

July 26, 2011

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The Ten Hopefuls. We present 10 stocks that have the potential to deliver around 50% returns over the next 18-24 months under certain favorable conditions. These factors are by no means assured given large global uncertainty, weak macro-economic conditions in India and company-specific issues. However, we see limited potential downside in that investors have generally low expectations from these names. Stocks from Banking, Energy and Infrastructure sectors dominate the list.

Ideas in a tough time: We pick 10 that can deliver ~50% returns in 18-24 months

We focus on 10 stocks that have a favorable reward-risk balance. Their current inexpensive valuations discount a lot of negatives and they also offer large upside to their potential fair valuations under certain favorable conditions. We focus on sectors that can rebound with improvement in macro-economic, operating and regulatory conditions as we do not see scope for further re-rating of the so-called 'defensives' (consumers, pharmaceuticals, private banks).

Banking, energy, metals and infrastructure names dominate the pack

(1) We see good value in certain PSU banks with strong fundamentals and low exposure to the infrastructure sector. Stabilization in interest rates and inflation may improve investment sentiment. Power finance companies may benefit from an improvement in the weak financial condition of distribution companies; some have finally started to raise tariffs. (2) Lower crude oil prices and higher retail selling prices will likely result in significantly higher earnings for Government-owned energy companies. (3) Sterlite may benefit from a favorable resolution of coal and ore supply issues. (4) Infrastructure companies have very low expectations given their weak balance sheets and poor operating macro-environment.

Required operating conditions look feasible

We discuss operating conditions under which our 10 ideas may give meaningful returns (~50% over the next 18-24 months) from current levels. We test the feasibility of the required conditions for the 10 stocks and conclude that the required conditions are not very egregious. They are feasible and require a modest improvement in macro and operating conditions.

Government may have to play its role; improvement in macro-environment critical

We note that many of our ideas depend on factors (macro-economic, regulatory) where the Indian Government has large influence. We have seen a modest improvement in Government policies and governance of late. A moderate improvement in macro-economic conditions (lower interest rates, inflation), Government policies (pricing, subsidies) and governance will result in a disproportionate positive impact on certain sectors and stocks. However, the improvements may take time (18-24 months) to come through.

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Kotak Institutional Equities
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The prices in this report are based on the market close of July 26, 2011.

THE TEN HOPEFULS: OVERVIEW

We present 10 stock ideas under our coverage that have the potential to deliver ~50% returns over the next 18-24 months if a few supporting catalysts were to fall in place. We focus on ideas that (1) have generally been ignored by the market given industry-specific or company-specific issues, (2) have reasonably strong fundamentals, (3) have potential for earnings upgrades under certain probable conditions and (4) trade at inexpensive valuations compared to their true fundamental valuations (assuming improvements in macro or industry conditions) and have potential for re-rating.

Money to be made if a few things were to fall in place

Exhibit 1 lists 10 stocks under our coverage (along with our earnings estimates and valuations) that have the potential to deliver around 50% return over the next 18-24 months under a set of favorable circumstances. We use a mix of quantitative and qualitative filters to identify the stocks but more important, focus on drivers that can result in the identified stocks doing well. We test the probability of favorable events and the circumstances under which those favorable events can occur.

Exhibit 1: The 10 Hopefuls list

Valuations of stocks that could potentially offer 50% return over the next 18-24 months

| Companies | Sector | Mkt cap. (US\$ mn) | CMP (Rs) | Rating | EPS (Rs) | | | P/E (X) | | | RoE (%) | | | EV/EBDITA (X) | | |
|-------------------------------|-----------------|-----------------------|-------------|--------|----------|-------|-------|---------|---------|-------|---------|-------|-------|---------------|-------|-------|
| | | | | | 2011 | 2012E | 2013E | 2011 | 2012E | 2013E | 2011 | 2012E | 2013E | 2011 | 2012E | 2013E |
| Crompton Greaves | Industrials | 2,531 | 174 | BUY | 14.3 | 10.6 | 13.5 | 12.2 | 16.4 | 13.0 | 31.7 | 19.1 | 20.5 | 8.0 | 9.2 | 7.0 |
| DLF | Property | 9,074 | 234 | ADD | 9.1 | 11.9 | 15.7 | 25.8 | 19.6 | 14.9 | 5.4 | 7.5 | 9.2 | 16.7 | 13.2 | 10.0 |
| Hindustan Petroleum | Energy | 2,964 | 387 | ADD | 46 | 33 | 44 | 8.5 | 11.9 | 8.9 | 10.1 | 6.5 | 8.1 | 3.3 | 3.7 | 3.0 |
| Jaiprakash Associates | Others | 3,748 | 75 | BUY | 5.5 | 5.8 | 5.8 | 13.6 | 12.9 | 13.0 | 13.2 | 12.3 | 11.1 | 11.2 | 9.5 | 9.3 |
| Muthoot Finance | Banking | 1,532 | 182 | BUY | 16 | 19 | 24 | 11.6 | 9.6 | 7.4 | 51.5 | 33.0 | 26.8 | — | — | — |
| Oil & Natural Gas Corporation | Energy | 53,557 | 277 | BUY | 25 | 40 | 40 | 11.0 | 7.0 | 6.9 | 14.7 | 20.6 | 18.0 | 4.2 | 3.1 | 2.7 |
| PFC | Banking | 6,019 | 202 | ADD | 23 | 25 | 30 | 8.8 | 8.2 | 6.7 | 18.3 | 17.9 | 17.6 | — | — | — |
| Sterlite Industries | Metals & Mining | 12,774 | 168 | BUY | 15.2 | 18.0 | 20.7 | 11.1 | 9.3 | 8.1 | 13.0 | 13.7 | 13.9 | 7.2 | 5.1 | 4.3 |
| Suzlon Energy | Industrials | 1,896 | 53 | REDUCE | (6.0) | (0.0) | 4.6 | (8.8) | (7,228) | 11.5 | (14.4) | (0.0) | 11.1 | 30.7 | 10.0 | 6.6 |
| Union Bank | Banking | 3,605 | 304 | BUY | 39 | 50 | 60 | 7.7 | 6.1 | 5.0 | 20.9 | 21.9 | 22.5 | — | — | — |

Source: Company, Kotak Institutional Equities estimates

- **Quantitative filters.** Exhibit 2 ranks stocks under our coverage on FY2012E EPS and we exclude stocks with P/E multiple of >12X. Similarly, Exhibit 3 ranks stocks under our coverage on FY2012E book and we exclude stocks with P/B multiple of >1.5X. Many of these stocks trade at low valuations as the market does not have confidence about their earnings or have concerns on corporate governance.

Exhibit 2: Plentiful stocks with low P/E; some have potential to surprise positively on earnings
 Stocks under our coverage with P/E multiple of <12X, March fiscal year-ends, 2011-13E

| Company | Price | Target price | EPS (Rs) | | | | P/E (X) | | P/B (X) | | | RoE (%) | | |
|--------------------------------------|-------|--------------|----------|-------|-------|------|---------|-------|---------|-------|-------|---------|-------|-------|
| | (Rs) | (Rs) | 2011 | 2012E | 2013E | 2011 | 2012E | 2013E | 2011 | 2012E | 2013E | 2011 | 2012E | 2013E |
| Hexaware Technologies | 80 | 80 | 3.0 | 6.6 | 7.4 | 26.8 | 12.0 | 10.8 | 2.4 | 2.1 | 1.8 | 9.4 | 18.5 | 17.9 |
| Oberoi Realty | 240 | 315 | 15.7 | 20.0 | 28.0 | 15.3 | 12.0 | 8.6 | 2.4 | 2.0 | 1.7 | 19.9 | 18.2 | 21.3 |
| Hindustan Petroleum | 387 | 500 | 45.7 | 32.5 | 43.5 | 8.5 | 11.9 | 8.9 | 0.8 | 0.8 | 0.7 | 10.1 | 6.5 | 8.1 |
| Mahindra Life Space Developer | 366 | 470 | 24.9 | 30.8 | 37.5 | 14.7 | 11.9 | 9.8 | 1.5 | 1.3 | 1.2 | 10.4 | 11.6 | 12.7 |
| Mphasis BFL | 432 | 360 | 51.8 | 36.6 | 36.0 | 8.3 | 11.8 | 12.0 | 2.8 | 2.3 | 2.0 | 38.6 | 21.3 | 17.7 |
| JSW Energy | 72 | 70 | 5.1 | 6.1 | 5.1 | 14.1 | 11.7 | 14.2 | 2.1 | 1.8 | 1.6 | 16.1 | 16.3 | 11.7 |
| Tech Mahindra | 776 | 665 | 48.8 | 66.3 | 70.8 | 15.9 | 11.7 | 11.0 | 2.9 | 2.5 | 2.2 | 20.5 | 23.9 | 22.3 |
| GAIL (India) | 461 | 570 | 28.1 | 39.9 | 41.5 | 16.4 | 11.6 | 11.1 | 2.8 | 2.3 | 2.0 | 17.4 | 21.1 | 18.5 |
| State Bank of India | 2,446 | 2,900 | 130.2 | 213.1 | 266.4 | 18.8 | 11.5 | 9.2 | 2.4 | 2.0 | 1.7 | 12.6 | 19.2 | 20.4 |
| Sobha Developers | 268 | 385 | 18.7 | 23.4 | 27.7 | 14.3 | 11.5 | 9.7 | 1.4 | 1.3 | 1.1 | 10.1 | 11.6 | 12.3 |
| TATa Chemicals | 371 | 380 | 26.1 | 32.6 | 38.6 | 14.2 | 11.4 | 9.6 | 1.7 | 1.5 | 1.4 | 16.9 | 18.5 | 19.5 |
| Mindtree | 414 | 430 | 24.7 | 36.4 | 42.6 | 16.8 | 11.4 | 9.7 | 2.2 | 1.9 | 1.7 | 14.4 | 17.8 | 18.2 |
| Dishman Pharma & chemicals | 90 | 95 | 9.8 | 8.0 | 9.4 | 9.2 | 11.3 | 9.6 | 0.8 | 0.8 | 0.7 | 9.6 | 7.2 | 7.9 |
| Nagarjuna Construction Co. | 77 | 140 | 6.4 | 7.0 | 8.9 | 12.1 | 11.0 | 8.7 | 0.8 | 0.8 | 0.8 | 7.1 | 7.4 | 8.9 |
| SpiceJet | 34 | 65 | 2.4 | 3.2 | 4.6 | 14.0 | 10.6 | 7.5 | 4.4 | 3.1 | 2.2 | (652.5) | 34.4 | 34.4 |
| Hindustan Zinc | 144 | 170 | 11.6 | 13.8 | 15.9 | 12.4 | 10.4 | 9.1 | 2.6 | 2.1 | 1.7 | 24.3 | 23.2 | 21.7 |
| Shriram Transport | 678 | 700 | 55.1 | 65.5 | 77.2 | 12.3 | 10.4 | 8.8 | 3.1 | 2.7 | 2.2 | 28.1 | 26.7 | 25.8 |
| Indian Oil Corporation | 319 | 435 | 31.8 | 31.8 | 36.9 | 10.1 | 10.0 | 8.7 | 1.3 | 1.2 | 1.1 | 12.9 | 12.0 | 12.8 |
| Federal Bank | 450 | 500 | 34.3 | 44.9 | 57.0 | 13.1 | 10.0 | 7.9 | 1.5 | 1.4 | 1.2 | 12.0 | 14.3 | 16.2 |
| JSW Steel | 870 | 990 | 78.6 | 87.4 | 113.7 | 11.1 | 10.0 | 7.7 | 1.2 | 0.9 | 0.8 | 11.9 | 10.3 | 11.4 |
| BGR Energy Systems | 449 | 470 | 44.8 | 45.8 | 46.9 | 10.0 | 9.8 | 9.6 | 3.4 | 2.7 | 2.2 | 39.0 | 30.6 | 25.4 |
| Hindalco Industries | 178 | 225 | 12.8 | 18.2 | 18.6 | 13.9 | 9.7 | 9.6 | 1.2 | 1.1 | 1.0 | 9.7 | 11.4 | 10.5 |
| Muthoot Finance | 182 | 220 | 15.7 | 19.0 | 24.5 | 11.6 | 9.6 | 7.4 | 5.1 | 2.3 | 1.8 | 51.5 | 33.0 | 26.8 |
| LIC Housing Finance | 215 | 260 | 20.5 | 22.9 | 27.5 | 10.5 | 9.4 | 7.8 | 2.6 | 2.2 | 1.8 | 25.8 | 23.7 | 23.9 |
| Sintex | 179 | 170 | 17.0 | 19.2 | 20.3 | 10.6 | 9.3 | 8.8 | 1.9 | 1.6 | 1.3 | 17.9 | 16.9 | 15.1 |
| Sterlite Industries | 168 | 205 | 15.2 | 18.0 | 20.7 | 11.1 | 9.3 | 8.1 | 1.4 | 1.2 | 1.1 | 13.0 | 13.7 | 13.9 |
| Tecpro Systems | 288 | 365 | 27.0 | 31.0 | 36.5 | 10.7 | 9.3 | 7.9 | 2.2 | 1.8 | 1.6 | 26.5 | 21.3 | 21.3 |
| Polaris Software Lab | 175 | 175 | 19.3 | 19.5 | 22.3 | 9.0 | 9.0 | 7.8 | 1.7 | 1.4 | 1.3 | 20.2 | 17.3 | 17.1 |
| United Phosphorus | 157 | 220 | 12.4 | 17.5 | 20.3 | 12.7 | 9.0 | 7.7 | 1.9 | 1.6 | 1.4 | 17.9 | 19.7 | 19.5 |
| India Cements | 71 | 82 | 2.3 | 8.0 | 9.7 | 31.6 | 9.0 | 7.4 | 0.5 | 0.5 | 0.5 | 1.8 | 6.2 | 7.2 |
| Maharashtra Seamless | 378 | 418 | 46.6 | 42.4 | 47.2 | 8.1 | 8.9 | 8.0 | 1.0 | 1.0 | 0.9 | 13.4 | 11.2 | 11.6 |
| Reliance Infrastructure | 576 | 975 | 58.0 | 66.6 | 73.3 | 9.9 | 8.6 | 7.9 | 0.7 | 0.6 | 0.6 | 6.4 | 10.5 | 11.5 |
| Puravankara Projects | 78 | 110 | 5.5 | 9.1 | 11.2 | 14.2 | 8.6 | 7.0 | 1.1 | 1.0 | 0.9 | 8.0 | 12.1 | 13.4 |
| IVRCL | 67 | 125 | 5.9 | 7.9 | 9.8 | 11.3 | 8.4 | 6.8 | 0.9 | 0.8 | 0.7 | 8.2 | 10.1 | 11.3 |
| Grasim Industries | 2,185 | 2,900 | 233.3 | 264.5 | 294.8 | 9.4 | 8.3 | 7.4 | 1.4 | 1.2 | 1.1 | 15.8 | 15.6 | 15.2 |
| Tata Steel | 583 | 750 | 76.0 | 70.8 | 85.8 | 7.7 | 8.2 | 6.8 | 1.6 | 1.4 | 1.2 | 24.9 | 17.8 | 18.4 |
| PFC | 202 | 250 | 22.8 | 24.7 | 30.1 | 8.8 | 8.2 | 6.7 | 1.8 | 1.3 | 1.1 | 18.3 | 17.9 | 17.6 |
| CESC | 345 | 440 | 37.7 | 42.5 | 51.3 | 9.2 | 8.1 | 6.7 | 0.9 | 0.8 | 0.7 | 10.5 | 10.7 | 11.5 |
| Tata Motors | 973 | 1,060 | 136.0 | 123.6 | 134.4 | 7.2 | 7.9 | 7.2 | 3.3 | 2.4 | 1.9 | 66.1 | 36.2 | 29.6 |
| Bank of Baroda | 899 | 1,250 | 108.0 | 116.4 | 139.6 | 8.3 | 7.7 | 6.4 | 1.8 | 1.5 | 1.3 | 25.3 | 21.1 | 21.3 |
| Adani Power | 114 | 120 | 2.4 | 15.2 | 16.8 | 48.5 | 7.5 | 6.8 | 4.0 | 2.6 | 1.9 | 8.5 | 41.6 | 32.0 |
| Rural Electrification Corp. | 219 | 250 | 26.0 | 29.3 | 32.8 | 8.4 | 7.5 | 6.7 | 1.7 | 1.5 | 1.3 | 21.5 | 21.2 | 20.9 |
| Bank of India | 389 | 470 | 45.5 | 54.0 | 70.7 | 8.6 | 7.2 | 5.5 | 1.3 | 1.2 | 1.0 | 17.3 | 17.2 | 19.5 |
| Punjab National Bank | 1,166 | 1,500 | 139.9 | 166.4 | 201.5 | 8.3 | 7.0 | 5.8 | 1.8 | 1.5 | 1.3 | 24.0 | 23.5 | 23.7 |
| Oil & Natural Gas Corporation | 277 | 370 | 25.2 | 39.8 | 40.0 | 11.0 | 7.0 | 6.9 | 1.6 | 1.4 | 1.2 | 14.7 | 20.6 | 18.0 |
| Oil India | 1,264 | 1,760 | 120.1 | 187.1 | 191.4 | 10.5 | 6.8 | 6.6 | 1.8 | 1.5 | 1.3 | 16.2 | 21.6 | 19.2 |
| Oriental Bank of Commerce | 369 | 430 | 51.5 | 55.6 | 65.4 | 7.2 | 6.6 | 5.6 | 1.1 | 0.9 | 0.8 | 15.5 | 13.9 | 14.7 |
| Cairn India | 323 | 300 | 33.3 | 49.5 | 53.1 | 9.7 | 6.5 | 6.1 | 1.5 | 1.3 | 1.2 | 16.9 | 21.3 | 20.1 |
| Sesa Goa | 280 | 295 | 47.0 | 43.2 | 41.7 | 6.0 | 6.5 | 6.7 | 1.9 | 1.5 | 1.2 | 36.8 | 23.9 | 17.7 |
| J&K Bank | 865 | 900 | 126.9 | 136.9 | 152.9 | 6.8 | 6.3 | 5.7 | 1.2 | 1.1 | 1.0 | 19.0 | 17.8 | 17.4 |
| Indian Overseas Bank | 142 | 190 | 17.3 | 23.5 | 30.7 | 8.2 | 6.1 | 4.6 | 1.1 | 0.9 | 0.8 | 12.7 | 14.6 | 16.8 |
| Union Bank | 304 | 425 | 39.5 | 50.2 | 60.4 | 7.7 | 6.1 | 5.0 | 1.4 | 1.2 | 1.0 | 20.9 | 21.9 | 22.5 |
| Canara Bank | 514 | 600 | 90.9 | 87.1 | 108.6 | 5.7 | 5.9 | 4.7 | 1.3 | 1.1 | 0.9 | 23.2 | 17.8 | 19.0 |
| Andhra Bank | 137 | 190 | 22.6 | 23.7 | 27.9 | 6.0 | 5.8 | 4.9 | 1.2 | 1.0 | 0.9 | 23.2 | 19.0 | 19.5 |
| Indian Bank | 239 | 300 | 38.8 | 43.9 | 53.9 | 6.2 | 5.4 | 4.4 | 1.3 | 1.1 | 0.9 | 22.3 | 21.2 | 22.0 |
| Corporation Bank | 516 | 630 | 95.4 | 96.4 | 113.3 | 5.4 | 5.4 | 4.6 | 1.1 | 0.9 | 0.8 | 21.9 | 18.6 | 19.0 |
| Housing Development & Infrastructure | 152 | 190 | 19.8 | 28.9 | 34.6 | 7.7 | 5.3 | 4.4 | 0.7 | 0.6 | 0.5 | 10.0 | 12.4 | 12.8 |
| Aban Offshore | 517 | 775 | 116.2 | 103.6 | 104.0 | 4.4 | 5.0 | 5.0 | 1.0 | 0.9 | 0.8 | 29.2 | 19.9 | 16.5 |
| Lanco Infratech | 19 | 54 | 2.0 | 4.0 | 4.6 | 9.4 | 4.8 | 4.1 | 1.1 | 0.8 | 0.7 | 12.2 | 19.6 | 18.3 |

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Plentiful stocks trading at low P/B; some have scope for re-rating

Stocks under our coverage with P/B of <1.5X, March fiscal year-ends, 2011-13E

| Company | Price | Target price | EPS (Rs) | | | P/E (X) | | | P/B (X) | | RoE (%) | | |
|--------------------------------------|-------|--------------|----------|-------|-------|-----------|-----------|-------|---------|-------|---------|--------|-------|
| | (Rs) | (Rs) | 2011 | 2012E | 2013E | 2011 | 2012E | 2013E | 2011 | 2012E | 2011 | 2012E | 2013E |
| Oil India | 1,264 | 1,760 | 120.1 | 187.1 | 191.4 | 10.5 | 6.8 | 6.6 | 1.8 | 1.5 | 1.3 | 16.2 | 19.2 |
| Tata Chemicals | 371 | 380 | 26.1 | 32.6 | 38.6 | 14.2 | 11.4 | 9.6 | 1.7 | 1.5 | 1.4 | 16.9 | 19.5 |
| Sesa Goa | 280 | 295 | 47.0 | 43.2 | 41.7 | 6.0 | 6.5 | 6.7 | 1.9 | 1.5 | 1.2 | 36.8 | 23.9 |
| Bank of Baroda | 899 | 1,250 | 108.0 | 116.4 | 139.6 | 8.3 | 7.7 | 6.4 | 1.8 | 1.5 | 1.3 | 25.3 | 21.1 |
| Punjab National Bank | 1,166 | 1,500 | 139.9 | 166.4 | 201.5 | 8.3 | 7.0 | 5.8 | 1.8 | 1.5 | 1.3 | 24.0 | 23.5 |
| Jaiprakash Associates | 75 | 135 | 5.5 | 5.8 | 5.8 | 13.6 | 12.9 | 13.0 | 1.7 | 1.5 | 1.4 | 13.2 | 12.3 |
| Rural Electrification Corp. | 219 | 250 | 26.0 | 29.3 | 32.8 | 8.4 | 7.5 | 6.7 | 1.7 | 1.5 | 1.3 | 21.5 | 21.2 |
| Bharat Petroleum | 660 | 800 | 45.7 | 46.0 | 60.0 | 14.4 | 14.4 | 11.0 | 1.6 | 1.5 | 1.4 | 10.8 | 10.1 |
| Polaris Software Lab | 175 | 175 | 19.3 | 19.5 | 22.3 | 9.0 | 9.0 | 7.8 | 1.7 | 1.4 | 1.3 | 20.2 | 17.3 |
| DLF | 234 | 270 | 9.1 | 11.9 | 15.7 | 25.8 | 19.6 | 14.9 | 1.5 | 1.4 | 1.3 | 5.4 | 7.5 |
| Ashok Leyland | 53 | 52 | 4.7 | 4.2 | 4.7 | 11.1 | 12.6 | 11.1 | 1.6 | 1.4 | 1.3 | 21.8 | 16.9 |
| Jubilant Life Sciences | 218 | 195 | 14.4 | 16.4 | 19.3 | 15.1 | 13.3 | 11.3 | 1.6 | 1.4 | 1.3 | 12.3 | 11.5 |
| Reliance Industries | 872 | 1,045 | 62.0 | 67.4 | 74.9 | 14.1 | 12.9 | 11.6 | 1.6 | 1.4 | 1.3 | 13.0 | 12.7 |
| Oil & Natural Gas Corporation | 277 | 370 | 25.2 | 39.8 | 40.0 | 11.0 | 7.0 | 6.9 | 1.6 | 1.4 | 1.2 | 14.7 | 20.6 |
| Federal Bank | 450 | 500 | 34.3 | 44.9 | 57.0 | 13.1 | 10.0 | 7.9 | 1.5 | 1.4 | 1.2 | 12.0 | 14.3 |
| Tata Steel | 583 | 750 | 76.0 | 70.8 | 85.8 | 7.7 | 8.2 | 6.8 | 1.6 | 1.4 | 1.2 | 24.9 | 17.8 |
| India Infoline | 84 | 100 | 7.4 | 6.8 | 8.4 | 11.3 | 12.4 | 9.9 | 1.6 | 1.4 | 1.2 | 12.9 | 12.0 |
| Suzlon Energy | 53 | 55 | (6.0) | (0.0) | 4.6 | (8.8) | (7,228.3) | 11.5 | 1.3 | 1.3 | 1.2 | (14.4) | (0.0) |
| PFC | 202 | 250 | 22.8 | 24.7 | 30.1 | 8.8 | 8.2 | 6.7 | 1.8 | 1.3 | 1.1 | 18.3 | 17.9 |
| Mahindra Life Space Developer | 366 | 470 | 24.9 | 30.8 | 37.5 | 14.7 | 11.9 | 9.8 | 1.5 | 1.3 | 1.2 | 10.4 | 11.6 |
| Cairn India | 323 | 300 | 33.3 | 49.5 | 53.1 | 9.7 | 6.5 | 6.1 | 1.5 | 1.3 | 1.2 | 16.9 | 21.3 |
| Sobha Developers | 268 | 385 | 18.7 | 23.4 | 27.7 | 14.3 | 11.5 | 9.7 | 1.4 | 1.3 | 1.1 | 10.1 | 11.6 |
| Patni Computer Systems | 322 | 370 | 42.6 | 26.0 | 30.8 | 7.6 | 12.4 | 10.5 | 1.4 | 1.3 | 1.2 | 18.4 | 8.2 |
| Tata Global Beverages | 105 | 110 | 4.0 | 6.0 | 6.8 | 26.5 | 17.4 | 15.4 | 1.3 | 1.3 | 1.2 | 6.5 | 9.6 |
| Union Bank | 304 | 425 | 39.5 | 50.2 | 60.4 | 7.7 | 6.1 | 5.0 | 1.4 | 1.2 | 1.0 | 20.9 | 21.9 |
| Indian Oil Corporation | 319 | 435 | 31.8 | 31.8 | 36.9 | 10.1 | 10.0 | 8.7 | 1.3 | 1.2 | 1.1 | 12.9 | 12.0 |
| Grasim Industries | 2,185 | 2,900 | 233.3 | 264.5 | 294.8 | 9.4 | 8.3 | 7.4 | 1.4 | 1.2 | 1.1 | 15.8 | 15.6 |
| Sterlite Industries | 168 | 205 | 15.2 | 18.0 | 20.7 | 11.1 | 9.3 | 8.1 | 1.4 | 1.2 | 1.1 | 13.0 | 13.7 |
| Bank of India | 389 | 470 | 45.5 | 54.0 | 70.7 | 8.6 | 7.2 | 5.5 | 1.3 | 1.2 | 1.0 | 17.3 | 17.2 |
| Indian Bank | 239 | 300 | 38.8 | 43.9 | 53.9 | 6.2 | 5.4 | 4.4 | 1.3 | 1.1 | 0.9 | 22.3 | 21.2 |
| J&K Bank | 865 | 900 | 126.9 | 136.9 | 152.9 | 6.8 | 6.3 | 5.7 | 1.2 | 1.1 | 1.0 | 19.0 | 17.8 |
| Canara Bank | 514 | 600 | 90.9 | 87.1 | 108.6 | 5.7 | 5.9 | 4.7 | 1.3 | 1.1 | 0.9 | 23.2 | 17.8 |
| NHPC | 25 | 30 | 1.3 | 1.9 | 2.3 | 18.6 | 13.3 | 11.0 | 1.1 | 1.1 | 1.0 | 6.3 | 8.2 |
| Hindalco Industries | 178 | 225 | 12.8 | 18.2 | 18.6 | 13.9 | 9.7 | 9.6 | 1.2 | 1.1 | 1.0 | 9.7 | 11.4 |
| GMR Infrastructure | 31 | 45 | (0.0) | (0.1) | 0.7 | (3,564.9) | (223.7) | 41.7 | 1.0 | 1.0 | 1.0 | (0.0) | (0.8) |
| Andhra Bank | 137 | 190 | 22.6 | 23.7 | 27.9 | 6.0 | 5.8 | 4.9 | 1.2 | 1.0 | 0.9 | 23.2 | 19.0 |
| Balrampur Chini Mills | 62 | 80 | 6.7 | 4.0 | 7.7 | 9.3 | 15.6 | 8.1 | 1.0 | 1.0 | 0.9 | 11.6 | 6.5 |
| Puravankara Projects | 78 | 110 | 5.5 | 9.1 | 11.2 | 14.2 | 8.6 | 7.0 | 1.1 | 1.0 | 0.9 | 8.0 | 12.1 |
| Maharashtra Seamless | 378 | 418 | 46.6 | 42.4 | 47.2 | 8.1 | 8.9 | 8.0 | 1.0 | 1.0 | 0.9 | 13.4 | 11.2 |
| Oriental Bank of Commerce | 369 | 430 | 51.5 | 55.6 | 65.4 | 7.2 | 6.6 | 5.6 | 1.1 | 0.9 | 0.8 | 15.5 | 13.9 |
| Corporation Bank | 516 | 630 | 95.4 | 96.4 | 113.3 | 5.4 | 5.4 | 4.6 | 1.1 | 0.9 | 0.8 | 21.9 | 18.6 |
| Aban Offshore | 517 | 775 | 116.2 | 103.6 | 104.0 | 4.4 | 5.0 | 5.0 | 1.0 | 0.9 | 0.8 | 29.2 | 19.9 |
| Indian Overseas Bank | 142 | 190 | 17.3 | 23.5 | 30.7 | 8.2 | 6.1 | 4.6 | 1.1 | 0.9 | 0.8 | 12.7 | 14.6 |
| JSW Steel | 870 | 990 | 78.6 | 87.4 | 113.7 | 11.1 | 10.0 | 7.7 | 1.2 | 0.9 | 0.8 | 11.9 | 10.3 |
| GVK Power & Infrastructure | 19 | 34 | 0.9 | 0.6 | 1.0 | 20.7 | 31.2 | 18.2 | 0.9 | 0.9 | 0.9 | 4.4 | 2.9 |
| Tata Communications | 226 | 205 | 15.2 | 15.7 | 15.9 | 14.9 | 14.4 | 14.2 | 0.9 | 0.9 | 0.8 | 5.5 | 5.5 |
| CESC | 345 | 440 | 37.7 | 42.5 | 51.3 | 9.2 | 8.1 | 6.7 | 0.9 | 0.8 | 0.7 | 10.5 | 10.7 |
| Lanco Infratech | 19 | 54 | 2.0 | 4.0 | 4.6 | 9.4 | 4.8 | 4.1 | 1.1 | 0.8 | 0.7 | 12.2 | 19.6 |
| IVRCL | 67 | 125 | 5.9 | 7.9 | 9.8 | 11.3 | 8.4 | 6.8 | 0.9 | 0.8 | 0.7 | 8.2 | 10.1 |
| Nagarjuna Construction Co. | 77 | 140 | 6.4 | 7.0 | 8.9 | 12.1 | 11.0 | 8.7 | 0.8 | 0.8 | 0.8 | 7.1 | 7.4 |
| Punj Lloyd | 74 | 75 | (1.5) | 5.2 | 8.2 | (49.8) | 14.3 | 9.1 | 0.8 | 0.8 | 0.7 | (1.7) | 5.8 |
| Dishman Pharma & chemicals | 90 | 95 | 9.8 | 8.0 | 9.4 | 9.2 | 11.3 | 9.6 | 0.8 | 0.8 | 0.7 | 9.6 | 7.2 |
| Hindustan Petroleum | 387 | 500 | 45.7 | 32.5 | 43.5 | 8.5 | 11.9 | 8.9 | 0.8 | 0.8 | 0.7 | 10.1 | 6.5 |
| Reliance Infrastructure | 576 | 975 | 58.0 | 66.6 | 73.3 | 9.9 | 8.6 | 7.9 | 0.7 | 0.6 | 0.6 | 6.4 | 10.5 |
| Housing Development & Infrastructure | 152 | 190 | 19.8 | 28.9 | 34.6 | 7.7 | 5.3 | 4.4 | 0.7 | 0.6 | 0.5 | 10.0 | 12.4 |
| Reliance Communications | 102 | 95 | 6.3 | 7.1 | 9.7 | 16.1 | 14.4 | 10.5 | 0.6 | 0.6 | 0.6 | 3.4 | 4.1 |
| Bajaj Hindustan | 72 | 65 | (8.0) | (1.2) | 2.1 | (9.0) | (62.1) | 34.1 | 0.6 | 0.5 | 0.5 | (6.0) | (0.9) |
| India Cements | 71 | 82 | 2.3 | 8.0 | 9.7 | 31.6 | 9.0 | 7.4 | 0.5 | 0.5 | 0.5 | 1.8 | 6.2 |
| MTNL | 46 | 35 | (10.4) | (9.1) | (8.4) | (4.4) | (5.0) | (5.5) | 0.3 | 0.3 | 0.3 | (6.1) | (5.7) |

Source: Company, Kotak Institutional Equities estimates

We are skeptical about significant returns from stocks in sectors such as consumers, pharmaceuticals and private banks (so-called defensive sectors) without meaningful earnings upgrades given the generally rich valuations of consumer stocks. 1QFY12 results so far have not resulted in any meaningful earnings upgrades for the 'defensive' sectors and in fact, raised issues about likely earnings downgrades. The earnings downgrades may coincide with a contraction of current lofty multiples.

- **Qualitative factors.** For each of the identified stocks, we focus on conditions that can help a stock realize its true potential either through (1) higher earnings or (2) through higher multiples (re-rating) or (3) a combination of higher earnings and multiples. These conditions or factors could be macro-economic, industry, company, regulatory and financial and/or a combination of the aforementioned factors. In the case of stocks with beaten-down valuations in the broader infrastructure space (including real estate), it would appear that all the factors are currently negative be it macro-economic (high interest rates), industry (weak execution and investment cycle), company (corporate governance in several cases), regulatory (slow pace of government approvals) or financial (weak balance sheet in several cases).

We also focus on improvement in corporate governance, company restructuring or potential M&A as possible conditions for higher valuations—break-up value of a firm may be far higher than its current valuation. In fact, we see several cases where the current stock prices are significantly below our SOTP valuations (based on FY2013E estimates).

Exhibit 4 compares current market prices and our SOTP valuations of stocks under our coverage that we value on an SOTP basis. The large discount in the case of most SOTP stocks would suggest that the market is currently according a huge premium to earnings, especially to stocks with strong visibility in earnings. We note the extremely rich valuations of consumer staple stocks with their somewhat predictable earnings.

Exhibit 4: Large discount between CMP and TP of most stocks valued on SOTP basis
Current market prices and SOTP-based target prices (Rs)

| Company | | Rating | Price (Rs) | SOTP valuation (Rs) | Discount (%) |
|----------------------------|-------------------|--------|------------|---------------------|--------------|
| Lanco Infratech | Utilities | BUY | 19 | 54 | 65 |
| IVRCL | Construction | BUY | 67 | 125 | 47 |
| GVK Power & Infrastructure | Infrastructure | BUY | 19 | 34 | 45 |
| Nagarjuna Construction Co. | Construction | BUY | 77 | 140 | 45 |
| Jaiprakash Associates | Others | BUY | 75 | 135 | 45 |
| Reliance Infrastructure | Utilities | BUY | 576 | 975 | 41 |
| GMR Infrastructure | Infrastructure | ADD | 31 | 45 | 31 |
| Phoenix Mills | Property | BUY | 216 | 300 | 28 |
| Grasim Industries | Cement | BUY | 2,185 | 2,900 | 25 |
| Sadbhav Engineering | Construction | BUY | 144 | 190 | 24 |
| Tata Steel | Metals & Mining | BUY | 583 | 750 | 22 |
| CESC | Utilities | BUY | 345 | 440 | 22 |
| Hindalco Industries | Metals & Mining | ADD | 178 | 225 | 21 |
| United Spirits | Consumer Products | ADD | 1,031 | 1,300 | 21 |
| GAIL (India) | Energy | ADD | 461 | 570 | 19 |
| ICICI Bank | Banking | ADD | 1,041 | 1,270 | 18 |
| Sterlite Industries | Metals & Mining | BUY | 168 | 205 | 18 |
| IRB Infrastructure | Infrastructure | ADD | 183 | 220 | 17 |
| Reliance Industries | Energy | ADD | 872 | 1,045 | 17 |
| India Infoline | Banking | ADD | 84 | 100 | 16 |
| IDFC | Banking | ADD | 135 | 160 | 16 |
| State Bank of India | Banking | BUY | 2,446 | 2,900 | 16 |
| Godrej Consumer Products | Consumer Products | BUY | 437 | 510 | 14 |
| HT Media | Media | ADD | 165 | 190 | 13 |
| Tata Power | Utilities | ADD | 1,300 | 1,480 | 12 |
| Mahindra & Mahindra | Automobiles | ADD | 718 | 800 | 10 |
| Jindal Steel and Power | Metals & Mining | REDUCE | 630 | 700 | 10 |
| Gujarat Pipavav Port | Infrastructure | BUY | 68 | 75 | 9 |
| Mundra Port and SEZ | Infrastructure | BUY | 159 | 175 | 9 |
| Tata Motors | Automobiles | REDUCE | 973 | 1,060 | 8 |
| Exide Industries | Automobiles | REDUCE | 150 | 160 | 6 |
| Sesa Goa | Metals & Mining | REDUCE | 280 | 295 | 5 |
| Larsen & Toubro | Industrials | ADD | 1,778 | 1,875 | 5 |
| Bharat Forge | Automobiles | ADD | 337 | 355 | 5 |
| HDFC | Banking | REDUCE | 694 | 730 | 5 |
| Adani Power | Utilities | REDUCE | 114 | 120 | 5 |
| Suzlon Energy | Industrials | REDUCE | 53 | 55 | 4 |
| Reliance Capital | Banking | REDUCE | 589 | 600 | 2 |
| Tata Communications | Telecom | REDUCE | 226 | 205 | (10) |
| Tech Mahindra | Technology | REDUCE | 776 | 665 | (17) |

Source: Company, Kotak Institutional Equities estimates

For stocks with potential of earnings upgrades or enhanced confidence about their earnings, we focus on conditions that (1) will likely drive earnings to requisite levels assuming a certain target multiple or (2) would make investors have greater confidence in our or consensus earnings estimates. We put Crompton Greaves, HPCL, ONGC, STLT and Suzlon in this category in our list of 10 stocks. Some of these companies also suffer from weak corporate governance and any enhancement in corporate governance will likely also improve their valuation multiples (P/E or EV/EBITDA).

For stocks with potential of re-rating, we focus on conditions that may lead to investors taking a more positive view of the stocks (re-rating, in other words). These conditions are largely of a macro-economic nature with a decline in interest rates that we expect from 1QFY13E being the most critical one. A decline in interest rates would result in enhanced earnings visibility as lower interest rates may allay concerns about growth (bank loans or real estate volumes), higher profitability (lower interest expense in case of leveraged real estate names) and asset quality (lower concerns on potential NPLs in banks due to lower interest rates). We put banking and financial services (Muthoot Finance, PFC, Union Bank) and infrastructure (DLF and JPA) in this category.

THE TEN HOPEFULS: IN DETAIL

We discuss 10 stocks under our coverage that can deliver 50% potential return over the next 18-24 months and the required factors to realize our expected returns for each of the stocks. We examine the feasibility of our assumptions in detail and check for potential favorable macro-economic, industry, company, regulatory and taxation developments and earnings drivers that may support our assumptions. We would caution that our expected returns would materialize only if certain identified catalysts were to fall into place.

Crompton Greaves (CMP: ₹174)

We believe that Crompton Greaves stock could potentially deliver 50% returns over the next 18-24 months post a steep correction over the past few days on the back of disappointing 1QFY12 results. Crompton stock price recorded a sharp fall (down about 27% in two days) post disappointing 1QFY12 results on concerns on overseas business and guidance of sharp EBITDA margin contraction in FY2012E. In our view, investment sentiment will likely improve on any visible signs of pick-up in businesses of the consumers and industrials segments in India and of its overseas subsidiary. The stock is currently trading at 13X FY2013E EPS of ₹13.5 (reported earnings of Rs14.3 in FY2011 and earnings estimate of ₹10.6 in FY2012E).

- **Potential upside to conservative estimates for FY2012E and FY2013E.** We see potential upside to our conservative estimates of a 26% drop in EPS to ₹10.6 in FY2012E (from ₹14.3 reported in FY2011) and ₹13.5 EPS in FY2013E. Our estimates are based on slowdown in consumers and international business sales as well as a sharp margin correction in domestic power and industrial segments (based on 1QFY12 trend). We see limited downside risk to our estimate as they already build in a significant slowdown in Crompton's business. Earnings may in fact have some upside on pick-up in the domestic and international businesses of the company. Exhibit 5 details our key segment-wise assumptions behind our estimates for the company. We assume 9% growth in consolidated sales (1QFY12 sales grew 6%) and 10% EBITDA margin for FY2012E (7.5% in 1QFY12). We estimate 13.5% growth in consolidated sales in FY2013E with EBITDA margin improving to about 11%.

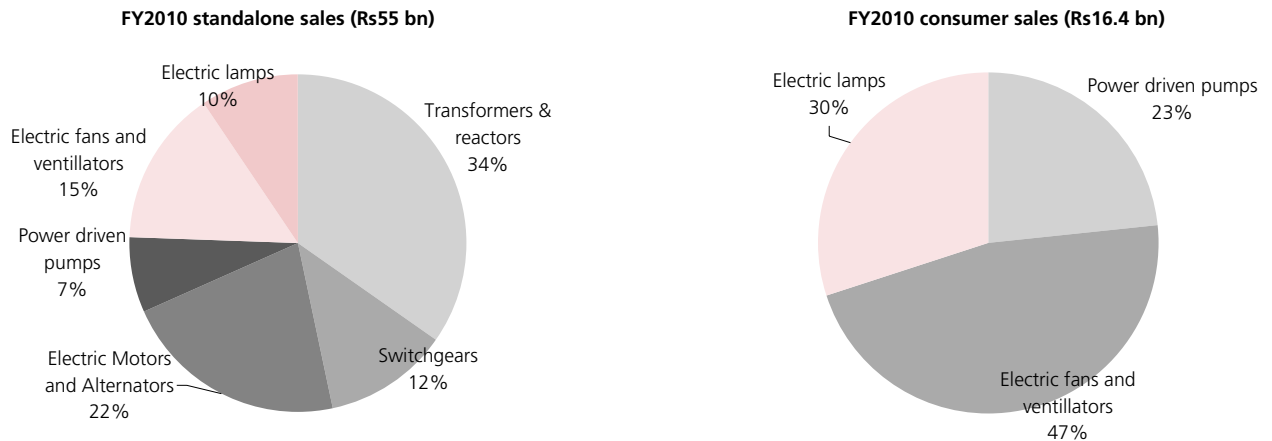
Exhibit 5: We model revenue growth of 9% in FY2012E versus management guidance of 10-12%
Revenue and margin assumptions of Crompton, March fiscal year-ends, 2011-13E (Rs mn)

| | 2011 | 2012E | 2013E |
|------------------------------|---------|---------|---------|
| Standalone power | | | |
| Revenues | 25,542 | 27,458 | 31,577 |
| Growth (%) | 1.8 | 7.5 | 15.0 |
| EBIT | 4,602 | 3,844 | 4,421 |
| EBIT margin (%) | 18.0 | 14.0 | 14.0 |
| Consumer products | | | |
| Revenues | 20,212 | 21,728 | 24,444 |
| Growth (%) | 25.4 | 7.5 | 12.5 |
| EBIT | 2,928 | 2,933 | 3,300 |
| EBIT margin (%) | 14.5 | 13.5 | 13.5 |
| Industrial systems | | | |
| Revenues | 14,066 | 15,825 | 18,198 |
| Growth (%) | 19.8 | 10.0 | 15.0 |
| EBIT | 2,626 | 2,374 | 2,730 |
| EBIT margin (%) | 18.7 | 15.0 | 15.0 |
| Overseas subsidiaries | | | |
| Revenues | 40,493 | 45,941 | 51,901 |
| Growth (%) | 1.2 | 13.5 | 13.0 |
| EBITDA | 4,099 | 2,623 | 4,178 |
| EBITDA margin (%) | 10.1 | 5.7 | 8.0 |
| Consolidated numbers | | | |
| Revenues | 100,051 | 108,835 | 123,688 |
| Growth (%) | 9.5 | 8.8 | 13.6 |
| EBITDA | 13,438 | 11,104 | 13,829 |
| EBITDA margin (%) | 13.4 | 10.2 | 11.2 |
| PAT | 9,191 | 6,820 | 8,640 |
| EPS (Rs) | 14.3 | 10.6 | 13.5 |
| EPS growth (%) | 11.5 | (25.8) | 26.7 |

Source: Company, Kotak Institutional Equities estimates

- **Consumer business may revive over the next 12-15 months.** We believe that the consumer business of Crompton may revive over the next 12-15 months post a slowdown in 1QFY12. Broad demand slowdown in the consumer segment may have been further exacerbated by (1) price escalations and (2) seasonal factors such as milder summer and early onset of monsoons. Some near-term revival may also pan out as seasonal factors alleviate (around 47% of Crompton's consumer business is from fans alone, see Exhibit 6). We note that all consumer segments had witnessed strong growth for eight consecutive quarters since 1QFY10.

Exhibit 6: Fans and ventilators form 15% of standalone and 47% of consumer segment sales
Sales break-up of Crompton standalone, March fiscal year-end, 2010 (%)



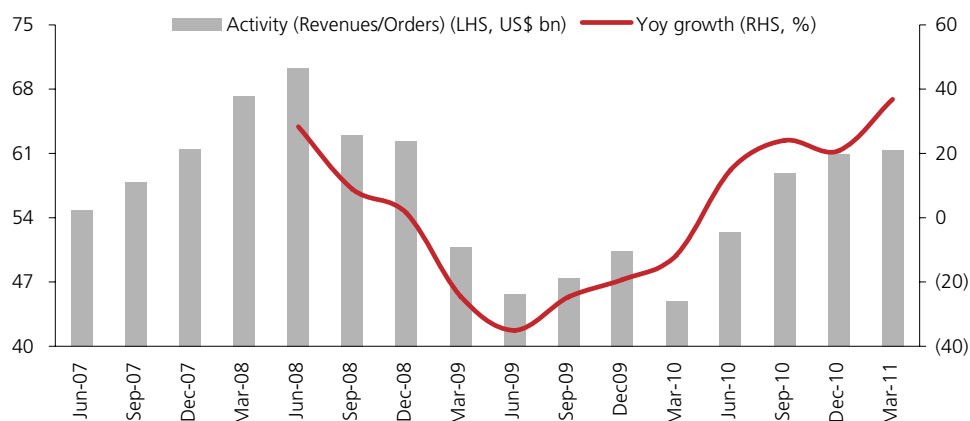
Source: Company, Kotak Institutional Equities

- **Global capex momentum may be recovering some lost ground; bodes well for overseas subsidiaries.** Recent sharp correction in CRG's price and earnings downgrades was partly due to slowdown in overseas subsidiary businesses and management's cautious outlook on the same. The management attributed sedate 1QFY12 revenues to (1) inability to deliver orders in troubled geographies such as Middle East and Africa, which led to a revenue impact of about ₹2.5 bn (reported revenues of ₹9.7 bn for overseas subsidiaries; modest 1% yoy growth) and (2) weaker demand in European markets for products such as wind power transformers.

We see some recovery in performance of global players such as Caterpillar, Cummins, Komatsu and Honeywell (see Exhibit 7) and positive guidance on CY2011E growth prospects. This bodes well for Crompton's overseas subsidiary businesses. Furthermore, the overseas business reported a strong order backlog of ₹35.7 bn at end-1QFY12 (on strong inflows in FY2011 although 1QFY12 inflow was relatively modest at ₹7.9 bn), up 16% yoy which provides some confidence on execution in FY2012E-13E (see Exhibit 8).

Exhibit 7: Strong pick-up in activity for global companies

Revenues/orders for global companies



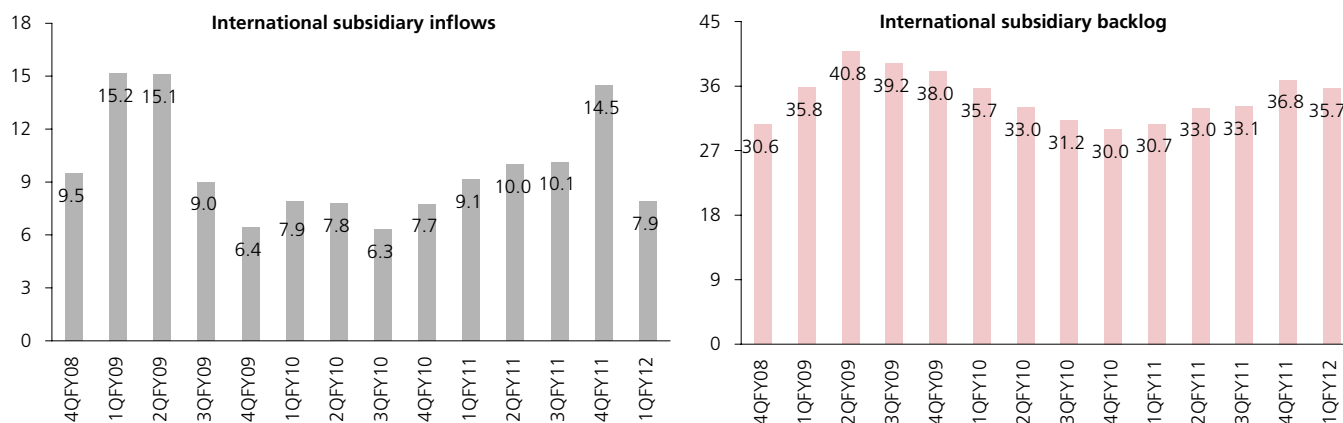
Notes:

(a) We include CAT, Cummins, Honeywell, Komatsu and Siemens in this exercise.

Source: Company, Kotak Institutional Equities

Exhibit 8: Overseas order book is healthy, which provides some comfort on FY2012-13E revenues

Quarterly order booking and backlog trend for Crompton's overseas subsidiaries, March fiscal year-ends, 4QFY08-1QFY12 (Rs bn)



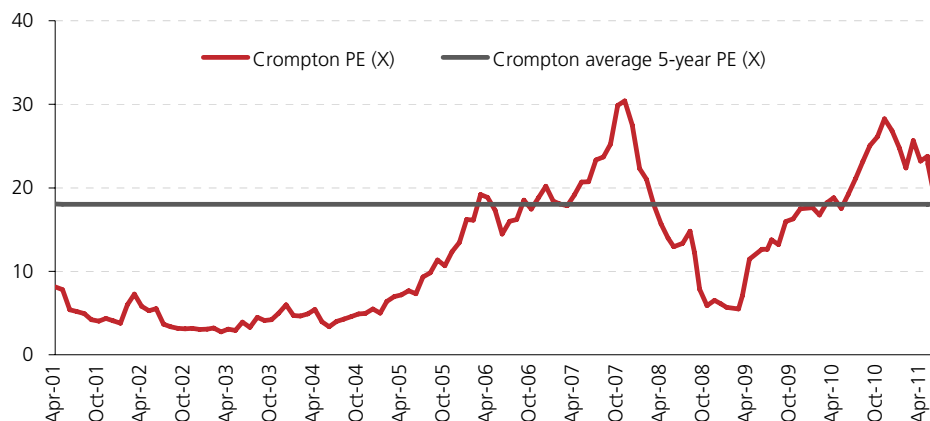
Source: Company, Kotak Institutional Equities

► **Valuations may revive to historical levels with more comfort on FY2013E revenues.**

We note that Crompton stock is currently trading at 15.1X one-year rolling forward P/E versus historical trading levels (five-year average) of about 18X. The stock is trading at 11% premium to BSE-30 Index one-year rolling forward P/E of 13.6X versus historical average levels of about 13.5-14X (see Exhibit 9). Valuations may revert to historical levels if visibility was to improve on domestic power, consumers and overseas subsidiary businesses.

Exhibit 9: Crompton's P/E has come off sharply post disappointing 1QFY12 results

PE chart of Crompton based on 12-month rolling forward EPS, March fiscal year-ends, 2001-2011 (X)



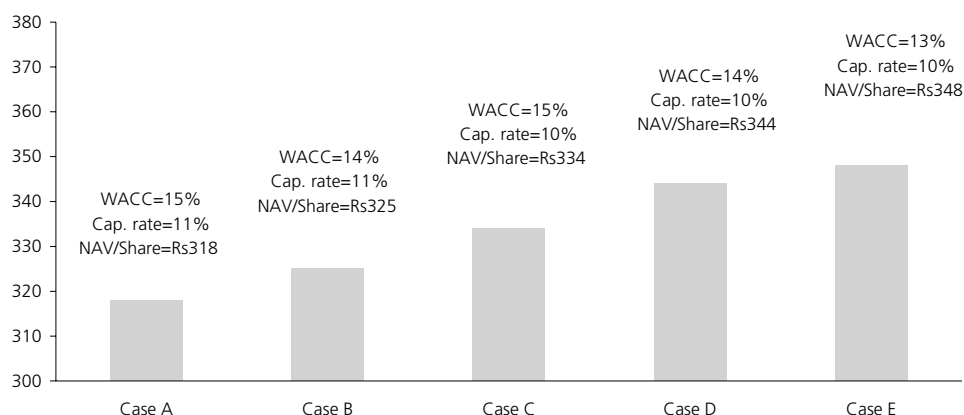
Source: Company, Kotak Institutional Equities estimates

DLF (CMP: ₹234)

We see scope for re-rating of DLF stock if DLF is able to (1) resolve its debt issues and (2) improve execution, which would improve its cash flows. It will benefit significantly from a decline in interest rates in India over the next 18-24 months through (1) lower interest expenses, (2) improved sales and cash flows from increased off-take and (3) lower cost of capital. We assume WACC of 15% and a capitalization rate of 11% to compute our March 2013-based NAV of ₹270. However, if we consider March 2014 NAV and move WACC rate to 13% and capitalization rate 10% (a possible scenario as interest rates decline), our fair valuation would come to ₹348, a potential upside of 49% from current levels. We like DLF's fundamentals given (1) a relatively wide geographical spread, (2) lower regulatory risk versus Mumbai firms, (3) nil pledged shares and (4) a relatively balanced portfolio between residential and commercial segments.

- **Scenario analysis reveals strong upside.** Exhibit 10 gives our scenario analysis for March 2014-based NAV under various WACC and capitalization rate assumptions. In our base-case scenario, we model WACC at 15% and capitalization rate at 11%. However, we believe that the Street may be willing to consider a WACC of 13% and a capitalization rate of 10% if (1) interest rates were to decline in India from current high levels and (2) cash flows were to improve on the back of higher sales arising from lower interest rates. DLF's NAV/share would increase to ₹348/share.

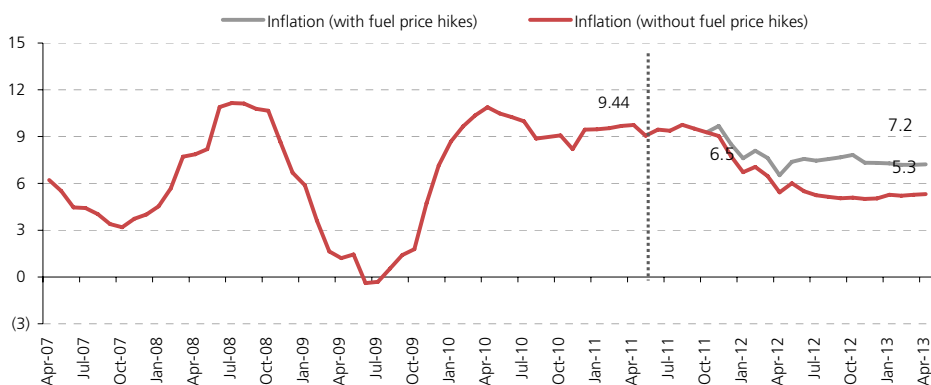
Exhibit 10: Fair valuation of DLF could rise significantly once interest rates stabilize
Scenario analysis for DLF share price, FY2014E-based NAV (Rs/share)



Source: Kotak Institutional Equities estimates

Interest rates are very high currently in India due to high inflation. We expect inflation to moderate in FY2013E given high base-effects in FY2012E, particularly in 1HFY12. Exhibit 11 gives our projection for inflation trajectory in India through end-FY2013E under a scenario of average crude oil price of US\$110/bbl in FY2012E and US\$100/bbl in FY2013E (Dated Brent basis). Exhibit 12 shows the RBI's policy rates, 1-year and 10-year government bond yields in India for the past 10 years.

Exhibit 11: Inflation may decline through FY2013E
Inflation trajectory in India, WPI (%)

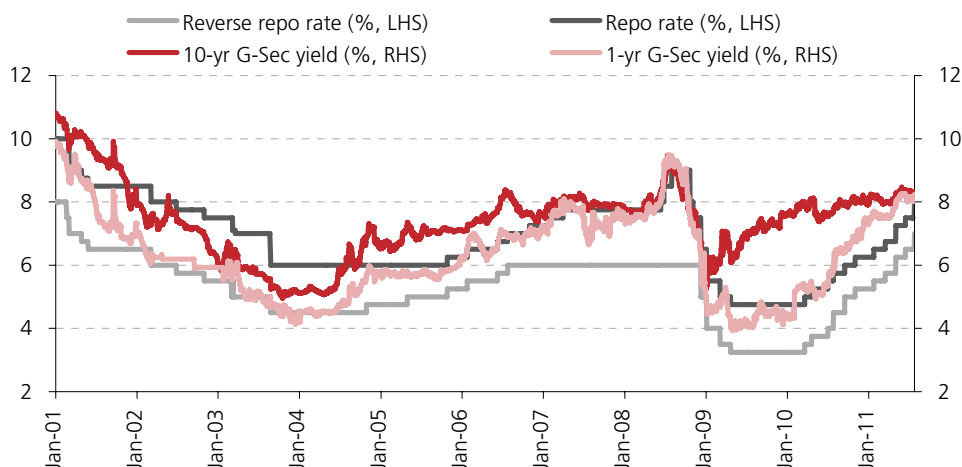


Notes:

- (1) Assuming (a) Rs3/liter price increase in diesel in November 2011 and Rs2.3/liter in June 2012, (b) Rs50/cylinder increase in LPG prices each in November 2011 and June 2012, (c) Rs2/liter increase in kerosene prices each in November 2011 and June 2012.
(2) In our scenario without fuel price increases, we assume no change in prices of regulated fuels through FY2013E.

Source: Kotak Institutional Equities estimates

Exhibit 12: Sharp increase in policy rates and G-Sec yields; may be near peak levels
RBI's policy rates, 1-year and 10-year government bond yields



Source: RBI, Bloomberg, Kotak Institutional Equities

- ▶ **The new plot.** DLF management has unveiled a revised strategy to expedite monetization and controlling costs—(1) focus on faster cash generating plot sales, (2) prioritize higher-end luxury products with relatively higher margins, (3) control capital expenditure on new rental assets, focus on increasing rental yields and reducing vacancies at current properties, (4) increase non-core asset disposal target to ₹100 bn (from ₹45 bn previously) with a target of ₹60-70 bn over the next 2-3 years, (5) counter raw material inflationary pressure through 'escalation clauses' in customer agreements and (6) reduce execution risk by delivering existing under-construction projects without any delay (FY2012E delivery target is >12 mn sq. ft).
- **Plot sales to expedite monetization.** DLF intends to follow the plot sales route to expedite faster monetization of its land bank. Plot sales-to-cash cycle is shorter and it has higher profitability but it reduces development potential (as floor space index is 1X whereas built-out real estate would have a ratio meaningfully higher than 1X). However, plot sales can give DLF cash to repay debt and/or increase land bank. In FY2012E, DLF has targeted to launch 10-12 mn sq. ft of projects of which ~10 mn sq. ft will be plotted developments in Chandigarh, Gurgaon, Indore and Lucknow. DLF has already launched 1,300 plots at Indore and expects to realize ₹3 bn from this. Exhibit 13 gives breakdown of DLF's revenues over the past few years and our projections up to FY2014E. DLF's lease rentals have increased quite sharply over the past few years, a positive, in our view.

Exhibit 13: Leasing revenues, which are more stable, have increased quite sharply over the past few years
Breakdown of DLF revenues by key segments, March fiscal year-ends, 2008-14E (Rs mn)

| | 2008 | 2009 | 2010 | 2011 | 2012E | 2013E | 2014E |
|--------------------------|----------------|----------------|---------------|---------------|----------------|----------------|----------------|
| Real estate sales | 133,592 | 84,802 | 55,525 | 65,785 | 78,610 | 99,953 | 128,632 |
| Rent | 2,847 | 5,054 | 7,246 | 12,808 | 14,300 | 17,535 | 22,372 |
| Other operational income | 7,890 | 10,497 | 11,458 | 17,012 | 17,981 | 20,501 | 33,740 |
| Total revenues | 144,329 | 100,354 | 74,229 | 95,606 | 110,891 | 137,989 | 184,744 |

Source: Kotak Institutional Equities estimates

- **Counter cost escalations.** DLF intends to counter raw material inflationary pressures through (1) focusing on plotted development, which have lower construction cost and hence lower risk, (2) introduce 'escalation clauses' in customer agreements and (3) reduce execution delays by not launching new mid-range construction projects but focusing on delivering existing under-construction projects without any delay (FY2012E delivery target is >12 mn sq. ft). At end-4QFY11, DLF had 54 mn sq. ft under construction (including 40 mn of property development for sale and 14 mn of lease rental development).
- **Non-core asset divestment to pick up.** DLF divested ₹12.7 bn of non-core assets in FY2011 taking the total divestment till date figure to ₹30.7 bn. DLF has increased its overall diversification target to ₹100 bn (₹45 bn earlier) with ₹60-70 bn divestment over the next 2-3 years.
- ▶ **Diversified operations.** DLF stands out among large-capitalization real estate stocks for the absence of serious negative factors—(1) no single project or location specific risk; Gurgaon (single largest geography accounts for 55% of its current development portfolio of 40 mn sq. ft) and the residential segment contributes less than 50% to our NAV estimate; (2) no significant regulatory risk; our NAV estimate faces relatively lower risk of regulatory action (redevelopment, car-park FSI among others) impairing value versus Mumbai-focused firms; and (3) nil pledged shares, which could increase risk of a cash crunch in a tighter funding scenario. We believe commercial leasing volumes have bottomed and DLF has 16 mn sq.ft of leasable space that can be made ready for fit-outs in 6-12 months.
- ▶ **Debt repayment in FY2012E should not be a worry.** DLF has contractual obligations to repay debt of ₹31 bn in FY2012E versus ₹19 bn in FY2011. However, this is much lower than the ₹57-75 bn of annual gross repayment over FY2008-11. Exhibit 14 gives DLF's outstanding loans and debt repayment over FY2009-13E.

Exhibit 14: Leverage ratios of DLF likely to improve as execution improves
Outstanding loans and key leverage ratios, March fiscal year-ends, 2009-13E

| | 2009 | 2010 | 2011 | 2012E | 2013E |
|--------------------------|------------|------------|------------|------------|------------|
| Starting loans | 122,771 | 163,201 | 216,766 | 239,903 | 234,903 |
| Ending loans | 163,201 | 216,766 | 239,903 | 234,903 | 224,903 |
| Interest rate (%) | 11.9 | 10.5 | 11.2 | 12.2 | 12.7 |
| Net debt | 151,245 | 207,484 | 226,442 | 227,577 | 221,515 |
| EBITDA | 55,900 | 35,116 | 37,527 | 47,624 | 62,124 |
| Net debt/EBITDA | 2.7 | 5.9 | 6.0 | 4.8 | 3.6 |
| EBIT | 53,511 | 31,866 | 31,220 | 40,769 | 51,865 |
| Cash interest paid | 16,010 | 21,034 | 25,913 | 28,941 | 29,083 |
| EBIT/Interest (X) | 3.3 | 1.5 | 1.2 | 1.4 | 1.8 |

Source: Company data, Kotak Institutional Equities estimates

DLF's gross debt (excluding preference capital) went up by ₹23 bn in FY2011. However, DLF repaid preference capital of ₹41 bn over FY2011 leading to DLF's net debt-to-equity ratio (considering preference shares as debt) falling to 1.0X at end-FY2011 versus 1.1X at end-FY2010. DLF raised ₹5 bn from the issue of non-convertible redeemable debentures at 10.24% interest rates. Average cost of debt has increased by 70 bps to 11.2% in FY2011 from 10.5% in FY2010 though it is still lower than the peak 11.9% rate of interest in FY2009.

Hindustan Petroleum Corp. (CMP: ₹387)

In our view, HPCL stock has the potential to deliver 50% return from current levels over the next 18 months. However, this would entirely depend on (1) a favorable macro environment of sufficiently low crude oil prices (around US\$90-100/bbl), (2) establishment of a transparent pricing system for auto fuels with full pricing freedom to the companies and (3) implementation of a consistent subsidy-sharing system with defined share of upstream and downstream companies. The latter two are even more important than the first point although 'low' crude oil prices are perhaps a necessary condition for the government to have sufficient flexibility to deregulate auto fuel (diesel largely) prices and restrict the share of downstream oil companies of overall subsidies to a low figure of around ₹30-40 bn.

A small reverse valuation exercise suggests that HPCL's FY2013E EPS would need to be around ₹50 for the stock to be valued at ₹600. We assume HPCL stock will trade at 9-10X EPS. HPCL has investments worth ₹135, the bulk of which comes from its 297 mn shares in MRPL and 5.4 mn shares of Oil India (see Exhibit 15). We value the non-listed equity investments at book value. We note that HPCL's average EPS in FY2007-11 was ₹36.7 with a low of ₹17 in FY2009 and a high of ₹52 in FY2010. FY2011 reported EPS was ₹46. Thus, an EPS of ₹50 should not be too challenging under a realistic set of assumptions. We examine the same below.

Exhibit 15: Reverse valuation of HPCL

Reverse valuation exercise for HPCL, March fiscal year-end, 2013E (Rs)

| | |
|---|---------------|
| Value of investments (Rs mn) | 46,585 |
| MRPL | 23,772 |
| HPCL-Mittal Energy (Book value) | 12,265 |
| Oil India | 6,859 |
| Other unquoted investments | 3,690 |
| Value of investments per share | 137 |
| Hypothetical target price | 600 |
| Implied stock price excluding investments | 463 |
| P/E multiple (X) | 9 |
| Required EPS in FY2013E | 51 |

Source: Company, Kotak Institutional Equities estimates

- ▶ **Refining margin of US\$4.6/bbl.** We assume FY2013E refining margin at US\$4.6/bbl, same as in our official earnings model and coincidentally also, HPCL's average reported margin for FY2007-11. This is a reasonable assumption in light of our moderately positive view of global refining margins and higher tariff protection in FY2013E from changes to import duties on crude oil and products announced on June 24, 2011 (see Exhibit 16). HPCL's FY2011 reported refining margin was US\$5.3/bbl although this included some amount of adventitious gains.

Exhibit 16: Duty protection in India has increased post the June 24, 2011 changes

Import tariffs on oil products, March fiscal year-ends, 2008-2013E (%)

| | 2008 | 2009 | 2010 | 2011 | Jun-11 | 2012E | 2013E |
|-------------------------------------|------------|------------|------------|------------|------------|------------|------------|
| LPG | — | — | — | — | — | — | — |
| Gasoline | 7.7 | 3.4 | 3.0 | 7.7 | 2.6 | 3.8 | 2.6 |
| Naphtha | — | — | — | — | — | — | — |
| Kerosene | — | — | — | — | — | — | — |
| ATF | 10.3 | 3.9 | — | — | — | — | — |
| Diesel | 7.7 | 3.4 | 3.0 | 7.7 | 2.6 | 3.8 | 2.6 |
| FO | 10.3 | 6.0 | 5.6 | 10.3 | 5.2 | 6.3 | 5.2 |
| Bitumen | 10.3 | 6.0 | 5.6 | 10.3 | 5.2 | 6.3 | 5.2 |
| Weighted average import duty | 6.1 | 2.9 | 2.5 | 5.7 | 2.2 | 3.0 | 2.2 |
| Duty on crude oil | 5.2 | — | 0.4 | 5.2 | — | 1.2 | — |
| Tariff differential | 0.9 | 2.9 | 2.1 | 0.5 | 2.2 | 1.8 | 2.2 |

Source: Kotak Institutional Equities estimates

- **Net under-recoveries on selling fuels below market prices.** HPCL's net under-recoveries (the difference between gross under-recoveries and compensation from the Government of India and discounts on crude oil and LPG from upstream oil companies) would need to be around ₹14 bn for HPCL's FY2013E EPS to be around ₹50. This is not very different from our assumed ₹17 bn in our official earnings model, ₹15 bn in FY2011 and ₹12.3 bn in FY2010.

At US\$100/bbl, total under-recoveries would be ₹650 bn, which is a very manageable amount in the context of historical under-recoveries (see Exhibit 17) and high under-recoveries seen in FY2011 (₹814 bn) and a likely higher figure in FY2012E (₹910 bn at US\$105/bbl average Dated Brent crude oil price). We compute that FY2013E under-recoveries can decline to ₹450 bn in case the government was to increase retail selling prices of diesel, kerosene and LPG by the same magnitude as it did in June 2011, ₹3/liter for diesel, ₹2/liter for kerosene and ₹50/cylinder for LPG (see Exhibit 18); Exhibit 19 shows that under-recovery of diesel would decline to marginal levels at US\$100/bbl crude oil (Dated Brent basis) price and under-recoveries on kerosene and LPG would be quite manageable.

Exhibit 17: We compute lower subsidy burden in FY2013E

Share of various participants of under-recoveries, March fiscal year-ends, 2007-13E (Rs bn)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012E | 2013E |
|---|------------|------------|--------------|------------|------------|------------|------------|
| Dated Brent crude oil price (US\$/bbl) | 65 | 79 | 89 | 67 | 84 | 105 | 100 |
| Gross under-recoveries | 521 | 798 | 1,061 | 490 | 814 | 910 | 647 |
| Payment by government (direct budgetary support) | 27 | 27 | 29 | 30 | 32 | 31 | 31 |
| Payment by government (oil bonds/cash) | 241 | 353 | 713 | 260 | 410 | 462 | 302 |
| Share of BPCL | 53 | 86 | 162 | 53 | 94 | 105 | 69 |
| Share of HPCL | 49 | 77 | 147 | 56 | 90 | 101 | 66 |
| Share of IOCL | 138 | 190 | 404 | 152 | 227 | 256 | 167 |
| Receipt from upstream companies | 205 | 257 | 329 | 144 | 303 | 343 | 240 |
| Share of ONGC | 170 | 220 | 282 | 116 | 249 | 287 | 199 |
| Share of GAIL | 15 | 14 | 18 | 13 | 21 | 19 | 16 |
| Share of Oil India | 20 | 23 | 29 | 15 | 33 | 37 | 26 |
| Net under-recovery of OMCs | 48 | 161 | (10) | 56 | 69 | 74 | 74 |

Source: Kotak Institutional Equities estimates

Exhibit 18: Under-recovery will be manageable with moderate increase in prices

Subsidy loss breakdown at various levels of crude oil price, March fiscal year-end, 2013E (Rs bn)

| Dated Brent crude price (US\$/bbl) | 90 | 95 | 100 | 105 | 110 | 115 | 120 |
|--|------------|------------|------------|------------|------------|--------------|--------------|
| Assuming no increase in domestic prices for regulated products | | | | | | | |
| LPG | 214 | 256 | 298 | 341 | 383 | 425 | 467 |
| Kerosene | 195 | 211 | 226 | 242 | 258 | 273 | 289 |
| Diesel | — | 31 | 123 | 214 | 306 | 398 | 490 |
| Total subsidy loss | 409 | 498 | 647 | 797 | 946 | 1,096 | 1,245 |
| Assuming increase in domestic prices for regulated products (a) | | | | | | | |
| LPG | 158 | 200 | 242 | 285 | 327 | 369 | 411 |
| Kerosene | 174 | 190 | 205 | 221 | 236 | 252 | 268 |
| Diesel | — | — | — | 52 | 144 | 236 | 327 |
| Total subsidy loss | 332 | 390 | 448 | 558 | 707 | 857 | 1,006 |

Notes:

(a) Assuming price hike of Rs3/liter for diesel, Rs2/liter for kerosene and Rs50/cylinder for LPG.

Source: Kotak Institutional Equities estimates

Exhibit 19: Under-recovery will be manageable at US\$100/bbl of crude oil price
Under-recovery and subsidy loss breakdown, March fiscal year-end, 2013E (Rs bn)

| | |
|---|------------|
| Dated Brent crude price (US\$/bbl) | 100 |
| Under-recovery | |
| LPG (Rs/cylinder) | 266 |
| Kerosene (Rs/liter) | 21.4 |
| Diesel (Rs/liter) | 0.5 |
| Subsidy loss | |
| LPG | 298 |
| Kerosene | 226 |
| Diesel | 123 |
| Total subsidy loss | 647 |

Source: Kotak Institutional Equities estimates

We note that Bharat Petroleum Corp. and Indian Oil Corp. would benefit similarly from lower under-recoveries on subsidized products through higher retail selling prices and/or if crude oil prices were to be lower versus our assumption. Exhibit 18 shows likely under-recoveries for FY2013E at various levels of crude oil prices under two scenarios of (1) no further price increases in retail selling prices of diesel, kerosene and LPG and (2) aforementioned price increases in retail selling prices of diesel, kerosene and LPG. Exhibit 20 shows our 12-month target prices of BPCL, HPCL and IOCL and compares the same with our fair valuations assuming nil under-recoveries.

Exhibit 20: Earnings and valuations of downstream companies would jump significantly in the case of nil under-recoveries

EPS estimates and fair valuation, March fiscal year-end, 2013E (Rs)

| | EPS (Rs) | P/E (X) | Value of investments (Rs) | Fair value (Rs) | Current stock price (Rs) | Upside (%) |
|--|---------------------|--------------------|--------------------------------------|----------------------------|-------------------------------------|-----------------------|
| Base case | | | | | | |
| BPCL | 56 | 10 | 243 | 800 | 673 | 19 |
| HPCL | 42 | 9 | 117 | 500 | 409 | 22 |
| IOCL | 32 | 10 | 112 | 435 | 337 | 29 |
| Assuming nil subsidy burden on downstream companies | | | | | | |
| BPCL | 87 | 10 | 243 | 1,110 | 673 | 65 |
| HPCL | 76 | 9 | 117 | 801 | 409 | 96 |
| IOCL | 44 | 10 | 112 | 549 | 337 | 63 |

Notes:

(a) EPS adjusted for other income from investments valued separately.

Source: Kotak Institutional Equities estimates

Jaiprakash Associates (CMP: ₹75)

We believe that Jaiprakash Associates (JPA) is poised to enter a phase of consolidation with likely commissioning of several key projects over the next 6-12 months, which will see strong operating cash flows and corresponding slowdown in incremental borrowings. JPA stock has been impacted by a number of (admittedly valid) concerns across its business segments. However, we see possible restoration of credibility with likely commissioning of some large projects along with a potential bottoming out of cement cycle in FY2012E. JPA stock can potentially deliver 50-70% return over the next 18 months under certain favorable conditions.

We discuss the same below and also discuss some key investor concerns and potential risks.

- **Valuing JPA based on market prices of Jaypee Infratech (JIL) and Jaiprakash Power Ventures Ltd (JPVL) yields a fair valuation of Rs128/share.** Our fair valuation of JPA stock would come to ₹128/share using the current market prices of JIL and JPVL to value JPA's stake in them (see Exhibit 21). Our SOTP valuation (see Exhibit 22) is based on ₹57/share for the standalone entity, which includes (1) cement business valued at Rs45/share (6X FY2013E EBITDA) or US\$117/ton based on FY2013E production (US\$63/ton based on FY2013E installed capacity), (2) construction business at ₹41/share (6X FY2013E EBITDA) and (3) real estate business at ₹21/share, which includes Jaypee Green and Greater Noida less the standalone entity's net debt of ₹51/share. Exhibit 23 gives our key volume, pricing, revenues and EBITDA assumptions broken down by major segments.

Exhibit 21: JPA fair valuation comes to Rs128/share valuing JIL and JPVL at market value
SOTP-based valuation of JPA assuming market prices for JPVL and Jaypee Infratech, FY2013E basis

| | Methodology | Value | |
|--------------------------------------|----------------------|------------|------------|
| | | (Rs bn) | (Rs/share) |
| Cement | 6X FY2013E EBITDA | 91 | 45 |
| Construction | 6X FY2013E EBITDA | 83 | 41 |
| Hotels | 6X FY2013E EBITDA | 2 | 1 |
| Real estate | NAV | 42 | 21 |
| Less: Net debt | | (104) | (51) |
| Parent entity | | 115 | 57 |
| Real estate (Jaypee Infratech) | Market price of JIL | 57 | 28 |
| Power (JPVL) | Market price of JPVL | 72 | 35 |
| Power (45% stake in Karcham Wangtoo) | DCF-to-equity | 16 | 8 |
| Total | | 260 | 128 |

Notes:

1. We do not ascribe any holding company discount for JIL and JPVL.

Source: Company, Kotak Institutional Equities estimates

Exhibit 22: Fair valuation of Rs135 for JPA
SOTP-based valuation of Jaiprakash Associates Ltd, FY2013E basis

| | Methodology | Value | |
|--------------------------------------|-------------------|------------|------------|
| | | (Rs bn) | (Rs/share) |
| Cement | 6X FY2013E EBITDA | 91 | 45 |
| Construction | 6X FY2013E EBITDA | 83 | 41 |
| Hotels | 6X FY2013E EBITDA | 2 | 1 |
| Real estate | NAV | 42 | 21 |
| Less: Net debt | | (104) | (51) |
| Parent entity | | 115 | 57 |
| Real estate (Jaypee Infratech) | NAV | 59 | 29 |
| Power (JPVL) | DCF-to-equity | 83 | 41 |
| Power (45% stake in Karcham Wangtoo) | DCF-to-equity | 16 | 8 |
| Total | | 274 | 135 |

Source: Company, Kotak Institutional Equities estimates

Exhibit 23: Power segment to drive EBITDA growth

Key financial and operating assumptions, March fiscal year-ends, 2008-13E (Rs mn)

| | 2008 | 2009 | 2010 | 2011 | 2012E | 2013E |
|-----------------------------------|---------------|---------------|----------------|----------------|----------------|----------------|
| Revenues | | | | | | |
| Cement | 20,694 | 24,389 | 37,364 | 52,231 | 62,450 | 64,843 |
| Construction | 17,302 | 30,821 | 55,756 | 57,000 | 62,000 | 70,000 |
| Real estate | 2,558 | 9,959 | 10,737 | 41,089 | 49,299 | 59,484 |
| Power | 7,474 | 7,448 | 7,178 | 8,595 | 24,443 | 34,428 |
| Hotel | 1,593 | 1,580 | 1,512 | 1,512 | 1,512 | 1,512 |
| Other | 1,087 | 1,906 | 5,936 | 4,211 | 3,263 | 3,279 |
| Total | 50,708 | 76,103 | 118,483 | 164,638 | 202,967 | 233,546 |
| Less: inter-divisional transfer | (6,641) | (26,429) | (47,703) | (55,326) | (60,700) | (67,816) |
| Total sales | 44,067 | 49,675 | 70,781 | 109,313 | 142,266 | 165,729 |
| EBITDA | | | | | | |
| Cement | 7,109 | 7,215 | 12,515 | 15,233 | 16,914 | 15,171 |
| Construction | 3,762 | 8,321 | 12,654 | 10,157 | 12,288 | 13,873 |
| Real estate | 806 | 3,835 | 7,323 | 23,553 | 19,948 | 22,941 |
| Power | 6,273 | 6,302 | 5,659 | 6,042 | 20,574 | 26,355 |
| Hotel | 436 | 666 | 800 | 800 | 800 | 800 |
| Total | 18,386 | 26,339 | 38,951 | 55,785 | 70,524 | 79,142 |
| Others | (1,567) | (9,096) | (17,445) | (9,613) | (11,611) | (13,006) |
| Total EBITDA | 16,819 | 17,243 | 21,506 | 46,173 | 58,913 | 66,136 |
| Key assumptions | | | | | | |
| Cement | | | | | | |
| Volumes (mn tons) | 6.2 | 7.0 | 10.6 | 14.9 | 16.8 | 17.2 |
| Prices (Rs/ton) | 2,823 | 2,816 | 3,138 | 2,982 | 3,020 | 3,062 |
| Real estate | | | | | | |
| Volumes booked (mn sq. ft) | 0.5 | 1.8 | 2.5 | 8.9 | 13.2 | 17.8 |
| Average selling price (Rs/sq. ft) | 4,671 | 5,654 | 4,381 | 4,628 | 3,749 | 3,340 |
| Construction | | | | | | |
| EBITDA margin (%) | 21.7 | 28.8 | 22.7 | 17.8 | 19.8 | 19.8 |
| Order backlog (Rs mn) | | 406,080 | 376,530 | 344,530 | 382,530 | 412,530 |

Source: Company, Kotak Institutional Equities estimates

- **Balanced fuel and sales mix with hydro accounting for 67% of operational and under-construction power portfolio.** JPA is relatively insulated from any adverse development in either pricing or availability of fuel as hydro accounts for 67% of its 5,545 MW of operational and under-construction projects (see Exhibit 24). We would also note that off-take risk is limited as hydro-based generation is the cheapest among competing fuels. We note that our fair value estimate of JPVL does not ascribe value to 5,180 MW of capacities under development and highlight that visible traction on these projects could be a key upside risk to our estimates. Exhibit 25 gives our valuation for JPA's power business.

Exhibit 24: 67% of JPA's portfolio comprises hydro-based projects
Profile of JPA's power portfolio

| Project | Type | Cost (Rs bn) | Capacity (MW) | COD | Land | MoEF clearance | Fuel supply | Financial closure | Equipment ordering |
|---|---------|-----------------|------------------|-------------|------|-------------------|----------------|----------------------|-----------------------|
| Operational projects | | | | | | | | | |
| Baspa | Hydro | 16 | 300 | Operational | | | | | |
| Vishnuprayag | Hydro | 17 | 400 | Operational | | | | | |
| Total operational | | 33 | 700 | | | | | | |
| Projects under construction (included in our SOTP) | | | | | | | | | |
| Karcham Wangtoo | Hydro | 72 | 1,000 | Jun-11 | ✓ | ✓ | ✓ | ✓ | ✓ |
| JaypeeNigrie | Thermal | 81 | 1,320 | Oct-13 | WIP | ✓ | ✓ | ✓ | ✓ |
| Bina | Thermal | 28 | 500 | Jun-12 | ✓ | ✓ | ✓ | ✓ | ✓ |
| LowerSiang | Hydro | 110 | 2,025 | Mar-15 | WIP | WIP | NA | ✗ | ✗ |
| Total under construction | | 290 | 4,845 | | | | | | |
| Projects under planning (not included in our SOTP) | | | | | | | | | |
| Bara | Thermal | 115 | 1,980 | Sep-13 | WIP | WIP | NA | ✗ | ✓ |
| Karchana | Thermal | 89 | 1,980 | 2015 | WIP | WIP | ✗ | ✗ | ✗ |
| Hirong | Hydro | 30 | 500 | 2018 | ✗ | ✗ | NA | ✗ | ✗ |
| Kyunshill | Hydro | 27 | 450 | 2018 | ✗ | ✗ | NA | ✗ | ✗ |
| Umgnot | Hydro | 16 | 270 | 2018 | ✗ | ✗ | NA | ✗ | ✗ |
| Total planned | | 277 | 5,180 | | | | | | |
| Total | | 601 | 10,725 | | | | | | |

Source: Company, Kotak Institutional Equities

Exhibit 25: We ascribe value to 5,545 MW of power capacities of JPA/JPVL
Valuation of power project portfolio of JPVL

| Project | Type | Capacity (MW) | Cost (Rs bn) | Cost (Rs mn/MW) | Equity (%) | Invested | Requirement | Implied P/B (X) | Ownership (%) | Value (Rs bn) | CoE (%) |
|-----------------|--------------|------------------|-----------------|--------------------|---------------|----------|-------------|--------------------|------------------|------------------|------------|
| Baspa | Hydro | 300 | 16 | 55 | 30 | 5 | 0 | 1.5 | 100 | 7 | 12 |
| Vishnuprayag | Hydro | 400 | 17 | 42 | 30 | 5 | 0 | 1.8 | 100 | 9 | 12 |
| Karcham Wangtoo | Hydro | 1,000 | 72 | 72 | 30 | 13 | 8 | 1.3 | 55 | 20 | 12 |
| JaypeeNigrie | Thermal | 1,320 | 81 | 61 | 30 | 4 | 20 | 2.4 | 100 | 37 | 12 |
| Bina | Thermal | 500 | 28 | 55 | 30 | 2 | 6 | 2.4 | 100 | 14 | 12 |
| LowerSiang | Hydro | 2,025 | 110 | 54 | 30 | 2 | 31 | 1.5 | 89 | 19 | 15 |
| JaypeePowergird | Transmission | NA | 10 | 0 | 30 | 2 | 1 | 1.0 | 74 | 2 | 12 |
| Total | | 5,545 | | | | | | | | 109 | |

Source: Kotak Institutional Equities estimates

- **Cement—recovery could commence from FY2013E.** A sluggish demand environment along with excess capacity has seen capacity utilization levels drop to 75% in 1QFY12. The industry registered a modest 1% yoy volume growth in 1QFY12. However, with low capacity addition in FY2013E, a potential revival in demand could see utilization rates bottoming out in FY2012E and higher utilization in FY2013E and beyond (see Exhibit 26). We factor a modest 3% volume growth for JPA in FY2013E.

Exhibit 26: Incremental supply to exceed incremental consumption over the next 12 months
Cement demand-supply balance, March fiscal year-ends, 2009-13E (mn tons)

| | 2009 | 2010 | 2011E | 2012E | 2013E |
|--|-------------|-------------|-------------|-------------|-------------|
| All-India | | | | | |
| Effective capacity (mtpa) | 205 | 234 | 268 | 296 | 310 |
| Incremental capacity (mtpa) | 32 | 29 | 34 | 28 | 14 |
| Growth (%) | | 14.2 | 14.5 | 10.5 | 4.8 |
| Cement consumption (mn tons) | 178 | 196 | 207 | 216 | 234 |
| Incremental consumption (mn tons) | 14.4 | 18.4 | 11.1 | 9.0 | 18.1 |
| Growth (%) | | 10.4 | 5.7 | 4.3 | 8.4 |
| Cement production (mn tons) | 181 | 200 | 209 | 218 | 236 |
| Incremental production (mn tons) | | 19.0 | 8.6 | 8.8 | 18.5 |
| Growth (%) | | 10.5 | 4.3 | 4.2 | 8.5 |
| Capacity utilization (%) | 88.6 | 85.7 | 78.0 | 73.6 | 76.2 |
| Region-wise utilization (%) | | | | | |
| North | 86 | 92 | 82 | 81 | 85 |
| Central | 91 | 99 | 91 | 84 | 84 |
| East | 87 | 82 | 82 | 85 | 89 |
| West | 89 | 87 | 80 | 73 | 79 |
| South | 89 | 76 | 68 | 62 | 64 |
| All India | 89 | 86 | 78 | 74 | 76 |

Source: CMA, Kotak Institutional Equities estimates

- **Real estate could be the dark horse.** The overall real estate portfolio of JAL includes (1) standalone developments in Greater Noida and Noida aggregating to ~32 mn sq. ft of super built-up area (being developed directly by Jaiprakash), (2) 83% holding in JIL, which is developing the Yamuna Expressway along with real estate developments in five land parcels along the expressway with a development potential of 530 mn sq. ft and (3) 133 mn sq. ft of potential development at Jaypee Sports City.

Our fair value estimate for JPA's real estate portfolio includes (1) standalone development of 32 mn sq. ft and (2) 64 mn sq. ft in the Noida land parcel. We highlight that favorable response to potential launches at four other land parcels along the Yamuna Expressway and traction on proposed development of sports city could be a key catalyst for the stock. We note that Jaypee Infratech has received strong response to launches in its Noida land parcel having sold ~21 mn sq. ft out of total launched area of 25 mn sq. ft as of September 2010 at an average selling price of ₹3,062/sq. ft.

- **Financial leverage to stay although incremental borrowing could slow down.** With commissioning of 1,500 MW power projects in FY2012E, JPA's operating cash flows will increase moderately (see Exhibit 27 that gives cash flows of JPA in FY2009-13E). Although JPA will continue to be leveraged at 3X (net debt to equity), incremental borrowing could potentially slow down to ₹48 bn in FY2013E from ₹160 bn in FY2010 paving way for debt reduction beyond FY2014E as Yamuna Expressway starts generating cash and other big ticket power projects commission. We currently assume tolling at Yamuna Expressway to commence from April 2013 but highlight that most of the project is already completed and will likely commission 12 months ahead of schedule.

Exhibit 27: JPA's operating cash flows will increase moderately with commissioning of power capacities in FY2012E

Free cash flow analysis of JPA, March fiscal year-ends, 2008-13E (Rs mn)

| | 2008 | 2009 | 2010 | 2011E | 2012E | 2013E |
|--|-----------------|-----------------|------------------|-----------------|-----------------|-----------------|
| Operating cash flow, excl. working capital | 9,905 | 6,739 | 15,832 | 25,672 | 25,478 | 27,461 |
| Working capital changes | (7,274) | (7,410) | (31,729) | 10,529 | (8,387) | (2,988) |
| Capital expenditure | (45,993) | (68,390) | (113,656) | (107,138) | (61,464) | (75,117) |
| Free cash flow | (43,362) | (69,060) | (129,553) | (70,937) | (44,373) | (50,645) |

Source: Company, Kotak Institutional Equities estimates

Muthoot Finance (CMP: ₹182)

We believe Muthoot Finance stock can deliver 50% potential returns over the next 15-18 months from current levels unless gold prices correct significantly. We expect Muthoot to deliver about 3.1-3.2% RoA and 27-30% RoE over the next three years. Higher gold prices and a more favorable scenario for debt (lower interest rates) can provide further upside to Muthoot's returns and valuation.

We believe that Muthoot's current valuations (9.6X PER and 2.3X PBR FY2012E) do not fully reflect the value of its strong franchise. Muthoot can trade up to 2.5X FY2013E book based on 26% RoE. We expect Muthoot's RoE to sustain around 25% for the next few years unless the industry becomes very competitive and regulations very prohibitive (stress case). Exhibit 28 shows our estimates for RoEs in FY2011-14E in our base-case scenario and under two stress-case scenarios; we estimate Muthoot's RoE to remain robust at around 20% even in the two stress case scenarios.

Exhibit 28: Our estimates for RoEs in FY2011-14E in our base-case scenario and under two stress-case scenarios

Key financials for our base-case scenario and stress-case scenarios, March fiscal year-ends, 2011-14E

| | Stress case I | | | Stress case II | | | Base case | | | |
|---|---------------|-------------|-------------|----------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | 2012E | 2013E | 2014E | 2012E | 2013E | 2014E | 2011 | 2012E | 2013E | 2014E |
| Key financial highlights (Rs mn) | | | | | | | | | | |
| Net interest income | 15,994 | 19,776 | 23,877 | 16,095 | 18,172 | 19,931 | 12,657 | 18,019 | 23,469 | 27,583 |
| Provisions | 1,468 | 472 | 452 | 1,179 | 256 | 275 | 323 | 267 | 212 | 211 |
| Operating expenses | 6,853 | 9,158 | 10,674 | 6,353 | 7,799 | 8,482 | 4,896 | 6,853 | 9,158 | 10,674 |
| Profit after tax | 4,998 | 6,583 | 8,260 | 5,563 | 6,564 | 7,258 | 4,942 | 7,047 | 9,094 | 10,768 |
| Loans under management | 215,617 | 264,895 | 310,381 | 183,506 | 208,759 | 234,616 | 158,684 | 227,672 | 290,921 | 338,183 |
| Yoy (%) | 35.9 | 22.9 | 17.2 | 15.6 | 13.8 | 12.4 | 113.0 | 43.5 | 27.8 | 16.2 |
| Key ratios (%) | | | | | | | | | | |
| Interest yield (including loan sold down) | 19.7 | 19.2 | 19.2 | 20.5 | 20.0 | 19.6 | 19.7 | 20.5 | 20.0 | 19.6 |
| Interest cost (including loan sold down) | 11.3 | 11.3 | 11.3 | 11.3 | 11.3 | 11.3 | 8.8 | 11.3 | 11.3 | 11.3 |
| Spreads | 8.4 | 7.9 | 7.9 | 9.2 | 8.7 | 8.3 | 10.9 | 9.2 | 8.7 | 8.3 |
| NIM | 8.5 | 8.2 | 8.3 | 9.4 | 9.3 | 9.0 | 10.9 | 9.3 | 9.1 | 8.8 |
| Gross NPL | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 0.3 | 0.3 | 0.3 | 0.3 |
| Operating costs/loans under management | 3.7 | 3.8 | 3.7 | 3.7 | 4.0 | 3.8 | 4.2 | 3.5 | 3.5 | 3.4 |
| Tier I capital adequacy ratio | 11.9 | 12.0 | 12.8 | 14.2 | 15.5 | 16.7 | 10.6 | 13.4 | 13.7 | 15.1 |
| RoA | 2.3 | 2.4 | 2.5 | 2.8 | 2.9 | 2.8 | 3.7 | 3.2 | 3.1 | 3.0 |
| Average assets/average equity (X) | 10.5 | 8.9 | 8.6 | 9.5 | 7.3 | 6.8 | 13.9 | 10.3 | 8.7 | 8.1 |
| RoE | 24.6 | 21.5 | 21.7 | 27.0 | 21.1 | 19.1 | 51.5 | 33.0 | 26.8 | 24.6 |

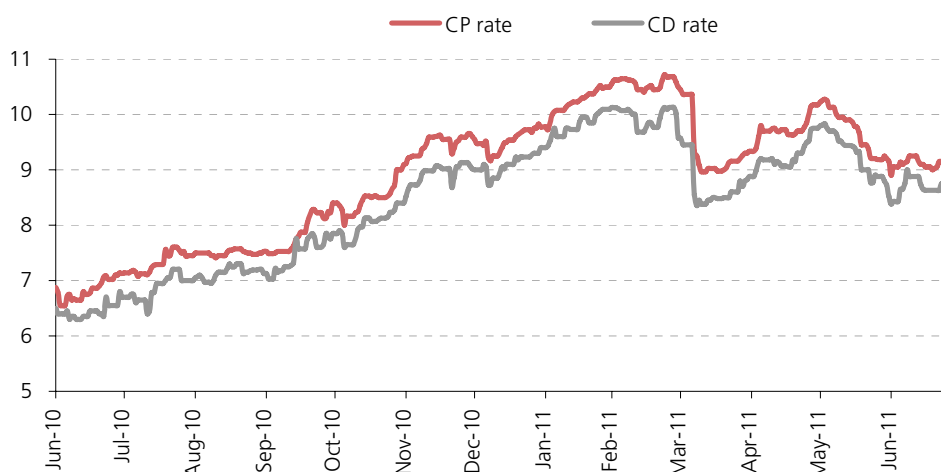
Source: Company, Kotak Institutional Equities estimates

In our view, investors' skepticism about gold loan companies (due to recent regulatory changes and tightening interest rate environment) is the key reason for low valuation of these stocks. We believe that most of these concerns are unwarranted and believe that strong operational performance over the next few quarters may result in re-rating of these stocks. We address key investor concerns below.

- **Adverse regulatory changes can affect business model of gold loan companies.** We note that gold loan companies are essentially capturing market share from unorganized players (moneylenders) that have traditionally operated gold pawning businesses. About 40-50% of Muthoot's (and Manappuram's) business comes from semi-urban and rural India. Thus, any regulatory action to restrict the operations of the organized gold loan companies will encourage the role of moneylenders who charge significantly higher rates. Thus, we believe that regulatory actions on gold loan NBFCs will be moderate and will not significantly hamper their business models.
- **Liability-side challenges can affect growth and margins.** The Street is likely concerned that (1) a tight liquidity environment and (2) removal of agricultural PSL status on gold loans may affect the ability of Muthoot and other gold loan companies to raise debt funds.

- We believe that the recent decline in CP and CD rates (see Exhibit 29) is a positive for NBFCs. Muthoot (and Manappuram) have asset duration of 3-6 months and essentially borrow in the shorter end of the yield curve. If interest rates were to correct sharply, NIM compression could be lower versus our expectations; we model a 170 bps decline in spreads in FY2012E. Exhibit 30 gives our key assumptions for interest yields, interest costs, spreads, NIMs, RoA and RoE in FY2009-14E.

Exhibit 29: Decline in short-term rates is positive for NBFCs
CP and CD rates, June 2010-July 2011 (%)



Source: Fixed Income Money Market Dealers Association, Kotak Institutional Equities

Exhibit 30: Our assumption of 170 bps decline in spreads in FY2012E may be conservative assuming stable interest rate scenario
Key assumptions for interest yields, interest costs, spreads, NIMs, RoA and RoE, March fiscal year-ends, 2009-14E (Rs mn)

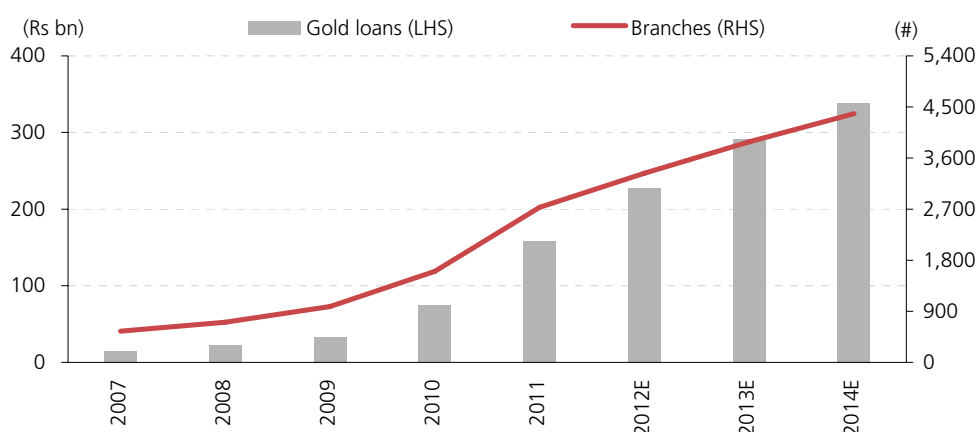
| | 2009 | 2010 | 2011 | 2012E | 2013E | 2014E |
|--|--------|--------|---------|---------|---------|---------|
| Growth in key parameters (%) | | | | | | |
| Net interest income | 66 | 104 | 110 | 42 | 30 | 18 |
| Provisioning expenses | (1) | 297 | 1,089 | (17) | (21) | (1) |
| Operating expenses | 77 | 65 | 83 | 40 | 34 | 17 |
| Gold loans (including sell down) | 51 | 121 | 113 | 43 | 28 | 16 |
| Key ratios (%) | | | | | | |
| Interest yield (including loan sold down) | 21.7 | 19.9 | 19.7 | 20.5 | 20.0 | 19.6 |
| Interest cost (including loan sold down) | 9.8 | 8.4 | 8.8 | 11.3 | 11.3 | 11.3 |
| Spreads | 11.9 | 11.5 | 10.9 | 9.2 | 8.7 | 8.3 |
| NII/loans under management | 10.6 | 11.2 | 10.9 | 9.3 | 9.1 | 8.8 |
| Operating costs/net income (post provisions) | 52.2 | 43.6 | 39.1 | 38.2 | 39.0 | 38.6 |
| Tax rate | 34.1 | 34.1 | 35.1 | 34.5 | 34.5 | 34.5 |
| Debt/equity (X) | 8.7 | 9.0 | 8.9 | 6.7 | 6.6 | 5.8 |
| RoA | 2.7 | 3.5 | 3.7 | 3.2 | 3.1 | 3.0 |
| RoE | 33.9 | 48.1 | 51.5 | 33.0 | 26.8 | 24.6 |
| Aggregate loan book (including sell down) | | | | | | |
| Loan on books | 25,560 | 54,298 | 116,821 | 204,904 | 261,829 | 304,365 |
| Loans outside books | 8,130 | 20,083 | 41,863 | 22,767 | 29,092 | 33,818 |
| Loans under management | 33,690 | 74,381 | 158,684 | 227,672 | 290,921 | 338,183 |
| Loans outside books/total loans (%) | 24 | 27 | 26 | 10 | 10 | 10 |
| Total assets under management | 45,778 | 84,509 | 181,525 | 258,377 | 330,132 | 382,410 |

Source: Company, Kotak Institutional Equities estimates

- A slowdown in wholesale loans (corporate and infrastructure) will likely encourage banks to focus on the retail segment. We do not see demand slowing down meaningfully. Gold prices remain strong and made a new peak in the second week of July 2011. Appreciation in gold prices (22% CAGR in FY2007-11) has underpinned strong growth in gold loan industry.
 - After the recent success of Shriram Transport's retail NCD issue, other NBFCs may also launch retail NCD issues. If the issues are successful, the financial flexibility of these companies can increase considerably.
 - Our estimates factor already moderation in loan growth—29% CAGR in FY2011-14E as compared to 82% CAGR during FY2007-11.
- **RBI will cap interest rates in gold loans.** On the back of the Malegam Committee report, the RBI has recommended a cap on interest rates for microfinance (MFI) loans, which can be considered as priority sector loans (PSL) for banks. Gold loans are anyway not classified as agricultural PSL and do not enjoy any regulatory benefits. As discussed above, capping interest rates for NBFCs will only encourage unorganized players.
- **RBI may impose restrictions on branch expansion.** Banks currently require licenses from the RBI to open new branches while NBFCs have no such restrictions. RBI may impose restrictions on expansion of NBFCs to maintain a healthy pace of growth. In the past, the RBI has expressed concerns about the strategy of private banks to focus on urban areas/larger towns and cities. We note that NBFCs score well in this context as most NBFC branches are in smaller towns or lesser-banked/un-banked areas. Muthoot had a massive expansion drive over the past few years—the number of branches increased to 2,733 in March 2011 from 985 in March 2009. A branch typically requires about three years to achieve optimum scale and hence, even if the RBI was to impose restrictions on new branches, Muthoot's existing branches can still drive healthy growth in the medium term. Exhibit 31 shows our expected growth in loans and branches over the next three years.

Exhibit 31: Branch additions have been quite strong in the past three years but will likely moderate from 2012

Gold loan book and branches of Muthoot, March fiscal year-ends, 2007-2014E



Source: Company, Kotak Institutional Equities estimates

- **RBI may tighten NPL recognition criteria.** Banks classify loans on 90-days overdue basis unlike 180 days overdue norm followed by NBFCs. Muthoot reported gross NPLs of 0.3% in March 2011; we expect NPLs to increase to about 1% if the 90-days overdue criteria is also made applicable to it. A back-of-the-envelope calculation suggests that this will impact RoA by 0.25% (if we assume 50% coverage) in the initial year; the impact will be lower in subsequent years.

- ▶ **Government drive to unearth black money can affect gold-backed lending.** As per a recent income tax notification, purchase of gold above ₹0.5 mn requires a buyer to quote his/her PAN. We believe this is aimed to restrict the use of black money invested in the sector. In this backdrop, high value gold loans disbursed in cash may be restricted. However, we note that the average ticket size of gold loans is low at ₹32,000; thus, any such notification is unlikely to significantly affect gold loan NBFCs.
- ▶ **Political backlash can affect business prospects.** Moneylenders have traditionally charged exorbitant interest rates on gold loans thereby exploiting borrowers. As such, gold loans tend to be politically sensitive (borrowers usually belong to low income groups). The MFI industry has seen a huge backlash from the political class and media on account of high rate of interest on MFI loans. However, gold loan companies (and Muthoot Finance) have not faced any major political opposition that could disrupt their business. Fears of a political backlash will likely stop gold loan companies from passing on increase in borrowings costs to their customers.

Muthoot is an NBFC and regulated by RBI and not under the purview of State Government's Money Lenders Act. In case it is brought under the purview of State Governments, the company will need to seek State approvals on several operational matters, which may impact the business negatively.

- ▶ **Competition can put pressures on margins and profitability.** We agree that the margins of NBFCs will remain under pressure due to competition from banks. We expect Muthoot's spread to decline to 8.3% by FY2014E from 10.9% in FY2011 and 13.1% in FY2007. However, better operating leverage ratio (on the back of optimum utilization from recently- set-up branches) will support RoA.

We believe that better service proposition (lesser documentation, faster turnaround time, neighborhood branches and longer working hours) will enable NBFCs focused on the gold loan business to earn relatively higher yields. We expect the gold loan business to remain a small-ticket business thereby requiring high operating leverage.

Oil and Natural Gas Corp. (CMP: ₹277)

We believe ONGC stock can deliver 50% potential returns over the next 15-18 months from current levels under a set of reasonably realistic assumptions. We currently estimate FY2013E consolidated EPS at ₹40, which should result in a fair valuation of ₹400 at 10X FY2013E EPS. The key issue is whether an EPS of ₹40 is achievable or not given an uncertain pricing environment for auto and cooking fuels in India and an inconsistent subsidy-sharing mechanism. Our 12-month official target is ₹370 based on 9X FY2013E consolidated EPS of ₹40 (excluding dividends from investments valued separately) plus value of investments. We would put OIL India (CMP: ₹1,264, TP: ₹1,760) in the same category as it suffers from the same issues as ONGC does.

The Street has valid concerns about the government's subsidy-sharing system, which may (1) cap ONGC's net realized crude oil price at a certain level through a formula and (2) extract high subsidies from upstream oil companies including ONGC, which in turn may effectively cap ONGC's net crude oil price realization. The government had increased the share of upstream companies of gross under-recoveries to 38.7% in FY2011 (versus the usual 33.3%), which had further impacted investment sentiment for government-owned upstream companies.

We present a set of assumptions, which would support ₹38-40 EPS in FY2013E, and assess the feasibility of the assumptions.

- **Net realized crude price of US\$63/bbl for standalone ONGC.** For FY2013E, we can argue for a standalone EPS of ₹30 under the following set of assumptions—(1) gross crude price of US\$100/bbl (Dated Brent), (2) subsidy amount of ₹252 bn, (3) net realized price of US\$63/bbl, (4) natural gas price of US\$4.2/mn BTU (current gas price), (5) 100% royalty borne by ONGC in the case of Cairn's Rajasthan block and (6) no change to royalty and cess on crude oil produced by ONGC from nominated fields.

We note that a US\$1/bbl increase in net realized crude oil price adds about ₹0.5/share to ONGC's standalone EPS. Exhibit 32 shows ONGC's standalone EPS (FY2013E EPS) at various levels of net realized price for crude oil. ONGC reported ₹22 standalone EPS in FY2011 with a net realized price of US\$53.8/bbl; FY2011 average Dated Brent crude price was US\$84/bbl.

Exhibit 32: ONGC's standalone EPS at various levels of net realized crude price
ONGC's standalone EPS sensitivity to net realized crude price, March fiscal year-end, 2013E (Rs)

| Net realized crude price (US\$/bbl) | EPS (Rs) |
|--|-------------|
| 55 | 25.9 |
| 56 | 26.4 |
| 57 | 26.9 |
| 58 | 27.4 |
| 59 | 27.9 |
| 60 | 28.4 |
| 61 | 28.9 |
| 62 | 29.4 |
| 63 | 29.9 |
| 64 | 30.4 |
| 65 | 30.9 |

Notes:

(a) We assume crude oil price of US\$100/bbl for FY2013E.

Source: Kotak Institutional Equities estimates

Exhibit 33 shows likely under-recoveries on diesel, kerosene and LPG at US\$100/bbl in FY2013E and no further increases in their retail selling prices. Our ₹252 bn share for ONGC out of our estimated ₹647 bn of total gross under-recoveries is quite aggressive in that it corresponds to 47% share for the upstream companies. At 33.3% share for upstream companies, ONGC's share would be ₹178 bn and at 39% share for upstream companies, ONGC's share would be ₹199 bn.

Exhibit 33: Subsidy burden will be manageable at crude price of US\$100/bbl
Subsidy loss breakdown, March fiscal year-end, 2013E (Rs bn)

| | |
|--|------------|
| Dated Brent crude price (US\$/bbl) | 100 |
| LPG | 298 |
| Kerosene | 226 |
| Diesel | 123 |
| Auto fuels | 123 |
| Cooking fuels | 525 |
| Total subsidy loss | 647 |
| Share of upstream companies | 241 |
| ONGC | 199 |
| OIL India | 26 |
| GAIL (India) Ltd | 16 |
| Share of downstream companies | 74 |
| Required compensation from government | 333 |

Source: Kotak Institutional Equities estimates

We note that as per the Kirit Parikh Committee report and its recommended formula for taxation of crude oil, ONGC's net realized crude oil price would come to US\$80/bbl. Exhibit 34 gives details of the formula recommended by the Kirit Parikh Committee for taxation of crude oil produced by government-owned upstream companies as an alternative to the current subsidy mechanism under which the upstream companies surrender a portion of their revenues to the downstream companies (through discounts on crude oil and LPG).

Exhibit 34: Realized crude price based on Kirit Parikh committee recommendation
Kirit Parikh committee's recommendation of tax rates at various levels of crude price

| Crude price (US\$/bbl) | Rate of tax (% of the incremental price) | Realized crude price (US\$/bbl) |
|---------------------------|---|------------------------------------|
| 60 – 70 | 20 | 60 – 68 |
| 70 – 80 | 40 | 68 – 74 |
| 80 – 90 | 60 | 74 – 78 |
| Above 90 | 80 | Above 78 |

Source: Kirit Parikh committee report, Kotak Institutional Equities

- **High global crude oil prices can drive OVL's earnings.** We estimate OVL's FY2013E EPS at ₹8.2 at US\$100/bbl crude price against ₹3.1 EPS in FY2011 (FY2011 Dated Brent average crude oil price was US\$84/bbl). Adjusted EPS was higher though at ₹3.8; it had ₹5.4 bn of one-off expenditure pertaining to transfer of ownership of a crude oil pipeline in Sudan. OVL's earnings should benefit from higher crude oil prices and a US\$10/bbl increase in crude oil price adds about ₹1.3 EPS to ONGC's consolidated EPS. OVL's revenues are outside the purview of the Indian government's subsidy-sharing system as the revenues and profits from OVL's various blocks are governed by their respective production sharing contracts (PSCs) signed with respective governments. Also, we expect crude volumes to increase to 8.3 mn tons in FY2013E from 6.8 mn tons in FY2011.
- **Contribution from MRPL.** We expect MRPL to add about ₹1/share to ONGC's consolidated EPS. MRPL reported net profits of ₹11.8 bn in FY2011 driven by refining margin of US\$6.3/bbl. We note that tariff protection for refiners has increased since then following the changes to import duties on crude oil and products announced by the government on June 24, 2011. ONGC owns 71.6% stake in MRPL.
- **Lower royalty in Cairn's Rajasthan block; ₹3.5/share of potential upside to FY2013E EPS.** ONGC's FY2013E standalone and consolidated EPS could increase by another ₹3.5/share if ONGC does not have to bear royalty on Cairn's share of crude oil produced from Cairn's Rajasthan (RJ-ON-90/1) block. In our aforementioned exercise and our official earnings model, we assume that ONGC will bear 100% of the royalty on crude oil produced from the RJ-ON-90/1 block. India's Cabinet Committee of Economic Affairs (CCEA) recently decided that royalty will be treated as a cost-recoverable item.
- **Natural gas price for ONGC; potential upside exists.** ONGC's earnings could see potential upside from higher natural gas prices. Exhibit 35 shows that ONGC's EPS will increase by ₹3/share if we assume a gas price of US\$5.5/mn BTU versus US\$4.2/mn BTU currently. We assume US\$4.2/mn BTU for gas produced from ONGC's nominated fields for the purpose of this exercise and in our official earnings model until FY2014E.

Exhibit 35: ONGC to benefit from any further increase in gas price
Impact of increase in gas price on ONGC's earnings, March fiscal year-end, 2013E (Rs)

| | |
|---|------------|
| Gas sales from ONGC operated fields in FY2013E (bcm) | 18.8 |
| Average gas price in FY2013E (US\$/mn BTU) | 4.2 |
| Average long-term wellhead price (US\$/mn BTU) | 5.5 |
| Increase in gas price ex-royalty (US\$/mn BTU) | 1.2 |
| Increase in pretax profits (Rs bn) | 38 |
| Increase in post-tax profits (Rs bn) | 26 |
| Increase in EPS (Rs) | 3.0 |

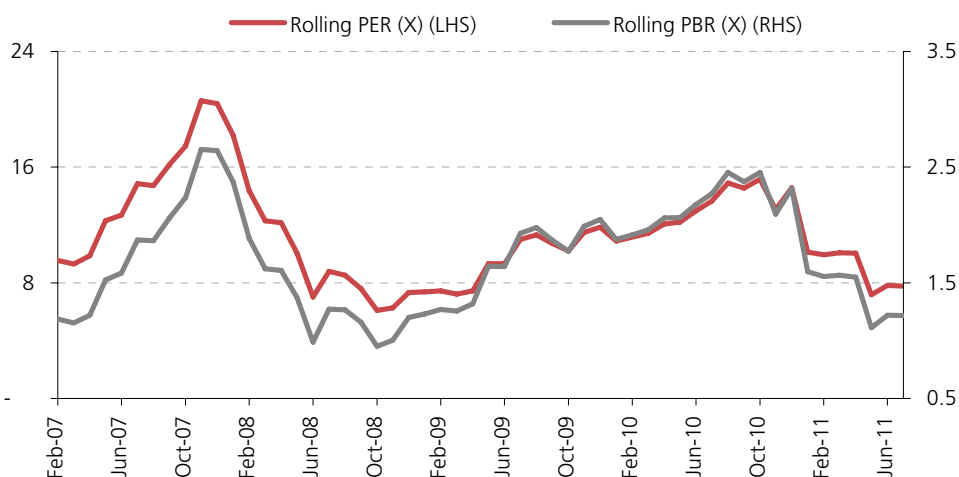
Source: Company, Kotak Institutional Equities estimates

Power Finance Corp. (CMP: ₹202)

We believe that increased investor confidence in PFC's asset quality performance can potentially drive up its stock by over 40% from current levels. We expect PFC to deliver about 20% loan growth per annum over the next two years on the back of 24% CAGR loan growth between FY2008-11. We believe that PFC will likely deliver about 18% RoE and 22% EPS CAGR in FY2011-13E if the company can manage to maintain its NIM and asset quality. In such a scenario, we estimate the fair value of the stock at ₹290, i.e. 9.7X FY2013E EPS and 1.6X FY2013E book.

PFC's stock has declined 48% from its peak in October 2010 and 35% CYTD reflecting the market's concern about higher NPLs from the power sector. PFC stock trades at historical low valuations (see Exhibit 36) reflecting the market's concerns about potential NPLs stemming from weak financial health of the state electricity boards. Against this backdrop, we discuss the following ameliorating factors.

Exhibit 36: PFC stock is trading near all-time low multiples
12-month rolling forward P/E and P/B of PFC (X)



Source: Company, Kotak Institutional Equities estimates

- **State Governments resolve to reform SEBs critical to improve their health.** In a recent meeting, State power ministers have resolved to (1) ensure automatic pass-through in tariffs for any increase in fuel cost and (2) make payment of all outstanding dues from various departments of state government and institutions. Exhibit 37 gives details of the same. We believe that actual implementation of the aforesaid intent would be critical rather than statement of intent; nonetheless, an explicit resolution by the ministers is a positive sign. Notably, the extant policy framework already allows for these measures, although the lack of political will has so far limited the benefits of a strong policy framework.

Exhibit 37: Intent is there; implementation would depend on fiscal challenges
Key decisions taken by Power Ministers of States recently

[A] Regular tariff revision keeping in view the profitability

Ensure that the accounts of the utilities are audited up to FY2010 and also ensure that the accounts of a financial year are audited by September of the next financial year, henceforth

Ensure that the distribution utilities file their Annual Tariff Revision Petition every year, by December–January of the preceding financial year to the State Regulators as stipulated by the National Tariff policy

Tariff petition to be filed keeping in view the increase of the power purchase cost (which accounts for nearly 70-80% of the cost of supply) and states will ensure that the difference between ARR and ACS is not only bridged but is positive to generate internal surpluses

Ensure automatic pass-through in tariff for any increase in fuel cost by incorporating the same in the regulations

[B] Distribution and self sufficiency in generation

Immediately initiate steps to appoint distribution companies in urban areas through competitive bidding

Immediately invite bids for meeting the uncovered generation capacity gap versus the requirement in their States by the end of 12th five-year plan. The process is to be completed by March, 2012.

[C] Others

Eligibility criteria for inclusion of towns under R-APDRP assistance with population of 30,000 (10,000 for special category states) should be reduced to 15,000 (5,000 for special category states)

Ensure payment of all outstanding dues from various departments of state government and institutions to the distribution utilities or release payments from the State budget directly

Consider converting loans due from the state governments to the distribution utilities as state government equity to ensure capital infusion and improvement in net worth of utility

Take effective steps to reduce AT&C losses to less than 15% by administrative measures, curbing pilferage of electricity and by setting up special police stations and special courts to deal exclusively with power theft related cases

Create a unit in their states for integrated planning of generation, transmission and distribution to meet the future requirement of their states

Source: Industry data, Kotak Institutional Equities

- ▶ **Low political will in certain states is a concern but is changing.** We note that certain states, namely, Rajasthan, Tamil Nadu and Uttar Pradesh together contributed to ~49% of total SEB losses of ₹526 bn in FY2009. The lack of tariff hikes is the key reason for large and increasing losses of state electricity boards (see Exhibit 38 that gives key reasons for lapses in various states with respect to power sector reforms). Thus, the recent spate of tariff hikes across key states such as Bihar, Chhattisgarh, Orissa, Punjab and Rajasthan reflects the sense of urgency on the part of the distribution utilities to address the current abysmal position.

Exhibit 38: Inertia largely to blame for lack of tariff increases in the power sector

Status of key power sector reforms in various states of India

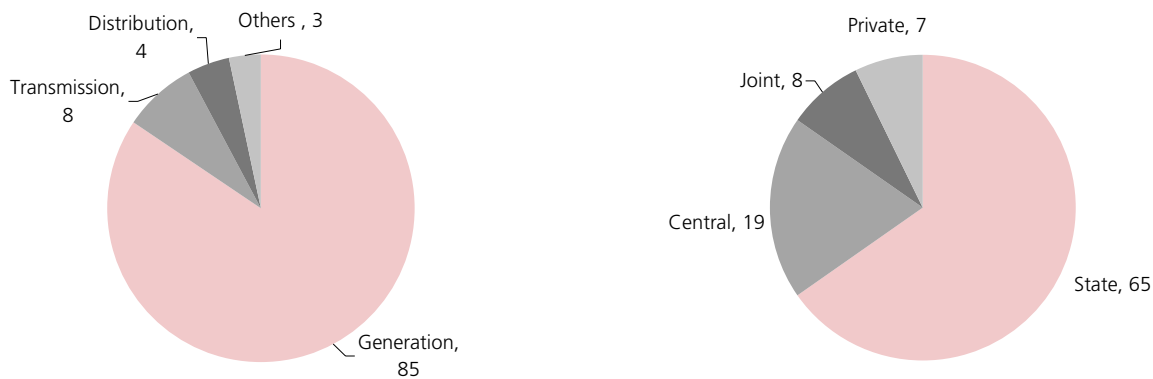
| State | Reason for losses |
|----------------|--|
| Haryana | Lack of true-up mechanism for various cost parameters of the ARR (except for power purchase cost which is passed through by way of Fuel Surcharge Adjustment) |
| | Disallowance of interest cost on short-term borrowings for meeting the revenue deficit of previous year and carrying cost for time lag involved in recovery of FSA |
| | Disallowance of return on Equity, as the capital employed by Discoms is estimated to be negative |
| Karnataka | Shortfall and delay in subsidy disbursements by the State Government is leading to financial losses of the DISCOMs |
| Madhya Pradesh | SERC disallowed power purchase quantum of Discoms on account of high T&D loss or lower sales to unmetered agriculture category. A part of the disallowed power purchase cost can be considered as unreasonable on the grounds that the SERC has only considered costlier power for disapproval |
| Orissa | The actual loss levels of the Discoms are higher than the approved loss levels. SERC has followed the distribution loss trajectory estimated during the privatization process. However, this trajectory lacked proper baseline data for loss estimation |
| Punjab | SERC has capped the employee cost taking into account such cost, as incurred by the utility in FY2006; and has allowed only inflationary increases on the same |
| Rajasthan | Tariff has not been revised since FY2005 leading to widening gap between average realization per unit and average cost per unit |
| | Increase in short term loans, as gap between approved and actual power purchase cost is increasing due to delay in True Up orders. |
| Tamil Nadu | Tariff has not been revised for the past seven years. The accumulated revenue deficit up to FY2009 was Rs167.7 bn (as per unaudited accounts). |
| | Free electricity for agriculture consumers. The subsidy required to support agricultural consumption was Rs58.3 bn in FY2010 against which only Rs2.7 bn has been released by the State Government |
| Uttar Pradesh | There is absence of true-up mechanism in the State and the Discoms themselves have not claimed / requested for any true-up for the past years |
| | SERC approved measures like State Government's support in the form of short-term loans, efficiency improvements, savings in power purchase, which never materialized |

Source: Industry data, Kotak Institutional Equities

Notably, some of these states have not had a tariff revision in the past several years. Tamil Nadu and Rajasthan (among the largest contributors to aggregate losses) had not revised their tariffs since FY2004 and FY2005, respectively. Rajasthan has recently raised tariff and Tamil Nadu is currently reviewing its revenue plans. However, in Uttar Pradesh (the third-largest loss-making state), the state distribution company has not filed its 'Annual Revenue Requirement' for the past few years. We believe that positive developments at some of these state electricity boards will improve investor confidence.

- **Low exposure to private sector and distribution segment are positives.** We believe that lack of adequate fuel supply arrangements may affect the prospects of several private power producers. PFC has just 7% exposure to the private sector. Also, generation segment accounted for 85% of PFC's overall loan book as of March 2011. Exhibit 39 gives the breakdown of PFC's loan book at end-FY2011 broken down by (1) power segment (distribution, generation and transmission) and (2) ownership pattern (Central Government, State Governments, private sector).

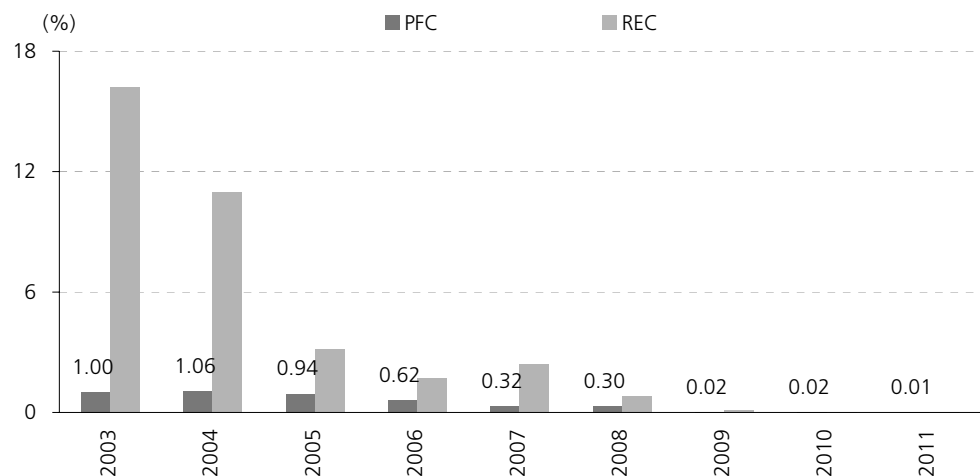
Exhibit 39: Low distribution and private sector exposure for PFC
Break-up of loan book for PFC, calendar year-end, 2010 (%)



Source: Company, Kotak Institutional Equities

- **PFC has consistently reported low NPLs (even at the bottom of the previous crisis).** In 2003, SEBs restructured their dues to power/fuel suppliers (like NTPC) but payments to PFC continued without any meaningful slippage (see Exhibit 40). This was because (1) PFC was a nodal agency for several schemes operated by the Central Government; the company had been working closely with the Ministry of Power and (2) default to PFC could be construed as default to Central Government by auditors of State Governments. PFC offers a discount for timely payment and interest rates move up by 25 bps in case of delinquencies.

Exhibit 40: PFC has maintained low NPL levels throughout the last cycle
Gross NPL ratio, March fiscal year-ends, 2003-2011E (%)



Source: Company, Kotak Institutional Equities

Sterlite Industries. (CMP: ₹168)

Our fair valuation of Sterlite stock can increase to ₹241 from our official fair valuation of ₹205 (based on FY2013E SOTP valuation) in case we assume (1) coal availability from captive coal block allocated to Sterlite for power projects in Jharsuguda and (2) availability of alternative bauxite mines for Vedanta Aluminum Ltd (VAL) project. We currently subtract STLT's exposure to VAL (₹89 bn of equity and loans or ₹24/share) from our SOTP valuation. Otherwise, our SOTP valuation would be significantly higher.

Our base-case valuation of ₹205 (see Exhibit 41) is supported by the following drivers.

Exhibit 41: SOTP-based target price of Sterlite Industries is Rs205/share

SOTP-based target price of Sterlite, FY2013E basis (Rs mn)

| | EBITDA (Rs bn) | Multiple (X) | EV (Rs bn) | Net debt (Rs bn) | Implied Mkt Cap. (Rs bn) | Sterlite's stake (%) | Attributable Mkt Cap. (Rs bn) | Holding co. discount (%) | Contribution (Rs/share) |
|------------------------------------|-------------------|-----------------|---------------|---------------------|--------------------------------|----------------------------|-------------------------------------|--------------------------------|----------------------------|
| BALCO | 15 | 6.3 | 92 | 44.8 | 47.6 | 51.0 | 24 | 15.0 | 6 |
| Copper business | | | | | | | | | |
| Copper smelting business | 9 | 6.0 | 53 | (123) | 175.8 | 100.0 | 176 | — | 52 |
| Copper mining | | | | | | | | | 2 |
| Zinc business | | | | | | | | | |
| Hindustan Zinc | 80 | 6.3 | 502 | (251) | 753 | 64.9 | 489 | 15.0 | 124 |
| Zinc International | 17 | 4.6 | 80 | 21 | 102 | 100.0 | 102 | — | 30 |
| Other businesses | | | | | | | | | 15 |
| Less: investments and loans to VAL | | | | | | | 89 | | (24) |
| Target price (Rs/share) | | | | | | | | | 205 |

Source: Company, Kotak Institutional Equities estimates

- **Strong EBITDA CAGR of 30% in FY2011-13E.** We expect growth to be led by (1) volume growth in zinc and lead due to capacity expansions (see Exhibit 42), (2) ramp-up of silver refining capacity in conjunction with increase in Sindheshwar Khurd (SK) mining capacity and (3) medium-term strength in commodity prices, especially of zinc. Sterlite's earnings will also be boosted by the sale of surplus power from a 2,400 MW IPP (Sterlite Energy).

Exhibit 42: Sharp increase in zinc and lead volumes in FY2011-14E

Sterlite Industries (consolidated), Key assumptions, March fiscal year ends, 2008-14E

| | 2008 | 2009 | 2010 | 2011 | 2012E | 2013E | 2014E |
|---|---------|---------|---------|---------|---------|---------|---------|
| Volumes (tonnes) | | | | | | | |
| Zinc | 425,532 | 552,330 | 577,685 | 712,603 | 773,520 | 835,050 | 843,840 |
| Lead | 58,298 | 60,564 | 64,391 | 57,229 | 83,250 | 120,250 | 120,250 |
| Copper | 337,073 | 312,572 | 333,244 | 303,327 | 335,619 | 335,605 | 335,584 |
| Aluminium metal | 358,328 | 356,513 | 267,802 | 247,412 | 267,453 | 268,770 | 268,770 |
| Refined silver | 82 | 103 | 139 | 147 | 198 | 325 | 393 |
| Average realization (Rs/ton) | | | | | | | |
| Zinc | 125,946 | 70,353 | 99,421 | 106,469 | 110,348 | 114,901 | 113,545 |
| Lead | 122,771 | 86,385 | 105,922 | 114,877 | 114,678 | 120,743 | 119,346 |
| Copper cathode | 330,044 | 272,349 | 303,652 | 398,148 | 421,146 | 408,272 | 402,679 |
| Aluminium ingots | 119,772 | 113,566 | 96,607 | 118,384 | 128,176 | 130,630 | 131,367 |
| Silver (Rs mn/tonne) | 19 | 20 | 25 | 37 | 48 | 48 | 48 |
| LME price assumptions (US\$/ton) | | | | | | | |
| Zinc | 2,992 | 1,563 | 1,936 | 2,186 | 2,300 | 2,350 | 2,350 |
| Lead | 2,875 | 1,655 | 1,990 | 2,244 | 2,350 | 2,450 | 2,450 |
| Copper | 7,588 | 5,885 | 6,500 | 8,138 | 8,800 | 8,360 | 8,360 |
| Aluminium | 2,624 | 2,227 | 1,900 | 2,257 | 2,400 | 2,450 | 2,500 |

Source: Kotak Institutional Equities estimates

- **Contribution from silver.** We expect silver to contribute to 10.5% of consolidated EBITDA by FY2013E. Sterlite management is confident of FY2013E exit capacity of 500 tons and production of 500 tons of silver from 180 tons in FY2011. Silver is a byproduct in a lead mine, with most of its production cost included in the zinc-lead cost of production; hence, silver revenues will contribute to profits meaningfully. Production growth will be helped by ramp-up of SK mine, which is rich in silver content (188 ppm). Exhibit 43 gives breakdown of STLT's EBITDA by major segments.

Exhibit 43: Zinc and power segments to power growth

Breakdown of EBITDA by various segments, March fiscal year-ends, 2008-14E

| | 2008 | 2009 | 2010 | 2011 | 2012E | 2013E | 2014E |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Divisional EBITDA mix (US\$ mn) | | | | | | | |
| Hindustan Zinc | 1,336 | 597 | 988 | 1,218 | 1,556 | 1,761 | 1,800 |
| Sterlite (standalone) | 213 | 184 | 108 | 229 | 196 | 193 | 184 |
| BALCO - Aluminum | 328 | 155 | 96 | 135 | 229 | 324 | 430 |
| Anglo Assets | — | — | — | 110 | 404 | 422 | 407 |
| Power | 2 | 13 | 86 | 73 | 143 | 244 | 472 |
| Others | 73 | 79 | 7 | 3 | 16 | 32 | 25 |
| Total | 1,952 | 1,027 | 1,285 | 1,768 | 2,544 | 2,976 | 3,319 |
| Divisional EBITDA (%) | | | | | | | |
| Hindustan Zinc | 68 | 58 | 77 | 69 | 61 | 59 | 54 |
| Sterlite (standalone) | 11 | 18 | 8 | 13 | 8 | 6 | 6 |
| BALCO - Aluminum | 17 | 15 | 7 | 8 | 9 | 11 | 13 |
| Anglo Assets | — | — | — | 6 | 16 | 14 | 12 |
| Power | 0 | 1 | 7 | 4 | 6 | 8 | 14 |
| Others | 4 | 8 | 1 | 0 | 1 | 1 | 1 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

Source: Kotak Institutional Equities estimates

In our view, STLT's stock price (down 10% CYTD and 23% since January 1, 2010) has been impacted by uncertainties surrounding (1) availability of coal for Sterlite Energy's 2,400 MW power plants and (2) availability of bauxite for VAL's 0.5 mtpa aluminum project. We discuss potential upsides to our fair valuation from a favorable resolution of the aforementioned issues.

- **Fair value of Sterlite Energy can potentially increase by ₹39 bn.** Our current assumption for Jharsuguda IPP (4 x 600 MW) assumes no benefits from captive coal block allocated to Sterlite (Rampia and Dip of Rampia). We have assumed that the first 600 MW unit (which will sell power at regulated rates) will operate on 65% linkage, 15% e-auction and 20% imported coal on a sustainable basis. The other three units (merchant) will operate at 20% linkage, 15% e-auction and 65% imported coal. However, potential development of captive blocks could be a key upside to our valuation and earnings estimate of Jharsuguda IPP. If we assume full ramp-up in FY2015E (fuelling 1,000 MW of merchant units), it could add another ₹12/share to our fair value estimate of Sterlite.
- **Investments in Vedanta Aluminum can turn profitable with availability of bauxite.** Sterlite owns 29.5% in VAL. Sterlite has invested ₹5.8 bn in equity and has extended loans of ₹89.4 bn. VAL has a 1 mtpa alumina refinery and 500 ktpa aluminum smelter operational in Orissa. VAL has spent US\$3.1 bn on this capacity (including US\$900 mn on a captive power plant). It has spent US\$2.8 bn in the second phase of expansion comprising a 1.2 mtpa smelter and a 3 mtpa alumina refinery. VAL is unlikely to start metal tapping until it receives a bauxite mine although it will spend to complete expansion of aluminum smelter. We discuss the operating and financial issues in more detail below.
 - VAL is unlikely to break even at the net income level and will likely generate nominal EBITDA until it has access to a captive bauxite mine. We forecast a cumulative net loss of US\$422 mn over the next three years. Cash losses will be higher since the interest cost related to aluminum smelter expansion will be capitalized rather than routed through the P&L. Cash burn of VAL is likely to be around US\$300 mn per annum.

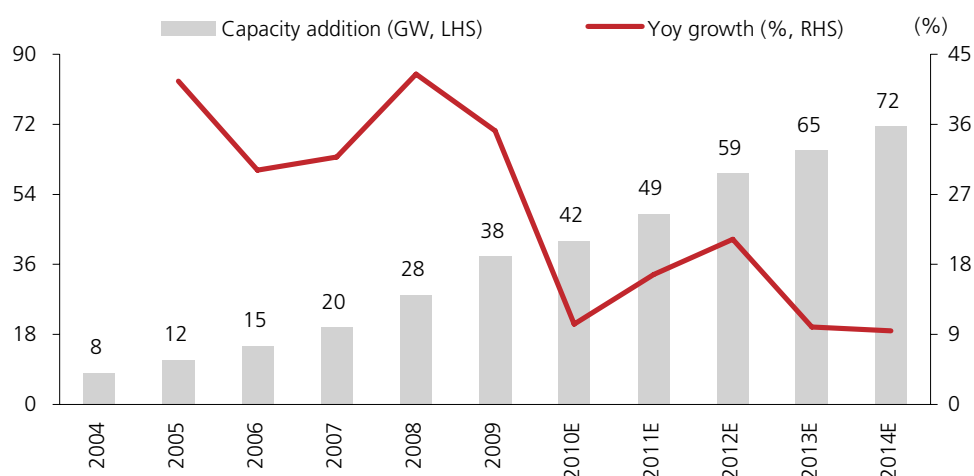
- VAL is seeking alternative source of bauxite after the Indian Ministry of Environment and Forests (MOEF) denied forest clearance for Niyamgiri mines. VAL has an MOU with the Orissa Government that entitles it to bauxite resources of 150 mn tons. VAL is in discussion with Orissa Government for an alternative bauxite mine in the Kalrapat region in Orissa. We note that starting production from a new mine is a long-drawn process; it may take at least three years before a new mine becomes operational. We note that Orissa has 1,530 mn tons of bauxite reserves of which 220 mn tons are in the Kalrapat region (60 kms away from VAL's Lanjigarh refinery)
- VAL project will become viable with availability of bauxite mine. The cost of production of aluminum will decline to US\$1,500-1,600/ ton from the current US\$2,200/ ton. Visibility on allocation of bauxite mine can be a positive catalyst; it would be reasonable to assign book value to investments in VAL in that case. This can potentially add ₹24 to our fair valuation of Sterlite stock.

Suzlon Energy (CMP: ₹53)

We believe that high oil prices, positive regulatory policy in India and visible order backlog make Suzlon a potential turnaround candidate. Nonetheless, we would caution that risks exist from (1) lack of improvement in balance sheet, (2) downturn in demand in India due to a weak investment cycle and (3) sovereign-debt issues in Europe that may affect REpower's business prospects. However, most of these issues are well-known. We focus on positive factors that could lead to a turnaround in the company's business and investment sentiment below.

- Wind energy market to likely benefit from high global fuel prices. High prices of conventional fuels (coal and oil) may compel governments and private companies to look favorably at non-conventional resources. While wind may be unsuitable for base-load applications, it scores over other non-conventional sources of energy due to (1) reliability of cost of power and (2) short gestation period. Exhibit 44 shows that wind power capacity addition has continued at a healthy pace over the past few years despite global turmoil and high volatility in global fuel prices and capacity additions over the next few years would also be quite robust. With fuel prices likely to stay at high levels, we would expect investment in wind power capacity to likely sustain in the future.

Exhibit 44: Wind power capacity addition continues at a robust pace
Global capacity addition in wind power, calendar year-ends, 2004-14E (GW)



Source: BTM Consult ApS, Kotak Institutional Equities

- **Strong domestic business propels hope of turnaround.** Suzlon's domestic market dominated FY2011 sales with a contribution of about 1,169 MW to the total wind business sales of 1,521 MW. This was versus domestic market sales of 688 MW in FY2010 and 749 MW in FY2009. We expect domestic sales to continue to drive revenues of the company in FY2012E and FY2013E as well. We build in FY2012E MW sales of 1,547 MW (yoy growth of 32%) in the domestic market (global sales of 2,198 MW in FY2012E). Exhibit 45 shows the segmental sales, inflows and execution details of Suzlon. Suzlon management also expects India and China to drive its growth in the near future and expects to maintain its market share of about 50-60% in the Indian market with a potential size of about 3-3.5 GW. We discuss key factors that would aid growth in the domestic market below.

Exhibit 45: Strong domestic business to drive near-term sales
Order backlog, booking and execution, March fiscal year-ends, 2008-13E (MW)

| | 2008 | 2009 | 2010 | 2011 | 2012E | 2013E |
|------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Order inflows | | | | | | |
| Domestic | 870 | 664 | 843 | 2,292 | 1,357 | 1,424 |
| International | 2,937 | 135 | 280 | 334 | 750 | 938 |
| Total inflows | 3,807 | 799 | 1,123 | 2,626 | 2,107 | 2,362 |
| Order backlog | | | | | | |
| Domestic | 160 | 75 | 230 | 1,353 | 1,163 | 776 |
| International | 3,294 | 1,388 | 896 | 878 | 977 | 1,149 |
| Total backlog | 3,454 | 1,463 | 1,126 | 2,231 | 2,140 | 1,925 |
| Execution | | | | | | |
| Domestic | 976 | 749 | 688 | 1,169 | 1,547 | 1,811 |
| International | 1,335 | 2,041 | 772 | 352 | 651 | 766 |
| Total execution | 2,311 | 2,790 | 1,460 | 1,521 | 2,198 | 2,577 |

Source: Company, Kotak Institutional Equities estimates

- **Strong order backlog and inflows in domestic segment.** Suzlon reported a strong order backlog of 2,231 MW at end-FY2011, the majority of which (1,353 MW) was from the domestic market (see Exhibit 46). The Indian market now contributes a significant proportion (about 60%) of the total order backlog of the company versus only 20% of the backlog at end-FY2010.

Exhibit 46: Domestic business dominated inflows in FY2011 and current order backlog
Quarterly inflows, sales and backlog, March fiscal year-ends, 2007-11 (MW)

| | 2007 | 2008 | 2009 | 2010 | | | | | 2011 | | | | |
|----------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | | | | 1QFY10 | 2QFY10 | 3QFY10 | 4QFY10 | 2010 | 1QFY11 | 2QFY11 | 3QFY11 | 4QFY11 | 2011 |
| Inflows | | | | | | | | | | | | | |
| Domestic | 1,036 | 870 | 815 | 49 | 186 | 331 | 227 | 793 | 489 | 403 | 1,255 | 144 | 2,291 |
| International | 1,659 | 2,937 | 137 | 111 | 84 | 68 | 16 | 279 | 51 | 50 | 233 | — | 334 |
| Total | 2,695 | 3,807 | 952 | 160 | 270 | 399 | 243 | 1,072 | 540 | 453 | 1,488 | 144 | 2,625 |
| Backlog | | | | | | | | | | | | | |
| Domestic | 267 | 160 | 75 | 66 | 123 | 314 | 230 | 230 | 580 | 693 | 1,624 | 1,353 | 1,353 |
| International | 1,692 | 3,294 | 1,388 | 1,435 | 1,366 | 1,170 | 896 | 896 | 878 | 857 | 954 | 878 | 878 |
| Total | 1,958 | 3,454 | 1,463 | 1,501 | 1,489 | 1,484 | 1,126 | 1,126 | 1,458 | 1,550 | 2,578 | 2,231 | 2,231 |
| Sales | | | | | | | | | | | | | |
| Domestic | 956 | 976 | 749 | 58 | 129 | 140 | 361 | 688 | 139 | 290 | 325 | 415 | 1,169 |
| International | 500 | 1,335 | 2,041 | 65 | 154 | 264 | 289 | 772 | 68 | 71 | 136 | 77 | 352 |
| Total | 1,456 | 2,311 | 2,790 | 123 | 283 | 404 | 650 | 1,460 | 207 | 361 | 461 | 492 | 1,521 |

Source: Company, Kotak Institutional Equities

- **Positive regulatory scenario to benefit sector potential.** We highlight the positive policy stance of the government for wind power development. Exhibit 47 highlights the policy incentives in the wind power sector in India; these policies incentivize investment (accelerated depreciation) as well as final supply of wind power (generation based incentive, renewable energy certificates).

Exhibit 47: Several wind power policy incentives to help boost domestic market

Policy incentives for wind power development

| Policy | Benefits | Description |
|-------------------------------------|-------------|---|
| Generation based incentive | Supply | Incentive of Rs0.5/kwh in addition to state tariff for 10 years |
| Accelerated depreciation | Investment | Depreciation at 80% for wind assets (cannot be clubbed with GBI) |
| Income tax benefit | Supply | Profits from wind business exempt from taxation |
| Renewable energy certificates (REC) | Supply | Wind deficient states grid operators to buy certificates from other states for their mandates |
| National plan on climate change | Wind demand | Mandated 5% of all energy purchases from renewables (increasing linearly to 15% by 2015) |

Source: Kotak Institutional Equities

- **Several new customers setting capacities through IPP route.** We note that several new players are entering into the wind energy space via the IPP (independent power producer) route. Suzlon has recently won several medium-large sized orders from players new such as Caparo Energy (1,000 MW order) and Orient Green Power Co. Ltd (a Shriram EPC Group company, 100 MW order), which has boosted the domestic backlog of the company. Exhibit 48 lists out the key order inflow announcements made by Suzlon since April 2010.

Exhibit 48: Several large order inflows boost domestic order backlog in FY2011

Order inflow announcements made by Suzlon since April 2010

| Customer | | Country | Product Configuration (MW) | Capacity (MW) |
|------------------|---|----------------|----------------------------|---------------|
| 15-Jul-11 | Orient Green Power (Shriram EPC Group) | India | 2.1 | 100 |
| 16-Jun-11 | National Aluminium Company Ltd (NALCO) | India | 2.1 | 50 |
| 14-Jun-11 | Sprott Power Corp | Canada | 2.1 | 32 |
| 25-May-11 | African Clean Energy Developments - Framework contract | South Africa | 2 | 152 |
| 20-Apr-11 | Gujarat State Fertilizers & Chemicals Ltd (GSFC) | India | 2.1 | 50 |
| 28-Jan-11 | Caparo Energy | India | | 1,000 |
| 21-Jan-11 | Martifer Renováveis Geração de Energia e Participações S. A. | Brazil | 2.1 | 218 |
| 15-Oct-10 | Multiple | India | | 170 |
| 21-Sep-10 | Techno Electric Group | India | 2.1 | 202 |
| 14-Sep-10 | One of China's five largest power producers | China | 2.1 | 50 |
| 03-Sep-10 | Tarini Minerals Private Limited and M/S Indrani Patnaik (Altrade group) | India | 1.5 | 30 |
| 16-Jul-10 | Siddhayu Ayurvedic Research Foundation Private Limited (Baidyanath Group) | India | 2.1/1.5 | 19 |
| 15-Jul-10 | Serum Institute of India Ltd. (Poonawalla Group) | India | 2.1 | 38 |
| 12-Jul-10 | Malpani Group | India | 2.1/1.5 | 20 |
| 08-Jul-10 | HPCL | India | 1.5 | 26 |
| 25-Jun-10 | One of China's five largest wind power producers | China/Mongolia | 2.1 | 48 |
| 06-Apr-10 | Gujarat State Fertilizers & Chemicals Ltd (GSFC) | India | 1.5 | 18 |
| Total | | | | 2,222 |

Source: Company, Kotak Institutional Equities

- **Potential for moderate pick-up in international market.** We believe that there could be some potential for pick-up in the international markets, which faced a severe slowdown in FY2011. Our estimates build in execution of about 650 MW in FY2012E versus a reported order backlog of 878 MW from the international segment at end-FY2011. This is versus 352 MW only in FY2011. However, our volume assumptions are still significantly lower than historical execution levels in the international segment (1,335 MW in FY2008 and 2,041 MW in FY2009). We discuss the outlook of the key markets below.
- **Chinese market set to grow strongly and Suzlon is well-positioned.** Suzlon, through its subsidiary Suzlon Energy Tianjin Ltd, may gain more traction in the Chinese wind energy market. Suzlon already executes orders to the tune of 200-300 MW in China. The management expects these levels to double matching the installed capacity

of 600 MW in China.

- **Europe—would primarily target via REpower.** Suzlon would target the European wind market primarily through REpower due to the established brand name for REpower in key geographies such as Germany and better-suited product configurations. The management expects pick-up in demand from these markets on the back of increased offshore projects and potential replacement of nuclear power with wind energy.
- **US and Australian market to remain sedate.** The management expects demand from the US (due to low gas prices, PPAs) and Australian markets to remain sedate in FY2012E.
- ▶ **Addressing debt, working capital with operational efficiencies; sale of Hansen.** Suzlon is a debt-heavy company with a reported consolidated net debt of ₹91 bn at end-FY2011 and wind energy business net debt of ₹102 bn. The large debt and inability to meet financial obligations due to decline in business in FY2010-11 have acted as a big overhang on Suzlon stock. We discuss factors that may lead to improvement in the company's debt position thereby enhancing investment sentiment and valuation.
 - Working capital may improve based on (a) operational efficiency and (b) realization of receivables (₹10 bn) from large customers such as Edison Mission. Suzlon reported high wind business net working capital levels of about ₹32.9 bn at end-FY2011, only marginally lower (by about ₹1.7 bn) versus end-FY2010 levels. This implies net working capital of about 147 days of sales, roughly same as end-FY2010 level.
 - The recent sale of its 26% stake in Hansen Transmissions for ₹8.4 bn, 8% of Suzlon's end-FY2011 net debt (against our value of ₹4.4 bn) may also help in reducing the debt burden.
 - Integration of REpower with Suzlon would provide access to valuable cash (provide flexibility to use it in various group entities) in REpower as well as increase scope for driving synergies between two businesses in terms of sourcing etc.
- ▶ **Potential re-rating on revival in business and reduction in debt.** We see scope for re-rating of Suzlon stock in case (1) Suzlon is successfully able to revive its business operations on the back of a reasonably strong business outlook and (2) reduce debt with the help of cash generated from improved business prospects and aggressive management of costs. We note that even a small change in the valuation of the stock could lead to a significant impact on its equity value. We note that a change in target valuation multiple (from 7X FY2013E EV/EBITDA to 8X) leads to a 26.8% increase in the equity valuation of the company (see Exhibit 49).

Exhibit 49: High debt has some advantages

Estimation of target price of Suzlon Energy, FY2013E basis (Rs mn)

| | FY2013E-based valuation | | |
|---|-------------------------|----------------|-------------|
| | 7X | 8X | Change (%) |
| Hansen Transmissions | | | |
| FY2013E EBITDA (Euro mn) | 74 | 74 | |
| Enterprise value (Euro mn) | 520 | 595 | |
| Net debt (Euro mn) | 237 | 237 | |
| Market capitalisation (Rs mn) | 16,856 | 21,279 | |
| Suzlon's stake in Hansen (%) | 26 | 26 | |
| Contribution to Suzlon Market Capitalization | 4,383 | 5,533 | 26.2 |
| REpower | | | |
| FY2013E EBITDA (Euro mn) | 170 | 170 | |
| EV (Euro mn) | 1,191 | 1,361 | |
| Net debt (Euro mn) | (345) | (345) | |
| Market capitalisation (Euro mn) | 1,536 | 1,706 | |
| Repower per share price (Euro) | 167 | 185 | |
| Suzlon's stake in REpower (%) | 95 | 95 | |
| Contribution to Suzlon Market Capitalization | 90,458 | 100,475 | 11.1 |
| Suzlon wind power business | | | |
| MW sales | 2,577 | 2,577 | |
| FY2013E EBITDA | 16,515 | 16,515 | |
| EV of wind business | 115,605 | 132,120 | 14.3 |
| Net debt as on March 2013E | 107,237 | 107,237 | |
| Mcap. of Suzlon wind business | 8,368 | 24,883 | |
| Mcap. contr of Hansen & Repower | 94,840 | 106,007 | |
| Mcap. Incl. Hansen and Repower | 103,208 | 130,890 | |
| No. of shares (mn) | 1,746 | 1,746 | |
| Suzlon target price (Rs) | 59 | 75 | 26.8 |

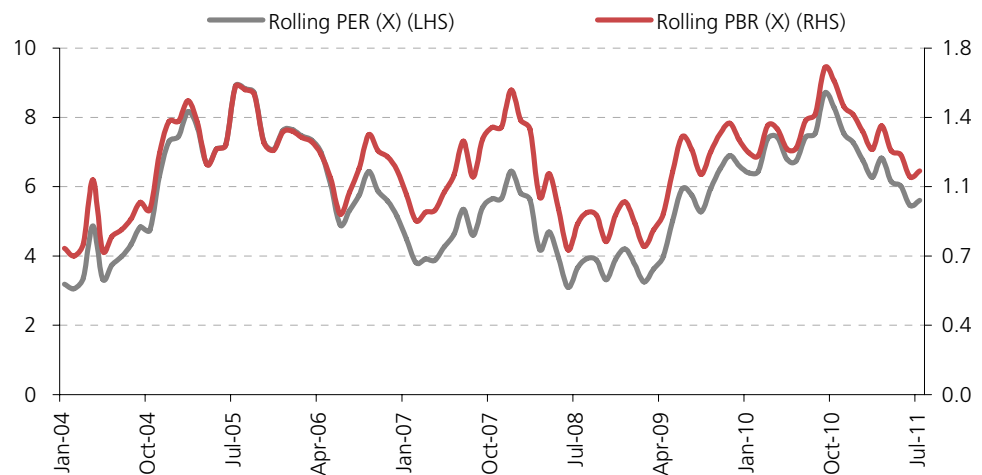
Source: Company, Kotak Institutional Equities estimates

Union Bank of India (CMP: ₹304)

We believe Union Bank of India can deliver 40-45% potential returns over the next 15-18 months from current levels as investors gain more confidence on its asset quality. In our view, UNBK's current low valuations (see Exhibit 50) reflect the market's concerns about potential deterioration in asset quality over the next two years due to (1) continued high interest rates, (2) potential sharp slowdown in the Indian economy and (3) possible NPLs in the power sector due to fuel supply and distribution issues. We note that our outlook on asset quality is far more conservative than the bank's guidance. UNBK's current valuations are fairly attractive at 5X FY2013EPS and 1X FY2013E book in the context of around 20% RoE and 24% EPS CAGR in FY2011-13E. At our official 12-month target price of ₹425, UNBK stock will trade at 1.5X book and 7X FY2013E 'EPS'.

Exhibit 50: UNBK stock is trading at low valuations reflecting the market's concerns about higher NPLs

12-month rolling forward P/E and P/B of UNBK (X)

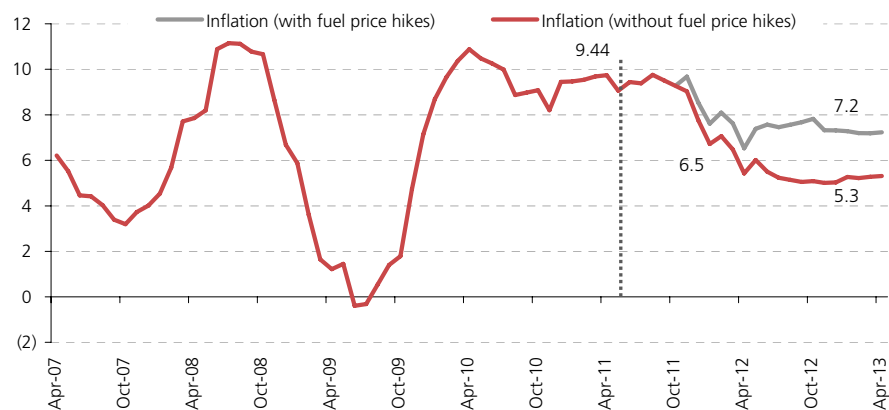


Source: Company, Kotak Institutional Equities estimates

- **Likely peaking out of interest rates over the next few months.** We expect interest rates and inflation in India to peak out over the next few months although it would be early FY2013E before interest rates finally start to decline from elevated levels. Inflation may come off sharply in early FY2013E due to high base in 1HFY12E (see Exhibit 51). We note that a confluence of several factors—(1) sharp increases in agricultural product prices (MSP) in India, (2) high agriculture prices globally, (3) high fuel and metal prices globally, (4) periodic supply-side shocks and (5) continued strong demand due to favorable government policies—has kept inflation at high levels since January 2010.

Exhibit 51: Inflation may decline through FY2013E

WPI inflation (yoy change), March fiscal year-ends, 2008-13E (%)



Notes:

- (1) Assuming (a) Rs3/liter price increase in diesel in November 2011 and Rs2.3/liter in June 2012, (b) Rs50/cylinder increase in LPG prices each in November 2011 and June 2012, (c) Rs2/liter increase in kerosene prices each in November 2011 and June 2012.
 (2) In our scenario without fuel price increases, we assume no change in prices of regulated fuels through FY2013E.

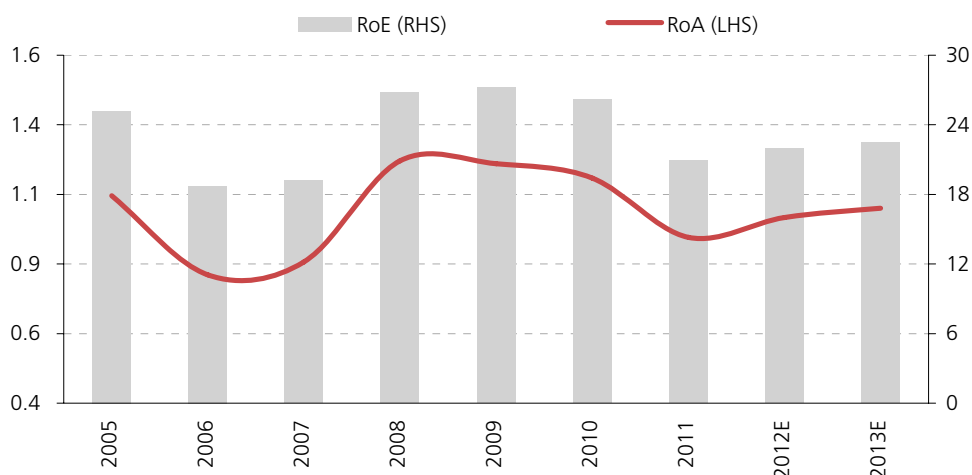
Source: GOI, Kotak Institutional Equities estimates

► **Well capitalized delivering healthy RoEs and RoAs and strong earnings growth.**

We expect Union Bank to trade at higher valuations once the market focuses more on its strong RoE and RoA and less on potential NPL issues. The bank has delivered RoEs around 20% and RoAs over 1% over the past decade and we expect this trend to continue for FY2011-13E (see Exhibit 52).

Exhibit 52: RoE has averaged above 20% levels over the past decade for the bank

RoE and RoA for Union Bank, March fiscal year-ends, 2005-13E (%)

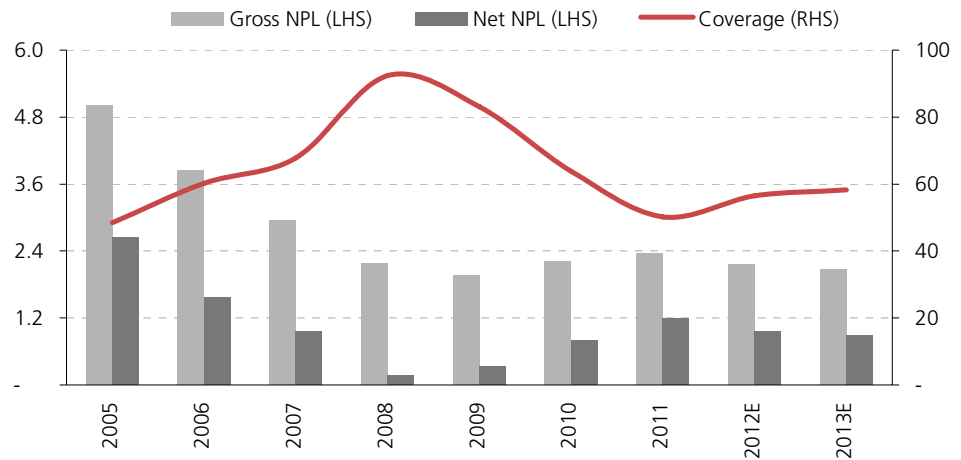


Source: Company, Kotak Institutional Equities estimates

We expect Union Bank to deliver strong earnings growth of 24% CAGR for FY2011-13E on the back of (1) strong loan growth of 18% CAGR in FY2011-13E, (2) healthy operating leverage as it has already made provisions for revised retirement benefits in FY2011 and (3) likely lower loan-loss provisions due to lower risks to asset quality. The bank is reasonably well capitalized to deliver healthy loan growth of over 20% CAGR, if required, with tier-1 ratio at 8.9% and internal accruals.

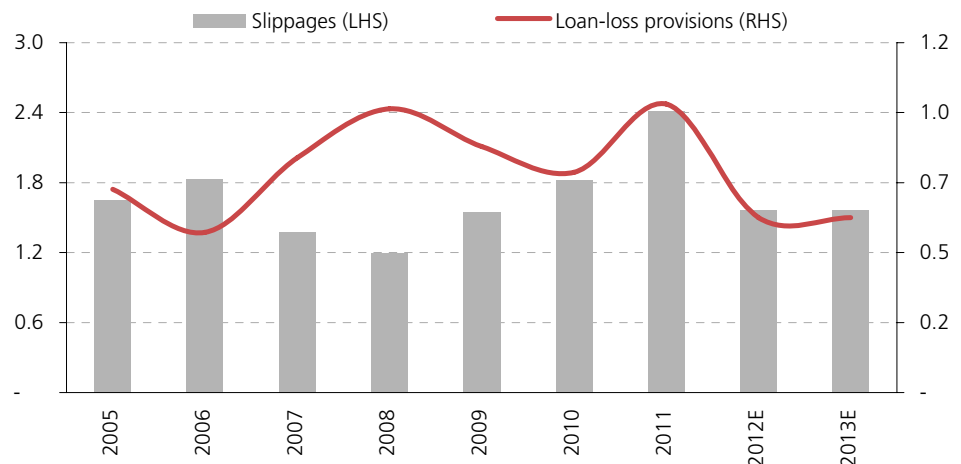
- **Lower slippages to result in higher confidence in loan portfolio.** We expect Union Bank to show strong improvement in asset quality over the next two years (see Exhibits 53 and 54). We model slippages to decline to 1.6% levels in FY2012E (management target at 1.2%) from 2.4% in FY2011, which was due to the following reasons—(1) 1HFY11 saw the impact of agriculture debt waiver, (2) continued impact of the previous economic slowdown and (3) transition to system-based NPLs where Union Bank has been one of the few banks to cover a large portion of NPLs under this format (see Exhibit 55).

Exhibit 53: We expect gross NPLs to decline and coverage ratios to improve
Gross NPLs, net NPLs and provision coverage, March fiscal year-ends, 2005-13E (%)



Source: Company, Kotak Institutional Equities estimates

Exhibit 54: Lower slippages to result in lower provisions
Slippages and loan-loss provisions, March fiscal year-ends, 2005-13E (%)



Source: Company, Kotak Institutional Equities estimates

Exhibit 55: Union Bank has covered a larger portion of loans under system-based NPLs
Status of implementation of core banking solutions for various PSU banks

| Bank | Extent of NPL recognition without manual intervention |
|---------------------------|--|
| Andhra Bank | Loans above Rs 10 mn under CBS |
| Bank of Baroda | Completed - very small portion pending primarily agriculture |
| Bank of India | Loans above Rs 0.5 mn under CBS |
| Corporation Bank | Completed - very small portion pending primarily agriculture |
| Canara Bank | Loans above Rs 1 mn under CBS |
| Indian Overseas Bank | Loans above Rs 1 mn under CBS |
| Indian Bank | Completed - very small portion pending primarily agriculture |
| Oriental Bank of Commerce | Loans above Rs 1 mn under CBS |
| Punjab National Bank | Loans above Rs 5 mn under CBS |
| State Bank of India | Already under CBS moved in the current quarter |
| Union Bank | Nearly completed - very small portion pending primarily agriculture |

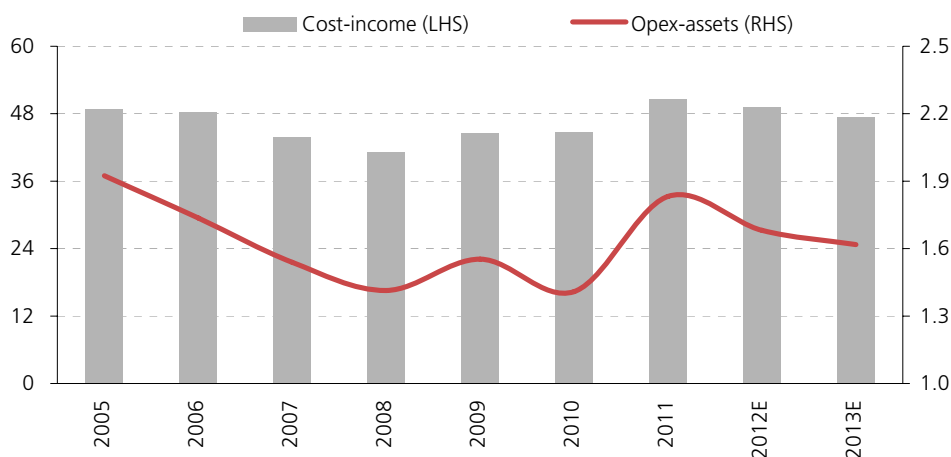
Source: Company, Kotak Institutional Equities

Also, UNBK has about 11% of its advances to the infrastructure sector and 7% to the power sector. This compares with about 15% average exposure to infrastructure of the banking sector. We expect loan-loss provisions, after adjusting for the revised provisioning norms on specific sub-segments of NPLs and restructured loans, to decline to 0.6% levels in FY2012E on the back of lower provisions and better recovery trends compared to the larger slippages over the past two years.

- **Operating leverage and lower provisions to result in strong earnings growth.** In line with most other PSU banks, we expect the operating leverage to play out for Union Bank in FY2012E and FY2013E (see Exhibit 56). We expect opex/assets to decline to 1.6% by FY2013E from 1.8% in FY2011 (higher provisions made for revised retirement and gratuity benefits). We are conservative in our estimates and model 9% increase per annum in staff expenses (factoring provisions for the next pay revision; negotiations will likely begin from September 2012) despite higher one-off provisions made in FY2011.

Exhibit 56: Operating leverage to play out in FY2012-13E

Opex to assets and cost-income ratio, March fiscal year-ends, 2005-13E (%)



Source: Company, Kotak Institutional Equities estimates

Exhibit 57: Kotak Institutional Equities: Valuation summary of key Indian companies

| | 26-Jul-11 | | Mkt cap. | | O/S | EPS (Rs) | | | EPS growth (%) | | | PER (X) | | | EV/EBITDA (X) | | | Price/BV (X) | | | Dividend yield (%) | | | RoE (%) | | | Target price | Upside | ADVT-3mo |
|-------------------------------|------------|------------|-----------|-----------|-------------|----------|--------|-------|----------------|---------|---------|---------|--------|-------|---------------|-------|-------|--------------|-------|-------|--------------------|-------|-------|---------|--------|-------|--------------|--------|-----------|
| Company | Price (Rs) | Rating | (Rs mn) | (US\$ mn) | shares (mn) | 2011E | 2012E | 2013E | 2011E | 2012E | 2013E | 2011E | 2012E | 2013E | 2011E | 2012E | 2013E | 2011E | 2012E | 2013E | 2011E | 2012E | 2013E | 2011E | 2012E | 2013E | (Rs) | (%) | (US\$ mn) |
| Automobiles | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Ashok Leyland | 53 | SELL | 69,907 | 1,581 | 1,330 | 4.7 | 4.2 | 4.7 | 68.1 | (11.9) | 13.4 | 11.1 | 12.6 | 11.1 | 7.7 | 8.0 | 7.2 | 1.6 | 1.4 | 1.3 | 3.8 | 1.9 | 1.9 | 21.8 | 16.9 | 17.1 | 52 | (1.0) | 6.0 |
| Bajaj Auto | 1,426 | ADD | 412,612 | 9,331 | 289 | 90.4 | 99.8 | 109.6 | 43.9 | 10.4 | 9.9 | 15.8 | 14.3 | 13.0 | 14.8 | 13.3 | 12.1 | 8.4 | 6.5 | 5.1 | 2.8 | 2.8 | 2.8 | 84.9 | 50.6 | 43.0 | 1,550 | 8.7 | 14.0 |
| Bharat Forge | 337 | ADD | 79,899 | 1,807 | 237 | 11.9 | 18.3 | 23.0 | 1,324.3 | 54.0 | 25.6 | 28.3 | 18.4 | 14.6 | 12.4 | 9.2 | 7.7 | 3.6 | 3.0 | 2.5 | 1.0 | — | — | 7.8 | 14.6 | 16.7 | 355 | 5.4 | 2.5 |
| Exide Industries | 150 | REDUCE | 127,798 | 2,890 | 850 | 7.5 | 8.1 | 10.0 | 18.0 | 9.2 | 22.9 | 20.2 | 18.5 | 15.0 | 14.5 | 13.4 | 11.0 | 4.7 | 3.9 | 3.2 | 1.0 | 0.8 | 0.8 | 25.5 | 22.9 | 23.2 | 160 | 6.4 | 6.9 |
| Hero Honda | 1,821 | REDUCE | 363,654 | 8,224 | 200 | 99.3 | 111.3 | 127.9 | (11.1) | 12.1 | 14.9 | 18.3 | 16.4 | 14.2 | 12.8 | 11.8 | 9.6 | 7.8 | 8.0 | 7.7 | 5.8 | 3.8 | 3.8 | 56.5 | 63.6 | 60.1 | 1,730 | (5.0) | 20.1 |
| Mahindra & Mahindra | 718 | ADD | 440,699 | 9,967 | 614 | 41.7 | 46.7 | 51.5 | 22.7 | 12.0 | 10.1 | 17.2 | 15.4 | 13.9 | 13.2 | 11.8 | 10.4 | 4.1 | 3.4 | 2.9 | 1.6 | 1.3 | 1.3 | 27.2 | 24.4 | 22.4 | 800 | 11.5 | 25.4 |
| Maruti Suzuki | 1,177 | BUY | 340,021 | 7,690 | 289 | 79.2 | 84.5 | 103.2 | (8.4) | 6.7 | 22.2 | 14.9 | 13.9 | 11.4 | 9.4 | 8.5 | 6.3 | 2.4 | 2.1 | 1.8 | 0.5 | 0.5 | 0.6 | 17.6 | 16.1 | 16.9 | 1,515 | 28.7 | 10.2 |
| Tata Motors | 973 | REDUCE | 647,078 | 14,634 | 665 | 136.0 | 123.6 | 134.4 | 737.9 | (9.1) | 8.8 | 7.2 | 7.9 | 7.2 | 5.1 | 5.5 | 5.0 | 3.3 | 2.4 | 1.9 | 2.0 | 1.5 | 1.5 | 66.1 | 36.2 | 29.6 | 1,060 | 8.9 | 60.3 |
| Automobiles | | Cautious | 2,481,667 | 56,124 | | | | | 88.2 | 1.4 | 12.4 | 12.4 | 12.2 | 10.9 | 8.4 | 8.3 | 7.2 | 3.9 | 3.2 | 2.6 | 2.4 | 1.8 | 1.8 | 31.7 | 26.2 | 24.2 | | | |
| Banks/Financial Institutions | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Andhra Bank | 137 | BUY | 76,411 | 1,728 | 560 | 22.6 | 23.7 | 27.9 | 5.0 | 4.7 | 17.6 | 6.0 | 5.8 | 4.9 | — | — | — | 1.2 | 1.0 | 0.9 | 4.0 | 4.2 | 5.0 | 23.2 | 19.0 | 19.5 | 190 | 39.1 | 2.2 |
| Axis Bank | 1,320 | BUY | 541,736 | 12,252 | 411 | 82.5 | 98.9 | 119.7 | 33.0 | 19.8 | 21.1 | 16.0 | 13.3 | 11.0 | — | — | — | 2.9 | 2.4 | 2.1 | 1.1 | 1.3 | 1.5 | 19.3 | 19.7 | 20.3 | 1,700 | 28.8 | 48.3 |
| Bank of Baroda | 899 | BUY | 353,071 | 7,985 | 393 | 108.0 | 116.4 | 139.6 | 29.1 | 7.8 | 19.9 | 8.3 | 7.7 | 6.4 | — | — | — | 1.8 | 1.5 | 1.3 | 1.8 | 2.0 | 2.4 | 25.3 | 21.1 | 21.3 | 1,250 | 39.1 | 7.5 |
| Bank of India | 389 | ADD | 212,786 | 4,812 | 547 | 45.5 | 54.0 | 70.7 | 37.4 | 18.7 | 30.9 | 8.6 | 7.2 | 5.5 | — | — | — | 1.3 | 1.2 | 1.0 | 2.1 | 2.5 | 3.2 | 17.3 | 17.2 | 19.5 | 470 | 20.9 | 11.0 |
| Canara Bank | 514 | ADD | 227,481 | 5,145 | 443 | 90.9 | 87.1 | 108.6 | 23.3 | (4.2) | 24.7 | 5.7 | 5.9 | 4.7 | — | — | — | 1.3 | 1.1 | 0.9 | 2.1 | 2.3 | 2.3 | 23.2 | 17.8 | 19.0 | 600 | 16.8 | 10.3 |
| Corporation Bank | 516 | ADD | 76,443 | 1,729 | 148 | 95.4 | 96.4 | 113.3 | 16.3 | 1.0 | 17.5 | 5.4 | 5.4 | 4.6 | — | — | — | 1.1 | 0.9 | 0.8 | 3.9 | 3.9 | 4.6 | 21.9 | 18.6 | 19.0 | 630 | 22.1 | 0.9 |
| Federal Bank | 450 | ADD | 76,913 | 1,739 | 171 | 34.3 | 44.9 | 57.0 | 26.3 | 31.0 | 26.7 | 13.1 | 10.0 | 7.9 | — | — | — | 1.5 | 1.4 | 1.2 | 1.9 | 2.5 | 3.1 | 12.0 | 14.3 | 16.2 | 500 | 11.2 | 5.3 |
| HDFC | 694 | REDUCE | 1,017,955 | 23,022 | 1,467 | 24.1 | 27.8 | 31.9 | 22.4 | 15.6 | 14.6 | 28.8 | 24.9 | 21.7 | — | — | — | 5.9 | 5.2 | 4.0 | 1.3 | 1.5 | 1.8 | 21.7 | 22.1 | 21.5 | 730 | 5.2 | 40.1 |
| HDFC Bank | 498 | REDUCE | 1,158,761 | 26,206 | 2,326 | 16.9 | 22.0 | 28.0 | 31.0 | 30.2 | 27.5 | 29.5 | 22.7 | 17.8 | — | — | — | 4.6 | 4.0 | 3.4 | 0.7 | 0.9 | 1.1 | 16.7 | 18.7 | 20.5 | 560 | 12.4 | 40.0 |
| ICICI Bank | 1,041 | ADD | 1,198,584 | 27,107 | 1,152 | 44.7 | 57.5 | 68.3 | 23.9 | 28.6 | 18.8 | 23.3 | 18.1 | 15.2 | — | — | — | 2.2 | 2.0 | 1.9 | 1.3 | 1.7 | 2.0 | 9.7 | 11.6 | 12.7 | 1,270 | 22.0 | 83.2 |
| IDFC | 135 | ADD | 203,095 | 4,593 | 1,506 | 8.8 | 10.1 | 12.2 | 4.8 | 15.1 | 21.0 | 15.3 | 13.3 | 11.0 | — | — | — | 2.0 | 1.6 | 1.5 | 1.1 | 1.4 | 1.8 | 14.7 | 13.3 | 14.0 | 160 | 18.7 | 25.0 |
| India Infoline | 84 | ADD | 27,312 | 618 | 327 | 7.4 | 6.8 | 8.4 | (9.3) | (8.3) | 24.4 | 11.3 | 12.4 | 9.9 | — | — | — | 1.6 | 1.4 | 1.2 | 3.3 | 1.7 | 2.2 | 12.9 | 12.0 | 13.0 | 100 | 19.7 | 1.8 |
| Indian Bank | 239 | BUY | 102,779 | 2,324 | 430 | 38.8 | 43.9 | 53.9 | 10.5 | 13.2 | 22.8 | 6.2 | 5.4 | 4.4 | — | — | — | 1.3 | 1.1 | 0.9 | 3.1 | 3.5 | 4.2 | 22.3 | 21.2 | 22.0 | 300 | 25.4 | 2.0 |
| Indian Overseas Bank | 142 | BUY | 88,110 | 1,993 | 619 | 17.3 | 23.5 | 30.7 | 33.6 | 35.4 | 30.9 | 8.2 | 6.1 | 4.6 | — | — | — | 1.1 | 0.9 | 0.8 | 3.5 | 3.0 | 3.3 | 12.7 | 14.6 | 16.8 | 190 | 33.4 | 2.3 |
| IndusInd Bank | 269 | BUY | 125,182 | 2,831 | 466 | 12.4 | 15.2 | 18.2 | 45.2 | 22.6 | 19.9 | 21.7 | 17.7 | 14.8 | — | — | — | 3.4 | 3.0 | 2.6 | 0.7 | 0.9 | 1.1 | 20.8 | 17.7 | 17.9 | 325 | 21.0 | 3.8 |
| J&K Bank | 865 | ADD | 41,944 | 949 | 48 | 126.9 | 136.9 | 152.9 | 20.1 | 7.9 | 11.7 | 6.8 | 6.3 | 5.7 | — | — | — | 1.2 | 1.1 | 1.0 | 3.0 | 3.2 | 3.6 | 19.0 | 17.8 | 17.4 | 900 | 4.0 | 0.6 |
| LIC Housing Finance | 215 | ADD | 102,114 | 2,309 | 475 | 20.5 | 22.9 | 27.5 | 47.2 | 11.4 | 20.4 | 10.5 | 9.4 | 7.8 | — | — | — | 2.6 | 2.2 | 1.8 | 2.1 | 2.3 | 2.8 | 25.8 | 23.7 | 23.9 | 260 | 20.9 | 28.9 |
| Mahindra & Mahindra Financial | 689 | BUY | 70,589 | 1,596 | 102 | 45.2 | 56.5 | 67.1 | 26.0 | 25.0 | 18.8 | 15.2 | 12.2 | 10.3 | — | — | — | 2.9 | 2.5 | 2.1 | 1.5 | 1.8 | 2.1 | 22.0 | 21.4 | 21.6 | 825 | 19.7 | 2.0 |
| Muthoot Finance | 182 | BUY | 67,746 | 1,532 | 371 | 15.7 | 19.0 | 24.5 | 108.4 | 20.5 | 29.0 | 11.6 | 9.6 | 7.4 | — | — | — | 5.1 | 2.3 | 1.8 | — | — | — | 51.5 | 33.0 | 26.8 | 220 | 20.6 | — |
| Oriental Bank of Commerce | 369 | BUY | 107,616 | 2,434 | 292 | 51.5 | 55.6 | 65.4 | 13.7 | 8.0 | 17.6 | 7.2 | 6.6 | 5.6 | — | — | — | 1.1 | 0.9 | 0.8 | 2.8 | 3.0 | 3.6 | 15.5 | 13.9 | 14.7 | 430 | 16.6 | 5.1 |
| PFC | 202 | ADD | 266,165 | 6,019 | 1,320 | 22.8 | 24.7 | 30.1 | 11.0 | 8.2 | 22.0 | 8.8 | 8.2 | 6.7 | — | — | — | 1.8 | 1.3 | 1.1 | 2.0 | 2.4 | 3.0 | 18.3 | 17.9 | 17.6 | 250 | 24.0 | 21.5 |
| Punjab National Bank | 1,166 | BUY | 369,290 | 8,352 | 317 | 139.9 | 166.4 | 201.5 | 13.0 | 18.9 | 21.1 | 8.3 | 7.0 | 5.8 | — | — | — | 1.8 | 1.5 | 1.3 | 2.4 | 2.9 | 3.5 | 24.0 | 23.5 | 23.7 | 1,500 | 28.7 | 5.9 |
| Reliance Capital | 589 | REDUCE | 145,074 | 3,281 | 246 | 9.3 | 16.5 | 24.6 | (25.3) | 77.0 | 49.6 | 63.3 | 35.8 | 23.9 | — | — | — | 2.1 | 2.0 | 1.9 | 0.6 | 1.1 | 1.7 | 3.3 | 5.7 | 8.2 | 600 | 1.8 | 17.2 |
| Rural Electrification Corp. | 219 | ADD | 216,485 | 4,896 | 987 | 26.0 | 29.3 | 32.8 | 28.1 | 12.7 | 12.2 | 8.4 | 7.5 | 6.7 | — | — | — | 1.7 | 1.5 | 1.3 | 3.4 | 4.5 | 5.0 | 21.5 | 21.2 | 20.9 | 250 | 14.0 | 13.4 |
| Shriram Transport | 678 | REDUCE | 151,289 | 3,421 | 223 | 55.1 | 65.5 | 77.2 | 40.8 | 18.8 | 17.9 | 12.3 | 10.4 | 8.8 | — | — | — | 3.1 | 2.7 | 2.2 | 1.6 | 1.9 | 2.3 | 28.1 | 26.7 | 25.8 | 700 | 3.2 | 15.8 |
| SKS Microfinance | 522 | SELL | 38,467 | 870 | 74 | 15.7 | (39.1) | 3.9 | (41.8) | (349.4) | (109.9) | 33.3 | (13.3) | 134.7 | — | — | — | 2.2 | 2.5 | 2.4 | — | — | — | 8.3 | (17.4) | 1.9 | 350 | (33.0) | 11.6 |
| State Bank of India | 2,446 | BUY | 1,553,239 | 35,127 | 635 | 130.2 | 213.1 | 266.4 | (9.9) | 63.7 | 25.0 | 18.8 | 11.5 | 9.2 | — | — | — | 2.4 | 2.0 | 1.7 | 1.4 | 1.5 | 1.5 | 12.6 | 19.2 | 20.4 | 2,900 | 18.6 | 131.9 |
| Union Bank | 304 | BUY | 159,397 | 3,605 | 524 | 39.5 | 50.2 | 60.4 | (3.9) | 27.1 | 20.5 | 7.7 | 6.1 | 5.0 | — | — | — | 1.4 | 1.2 | 1.0 | 3.1 | 3.9 | 4.7 | 20.9 | 21.9 | 22.5 | 425 | 39.8 | 5.3 |
| Yes Bank | 319 | BUY | 110,618 | 2,502 | 347 | 21.5 | 26.2 | 32.3 | 43.2 | 22.1 | 23.3 | 14.8 | 12.2 | 9.9 | — | — | — | 2.9 | 2.4 | 2.0 | 0.8 | 1.0 | 1.2 | 21.7 | 21.7 | 22.2 | 420 | 31.8 | 17.2 |
| Banks/Financial Institutions | | Attractive | 8,886,653 | 200,976 | | | | | 20.1 | 23.1 | 22.7 | 14.5 | 11.8 | 9.6 | — | — | — | 2.3 | 2.0 | 1.7 | 1.5 | 1.8 | 2.1 | 15.9 | 16.9 | 17.8 | | | |
| Cement | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| ACC | 995 | REDUCE | 186,875 | 4,226 | 188 | 55.6 | 63.8 | 77.4 | (33.2) | 14.8 | 21.4 | 17.9 | 15.6 | 12.8 | 10.9 | 8.7 | 6.8 | 2.7 | 2.5 | 2.2 | 3.6 | 2.4 | 2.4 | 17.5 | 18.2 | 19.0 | 1,020 | 2.5 | 6.0 |
| Ambuja Cements | 130 | SELL | 197,224 | 4,460 | 1,522 | 7.9 | 7.9 | 9.9 | (1.5) | 0.4 | 25.3 | 16.4 | 16.4 | 13.1 | 9.9 | 9.0 | 6.9 | 2.5 | 2.3 | 2.1 | 1.6 | 1.7 | 1.8 | 16.6 | 14.9 | 17.0 | 135 | 4.2 | 9.3 |
| Grasim Industries | 2,185 | BUY | 200,332 | 4,531 | 92 | 233.3 | 264.5 | 294.8 | (22.5) | 13.4 | 11.5 | 9.4 | 8.3 | 7.4 | 6.0 | 4.8 | 4.1 | 1.4 | 1.2 | 1.1 | 1.6 | 1.6 | 1.6 | 15.8 | 15.5 | 15.2 | 2,900 | | |

Kotak Institutional Equities: Valuation summary of key Indian companies

| | 26-Jul-11 | | Mkt cap. | | O/S | EPS (Rs) | | | EPS growth (%) | | | PER (X) | | | EV/EBITDA (X) | | | Price/BV (X) | | | Dividend yield (%) | | | RoE (%) | | | Target | Upside | ADVT-3mo |
|-------------------------------|------------|------------|-----------|-----------|-------------|----------|-------|-------|----------------|---------|------------|---------|-----------|-------|---------------|-------|-------|--------------|-------|-------|--------------------|-------|-------|---------|-------|-------|--------|--------|-----------|
| Company | Price (Rs) | Rating | (Rs mn) | (US\$ mn) | shares (mn) | 2011E | 2012E | 2013E | 2011E | 2012E | 2013E | 2011E | 2012E | 2013E | 2011E | 2012E | 2013E | 2011E | 2012E | 2013E | 2011E | 2012E | 2013E | 2011E | 2012E | 2013E | (Rs) | (%) | (US\$ mn) |
| Consumer products | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Asian Paints | 3,139 | REDUCE | 301,102 | 6,810 | 96 | 80.8 | 94.6 | 111.4 | 13.0 | 17.1 | 17.7 | 38.8 | 33.2 | 28.2 | 25.9 | 21.1 | 17.3 | 14.7 | 11.4 | 9.1 | 1.0 | 0.9 | 1.1 | 43.9 | 40.0 | 36.8 | 2,900 | (7.6) | 9.9 |
| Colgate-Palmolive (India) | 977 | SELL | 132,851 | 3,004 | 136 | 29.6 | 34.1 | 38.8 | (4.9) | 15.0 | 14.1 | 33.0 | 28.7 | 25.2 | 28.7 | 25.0 | 20.9 | 34.6 | 35.2 | 28.1 | 2.3 | 3.0 | 2.8 | 113.4 | 121.6 | 124.2 | 900 | (7.9) | 2.2 |
| Dabur India | 110 | ADD | 191,124 | 4,322 | 1,731 | 3.3 | 3.7 | 4.3 | 13.4 | 11.8 | 16.5 | 33.6 | 30.1 | 25.8 | 26.5 | 21.7 | 18.7 | 14.7 | 11.3 | 9.0 | 1.0 | 1.2 | 1.3 | 51.5 | 43.3 | 39.5 | 110 | (0.4) | 5.3 |
| GlaxoSmithkline Consumer (a) | 2,378 | ADD | 99,987 | 2,261 | 42 | 71.3 | 85.4 | 101.5 | 28.8 | 19.8 | 18.9 | 33.3 | 27.8 | 23.4 | 24.0 | 20.3 | 16.9 | 10.7 | 8.7 | 7.1 | 2.1 | 1.2 | 1.4 | 32.2 | 33.5 | 32.5 | 2,700 | 13.6 | 0.7 |
| Godrej Consumer Products | 437 | BUY | 141,263 | 3,195 | 324 | 14.9 | 18.4 | 22.7 | 31.3 | 23.4 | 23.8 | 29.3 | 23.8 | 19.2 | 24.8 | 17.5 | 13.4 | 8.2 | 5.8 | 4.7 | 1.2 | 0.7 | 0.7 | 35.9 | 28.7 | 27.0 | 510 | 16.8 | 2.6 |
| Hindustan Unilever | 327 | ADD | 707,108 | 15,992 | 2,159 | 9.6 | 11.3 | 13.4 | 2.1 | 17.7 | 17.9 | 34.0 | 28.9 | 24.5 | 28.1 | 24.1 | 19.8 | 26.8 | 23.0 | 19.6 | 2.3 | 2.8 | 3.3 | 80.6 | 85.8 | 86.5 | 340 | 3.8 | 16.2 |
| ITC | 201 | ADD | 1,546,354 | 34,972 | 7,697 | 6.5 | 8.0 | 9.1 | 22.1 | 23.1 | 13.5 | 31.0 | 25.2 | 22.2 | 21.0 | 17.0 | 14.8 | 9.8 | 8.3 | 7.2 | 2.2 | 1.9 | 2.2 | 34.3 | 37.3 | 36.2 | 230 | 14.5 | 30.9 |
| Jubilant Foodworks | 867 | SELL | 55,956 | 1,265 | 65 | 11.2 | 14.7 | 20.0 | 98.7 | 31.7 | 35.9 | 77.7 | 59.0 | 43.4 | 46.7 | 31.8 | 23.9 | 29.2 | 19.6 | 13.5 | — | — | — | 46.5 | 39.7 | 36.7 | 550 | (36.6) | 35.3 |
| Jyothy Laboratories | 238 | ADD | 19,158 | 433 | 81 | 10.5 | 11.7 | 13.3 | (5.0) | 11.4 | 14.2 | 22.7 | 20.4 | 17.8 | 20.5 | 15.6 | 12.7 | 2.8 | 2.6 | 2.4 | 2.5 | 2.0 | 2.5 | 12.3 | 13.3 | 14.0 | 240 | 1.0 | 0.9 |
| Marico | 156 | ADD | 95,372 | 2,157 | 612 | 4.2 | 5.5 | 6.5 | 10.9 | 29.4 | 18.6 | 37.0 | 28.6 | 24.1 | 24.6 | 19.6 | 16.4 | 10.2 | 7.9 | 6.3 | 0.5 | 0.6 | 0.7 | 32.8 | 31.8 | 29.5 | 160 | 2.6 | 1.2 |
| Nestle India (a) | 4,255 | REDUCE | 410,230 | 9,278 | 96 | 86.8 | 104.6 | 123.9 | 16.7 | 20.5 | 18.4 | 49.0 | 40.7 | 34.3 | 32.6 | 26.5 | 22.0 | 48.0 | 34.6 | 26.0 | 1.1 | 1.4 | 1.7 | 116.5 | 98.7 | 86.3 | 3,500 | (17.7) | 2.6 |
| Tata Global Beverages | 105 | ADD | 64,901 | 1,468 | 618 | 4.0 | 6.0 | 6.8 | (34.6) | 52.6 | 13.0 | 26.5 | 17.4 | 15.4 | 10.4 | 8.9 | 7.7 | 1.3 | 1.3 | 1.2 | 1.9 | 2.9 | 3.3 | 6.5 | 9.6 | 10.4 | 110 | 4.8 | 3.3 |
| Titan Industries | 220 | REDUCE | 195,668 | 4,425 | 888 | 5.3 | 6.5 | 7.7 | 83.9 | 24.0 | 17.5 | 41.8 | 33.8 | 28.7 | 30.5 | 23.5 | 19.4 | 18.0 | 13.5 | 10.7 | 0.6 | 1.0 | 1.4 | 51.3 | 45.8 | 41.6 | 240 | 8.9 | 41.0 |
| United Spirits | 1,031 | ADD | 129,544 | 2,930 | 126 | 29.5 | 39.2 | 50.6 | 8.3 | 32.8 | 29.0 | 34.9 | 26.3 | 20.4 | 17.3 | 13.3 | 11.4 | 3.0 | 2.7 | 2.4 | 0.3 | 0.2 | 0.4 | 9.1 | 10.7 | 12.5 | 1,300 | 26.0 | 7.3 |
| Consumer products | | Cautious | 4,090,618 | 92,511 | | | | | 16.0 | 21.6 | 16.5 | 34.2 | 28.2 | 24.2 | 23.8 | 19.3 | 16.4 | 10.8 | 9.1 | 7.8 | 1.7 | 1.7 | 2.0 | 31.4 | 32.4 | 32.3 | | | |
| Constructions | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| IVRCL | 67 | BUY | 17,823 | 403 | 267 | 5.9 | 7.9 | 9.8 | (25.2) | 33.6 | 24.5 | 11.3 | 8.4 | 6.8 | 7.3 | 6.3 | 5.7 | 0.9 | 0.8 | 0.7 | 0.6 | 0.6 | 0.6 | 8.2 | 10.1 | 11.3 | 125 | 87.3 | 4.4 |
| Nagarjuna Construction Co. | 77 | BUY | 19,834 | 449 | 257 | 6.4 | 7.0 | 8.9 | (10.7) | 10.5 | 25.8 | 12.1 | 11.0 | 8.7 | 8.9 | 8.2 | 7.3 | 0.8 | 0.8 | 0.8 | 2.6 | 2.6 | 2.6 | 7.1 | 7.4 | 8.9 | 140 | 81.1 | 2.1 |
| Punj Lloyd | 74 | REDUCE | 25,112 | 568 | 340 | (1.5) | 5.2 | 8.2 | (56.6) | (449.2) | 57.5 | (49.8) | 14.3 | 9.1 | 9.2 | 6.8 | 5.7 | 0.8 | 0.8 | 0.7 | (0.1) | 0.6 | 1.0 | (1.7) | 5.8 | 8.5 | 75 | 1.4 | 12.1 |
| Sadbhav Engineering | 144 | BUY | 21,600 | 488 | 150 | 8.0 | 10.0 | 12.1 | 55.1 | 25.4 | 21.1 | 18.1 | 14.4 | 11.9 | 10.9 | 8.9 | 7.5 | 3.4 | 2.8 | 2.3 | 0.4 | 0.4 | 0.4 | 18.6 | 19.2 | 19.0 | 190 | 31.9 | 0.3 |
| Construction | | Attractive | 84,369 | 1,908 | | | | | 14.1 | 83.7 | 32.2 | 21.6 | 11.8 | 8.9 | 8.8 | 7.3 | 6.3 | 1.1 | 1.0 | 0.9 | 0.8 | 1.0 | 1.1 | 4.9 | 8.4 | 10.1 | | | |
| Energy | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Aban Offshore | 517 | BUY | 22,475 | 508 | 44 | 116.2 | 103.6 | 104.0 | 9.0 | (10.8) | 0.3 | 4.4 | 5.0 | 5.0 | 7.0 | 6.5 | 6.6 | 1.0 | 0.9 | 0.8 | 0.7 | 0.8 | 0.9 | 29.2 | 19.9 | 16.5 | 775 | 50.0 | 11.4 |
| Bharat Petroleum | 660 | ADD | 238,653 | 5,397 | 362 | 45.7 | 46.0 | 60.0 | (20.7) | 0.6 | 30.5 | 14.4 | 14.4 | 11.0 | 10.1 | 8.9 | 6.9 | 1.6 | 1.5 | 1.4 | 2.1 | 2.3 | 3.0 | 10.8 | 10.1 | 12.2 | 800 | 21.2 | 9.8 |
| Cairn India | 323 | REDUCE | 613,558 | 13,876 | 1,902 | 33.3 | 49.5 | 53.1 | 501.1 | 48.5 | 7.3 | 9.7 | 6.5 | 6.1 | 7.1 | 4.7 | 3.8 | 1.5 | 1.3 | 1.2 | — | 1.5 | 4.6 | 16.9 | 21.3 | 20.1 | 300 | (7.0) | 20.3 |
| Castrol India (a) | 544 | SELL | 134,619 | 3,044 | 247 | 19.8 | 22.4 | 23.2 | 28.5 | 13.1 | 3.5 | 27.5 | 24.3 | 23.5 | 17.7 | 15.9 | 15.4 | 26.1 | 23.3 | 21.4 | 2.8 | 3.1 | 3.3 | 100.2 | 101.2 | 94.9 | 420 | (22.9) | 2.8 |
| GAIL (India) | 461 | ADD | 585,086 | 13,232 | 1,268 | 28.1 | 39.9 | 41.5 | 13.4 | 42.2 | 3.9 | 16.4 | 11.6 | 11.1 | 10.3 | 8.4 | 7.7 | 2.8 | 2.3 | 2.0 | 1.6 | 2.4 | 2.5 | 17.4 | 21.1 | 18.5 | 570 | 23.6 | 10.4 |
| GSPL | 104 | REDUCE | 58,621 | 1,326 | 563 | 9.0 | 8.1 | 9.0 | 23.1 | (10.3) | 11.9 | 11.6 | 12.9 | 11.5 | 7.3 | 7.5 | 6.9 | 2.6 | 2.2 | 1.9 | 1.0 | 1.5 | 2.6 | 25.5 | 18.2 | 17.4 | 92 | (11.7) | 4.2 |
| Hindustan Petroleum | 387 | ADD | 131,044 | 2,964 | 339 | 45.7 | 32.5 | 43.5 | (11.4) | (28.8) | 33.9 | 8.5 | 11.9 | 8.9 | 3.3 | 3.7 | 3.0 | 0.8 | 0.8 | 0.7 | 3.6 | 2.6 | 3.5 | 10.1 | 6.5 | 8.1 | 500 | 29.3 | 9.0 |
| Indian Oil Corporation | 319 | ADD | 775,366 | 17,535 | 2,428 | 31.8 | 31.8 | 36.9 | (35.4) | 0.2 | 16.0 | 10.1 | 10.0 | 8.7 | 8.0 | 7.3 | 5.7 | 1.3 | 1.2 | 1.1 | 3.0 | 3.0 | 3.5 | 12.9 | 12.0 | 12.8 | 435 | 36.2 | 5.3 |
| Oil India | 1,264 | BUY | 304,031 | 6,876 | 240 | 120.1 | 187.1 | 191.4 | 4.3 | 55.8 | 2.3 | 10.5 | 6.8 | 6.6 | 4.3 | 2.7 | 2.3 | 1.8 | 1.5 | 1.3 | 3.0 | 4.6 | 4.7 | 16.2 | 21.6 | 19.2 | 1,760 | 39.2 | 2.2 |
| Oil & Natural Gas Corporation | 277 | BUY | 2,368,176 | 53,557 | 8,556 | 25.2 | 39.8 | 40.0 | 9.9 | 57.8 | 0.4 | 11.0 | 7.0 | 6.9 | 4.2 | 3.1 | 2.7 | 1.6 | 1.4 | 1.2 | 3.2 | 4.5 | 4.7 | 14.7 | 20.6 | 18.0 | 370 | 33.7 | 33.2 |
| Petronet LNG | 172 | SELL | 129,000 | 2,917 | 750 | 8.1 | 11.5 | 11.4 | 50.3 | 41.3 | (0.7) | 21.2 | 15.0 | 15.1 | 12.2 | 9.8 | 9.9 | 4.3 | 3.5 | 2.9 | 1.2 | 1.7 | 1.7 | 20.9 | 24.6 | 20.2 | 125 | (27.3) | 9.0 |
| Reliance Industries | 872 | ADD | 2,597,942 | 58,754 | 2,981 | 62.0 | 67.4 | 74.9 | 24.8 | 8.8 | 11.0 | 14.1 | 12.9 | 11.6 | 7.6 | 6.9 | 5.9 | 1.6 | 1.4 | 1.3 | 0.9 | 1.0 | 1.1 | 13.0 | 12.7 | 12.6 | 1,045 | 19.9 | 88.7 |
| Energy | | Cautious | 7,958,570 | 179,987 | | | | | 12.6 | 29.9 | 6.5 | 11.8 | 9.1 | 8.5 | 6.3 | 5.1 | 4.4 | 1.6 | 1.4 | 1.3 | 2.0 | 2.7 | 3.1 | 14.0 | 16.0 | 15.2 | | | |
| Industrials | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| ABB | 880 | SELL | 186,479 | 4,217 | 212 | 3.0 | 21.1 | 27.3 | (82.2) | 606.1 | 29.6 | 294.9 | 41.8 | 32.2 | 215.4 | 28.2 | 21.1 | 7.7 | 6.7 | 5.7 | 0.2 | 0.4 | 0.4 | 2.6 | 17.1 | 19.1 | 700 | (20.5) | 2.0 |
| BGR Energy Systems | 449 | REDUCE | 32,366 | 732 | 72 | 44.8 | 45.8 | 46.9 | 60.0 | 2.2 | 2.6 | 10.0 | 9.8 | 9.6 | 6.4 | 5.8 | 5.3 | 3.4 | 2.7 | 2.2 | 2.0 | 2.0 | 2.1 | 39.0 | 30.6 | 25.4 | 470 | 4.8 | 5.2 |
| Bharat Electronics | 1,735 | ADD | 138,820 | 3,139 | 80 | 102.9 | 120.8 | 133.9 | 7.0 | 17.4 | 10.8 | 16.9 | 14.4 | 13.0 | 10.6 | 7.8 | 6.7 | 2.7 | 2.4 | 2.1 | 1.4 | 1.4 | 1.4 | 17.2 | 17.7 | 17.2 | 1,850 | 6.6 | 1.3 |
| Bharat Heavy Electricals | 1,904 | REDUCE | 931,875 | 21,075 | 490 | 122.8 | 134.6 | 150.1 | 39.7 | 9.6 | 11.5 | 15.5 | 14.1 | 12.7 | 10.4 | 9.3 | 7.9 | 4.6 | 3.7 | 3.0 | 1.4 | 1.5 | 1.7 | 33.3 | 29.1 | 26.4 | 2,100 | 10.3 | 31.1 |
| Crompton Greaves | 174 | BUY | 111,910 | 2,531 | 642 | 14.3 | 10.6 | 13.5 | 11.5 | (25.8) | 26.7 | 12.2 | 16.4 | 13.0 | 8.0 | 9.2 | 7.0 | 3.4 | 2.9 | 2.4 | 1.4 | 0.9 | 1.0 | 31.7 | 19.1 | 20.5 | 210 | 20.4 | 16.8 |
| Larsen & Toubro | 1,778 | ADD | 1,076,227 | 24,339 | 605 | 69.3 | 84.1 | 102.9 | 19.5 | 21.4 | 22.4 | 25.7 | 21.1 | 17.3 | 17.0 | 12.4 | 10.4 | 4.1 | 3.4 | 2.9 | 0.7 | 0.8 | 0.8 | 17.2 | 17.4 | 17.9 | 1,875 | 5.4 | 63.9 |
| Maharashtra Seamless | 378 | ADD | 26,660 | 603 | 71 | 46.6 | 42.4 | 47.2 | 20.6 | (9.0) | 11.4 | 8.1 | 8.9 | 8.0 | 4.1 | 4.3 | 3.5 | 1.0 | 1.0 | 0.9 | 2.2 | 2.2 | 2.5 | 13.4 | 11.2 | 11.6 | 418 | 10.6 | 0.2 |
| Siemens | 943 | REDUCE | 317,959 | 7,191 | 337 | 22.4 | 31.7 | 33.6 | 39.5 | 41.3 | 5.9 | 42.0 | 29.7 | 28.1 | 25.0 | 19.1 | 17.7 | 9.8 | 7.8 | 6.4 | 0.5 | 0.7 | 0.7 | 25.2 | 29.3 | 25.2 | 860 | (8.8) | 6.6 |
| Suzlon Energy | 53 | REDUCE | 83,830 | 1,896 | 1,594 | (6.0) | (0.0) | 4.6 | (2.8) | (99.9) | (62,927.5) | (8.8) | (7,228.3) | 11.5 | 30.7 | 10.0 | 6.6 | 1.3 | 1.3 | 1.2 | — | — | 0.4 | (14.4) | (0.0) | 11.1 | 55 | 4.6 | 20.2 |
| Tecpro Systems | 288 | BUY | 14,534 | 329 | 50 | 27.0 | 31.0 | 36.5 | | | | | | | | | | | | | | | | | | | | | |

Kotak Institutional Equities: Valuation summary of key Indian companies

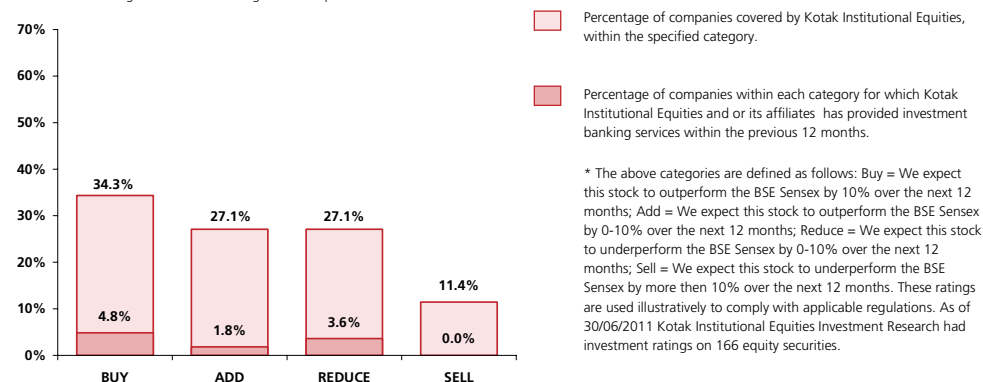
| | 26-Jul-11 | | Mkt cap. | | shares | EPS (Rs) | | | EPS growth (%) | | | PER (X) | | | EV/EBITDA (X) | | | Price/BV (X) | | | Dividend yield (%) | | | RoE (%) | | | Target | Upside | ADVT-3mo |
|--------------------------------------|------------|------------|-----------|-----------|--------|----------|-------|-------|----------------|---------|---------|---------|---------|-------|---------------|-------|-------|--------------|-------|-------|--------------------|-------|-------|---------|-------|-------|------------|--------|-----------|
| Company | Price (Rs) | Rating | (Rs mn) | (US\$ mn) | (mn) | 2011E | 2012E | 2013E | 2011E | 2012E | 2013E | 2011E | 2012E | 2013E | 2011E | 2012E | 2013E | 2011E | 2012E | 2013E | 2011E | 2012E | 2013E | 2011E | 2012E | 2013E | price (Rs) | (%) | (US\$ mn) |
| Media | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| DB Corp | 242 | BUY | 44,280 | 1,001 | 183 | 14.1 | 14.2 | 17.1 | 32.7 | 0.6 | 20.3 | 17.1 | 17.0 | 14.2 | 11.1 | 10.0 | 8.4 | 5.3 | 4.6 | 4.2 | 1.7 | 2.5 | 4.1 | 35.0 | 29.1 | 31.0 | 350 | 44.9 | 0.4 |
| DishTV | 83 | ADD | 88,579 | 2,003 | 1,062 | (1.8) | 0.0 | 1.3 | (27.5) | (101.9) | 3,944.0 | (46.6) | 2,518.0 | 62.3 | 41.0 | 18.8 | 12.7 | 42.1 | 41.4 | 24.9 | — | — | — | (62.3) | 1.7 | 49.9 | 100 | 19.9 | 7.9 |
| Eros International | 207 | BUY | 19,174 | 434 | 93 | 12.7 | 16.2 | 20.3 | 31.4 | 28.1 | 24.7 | 16.3 | 12.7 | 10.2 | 12.0 | 9.5 | 7.1 | 2.7 | 2.2 | 1.8 | — | — | — | 25.0 | 19.4 | 19.7 | 230 | 11.2 | 1.4 |
| Hindustan Media Ventures | 134 | BUY | 9,848 | 223 | 73 | 7.3 | 9.0 | 12.1 | 198.7 | 22.8 | 35.0 | 18.3 | 14.9 | 11.1 | 8.8 | 7.7 | 5.6 | 2.4 | 2.1 | 1.8 | — | — | 2.2 | 22.3 | 15.1 | 17.7 | 220 | 63.9 | 0.2 |
| HT Media | 165 | ADD | 38,763 | 877 | 235 | 7.7 | 8.9 | 11.0 | 26.3 | 15.3 | 23.6 | 21.4 | 18.6 | 15.0 | 10.3 | 8.7 | 6.7 | 2.8 | 2.6 | 2.4 | 1.2 | 2.4 | 3.6 | 15.0 | 14.4 | 16.6 | 190 | 15.2 | 0.3 |
| Jagran Prakashan | 117 | BUY | 35,370 | 800 | 301 | 6.8 | 7.6 | 8.9 | 17.2 | 11.1 | 17.1 | 17.2 | 15.4 | 13.2 | 9.8 | 8.9 | 7.5 | 5.1 | 4.5 | 4.0 | 3.0 | 3.4 | 4.3 | 31.5 | 30.9 | 32.3 | 170 | 44.7 | 0.4 |
| Sun TV Network | 317 | ADD | 124,785 | 2,822 | 394 | 19.6 | 22.5 | 26.7 | 48.5 | 14.8 | 18.8 | 16.2 | 14.1 | 11.8 | 9.7 | 8.3 | 6.9 | 5.2 | 4.5 | 4.0 | 2.8 | 3.8 | 5.1 | 36.6 | 35.9 | 37.6 | 480 | 51.6 | 26.6 |
| Zee Entertainment Enterprises | 133 | BUY | 130,416 | 2,949 | 978 | 5.8 | 6.7 | 8.2 | 9.1 | 15.6 | 22.6 | 23.0 | 19.9 | 16.2 | 15.6 | 13.2 | 10.5 | 3.1 | 3.0 | 2.9 | 1.0 | 1.1 | 1.3 | 14.0 | 15.6 | 18.6 | 180 | 35.0 | 6.8 |
| Media | | Neutral | 491,216 | 11,109 | | | | | 50.5 | 25.1 | 26.6 | 25.0 | 20.0 | 15.8 | 13.4 | 10.9 | 8.7 | 4.5 | 4.1 | 3.8 | 1.4 | 1.9 | 2.6 | 18.1 | 20.7 | 23.9 | | | |
| Metals & Mining | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Coal India | 374 | BUY | 2,362,004 | 53,418 | 6,316 | 17.3 | 24.5 | 28.6 | 13.6 | 41.7 | 16.8 | 21.6 | 15.3 | 13.1 | 12.9 | 10.0 | 8.2 | 6.8 | 5.3 | 4.2 | 1.4 | 2.0 | 2.3 | 35.1 | 38.9 | 35.8 | 460 | 23.0 | 38.0 |
| Hindalco Industries | 178 | ADD | 340,405 | 7,698 | 1,914 | 12.8 | 18.2 | 18.6 | (36.0) | 42.7 | 2.1 | 13.9 | 9.7 | 9.6 | 7.4 | 6.8 | 7.1 | 1.2 | 1.1 | 1.0 | 0.8 | 0.8 | 0.8 | 9.7 | 11.4 | 10.5 | 225 | 26.5 | 28.8 |
| Hindustan Zinc | 144 | BUY | 609,034 | 13,774 | 4,225 | 11.6 | 13.8 | 15.9 | 21.8 | 18.8 | 14.9 | 12.4 | 10.4 | 9.1 | 8.4 | 6.0 | 4.5 | 2.6 | 2.1 | 1.7 | 0.7 | 0.7 | 0.7 | 24.3 | 23.2 | 21.7 | 170 | 17.9 | 3.7 |
| Jindal Steel and Power | 630 | REDUCE | 588,329 | 13,305 | 934 | 40.2 | 51.3 | 58.6 | 5.1 | 27.6 | 14.2 | 15.7 | 12.3 | 10.8 | 11.3 | 9.0 | 8.4 | 3.9 | 2.9 | 2.3 | 0.3 | 0.3 | 0.3 | 30.8 | 29.3 | 25.7 | 700 | 11.2 | 14.9 |
| JSW Steel | 870 | REDUCE | 216,004 | 4,885 | 248 | 78.6 | 87.4 | 113.7 | (2.2) | 11.2 | 30.0 | 11.1 | 10.0 | 7.7 | 7.8 | 6.3 | 5.6 | 1.2 | 0.9 | 0.8 | 1.3 | 1.1 | 1.1 | 11.9 | 10.3 | 11.4 | 990 | 13.8 | 20.1 |
| National Aluminium Co. | 79 | SELL | 203,344 | 4,599 | 2,577 | 4.1 | 5.0 | 5.3 | 36.3 | 20.5 | 6.0 | 19.0 | 15.8 | 14.9 | 10.0 | 7.9 | 7.1 | 1.8 | 1.7 | 1.6 | 1.9 | 1.9 | 1.9 | 9.9 | 11.1 | 11.0 | 76 | (3.7) | 0.6 |
| Sesa Goa | 280 | REDUCE | 250,247 | 5,659 | 895 | 47.0 | 43.2 | 41.7 | 59.8 | (8.0) | (3.4) | 6.0 | 6.5 | 6.7 | 4.9 | 4.7 | 4.2 | 1.9 | 1.5 | 1.2 | 1.4 | 1.4 | 1.5 | 36.8 | 23.9 | 17.7 | 295 | 5.5 | 15.0 |
| Sterlite Industries | 168 | BUY | 564,850 | 12,774 | 3,361 | 15.2 | 18.0 | 20.7 | 26.2 | 18.8 | 15.1 | 11.1 | 9.3 | 8.1 | 7.2 | 5.1 | 4.3 | 1.4 | 1.2 | 1.1 | 0.7 | 0.7 | 0.7 | 13.0 | 13.7 | 13.9 | 205 | 22.0 | 17.5 |
| Tata Steel | 583 | BUY | 566,672 | 12,816 | 971 | 76.0 | 70.8 | 85.8 | (2,278.5) | (6.9) | 21.2 | 7.7 | 8.2 | 6.8 | 6.7 | 6.2 | 5.3 | 1.6 | 1.4 | 1.2 | 2.0 | — | — | 24.9 | 17.8 | 18.4 | 750 | 28.6 | 47.1 |
| Metals & Mining | | Attractive | 5,700,889 | 128,928 | | | | | 39.3 | 20.2 | 14.4 | 13.7 | 11.4 | 10.0 | 8.7 | 7.1 | 6.2 | 2.6 | 2.1 | 1.8 | 1.2 | 1.2 | 1.3 | 18.7 | 18.7 | 18.1 | | | |
| Pharmaceutical | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Apollo Hospitals | 516 | BUY | 68,243 | 1,543 | 132 | 13.9 | 17.6 | 21.8 | 27.0 | 26.9 | 23.5 | 37.1 | 29.2 | 23.7 | 17.0 | 13.3 | 11.2 | 3.7 | 3.2 | 2.8 | — | — | — | 10.0 | 11.4 | 12.2 | 565 | 9.5 | 1.0 |
| Biocon | 363 | BUY | 72,660 | 1,643 | 200 | 18.4 | 19.4 | 21.4 | 23.9 | 5.6 | 10.3 | 19.8 | 18.7 | 17.0 | 11.4 | 10.9 | 9.8 | 3.5 | 3.1 | 2.8 | — | — | — | 19.4 | 17.9 | 17.4 | 445 | 22.5 | 3.9 |
| Cipla | 312 | REDUCE | 250,271 | 5,660 | 803 | 12.1 | 16.3 | 18.8 | (12.0) | 35.4 | 15.4 | 25.9 | 19.1 | 16.6 | 20.9 | 14.9 | 12.4 | 3.8 | 3.2 | 2.8 | 0.8 | 0.8 | 0.8 | 15.4 | 18.2 | — | 330 | 5.9 | 8.8 |
| Cadila Healthcare | 895 | ADD | 183,189 | 4,143 | 205 | 34.7 | 41.2 | 49.7 | 40.6 | 18.8 | 20.5 | 25.8 | 21.7 | 18.0 | 22.2 | 17.7 | 13.8 | 8.4 | 6.5 | 5.1 | 0.7 | 0.9 | 1.1 | 37.5 | 33.9 | 31.8 | 1,090 | 21.8 | 2.6 |
| Dishman Pharma & chemicals | 90 | SELL | 7,344 | 166 | 81 | 9.8 | 8.0 | 9.4 | (31.8) | (18.7) | 17.2 | 9.2 | 11.3 | 9.6 | 9.6 | 7.4 | 6.6 | 0.8 | 0.8 | 0.7 | — | — | — | 9.6 | 7.2 | 7.9 | 95 | 5.2 | 0.2 |
| Divi's Laboratories | 825 | BUY | 109,373 | 2,474 | 133 | 32.4 | 40.3 | 46.2 | 25.7 | 24.4 | 14.7 | 25.5 | 20.5 | 17.9 | 20.9 | 15.5 | 13.2 | 6.1 | 5.1 | 4.3 | — | — | — | 25.9 | 27.1 | 26.2 | 900 | 9.1 | 6.1 |
| GlaxoSmithkline Pharmaceuticals (a) | 2,330 | REDUCE | 197,316 | 4,462 | 85 | 68.3 | 80.2 | 91.8 | 15.5 | 17.5 | 14.4 | 34.1 | 29.0 | 25.4 | 23.0 | 19.8 | 16.8 | 10.1 | 9.2 | 8.4 | 1.7 | 2.1 | 2.4 | 30.9 | 33.3 | 34.7 | 2,300 | (1.3) | 1.2 |
| Glenmark Pharmaceuticals | 338 | REDUCE | 91,171 | 2,062 | 270 | 17.0 | 18.4 | 24.3 | 33.5 | 8.7 | 32.1 | 19.9 | 18.3 | 13.9 | 21.9 | 15.6 | 12.6 | 4.5 | 3.7 | 3.0 | — | — | — | 20.8 | 22.0 | 23.6 | 330 | (2.3) | 5.4 |
| Jubilant Life Sciences | 218 | REDUCE | 34,704 | 785 | 159 | 14.4 | 16.4 | 19.3 | (45.6) | 13.7 | 17.4 | 15.1 | 13.3 | 11.3 | 11.6 | 9.5 | 8.7 | 1.6 | 1.4 | 1.3 | 0.9 | 1.1 | 1.6 | 12.3 | 11.5 | 12.2 | 195 | (10.5) | 1.0 |
| Lupin | 464 | ADD | 207,014 | 4,682 | 446 | 19.3 | 20.4 | 25.2 | 26.1 | 5.8 | 23.3 | 24.0 | 22.7 | 18.4 | 20.1 | 16.7 | 13.6 | 6.2 | 5.1 | 4.1 | 0.6 | 0.8 | 0.9 | 29.5 | 25.0 | 25.2 | 500 | 7.8 | 11.0 |
| Ranbaxy Laboratories | 540 | SELL | 227,404 | 5,143 | 421 | 40.8 | 18.8 | 21.9 | 478.2 | (54.0) | 16.6 | 13.2 | 28.8 | 24.7 | 16.2 | 20.0 | 16.8 | 4.0 | 3.5 | 3.0 | — | — | — | 34.5 | 13.2 | 13.4 | 450 | (16.7) | 11.1 |
| Sun Pharmaceuticals | 516 | ADD | 534,007 | 12,077 | 1,036 | 17.5 | 19.5 | 22.7 | 34.4 | 10.9 | 16.6 | 29.4 | 26.5 | 22.7 | 25.1 | 21.3 | 17.6 | 5.2 | 4.4 | 3.8 | 0.7 | 0.8 | 1.0 | 22.9 | 19.6 | 19.6 | 515 | (0.1) | 9.7 |
| Pharmaceuticals | | Cautious | 2,334,058 | 52,786 | | | | | 26.0 | 7.4 | 3.5 | 25.1 | 23.4 | 22.6 | 19.0 | 15.4 | 15.0 | 3.9 | 3.4 | 3.2 | 0.6 | 0.7 | 0.7 | 15.6 | 14.4 | 14.1 | | | |
| Property | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| DLF | 234 | ADD | 401,210 | 9,074 | 1,715 | 9.1 | 11.9 | 15.7 | (14.5) | 31.3 | 31.8 | 25.8 | 19.6 | 14.9 | 16.7 | 13.2 | 10.0 | 1.5 | 1.4 | 1.3 | 0.8 | 1.1 | 1.3 | 5.4 | 7.5 | 9.2 | 270 | 15.4 | 33.6 |
| Housing Development & Infrastructure | 152 | ADD | 67,143 | 1,518 | 441 | 19.8 | 28.9 | 34.6 | 24.3 | 46.0 | 19.7 | 7.7 | 5.3 | 4.4 | 9.8 | 5.0 | 4.1 | 0.7 | 0.6 | 0.5 | — | 0.7 | 1.0 | 10.0 | 12.4 | 12.8 | 190 | 24.8 | 20.3 |
| Indiabulls Real Estate | 110 | RS | 44,186 | 999 | 402 | 4.0 | 8.5 | 15.4 | (1,095.5) | 114.1 | 81.5 | 27.7 | 12.9 | 7.1 | 17.7 | 14.4 | 6.4 | 0.4 | 0.4 | 0.3 | — | — | 0.6 | 1.4 | 2.9 | 5.0 | — | — | 7.5 |
| Mahindra Life Space Developer | 366 | ADD | 14,946 | 338 | 41 | 24.9 | 30.8 | 37.5 | 30.2 | 23.7 | 21.6 | 14.7 | 11.9 | 9.8 | 11.3 | 8.2 | 6.2 | 1.5 | 1.3 | 1.2 | 1.4 | 1.2 | 1.4 | 10.4 | 11.6 | 12.7 | 470 | 28.3 | 0.3 |
| Oberoi Realty | 240 | BUY | 79,122 | 1,789 | 330 | 15.7 | 20.0 | 28.0 | 14.7 | 27.6 | 39.7 | 15.3 | 12.0 | 8.6 | 11.3 | 7.9 | 4.8 | 2.4 | 2.0 | 1.7 | 0.4 | 0.6 | 1.0 | 19.9 | 18.2 | 21.3 | 315 | 31.3 | 0.2 |
| Phoenix Mills | 216 | BUY | 31,287 | 708 | 145 | 6.3 | 7.5 | 10.7 | 52.5 | 18.4 | 43.8 | 34.3 | 28.9 | 20.1 | 25.0 | 20.7 | 15.3 | 1.9 | 1.9 | 1.7 | 0.7 | 0.9 | 0.9 | 5.8 | 6.6 | 8.9 | 300 | 38.9 | 0.4 |
| Puravankara Projects | 78 | REDUCE | 16,722 | 378 | 213 | 5.5 | 9.1 | 11.2 | (18.9) | 65.2 | 22.4 | 14.2 | 8.6 | 7.0 | 18.8 | 9.5 | 7.8 | 1.1 | 1.0 | 0.9 | 1.3 | 1.9 | 2.6 | 8.0 | 12.1 | 13.4 | 110 | 40.4 | 0.2 |
| Sobha Developers | 268 | BUY | 26,276 | 594 | 98 | 18.7 | 23.4 | 27.7 | 33.0 | 25.0 | 18.5 | 14.3 | 11.5 | 9.7 | 12.1 | 9.4 | 7.4 | 1.4 | 1.3 | 1.1 | 1.1 | 1.3 | — | 10.1 | 11.6 | 12.3 | 385 | 43.7 | 1.3 |
| Unitech | 34 | RS | 90,132 | 2,038 | 2,616 | 2.3 | 3.9 | 5.3 | (23.4) | 69.1 | 35.2 | 14.8 | 8.8 | 6.5 | 15.6 | 8.9 | 5.9 | 0.8 | 0.7 | 0.6 | — | — | — | 5.4 | 8.4 | 10.3 | — | — | 19.6 |
| Property | | Cautious | 771,024 | 17,437 | | | | | 5.1 | 44.8 | 33.0 | 18.6 | 12.9 | 9.7 | 15.1 | 10.4 | 7.6 | 1.1 | 1.0 | 0.9 | 0.6 | 0.8 | 1.0 | 6.0 | 8.0 | 9.7 | | | |

Kotak Institutional Equities: Valuation summary of key Indian companies

| | 26-Jul-11 | | Mkt cap. | | O/S | EPS (Rs) | | | EPS growth (%) | | | PER (X) | | | EV/EBITDA (X) | | | Price/BV (X) | | | Dividend yield (%) | | | RoE (%) | | | Target | Upside | ADVT-3mo |
|--|------------|------------|------------|-----------|--------|----------|--------|-------|----------------|--------|---------|---------|--------|-------|---------------|-------|-------|--------------|-------|-------|--------------------|-------|-------|---------|--------|-------|--------|--------|-----------|
| Company | Price (Rs) | Rating | (Rs mn) | (US\$ mn) | (mn) | 2011E | 2012E | 2013E | 2011E | 2012E | 2013E | 2011E | 2012E | 2013E | 2011E | 2012E | 2013E | 2011E | 2012E | 2013E | 2011E | 2012E | 2013E | 2011E | 2012E | 2013E | (Rs) | (%) | (US\$ mn) |
| Sugar | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Bajaj Hindustan | 72 | REDUCE | 16,422 | 371 | 228 | (8.0) | (1.2) | 2.1 | (348.8) | (85.6) | (282.4) | (9.0) | (62.1) | 34.1 | 18.7 | 7.7 | 6.5 | 0.6 | 0.5 | 0.5 | 0.8 | 0.8 | 0.8 | (6.0) | (0.9) | 1.6 | 65 | (9.6) | 1.6 |
| Balrampur Chini Mills | 62 | BUY | 15,384 | 348 | 247 | 6.7 | 4.0 | 7.7 | 111.0 | (40.5) | 94.0 | 9.3 | 15.6 | 8.1 | 11.8 | 9.5 | 6.4 | 1.0 | 1.0 | 0.9 | 1.2 | 1.2 | 1.2 | 11.6 | 6.5 | 11.9 | 80 | 28.4 | 1.7 |
| Shree Renuka Sugars | 75 | BUY | 49,977 | 1,130 | 670 | 10.5 | 4.3 | 5.9 | 214.7 | (59.5) | 37.9 | 7.1 | 17.5 | 12.7 | 9.3 | 7.1 | 5.9 | 2.0 | 1.9 | 1.7 | 1.3 | 1.3 | 1.3 | 34.4 | 11.1 | 13.8 | 75 | 0.6 | 8.4 |
| Sugar | | Cautious | 81,783 | 1,850 | | | | | 68.0 | (41.5) | 77.0 | 13.4 | 22.9 | 12.9 | 11.7 | 7.6 | 6.1 | 1.2 | 1.1 | 1.0 | 1.2 | 1.2 | 1.2 | 8.8 | 4.9 | 8.1 | | | |
| Technology | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HCL Technologies | 515 | REDUCE | 363,181 | 8,214 | 705 | 23.1 | 30.8 | 36.4 | 31.9 | 33.4 | 18.1 | 22.3 | 16.7 | 14.2 | 13.6 | 10.4 | 8.7 | 4.6 | 3.9 | 3.3 | 1.4 | 1.6 | 1.6 | 22.1 | 25.4 | 25.5 | 490 | (4.9) | 7.7 |
| Hexaware Technologies | 80 | BUY | 23,164 | 524 | 291 | 3.0 | 6.6 | 7.4 | (36.5) | 122.6 | 11.3 | 26.8 | 12.0 | 10.8 | 21.1 | 9.6 | 7.8 | 2.4 | 2.1 | 1.8 | 1.9 | 1.6 | 1.9 | 9.4 | 18.5 | 17.9 | 80 | 0.5 | 2.2 |
| Infosys Technologies | 2,802 | BUY | 1,608,233 | 36,371 | 574 | 119.7 | 140.2 | 168.9 | 10.5 | 17.1 | 20.5 | 23.4 | 20.0 | 16.6 | 16.0 | 13.6 | 11.0 | 6.2 | 5.2 | 4.3 | 2.1 | 1.6 | 1.9 | 28.0 | 28.2 | 28.4 | 3,400 | 21.4 | 79.9 |
| Mahindra Satyam | 87 | REDUCE | 101,783 | 2,302 | 1,176 | 4.2 | 4.9 | 6.1 | 68.9 | 17.0 | 23.2 | 20.6 | 17.6 | 14.3 | 16.4 | 9.4 | 7.3 | 5.9 | 4.4 | 3.4 | — | — | — | 27.6 | 28.8 | 26.9 | 80 | (7.6) | 14.4 |
| Mindtree | 414 | ADD | 17,049 | 386 | 41 | 24.7 | 36.4 | 42.6 | (52.7) | 47.6 | 16.9 | 16.8 | 11.4 | 9.7 | 9.4 | 7.1 | 5.4 | 2.2 | 1.9 | 1.7 | 0.6 | 0.9 | 3.1 | 14.4 | 17.8 | 18.2 | 430 | 3.8 | 1.6 |
| Mphasis BFL | 432 | SELL | 91,032 | 2,059 | 211 | 51.8 | 36.6 | 36.0 | 18.8 | (29.2) | (1.7) | 8.3 | 11.8 | 12.0 | 7.1 | 8.9 | 7.8 | 2.8 | 2.3 | 2.0 | 0.9 | 1.0 | 1.2 | 38.6 | 21.3 | 17.7 | 360 | (16.7) | 3.1 |
| Patni Computer Systems | 322 | ADD | 42,951 | 971 | 133 | 42.6 | 26.0 | 30.8 | 16.5 | (38.9) | 18.2 | 7.6 | 12.4 | 10.5 | 4.3 | 4.8 | 3.0 | 1.4 | 1.3 | 1.2 | 20.5 | 1.6 | 1.9 | 18.4 | 8.2 | 11.5 | 370 | 14.7 | 4.2 |
| Polaris Software Lab | 175 | SELL | 17,408 | 394 | 100 | 19.3 | 19.5 | 22.3 | 25.7 | 0.9 | 14.2 | 9.0 | 9.0 | 7.8 | 5.8 | 4.5 | 3.5 | 1.7 | 1.4 | 1.3 | 2.1 | 2.2 | 2.3 | 20.2 | 17.3 | 17.1 | 175 | 0.2 | 3.0 |
| TCS | 1,145 | BUY | 2,240,309 | 50,666 | 1,957 | 44.5 | 54.5 | 64.4 | 26.8 | 22.5 | 18.1 | 25.7 | 21.0 | 17.8 | 19.4 | 15.4 | 12.6 | 8.9 | 7.2 | 6.0 | 1.6 | 1.9 | 2.3 | 37.8 | 38.0 | 36.8 | 1,350 | 17.9 | 37.8 |
| Tech Mahindra | 776 | REDUCE | 97,833 | 2,213 | 126 | 48.8 | 66.3 | 70.8 | (25.2) | 36.0 | 6.7 | 15.9 | 11.7 | 11.0 | 10.7 | 10.3 | 9.7 | 2.9 | 2.5 | 2.2 | 0.5 | 0.5 | 1.3 | 20.5 | 23.9 | 22.3 | 665 | (14.4) | 3.7 |
| Wipro | 410 | ADD | 1,007,244 | 22,779 | 2,454 | 21.6 | 22.9 | 26.3 | 14.5 | 5.9 | 15.1 | 19.0 | 18.0 | 15.6 | 14.1 | 12.4 | 10.5 | 4.2 | 3.6 | 3.0 | 1.1 | 1.2 | 1.4 | 24.3 | 21.4 | 20.9 | 450 | 9.6 | 10.8 |
| Technology | | Attractive | 5,610,185 | 126,877 | | | | | 17.1 | 15.2 | 17.4 | 21.8 | 18.9 | 16.1 | 15.8 | 13.2 | 10.9 | 5.8 | 4.8 | 4.0 | 1.7 | 1.6 | 1.9 | 26.4 | 25.4 | 25.1 | | | |
| Telecom | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Bharti Airtel | 425 | SELL | 1,612,461 | 36,467 | 3,798 | 15.9 | 19.7 | 24.5 | (32.6) | 23.9 | 24.1 | 26.7 | 21.5 | 17.3 | 11.1 | 8.6 | 7.0 | 3.3 | 2.9 | 2.5 | — | — | — | 13.3 | 14.3 | 15.3 | 345 | (18.7) | 41.7 |
| IDEA | 90 | REDUCE | 297,792 | 6,735 | 3,303 | 2.7 | 1.6 | 3.1 | (1.0) | (40.1) | 91.5 | 33.3 | 55.7 | 29.1 | 10.7 | 9.3 | 7.4 | 2.4 | 2.3 | 2.1 | — | — | — | 7.6 | 4.4 | 7.9 | 65 | (27.9) | 7.0 |
| MTNL | 46 | SELL | 29,075 | 658 | 630 | (10.4) | (9.1) | (8.4) | (33.7) | (11.9) | (8.1) | (4.4) | (5.0) | (5.5) | (0.4) | (0.5) | (0.6) | 0.3 | 0.3 | 0.3 | — | — | — | (6.1) | (5.7) | (5.5) | 35 | (24.2) | 0.7 |
| Reliance Communications | 102 | SELL | 216,771 | 4,902 | 2,133 | 6.3 | 7.1 | 9.7 | (68.0) | 12.0 | 37.6 | 16.1 | 14.4 | 10.5 | 5.9 | 6.3 | 5.2 | 0.6 | 0.6 | 0.6 | — | — | — | 3.4 | 4.1 | 5.4 | 95 | (6.5) | 15.8 |
| Tata Communications | 226 | REDUCE | 64,296 | 1,454 | 285 | 15.2 | 15.7 | 15.9 | 8.2 | 3.5 | 1.5 | 14.9 | 14.4 | 14.2 | 6.9 | 6.5 | 6.1 | 0.9 | 0.9 | 0.8 | 3.3 | 3.8 | 4.0 | 5.5 | 5.5 | 5.4 | 205 | (9.1) | 1.4 |
| Telecom | | Cautious | 2,220,395 | 50,215 | | | | | (42.4) | 17.1 | 31.0 | 27.6 | 23.6 | 18.0 | 9.8 | 8.3 | 6.8 | 1.9 | 1.8 | 1.6 | 0.1 | 0.1 | 0.1 | 7.0 | 7.6 | 9.1 | | | |
| Utilities | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Adani Power | 114 | REDUCE | 248,738 | 5,625 | 2,180 | 2.4 | 15.2 | 16.8 | 200.4 | 544.8 | 10.5 | 48.5 | 7.5 | 6.8 | 34.0 | 6.6 | 4.8 | 4.0 | 2.6 | 1.9 | — | — | — | 8.5 | 41.6 | 32.0 | 120 | 5.2 | 2.0 |
| CESC | 345 | BUY | 43,153 | 976 | 125 | 37.7 | 42.5 | 51.3 | 9.1 | 12.7 | 20.8 | 9.2 | 8.1 | 6.7 | 6.2 | 6.5 | 6.1 | 0.9 | 0.8 | 0.7 | 1.4 | 1.5 | 1.7 | 10.5 | 10.7 | 11.5 | 440 | 27.4 | 1.6 |
| JSW Energy | 72 | SELL | 118,326 | 2,676 | 1,640 | 5.1 | 6.1 | 5.1 | 12.9 | 19.8 | (17.3) | 14.1 | 11.7 | 14.2 | 13.7 | 7.8 | 6.6 | 2.1 | 1.8 | 1.6 | (1.4) | — | — | 16.1 | 16.3 | 11.7 | 70 | (3.0) | 2.3 |
| Lanco Infratech | 19 | BUY | 42,126 | 953 | 2,223 | 2.0 | 4.0 | 4.6 | (5.8) | 97.6 | 15.9 | 9.4 | 4.8 | 4.1 | 10.0 | 7.7 | 7.0 | 1.1 | 0.8 | 0.7 | — | — | — | 12.2 | 19.6 | 18.3 | 54 | 185.0 | 8.2 |
| NHPC | 25 | BUY | 308,134 | 6,969 | 12,301 | 1.3 | 1.9 | 2.3 | (27.2) | 39.6 | 20.8 | 18.6 | 13.3 | 11.0 | 13.5 | 9.2 | 7.5 | 1.1 | 1.1 | 1.0 | 1.6 | 2.0 | 2.5 | 6.3 | 8.2 | 9.4 | 30 | 19.8 | 2.5 |
| NTPC | 180 | REDUCE | 1,487,070 | 33,631 | 8,245 | 11.0 | 11.9 | 12.7 | 5.3 | 7.4 | 6.8 | 16.3 | 15.2 | 14.2 | 13.5 | 12.3 | 11.5 | 2.2 | 2.0 | 1.8 | 2.1 | 2.0 | 2.1 | 13.7 | 13.5 | 13.3 | 200 | 10.9 | 10.8 |
| Reliance Infrastructure | 576 | BUY | 153,982 | 3,482 | 267 | 58.0 | 66.6 | 73.3 | (6.5) | 14.8 | 10.0 | 9.9 | 8.6 | 7.9 | 10.1 | 5.5 | 4.2 | 0.7 | 0.6 | 0.6 | 1.6 | 1.8 | 2.0 | 6.4 | 10.5 | 11.5 | 975 | 69.4 | 17.3 |
| Reliance Power | 117 | SELL | 328,895 | 7,438 | 2,805 | 2.7 | 3.8 | 3.1 | (5.0) | 40.1 | (17.9) | 43.3 | 30.9 | 37.6 | 251.4 | 106.9 | 17.7 | 2.0 | 1.9 | 1.8 | — | — | — | 4.9 | 6.3 | 4.9 | 110 | (6.2) | 5.8 |
| Tata Power | 1,300 | ADD | 320,897 | 7,257 | 247 | 76.4 | 107.9 | 121.0 | 20.2 | 41.2 | 12.1 | 17.0 | 12.1 | 10.7 | 12.6 | 10.0 | 8.0 | 2.2 | 1.9 | 1.7 | 1.1 | 1.2 | 1.3 | 13.9 | 17.2 | 16.7 | 1,480 | 13.8 | 6.7 |
| Utilities | | Cautious | 3,051,320 | 69,007 | | | | | 5.0 | 35.4 | 8.1 | 17.7 | 13.1 | 12.1 | 15.8 | 11.1 | 9.0 | 1.8 | 1.6 | 1.5 | 1.4 | 1.4 | 1.5 | 10.1 | 12.3 | 12.0 | | | |
| Others | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Carborundum Universal | 310 | BUY | 28,940 | 655 | 93 | 17.8 | 18.0 | 22.1 | 62.9 | 1.3 | 23.1 | 17.5 | 17.2 | 14.0 | 10.9 | 9.9 | 8.2 | 3.5 | 3.0 | 2.6 | 1.2 | 1.2 | 1.5 | 21.4 | 20.0 | 20.9 | 300 | (3.2) | 0.3 |
| Havells India | 369 | REDUCE | 46,048 | 1,041 | 125 | 22.7 | 27.3 | 31.1 | 302.5 | 19.8 | 13.9 | 16.2 | 13.5 | 11.9 | 10.7 | 9.0 | 7.6 | 6.8 | 4.6 | 3.4 | 0.7 | 0.7 | 0.8 | 51.3 | 40.7 | 33.2 | 440 | 19.2 | 4.8 |
| Jaiprakash Associates | 75 | BUY | 165,744 | 3,748 | 2,214 | 5.5 | 5.8 | 5.8 | 214.7 | 5.2 | (0.3) | 13.6 | 12.9 | 13.0 | 11.2 | 9.5 | 9.3 | 1.7 | 1.5 | 1.4 | — | — | — | 13.2 | 12.3 | 11.1 | 135 | 80.4 | 19.5 |
| Jet Airways | 479 | BUY | 41,391 | 936 | 86 | (10.1) | (43.4) | 16.9 | (91.0) | 331 | (139.0) | (47.7) | (11.1) | 28.3 | 10.6 | 11.2 | 8.0 | 2.5 | 3.3 | 2.9 | — | — | — | (5.0) | (11.7) | 10.9 | 650 | 35.6 | 11.6 |
| Sintex | 179 | SELL | 48,810 | 1,104 | 272 | 17.0 | 19.2 | 20.3 | 40.2 | 13.4 | 5.7 | 10.6 | 9.3 | 8.8 | 8.3 | 7.3 | 6.5 | 1.9 | 1.6 | 1.3 | 0.7 | 0.8 | 0.8 | 17.9 | 16.9 | 15.1 | 170 | (5.3) | 6.7 |
| Spicejet | 34 | BUY | 13,722 | 310 | 403 | 2.4 | 3.2 | 4.6 | (4.2) | 32.1 | 41.6 | 14.0 | 10.6 | 7.5 | 9.5 | 11.1 | 7.8 | 4.4 | 3.1 | 2.2 | — | — | — | (653) | 34.4 | 34.4 | 65 | 90.9 | 3.0 |
| Tata Chemicals | 371 | REDUCE | 94,591 | 2,139 | 255 | 26.1 | 32.6 | 38.6 | (1.3) | 25.1 | 18.2 | 14.2 | 11.4 | 9.6 | 8.2 | 6.0 | 5.1 | 1.7 | 1.5 | 1.4 | 2.6 | 3.2 | 4.0 | 16.9 | 18.5 | 19.5 | 380 | 2.3 | 2.7 |
| United Phosphorus | 157 | BUY | 72,386 | 1,637 | 462 | 12.4 | 17.5 | 20.3 | 4.0 | 41.5 | 15.9 | 12.7 | 9.0 | 7.7 | 7.5 | 5.2 | 4.4 | 1.9 | 1.6 | 1.4 | 1.2 | 1.9 | 2.2 | 17.9 | 19.7 | 19.5 | 220 | 40.3 | 3.9 |
| Others | | | 511,633 | 11,571 | | | | | 171.7 | 15.7 | 26.1 | 16.0 | 13.8 | 11.0 | 10.0 | 8.5 | 7.6 | 2.0 | 1.8 | 1.6 | 0.9 | 1.1 | 1.3 | 12.7 | 13.1 | 14.5 | | | |
| KS universe (b) | | | 48,952,568 | 1,107,086 | | | | | 18.3 | 22.4 | 15.4 | 16.6 | 13.6 | 11.8 | 10.5 | 8.6 | 7.4 | 2.6 | 2.2 | 2.0 | 1.4 | 1.6 | 1.8 | 15.5 | 16.5 | 16.6 | | | |
| KS universe (b) ex-Energy | | | 40,993,997 | 927,099 | | | | | 20.1 | 20.2 | 18.2 | 18.1 | 15.0 | 12.7 | 12.4 | 10.2 | 8.6 | 2.9 | 2.5 | 2.2 | 1.3 | 1.4 | 1.6 | 16.0 | 16.7 | 17.1 | | | |
| KS universe (d) ex-Energy & ex-Commodities | | | 34,349,044 | 776,820 | | | | | 18.5 | 19.9 | 19.1 | 19.2 | 16.0 | 13.4 | 13.9 | 11.4 | 9.5 | 3.0 | 2.6 | 2.3 | 1.4 | 1.4 | 1.6 | 15.6 | 16.4 | 17.0 | | | |

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of June 30, 2011

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

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

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

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

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