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### EQUITY MARKETS

India	Change %			
	8-Aug	1-day	1-mo	3-mo
Sensex	16,990	(1.8)	(9.9)	(8.3)
Nifty	5,119	(1.8)	(9.6)	(7.8)
<b>Global/Regional indices</b>				
Dow Jones	10,810	(5.5)	(14.6)	(14.8)
Nasdaq Composite	2,358	(6.9)	(17.6)	(17.1)
FTSE	5,069	(3.4)	(15.4)	(14.7)
Nikkei	8,694	(4.4)	(14.2)	(11.2)
Hang Seng	18,983	(7.4)	(16.5)	(18.7)
KOSPI	1,730	(7.4)	(20.6)	(19.1)
<b>Value traded – India</b>				
Cash (NSE+BSE)		164	138	134
Derivatives (NSE)		1,689	1,016	1,150
Deri. open interest		1,292	1,214	1,320

#### Forex/money market

	Change, basis points			
	8-Aug	1-day	1-mo	3-mo
Rs/US\$	45.0	0	48	25
10yr govt bond, %	8.3	(5)	(8)	9
<b>Net investment (US\$mn)</b>				
	5-Aug	MTD	CYTD	
FIs	(359)	(556)	1,605	
MFs	79	59	(282)	

#### Top movers -3mo basis

	Change, %			
	8-Aug	1-day	1-mo	3-mo
<b>Best performers</b>				
IDEA IN Equity	95.6	(0.4)	17.0	46.4
RBXY IN Equity	520.5	0.1	(5.5)	17.9
GNP IN Equity	322.0	(0.6)	3.9	13.4
SUNP IN Equity	497.3	(0.4)	(1.1)	13.0
APNT IN Equity	3080.7	0.7	(2.5)	12.3
<b>Worst performers</b>				
IVRC IN Equity	48.7	(3.0)	(33.1)	(35.8)
EDSL IN Equity	286.1	(5.3)	(27.3)	(35.1)
CRG IN Equity	156.0	(1.2)	(38.3)	(34.9)
SAIL IN Equity	107.8	(6.0)	(21.0)	(30.3)
TTMT IN Equity	827.7	(7.0)	(21.5)	(29.7)

**AUGUST 08, 2011**
**RESULT**

Coverage view: **Cautious**

Price (Rs): **1,631**

Target price (Rs): **1,800**

BSE-30: **16,990**

**Margin concerns amidst high expectations in a slow environment.** L&T saw 1QFY12 revenue growth of 21% yoy while EBIT margin declined 230 bps yoy, resulting in yoy flat EBIT. PBT-level growth of 12% was primarily on higher interest and other unallocable corporate income. 1QFY12 order inflows of Rs162 bn were marginally higher (by 4%) than 1QFY11 levels. Retain REDUCE (TP: Rs1,800) on potential margin pressures, relatively high expectations and valuations in a weak demand environment.

**Company data and valuation summary**

Larsen &amp; Toubro

**Stock data**

52-week range (Rs) (high,low)	2,213-1,461
Market Cap. (Rs bn)	993.2

**Shareholding pattern (%)**

Promoters	0.0
FIs	18.7
MFs	4.3

**Price performance (%)**

	1M	3M	12M
Absolute	(11.2)	5.5	(9.5)
Rel. to BSE-30	(1.4)	15.0	(3.3)

**Forecasts/Valuations**

	2011	2012E	2013E
EPS (Rs)	67.7	79.6	98.2
EPS growth (%)	18.1	17.5	23.4
P/E (X)	24.1	20.5	16.6
Sales (Rs bn)	520.9	637.7	785.1
Net profits (Rs bn)	41.2	48.4	59.8
EBITDA (Rs bn)	76.9	104.6	129.2
EV/EBITDA (X)	16.7	12.6	10.8
ROE (%)	17.0	16.6	17.2
Div. Yield (%)	0.9	0.9	0.9

**Margin declines across segments - PBT growth seems to be led by interest and unallocable income**

L&T reported sharp margin decline of 160-300 bps yoy across all the three major segments. Cumulative segmental EBIT margin declined by 230 bps resulting in a relatively yoy flat EBIT. The 12% growth seen at the PBT level was likely led by sharp increase in interest and other components of unallocable corporate income, up almost 180% yoy to Rs2.1 bn versus Rs748 mn in 1QFY11. High interest income of Rs1.36 bn versus Rs650 mn in 1QFY11 is led by (a) higher interest rates, (b) shift to CDs from mutual funds (lower income from current investments). Notably, high other income is likely to be constrained by higher working capital and hence lower cash.

**We remain skeptical on meeting aggressive inflows growth guidance of 15-20% in FY2012E**

L&T management has maintained its guidance of strong revenue growth of 25% and inflow growth of about 15-20% in FY2012E. However, we remain skeptical about the inflows target as several challenges such as unavailability of gas, coal linkages, capex slowdown etc. may constrain growth. Our estimates build in marginal order inflow growth of 3% and revenue growth of 21% for FY2012E. L&T reported order inflows of Rs162 bn in 1QFY12, recording marginal 4% yoy growth, though on an elevated base on account of Rs52 bn Rajpura order.

**Revenues up 21% yoy, EBITDA margin of 11.9% (down 90 bps), PAT of Rs7.46 bn (up 12%)**

L&T reported 1QFY12 standalone revenues of Rs95 bn, up 20% yoy - broadly in line with our estimate (of Rs95.5 bn). **EBITDA margin dropped 90 bps yoy to 11.9% in line with our expectations.** L&T reported 1QFY12 PAT of Rs7.46 bn versus our expectation of Rs7.7 bn and up 12% yoy from Rs6.7 bn last year.

**Revise estimates and target price to Rs1,800/share (from Rs1,900); reiterate REDUCE**

Revise consolidated estimates to Rs79.6 and Rs98.2 (from Rs84.8 and Rs104.3) and standalone to Rs70 and Rs83.5 (from Rs74.5 and Rs89) for FY2012E and FY2013E based on slightly lower margin and higher interest and depreciation expenses. We retain our REDUCE rating (TP: Rs1,800) on potential margin pressures, relatively high expectations and valuations (17XFY12E and 14XFY13 P/E) in a weak demand environment.

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### Revenues of Rs94.8 bn, EBITDA margin of 11.9% and PAT of Rs7.46 bn

L&T reported 1QFY12 standalone revenues of Rs95 bn, recording a growth of 20% yoy - broadly in line with our estimate (of Rs95.5 bn). The revenue growth was likely led by pick-up in execution of the existing large order backlog.

EBITDA margin of 11.9% was in line with of our estimate of 12%, and down about 100 bps on a yoy basis. The yoy decline in EBITDA margin was primarily on higher raw material costs as a percentage of sales - increased to 49.4% in 1QFY12 from 47.2% in 1QFY11.

Correspondingly, contribution margin has declined by about 100 bps on a yoy basis.

Employee and other S,G&A expenses as a percentage of sales remained broadly flat yoy.

Employee expenses increased by 19% yoy in absolute terms primarily on increase in employee count by 6,400 as well as impact of employee pay hikes etc.

L&T reported 1QFY12 PAT of Rs7.46 bn versus our expectation of Rs7.7 bn and up 12% yoy from Rs6.7 bn last year. The slight miss on the net PAT level was primarily on slightly higher-than-expected interest and depreciation costs.

#### Broadly in line results on revenues as well as margin

Larsen & Toubro (standalone) - 1QFY12 results – key numbers (Rs mn)

	1QFY12	1QFY12E	1QFY11	4QFY11	% change			FY2012E	FY2011	% change
					vs est.	yoy	qoq			
<b>Net sales</b>	<b>94,826</b>	<b>95,510</b>	<b>78,312</b>	<b>153,842</b>	<b>(0.7)</b>	<b>21.1</b>	<b>(38.4)</b>	<b>532,471</b>	<b>439,049</b>	<b>21.3</b>
<b>Total expenses</b>	<b>(83,561)</b>	<b>(84,049)</b>	<b>(68,262)</b>	<b>(130,434)</b>	<b>(0.6)</b>	<b>22.4</b>	<b>(35.9)</b>	<b>(467,984)</b>	<b>(382,824)</b>	<b>22.2</b>
CoGS	(72,923)		(59,477)	(113,936)		22.6	(36.0)	(410,485)	(333,313)	23.2
Total RM consumption	(27,614)		(19,022)	(38,630)		45.2	(28.5)	(146,190)	(115,695)	26.4
Subcontracting expenses	(18,455)		(16,864)	(28,197)		9.4	(34.6)	(111,275)	(91,752)	21.3
Construction materials	(19,194)		(17,953)	(38,957)		6.9	(50.7)	(116,626)	(97,021)	20.2
Other mfg. expenses	(7,660)		(5,639)	(8,153)		35.8	(6.0)	(36,394)	(28,845)	26.2
Employee	(7,819)		(6,556)	(8,950)		19.3	(12.6)	(36,200)	(29,849)	21.3
Other S,G&A	(2,819)		(2,229)	(7,547)		26.5	(62.6)	(21,299)	(19,662)	8.3
<b>EBITDA</b>	<b>11,265</b>	<b>11,461</b>	<b>10,050</b>	<b>23,409</b>	<b>(1.7)</b>	<b>12.1</b>	<b>(51.9)</b>	<b>64,487</b>	<b>56,225</b>	<b>14.7</b>
Other income	2,962	3,090	2,156	3,698	(4.2)	37.4	(19.9)	12,361	11,947	3.5
Interest	(1,613)	(1,432)	(1,292)	(1,362)	12.6	24.9	18.4	(6,660)	(6,474)	2.9
Depreciation	(1,679)	(1,557)	(1,142)	(2,358)	7.8	47.0	(28.8)	(6,662)	(5,992)	11.2
<b>PBT</b>	<b>10,935</b>	<b>11,562</b>	<b>9,773</b>	<b>23,387</b>	<b>(5.4)</b>	<b>11.9</b>	<b>(53.2)</b>	<b>63,526</b>	<b>55,705</b>	<b>14.0</b>
Tax	(3,474)	(3,839)	(3,112)	(8,113)	(9.5)	11.6	(57.2)	(21,091)	(19,459)	8.4
<b>Net profit</b>	<b>7,462</b>	<b>7,724</b>	<b>6,662</b>	<b>15,275</b>	<b>(3.4)</b>	<b>12.0</b>	<b>(51.2)</b>	<b>42,435</b>	<b>36,247</b>	<b>17.1</b>
<b>Order details (Rs bn)</b>										
Order booking	162		156	303		3.6	(46.5)	823	798	3.1
Order backlog	1,362		1,078	1,302		26.3	4.6	1,662	1,302	27.6
<b>Key ratios (%)</b>										
CoGS/Sales	76.9		75.9	74.1				77.1	75.9	
Raw materials/sales	49.4		47.2	50.4				49.4	48.4	
Subcontracting exp./sales	19.5		21.5	18.3				20.9	20.9	
Other mfg exp./sales	8.1		7.2	5.3				6.8	6.6	
<b>Contribution margins</b>	<b>23.1</b>		<b>24.1</b>	<b>25.9</b>				<b>22.9</b>	<b>24.1</b>	
Employee expenses/sales	8.2		8.4	5.8				6.8	6.8	
S G and A expenses/sales	3.0		2.8	4.9				4.0	4.5	
<b>EBITDA margin</b>	<b>11.9</b>	<b>12.0</b>	<b>12.8</b>	<b>15.2</b>				<b>12.1</b>	<b>12.8</b>	
PBT Margin	11.5	12.1	12.5	15.2				11.9	12.7	
PAT margin	7.9	8.1	8.5	9.9				8.0	6.6	
Tax rate	31.8	33.2	31.8	34.7				33.2	34.9	

Source: Company, Kotak Institutional Equities estimates

**E&C and MIP segments lead revenue growth; margins decline across the board**

The 20% yoy revenue growth in L&T's standalone revenues was primarily led by the Engineering & Construction (E&C) and the Machinery & Industrial Products (MIP) segments. E&C segment, the core segment of the company (contributes to about 85% of total revenues) recorded growth of 22% yoy to Rs81 bn - primarily on execution of strong order backlog. The MIP segment also recorded a strong revenue growth of 26% yoy to Rs6.9 bn in 1QFY12. However, the revenues for the Electrical & Electronics segment at Rs7.5 bn remained relatively flat yoy on the back of sluggish growth in exports and low domestic demand.

**Margin declines across segments - PBT growth likely led by unallocable income**

L&T reported margin decline across all the three segments viz. Engg & Construction, Electrical & Electronics and Machinery & Industrial Products segments.

- ▶ **Engg & Construction:** This segment reported 240 bps yoy contraction in EBIT margin (to 10%). The margin contraction was attributed to non-linear nature of revenue booking (some projects not reaching margin recognition threshold levels) and rising input costs.
- ▶ **Electrical & Electronics:** Margin decline in this segment (EBIT margin down 160 bps yoy to 8.3%) was primarily attributed to intense competition, rising input costs and low volumes in a weak demand environment. Note that the revenues for this segment also remained relatively flat on a yoy basis.
- ▶ **Machinery & Industrial Products:** Sharp decline in EBIT margin by 300 bps yoy to 17.7% was primarily on pricing pressures and unfavourable revenue mix.

We note that cumulative reported EBIT of all the segments has in fact remained relatively flat on yoy basis. The 12% growth seen at the PBT level is likely led by sharp increase in interest and other unallocable corporate income, up almost 180% yoy to Rs2.1 bn versus Rs748 mn in 1QFY11. L&T reported very a sharp increase in interest income to Rs1.36 bn in 1QFY12 versus Rs650 mn in 1QFY11. However, we note that L&T's cash balance has declined by about Rs8.7 bn to Rs8.6 bn versus FY2011-end level of Rs17.3 bn. Working capital deteriorated to about 10.3% of sales versus 7.9% of sales in FY2011 primarily on support to vendors in a tight liquidity environment.

L&amp;T - segmental numbers, 1QFY12 (Rs mn)

	1QFY12	1QFY11	4QFY11	% change	
				yoy	qoq
<b>Revenues</b>					
Engineering and Construction	80,994	65,961	136,643	22.8	(40.7)
Electrical and Electronics	7,462	7,421	10,014	0.5	(25.5)
Machinery & Industrial Products	6,904	5,467	8,661	26.3	(20.3)
Others	1,990	1,201	2,105	65.6	(5.5)
Less: Intersegmental	(1,566)	(960)	(2,237)	63.1	(30.0)
<b>Total revenues</b>	<b>95,784</b>	<b>79,090</b>	<b>155,186</b>	<b>21.1</b>	<b>(38.3)</b>
<b>EBIT</b>					
Engineering and Construction	8,104	8,167	19,906	(0.8)	(59.3)
Electrical and Electronics	623	738	1,521	(15.6)	(59.1)
Machinery & Industrial Products	1,220	1,130	1,733	7.9	(29.6)
Others	422	335	459	26.1	(8.0)
<b>Total EBIT</b>	<b>10,368</b>	<b>10,369</b>	<b>23,619</b>	<b>(0.0)</b>	<b>(56.1)</b>
Less: Inter-segment	89	(52)	(5)	(272.0)	(1,882.0)
Less: Interest cost	(1,613)	(1,292)	(1,362)	24.9	18.4
Add: Unallocable income	2,091	748	3,403	179.7	(38.6)
<b>Total PBT</b>	<b>10,935</b>	<b>9,773</b>	<b>25,655</b>	<b>11.9</b>	<b>(57.4)</b>
<b>EBIT margin (%)</b>					
Engineering and Construction	10.0	12.4	14.6		
Electrical and Electronics	8.3	9.9	15.2		
Machinery & Industrial Products	17.7	20.7	20.0		
Others	21.2	27.9	21.8		
<b>Total EBIT</b>	<b>10.8</b>	<b>13.1</b>	<b>15.2</b>		
<b>Total PBT</b>	<b>11.4</b>	<b>12.4</b>	<b>16.5</b>		

Source: Company, Kotak Institutional Equities

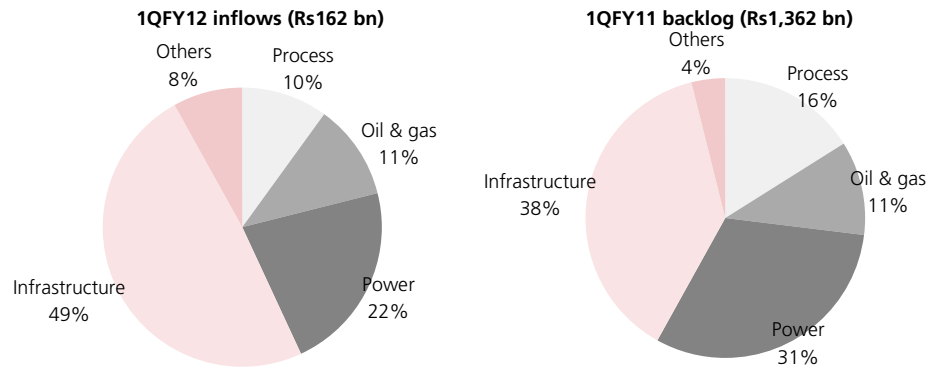
### Expects to maintain full-year margins with some possibility of 50-75 bps yoy contraction

The management has guided for flat yoy EBITDA margin on a full-year basis at FY2011 levels of 12.4% - but did cite the possibility of 50-75 bps margin contraction if the current weak ordering environment and rising commodity price environment continues.

### Moderate inflows growth; but note 1QFY11 inflows boosted by single large Rs52 bn power order

L&T reported order inflows of Rs162 bn in 1QFY12 primarily led by the infrastructure segment (49% of quarters inflows), recording a marginal 4% yoy growth. However, we do note that last year quarter inflows were boosted by a single large order of Rs52 bn (EPC order for 2X660 MW Rajpura power plant). This quarter order inflows were primarily led by the infrastructure segment (EPC order for the Beawar-Pindwara project, Hyderabad metro and several building orders). The management also cited a pick-up in the international order inflows activity, especially in the hydrocarbons and T&D space.

Sectoral break-up of L&T's order inflows and backlog in 1QFY12



Source: Company, Kotak Institutional Equities

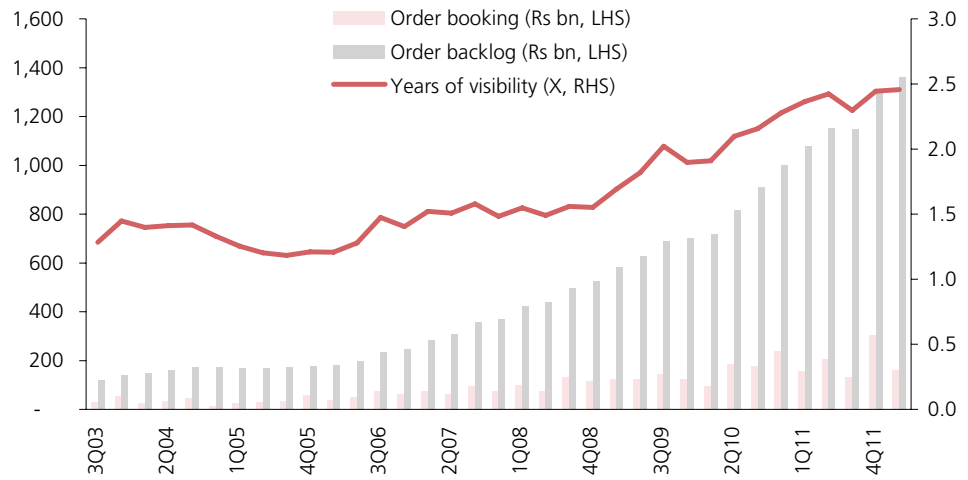
Order inflows announced by L&T in FY2012

Date	Customer	Domestic/ International	Sector	Size (Rs bn)	Nature of Work
7-Aug	Abu Dhabi Gas Industries Ltd (GASCO)	International	Oil & gas	8.5	Installation and commissioning of 123 km of pipeline
7-Aug	ADMA-OPCO (subsidiary of ADNOC)	International	Oil & gas	20.3	Phase-1 of Nasr & Umm Luiu Field Development projects
7-Aug	PTTEP International Ltd	International	Oil & gas	11.3	Works for Zawtika Development Project, Phase-1A
20-Jul	Qatar General Electric & Water Corp.	International	Power	12.1	13 extra high voltage (EHV) substations in Qatar
24-Jun	India Bulls Power Ltd	Domestic	Power	2.4	CHP & AHP for Amravati & Nashik TPPs
24-Jun	Tata Steel Ltd	Domestic	Process	13.7	Coke oven and by-product plant, with BoP
22-Jun	Not specified	Domestic	Infrastructure	4.1	Construction of factories
22-Jun	Leading developers	Domestic	Infrastructure	20.5	Residential towers across major cities
22-Jun	Not specified	Domestic	Infrastructure	16.4	Airport terminal expansion, hospital, medical college
22-Jun	NHAI	Domestic	Infrastructure	26.0	4-laning of 244 km Beawar-Pindwara stretch, Rajasthan
21-Jun	Muscat Electricity Distribution Co.	International	Power	0.9	3 MV substations with associated cabling works
21-Jun	Qatar General Electric & Water Corp.	International	Power	1.9	66 km of 220 kV underground cabling works
21-Jun	Dubai Electricity & Water Authority	International	Power	0.8	132 kV cabling and associated works
21-Jun	Abu Dhabi Ports Company	International	Power	4.2	5 medium voltage substations and associated cabling
21-Jun	Saudi Electricity Company	International	Power	6.0	225 km of 380 kV transmission line project
<b>Total large order booking in FY2011 so far</b>				<b>148.9</b>	

Source: Company, BSE

L&T reported a 1QFY12-end order backlog of Rs1,362 bn which provides a visibility of about 2.4 years (based on forward 4-quarter revenues).

Order booking, Order backlog &amp; visibility trend for L&amp;T (Rs mn)



Source: Company, Kotak Institutional Equities estimates

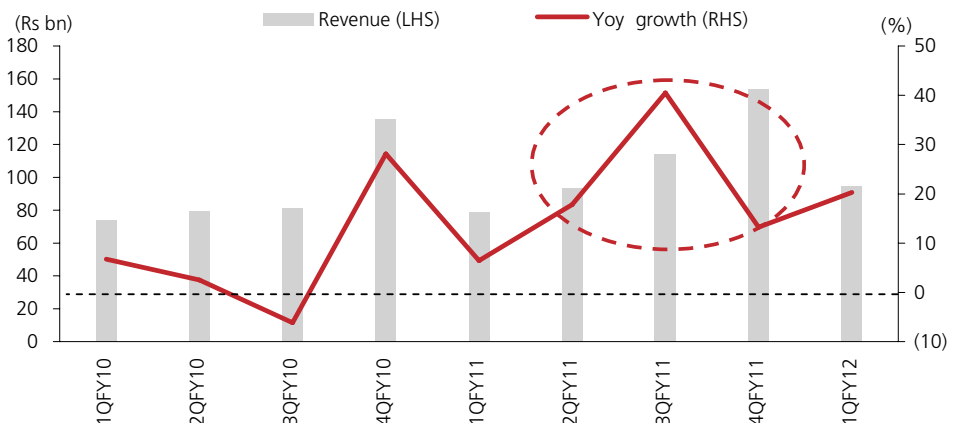
### Karchana project put on hold till land acquisition issues get sorted out

L&T management highlighted that the company has put execution of the Karchana project on hold till the land acquisition issues are sorted out (BTG package for 3X660 MW Karchana power project from Jaiprakash Group). The company has, for now, not cancelled the order from the backlog and would await further communication from the client before proceeding on any course of action on the project.

### Maintains FY2012E growth guidance of 25% for revenues, 15-20% for inflows

L&T management has maintained its full-year revenue growth guidance of 25% yoy for FY2012E and order inflow growth guidance of 15-20%.

Trend in quarterly revenues for L&amp;T, March fiscal year ends, 2010-1QFY12



Source: Company, Kotak Institutional Equities

**Guidance implies strong asking rate for remainder of FY2012E**

The revenue guidance implies strong revenue growth of about 25-26% in the remaining nine months of FY2012E. Also note that the company would have to record very strong inflow growth of about 18-24% in order to achieve its guidance of 15-20% growth.

Our estimates build in only a marginal order inflow growth of about 3% and revenue growth of 21% in FY2012E. Our estimates imply that 1QFY12's track record would continue for the remaining nine months of FY2012E i.e. revenue growth of 21%, EBITDA margin of about 12-12.5% and order inflow growth of 3%.

Larsen & Toubro (standalone) - 9MFY12E implied results - key numbers (Rs mn)

	1QFY12	1QFY11	% chg.	9MFY12E-imp	9MFY11	% chg.	FY2012E	FY2011	% chg.
<b>Net sales</b>	<b>94,826</b>	<b>78,853</b>	<b>20.3</b>	<b>437,645</b>	<b>360,196</b>	<b>21.5</b>	<b>532,471</b>	<b>439,049</b>	<b>21.3</b>
Expenses	(83,561)	(68,783)	21.5	(384,423)	(314,042)	22.4	(467,984)	(382,824)	22.2
<b>EBITDA</b>	<b>11,265</b>	<b>10,071</b>	<b>11.9</b>	<b>53,222</b>	<b>46,154</b>	<b>15.3</b>	<b>64,487</b>	<b>56,225</b>	<b>14.7</b>
Other income	2,962	2,268	30.6	9,399	9,679	(2.9)	12,361	11,947	3.5
Interest	(1,613)	(1,423)	13.3	(5,047)	(5,050)	(0.1)	(6,660)	(6,474)	2.9
Depreciation	(1,679)	(1,142)	47.0	(4,983)	(4,851)	2.7	(6,662)	(5,992)	11.2
<b>PBT</b>	<b>10,935</b>	<b>9,773</b>	<b>11.9</b>	<b>52,590</b>	<b>45,932</b>	<b>14.5</b>	<b>63,526</b>	<b>55,705</b>	<b>14.0</b>
Tax	(3,474)	(3,112)	11.6	(17,617)	(16,347)	7.8	(21,091)	(19,459)	8.4
<b>Net profit</b>	<b>7,462</b>	<b>6,662</b>	<b>12.0</b>	<b>34,974</b>	<b>29,585</b>	<b>18.2</b>	<b>42,435</b>	<b>36,247</b>	<b>17.1</b>
<b>Order details</b>									
Order booking	161,900	156,260	3.6	660,772	641,430	3.0	822,672	797,690	3.1
<b>Key ratios (%)</b>									
<b>EBITDA margin</b>	<b>11.9</b>	<b>12.8</b>		<b>12.2</b>	<b>12.8</b>		<b>12.1</b>	<b>12.8</b>	
PBT Margin	11.5	12.4		12.0	12.8		11.9	12.7	
PAT margin	7.9	8.4		8.0	8.2		8.0	8.3	
Tax rate	31.8	31.8		33.5	35.6		33.2	34.9	
<b>Segmental revenues</b>									
Engg. & Construction	80,994	66,438	21.9	378,489	315,749	19.9	459,483	382,187	20.2
Electrical & Electronics	7,462	7,451	0.1	27,088	24,688	9.7	34,550	32,139	7.5
Machinery & Industrial Products	6,904	5,482	25.9	26,613	22,449	18.5	33,517	27,931	20.0

Source: Company, Kotak Institutional Equities estimates

**Expects Rs15 bn of capex, Rs15 bn of equity contributions in FY2012E (primarily in IDPL and Power Development subs)**

The company expects to incur a total capital expenditure of Rs15 bn in FY2012E at the standalone level as well as Rs15 bn of investments towards equity contributions (at the consolidated level). These investments would primarily be in the infrastructure development projects of L&T (via L&T IDPL) and power development projects.

**Revise estimates and target price to Rs1,800; reiterate REDUCE**

We revise our standalone earnings estimates to Rs69.7 and Rs83.4 from Rs75 and Rs89.5 for FY2012E and FY2013E, respectively, based on slightly lower EBITDA margin assumptions and higher interest and depreciation cost estimates. We correspondingly revise our consolidated estimates to Rs79.6 and Rs98.2 from Rs83.7 and Rs102.4 for FY2012E and FY2013E, respectively.



## Change in earnings estimates of L&amp;T, March fiscal year-ends, 2012E-13E (Rs mn)

	New estimates		Old estimates		% revision	
	FY2012E	FY2013E	FY2012E	FY2013E	FY2012E	FY2013E
<b>Consolidated</b>						
Revenues	637,687	785,081	650,870	797,855	(2.0)	(1.6)
Operating profit	104,560	129,227	107,700	132,614	(2.9)	(2.6)
Operating profit margin (%)	16.4	16.5	16.5	16.6		
Profit after tax	48,446	59,763	51,644	63,493	(6.2)	(5.9)
<b>EPS (Rs)</b>	<b>79.6</b>	<b>98.2</b>	<b>84.8</b>	<b>104.3</b>	<b>(6.2)</b>	<b>(5.9)</b>
<b>Standalone</b>						
Revenues	532,471	654,480	545,770	668,167	(2.4)	(2.0)
Operating profit	64,487	78,085	67,655	81,627	(4.7)	(4.3)
Operating profit margin (%)	12.1	11.9	12.4	12.2		
Profit after tax	42,435	50,764	45,724	54,479	(7.2)	(6.8)
<b>EPS (Rs)</b>	<b>69.7</b>	<b>83.4</b>	<b>75.1</b>	<b>89.5</b>	<b>(7.2)</b>	<b>(6.8)</b>
Order booking	822,672	904,939	822,672	904,939	0.0	0.0
Order booking growth (%)	3.1	10.0	3.1	10.0		
Order backlog	1,662,004	1,924,911	1,647,910	1,897,103	0.9	1.5

Source: Kotak Institutional Equities estimates

Our revised SOTP-based target price of Rs1,800/share (from Rs1,900) is comprised of (1) Rs1,349/share from the standalone EPC business, (2) Rs217/share from the service subsidiaries (Finance, Infra Finance and Infotech), (3) Rs61/share from the manufacturing subsidiaries and associate companies (at 10X FY2013E earnings), (4) Rs122/share from 1.5X book value of infrastructure SPVs and (5) Rs73/share from other subsidiaries and investments of the company.

We arrive at a SOTP-based target price of Rs1,800/share for L&T FY2013E-based Sum of The Parts (SOTP) valuation of Larsen and Toubro

	Earnings/Book (Rs mn)	FY12E multiple (X)	Value (Rs bn)	Valuation basis	Stake (%)	L&T's stake value (Rs bn)	Per share (Rs)
<b>Core company valuation</b>	<b>50,764</b>	<b>16.0</b>	<b>826</b>	<b>P/E</b>	<b>100</b>	<b>812</b>	<b>1,349</b>
<b>Key subsidiaries-services</b>	<b>36,547</b>		<b>77</b>			<b>131</b>	<b>217</b>
L&T Finance	32,028	1.8	30.3	P/B	84	47	78
L&T Infra. Finance	26,469	1.8	47.0	P/B	84	39	64
L&T Infotech	4,519	10.0	72.6	P/E	100	45	75
<b>Key subsidiaries - mfg</b>	<b>2,512</b>					<b>37</b>	<b>61</b>
Tractor Engineers	121	10.0	24.9	P/E	100	1	2
Associate companies*	2,390	10.0	46.3	P/E	50	12	20
Power equipment JV	NA		77.5	DCF	51	24	39
<b>Infrastructure SPVs</b>	<b>58,203</b>	<b>1.5</b>	<b>52</b>	<b>P/B</b>	<b>84.3</b>	<b>74</b>	<b>122</b>
<b>Other subsidiaries</b>	<b>35,346</b>	<b>1.3</b>	<b>279</b>	<b>P/B</b>	<b>100</b>	<b>44</b>	<b>73</b>
<b>Total subsidiaries</b>						<b>285</b>	<b>474</b>
<b>Grand total</b>						<b>1,098</b>	<b>1,823</b>

Source: Company, Kotak Institutional Equities estimates

We retain our REDUCE rating on L&T based on (1) weak demand environment in the country across various sectors, (2) potential for margin contraction given weak capex cycle, rising commodity prices and change in revenue mix and (3) potential for revenues/ earning disappointments even if order inflows beat estimates.

Standalone balance sheet and income statement of L&T, March fiscal year-ends, 2008-13E (Rs mn)

	2008	2009	2010	2011	2012E	2013E
<b>Income statement</b>						
<b>Net operating revenues</b>	<b>248,779</b>	<b>339,385</b>	<b>370,348</b>	<b>439,049</b>	<b>532,471</b>	<b>654,480</b>
Cost of goods sold	(220,515)	(300,164)	(322,592)	(382,685)	(467,984)	(576,396)
S, G & A	(13,856)	(17,703)	(14,627)	(19,903)	(21,299)	(26,179)
Salaries & wages	(15,354)	(19,745)	(23,791)	(28,845)	(36,394)	(44,193)
<b>EBIDTA</b>	<b>28,264</b>	<b>39,222</b>	<b>47,756</b>	<b>56,364</b>	<b>64,487</b>	<b>78,085</b>
<i>EBIDTA margin (%)</i>	<i>11.4</i>	<i>11.56</i>	<i>12.9</i>	<i>12.8</i>	<i>12.1</i>	<i>11.9</i>
Other income	6,520	7,398	9,502	11,811	12,361	11,757
Interest	(1,227)	(4,156)	(5,053)	(6,474)	(6,660)	(6,660)
Depreciation	(2,022)	(3,073)	(4,159)	(6,003)	(6,662)	(7,187)
<b>PBT</b>	<b>31,534</b>	<b>39,404</b>	<b>48,059</b>	<b>55,708</b>	<b>63,526</b>	<b>75,995</b>
Tax	(9,821)	(12,312)	(16,409)	(19,459)	(21,091)	(25,230)
<b>PAT</b>	<b>21,714</b>	<b>27,092</b>	<b>31,650</b>	<b>36,250</b>	<b>42,435</b>	<b>50,764</b>
Extraordinaries	(8)	7,725	12,105	3,329	—	—
Reported PAT	21,706	34,817	43,755	39,579	42,435	50,764
<b>EPS (Rs)</b>	<b>37.1</b>	<b>46.3</b>	<b>52.6</b>	<b>59.5</b>	<b>69.7</b>	<b>83.4</b>
<b>Balance sheet</b>						
<b>Shareholders funds</b>	<b>95,292</b>	<b>124,351</b>	<b>182,884</b>	<b>218,241</b>	<b>250,704</b>	<b>291,496</b>
Equity capital	585	1,171	1,204	1,218	1,218	1,218
Reserves & surplus	94,707	123,180	181,679	217,024	249,486	290,278
<b>Total debt</b>	<b>35,840</b>	<b>65,560</b>	<b>68,008</b>	<b>71,611</b>	<b>71,611</b>	<b>71,611</b>
<b>Total sources of funds</b>	<b>131,391</b>	<b>190,157</b>	<b>251,125</b>	<b>290,074</b>	<b>322,536</b>	<b>363,328</b>
<b>Total fixed assets</b>	<b>35,534</b>	<b>50,538</b>	<b>62,231</b>	<b>72,370</b>	<b>77,858</b>	<b>84,671</b>
Intangible assets	920	1,408	1,427	2,212	2,212	2,212
Investments	69,223	82,637	137,053	146,848	154,303	158,889
<b>Net working capital (excl. cash)</b>	<b>16,652</b>	<b>48,303</b>	<b>36,869</b>	<b>53,975</b>	<b>80,039</b>	<b>110,190</b>
Cash and bank balances	9,645	7,753	14,319	17,304	10,760	10,002
<b>Total application of funds</b>	<b>131,391</b>	<b>190,157</b>	<b>251,125</b>	<b>290,074</b>	<b>322,536</b>	<b>363,328</b>

Source: Company, Kotak Institutional Equities estimates

### FY2011 annual report: Strong capex, investments in development business continue

Key highlights from the FY2011 annual report are (1) increased investments in subsidiaries by Rs18 bn (power utility, infra dev subs) partly funded by current investments; routes infra project investments via IDPL (infra holding structure), (2) road projects continue to report losses (cumulative of Rs1.65 bn in FY2011); revenues may be insufficient to service interest in a few cases, (3) some deterioration in working capital though still at low levels—operating cash generation remains strong, (4) Rs35 bn of operating cash generated utilized towards capex (of Rs16 bn), increased investments in subsidiaries (Rs9.8 bn) and dividend payment (Rs10 bn), (5) capex remains steadfast at Rs16 bn—contributes towards strong gross block growth (gross block has grown more than 3X over the past four years) and (6) apart from Finance and Infotech subsidiaries, about Rs3 bn of cumulative losses in other subsidiaries in FY2011 (likely led by road and power equipment subs).

### Increased subsidiary investments (primarily power utility, infrastructure development subs)

L&T increased its investment in subsidiaries by Rs18.3 bn to Rs69.4 bn in FY2011. This was partly funded by current/other investments which declined by about Rs9.8 bn yoy in FY2011. The increase in investment in subsidiaries was primarily led by (1) Rs6.6 bn towards L&T Infrastructure Development Ltd, (2) Rs4.1 bn towards L&T Power Development Ltd, and (3) Rs2.4 bn towards the boiler and turbine manufacturing JVs (L&T-MHI Boilers Pvt Ltd – Rs1.12 bn and L&T-MHI Turbine Generator Pvt Ltd – Rs1.27 bn). The investments in L&T Power Development Ltd (power development arm of L&T), would primarily go towards Rajpura Thermal Power Projects (capacity of 2.1 GW – Phase I & II).

Other subsidiaries which contributed to the increase in investment include L&T General Insurance Co. Ltd (Rs1.7 bn), L&T Finance Holding Ltd (Rs1.5 bn) and L&T Special Steels & Heavy Forgings (Rs1.1 bn).

**Increase in subsidiary investments led by power utility and infrastructure development**  
Details of subsidiary investments made by L&T, March fiscal year-ends, 2009-11 (Rs mn)

Name	2009	2010	2011	Yoy change
<b>Subsidiary companies</b>				
L&T Aviation Services Pvt. Ltd	—	—	240	240
L&T Capital Co. Ltd	220	220	220	—
L&T Finance Holdings Ltd	10,786	16,286	17,786	1,500
L&T General Insurance Co.	—	290	2,000	1,710
L&T Kobelco Machinery Pvt Ltd	—	—	153	153
L&T Power Development	860	9,200	13,300	4,100
L&T Power Ltd	513	1,535	1,535	—
L&T Realty	472	472	472	—
L&T Sapura Shipping Pvt Ltd	—	—	951	951
L&T Special Steels & Heavy Forgings	—	1,110	2,220	1,110
L&T Western India Tollbridge	140	140	140	—
L&T Valdel Engg	252	239	239	—
L&T Infotech	1,044	1,343	1,343	—
L&T International FZE	10,498	11,474	11,474	—
L&T-MHI Boilers Pvt Ltd	—	—	1,123	1,123
L&T-MHI Turbine Generators Pvt Ltd	—	—	1,276	1,276
<b>Infrastructure Subsidiaries</b>	<b>4,106</b>	<b>8,579</b>	<b>14,608</b>	<b>6,029</b>
L&T Transportation Infra	109	109	109	—
L&T IDPL	3,841	6,291	13,568	7,277
Ahmedabad Maliya Tollway Pvt Ltd	10	630	—	(630)
L&T Halol-Shamlaji Tollway	10	653	—	(653)
L&T Metro Rail (Hyderabad) Ltd	—	—	34	34
L&T Rajkot-Vadinar Tollway	10	550	550	—
Narmada Infra Construction Enterprise	127	127	127	—
PNG Tollway Pvt	—	220	220	—
<b>Subsidiaries total</b>	<b>29,126</b>	<b>51,134</b>	<b>69,391</b>	<b>18,257</b>
<b>Associate companies</b>				
EWAC Alloys	0.4	0.4	1,502	1,502
Intl Seaport Dredging	402	399	—	(399)
L&T Case Equipment	120	120	—	(120)
L&T-Komatsu	600	600	600	—
<b>Associates total</b>	<b>1,196</b>	<b>784</b>	<b>2,166</b>	<b>1,382</b>
<b>Other investments</b>				
Satyam Computer Services	1,764	4,363	1,863	(2,500)
Current investments	48,797	79,645	72,840	(6,806)
Investments in Integrated JVs	1,278	1,088	549	(539)
<b>Other investments total</b>	<b>52,315</b>	<b>85,136</b>	<b>75,292</b>	<b>(9,844)</b>
<b>Total investments</b>	<b>82,637</b>	<b>137,054</b>	<b>146,848</b>	<b>9,795</b>

Source: Company, Kotak Institutional Equities

**Partially aligns investments in infrastructure development projects—routed through L&T IDPL to form infra holding company structure**

L&T plans to route all investments in infrastructure development SPVs via L&T IDPL (would be the holding company for all the projects). L&T has initiated this process this year—transferred shares of Ahmedabad Maliya Tollway Pvt Ltd (Rs630 mn) and L&T Halol-Shamlaji Tollway (Rs653 mn) to L&T IDPL. Increased investments in L&T IDPL are likely towards equity contributions for the road and port projects under implementation. The company has about seven road projects (with a cumulative project cost of Rs80 bn) and one port project (Dhamra port project—cost Rs24 bn) under implementation.

**Road projects continue to report losses (cumulative of Rs1.65 bn in FY2011)**

Most of the operational road projects of L&T continued to report losses in FY2011 as well, resulting in a cumulative loss of Rs1.65 bn across the projects. Losses were led by key projects such as Vadodara-Bharuch (loss of Rs790 mn), Krishnagiri-Thopur (loss of Rs250 mn) and Panipat Elevated Corridor (Rs460 mn of loss). We note that these losses are despite strong revenue growth recorded in Vadodara-Bharuch (FY2011 revenues of Rs1.9 bn, up 42% yoy—up 17.3% versus annualized revenues of FY2010) and Krishnagiri-Thopur (revenues of Rs810 mn, up 21% yoy) projects. Total revenues from BOT road projects increase by 22% yoy (on absolute basis, up 13% yoy versus annualized revenues).

Key performance of operational road projects of L&T, March fiscal year-ends, 2010-11 (Rs mn)

	COD	FY2011		FY2010			Project cost (Rs mn)	Annualized revenue/project cost (%)
		Revenues Reported	PAT	Revenues Reported	Annualized	PAT		
Panipat Elevated Corridor	Jul-08	390	(460)	360	360	(450)	7,746	5.0
Krishnagiri Thopur Toll Road	Feb-09	810	(250)	670	670	(300)	8,719	9.3
Western Andhra Tollways	Mar-09	380	(200)	320	320	(210)	3,728	10.2
Interstate Road corridor		880	50	890	890	80	5,370	16.4
Vadodara Baruch Tollway	Jun-09	1,920	(790)	1,350	1,637	(730)	14,610	13.1
<b>Total</b>		<b>4,380</b>	<b>(1,650)</b>	<b>3,590</b>	<b>3,877</b>	<b>(1,610)</b>	<b>40,173</b>	<b>10.9</b>

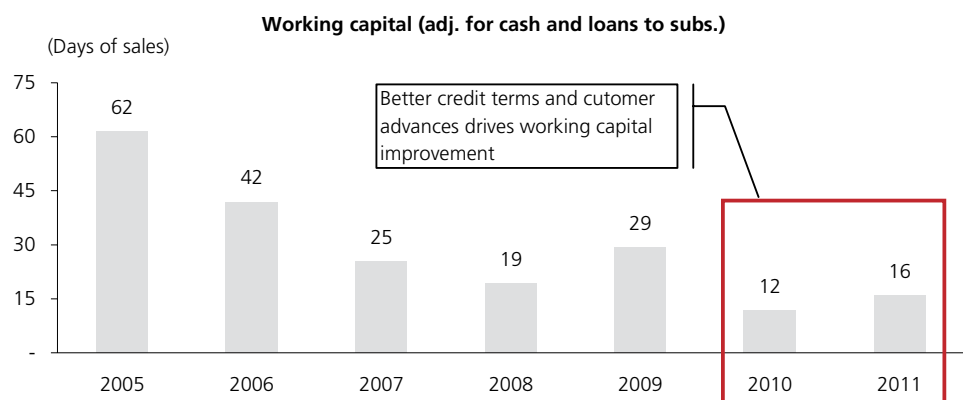
Source: Company, Kotak Institutional Equities estimates

**Working capital remains benign generating strong operating cash**

The company reported slight deterioration in working capital efficiencies in FY2011. Net working capital (adjusted for cash and loans & advances to subsidiaries) for L&T standalone increased to 16 days of sales at end-FY2011 versus to 12 days of sales at end-FY2010. Increased working capital levels led to slightly lower operating cash generation for the year; though it remains strong at Rs35 bn (adjusted for exceptional income) versus Rs43 bn of operating cash generation in FY2010.

We adjust about Rs35 bn of Loans & Advances towards subsidiaries and associates including (1) Rs17.1 bn of advances towards equity commitment (primarily in Shipping—Rs6.2 bn and Seawoods—Rs8.8 bn) and (2) Rs16 bn of loans to subsidiaries (primarily to Finance Holding: Rs3.6 bn, Realty: Rs2.9 bn, IDPL: Rs2.4 bn, and Infrastructure Finance: Rs1.5 bn).

L&T standalone working capital levels, March fiscal year-ends, 2005-11 (days of sales)

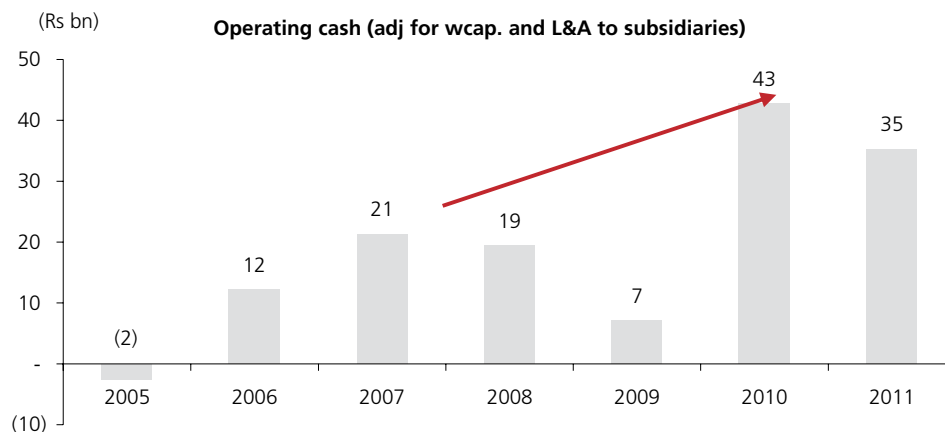


Source: Company, Kotak Institutional Equities

### Rs35 bn of operating cash generated utilized towards capex (of Rs16 bn), subsidiary investments (Rs9.8 bn) and dividend payment (Rs10 bn)

This cash generation was utilized towards (1) capital expenditure of Rs16 bn during the year, (2) increased investments by about Rs9.8 bn and (3) dividend payment of Rs10 bn. L&T ended the year with total cash balance of Rs17.3 bn, versus Rs14.3 bn at end-FY2010.

Operating cash generated by L&T standalone, March fiscal year-ends, 2005-11 (Rs mn)

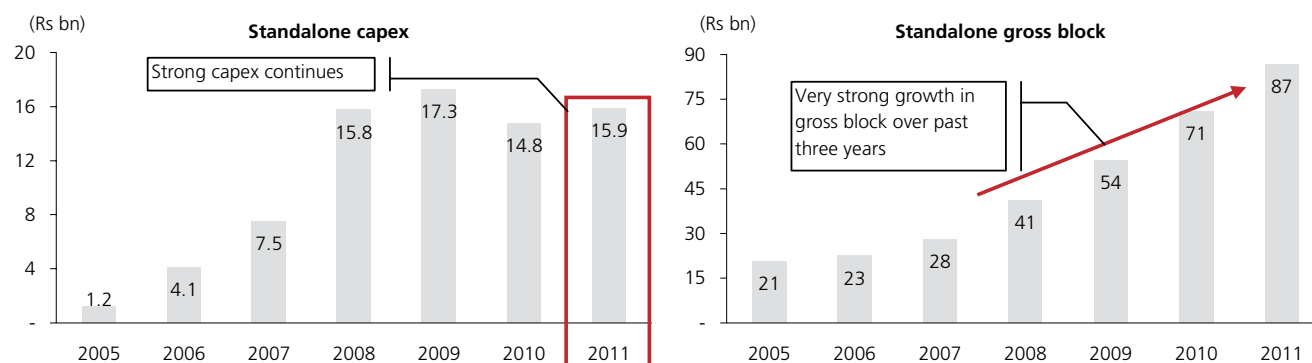


Source: Company, Kotak Institutional Equities

### Capex steadfast at Rs16 bn—gross block grows over 3X in the past four years

L&T continued on its strong capex path with total capital expenditure spends of Rs15.9 bn in FY2011. We note that the company has incurred an annual average capex of about Rs15-16 bn over the past four years (FY2008-11). The standalone gross block of the company grew about 22% yoy. The total gross block of L&T has more than trebled over the past four years to Rs86.8 bn from its FY2007-end gross block of Rs28 bn. The capex during the year was primarily towards creating additional fabrication facilities, adding construction equipment and expanding the existing production facilities at Coimbatore, Ahmednagar and Talegaon. We highlight that such investments are over a net-block (including capital work-in-progress) base of about Rs62 bn at end-FY2010.

L&T standalone capital expenditure, March fiscal year-ends, 2005-11 (Rs bn)

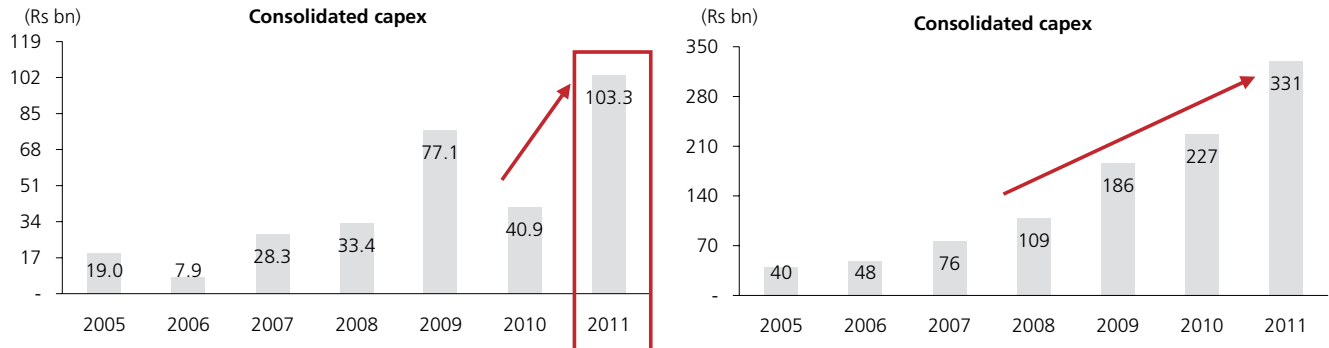


Source: Company

**Strong consol-level capex as well**

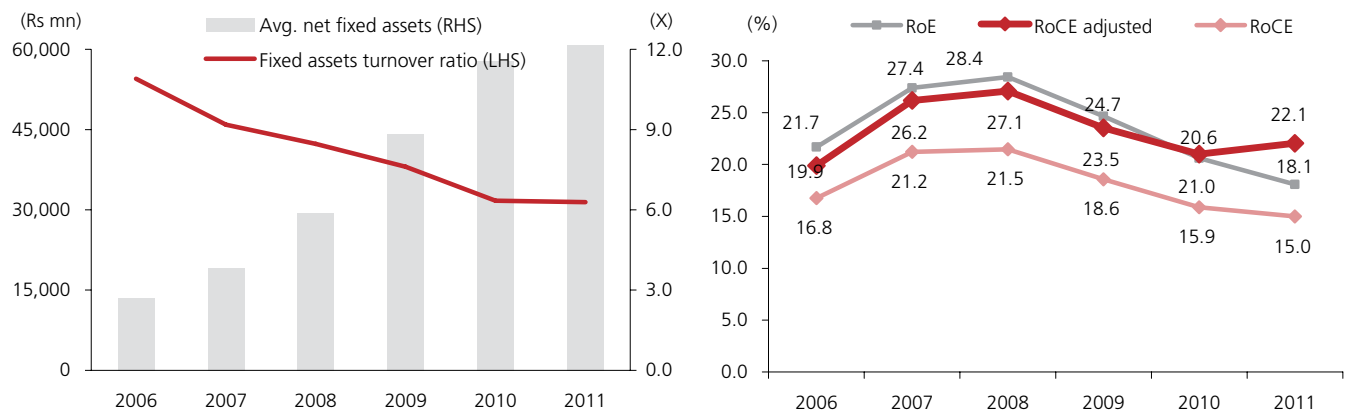
L&T also incurred a capex of Rs103 bn at the consolidated level leading to a very strong growth in gross block by 45% yoy to Rs330 bn at end-FY2011 (from Rs227 bn at end-FY2010).

L&T consolidated capital expenditure, March fiscal year-ends, 2005-11 (Rs bn)



Source: Company

Fixed asset turnover and return ratios of L&T standalone, March fiscal year-ends, 2006-11



Source: Company, Kotak Institutional Equities

**Apart from Finance, Infotech subsidiaries, ~Rs3 bn of cumulative losses in other subsidiaries**

Other subsidiaries (apart from Finance, Infrastructure Finance, Infotech, Tractor Engg) contributed a cumulative net loss of about Rs3 bn towards L&T's consolidated net PAT of Rs41 bn in FY2011. These are likely to be primarily led by road projects (cumulative losses of Rs1.65 bn in FY2011) and power equipment ventures (L&T-MHI Turbine Generators, L&T MHI Boilers).

AUGUST 08, 2011

#### RESULT

Coverage view: **Cautious**

Price (Rs): **783**

Target price (Rs): **880**

BSE-30: **16,990**

**Growth intact.** PAT at Rs1 bn missed our estimate of Rs1.3 bn due to lower margin and higher tax at 21%. However, we believe growth is intact with strong sales growth at 35% in 1QFY12. We lower FY2012-13E PAT estimates by 9-3% due to higher tax at 20% and lower margin. Divis expects at least 25% sales growth in FY2012E, we believe this is achievable. Maintain BUY with a PT of Rs880 (was Rs900), 18X FY2013E EPS.

#### Company data and valuation summary

Divi's Laboratories

##### Stock data

52-week range (Rs) (high,low) 843-582

Market Cap. (Rs bn) 103.9

##### Shareholding pattern (%)

Promoters 52.2

FIs 15.3

MFs 13.2

##### Price performance (%)

	1M	3M	12M
Absolute	(3.5)	13.9	3.1
Rel. to BSE-30	7.1	24.1	10.1

##### Forecasts/Valuations

	2011	2012E	2013E
EPS (Rs)	32.4	36.7	45.0
EPS growth (%)	25.7	13.5	22.4
P/E (X)	24.2	21.3	17.4
Sales (Rs bn)	13.1	16.1	19.1
Net profits (Rs bn)	4.3	4.9	6.0
EBITDA (Rs bn)	4.9	6.3	7.5
EV/EBITDA (X)	20.0	15.4	12.6
ROE (%)	25.9	25.0	26.2
Div. Yield (%)	0.0	0.0	0.0

#### 1QFY12 revenues at Rs3.6 bn, up 35% yoy, 11% lower than our estimates

Revenues at Rs3.6 bn or US\$79 mn grew 35% yoy, though missed our estimate by 11%.

Revenues from carotenoid were Rs80 mn, down from Rs160 mn last year. However, the company expects carotenoid sales to pick up in 9MFY12E and expects to clock sales of Rs1.2 bn in FY2012E, almost double yoy. Split between custom synthesis and API was 50:50.

#### PAT at Rs1 bn was lower than our estimate of Rs1.37 bn

Reported EBITDA margin was at 37% in 1QFY12, down 100 bps yoy and lower than our estimate of 40.5% due to (1) lower gross margin at 61% versus 62% last year, however, gross margin was up 130 bps qoq and (2) 41% increase in personnel and manufacturing costs. While PBT was 20% lower than our estimate, tax rate increased to 21% versus our estimate of 16% due to (1) expiry of EOU status and (2) 50% tax exemption at the existing SEZ versus 100% earlier. The new SEZ, meanwhile, has commenced batch trial manufacturing from only one unit and we expect commercial operations to gather steam in FY2013E.

#### Divis expects sales growth of at least 25% in FY2012E

Divis expects at least 25% sales growth with (1) the new SEZ adding to revenues from 2HFY12E and (2) carotenoids doubling sales to Rs1.2 bn. Divis sales guidance implies revenues of US\$94 mn/quarter in 9MFY12E versus US\$79 mn reported in 1QFY12. While there were certain high-margin contracts in FY2010, FY2011 (1) witnessed pick-up in large volume business which was hit in FY2010 and (2) did not have one-off high-margin contract, implying 38% margin in FY2011 is base business margin. We estimate margin sales growth of 23% in FY2012E and margin at 39% in FY2012-13E versus 37% in 1QFY12, as we expect benefits of operating leverage to kick in on account of continuing sales growth.

#### Maintain BUY with PT of Rs880 (from Rs900), 18X FY2013E EPS

We value Divis at (1) 18X FY2013E EPS (5-year historical average multiple is 18X) and (2) cash/share of Rs71.

#### QUICK NUMBERS

- Reported EBITDA margin was at 37% in 1QFY12, down 100 bps yoy
- 1QFY12 revenues at Rs3.6 bn, up 35% yoy
- Divis expects sales growth of at least 25% in FY2012E

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

	1QFY12	1QFY12E	1QFY11	4QFY11	% change		
					1QFY12E	1QFY11	4QFY11
<b>Net sales</b>	3,648	4,116	2,694	4,786	<b>(11)</b>	<b>35</b>	<b>(24)</b>
Change in stock	(363)	—	(142)	242	NM	NM	NM
Consumption of RM	1,791	1,585	1,158	1,696	13	55	6
Personnel cost	245	235	174	261	4	41	(6)
Manufacturing exp	299	300	212	314	(0)	41	(5)
Other expenses	336	325	251	361	3	34	(7)
<b>Total expenditure</b>	<b>2,308</b>	<b>2,445</b>	<b>1,653</b>	<b>2,873</b>	<b>(6)</b>	<b>40</b>	<b>(20)</b>
<b>EBITDA</b>	<b>1,340</b>	<b>1,671</b>	<b>1,041</b>	<b>1,913</b>	<b>(20)</b>	<b>29</b>	<b>(30)</b>
Other income	102	100	33	112	1	208	(9)
Interest	2	—	2	6	NM	—	(61)
Depreciation	140	135	131	135	4	7	4
<b>PBT</b>	<b>1,299</b>	<b>1,636</b>	<b>941</b>	<b>1,884</b>	<b>(21)</b>	<b>38</b>	<b>(31)</b>
Current tax	273	262	71	126	4	282	116
Deferred tax	1	—	7	6	NM	(86)	(85)
<b>PAT</b>	<b>1,026</b>	<b>1,375</b>	<b>863</b>	<b>1,752</b>	<b>(25)</b>	<b>19</b>	<b>(41)</b>

Source: Kotak Institutional Equities estimates, Company

## Key takeaways from our call with Divis management

- ▶ Divis is setting up a new SEZ at Vizag for custom synthesis and generics at a cost of Rs2 bn as it visualizes existing capacities nearing full utilization by end of FY2011E. The SEZ is commissioned and has started commercial manufacturing from a single unit only from June 2011E. Rs750 mn has been spent on the facility till now and balance of Rs1.25 bn will be spent in FY2012E (FY2011 capex was Rs3 bn). The facility is expected to be inspected by regulated market agencies only by end of the year.
- ▶ Tax rate is expected at 20% in FY2012E, up from 16-17% earlier as (1) EOU unit has lost 100% tax benefits, (2) older SEZ qualifies for 50% tax exemption and (3) full impact of new SEZ is expected only in FY2013E. On account of latter, tax may lower in FY2013E. We estimate tax at 20% in FY2012E and 18% in FY2013E.
- ▶ Cash was Rs6.5 bn as of June 2011 from Rs5.4 bn as of March 2011, invested in money market funds on which the company earns 7% return. Debt was Rs250 mn versus Rs230 mn as of March 2011, largely comprising working capital loans while out of the forex debt of Rs65 mn, Rs55 mn has been repaid. Inventory was Rs5.8 bn versus Rs5.7 bn; debtors were down to Rs3.5 bn versus Rs3.7 bn as of March 2011.



## Details from annual report

	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
<b>No. of products added</b>	<b>17</b>	<b>14</b>	<b>13</b>	<b>9</b>	<b>9</b>	<b>7</b>	<b>21</b>
Generic products		6	2	4	4	2	8
Custom synthesis		8	11	5	5	5	13
<b>Break up of total sales (% of sales)</b>							
Asia	13	9	2	1	2	3	4
Europe	31	34	27	29	31	26	30
Far East	0	0	9	5	4	5	9
India	12	10	6	6	7	9	8
North America	28	40	48	53	51	49	45
South America	4	0	7	2	3	0	0
Rest of the world	12	7	1	4	2	7	5
<b>Sales concentration analysis (% of sales)</b>							
Largest product	22	23	21	20	19	18	20
Top five products	50	60	60	60	61	55	52
Top five clients	39	47	50	48	51	49	47

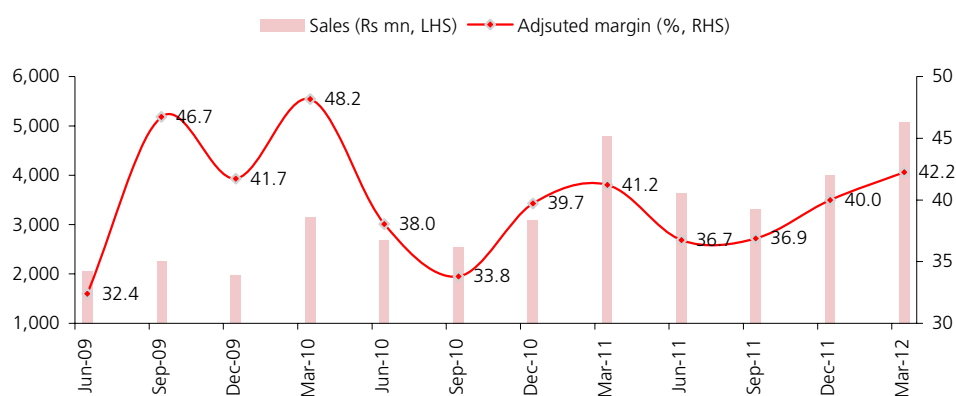
Source: Kotak Institutional Equities estimates, Company

## Change in estimates, March fiscal year-ends (Rs mn)

	Current estimates		Old estimates		% change	
	2012E	2013E	2012E	2013E	2012E	2013E
Net sales	16,062	19,098	16,171	18,428	(1)	4
EBITDA	6,317	7,487	6,627	7,544	(5)	(1)
EBITDA margin	39.3	39.2	41.0	40.9	(1.7)	(1.7)
Net profit	4,874	5,967	5,340	6,127	(9)	(3)

Source: Kotak Institutional Equities estimates, Company

## Quarterly sales and adjusted margin



Source: Kotak Institutional Equities estimates, Company

## Profit and loss, March fiscal year-ends, 2008-2014E (Rs mn)

	2008	2009	2010	2011	2012E	2013E	2014E
<b>Net sales</b>	<b>10,365</b>	<b>11,803</b>	<b>9,416</b>	<b>13,071</b>	<b>16,062</b>	<b>19,098</b>	<b>23,024</b>
Materials	(4,752)	(5,062)	(3,778)	(6,207)	(7,337)	(8,796)	(10,446)
Employee cost	(542)	(663)	(733)	(857)	(1,011)	(1,193)	(1,407)
Others	(827)	(1,148)	(657)	(921)	(1,397)	(1,623)	(1,957)
<b>Total expenditure</b>	<b>(6,232)</b>	<b>(6,992)</b>	<b>(5,281)</b>	<b>(8,144)</b>	<b>(9,746)</b>	<b>(11,612)</b>	<b>(13,811)</b>
<b>EBITDA</b>	<b>4,133</b>	<b>4,811</b>	<b>4,135</b>	<b>4,927</b>	<b>6,317</b>	<b>7,487</b>	<b>9,213</b>
Depreciation and amortisation	(357)	(479)	(515)	(534)	(640)	(700)	(750)
<b>EBIT</b>	<b>3,776</b>	<b>4,333</b>	<b>3,620</b>	<b>4,393</b>	<b>5,677</b>	<b>6,787</b>	<b>8,463</b>
Net finance cost	(102)	(72)	(28)	(22)	(4)	0	0
Other income	101	221	261	353	420	490	550
<b>Pretax profits before extra-ordinaries</b>	<b>3,775</b>	<b>4,482</b>	<b>3,853</b>	<b>4,724</b>	<b>6,093</b>	<b>7,277</b>	<b>9,013</b>
Current tax	(190)	(264)	(408)	(405)	(1,219)	(1,310)	(1,622)
Deferred tax	(105)	(50)	(42)	(26)	—	—	—
<b>Reported net profit</b>	<b>3,476</b>	<b>4,166</b>	<b>3,403</b>	<b>4,293</b>	<b>4,874</b>	<b>5,967</b>	<b>7,390</b>

Source: Kotak Institutional Equities estimates, Company

## Balance sheet, cash model, March fiscal year-ends, 2008-2014E (Rs mn)

	2008	2009	2010	2011E	2012E	2013E	2014E
<b>Balance sheet</b>							
Total equity	8,614	12,414	15,178	17,975	20,987	24,627	29,225
Total debt	861	526	328	230	28	27	26
Current liabilities	1,930	2,110	2,608	4,042	6,791	9,219	12,077
Deferred tax liabilities	383	432	474	500	500	500	500
<b>Total equity and liabilities</b>	<b>11,787</b>	<b>15,483</b>	<b>18,589</b>	<b>22,748</b>	<b>28,307</b>	<b>34,374</b>	<b>41,828</b>
Cash and cash equivalents	142	148	165	177	150	151	151
Current assets	5,488	7,523	7,875	10,122	13,836	17,392	21,919
Net fixed assets	5,601	6,094	6,136	7,193	7,609	7,459	7,259
Investments	556	1,718	4,413	5,256	6,712	9,372	12,499
<b>Total assets</b>	<b>11,787</b>	<b>15,483</b>	<b>18,589</b>	<b>22,748</b>	<b>28,307</b>	<b>34,374</b>	<b>41,828</b>
<b>Free cash flow</b>							
Operating cash flow, excl. working capital	3,834	4,506	3,712	4,526	5,181	6,265	7,689
Working capital	(1,069)	(2,008)	(324)	(1,429)	(1,285)	(1,594)	(2,135)
Capital expenditure	(1,761)	(970)	(544)	(1,583)	(1,057)	(550)	(550)
<b>Free cash flow</b>	<b>1,003</b>	<b>1,529</b>	<b>2,844</b>	<b>1,513</b>	<b>2,840</b>	<b>4,122</b>	<b>5,005</b>

Source: Kotak Institutional Equities estimates, Company

AUGUST 08, 2011

RESULT, CHANGE IN RECO.

Coverage view: **Cautious**

Price (Rs): **668**

Target price (Rs): **780**

BSE-30: **16,990**

**Strong performance in a tough environment.** M&M's 1QFY12 results were operationally in line with our estimates but slightly ahead of Street estimates. Sharp rise in raw material expenses were offset by lower other expenses. Net profit of Rs6.05 bn (+8% yoy, flat qoq) was 8% below our estimates driven by lower other income. We upgrade the stock to BUY (from ADD) driven by steady volume growth and expectations of improvement in EBITDA margins due to lower raw material costs.

#### Company data and valuation summary

Mahindra & Mahindra

##### Stock data

52-week range (Rs) (high,low)	826-549
Market Cap. (Rs bn)	410.3

##### Shareholding pattern (%)

Promoters	24.9
FIs	28.9
MFs	5.0

##### Price performance (%)

	1M	3M	12M
Absolute	(6.7)	(6.3)	3.1
Rel. to BSE-30	2.5	2.1	10.2

##### Forecasts/Valuations

	2011	2012E	2013E
EPS (Rs)	41.7	44.7	49.0
EPS growth (%)	22.7	7.1	9.6
P/E (X)	16.0	14.9	13.6
Sales (Rs bn)	234.9	282.0	320.9
Net profits (Rs bn)	25.6	27.4	30.1
EBITDA (Rs bn)	34.7	38.8	42.7
EV/EBITDA (X)	12.4	11.0	9.8
ROE (%)	27.3	23.4	21.6
Div. Yield (%)	1.7	1.4	1.4

#### Lower other expenses offset sharp rise in raw material costs in 1QFY12

M&M net profit of Rs6.05 bn (+8% yoy, flat qoq) was 8% below our estimates driven by lower other income. EBITDA of Rs8.97 bn (+16% yoy, 4% qoq) was 3% below our estimates driven by higher raw material costs offset by lower other expenses. Gross margins declined by 120 bps qoq driven by a significant increase in raw material costs, especially in the tractor business. Staff costs were slightly lower than our estimate due to lower ESOP expenses during the quarter, in our view.

Average net realizations increased by 2.8% qoq due to lower excise duty. Average selling prices for both utility vehicle and tractor segments increased by 1% qoq. EBITDA margins were 13.3% in 1QFY12 (+60 bps qoq) which was 40 bps below our estimates due to higher raw material costs.

#### Volume growth expected to moderate but margins could improve on lower raw material cost

Management has downgraded its domestic utility vehicle industry volume growth forecast to 10% yoy in FY2012E (from 12% earlier) but retained domestic tractor industry volume growth forecast of 11-12% yoy in FY2012E. We believe M&M is likely to gain market share in FY2012E driven by strong demand for Bolero and Scorpio. Both models are currently on waiting periods. We forecast a 12% and 14% yoy volume growth for domestic utility vehicle and tractor volumes for M&M in FY2012E. We also expect EBITDA margins to improve by 50-60 bps in 2HFY12E driven by lower rubber prices.

#### We upgrade the stock to BUY (from ADD) due to attractive valuations

M&M trades at 10.3X on our FY2013E EPS (ex subsidiary value) which we believe offers an entry opportunity. Key triggers for the stock price in our view could be – improvement in EBITDA margins from current levels due to lower raw material costs and reasonable strong volume growth driven by market share gains in a tough environment.

We reduce our target price to Rs780 (from Rs800) due to lower-than-expected other income in 1QFY12 and we have made marginal downward revision in our earnings estimates due to lower other income. We value the stock on sum of the parts valuation methodology. We value the standalone operations at Rs607/share based on 13X on our FY2013E EPS (ex dividends from subsidiaries) and value the subsidiaries at Rs173/share (based on 20% discount to KIE target prices).

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### Operationally in-line quarter; upgrade to BUY

M&M net profit of Rs6.05 bn (+8% yoy, flat qoq) was 8% below our estimates driven by lower other income. EBITDA of Rs8.97 bn (+16% yoy, 4% qoq) was 3% below our estimates driven by higher raw material costs offset by lower other expenses. Gross margins declined by 120 bps qoq driven by significant increase in raw material costs, especially in the tractor business. Staff costs were slightly lower than our estimate due to lower ESOP expenses during the quarter, in our view.

Average net realizations increased by 2.8% qoq due to lower excise duty. Average selling prices for both utility vehicle and tractor segments increased by 1% qoq.

EBITDA margins were 13.3% in 1QFY12 (+60 bps qoq) which was 40 bps below our estimates due to higher raw material costs. EBIT margin for automotive segment including MVML was 10.7% in 1QFY12 (declined by 130 bps qoq) while tractor EBIT margins were 16% in 1QFY12 (declining by 100 bps qoq).

We also attended a conference call hosted by management after the results. **Key takeaways are as follows:**

- ▶ Management has downgraded their domestic utility vehicle industry volume growth forecast to 10% (from 12% earlier) for FY2012E while kept their domestic tractor industry volume growth forecast unchanged at 11-12% for FY2012E. Company has increased its market share by 10.7% yoy in the domestic utility vehicle segment and by 2.3% yoy in the domestic tractor industry in 1QFY12.
- ▶ Management indicated that volume growth is likely to moderate going forward but expects M&M to outperform the industry. Bolero, Scorpio and pick-ups are on waiting, according to the management. Inventory levels at the dealer end are also at normal levels. We forecast a 12% yoy growth in domestic utility vehicle volumes and 14% yoy growth in tractor volumes in FY2012E which reflects a slowdown in volume growth in 2HFY12E.
- ▶ New products like Maxximo min van, new Verito have been well received in the market. Maxximo mini van has already taken a 30% market share in its respective segment. Company plans to launch new SUV, two new versions of Verito and Korando C launch in India over the course of this financial year.
- ▶ Company has also taken a 1% price increase on its utility vehicle models and a slight price increase on Swaraj tractors.
- ▶ Material cost pressures are moderating and we expect commodity costs to decline from 2HFY12E onwards due to fall in rubber prices. Steel prices are likely to remain firm as per M&M due to shortage of iron ore. We factor in 50-60 bps improvement in EBITDA margins from 2HFY12E onwards.
- ▶ EBITDA margins including MVML (100% manufacturing subsidiary at Chakan) was 14.2% in 1QFY12, higher than reported 13.3% in the standalone operations. We do not value MVML separately as of now as it does contract manufacturing for both M&M and MVNAL (51:49 joint venture between M&M and Navistar for manufacturing commercial vehicles).

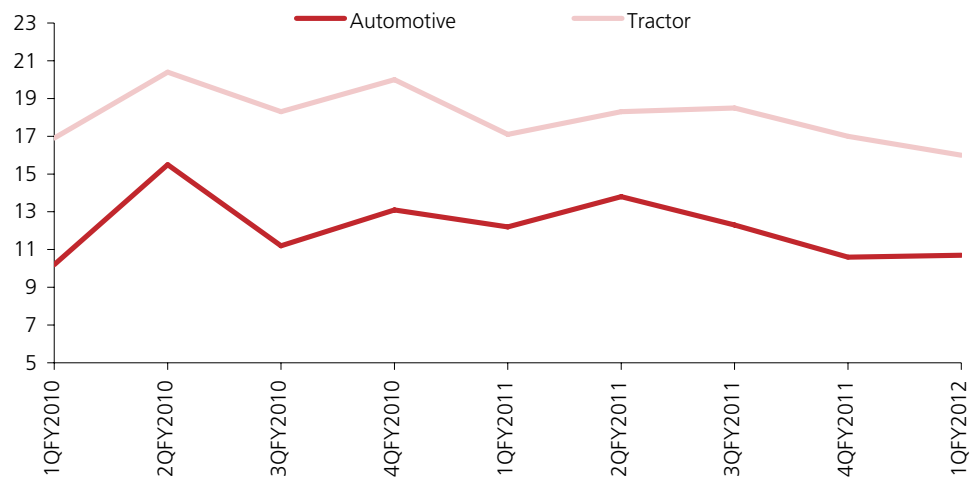
We upgrade the stock to BUY (from ADD) on attractive valuations after a sharp fall in stock price on concerns that the government is likely to levy a additional excise duty on diesel passenger vehicles. We reduce our target price to Rs780 (from Rs800) due to lower-than-expected other income in 1QFY12 and we have made marginal downward revisions in our earnings estimates due to lower other income. We value the stock on sum of the parts valuation methodology. We value the standalone operations at Rs607/share based on 13X on our FY2013E EPS (ex dividends from subsidiaries) and value the subsidiaries at Rs173/share (based on 20% discount to KIE target prices). Stock is attractively valued at 10.3X on our FY2013E EPS (excluding subsidiary value).

**Mahindra and Mahindra 1QFY12 standalone results summary**  
March fiscal year-ends (Rs mn)

	1QFY12	1QFY12E	1QFY11	4QFY11	% change		
					1QFY12E	1QFY11	4QFY11
Volumes (units)	155,390	155,390	127,947	160,865	-	21.4	(3.4)
Net average ASPs (Rs/unit)	433,332	431,888	403,300	421,358	0.3	7.4	2.8
<b>Net sales</b>	<b>67,335</b>	<b>67,111</b>	<b>51,601</b>	<b>67,782</b>	<b>0.3</b>	<b>30.5</b>	<b>(0.7)</b>
Inc/dec in stock	2,583	(694)	(694)	633			
Raw materials	50,919	46,000	35,211	48,515	18.1	55.0	8.9
Staff costs	4,034	4,200	3,137	4,261	(4.0)	28.6	(5.3)
Other expenses	5,992	7,000	4,803	7,020	(14.4)	24.8	(14.6)
Total expenses	58,362	57,894	43,845	59,163	0.8	33.1	(1.4)
<b>EBITDA</b>	<b>8,974</b>	<b>9,217</b>	<b>7,756</b>	<b>8,619</b>	<b>(2.6)</b>	<b>15.7</b>	<b>4.1</b>
Other income	249	500	205	474	(50.3)	21.3	(47.5)
Interest expense	(20)	(200)	(227)	(158)	(90.0)	(91.2)	(87.4)
Depreciation expense	1,099	1,200	976	1,171	(8.4)	12.6	(6.1)
Extraordinary income	—	—	—	—			
Extraordinary exp	—	—	—	—			
Profit before tax	8,143	8,717	7,212	8,080	(6.6)	12.9	0.8
Tax expense	2,095	2,179	1,588	2,015	(3.9)	31.9	3.9
Profit after tax	6,049	6,538	5,624	6,065	(7.5)	7.6	(0.3)
<b>Adj PAT</b>	<b>6,049</b>	<b>6,538</b>	<b>5,624</b>	<b>6,065</b>	<b>(7.5)</b>	<b>7.6</b>	<b>(0.3)</b>
Raw material (% of net sales)	71.8	69.6	69.6	70.6			
Staff costs (% of net sales)	6.0	6.3	6.1	6.3			
Other expenses (% of net sales)	8.9	10.4	9.3	10.4			
EBITDA margin (% of net sales)	13.3	13.7	15.0	12.7			
Tax rate (%)	25.7	25.0	22.0	24.9			

Source: Company, Kotak Institutional Equities estimates

**Quarterly segmental EBIT margins (%)**



Source: Company

## M&amp;M sum of the parts valuation table

	EPS (Rs/share)	Multiple (X)	Value per share (Rs)	Comment
M&M standalone business	46.7	13.0	607	Based on 13X FY2013E EPS less dividend income from subs
<b>Subsidiaries</b>			<b>173</b>	
Tech Mahindra			53	Based on KIE target price of Rs 665/share
Mahindra Holidays			33	Based on current price of Rs362/share
M&M Financial Services Ltd			63	Based on KIE target price of Rs825/share
Mahindra Lifespace Developers Ltd			13	Based on KIE target price of Rs470/share
Mahindra Forgings			4	Based on current price of Rs66/share
Mahindra Navistar Automotive			5	Based on FY2011 book value at 51% stake
Mahindra two wheelers			2	Based on FY2011 book value
<b>SOTP-based value</b>			<b>781</b>	
<b>Target price</b>			<b>780</b>	

Notes:

(1) We value the subsidiaries at a 20% holding company discount

Source: Kotak Institutional Equities estimates

## Volume Assumptions

March fiscal year-ends, 2009-2014E (units)

	2009	2010	2011	2012E	2013E	2014E
Utility Vehicles - domestic	153,655	214,128	230,110	257,723	288,650	331,947
Utility Vehicles - exports	8,500	10,567	19,042	22,850	26,278	30,220
Utility vehicles	162,155	224,695	249,152	280,574	314,928	362,167
Maxximo + Gio		12,639	44,683	56,747	65,260	75,048
3-wheelers	44,533	44,785	62,142	68,356	75,192	81,207
<b>Auto division</b>	<b>206,688</b>	<b>282,119</b>	<b>355,977</b>	<b>405,677</b>	<b>455,379</b>	<b>518,423</b>
Tractors	95,348	174,634	213,653	243,564	272,792	294,616
<b>Total vehicles</b>	<b>302,036</b>	<b>456,753</b>	<b>569,630</b>	<b>649,242</b>	<b>728,171</b>	<b>813,038</b>
<b>Growth (yoy %)</b>						
Utility Vehicles - domestic	3.3	39.4	7.5	12.0	12.0	15.0
Utility Vehicles - exports	(31.2)	24.3	80.2	20.0	15.0	15.0
Utility vehicles	0.6	38.6	10.9	12.6	12.2	15.0
Maxximo + Gio			253.5	27.0	15.0	15.0
3-wheelers	31.3	0.6	38.8	10.0	10.0	8.0
<b>Auto division</b>	<b>6.0</b>	<b>36.5</b>	<b>26.2</b>	<b>14.0</b>	<b>12.3</b>	<b>13.8</b>
Tractors	(3.4)	83.2	22.3	14.0	12.0	8.0
<b>Total vehicles</b>	<b>2.8</b>	<b>51.2</b>	<b>24.7</b>	<b>14.0</b>	<b>12.2</b>	<b>11.7</b>

Source: Company, Kotak Institutional Equities estimates

## Financial Summary

March fiscal year-ends, 2009-2014E (Rs mn)

	2009	2010	2011	2012E	2013E	2014E
<b>Profit model (Rs mn)</b>						
Net sales	130,937	186,021	234,937	282,045	320,934	366,441
<b>EBITDA</b>	<b>10,926</b>	<b>29,552</b>	<b>34,655</b>	<b>38,848</b>	<b>42,735</b>	<b>47,418</b>
Other income	2,703	1,994	3,095	1,792	1,942	2,092
Interest	(453)	(278)	503	530	737	1,326
Depreciation	(2,915)	(3,708)	(4,139)	(4,575)	(5,298)	(6,024)
<b>Profit before tax</b>	<b>10,262</b>	<b>27,560</b>	<b>34,114</b>	<b>36,596</b>	<b>40,117</b>	<b>44,813</b>
Current tax	(585)	(7,493)	(7,617)	(9,149)	(10,029)	(11,203)
Deferred tax	(1,412)	(97)	(958)	—	—	—
<b>Net profit</b>	<b>8,368</b>	<b>20,878</b>	<b>26,714</b>	<b>27,447</b>	<b>30,087</b>	<b>33,610</b>
<b>Adjusted net profit</b>	<b>8,368</b>	<b>20,878</b>	<b>25,619</b>	<b>27,447</b>	<b>30,087</b>	<b>33,610</b>
<b>Adjusted earnings per share (Rs)</b>	<b>14.0</b>	<b>33.9</b>	<b>41.7</b>	<b>44.7</b>	<b>49.0</b>	<b>54.7</b>
<b>Adjusted earnings per share ex subs dividends (Rs)</b>	<b>11.8</b>	<b>32.5</b>	<b>39.7</b>	<b>42.7</b>	<b>46.7</b>	<b>52.2</b>
<b>Balance sheet (Rs mn)</b>						
Equity	52,621	80,671	106,678	127,494	150,951	177,930
Total Borrowings	40,528	28,802	24,053	18,293	18,293	18,293
Current liabilities	47,978	52,000	67,676	77,116	85,146	94,993
<b>Total liabilities</b>	<b>141,126</b>	<b>161,473</b>	<b>198,406</b>	<b>222,903</b>	<b>254,390</b>	<b>291,216</b>
Net fixed assets	32,143	37,027	43,719	52,144	59,846	64,821
Investments	57,864	63,980	93,253	100,753	108,253	115,753
Cash	15,744	17,432	6,146	1,974	8,853	22,076
Other current assets	35,249	42,992	55,288	68,033	77,438	88,566
Miscellaneous expenditure	126	41	—	—	—	—
<b>Total assets</b>	<b>141,126</b>	<b>161,473</b>	<b>198,406</b>	<b>222,903</b>	<b>254,390</b>	<b>291,216</b>
<b>Free cash flow (Rs mn)</b>						
Operating cash flow excl. working capital	10,395	23,409	27,724	29,699	32,706	36,215
Working capital changes	5,918	(45)	2,074	(1,908)	(1,376)	(1,281)
Capital expenditure	(9,152)	(9,607)	(12,070)	(13,000)	(13,000)	(11,000)
<b>Free cash flow</b>	<b>7,161</b>	<b>13,758</b>	<b>17,728</b>	<b>14,791</b>	<b>18,330</b>	<b>23,934</b>
<b>Ratios</b>						
EBITDA margin (%)	8.3	15.9	14.8	13.8	13.3	12.9
PAT margin (%)	6.4	11.2	11.4	9.7	9.4	9.2
Debt/equity (X)	0.8	0.4	0.2	0.1	0.1	0.1
Net debt/equity (X)	0.5	0.1	0.2	0.1	0.1	(0.0)
Book Value (Rs/share)	89.1	135.4	173.7	207.6	245.8	289.8
RoAE (%)	17.1	30.0	27.3	23.4	21.6	20.4
<b>RoACE (%)</b>	<b>10.6</b>	<b>19.9</b>	<b>21.0</b>	<b>19.6</b>	<b>18.8</b>	<b>17.8</b>

Source: Company, Kotak Institutional Equities estimates

**AUGUST 08, 2011**
**UPDATE**

Coverage view: **Attractive**

Price (Rs): **241**

Target price (Rs): **295**

BSE-30: **16,990**

**A long gestation investment.** Sesa Goa has proposed to acquire 51% in Western Cluster (WCL) iron ore project in Liberia of Elenilto Minerals & Mining LLC for cash consideration of US\$90 mn, subject to ratification of the same by the Liberian Parliament. WCL has three deposits with cumulative resources in excess of 1 bn tonnes and saleable ore of ~330 mn tonnes; large part of the R&R base is in low FE content mines. On optimistic management assumptions of COP, project timelines and capex, the deal can add to the fair value.

**Company data and valuation summary**

Sesa Goa

**Stock data**

52-week range (Rs) (high,low)	384-221
Market Cap. (Rs bn)	215.8

**Shareholding pattern (%)**

Promoters	55.1
FIs	23.9
MFs	1.1

**Price performance (%)**

	1M	3M	12M
Absolute	(14.4)	(16.9)	(33.8)
Rel. to BSE-30	(5.0)	(9.5)	(29.3)

**Forecasts/Valuations**

	2011	2012E	2013E
EPS (Rs)	47.0	43.2	41.7
EPS growth (%)	59.8	(8.0)	(3.4)
P/E (X)	5.1	5.6	5.8
Sales (Rs bn)	92.1	102.2	107.9
Net profits (Rs bn)	42.2	38.6	37.5
EBITDA (Rs bn)	51.5	53.8	51.0
EV/EBITDA (X)	4.2	4.1	3.6
ROE (%)	36.8	23.9	17.7
Div. Yield (%)	1.6	1.6	1.7

**Set to acquire 51% stake in WCL for US\$90 mn post Liberia Legislature ratification**

Sesa Goa has signed a definitive agreement with Elenilto Minerals & Mining LLC, a wholly owned subsidiary of Elenilto, to acquire a majority 51% stake in iron ore mine viz Western Cluster Limited (WCL) for a total consideration of US\$90 mn. Key highlights of the investment

- ▶ WCL has three deposits with R&R in excess of 1 bn tonnes—(1) Mano River Iron ore Deposits with estimated reserves of 80 mt with 51.4% Fe grade, (2) Bomi Hills deposits with reserves of about 50 mn tonnes at a cut-off grade of 68% Fe and (3) Bea Mountains project with resources of about 923 mn tonnes at an average grade of 37% Fe.
- ▶ Life of the mining lease is 25 years. Royalty rate is 4.5%. WCL will have to share 21% of profits in the project after yield of 22.5% on capital invested. Income tax rate will likely be 30% or lower.
- ▶ Capex per tonne of iron ore capacity will likely be in the range of US\$90-120/tonne. Based on a capacity of 20 mn tonnes, total capex works out to US\$1.8-2.4 bn. Capex will be broadly split between port, rail and mining. Mines are between 70 and 140 kms away from the port. Sesa will have access to land for railway corridor.
- ▶ Sesa expects shipments to start in 2014. Initial capacity will be 5-8 mn tonnes which may be increased subsequently. The management expects the cash cost of production to be US\$30/tonne FOB, which seems a little aggressive, in our view.

**Too early to assign any value**

The consideration paid for the stake implies an iron ore price of US\$100/tonne on management assumptions. Management estimates are, however, optimistic on timelines (2014) and cost (US\$30/tonne FOB). Noting the long gestation period, lack of specifics on actual reserves, capex and cost, we refrain from assigning any value to this investment.

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## Western Cluster Limited iron ore reserves (mn tonnes)

Iron ore Deposit	Type	Average Fe grade	Reserves & Resources
			(mn tonnes)
Mano River Iron ore deposit	Brownfield	51.4	80
Bomi Hills iron ore deposit	Brownfield	68	50
Bea Mountains iron ore deposit	Greenfield	37	923
			<b>1053</b>

Source: Company, Kotak Institutional Equities estimates

## Sesa Goa (consolidated), Profit model, balance sheet and cash flow model, March fiscal year-ends, 2009-2013E (Rs mn)

	2009	2010	2011	2012E	2013E
<b>Profit model (Rs mn)</b>					
Net sales	49,591	58,583	92,051	102,200	107,888
<b>EBITDA</b>	<b>25,388</b>	<b>31,448</b>	<b>51,543</b>	<b>53,780</b>	<b>50,974</b>
Other income	2,240	4,260	5,399	5,498	6,622
Interest	(10)	(517)	(381)	(914)	(457)
Depreciation	(517)	(745)	(964)	(1,167)	(1,636)
<b>Profit before tax</b>	<b>27,102</b>	<b>34,446</b>	<b>55,597</b>	<b>57,197</b>	<b>55,503</b>
Taxes	(7,153)	(8,056)	(13,372)	(18,558)	(18,008)
<b>Net profit</b>	<b>19,949</b>	<b>26,390</b>	<b>42,225</b>	<b>38,640</b>	<b>37,495</b>
Minority interest	(68)	(99)	—	—	—
<b>PAT</b>	<b>19,881</b>	<b>26,291</b>	<b>42,225</b>	<b>38,640</b>	<b>37,495</b>
<b>Earnings per share (Rs)</b>	<b>23.9</b>	<b>29.4</b>	<b>47.0</b>	<b>43.2</b>	<b>41.7</b>
<b>Balance sheet (Rs mn)</b>					
Equity	47,157	79,177	128,104	163,200	207,436
Deferred tax liability	664	750	682	682	682
Total Borrowings	19	19,606	9,995	12,180	—
Minority interest	334	433	—	—	—
Current liabilities	5,840	12,400	17,256	18,683	19,483
<b>Total liabilities</b>	<b>54,015</b>	<b>112,366</b>	<b>156,037</b>	<b>194,746</b>	<b>227,601</b>
Net fixed assets	5,930	22,557	31,443	38,326	42,728
Investments	31,252	45,649	87,998	130,654	130,653
Cash	177	23,918	8,970	6,982	34,391
Other current assets	16,656	20,242	27,626	18,783	19,829
Miscellaneous expenditure	0	(0)	—	—	—
<b>Total assets</b>	<b>54,015</b>	<b>112,366</b>	<b>156,037</b>	<b>194,746</b>	<b>227,601</b>
<b>Free cash flow (Rs mn)</b>					
Operating cash flow excl. working capital	18,221	23,922	38,372	34,309	32,509
Working capital changes	3,199	1,791	(3,037)	10,270	(245)
Capital expenditure	(1,363)	(1,316)	(8,330)	(50,706)	(6,038)
<b>Free cash flow</b>	<b>20,058</b>	<b>24,397</b>	<b>27,005</b>	<b>(6,127)</b>	<b>26,226</b>
<b>Ratios</b>					
Debt/equity (%)	0.0	0.2	0.1	0.1	—
Net debt/equity (%)	(0.7)	(0.8)	(0.8)	(0.1)	(0.3)
RoAE (%)	52.4	36.1	36.8	23.9	17.7
<b>RoACE (%)</b>	<b>52.4</b>	<b>31.6</b>	<b>32.6</b>	<b>22.5</b>	<b>17.2</b>

Source: Company, Kotak Institutional Equities estimates

AUGUST 08, 2011

UPDATE

BSE-30: 16,990

**Increasing earnings uncertainty.** S&P's downgrade of US sovereign debt and looming macro risks in several other developed economies, especially the Eurozone, increase the earnings uncertainty for the Indian IT services players. Memories of the 2008 global financial crisis (GFC) and its delayed impact on offshore IT revenues are still fresh and hence, the strong current micro indicators may not lend much confidence to the Street. We would view an earnings blip, if any, as a cyclical hit, in a secular growth story for offshore IT. Nonetheless, we present earnings sensitivity to potential volume/pricing hit.

#### US rating downgrade adds to the uncertainty

Fears of a double-dip recession-led demand slowdown for the IT services industry, including offshore players, have been in the air for some time now. The recent S&P downgrade of long-term US sovereign debt adds to the fear. Double-dip recession has the potential of impacting clients' IT budgets moving into CY2012E. Risks (mostly downside, some upside) to assumptions on several other variables in our earnings model also come into play, consequently. Four key variables, in our view, are

- ▶ **Volume growth.** A function of how the clients' IT budgets shape up hereon, and more importantly, what happens to the pace of decision-making on deal renewal, vendor consolidations instances, etc. It is worthwhile to recall that the volume slowdown and subsequent pick-up for the offshore players had less to do with what happened to the overall client IT budgets and more to the decision-making cycle. A freeze in decision-making post the Lehman crisis meant that the expected counter-cyclical benefits (market share gains) for offshore players were delayed by 2-3 quarters. Clichéd as it may sound, we believe things could be different this time – clients are better geared for a recessionary environment and the drive for cost rationalization could pick some slack from IT budget cuts and potentially keep the volume growth story going for the Indian players. Increased protectionism, if the recession translates into a sharp rise in unemployment in client geographies, poses another volume risk.
- ▶ **Pricing.** This is where negative surprises could come in. In addition to the macro-led pressure from clients, recent relative volume growth underperformance of Infosys and Wipro versus TCS and Cognizant could also play a role in how pricing shapes up for the Tier-I pack. Mid-sized companies, anyway, are price takers in the market.
- ▶ **Currencies.** Re/US\$ as well as US\$ versus the European currencies (GBP and EUR). Economists are making arguments both ways; potential depreciation of the USD (versus the Re and/or European currencies) of course, would be a negative for offshore Indian IT names.
- ▶ **Supply-side pressure.** This could potentially ease out if demand does slow down materially, providing some buffer on margins.

#### Short-term pressure on stocks likely; long-term risk/reward favorable, on balance

Even as we are believers in the long-term market share gain story for the offshore IT services players, macro events could induce cyclical to the extent of gains in different time periods. Macro and micro indicators, at this point, continue to paint different pictures – however, memories of demand slowdown post 2008 GFC are fresh and could keep the scale tilted on the side of caution, in the near term. We look at earnings sensitivity to volume/pricing risks for various companies and find the longer-term risk/reward favorable at current valuations.

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### Thoughts on valuations and risk/reward post recent sharp correction

While the structural market share gain-driven revenue growth story for the Indian IT services sector remains intact, there could be cyclicalities on the magnitude of growth in specific time frames. Specifically, we highlight that increasing penetration in large accounts and exposure to transformation deals will induce volatility in performance, depending on IT budget direction and pace of decision-making.

Against this backdrop, multiples will also move to capture this changed reality. Multiples accorded to IT services names have three components (1) ex-growth multiple, (2) growth in line with global IT services spend growth and (3) premium for market share gains. Components 2 and 3 get impacted when recessionary expectations set in. In such a scenario, stocks can trade down to 12-14X 1-year forward earnings (comprising of 8X ex-growth multiple + 4-6X for normalized growth in perpetuity). This multiple can increase to 14-18X assuming reasonable market share gains (Accenture multiples are a good proxy in this case) and 18-22X in a high-growth phase.

Exhibit 1 presents upside/ downside to the CMP in each of the above-mentioned scenarios.

### EARNINGS SENSITIVITY TO VOLUME/PRICING SCENARIOS

Exhibit 2 summarizes the sensitivity of FY2013E earnings for the IT services names under our coverage to some pricing/volume downside scenarios while Exhibits 3-13 give a broader range of scenarios for individual companies.

Exhibit 1: Examining upside/downside scenarios to Tier-I Indian IT stocks

Company	FY2013E EPS range (Rs/share)	Normalized growth			Mid-cycle			High-growth		
		Multiple range (X)	TP range (Rs)	Upside/ (downside)	Multiple range (X)	TP range (Rs)	Upside/ (downside)	Multiple range (X)	TP range (Rs)	Upside/ (downside)
Infosys	145-169	12-14	1740-2366	(30)/ (4)	14-18	2030-3042	(18)/ 23	18-22	2610-3718	6/ 50
TCS	55-64	12-14	660-896	(34)/ (11)	14-18	770-1152	(23)/ 15	18-22	990-1408	(2)/ 40
Wipro	22.5-26.3	10-12	225-316	(37)/ (12)	12-15	270-395	(25)/ 10	15-18	338-473	(6)/ 32
HCLT	28.6-36.5	9-11	257-402	(40)/ (4)	11-13.5	315-493	(25)/ 17	13.5-15	386-548	(8)/ 31

Source: Bloomberg, Kotak Institutional Equities estimates

Exhibit 2: Summary of EPS sensitivity of Indian IT companies to volume and pricing changes

Company	Base case for FY2013E				Sensitivity analysis results			
	Volume growth (%)	Pricing change (%)	EPS (Rs/share)	P/E	Volumes lower by	Pricing lower by	EPS Range (Rs/share)	Current P/E range
Infosys Technologies	20.1	0.3	168.9	14.6	2.5 - 5%	1 - 3%	145.3 159.0	15.5 17.0
TCS	23.6	(0.5)	64.4	15.6	2.5 - 5%	1 - 3%	54.9 60.4	16.7 18.3
Wipro	19.9	(1.6)	26.3	13.6	2.5 - 5%	1 - 3%	22.5 24.7	14.5 15.9
HCL Technologies	16.1	2.3	36.5	11.5	2.5 - 5%	1 - 3%	28.6 33.2	12.6 14.7
Mindtree	20.4	1.0	42.6	10.0	2.5 - 5%	1 - 3%	31.7 38.0	11.2 13.4
Tech Mahindra	15.3	(0.2)	70.8	10.1	2.5 - 5%	1 - 3%	59.3 66.0	10.8 12.0
Mahindra Satyam	21.8	(1.3)	6.1	12.3	2.5 - 5%	1 - 3%	4.7 5.5	13.5 15.6
Hexaware Technologies	19.9	1.1	8.0	10.3	2.5 - 5%	1 - 3%	6.6 7.4	11.1 12.5
Mphasis BFL	16.8	(1.0)	36.0	11.5	2.5 - 5%	1 - 3%	29.2 33.2	12.5 14.2
Polaris Software Lab	13.8	1.2	22.3	6.9	2.5 - 5%	1 - 3%	17.5 20.3	7.5 8.7
Patni Computer Systems	14.9	(0.9)	30.8	9.9	2.5 - 5%	1 - 3%	24.0 27.9	11.0 12.8

Source: Bloomberg, Kotak Institutional Equities estimates

Exhibit 3: Infosys - FY2013E EPS under various scenarios

		Pricing (versus base case) (%)				
		(4.0)	(3.0)	(2.0)	(1.0)	-
Volumes (versus base case) (%)	(10.0)	131.3	135.1	138.9	142.8	146.8
	(7.5)	136.3	140.2	144.1	148.1	152.2
	(5.0)	141.3	<b>145.3</b>	<b>149.4</b>	<b>153.5</b>	157.7
	(2.5)	146.4	<b>150.5</b>	<b>154.7</b>	<b>159.0</b>	163.3
	-	151.5	155.8	160.1	164.5	<b>168.9</b>

Source: Kotak Institutional Equities estimates

Exhibit 4: TCS - FY2013E EPS under various scenarios

		Pricing (versus base case) (%)				
		(4.0)	(3.0)	(2.0)	(1.0)	-
Volumes (versus base case) (%)	(10.0)	49.1	50.6	52.0	53.5	55.0
	(7.5)	51.2	52.7	54.2	55.8	57.3
	(5.0)	53.4	<b>54.9</b>	<b>56.5</b>	<b>58.1</b>	59.7
	(2.5)	55.5	<b>57.1</b>	<b>58.7</b>	<b>60.4</b>	62.0
	-	57.7	59.4	61.0	62.7	<b>64.4</b>

Source: Kotak Institutional Equities estimates

Exhibit 5: Wipro - FY2013E EPS under various scenarios

		Pricing (versus base case) (%)				
		(4.0)	(3.0)	(2.0)	(1.0)	-
Volumes (versus base case) (%)	(10.0)	20.2	20.8	21.4	22.0	22.6
	(7.5)	21.0	21.6	22.3	22.9	23.5
	(5.0)	21.9	<b>22.5</b>	<b>23.1</b>	<b>23.8</b>	24.4
	(2.5)	22.8	<b>23.4</b>	<b>24.0</b>	<b>24.7</b>	25.4
	-	23.6	24.3	25.0	25.6	<b>26.3</b>

Source: Kotak Institutional Equities estimates

Exhibit 6: HCLT - FY2013E EPS under various scenarios

		Pricing (versus base case) (%)				
		(4.0)	(3.0)	(2.0)	(1.0)	-
Volumes (versus base case) (%)	(10.0)	24.1	25.4	26.7	28.1	29.5
	(7.5)	25.6	27.0	28.3	29.8	31.2
	(5.0)	27.2	<b>28.6</b>	<b>30.0</b>	<b>31.5</b>	32.9
	(2.5)	28.8	<b>30.2</b>	<b>31.7</b>	<b>33.2</b>	34.7
	-	30.4	31.9	33.4	35.0	<b>36.5</b>

Source: Kotak Institutional Equities estimates

Exhibit 7: Mindtree - FY2013E EPS under various scenarios

		Pricing (versus base case) (%)				
		(4.0)	(3.0)	(2.0)	(1.0)	-
Volumes (versus base case) (%)	(10.0)	25.3	27.0	28.7	30.5	32.2
	(7.5)	27.6	29.3	31.1	32.9	34.7
	(5.0)	29.9	<b>31.7</b>	<b>33.6</b>	<b>35.4</b>	37.3
	(2.5)	32.3	<b>34.2</b>	<b>36.1</b>	<b>38.0</b>	39.9
	-	34.8	36.7	38.6	40.6	<b>42.6</b>

Source: Kotak Institutional Equities estimates

Exhibit 8: Tech Mahindra - FY2013E EPS under various scenarios

		Pricing (versus base case) (%)				
		(4.0)	(3.0)	(2.0)	(1.0)	-
Volumes (versus base case) (%)	(10.0)	52.8	54.7	56.6	58.5	60.5
	(7.5)	55.0	57.0	59.0	61.0	63.0
	(5.0)	57.3	<b>59.3</b>	<b>61.4</b>	<b>63.4</b>	65.5
	(2.5)	59.7	<b>61.7</b>	<b>63.8</b>	<b>66.0</b>	68.1
	-	62.0	64.2	66.3	68.5	<b>70.8</b>

Source: Kotak Institutional Equities estimates

Exhibit 9: Mahindra Satyam - FY2013E EPS under various scenarios

		Pricing (versus base case) (%)				
		(4.0)	(3.0)	(2.0)	(1.0)	-
Volumes (versus base case) (%)	(10.0)	4.0	4.2	4.5	4.7	4.9
	(7.5)	4.3	4.5	4.7	5.0	5.2
	(5.0)	4.5	<b>4.7</b>	<b>5.0</b>	<b>5.2</b>	5.5
	(2.5)	4.8	<b>5.0</b>	<b>5.2</b>	<b>5.5</b>	5.8
	-	5.0	5.3	5.5	5.8	<b>6.1</b>

Source: Kotak Institutional Equities estimates

Exhibit 10: Hexaware - FY2013E EPS under various scenarios

		Pricing (versus base case) (%)				
		(4.0)	(3.0)	(2.0)	(1.0)	-
Volumes (versus base case) (%)	(10.0)	5.8	6.1	6.3	6.5	6.8
	(7.5)	6.1	6.3	6.6	6.8	7.1
	(5.0)	6.4	<b>6.6</b>	<b>6.9</b>	<b>7.1</b>	7.4
	(2.5)	6.6	<b>6.9</b>	<b>7.2</b>	<b>7.4</b>	7.7
	-	6.9	7.2	7.4	7.7	<b>8.0</b>

Source: Kotak Institutional Equities estimates

Exhibit 11: Mphasis BFL - FY2013E EPS under various scenarios

		Pricing (versus base case) (%)				
		(4.0)	(3.0)	(2.0)	(1.0)	-
Volumes (versus base case) (%)	(10.0)	25.3	26.4	27.6	28.7	29.9
	(7.5)	26.7	27.8	29.0	30.2	31.4
	(5.0)	28.0	29.2	30.4	31.7	32.9
	(2.5)	29.4	30.7	31.9	33.2	34.4
	-	30.8	32.1	33.4	34.7	36.0

Source: Kotak Institutional Equities estimates

Exhibit 12: Polaris - FY2013E EPS under various scenarios

		Pricing (versus base case) (%)				
		(4.0)	(3.0)	(2.0)	(1.0)	-
Volumes (versus base case) (%)	(10.0)	14.9	15.7	16.6	17.4	18.2
	(7.5)	15.8	16.6	17.5	18.3	19.2
	(5.0)	16.7	17.5	18.4	19.3	20.2
	(2.5)	17.6	18.5	19.4	20.3	21.2
	-	18.5	19.4	20.4	21.3	22.3

Source: Kotak Institutional Equities estimates

Exhibit 13: Patni Computer Systems- FY2013E EPS under various scenarios

		Pricing (versus base case) (%)				
		(4.0)	(3.0)	(2.0)	(1.0)	-
Volumes (versus base case) (%)	(10.0)	20.1	21.2	22.3	23.5	24.7
	(7.5)	21.4	22.6	23.7	24.9	26.2
	(5.0)	22.8	24.0	25.2	26.4	27.7
	(2.5)	24.2	25.4	26.7	27.9	29.2
	-	25.6	26.9	28.2	29.5	30.8

Source: Kotak Institutional Equities estimates

## June 2011: Results calendar

Mon	Tue	Wed	Thu	Fri	Sat
8-Aug	9-Aug	10-Aug	11-Aug	12-Aug	13-Aug
	ABB	Adani Enterprises	Apollo Tyres	BPCL	Austral Coke & Projects
	GMR Infrastructure	Apollo Hospital Enterprises	Castrol India	Coal India	Emami
	GSPL	Bharat Forge	Jaiprakash Power Ventures	DB Realty	IVRCL
	Jubilant Life Sciences	EROS International	Jubilant Foodworks	Den Networks	Lanco Infratech
	Madras Cement	Hotel Leela Ventures	Puravankara Projects	Glaxosmithkline Pharma	Shipping Corp
	Orbit Corp	Indian Oil Corp	Reliance Infrastructure	HDIL	State Bank of India
	Satyam Computers	Kingfisher Airlines	Reliance Power	Hindalco Industries	
	Sobha Developers	MTNL	Shipping Corp of India	HPCL	
	Tata Communications	NHPC	Shree Renuka Sugars	India Cements	
	Zenith Computers	REC	Tata Motors	Jaiprakash Associates	
		Tata Global Beverages	Vascon Engineers	Jindal Saw	
		Tata Power		Jyothy Laboratories	
				Max India	
				National Aluminium Co.	
				NCC	
				Tata Steel	
				Tech Mahindra	
				Tecpro Systems	
				Unitech	
				UTV Software Communications	
				Va Tech Wabag	

Source: BSE, NSE, Kotak Institutional Equities

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

Company	8-Aug-11		Mkt cap.		O/S shares		EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)		2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	(Rs)	(%)	(US\$ mn)
<b>Automobiles</b>																														
Ashok Leyland	24	SELL	64,122	1,426	2,661	2.4	2.1	2.4	68.1	(11.9)	12.8	10.2	11.5	10.2	7.2	7.6	6.9	1.4	1.4	1.3	4.1	4.1	4.1	21.8	17.4	18.2	26	7.9	5.6	
Bajaj Auto	1,416	ADD	409,704	9,111	289	90.4	99.8	109.6	43.9	10.4	9.9	15.7	14.2	12.9	11.9	11.0	10.3	8.3	6.4	5.0	2.8	2.8	2.8	84.9	50.6	43.0	1,550	9.5	12.9	
Bharat Forge	270	ADD	64,166	1,427	237	11.9	18.3	23.0	1,324.3	54.0	25.6	22.7	14.8	11.8	10.4	7.7	6.3	2.9	2.4	2.0	1.3	—	—	7.8	14.6	16.7	355	31.3	3.1	
Exide Industries	153	REDUCE	129,710	2,884	850	7.5	8.1	10.0	18.0	9.2	22.9	20.5	18.8	15.3	14.7	13.6	11.2	4.7	3.9	3.2	1.0	0.8	0.8	25.5	22.9	23.2	160	4.8	5.3	
Hero Honda	1,856	REDUCE	370,553	8,240	200	99.3	111.3	127.9	(11.1)	12.1	14.9	18.7	16.7	14.5	13.0	12.1	9.9	7.9	8.2	7.8	5.7	3.8	3.8	56.5	63.6	60.1	1,730	(6.8)	NA	
Mahindra & Mahindra	668	BUY	410,306	9,124	614	41.7	44.7	49.0	22.7	7.1	9.6	16.0	14.9	13.6	12.4	11.0	9.8	3.8	3.2	2.7	1.7	1.4	1.4	27.3	23.4	21.6	780	16.7	25.8	
Maruti Suzuki	1,192	BUY	344,297	7,656	289	79.2	88.2	103.3	(8.4)	11.3	17.2	15.0	13.5	11.5	9.5	8.8	7.0	2.4	2.1	1.8	0.5	0.5	0.5	17.6	16.7	16.8	1,515	27.1	10.0	
Tata Motors	828	REDUCE	550,421	12,240	665	136.0	123.6	134.4	737.9	(9.1)	8.8	6.1	6.7	6.2	4.6	4.9	4.4	2.8	2.1	1.6	2.3	1.7	1.7	66.1	36.2	29.6	1,060	28.1	59.9	
<b>Automobiles</b>			<b>Cautious</b>	<b>2,343,278</b>	<b>52,108</b>				<b>88.2</b>	<b>1.3</b>	<b>11.7</b>	<b>11.7</b>	<b>11.5</b>	<b>10.3</b>	<b>7.8</b>	<b>7.7</b>	<b>6.8</b>	<b>3.7</b>	<b>3.0</b>	<b>2.5</b>	<b>2.5</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>31.7</b>	<b>26.3</b>	<b>24.2</b>	
<b>Banks/Financial Institutions</b>																														
Andhra Bank	133	BUY	74,452	1,656	560	22.6	24.2	27.5	5.0	6.9	13.5	5.9	5.5	4.8	—	—	—	1.1	1.0	0.9	4.1	4.4	5.0	23.2	19.4	19.2	190	42.8	1.9	
Axis Bank	1,235	BUY	507,209	11,279	411	82.5	98.9	119.7	33.0	19.8	21.1	15.0	12.5	10.3	—	—	—	2.7	2.3	1.9	1.1	1.4	1.6	19.3	19.7	20.3	1,700	37.6	42.2	
Bank of Baroda	857	BUY	336,616	7,485	393	108.0	109.5	129.1	29.1	1.4	17.9	7.9	7.8	6.6	—	—	—	1.7	1.5	1.3	2.2	2.3	2.7	25.9	20.4	20.5	1,250	45.9	6.9	
Bank of India	356	ADD	194,646	4,328	547	45.5	54.0	70.7	37.4	18.7	30.9	7.8	6.6	5.0	—	—	—	1.2	1.1	0.9	2.3	2.7	3.5	17.3	17.2	19.5	470	32.1	9.7	
Canara Bank	432	ADD	191,287	4,254	443	90.9	86.3	108.7	23.3	(5.0)	25.9	4.8	5.0	4.0	—	—	—	1.1	0.9	0.8	2.5	2.8	2.8	23.2	17.7	19.0	600	39.0	9.7	
Corporation Bank	458	ADD	67,903	1,510	148	95.4	93.4	114.1	16.3	(2.1)	22.2	4.8	4.9	4.0	—	—	—	1.0	0.8	0.7	4.4	4.3	5.2	21.9	18.1	19.2	630	37.4	0.9	
Federal Bank	386	ADD	66,024	1,468	171	34.3	44.5	56.2	26.3	29.8	26.1	11.2	8.7	6.9	—	—	—	1.3	1.2	1.1	2.2	2.9	3.6	12.0	14.2	16.0	500	29.5	5.2	
HDFC	647	REDUCE	948,718	21,097	1,467	24.1	27.8	31.9	22.4	15.6	14.6	26.8	23.2	20.3	—	—	—	5.5	4.8	3.7	1.4	1.6	1.9	21.7	22.1	21.5	730	12.9	40.0	
HDFC Bank	462	REDUCE	1,074,904	23,903	2,326	16.9	22.0	28.0	31.0	30.2	27.5	27.4	21.0	16.5	—	—	—	4.2	3.7	3.1	0.7	0.9	1.2	16.7	18.7	20.5	560	21.2	36.1	
ICICI Bank	951	ADD	1,095,266	24,355	1,152	44.7	57.2	67.9	23.9	27.9	18.6	21.3	16.6	14.0	—	—	—	2.0	1.8	1.7	1.5	1.8	2.1	9.7	11.5	12.6	1,270	33.6	74.7	
IDFC	122	ADD	184,285	4,098	1,509	8.8	10.1	12.4	4.6	14.7	23.5	13.9	12.1	9.8	—	—	—	1.8	1.5	1.3	1.8	1.7	2.0	14.7	13.3	14.3	150	22.8	25.8	
India Infoline	74	SELL	24,338	541	327	7.4	4.8	6.5	(9.3)	(34.5)	33.8	10.1	15.4	11.5	—	—	—	1.5	1.2	1.1	4.1	1.3	1.9	12.9	8.7	10.3	70	(6.0)	1.8	
Indian Bank	215	BUY	92,207	2,050	430	38.8	42.0	50.9	10.5	8.2	21.2	5.5	5.1	4.2	—	—	—	1.2	1.0	0.8	3.5	3.7	4.5	22.3	20.4	21.0	300	39.8	1.7	
Indian Overseas Bank	128	BUY	79,355	1,765	619	17.3	21.1	30.8	33.6	22.0	45.4	7.4	6.1	4.2	—	—	—	1.0	0.9	0.7	3.9	3.3	3.6	12.7	13.3	17.0	190	48.1	1.7	
IndusInd Bank	263	BUY	122,759	2,730	466	12.4	15.2	18.2	45.2	22.6	19.9	21.3	17.3	14.5	—	—	—	3.4	2.9	2.6	0.8	0.9	1.1	20.8	17.7	17.9	325	23.4	3.5	
J&K Bank	858	ADD	41,611	925	48	126.9	141.8	152.8	20.1	11.8	7.7	6.8	6.1	5.6	—	—	—	1.2	1.1	0.9	3.0	3.4	3.6	19.0	18.4	17.3	950	10.7	0.6	
LIC Housing Finance	205	ADD	97,127	2,160	475	20.5	22.9	27.5	47.2	11.4	20.4	10.0	8.9	7.4	—	—	—	2.5	2.1	1.7	2.2	2.4	2.9	25.8	23.7	23.9	260	27.1	25.8	
Mahindra & Mahindra Financial	655	BUY	67,096	1,492	102	45.2	56.4	69.2	26.1	24.8	22.7	14.5	11.6	9.5	—	—	—	2.7	2.4	2.0	1.6	1.9	2.3	22.0	21.4	22.3	825	26.0	1.6	
Muthoot Finance	189	BUY	70,123	1,559	371	15.7	19.0	24.5	108.4	20.5	29.0	12.0	10.0	7.7	—	—	—	5.3	2.4	1.8	—	—	—	51.5	33.0	26.8	220	16.5	—	
Oriental Bank of Commerce	327	BUY	95,289	2,119	292	51.5	55.6	65.4	13.7	8.0	17.6	6.3	5.9	5.0	—	—	—	0.9	0.8	0.7	3.2	3.4	4.0	15.5	13.9	14.7	430	31.7	4.0	
PFC	171	ADD	226,171	5,029	1,320	22.8	23.7	28.5	11.1	3.8	20.4	7.5	7.2	6.0	—	—	—	1.5	1.1	1.0	2.3	2.8	3.3	18.4	17.2	16.8	235	37.1	23.2	
Punjab National Bank	1,102	BUY	349,048	7,762	317	140.0	163.0	201.5	13.0	16.5	23.6	7.9	6.8	5.5	—	—	—	1.7	1.5	1.2	2.0	3.0	3.7	24.4	23.5	24.2	1,500	36.1	5.7	
Reliance Capital	457	REDUCE	112,581	2,503	246	9.3	16.5	24.6	(25.3)	77.0	49.6	49.1	27.8	18.6	—	—	—	1.6	1.6	1.5	0.8	1.4	2.2	3.3	5.7	8.2	600	31.2	17.1	
Rural Electrification Corp.	190	ADD	187,752	4,175	987	26.0	29.3	32.8	28.1	12.7	12.2	7.3	6.5	5.8	—	—	—	1.5	1.3	1.1	3.9	5.2	5.8	21.5	21.2	20.9	250	31.5	13.5	
Shriram Transport	600	REDUCE	133,851	2,976	223	55.1	65.6	75.3	40.8	19.0	14.8	10.9	9.1	8.0	—	—	—	2.8	2.3	1.9	1.1	2.2	2.5	28.1	26.8	25.2	700	16.7	15.1	
SKS Microfinance	372	SELL	27,374	609	74	15.7	(39.1)	3.9	(41.8)	(349.4)	(109.9)	23.7	(9.5)	95.8	—	—	—	1.5	1.8	1.7	—	—	—	8.3	(17.4)	1.9	350	(5.8)	12.2	
State Bank of India	2,217	BUY	1,407,793	31,305	635	130.2	213.1	266.4	(9.9)	63.7	25.0	17.0	10.4	8.3	—	—	—	2.2	1.9	1.6	1.5	1.6	1.7	12.6	19.2	20.4	2,900	30.8	122.1	
Union Bank	283	BUY	148,517	3,303	524	39.5	50.2	60.4	(3.9)	27.1	20.5	7.2	5.6	4.7	—	—	—	1.3	1.1	1.0	3.3	4.2	5.0	20.9	21.9	22.5	425	50.0	4.7	
Yes Bank	302	BUY	104,890	2,332	347	21.5	26.2	32.3	43.2	22.1	23.3	14.1	11.5	9.3	—	—	—	2.8	2.3	1.9	0.8	1.0	1.2	21.7	21.7	22.2	420	39.0	16.1	
<b>Banks/Financial Institutions</b>			<b>Attractive</b>	<b>8,129,191</b>	<b>180,769</b>				<b>20.1</b>	<b>21.7</b>	<b>23.0</b>	<b>13.3</b>	<b>10.9</b>	<b>8.9</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>2.1</b>	<b>1.8</b>	<b>1.6</b>	<b>1.7</b>	<b>1.9</b>	<b>2.3</b>	<b>16.0</b>	<b>16.8</b>	<b>17.7</b>				
<b>Cement</b>																														
ACC	986	REDUCE	185,212	4,119	188	55.6	60.1	72.7	(33.2)	8.2	20.9	17.7	16.4	13.6	10.8	9.0	7.1	2.7	2.5	2.2	3.6	2.4	2.4	17.5	17.3	18.1	980			



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

Company	8-Aug-11		Mkt cap.		O/S		EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price		Upside (%)	ADVT-3mo (US\$ mn)
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	(mn)	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	(Rs)	(%)		
<b>Consumer products</b>																															
Asian Paints	3,081	REDUCE	295,500	6,571	96	80.8	94.6	111.4	13.0	17.1	17.7	38.1	32.6	27.7	25.4	20.7	17.0	14.4	11.1	9.0	1.0	0.9	1.1	43.9	40.0	36.8	2,900	(5.9)	10.3		
Colgate-Palmolive (India)	948	SELL	128,874	2,866	136	29.6	34.1	38.8	(4.9)	15.0	14.1	32.0	27.8	24.4	27.8	24.3	20.3	33.6	34.1	27.3	2.3	3.1	2.9	113.4	121.6	124.2	900	(5.0)	2.2		
Dabur India	103	REDUCE	178,650	3,973	1,740	3.3	3.7	4.4	12.8	14.1	18.8	31.4	27.5	23.2	25.3	20.9	17.6	13.6	10.5	8.3	1.1	1.3	1.5	51.2	43.8	40.6	110	7.2	5.1		
GlaxoSmithkline Consumer (a)	2,341	ADD	98,467	2,190	42	71.3	82.6	101.9	28.8	15.8	23.4	32.8	28.3	23.0	23.5	20.2	16.8	10.6	8.6	7.0	2.1	1.1	1.4	32.2	32.5	32.8	2,700	15.3	0.8		
Godrej Consumer Products	412	BUY	133,174	2,961	324	14.9	18.4	22.7	31.3	23.4	23.8	27.7	22.4	18.1	23.6	16.5	12.6	7.7	5.5	4.4	1.2	0.8	0.8	35.9	28.7	27.0	510	23.9	2.7		
Hindustan Unilever	320	ADD	690,372	15,352	2,159	9.9	11.3	13.3	4.8	14.1	17.7	32.4	28.4	24.1	27.4	23.9	19.6	26.2	22.7	19.6	2.4	2.9	3.5	66.3	85.9	87.5	340	6.3	18.1		
ITC	195	ADD	1,497,731	33,305	7,681	6.4	8.0	8.9	20.7	24.9	11.6	30.4	24.4	21.8	20.1	16.4	14.3	8.9	7.7	6.7	2.3	1.9	2.3	33.2	35.5	34.4	230	17.9	33.0		
Jubilant Foodworks	765	SELL	49,348	1,097	65	11.2	14.7	20.0	98.7	31.7	35.9	68.6	52.1	38.3	41.2	28.0	21.0	25.8	17.2	11.9	—	—	—	46.5	39.7	36.7	550	(28.1)	33.5		
Jyothy Laboratories	215	REDUCE	17,348	386	81	10.5	11.7	13.3	(5.0)	11.4	14.2	20.5	18.4	16.1	18.2	13.7	11.2	2.6	2.4	2.2	2.7	2.2	2.7	12.3	13.3	14.0	240	11.6	0.5		
Marico	154	ADD	94,424	2,100	612	4.2	5.4	7.1	10.9	27.3	32.6	36.6	28.7	21.7	24.3	19.7	15.0	10.1	7.9	6.1	0.5	0.6	0.8	32.8	31.3	32.2	185	19.8	1.2		
Nestle India (a)	4,134	REDUCE	398,563	8,863	96	86.8	103.6	123.2	16.7	19.3	18.9	47.6	39.9	33.6	31.7	26.0	21.4	46.6	33.9	25.5	1.2	1.5	1.7	116.5	98.3	86.8	3,500	(15.3)	2.5		
Tata Global Beverages	106	ADD	65,736	1,462	618	4.0	6.0	6.8	(34.6)	52.6	13.0	26.9	17.6	15.6	10.5	9.0	7.9	1.3	1.3	1.2	1.9	2.9	3.2	6.5	9.6	10.4	110	3.5	4.2		
Titan Industries	215	REDUCE	191,140	4,250	888	4.9	7.4	8.8	71.7	51.5	17.8	43.8	28.9	24.5	32.0	20.1	16.5	17.6	12.5	9.5	0.6	1.0	1.4	47.8	50.5	44.0	240	11.5	36.3		
United Spirits	921	ADD	115,653	2,572	126	29.5	39.2	50.6	8.3	32.8	29.0	31.2	23.5	18.2	16.0	12.3	10.5	2.7	2.4	2.1	0.4	0.3	0.4	9.1	10.7	12.5	1,300	41.2	6.1		
<b>Consumer products</b>																															
<b>Constructions</b>																															
IVRCL	49	BUY	12,990	289	267	5.9	7.9	9.8	(25.2)	33.6	24.5	8.2	6.2	4.9	6.3	5.5	5.0	0.7	0.6	0.5	0.8	0.8	0.8	8.2	10.1	11.3	125	156.9	4.6		
Nagarjuna Construction Co.	66	BUY	16,806	374	257	6.4	7.0	8.9	(10.7)	10.5	25.8	10.3	9.3	7.4	8.3	7.6	6.8	0.7	0.7	0.6	3.1	3.1	3.1	7.1	7.4	8.9	140	113.7	1.3		
Punj Lloyd	62	REDUCE	20,919	465	340	(1.5)	5.2	8.2	(56.6)	(449.2)	57.5	(41.5)	11.9	7.5	8.5	6.3	5.3	0.7	0.7	0.6	(0.1)	0.7	1.2	(1.7)	5.8	8.5	7.5	21.8	11.9		
Sadbhav Engineering	134	BUY	20,160	448	150	8.0	9.8	10.9	55.1	23.5	10.4	16.9	13.7	12.4	10.3	8.5	7.6	3.1	2.6	2.2	0.4	0.4	0.4	18.6	19.0	17.5	180	33.9	0.2		
<b>Construction</b>																															
<b>Energy</b>																															
Alban Offshore	423	BUY	18,385	409	44	116.2	95.3	107.2	9.0	(18.0)	12.4	3.6	4.4	3.9	6.8	6.8	6.4	0.9	0.8	0.7	0.9	0.9	1.1	29.2	19.4	18.0	700	65.7	10.3		
Bharat Petroleum	703	ADD	254,145	5,651	362	45.7	46.0	60.0	(20.7)	0.6	30.5	15.4	15.3	11.7	10.5	9.3	7.3	1.7	1.6	1.5	2.0	2.1	2.8	10.8	10.1	12.2	800	13.8	9.2		
Cairn India	278	REDUCE	528,162	11,745	1,902	33.3	45.8	49.7	501.1	37.4	8.6	8.3	6.1	5.6	6.1	4.4	3.4	1.3	1.1	1.0	—	1.8	5.4	16.9	19.8	19.2	295	6.2	15.9		
Castrol India (a)	534	SELL	131,936	2,934	247	19.8	22.4	23.2	28.5	13.1	3.5	26.9	23.8	23.0	17.3	15.6	15.0	25.5	22.8	20.9	2.8	3.2	3.4	100.2	101.2	94.9	420	(21.3)	2.9		
GAIL (India)	449	ADD	569,674	12,668	1,268	28.1	36.6	39.2	13.4	30.3	7.1	16.0	12.3	11.5	9.9	8.9	7.9	2.7	2.3	2.0	1.7	2.2	2.4	17.4	19.6	17.9	560	24.7	10.1		
GSPL	102	REDUCE	57,637	1,282	563	9.0	8.1	9.0	23.1	(10.3)	11.9	11.4	12.7	11.3	7.2	7.4	6.8	2.5	2.1	1.9	1.0	1.6	2.6	25.5	18.2	17.4	92	(10.2)	4.9		
Hindustan Petroleum	402	ADD	136,197	3,029	339	45.7	32.5	43.5	(11.4)	(28.8)	33.9	8.8	12.4	9.2	3.5	3.8	3.2	0.9	0.8	0.8	3.5	2.5	3.3	10.1	6.5	8.1	500	24.5	8.9		
Indian Oil Corporation	339	ADD	824,168	18,327	2,428	31.8	31.8	36.9	(35.4)	0.2	16.0	10.7	10.7	9.2	8.3	7.6	5.9	1.4	1.3	1.2	2.8	2.8	3.3	12.9	12.0	12.8	435	28.1	5.2		
Oil India	1,347	BUY	323,940	7,203	240	120.1	178.3	196.4	4.3	48.4	10.2	11.2	7.6	6.9	4.8	3.0	2.5	1.9	1.6	1.4	2.8	4.1	4.5	16.2	20.7	19.8	1,800	33.6	2.0		
Oil & Natural Gas Corporation	283	BUY	2,422,076	53,860	8,556	25.2	37.6	41.5	9.9	49.2	10.2	11.2	7.5	6.8	4.3	3.3	2.6	1.7	1.4	1.3	3.1	4.2	4.9	14.7	19.5	18.8	385	36.0	30.3		
Petronet LNG	172	SELL	128,775	2,864	750	8.1	11.5	11.4	50.3	41.3	(0.7)	21.2	15.0	15.1	12.1	9.8	9.9	4.3	3.5	2.9	1.2	1.7	1.7	20.9	24.6	20.2	125	(27.2)	9.3		
Reliance Industries	781	ADD	2,327,118	51,748	2,981	62.0	67.4	74.9	24.8	8.8	11.0	12.6	11.6	10.4	6.9	6.2	5.2	1.4	1.3	1.1	1.0	1.2	1.3	13.0	12.7	12.6	1,045	33.9	84.9		
<b>Energy</b>																															
<b>Industrials</b>																															
ABB	807	SELL	171,021	3,803	212	3.0	21.1	27.3	(82.2)	606.1	29.6	270.5	38.3	29.6	197.0	25.9	19.3	7.1	6.1	5.2	0.2	0.4	0.4	2.6	17.1	19.1	700	(13.3)	1.8		
BGR Energy Systems	349	REDUCE	25,171	560	72	44.8	41.1	41.7	60.0	(8.3)	1.5	7.8	8.5	8.4	5.1	5.4	4.6	2.6	2.1	1.8	2.6	2.4	2.4	39.0	27.8	23.2	410	17.5	5.0		
Bharat Electronics	1,620	ADD	129,592	2,882	80	102.9	120.8	133.9	7.0	17.4	10.8	15.7	13.4	12.1	9.5	7.0	6.0	2.6	2.2	1.9	1.5	1.5	1.5	17.2	17.7	17.2	1,850	14.2	1.4		
Bharat Heavy Electricals	1,711	REDUCE	837,348	18,620	490	122.8	134.8	145.4	39.7	7.8	7.9	13.9	12.7	11.8	9.2	8.3	7.3	4.2	3.3	2.8	1.5	1.7	1.8	33.3	29.2	25.6	2,000	16.9	33.3		
Crompton Greaves	156	BUY	100,042	2,225	642	14.3	10.6	13.5	11.5	(25.8)	26.7	10.9	14.7	11.6	7.1	8.2	6.1	3.0	2.6	2.2	1.5	1.1	1.2	31.7	19.1	20.5	210	34.7	17.0		
Larsen & Toubro	1,631	REDUCE	993,187	22,086	609	67.7	79.6	98.2	18.1	17.5	23.4	24.1	20.5	16.6	16.7	12.6	10.8	3.8	3.1	2.7	0.9	0.9	0.9	17.0	16.6	17.2	1,800	10.3	65.2		
Maharashtra Seamless	357	BUY	25,162	560	71	46.1	41.6	46.7	19.3	(9.7)	12.3	7.7	8.6	7.6	4.1	4.1	3.4	1.0	0.9	0.8	2.3	2.3	2.6	13.3	11.1	11.5	460	28.9	0.2		
Siemens	872	SELL	294,155	6,541	337	22.4	28.9	32.5	39.5	28.8	12.3	38.9	30.2	26.9	23.0	19.4	16.9	9.1	7.4	6.1	0.6	0.7	0.7	25.2	26.9	24.8	830	(4.9)	4.0		
Suzlon Energy	45	REDUCE	72,116	1,604	1,594	(6.0)	0.6	4.0	(2.8)	(109.7)	597.4	(7.5)	78.0	11.2	28.6	8.8	6.4	1.1	1.1	1.1	—	—	—	0.4	(14.4)	1.4	9.7	60	32.6	20.1	
Tecpro Systems	272	BUY	13,721	305	50	27.0	3																								

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	8-Aug-11		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)	
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E				
<b>Media</b>																														
DB Corp	245	BUY	44,949	1,000	183	14.1	14.2	17.1	32.7	0.6	20.3	17.4	17.3	14.4	11.3	10.2	8.5	5.4	4.7	4.2	1.6	2.4	4.1	35.0	29.1	31.0	350	42.7	0.3	
DishTV	82	ADD	87,517	1,946	1,062	(1.8)	0.0	1.3	(27.5)	(101.9)	3,944.0	(46.0)	2,487.8	61.5	40.6	18.6	12.5	41.6	41.0	24.6	—	—	—	(62.3)	1.7	49.9	100	21.4	7.9	
Eros International	193	BUY	17,941	399	93	12.7	16.2	20.3	31.4	28.1	24.7	15.3	11.9	9.5	11.2	8.9	6.6	2.6	2.1	1.7	—	—	—	25.0	19.4	19.7	230	18.9	1.8	
Hindustan Media Ventures	135	BUY	9,925	221	73	7.3	9.0	12.1	198.7	22.8	35.0	18.5	15.0	11.1	8.9	7.7	5.6	2.5	2.1	1.8	—	—	—	2.2	22.3	15.1	17.7	220	62.7	0.2
HT Media	155	ADD	36,425	810	235	7.7	8.9	11.0	26.3	15.3	23.6	20.1	17.4	14.1	9.6	8.1	6.2	2.6	2.4	2.3	1.3	2.6	3.9	15.0	14.4	16.6	190	22.6	0.5	
Jagran Prakashan	113	BUY	35,679	793	316	6.8	7.0	8.4	17.2	2.0	20.4	16.5	16.2	13.4	9.9	9.2	7.6	5.1	4.6	4.2	3.0	3.5	4.4	31.5	30.1	32.7	160	41.8	0.4	
Sun TV Network	302	ADD	118,914	2,644	394	19.6	21.6	25.4	48.6	10.0	17.9	15.4	14.0	11.9	9.2	8.2	7.0	4.9	4.4	4.0	2.9	4.0	5.3	36.6	34.7	36.6	440	45.8	27.3	
Zee Entertainment Enterprises	128	BUY	124,741	2,774	978	5.8	6.7	8.2	9.1	15.6	22.6	22.0	19.0	15.5	14.8	12.6	10.0	3.0	2.9	2.8	1.1	1.1	1.3	14.0	15.6	18.6	180	41.2	6.8	
<b>Media</b>																														
<b>Metals &amp; Mining</b>																														
Coal India	392	BUY	2,477,594	55,094	6,316	17.3	24.5	28.6	13.6	41.7	16.8	22.7	16.0	13.7	13.7	10.6	8.7	7.1	5.5	4.4	1.3	1.9	2.2	35.1	38.9	35.8	460	17.3	38.8	
Hindalco Industries	152	ADD	290,258	6,454	1,914	12.8	18.2	18.6	(36.0)	42.7	2.1	11.9	8.3	8.1	6.7	6.2	6.6	1.0	0.9	0.8	1.0	1.0	1.0	9.7	11.4	10.5	225	48.4	28.1	
Hindustan Zinc	126	BUY	532,773	11,847	4,225	11.6	13.8	15.9	21.8	18.8	14.9	10.8	9.1	7.9	7.0	4.9	3.5	2.3	1.8	1.5	0.8	0.8	0.8	24.3	23.2	21.7	170	34.8	3.3	
Jindal Steel and Power	525	REDUCE	490,508	10,907	934	40.2	45.2	55.2	5.1	12.4	22.2	13.1	11.6	9.5	9.8	9.2	7.8	3.2	2.5	2.0	0.3	0.3	0.3	30.8	26.3	25.0	650	23.8	15.3	
JSW Steel	677	REDUCE	168,100	3,738	248	78.6	88.0	114.7	(2.2)	11.9	30.4	8.6	7.7	5.9	6.2	4.9	4.5	0.9	0.7	0.6	1.6	1.4	1.4	11.9	10.4	11.5	900	32.9	28.8	
National Aluminium Co.	67	SELL	172,031	3,825	2,577	4.1	5.0	5.3	36.3	20.5	6.0	16.1	13.4	12.6	8.1	6.4	5.6	1.5	1.4	1.3	2.2	2.2	2.2	9.9	11.1	11.0	76	13.9	0.5	
Sesa Goa	241	REDUCE	215,801	4,799	895	47.0	43.2	41.7	59.8	(8.0)	(3.4)	5.1	5.6	5.8	4.2	4.1	3.6	1.7	1.3	1.0	1.6	1.6	1.7	36.8	23.9	17.7	295	22.3	15.4	
Sterlite Industries	137	BUY	459,140	10,210	3,361	15.2	18.0	20.7	26.2	18.8	15.1	9.0	7.6	6.6	5.9	4.2	4.2	3.5	1.1	1.0	0.9	0.8	0.8	13.0	13.7	13.9	205	50.1	15.9	
Tata Steel	509	BUY	494,545	10,997	971	75.3	59.3	85.6	(2,258.1)	(21.2)	44.3	6.8	8.6	5.9	6.2	6.1	5.0	1.4	1.2	1.0	2.3	—	—	24.7	14.7	17.8	735	44.4	46.5	
<b>Metals &amp; Mining</b>																														
<b>Pharmaceutical</b>																														
Apollo Hospitals	525	BUY	69,413	1,544	132	13.9	17.6	21.8	27.0	26.9	23.5	37.7	29.7	24.1	17.3	13.5	11.4	3.8	3.3	2.8	—	—	—	10.0	11.4	12.2	565	7.6	1.1	
Biocon	350	BUY	69,930	1,555	200	18.4	19.4	21.4	23.9	5.6	10.3	19.0	18.0	16.3	11.0	10.5	9.4	3.4	3.0	2.7	—	—	—	19.4	17.9	17.4	445	27.3	3.7	
Cipla	304	REDUCE	244,249	5,431	803	12.3	14.5	16.5	(10.0)	17.5	13.7	24.7	21.0	18.5	21.4	15.3	12.6	3.7	3.2	2.9	0.9	1.0	1.2	15.4	16.0	—	325	6.8	8.7	
Cadila Healthcare	836	ADD	171,067	3,804	205	34.7	41.2	49.7	40.6	18.8	20.5	24.1	20.3	16.8	20.8	16.6	12.9	7.9	6.1	4.8	0.7	1.0	1.2	37.5	33.9	31.8	1,090	30.5	2.8	
Dishman Pharma & chemicals	78	SELL	6,336	141	81	9.8	8.0	9.4	(31.8)	(18.7)	17.2	7.9	9.7	8.3	9.0	6.9	6.1	0.7	0.7	0.6	—	—	—	9.6	7.2	7.9	95	22.0	0.3	
Divi's Laboratories	782	BUY	103,707	2,306	133	32.4	36.7	45.0	25.7	13.5	22.4	24.2	21.3	17.4	20.0	15.3	12.6	5.8	4.9	4.2	—	—	—	25.9	25.0	26.2	880	12.6	5.7	
GlaxoSmithkline Pharmaceuticals (a)	2,137	REDUCE	180,972	4,024	85	68.3	80.2	91.8	15.5	17.5	14.4	31.3	26.6	23.3	20.8	17.9	15.2	9.3	8.5	7.7	1.9	2.3	2.7	30.9	33.3	34.7	2,300	7.7	1.1	
Glenmark Pharmaceuticals	322	ADD	87,074	1,936	270	17.0	26.2	23.5	33.6	54.5	(10.3)	19.0	12.3	13.7	21.0	14.1	12.0	4.3	3.2	2.6	—	—	—	20.6	29.8	21.2	395	22.7	6.3	
Jubilant Life Sciences	196	REDUCE	31,255	695	159	14.4	16.4	19.3	(45.6)	13.7	17.4	13.6	12.0	10.2	10.9	9.0	8.2	1.4	1.3	1.2	1.0	1.3	1.8	12.3	11.5	12.2	195	(0.6)	1.0	
Lupin	446	ADD	199,782	4,443	448	19.2	20.1	24.6	25.6	4.4	22.5	23.2	22.2	18.1	19.4	17.2	13.2	6.0	4.9	4.0	0.7	0.8	1.0	29.5	24.7	24.9	500	12.2	10.8	
Ranbaxy Laboratories	520	SELL	220,208	4,897	423	40.6	16.9	20.8	475.0	(58.3)	22.7	12.8	30.7	25.0	15.7	26.6	20.7	3.9	3.4	3.0	—	—	—	34.5	11.9	12.8	435	(16.4)	10.9	
Sun Pharmaceuticals	497	ADD	514,952	11,451	1,036	17.5	20.4	24.4	34.4	16.3	19.6	28.4	24.4	20.4	24.1	19.5	15.5	5.0	4.2	3.6	0.7	0.8	1.0	21.0	20.4	20.7	560	12.6	10.6	
<b>Pharmaceuticals</b>																														
<b>Property</b>																														
DLF	196	ADD	335,713	7,465	1,715	9.1	11.9	15.7	(14.5)	31.3	31.8	21.6	16.4	12.5	15.0	11.8	9.0	1.3	1.2	1.1	1.0	1.3	1.5	5.4	7.5	9.2	270	37.9	34.8	
Housing Development & Infrastructure	116	ADD	51,179	1,138	441	19.8	28.9	34.6	24.3	46.0	19.7	5.9	4.0	3.4	8.3	4.2	3.4	0.5	0.5	0.4	—	0.9	1.3	10.0	12.4	12.8	190	63.7	19.8	
Indiabulls Real Estate	84	RS	33,969	755	402	4.0	8.5	15.4	(1,095.5)	114.1	81.5	21.3	9.9	5.5	14.5	11.7	5.1	0.3	0.3	0.3	—	1—	0.8	1.4	2.9	5.0	—	—	7.5	
Mahindra Life Space Developer	344	ADD	14,022	312	41	24.9	30.8	37.5	30.2	23.7	21.6	13.8	11.1	9.2	10.6	7.6	5.7	1.4	1.2	1.1	1.5	1.3	1.5	10.4	11.6	12.7	470	36.8	0.3	
Oberoi Realty	225	BUY	74,309	1,652	330	15.7	20.0	28.0	14.8	27.6	39.7	14.4	11.3	8.1	10.5	7.2	4.5	2.2	1.9	1.6	0.4	0.7	1.1	19.9	18.2	21.3	315	39.8	0.2	
Phoenix Mills	220	BUY	31,888	709	145	6.3	7.5	10.7	52.5	18.4	43.8	34.9	29.5	20.5	25.4	21.1	15.6	2.0	1.9	1.8	0.7	0.9	0.9	5.8	6.6	8.9	300	36.3	0.3	
Puravankara Projects	64	REDUCE	13,755	306	213	5.5	9.1	11.2	(18.9)	65.2	22.4	11.7	7.1	5.8	16.8	8.4	7.0	0.9	0.8	0.7	1.6	2.3	3.1	8.0	12.1	13.4	110	70.7	0.2	
Sobha Developers	245	BUY	24,001	534	98	18.7	23.4	27.7	33.0	25.0	18.5	13.1	10.5	8.8	11.4	8.8	7.0	1.3	1.2	1.0	1.2	1.4	—	10.1	11.6	12.3	385	57.3	1.2	
Unitech	28	RS	74,172	1,649	2,616	2.3	3.9	5.3	(23.4)	69.1	35.2	12.2	7.2	5.3	13.9	8.0	5.3	0.6	0.6	0.5	—	—	—	5.4	8.4	10.3	—	—	17.7	
<b>Property</b>																														

Source: Company, Bloomberg, Kotak Institutional Equities estimates

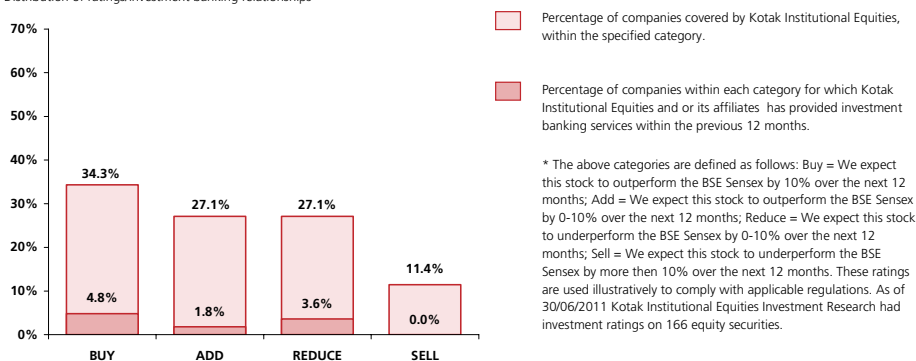
## Kotak Institutional Equities: Valuation summary of key Indian companies

Company	8-Aug-11		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E			
<b>Sugar</b>																													
Bajaj Hindustan	57	REDUCE	13,076	291	228	(8.0)	(1.2)	2.1	(348.8)	(85.6)	(282.4)	(7.1)	(49.5)	27.1	17.9	7.2	6.0	0.4	0.4	0.4	1.0	1.0	1.0	(6.0)	(0.9)	1.6	65	13.5	1.5
Balrampur Chini Mills	55	BUY	13,656	304	247	6.7	4.0	7.7	111.0	(40.5)	94.0	8.3	13.9	7.2	11.3	9.0	6.0	0.9	0.9	0.8	1.4	1.4	1.4	11.6	6.5	11.9	80	44.7	1.6
Shree Renuka Sugars	58	BUY	38,614	859	670	10.5	4.3	5.9	214.7	(59.5)	37.9	5.5	13.5	9.8	8.3	6.3	5.3	1.6	1.4	1.3	1.7	1.7	1.7	34.4	11.1	13.8	75	30.2	8.9
<b>Sugar</b>		<b>Cautious</b>	<b>65,346</b>	<b>1,453</b>					<b>68.0</b>	<b>(41.5)</b>	<b>77.0</b>	<b>10.7</b>	<b>18.3</b>	<b>10.3</b>	<b>10.9</b>	<b>6.9</b>	<b>5.6</b>	<b>0.9</b>	<b>0.9</b>	<b>0.8</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>	<b>8.8</b>	<b>4.9</b>	<b>8.1</b>
<b>Technology</b>																													
HCL Technologies	419	REDUCE	295,571	6,573	705	22.9	30.1	36.5	30.4	31.9	21.2	18.3	13.9	11.5	11.1	8.4	6.9	3.5	3.0	2.5	1.8	1.9	1.9	21.0	23.1	23.8	490	16.9	8.1
Hexaware Technologies	83	ADD	23,987	533	290	3.0	7.5	8.0	(36.8)	154.8	6.1	28.0	11.0	10.3	21.0	9.6	7.3	2.5	2.2	2.0	1.8	3.6	3.9	9.3	21.3	20.3	90	9.0	2.7
Infosys Technologies	2,471	BUY	1,418,067	31,534	574	119.7	140.2	168.9	10.5	17.1	20.5	20.6	17.6	14.6	13.9	11.7	9.4	5.5	4.6	3.8	2.4	1.8	2.1	28.0	28.2	28.4	3,400	37.6	69.1
Mahindra Satyam	74	REDUCE	87,200	1,939	1,176	4.2	4.9	6.1	68.9	17.0	23.2	17.7	15.1	12.3	13.2	7.5	5.8	5.1	3.8	2.9	—	—	—	27.6	28.8	26.9	80	7.9	14.7
Mindtree	423	ADD	17,415	387	41	24.7	36.4	42.6	(52.7)	47.6	16.9	17.1	11.6	9.9	9.6	7.3	5.5	2.2	1.9	1.7	0.6	0.9	3.0	14.4	17.8	18.2	430	1.6	2.2
Mphasis BFL	414	SELL	87,250	1,940	211	51.8	36.6	36.0	18.8	(29.2)	(1.7)	8.0	11.3	11.5	6.8	8.5	7.4	2.6	2.2	1.9	1.0	1.1	1.2	38.6	21.3	17.7	360	(13.1)	3.1
Patni Computer Systems	307	ADD	40,846	908	133	42.6	26.0	30.8	16.5	(38.9)	18.2	7.2	11.8	10.0	4.0	4.3	2.7	1.3	1.2	1.1	21.5	1.7	2.0	18.4	8.2	11.5	370	20.7	3.7
Polaris Software Lab	153	SELL	15,259	339	100	19.3	19.5	22.3	25.7	0.9	14.2	7.9	7.9	6.9	4.8	3.6	2.8	1.5	1.3	1.1	2.4	2.5	2.7	20.2	17.3	17.1	175	14.3	2.2
TCS	1,005	BUY	1,967,671	43,755	1,957	44.5	54.5	64.4	26.8	22.5	18.1	22.6	18.4	15.6	17.0	13.5	11.0	7.8	6.4	5.2	1.8	2.2	2.6	37.8	38.0	36.8	1,350	34.3	38.7
Tech Mahindra	713	REDUCE	89,876	1,999	126	48.8	66.3	70.8	(25.2)	36.0	6.7	14.6	10.8	10.1	9.9	9.5	8.9	2.7	2.3	2.0	0.6	0.6	1.4	20.5	23.9	22.3	665	(6.8)	3.8
Wipro	358	ADD	878,164	19,528	2,454	21.6	22.9	26.3	14.5	5.9	15.1	16.6	15.7	13.6	12.2	10.7	8.9	3.7	3.1	2.6	1.2	1.3	1.6	24.3	21.4	20.9	450	25.8	10.2
<b>Technology</b>		<b>Attractive</b>	<b>4,921,306</b>	<b>109,435</b>					<b>17.1</b>	<b>15.1</b>	<b>17.6</b>	<b>19.1</b>	<b>16.6</b>	<b>14.1</b>	<b>13.7</b>	<b>11.5</b>	<b>9.4</b>	<b>5.0</b>	<b>4.2</b>	<b>3.5</b>	<b>2.0</b>	<b>1.8</b>	<b>2.1</b>	<b>26.2</b>	<b>25.3</b>	<b>24.9</b>			
<b>Telecom</b>																													
Bharti Airtel	408	REDUCE	1,550,750	34,484	3,798	15.9	17.9	27.1	(32.6)	12.7	50.8	25.6	22.8	15.1	10.8	8.4	6.5	3.2	2.8	2.4	—	—	—	13.3	13.1	16.9	390	(4.5)	42.6
IDEA	96	REDUCE	315,630	7,019	3,303	2.7	2.7	4.8	(0.5)	(1.4)	78.0	35.1	35.6	20.0	11.2	8.5	6.6	2.6	2.4	2.1	—	—	—	7.6	7.0	11.3	95	(0.6)	14.2
MTNL	41	SELL	25,893	576	630	(10.4)	(9.1)	(8.4)	(33.7)	(11.9)	(8.1)	(4.0)	(4.5)	(4.9)	0.1	0.1	0.1	0.2	0.3	0.3	—	—	—	(6.1)	(5.7)	(5.5)	35	(14.8)	0.8
Reliance Communications	88	SELL	187,555	4,171	2,133	6.3	7.1	9.7	(68.0)	12.0	37.6	13.9	12.4	9.0	5.6	5.9	4.9	0.5	0.5	0.5	—	—	—	3.4	4.1	5.4	95	8.0	17.5
Tata Communications	205	REDUCE	58,297	1,296	285	15.2	15.7	15.9	8.2	3.5	1.5	13.5	13.0	12.8	6.3	5.9	5.6	0.8	0.8	0.8	3.7	4.2	4.4	5.5	5.5	5.4	205	0.2	1.4
<b>Telecom</b>		<b>Cautious</b>	<b>2,138,125</b>	<b>47,546</b>					<b>(42.4)</b>	<b>12.7</b>	<b>52.6</b>	<b>26.5</b>	<b>23.6</b>	<b>15.4</b>	<b>9.5</b>	<b>8.0</b>	<b>6.2</b>	<b>1.9</b>	<b>1.7</b>	<b>1.6</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>7.0</b>	<b>7.4</b>	<b>10.1</b>			
<b>Utilities</b>																													
Adani Power	91	REDUCE	218,738	4,864	2,393	2.4	11.0	15.0	200.7	368.5	35.8	38.8	8.3	6.1	37.4	7.8	5.1	3.5	2.3	1.7	—	—	—	8.5	33.5	31.8	100	9.4	3.6
CESC	325	BUY	40,635	904	125	37.7	42.5	51.3	9.1	12.7	20.8	8.6	7.7	6.3	6.0	6.3	5.9	0.9	0.8	0.7	1.5	1.6	1.9	10.5	10.7	11.5	440	35.3	1.9
JSW Energy	61	SELL	100,778	2,241	1,640	5.1	6.1	5.1	12.9	19.8	(17.3)	12.0	10.0	12.1	12.5	7.1	6.0	1.8	1.5	1.3	(1.6)	—	—	16.1	16.3	11.7	70	13.9	2.4
Lanco Infratech	18	BUY	39,792	885	2,223	2.0	4.0	4.6	(5.8)	97.6	15.9	8.9	4.5	3.9	9.9	7.6	7.0	1.0	0.8	0.6	—	—	—	12.2	19.6	18.3	54	201.7	9.0
NHPC	24	BUY	296,448	6,592	12,301	1.3	1.9	2.3	(27.2)	39.6	20.8	17.9	12.8	10.6	13.1	9.0	7.3	1.1	1.0	1.0	1.7	2.1	2.6	6.3	8.2	9.4	30	24.5	2.2
NTPC	171	REDUCE	1,411,211	31,381	8,245	11.0	11.9	12.7	5.3	7.4	6.8	15.5	14.4	13.5	12.8	11.8	11.1	2.0	1.9	1.7	2.2	2.1	2.2	13.7	13.5	13.3	200	16.9	11.4
Reliance Infrastructure	492	BUY	131,582	2,926	267	58.0	66.6	73.3	(6.5)	14.8	10.0	8.5	7.4	6.7	8.5	4.7	3.5	0.6	0.5	0.5	1.9	2.1	2.3	6.4	10.5	11.5	975	98.2	16.6
Reliance Power	96	SELL	270,550	6,016	2,805	2.7	3.8	3.1	(5.0)	40.1	(17.9)	35.6	25.4	31.0	228.5	98.0	16.3	1.7	1.6	1.5	—	—	—	4.9	6.3	4.9	110	14.0	5.7
Tata Power	1,206	ADD	297,719	6,620	247	76.4	107.9	121.0	20.2	41.2	12.1	15.8	11.2	10.0	12.1	9.6	7.7	2.1	1.8	1.6	1.2	1.2	1.4	13.9	17.2	16.7	1,480	22.7	6.2
<b>Utilities</b>		<b>Cautious</b>	<b>2,807,453</b>	<b>62,429</b>					<b>5.0</b>	<b>31.5</b>	<b>11.0</b>	<b>16.3</b>	<b>12.4</b>	<b>11.2</b>	<b>15.2</b>	<b>10.8</b>	<b>8.7</b>	<b>1.6</b>	<b>1.5</b>	<b>1.3</b>	<b>1.5</b>	<b>1.5</b>	<b>1.7</b>	<b>10.1</b>	<b>11.9</b>	<b>12.0</b>			
<b>Others</b>																													
Carborundum Universal	291	BUY	27,134	603	93	17.8	18.0	22.1	62.9	1.3	23.1	16.4	16.2	13.1	10.3	9.3	7.7	3.3	2.8	2.4	1.3	1.3	1.6	21.4	20.0	20.9	300	3.2	0.2
Havells India	357	REDUCE	44,488	989	125	24.5	25.8	28.8	334.1	5.1	11.5	14.5	13.8	12.4	9.7	8.9	7.8	6.3	4.4	3.4	0.7	0.8	0.8	53.9	37.6	30.9	370	3.8	4.9
JaiPrakash Associates	60	BUY	133,193	2,962	2,214	5.5	5.8	5.8	214.7	5.2	(0.3)	10.9	10.4	10.4	10.5	9.0	8.8	1.3	1.2	1.1	—	—	—	13.2	12.3	11.1	135	124.4	19.0
Jet Airways	431	BUY	37,165	826	86	(10.1)	(43.4)	16.9	(91.0)	331	(139.0)	(42.8)	(9.9)	25.4	10.3	10.9	7.7	2.3	2.9	2.6	—	—	—	(5.0)	(11.7)	10.9	650	51.0	10.6
SpiceJet	28	BUY	11,365	253	403	2.4	3.2	4.6	(4.2)	32.1	41.6	11.6	8.8	6.2	6.9	9.8	7.3	3.6	2.6	1.8	—	—	—	(653)	34.4	34.4	65	130.5	3.0
Tata Chemicals	353	REDUCE	89,891	1,999	255	26.1	32.6	38.6	(1.3)	25.1	18.2	13.5	10.8	9.2	7.9	5.8	4.9	1.6	1.5	1.3	2.8	3.4	4.3	16.9	18.5	19.5	380	7.7	3.0
United Phosphorus	152	BUY	70,102	1,559	462	12.3	15.9	19.8	3.9	28.8	24.3	12.3	9.5	7.7	7.5	5.2	4.4	1.9	1.6	1.4	1.3	2.0	2.3	18.0	18.5	19.8	220	44.9	4.0
<b>Others</b>			<b>413,338</b>	<b>9,191</b>					<b>225.2</b>	<b>11.9</b>	<b>31.6</b>	<b>14.9</b>	<b>13.4</b> </																

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Source: Kotak Institutional Equities

As of June 30, 2011

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