kotak® Institutional Equities

INDIA DAILY

May 19, 2009

Contents

Strategy: What to do when one can do what one may not want to do

- Take money off the table in technology, telecom—nothing has changed
- Stay invested in banking, infrastructure—things may improve
- Reverse valuation exercises suggest large earnings upgrades, asset inflation required

Results

Dr. Reddy's Laboratories: Higher exclusivity sales help beat our forecasts

Punj Lloyd: Results beset by one-offs; remain positive based on strong backlog providing near-term earnings visibility

HT Media: 4QFY09 standalone results largely in with expectations but surprisingly weak FY2009 consolidated financials

Sobha Developers: Balance sheet restructuring key for stock performance

Updates

BPCL, HPCL, IOCL: Sell at 5-10% higher levels with or without deregulation

Technology: Election outcome euphoria detrimental for Indian IT stocks

Banks/Financial Institutions: Prudence called for during times of optimism; Be selective

Telecom: Impact of election outcome - some technical positive triggers, nothing fundamental

Industrials: Government can make difference in key sectors; however there was no constraint in previous term also

Cement: Healthy volume growth sustains, prices inch upwards

EQUITY MARKETS

		Change, %		
India	**18-May**	**1-day**	**1-mo**	**3-mo**
Sensex	14,284	17.3	29.6	58.4
Nifty	4,323	17.7	27.7	55.7
Global/Regional indices				
Dow Jones	8,504	2.8	4.6	12.6
FTSE	4,446	2.3	8.6	11.0
Nikkie	9,312	3.0	4.5	23.2
Hang Seng	17,023	1.4	9.1	30.7
KOSPI	1,420	2.4	6.8	28.2
Value traded - India				
			Moving avg, Rs bn	
	18-May		**1-mo**	**3-mo**
Cash (NSE+BSE)	2.9		215.0	158.8
Derivatives (NSE)	26.0		754.4	411
Deri. open interest	935.2		853	595

Forex/money market

		Change, basis points		
	18-May	**1-day**	**1-mo**	**3-mo**
Rs/US$	47.9	(149)	(243)	(204)
10yr govt bond, %	6.2	(17)	(18)	15

Commodity market

		Change, %		
	18-May	**1-day**	**1-mo**	**3-mo**
Gold (US$/OZ)	920.9	0.3	6.0	(5.5)
Silver (US$/OZ)	13.8	0.4	16.3	(1.6)
Crude (US$/BBL)	57.7	(0.2)	10.1	39.6

Net investment (US$mn)

	15-May		**MTD**	**CYTD**
FIIs	202		1,871	1,893
MFs	82		75	(48)

Top movers -3mo basis

		Change, %		
Best performers	**18-May**	**1-day**	**1-mo**	**3-mo**
Jsw Steel Limited	488	16.5	54.5	133.7
Unitech Limited	65	26.6	22.4	125.5
Tata Motors Ltd	301	13.6	27.8	123.9
Mahindra & Mahinc	636	23.9	40.7	119.0
Bharat Forge Limite	177	16.8	46.8	118.9
Worst performers				
Housing Developme	228	24.9	77.2	187.9
Hindustan Unilever	240	6.8	0.2	(3.9)
Satyam Computer	47	5.3	3.3	1.8
Bharat Petroleum C	426	15.1	9.7	2.8
Hindustan Petroleu	306	17.7	14.5	2.9

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

Strategy

Sector coverage view	N/A

What to do when one can do what one may not want to do

Sanjeev Prasad : sanjeev.prasad@kotak.com, +91-22-6634-1229
Bhavesh Shah : bhavesh.shah@kotak.com, +91-22-6634-1498

- **Take money off the table in technology, telecom—nothing has changed**
- **Stay invested in banking, infrastructure—things may improve**
- **Reverse valuation exercises suggest large earnings upgrades, asset inflation required**

We believe the thunderous reception given to the formation of the UPA government by the market with large re-rating across sectors and stocks presents investors an opportunity to realign portfolios and exit sectors/stocks trading at overly stretched valuations. We find the re-rating in the technology and telecom sectors to be the least convincing and accordingly advise investors to book profits if and when the market stabilizes and stock prices are at current or higher levels. We also find the valuations of global commodity stocks full or expensive and see the euphoria associated with the formation of a stable government in these names unjustified; their earnings will largely depend on global commodity cycles. We recommend investors unemotionally book profits in stocks (including several that we have liked over the past six months) such as Cairn, ONGC, Reliance Industries and metal stocks (Hindalco, Sterlite Industries, Tata Steel).

Realign portfolio whenever the chance occurs with renewed focus on valuations

We would recommend investors use the recent euphoria in the market to realign positions as and when the market presents an opportunity—when proper trading resumes, along with visibility on actual stock prices. Our reverse valuation exercises in Exhibit 1 and 2 may help investors assess the level of divergence between fundamentals and reality and act accordingly. Exhibit 1 presents the amount of new capacity or implied commodity price required to justify current valuations and compares the same with current capacity or prices. Exhibit 2 compares the required earnings of stocks in auto, consumer, technology and telecom to justify current stock prices with our actual forecasts for FY2011E.

We recommend the following strategy if stock prices trade at current levels whenever the market stabilizes.

- **Book profits in technology and telecom.** We recommend investors book profits in high-profile names such as Infosys, TCS, Wipro, Bharti and RCOM since we do not see any change in their fundamentals and earnings with the formation of a new government.
- **Technology.** We do not see any real change in the companies' operating environment other than extension of certain taxation benefits that may be moderately positive for IT companies' earnings. As such we find the large re-rating on the formation of a new government largely unwarranted. Also, we see increased risks to companies' earnings from a stronger rupee, a possibility under high capital flows into India.
- **Telecom.** We expect the new (unchanged) government to continue implementing its announced plans/policies for the sector, none of which are likely to be positive for companies' earnings. These include MNP and uniform license fees across segments. Finally, we see continued pricing competition to preclude meaningful earnings upgrades (stable government or not).

- **Exit downstream oil stocks if prices stabilize at 5-10% prices higher.** We see limited value in downstream oil stocks at 5-10% higher levels even under a scenario of full deregulation. The Street seems to be speculating on an eventual deregulation of the sector, particularly removal of current government controls on pricing of auto fuels. We believe deregulation will be a positive for the sector and economy but we are not overly excited by its benefits on the downstream oil companies. We see continued pressure on other business drivers—(1) refining margins due to large global oversupply, (2) deregulated products' margins due to the advent of natural gas and (3) large losses on cooking fuels. Exhibit 3 shows our fair valuation of the stocks under a free-market scenario.
- **Reduce positions in global commodities on further re-rating.** We would use further re-rating (5-10%) in commodity stocks to sell them. We would look at better entry points for the stocks. We have liked this space over the past 6-7 months but we find valuations starting to look full without evidence of stronger-than-expected global prices and margins. It would be illogical to relate the formation of a stable government in India with the fact that the fundamentals of global cyclical commodity businesses such as crude oil, metals and refining are going to change meaningfully.

Exhibit 4 gives our Model Portfolio.

Significant changes in assumptions/estimates is required to justify current stock prices

Comparison of implied capacity versus assumed capacity of stocks with embedded assets, March fiscal year-end, FY2010E

	Price			Capacity		
	18-May	Target	Unit	Implied	Assumed	Comments
Cairn India	220	225	US$/bbl	69	71	Current stock price is implying full valuations of the stock
DLF	323	190	mn sq. ft	511	425	Current stock price implies land bank accretion of 86 mn sq. ft at average margins of Rs1,000/sq. ft
HDFC	2,374	1,730	RoE (%)	32	16	Current stock price implies a terminal RoE of 32% in perpetuity against our expectation of 15%
HDFC Bank	1,378	1,150	RoE (%)	24	18	Current stock price implies a terminal RoE of 23.8% in perpetuity against our expectation of 18%
ICICI Bank	707	475	RoE (%)	25	14	Current stock price implies a terminal RoE of 25% in perpetuity against our expectation of 15%. Note that we maintain our value for subsidiaries and near-term earnings as in our base-case
Jaiprakash Associates	168	140	Rs bn	141	106	Current stock price ascribes a valuation of Rs141 bn for future business (power and real estate) versus our estimate of Rs106 bn
Jindal Steel and Power	1,945	1,400	Rs/unit	9	5	Current stock price implies a merchant power tariff of Rs9/unit (Rs5 currently) till FY2013E or steel prices at 25% higher levels
JSW Steel	488	340	US$/ton	625	480	Current stock price implies average realisation of US$625/ton for FY2010E (higher by 30% from our base-case assumption)
NTPC	207	180	GW	70	50	Implied capacity addition of 70 GW by FY2017E ahead of our assumption of 50 GW
Reliance Industries	2,368	1,650	tcf of gas	86	—	To be brought under production in next six years
Reliance Infrastructure	1,011	970	GW	22	20	Current stock price is implying full valuations of the stock
State Bank of India	1,577	1,600	RoE (%)	15	15	Current stock price is implying full valuations of the stock
Sterlite Industries	552	490	P/BV	4	1	Current stock price implies a P/BV of 3.5 X for Sterlite Energy's 2,400 MW
Tata Power	1,045	1,000	GW	5	5	Current stock price is implying full valuations of the stock

Source: Kotak Institutional Equities estimates

Technology and telecom companies need to deliver high earnings growth for FY2010E to justify current stock prices

Comparison of KIE EPS estimate versus implied EPS based on current stock prices, March fiscal year-end, 2010E

	Price		Target P/E	EPS (2010E)		Difference	
	18-May	Target	(X)	Implied	KIE estimate	(%)	Comments
Automobiles							
Bajaj Auto	890	615	9.9	90	62	45	A stable government would not result in meaningful upgrades in our earnings estimates. A tight fiscal stuation may result in (1) reversal of excise duty cuts implemented earlier and (2) higher interest rates
Hero Honda	1,487	1,000	11.9	125	84	49	
Maruti Suzuki	938	780	13.4	70	58	20	
Tata Motors	301	195	10.3	29	19	55	
Consumers							
Hindustan Unilever	240	235	23.0	10.4	10.2	2	Stocks are currently discounting full valuation with limited opportunity for absoulte returns
ITC	207	200	20.5	10.1	9.8	3	
Technology							
Infosys Technologies	1,800	1,500	14.4	125	104	20	We do not expect any upgrades in our estimates due to the formation of a stable government. In fact, risk to our earnings has increased as rupee appreciation is likely if current strong capital inflows sustain
TCS	744	510	9.9	75	51	46	
Tech Mahindra	392	360	9.5	41	38	9	
Wipro	417	325	12.1	35	27	28	
Telecom							
Bharti Airtel	1,003	775	14.8	68	52	29	No new policy dynamics. Expected policy decisions (spectrum, 3G auction, M&A regulations being the main ones) are well known and discounted by the Street
IDEA	76	55	19.0	4.0	2.9	38	
Reliance Communications	290	180	8.9	33	20	61	

Source: Bloomberg, Kotak Institutional Equities estimates

Limited upside to fair valuations in a free-market scenario

Comparison of earnings and normalized marketing margins with FY2010E estimates (Rs/ton)

	BPCL		HPCL		IOCL	
	2010E	Normalized	2010E	Normalized	2010E	Normalized
LPG	(7,289)	1,500	(7,289)	1,500	(7,289)	1,500
Naphtha	1,000	400	1,000	400	1,200	900
Gasoline	1,688	1,900	1,688	1,900	1,900	2,100
Jet fuel	1,400	1,400	1,400	1,400	1,700	1,700
Kerosene	(19,501)	600	(19,501)	600	(19,501)	600
Diesel	1,500	1,500	1,500	1,500	1,700	1,700
Light diesel oil	1,200	500	1,200	500	1,450	700
Low sulphur heavy stock	700	500	700	500	1,000	700
Fuel oil	700	500	700	500	1,000	700
Bitumen	2,000	1,000	2,000	1,000	2,000	1,200
EPS (Rs)	**42.0**	**37.6**	**30.2**	**36.3**	**48.2**	**54.6**
EBITDA (Rs bn)	**39.4**	**37.0**	**38.0**	**41.1**	**119.0**	**130.5**
EV (5X normalized EBITDA) (Rs bn)		185		206		652
Value of investments (Rs bn)		45		31		179
Net debt (Rs bn)		99		124		212
Equity value (Rs/share)		**360**		**333**		**520**
Current target price		**425**		**300**		**500**

Note:

(a) Our normalized earnings estimates are based on normalized marketing margins and actual refining margin estimates for FY2010E.

(b) The higher marketing margins for IOCL reflects its high market share in land-locked North India.

Source: Kotak Institutional Equities estimates

Overweight banking, metals, industrials and pharmaceuticals

Kotak Institutional Equities Model Portfolio

	18-May		Weightage (%)		Diff.
Company	Price (Rs)	Rating	BSE-30	KS reco.	(bps)
Mahindra & Mahindra	600	ADD	1.2	1.2	—
Maruti Suzuki	930	REDUCE	1.4	1.4	—
Tata Motors	305	SELL	1.1	—	(112)
Automobiles			**3.7**	**2.6**	**(112)**
Punjab National Bank	660	BUY	—	1.5	150
State Bank of India	1,585	BUY	4.4	6.9	250
Union Bank	195	BUY	—	1.5	150
PSU Banking			**4.4**	**9.9**	**550**
Axis Bank	800	BUY	—	3.0	300
HDFC	2,390	SELL	5.5	—	(546)
HDFC Bank	1,380	BUY	4.6	2.6	(200)
ICICI Bank	720	ADD	7.5	6.5	(100)
Rural Electrification Corp.	134	BUY	—	1.0	100
Pvt. Banking/Financing			**17.6**	**13.1**	**(446)**
ACC	730	REDUCE	0.8	—	(76)
Grasim Industries	2,150	REDUCE	1.5	1.5	—
Jaiprakash Associates	168	ADD	1.4	2.9	150
Cement			**3.6**	**4.4**	**74**
Hindustan Unilever	239	REDUCE	2.8	1.8	(100)
ITC	207	ADD	5.7	5.7	—
Consumers			**8.6**	**7.6**	**(100)**
Cairn India	216	BUY	—	4.0	400
Oil & Natural Gas Corporation	920	ADD	4.1	5.1	100
Reliance Industries	2,368	REDUCE	15.6	9.8	(576)
Energy			**19.7**	**18.9**	**(76)**
Bharat Heavy Electricals	2,266	REDUCE	3.4	1.4	(200)
IVRCL	203	BUY	—	1.0	100
Larsen & Toubro	1,232	ADD	6.2	6.2	—
Nagarjuna Construction	100	BUY	—	1.0	100
Punj Lloyd	163	ADD	—	1.0	100
Industrials/Construction			**9.6**	**10.6**	**100**
Hindalco Industries	80	ADD	1.0	—	(101)
Jindal Steel and Power	1,945	BUY	—	2.0	200
Sterlite Industries	536	ADD	1.5	3.5	200
Tata Steel	320	BUY	1.8	1.8	—
Metals			**4.4**	**7.3**	**299**
Ranbaxy Laboratories	228	REDUCE	0.4	—	(40)
Sun Pharmaceuticals	1,412	BUY	1.3	3.8	250
Pharmaceuticals			**1.7**	**3.8**	**210**
DLF	325	REDUCE	0.8	0.8	—
Real estate			**0.8**	**0.8**	**—**
Infosys Technologies	1,800	BUY	9.1	7.1	(200)
TCS	744	REDUCE	1.8	—	(184)
Wipro	430	ADD	1.3	1.3	—
Technology			**12.2**	**8.3**	**(384)**
Bharti Airtel	1,003	ADD	6.2	4.2	(200)
Reliance Communications	285	SELL	2.0	—	(196)
Telecom			**8.1**	**4.2**	**(396)**
Lanco Infratech	287	BUY	—	1.0	100
NTPC	207	REDUCE	2.7	—	(270)
Reliance Infrastructure	999	BUY	1.4	2.4	100
Tata Power	1,045	BUY	1.6	5.1	350
Utilities			**5.8**	**8.6**	**280**
BSE-30	**14,284**		**100.0**	**100.0**	**—**

Note:
1. Weights are with respect to May 15, 2009 prices.

Valuation summary of BSE-30 sectors, March fiscal year-ends, 2009E-11E

	Mkt cap.	Adj mkt cap.	EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Div. yield (%)		RoE (%)		
	(US$ mn)	(US$ mn)	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2009E	2010E	2011E
Automobiles	12,660	7,733	(40.5)	30.9	14.8	21.7	16.6	14.5	13.6	9.0	7.7	2.1	1.9	1.7	0.6	0.6	9.9	11.3	11.5
Banking	63,422	47,419	16.7	(4.1)	16.3	17.5	18.2	15.7	—	—	—	2.4	2.3	2.1	1.4	1.4	13.7	12.7	13.3
Cement	7,011	4,694	(18.1)	(11.5)	(7.5)	10.8	12.2	13.1	5.8	5.9	6.1	2.1	1.8	1.7	2.2	2.2	19.4	15.2	12.7
Consumers	27,120	16,808	7.6	12.3	14.1	24.7	22.0	19.3	16.7	13.9	12.1	8.3	7.3	6.4	2.5	2.8	33.4	33.2	33.4
Diversified	4,906	2,944	51.3	20.0	49.6	25.6	21.3	14.3	13.7	11.8	11.1	3.9	3.4	2.8	0.0	0.0	15.3	16.0	19.9
Energy	109,964	42,316	9.0	7.1	35.1	14.0	13.1	9.7	6.9	5.7	4.4	2.3	2.0	1.8	1.7	1.9	16.2	15.5	18.5
Industrials	35,870	20,978	14.9	30.7	17.7	29.5	22.6	19.2	16.3	12.7	11.0	6.0	4.8	4.0	0.8	0.9	20.2	21.4	20.9
Metals	16,515	9,117	13.7	(47.5)	54.5	5.3	10.1	6.5	4.2	5.5	4.4	0.7	0.7	0.7	1.3	1.3	14.1	7.1	10.1
Pharmaceuticals	8,889	3,556	(37.8)	4.7	41.2	29.1	27.8	19.7	20.8	18.5	13.2	3.6	3.0	2.7	1.5	1.8	12.4	10.8	13.8
Property	11,463	1,719	(36.6)	(45.2)	8.4	11.0	20.1	18.6	10.8	15.3	13.3	2.2	2.1	1.9	0.9	0.9	20.3	10.2	10.2
Technology	49,407	24,636	15.9	0.8	10.0	16.0	15.9	14.4	11.4	10.5	8.7	4.8	4.0	3.4	1.4	1.7	30.3	25.0	23.3
Telecom	52,141	18,249	15.3	(1.1)	11.4	17.1	17.3	15.5	10.6	9.6	8.2	3.8	3.1	2.6	0.4	0.5	22.1	17.9	16.6
Utilities	45,118	11,819	9.7	19.2	12.0	21.2	17.8	15.9	12.1	11.7	11.3	2.5	2.3	2.1	1.5	1.7	11.8	12.9	13.3
BSE-30	**444,486**	**211,988**	**5.8**	**(1.7)**	**22.5**	**15.9**	**16.2**	**13.2**	**9.1**	**8.5**	**7.1**	**2.7**	**2.4**	**2.1**	**1.4**	**1.5**	**16.8**	**14.8**	**16.1**
BSE-30 ex-Energy	**334,522**	**169,672**	**4.6**	**(5.2)**	**17.0**	**16.6**	**17.6**	**15.0**	**10.2**	**10.1**	**8.8**	**2.8**	**2.6**	**2.3**	**1.2**	**1.4**	**17.0**	**14.5**	**15.1**
BSE-30 ex-Energy, Com.	**310,997**	**155,861**	**4.2**	**3.2**	**14.2**	**19.1**	**18.5**	**16.2**	**12.6**	**11.3**	**9.9**	**3.4**	**3.0**	**2.6**	**1.2**	**1.4**	**17.7**	**16.2**	**16.2**

Note:
(a) EV/EBITDA excludes Banking sector.

Source: Companies, Boomberg and Kotak Institutional Equities estimates

Pharmaceuticals

REDY.BO, Rs613	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	740
52W High -Low (Rs)	740 - 355
Market Cap (Rs bn)	103.7

Financials

March y/e	2009	2010E	2011E
Sales (Rs bn)	67.9	75.0	80.5
Net Profit (Rs bn)	5.5	7.6	7.9
EPS (Rs)	32.4	45.5	47.0
EPS gth	*24.5*	*40.2*	*3.3*
P/E (x)	18.9	13.5	13.0
EV/EBITDA (x)	9.2	7.5	6.7
Div yield (%)	0.6	0.6	0.6

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
14.4	51.0	46.6	(5.9)

Shareholding, March 2009

	Pattern	% of Portfolio	Over/(under) weight
Promoters	26.4	-	-
FIIs	37.9	0.8	0.5
MFs	6.6	0.6	0.3
UTI	-	-	(0.3)
LIC	12.9	0.9	0.6

Dr. Reddy's Laboratories: Higher exclusivity sales help beat our forecasts

Prashant Vaishampayan : prashant.vaishampayan@kotak.com, +91-22-6634-1127

Priti Arora : priti.arora@kotak.com, +91-22-6749-3596

- **Revenues at Rs19.8 bn and PAT at Rs2 bn (Indian GAAP consl) beat our estimates**
- **DRRD forecasts sales growth of 10% and improved profitability in FY2010E**
- **Maintain BUY rating with SOTP-based target price at Rs740 (was Rs700)**

DRRD reported revenues at Rs19.8 bn, 20% higher than our estimates due to (1) higher generic Imitrex revenues (US$72 mn vs our estimate of US$30 mn) Revenues excluding Imitrex were up 23% yoy and 8% above KIE as PSAI segment and Betapharm beat our estimates. Adjusted margins were at 27% vs KIE 24% due to higher Immitrex sales. PAT at Rs2 bn vs KIE Rs1.1 bn due to (1) stronger operating performance (2) lower-than-expected forex losses. DRRD expects 10% Rupee sales growth in FY2010E. DRRD has included omeprazole OTC revenues in this guidance but not generic Arixtra. The stock trades at 13.5X FY2010E and 13X FY2011E earnings. Maintain BUY rating with an SOTP-based target price of Rs740. Price target increase is due to inclusion of generic Arixtra opportunity in estimates. Key risk to share price is performance of German operations.

3QFY09 revenues at Rs19.8 bn. Revenues were 20% above KIE driven by

1. Immitrex revenues were US$72 mn, similar ton 3QFY09 vs KIE US$30 mn. DRRD launched the product in November 2008 and registered strong sales despite the entry of Teva and Ranbaxy in February 2009. This represents the biggest divergence from revenue expectations.
2. Betapharm revenues at Rs2.6 bn were higher than KIE Rs2.1 bn. Overall, FY2009 sales remained flat yoy at Euro150 mn despite volume growth at 16%.
3. PSAI segment sales at Rs4.8 bn was 20% higher than KIE due to strong performance in Europe. For FY2009, this segment grew 13% due to (1) slowdown in orders from big pharma due to inventory reduction (which the company says has now normalized), (2) reduced orders from firms hit by credit crisis and (3) no major patent expiries. In FY2009, the top-10 products comprised 50% of sales while top-10 clients comprised 54% of sales in this segment
4. Russia and CIS continued to show good yoy growth this quarter with revenues at US$36 mn, in line with KIE. In Russia, DRRD continued to grow at 11% in volume terms in 2009 and also increased prices by around 30% in certain products to combat adverse currency movement seen in 1Q2009. The management pointed out that DRL deals with top distributors in this market and currently only 10% of sales are overdue from the Russian market.
5. Indian finished dosages revenues were Rs2 bn was 7% lower than KIE. The sales growth in FY2009 stood at 5%. The management attributed muted sales growth to (1) delayed product launches, (2) change in supply chain model towards a replenishment-based model and (3) restructuring of sales and marketing network. DRRD has guided towards growth normalizing from 2QFY10E.

Adjusted EBITDA margin at 27%. Margins were higher than our estimates of 24% due to a higher proportion of sales from high-margin Immitrex. We estimate margins ex Immitrex (assuming margins of 45%) at 22% this quarter vs KIE 23%: (1) Materials cost at 34% and other expenses at 15% of sales was in line with KIE and (2) staff cost at 13% of sales was lower than KIE 16%.

PAT at Rs2 bn vs KIE Rs1.1 bn. PAT at Rs2 bn vs KIE Rs1.1 bn due to (1) stronger operating performance (2) higher other income and lower forex related losses. Tax rate has varied qoq with effective tax rate of 44% this quarter due to higher proportion of sales from Immitrex vs KIE 22% and 22% in 3QFY09.

FY2010 guidance from the management

1. DRRD management expects 10% Rupee sales growth in FY2010E. DRRD guidance is based on an exchange rate of US$= Rs48. DRRD has included omeprazole OTC revenues in this guidance but not generic Arixtra. DRRD mentioned that the time taken for the approval of generic Arixtra remains uncertain and, as a matter of caution, they have excluded these sales from FY2010E estimates. This sales growth has to be seen in the context of inclusion of two quarters of sales of generic Immitrex with limited competition in FY2009. In FY2010, such low competition sales are likely only for one quarter. DRRD targets 20% sales growth in the medium term.
2. DRRD expects that 2HFY10E will be stronger than 1HFY10E. It did not comment on the growth rate of each region but mentioned that US sales will grow faster than the 10% forecast. In Germany, DRRD expects revenues to remain flat in local currency.
3. DRRD expects ROCE to be 16-18% compared to 14% in FY2009. We think this is achievable.
4. There was no specific guidance on EBITDA margin but DRRD said that net profitability will rise faster than sales.

FY2010E KIE estimates – key assumptions

1. Our sales growth forecast for FY2010E is 10% in Rupee terms. Our FY2010E forecast is based on US$ = Rs50.75.
2. We forecast adjusted EBITDA margin to decline from 21.5% in FY2009 to 20.6%. One of the reasons for this is lower margin in generic Imitrex that we forecast from 2QFY10E. We expect that Indian revenues will start growing strongly from 3QFY10E and this will reduce margin pressure to some extent. DRRD gave no specific guidance for German operations but we believe that EBITDA margin will expand as more production will shift to cheaper manufacturing locations of India and Emerging Europe.
3. DRRD expects tax rate to fall to 15% level but we forecast tax rate of 20% in FY2010E rising to 22% in FY2011E. The effective tax rate for FY2009 was 32%. This was due to a significant share of profits coming from the generic Imitrex opportunity—largely captured in the US subsidiary which does not have any tax shelters. Since these profits are expected to decline in FY2010E, we forecast a decline in the tax rate.

FY2011 revision to our estimates

We have included revenues from generic Arixtra in US for a full 12 months amounting to US$27 mn (DRRD share of revenues) with EBITDA margin of 55%. This, along with omeprazole OTC, will likely contribute Rs4.8 to EPS in FY2011E. We forecast 7% sales growth. The cautious view comes from the assumption that generic Imitrex in the US may become a commodity product with low revenues. This would also lead to a minor decline in the EBITDA margin. We expect the tax rate to rise further to 22%. As a result, we forecast a margin increase in PAT in FY2011E.

Betapharm impairment of intangible assets. DRRD has written off Rs14.6 bn relating to impairment of goodwill and intangible assets. It did not get any benefits related to deferred tax in Indian GAAP. After this provision, DRRD is carrying intangible assets of Euro210 mn. This provision was necessary due to the changes in German market from branded generic nature to generic. DRRD believes that no material amortization related to these intangible assets may be necessary in FY2010E. This provision was widely expected by the street though its size may still be considered large. We maintain that investors are unlikely to react negatively to this impairment charge. We have not included any amount in our FY2010E for such impairment based on DRRD guidance.

Maintain BUY rating with SOTP-based target price Rs740. There have been a few positive announcements from DRRD in the past three months. These include generic Arixtra filing, crossing US$150 mn revenues in Russia/CIS in FY2009, favorable summary judgment Omeprazole Mg OTC. We believe investors are likely see 4QFY09 results favorably as DDRD has given 10% sales growth guidance despite a high base of FY2009. We reiterate our BUY rating with a price target of Rs740. Election results, with a clear mandate for the incumbent government, have taken the share price to Rs613, we would wait for the next few days to see where it settles before making any changes to the rating.

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

					% change		
	4QFY09	4QFY09E	4QFY08	3QFY09	4QFY09E	4QFY08	3QFY09
Net sales	**19,282**	**16,174**	**12,712**	**18,050**	**19**	**52**	**7**
(Increase)/decrease in stock	1,115	—	(922)	(314)	NM	NM	NM
Material consumed	5,425	5,499	5,676	6,156	(1)	(4)	(12)
Excise duty	—	—	103	—	NM	NM	NM
R&D	1,072	1,000	992	1,010	7	8	6
Personnel costs	2,554	2,600	1,955	2,529	(2)	31	1
Selling expenses	1,989	1,600	1,657	1,723	24	20	15
Other expenditure	2,980	2,500	1,378	3,374	19	116	(12)
Total expenditure	**15,135**	**13,199**	**10,839**	**14,478**	**15**	**40**	**5**
EBITDA	**4,146**	**2,975**	**1,874**	**3,572**	**39**	**121**	**16**
Interest expenses	207	300	273	276	(31)	(24)	(25)
Other Income	1,134	100	1,212	(17)	1034	(6)	NM
Depreciation & Amortisation	1,336	1,300	1,119	1,234	3	19	8
PBT	**3,738**	**1,475**	**1,694**	**2,044**	**154**	**121**	**83**
Current Tax	1,660	324	811	452	412	105	267
Deferred Tax	—	—	(343)	—	NM	NM	NM
Fringe Benefit tax	—	—	30	—	NM	NM	NM
Net Profit before minority interest	**2,078**	**1,150**	**1,196**	**1,592**	**81**	**74**	**31**
Minority interests in loss of subsidiarie	—	—	2	—	NM	NM	NM
Profit for shareholders	**2,078**	**1,150**	**1,198**	**1,592**	**81**	**74**	**31**
PSAI	**4,860**	**4,062**	**4,373**	**4,457**	**20**	**11**	**9**
India	572	450	548	432	27	4	32
North America	833	1,015	441	865	(18)	89	(4)
Europe	2,153	1,076	1,730	1,752	100	24	23
Others	1,302	1,522	1,654	1,408	(14)	(21)	(8)
Generics	**14,669**	**12,306**	**8,744**	**13,683**	**19**	**68**	**7**
India	2,072	2,232	1,993	1,967	(7)	4	5
Russia & CIS	1,834	1,776	1,055	2,006	3	74	(9)
North America	7,205	5,074	2,466	6,652	42	192	8
Europe	3,096	2,565	2,905	2,505	21	7	24
Others	462	660	325	553	(30)	42	(16)
Others	**322**	**201**	**136**	**261**	**60**	**137**	**23**
Total	**19,851**	**16,570**	**13,253**	**18,401**	**20**	**50**	**8**

Source: Company data, Kotak Institutional Equities

Forecasts and valuation, March fiscal year-ends, 2007-2011E

	Net sales		Adjusted EBITDA		Net Profit		EPS	ROCE	ROE	P/E
	(Rs mn)	Growth (%)	(Rs mn)	Growth (%)	(Rs mn)	Growth (%)	(Rs)	(%)	(%)	(X)
2007	64,229	173.7	18,164	264.1	9,659	558.3	60.9	21.9	31.8	10.1
2008	49,142	(23.5)	11,061	(39.1)	4,381	(54.6)	26.1	6.7	10.3	23.5
2009	67,904	38.2	17,578	58.9	(9172)	NM	(54.5)	14.7	13.6	NM
2010E	74,957	10.4	20,121	14.5	7,650	NM	45.5	17.4	19.8	13.5
2011E	80,460	7.3	21,260	5.7	7,901	3.3	47.0	15.7	17.3	13.0

Source: Company data, Kotak Institutional Equities

Profit and loss statement, March fiscal year-ends, 2006-2011E

	2006	2007	2008E	2009	2010E	2011E
Gross operating revenues	**24,605**	**65,126**	**49,700**	**68,326**	**75,399**	**81,099**
Excise duty	(1,139)	(897)	(558)	(422)	(442)	(638)
Net sales	**23,466**	**64,229**	**49,142**	**67,904**	**74,957**	**80,460**
Operating expenses						
Materials	(8,165)	(27,432)	(17,847)	(23,610)	(24,736)	(29,801)
Selling and administration	(5,613)	(9,735)	(10,561)	(16,795)	(19,100)	(17,299)
Employee cost	(3,495)	(6,433)	(7,311)	(9,921)	(11,000)	(12,100)
R& D	(1,737)	(2,446)	(3,447)	(4,093)	(4,700)	(5,230)
Others	(1,403)	(2,539)	(2,363)	(969)	0	0
Total expenditure	**(20,413)**	**(48,584)**	**(41,528)**	**(55,387)**	**(59,536)**	**(64,430)**
License fees and service income	161	910	775	1,103	0	0
EBITDA	**3,214**	**16,555**	**8,389**	**13,619**	**15,421**	**16,030**
Depreciation and amortisation	(1,617)	(3,791)	(4,019)	(4,978)	(5,550)	(6,000)
EBIT	**1,597**	**12,764**	**4,370**	**8,642**	**9,871**	**10,030**
Net finance cost	(644)	(1,526)	(958)	(972)	(1,050)	(900)
Other income	1,061	1,162	2,038	394	800	1,000
Pretax profits before extra-ordinaries	**2,013**	**12,399**	**5,450**	**8,064**	**9,621**	**10,130**
Current tax	(173)	(2,435)	(1,058)	(2,608)	(1,547)	(1,804)
Deferred tax	(304)	(238)	159	0	(325)	(325)
Fringe benefit tax	(70)	(71)	(178)	0	(100)	(100)
Reported net profit	**1,467**	**9,656**	**4,373**	**5,456**	**7,650**	**7,901**
Minority Interests	0	(4)	(9)	0	0	0
Reported net profit after minority interests	**1,467**	**9,659**	**4,381**	**5,456**	**7,650**	**7,901**
Exceptional items				14,628		
Reported net profit after minority interests anc	**1,467**	**9,659**	**4,381**	**(9,172)**	**7,650**	**7,901**

Source: Company data, Kotak Institutional Equities

SOTP based price target, FY2010-FY2011E

	PAT (Rs mn)		P/E	Valuation (Rs mn)	
	FY2010E	FY2011E	(X)	FY2010E	FY2011E
API - US	40	58	15.0	599	867
API - Europe	51	70	15.0	769	1,049
API - Rest of the World	63	86	15.0	943	1,290
Finished dosage					
India	1,082	1,376	19.0	20,561	26,149
Russia, ROW	2,378	2,953	15.0	35,674	44,293
USA	3,379	2,705	15.0	50,681	40,580
Generics - Rest of Europe	172	226	15.0	2,583	3,383
Betapharm	404	470	13.6	5,488	6,387
Promius, Others	56	62	17.0	946	1,061
Value per share (Rs)				**701**	**741**
Price target					**741**

Source: Company data, Kotak Institutional Equities.

Breakup of profits (Rs mn)

	FY2009	FY2010E	FY2011E		FY2009	FY2010E	FY2011E
Gross sales				**PAT**			
Base	51,274	58,484	67,919	Base	3,376	5,702	6,632
Imitrex/Omepazole/Arixtra	7,152	6,912	3,125	Imitrex/Omepazole/Arixtra	1,504	1,433	799
Betapharm	9,900	10,002	11,412	Betapharm	72	404	470
Total	**68,326**	**75,399**	**82,456**		**4,951**	**7,539**	**7,901**
EBITDA pre R&D				**EPS (Rs)**			
Base	12,129	15,316	17,638	Base	26.3	33.9	39.4
Imitrex/Omepazole/Arixtra	3,218	2,765	1,454	Imitrex/Omepazole/Arixtra	8.9	8.5	4.8
Betapharm	1,485	1,900	2,168	Betapharm	0.4	2.4	2.8
				One-time cost	(6.3)		
Total	**16,833**	**19,982**	**21,260**	**Total (incl one-time cost)**	**29.4**	**44.8**	**47.0**
EBITDA, %				**P/E (X)**			
Base	24	26	26	Base	23.3	18.1	15.5
Imitrex/Omepazole/Arixtra	45	40	47	Base+Betapharm	22.9	16.9	14.5
Betapharm	15	19	19	**Total**	**20.8**	**13.7**	**13.0**
Total	**25**	**27**	**26**				

Source: Kotak Institutional Equities.

Construction

PUJL.BO, Rs163	
Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	170
52W High -Low (Rs)	355 - 66
Market Cap (Rs bn)	50.7

Financials

March y/e	2009	2010E	2011E
Sales (Rs bn)	119.1	121.8	130.9
Net Profit (Rs bn)	(2.4)	5.3	5.7
EPS (Rs)	(7.4)	16.5	17.6
EPS gth	*(174.4)*	-	*6.6*
P/E (x)	(22.0)	9.9	9.3
EV/EBITDA (x)	25.7	6.5	5.8
Div yield (%)	(0.2)	0.5	0.5

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
36.5	89.0	5.9	(52.8)

Shareholding, March 2009

	Pattern	% of Portfolio	Over/(under) weight
Promoters	41.5	-	-
FIIs	18.2	0.1	0.0
MFs	10.1	0.3	0.2
UTI	-	-	(0.1)
LIC	1.4	0.0	(0.1)

Punj Lloyd: Results beset by one-offs; remain positive based on strong backlog providing near-term earnings visibility

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

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

- **Large one-off provisioning for SABIC order leads to negative earnings**
- **Strong revenue growth at standalone level muted by steep decline in margins**
- **Several accounting treatment changes result in slightly higher profits for the year**

We highlight that the strong revenue growth reported by Punj at the consolidated and standalone level was dampened by several one-offs. A provision of Rs2.2 bn towards the SABIC order has resulted in a net loss of Rs2.6 bn for the quarter. Several other one-offs in Simon Carves compounded margin pressures. Even at the standalone level, the margins were depressed, most likely due to cost escalations in the ONGC platform order. However, several accounting treatment changes have helped boost profits for the year. Punj reported a strong order backlog of Rs208 bn diversified across geographies and sectors. We highlight a continuing shift in focus from India to other international geographies with India contributing to only about 25% of the order book. We maintain our earnings estimates of Rs17.2 and Rs18.3 for FY2010E and FY2011E, respectively. We maintain our target price of Rs170/ share and reiterate our ADD rating on the stock. We would be revisiting our estimates after this afternoon's conference call.

Large one-off provisioning for SABIC order leads to negative earnings

Punj Lloyd reported strong consolidated revenue growth of 37.1% to Rs32.2 bn in 4QFY09 from Rs23.5 bn in the previous year (Exhibit 1). Consolidated EBITDA, including other income, was at negative Rs651 mn resulting in negative EBITDA margin of 2.4%. The company reported a net loss of Rs2.6 bn for this quarter versus a net profit of Rs1.2 bn in 4QFY08. The negative EBITDA margin was mainly due to provision of Rs2.2 bn towards a SABIC order executed by its subsidiary, Simon Carves Ltd (SCL). Pursuant to the decision of the adjudicator in favour of SABIC Punj has provided for the entire amount of GBP 28.5 mn in this quarter's income statement. Adjusted for the provision for the SABIC order, Punj Lloyd margins would have been at 4.5% for the quarter versus 9.8% in 4QFY08. The bottom line of the company was further depressed by higher interest expense (up 124% yoy) of Rs729 mn due to (a) higher debt levels of Rs33 bn at the group level and (b) higher cost of loans. However, we believe this would start easing up given the recent decline in interest rates.

For the full year ending March 31, 2009, Punj Lloyd reported revenue growth of 53.6% and EBITDA margin of 2.6%. Loss after tax reported was Rs2.2 bn versus a profit of Rs3.6 bn for the previous year.

Strong revenue growth at standalone level dampened by steep decline in margins

Punj Lloyd reported a strong revenue growth of 32% to Rs19.8 bn at the standalone level in 4QFY09 (Exhibit 2). The impact of this was however, muted by low EBITDA margins of 8.8% during the quarter versus EBITDA margin of 16.5% in 4QFY08. The steep decline in margins was primarily led by (a) 460 bps yoy increase in contractor charges and (b) 230 bps yoy increase in other income as a percentage of sales. This is likely to have been led by higher costs incurred in the ONGC platform order. We highlight that the LDs and cost escalation claims for the project would be taken up only once the project has completed and is most likely to be settled through a dispute settlement mechanism. Low margins along with high interest expenses led to a yoy decline of 52% in net earnings to Rs596 mn in this quarter from Rs1.3 mn in 4QFY08.

For the full-year ending March 31, 2008 the company reported standalone revenues of Rs68.9 bn, up 53.5% and EBITDA margin contraction of about 100 bps yoy to 11.5%. Standalone profit after tax for the full year was up 39% yoy to Rs3.1 bn.

Several accounting treatment changes result in slightly higher profit for the year

In order to give its Middle East and North Africa branch operations more independence, Punj has decided not to integrate the operations of these branches from October 1, 2008. Thus, the translation-related foreign exchange differences would now be routed through the balance sheet rather than the income statement. This has boosted the company's full-year profit by about Rs388 mn. Additionally, the company has also opted to defer the exchange difference charges to the PnL. This would now be accumulated in a *"Foreign Currency Monetary Item Translation Difference Account"* which would be amortized over a period of time.

Additional losses in key subsidiary Simon Carves contributed towards low margins

We highlight that even adjusted for the Rs2.2 bn of provisions for the SABIC order the consolidated EBITDA margins of Punj would be 4.5% versus our expectation of 9%. Simon Carves Ltd reported revenues of GBP 169 mn and a net loss of GBP 109 mn for FY2008. Even adjusted for the provision of GBP28.5 mn the losses for the company came in at about GBP80 mn. This was led by certain other one-offs arising from (a) losses in the wheat based bio-ethanol production facility order and (b) retrenchment losses. These have compounded margin pressures, leading to the lower-than-expected margin levels for the quarter.

Strong and diversified order backlog provides a revenue visibility of about 2 years

Order inflows for the company continue to remain strong (Exhibit 3) with the company reporting an order backlog of Rs208 bn which provides a revenue visibility of about 1.8 years based on FY2009 earnings. The order backlog of the company continues to remain geographically diversified (Exhibit 4). The company does seem to be continuing its shift in focus away from India to other international geographies with India contributing to only about 25% of the order book. Infrastructure and pipelines segment continue hold a majority stake (36% and 31%, respectively) in the order book with Process and Plants segment reducing its stake from 39% in FY2008 to 29% at the end of FY2009 (Exhibit 5).

Additional auditor qualification of Rs605 mn highlighted during the quarter

We highlight the company has received a further auditor qualification of Rs605 mn towards amount withheld by customers and Rs95.4 mn of work-in-progress inventory. We highlight a potential loss to the tune of these qualifications. However, the management has stated its confidence in recovering the withheld amount.

10 mn of warrants allotted to promoter not exercised

We highlight that the 10 mn warrants allotted to Indtech Construction Private Ltd on August 2007 have not been exercised. Hence the warrants stand lapsed and the Rs254 mn of advance received by Punj has been forfeited and credited to the capital reserve of the company.

Retain earnings estimates and target price; would revisit estimate post the conference call

We maintain our earnings estimates of Rs17.2 and Rs18.3 for FY2010E and FY2011E respectively. We maintain our target price of Rs170/ share based on 10X FY2010E earnings. We reiterate our ADD rating on the stock based on (a) negative events have already panned out and are already reflected in the price and (b) strong and diversified order backlog provides near-term earnings visibility. Key risks to the earnings originate from (1) slower-than-expected execution, (2) exposure to high-risk geographies such as Libya and (3) deterioration in working capital situation of the company.

We would be revisiting our estimates post today's conference call at 3:00pm.

Exhibit 1. Punj Lloyd (consolidated) - 4QFY09 - key numbers (Rs mn)

					% change					
(in Rs mn)	4QFY09	4QFY09E	4QFY08	3QFY09	4QFY09E	4QFY08	3QFY09	FY2009	FY2008	*% change*
Net Sales	**32,173**	**33,032**	**23,467**	**31,200**	***(2.6)***	***37.1***	***3.1***	**119,120**	**77,529**	***53.6***
Expenditure	**(32,958)**	**(28,270)**	**(20,981)**	**(32,163)**	***16.6***	***57.1***	***2.5***	**(116,028)**	**(71,122)**	***63.1***
Material	(11,101)	(17,937)	(7,478)	(8,453)		*48.4*	*31.3*	(37,505)	(28,285)	*32.6*
Contractor charges	(12,344)		(5,966)	(13,011)		*106.9*	*(5.1)*	(42,365)	(21,339)	*98.5*
Staff cost	(3,783)	(4,247)	(2,889)	(3,176)	*(10.9)*	*31.0*	*19.1*	(12,922)	(8,924)	*44.8*
Other expenditure	(5,729)	(6,087)	(4,648)	(7,523)	*(5.9)*	*23.3*	*(23.8)*	(23,235)	(12,575)	*84.8*
Operatin profit	**(785)**	**2,808**	**2,486**	**(963)**	***(128.0)***	***(131.6)***	***(18.5)***	**3,093**	**6,407**	***(51.7)***
Other Income	134	214	(183)	237	*(37.6)*	*(173.1)*	*(43.6)*	745	811	*(8.1)*
EBITDA	**(651)**	**3,022**	**2,303**	**(726)**	***(121.6)***	***(128.3)***	***(10.2)***	**3,838**	**7,218**	***(46.8)***
Interest	(729)	(723)	(326)	(620)	*0.9*	*124.0*	*17.6*	(2,208)	(1,292)	*70.9*
Depreciation	(508)	(449)	(409)	(433)	*13.0*	*24.1*	*17.3*	(1,771)	(1,462)	*21.1*
Profit before Tax	**(1,888)**	**1,850**	**1,568**	**(1,779)**	***(202.1)***	***(220.4)***	***6.2***	**(141)**	**4,464**	***(103.1)***
Tax	(667)	(518)	(374)	(416)	*28.8*	*78.3*	*60.5*	(2,260)	(1,235)	*83.0*
Profit after Tax	**(2,555)**	**1,332**	**1,194**	**(2,194)**	***(291.8)***	***(314.0)***	***16.5***	**(2,401)**	**3,229**	***(174.4)***
Minority interest & Associates + exceptional items	(1)	-	(17)	(72)		*(94.6)*	*(98.8)*	148	356	*(58.4)*
Net Profit	**(2,556)**	**1,332**	**1,177**	**(2,266)**	***(291.9)***	***(317.1)***	***12.8***	**(2,253)**	**3,584**	***(162.9)***
Key ratios										
Material	34.5	60.2	31.9	27.1				31.5	36.5	
Contractor charges	38.4		25.4	41.7				35.6	27.5	
Staff cost	11.8	12.9	12.3	10.2				10.8	11.5	
Other expenditure	17.8	18.4	19.8	24.1				19.5	16.2	
OPM Margin	**(2.4)**	**8.5**	**10.6**	**(3.1)**				**2.6**	**8.3**	
EBITDA Margin	(2.0)	9.1	9.9	(2.3)				3.2	9.2	
PBT margin (%)	(5.9)	5.6	6.7	(5.7)				(0.1)	5.8	
PAT margin (%)	(7.9)	4.0	5.0	(7.0)				(2.0)	4.6	
Effective tax rate (%)	35.3	(28.0)	23.9	(23.4)				(1,608.8)	27.7	

Source: Company, KotAM Institutional Equities

Exhibit 2. Punj Lloyd (standalone) - 4QFY09 - key numbers (Rs mn)

				(% chg)				
	4QFY09	4QFY08	3QFY09	4QFY08	3QFY09	FY2009	FY2008	*% change*
Net Sales	**19,771**	**14,994**	**17,907**	***31.9***	***10.4***	**68,880**	**44,886**	***53.5***
Expenditure	**(18,070)**	**(12,574)**	**(15,619)**	***43.7***	***15.7***	**(61,477)**	**(39,741)**	***54.7***
Material	(6,655)	(4,953)	(5,416)	*34.4*	*22.9*	(23,364)	(16,254)	*43.7*
Contractor charges	(4,658)	(2,839)	(3,830)	*64.1*	*21.6*	(15,722)	(9,963)	*57.8*
Staff cost	(1,586)	(1,210)	(1,440)	*31.1*	*10.1*	(5,746)	(3,585)	*60.3*
Other expenditure	(5,172)	(3,572)	(4,933)	*44.8*	*4.8*	(16,645)	(9,939)	*67.5*
EBITDA	**1,701**	**2,421**	**2,289**	***(29.7)***	***(25.7)***	**7,402**	**5,144**	***43.9***
Other Income	36	72	204	*(49.8)*	*(82.4)*	594	532	*11.6*
PBIDT	**1,737**	**2,492**	**2,493**	***(30.3)***	***(30.3)***	**7,996**	**5,676**	***40.9***
Interest	(629)	(301)	(573)	*109.2*	*9.8*	(1,943)	(1,133)	*71.5*
Depreciation	(359)	(318)	(290)	*13.1*	*23.8*	(1,195)	(1,134)	*5.4*
Profit before Tax	**748**	**1,874**	**1,629**	***(60.1)***	***(54.1)***	**4,858**	**3,409**	***42.5***
Tax	(127)	(577)	(664)	*(78.0)*	*(80.9)*	(1,676)	(1,195)	*40.2*
Current	234	(549)	(588)	*(142.6)*	*(139.8)*	(1,232)	(1,033)	*19.3*
Deferred	(358)	(60)	(68)	*494.2*	*424.5*	(418)	(157)	*167.1*
Fringe benefit tax	(3)	32	(8)	*(109.3)*	*(62.5)*	(26)	(6)	*344.8*
Profit after Tax	**622**	**1,297**	**965**	***(52.1)***	***(35.6)***	**3,182**	**2,214**	***43.7***
Exceptional items	(25)	-	(72)		*(64.9)*	(97)	-	
Net Profit	**596**	**1,297**	**893**	***(54.0)***	***(33.2)***	**3,085**	**2,214**	***39.3***
Key ratios								
Material	33.7	33.0	30.2			33.9	36.2	
Contractor charges	23.6	18.9	21.4			22.8	22.2	
Staff cost	8.0	8.1	8.0			8.3	8.0	
Other expenditure	26.2	23.8	27.5			24.2	22.1	
OPM Margin	**8.6**	**16.1**	**12.8**			10.7	11.5	
PBIDT margin (%)	8.8	16.5	13.8			**11.5**	**12.5**	
PAT margin (%)	3.0	8.7	5.0			4.5	4.9	
Effective tax rate (%)	(16.9)	(30.8)	(40.8)			(34.5)	(35.1)	

Source: Company, Kotak Institutional Equities

Exhibit 3. Key orders won by Punj Lloyd since FY2008 (Rs mn)

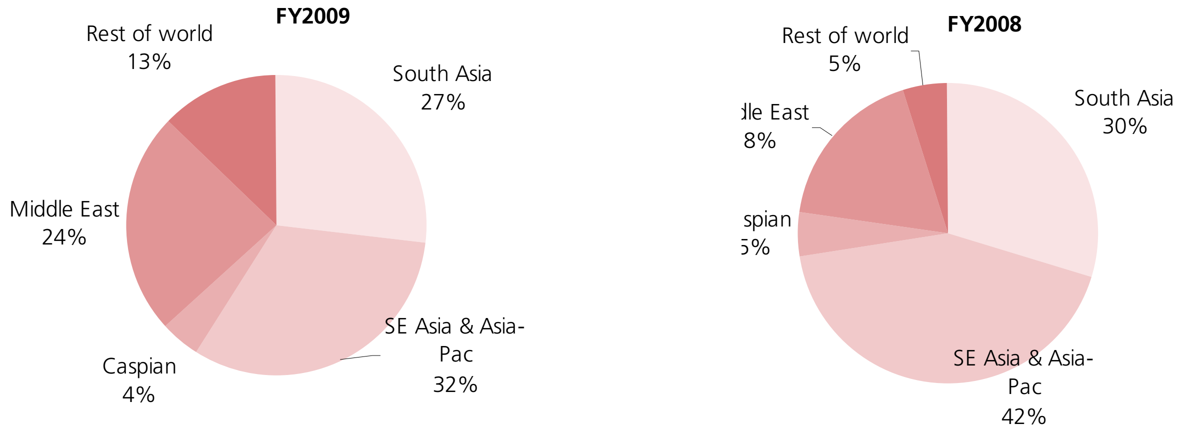
Date	Segment	Client	Value (Rs mn)	Group entity	Description
16-Apr-09	Infrastructure	Bangalore Metro Rail Corporation	3,080	Punj Lloyd	Construction of 8 stations
15-Jan-09	Infrastructure	Housing and Infra board	13,112	Punj Lloyd	Utilities in Souk Al Juma, Tripoli, Libya
7-Jan-09	Infrastructure	Housing and Infra board	10,501	Punj Lloyd	EPC of infra in Tripoli, Libya
7-Jan-09	Oil and Gas	Cairn India	1,046	Punj Lloyd	EPC of pipeline
6-Jan-09	Infrastructure	Airports Authority of India	2,640	Punj Lloyd	Sikkim's first greenfield airport
23-Dec-08	Infrastructure	Municipal Corp, Delhi	3,040	Punj Lloyd	Parking facility near JN Stadium, N Delhi
20-Oct-08	Oil and Gas	PT Shell Indonesia	1,069	PT Punj Lloyd Indonesia	New Fuel Terminal at Kalimantan
23-Sep-08	Oil and Gas	Qatar Petroleum	36,360	Punj Lloyd	211 km of pipeline
18-Jul-08	Process	Abu Dhabi Polymers Company	4,640	Punj Lloyd	Mechanical works for Borouge project
9-Sep-08	Process	FWP Joint Venture	1,670	Punj Lloyd	Mechanical works for utilities at Jurong Island
3-Jul-08	Infrastructure	GVK Power Limited, Hyderabad	10,050	Punj Lloyd	Balance of Plant work (BOP) and entire Civil work on EPC basis
6-Jun-08	Process	Indian Oil Corporation Limited	6,490	Punj Lloyd	Lump-sum turnkey contract to upgrade the refinery at Barauni
30-Apr-08	Process	PT Makmur Sejahtera Wisesa, Indonesia	3,300	PT Punj Lloyd Indonesia and Punj Lloyd Pte Ltd, Singapore	EPC project for 2x30 MW Coal Power Plant in Kalimantan Island, Indonesia
11-Apr-08			18,640	Punj Lloyd Ltd and Punj Lloyd Pte Ltd., Singapore	Technipont SPA order for Rs3.5 bn
11-Apr-08			970	Sembawang Infrastructure (India) Pvt Ltd	
Order booked in FY2009			**116,607**		
31-Mar-08	Process	Tecnimont S.p.A (Italy)	2,720	Punj Lloyd	Mechanical work PE3 and PH areas
7-Mar-08	Oil and Gas	Petronas Carigali Sdn Bhd, Malasia	20,150	Punj Lloyd	EPC and commissioning of a 512 km, 36 inch diameter onshore natural gas pipeline and associated facilities
14-Feb-08	Civil, Infrastructure and Power	Marina Bay Sands Pte Ltd, Singapore	11,192	Sembawang Engineers and Constructors	Construction of the North Podium in the integrated resort comprising casino, theatres and retail arcade
12-Dec-07	Process	Indian Oil Corporation	5,900	Punj Lloyd	Construction of coker unit & block for the Vadodara refinery in Gujarat
30-Nov-07	Civil, Infrastructure and Power	Land Transport Authority, Singapore	12,720	Sembawang Engineers and Constructors	Construction of the MRT station in Marina Bay in Singapore
5-Nov-07	Process	Jurong Aromatics Corporation Pte Ltd, Singapore	17,700	Sembawang Engineers and Constructors	EPC work for a new mega aromatics plant at Jurong island
12-Oct-07	Oil and Gas	Qatar Petroleum	3,890	Punj Lloyd	EPC on LSTK basis of 46 km of 18" multi-product pipeline
6-Aug-07	Process	Bharat Oman Refineries Limited	5,900	Punj Lloyd	Lump-sum turnkey contract for building a sulphur block at Bina Refinery
2-Aug-07	Civil, Infrastructure and Power	Sentosa Pte Ltd, subsidiary of Genting Group	6,660	Sembawang Engineers and Constructors	Sub-structural works at Sentosa Integrated Resort Development
27-Jul-07	Oil and Gas	Reliance Gas Transportation Infrastructure Ltd	3,180	Punj Lloyd	Laying of pipeline & associated facilities for East-West Pipeline project
23-Jul-07	Oil and Gas	Saudi Kayan Petrochemical Company (SABIC)	1587(a)	Dayim Punj Lloyd Construction Contracting Company Ltd	EPC of tanks at Jubail Industrial city, Saudi Arabia
20-Jul-07	Process	Gulf Fluor	500(b)	Simon Carves Ltd.	Fluorides plant incorporating a new Sulphuric Acid plant
14-May-07	Oil and Gas	GAIL (India) Ltd	1,227	Punj Lloyd	Phase II of Panvel — Dabhol Pipeline
16-Apr-07	Oil and Gas	Oman Gas Company	5,300	Punj Lloyd	24", 40 Km pipeline
19-Apr-07	Oil and Gas	Ras Laffan Olefins Company Ltd, USA	1,935	Punj Lloyd	Ethylene pipeline
23-Apr-07	Oil and Gas	Reliance Gas Transportation Infrastructure Ltd	1,802	Punj Lloyd	48", 122 Km pipeline
Total orders announced in FY2008			**100,275**		

(a) Estimated share of Punj Llyod

(b) Estimated order value

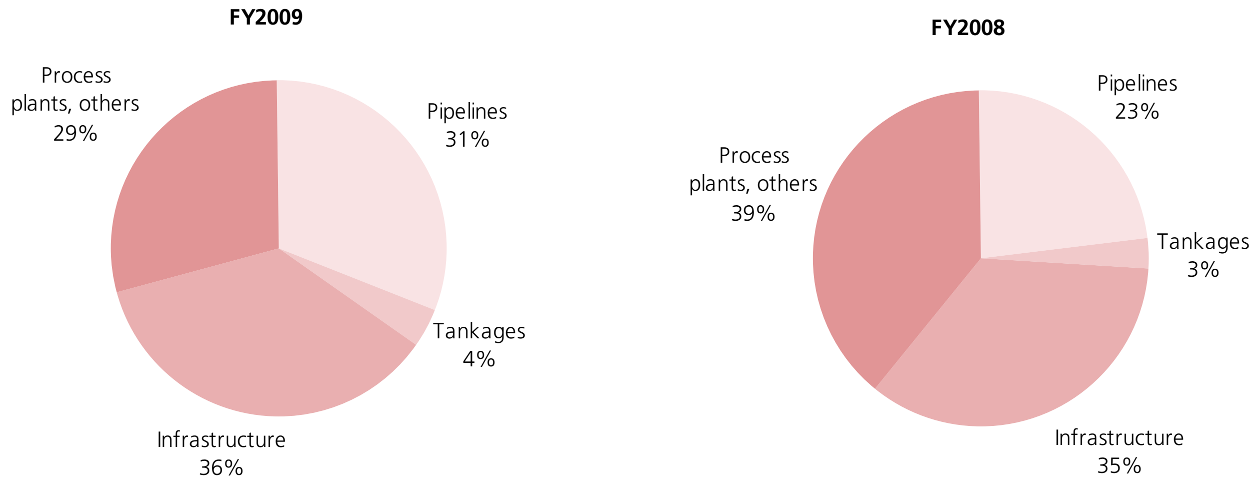
Source: Company, Kotak Institutional Equities

Exhibit 4. Geographical mix of order backlog of Punj Lloyd group



Source: Company, Kotak Institutional Equities

Exhibit 5. Sector-wise order backlog of Punj Lloyd group (Rs bn)



Source: Company, Kotak Institutional Equities

Media

HTML.BO, Rs71	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	100
52W High -Low (Rs)	146 - 36
Market Cap (Rs bn)	16.7

Financials

March y/e	2009	2010E	2011E
Sales (Rs bn)	13.6	15.2	17.0
Net Profit (Rs bn)	0.2	0.8	1.4
EPS (Rs)	0.8	3.5	6.0
EPS gth	*(80.4)*	*311.0*	*70.9*
P/E (x)	84.1	20.5	12.0
EV/EBITDA (x)	17.6	8.2	6.0
Div yield (%)	0.6	1.1	2.9

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
9.9	33.2	16.3	(49.7)

Shareholding, March 2009

	Pattern	% of Portfolio	Over/(under) weight
Promoters	68.7	-	-
FIIs	15.4	0.1	0.1
MFs	12.5	0.2	0.2
UTI	-	-	-
LIC	-	-	-

HT Media: 4QFY09 standalone results largely in line with expectations but surprisingly weak FY2009 consolidated financials

Amit Kumar : amit.ckumar@kotak.com, +91-22-6749-3392

- **4QFY09 ad revenue growth of 4% but robust circulation revenue growth of 11%**
- **Lower-than-expected RM costs reflect cost rationalization implemented by HTML**
- **FY2009 consolidated financials impacted by weak subsidiary performance**
- **Retain ADD with 12-month DCF-based TP of Rs100; core operations improving but uncertainty on subsidiary financials may constrain stock performance**

HT Media (HTML) reported 4QFY09 results with a 26% yoy decline in EBITDA at Rs439 mn versus our Rs512 mn expectation; the variance largely stems from bonus provision in 4QFY09 employee expenses (Rs80 mn). HTML 4QFY09 ad revenues at Rs2.8 bn were in line with expectations, but circulation revenues at Rs410 mn were ahead of our Rs390 mn estimate; thus, we believe the core business performance of HTML (standalone) remains on track for substantial improvement in FY2010E. However, consolidated FY2009 results disappointed with 41% yoy decline in EBITDA at Rs1 bn, much below our Rs1.5 bn expectation; the variance resulted from higher-than-expected losses in the Internet and Metro Now subsidiaries, which are being restructured as per the management. We remain positive on the long-term prospects of HTML given multiple business drivers (HT Delhi, Hindustan, HT Mumbai, Mint and now, FM radio and sharp decline in newsprint prices); however, full valuations (see Exhibit 2) and uncertainty over subsidiary financials may constrain near-term stock performance. We retain our ADD rating and 12-month DCF-based target price of Rs100 on DCF roll-forward balanced by revised subsidiary financials; our revised FY2010E and FY2011E consolidated EPS estimates our Rs3.5 (Rs4.2 previously) and Rs6.0 (Rs7.1); we will revisit HTML's subsidiary financials after its FY2009 result concall tomorro; our standalone financials remain unchanged.

Standalone 4QFY09 results analysis—improvement in core operations

Robust circulation revenues. HTML reported modest 4% yoy growth in 4QFY09 ad revenues at Rs2.8 bn, in line with our expectations; 3Q-4QFY09 has been an unusually difficult period for the media business with the ad revenue market and print media under a lot of pressure. However, signs of a revival are emerging with (1) the auto industry starting to advertise again and (2) expectation of robust recovery from BFSI and retail advertising starting 3QFY10E. HTML's circulation revenues grew a robust 11% yoy to Rs410 mn versus our estimate of Rs390 mn, reflecting (1) more rational behavior in the print media market and on the part of HTML's competition given the pressure on ad revenues and (2) expansion of Hindustan in the Hindi-belt markets, where cover prices are usually high. We expect robust circulation revenues from HTML in FY2010E as a counter-cyclical force to pressure on ad revenues and scope for cover price increases in most markets (HT Mumbai, Mint, Hindustan).

EBITDA performance largely on expected lines. HTML's 4QFY09 EBITDA declined 27% yoy to Rs439 mn versus our Rs512 mn expectation, the difference on account of Rs80 mn bonus provision for FY2009. 4QFY09 raw material costs at Rs1.3 bn were largely in line with our expectations; RM costs increased a moderate15% yoy despite almost 25-30% yoy increase in newsprint prices and Hindustan expansion, largely on account of robust cost rationalization program implemented by the company. Employee and other operating expenditure were also higher on account of consolidation of radio business in 4QFY09.

Nonetheless, we are a tad surprised by the decision of HTML management to reward employees; we would note that HTML's standalone EBITDA (excluding weak subsidiary financials) of Rs2 bn in FY2009 isn't very different from Rs1.9 bn EBITDA in FY2007. The stock performance has mirrored the weak operating performance of the company. Arguably, FY2009 has been a challenging year given (1) high newsprint prices, (2) weak ad revenue market and (3) investment in new businesses. Nonetheless, we would have appreciated HTML's signal to reign in costs and follow the example of other media companies (BCCL, DMCL etc.).

Consolidated FY2009 results analysis—disappointing

Weaker-than-expected subsidiary financials. HTML's FY2009 consolidated EBITDA declined 41% yoy to Rs1 bn, below our Rs1.5 bn expectation; weaker-than-expected financials in the Internet and Metro Now subsidiaries were the key drivers even though radio business performance was in line with our expectations. HTML started its Metro Now business in FY2008 (English tabloid daily in Delhi) in association with BCCL, the publishers of ToI; Metro Now reported a PAT loss of Rs330 mn in FY2009, of which HTML's share (50%) was about Rs165 mn. HTML started its Internet business in FY2008 with the launch of its careers website, Shine.com; the internet venture reported a PAT loss of Rs350 mn in FY2009. The timing of both the launches coincided with the downturn in the market, which has hurt emerging businesses more than established ones.

Future of subsidiaries and some clarifications. HTML management highlighted that they have already decided to scale back investments in Metro Now; we view this positively as HTML (also BCCL) has a leadership presence in Delhi (Café, Brunch; supplements with HT Delhi). The management also noted the higher-than-expected losses in the Internet subsidiary was on account of launch expenses of Shine (Rs100 mn, largely marketing). HTML does not expect any losses in Metro Now and reduction in Internet losses (~Rs200 mn in FY2010E) going forward. Nonetheless, we built in losses of Rs120 mn in Metro Now and Rs310 mn in Internet in FY2010E. We are unable to reconcile the difference (Rs380 mn; Rs200 mn on account of Metro Now and Rs50 mn on account of HT Burda) between consolidated and standalone EBIT of the publishing business and would seek clarification in the results concall tomorrow.

Expectations, valuations, earnings changes

Long-term view unchanged but near-term uncertainty overhang. Our long-term positive view on HTML remains unchanged given multiple business drivers (HT Delhi, Hindustan, HT Mumbai, Mint and Fever FM). We believe the stock price is factoring in only the value of existing profitable businesses and not attributing any value to emerging businesses (HT Mumbai, Mint, Radio). We note that FM Radio is likely to contribute positively to EBITDA in FY2010E. HT Mumbai and Mint have maintained a stable ad revenue run rate in a challenging ad revenue market. The print properties are also going to benefit from lower newsprint prices in FY2010E and FY2011E, given strong correlation of global newsprint prices with world economic growth that is likely to remain subdued. HTML expects HT Mumbai and Mint to achieve EBITDA breakeven in 2HFY11E contingent upon the recovery in ad revenue market.

HTML's valuations at 20.5X consolidated FY2010E EPS estimates largely factor in near-term expectations. Also, 1QFY10E results are going to provide much respite given high-cost newsprint inventory with HTML and continued weakness in ad revenue market; any sustainable financial recovery will only start from 2Q-3QFY10E led by lower newsprint prices (first) and recovery in ad revenue market (thereafter). Therefore, we retain our ADD rating but would opportunistically use any fall in stock price (Rs60 levels, over the next 3-6 months) as a buying opportunity (for the next 9-12 months). We believe improvement in core operations (see our note "*IRS 2009 Round 1 analysis*" dated May 10, 2009) is more important than near-term pressures. HTML trades at an inexpensive 12.6X standalone FY2010E EPS estimates.

Fine-tuned subsidiary financials. We have revised HTML's earnings estimates to factor in consolidated FY2009 financials. Our revised FY2010E and FY2011E EPS estimates are Rs3.5 (Rs4.2 previously) and Rs6.0 (Rs7.1).

- **Revised subsidiary financials.** As noted previously, we are now factoring in losses of Rs119 mn in Metro Now and Rs312 mn in the Internet subsidiary for FY2010E. We were particularly surprised by the weak performance of Metro Now as both HTML and BCCL and leading prime media players in Delhi and would had no issues in production, distribution, marketing or ad space sales of the newspaper.
- **Lower newsprint prices.** We have revised our FY2010E international newsprint price to US$675/ton versus US$700/ton previously due to the sharper-than-expected fall in prices in recent months. Our revised FY2010E and FY2011E production costs of HTML are Rs6.9 bn (Rs7.2 bn previously) and Rs7.5 bn (Rs7.7 bn previously). Our standalone EBITDA estimates have increased as a result of these changes.

HT Media interim results, March fiscal year-ends (Rs mn)

			qoq			yoy			yoy	
	2010E	4QFY09	3QFY09	*% chg*	4QFY09	4QFY08	*% chg*	FY2009	FY2008	*% chg*
Revenues	**15,172**	**3,375**	**3,371**	***—***	**3,375**	**3,134**	***8***	**13,591**	**12,033**	***13***
Advertisement revenues	12,235	2,797	2,866	*(2)*	2,797	2,686	*4*	11,334	10,137	*12*
Circulation revenues	1,773	410	390	*5*	410	370	*11*	1,560	1,449	*8*
Other operating revenue	1,165	168	115	*46*	168	78	*117*	697	447	*56*
Total expenditure	**(13,020)**	**(2,936)**	**(2,914)**	***1***	**(2,936)**	**(2,532)**	***16***	**(12,587)**	**(10,334)**	***22***
Inc/(Dec) in inventories	—	(2)	1		(2)	(2)		1	(4)	
Raw material costs	(5,703)	(1,283)	(1,463)	*(12)*	(1,283)	(1,118)	*15*	(5,589)	(4,640)	*20*
Employee costs	(2,536)	(594)	(495)	*20*	(594)	(497)	*19*	(2,419)	(1,983)	*22*
Sales and marketing	(1,517)	(290)	(275)	*5*	(290)	(260)	*11*	(1,541)	(1,152)	*34*
Other expenditure	(3,264)	(768)	(682)	*13*	(768)	(654)	*17*	(3,039)	(2,555)	*19*
EBITDA	**2,152**	**439**	**457**	***(4)***	**439**	**601**	***(27)***	**1,004**	**1,699**	***(41)***
Other income	194	64	46	*41*	64	123	*(48)*	206	439	*(53)*
Interest & finance charges	(380)	(91)	(101)	*(10)*	(91)	(43)	*111*	(323)	(178)	*81*
Depreciation and amortization	(742)	(155)	(138)	*13*	(155)	(117)	*33*	(688)	(570)	*21*
Pretax profits	**1,224**	**256**	**263**	***(3)***	**256**	**564**	***(55)***	**198**	**1,390**	***(86)***
Extraordinary items	0	(60)	(128)		(60)	4		(190)	—	
Provision for tax	(460)	42	(47)	*(190)*	42	(143)	*(129)*	(86)	(337)	*(75)*
Deferred tax	54	—	—		—	—		—	—	
Fringe benefit tax	—	(4)	(11)		(4)	(10)		(39)	(39)	
Net income	**818**	**234**	**78**	***200***	**234**	**416**	***(44)***	**9**	**1,013**	***(99)***
Tax rate (%)	*33*	*(19)*	*42*		*(19)*	*27*		*1,403*	*27*	
EBITDA margin (%)	**14.2**	**13.0**	**13.6**		**13.0**	**19.2**		**7.4**	**14.1**	

Note:
(a) Annual figures represent consolidated numbers with radio, internet and metro now business while quarterly figures represent standalone numbers.

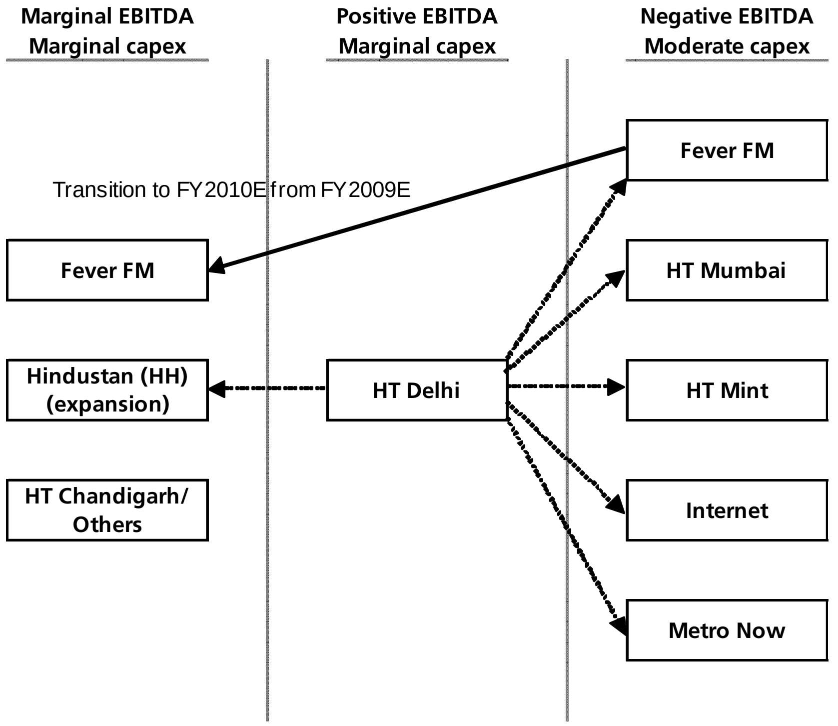
Source: Company data, Kotak Institutional Equities estimates

Estimate of implied valuation of emerging businesses of HT Media (Rs mn)

		Comments
1. Valuation of mature businesses		**English (HT) and Hindi (Hindustan)**
FY2010E EBITDA of HT Delhi edition	2,317	Flagship print brand, growing at 4-6% normalized over time
Appropriate EV/EBITDA multiple (X)	7.0	New printing facilities for HT Delhi in FY2008
FY2010E EBITDA of HT (other) and Hindustan editions	752	Robust 15-20% growth, EBITDA depressed due to new editions
Appropriate EV/EBITDA multiple (X)	8.0	New printing facilities for Hindustan in FY2009E-2010E
Valuation of mature businesses	**22,236**	
2. Valuation of investments		
Net cash position at end-FY2009E	(1,933)	
Total value of investments	**(1,933)**	
Valuation of HTML ex-emerging businesses	**20,303**	
Enterprise value of HTML	19,717	
3. Valuation of emerging businesses		**Emerging media businesses**
Implied value of new media businesses	**(586)**	
FY2010E revenues of HT Mumbai edition	1,349	Circulation of 0.43 mn copies, complements presense in metro market of Delhi
FY2010E revenues of HT Mint business newspaper	500	Circulation of 0.13 mn copies, Number two in metro markets of Delhi and Mumbai
FY2010E revenues of Radio business	470	Stations in metro markets of Delhi, Mumbai, Bangalore and Kolkata

Source: Kotak Institutional Equities estimates

HT Media's various media properties at their stages of evolution



Notes:
(a) The trend lines represent movement of cash flow to support capex and operating loss

Source: Company, Kotak Institutional Equities estimates

Our DCF-based target price for HTML is Rs100

Discounted cash flow analysis of HT Media (Rs mn)

	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
EBITDA	**2,152**	**2,885**	**3,633**	**4,345**	**5,138**	**5,814**	**6,303**	**6,543**	**6,511**	**6,814**	**7,155**	**7,512**	**7,888**
Tax expense	(699)	(840)	(1,075)	(1,310)	(1,574)	(1,798)	(1,952)	(2,054)	(2,085)	(2,222)			
Changes in working capital	(265)	(269)	(300)	(301)	(311)	(328)	(286)	(276)	(218)	(295)			
Cash flow from operations	**1,189**	**1,777**	**2,258**	**2,734**	**3,253**	**3,689**	**4,065**	**4,213**	**4,208**	**4,298**			
Capital expenditure	(1,040)	(824)	(848)	(873)	(898)	(925)	(952)	(980)	(1,008)	(1,038)			
Cash flows for minority interest	—	—	—	—	—	—	—	—	—	—			
Free cash flow to the firm	**148**	**953**	**1,410**	**1,861**	**2,354**	**2,764**	**3,113**	**3,233**	**3,199**	**3,260**	**3,423**	**3,594**	**3,774**
Dicounted cash flow-now	132	748	975	1,133	1,263	1,307	1,296	1,186	1,034	928			
Discounted cash flow-1 year forward		849	1,107	1,286	1,434	1,483	1,472	1,346	1,173	1,053	975		
Discounted cash flow-2 year forward			1,256	1,460	1,627	1,683	1,670	1,528	1,332	1,196	1,106	1,023	
Discount rate (%)	13.5												
Growth from 2018 to perpetuity (%)	5.0												
Fiscal year-end (March 31, XXXX)	31-Mar-10	31-Mar-11	31-Mar-12	31-Mar-13	31-Mar-14	31-Mar-15	31-Mar-16	31-Mar-17	31-Mar-18	31-Mar-19	31-Mar-20	31-Mar-21	
Today	1-May-09	1-May-09	1-May-09	1-May-09	1-May-09	1-May-09	1-May-09	1-May-09	1-May-09	1-May-09	1-May-09	1-May-09	
Years left	1	2	3	4	5	6	7	8	9	10	11	12	
Discount factor at WACC	**0.9**	**0.8**	**0.7**	**0.6**	**0.5**	**0.5**	**0.4**	**0.4**	**0.3**	**0.3**	**0.3**	**0.2**	

	+ 1-year		+ 2-years	
Total PV of free cash flow (a)	**12,177**	**50%**	**13,882**	**52%**
FCF in terminal year	3,594		3,774	
Exit FCF multiple (X)	11.8		11.8	
Terminal value	42,281		44,395	
PV of terminal value (b)	**12,038**	**50%**	**12,640**	**48%**
EV (a) + (b)	**24,215**		**26,522**	
EV (US$ mn)	**526**		**577**	
Net debt	923		573	
Equity value	**23,292**		**25,949**	
Implied share price (Rs)	**99**		**111**	
Exit EV/EBITDA multiple (X)	6.2		6.2	

Sensitivity of share price to different levels of WACC and growth rate (Rs)

	WACC (%)						
Growth rate (%)	**12.0**	**12.5**	**13.0**	**13.5**	**14.0**	**14.5**	**15.0**
1.0	94	89	84	80	76	73	70
2.0	99	93	88	84	80	76	72
3.0	105	99	93	88	83	79	75
4.0	113	106	**99**	**93**	**88**	83	79
5.0	123	114	**106**	**99**	**93**	88	83
6.0	137	125	**116**	**107**	**100**	94	88
7.0	156	141	128	118	109	101	94
8.0	184	163	146	132	121	111	103
9.0	231	198	172	153	137	124	114

Source: Kotak Institutional Equities estimates

Profit model, balance sheet, cash model of HT Media 2006-2013E, March fiscal year-ends (Rs mn)

	2006	2007	2008	2009	2010E	2011E	2012E	2013E
Profit model								
Net sales	8,210	10,397	12,033	13,591	15,172	16,951	18,974	20,886
EBITDA	**1,184**	**1,680**	**1,699**	**1,003**	**2,152**	**2,885**	**3,633**	**4,345**
Other income	177	367	439	206	194	207	227	233
Interest	(135)	(143)	(178)	(323)	(380)	(380)	(353)	(298)
Depreciation	(385)	(436)	(570)	(688)	(742)	(621)	(673)	(726)
Pretax profits	**841**	**1,468**	**1,390**	**199**	**1,224**	**2,091**	**2,834**	**3,553**
Extraordinary items	(229)	2	—	(190)	—	—	—	—
Tax	(65)	(573)	(520)	(125)	(460)	(697)	(957)	(1,209)
Deferred taxation	(174)	27	143	—	54	3	8	15
Net income	**373**	**924**	**1,013**	**(116)**	**818**	**1,398**	**1,885**	**2,359**
Minority interest	—	(46)	—	(125)	—	—	—	—
Adjusted net income	**537**	**969**	**1,013**	**80**	**818**	**1,398**	**1,885**	**2,359**
Earnings per share (Rs)	**2.4**	**4.1**	**4.3**	**0.3**	**3.5**	**6.0**	**8.0**	**10.1**
Balance sheet								
Total equity	6,932	7,642	8,529	8,429	9,027	9,853	10,966	11,945
Minority interest	—	—	1	(124)	(124)	(124)	(124)	(124)
Deferred taxation liability	296	273	122	122	68	64	56	41
Total borrowings	1,696	1,658	2,231	3,458	3,458	3,458	2,958	2,458
Current liabilities	1,809	2,113	2,804	2,953	3,014	3,192	3,424	3,564
Total liabilities and equity	**10,733**	**11,685**	**13,685**	**14,837**	**15,442**	**16,442**	**17,279**	**17,883**
Cash	2,678	1,104	774	497	478	829	959	975
Other current assets	3,276	2,863	4,425	5,102	5,428	5,874	6,406	6,848
Total fixed assets	3,736	4,109	4,752	6,189	6,562	6,840	7,090	7,312
Intangible assets	182	1,098	1,078	1,003	927	852	777	702
Investments	861	2,510	2,656	2,056	2,056	2,056	2,056	2,056
Total assets	**10,733**	**11,685**	**13,685**	**14,847**	**15,453**	**16,453**	**17,290**	**17,894**
Free cash flow								
Operating cash flow, excl. working capita	757	1,194	1,064	566	1,312	1,808	2,323	2,838
Working capital changes	(232)	(226)	(131)	(528)	(265)	(269)	(300)	(301)
Capital expenditure	(327)	(867)	(1,196)	(2,050)	(1,040)	(824)	(848)	(873)
Investments	388	(319)	(325)	600	—	—	—	—
Other income	130	197	298	206	194	207	227	233
Free cash flow	**716**	**(21)**	**(290)**	**(1,205)**	**201**	**923**	**1,402**	**1,896**
Ratios (%)								
Debt/equity	23.5	20.9	25.8	40.4	38.0	34.9	26.8	20.5
Net debt/equity	(13.6)	7.0	16.8	34.6	32.8	26.5	18.1	12.4
ROAE (%)	9.4	12.8	12.2	0.9	9.3	14.7	18.0	20.5
ROACE (%)	**12.1**	**10.6**	**9.6**	**1.7**	**8.2**	**12.7**	**15.4**	**17.9**

Source: Company, Kotak Institutional Equities estimates

Property

SOBH.BO, Rs131	
Rating	REDUCE
Sector coverage view	Neutral
Target Price (Rs)	90
52W High -Low (Rs)	570 - 61
Market Cap (Rs bn)	9.6

Financials

March y/e	2009	2010E	2011E
Sales (Rs bn)	10.9	11.1	15.1
Net Profit (Rs bn)	1.2	0.9	1.1
EPS (Rs)	15.9	11.9	14.7
EPS gth	*(50.0)*	*(24.8)*	*23.5*
P/E (x)	8.3	11.0	8.9
EV/EBITDA (x)	8.8	12.1	10.9
Div yield (%)	3.1	3.1	3.1

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
31.6	61.2	45.8	(76.5)

Shareholding, March 2009

	Pattern	% of Portfolio	Over/(under) weight
Promoters	87.0	-	-
FIIs	2.6	0.0	0.0
MFs	-	-	-
UTI	-	-	-
LIC	-	-	-

Sobha Developers: Balance sheet restructuring key for stock performance

Puneet Jain : puneet.j@kotak.com, +91-22-6634 1255

Sandeep Reddy : sandeep.reddy@kotak.com, +91-22-6634-1216

- **Sharp slowdown in Bangalore real estate results in 32% yoy drop in revenues and 52% yoy drop in PAT for FY2009**
- **Equity raising needed to improve debt serviceability; will result in lower D/E and better interest coverage ratio**
- **Sobha taking right steps by rationalizing prices; better placed to attract demand because of its good brand image in Bangalore**

Sobha Developers (Sobha) reported revenues of Rs1.4 bn (down 70% yoy and 36% below estimates) and PAT of Rs27 mn (down 64% qoq, 96% yoy) for 4QFY09. Results indicate continued slowdown in Bangalore real estate market and reduced construction pace on account of tight liquidity. Sharp slowdown in core market and large investments in land bank acquisition is putting pressure on balance sheet. Therefore, balance sheet restructuring will be the most important stock driver. Our comfort level for interest servicing is around Rs1.5 bn/annum and for this debt levels need to recede by around Rs7 bn. In order to achieve the same, Sobha needs to sell a few land assets and raise additional equity to improve balance sheet strength. We also highlight that Sobha is taking the right steps by rationalizing prices in Bangalore to attract demand. We currently maintain our REDUCE rating on the stock with a target price of Rs90/share based on 50% discount to our Mar'10-based NAV of Rs185. Upside risks to our target price include (1) improvement in real estate environment in Bangalore, (2) reduction in 50% discount due to improved liquidity scenario or successful balance sheet restructuring. Debt as a proportion of land bank valuation is largest for Sobha and therefore NAV sensitivity to valuation of land reserves is very high for the company.

Results reflects weak demand scenario, slow pace of construction

Sobha announced revenues of Rs9.7 bn (down 32% yoy) and PAT of Rs1.1 bn (down 52% yoy) for FY2009. We note that Sobha has been adversely affected by the weak demand scenario in FY2009 and its investment in expansion across cities which led to leveraging of balance sheet. This slowdown came on the back of 45% revenue growth and 88% PAT growth for FY2005-08 period. Including FY2009, revenue growth for FY2005-09 dips to 20% and PAT growth dips to 35%. Operational performance of various divisions is as discussed below.

Residential real estate. We note that Sobha has more than 30 projects aggregating 9.3 mn sq. ft under construction in residential category. Low affordability in Bangalore real estate market has severely affected sales and Sobha is taking steps to reduce prices in Bangalore to revive demand. We believe the good brand image of Sobha places it relatively better amongst its peers. We model Sobha to sell 2.2 mn sq. ft in FY2010E and 3.6 mn sq. ft in FY2011E.

Contractual business. This division is highly dependent on growth in the IT industry. Sobha has 34 projects aggregating 5.9 mn sq. ft under contracts from Infosys and other leading companies in India. Sharp slowdown has resulted in area under execution dipping from 7.3 mn sq. ft as at end-2QFY09.

Equity raising needed to allay investor's concerns regarding high leverage

We note that the present level of EBITDA of Rs2.6 bn in FY2009 is just sufficient to service interest of around Rs2.5 bn (@ average interest rate of 14% on Rs18 bn of debt). The management has indicated a long-term capital requirement of Rs7.5 bn during FY2010E as the management intends to bring its D/E below 1. Sobha has already successfully negotiated with most lenders for rescheduling the debt repayments in the near term and also plans to dispose certain land parcels in which projects cannot be launched in the near future.

We highlight that during the year Sobha received an amount of Rs475 mn towards the rights issue, which is low compared to the outstanding debt of the company. Sobha will have to refund this advance from promoters towards share subscription by Sept' 09.

Change in accounting policy creating further volatility in EBITDA margins

With effect from 1QFY09, Sobha has changed its accounting policy for revenue recognition for sale of undivided share of land (group housing) on the basis of 20% level of collection of dues from the customer and/or agreement for sale being executed rather than criteria relating to the project reaching a significant level of completion. Thus, Sobha would now recognize full land cost (plus margins) for the sold portion as and when level of collection exceeds 20%. We note that such an accounting policy is likely to lead to faster revenue booking as revenues corresponding to land sales will get recognized faster. However, in a period when new sales are minimal, EBITDA margins will tend to get depressed.

We note that such an accounting policy raises issues that what proportion of margins from a sale of project will get recognized on account of land revenues. Management has indicated accounting policy has been changed as sale of apartments were translating into revenue bookings with a lag of 3-4 quarters. We highlight the impact of this change quarter wise below.

1QFY09. Additional revenue recognition and higher PBT of Rs321 mn and Rs150 mn, respectively.

2QFY09. Additional revenue recognition and higher PBT of Rs163 mn and Rs99 mn, respectively.

3QFY09. Lower revenue recognition and lower PBT of Rs393 mn and Rs236 mn, respectively.

4QFY09. Lower revenue recognition and lower PBT of Rs31 mn and Rs2 mn, respectively

The net impact over FY09 is additional revenue recognition and higher PBT of Rs60 mn and Rs15 mn, respectively.

We maintain REDUCE rating with target price of Rs90/share

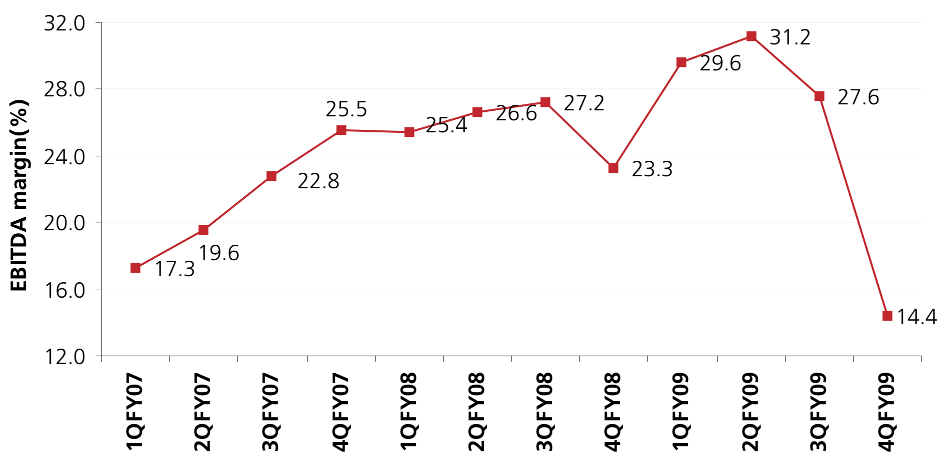
Our target price of Rs90/share is based on a 50% discount to our Mar'10-based NAV of Rs185/share. We have a discount to 50% on account of—(1) financial condition (leverage of 1.9X as of Dec'08 compared to 0.7X as of Mar'07) in a tight liquidity environment, (2) cost pressures in contractual business, and (3) lower capital efficiency ratios. Debt as proportion of land bank valuation is largest for Sobha and therefore NAV sensitivity to valuation of land reserves is very high for the company. A 1% change in valuation of land reserves can increase the NAV by 2.5%.

Sobha Developers :4QFY2009 results

				% change		Kotak estimates				Change (%)
(in Rs mn)	4QFY08	3QFY09	4QFY09	qoq	yoy	4QFY09	deviation	FY08A	FY09A	FY09/FY08
Net sales	**4,741**	**1,805**	**1,404**	**(22.2)**	**(70.4)**	**2,200**	**(36.2)**	**14,226**	**9,679**	**(32.0)**
Operating costs	**(3,661)**	**(1,330)**	**(1,202)**	**(9.6)**	**(67.2)**	**(1,550)**	**(22.5)**	**(10,689)**	**(7,050)**	**(34.0)**
(Increase)/Decrease intock in inventories	874	811	1,135	40.0	29.9			4,063		
Land cost expenses	(1,089)	(428)	(1,224)	186.0	12.4			(3,900)	(2,453)	
Construction expenses & raw materials	(2,529)	(1,117)	(628)	(43.8)	(75.2)			(7,887)	(2,051)	
Staff cost	(302)	(248)	(242)	(2.4)	(19.9)			(1,025)	(1,009)	
Other administrative expenses	(615)	(348)	(243)	(30.2)	(60.5)			(1,940)	(1,537)	
EBITDA	**1,080**	**475**	**202**	**(57.5)**	**(81.3)**	**650**	**(68.9)**	**3,537**	**2,629**	**(25.7)**
Other income	24	71	115	62.0	379.2	20		119	225	89.1
Interest costs	(192)	(286)	(201)	(29.7)	4.7	(300)		(597)	(1,039)	74.0
Depreciation	(92)	(91)	(91)	0.0	(1.1)	(90)		(350)	(360)	2.9
PBT	**820**	**169**	**25**	**(85.2)**	**(97.0)**	**280**		**2,709**	**1,455**	**-46.3**
Taxes	(118)	(94)	2	(102.1)	(101.7)	(98)		(426)	(358)	-16.0
PAT	**702**	**75**	**27**	**(64.0)**	**(96.2)**	**182**	**(85.2)**	**2,283**	**1,097**	**(51.9)**
Key ratios										
EBITDA margin (%)	22.8	26.3	14.4			29.5		24.9	27.2	
PAT margin (%)	14.8	4.2	1.9			8.3		16.0	11.3	
Effective tax rate (%)	14.4	55.6	(8.0)			35.0		15.7	24.6	

Source: Company data, Kotak Institutional Equities estimates.

EBITDA margins have been volatile



Source: Company, Kotak Institutional Equities.

We estimate March 2010 based NAV at Rs200/share

	March '09 based NAV Growth rate in selling prices			
	0%	**3%**	**5%**	**10%**
Valuation of land reserves	**20**	**29**	**34**	**55**
Residential projects	24.1	28.3	31.4	39.6
Commercial projects	(3.4)	0.0	2.5	9.6
Retail projects	(1.4)	0.1	1.2	4.3
Less: Land cost to be paid	(7)	(7)	(7)	(7)
Less: Net debt	(19)	(19)	(19)	(19)
Add: Contractual business	2	2	2	2
Add: Balance 60 mn sq. ft (at avg. cost of Rs50/sq. ft)	3	3	3	3
NAV	**(1)**	**8**	**13**	**34**
Total no. of shares (mn)				73
NAV/share				**185**
Target price @50% discount to NAV				**90**

Source: Kotak Institutional Equities estimates.

Profit model of Sobha Developers, March fiscal year-ends, 2005-2011E (Rs mn)

	2005	2006	2007	2008	2009E	2010E	2011E
Total revenues	**4,629**	**6,277**	**11,865**	**14,311**	**9,679**	**11,139**	**15,104**
Land costs	(1,054)	(781)	(1,832)	(4,333)	(2,453)	(1,010)	(1,432)
Construction costs	(2,344)	(2,975)	(5,222)	(3,310)	(2,051)	(5,211)	(7,564)
Employee costs	(221)	(286)	(707)	(1,025)	(1,009)	(980)	(1,321)
SG&A costs	(376)	(829)	(1,542)	(1,941)	(1,537)	(1,392)	(1,737)
EBITDA	**634**	**1,407**	**2,563**	**3,703**	**2,629**	**2,545**	**3,050**
Other income	23	8	29	53	225	126	171
Interest	(109)	(219)	(481)	(615)	(1,039)	(1,258)	(1,388)
Depreciation	(74)	(112)	(244)	(350)	(360)	(427)	(511)
Pretax profits	**473**	**1,083**	**1,866**	**2,791**	**1,455**	**987**	**1,322**
Extraordinary items	—	—	—	—	—	—	—
Current tax	(123)	(188)	(251)	(510)	(358)	(149)	(293)
Deferred tax	(11)	(0)		33	-	32	45
Net income	**339**	**892**	**1,615**	**2,315**	**1,097**	**870**	**1,074**
Adjusted net income	**339**	**892**	**1,615**	**2,315**	**1,097**	**870**	**1,074**
EPS (Rs)							
Primary	5.3	14.0	24.5	31.7	15	12	15
Fully diluted	5.3	14.0	24.5	31.7	15	12	15
Shares outstanding (mn)							
Year end	63	63	73	73	73	73	73
Primary	63	63	66	73	73	73	73
Fully diluted	63	63	66	73	73	73	73
Cash flow per share (Rs)							
Primary	7	15	28	28	6	(2)	(0)
Fully diluted	7	15	28	28	6	(2)	(0)
Growth (%)							
Net income (adjusted)	281	163	82	43	(53)	(21)	24
EPS (adjusted)	281	161	76	29	(53)	(21)	24
DCF/share	277	114	90	(1)	(77)	(126)	(85)
Cash tax rate (%)	26	17	13	18	25	15	22
Effective tax rate (%)	28	17	13	17	25	12	19

Source: Kotak Institutional Equities estimates.

Energy

BPCL.BO, Rs426	
Rating	SELL
Sector coverage view	Neutral
Target Price (Rs)	425
52W High -Low (Rs)	444 - 206
Market Cap (Rs bn)	140

Financials

March y/e	2009	2010E	2011E
Sales (Rs bn)	1,462	909	931
Net Profit (Rs bn)	0.0	15.2	18.6
EPS (Rs)	0.0	42.0	51.5
EPS gth	*(99.9)*	*#####*	*22.8*
P/E (x)	#####	10.2	8.3
EV/EBITDA (x)	8.2	4.8	4.3
Div yield (%)	-	4.4	5.4

Energy

HPCL.BO, Rs306	
Rating	SELL
Sector coverage view	Neutral
Target Price (Rs)	300
52W High -Low (Rs)	311 - 163
Market Cap (Rs bn)	103.7

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	1,410	893.2	923.7
Net Profit (Rs bn)	(3.6)	10.3	14.2
EPS (Rs)	(10.5)	30.2	41.8
EPS gth	*(131.5)*	*-*	*38.3*
P/E (x)	(29.0)	10.1	7.3
EV/EBITDA (x)	7.4	5.0	4.6
Div yield (%)	-	3.9	5.4

Energy

IOC.BO, Rs501	
Rating	REDUCE
Sector coverage view	Neutral
Target Price (Rs)	525
52W High -Low (Rs)	514 - 299
Market Cap (Rs bn)	591.1

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	3,653	2,291	2,343
Net Profit (Rs bn)	29.0	55.8	59.1
EPS (Rs)	24.3	46.8	49.6
EPS gth	*(60.3)*	*92.1*	*6.1*
P/E (x)	20.6	10.7	10.1
EV/EBITDA (x)	9.0	5.1	4.6
Div yield (%)	-	3.6	3.9

BPCL, HPCL, IOCL: Sell at 5-10% higher levels with or without deregulation

Sanjeev Prasad : sanjeev.prasad@kotak.com, +91-22-6634-1229
Gundeep Singh : gundeep.singh@kotak.com, +91-22-6634-1286
Tarun Lakhotia : tarun.lakhotia@kotak.com, +91-22-6634-1188

- **No significant upside to fair valuation even under full de-regulation**
- **Historical experience relating to pricing freedom has not been encouraging**
- **Poor refining margins and new competition (RIL) to keep earnings under pressure**

We do not see meaningful upside to stock prices of BPCL, HPCL and IOCL irrespective of full deregulation. Our fair valuations, even in a free-market scenario, come to Rs360 for BPCL, Rs330 for HPCL and Rs520 for IOCL. We expect deregulation (if any) to improve marketing margins but see high risks to all revenue and profit drivers of downstream oil companies—(1) refining margins due to large global oversupply, (2) uncertainty on marketing margins of auto fuels due to government control on pricing and re-entry of Reliance Industries into auto fuel retailing, (3) continued losses on LPG and kerosene and (4) likely sharp decline in FO/naphtha volumes and margins due to displacement by natural gas. We maintain our view on BPCL (SELL), HPCL (SELL) and IOCL (REDUCE) with key upside risk being higher-than-expected refining margins.

Low upside to earnings even in case of full deregulation. Our hypothetical earnings exercise for BPCL, HPCL and IOCL suggests limited earnings upside even in case of full deregulation (see Exhibit 1). We assume marketing margin of Rs1,500/ton (Rs1.25/liter) and Rs1,900/ton (Rs1.4/liter) for diesel and gasoline; we see these prices as achievable in a fully deregulated market. Exhibit 2 shows our computation of required marketing margin on diesel and gasoline in a free-market scenario. We also assume compensation of the full amount of under-recoveries on kerosene and LPG from the government (two-thirds) and upstream companies (one-upstream) in this hypothetical exercise. Our assumptions may be generous in case the government gives only one-third of the gross under-recovery on kerosene and LPG against our assumed two-third amount.

Historical evidence of pricing deregulation is not a good indicator. We would like to see the establishment of a market system before unnecessarily creating expectations about the same. We note that the pricing of petroleum products has been already deregulated from April 1, 2002 as per a government notification in 2001. However, governments have generally maintained control over the pricing of petroleum products due to social and political compulsions.

Significant risks to all revenue and profit drivers of downstream oil companies. We see risks to all revenue and profit drivers of downstream oil companies—(1) refining margins due to large global oversupply, (2) uncertainty on marketing margins of auto fuels due to government control on pricing and re-entry of Reliance Industries into auto fuel retailing, (3) continued losses on LPG and kerosene and (4) likely sharp decline in FO/naphtha volumes and margins due to displacement by natural gas. We discuss the same in detail below.

- **Weakness in refining margins to persist.** We expect refining margins to remain under severe pressure led by start of several new refineries in Asia and weak demand. Refining margins have plummeted into negative territory in the recent week led by the implosion in product cracks. Exhibits 3 and 4 show that the increase in global refining capacity (3.5 mn b/d) and NGLs (1 mn b/d) in CY2009-10E will exacerbate oversupply due to a decline in demand of 1.9 mn b/d over the same period. The IEA now projects global oil demand to decline 2.6 mn b/d yoy in CY2009E. We note that the earnings of downstream oil companies are very sensitive to refining margin assumptions. Exhibit 5 shows the impact on EBITDA of US$1/bbl change in refining margin and compares the same with the companies' EBITDA in FY2008.

- **Re-entry of RIL can pose stiff challenges.** We highlight that RIL will be selling a significant quantity of auto fuels in the domestic market given that it has surrendered its EOU status for its extant refinery. We believe RIL can take market share from extant players and cap marketing margins in a deregulated market. We note that RIL had been able to take significant market share away from oil PSUs in 2006 when it could compete with the PSUs on an equal footing (see Exhibit 6). It had subsequently shut down its ~1,440 outlets given high losses and inability to compete with subsidized fuels sold by the Indian PSU companies, once global oil prices increased substantially and the government did not allow PSU companies to increase prices commensurately.
- **Continued losses on LPG and kerosene.** We do not expect the government to deregulate prices of LPG and kerosene in the near term. Losses on LPG and kerosene continue to be high at Rs120/cylinder for LPG and Rs12.5/liter for kerosene (see Exhibit 7).
- **Likely severe compression in margins of deregulated products.** We see big challenges for PSU companies selling FO/LSHS and naphtha in the domestic market once RIL ramps up gas supply from its KG-D 6 gas block. We expect natural gas to displace naphtha in the fertilizer sector immediately and FO/LSHS over the next 1-2 years. We see pressure on both margins and volumes; in fact, the disposal of surplus FO/LSHS can be a big challenge as refineries may not be in a position to cut back production of these products immediately and exports may not be an option. We have seen similar developments in developed countries in 1970s when the advent of natural gas forced down production of FO to very low levels.

Limited upside to fair valuations in a free-market scenario

Comparison of earnings and normalized marketing margins with FY2010E estimates (Rs/ton)

	BPCL		HPCL		IOCL	
	2010E	Normalized	2010E	Normalized	2010E	Normalized
LPG	(7,289)	1,500	(7,289)	1,500	(7,289)	1,500
Naphtha	1,000	400	1,000	400	1,200	900
Gasoline	1,688	1,900	1,688	1,900	1,900	2,100
Jet fuel	1,400	1,400	1,400	1,400	1,700	1,700
Kerosene	(19,501)	600	(19,501)	600	(19,501)	600
Diesel	1,500	1,500	1,500	1,500	1,700	1,700
Light diesel oil	1,200	500	1,200	500	1,450	700
Low sulphur heavy stock	700	500	700	500	1,000	700
Fuel oil	700	500	700	500	1,000	700
Bitumen	2,000	1,000	2,000	1,000	2,000	1,200
EPS (Rs)	**42.0**	**37.6**	**30.2**	**36.3**	**48.2**	**54.6**
EBITDA (Rs bn)	**39.4**	**37.0**	**38.0**	**41.1**	**119.0**	**130.5**
EV (5X normalized EBITDA) (Rs bn)		185		206		652
Value of investments (Rs bn)		45		31		179
Net debt (Rs bn)		99		124		212
Equity value (Rs/share)		**360**		**333**		**520**
Current target price		**425**		**300**		**500**

Note:

(a) Our normalized earnings estimates are based on normalized marketing margins and actual refining margin estimates for FY2010E.

(b) The higher marketing margins for IOCL reflects its high market share in land-locked North India.

Source: Kotak Institutional Equities estimates

A new retail outlet can be viable at around Rs1.1-1.3/liter

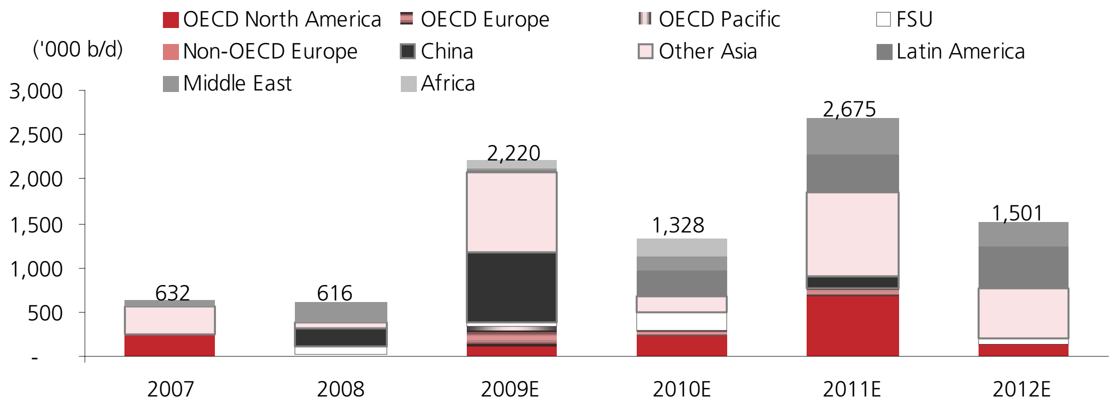
Economics of operating a retail outlet, non-metro location (Rs mn)

	Land purchased	Land leased
Cost of asset	5.5	5.0
Cost of land (20,000 sq ft, 0.5 acre)	0.5	—
Cost of fixed assets	5.0	5.0
Working capital	2.6	2.6
Cost of capital (%)	12.5	12.5
EBIT to break-even	1.0	0.9
Depreciation	0.3	0.3
EBITDA to break-even	1.3	1.2
Employee costs	0.6	0.6
Rent for land	—	0.6
SG&A costs	0.3	0.3
Terminal/storage costs	0.2	0.2
Total margin required to justify investment	**2.43**	**2.97**
Throughput per pump (Tonnes)	1,800	1,800
Gross margin per tonne of throughput (Rs/tonne)	**1,353**	**1,651**
Gross margin per liter of throughput (Rs/liter)	**1.10**	**1.34**
Gross margin per barrel of throughput (US$/bbl)	4.1	5.0

Source: Industry data, Kotak Institutional Equities estimates

Significant supply additions to global refining capacity

Global refinery capacity addition, calendar year ends, 2007-2012E ('000 b/d)



Source: IEA, Kotak Institutional Equities estimates

We expect sharp deterioration in global-supply demand balance over the next few years

Estimated global crude demand, supply and prices, Calendar year-ends

	2005	2006	2007	2008	2009E	2010E	2011E	2012E	2013E
Demand (mb/d)									
Total demand	84.1	85.2	86.0	85.8	83.2	83.9	84.8	85.9	87.1
Yoy growth	1.6	1.1	0.8	**(0.2)**	**(2.6)**	**0.7**	0.9	1.1	1.2
Supply (mb/d)									
Non-OPEC	49.8	50.4	50.8	**50.6**	**50.3**	**50.6**	50.8	51.0	51.2
Yoy growth	1.0	0.6	0.4	(0.2)	(0.3)	0.3	0.2	0.2	0.2
OPEC									
Crude	30.4	30.5	30.5	30.8	27.7	27.6	27.9	28.5	29.3
NGLs	4.3	4.4	4.5	**4.7**	**5.0**	**5.7**	6.1	6.4	6.6
Total OPEC	**34.7**	**34.9**	**35.0**	**35.5**	**32.7**	**33.3**	**34.0**	**34.9**	**35.9**
Total supply	**84.7**	**85.6**	**85.7**	**86.1**	**83.0**	**83.9**	**84.8**	**85.9**	**87.1**
Total stock change	0.7	0.8							
OPEC crude capacity			**34.4**	**35.3**	**36.4**	**37.4**	**37.3**	**37.6**	**37.9**
Implied OPEC spare capacity			**3.9**	**4.5**	**8.7**	**9.8**	**9.4**	**9.1**	**8.6**
Demand growth (yoy, %)	**1.9**	**1.3**	**0.9**	**(0.2)**	**(3.0)**	**0.8**	**1.1**	**1.3**	**1.4**
Supply growth (yoy, %)									
Non-OPEC	**2.0**	**1.2**	**0.8**	**(0.4)**	**(0.6)**	**0.6**	**0.4**	**0.4**	**0.4**
OPEC	**3.0**	**0.6**	**0.3**	**1.3**	**(7.9)**	**2.0**	**2.1**	**2.6**	**2.9**
Total	**1.6**	**1.1**	**0.1**	**0.4**	**(3.6)**	**1.1**	**1.1**	**1.3**	**1.4**
Dated Brent (US$/bbl)	**54.4**	**65.8**	**72.7**	**102.0**	**55.0**	**65.0**	**70.0**	**75.0**	**75.0**

Source: IEA, BP Statistical Review of World Energy, and various government and industry sources

Earnings of downstream companies are highly sensitive to change in refining margins

Earnings sensitivity of downstream companies to refining margins, March fiscal year-ends FY2010E (Rs mn)

	BPCL	HPCL	IOCL
Refining margin assumption (US$/bbl)	2.7	2.5	3.6
Current EBITDA estimate	39,354	37,991	118,986
EBITDA at US$1/bbl lower refining margins	31,885	31,696	101,545
Change in EBITDA (B) - (A)	7,468	6,296	17,441
FY2008 EBITDA	28,472	15,757	120,872
Potential impact on EBITDA due to lower refining margins (%)	**26.2**	**40.0**	**14.4**

Source: Kotak Institutional Equities estimates

RIL had gained significant market share in the past in a short period of time

Retail auto fuel sales, March fiscal year-ends, 2005-2009 ('000 tons)

	2005	2006	2007	2008	2009
Diesel					
Reliance	747	2,948	1,939	904	4
Total sales	31,085	31,109	33,527	37,470	41,001
Reliance's market share (%)	**2.4**	**9.5**	**5.8**	**2.4**	**0.0**
Gasoline					
Reliance	60	343	399	298	11
Total sales	8,159	8,534	9,177	10,206	11,137
Reliance's market share (%)	**0.7**	**4.0**	**4.3**	**2.9**	**0.1**
Auto fuels (diesel and gasoline)					
Reliance	807	3,290	2,338	1,202	5
Total sales	39,244	39,643	42,704	47,676	41,920
Reliance's market share (%)	**2.1**	**8.3**	**5.5**	**2.5**	**0.0**

Source: Industry, Kotak Instituional Equities

Marketing margins have increased of late in India

Calculation of marketing margins/subsidy of key products

														Average (Fiscal years)			
	May-08	**Jun-08**	**Jul-08**	**Aug-08**	**Sep-08**	**Oct-08**	**Nov-08**	**Dec-08**	**Jan-09**	**Feb-09**	**Mar-09**	**Apr-09**	**May-09**	**2007**	**2008**	**2009**	**2010 YTD**
International price (US$/ton)																	
LPG	804	871	880	907	780	782	565	357	348	461	430	365	382	496	667	666	373
Gasoline	975	1,086	1,160	1,127	952	873	640	384	311	396	452	431	475	625	730	772	453
Kerosene	1,070	1,236	1,277	1,282	1,049	926	680	564	450	473	404	406	459	617	716	865	432
Diesel	1,017	1,172	1,221	1,214	959	850	589	478	415	424	352	374	424	560	668	801	399
India IPP price (incl. transport) (a)																	
LPG (Rs/cylinder)	580	631	635	655	606	644	497	350	345	427	418	364	376	420	480	529	370
Gasoline (Rs/liter)	34.2	37.4	39.5	38.6	34.7	34.1	25.6	15.9	13.3	16.6	19.4	18.2	19.8	23.4	24.9	28.3	19.0
Kerosene (Rs/liter)	38.3	44.8	46.1	46.5	40.5	38.4	28.8	24.1	19.7	20.7	18.7	18.4	20.5	24.5	25.1	33.3	19.4
Diesel (Rs/liter)	39.5	44.6	46.1	46.1	38.7	36.8	26.2	21.4	18.9	19.4	17.0	17.6	19.7	24.2	25.3	32.4	18.6
India retail price without taxes																	
LPG (Rs/cylinder)	232	273	280	280	280	280	280	280	277	256	256	256	256	234	232	267	256
Gasoline (Rs/liter)	21.7	26.2	26.9	26.9	26.9	26.9	26.9	23.4	22.4	18.6	18.6	18.6	18.6	21.8	20.4	23.9	18.6
Kerosene (Rs/liter)	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Diesel (Rs/liter)	22.5	25.7	26.2	26.2	26.2	26.2	26.2	24.7	24.2	22.6	22.6	22.6	22.6	22.2	21.7	24.6	22.6
Marketing margin or (subsidy) (b)																	
LPG (Rs/cylinder)	**(349)**	**(358)**	**(356)**	**(375)**	**(326)**	**(364)**	**(217)**	**(70)**	**(67)**	**(168)**	**(162)**	**(108)**	**(120)**	**(187)**	**(248)**	**(262)**	**(114)**
Gasoline (Rs/liter)	**(12.5)**	**(11.2)**	**(12.6)**	**(11.7)**	**(7.8)**	**(7.2)**	**1.3**	**7.5**	**9.1**	**2.0**	**(0.8)**	**0.4**	**(1.2)**	**(1.6)**	**(4.6)**	**(4.4)**	**(0.4)**
Kerosene (Rs/liter)	**(30.3)**	**(36.8)**	**(38.1)**	**(38.5)**	**(32.5)**	**(30.4)**	**(20.9)**	**(16.1)**	**(11.7)**	**(12.6)**	**(10.7)**	**(10.4)**	**(12.5)**	**(16.5)**	**(17.1)**	**(25.3)**	**(11.5)**
Diesel (Rs/liter)	**(17.0)**	**(19.0)**	**(19.9)**	**(19.9)**	**(12.6)**	**(10.7)**	**(0.0)**	**3.2**	**5.3**	**3.2**	**5.6**	**5.0**	**2.9**	**(2.0)**	**(3.6)**	**(7.8)**	**4.0**

Note:

(a) Selling prices include transport costs estimated at Rs1.2/l for diesel and Rs1.3/l for gasoline.

(b) Portion of subsidy on kerosene and LPG reimbursed by the government.

Source: Industry data, Kotak Institutional Equities estimates

Consolidated profit model, balance sheet, cash model of BPCL, March fiscal year-ends, 2004-2011E (Rs mn)

	2004	2005	2006	2007	2008	2009E	2010E	2011E
Profit model (Rs mn)								
Net sales	479,840	578,774	755,333	965,569	1,102,081	1,461,995	908,989	931,368
EBITDA	**38,686**	**26,231**	**9,407**	**35,362**	**28,472**	**15,484**	**39,354**	**43,991**
Other income	4,348	4,015	4,653	7,332	13,954	14,785	10,155	8,086
Interest	(1,447)	(1,748)	(2,474)	(4,774)	(6,725)	(18,106)	(16,250)	(11,821)
Depreciation	(6,754)	(7,130)	(7,680)	(9,041)	(10,982)	(10,743)	(10,276)	(12,023)
Pretax profits	34,833	21,368	3,906	28,879	24,719	1,419	22,983	28,233
Extraordinary items	(420)	810	176	(68)	—	—	—	—
Tax	(12,026)	(7,250)	(140)	(9,286)	(9,059)	(161)	(5,473)	(7,787)
Deferred taxation	(805)	(1,230)	(1,025)	(268)	(1,108)	(1,248)	(2,339)	(1,810)
Net profits	21,582	13,698	2,916	18,055	15,806	11	15,171	18,637
Net profits after minority interests	**19,086**	**11,334**	**2,916**	**18,055**	**15,806**	**11**	**15,171**	**18,637**
Earnings per share (Rs)	**64.6**	**37.2**	**7.6**	**50.1**	**43.7**	**0.0**	**42.0**	**51.5**
Balance sheet (Rs mn)								
Total equity	69,960	82,887	91,394	102,735	116,768	116,779	124,759	134,562
Deferred taxation liability	11,304	12,533	13,558	13,826	14,814	16,061	18,400	20,210
Total borrowings	32,701	46,589	83,736	108,292	150,224	212,436	153,936	114,436
Currrent liabilities	95,495	104,462	94,070	112,767	145,803	122,007	96,502	100,571
Total liabilities and equity	**209,459**	**246,472**	**282,758**	**337,620**	**427,608**	**467,283**	**393,597**	**369,779**
Cash	9,319	6,644	4,921	8,640	9,616	4,831	4,531	4,724
Current assets	97,729	130,393	128,208	127,698	187,457	198,133	146,994	149,416
Goodwill	—	—	—	—	—	—	—	—
Total fixed assets	88,484	98,542	110,855	118,334	127,354	146,254	174,008	172,574
Investments	13,927	10,893	38,774	82,949	103,182	118,064	68,064	43,064
Total assets	**209,459**	**246,472**	**282,758**	**337,621**	**427,608**	**467,283**	**393,597**	**369,779**
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	30,727	21,118	9,275	29,920	22,988	(2,784)	17,631	24,383
Working capital	1,025	(18,393)	1,577	11,451	(25,161)	(45,737)	28,435	2,319
Capital expenditure	(17,001)	(17,120)	(19,945)	(17,908)	(20,665)	(29,643)	(38,030)	(10,588)
Investments	1,278	2,992	(28,146)	(45,481)	(21,684)	(14,882)	50,000	25,000
Other income	1,985	2,445	1,785	4,337	6,434	26,049	7,354	7,413
Free cash flow	**18,015**	**(8,957)**	**(35,455)**	**(17,682)**	**(38,088)**	**(66,997)**	**65,390**	**48,527**
Ratios (%)								
Debt/equity	40.2	48.8	91.6	105.4	128.7	181.9	123.4	85.0
Net debt/equity	28.8	41.9	86.2	97.0	120.4	177.8	119.8	81.5
RoAE	28.8	14.4	3.3	16.3	12.7	0.0	11.0	12.5
RoACE	**21.2**	**12.0**	**4.1**	**11.0**	**7.9**	**5.5**	**9.3**	**10.2**
Key assumptions (standalone until FY2005)								
Crude throughput (mn tons)	8.8	9.1	17.2	19.8	20.9	20.6	21.5	23.0
Effective tariff protection (%)	7.2	4.8	2.9	1.6	1.4	2.3	2.3	2.3
Net refining margin (US$/bbl)	4.2	3.8	2.1	3.1	5.6	3.9	2.9	3.5
Sales volume (mn tons)	20.9	21.5	23.3	24.5	26.7	28.7	29.8	31.0
Marketing margin (Rs/ton)	1,893	1,732	(671)	(1,140)	(3,010)	(6,075)	1,438	1,395
Subsidy under-recoveries (Rs mn)	(13,518)	(25,821)	(31,847)	(20,159)	(26,680)	(23,610)	(4,015)	175

Source: Kotak Institutional Equities estimates

Profit model, balance sheet, cash model of HPCL, March fiscal year-ends, 2004-2011E (Rs mn)

	2004	2005	2006	2007	2008	2009E	2010E	2011E
Profit model (Rs mn)								
Net sales	512,001	597,020	708,609	889,959	1,043,130	1,409,713	893,219	923,682
EBITDA	**31,858**	**20,511**	**8,056**	**24,036**	**15,757**	**25,731**	**37,991**	**43,943**
Other income	3,794	3,295	3,285	6,845	11,980	7,480	7,596	5,005
Interest	(557)	(816)	(1,587)	(4,230)	(7,925)	(23,441)	(19,144)	(15,681)
Depreciation	(6,054)	(6,584)	(6,902)	(7,040)	(8,508)	(9,932)	(10,913)	(11,787)
Pretax profits	29,042	16,406	2,851	19,611	11,303	(163)	15,530	21,479
Extraordinary items	—	1,471	2,201	3,030	—	—	—	—
Tax	(10,225)	(5,897)	(898)	(6,625)	(1,799)	18	(3,226)	(5,180)
Deferred taxation	(540)	793	(97)	(365)	(2,025)	(3,431)	(2,052)	(2,120)
Prior period adjustment	762	—	—	61	3,870	—	—	—
Net profits	**19,039**	**12,773**	**4,056**	**15,712**	**11,349**	**(3,575)**	**10,252**	**14,178**
Earnings per share (Rs)	**56.2**	**34.8**	**6.6**	**40.0**	**33.5**	**(11)**	**30.2**	**41.8**
Balance sheet (Rs mn)								
Total equity	77,428	84,409	87,357	95,987	105,633	102,058	107,550	115,146
Deferred tax liability	14,541	13,748	13,844	14,209	15,960	19,391	21,443	23,563
Total borrowings	17,008	21,854	66,638	105,175	167,867	262,867	205,816	162,316
Currrent liabilities	76,551	69,887	79,549	101,195	124,337	91,094	92,648	96,232
Total liabilities and equity	**185,528**	**189,896**	**247,389**	**316,566**	**413,797**	**475,409**	**427,457**	**397,257**
Cash	1,971	2,016	426	868	2,940	1,536	1,741	1,991
Current assets	92,331	93,007	109,674	113,779	190,034	174,297	155,628	159,075
Total fixed assets	70,743	77,305	97,013	130,644	152,452	168,754	179,266	185,369
Investments	20,484	17,568	40,276	71,275	68,371	130,823	90,823	50,823
Total assets	**185,528**	**189,896**	**247,389**	**316,566**	**413,796**	**475,410**	**427,458**	**397,258**
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	29,062	15,977	10,126	23,966	(18,679)	1,403	14,955	23,081
Working capital changes	(13,410)	(3,614)	(5,351)	8,936	(6,504)	(22,949)	20,813	782
Capital expenditure	(8,895)	(12,849)	(25,298)	(38,510)	(31,638)	(25,329)	(20,759)	(17,890)
Investments	(342)	2,995	(22,884)	(31,704)	(1,851)	(62,452)	40,000	40,000
Other income	1,052	800	941	2,067	4,692	12,923	7,006	4,360
Free cash flow	**7,466**	**3,310**	**(42,466)**	**(35,246)**	**(53,980)**	**(96,404)**	**62,015**	**50,333**
Ratios (%)								
Debt/equity	18.5	22.3	65.8	95.4	138.1	216.4	159.6	117.0
Net debt/equity	16.4	20.2	65.4	94.7	135.6	215.2	158.2	115.6
RoAE	22.0	13.4	4.1	14.9	9.8	-2.9	8.2	10.6
RoACE	**18.9**	**10.1**	**2.5**	**8.8**	**6.4**	**6.1**	**7.6**	**8.9**
Key assumptions								
Crude throughput (mn tons)	13.7	13.9	14.0	16.7	16.8	16.0	18.0	19.3
Effective tariff protection (%)	7.4	5.6	3.1	1.4	1.3	2.3	2.4	2.4
Net refining margin (US$/bbl)	4.4	4.5	3.9	4.3	6.6	2.5	2.6	2.7
Sales volume (mn tons)	20.1	20.6	20.1	23.4	26.2	28.1	29.5	31.2
Marketing margin (Rs/ton)	1,861	1,688	(463)	(710)	(2,345)	(4,834)	1,408	1,341
Subsidy under-recoveries (Rs mn)	(12,870)	(26,708)	(29,671)	(18,899)	(28,549)	(28,211)	(10,069)	(5,624)

Source: Kotak Institutional Equities estimates

Consolidated profit model, balance sheet, cash model of IOCL, March fiscal year-ends, 2004-2011E (Rs mn)

	2004	2005	2006	2007	2008	2009E	2010E	2011E
Profit model (Rs mn)								
Net sales	1,173,450	1,379,018	1,729,474	2,149,428	2,444,378	3,652,917	2,291,295	2,342,711
EBITDA	**114,303**	**86,765**	**82,044**	**110,451**	**120,872**	**83,635**	**118,986**	**123,793**
Other income	17,565	16,138	21,310	27,451	43,748	33,596	31,615	19,300
Interest	(5,043)	(7,433)	(12,101)	(17,058)	(17,556)	(38,560)	(35,707)	(15,244)
Depreciation	(20,626)	(23,140)	(24,711)	(28,686)	(29,918)	(31,479)	(32,956)	(37,677)
Pretax profits	106,199	72,330	66,542	92,157	117,145	47,192	81,938	90,172
Extraordinary items	3,553	4,283	5,590	24,757	5,374	5,584	5,315	5,271
Tax	(25,966)	(13,658)	(19,975)	(25,834)	(38,293)	(14,739)	(27,031)	(34,487)
Deferred taxation	(5,157)	(2,335)	(1,282)	(8,040)	(473)	(455)	118	1,731
Net profits	79,052	59,475	51,125	82,729	83,430	37,582	60,340	62,687
Net profits after minority interests	**73,298**	**52,666**	**45,362**	**62,469**	**74,573**	**30,766**	**57,517**	**61,161**
Earnings per share (Rs)	**62.8**	**45.1**	**38.8**	**52.4**	**62.5**	**25.8**	**48.2**	**51.3**
Balance sheet (Rs mn)								
Total equity	233,386	271,302	317,977	378,117	450,449	486,030	521,682	558,007
Deferred tax liability	47,934	50,367	50,602	59,859	60,331	60,787	60,668	58,937
Total borrowings	146,147	197,809	292,395	290,215	382,818	654,549	370,971	261,007
Currrent liabilities	219,522	266,430	286,716	330,791	386,724	493,387	393,173	402,790
Total liabilities and equity	**646,988**	**785,907**	**947,691**	**1,058,981**	**1,280,322**	**1,694,753**	**1,346,494**	**1,280,742**
Cash	13,777	13,356	8,080	9,385	8,413	8,832	9,145	8,862
Current assets	278,550	368,158	413,904	437,178	599,256	869,723	630,206	634,666
Total fixed assets	320,647	370,003	383,717	415,014	460,307	484,654	525,599	530,671
Investments	34,013	34,391	141,990	197,403	212,345	331,543	181,543	106,543
Total assets	**646,988**	**785,907**	**947,691**	**1,058,981**	**1,280,322**	**1,694,753**	**1,346,494**	**1,280,742**
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	93,713	71,765	(10,334)	(44,660)	(107,263)	26,875	64,583	78,412
Working capital changes	1,710	(33,421)	(8,136)	2,237	(1,414)	(190,127)	135,919	904
Capital expenditure	(47,179)	(73,626)	(49,042)	(50,969)	(79,586)	(49,357)	(53,689)	(22,620)
Investments	(509)	(1,172)	(17,778)	99,768	92,665	(119,083)	150,000	73,956
Other Income	5,826	7,814	10,317	13,582	18,253	76,346	27,834	16,273
Free cash flow	**53,560**	**(28,641)**	**(74,973)**	**19,958**	**(77,346)**	**(255,347)**	**324,646**	**146,926**
Ratios (%)								
Debt/equity	52.0	61.5	79.3	66.3	74.9	119.7	63.7	42.3
Net debt/equity	47.1	57.3	77.1	64.1	73.3	118.1	62.1	40.9
RoAE	30.0	18.3	13.7	16.1	16.3	6.1	10.6	10.6
RoACE	**20.4**	**13.7**	**9.3**	**11.3**	**11.2**	**5.6**	**7.3**	**7.1**
Key assumptions (IOC standalone)								
Crude throughput (mn tons)	37.7	36.6	38.5	44.0	47.4	49.2	49.9	50.9
Effective tariff protection (%)	7.6	5.7	3.1	1.6	1.4	2.8	2.8	2.8
Net refining margin (US$/bbl)	5.4	6.2	4.8	4.2	8.1	5.1	4.0	4.0
Sales volume (mn tons)	47.1	48.2	50.4	53.4	57.4	62.1	64.4	66.7
Marketing margin (Rs/ton)	2,092	1,982	26	(633)	(2,203)	(5,425)	1,627	1,613
Subsidy under-recoveries (Rs mn)	(28,078)	(64,309)	(95,361)	(34,041)	(64,486)	(42,155)	(26,258)	(13,784)

Source: Kotak Institutional Equities estimates

Banking

Sector coverage view			Attractive

		Price, Rs	
Company	**Rating**	**18-May**	**Target**
SBI	BUY	1,577	1,600
HDFC	SELL	2,374	1,730
HDFC Bank	BUY	1,378	1,150
ICICI Bank	ADD	707	475
Corp Bk	BUY	280	310
BoB	ADD	397	370
PNB	BUY	658	650
OBC	ADD	161	150
Canara Bk	REDUCE	264	220
LIC Housing	BUY	406	390
Axis Bank	BUY	778	700
IOB	BUY	79	110
Shriram Transp	ADD	271	300
SREI	ADD	50	50
MMFSL	ADD	224	240
Andhra	ADD	76	75
IDFC	ADD	118	85
PFC	ADD	197	160
Federal Bank	BUY	222	280
J&K Bank	ADD	400	480
India Infoline	ADD	117	90
Indian Bank	BUY	117	165
Union Bank	BUY	200	220
Central Bank c	SELL	62	55
Future Capital	BUY	172	440
Bank of India	ADD	290	310
REC	BUY	134	125

Prudence called for during times of optimism; Be selective

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

Ramnath Venkateswaran : ramnath.venkateswaran@kotak.com, +91-22-6634-1240

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

- **Better perceptions on asset quality and increased risk appetite drive stock performance**
- **Valuations for most stocks appear to be getting expensive, advise caution**
- **Risk of interest rate hardening is largely being ignored by the market and could be a negative surprise for the stocks**
- **Prefer selective plays—Axis Bank and State Bank of India are our best picks**

We expect perceptions regarding asset quality to improve further as a stable government at the centre is expected to introduce policies leading to faster economic recovery. However, the valuations in certain stocks are getting excessive and warrant prudence. We provide a sensitivity analysis of the impact on valuations due to lower NPLs and an increase in risk appetite (i.e. lower cost of equity). Based on this exercise, we believe that public banks like SBI, PNB, Union Bank and Axis Bank amongst private banks have some valuation upside. The market is, by and large, ignoring the risks that could arise if large foreign inflows within a short period of time are not accompanied by a substantial improvement in fiscal balances of the government—this could lead to a hardening of interest rates. This could be negative for stocks in the financial sector.

Notions of low NPLs drive stock prices, impact on earnings/valuations not too significant

We expect slippages for the sector to increase to 3.5% in FY2010E and 2.7% in FY2011 from about 2.2% as of March 2009 (not including restructured assets). This will likely lead to an increase in the gross NPL ratio to 4.2% as of March 2010 and 4.8% as of March 2011E. We believe that in the current environment, wherein restructured assets itself vary by 2-5% of loans, the likely slippages in the current fiscal are likely to remain high. Thus, we do not change our view on NPLs as of now and would review these estimates only if economic indicators improve over the next few quarters. We run a sensitivity analysis, wherein, net NPLs as of March 2010 are (1) 25% lower than our expectations and (2) remain at the same levels as of March 2009; the upside to our target prices from the current prices could range between 3% and 15%.

Increased risk appetite also aiding stock price performance

Banking stocks have already seen a sharp rally from their lows and more on the brief trading sessions on Monday (May 18, 2009), partly driven by the increased risk appetite (i.e. lower cost of equity). We provide a sensitivity analysis of the impact on fair value due to lower cost of equity (1% lower than current estimates). Based on this exercise, upside to prices for new private banks is fairly limited—for some of the front tier public banks like SBI, PNB and Union Bank, the upside is 18-35%.

Policy measures would be positive but impact on valuations remain unclear to us

We expect some reforms in the financial sector by the new government, mainly: (1) FDI in the insurance sector could be enhanced from to 49% from 26%; (2) consolidation amongst public banks could gain momentum, but is likely to be challenging even for a strong government; (3) proportionate voting rights to be allowed in private banks and (4) reduction in minimum government holding in public banks from 51% to 33% to enable them to raise capital from the market—note that the option of reducing government stake in public banks below 51% has been strongly opposed by the incumbent political party during the term of the previous parliament. These policy measures would be positive for the sector but we believe that none of these could potentially change the core fundamentals significantly to warrant such a sharp movement in prices.

High fiscal deficits and large capital flows imply hardening of interest rates

Large increase in foreign inflows given the fiscal balances of the government of India would lead to a hardening of interest rates. Our economist, Dr Mridul Saggar, expects interest rates to harden in 2HFY10E—the faster pace of flows could bring forward this development. Higher interest rates could be negative for the treasury gains of banks, lead to lower-than-expected repricing benefits on liabilities for wholesale borrowers and impact the economic recovery that might be underway. The market does appear to expect an abrupt spike in interest rates, which increases the probability of a negative shock for share prices, especially given the recent run-up in market prices of most stocks in the financial sector.

Our assessment of hardening of interest rates is based on the following rationale:

1) RBI affects the money supply in the system by (a) altering its assets (i.e. net foreign assets and net domestic assets), (b) monetary liabilities (i.e. bonds issued under MSS) and/or (c) by changing the cash reserve ratio (CRR), which also has an impact on the money multiplier

2) Implication of increasing/decreasing the holdings of foreign assets and domestic assets (Gsecs) by monetary authority is the same for money supply considerations

3) Consequently, a sharp improvement in the balance of payments (BoP) situation, led by higher foreign flows within a short period, could lead to an increase in foreign asset holdings of RBI. This would reduce the leeway available for intervening in the Gsec markets without violating its money supply projections

4) RBI is unlikely to allow money supply to increase substantially over its projections as this could lead to inflationary pressures in the future and reduce its leeway to respond if there is an abrupt reversal of foreign flows at a future period of time. The prudent policy of raising CRR and increasing the issuance of securities under the market stabilization scheme (MSS) during periods of high foreign inflows allowed RBI to provide sufficient domestic liquidity when there was a reversal of flows during October 2008

5) Lower RBI purchase of Gsecs could lead to a hardening of yields in the Gsec markets given the borrowing program of government of India. We believe the probability of high borrowings by government remains high in the current fiscal. Consequently, Gsec yields can be expected to harden and push up interest rates in the economy

Near-term performance of bank stocks may be strong

We highlight that the financial sector has been a favored sector in times of positive portfolio flows and vice-versa. Thus, if portfolio flows continue to remain strong, it is quite likely that the financial sector performance would remain strong. At its peak in Dec 2007, foreign holdings in Indian banks ranged within 20% and 70% (public banks had huge premiums as FIIs could not buy directly) of their respective capital. As of March 2009, the ownership in Indian banks has declined to 12-63%. This might have already risen till date and could increase more if portfolio flows continue.

Fundamental and technical factors support select stocks

We prefer Axis Bank and State Bank of India offering the best mix of (1) valuations due to likely upside emanating from improving economic prospects and lower NPLs and (2) technical factors of low FII holding compared to other financial sector stocks. Axis Bank trades at 2.4XFY2010E PBR and State Bank of India trades at 1.3XFY2010E PBR. We believe that risks of rising NPLs were fairly high for these banks as they had grown very fast in SMEs during the FY2005-09 period. We also highlight that FII ownership is much lower in these stocks than their peak levels, probably for these reasons. ICICI Bank is also likely to be a big beneficiary of improving economic prospects but we do not find enough comfort in its valuations as its RoE is likely to remain subdued for some time. Amongst other public banks, we like PNB and Union Bank. In the NBFC space, we maintain our Sell rating on HDFC. We prefer LIC Housing Finance, REC and Shriram Transport as best plays to play the current cycle.

Our base-case assumptions factor in a sharp rise in reported NPLs to account for likely deterioration of asset quality

Gross NPLs, Net NPLs of banks, March fiscal year-ends, 2009-2011E

	Gross NPLs (Rs bn)			Gross NPLs (%)			Net NPLs (Rs bn)			Net NPLs (%)		
	2009	**2010E**	**2011E**	**2009**	**2010E**	**2011E**	**2009**	**2010E**	**2011E**	**2009**	**2010E**	**2011E**
Public banks												
Andhra Bank	4	16	29	0.8	3.2	4.9	1	7	14	0.2	1.4	2.3
Bank of Baroda	18	50	73	1.3	2.9	3.6	5	22	30	0.3	1.3	1.5
Bank of India	25	74	118	1.7	4.3	5.9	6	35	58	0.4	2.1	3.0
Canara Bank	22	44	72	1.6	3.5	5.0	15	22	27	1.1	1.4	1.5
Corporation Bank	6	24	33	1.1	4.2	4.9	1	13	17	0.3	2.4	2.5
Indian Bank	5	18	33	0.9	2.9	4.4	1	9	15	0.2	1.5	2.2
IOB	19	50	72	2.5	5.5	6.9	10	29	38	1.3	3.3	3.8
OBC	11	44	64	1.5	5.2	6.5	4	27	39	0.7	3.3	4.0
PNB*	33	72	108	2.3	4.0	5.2	6	18	32	0.4	1.0	1.6
State Bank of India	156	318	393	2.8	4.9	5.0	96	174	151	1.8	2.7	2.0
Union Bank	19	34	50	2.0	2.9	3.8	3	7	12	0.3	0.6	0.9
Overall public banks	**316**	**743**	**1,045**	**2.1**	**4.2**	**5.0**	**148**	**364**	**434**	**1.0**	**1.0**	**2.1**
Old private banks												
Federal Bank*	6	14	22	2.8	5.1	6.5	1	1	3	0.3	0.4	0.8
J&K Bank*	5	12	18	2.6	4.6	5.7	3	6	9	1.2	2.3	2.9
Overall old private banks	**12**	**27**	**40**	**2.7**	**4.9**	**6.1**	**3**	**7**	**12**	**0.8**	**0.7**	**1.3**
New private banks												
Axis Bank	9	21	36	1.0	2.1	2.8	3	6	9	0.4	0.6	0.7
HDFC Bank	20	33	51	2.0	2.7	3.4	6	11	14	0.6	0.9	1.0
ICICI Bank	99	137	170	4.5	5.9	6.7	46	52	57	2.1	2.4	2.5
Overall new private banks	**128**	**191**	**256**	**3.1**	**4.2**	**4.8**	**56**	**69**	**80**	**1.3**	**1.1**	**1.9**
Total	**456**	**961**	**1,341**	**2.3**	**4.2**	**5.0**	**207**	**440**	**525**	**1.1**	**2.0**	**2.0**

Note:
* Indicates NPL data as of December 2008 for fiscal year-end 2009.

Source: Companies, Kotak Institutional Equities estimates.

Valuation upside for front tier public banks are around 6-15% from the current market prices

Sensitivity analysis for target prices assuming lower NPLs

		Target price	Current market price	Net NPLs as of March 2010 (Rs bn)			Revised target price (March 2010)		Upside from current levels	
	Reco.	(Rs)	(Rs)	Base case	25% lower NPLs than base case	Same as March 2009	25% lower NPLs than base case	Same as March 2009	25% lower NPLs than base case	Same as March 2009
Public banks										
Andhra Bank	ADD	75	76	6.9	5.2	0.8	77	83	1.7	9.5
BoB	ADD	370	415	22.3	16.7	4.5	380	402	(8.5)	(3.2)
BoI	ADD	310	288	35.3	26.5	6.3	321	346	11.4	20.1
Canara Bank	REDUCE	220	260	21.6	16.2	15.1	229	230	(12.1)	(11.4)
Corporation Bank	BUY	310	280	13.2	9.9	2.9	325	357	16.1	27.5
Indian Bank	BUY	165	117	9.2	6.9	0.9	168	177	43.9	51.4
IOB	BUY	110	80	28.7	21.5	10.0	119	132	48.2	65.4
OBC	ADD	150	160	27.1	20.4	6.3	168	204	4.8	27.5
PNB	BUY	650	660	18.1	13.6	6.3	659	674	(0.1)	2.2
SBI	BUY	1,600	1,585	174.0	130.5	95.5	1,645	1,680	3.8	6.0
SBI standalone	BUY	1,186	1,168	174.0	130.5	95.5	1,231	1,267	5.4	8.4
Union Bank	BUY	220	195	7.2	5.4	3.3	222	225	14.1	15.5
Old private banks										
Federal Bank	BUY	280	221	1.1	0.9	0.6	281	282	27.2	27.6
J&K Bank	ADD	480	400	5.9	4.4	2.6	500	524	25.0	31.0
New private banks										
Axis Bank	BUY	700	800	6.0	4.5	3.3	703	705	(12.2)	(11.9)
HDFC Bank	ADD	1,150	1,380	11.1	8.3	6.0	1,154	1,158	(16.4)	(16.1)
ICICI Bank	ADD	475	720	52.0	39.0	43.0	533	530	(26.0)	(26.3)
ICICI standalone	ADD	308	505	52.0	39.0	43.0	316	314	(37.4)	(37.8)

Note:

(1) Calculations for SBI and ICICI Bank are only for the standalone bank entity. Subsidiary valuations are retained at the same level as in the base case.

(2) We completely remove the discount to investments by ICICI Bank in its international subsidiaries in this analysis. This will imply a Rs50 upside from our base case.

Source: Bloomberg, Companies, Kotak Institutional Equities estimates.

Higher risk appetite could provide further upsides to target prices

Sensitivity analysis for target prices assuming lower CoE

	Reco.	Current market price (Rs)	Target price (Rs)	Current CoE (%)	Lower CoE (%)	Revised target price (Rs)	% upside from current levels (%)
Public banks							
Andhra Bank	ADD	76	75	14.0	13.0	91	19.9
BoB	ADD	415	370	14.0	13.0	450	8.4
BoI	ADD	288	310	14.0	13.0	381	32.2
Canara Bank	REDUCE	260	220	14.0	13.0	273	5.0
Corporation Bank	BUY	280	310	14.5	13.5	371	32.5
Indian Bank	BUY	117	165	14.5	13.5	197	68.5
IOB	BUY	80	110	15.0	14.0	128	59.5
OBC	ADD	160	150	14.0	13.0	191	19.1
PNB	BUY	660	650	14.0	13.0	770	16.7
SBI	BUY	1,585	1,600	12.5	11.5	1,920	21.1
SBI standalone	BUY	1,168	1,186	12.5	11.5	1,506	28.9
Union Bank	BUY	195	220	14.0	13.0	264	35.5
Old private banks							
Federal Bank	BUY	221	280	14.0	13.0	335	51.7
J&K Bank	ADD	400	480	15.1	14.1	552	37.9
New private banks							
Axis Bank	BUY	800	700	13.5	12.5	864	8.0
HDFC Bank	ADD	1,380	1,150	12.5	11.5	1,456	5.5
ICICI Bank	ADD	720	475	13.5	12.5	594	(17.5)
ICICI standalone	ADD	505	308	13.5	12.5	377	(25.3)

Note:

(1) Calculations for SBI and ICICI Bank are only for the standalone bank entity. Subsidiary valuations are retained at the same level as in the base case.

(2) We completely remove the discount to investments by ICICI Bank in its international subsidiaries in this analysis. This will imply a Rs50 upside from our base case.

Source: Bloomberg, Companies, Kotak Institutional Equities estimates.

Upside for the target prices on account of lower NPLs and cost of equity could be larger for certain banks

Sensitivity analysis for target prices assuming lower CoE and NPLs

	Current market price	Target price	Revised target price (Rs)		% upside from current levels	
			25% lower NPLs than base case as of March 2010	Net NPLs as of March 2010 are same as of March 2009	25% lower NPLs than base case as of March 2010	Net NPLs as of March 2010 are same as of March 2009
	(Rs)	(Rs)				
Public banks						
Andhra Bank	76	75	93	99	23.0	30.7
BoB	415	370	460	481	10.8	16.0
BoI	288	310	392	417	36.0	44.7
Canara Bank	260	220	282	283	8.3	9.0
Corporation Bank	280	310	386	418	37.9	49.3
Indian Bank	117	165	200	209	71.3	78.9
IOB	80	110	136	150	70.2	87.4
OBC	160	150	208	245	30.1	52.8
PNB	660	650	780	795	18.1	20.4
SBI	1,585	1,600	1,964	2,000	24.0	26.2
SBI standalone	1,168	1,186	1,551	1,586	32.7	35.8
Union Bank	195	220	266	269	36.7	38.1
Old private banks						
Federal Bank	221	280	336	337	52.2	52.7
J&K Bank	400	480	572	596	42.9	49.0
New private banks						
Axis Bank	800	700	867	869	8.4	8.6
HDFC Bank	1,380	1,150	1,460	1,463	5.8	6.0
ICICI Bank	720	475	601	599	(16.5)	(16.8)
ICICI standalone	505	308	385	382	(23.8)	(24.2)

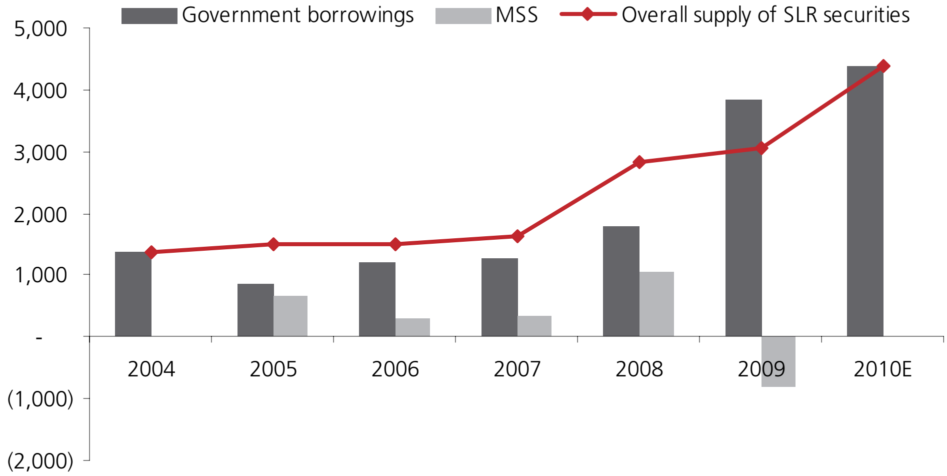
(1) Calculations for SBI and ICICI Bank are only for the standalone bank entity. Subsidiary valuations are retained at the same level as in the base case.

(2) We remove all discounts to investments made by ICICI Bank in its subsidiaries in this analysis. This will imply a Rs50 upside from our base case.

Source: Bloomberg, Companies, Kotak Institutional Equities estimates.

Gsec yields are likely to spike sharply in the even assuming no fresh bond issuances are made under MSS

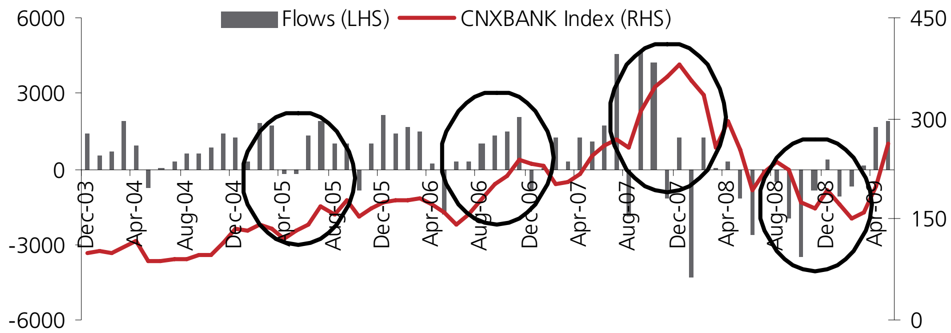
New government borrowings, MSS bond issuances and overall supply of SLR securities, March fiscal year-ends, 2004-2010E



Source: RBI, Kotak Institutional Equities estimates.

Bank stocks have generally performed well during periods of high foreign flows

Bankex performance and FII flows (US$ mn)



Source: Bloomberg, Kotak Institutional Equities estimates.

Foreign holding in Axis Bank, ICICI Bank and SBI has come off sharply since two years

FII holding in select financial sector stocks

	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09
Axis Bank	42	40	39	37	38	35	32	33	31
H D F C	69	68	64	62	61	59	60	59	60
HDFC Bank	51	44	48	49	48	47	46	45	45
ICICI Bank	72	71	70	70	69	68	65	64	63
PNB	20	20	20	20	20	20	19	18	15
SBI	20	20	20	20	20	19	18	15	12

Source: Kotak Institutional Equities estimates.

Valuation of bank stocks appear to be expensive

Valuations of key banks, March fiscal year-ends

		Traget price	Price (Rs)	Market cap.	EPS (Rs)			PER (X)			BVPS (Rs)			PBR (X)			RoE (%)		
	Reco.	(Rs)	(Rs)	US $bn	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E
Public banks																			
Andhra Bank	ADD	75	76	0.8	11.9	13.5	11.1	6.4	5.6	6.8	67	75	83	1.1	1.0	0.9	18.0	19.0	14.0
BoB	ADD	370	415	3.2	39.3	60.9	54.9	10.6	6.8	7.6	259	309	354	1.6	1.3	1.2	14.6	18.7	14.9
BoI	ADD	310	288	3.2	40.6	57.2	46.3	7.1	5.0	6.2	168	224	263	1.7	1.3	1.1	27.6	29.2	19.0
Canara Bank	REDUCE	220	260	2.2	38.2	50.5	41.4	6.8	5.1	6.3	202	244	302	1.3	1.1	0.9	15.0	18.3	12.2
Corporation Bank	BUY	310	280	0.8	51.2	62.2	51.5	5.5	4.5	5.4	295	341	380	0.9	0.8	0.7	18.4	19.6	14.3
Indian Bank	BUY	165	117	1.0	22.5	28.1	26.6	5.2	4.2	4.4	107	130	152	1.1	0.9	0.8	24.8	23.7	18.9
IOB	BUY	110	80	0.9	22.1	24.3	16.6	3.6	3.3	4.8	89	108	121	0.9	0.7	0.7	27.2	24.7	14.5
OBC	ADD	150	160	0.8	23.9	36.1	27.3	6.7	4.4	5.9	231	258	279	0.7	0.6	0.6	6.2	14.8	10.2
PNB	BUY	650	660	4.3	65.0	90.7	90.7	10.2	7.3	7.3	342	411	481	1.9	1.6	1.4	18.0	21.5	18.6
SBI	BUY	1,600	1,585	21.0	106.6	143.6	121.1	14.9	11.0	13.1	772	913	999	2.1	1.7	1.6	16.8	17.1	12.7
SBI incl. banking subs		1,354	1,339	17.7	157.7	154.9	144.6	8.5	8.6	9.3	954	1,113	1,220	1.4	1.2	1.1	16.7	15.3	15.3
SBI standalone		1,186	1,168	15.5	122.1	138.1	114.8	9.6	8.5	10.2	703	843	929	1.7	1.4	1.3	19.6	17.9	13.0
Union Bank	BUY	250	195	2.1	27.5	34.2	29.6	7.1	5.7	6.6	111	140	164	1.8	1.4	1.2	26.8	27.2	19.5
Old private banks																			
Federal Bank	BUY	280	221	0.8	34.4	32.0	34.0	6.4	6.9	6.5	229	254	281	1.0	0.9	0.8	13.6	13.2	12.7
J&K Bank	ADD	480	400	0.4	74.2	82.8	72.2	5.4	4.8	5.5	470	533	588	0.9	0.8	0.7	16.8	16.5	12.9
New private banks																			
Axis Bank	BUY	700	800	6.0	32.2	50.6	55.8	24.8	15.8	14.3	245	284	328	3.3	2.8	2.4	17.6	19.2	18.2
HDFC Bank	ADD	1,150	1,380	12.2	46.0	55.4	64.1	30.0	24.9	21.5	324	354	403	4.3	3.9	3.4	17.7	16.9	16.7
ICICI Bank	ADD	475	720	16.7	39.9	33.8	32.3	18.0	21.3	22.3	418	445	467	1.7	1.6	1.5	11.7	7.8	7.1
ICICI standalone		308	555	12.9	28.9	31.1	28.9	19.2	17.9	19.2	341	336	345	1.6	1.6	1.6	10.2	9.2	8.5
Non banks																			
HDFC	SELL	1,730	2,390	14.2	85.8	80.2	93.4	27.9	29.8	25.6	421	462	517	5.7	5.2	4.6	27.8	18.2	18.7
IDFC	ADD	85	117	3.1	5.7	5.8	7.0	20.6	20.1	16.6	43	48	53	2.7	2.5	2.2	17.6	12.9	14.1
LIC Hsg Fin	BUY	390	410	0.7	45.5	62.5	68.8	9.0	6.6	6.0	215	262	313	1.9	1.6	1.3	22.9	26.2	23.9
Mahindra Finance	ADD	250	221	0.4	20.8	22.4	27.5	10.6	9.9	8.0	138	154	173	1.6	1.4	1.3	16.9	15.4	16.9
Power Finance Corporation	ADD	160	197	4.7	11.4	13.0	16.5	17.3	15.2	12.0	92	102	113	2.1	1.9	1.7	12.8	13.4	15.3
Shriram Transport	ADD	300	271	1.0	19.2	30.1	32.5	14.1	9.0	8.4	89	114	131	3.0	2.4	2.1	26.9	29.6	27.0
Srei Infrastructure finance	ADD	50	53	0.1	11.4	7.7	6.9	4.6	6.9	7.7	59	97	101	0.9	0.5	0.5	23.1	14.0	11.5
Rural Electrification Corp.	BUY	125	135	2.4	10.9	15.2	17.7	12.4	8.9	7.6	72	83	95	1.9	1.6	1.4	17.1	19.6	19.9

Source: Bloomberg, Companies, Kotak Institutional Equities estimates.

Bank stocks have increased by around 30-50% over the past one month

Stock price performance—absolute and relative (%)

	Price		Change in price (%)					Relative performance to sensex (%)					52 week high	52 week low
	18-May-09	Rating	1 month	3 month	6 month	12 month	Ytd	1 month	3 month	6 month	12 month	Ytd	(Rs)	(Rs)
Public banks														
Andhra Bank	76	ADD	30.5	46.6	54.3	(5.8)	37.8	0.8	(7.4)	(3.4)	10.4	(6.9)	85	35
Bank of Baroda	415	ADD	39.8	81.7	57.7	40.4	48.2	7.9	14.8	(1.3)	49.5	0.2	444	170
Bank of India	288	ADD	9.0	30.3	15.0	(19.8)	0.3	(15.8)	(17.7)	(28.0)	(1.4)	(32.2)	369	179
Canara Bank	260	REDUCE	28.7	45.2	50.7	10.0	38.2	(0.6)	(8.3)	(5.6)	23.8	(6.6)	272	135
Corporation Bank	280	BUY	31.3	68.2	43.2	(17.8)	47.9	1.4	6.2	(10.3)	0.3	(0.0)	360	155
Indian Bank	117	BUY	1.6	14.9	(4.3)	(18.8)	(14.5)	(21.5)	(27.4)	(40.1)	(0.5)	(42.2)	148	64
IOB	80	BUY	20.3	50.7	14.3	(45.9)	11.5	(7.1)	(4.8)	(28.4)	(23.5)	(24.6)	150	38
OBC	160	ADD	13.9	42.9	12.3	(24.2)	3.9	(12.0)	(9.7)	(29.7)	(5.1)	(29.8)	212	95
PNB	660	BUY	34.1	81.2	45.9	15.4	25.3	3.6	14.4	(8.7)	28.4	(15.3)	680	286
SBI	1,585	BUY	21.5	48.0	43.0	(7.1)	23.0	(6.2)	(6.5)	(10.5)	9.3	(16.9)	1,710	892
Union Bank	195	BUY	17.5	52.3	30.1	19.7	19.6	(9.2)	(3.8)	(18.5)	32.0	(19.2)	208	96
Old private banks														
Federal Bank	221	BUY	27.8	65.0	53.6	(7.7)	36.4	(1.3)	4.3	(3.8)	8.8	(7.8)	256	110
J&K Bank	400	ADD	24.6	46.0	35.4	(46.2)	12.8	(3.7)	(7.8)	(15.2)	(23.8)	(23.8)	779	210
New private banks														
Axis Bank	800	BUY	59.0	102.9	82.8	(11.1)	58.5	22.8	28.2	14.4	5.9	7.1	908	278
HDFC Bank	1,380	ADD	28.7	57.5	50.8	(8.0)	38.2	(0.6)	(0.5)	(5.6)	8.6	(6.6)	1,562	774
ICICI Bank	720	ADD	63.3	94.8	99.8	(23.7)	60.6	26.1	23.0	25.1	(4.7)	8.6	971	252
Non-banks														
HDFC	2,390	SELL	32.8	75.4	68.3	(13.5)	60.8	2.6	10.8	5.4	4.0	8.7	2,800	1,116
IDFC	117	ADD	76.1	110.3	99.0	(30.7)	75.0	36.0	32.8	24.6	(10.6)	18.3	170	44
LIC Housing Finance	410	BUY	47.3	104.1	117.4	16.4	77.9	13.8	28.9	36.1	29.3	20.2	425	150
MMFS	221	ADD	4.6	15.1	16.3	(25.1)	(12.8)	(19.2)	(27.3)	(27.2)	(5.9)	(41.1)	300	162
PFC	197	ADD	27.7	42.5	91.3	27.5	48.0	(1.4)	(10.0)	19.8	38.6	0.0	200	85
Shriram Transport	271	ADD	25.7	47.5	35.4	(15.3)	39.1	(2.9)	(6.9)	(15.2)	2.4	(6.0)	360	150
Srei Infrastructure finance	53	ADD	38.7	42.3	23.3	(66.8)	36.2	7.2	(10.1)	(22.8)	(41.2)	(7.9)	160	22
Rural Electrification Corp.	135	BUY	23.6	67.8	125.9	15.4	85.2	(4.5)	6.0	41.5	28.4	25.2	138	53

Source: Bloomberg, Kotak Institutional Equities estimates.

Telecom

Sector coverage view			Cautious

		Price, Rs	
Company	**Rating**	**18-May**	**Target**
Bharti	ADD	1,003	775
Rcom	SELL	290	180
MTNL	SELL	89	50
Tata Communi	REDUCE	601	400
Idea Cellular	REDUCE	76	55

Impact of election outcome—some technical positive triggers, nothing fundamental

Kawaljeet Saluja : kawaljeet.saluja@kotak.com, +91-22-6634-1243
Rohit Chordia : rohit.chordia@kotak.com, +91-22-6634-1397

- **Meaningful change in policy unlikely**
- **Play on technical factors may not be significant**
- **Maintain Cautious coverage view**

We find the sharp run-up in Indian Telecom stock prices surprising given that formation of stable government is unlikely to (1) change policy matters on licensing, levies and competition, (2) impact estimates on value accretion from 3G auction, (3) impact estimates on subscribers additions, usage change and growth, and (4) lead to any direct benefit of potential fiscal stimulus. The run-up appears to be based on technical factors including (1) potential Rupee appreciation that can provide some near-term upside to earnings estimates though it is unlikely to change fundamental value and (2) expectations that the telecom sector may be able to capture primary and second fund-flows from formation of stable government. There could be some justification in technical factors; however, we would recommend investors not to overlook the fundamental concerns including increasing competitive intensity and consistent downgrades of EBITDA estimates over the last 12-months. Valuations of the wireless names at 9-11X FY2010E and 7-10X FY2011E EV/EBITDA are at a significant premium to fair value and regional comps (even after adjusting for growth). Retain Cautious coverage view with SELL rating on RCOM and REDUCE on Idea.

Meaningful change in policy unlikely. We do not expect meaningful deviations on the policy front from the government's earlier term. The government may however provide clarity/ take decisions on the following

1. **3G auctions.** 3G auctions could not materialize during the planned Jan 2009 month due to delays in procedure clarifications. We believe that 3G auctions may materialize in CY2009, though this in unlikely to be a stock price trigger. We assume 3G to be NPV neutral (though global experiences suggest some value destruction)**.**
2. **Concessional license fees and increase in spectrum charges.** DOT had issued notification for concessional license fees of 2% of AGR in non-Metro circles in case any operator reaches coverage of 95% of developmental blocks in a circle. The DOT had also proposed increased in spectrum charges of 1-3% of AGR depending on the quantum of spectrum usage. Both these events were not notified by the Cabinet and did not materialize into law. If taken together, these would be neutral for the sector.
3. **TDSAT's ruling on excess allocation of spectrum by DOT.** The TDSAT had recently ruled that the GSM operators are not entitled to 2G spectrum grant beyond the 6.2MHz permitted in their UAS (Universal Service Access) license. The ruling does not suggest any actions on operators who have been granted excess spectrum (beyond 6.2 MHz). Potential actions could be (1) a one-time spectrum charge levied on operators holding excess spectrum and/or (2) a recurring excess spectrum levy. We expect the government to step in and take remedial action.

Play on technical factors may not be significant. Positive rub-off effect from stable government may drive strong capital inflows and possibly drive rupee appreciation. We believe that strong capital inflows may lead to temporary increase in stock prices though fundamentals and earnings in our view would eventually prevail. We discuss the impact of stronger rupee on Bharti and RCOM

1. **Bharti—temporary earnings boost from rupee appreciation though no change in value.** Bharti's FY2009 EPS was impacted by Rs4.5 from mark-to-market forex losses (net of deferred tax asset) on overseas borrowings resulting from rupee depreciation. Bharti's FY2010E EPS may increase by Rs2-2.5 in case rupee appreciates to 45; insignificant in our view.

2. **RCOM—Rs12 increase in target price in case rupee appreciates to 45.** RCOM had forex loans of approximately US$3.6 bn at end-December 2008. In addition, we estimate buyers credit and equipment payables of US$1.4 bn. RCOM's forex liability (and effectively debt) can reduce by Rs25 bn (~Rs12/share) in case rupee appreciates to 45; our target price can increase accordingly.

Indian telecom companies valuation analysis, March fiscal year-ends, 2008-2011E

	Price (Rs)	Target price	P/E (X)				EV/EBITDA (X)			
	18-May-09	(Rs)	2008	2009	2010E	2011E	2008	2009	2010E	2011E
Bharti	1,003	775	28.4	22.5	19.2	16.8	17.1	13.0	11.1	**9.7**
Idea	76	55	19.2	26.2	26.2	23.6	13.1	9.6	8.7	**7.3**
MTNL	89	50	12.4	22.3	21.8	19.5	3.0	10.7	8.9	**6.6**
RCOM	290	180	11.0	10.5	14.3	13.7	10.3	9.2	8.7	**6.8**
TCOM	601	400	54.9	44.2	42.9	39.6	28.2	21.4	19.3	**17.7**
	KS	**Market cap.**	**Revenues (Rs bn)**				**EBITDA (Rs bn)**			
	rating	**(US$ bn)**	**2008**	**2009**	**2010E**	**2011E**	**2008**	**2009**	**2010E**	**2011E**
Bharti	ADD	38.1	270	370	433	501	113	152	175	196
Idea	REDUCE	4.7	67	101	136	176	23	28	36	44
MTNL	SELL	1.1	47	42	45	48	7	2	3	5
RCOM	SELL	11.9	191	229	278	343	82	93	104	131
TCOM	REDUCE	3.4	33	38	42	46	6	8	9	10
			Net Income (Rs bn)				**EPS (Rs)**			
			2008	**2009**	**2010E**	**2011E**	**2008**	**2009**	**2010E**	**2011E**
Bharti			66	84	97	111	35.3	44.6	52.2	59.8
Idea			10	9	9	10	3.9	2.9	2.9	3.2
MTNL			4	2	2	2	7.1	4.0	4.1	4.6
RCOM			56	59	43	45	26.5	27.7	20.3	21.1
TCOM			3	4	4	4	10.9	13.6	14.0	15.2

Source: Bloomberg, Kotak Institutional Equities estimates

Technology

Sector coverage view			Neutral

		Price, Rs	
Company	**Rating**	**18-May**	**Target**
TCS	REDUCE	744	510
Wipro	ADD	417	325
Infosys	BUY	1,800	1,500
HCL Tech	REDUCE	166	110
Patni	REDUCE	214	150
Hexaware	SELL	38	25
Polaris Softwar	SELL	85	50
Tech Mahindra	ADD	392	360
Mphasis BFL	REDUCE	292	190
MindTree	BUY	407	400

Election outcome euphoria detrimental for Indian IT stocks

Kawaljeet Saluja : kawaljeet.saluja@kotak.com, +91-22-6634-1243
Rohit Chordia : rohit.chordia@kotak.com, +91-22-6634-1397

- **Indian elections outcome do not matter for the Indian IT sector...**
- **...however, the possibility of a stronger Re does**
- **Multiple re-rating needs to be viewed in conjunction with the likelihood of earnings downgrades on stronger Re expectations**

We find the run-up in stock prices of Indian IT services post Indian elections outcome surprising and a bit worrying. We do not believe a stable Indian Government would have a positive influence on the operational metrics for the Indian IT companies. On the contrary, strong capital inflows and a stable government may lead to a stronger rupee, a considerable negative for the sector. Basket buying of India equity as an asset class may keep stock prices of Indian IT stocks firm in the near term; however, outperformance from these levels in the medium-to-long term would require substantial earnings upgrades, which we do not foresee in the near future. Our thesis on business recovery starting from 2HCY09 remains intact; however, stocks are running ahead of fundamentals. We would review our earnings estimates after our economist's currency forecast revision.

The outcome of Indian elections does not matter for India's IT sector… We attribute the participation of the Indian IT stocks in the post election results rally to a possible short squeeze in the broader market, or fresh money chasing Indian equity as an asset class without careful consideration of the actual sectoral impact of a stable government formation at the centre. We believe Central government stability has no positive influence on the operational metrics of the Indian IT sector, whose fortunes are tied more closely to a revival in the global economy. If anything, a stable government and higher capital inflows (to Indian equities) could lead to a stronger Rupee, impacting the earnings of the Indian IT sector negatively (we discuss this in detail in the next paragraph). Re-rating of the Indian IT stocks may sustain given the likelihood of the lower country and political risk premium attached to Indian equities in general; however, investors should consider that it is also likely that meaningful earnings upgrades in the sector could be smaller and fewer (a sharp appreciation in the Re/US$ rate could lead to downgrades as well). Our thesis of business recovery starting from 2HCY09 remains intact; however, stocks are running ahead of fundamentals. We would review our earnings estimates post our economist's currency forecast revision.

… however, the possibility of a stronger Re does. As highlighted above, an increase in capital inflows could lead to a sustained appreciation in the Re versus the US$, negatively impacting FY2010E/11E earnings estimates for the Indian IT companies. Our current EPS estimates are based on an average Re/US$ rate of 50.75 and 50.5 for FY2010E and FY2011E, respectively. Exhibit 1 depicts the EPS sensitivity of Indian IT companies to various Re/US$ scenarios. We are maintaining our earnings estimates but would review the same post our economist’s currency forecast revision.

EPS sensitivity of Indian IT companies to Re/US$ rate assumptions

FY2010E earnings sensitivity						
Re/US$ rate	**46.0**	**47.0**	**48.0**	**49.0**	**50.0**	**50.8**
Infosys	91.4	94.1	96.8	99.4	102.1	104.1
TCS	43.7	45.3	46.9	48.5	50.1	51.3
Wipro	23.7	24.4	25.1	25.8	26.4	27.0
HCLT	10.2	10.7	11.2	11.7	12.1	12.5
Tech Mahindra	30.9	32.4	33.9	35.4	36.9	38.0
Patni	18.5	19.6	20.6	21.7	22.7	23.5
MindTree	35.0	36.9	38.8	40.7	42.6	44.0
Hexaware	2.8	3.0	3.2	3.3	3.5	3.6
Polaris	10.6	11.2	11.7	12.3	12.9	13.3
Mphasis	25.9	27.3	28.7	30.1	31.5	32.6

FY2011E earnings sensitivity						
Re/US$ rate	**46.0**	**47.0**	**48.0**	**49.0**	**50.0**	**50.5**
Infosys	102.6	105.6	108.6	111.6	114.6	116.1
TCS	48.1	49.9	51.6	53.3	55.0	55.9
Wipro	26.1	26.9	27.6	28.3	29.1	29.4
HCLT	14.0	14.6	15.2	15.8	16.4	16.7
Tech Mahindra	31.2	32.6	33.9	35.2	36.5	37.2
Patni	21.4	22.5	23.5	24.5	25.6	26.1
MindTree	40.8	43.0	45.2	47.4	49.6	50.7
Hexaware	3.1	3.2	3.4	3.6	3.7	3.8
Polaris	9.8	10.3	10.8	11.3	11.9	12.1
Mphasis	22.4	23.6	24.9	26.1	27.3	27.9

Source: Kotak Institutional Equities estimates

Currency hedges of the top Indian IT companies over the past few quarters (US$ mn)

	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09
TCS	2,500	2,800	3,100	2,900	2,300	1,800	2,000	2,000
HCL Tech	1,160	1,860	2,300	2,700	2,000	1,900	1,580	1,300
Wipro (a)	708	1,100	2,450	3,500	3,000	2,600	2,100	1,900
Infosys	939	1,401	1,150	759	811	932	576	506

Note:
(a) Gross outstanding hedges. Net hedges (after assigining to assets on the balance sheet) at end-Mar 2009 were US$1,300 mn.

Source: Companies, Kotak Institutional Equities

Implied FCF growth to perpetuity for tier-I Indian IT stocks has shot up post the recent rally

	CMP	Enterprise value	FY2010E FCF (a)	FY2010E FCF yield	Assumed WACC	Implied FCF growth to perpetuity (b)	Risk to FCF estimates
	(Rs)	(Rs mn)	(Rs mn)	(%)	(%)	(%)	
Infosys	1,800	882,743	46,025	5.2	12.5	7.3	Low
TCS	744	679,582	39,304	5.8	12.5	6.7	Medium
Wipro	417	576,184	29,382	5.1	12.5	7.4	Medium

Note:
(a) Defined as operating cash flow post working capital changes less capex (normalized for tax rate increase starting FY2011E)
(b) Assuming FY2010E as the terminal year

Source: Bloomberg, Kotak Institutional Equities estimates

Industrials

Sector coverage view	Attractive

		Price, Rs	
Company	**Rating**	**18-May**	**Target**
BHEL	REDUCE	2,015	1,475
BGR	REDUCE	238	165
Crompton Gre	ADD	205	210
L&T	ADD	1,232	1,000
BEL	REDUCE	1,098	1,025
ABB	REDUCE	560	500
Suzlon	ADD	93	90
Siemens	REDUCE	426	360

Government can make difference in key sectors; however there was no constraint in previous term also

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

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

- **Centre has influence on 60% of infra. spending; reported progress on 25%, mainly power**
- **Roads, ports and railways need focus; nothing prevented progress in previous term also**
- **Limited role in power distribution, state roads, irrigation and telecom adding to about 40% of infra. spending**

We identify sectors based on ability of central government to make a difference to spending trajectory: (a) Sectors with strong progress already and thus limited incremental role (25%) ' power generation, transmission and airports, (b) government has to drive (37%) ' roads, railways, ports and water supply and sanitation (c) sectors that are dependant on state and private sector (38%) ' power distribution, state level roads, irrigation and telecommunication. In key sectors such as power, government has to ensure execution of projects on time as well as catalyze state level reforms to reduce losses. In the derailed roads sector emphasis is to get the award process going again while in railways emphasis is on capacity enhancement particularly with large projects such as Dedicated Freight Corridor (DFC). We highlight that there was no constraint in previous term also in pushing the infrastructure agenda and sectors like roads and ports got derailed because of the lack of coordination among various arms of government on crucial policy matters.

Central government has direct influence on 60% of infrastructure spending and has made decent progress on 25% already

We identify sectors in three categories based on ability of central government to make a meaningful difference to spending trajectory in those sectors:

a) Sectors with strong progress already and thus government incremental role is limited (25%) – Power generation, transmission and airports

b) Where government can drive a significant difference (37%) – roads (National Highway Development Program), Railways and ports.

c) Sectors that are not dependant on central government but on state and private sector (38%) – Power distribution, state level roads, irrigation, water supply and sanitation, and telecommunication (Exhibit 1).

Power – Push execution, catalyze state level reforms to reduce AT&C losses and carry out bulk tendering

We highlight that power sector has seen strong ordering activity with completion of 80 GW of ordering activity for the XIth plan. About 25 GW of XIIth plan thermal capacity has also been already ordered which may be more than 40% of total envisaged thermal capacity in the XIth plan. We believe portion of XIIth plan capacity that has been ordered already may be even higher if we include nuclear and hydro power also as these are longer lead and are likely to be ordered out earlier. So power sector requires an execution push so that plants can be commissioned without much delays (Exhibits 2, 3 and 4).

Other initiatives that have the potential to change the sector dynamics and improve sector health are:

a) Bulk tendering - bulk tendering activity that may catalyze competition in the power equipment manufacturing and

b) Reduce AT&C losses at state level - incentivizing reduction in AT&C losses (schemes such as APDRP) so that unit revenues and sector health could improve.

Roads—Clarify bidding norms and reduce project costs to enhance viability

We highlight that road sector could be the biggest beneficiary of a government that intends to create a meaningful difference in the infrastructure development. We believe that long-term program has already been structured and there are enough instances of successful road projects in both the public as well as private domain. However the momentum has recently flagged with (a) long debate around the model concession agreement, (b) imposition of clause to let only top six qualified bidders place bids in the current batch of projects and (c) subsequently forcing some top qualified bidders to withdraw based on maximum number of projects that can be won by a particular consortium. Apart from clarity on bidding norms, projects may also need to be restructured to reduce the scope such as (service lanes etc.) so as to reduce costs and make them more attractive for private bidders (Exhibits 5 and 6).

Railways—Dedicated freight corridor and capacity enhancements; good enough investable cash generation

We highlight that key investments in the railways sector that the government can push are (a) capacity enhancements post several years of volume led utilization strategy and (b) dedicated freight corridor on which work has already started. Railway is generating investable cash surplus of the order of US$4-5 bn p.a. and that can be put to use in the executing the investment program (Exhibits 7 and 8).

Ports—Several identified capacity enhancement projects at major ports are facing delays in tendering activity

We highlight that several capacity enhancement projects at major ports such as JNPT 4th terminal are facing long delays and can be tendered out to construction contractors/ developers. Private sector has come forth and invested in port capacity with several new ports such as Mundra, Pipavav, Krishnapatnam, Dhamra, Gangavaram coming up. This sector was also affected by delays related to debate on the model concession agreement similar to road pojects.

Irrigation—Central government has limited role however state budgets suggest spending may be in line with target

We highlight that irrigation sector is completely dominated by state sector spending and thus central government ha a limited role to play in the sector. Andhra Pradesh leads the way in irrigation spending and reelection of same state government as before in AP bodes well for visibility on this sector. We highlight that recent budget allocations suggest that spending in the sector may be broadly in line with set targets (Exhibits 9 and 10).

Water supply and sanitation—catalyst role for state government investments

Central government can play role of a catalyzing agency in the water supply and sanitation area as this sector is lead by state government investments. Schemes such as Jawahar Lal Nehru Urban Renewal Mission (JNURM) is aimed at urban level reforms and partially financing investments in urban infrastructure particularly related to water supply and sanitation.

We highlight that there was no constraint in previous term also in pushing the infrastructure agenda

We highlight that there was no constraint on pushing the infrastructure agenda in the previous terms also, Derailment of investment program in sectors such as roads and ports was essentially the result of lack of coordination among various arms of government in setting clear policy objectives and process to drive investments.

Exhibit 1. Government has a role to play in about 60% of the total infrastructure spending, rest is autonomous or in hands of state governments

Infrastructure spending during the Xith plan as per the planning commission document

Sectors	Xth Plan US$ bn	XIth Plan US$ bn	Centre	State	Private	Key remarks
Power	**71**	**150**	**53**	**57**	**40**	**Visible progress but execution is the key**
Generation	35	85	30	23	30	Capacity already ordered
Transmission	15	32	13	12	7	Should align with generation progress
Distribution	20	36	10	23	2	Depend on state finances
Roads & bridges	**32**	**76**	**28**	**21**	**27**	**Confusion on award process**
Central - NHDP		48	28	—	20	Slow ordering activity by NHAI
State - Non-NHDP		28	—	21	7	Select states such as Gujarat, MP have made progress
Railways	20	62	52	—	11	Cash generation of US$4-5 bn p.a. could help finance investments
Irrigation	32	53	5	48	—	Disaggregated state level spending
Water supply & sanitation	16	49	28	20	1	Driven by state, however, JNURM etc drive investments
Ports	1	18	4	1	13	Private sector has made investments, however public projects have languished
Airports	2	8	2	—	6	Delhi, Mumbai, Bangalore and Hyderabad have already made progress
Telecommunication	22	65	22	—	43	Mostly private sector led investment
Total	**271**	**492**	**198**	**149**	**145**	

Note: (a) These are planning commission estimates 2006-2007 prices and have been converted using exchange rate of Rs41/$

Legend:

Strong progress already visible, unlikely to get better

Progress largely depends on state government/private sector

Government can make significant difference

Source: Planning commission, Kotak Institutional equities research

Exhibit 2. Total of 80 GW of orders under construction/ commissioned in the XIth Plan

Projects in the XIth plan - Under construction/ commissioned (MW)

	Coal						
	Supercritical	**Subcritical**	**Total**	**Gas**	**Hydro**	**Nuclear**	**Total**
Centre	3,300	16,420	19,720	726	9,955	3,380	**33,781**
NTPC	3,300	10,220	13,520	—	1,920	—	**15,440**
NHPC	—	—	—	—	5,103	—	**5,103**
DVC	—	5,450	5,450	—	—	—	**5,450**
Others	—	750	750	726	2,932	3,380	**7,788**
State	—	20,828	20,828	2,223	2,637	—	**25,688**
Private	5,560	10,009	15,569	2,057	3,263	—	**20,889**
Total	**8,860**	**47,257**	**56,117**	**5,006**	**15,855**	**3,380**	**80,358**

Projects in the XIth plan -Commissioned so far

	Coal						
	Supercritical	**Subcritical**	**Total**	**Gas**	**Hydro**	**Nuclear**	**Total**
Centre	—	2,740	2,740	—	1,030	220	**3,990**
NTPC	—	2,490	2,490	—	—	—	**2,490**
NHPC	—	—	—	—	—	—	**—**
DVC	—	250	250	—	—	—	**250**
Others	—	—	—	—	—	—	**—**
State	—	4,420	4,420	280	2,362	—	**7,062**
Private	—	1,000	1,000	383	—	—	**1,383**
Total	**—**	**8,160**	**8,160**	**662**	**3,392**	**220**	**12,434**

Source: CEA, Kotak Institutional Equities

Exhibit 3. BHEL captures 62% of coal-based thermal power projects under XIth Plan

Projects in the XIth plan - BHEL having the order, (MW)

	Thermal				Hydro	Nuclear	Total
	Coal			Gas			
	Supercritical	Subcritical	Total				
Centre	—	15,530	15,530	726	4,270	—	**20,526**
NTPC		9,480	9,480		1,400		**10,880**
NHPC					1,870		**1,870**
DVC		5,300	5,300				**5,300**
Others		750	750	726	1,000		**2,476**
State	—	16,778	16,778	1,757	473	—	**19,008**
Private	—	2,390	2,390	—	1,022	—	**3,412**
Total	**—**	**34,698**	**34,698**	**2,483**	**5,765**	**—**	**42,946**

Projects in the XIth plan - BHEL's market share (%)

	Thermal				Hydro	Nuclear	Total
	Coal			Gas			
	Supercritical	Subcritical	Total				
Centre	—	94.6	78.8	100.0	42.9	—	**60.8**
NTPC		92.8	70.1				**70.5**
NHPC							
DVC		97.2	97.2				**97.2**
Others		100.0	100.0	100.0			**31.8**
State		80.6	80.6	79.0	17.9		**74.0**
Private		23.9	15.4		31.3		**16.3**
Total	**—**	**73.4**	**61.8**	**49.6**	**36.4**	**—**	**53.4**

Source: CEA, Kotak Institutional Equities

Exhibit 4. One-fourth of XIIth plan ordering activity may have already been completed

Total projects in the XIIth Plan - Likely to be taken up for commissioning (MW)

	Coal						
	Supercritical	Subcritical	Total	Gas	Hydro	Nuclear	Total
Centre	7,344	5,937	13,281	4,550	13,986	7,200	**39,017**
NTPC	7,344	675	8,019	4,550	4,546	1,800	**18,915**
NHPC	—	—	—	—	5,950	—	**5,950**
DVC	—	1,638	1,638	—	—	—	**1,638**
Others	—	3,624	3,624	—	3,491	5,400	**12,515**
State	800	19,944	20,744	1,185	4,174	—	**26,103**
Private	3,260	4,203	7,463	2,932	4,189	—	**14,584**
UMPP	15,885	—	15,885	—	—	—	**15,885**
Total	**27,289**	**30,084**	**57,373**	**8,667**	**22,349**	**7,200**	**95,589**

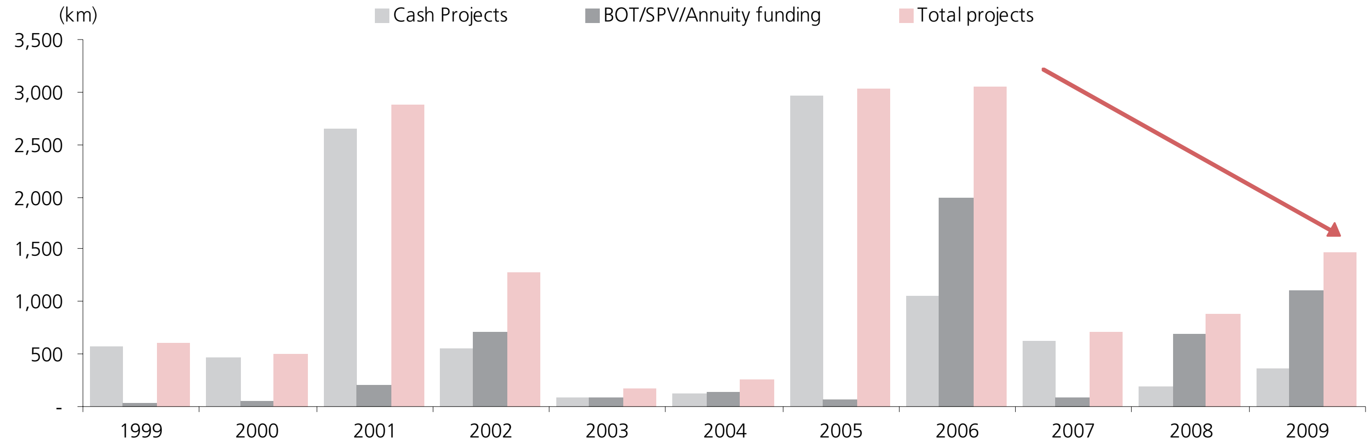
Total projects in the XIIth Plan - Already awarded (MW)

	Coal				
	Supercritical	Subcritical	Total	Gas	Total
Centre	1,980	5,500	7,480	—	**7,480**
NTPC	1,980	4,250	6,230		**6,230**
NHPC			—		**—**
DVC			—		**—**
Others		1,250	1,250		**1,250**
State	2,920	3,400	6,320	23	**6,343**
Private	3,960	8,100	12,060	—	**12,060**
Total	**8,860**	**17,000**	**25,860**	**23**	**25,883**

Source: CEA, Kotak Institutional Equities

Exhibit 5. Overall activity has been excruciatingly slow while clearly cash projects are on the way out

Cash and BOT/SPV/Annuity funded NHDP projects 1999-2009 as on December 31, 2008 (km)



Source: NHAI, Kotak Institutional Equities

Exhibit 6. Progress has been slow post completion of Golden Quadilateral, i.e. Phase I of NHDP

Phase-wise status of NHDP Phases III to VII (as of March 31, 2009)

		Length (Kms)			
		Total	Completed	Under implementation	To be awarded
I	Golden Quadilateral (GQ) - 4-laning of roads connecting Mumbai-Delhi-Kolkata-Chennai	5,846	5,721	125	—
II	NSEW Corridor - 4-Laning of raods connecting Silchar-Porbandar and Kashmir Kanyakumari	7,300	3,436	2,915	791
III	**Stretches connecting important tourist and religious places with urban centres**	**12,109**	**787**	**1,878**	**9,444**
IV	2-laning of less important national highways	20,000	—	—	20,000
V	**6-laning of high density corridors in GQ, NSEW**	**6,500**	**106**	**928**	**5,470**
VI	New expressway construction	1,000	—	—	1,000
VII	Urban areas - ring roads etc.	1,000	—	—	1,000

		To be awarded	Total awarded as on			Awarded during	
			Mar-09	Apr-08	Feb-07	Apr08 - Mar09	Feb07-Apr08
I	Golden Quadilateral (GQ) - 4-laning of roads connecting Mumbai-Delhi-Kolkata-Chennai	—	5,846	5,846	5,846	—	—
II	NSEW Corridor - 4-Laning of raods connecting Silchar-Porbandar and Kashmir Kanyakumari	791	6,351	6,321	6,230	30	91
III	**Stretches connecting important tourist and religious places with urban centres**	**9,444**	**2,665**	**1,809**	—	**856**	**1,809**
IV	2-laning of less important national highways	20,000	—	—	—	—	—
V	**6-laning of high density corridors in GQ, NSEW**	**5,470**	**1,034**	**1,030**	—	**4**	**1,030**
VI	New expressway construction	1,000	—	—	—	—	—
VII	Urban areas - ring roads etc.	1,000	—	—	—	—	—

Source: National Highway Authority of India, Kotak Institutional Equities

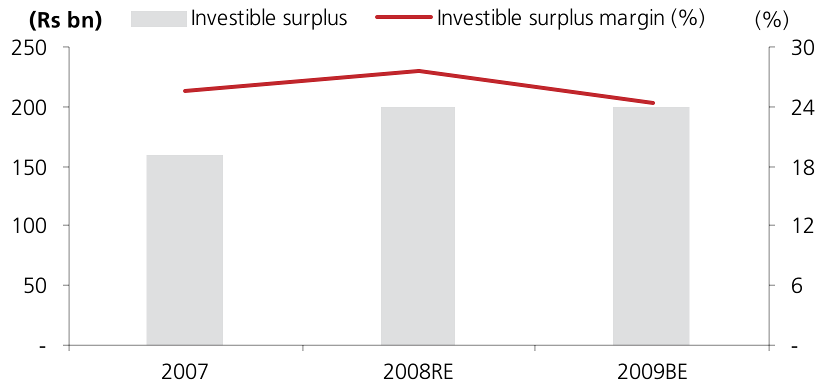
Exhibit 7. Railway envisages strong investments in capacity enhancement

Capital expenditure plan of Indian Railways over the XIth plan

	Investments (Rs bn)
Rolling stock	545
Capacity augmentation & development	725
Safety & other works	1,119
Investment in PSUs	110
Dedicated Freight Corrdior	300
Metro rail projects	200
Total	**3,000**

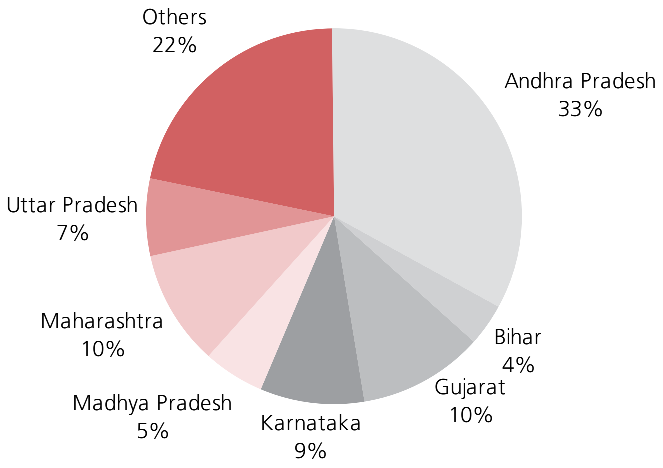
Source: Kotak Institutional Equities estimates, planning commission documents

Exhibit 8. Railways generate about US$4-5 bn of investable surplus each year
Investable cash surplus of Indian railways, March fiscal year-ends 2007-2009E (Rs bn)



Source: Kotak Institutional Equities estimates, Indian Railways budget documents

Exhibit 9. Contribution to total irrigation spending led by Andhra Pradesh follwed by Maharashtra and Gujarat
State-wise share of total planned spending on Major and Medium Irrigation and Flood Control, March fiscal year-end, 2008



Source: Reserve Bank of India

Exhibit 10. Envisaged spending in irrigataion sector during 11th plan likely to pan out
Planned versus actual investments in Irrigation sector (Rs bn)

Envisaged investment in irrigation in 11th five year plan (2006-07 prices)	2,231
Actual spending in Irrigation in 2007-08 (Budget estimate)	339
Actual spending in Irrigation in 2007-08 (at 2006-07 prices)	323
Total potential spending in XIth plan assuming 6% growth each year	1,819
Likely central government spending (10% of total)	202
Total potential spending	2,021
Likely achievement versus envisaged (%)	**90.6**

Note:
(1) Used inflation estimate of 5% for deflating 2007-08 nominal data to 2006-07 prices.
Source: Government of India, RBI, Kotak Institutional Equities estimates

Cement

Sector coverage view			Cautious

		Price, Rs	
Company	**Rating**	**18-May**	**Target**
Gujarat Ambuj	REDUCE	87	70
ACC	REDUCE	721	625
Grasim	REDUCE	2,192	1,500
India Cements	ADD	128	130
UltraTech Cem	ADD	651	625
Shree Cement	BUY	919	950

Healthy volume growth sustains, prices inch upwards

Aman Batra : aman.batra@kotak.com, +91-22-6634-1231

Murtuza Arsiwalla : murtuza.arsiwalla@kotak.com, +91-22-66341-125

- **Despatch growth at 13.1% yoy in April 2009, despite unfavorable base**
- **Cement prices increase by Rs2/bag, led by North and East**
- **Cement stocks lag market performance, recommend reducing exposure to ACC and Ambuja**

Despatch growth of 13.1% yoy in April 2009—sustainability of double-digit growth remains suspect. Cement despatch growth improved in April 2009 to 13.1% yoy (compared to 10.3% yoy growth in March 2009 and 9.1% in January 2009). We note the improvement in cement despatches was aided by pre-election spending and have concerns on the sustainability of the current despatch growth rate. In our view, cement despatches will likely clock growth of 7% yoy in FY2010E.

Shree Cement and Jaiprakash reported strong despatch growth (despite unfavorable base), benefiting from (1) ramp-up of production from new capacities, and (2) healthy demand environment in key markets of Uttar Pradesh (UP) and Madhya Pradesh (MP). We note that India Cement (+1.4% yoy) and ACC (+3.6% yoy) continue to report despatch growth in low single-digits.

Cement prices increase to Rs245/bag—North and East contribute to price rise. All India average cement prices during April 2009 increased to Rs245/bag (Rs243/bag in March 2009). We note that most of the price increase was contributed by North (+Rs5/ bag) and East (Rs4/bag), while price action in other regions remained largely muted. Cement prices in South have remained around Rs260/bag for the last six months, as demand growth in the region has slowed down during this period.

In our view, the near-term firmness in the price trend will likely reverse itself as the recently commissioned capacities likely ramp-up production and new capacities continue to come on stream. We currently assume a 3-5% decline in prices during FY2010E in our financial projections.

Valuation multiple for large-cap stocks expanded after yesterdays rally, upside still exist in smaller cement companies. Cement stocks have lagged the markets over the last three months, despite strong quarterly results and absolute performance (+18% mom). In our view, earnings multiples of large-cap cement companies (now around 6.5X EV/EBITDA on FY2010E) appear fairly valued, though room for further re-rating exists in the case of Shree Cement (3.9X on FY2010E), India Cements (4.3X on FY2010E) and Ultratech (5X on FY2010E).

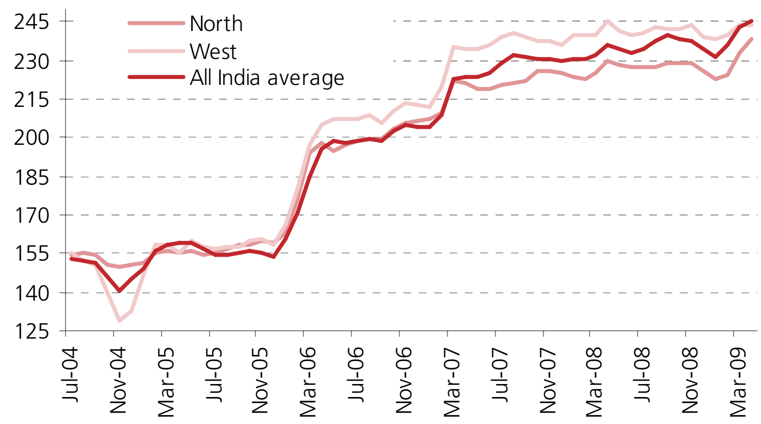
Cement stocks have typically traded below replacement cost (currently at ~US$100/ton) during periods of declining margins (and prices). We recommend reducing exposure to cement players near or above replacement costs. ACC and Ambuja remain our top sell ideas in the sector.

Exhibit 1: Despatch growth in strong double-digits
Cement despatch growth rate for major companies

	Apr-09	Growth (%)	
	(mn tons)	y-o-y	YTD
ACC	1.77	3.6	3.6
Ambuja Cements	1.64	10.8	10.8
Ultratech Cement	1.58	13.7	13.7
Grasim Industries	1.59	30.7	30.7
Shree Cement	0.79	28.4	28.4
India Cements	0.78	1.4	1.4
Madras Cements	0.61	19.6	19.6
Jaiprakash	0.79	28.0	28.0
Industry	**16.6**	**13.1**	**13.1**

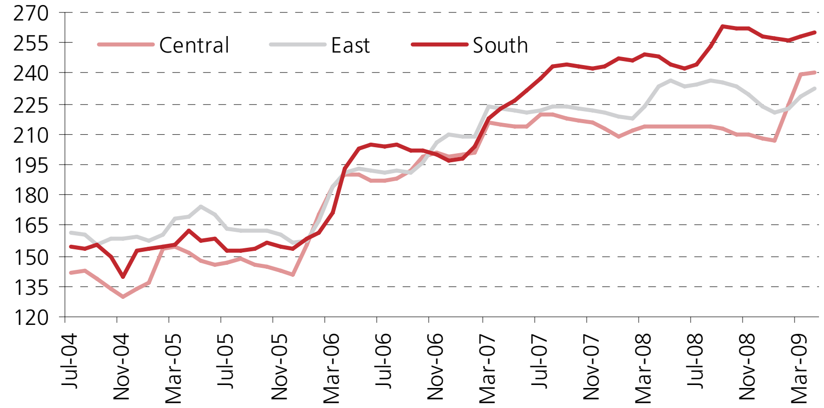
Source: CMA, Kotak Institutional Equities

Exhibit 2: All India average cement prices at Rs245/bag
Regional cement prices (Rs per 50 kg bag)



Source: CMA, Kotak Institutional Equities

Exhibit 3: Price action in South and Central remained muted in April
Regional cement prices (Rs per 50 kg bag)



Source: CMA, Kotak Institutional Equities

Exhibit 4: Cement comparative valuation

Company	Market cap. (US$ mn)	CMP (Rs) 18-May	Target price (Rs)	Rating	EPS (Rs) 2008	2009E	2010E	2011E	P/E (X) 2008	2009E	2010E	2011E
ACC	2,859	730	625	REDUCE	64.1	56.3	55.2	42.2	11.4	13.0	13.2	17.3
Ambuja Cements	2,697	85	70	REDUCE	7.6	7.2	6.8	5.4	11.2	11.8	12.4	15.6
Grasim Industries	4,108	2,150	1,500	REDUCE	284.6	225.7	188.5	192.6	7.6	9.5	11.4	11.2
India Cements	770	131	130	ADD	24.5	18.8	19.8	17.5	5.4	7.0	6.6	7.5
Jaiprakash Associates	4,972	170	140	ADD	4.9	6.6	7.9	11.8	34.7	25.9	21.6	14.4
Shree Cement	687	946	950	BUY	90.2	174.7	91.6	86.2	10.5	5.4	10.3	11.0
UltraTech Cement	1,645	630	625	ADD	81.4	78.0	70.5	49.3	7.7	8.1	8.9	12.8

Company	EV/EBITDA (X) 2008	2009E	2010E	2011E	EV/ton of production (US$) 2008	2009E	2010E	2011E	EV/ton of capacity (US$) 2008	2009E	2010E	2011E
ACC	6.0	6.5	6.5	7.6	131	125	123	116	122.1	122.1	118.9	103.1
Ambuja Cements	5.3	6.2	6.4	7.9	146	144	139	134	132.6	130.3	128.6	124.5
Grasim Industries	4.8	5.9	6.1	5.9	NA	NA	NA	NA	NA	NA	NA	NA
India Cements	4.5	4.8	4.3	4.5	115	115	96	87	118.7	108.0	81.7	80.9
Jaiprakash Associates	16.2	13.9	11.9	11.2	NA	NA	NA	NA	NA	NA	NA	NA
Shree Cement	3.8	3.5	3.9	4.1	112	90	87	74	104.7	82.7	74.2	66.7
UltraTech Cement	5.2	5.3	5.0	6.2	116	114	93	79	116.8	104.7	79.2	74.9

Source: Company reports, Kotak Institutional Equities estimates

Exhibit 5: Cement companies lag the market despite strong absolute performance

Absolute and relative performance of cement companies under coverage (%)

	Change (%) 1-mo	3-mo	6-mo	1-year	CYTD	Relative change (%) 1-mo	3-mo	6-mo	1-year
Ambuja Cements	9.1	25.9	58.0	(21.1)	24.6	(15.8)	(20.6)	(1.1)	(2.6)
ACC	18.4	31.7	80.1	5.8	50.1	(8.7)	(16.9)	12.7	20.2
Grasim Industries	34.1	59.4	136.6	(4.3)	79.7	3.5	0.6	48.0	11.6
UltraTech Cement	14.9	55.2	109.7	8.2	68.8	(11.3)	(2.0)	31.2	22.2
India Cements	5.7	24.1	47.4	(23.9)	31.3	(18.4)	(21.7)	(7.8)	(4.9)
Shree Cement	13.3	67.5	128.0	3.9	99.7	(12.6)	5.7	42.7	18.6
Cement	**19.2**	**42.2**	**92.4**	**(8.1)**	**54.5**	**(8.0)**	**(10.2)**	**20.4**	**8.4**

Source: Bloomberg, Kotak Institutional Equities

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

Company	18-May-09 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2009E	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS growth (%) 2009E	EPS growth (%) 2010E	EPS growth (%) 2011E	PER (X) 2009E	PER (X) 2010E	PER (X) 2011E	EV/EBITDA (X) 2009E	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	Price/BV (X) 2009E	Price/BV (X) 2010E	Price/BV (X) 2011E	Dividend yield (%) 2009E	Dividend yield (%) 2010E	Dividend yield (%) 2011E	RoE (%) 2009E	RoE (%) 2010E	RoE (%) 2011E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Automobiles																													
Bajaj Auto	890	REDUCE	128,718	2,688	145	50.5	62.0	65.6	(3.4)	22.9	5.9	17.6	14.3	13.6	9.8	8.0	8.2	6.5	5.1	4.2	2.2	2.2	2.2	40.8	39.7	33.4	615	(30.9)	2.6
Hero Honda	1,487	REDUCE	297,014	6,202	200	64.2	83.8	91.2	32.4	30.5	8.8	23.2	17.7	16.3	13.6	10.5	9.2	7.6	5.9	4.7	1.3	1.5	1.5	36.6	37.4	31.9	1,000	(32.8)	16.5
Mahindra & Mahindra	636	ADD	168,688	3,522	265	21.6	34.7	39.1	(43.2)	60.6	12.8	29.4	18.3	16.3	19.4	11.4	9.9	3.5	2.7	2.4	1.4	1.5	1.5	12.2	16.9	15.8	450	(29.2)	14.0
Maruti Suzuki	938	REDUCE	271,140	5,662	289	42.2	58.3	63.4	(29.5)	38.1	8.6	22.2	16.1	14.8	12.4	8.1	6.8	2.8	2.4	2.1	0.4	0.5	0.5	13.3	16.1	15.1	780	(16.9)	26.6
Tata Motors	301	SELL	167,654	3,501	556	18.5	19.0	24.0	(62.8)	2.6	26.3	16.3	15.9	12.6	12.1	8.7	7.4	1.2	1.1	1.0	—	—	—	9.1	7.3	—	195	(35.3)	29.8
Automobiles		**Cautious**	**1,033,213**	**21,575**					**(25.2)**	**29.6**	**11.9**	**21.5**	**16.6**	**14.8**	13.0	9.2	8.1	**3.0**	**2.6**	**2.2**	**1.0**	**1.1**	**1.1**	**14.1**	**15.6**	**15.2**			
Banks/Financial Institutions																													
Andhra Bank	76	ADD	36,690	766	485	13.5	11.1	12.6	14.0	(17.9)	13.6	5.6	6.8	6.0	—	—	—	1.1	1.1	1.1	5.9	3.7	4.2	19.0	14.0	14.4	75	(0.9)	0.9
Axis Bank	778	BUY	279,453	5,835	359	50.6	55.8	64.5	56.9	10.3	15.6	15.4	14.0	12.1	—	—	—	3.0	2.6	2.3	1.2	1.4	1.6	19.2	18.2	18.3	700	(10.1)	61.1
Bank of Baroda	397	ADD	145,242	3,033	366	60.9	54.9	58.5	55.1	(9.8)	6.5	6.5	7.2	6.8	—	—	—	1.4	1.3	1.2	2.3	2.0	2.2	18.7	14.9	14.2	370	(6.9)	9.7
Bank of India	290	ADD	152,752	3,190	526	57.2	45.6	55.1	40.7	(20.2)	20.7	5.1	6.4	5.3	—	—	—	1.5	1.5	1.4	2.1	1.6	2.0	29.6	19.2	19.5	310	6.7	14.3
Canara Bank	264	REDUCE	108,302	2,261	410	50.5	38.6	41.4	32.4	(23.6)	7.1	5.2	6.8	6.4	—	—	—	1.4	1.2	1.1	3.0	3.0	3.8	18.3	12.4	12.2	220	(16.7)	4.8
Corporation Bank	280	BUY	40,148	838	143	62.2	51.5	55.3	21.4	(17.3)	7.4	4.5	5.4	5.1	—	—	—	0.8	0.7	0.7	4.6	3.8	4.0	19.6	14.3	13.8	310	10.8	0.6
Federal Bank	222	BUY	37,909	792	171	32.0	34.0	39.3	(6.9)	6.4	15.6	6.9	6.5	5.6	—	—	—	0.9	0.8	0.8	2.7	2.9	3.3	13.2	12.7	13.2	280	26.3	1.5
Future Capital Holdings	172	BUY	10,881	227	63	4.5	28.8	NA	(198.6)	546.1	(100.0)	38.7	6.0	NA	—	—	—	1.4	1.2	NA	—	—	—	3.8	21.4	NA	440	155.7	0.9
HDFC	2,374	SELL	675,341	14,102	284	80.2	93.4	109.1	(6.5)	16.5	16.7	29.6	25.4	21.8	—	—	—	5.1	4.6	4.1	1.3	1.4	1.6	18.2	18.7	19.2	1,730	(27.1)	73.4
HDFC Bank	1,378	BUY	579,841	12,108	421	55.4	64.1	75.0	20.4	15.7	17.1	24.9	21.5	18.4	—	—	—	3.9	3.4	3.0	0.7	0.9	1.0	16.9	16.7	17.3	1,150	(16.6)	50.9
ICICI Bank	707	ADD	787,002	16,434	1,113	33.8	32.3	38.5	(15.4)	(4.4)	19.2	20.9	21.9	18.4	—	—	—	1.6	1.5	1.4	1.6	1.3	1.4	7.8	7.1	8.0	475	(32.8)	194.7
IDFC	118	ADD	153,116	3,197	1,294	5.8	7.0	8.0	2.3	21.0	13.3	20.4	16.8	14.9	—	—	—	2.5	2.2	2.0	0.9	1.0	1.1	12.9	14.1	14.2	85	(28.1)	21.7
India Infoline	117	ADD	36,327	759	311	5.0	5.8	6.5	(10.0)	15.5	12.3	23.2	20.0	17.8	—	—	—	2.9	2.6	2.3	2.3	2.9	3.4	11.7	13.5	14.6	90	(22.8)	5.9
Indian Bank	117	BUY	50,326	1,051	430	28.1	26.1	30.0	24.7	(7.2)	15.1	4.2	4.5	3.9	—	—	—	0.9	0.9	0.8	3.6	3.3	3.8	22.7	17.9	17.8	165	40.9	2.4
Indian Overseas Bank	79	BUY	43,257	903	545	24.3	16.6	22.2	10.3	(31.9)	33.8	3.3	4.8	3.6	—	—	—	0.7	0.7	0.6	6.6	4.7	5.2	24.7	14.5	17.0	110	38.5	3.0
J&K Bank	400	ADD	19,397	405	48	82.8	72.2	92.8	11.5	(12.7)	28.4	4.8	5.5	4.3	—	—	—	0.8	0.8	0.8	4.3	3.8	4.8	16.5	12.9	14.9	480	20.0	0.3
LIC Housing Finance	406	BUY	34,513	721	85	62.5	68.8	80.3	37.3	10.0	16.8	6.5	5.9	5.1	—	—	—	1.4	1.2	1.0	3.4	3.7	4.4	26.2	23.9	23.4	390	(4.0)	6.4
Mahindra & Mahindra Financial	224	ADD	21,437	448	96	22.4	27.5	30.0	7.5	22.9	8.7	10.0	8.1	7.5	—	—	—	1.5	1.3	1.2	2.5	3.1	3.3	15.4	16.9	16.3	240	7.1	0.1
Oriental Bank of Commerce	161	ADD	40,400	844	251	36.1	27.3	34.6	51.4	(24.5)	26.7	4.5	5.9	4.7	—	—	—	0.7	0.8	0.9	4.5	3.4	4.3	14.8	10.2	11.8	150	(7.0)	3.0
PFC	197	ADD	226,225	4,724	1,148	13.0	16.5	19.3	14.3	26.7	17.6	15.2	12.0	10.2	—	—	—	2.0	1.8	1.6	1.4	2.5	2.2	13.8	15.8	16.7	160	(18.8)	4.2
Punjab National Bank	658	BUY	207,390	4,331	315	90.7	90.7	99.7	39.6	(0.0)	10.0	7.2	7.3	6.6	—	—	—	1.8	1.6	1.4	2.8	2.8	3.0	21.5	18.6	18.0	650	(1.2)	23.0
Rural Electrification Corp.	134	BUY	115,310	2,408	859	15.2	17.7	20.0	38.8	16.8	13.0	8.9	7.6	6.7	—	—	—	1.6	1.4	1.2	3.6	4.2	4.8	19.6	19.9	19.6	125	(6.9)	1.9
Shriram Transport	271	ADD	57,380	1,198	212	30.1	32.5	36.9	56.8	7.9	13.7	9.0	8.4	7.3	—	—	—	2.6	2.2	1.9	3.2	3.6	4.1	29.6	27.0	25.8	300	10.6	1.2
SREI	50	ADD	5,838	122	116	7.7	6.9	8.2	(32.8)	(10.1)	18.6	6.5	7.3	6.1	—	—	—	0.5	0.5	0.5	4.6	5.6	6.4	14.0	11.5	13.0	50	(0.4)	2.3
State Bank of India	1,577	BUY	1,001,109	20,904	635	143.6	121.1	139.2	34.8	(15.7)	14.9	11.0	13.0	11.3	—	—	—	2.0	2.1	1.8	1.8	1.9	2.0	17.1	12.7	13.3	1,600	1.5	104.9
Union Bank	200	BUY	101,099	2,111	505	34.2	29.6	35.5	24.5	(13.5)	19.9	5.9	6.8	5.6	—	—	—	1.2	1.0	0.9	2.6	2.2	2.7	27.2	19.5	19.9	220	9.9	5.0
Banks/Financial Institutions		**Attractive**	**4,966,686**	**103,710**					**27.1**	**(4.8)**	**15.2**	**11.8**	**12.3**	**10.7**	**—**	**—**	**—**	**2.0**	**1.9**	**1.7**	**1.8**	**1.8**	**2.0**	**16.8**	**15.1**	**15.7**			
Cement																													
ACC	721	REDUCE	135,433	2,828	188	56.3	55.2	42.2	(12.2)	(1.9)	(23.6)	12.8	13.1	17.1	6.4	6.5	7.5	2.6	2.3	2.1	3.2	3.2	3.2	24.7	21.3	15.1	625	(13.3)	11.0
Ambuja Cements	87	REDUCE	132,903	2,775	1,522	7.2	6.8	5.4	(5.0)	(4.7)	(20.5)	12.1	12.7	16.0	6.5	6.7	8.0	2.2	1.9	1.8	3.4	2.2	2.4	19.7	16.6	12.0	70	(19.8)	4.1
Grasim Industries	2,192	REDUCE	200,984	4,197	92	225.7	188.5	192.6	(20.7)	(16.5)	2.2	9.7	11.6	11.4	5.5	5.7	5.5	1.8	1.6	1.5	1.5	1.5	1.6	20.7	14.9	13.6	1,500	(31.6)	9.8
India Cements	128	ADD	36,164	755	282	22.7	19.8	17.5	n/a	(12.8)	(11.2)	5.7	6.5	7.3	4.1	4.2	4.4	1.0	0.8	0.8	1.7	1.7	2.5	15.7	14.7	11.7	130	1.3	4.0
Shree Cement	919	BUY	32,010	668	35	174.7	91.6	86.2	93.7	(47.6)	(5.9)	5.3	10.0	10.7	3.7	4.0	4.2	2.7	2.2	1.9	1.1	1.1	1.1	65.7	24.0	18.9	950	3.4	0.5
UltraTech Cement	651	ADD	81,500	1,702	125	78.0	70.5	49.3	(4.1)	(9.7)	(30.0)	8.3	9.2	13.2	5.5	5.1	6.3	1.9	1.6	1.4	1.3	1.3	1.3	31.2	22.3	13.4	625	(3.9)	1.1
Cement		**Cautious**	**618,995**	**12,925**					**(6.8)**	**(14.5)**	**(13.8)**	**9.5**	**11.1**	**12.9**	**5.5**	**5.6**	**6.1**	**2.0**	**1.7**	**1.6**	**2.3**	**2.0**	**2.1**	**20.7**	**15.5**	**12.1**			
Consumer products																													
Asian Paints	992	ADD	95,196	1,988	96	38.4	49.1	57.5	(2.2)	27.9	17.1	25.9	20.2	17.3	15.0	11.7	9.9	8.4	6.9	5.7	1.8	2.0	2.3	36.3	38.5	36.8	1,000	0.8	0.7
Colgate-Palmolive (India)	485	ADD	65,957	1,377	136	20.4	23.3	25.7	19.4	14.4	10.1	23.8	20.8	18.9	20.7	17.3	15.1	39.1	43.3	49.2	3.8	4.3	4.8	157.8	198.4	245.6	490	1.0	1.9
GlaxoSmithkline Consumer (a)	940	ADD	39,532	825	42	44.8	56.1	63.6	15.8	25.2	13.5	21.0	16.8	14.8	11.7	9.5	8.3	5.2	4.4	3.9	1.6	2.2	3.1	26.8	28.5	28.0	900	(4.3)	0.4
Godrej Consumer Products	160	ADD	41,297	862	258	6.8	8.7	9.8	(3.9)	27.8	12.8	23.6	18.5	16.4	20.6	15.1	12.5	6.2	5.4	4.6	2.5	2.5	2.5	42.7	42.7	33.1	160	-	0.6
Hindustan Unilever	240	REDUCE	522,199	10,904	2,179	9.2	10.2	11.6	12.9	11.5	13.6	26.1	23.4	20.6	20.9	17.9	15.7	33.7	31.3	28.9	3.6	4.0	4.6	134.3	139.0	146.1	235	(1.9)	24.5
ITC	207	ADD	779,160	16,270	3,769	8.7	9.8	11.2	4.6	12.8	14.5	23.9	21.2	18.5	14.7	13.1	11.5	5.5	4.8	4.2	1.8	1.9	2.2	25.4	25.2	25—	200	(3.3)	20.4
Jyothy Laboratories	71	ADD	5,127	107	73	7.2	10.6	13.0	10.2	47.3	22.1	9.8	6.6	5.4	5.9	4.0	2.9	1.3	1.1	1.0	3.3	4.1	5.0	13.0	16.5	18.8	127	79.8	
Nestle India (a)	1,740	ADD	167,763	3,503	96	58.6	70.5	82.4	31.0	20.4	16.8	29.7	24.7	21.1	18.9	16.1	13.9	35.4	29.1	24.1	2.4	2.9	3.4	126.7	129.6	124.8	1,800	3.4	1.8
Tata Tea	728	BUY	45,029	940	62	60.1	67.7	75.8	10.9	12.7	11.9	12.1	10.8	9.6	6.5	5.2	4.6	0.9	0.9	0.8	2.4	2.7	3.0	10.3	10.8	11.3	940	29.1	1.7
Consumer products		**Cautious**	**1,761,260**	**36,777**					**9.4**	**14.8**	**14.3**	**24.3**	**21.1**	**18.5**	**16.1**	**13.8**	**12.1**	**7.3**	**6.5**	**5.7**	**2.5**	**2.8**	**3.2**	**30.0**	**30.6**	**31.0**			
Constructions																													
Consolidated Construction Co.	155	ADD	5,728	120	37	19.7	27.2	31.9	(18.1)	38.0	17.5	7.9	5.7	4.9	5.5	3.9	3.4	1.1	1.0	0.8	1.8	2.5	3.0	15.0	18.1	18.3	190	22.6	0.1
IVRCL	203	BUY	27,423	573	135	14.4	16.9	19.4	(7.3)	17.1	14.8	14.1	12.0	10.5	8.8	7.0	5.8	1.5	1.4	1.2	0.4	0.4	0.4	11.5	12.0	12.3	215	6.1	10.9
Nagarjuna Construction Co.	98	BUY	22,428	468	229	7.3	8.8	9.7	2.5	19.7	10.0	13.3	11.1	10.1	8.0	6.8	6.1	1.3	1.2	1.1	1.4	1.6	2.0	10.3	11.3	11.4	120	22.6	2.6
Punj Lloyd	163	ADD	50,715	1,059	311	(7.4)	16.5	17.6	(174.4)	(322.8)	6.6	(22.0)	9.9	9.3	25.7	6.5	5.8	2.0	1.7	1.4	(0.2)	0.5	0.5	(9.2)	19.5	17.5	170	4.2	22.7
Sadbhav Engineering	483	ADD	6,035	126	13	43.8	54.3	88.0	8.2	23.8	62.2	11.0	8.9	5.5	6.8	5.7	4.4	1.8	1.5	1.2	1.0	1.2	1.4	15.9	16.8	21.7	550	13.9	0.1
Construction		**Attractive**	**112,329**	**2,346**					**(70.0)**	**351.8**	**13.2**	**44.8**	**9.9**	**8.8**	**11.8**	**6.5**	**5.6**	**1.6**	**1.4**	**1.2**	**0.4**	**0.8**	**1.0**	**3.7**	**14.4**	**14.2**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

	18-May-09		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
Company	**97.9**	**BUY**	**(Rs mn)**	**(US$ mn)**	**(mn)**	**2009E**	**2010E**	**2011E**	**2009E**	**2010E**	**2011E**	**2009E**	**2010E**	**2011E**	**2009E**	**2010E**	**2011E**	**2009E**	**2010E**	**2011E**	**2009E**	**2010E**	**2011E**	**2009E**	**2010E**	**2011E**	**(Rs)**	**(%)**	**(US$ mn)**
Energy																													
Bharat Petroleum	426	SELL	139,636	2,916	328	—	42.0	51.5	(99.9)	142,832	NA	14,509	NA	8.3	8.2	4.8	4.3	1.1	1.0	0.9	—	4.4	5.4	0.0	10.2	11.6	425	(0.2)	5.5
Cairn india	220	BUY	416,698	8,701	1,897	4.2	4.4	28.5	(3,628)	5	543.2	52	50	7.7	31.2	22.5	6.3	1.2	1.2	1.2	—	—	13.7	2.5	2.5	15.9	225	2.4	24.2
Castrol India (a)	348	BUY	43,027	898	124	21.3	25.5	26.6	20.8	19.5	4.3	16.3	13.7	13.1	9.2	7.9	7.5	9.6	8.6	8.1	4.3	5.2	5.7	61.2	66.5	63.7	390	12.1	0.3
GAIL (India)	306	SELL	387,519	8,092	1,268	23.3	19.7	20.7	14.2	(15.6)	5.1	13.1	15.5	14.8	7.2	8.8	9.2	2.4	2.2	2.0	2.4	2.2	2.2	18.3	13.8	13.3	240	(21.4)	11.1
GSPL	60	REDUCE	33,514	700	563	1.9	2.5	3.7	4.4	30.5	52.6	31.7	24.3	15.9	10.4	6.7	5.6	2.5	2.3	2.3	0.9	1.1	6.3	8.2	9.8	14.4	45	(24.4)	2.8
Hindustan Petroleum	306	SELL	103,737	2,166	339	(10.5)	30.2	41.8	(131.5)	(386.8)	38.3	(29.0)	10.1	7.3	7.4	5.0	NA	0.9	0.8	NA	—	3.9	5.4	(2.9)	7.6	9.9	300	(2.0)	5.8
Indian Oil Corporation	501	REDUCE	591,134	12,344	1,179	24.3	46.8	49.6	(60.3)	92.1	6.1	20.6	10.7	10.1	9.0	5.1	4.6	1.2	1.1	1.1	—	3.6	3.9	6.2	10.3	10.2	525	4.7	2.7
Oil & Natural Gas Corporation	947	ADD	2,025,954	42,304	2,139	102.6	94.6	125.5	10.7	(7.8)	32.7	9.2	10.0	7.5	3.5	3.4	2.6	1.8	1.6	1.4	3.6	3.8	5.1	19.3	15.8	18.8	900	(5.0)	38.2
Petronet LNG	63	ADD	47,138	984	750	6.9	7.7	9.0	—	10.8	17.6	9.1	8.2	7.0	7.5	5.9	5.1	2.1	1.7	1.4	2.4	2.4	3.2	24.0	21.8	20.9	57	(9.3)	3.3
Reliance Industries	2,368	REDUCE	3,250,646	67,877	1,373	103.4	127.7	175.7	(1.5)	23.5	37.7	22.9	18.5	13.5	13.4	8.5	6.4	2.7	2.4	2.1	0.6	0.7	0.8	15.1	15.9	19.2	1,650	(30.3)	209.8
Reliance Petroleum	142	NR	640,350	13,371	4,500	—	8.3	13.8	n/a	n/a	n/a	n/a	n/a	10.3	n/a	n/a	8.4	4.7	3.9	3.0	—	1.4	1.4	0.6	25.1	33.0	—	—	23.0
Energy		**Neutral**	**7,679,353**	**160,354**					**#REF!**	**#REF!**	**#REF!**	**#REF!**	**#REF!**	**#REF!**	**8.3**	**6.3**	**4.9**	**2.1**	**1.9**	**1.7**	**1.4**	**2.0**	**3.2**	**#REF!**	**#REF!**	**#REF!**			
Industrials																													
ABB	560	REDUCE	118,701	2,479	212	25.8	24.9	29.6	11.3	(3.6)	18.7	21.7	22.5	18.9	12.7	12.6	10.2	5.6	4.6	3.8	0.4	0.5	0.5	29.2	22.6	22.1	500	(10.7)	6.6
BGR Energy Systems	238	REDUCE	17,100	357	72	15.3	20.7	24.3	26.1	35.4	17.5	15.5	11.5	9.8	8.7	7.2	6.2	3.0	2.5	2.1	1.0	1.4	1.7	21.3	23.9	23.2	165	(30.5)	1.2
Bharat Electronics	1,098	REDUCE	87,816	1,834	80	101.9	111.1	119.0	(0.0)	9.0	7.1	10.8	9.9	9.2	4.2	3.7	3.2	2.2	1.9	1.7	2.3	2.3	2.3	22.4	20.9	19.2	1,025	(6.6)	1.1
Bharat Heavy Electricals	2,015	REDUCE	986,309	20,595	490	59.8	89.0	105.5	2.3	48.9	18.5	33.7	22.6	19.1	18.1	12.5	10.5	7.6	6.1	4.9	0.8	0.9	1.1	24.7	30.0	28.5	1,475	(26.8)	54.8
Crompton Greaves	205	ADD	74,967	1,565	367	14.2	15.7	17.9	27.0	10.8	13.9	14.4	13.0	11.4	8.2	7.3	6.5	4.3	3.3	2.7	0.9	0.9	1.0	34.1	28.9	26.0	210	2.7	5.5
Larsen & Toubro	1,232	ADD	734,926	15,346	597	49.0	54.7	63.5	29.2	11.5	16.1	25.1	22.5	19.4	14.8	13.0	11.6	4.6	3.8	3.2	0.8	0.9	1.0	20.9	18.5	18.0	1,000	(18.8)	69.1
Maharashtra Seamless	248	BUY	17,456	365	71	35.9	33.0	39.6	22.2	(8.1)	20.3	6.9	7.5	6.2	4.6	4.8	3.7	1.3	1.1	1.0	2.2	2.0	2.9	20.3	16.0	16.8	225	(9.1)	0.8
Siemens	426	REDUCE	143,698	3,001	337	14.2	19.8	21.1	(22.2)	39.7	6.4	30.1	21.5	20.2	14.1	12.1	11.5	6.4	5.4	4.5	0.7	1.6	1.0	23.3	27.1	24.2	360	(15.5)	6.5
Suzlon Energy	93	ADD	146,624	3,062	1,571	7.0	7.1	11.4	6.0	2.1	59.7	13.4	13.1	8.2	9.6	8.5	6.8	1.4	1.2	1.1	0.5	0.5	1.1	11.3	10.1	13.9	90	(3.6)	56.9
Industrials		**Cautious**	**2,327,596**	**48,603**					**10.2**	**22.1**	**20.2**	**24.1**	**19.8**	**16.4**	**13.4**	**11.1**	**9.5**	**4.6**	**3.8**	**3.2**	**0.8**	**1.0**	**1.1**	**18.9**	**19.1**	**19.2**			
Infrastructure																													
IRB Infrastructure	128	ADD	42,376	885	332	5.6	10.4	10.8	63.5	85.5	3.9	22.8	12.3	11.8	12.7	7.1	6.5	2.3	1.9	1.6	—	—	—	10.6	16.8	14.5	110	(13.7)	5.2
Media																													
DishTV	38	REDUCE	35,725	746	946	(7.3)	(4.1)	(3.2)	n/a	(44.4)	(22.6)	(5.1)	(9.2)	(11.9)	(22.8)	(138.6)	44.3	(5.5)	(17.6)	(7.1)	—	—	—	86.1	91.1	NA	22	(41.7)	5.2
HT Media	71	BUY	16,737	349	234	0.8	3.5	6.0	(80.4)	311.0	70.9	84.1	20.5	12.0	17.6	8.2	6.0	2.0	1.9	1.7	0.6	1.1	2.9	2.3	9.4	14.9	100	40.0	0.1
Jagran Prakashan	58	BUY	17,468	365	301	2.9	4.1	5.9	(11.6)	42.4	44.7	20.1	14.1	9.8	11.1	7.7	5.5	3.0	2.8	2.5	2.5	3.5	5.1	15.6	20.6	26.9	80	37.9	0.1
Sun TV Network	241	REDUCE	95,052	1,985	394	9.3	11.1	12.8	11.8	19.2	15.8	26.0	21.8	18.8	13.9	12.2	10.5	5.6	5.1	4.8	1.7	2.5	3.3	23.5	25.1	26.7	200	(17.1)	0.8
Zee Entertainment Enterprises	160	ADD	69,197	1,445	434	8.1	9.3	11.2	(9.0)	15.5	20.0	19.8	17.1	14.3	13.9	11.9	9.8	2.1	2.0	1.8	1.4	1.7	2.0	11.6	12.2	13.7	145	(9.1)	7.5
Zee News	37	ADD	8,967	187	240	1.9	2.1	2.5	20.4	11.1	18.8	20.1	18.1	15.2	10.5	8.9	7.8	3.6	3.1	2.7	1.1	1.1	1.6	20.0	19.0	19.5	40	7.0	0.4
Media		**Neutral**	**243,147**	**5,077**					**(27.6)**	**83.0**	**50.5**	**62.7**	**34.3**	**22.8**	**18.8**	**13.2**	**10.3**	**4.0**	**3.5**	**3.3**	**1.3**	**1.8**	**2.5**	**6.4**	**10.1**	**14.6**			
Metals																													
Hindalco Industries	80	ADD	140,121	2,926	1,753	7.7	2.4	8.2	(44.4)	(69.2)	248.7	10.4	33.8	9.7	5.9	8.3	7.0	0.4	0.4	0.4	—	—	—	10.3	5.2	6.7	55	(31.2)	13.6
National Aluminium Co.	311	SELL	200,219	4,181	644	19.7	10.3	16.3	(22.2)	(47.8)	58.3	15.8	30.2	19.1	8.0	10.3	7.0	1.9	1.8	1.7	1.1	0.6	0.6	12.7	6.2	9.2	135	(56.6)	2.4
Jindal Steel and Power	1,945	BUY	299,432	6,252	154	179.7	171.6	195.4	117.2	(4.5)	13.9	10.8	11.3	10.0	7.2	7.0	5.8	4.1	3.0	2.3	—	0.4	0.5	48.4	31.0	26.5	1,400	(28.0)	25.4
JSW Steel	488	SELL	91,242	1,905	187	13.1	24.1	53.5	(84.7)	83.3	121.8	37.1	20.2	9.1	8.6	8.6	6.7	0.9	0.8	0.7	0.2	1.0	1.0	11.0	4.3	8.3	340	(30.3)	27.0
Hindustan Zinc	614	BUY	259,582	5,420	423	64.6	62.9	80.9	(38.0)	(2.6)	28.7	9.5	9.8	7.6	5.7	5.1	3.1	1.7	1.5	1.2	0.7	0.8	0.8	20.1	16.5	17.9	610	(0.7)	3.6
Sesa Goa	168	BUY	132,492	2,767	787	24.8	20.8	24.6	30.8	(16.1)	18.6	6.8	8.1	6.8	4.1	4.5	3.2	2.9	2.3	1.8	2.1	2.1	2.1	52.8	31.3	28.8	150	(10.9)	20.3
Sterlite Industries	552	ADD	390,734	8,159	708	49.2	41.0	50.5	(23.6)	(16.7)	23.4	11.2	13.5	10.9	6.6	7.2	5.3	1.5	1.4	1.2	—	—	—	14.3	10.7	11.8	490	(11.2)	37.4
Tata Steel	318	BUY	261,598	5,462	822	123.9	55.5	87.0	63.6	(55.2)	56.7	2.6	5.7	3.7	3.5	4.6	3.5	0.6	0.5	0.5	4.0	4.1	4.1	36.8	15.7	21.3	280	(12.0)	80.7
Metals		**Attractive**	**1,775,423**	**37,073**					**5.4**	**(35.6)**	**41.7**	**7.2**	**11.1**	**7.8**	**5.2**	**6.3**	**4.9**	**1.2**	**1.1**	**1.0**	**1.0**	**1.1**	**1.1**	**16.1**	**9.6**	**12.1**			
Pharmaceutical																													
Biocon	154	BUY	30,730	642	200	4.7	13.6	19.4	(80.0)	192.2	42.8	33.0	11.3	7.9	13.8	6.3	4.4	2.0	1.8	1.5	0.0	0.1	0.1	6.2	16.9	20.9	235	52.9	0.9
Cipla	252	ADD	195,800	4,089	777	9.9	13.9	15.5	9.5	40.6	11.9	25.5	18.1	16.2	18.2	13.1	11.6	4.6	3.8	3.3	1.0	1.2	1.4	19.1	23.0	21.8	260	3.2	7.5
Dishman Pharma & chemicals	130	BUY	10,606	221	81	11.4	24.8	28.0	(22.7)	118.0	13.0	11.5	5.3	4.7	9.0	5.0	4.4	1.6	1.3	1.0	0.0	0.0	0.0	15.1	27.1	24.3	280	114.7	0.4
Divi's Laboratories	1,040	BUY	67,100	1,401	65	64.9	75.1	89.1	21.8	15.8	18.7	16.0	13.8	11.7	12.5	10.1	8.0	5.4	4.0	3.1	0.1	0.1	0.1	40.2	33.4	29.7	1,450	39.5	4.3
Dr Reddy's Laboratories	613	BUY	103,705	2,165	169	32.4	45.5	47.0	24.5	40.2	3.3	18.9	13.5	13.0	9.2	7.5	6.7	3.0	2.5	2.1	0.6	0.6	0.6	13.6	19.8	17.3	740	20.7	4.3
Glenmark Pharmaceuticals	193	BUY	51,230	1,070	266	15.8	18.2	22.5	(38.7)	14.7	23.6	12.2	10.6	8.6	8.3	7.1	5.9	2.3	1.9	1.6	0.0	0.0	0.0	21.9	19.8	20.2	390	102.4	5.2
Jubilant Organosys	156	BUY	26,622	556	171	16.5	18.6	21.8	(26.2)	12.6	17	9.4	8.4	7.1	11.5	7.2	5.3	2.1	1.7	1.4	0.8	0.8	1.1	18.6	22.6	21.7	250	60.8	0.5
Lupin	815	BUY	72,164	1,507	89	60.7	66.0	71.3	21.9	8.7	8.0	13.4	12.3	11.4	13.3	11.1	9.5	4.2	3.3	2.7	1.4	1.4	1.7	33.7	30.3	26.1	1,075	32.0	2.7
Piramal Healthcare	280	BUY	58,520	1,222	209	17.3	22.4	28.2	(2.7)	29.8	26.0	16.2	12.5	9.9	12.0	8.4	6.9	4.4	3.5	2.7	1.5	1.6	1.6	26.3	31.4	30.8	340	21.4	2.1
Ranbaxy Laboratories	228	REDUCE	97,222	2,030	427	(8.1)	(5.7)	5.1	(134.7)	NA	NA	(28.1)	NA	44.5	(136.3)	697.4	18.0	2.0	1.7	1.8	4.4	5.0	5.5	(8.8)	(4.7)	4.1	150	(34.1)	13.7
Sun Pharmaceuticals	1,590	BUY	329,325	6,877	207	86.8	85.7	94.0	16.3	(1.3)	9.7	18.3	18.6	16.9	14.6	13.8	12.0	4.8	3.9	3.2	0.7	0.8	0.8	31.1	24.3	21.9	1,800	13.2	16.1
Pharmaceuticals		**Attractive**	**1,043,024**	**21,780**					**(18.5)**	**26.7**	**21.9**	**21.3**	**16.8**	**13.8**	**14.3**	**11.0**	**8.9**	**3.5**	**2.9**	**2.5**	**1.1**	**1.2**	**1.4**	**16.6**	**17.3**	**18.0**			
Property																													
DLF	323	REDUCE	550,053	11,486	1,705	29.3	16.0	17.4	(36.6)	(45.2)	8.4	11.0	20.1	18.6	11.4	16.3	13.9	2.2	2.1	1.9	0.9	0.9	1.2	22.5	10.6	10.6	190	(41.1)	106.1
Housing Development & Infrastruc	228	REDUCE	62,826	1,312	275	30.6	19.8	24.8	(40.1)	(35.3)	25.1	7.4	11.5	9.2	10.4	11.9	9.7	1.5	1.3	1.2	2.2	2.6	3.5	21.2	12.1	13.9	120	(47.4)	62.5
Indiabulls Real Estate	190	ADD	48,835	1,020	258	3.0	3.9	10.2	(81.6)	29.5	161.2	62.6	48.3	18.5	(90)	37.7	8.7	0.7	0.7	0.7	0.0	0.0	0.0	1.3	1.5	3.9	180	(5.0)	37.0
Mahindra Life Space Developer	212	BUY	8,903	186	42	10.2	10.8	15.4	(39.2)	5.3	42.5	20.7	19.7	13.8	31.4	17.9	8.8	1.0	1.0	0.9	1.8	1.8	1.8	4.8	4.9	6.7	410	93.7	0.5
Phoenix Mills	124	BUY	17,888	374	145	5.4	7.3	8.9	70.0	34.7	23.4	22.9	17.0	13.8	25.4	12.8	10.3	1.2	1.1	1.1	0.8	0.8	1.2	5.3	6.8	7.9	210	70.0	0.2
Puravankara Projects	69	REDUCE	14,726	308	213	6.8	7.0	7.4	(39.8)	2.8	6.9	10.2	9.9	9.3	16.6	13.6	11.0	1.1	1.0	1.0	—	2.9	2.9	11.5	10.8	10.7	55	(20.3)	0.3
Sobha	131	REDUCE	9,557	200	73	15.9	11.9	14.7	(50.0)	(24.8)	23.5	8.3	11.0	8.9	8.8	12.1	10.9	0.9	0.8	0.8	3.1	3.1	3.1	11.0	7.8	9.1	90	(31.4)	0.6
Unitech	65	SELL	131,862	2,753	2,044	6.4	3.9	3.4	(38.4)	(39.0)	(12.9)	10.1	16.6	19.1	11.7	13.1	13.5	2.8	1.9	1.7	—	—	—	25.1	13.4	9.4	32	(50.4)	74.5
Property		**Neutral**	**844,651**	**17,637**					**(38.6)**	**(37.9)**	**11.3**	**11.5**	**18.6**	**16.7**	**11.8**	**15.0**	**12.8**	**1.9**	**1.7**	**1.6**	**0.8**	**0.9**	**1.2**	**16.3**	**9.1**	**9.4**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

Company	18-May-09		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
	37.8	REDUCE	(Rs mn)	(US$ mn)	(mn)	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	(Rs)	(%)	(US$ mn)
Retail																													
Titan Industries	945	REDUCE	41,966	876	44	45.9	50.1	56.9	30.8	9.2	13.7	20.6	18.9	16.6	13.3	11.5	9.9	7.3	5.6	4.5	1.1	1.2	1.3	38.9	33.6	29.9	850	(10.1)	3.8
Retail		**Neutral**	**41,966**	**876**					**30.8**	**9.2**	**13.7**	**20.6**	**18.9**	**16.6**	**13.3**	**11.5**	**9.9**	**7.3**	**5.6**	**4.5**	**1.1**	**1.2**	**1.3**	**35.3**	**29.7**	**26.8**			
Technology																													
HCL Technologies	166	REDUCE	115,370	2,409	695	16.2	12.5	16.7	5.8	(22.6)	33.4	10.3	13.3	9.9	5.8	5.5	5.4	1.8	1.7	1.6	7.2	7.2	7.2	18.3	13.0	16.8	110	(33.7)	5.0
Infosys Technologies	1,800	BUY	1,033,257	21,576	574	102.4	104.1	116.1	29.6	1.6	11.5	17.6	17.3	15.5	12.8	12.4	10.4	5.7	4.6	3.8	1.3	1.4	1.6	36.7	29.3	26.8	1,500	(16.7)	53.8
Mphasis BFL	292	REDUCE	60,858	1,271	208	14.2	32.6	27.9	15.7	129.8	(14.4)	20.6	9.0	10.5	15.6	6.2	5.6	4.2	3.0	2.5	1.4	1.5	1.7	22.8	39.5	26.0	190	(34.9)	2.3
Mindtree	407	BUY	16,750	350	41	13.2	44.0	50.7	(50.5)	232.5	15.1	30.7	9.2	8.0	5.3	5.4	4.5	3.0	2.3	1.8	0.5	—	1.2	5.5	20.4	18.4	400	(1.7)	4.4
Patni Computer Systems	214	REDUCE	27,471	574	129	26.8	23.5	26.1	(19.3)	(12.4)	11.1	8.0	9.1	8.2	2.7	2.2	2.0	1.1	0.9	0.8	0.8	2.2	2.4	16.2	10.0	10.3	150	(29.8)	1.5
Polaris Software Lab	85	SELL	8,345	174	99	13.1	13.3	12.1	76.0	1.7	(8.9)	6.4	6.3	7.0	2.1	2.5	2.6	1.1	0.9	0.9	3.3	2.4	2.4	18.1	15.9	12.9	50	(40.9)	2.6
TCS	744	REDUCE	727,939	15,200	979	52.9	51.3	55.9	3.1	(2.9)	8.8	14.1	14.5	13.3	9.8	9.9	8.7	4.7	3.8	3.3	1.9	2.1	3.0	36.9	29.1	26.8	510	(31.4)	26.2
Tech Mahindra	392	ADD	50,582	1,056	129	70.4	38.0	37.2	19.3	(46.0)	(2.1)	5.6	10.3	10.5	3.6	7.0	6.6	2.3	1.9	1.6	1.0	1.5	1.8	52.8	20.3	17.0	360	(8.1)	15.0
Wipro	417	ADD	609,581	12,729	1,462	25.7	27.0	29.4	15.8	4.7	9.1	16.2	15.5	14.2	11.9	10.7	9.0	4.1	3.3	2.9	1.0	1.8	2.0	26.9	23.7	21.7	325	(22.1)	12.1
Technology		**Cautious**	**2,655,599**	**55,452**					**15.0**	**(0.5)**	**9.1**	**14.9**	**14.9**	**13.7**	**10.2**	**9.8**	**8.6**	**4.2**	**3.5**	**3.0**	**1.6**	**1.9**	**2.3**	**28.1**	**23.2**	**21.9**			
Telecom																													
Bharti Airtel	1,003	ADD	1,904,575	39,770	1,899	44.6	52.2	59.8	26.4	17.0	14.6	22.5	19.2	16.8	13.0	11.1	9.7	6.1	4.6	3.6	0.4	0.6	0.8	31.4	27.0	23.8	775	(22.7)	71.7
IDEA	76	REDUCE	235,738	4,922	3,104	2.9	2.9	3.2	(26.5)	(0.1)	10.9	26.2	26.2	23.6	9.7	8.7	7.3	1.7	1.6	1.5	—	—	—	10.4	6.4	6.8	55	(27.6)	8.5
MTNL	89	SELL	55,944	1,168	630	4.0	4.1	4.6	(44.3)	2.6	11.8	22.3	21.8	19.5	10.7	7.9	5.4	0.5	0.5	0.5	6.8	6.8	6.8	1.6	1.6	1.9	50	(43.7)	1.6
Reliance Communications	290	SELL	598,256	12,492	2,064	27.7	20.3	21.1	4.7	(26.6)	3.9	10.5	14.3	13.7	9.1	8.6	6.7	1.7	1.5	1.4	0.3	—	—	18.6	11.7	10.9	180	(37.9)	49.9
Tata Communications	601	REDUCE	171,242	3,576	285	13.6	14.0	15.2	24.0	3.2	8.2	44.2	42.9	39.6	18.7	17.0	15.8	2.5	2.4	2.3	0.8	1.1	1.2	5.4	5.2	5.5	400	(33.4)	3.2
Telecom		**Cautious**	**2,965,755**	**61,928**					**11.5**	**(0.5)**	**11.3**	**18.4**	**18.5**	**16.6**	**11.6**	**10.2**	**8.5**	**3.0**	**2.6**	**2.3**	**0.5**	**0.6**	**0.7**	**16.3**	**14.0**	**13.6**			
Transportation																													
Container Corporation	951	ADD	123,611	2,581	130	64.4	71.4	83.3	11.6	10.8	16.6	14.8	13.3	11.4	10.5	8.9	7.4	3.3	2.8	2.3	1.5	1.7	2.0	24.0	22.5	22.2	850	(10.6)	0.9
Transportation		**Cautious**	**123,611**	**2,581**					**11.6**	**10.8**	**16.6**	**14.8**	**13.3**	**11.4**	**10.5**	**8.9**	**7.4**	**3.3**	**2.8**	**2.3**	**1.5**	**1.7**	**2.0**	**22.1**	**20.8**	**20.5**			
Utilities																													
CESC	286	BUY	35,682	745	125	31.2	38.0	42.1	12.3	21.8	10.8	9.2	7.5	6.8	5.0	5.9	6.3	1.0	0.9	0.8	1.6	1.9	2.1	11.4	12.2	11.9	385	34.8	0.9
Lanco Infratech	287	BUY	63,767	1,332	222	14.6	17.1	24.9	(1.3)	16.6	45.7	19.6	16.8	11.5	24.3	18.1	10.0	2.9	2.4	2.0	—	—	—	16.2	15.8	19.0	270	(5.9)	10.3
NTPC	207	REDUCE	1,703,513	35,571	8,245	8.8	10.7	12.0	(5.2)	20.8	12.7	23.4	19.3	17.2	15.8	14.3	13.5	2.9	2.7	2.5	1.7	1.9	2.2	12.9	14.4	15.0	180	(12.9)	28.4
Reliance Infrastructure	1,011	BUY	228,952	4,781	226	64.1	58.8	62.9	70.5	(8.2)	6.9	15.8	17.2	16.1	16.9	17.4	13.6	1.4	1.3	1.2	0.7	0.8	0.9	6.3	7.0	9.0	970	(4.1)	109.4
Reliance Power	149	REDUCE	356,877	7,452	2,397	1.0	2.5	3.1	—	140.3	25.3	146.0	60.7	48.5	—	—	—	2.6	2.5	2.4	—	—	—	1.8	4.2	5.0	120	(19.4)	17.1
Tata Power	1,045	BUY	232,535	4,856	223	65.2	90.2	101.5	104.6	38.4	12.5	16.0	11.6	10.3	10.7	10.0	9.4	2.2	1.9	1.6	1.1	1.1	1.3	15.0	17.5	17.0	1,000	(4.3)	12.1
Utilities		**Attractive**	**2,621,325**	**54,736**					**11.2**	**21.8**	**13.5**	**23.5**	**19.3**	**17.0**	**16.2**	**15.8**	**14.4**	**2.5**	**2.3**	**2.1**	**1.3**	**1.4**	**1.6**	**10.6**	**11.8**	**12.3**			
Others																													
Aban Offshore	754	REDUCE	28,556	596	38	87.8	148.2	277.7	21	68.8	87.4	8.6	5.1	2.7	8.7	6.8	5.4	2.1	1.5	1.0	0.5	0.7	0.7	33.7	36.9	41.2	300	(60.2)	39.8
Havells India	239	REDUCE	14,491	303	61	(1.0)	10.3	14.7	(104)	NA	43.0	NA	23.3	16.3	9.8	8.4	7.6	2.0	1.9	1.8	1.4	1.7	2.1	(0.9)	8.5	11.4	120	(49.9)	2.1
Jaiprakash Associates	168	ADD	235,430	4,916	1,403	6.6	7.9	11.8	34	20.0	49.6	25.6	21.3	14.3	15.3	12.5	11.6	3.9	3.4	2.8	0.0	0.0	0.0	16.8	17.1	21.8	140	(16.5)	64.9
Jindal Saw	346	BUY	18,997	397	55	64.3	47.8	41.7	(1)	(25.6)	(12.8)	5.4	7.2	8.3	3.7	3.7	3.5	0.6	0.5	0.5	1.4	1.2	1.2	10.8	7.4	6.2	300	(13.3)	2.4
PSL	104	BUY	4,511	94	44	24.3	43.7	37.8	15	79.6	(13.4)	4.3	2.4	2.7	5.2	4.4	3.8	0.5	0.5	0.4	7.7	7.7	7.7	10.6	14.2	12.4	145	40.1	0.2
Sintex	185	BUY	25,183	526	136	23.8	24.8	27.3	22	4.1	10.2	7.7	7.4	6.8	5.7	5.2	4.3	1.3	1.1	1.0	0.6	0.6	0.7	16.6	14.8	14.1	175	(5.1)	3.7
Tata Chemicals	203	ADD	47,634	995	235	25.5	23.4	27.5	(36)	(8.3)	17.6	7.9	8.7	7.4	5.2	4.4	3.8	1.0	0.9	0.8	3.9	3.9	3.9	17.2	13.3	14.0	190	(6.2)	2.5
Welspun Gujarat Stahl Rohren	128	REDUCE	24,173	505	189	20.8	21.6	16.6	1	4.1	(23.5)	6.2	5.9	7.7	5.1	4.4	4.6	1.2	1.0	0.9	1.4	1.1	1.2	19.9	17.8	11.7	100	(21.9)	11.7
United Phosphorus	145	BUY	66,920	1,397	462	10.7	13.5	18.0	28	25.7	33.9	13.5	10.8	8.0	9.1	6.7	5.1	2.2	1.9	1.6	0.8	1.0	1.4	18.1	18.2	20.5	140	(3.3)	2.2
Others			**465,895**	**9,728**					**14.9**	**10.9**	**30.2**	**12.5**	**11.3**	**8.7**	**8.6**	**7.4**	**6.8**	**2.0**	**1.7**	**1.5**	**0.8**	**0.8**	**0.9**	**15.6**	**15.1**	**16.8**			
KS universe (b)			**31,322,203**	**654,045**					**#REF!**	**#REF!**	**#REF!**	**#REF!**	**#REF!**	**#REF!**	**9.9**	**8.8**	**7.4**	**2.4**	**2.1**	**1.9**	**1.3**	**1.6**	**2.0**	**#REF!**	**#REF!**	**#REF!**			
KS universe (b) ex-Energy			**23,642,850**	**493,691**					**#REF!**	**#REF!**	**#REF!**	**#REF!**	**#REF!**	**#REF!**	**10.7**	**10.3**	**8.9**	**2.5**	**2.3**	**2.0**	**1.3**	**1.5**	**1.7**	**#REF!**	**#REF!**	**#REF!**			
KS universe (d) ex-Energy & ex-Commodities			**21,248,432**	**443,692**					**#REF!**	**#REF!**	**#REF!**	**#REF!**	**#REF!**	**#REF!**	**12.9**	**11.5**	**10.0**	**2.8**	**2.5**	**2.2**	**1.3**	**1.5**	**1.7**	**#REF!**	**#REF!**	**#REF!**			

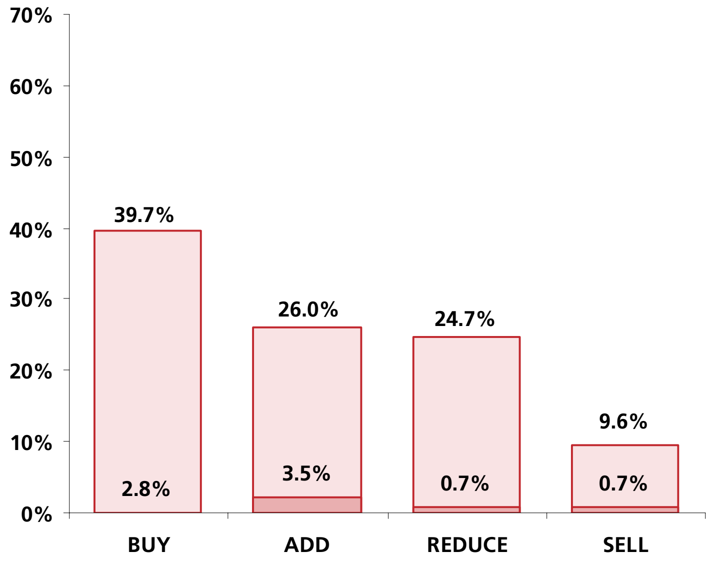
Note:
(1) For banks we have used adjusted book values.
(2) 2008 means calendar year 2007, similarly for 2009 and 2010 for these particular companies.
(3) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.

Source: Company, Bloomberg, Kotak Institutional Equities estimates

"Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Sanjeev Prasad, Prashant Vaishampayan, Lokesh Garg, Amit Kumar, Puneet Jain, Manish Karwa, Kawaljeet Saluja, Aman Batra."

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



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

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

* The above categories are defined as follows: Buy = We expect this stock to outperform the BSE Sensex by 10% over the next 12 months; Add = We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months; Reduce = We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months; Sell = We expect this stock to underperform the BSE Sensex by more then 10% over the next 12 months. These ratings are used illustratively to comply with applicable regulations. As of 31/03/2009 Kotak Institutional Equities Investment Research had investment ratings on 146 equity securities.

Source: Kotak Institutional Equities — As of March 31, 2009

Ratings and other definitions/identifiers

Rating system

Definitions of ratings

BUY. We expect this stock to outperform the BSE Sensex by 10% over the next 12 months.
ADD. We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months.
REDUCE: We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months.
SELL: We expect this stock to underperform the BSE Sensexby more than 10% over the next 12 months.

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

Other definitions

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

Other ratings/identifiers

NR = Not Rated. The investment rating and target price, if any, have been suspended temporarily. Such suspension is in compliance with applicable regulation(s) and/or Kotak Securities policies in circumstances when Kotak Securities or its affiliates is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.
CS = Coverage Suspended. Kotak Securities has suspended coverage of this company.
NC = Not Covered. Kotak Securities does not cover this company.
RS = Rating Suspended. Kotak Securities Research has suspended the investment rating and price target, if any, for this stock, because there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
NA = Not Available or Not Applicable. The information is not available for display or is not applicable.
NM = Not Meaningful. The information is not meaningful and is therefore excluded.

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

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

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

Kotak Securities Limited and its affiliates are a full-service, integrated investment banking, investment management, brokerage and financing group. We along with our affiliates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationships with a significant percentage of the companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. Investors should assume that Kotak Securities Limited and/or its affiliates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material and that the research professionals who were involved in preparing this material may participate in the solicitation of such business. Our research professionals are paid in part based on the profitability of Kotak Securities Limited, which include earnings from investment banking and other business. Kotak Securities Limited generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, Kotak Securities Limited generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of Kotak Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. Kotak Securities Limited does not provide tax advise to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment.

Certain transactions -including those involving futures, options, and other derivatives as well as non-investment-grade securities - give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavor to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so. We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. For the purpose of calculating whether Kotak Securities Limited and its affiliates holds beneficially owns or controls, including the right to vote for directors, 1% of more of the equity shares of the subject issuer of a research report, the holdings does not include accounts managed by Kotak Mahindra Mutual Fund.Kotak Securities Limited and its non US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition , investors in securities such as ADRs, the value of which are influenced by foreign currencies affectively assume currency risk. In addition options involve risks and are not suitable for all investors. Please ensure that you have read and understood the current derivatives risk disclosure document before entering into any derivative transactions.

This report has not been prepared by Kotak Mahindra Inc. (KMInc). However KMInc has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed. Any reference to Kotak Securities Limited shall also be deemed to mean and include Kotak Mahindra Inc.