggressive launch calendar for the rest of FY2011E when it is planning to launch around 13 mn sq. ft, including around 6 mn sq. ft in NCR. In October 2010, Sobha has already launched Sobha Forest View in Banashankari in South Bangalore which is a 492 apartment project for a total area of around 0.5 mn sq. ft. Sobha maintained its guidance of 3 mn sq. ft which we believe is easily achievable with 1.4 mn sq. ft already sold in 1HFY11. Sobha has launched Sobha Classic (3BHK super luxury apartments) in Bangalore and Sobha Turquoise (95 3BHK row houses) in Coimbatore.

Contractual business steady on IT services-led growth

Sobha booked revenues of Rs717 mn from contractual segment in 2QFY11 versus Rs690 mn in 1QFY11. Sobha currently has 4.27 mn sq. ft under contracts from Infosys and other leading companies in India and a strong pipeline of 6.58 mn sq. ft that will progressively start over FY2011E. It intends to deliver 29 projects with a total area of 3.5 mn sq. ft.

QUICK NUMBERS

- **1.4 mn sq. ft of sales volume for 1HFY11**
- **Plans to launch 13 mn sq. ft over next three quarters**
- **Sales value of unsold stock is Rs12 bn**

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2QFY11 buoyed by land sale of Rs1.1 bn

Interim results, Sobha Developers, March fiscal year-ends (₹ mn)

	2QFY11	2QFY11E	1QFY11	2QFY10	% change		
					2QFY11E	qoq	yoy
Net sales	4,257	3,431	3,156	2,236	24	35	90
Operating costs	(3,337)	(2,687)	(2,554)	(1,763)	24	31	89
(Increase)/Decrease in stock in trade and WIP	(765)		657	8		(216)	(9663)
Land cost expenses	(163)		(930)	(26)		(82)	527
Construction expenses & raw materials	(1,656)		(1,576)	(1,208)		5	37
Staff cost	(273)		(250)	(189)		9	44
Other administrative expenses	(480)		(455)	(348)		5	38
EBITDA	920	745	602	473	24	53	95
Other income	56	29	34	27	90	65	107
Interest costs	(109)	(134)	(134)	(143)	(19)	(19)	(24)
Depreciation	(69)	(72)	(67)	(82)	(4)	3	(16)
PBT	798	568	435	275	40	83	190
Taxes	(209)	(125)	(92)	0	67	127	
PAT	589	443	343	275	33	72	114
Key ratios							
EBITDA margin (%)	21.6	21.7	19.1	21.2			
PAT margin (%)	13.8	12.9	10.9	12.3			
Effective tax rate (%)	26.2	22.0	21.1	0.0			

Source: Company, Kotak Institutional Equities estimates

Marginally reduce estimates and target price

Our revised target price is Rs408/share (earlier Rs414/share) which is at par with our March 2012E NAV. We maintain our ADD rating on the stock.

We marginally tweaked revenues (FY2011E up 1%, FY2012E down 2% versus earlier estimates) while we have reduced net profit estimates by 4% and 13% for FY2011E/12E as we have increased the land cost for existing projects based on 1HFY11 reported financials.

We have a target price of Rs408/share

NAV-based valuation, Sobha Developers, March fiscal year-ends (₹ bn)

	March '12 based NAV			
	Growth rate in selling prices			
	0%	3%	5%	10%
Gross valuation (Rs bn)	17.5	32.1	43.5	78.7
Residential projects	23.0	29.3	33.8	46.3
Commercial projects	(2.7)	0.8	3.7	19.4
Retail projects	(2.8)	2.1	6.0	13.0
Less: Land cost to be paid	(1.5)	(1.5)	(1.5)	(1.5)
Less: Net debt	(9.3)	(9.3)	(9.3)	(9.3)
Add: Land sales / value	2.0	2.0	2.0	2.0
Add: Contractual business	5.3	5.3	5.3	5.3
NAV	14.0	28.6	40.0	75.2
Total no. of shares (mn)				98
NAV/share				408
Target price @0% discount to NAV				408

Source: Company, Kotak Institutional Equities estimates

Sobha has a total of 9.6 mn sq. ft under construction

List of under-construction projects, Sobha Developers (partial list)

Project	Start date	Location	(mn sq. ft)	No. of apartments
Sobha Suncrest	Jul-06	South west, Bangalore	0.2	72
Sobha Lavender	May-07	South East, Bangalore	0.1	38
Sobha Althea	Jan-07	North, Bangalore	0.4	176
Sobha Emerald	Feb-08	Coimbatore	0.2	61
Sobha Cinnamon	Aug-08	South East, Bangalore	0.4	187
Sobha Saffron	Apr-08	South East, Bangalore	0.0	16
Sobha Moonstone	Jan-08	North, Bangalore	0.2	106
Sobha Petunia	May-08	North, Bangalore	0.5	156
Sobha Chrysanthemum	Jan-07	North, Bangalore	0.9	509
Sobha Ruby Platinum	May-07	West, Bangalore	0.3	160
Sobha Ruby	May-07	West, Bangalore	0.5	376
Sobha Beryl (Ph II)	May-07	West, Bangalore	0.3	160
Sobha Lifestyle	Jan-07	North, Bangalore	1.2	165
Sobha Malachite	Apr-07	Thrissur, Kerala	0.1	25
Sobha Topaz	Jan-07	Thrissur, Kerala	0.5	216
Sobha Jade	Jan-09	Thrissur, Kerala	0.6	216
Sobha Lifestyle	Jan-09	Thrissur, Kerala	0.2	40
Sobha Carnation (Ph I)	Jul-08	Pune	0.3	116
Harishree Gardens (Ph II)	Feb-09	Coimbatore, Tamil nadu	0.3	92
Sobha Garrison	Dec-09	Bangalore	0.5	310
Sobha Dewflower	Feb-10	Bangalore	0.7	231
Sobha Turquoise	Jul-10	Coimbatore, Tamil nadu	0.2	95
Sobha Signature	Sep-10	Off Sarjapur Rd, Bangalore	0.2	32
Sobha Classic	Sep-10	Off Sarjapur Rd, Bangalore	0.5	275
Total			9.2	3,830

Source: Company, Kotak Institutional Equities

Sobha has launched 0.6 mn sq ft across Bangalore and Coimbatore in 2QFY11

Details of ongoing residential projects (mn sq. ft)

	Mar-08	Jun-08	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
Ongoing at the beginning of the quarter/year	11.1	10.3	10.3	8.9	8.9	8.6	9.1	9.1
Launched during the quarter /year	1.1	1.1	2.5		0.4	0.7	—	0.6
Handed over during the quarter/year	1.9	—	3.9		0.7	0.2	—	0.1
Ongoing at the end of the quarter	10.3	10.3	8.9	8.9	8.6	9.1	9.1	9.6
Ongoing projects citywise	Mar-08	Jun-08	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
Bangalore	8.0	8.0	6.6	6.6	6.3	6.9	6.9	7.3
Trissur	1.8	1.8	1.4	1.4	1.4	1.4	1.4	1.4
Pune	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Coimbatore	0.3	0.3	0.5	0.5	0.5	0.5	0.5	0.6
Total	10.3	10.3	8.9	8.9	8.6	9.1	9.1	9.6

Source: Company, Kotak Institutional Equities

Revenue Model of Sobha Developers
 March fiscal year-ends, 2008 – 2013E (₹ mn)

	2008	2009	2010	2011E	2012E	2013E
Apartments						
Apartment volumes (mn sq. ft)	2.7	1.5	2.0	2.9	4.0	5.6
Revenues	8,387	4,890	6,252	9,402	12,523	17,433
Rate/sq. ft	3,164	3,244	3,141	3,207	3,131	3,104
Commercial						
Commercial volumes (mn sq. ft)	—	—	0.1	0.1	0.1	0.3
Revenues	0.01	114	255	343	186	1,139
Rate/sq. ft	3,000	2,844	2,464	2,388	2,924	3,442
Contractual sales						
Contractual volumes (mn sq. ft)	5.6	3.0	3.2	3.3	3.5	3.6
Revenues	5,354	3,665	3,482	4,004	4,404	4,845
Rate/sq. ft	950	1,222	1,105	1,211	1,268	1,329
Plot sales						
Plot sale volumes (mn sq. ft)	—	—	—	—	2.4	5.4
Revenues	—	—	—	—	1,298	3,145
Rate/sq. ft	—	—	—	—	543	579
Retail rental revenues						
Total retail stock	—	—	—	—	—	0.1
Total retail lease rentals	—	—	—	—	—	143
Rate/sq. ft	—	—	—	—	—	99
Revenues from real estate	8,387	5,004	6,507	9,745	14,008	21,860
Contractual revenues	5,354	3,665	3,482	4,004	4,404	4,845
Others	53	148	30	—	—	—
Land sale+A/c policy change	—	1,121	1,800	2,000	—	—
Revenues	13,794	9,938	11,819	15,749	18,412	26,705
% growth	21	(28)	19	33	17	45
Revenues from residential projects						
			6,252	9,402	12,523	17,433
Revenues from under construction projects						
			5,675	6,936	4,913	3,422
% of total residential revenues						
			90.8	73.8	39.2	19.6

Source: Company, Kotak Institutional Equities estimates

Profit model of Sobha Developers
 March fiscal year-ends, 2008-2013E (₹ mn)

	2008	2009	2010	2011E	2012E	2013E
Total revenues	14,311	9,740	11,299	15,749	18,412	26,705
Land costs	(4,333)	(2,710)	(1,355)	(1,580)	(2,178)	(3,136)
Construction costs	(3,310)	(1,688)	(5,009)	(8,405)	(9,033)	(13,027)
Employee costs	(1,025)	(1,009)	(768)	(940)	(1,128)	(1,184)
SG&A costs	(1,941)	(1,546)	(1,530)	(1,732)	(1,933)	(3,205)
EBITDA	3,703	2,788	2,636	3,091	4,140	6,153
Other income	53	148	39	35	52	78
Interest	(615)	(1,074)	(693)	(751)	(642)	(496)
Depreciation	(350)	(360)	(323)	(279)	(308)	(347)
Pretax profits	2,791	1,501	1,658	2,096	3,242	5,387
Extraordinary items	—	—	—	—	—	—
Current tax	(510)	(422)	(296)	(511)	(1,014)	(1,701)
Deferred tax	33	20	21	17	11	8
Net income	2,315	1,099	1,383	1,602	2,238	3,694
Adjusted net income	2,315	1,099	1,383	1,602	2,238	3,694

Source: Company, Kotak Institutional Equities estimates

Balance Model of Sobha Developers

March fiscal year-ends, 2008-2013E (₹ mn)

	2008	2009	2010	1Q2011	2Q2011	2011E	2012E	2013E
Equity								
Share capital	729	729	981	981	981	981	981	981
Reserves/surplus	9,380	10,394	16,348	16,446	17,038	17,816	19,876	23,569
Total Equity	10,109	11,123	17,329	17,427	18,019	18,797	20,857	24,550
Deferred tax liability/(asset)	(11)	(31)	(52)	(54)	(75)	(69)	(79)	(87)
Liabilities								
Secured Loans	14,381	18,783	14,466	14,279	12,598	12,084	10,084	7,584
Unsecured Loans	3,450	538	275	75	75	—	—	—
Total Borrowings	17,831	19,322	14,740	14,354	12,673	12,084	10,084	7,584
Current Liabilities	5,746	6,117	6,529	5,876	7,038	8,028	8,757	10,556
Total Capital	33,675	36,531	38,547	37,603	37,655	38,840	39,618	42,602
Assets								
Cash	287	214	826	237	227	1,206	812	536
Current assets	31,218	34,042	35,634	34,906	34,871	35,579	35,807	37,880
Gross block	2,711	2,930	2,942			3,189	3,665	4,236
Less: Accumulated depreciation	842	1,198	1,513			1,792	2,100	2,448
Net fixed assets	1,870	1,732	1,429	1,376	1,320	1,397	1,565	1,788
Capital work-in-progress	272	516	632	630	633	632	1,408	2,371
Total fixed assets	2,142	2,248	2,061	2,006	1,953	2,029	2,972	4,160
Intangible assets	—	—	—	—	—	—	—	—
Investments	27	28	27	453	604	27	27	27
Misc. expenses	—	—	—	—	—	—	—	—
Total assets	33,675	36,531	38,547	37,602	37,655	38,840	39,618	42,603

Source: Company, Kotak Institutional Equities estimates

Cash Model of Sobha Developers
March fiscal year-ends, 2008-2013E (₹ mn)

	2008	2009	2010E	2011E	2012E	2013E
Operating						
Pre-tax profits before extraordinary items	2,791	1,501	1,658	2,096	3,242	5,387
Depreciation	350	360	323	279	308	347
Taxes paid	(504)	(296)	(162)	(511)	(1,014)	(1,701)
Other income	(54)	(13)	(8)	(35)	(52)	(78)
Interest expenses	580	1,003	633	751	642	496
Interest paid	(1,140)	—	—	(1,502)	(1,284)	(991)
Extraordinary items	—	—	(4)	—	—	—
Working capital changes (a)	(14,149)	(727)	881	2,305	1,143	221
Total operating	(12,126)	1,828	3,321	3,383	2,985	3,681
Operating, excl. working capital (b)	2,023	2,555	2,440	1,079	1,842	3,460
Investing						
Capital expenditure	(549)	(412)	(139)	(247)	(1,252)	(1,535)
(Purchase)/Sale of assets/businesses	5	2	7	—	—	—
(Purchase)/Sale of investments	500	1	—	—	—	—
Interest/dividend received	13	13	8	35	52	78
Total investing (c)	(31)	(396)	(124)	(212)	(1,200)	(1,457)
Financing						
Proceeds from issue of share capital	200	475	4619	—	—	—
Proceeds from borrowings	11994	(1505)	(7039)	(2657)	(2000)	(2500)
Dividends paid (d)	(474)	(474)	(166)	(134)	(179)	—
Total financing	11,720	(1,504)	(2,586)	(2,791)	(2,179)	(2,500)
Net increase in cash and cash equivalents	(438)	(72)	611	380	(394)	(277)
Beginning cash	684	287	214	826	1,206	812
Ending cash	287	214	826	1,206	812	536
Gross cash flow (b)	2,023	2,555	2,440	1,079	1,842	3,460
Free cash flow (b) + (a) + (c)	(12,157)	1,432	3,197	3,171	1,785	2,223
Excess cash flow (b) +(a) + (c) + (d)	(12,631)	958	3,031	3,037	1,606	2,223

Source: Company, Kotak Institutional Equities estimates

OCTOBER 25, 2010

UPDATE

Coverage view: **Cautious**

Price (Rs): **1,082**

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

BSE-30: **20,166**

We may be optimistic about RIL's E&P segment. An RIL presentation to the Ministry of Petroleum and Natural Gas (MOPNG) puts peak gas production from KG D-6, NEC-25 and CY D-5 blocks at 120 mcm/d for a couple of years and projects sharp decline in production in the D-6 block to 50 mcm/d by FY2020E. D-6 reserves are in line with our assumptions but may disappoint the Street with its more aggressive assumptions. We retain SELL rating with downside risks to our `1,015 target price.

Company data and valuation summary

Reliance Industries

Stock data

52-week range (Rs) (high,low)	1,185-841
Market Cap. (Rs bn)	3,219.4

Shareholding pattern (%)

Promoters	41.1
FIs	20.9
MFs	2.6

Price performance (%)

	1M	3M	12M
Absolute	8.0	2.0	5.7
Rel. to BSE-30	7.4	(8.3)	(11.9)

Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	49.6	57.7	74.4
EPS growth (%)	(1.8)	16.2	28.9
P/E (X)	21.8	18.8	14.5
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)	11.7	9.2	7.5
ROE (%)	11.4	12.1	13.9
Div. Yield (%)	0.6	0.7	0.8

Gas reserves in line with our assumptions for D-6 block, production lower

We model gas production from the D-6 block at 17.7 tcf. The MOPNG presentation puts RIL's 2P reserves for 13 satellite fields at 4.3 tcf. This would put RIL's 2P reserves in the block at around 18 tcf including 13 tcf of D1 and D3 fields (see Exhibit 1 for a breakdown of reserves). Peak production from the satellite fields is around 26-28 mcm/d. More important, the presentation shows a sharp decline in production from D-6 block to 50 mcm/d by FY2020E against our estimated 72 mcm/d.

Data on NEC-25 block is disappointing

The MOPNG presentation puts gas reserves at 1.5 tcf significantly below the 4.7 tcf of recoverable reserves assumed by us. We assume production will start by mid-FY2015 against the company's target of mid-FY2016. Exhibit 2 shows our production estimates for NEC-25 and other blocks for FY2010-22E. We may be aggressive in light of lower reserves estimates for NEC-25 block and continued delay in exploration and development at other blocks (see Exhibit 3).

Gas price may need to be higher for development of discovered fields

In our view, gas price would need to be higher for RIL to start development work of D6 satellite fields, NEC-25 and CY D-5 blocks given the 'small' size of the reserves. RIL has been pressing for a higher gas price for its new blocks. We model gas price at US\$5.25/mn BTU for RIL's KG D-6 block beyond FY2014E and for its other blocks.

Delays in other projects may not auger well for the country

We believe the lower-than-expected production from reserves of RIL's blocks may constrain the development of the Indian gas sector. It is unfortunate that India has let go of several opportunities to procure overseas gas at low prices due to a misplaced optimism about domestic supply—(1) Petronas' bid of US\$3.53/mn BTU for LNG for NTPC's 12 mcm/d tender in 2003; RIL had bid US\$2.34/mn BTU but the contract is yet to be signed, (2) Iran's offer to supply gas through Iran-Pakistan-India pipeline and (3) Myanmar gas from A-1 and A-3 blocks, which has gone to China, despite Indian companies owning stakes in those blocks.

QUICK NUMBERS

- D-6 2P gas reserves at 18 tcf, in line with our 18 tcf estimate
- NEC 2P gas reserves at 1.5 tcf versus our 4.7 tcf estimate
- We model 220 mcm/d of gas production in FY2020E from five RIL blocks

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We assume significantly higher recoverable reserves for RIL's E&P blocks versus company guidance

Recoverable reserves from RIL's various E&P assets (tcf)

	KIE estimates	RIL	Comments
KG-DWN-98/3 (KG D-6)	17.7	18.2	2P reserves estimates provided by company
NEC-OSN-97/2 (NEC-25)	4.7	1.5	Estimated gas reserves provided in the presentation to MoPNG
KG-DWN-2003/1 (KG D-3)	9.6	9.5	Resource potential estimates provided by Hardy Oil
KG-DWN-2001/1 (KG D-9)	5.2	5.2	Resource potential estimates provided by Hardy Oil
MN-DWN-2003/1 (MN D-4)	9.0		No estimates provided currently
Total	46	34	

Source: Company, Kotak Institutional Equities estimates

We assume a steep ramp-up in production from RIL's E&P blocks

Gross gas production from RIL's various E&P assets, March fiscal year-ends, 2010-22E (mcm/d)

	2010	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
KG-DWN-98/3 (KG D-6)	39	60	72	88	88	88	88	80	80	80	72	65	58
NEC-OSN-97/2 (NEC-25)	—	—	—	—	—	20	35	35	35	35	32	28	25
KG-DWN-2003/1 (KG D-3)	—	—	—	—	—	—	22	33	44	44	44	44	44
KG-DWN-2001/1 (KG D-9)	—	—	—	—	—	—	—	10	15	25	25	25	25
MN-DWN-2003/1 (MN D-4)	—	—	—	—	—	—	—	—	23	35	47	47	47
Total	39	60	72	88	88	108	145	158	197	219	220	209	199

Source: Company, Kotak Institutional Equities estimates

We see delays in exploration activities of RIL

Exploration program of RIL

Blocks	Drilling schedule	E&P activity status
NEC-OSN-97/2 (NEC-25)	Six-well drilling program is in progress	1 Acquired 3,200 sq. kms of 3D seismic data 2 Drilled three successful wells (AJ2, AJ3 and AJ5) 3 Recently spud AJ6, AJ7 and AJ9 exploration wells
GS-OSN-2000/1	Appraisal drilling postponed to August 2010	1 Acquired 1,216 sq. kms of 3D seismic data from the block 2 Recently carried out advanced technical and geophysical studies 3 Currently undertaking Phase-II of the work program
AS-ONN-2000/1	Drilling postponed to mid-2011	1 Concluded interpretation of around 400 line kms (LKM) of 2D seismic data 2 To drill one exploration well in CY2010-11E
CY-DWN-2001/2 (D-5)	Commencement of drilling program in April 2010	1 Drilled three wells; struck hydrocarbon in one 2 Abandoned second well due to a technical snag
KG-DWN-2001/1 (D-9)	Postponed drilling of second well to November 2010	1 Acquired and processed 4,188 sq. kms of 3D seismic data 2 Drilled the first (A-1) of four exploration wells; plugged and abandoned 3 Plans to drill one exploration well in CY2010E and two exploration wells in CY2011E
KG-DWN-2003/1 (D-3)	Drilling program in progress	1 Acquired 3,231 sq. kms of 3D seismic data 2 Drilled four successful exploration wells (Dhirubhai 39, 41, 44 and 52) 3 Plugged and abandoned well (W14) in August 2010
MN-DWN-2003/1 (D-4)	Three-well drilling program postponed to April 2011	1 Acquired 3,600 sq. kms of 3D seismic data 2 Three wells identified for drilling 3 To drill a total of fifteen exploratory wells under MWP
CB-ONN-2003/1	Drilling program in progress	1 Eight discoveries out of 17 exploratory wells drilled 2 Acquired 3D seismic data for 80% of the block

Source: Company, Kotak Institutional Equities estimates

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 22, 2010

UPDATE

BRCM(Rating ADD;TP Rs102)

SHRS(Rating REDUCE;TP Rs80)

BJH (Rating SELL:TP Rs93)

BSE-30: 20,166

Limited upside. We are downgrading Shree Renuka Sugars from BUY to REDUCE with a target price of Rs80 (previously Rs76), based on 6X March '12E EBITDA. Our rationale: (1) Valuations are fully discounting normalized earnings in the domestic business and (2) expected surplus of 2.5 mn tons of sugar for the sugar year starting October '10 could lead to lower margins. We retain our ADD and SELL ratings on Balrampur Chini and Bajaj Hindustan, respectively, with revised target prices of Rs102 (previously Rs93) and Rs93 (previously Rs99) based on 6X March '12E EBITDA. Key upside for SHRS could come from higher valuation for the Brazil business.

Company data and valuation summary

Balrampur Chini Mills

Stock data				Forecasts/Valuations			
				2010	2011E	2012E	
52-week range (Rs) (high,low)	165-67			EPS (Rs)	4.5	10.1	10.2
Market Cap. (Rs bn)	22.6			EPS growth (%)	(41.1)	124.1	1.6
Shareholding pattern (%)				P/E (X)	19.6	8.7	8.6
Promoters	37.8			Sales (Rs bn)	20.0	22.9	26.2
FIs	19.2			Net profits (Rs bn)	1.2	2.6	2.6
MFs	8.0			EBITDA (Rs bn)	3.3	4.8	4.8
Price performance (%)				EV/EBITDA (X)	9.3	5.7	4.8
	1M	3M	12M	ROE (%)	8.5	17.3	15.5
Absolute	(1.1)	11.0	(34.2)	Div. Yield (%)	0.5	0.5	0.5
Rel. to BSE-30	(2.2)	(0.3)	(45.2)				

Company data and valuation summary

Shree Renuka Sugars

Stock data				Forecasts/Valuations			
				2010	2011E	2012E	
52-week range (Rs) (high,low)	124-51			EPS (Rs)	8.8	5.1	5.8
Market Cap. (Rs bn)	56.9			EPS growth (%)	164.2	(42.4)	15.1
Shareholding pattern (%)				P/E (X)	9.6	16.7	14.5
Promoters	38.0			Sales (Rs bn)	65.9	61.0	65.9
FIs	25.9			Net profits (Rs bn)	5.9	3.4	3.9
MFs	5.0			EBITDA (Rs bn)	11.0	7.6	7.9
Price performance (%)				EV/EBITDA (X)	5.9	7.8	6.9
	1M	3M	12M	ROE (%)	29.1	13.0	13.1
Absolute	5.1	32.3	(17.6)	Div. Yield (%)	0.5	0.4	0.4
Rel. to BSE-30	4.0	18.9	(31.4)				

Company data and valuation summary

Bajaj Hindustan

Stock data				Forecasts/Valuations			
				2010	2011E	2012E	
52-week range (Rs) (high,low)	243-98			EPS (Rs)	4.3	1.8	13.3
Market Cap. (Rs bn)	24.5			EPS growth (%)	34.1	(57.7)	626.9
Shareholding pattern (%)				P/E (X)	29.6	69.9	9.6
Promoters	41.8			Sales (Rs bn)	34.0	43.6	42.2
FIs	15.9			Net profits (Rs bn)	0.8	0.4	2.6
MFs	1.6			EBITDA (Rs bn)	6.7	5.9	8.1
Price performance (%)				EV/EBITDA (X)	9.5	8.8	5.8
	1M	3M	12M	ROE (%)	3.7	1.5	10.3
Absolute	(1.8)	12.2	(41.7)	Div. Yield (%)	0.5	0.5	0.5
Rel. to BSE-30	(2.9)	0.8	(51.4)				

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LIMITED UPSIDE—DOWNGRADING RENUKA SUGARS

We are rolling forward our target price to March '12E and downgrading Shree Renuka Sugars (SHRS) to REDUCE from BUY, with a target price of Rs80 (previously Rs76), based on 6X March '12E EBITDA. Our rationale: (1) Valuations fully discounting normalized earnings in the domestic business; gross margins higher than our estimates would form part of inventory gains which we will value as one-time gains and, (2) we expect a surplus of 2.5 mn tons of sugar for the domestic sugar year starting October '10, which could lead to gross margins lower than our estimates in the domestic business. We retain our ADD and SELL ratings on Balrampur Chini (BRCM) and Bajaj Hindustan (BJH), with revised target prices of Rs102 (previously Rs93) and Rs93 (previously Rs99), respectively.

Key upsides

(1) Sustained high sugar prices in the global markets which would lead to earning upgrades in the Brazilian subsidiaries; (2) trading gains in the India business and (3) developments on the proposed deregulation of the sugar sector in India.

Normalized earnings fully discounted

We focus on the gross margins in the sugar business to derive our valuations rather than trying to predict the price of white sugar or that of sugar cane. We value sugar stocks at a gross spread (excluding excise) of ~Rs6.6/kg between the average realized price for refined sugar and the price of the sugarcane per kg of refined sugar. We note that the highest gross margin that BRCM has achieved in the past is Rs5.75/kg of sugar (excluding excise) in FY2006. We believe the gross margin spreads in BRCM would represent the industry figures.

BRCM has achieved highest gross margin of Rs5.75/kg of sugar so far
BRCM, gross margin trend, September fiscal year-ends, 2003-2009

	2003	2004	2005	2006	2007	2008	2009
Sugar price (Rs/kg)	12.77	12.56	15.74	17.56	14.48	14.97	21.84
Sugarcane price (Rs/ton)	953.85	965.52	1,166.67	1,206.79	1,360.02	1,209.48	1,525.60
Average recovery (%)	10.38	9.68	10.15	10.22	9.91	10.16	9.14
Sugar cane price per kg of sugar	9.19	9.97	11.49	11.81	13.72	11.90	16.69
Gross margin (Rs/kg)	3.58	2.58	4.24	5.75	0.75	3.06	5.15

Source: Company, Kotak Institutional Equities

Downside to the margin assumptions if exports are not allowed

We will have to adjust our margin assumptions downwards in case exports are not allowed by the Indian government or there is delay in decision making by the government. We believe that the government would wait for the production estimates for the next year to fructify before taking a final call on allowing the exports of sugar. We do not expect the export window to be opened soon.

Expected closing stock of sugar at 7 mn tons for the year ending September '11, without assuming exports, would be sufficient to cover only 3.6 months of consumption which is very low as compared to the stock position that used to be maintained in the earlier years. We think that even if the government allows exports, they would be limited to 1-1.5 mn tons only. Also, in case such an announcement comes, the world sugar prices will correct which would limit the gains on exporting sugar.

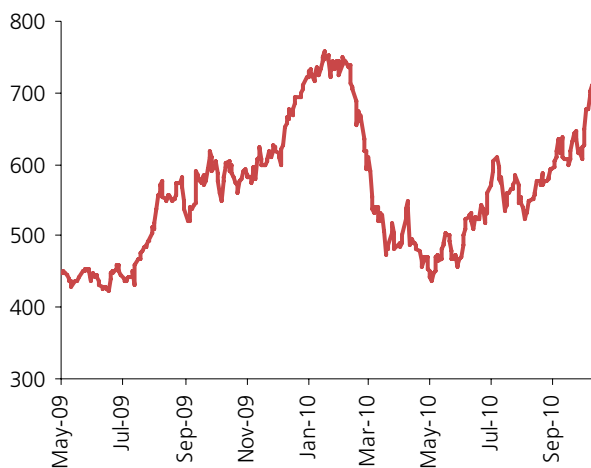
With exports not being permitted, Indian sugar market has remained isolated from the recent strength in the global markets with the domestic prices quoting at a discount to the global prices. Currently, white sugar quotes at Rs27/kg (Mumbai, M-grade) against the global white sugar price at \$725/ton (approx. Rs32/kg).

Closing stocks (FY2011E) not sufficient for the government to allow exports

Domestic sugar balance, September fiscal year-ends, 2001-2011E, (mn tons)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011E
Opening stock	9.3	10.6	11.2	12.4	8.2	4.6	3.7	9.8	8.9	3.5	4.5
Production	18.5	18.5	20.1	13.5	12.7	19.3	28.3	26.4	14.7	18.5	26
Local consumption	16.2	16.8	17.5	17.9	18.5	20.4	20.2	22.5	22.7	23	23.5
Exports	1	1.1	1.5	0.2	—	1.1	2	4.8	—	—	—
Imports	—	—	—	0.4	2.1	—	—	—	2.6	5.5	—
Closing stock	10.6	11.2	12.4	8.2	4.6	3.7	9.8	8.9	3.5	4.5	7
Months of consumption	7.9	8	8.5	5.5	3	3.3	5.8	4.7	1.8	2.4	3.6

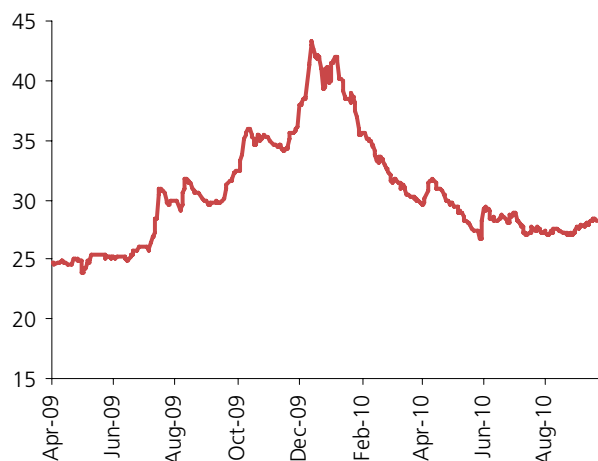
Source: ISMA, Kotak Institutional Equities

Global sugar prices have rallied from the May '10 lows
Price chart of Liffe white sugar, \$/Ton

Source: Bloomberg, Kotak Institutional Equities

India has not participated in the recent rally in the world sugar markets

Price chart of Mumbai (M-grade) white sugar, Rs/kg



Source: Bloomberg, Kotak Institutional Equities

Upsides to our margin assumptions possible; we will value these differently

We believe that upsides to our margin assumptions could come but we would account for these upsides differently. Gross margins above our estimates would be termed as inventory gains and we would avoid giving a multiple to the same. We would account for these inventory gains in the future by adding them as cash to our EV estimates or we will reduce our EBITDA multiples to emphasize the non-recurring nature of these gains. So, even if the sugar prices rise to levels higher than our assumptions, our target prices would not move to the same extent since we are not giving multiple to the inventory gains. We would change our normalized gross margin assumption upwards only if we see structural trends (like consolidation in the industry) to justify the same.

We believe that the sugar business in India is driven by the spreads between the price of the raw material (sugarcane) and the final commodity (sugar). The industry remains fragmented with the top three companies accounting for just 10% of the total production in the current year. The fragmented nature of the industry means the ultimate beneficiaries of the uptrend in the sugar prices would be the farmers in the long term and not the companies themselves. This was evident in the current season with the sugar companies bidding up the price of cane on account of higher sugar prices.

High global sugar prices; key upside risk for SHRS

Going forward, the Brazilian business would account for a large part of our SOTP valuation for SHRS. On a normalized basis, Equipav and VDI combined would account for higher capacity in terms of cane crushed, as compared to the domestic business. Also, unlike the domestic business, in a scenario of high global sugar prices, SHRS can capture higher gross margins in Brazil as the company would get significant part of the cane supply from the land farmed by the company itself. As of now, VDI has over 18,000 ha of land under long lease which accounts for 72% of the total cane required. Similarly, Equipav's cane supply comes from the 115,000 ha of land, of which 85,000 ha is farmed by the company.

We would like to wait for the September '10 results to get more clarity on the Brazilian business, before adjusting our estimates to build higher gross margins. Equipav's results would be a part of the consolidated results for the first time for the quarter ending in September.

Developments on deregulation of the domestic sugar sector

Our earning estimates would have to be adjusted upwards to take into account some of the provisions which are being discussed as a part of the proposed deregulation of the domestic sugar sector. Most of the impact on the earning estimates would come on account of the abolition of the levy sugar quota, which would lead to higher-than-estimated average realizations per kg of sugar.

We would not hazard a guess as to the timing of the proposed deregulation and would adjust our estimates as and when the government comes out with the final draft.

SHREE RENUKA SUGARS (SHRS): DOWNGRADING TO REDUCE

We are downgrading Shree Renuka Sugars (SHRS) from BUY to REDUCE, with a target price of Rs80 (previously Rs76) based on SOTP valuation, with the Brazilian subsidiaries valued at Rs24 and the India business valued at Rs56, based on 6X March '12E EBITDA. Key reasons are: (1) Current valuations fully discounting normalized gross margins in the domestic business and (2) expectation of a surplus in the domestic sugar year beginning October '10, which in absence of exports would lead to lower-than-estimated margins in the domestic business. We are changing our FY2011E estimates for SHRS to account for: (1) Lower refining margins and (2) lower trading gains in the India business.

Key upside risks

(1) Sustained high global sugar prices which could increase our earning estimates for the Brazilian subsidiaries, (2) trading gains in the domestic business, (3) developments on the proposed deregulation of the domestic sugar sector by the government and (4) exports being allowed earlier than we expect, leading to the domestic prices converging with global prices.

Valuation table for SHRS

	March-2012E
EBITDA	7,754
EV/EBITDA (X)	6.0
EV	46,521
Net debt	9,198
Equity value	37,323
Value per share (Rs)	56
Brazil Business	
Rs/\$	45
EBITDA	6,809
EV/EBITDA (X)	6.0
EV	40,855
Net debt	24,750
Equity value	16,105
Value per share (Rs)	24
Total value per share (Rs)	80

Source: Kotak Institutional Equities estimates

Estimates table for SHRS, September fiscal year-ends

	2011E			2012E
	New	Old	Change(%)	New
Sugar price (Rs / kg)	25.1	25.7	(2.4)	26.1
Sugar cane cost (Rs/ton)	1,900	1,900	—	2,000
Sugar sales ('000 tons)	1,750	1,750	—	1,900
Revenues (Rs mn)	61,001	59,242	3.0	65,930
EBITDA (Rs mn)	7,613	8,968	(15.1)	7,894
PAT (Rs mn)	3,465	5,134	(32.5)	3,694
EPS (Rs)	5.1	7.6	(32.8)	5.4

Source: Kotak Institutional Equities estimates

Operating assumptions for SHRS, September fiscal year-ends, 2008-2012E

	2008	2009	2010E	2011E	2012E
Sugar segment					
Sugarcane crushed (mn tons)	4.6	3.4	4.0	5.0	5.2
Average recovery ratio (%)	11.3	11.2	10.8	11.0	11.0
Sugar produced ('000 tons)	524	378	430	555	570
Refined sugar ('000 tons)	68	637	1,057	1,249	1,345
Total sugar produced (lac tons)	592	1,015	1,487	1,804	1,915
Sugar sold ('000 tons)	480	802	1,620	1,750	1,900
Average realisation (Rs/kg)	13.4	21.7	28.4	25.1	26.1
Sugarcane cost (Rs/ton)	110	185	270	190	200
Co-generation segment					
External sales (mn units)	154	232	388	585	625
Average realisation (Rs/unit)	6.5	6.5	5.0	4.5	4.5
Distillery segment					
Alcohol produced (mn ltrs)	47	78	112	126	127
Alcohol sold (mn ltrs)	51	65	116	128	125
Average realisation (Rs/ltr)	26.0	27.3	28.0	27.0	27.0

Source: Company, Kotak Institutional Equities

Summary financials

SHRS, profit model, balance sheet, cash flow model, consolidated, September fiscal year-ends, 2007-2012E, (Rs mn)

	2007	2008	2009	2010E	2011E	2012E
Profit model						
Total income	9,506	21,143	28,160	65,903	61,001	65,930
EBITDA	1,320	2,526	4,656	10,993	7,613	7,894
Interest (expense)/income	(180)	(701)	(1,077)	(1,871)	(1,849)	(1,035)
Depreciation	(249)	(369)	(675)	(903)	(1,171)	(1,382)
Other income	176	152	64	39	43	29
Pretax profits	1,066	1,608	2,968	8,259	4,636	5,506
Tax	(236)	(427)	(720)	(2,325)	(1,194)	(1,549)
Profit after tax	830	1,181	2,248	5,933	3,442	3,957
Minority interest	—	(25)	(5)	(27)	(42)	(45)
Consolidated PAT	830	1,156	2,243	5,907	3,400	3,912
Diluted earnings per share (Rs)	1.7	2.2	3.3	8.8	5.1	5.8
Balance sheet						
Total equity	4,439	8,336	15,302	22,748	25,874	29,512
Deferred taxation liability	202	467	821	1,750	2,070	2,449
Minority interest	—	533	147	174	216	260
Total borrowings	6,470	8,595	13,427	23,754	12,484	7,484
Current liabilities	1,218	2,786	10,172	10,700	13,336	14,354
Total liabilities and equity	12,329	20,717	39,869	59,125	53,979	54,060
Cash	917	227	4,912	6,238	959	613
Other current assets	3,541	7,452	17,747	15,771	15,448	16,766
Net fixed assets	7,710	12,728	16,734	21,005	21,460	20,569
Investments	161	310	477	16,112	16,112	16,112
Total assets	12,329	20,717	39,869	59,125	53,979	54,060
Free cash flow						
Operating cash flow, excl. working capital	1,321	1,783	3,454	7,754	4,890	5,690
Working capital changes	(1,049)	(2,377)	(3,274)	2,534	2,998	(300)
Capital expenditure	(3,400)	(5,205)	(4,681)	(5,174)	(1,626)	(491)
Investment changes	(160)	(149)	(167)	(15,635)	—	—
Other income	27	30	15	39	43	29
Free cash flow	(3,262)	(5,917)	(4,652)	(10,482)	6,304	4,928
Ratios (%)						
EBITDA margin	13.9	11.9	16.5	16.7	12.5	12.0
Net debt/equity	120.2	101.3	53.8	72.2	42.0	22.3
Net debt/EBITDA	1.2	1.0	0.5	0.7	0.4	0.2
RoAE	21.8	17.2	18.0	29.1	13.0	13.1
RoACE	10.9	11.5	12.8	18.6	10.7	11.6
CRoCI	10.1	10.7	14.3	28.6	21.9	21.7

Note:

(a) The balance sheet has not been consolidated for the Brazilian subsidiaries

Source: Company, Kotak Institutional Equities

BALRAMPUR CHINI (BRCM): RETAIN ADD

We are increasing our target price to Rs102 (previously Rs93) as we roll over our estimates to March '12E. We value BRCM at 6X March '12E EBITDA. We note that our target price fully discounts the normalized gross margins in the business. Our margin estimates would have to be revised downwards if the government does not permit exports of sugar in the sugar year starting October '10, which is expected to have a surplus production of 2.5 mn tons of sugar. We have made changes to our estimates for FY2012E to build normalized gross margin spread in the sugar business.

Key upside risks

- (1) Developments on the proposed deregulation of the sugar sector by the government and
- (2) exports being allowed earlier than we expect, leading to domestic prices converging with global prices.

Changes to FY2012E estimates, September fiscal year-end

	2012E	
	New	Old
Sugar price (Rs / kg)	27.3	26.3
Sugar cane cost (Rs/ton)	2,000	2,100
Sugar sales ('000 tons)	800	800
Revenues (Rs mn)	26,234	25,694
EBITDA (Rs mn)	4,758	3,980
PAT (Rs mn)	2,628	1,801
EPS (Rs)	10.2	7.0

Source: Kotak Institutional Equities estimates

Valuation table for BRCM, September fiscal year-end

	March-2012E
EBITDA	4,762
EV/EBITDA (X)	6.0
EV	28,569
Net debt	2,328
Equity Value	26,241
Fully diluted shares (mn)	257
Value per share (Rs)	102

Source: Kotak Institutional Equities estimates

Key operating assumptions for BRCM, September fiscal year-ends, 2008-2012E

	2008	2,009	2010E	2011E	2012E
Sugar segment					
Sugarcane crushed (mn tons)	8.1	4.8	5.2	7.2	7.5
Average recovery ratio (%)	10.2	9.1	9.4	9.8	9.8
Sugar produced ('000 tons)	819	442	487	706	730
Sugar sold (mn tons)	0.7	0.7	0.6	0.7	0.8
Average realisation (Rs/kg)	15.9	22.7	29.2	26.3	27.3
Sugarcane cost (Rs/ton)	1,209	1,526	2,400	1,900	2,000
Raw sugar imports (mn tons)	—	—	0.10	—	—
Distillery segment					
Alcohol produced (mn ltrs)	91	48	58	73	78
Alcohol sold (mn ltrs)	86	51	52	70	85
Average realisation (Rs/ltr)	22	27	27	28	28
Co-generation segment					
External sales (mn units)	574	361	404	527	545
Average realisation (Rs/unit)	3.0	3.5	3.9	4.1	4.1

Source: Company, Kotak Institutional Equities

Summary financials

BRCM, profit model, balance sheet, cash model (consolidated), September fiscal year-ends, 2007-2012E
(Rs mn)

	2007	2008	2009	2010E	2011E	2012E
Profit model						
Total income	13,948	14,909	17,471	20,021	22,912	26,234
EBITDA	791	3,141	4,472	3,271	4,765	4,758
Interest (expense)/income	(600)	(1,001)	(1,068)	(789)	(517)	(258)
Depreciation	(877)	(1,253)	(1,160)	(1,139)	(1,154)	(1,129)
Other income	115	152	82	45	37	137
Pretax profits	(571)	1,039	2,326	1,387	3,130	3,508
Tax	(65)	(256)	(370)	(233)	(543)	(879)
Profit after tax	(635)	783	1,956	1,154	2,588	2,628
Diluted earnings per share (Rs)	(2.6)	3.1	7.6	4.5	10.1	10.2
Balance sheet						
Total equity	8,559	9,989	11,333	11,892	13,879	15,907
Deferred taxation liability	1,232	1,426	2,039	2,039	2,039	2,039
Total borrowings	12,891	13,804	9,906	8,699	4,737	3,820
Current liabilities	4,008	2,626	2,679	3,832	3,813	4,020
Total liabilities and equity	26,690	27,845	25,957	26,462	24,467	25,786
Cash	181	378	342	931	115	3,786
Other current assets	6,624	8,004	6,082	6,837	6,513	5,089
Tangible fixed assets	19,879	19,447	18,311	17,472	16,617	15,689
Investments	6	16	1,222	1,222	1,222	1,222
Total assets	26,690	27,845	25,957	26,462	24,467	25,786
Free cash flow						
Operating cash flow, excl. working capital	337	2,202	3,217	2,254	3,705	3,621
Working capital changes	(419)	(2,829)	2,326	699	305	1,630
Capital expenditure	(6,890)	(828)	(89)	(300)	(300)	(200)
Investment changes	—	(7)	(261)	—	—	—
Other income	1	20	10	45	37	137
Free cash flow	(6,972)	(1,443)	5,204	2,698	3,747	5,188
Ratios (%)						
EBITDA margin	5.7	21.1	25.6	16.3	20.8	18.1
Net debt/equity	129.8	117.6	71.5	55.8	29.0	0.2
Net debt/EBITDA	16.1	4.3	2.1	2.4	1.0	0.0
RoAE	(6.4)	7.4	15.8	8.5	17.3	15.5
RoACE	0.1	6.4	11.8	7.9	13.9	13.3
CRoCI	2.9	8.9	13.9	10.3	14.6	14.3

Source: Company, Kotak Institutional Equities

BAJAJ HINDUSTAN (BJH): RETAIN SELL ON EXPENSIVE VALUATIONS

We reiterate our SELL rating with a target price of Rs93 (previously Rs99) based on 6X March '12E EBITDA. Key upside risk to our earning estimates could come from: (1) Developments on the proposed deregulation of the sugar sector by the government and (2) exports being allowed earlier than we expect, leading to domestic prices converging with global prices.

Expensive inventory depresses profitability

We would like to point out that the FY2011E profitability of BJH is low on account of the high priced inventory of sugar (Rs29/kg) from FY2010 that would be sold in FY2011E. On account of this, we believe that FY2011E does not represent a normalized year for BJH. On a normalized basis, profitability of the company would be closer to our FY2012E estimates. The valuation on a normalized basis at the same multiples would come closer to Rs123.

Changes in estimates

BJH, September fiscal year-ends (Rs mn)

	2011E		2012E
	New	Old	New
Sugar price (Rs / kg)	25.9	26.6	27.2
Sugar cane cost (Rs/ton)	1,900	1,900	2,000
Sugar sales ('000 tons)	15,000	15,000	13,500
Revenues (Rs mn)	43,616	44,060	42,250
EBITDA (Rs mn)	5,920	7,939	8,107
PAT (Rs mn)	350.7	1,891	2,549
EPS (Rs)	1.8	9.9	13

Source: Kotak Institutional Equities estimates

Valuation table

BJH, September fiscal year-ends (Rs mn)

	March-2012E
EBITDA	7,014
EV/EBITDA (X)	6.0
EV	42,081
Net Debt	24,312
Equity value	17,769
Fully diluted shares (mn)	191
Value per share (Rs)	93

Source: Company, Kotak Institutional Equities estimates

Operating assumptions

BJH, September fiscal year-ends, 2007-2012E

	2007	2008	2009E	2010E	2011E	2012E
Sugar segment						
Sugarcane crushed (mn tons)	13.4	11.5	6.7	7.7	13.3	13.9
Average recovery ratio (%)	9.8	9.9	9.0	9.5	9.8	9.8
Sugar produced (mn tons)	1.3	1.1	0.6	0.7	1.3	1.4
Raw sugar imports (mn tons)	—	—	—	0.7	—	—
Sugar sold (mn tons)	1.1	1.1	0.8	1.1	1.5	1.4
Average realisation (Rs/kg)	14.5	16.3	22.5	29.2	25.9	27.2
Sugarcane cost (Rs/ton)	951	1,370	1,550	2,470	1,900	2,000
Distillery segment						
Alcohol produced (mn ltrs)	88	139	48	106	156	165
Alcohol sold (mn ltrs)	88	150	49	103	149	162
Average realisation (Rs/ltr)	22.3	24.0	23.0	27.0	28.0	28.0
Co-generation segment						
External sales (lac units)	76	1,103	977	1,630	2,255	2,313
Average realisation (Rs/unit)	3.0	3.2	3.1	4.0	4.1	4.2

Source: Company, Kotak Institutional Equities

Summary financials

BJH, profit model, balance sheet, cash flow model, September year-ends, 2007-2012E (Rs mn)

	2007	2008	2009	2010E	2011E	2012E
Profit model						
Total income	17,805	20,701	20,259	34,040	43,616	42,250
EBITDA	1,907	2,308	4,214	6,718	5,920	8,107
Interest (expense)/income	(915)	(2,071)	(2,781)	(3,085)	(2,192)	(933)
Depreciation	(1,611)	(2,799)	(3,457)	(3,190)	(3,262)	(3,328)
Other income	323	(370)	3,076	234	100	131
Reported PBT	(295)	(2,932)	1,051	677	566	3,977
Tax	201	980	(456)	16	(186)	(1,308)
Profit after tax	(94)	(1,951)	595	693	380	2,669
Adjusted PAT	20	(1,779)	618	828	351	2,549
Diluted earnings per share (Rs)	0.1	(12.6)	3.2	4.3	1.8	13.3
Balance sheet						
Total equity	14,060	12,014	21,135	22,548	22,742	25,135
Deferred taxation liability	1,045	39	486	470	567	1,125
Minority interest	226	673	651	516	545	664
Total borrowings	35,934	43,351	40,563	43,330	30,535	22,539
Current liabilities	10,129	11,693	10,997	12,004	15,706	14,257
Total liabilities and equity	61,395	67,770	73,832	78,868	70,094	63,719
Cash	2,674	1,740	1,273	4,737	3,565	885
Other current assets	17,875	24,181	28,657	32,887	28,675	27,866
Net fixed assets	40,846	41,848	43,901	41,243	37,853	34,967
Investments	1	1	1	1	1	1
Total assets	61,395	67,770	73,832	78,868	70,094	63,719
Free cash flow						
Operating cash flow, excl. working capital	1,472	1,025	2,142	3,183	3,639	6,425
Working capital changes	(1,379)	(4,474)	(4,208)	(2,961)	7,914	(641)
Capital expenditure	(16,969)	(3,082)	(1,604)	(532)	126	(442)
Investment changes	(3,497)	(560)	(461)	—	—	—
Other income	3	8	817	234	100	131
Free cash flow	(20,369)	(7,083)	(3,315)	(76)	11,779	5,473
Ratios (%)						
EBITDA margin	10.7	11.1	20.8	19.7	13.6	19.2
Net debt/equity	220.2	345.2	181.7	167.7	115.7	82.5
Net debt/EBITDA	17.4	18.0	9.3	5.7	4.6	2.7
RoAE	0.1	(13.1)	3.7	3.7	1.5	10.3
RoACE	1.0	(0.8)	2.3	4.3	3.0	6.1
CRoCI	3.3	4.0	5.1	7.2	7.4	9.5

Source: Company, Kotak Institutional Equities

September 2010: Results calendar

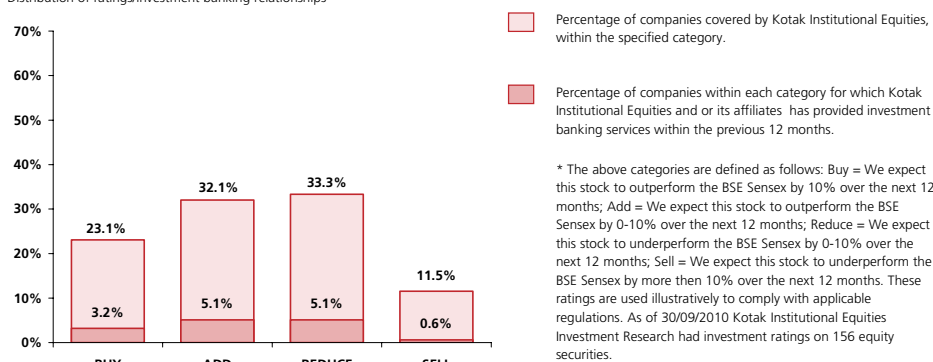
Mon	Tue	Wed	Thu	Fri	Sat	Sun
25-Oct	26-Oct	27-Oct	28-Oct	29-Oct	30-Oct	31-Oct
Adani Power	Bosch	Asian Paints	Adani Enterprises	ABB	Aditya Birla Nuvo	Havells India
Aventis Pharma	Central Bank of India	Cummins India	Andhra Bank	Bharat Electronics	Areva T&D	Jaiprakash Associates
Crompton Greaves	DishTV India	Dabur India	Bank of Baroda	BHEL	D B Realty	
EID Parry	JB Chemicals	Glenmark Pharma	BGR Energy	BPCL	Godrej Consumer Products	
Hindustan Oil Exploration	Jindal Steel & Power	Godrej Industries	Cairn India	Federal Bank	GVK Power	
Hindustan Uniliver	JSW Steel	Gujarat State Petronet	Colgate Palmolive	GE Shipping	Jaiprakash Power Ventures	
Idea Cellular	MRPL	Hindustan Copper	EIH	Hero Honda	Jaypee Infratech	
Madras Cement	Marico	IFCI	Glaxosmithkline Pharma	Hindustan Construction Co	Maruti Suzuki	
Mahindra Holidays & Resorts	NTPC	Indian Hotels	Grasim Industries	ICICI Bank	National Aluminium Co.	
Mundra Port & SEZ	Sterlite Industries	Patni Computer	IDBI Bank	Indian Overseas Bank	Sun Pharma	
Petronet LNG	Tech Mahindra	Shriram Transport	IRB Infrastructure	ITC	Suzlon Energy	
Procter & Gamble	Ultratech Cement	Thermax	Monsanto India	Jet Airways		
Rolta India	United Phosphorus	Torrent Power	NHPC	Mahindra & Mahindra		
Rural Electrification Corp	Volta	Union Bank	NMDC	Motherson Sumi		
Tata Teleservices		United Spirits	ONGC	National Fertilizers		
Titan Industries			Phoenix Mills	Nestle India		
United Bank of India			Punjab National Bank	Puravanka Projects		
			SAIL	Shipping Corp		
			Sun TV Network	SJVN		
			Tata Communications	Syndicate Bank		
			Tata Global Beverages	Tata Chemicals		
			Zee Entertainment Enterprises	UCO Bank		
				Welspun Corp		
1-Nov	2-Nov	3-Nov	4-Nov	5-Nov	6-Nov	
Century Textiles	Jai Corp	Aurobindo Pharma				
GTL Infra	Neyveli Lignite	GAIL				
JSW Energy	Oracle Financial Services	Oriental Bank				
Lupin						
Punj Lloyd						
8-Nov	9-Nov	10-Nov	11-Nov	12-Nov	13-Nov	
IDFC	GMR Infrastructure		Apollo Tyres	Tata Power	Indian Oil Corp	
	Hindalco Industries		Lanco Infratech	HPCL		
			Ranbaxy Laboratories			
			Shree Cement			

Source: BSE, Kotak Institutional Equities

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