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New release

Strategy: September 2010 quarter earnings preview

Updates

Energy: A strong rupee has helped so far

Cement: Low on volumes, realizations (and profitability)

News Round-up

- ▶ A tax demand of USD 127 mn has been raised on Mahindra Satyam (SCS IN) for illegally claiming tax credit on fictitious income during 2003-04 to 2008-09. (FNLE)
- ▶ The Govt approved the divestment of its 10% stake Shipping Corp of India (SCI IN) and allowed the company to issue fresh equity of 10% of the paid up capital. (FNLE)
- ▶ Reliance Industries (RIL IN) is finalising a new alliance with engineering and project management partner Bechtel Corporation, as it prepares to enter power sector. (BSTD)
- ▶ The govt. is working on a proposal to open a new overseas borrowing window for Indian corporates enabling them to raise up to USD 1bn annually exclusively for infrastructure projects. (ECNT)
- ▶ Coal India, that has announced major mining plans for the Northeast, will withdraw from Meghalaya after the state govt. declined to renew the cos. mining lease application, for the Simsong coal block. (ECNT)
- ▶ Godrej Properties (GPL IN) has signed a development agreement for a 1.35 acre plot in Chembur. The property which is on the Sion Trombay Highway has development potential of around 1,50,000 sq ft. (ECNT)
- ▶ Five years after the govt of India and the oil ministry has cleared the plans to merge standalone refineries with public sector oil market co, the proposed merge of the Chennai Petro (MRL IN) and the Indian Oil Corp (IOCL IN) has been hanging fire as National Iranian Oil Co (NIOC) has been refusing to bite the share swap bate offered by IOC in return for NIOC's stake in Chennai Petro. (FNLE)
- ▶ ICICI Bank (ICICIB IN) hired three bankers to help it raise as much as USD 1 bn from the bond sale. (FNLE)
- ▶ Nuclear Power Corporation will soon sign an agreement with Uranium Corporation of India to set up a joint venture for the acquisition of mining assets abroad. (BSTD)
- ▶ United Breweries (Holdings) Ltd (UB IN) said its members had given approval for the conversion of loans given by the company to KingFisher Airlines into equity shares. (BSTD)
- ▶ Vedanta bags GMDC (GMDC IN) bauxite mining deal, co. to get 0.5 million tonne of mineral from GMDC. (ECNT)
- ▶ GMDC (GMDC IN) to sell 0.5 mn tones of bauxite to Vedanta. Cost of transporting medium-grade bauxite to Orissa may be prohibitive. (THBL)
- ▶ Shriram Group to spend USD 35.5 mn coke capacity expansion. (THBL)
- ▶ Tata Motors (TTMT IN) is starting open sales of its people's car, the Nano, following the wrapping-up of deliveries to select customers. (THBL)

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

EQUITY MARKETS

India	Change %			
	5-Oct	1-day	1-mo	3-mo
Sensex	20,408	(0.3)	10.0	15.9
Nifty	6,146	(0.2)	10.2	16.2
Global/Regional indices				
Dow Jones	10,945	1.8	4.8	12.3
Nasdaq Composite	2,400	2.4	7.4	14.6
FTSE	5,636	1.4	3.6	13.5
Nikkie	9,629	1.2	3.5	3.1
Hang Seng	23,006	1.6	7.7	14.5
KOSPI	1,904	1.3	6.2	13.0
Value traded – India				
Cash (NSE+BSE)	245		205	190
Derivatives (NSE)	876		653	358
Deri. open interest	1,553		1,681	1,290

Forex/money market

	Change, basis points			
	5-Oct	1-day	1-mo	3-mo
Rs/US\$	44.7	6	(187)	(223)
10yr govt bond, %	7.9	-	(4)	30

Net investment (US\$m)

	4-Oct	MTD	CYTD
FIs	432	440	19,693
MFs	(79)	(4)	(282)

Top movers -3mo basis

Best performers	Change, %			
	5-Oct	1-day	1-mo	3-mo
BOI IN Equity	554.0	3.3	19.3	48.2
TTMT IN Equity	1134.4	(0.4)	9.6	47.7
HNDL IN Equity	203.1	(1.4)	13.5	41.2
SBIN IN Equity	3248.0	(0.4)	13.6	40.4
TATA IN Equity	668.4	(0.2)	16.1	39.1
Worst performers				
FTECH IN Equity	1206.8	0.6	(11.5)	(11.7)
HH IN Equity	1801.1	(0.2)	5.7	(10.6)
IVRC IN Equity	167.1	1.2	4.4	(9.9)
MMTC IN Equity	1355.9	0.3	(0.4)	(9.1)
RNR IN Equity	41.8	5.8	6.0	(8.6)

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NEW RELEASE

BSE-30: 20,408

September 2010 quarter earnings preview. We expect KIE universe earnings to grow 18% yoy led by increases in the earnings of Automobiles, Banking, Industrials, Metals and Pharmaceuticals stocks while Cement, Sugar and Telecom stocks are likely to weigh down earnings. We expect 2QFY11E/3QCY10E earnings of the BSE-30 Index to increase by 24.7% yoy and 5.8% qoq. We note that we have included consolidated interim financials of Tata Motors for the first time and thus, earnings growth is not comparable to prior quarters; we expect Tata Motors to report 140% and 277% yoy growth in EBITDA and reported PAT in 2QFY11E, led by a turnaround in its subsidiary JLR. On an ex-Energy basis, we expect BSE-30 Index net income to grow by 32% yoy and 3.9% qoq.

Earnings of BSE-30 Index likely to grow by 24.7% yoy

Sector-wise earnings of Kotak coverage companies

	Sales growth (%)		EBITDAM (%)			PAT growth (%)	
	yoy	qoq	Sep-09	Jun-10	Sep-10 (E)	yoy	qoq
Automobiles	34.6	2.0	12.2	13.7	13.4	76.8	(3.4)
Banking	31.9	3.8	—	—	—	21.0	2.1
Cement	8.0	(0.9)	32.1	25.6	19.2	(48.3)	(37.6)
Construction	(2.8)	19.3	8.5	9.0	9.6	19.7	174.0
Consumers	15.5	3.8	22.4	21.2	22.4	15.0	9.7
Energy	36.1	11.7	10.7	7.0	9.2	4.3	189.9
Industrials	19.3	20.7	11.8	9.9	12.2	31.1	61.8
Infrastructure	7.5	4.7	34.2	34.1	35.5	0.2	2.9
Media	25.5	3.4	32.8	36.0	34.9	26.4	1.2
Metals	8.6	(1.4)	11.8	22.6	18.7	222.8	(17.4)
Others	22.1	(5.1)	18.0	18.3	19.1	38.1	(5.3)
Pharmaceuticals	15.0	7.4	20.1	22.3	22.1	24.0	(5.9)
Property	42.8	17.0	49.5	43.8	41.9	20.1	16.8
Retail	34.8	23.4	9.4	8.9	10.4	59.7	52.5
Sugar	53.3	(11.1)	17.9	8.8	7.0	(130.6)	(170.4)
Technology	16.0	7.2	26.6	25.5	25.7	12.3	6.2
Telecom	27.5	16.2	35.5	30.7	30.7	(42.4)	9.6
Utilities	13.9	(0.8)	26.5	25.0	26.0	9.8	(3.2)
Kotak coverage	26.7	7.9	14.9	13.6	14.1	18.0	13.7
Kotak coverage ex-Energy	20.1	5.0	17.9	18.6	18.0	21.7	(0.6)
BSE 30 Index	21.6	3.0	19.8	20.0	20.5	24.7	5.8
BSE 30 Index ex-Energy	18.8	4.3	17.5	19.1	19.0	32.0	3.9

Source: Company, Kotak Institutional Equities estimates

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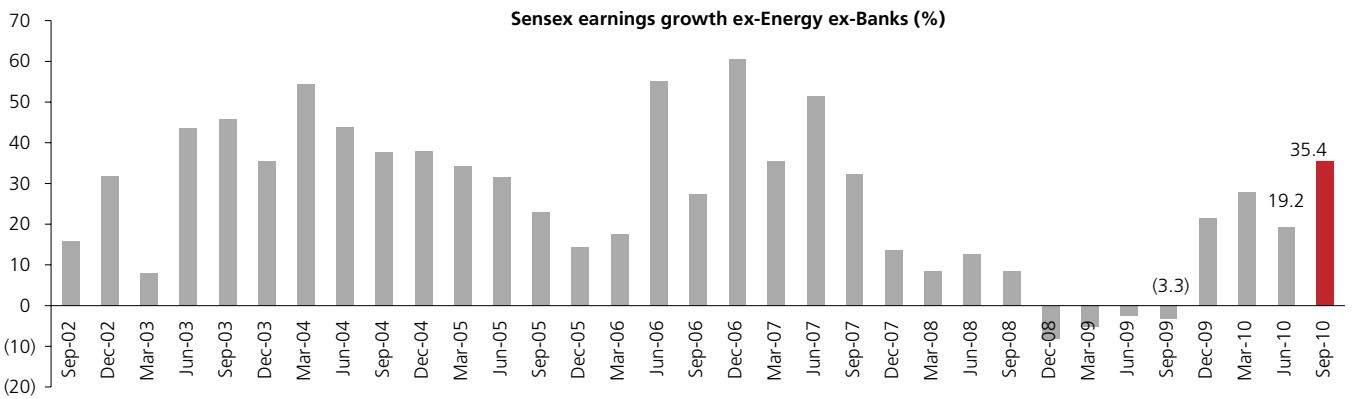
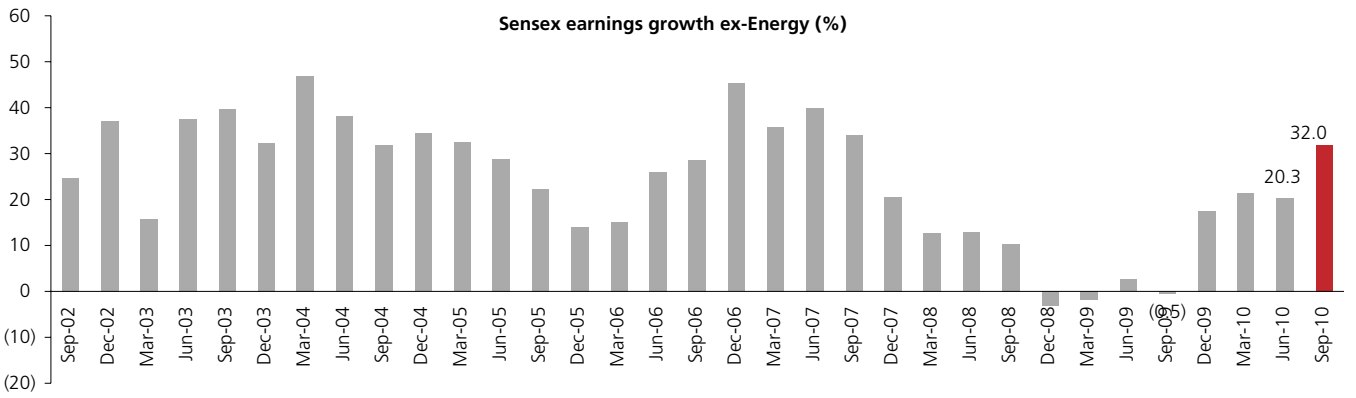
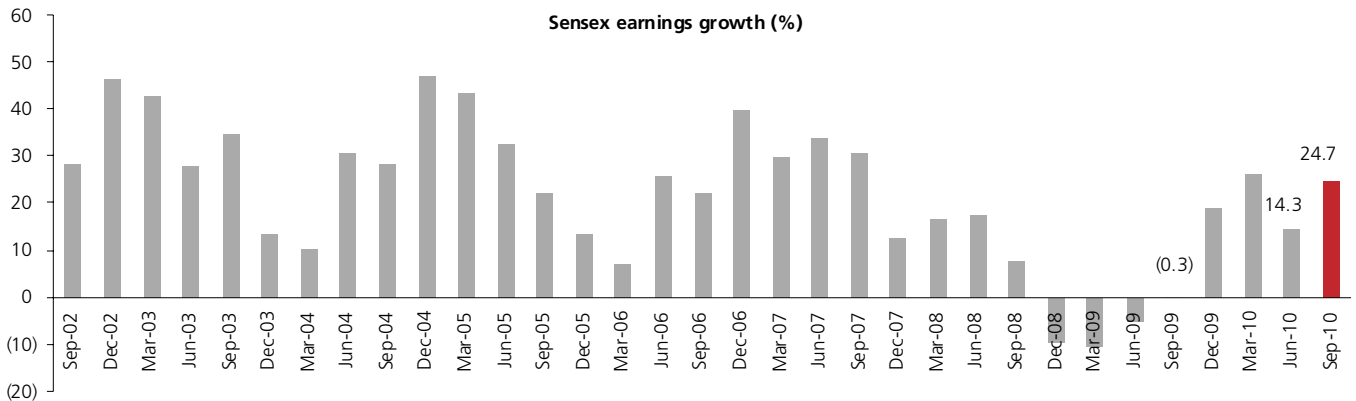
We expect a yoy decline in profits for Cement, Sugar and Telecom stocks

Sector-wise expectations for September 2010 quarter results

	Key points	Key points
Automobiles	We expect most auto companies to show decent earnings growth on a sequential basis on the back of stronger volumes and margins. EBITDA margins for most companies would benefit from the pullback in commodity costs and operating leverage.	Bajaj Auto and Maruti topped peers in sequential improvement in volumes. This and a 100 bps sequential increase in margins should drive good sequential earnings improvement. We have assumed margins will stay flat at 1QFY11 levels for M&M and Tata Motors. There could be upside for both given the price increases they have taken and decline in commodity prices.
Banking	We see overall earnings growth remaining healthy at 21% yoy with private banks growing by 27% and public sector by 19%. Loan book growth may be subdued but margins are likely to remain strong. We believe that most NBFCs will continue to report strong growth traction—core earnings up by 20-25% on the back of strong loan growth. We continue to prefer public sector banks over private sector as valuations appear reasonable at 1.5-1.8X FY2012 book.	NII growth to remain impressive at 33% yoy (3% qoq), with private sector banks likely to grow by 20% yoy mainly due to subdued performance from ICICI Bank and public sector banks likely to grow by 37% yoy. Gross NPLs should rise qoq (debt waiver as well as restructured book slippages continue getting reported) but are unlikely to surprise negatively. Provisions to remain high for public sector banks but decline for private sector.
Cement	Cement prices have come off sharply during the quarter (~Rs20/bag) and the same will reflect in revenue decline (10-15% yoy) for the cement companies under our coverage.	Cement volumes are likely to remain sedate during the quarter due to a timely onset of the monsoon, bringing an early halt to construction activity compared to the same period last year. Profitability on a per ton basis would be further impacted due to high overhead cost on a low volume base.
Chemicals	Decline in global chemical margins qoq will be negative for the profitability of the chemical segment of Reliance Industries.	
Consumers	We expect HUL to report sales growth of 13% yoy, driven by trade and consumer promotion-led volumes. Gross margins will likely be under pressure during the quarter. Value-for-money players like Godrej Consumer will likely have flat sales in soaps due to higher competitive intensity.	We expect 15% yoy sales growth in ITC's cigarette segment led by pricing; volumes will likely be flat. Asian Paints will likely witness muted volume growth due to higher number of rainy days this quarter versus a poor monsoon last year.
Energy	Upstream oil: ONGC and OIL will likely report a qoq increase in revenues and net income due to (1) lower subsidy losses and (2) higher APM gas prices for 2QFY11 (full impact in the quarter). We assume that upstream companies will bear 33.3% of the overall subsidy burden. GAIL will likely report a qoq decline in EBITDA due to lower petchem prices which will be partly mitigated by a lower subsidy burden.	Downstream oil: Performance of R&M companies will depend on the contribution from government and upstream companies. We estimate under-recoveries of Rs124 bn for the industry for 2QFY11. We do not assume any cash compensation from the government in 2QFY11. We estimate refining margins to be relatively stable qoq.
Industrials	Industrials: Expect strong execution growth in BHEL based on large order backlog. Expect moderate to strong revenue growth in L&T led by a pick-up in execution of certain large orders in the backlog—however, we expect a full pick-up in 2HFY10. Positive traction in industrial capex activity may also bode well for companies with exposure to industrial capex such as ABB, Siemens, which may report moderate revenue growth. Continued competition in the domestic T&D sector would pressure segment margins. We expect Suzlon to report sales of about 350 MW, but high interest costs would lead to a net loss during the quarter.	Construction: Strong order backlog to drive revenue growth. Expect strong revenue growth in IVRCL and Nagarjuna with a pick-up in execution of existing large order backlogs; concerns over excessive concentration of orders in Andhra abates (only 15-17% of backlog for IVRCL). Infrastructure: Pick-up in airport traffic and generation from operating power plants will likely boost revenue growth for GMR and GVK. However, net profit would continue to be adversely impacted by higher interest and depreciation costs. Pick-up in port volumes to drive revenue growth for MPSEZ.
Media	Television: ZEEL's results are strictly not comparable yoy given the merger of ZEEN R-GECs effective 4QFY10. We expect robust yoy growth in EBITDA of broadcasters led by (1) recovery in advertising revenue market and (2) continued robust growth in subscription revenues. However, financials could come under pressure given (1) rising media cost inflation, also on account of increasing competitive intensity and (2) relatively unfavorable base as 2QFY10 was a festival quarter. Dish TV will likely report (1) strong volume growth driven by IPL and FIFA WC but with (2) continued high subsidy burden.	Print: HTML's results are not strictly comparable yoy given the listing of HMVL (Hindustan), its previously wholly owned subsidiary that runs its Hindi business. We expect robust yoy revenue growth driven by (1) recovery in the advertising revenue market and (2) contribution from new media initiatives by key newspaper publishers (JAGP, DBCL, HTML) in their core markets. However, financials could come under pressure given (1) rising media cost inflation (newsprint prices), (2) impact of competition on circulation revenues and (3) relatively unfavorable base as 2QFY10 was a festival quarter.
Metals	Ferrous: We expect the profitability of steel companies to decline sequentially in 2QFY11 due to lower realizations and an increase in coking coal costs during the quarter. We forecast a decline in EBITDA/ton for all steel companies. 1QFY11 steel deliveries were impacted by steep jump in imports from China; steel imports have reduced since. We expect robust qoq growth in steel deliveries.	Non Ferrous: We expect 2QFY11 to be weak on account of company-specific issues. Hindalco's EBITDA will be impacted on a qoq basis on account of outage at its Hirakud smelter; this will impact production by 20kt. Sterlite's earnings would be impacted due to lower production levels by Hindustan Zinc and a seasonally weak quarter for the power segment.
Pharmaceuticals	Generics: We expect DRL to report strong sales from the US due to a pick-up in sales of key products launched in 1QFY11. We expect SUN and Ranbaxy to report lower sales from US qoq due to the absence of sales from exclusive products, although SUN will report exclusivity sales from generic Exelon in 2QFY11. We expect the Indian market growth rate to pick up for Cipla, Ranbaxy, post the poor growth rates reported in 1QFY11.	CMO/CROs: We expect CMOs/CROs such as Dishman and Jubilant to report 10-20% sales growth versus a sales decline reported in 1QFY11; however, we expect sales growth to be stronger in 2HFY11E. We expect EBITDA margin to pick up qoq for (1) Dishman, Jubilant due to higher sales growth and (2) Divis, Biocon due to better product mix and higher sales from biopharmaceuticals.
Property	Most real estate companies will show better yoy results on account of (1) low base in 2QFY10 and (2) improvement in execution and success of new project launches. We expect improvement in qoq performance as new projects launched in FY2010 will likely contribute revenues in FY2011E.	We highlight that commercial sales continue to be very weak, which will likely impact revenues of DLF and UT negatively. We expect steady-to-marginally lower end-user sales even for the residential segment given low inventory and new launches in 2QFY11.
Technology	We expect strong 6.6-9% sequential revenue growth from the Tier-I players with cross-currency movements helping US\$ revenue growth a tad. Margin performance would vary depending upon wage hike cycle. We expect a 200 bps margin improvement for Infosys and a modest sequential decline for TCS and Wipro. We believe Tier-II companies will likely continue to underperform on revenue/margin performance.	We expect Infosys to raise its FY2011E revenue growth guidance to 23.5-25.5% from 19-21% and EPS growth guidance to 6-10% from 3-7%. Key focus areas would be (1) trends in and commentary on discretionary spending, (2) commentary on pricing, (3) any initial cues on CY2011E IT budgets and (4) supply-side metrics and commentary on the same.
Telecom	A seasonally weak quarter would translate into modest minutes growth of 4-8% as compared to strong minutes growth witnessed in the past two quarters. Again, a quarter without headline tariff cuts but continued tariff pressure through special tariff vouchers would lead to a decline in RPM.	Key focus areas would be (1) 3G launch strategy for each of the players, (2) performance of Bharti Africa and Bharti's strategy in Africa post re-launch and (3) any commentary on expected launch of MNP.
Utilities	Commissioning of new capacities will likely drive revenue growth for NTPC, NHPC, Lanco and Adani Power though distribution companies such as Tata Power, CESC and Reliance Infrastructure will likely see a sequential drop in power revenues on account of a seasonally weaker quarter.	EPC business to drive revenue growth for Reliance Infrastructure as execution of power projects of Reliance Power gains momentum. Lanco will likely continue to see a decline in construction revenues as new power capacities continue to get commissioned even as work on the development portfolio has not gained momentum.

Source: Kotak Institutional Equities estimates

We expect earnings of BSE-30 Index to grow by 24.7% yoy in 2QFY11E
Earnings growth of BSE-30 Index (%)



Source: Company, Kotak Institutional Equities estimates

OCTOBER 06, 2010

UPDATE

BSE-30: 20,408

A strong rupee has helped so far. We do not see a significant negative impact on downstream companies from the recent spurt in crude prices (as yet) given the mitigating impact of other pertinent factors—(1) strengthening of rupee, (2) recent increase in retail prices of gasoline and (3) weakness in diesel cracks. We advise investors to stay invested in downstream stocks and maintain our BUY rating on HPCL and ADD rating on BPCL and IOCL.

Gross under-recoveries manageable—strengthening rupee mitigates impact of rising crude price

We are not too perturbed as yet by the recent increase in crude oil prices to over US\$80/bbl although it is an area of concern for gross under-recoveries and smooth deregulation. The increase in crude prices has not resulted in a commensurate increase in gross under-recoveries due to (1) strengthening of the rupee, which has mitigated the impact of higher crude prices and (2) modest price increase of gasoline. We note that the rupee has appreciated 4.6% since September 1, 2010 led by strong FII inflows. A ₹1 appreciation in rupee reduces the gross under-recoveries by ₹53 bn on an annualized basis while a US\$1/bbl change in crude oil prices increases under-recoveries by ₹32 bn (see Exhibit 1). We compute gross under-recoveries for FY2011E at ₹518 bn assuming crude oil price of US\$75/bbl and exchange rate of ₹45.5/US\$.

Petrol deregulation set in motion

The recent increase in gasoline prices (+₹0.27-0.29/liter) by BPCL, HPCL and IOCL in September 2010 inspires confidence about deregulation of gasoline. The price hike has mitigated the impact of higher crude prices to some extent. We compute under-recovery on gasoline at ₹0.43/liter based on crude oil price of US\$80.2/bbl (Dated Brent) in the week ended October 1, 2010. We do not rule out further price hikes for gasoline to offset further increase in crude oil prices. We currently assume that diesel will be deregulated in 4QFY11 on easing of inflationary concerns.

Breakeven price for diesel is US\$79.3/bbl; weakness in diesel cracks has also helped

Weakness in diesel cracks has also mitigated the impact of higher crude prices on gross under-recoveries. Cracks have contracted by US\$0.5/bbl in the last month. We note that product prices (and not crude prices) are relevant for computation of under-recoveries and under-recoveries on diesel are most important given that diesel consumption constitutes 62% of the consumption of the four regulated products. We compute under-recovery on diesel at ₹0.26/liter based on crude oil price of US\$80.2 in the week ended October 1, 2010. We note that the current breakeven price for diesel is US\$79.3/bbl at an exchange rate of ₹44.9/US\$.

Stay invested—decent upside from current levels; large upside in blue-sky scenario

We would advise investors to stay invested in downstream companies (BPCL, HPCL and IOCL) given the stocks still provide a decent potential upside of 12-20% to our fair valuations based on 9-10X FY2012E EPS (see Exhibit 2). Our blue-sky scenario shows 33-61% upside to our fair valuations for the stocks (see Exhibit 3), assuming full compensation of under-recoveries on cooking fuels to the companies from the government. We maintain our BUY rating on HPCL (TP: ₹625) and ADD rating on BPCL (TP: ₹855) and IOCL (TP: ₹480).

QUICK NUMBERS

- **Under-recovery of ₹0.26/liter for diesel and ₹0.43/liter for gasoline at crude oil price of US\$80.2/bbl**
- **Gross under-recoveries reduce by ₹53 bn on ₹1/US\$ appreciation in rupee**
- **33-61% upside to our fair valuations of downstream stocks in a blue-sky scenario**

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Strengthening rupee mitigates impact of rising crude price

Subsidy loss breakdown, March fiscal year-end, 2011E (Rs bn)

Dated Brent crude oil price (US\$/bbl)	75	76	75	76
Exchange rate (Rs/US\$)	45.5	45.5	44.5	44.5
LPG	208	212	200	205
Kerosene	166	171	158	163
Gasoline	12	15	7	10
Diesel	21	41	(12)	8
Auto fuels	33	56	(5)	18
Cooking fuels	374	383	359	368
Total subsidy loss	407	439	354	386

Note:

(a) Annualized subsidy losses assuming current domestic retail prices.

Source: Kotak Institutional Equities estimates

Fair valuation of downstream oil companies

EPS estimates and fair valuation, March fiscal year-end, 2012E (Rs)

	EPS (a) (Rs)	P/E (X)	Value of investments (Rs)	Fair value (Rs)	Current stock price (Rs)	Upside (%)
BPCL	62	10	237	855	765	12
HPCL	57	9	109	625	523	20
IOCL	37	10	112	480	421	14

Note:

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

Source: Kotak Institutional Equities estimates

Earnings and valuations of downstream companies would jump significantly in a blue-sky scenario

EPS estimates and fair valuation, March fiscal year-end, 2012E (Rs)

	EPS (Rs)	P/E (X)	Value of investments (Rs)	Fair value (Rs)	Current stock price (Rs)	Upside (%)
BPCL	83	10	237	1,071	765	40
HPCL	81	9	109	840	523	61
IOCL	45	10	112	560	421	33

Note:

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

Source: Kotak Institutional Equities estimates

Profit model, balance sheet, cash model of BPCL, March fiscal year-ends, 2007-2014E (₹ mn)

	2007	2008	2009	2010	2011E	2012E	2013E	2014E
Profit model (Rs mn)								
Net sales	965,569	1,102,081	1,340,734	1,202,170	1,347,607	1,404,572	1,546,005	1,604,712
EBITDA	35,362	28,472	27,507	32,635	43,152	47,424	51,116	52,289
Other income	7,332	13,954	15,087	22,402	14,648	12,914	11,205	9,445
Interest	(4,774)	(6,725)	(22,699)	(10,110)	(12,959)	(11,400)	(8,997)	(6,415)
Depreciation	(9,041)	(10,982)	(10,755)	(12,423)	(13,981)	(13,506)	(13,902)	(14,212)
Pretax profits	28,879	24,719	9,141	32,505	30,861	35,433	39,422	41,107
Extraordinary items	(68)	—	—	(8,290)	—	—	—	—
Tax	(9,286)	(9,059)	(5,103)	(11,317)	(7,882)	(11,029)	(12,188)	(13,072)
Deferred taxation	(268)	(1,108)	2,421	3,033	(2,369)	(741)	(908)	(583)
Adjusted net profits	18,100	15,806	6,324	20,830	20,610	23,663	26,327	27,452
Earnings per share (Rs)	50.1	43.7	17.5	57.6	57.0	65.4	72.8	75.9
Balance sheet (Rs mn)								
Total equity	102,735	116,768	121,281	130,867	143,566	158,145	174,367	191,281
Deferred taxation liability	13,826	14,814	12,392	8,593	10,962	11,703	12,610	13,194
Total borrowings	108,292	150,224	211,714	221,952	199,450	163,950	125,736	83,736
Current liabilities	112,767	145,803	128,313	171,312	162,579	165,977	175,006	178,915
Total liabilities and equity	337,620	427,608	473,701	532,724	516,556	499,775	487,719	467,126
Cash	8,640	9,616	4,416	3,424	3,561	4,041	4,130	3,762
Current assets	127,698	187,457	148,469	232,416	230,039	234,338	247,786	252,476
Goodwill	—	—	—	—	—	—	—	—
Total fixed assets	118,334	127,354	140,033	161,871	174,180	177,619	177,025	177,112
Investments	82,949	103,182	180,784	135,013	108,777	83,777	58,777	33,777
Total assets	337,621	427,608	473,701	532,724	516,556	499,775	487,719	467,126
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	29,920	22,988	19,717	22,972	22,311	24,995	29,931	32,802
Working capital	11,451	(25,161)	20,585	(48,542)	(7,799)	(901)	(4,420)	(779)
Capital expenditure	(17,908)	(20,665)	(23,323)	(33,698)	(26,289)	(16,944)	(13,308)	(14,298)
Investments	(45,481)	(21,684)	(82,456)	35,270	26,237	25,000	25,000	25,000
Other income	4,337	6,434	6,655	13,694	16,091	12,914	11,205	9,445
Free cash flow	(17,682)	(38,088)	(58,822)	(10,304)	30,551	45,063	48,408	52,170
Ratios (%)								
Debt/equity	105.4	128.7	174.6	169.6	138.9	103.7	72.1	43.8
Net debt/equity	97.0	120.4	170.9	167.0	136.4	101.1	69.7	41.8
RoAE	16.3	12.7	4.8	11.3	14.0	14.6	14.8	14.0
RoACE	10.9	7.3	7.2	7.9	8.2	9.1	10.0	10.6
Key assumptions (standalone until FY2005)								
Crude throughput (mn tons)	19.8	20.9	20.0	20.4	22.3	22.3	22.3	22.3
Effective tariff protection (%)	1.6	1.4	2.4	2.2	0.7	0.7	0.7	0.7
Net refining margin (US\$/bbl)	3.2	5.6	5.2	2.9	3.6	4.2	4.7	4.7
Sales volume (mn tons)	24.5	26.7	27.8	29.3	31.3	32.7	34.2	35.9
Marketing margin (Rs/ton)	(1,140)	(3,010)	(5,944)	511	(62)	1,664	1,644	1,643
Subsidy under-recoveries (Rs mn)	(10,400)	(33,354)	2,728	(12,375)	(12,479)	(11,679)	(11,822)	(11,732)

Source: Company, Kotak Institutional Equities estimates

Profit model, balance sheet, cash model of HPCL, March fiscal year-ends, 2007-2014E (₹ mn)

	2007	2008	2009	2010	2011E	2012E	2013E	2014E
Profit model (Rs mn)								
Net sales	889,959	1,043,130	1,249,348	1,073,004	1,258,432	1,307,445	1,442,175	1,497,873
EBITDA	24,036	15,757	28,707	32,469	45,131	50,197	56,292	58,754
Other income	6,845	11,980	9,057	16,462	7,923	7,679	5,964	4,230
Interest	(4,230)	(7,925)	(20,828)	(9,038)	(10,970)	(12,169)	(11,744)	(11,615)
Depreciation	(7,040)	(8,508)	(9,813)	(11,644)	(15,637)	(15,990)	(17,711)	(19,488)
Pretax profits	19,611	11,303	7,122	28,249	26,447	29,717	32,802	31,881
Extraordinary items	3,030	—	—	(6,999)	—	—	—	—
Tax	(6,625)	(1,799)	(2,416)	(5,616)	(5,271)	(8,075)	(6,538)	(8,331)
Deferred taxation	(365)	(2,025)	(343)	(2,046)	(3,514)	(1,796)	(4,358)	(2,259)
Prior period adjustment	61	3,870	1,387	(575)	—	—	—	—
Adjusted net profits	13,617	11,349	5,750	17,489	17,662	19,846	21,906	21,291
Earnings per share (Rs)	40.2	33.5	17.0	51.6	52.1	58.5	64.6	62.8
Balance sheet (Rs mn)								
Total equity	95,987	105,633	107,306	115,580	126,803	139,415	153,336	166,866
Deferred tax liability	14,209	15,960	16,034	18,080	21,594	23,390	27,748	30,008
Total borrowings	105,175	167,867	227,552	213,024	204,802	180,302	178,802	136,285
Current liabilities	101,195	124,337	117,558	165,551	142,027	149,717	162,125	165,447
Total liabilities and equity	316,566	413,797	468,450	512,234	495,227	492,825	522,011	498,605
Cash	868	2,940	6,083	2,432	3,297	3,588	3,735	4,136
Current assets	113,779	190,034	153,844	203,988	192,627	199,615	216,423	220,879
Total fixed assets	130,644	152,452	166,558	191,943	203,014	213,333	255,566	247,302
Investments	71,275	68,371	141,965	113,872	96,289	76,289	46,289	26,289
Total assets	316,566	413,796	468,450	512,234	495,227	492,825	522,012	498,605
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	23,966	(18,679)	(12,139)	28,120	25,574	29,123	36,444	38,683
Working capital changes	8,936	(6,504)	48,461	(6,530)	(13,127)	702	(4,400)	(1,134)
Capital expenditure	(38,510)	(31,638)	(19,275)	(36,180)	(23,393)	(25,479)	(58,376)	(11,100)
Investments	(31,704)	(1,851)	(70,386)	16,521	17,584	20,000	30,000	20,000
Other income	2,067	4,692	3,187	8,037	8,886	7,679	5,964	4,230
Free cash flow	(35,246)	(53,980)	(50,151)	9,968	15,525	32,026	9,631	50,680
Ratios (%)								
Debt/equity	95.4	138.1	184.5	159.4	138.0	110.7	98.7	69.2
Net debt/equity	94.7	135.6	179.6	157.6	135.8	108.5	96.7	67.1
RoAE	14.9	9.8	4.7	10.1	12.5	12.8	12.7	11.3
RoACE	8.6	5.0	5.3	6.8	7.1	8.0	8.5	8.4
Key assumptions								
Crude throughput (mn tons)	16.7	16.8	15.8	15.8	16.5	17.9	19.3	19.3
Effective tariff protection (%)	1.4	1.3	2.4	2.5	1.3	1.3	1.3	1.3
Net refining margin (US\$/bbl)	4.3	6.6	4.0	2.7	4.1	4.6	5.3	5.3
Sales volume (mn tons)	23.4	26.2	27.0	27.7	28.6	29.8	31.2	32.7
Marketing margin (Rs/ton)	(710)	(2,345)	(5,021)	627	50	1,639	1,611	1,607
Subsidy under-recoveries (Rs mn)	(7,685)	(31,191)	5,587	(12,297)	(12,205)	(12,101)	(12,198)	(12,081)

Source: Company, Kotak Institutional Equities estimates

Consolidated profit model, balance sheet, cash model of IOCL, March fiscal year-ends, 2007-2014E (₹ mn)

	2007	2008	2009	2010	2011E	2012E	2013E	2014E
Profit model (Rs mn)								
Net sales	2,149,428	2,444,378	3,041,265	2,660,338	3,381,393	3,548,521	3,943,119	4,118,991
EBITDA	110,451	120,872	61,445	146,723	185,618	198,800	208,499	211,691
Other income	27,451	43,748	45,155	68,588	28,367	30,999	32,384	31,482
Interest	(17,058)	(17,556)	(41,758)	(16,638)	(25,031)	(23,537)	(21,307)	(17,025)
Depreciation	(28,686)	(29,918)	(31,389)	(34,943)	(48,084)	(49,672)	(53,467)	(54,988)
Pretax profits	92,157	117,145	33,453	163,729	140,870	156,591	166,110	171,160
Extraordinary items	24,757	5,374	—	(14,995)	—	—	—	—
Tax	(25,834)	(38,293)	(13,316)	(47,193)	(36,198)	(46,134)	(51,533)	(54,967)
Deferred taxation	(8,040)	(473)	1,435	5,556	(10,596)	(5,882)	(3,644)	(2,751)
Net profits	82,729	83,430	25,523	108,238	94,076	104,575	110,932	113,442
Net profits after minority interests	62,702	74,517	27,437	116,128	91,967	101,841	108,455	111,657
Earnings per share (Rs)	26.3	31.2	11.5	47.9	37.9	41.9	44.7	46.0
Balance sheet (Rs mn)								
Total equity	378,117	450,449	470,654	547,804	595,318	662,317	733,375	806,018
Deferred tax liability	59,859	60,331	58,876	54,072	63,916	69,798	73,443	76,194
Total borrowings	290,215	382,818	465,250	497,522	515,547	434,357	366,075	302,333
Current liabilities	330,791	386,724	376,107	472,991	533,197	556,792	586,296	596,874
Total liabilities and equity	1,058,981	1,280,322	1,370,888	1,572,389	1,707,978	1,723,263	1,759,189	1,781,419
Cash	9,385	8,413	8,076	13,501	10,480	10,860	11,766	11,428
Current assets	437,178	599,256	473,965	648,895	765,039	791,634	849,302	867,445
Total fixed assets	415,014	460,307	565,545	690,165	717,275	730,585	707,937	712,363
Investments	197,403	212,345	323,301	219,828	215,184	190,184	190,184	190,184
Total assets	1,058,981	1,280,322	1,370,888	1,572,389	1,707,978	1,723,263	1,759,189	1,781,419
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	(44,660)	(107,263)	(345,677)	138,838	122,374	126,373	138,989	121,971
Working capital changes	2,237	(1,414)	76,881	(163,423)	(70,181)	1,475	(41,723)	13,579
Capital expenditure	(50,969)	(79,586)	(135,923)	(128,974)	(84,591)	(49,980)	(22,015)	(24,284)
Investments	99,768	92,665	299,410	147,320	2,914	25,015	14	849
Other Income	13,582	18,253	16,413	24,515	35,145	30,445	31,709	30,713
Free cash flow	19,958	(77,346)	(88,896)	18,276	5,661	133,328	106,974	142,829
Ratios (%)								
Debt/equity	66.3	74.9	87.9	82.7	78.2	59.3	45.4	34.3
Net debt/equity	64.1	73.3	86.3	80.4	76.6	57.8	43.9	33.0
RoAE	16.1	16.3	5.5	21.2	15.0	15.0	14.5	13.6
RoACE	11.2	11.4	5.1	12.4	9.7	10.3	10.7	10.6
Key assumptions (IOC standalone)								
Crude throughput (mn tons)	44.0	47.4	51.3	50.7	52.6	54.6	54.6	54.6
Effective tariff protection (%)	1.6	1.3	2.8	2.2	0.8	0.8	0.8	0.8
Net refining margin (US\$/bbl)	4.2	8.2	3.6	4.5	4.9	5.4	6.0	6.0
Sales volume (mn tons)	53.4	57.4	61.0	64.0	67.4	70.3	73.4	76.7
Marketing margin (Rs/ton)	(633)	(2,203)	(5,253)	874	341	1,792	1,776	1,775
Subsidy under-recoveries (Rs mn)	(21,900)	(97,738)	—	(31,588)	(29,636)	(29,516)	(28,959)	(28,311)

Source: Company, Kotak Institutional Equities estimates

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Low on volumes, realizations (and profitability). We recommend investors to be selective as the cement sector braces for one of its worse earnings seasons with (1) sedate volume growth, (2) sequential price decline (Rs15-20/bag) and (3) the burden of high overhead cost on a low volume base. Cement stocks have moved up sharply over the recent past on the back of price hike announcements, and along the way lost the valuation comfort that had previously prompted us to look at the sector favorably.

Exhibit 1: Most of the cement stocks have outperformed in the past 3 months
Absolute and relative performance of cement companies under coverage (%)

	Change (%)					Relative change (%)			
	1-mo	3-mo	6-mo	1-year	CYTD	1-mo	3-mo	6-mo	1-year
Ambuja Cements	13.1	25.3	19.9	41.8	36.7	1.0	7.1	5.4	17.2
ACC	14.9	19.4	8.4	26.5	18.0	2.6	2.0	(4.7)	4.6
Grasim Industries	10.4	26.0	10.3	23.4	24.8	(1.5)	7.7	(3.1)	2.0
UltraTech Cement	18.3	25.6	(5.1)	35.3	19.1	5.7	7.3	(16.6)	11.8
India Cements	11.3	10.9	(12.5)	(9.8)	(4.2)	(0.6)	(5.2)	(23.1)	(25.5)
Shree Cement	7.9	6.0	(12.3)	29.2	7.4	(3.7)	(9.4)	(23.0)	6.8
Cement	13.9	22.3	4.0	(8.0)	21.4	1.7	4.5	(8.6)	(24.0)

Source: Bloomberg, Kotak Institutional Equities

Seasonally weak quarter, exacerbated further by deteriorating realizations

Weak cement prices across all regions in India will likely weigh heavily on 2QFY11E earnings of cement companies. A seasonally weak monsoon quarter also means sedate volumes which will likely have a magnified impact on profitability per ton. We estimate profitability per ton to decline by ~25-30% qoq for most of the companies under our coverage universe with the impact being largest for India Cements (84%) owing to its large exposure to South. We highlight that the price hikes in South India (early September) by ~Rs25-30/bag and more recently in West by Rs10-15/bag will have a limited impact on realizations for 2QFY11E as they come on the back of sharp declines in the previous months.

Recent price hikes only partially compensate for previous weakness

We highlight that price hikes in South India (early September) by ~Rs25-30/bag and more recently in West by Rs10-15/bag were taken on the back of equivalent or higher price correction during the previous months of July and August. In our view, while the recent price increases have limited impact on earnings estimates, they highlight the resilience of the industry. Average cement prices in South are down from Rs228/bag in May 2010 to Rs217/bag in September 2010 while in West they are down from Rs232/bag in May 2010 to Rs217/bag in September 2010. We note that cement prices in East have been fairly stable while prices in North have been gradually trending downwards and have fallen by Rs12/bag from Rs250/bag over the past four months.

Maintain SELL on expensive names – Ambuja Cements and India Cements

We maintain our SELL rating on Ambuja and India Cements on account of rich valuations compared to peers. Ambuja is trading at 7.9X CY2011E EBITDA and US\$172/ton on CY2011E capacity, while India Cements is trading at 6.3X FY2012E EBITDA. We continue to remain optimistic on Grasim Industries and Shree Cements on account of reasonable valuations and cushion from non-cement earnings.

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Exhibit 2: Weak cement prices and lower volumes result in significant sequential decline in earnings
2QFY11E estimates of Cement companies under KIE coverage universe (Rs mn)

	Sep-09	Jun-10	Sep-10E	Change (%)		Comments
				yoy	qoq	
ACC						
Net sales	19,694	20,207	17,390	(11.7)	(13.9)	
EBITDA	6,679	5,530	3,761	(43.7)	(32.0)	Lower than industry volume growth compounded by weak pricing environment
EBIT	5,883	4,568	2,776	(52.8)	(39.2)	
PBT	6,257	5,024	3,183	(49.1)	(36.7)	
PAT	4,356	3,589	2,291	(47.4)	(36.2)	Higher input costs to further pare sequential profitability
Ambuja Cements						
Net sales	16,110	20,476	15,996	(0.7)	(21.9)	
EBITDA	4,300	6,032	3,499	(18.6)	(42.0)	Pricing remained weak for most of the quarter in West resulting in a sequential decline in realizations
EBIT	3,581	5,031	2,479	(30.8)	(50.7)	
PBT	4,423	5,618	3,144	(28.9)	(44.0)	Lower raw material cost as contribution from new clinker capacities likely to eliminate dependence on purchased clinker
PAT	3,185	3,912	2,263	(28.9)	(42.1)	
Grasim Industries						
Net sales	46,823	50,552	43,555	(7.0)	(13.8)	
EBITDA	14,849	13,039	9,305	(37.3)	(28.6)	Cement earnings to be impacted by lower volumes and realizations during the quarter
EBIT	12,425	10,367	6,672	(46.3)	(35.6)	
PBT	13,049	11,053	7,079	(45.8)	(36.0)	Sequential growth in VSF earnings driven by volume growth as Nagda facility resumes normal production
PAT	8,818	7,854	5,069	(42.5)	(35.5)	
India Cements						
Net sales	9,894	8,807	8,654	(12.5)	(1.7)	
EBITDA	2,977	1,001	179	(94.0)	(82.2)	Sharp decline in realizations (15% yoy) only partially offset by price increase taken towards the end of the quarter
EBIT	2,405	402	(431)	(117.9)	(207.3)	
PBT	2,086	389	(421)	(120.2)	(208.3)	
PAT	1,382	365	(421)	(130.5)	(215.4)	Increase in prices of imported coal likely to further constraint profitability
Shree Cement						
Net sales	8,996	9,445	7,724	(14.1)	(18.2)	
EBITDA	4,082	2,895	1,875	(54.1)	(35.2)	Decline in cement realizations as pricing in North trended downwards in July and August
EBIT	3,084	1,386	475	(84.6)	(65.7)	
PBT	3,245	1,253	385	(88.1)	(69.3)	
PAT	2,918	1,068	308	(89.4)	(71.2)	Sequential decline in power revenues due to weakness in short-term rates of power
UltraTech Cement						
Net sales	15,408	17,898	32,932	113.7	84.0	
EBITDA	4,700	4,057	5,650	20.2	39.3	Results are not comparable due to merger of Samurddhi with Ultratech during the quarter
EBIT	3,733	3,042	3,472	(7.0)	14.1	
PBT	3,743	3,246	3,500	(6.5)	7.8	
PAT	2,509	2,427	2,476	(1.3)	2.0	Price hike in South in September only partially offsets the weakness during the rest of quarter
Jaiprakash Associates						
Net sales	18,243	31,742	27,449	50.5	(13.5)	
EBITDA	4,558	6,421	6,536	43.4	1.8	Cement despatches to decline sequentially on account of monsoons. However, volumes maintain a healthy yoy growth rate
EBIT	3,457	4,918	5,006	44.8	1.8	
PBT	1,752	2,074	2,494	42.3	20.2	
PAT	1,164	1,058	1,746	50.0	65.0	Construction margins likely to return to normal levels after disappointing 1QFY11

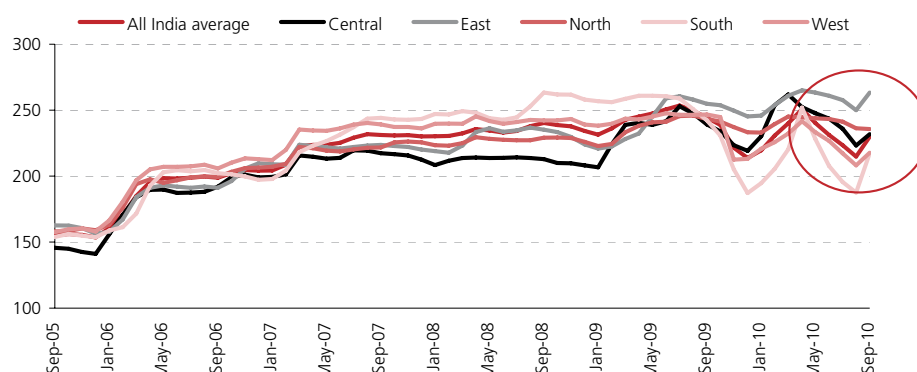
Note:

1QFY10 and 2QFY11 numbers for UTCEM do not include Samurddhi sales

Source: Kotak Institutional Equities estimates

Exhibit 3: Cement prices in South and West have only partially retraced to levels in May 2010 despite price hike in September 2010

Regional cement prices (Rs per 50 kg bag)



Source: CMA, Kotak Institutional Equities

Ultratech (ADD, TP Rs1,100/share) – 2QFY11E to be the first quarter of combined earnings

Ultratech will report quarterly earnings for the first time after its merger with Samruddhi was concluded in July 2010. We estimate volumes to decline to 9.1 mn tons (-13% qoq) while average realizations to come down from Rs3,807/ton in 1QFY11 to Rs3,619/ton in 2QFY11E (-5%). We note that merger with Samruddhi has allowed UTCEM to geographically diversify its presence, thus reducing the risk of sharp pressure on earnings in case of regional price weaknesses as is evident from our 2QFY11E estimates. We maintain our ADD rating and target price of Rs1,100/share.

Grasim Industries (ADD, TP 2,500/share) – reasonable valuations, upside from 60% stake in UTCEM

We estimate Grasim's revenues to decline sequentially by 13.8% qoq primarily on account of weak revenues from the cement business (UTCEM). Meanwhile, VSF earnings will continue to register stable sequential growth driven by volume growth at Nagda facility, which has resumed normal production. We maintain our ADD rating on Grasim and highlight it as one of our preferred picks in the sector.

ACC (REDUCE, Rs980/share) – relatively limited impact on realizations in 2QFY11E

We estimate ACC revenues and PAT to decline by 13.9% and 36.2% sequentially. We believe that impact of weak pricing during the quarter will be relatively lower for ACC given its diversified geographical presence (see Exhibit 4). We build in a sequential drop in realizations from Rs3,834/ton to Rs3,700/ton. ACC continues to report de-growth in despatch numbers (-3.5% YTD), which remains a concern.

Ambuja Cements (SELL, Rs108/share) – large exposure in West to weigh down on earnings

We note that West accounted for 38.8% of total sales volume of Ambuja in CY2009 thus making it the biggest market for Ambuja. As highlighted previously, prices in West have declined by Rs15/bag from their highs of Rs232/bag in May 2010. Also, Ambuja's next biggest market is North (32.6% by volume in CY2009), which has also witnessed a price decline of ~Rs10/bag in 2QFY11. Our estimates build in a 22% sequential decline in revenues and 42% sequential decline in PAT for Ambuja.

Shree Cements (BUY, Rs2,550/share) – expect a significantly weak quarter

We estimate SRCM's revenues and PAT to decline by 18.2% and 71% sequentially primarily on account of (1) decline in cement prices in North by ~Rs10/bag during the quarter, (2) higher input cost on account of increasing pet coke prices and (3) sequential decline in power revenues due to weakness in short-term rates of power.

India Cements (SELL, Rs100/share) – weak quarter despite positive volume growth

India Cements will likely register a positive sequential volumes growth of 10% which would partially offset the impact of lower realizations. We estimate ICEM's revenues and PAT to decline by 1.7% and 215% sequentially primarily due to lower realizations and higher cost of imported coal.

Exhibit 4: ICEM has the largest exposure in South India, ACC and Ultratech relatively well diversified FY2010 sales exposure of cement companies (%)

	ACC	Ambuja	Ultratech	Shree	India Cements	JPA
North	22.6	32.6	16.5	66.2	0.0	6.9
Central	27.8	8.9	15.6	31.4	0.0	71.3
East	17.7	12.9	12.2	0.8	0.3	17.2
West	13.5	38.8	29.8	1.1	9.0	0.3
South	18.2	2.1	24.4	0.0	90.6	0.0
Exports	0.1	4.8	1.6	0.5	0.0	4.3
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: CMA, Kotak Institutional Equities

Exhibit 5: Comparative valuation summary

Company	Market cap. (US\$ mn)	CMP (Rs) 5-Oct	Target price (Rs)	Rating	EPS (Rs)				P/E (X)			
					2009	2010E	2011E	2012E	2009	2010E	2011E	2012E
ACC	4,238	1,030	980	REDUCE	56	83	66	73	18.3	12.4	15.6	14.1
Ambuja Cements	4,751	143	108	SELL	7.2	8.0	8.4	8.9	19.8	17.8	16.9	16.1
Grasim Industries	4,626	2,304	2,500	ADD	239	301	244	290	9.7	7.7	9.4	7.9
India Cements	795	118	100	SELL	18	10	7	9	6.7	11.8	16.0	12.6
Jaiprakash Associates	6,023	129	170	BUY	2.0	1.5	8.0	10.8	64.6	88.7	16.2	11.9
Shree Cement	1,583	2,075	2,550	BUY	175	208	221	242	11.9	10.0	9.4	8.6
UltraTech Cement	2,969	1,089	1,100	ADD	79	88	66	100	13.8	12.3	16.5	10.9

Company	EV/EBITDA (X)				EV/ton of production (US\$)				EV/ton of capacity (US\$)			
	2009	2010E	2011E	2012E	2009	2010E	2011E	2012E	2009	2010E	2011E	2012E
ACC	9.3	6.6	7.5	6.1	189	182	173	150	185	171	138	121
Ambuja Cements	10.7	9.6	9.1	7.9	261	237	218	188	235	221	202	172
Grasim Industries	6.0	4.8	5.0	3.9	NA	NA	NA	NA	NA	NA	NA	NA
India Cements	5.0	6.7	8.8	6.3	126	114	99	80	115	95	93	71
Jaiprakash Associates	21.8	20.0	12.9	9.4	NA	NA	NA	NA	NA	NA	NA	NA
Shree Cement	7.2	4.6	4.2	3.3	193	155	128	101	178	159	118	98
UltraTech Cement	8.0	6.5	9.1	5.8	175	145	155	129	167	125	139	126

Source: Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	5-Oct-10		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)		Target price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)	
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E
Automobiles																													
Ashok Leyland	77	ADD	101,767	2,278	1,330	2.8	4.3	5.9	84.5	52.3	37.5	27.1	17.8	12.9	15.5	11.6	9.2	2.5	2.3	2.0	2.0	1.3	1.3	10.9	13.5	16.7	78	2.0	8.6
Bajaj Auto	1,582	REDUCE	457,692	10,245	289	117.7	87.8	101.3	160.2	(25.4)	15.4	13.4	18.0	15.6	17.3	12.7	10.8	15.6	9.6	6.5	0.6	1.3	1.3	70.9	65.8	49.5	1,420	(10.2)	21.7
Bharat Forge	370	ADD	88,464	1,980	239	0.7	12.4	19.7	(92.0)	1,705.4	59.1	538.3	29.8	18.7	27.2	12.8	9.0	2.3	2.2	2.0	—	—	—	0.9	0.4	0.1	360	(2.7)	5.4
Hero Honda	1,801	REDUCE	359,680	8,051	200	111.8	114.9	129.8	74.1	2.8	12.9	16.1	15.7	13.9	10.1	10.0	8.5	9.9	6.9	5.2	1.7	1.7	1.9	59.0	52.1	42.7	1,800	(0.1)	22.5
Mahindra & Mahindra	744	BUY	443,239	9,921	595	33.9	44.1	51.7	125.8	30.1	17.3	22.0	16.9	14.4	14.4	12.1	10.1	5.5	4.4	3.5	1.2	1.2	1.3	30.0	29.0	27.3	760	2.1	24.9
Maruti Suzuki	1,503	REDUCE	434,468	9,725	289	86.4	77.6	88.3	104.9	(10.2)	13.9	17.4	19.4	17.0	9.6	10.0	8.7	3.6	3.1	2.6	0.4	0.4	0.4	23.3	17.3	16.7	1,200	(20.2)	22.0
Tata Motors	1,134	ADD	710,342	15,900	626	27.4	94.8	109.2	(182.5)	246.1	15.2	41.4	12.0	10.4	14.2	7.4	6.5	4.6	3.2	2.4	1.2	0.5	0.5	8.7	11.9	11.1	1,150	1.4	95.6
Automobiles																													
Banks/Financial Institutions																													
Andhra Bank	170	BUY	82,474	1,846	485	21.6	22.9	26.7	60.1	6.4	16.4	7.9	7.4	6.4	—	—	—	1.9	1.6	1.3	2.9	3.1	3.6	26.0	23.1	22.7	190	11.7	6.5
Axis Bank	1,575	ADD	638,271	14,287	405	62.1	78.1	98.3	22.7	25.9	25.9	25.4	20.2	16.0	—	—	—	4.0	3.5	3.0	0.8	1.0	1.2	19.2	18.3	19.9	1,600	1.6	43.6
Bank of Baroda	909	BUY	332,137	7,435	366	83.7	95.1	115.7	37.3	13.7	21.7	10.9	9.6	7.9	—	—	—	2.4	2.0	1.7	1.7	1.9	2.3	24.4	23.0	23.3	1,000	10.1	7.7
Bank of India	554	ADD	291,330	6,521	526	33.1	54.5	62.0	(42.1)	64.7	13.6	16.7	10.2	8.9	—	—	—	2.3	1.9	1.7	1.3	2.1	2.4	14.2	20.7	20.1	560	1.1	13.0
Canara Bank	623	ADD	255,615	5,722	410	73.7	82.2	98.3	45.8	11.6	19.5	8.5	7.6	6.3	—	—	—	2.0	1.6	1.3	1.3	1.6	1.9	22.4	20.8	20.8	580	(7.0)	8.4
Corporation Bank	710	ADD	101,898	2,281	143	82.0	88.0	102.6	31.8	7.3	16.6	8.7	8.1	6.9	—	—	—	1.8	1.5	1.3	2.3	2.5	2.9	22.0	20.2	20.2	750	5.6	1.9
Federal Bank	420	ADD	71,748	1,606	171	27.2	36.4	49.0	(7.2)	34.1	34.4	15.4	11.5	8.6	—	—	—	1.5	1.4	1.2	1.2	1.6	2.1	10.3	12.6	15.2	430	2.5	7.0
HDFC	741	REDUCE	1,064,245	23,822	1,436	19.7	23.3	27.9	22.7	18.3	19.9	37.7	13.8	26.6	—	—	—	7.0	6.2	5.4	1.0	1.1	1.3	20.0	20.7	21.8	720	(2.9)	49.3
HDFC Bank	2,448	ADD	1,120,464	25,080	458	64.4	84.9	111.1	22.1	31.7	30.9	38.0	28.8	22.0	—	—	—	5.2	4.6	3.9	0.5	0.6	0.8	16.1	16.9	19.2	2,500	2.1	42.5
ICICI Bank	1,148	REDUCE	1,279,558	28,641	1,115	36.1	45.2	57.3	6.9	25.3	26.6	31.8	25.4	20.0	—	—	—	2.5	2.3	2.2	1.0	1.3	1.6	8.0	9.5	11.3	1,000	(12.9)	85.8
IDFC	205	ADD	298,962	6,692	1,458	8.4	9.4	11.2	44.9	12.4	18.7	24.4	21.7	18.3	—	—	—	4.3	2.8	2.3	0.7	0.8	1.1	16.6	15.5	14.3	205	-	27.1
India Infoline	119	BUY	36,979	828	312	8.1	7.2	8.7	59.2	(11.9)	21.6	14.6	16.6	13.6	—	—	—	2.3	2.0	1.7	2.7	1.3	1.7	16.4	12.9	14.4	130	9.6	6.2
Indian Bank	289	ADD	124,204	2,780	430	35.1	32.4	44.1	25.5	(7.7)	36.2	8.2	8.9	6.6	—	—	—	1.9	1.6	1.3	2.2	2.0	2.7	24.1	18.8	21.7	280	(3.1)	5.5
Indian Overseas Bank	143	BUY	77,743	1,740	545	13.0	16.7	24.8	(46.7)	29.0	48.4	11.0	8.5	5.7	—	—	—	1.2	1.1	0.9	2.5	2.7	3.0	9.6	11.6	15.4	160	12.1	5.1
J&K Bank	779	ADD	37,766	845	48	105.7	119.3	139.6	25.0	12.9	17.1	7.4	6.5	5.6	—	—	—	1.3	1.1	1.0	2.8	3.2	3.7	18.2	17.9	18.3	850	9.1	3.0
LIC Housing Finance	1,444	REDUCE	137,128	3,069	95	69.7	100.7	109.9	11.5	44.5	9.1	20.7	14.3	13.1	—	—	—	4.2	3.5	3.0	1.0	1.5	1.6	23.6	25.5	23.2	1,250	(13.4)	32.7
Mahindra & Mahindra Financial	673	REDUCE	64,603	1,446	96	35.9	46.4	56.2	60.0	29.4	21.2	18.8	14.5	12.0	—	—	—	3.8	3.2	2.7	1.1	1.5	1.8	21.5	23.5	23.8	635	(5.6)	4.0
Oriental Bank of Commerce	486	ADD	121,863	2,728	251	45.3	57.8	66.8	25.3	27.6	15.5	10.7	8.4	7.3	—	—	—	1.7	1.4	1.3	1.9	2.4	2.8	14.5	16.5	16.9	450	(7.5)	8.3
PFC	360	SELL	413,255	9,250	1,148	20.5	22.9	27.6	53.5	11.9	20.3	17.6	15.7	13.1	—	—	—	3.2	2.8	2.5	1.4	1.6	1.9	18.8	18.3	19.2	275	(23.6)	4.6
Punjab National Bank	1,307	BUY	412,226	9,227	315	123.9	133.4	163.3	26.4	7.7	22.4	10.6	9.8	8.0	—	—	—	2.5	2.1	1.7	1.7	2.1	2.5	26.2	23.2	23.7	1,450	10.9	9.5
Reliance Capital	858	NR	211,082	4,725	246	12.9	13.7	9.8	(67.3)	6.5	(28.6)	66.7	62.6	87.7	—	—	—	3.1	3.0	2.9	0.7	0.6	0.5	4.7	4.8	3.4	—	—	34.6
Rural Electrification Corp.	378	REDUCE	373,628	8,363	987	20.3	25.3	31.2	23.2	24.5	23.4	18.7	15.0	12.1	—	—	—	3.4	2.9	2.5	1.7	2.0	2.5	22.0	21.0	22.5	325	(14.1)	8.3
Shriram Transport	794	ADD	177,184	3,966	223	39.2	53.3	65.1	30.1	36.2	22.0	20.3	14.9	12.2	—	—	—	4.8	4.1	3.4	1.5	2.0	2.5	28.4	28.2	28.6	800	0.7	8.0
SREI	95	NR	11,053	247	116	8.3	7.9	9.9	17.8	(4.8)	25.8	11.5	12.0	9.6	—	—	—	0.9	0.9	0.8	1.3	1.3	1.3	11.1	10.5	12.3	—	—	4.8
State Bank of India	3,248	BUY	2,062,099	46,158	635	144.4	176.8	209.3	0.5	22.4	18.4	22.5	18.4	15.5	—	—	—	3.1	2.8	2.4	0.9	1.0	1.0	14.8	15.9	16.6	3,400	4.7	126.1
Union Bank	398	BUY	201,138	4,502	505	41.1	48.8	60.2	20.2	18.8	23.5	9.7	8.2	6.6	—	—	—	2.3	1.8	1.5	1.4	1.6	2.0	26.2	25.1	25.1	450	13.0	5.6
Yes Bank	353	BUY	119,937	2,685	340	15.0	18.7	25.8	46.7	24.5	38.3	23.5	18.9	13.7	—	—	—	3.9	3.3	2.7	0.4	0.5	0.7	20.3	18.8	21.7	375	6.2	15.6
Banks/Financial Institutions																													
Cement																													
ACC	1,030	REDUCE	193,498	4,331	188	83.2	66.0	72.9	47.9	(20.7)	10.4	12.4	15.6	14.1	6.6	7.5	6.1	3.0	2.7	2.3	2.6	2.3	2.3	29.3	20.0	19.3	980	(4.8)	10.5
Ambuja Cements	143	SELL	216,938	4,856	1,522	8.0	8.4	8.9	11.4	5.3	5.1	17.8	16.9	16.1	9.9	9.4	8.1	3.1	2.7	2.4	1.3	1.4	1.5	19.3	17.8	16.5	108	(24.2)	6.7
Grasim Industries	2,304	ADD	211,245	4,728	92	301.0	242.3	292.5	26.1	(19.5)	20.7	7.7	9.5	7.9	4.6	4.8	3.7	1.7	1.5	1.3	1.4	1.5	1.5	22.9	16.5	17.2	2,500	8.5	7.2
India Cements	118	SELL	36,293	812	307	10.0	7.4	9.4	(43.5)	(26.5)	27.5	11.8	16.0	12.6	6.3	8.3	5.9	0.9	0.8	0.8	1.8	2.7	2.7	8.2	5.7	7.0	100	(15.4)	4.9
Shree Cement	2,070	BUY	72,129	1,615	35	208.0	221.1	242.5	19.0	6.3	9.7	10.0	9.4	8.5	4.9	4.7	3.8	4.0	2.8	2.1	0.5	0.5	0.5	48.0	35.0	28.1	2,550	23.2	1.7
UltraTech Cement	1,090	ADD	298,685	6,686	274	88.2	66.2	99.5	12.0	(25.0)	50.4	12.4	16.5	11.0	14.4	9.1													

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	5-Oct-10		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E			
Consumer products																													
Asian Paints	2,654	ADD	254,609	5,699	96	71.5	89.0	104.3	85.3	24.4	17.3	37.1	29.8	25.4	22.9	18.6	15.6	15.9	12.4	9.9	1.0	1.4	1.7	51.8	47.9	44.4	3,000	13.0	9.1
Colgate-Palmolive (India)	881	SELL	119,789	2,681	136	31.1	34.5	39.6	44.2	10.9	14.6	28.3	25.5	22.3	23.2	18.9	16.2	36.7	31.3	26.8	2.3	2.9	3.4	156.1	132.3	129.4	830	(5.8)	2.8
Dabur India	1,008	ADD	187,489	4,197	1,731	2.9	3.4	4.2	28.2	16.8	23.3	37.4	32.0	25.9	27.7	22.3	18.2	17.8	13.7	11.4	1.4	1.6	2.0	54.3	49.0	48.4	115	6.2	5.7
GlaxoSmithkline Consumer (a)	2,003	ADD	84,244	1,886	42	55.4	68.8	83.9	23.6	24.3	22.0	36.2	29.1	23.9	20.2	17.4	13.9	9.4	7.8	6.5	0.9	1.1	1.4	27.9	29.1	29.6	2,200	9.8	1.0
Godrej Consumer Products	400	ADD	129,274	2,894	324	11.3	13.5	18.0	69.5	18.9	33.4	35.2	29.7	22.2	28.0	21.1	15.8	13.4	7.2	6.6	1.0	0.8	0.8	44.6	31.9	31.1	450	12.6	2.2
Hindustan Unilever	304	SELL	663,233	14,846	2,182	9.4	10.2	12.0	(0.9)	8.4	17.5	32.2	29.7	25.3	22.3	21.4	17.5	25.7	22.2	19.2	2.5	2.8	3.2	71.1	80.2	81.3	250	(17.8)	13.9
ITC	174	ADD	1,329,664	29,763	7,651	5.3	6.4	7.5	22.6	20.5	17.8	32.7	27.2	23.1	19.9	17.1	14.3	9.0	7.5	6.4	2.9	1.6	1.7	29.2	31.6	31.3	175	0.7	26.1
Jubilant Foodworks	489	SELL	31,229	699	64	5.5	10.0	13.1	340.6	79.9	31.4	88.3	49.1	37.4	47.0	28.0	18.7	26.6	17.2	11.8	—	—	—	46.6	42.6	37.5	400	(18.2)	24.8
Jyothy Laboratories	281	ADD	21,498	481	77	11.0	14.3	17.0	99.6	30.1	18.2	25.4	19.6	16.5	20.6	13.0	10.4	5.2	3.5	3.0	1.6	1.3	1.8	16.0	18.4	19.6	320	14.0	0.7
Marico	133	ADD	81,521	1,825	612	4.4	5.3	6.4	32.9	20.2	20.4	30.0	24.9	20.7	20.5	16.7	13.9	12.2	8.8	6.6	0.5	0.7	0.8	48.9	41.6	36.7	140	5.0	2.0
Nestle India (a)	3,269	REDUCE	315,226	7,056	96	74.4	90.7	109.8	27.0	22.0	21.0	43.9	36.0	29.8	29.1	24.1	20.4	54.2	41.0	31.4	1.5	1.9	2.2	136.0	129.7	119.5	3,100	(5.2)	3.4
Tata Global Beverages	127	ADD	78,537	1,758	618	6.1	7.3	8.7	14.5	20.7	19.0	21.0	17.4	14.6	10.1	7.7	6.5	1.6	1.5	1.4	1.6	1.9	2.3	10.2	11.7	12.9	130	2.4	4.0
Consumer products	Cautious	3,296,313	73,784						23.8	18.4	19.0	33.7	28.5	23.9	21.6	18.5	15.3	11.4	9.4	8.0	2.2	1.8	2.1	33.8	33.1	33.7			
Constructions																													
IVRCL	167	BUY	44,604	998	267	7.9	9.1	11.6	(6.7)	15.0	27.9	21.1	18.4	14.4	10.7	10.1	8.0	2.2	2.0	1.7	0.2	0.2	0.2	11.0	11.3	12.9	205	22.7	7.6
Nagarjuna Construction Co.	162	BUY	41,669	933	257	7.1	8.9	11.6	6.1	24.3	31.1	22.8	18.3	14.0	11.4	9.9	8.2	1.9	1.7	1.6	0.8	1.2	1.2	9.3	9.8	11.8	205	26.2	4.0
Punj Lloyd	138	REDUCE	46,681	1,045	339	(12.9)	9.8	12.0	79.2	(175.4)	22.4	(10.6)	14.1	11.5	37.7	7.4	6.8	1.5	1.4	1.3	(0.1)	0.3	0.8	(15.8)	10.3	11.4	140	1.6	12.4
Sadbhav Engineering	1,547	BUY	23,210	520	15	42.8	61.8	87.2	(16.3)	44.3	41.0	36.1	25.0	17.8	19.7	13.2	10.1	5.7	3.8	3.2	0.2	0.4	0.4	15.8	15.1	17.8	1,750	13.1	0.4
Construction	Attractive	156,164	3,496						(91.1)	4,479	28.0	800.1	17.5	13.6	16.1	9.1	7.7	2.0	1.8	1.6	0.3	0.5	0.7	0.3	10.3	11.8			
Energy																													
Aban Offshore	896	ADD	38,967	872	44	94.5	151.1	129.7	(2.5)	59.9	(14.2)	9.5	5.9	6.9	8.5	7.1	6.7	1.8	1.6	1.4	0.4	0.4	0.4	21.7	32.9	21.9	915	2.2	39.6
Bharat Petroleum	765	ADD	276,542	6,190	362	58.6	57.0	65.4	230	(3)	14.8	13	13	11.7	7.2	6.9	6.4	2.0	1.8	1.6	1.8	2.5	2.8	14.9	13.3	13.8	855	11.8	31.1
Cairn India	336	RS	637,383	14,267	1,897	5.5	20.5	36.6	29.0	270.1	78.3	60.6	16.4	9.2	47.7	9.8	6.0	1.9	1.7	1.5	—	—	4.5	3.1	10.7	17.2	—	—	31.3
Castrol India (a)	505	SELL	124,790	2,793	247	15.4	20.7	21.2	45	34	2.4	33	24	23.9	19.5	15.2	14.6	27.1	25.4	24.1	2.5	3.3	3.4	83.8	107.4	103.7	380	(24.7)	2.2
GAIL (India)	492	BUY	623,838	13,964	1,268	24.8	26.8	40.3	11.7	8.2	50.4	19.9	18.4	12.2	11.2	11.0	8.6	3.4	3.0	2.6	1.5	1.7	2.5	17.4	16.6	21.7	550	11.8	16.7
GSPL	113	SELL	63,557	1,423	562	7.3	7.1	8.0	233	(3)	12.6	15	16	14.2	7.8	7.7	6.5	3.7	3.1	2.8	0.9	1.6	2.8	27.1	21.2	20.6	83	(26.5)	5.3
Hindustan Petroleum	523	BUY	177,184	3,966	339	51.6	52.1	58.5	204.2	1.0	12.4	10.1	10.0	8.9	3.6	3.3	3.1	1.3	1.2	1.1	2.3	3.1	3.5	13.1	11.9	12.1	625	19.6	33.8
Indian Oil Corporation	421	ADD	1,021,196	22,858	2,428	49.1	37.9	41.9	399	(23)	10.7	9	11	10.0	6.2	6.3	5.5	1.9	1.7	1.5	3.1	2.7	3.0	22.4	15.3	15.4	480	14.1	14.7
Oil India	1,493	REDUCE	358,902	8,034	240	115.2	131.9	149.0	13.9	14.6	12.9	13.0	11.3	10.0	6.0	4.5	3.9	2.4	2.1	1.9	2.3	2.9	3.4	16.8	17.9	17.9	1,590	3.8	4.1
Oil & Natural Gas Corporation	1,391	BUY	2,974,336	66,577	2,139	90.3	116.4	136.7	(1)	29	17.5	15	12	10.2	5.4	4.8	4.1	2.3	2.0	1.8	2.4	3.0	3.5	14.4	16.8	17.7	1,500	7.9	33.2
Petronet LNG	115	SELL	85,950	1,924	750	5.4	6.5	7.9	(22.0)	20.5	21.8	21.2	17.6	14.5	12.1	10.3	9.0	3.4	2.9	2.5	1.5	1.7	2.4	15.9	16.7	17.6	88	(23.2)	8.5
Reliance Industries	1,024	REDUCE	3,046,978	68,203	2,976	49.6	57.7	74.4	(2)	16	28.9	21	18	13.8	10.4	8.3	6.8	2.1	1.9	1.6	0.7	0.8	1.0	11.4	12.1	13.9	1,015	(0.9)	121.0
Energy	Cautious	9,429,623	211,072						36.6	15.9	23.9	15.8	13.6	11.0	7.7	6.5	5.5	2.2	1.9	1.7	1.6	1.9	2.6	13.7	14.3	15.8			
Industrials																													
ABB	922	REDUCE	195,443	4,375	212	16.7	18.3	33.1	(35.2)	9.3	80.7	55.1	50.4	27.9	31.7	29.1	16.3	8.1	7.1	5.8	0.2	0.3	0.4	15.6	15.0	23.0	725	(21.4)	5.7
BGR Energy Systems	804	BUY	57,874	1,295	72	16.0	28.0	41.1	32.2	74.4	46.9	50.1	28.7	19.6	28.2	16.5	11.7	10.3	8.2	6.2	0.4	0.9	1.0	22.3	31.7	36.1	950	18.2	4.4
Bharat Electronics	1,803	REDUCE	144,260	3,229	80	96.1	105.9	120.3	(7.4)	10.2	13.6	18.8	17.0	15.0	8.8	7.7	6.5	3.2	2.8	2.5	1.1	1.4	1.4	17.5	17.7	17.6	1,800	(0.2)	3.1
Bharat Heavy Electricals	2,648	REDUCE	1,296,102	29,012	490	87.9	114.3	135.5	37.7	30.0	18.5	30.1	23.2	19.5	16.9	13.1	10.9	8.1	6.4	5.2	0.7	0.9	1.1	29.8	31.1	29.3	2,600	(1.8)	29.7
Crompton Greaves	315	REDUCE	202,040	4,522	642	12.8	14.0	16.3	46.5	9.0	16.6	24.5	22.5	19.3	14.2	12.6	10.6	8.1	6.2	4.9	0.4	0.6	0.7	37.9	31.1	28.2	320	1.6	8.6
Larsen & Toubro	2,053	ADD	1,236,527	27,678	602	57.9	71.7	89.0	15.6	23.8	24.1	35.4	28.6	23.1	19.6	15.4	12.9	5.5	4.6	3.9	0.6	0.6	0.7	18.6	17.7	18.5	2,075	1.1	51.7
Maharashtra Seamless	416	BUY	29,319	656	71	40.2	43.6	49.8	12.1	8.5	14.2	10.3	9.5	8.3	5.6	4.9	3.9	1.8	1.6	1.4	1.5	1.9	2.4	19.3	17.9	17.7	450	8.3	0.6
Siemens	835	REDUCE	281,394	6,299	337	25.2	27.0	31.9	56.4	7.3	18.0	33.2	30.9	26.2	20.5	18.6	15.5	8.3	6.9	5.7	0.6	0.6	0.8	27.6	24.2	23.8	635		

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	5-Oct-10		Mkt cap.		o/s shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo	
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	(Rs)	(%)	(US\$ mn)	
Infrastructure																														
Container Corporation	1,309	REDUCE	170,183	3,809	130	61.1	74.3	85.9	0.3	21.7	15.6	21.4	17.6	15.2	15.1	12.3	10.2	3.9	3.4	2.9	1.1	1.3	1.5	19.6	20.6	20.5	1,250	(4.5)	2.7	
GMR Infrastructure	58	ADD	211,769	4,740	3,667	0.4	0.2	0.1	(43.8)	(48.9)	(40.0)	134.0	262.3	436.8	23.6	15.2	14.2	2.0	1.7	1.7	—	—	—	2.4	1.2	0.7	65	12.6	6.6	
GVK Power & Infrastructure	48	BUY	75,723	1,695	1,579	0.8	1.1	1.4	6.7	33.5	32.4	58.9	44.1	33.3	19.6	17.8	18.1	2.4	2.3	2.2	—	0.6	0.6	4.7	5.3	6.7	54	12.6	6.5	
IRB Infrastructure	260	RS	86,265	1,931	332	9.7	12.6	12.1	83.8	29.2	(3.7)	26.7	20.7	21.4	12.8	11.4	10.6	3.7	2.9	2.3	—	—	—	15.6	15.7	11.9	—	—	14.0	
Mundra Port and SEZ	170	REDUCE	343,168	7,681	2,017	3.3	4.3	7.0	55.7	28.9	63.7	50.9	39.5	24.1	37.8	24.8	17.4	9.7	8.1	6.3	—	—	—	20.8	22.3	29.3	150	(11.8)	6.7	
Infrastructure		Attractive	887,108	19,857					16.3	20.5	28.4	42.7	35.4	27.6	22.2	16.4	14.1	3.7	3.2	2.9	—	0.3	0.3	8.7	9.0	10.4				
Media																														
DB Corp	290	BUY	52,690	1,179	182	10.6	13.0	15.7	286.5	22.4	21.0	27.3	22.3	18.4	15.2	12.6	10.3	8.1	6.6	5.7	0.7	1.0	1.4	40.3	32.6	33.2	290	—	0.5	
DishTV	56	ADD	59,763	1,338	1,063	(2.5)	(1.8)	0.1	(62.0)	(28.8)	(107.4)	(22.5)	(31.6)	429.6	73.5	29.4	15.5	14.5	26.9	25.3	—	—	—	249.3	(59.7)	6.1	47	(16.4)	3.7	
HT Media	164	NR	38,552	863	235	6.1	7.7	9.2	623.3	25.9	19.8	26.9	21.3	17.8	13.5	11.3	9.4	4.0	3.5	3.2	0.6	1.2	2.4	15.6	17.5	18.9	—	—	0.5	
Jagran Prakashan	129	BUY	38,954	872	301	5.8	6.6	7.7	92.0	13.4	17.0	22.1	19.5	16.7	13.3	11.3	9.6	6.4	5.8	5.3	2.7	3.1	3.9	30.0	31.1	33.3	145	12.1	1.8	
Sun TV Network	518	REDUCE	204,074	4,568	394	13.1	18.0	22.5	44.8	36.9	25.2	39.4	28.8	23.0	22.4	16.6	13.4	10.5	8.9	7.4	1.4	1.4	1.7	28.4	33.7	35.1	420	(18.9)	3.5	
Zee Entertainment Enterprises	305	REDUCE	132,409	2,964	435	10.6	11.8	14.8	25.7	11.0	25.2	28.7	25.8	20.6	21.1	17.0	13.1	3.4	3.3	3.2	0.8	1.0	1.2	12.8	13.2	16.0	300	(1.5)	11.2	
Media		Neutral	526,442	11,784					186.0	35.6	38.2	43.3	31.9	23.1	20.8	16.0	12.5	6.2	5.8	5.3	1.1	1.2	1.6	14.8	18.1	22.7				
Metals																														
Hindalco Industries	203	ADD	388,638	8,699	1,914	20.0	14.5	16.3	25.0	(27.4)	12.7	10.2	14.0	12.4	5.9	8.0	8.2	1.8	1.6	1.4	0.7	0.7	0.7	20.4	12.2	12.3	225	10.8	30.5	
Hindustan Zinc	1,157	BUY	489,038	10,947	423	95.6	102.5	116.0	48.2	7.2	13.1	12.1	11.3	10.0	7.9	6.4	4.6	2.6	2.1	1.8	0.5	0.5	0.5	24.1	20.8	19.4	1,240	7.1	4.5	
Jindal Steel and Power	738	REDUCE	687,111	15,380	931	38.4	50.9	56.0	17.3	32.7	9.9	19.2	14.5	13.2	13.2	9.5	8.1	6.1	4.3	3.2	0.2	0.3	0.3	37.8	34.9	28.0	625	(15.3)	23.0	
JSW Steel	1,377	REDUCE	347,330	7,775	252	80.4	71.9	112.2	481.1	(10.6)	56.1	17.1	19.2	12.3	12.1	10.0	6.8	3.2	1.9	1.5	0.5	0.7	0.7	16.0	12.5	13.6	1,150	(16.5)	40.0	
National Aluminium Co.	410	SELL	264,264	5,915	644	12.6	14.3	17.3	(34.9)	13.3	20.5	32.5	28.6	23.8	15.5	12.8	10.5	2.5	2.4	2.3	0.6	1.2	1.2	8.1	8.6	9.8	260	(36.6)	1.6	
Sesa Goa	362	REDUCE	322,072	7,209	890	29.6	58.6	46.3	23.5	98.4	(21.0)	12.3	6.2	7.8	10.1	4.3	4.3	4.0	2.5	1.9	1.0	1.0	1.0	35.8	41.5	23.7	340	(6.1)	45.4	
Sterlite Industries	171	ADD	574,171	12,852	3,362	12.0	13.7	18.7	2.8	13.6	36.7	14.2	12.5	9.1	9.1	7.9	4.8	1.6	1.4	1.2	0.5	0.5	0.5	12.9	11.7	14.2	200	17.1	35.9	
Tata Steel	668	REDUCE	611,146	13,680	914	(3.6)	63.4	65.5	(103.6)	(1,880.2)	3.4	(187.8)	10.5	10.2	11.7	6.5	6.2	2.7	2.1	1.8	1.2	1.2	—	(1.5)	22.0	18.7	550	(17.7)	101.7	
Metals		Cautious	3,683,769	82,457					(19.7)	49.5	11.2	18.2	12.2	11.0	9.9	7.5	6.3	2.6	2.1	1.8	0.6	0.7	0.5	14.3	17.2	16.0				
Pharmaceutical																														
Apollo Hospitals	463	BUY	59,633	1,335	129	10.9	14.1	17.8	28.8	28.4	26.5	42.3	33.0	26.1	20.5	14.9	12.5	3.6	3.4	3.0	—	—	—	8.3	9.8	11.4	72	(84.5)	2.0	
Biocon	382	BUY	76,300	1,708	200	14.8	17.8	22.0	216.4	19.8	23.7	25.7	21.5	17.3	14.9	12.5	10.4	4.3	3.7	3.1	—	—	—	17.9	18.8	20.0	400	4.8	5.3	
Cipla	329	REDUCE	264,442	5,919	803	13.7	14.0	16.6	38.1	1.9	19.2	24.0	23.6	19.8	17.2	15.8	13.5	4.5	3.9	3.3	0.6	0.8	0.8	21.1	17.6	18.2	295	(10.4)	10.3	
Cadila Healthcare	693	REDUCE	141,809	3,174	205	24.7	33.2	37.7	66.9	34.2	13.7	28.0	20.9	18.4	18.2	14.0	12.4	8.7	6.5	5.1	0.7	1.0	1.1	36.0	35.8	31.3	580	(16.3)	2.0	
Dishman Pharma & chemicals	190	ADD	15,470	346	81	14.4	17.8	22.8	(19.7)	23.7	28.0	13.2	10.7	8.3	9.9	8.0	6.3	1.9	1.7	1.4	—	—	—	15.5	16.8	18.3	230	20.9	0.8	
Dii's Laboratories	720	REDUCE	94,002	2,104	131	26.1	34.0	44.9	(18.2)	30.4	32.1	27.6	21.2	16.0	20.4	15.6	11.2	6.2	5.1	4.1	—	—	—	24.7	26.4	28.5	800	11.2	3.1	
Dr Reddy's Laboratories	1,503	REDUCE	254,526	5,697	169	48.1	66.7	70.8	48.3	38.8	6.1	31.3	22.5	21.2	17.2	13.0	12.1	6.7	5.3	4.4	0.5	0.5	0.6	22.2	26.3	22.6	1,150	(23.5)	16.5	
GlaxoSmithkline Pharmaceuticals (a)	2,285	REDUCE	193,559	4,333	85	59.1	69.7	79.2	8.1	18.0	13.5	38.7	32.8	28.9	22.5	19.1	16.5	10.8	9.2	7.9	—	—	—	29.8	30.4	29.4	1,880	(17.7)	2.0	
Glenmark Pharmaceuticals	314	NR	86,198	1,929	274	12.7	19.2	20.3	14.7	50.6	5.6	24.7	16.4	15.5	15.5	10.1	9.7	3.7	3.0	2.6	0.0	0.0	0.0	16.7	19.9	17.6	—	—	5.8	
Jubilant Organosys	331	BUY	52,570	1,177	159	26.5	31.8	38.9	49.0	19.8	22.4	12.5	10.4	8.5	9.2	8.3	6.7	2.4	2.0	1.6	0.6	0.8	0.9	26.3	21.7	21.1	400	20.8	2.1	
Lupin	409	ADD	180,941	4,050	442	15.4	19.8	25.5	27.9	28.7	28.7	26.5	20.6	16.0	22.6	16.3	12.9	7.8	7.4	6.5	3.2	3.5	3.8	36.6	37.2	43.6	400	(2.2)	8.5	
Piramal Healthcare	523	REDUCE	109,272	2,446	209	22.4	13.3	9.5	29.7	(40.4)	(28.9)	23.3	39.2	55.1	16.9	7.7	6.2	6.5	1.2	1.0	1.0	1.1	0.7	30.7	140.7	16.5	490	(6.3)	27.6	
Ranbaxy Laboratories	596	SELL	255,176	5,712	428	7.1	27.5	14.8	(128.4)	289.4	(46.0)	84.3	21.7	40.1	20.3	12.4	20.6	6.5	4.6	4.2	—	0.7	0.7	6.9	22.9	10.5	340	(42.9)	13.7	
Sun Pharmaceuticals	2,061	REDUCE	426,874	9,555	207	65.2	90.4	87.4	(25.7)	38.6	(3.3)	31.6	22.8	23.6	24.4	17.1	16.6	5.1	4.3	3.7	0.7	0.7	0.7	17.8	21.0	17.3	1,835	(11.0)	8.9	
Pharmaceuticals		Attractive	2,210,772	49,486					45.2	33.9	4.8	30.0	22.4	21.4	18.6	13.9	13.0	5.6	4.0	3.4	0.6	0.8	0.8	18.6	18.					

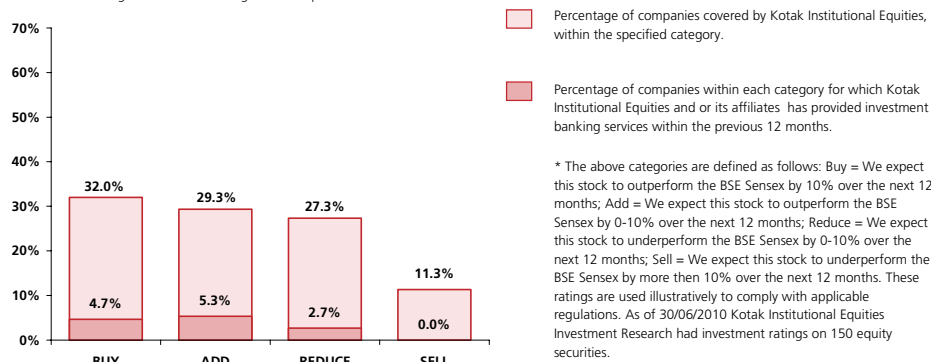
Kotak Institutional Equities: Valuation summary of key Indian companies

Company	5-Oct-10		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E
Retail																													
Titan Industries	3,309	ADD	146,864	3,287	44	57.3	83.9	110.9	29.3	46.5	32.2	57.8	39.4	29.8	36.8	26.6	20.3	19.9	14.0	9.9	0.5	0.4	0.4	38.7	41.7	38.8	3,600	8.8	12.6
Retail		Neutral	146,864	3,287					29.3	46.5	32.2	57.8	39.4	29.8	36.8	26.6	20.3	19.9	14.0	9.9	0.5	0.4	0.4	38.7	41.7	38.8	3,600	8.8	12.6
Sugar																													
Bajaj Hindustan	134	SELL	25,709	575	191	4.9	9.9	8.9	52.3	101.0	(9.9)	27.3	13.6	15.1	8.8	6.3	6.1	1.1	1.0	1.0	0.5	0.5	0.5	4.2	7.9	6.5	99	(26.3)	5.0
Balrampur Chini Mills	94	ADD	24,058	539	257	4.3	10.4	7.0	(43.2)	140.4	(32.7)	21.6	9.0	13.4	9.7	6.0	6.5	1.7	1.5	1.4	0.5	0.5	0.5	8.2	17.9	10.9	93	(0.7)	4.8
Shree Renuka Sugars	86	BUY	57,603	1,289	670	9.9	7.7	8.1	195.3	(21.9)	4.7	8.7	11.2	10.7	5.4	6.3	5.5	2.0	1.7	1.4	0.5	0.4	0.4	22.4	17.0	14.8	76	(11.6)	13.3
Sugar		Cautious	107,370	2,403					80.0	12.4	(8.4)	12.4	11.0	12.1	7.1	6.2	5.9	1.6	1.4	1.3	0.5	0.5	0.5	13.1	12.8	10.5			
Technology																													
HCL Technologies	433	REDUCE	298,805	6,688	690	17.5	24.5	30.1	0.2	39.7	23.0	24.7	17.7	14.4	12.0	10.5	8.6	4.2	3.6	3.1	0.9	0.9	1.4	19.3	22.0	21.2	390	(9.9)	9.3
Hexaware Technologies	79	REDUCE	11,312	253	144	9.3	5.0	9.4	127.7	(46.3)	87.7	8.4	15.7	8.4	4.2	9.8	5.0	1.3	1.2	1.1	1.3	1.3	1.3	17.8	8.2	14.0	72	(8.6)	2.0
Infosys Technologies	3,085	BUY	1,770,618	39,633	574	108.3	124.1	150.0	5.7	14.5	20.9	28.5	24.9	20.6	20.9	17.2	14.0	7.7	6.4	5.3	0.8	1.1	1.4	30.1	28.0	28.0	3,100	0.5	62.6
Mphasis BFL	641	SELL	135,020	3,022	211	43.6	50.3	45.6	207.5	15.5	(9.3)	14.7	12.7	14.0	11.8	10.2	9.6	5.8	4.1	3.2	0.5	0.6	0.7	48.1	37.5	25.8	550	(14.2)	6.6
Mindtree	510	REDUCE	20,991	470	41	52.2	32.6	51.6	294.3	(37.5)	58.1	9.8	15.6	9.9	8.4	8.9	5.8	3.1	2.6	2.1	0.4	0.6	1.0	35.2	19.2	23.7	550	7.8	1.0
Patni Computer Systems	455	REDUCE	60,626	1,357	133	36.6	41.3	37.5	36.4	12.8	(9.1)	12.4	11.0	12.1	6.1	5.3	4.4	1.7	1.6	1.4	1.6	1.8	1.6	18.2	15.1	12.4	450	(1.1)	13.8
Polaris Software Lab	171	SELL	17,014	381	100	15.4	19.1	18.8	16.9	24.3	(1.7)	11.1	8.9	9.1	5.4	7.1	6.0	2.0	1.7	1.5	2.1	2.2	2.3	18.6	20.1	17.2	180	5.5	4.8
Satyam Computer Services	87	REDUCE	102,547	2,295	1,176	2.5	5.0	5.4	(190.7)	102.3	7.0	35.1	17.3	16.2	17.8	11.4	8.4	5.5	5.7	4.2	—	—	—	58.5	32.2	30.0	80	(8.3)	36.0
TCS	950	BUY	1,859,829	41,630	1,957	35.1	42.1	48.2	32.8	19.8	14.5	27.1	22.6	19.7	20.5	16.5	13.8	8.9	7.3	6.1	2.1	1.8	2.0	37.6	35.6	33.9	965	1.6	35.6
Tech Mahindra	765	REDUCE	94,790	2,122	124	65.1	68.9	67.8	(9.6)	5.7	(1.5)	11.7	11.1	11.3	9.4	11.5	10.2	3.3	2.7	2.2	0.5	0.3	0.3	29.5	20.3	16.2	735	(3.9)	8.9
Wipro	461	ADD	1,128,158	25,253	2,447	18.9	22.3	25.7	22.1	18.1	15.6	24.5	20.7	17.9	18.5	15.0	12.4	5.8	4.7	3.9	0.8	1.0	1.2	26.5	25.0	23.7	465	0.8	13.3
Technology		Attractive	5,499,711	123,105					24.0	18.4	15.1	25.0	21.1	18.3	18.0	15.1	12.5	6.6	5.5	4.5	1.2	1.3	1.5	26.3	25.9	24.8			
Telecom																													
Bharti Airtel	354	REDUCE	1,343,021	30,062	3,798	23.6	20.0	20.7	5.8	(15.6)	3.9	15.0	17.7	17.1	8.5	9.0	7.4	3.2	2.7	2.3	—	—	—	24.4	16.5	14.7	305	(13.8)	50.2
IDEA	73	REDUCE	239,400	5,359	3,300	2.7	2.2	1.5	(5.8)	(19.7)	(30.8)	26.5	33.1	47.8	9.0	9.8	8.3	2.1	2.0	1.9	—	—	—	7.2	6.2	4.2	55	(24.2)	12.0
MTNL	66	SELL	41,832	936	630	(15.6)	(10.4)	(9.1)	(750.8)	(33.7)	(11.9)	(4.2)	(6.4)	(7.3)	(0.6)	(0.7)	(0.9)	0.4	0.4	0.4	—	—	—	(8.5)	(6.1)	(5.7)	50	(24.7)	2.3
Reliance Communications	178	SELL	379,482	8,494	2,133	22.1	6.0	9.4	(30.2)	(72.8)	56.1	8.1	29.6	19.0	7.3	9.9	8.2	1.0	0.9	0.9	0.4	—	—	11.7	3.2	4.9	125	(29.8)	21.8
Tata Communications	322	REDUCE	91,884	2,057	285	14.0	15.2	15.7	3.2	8.2	3.5	23.0	21.3	20.6	9.3	8.6	8.2	1.3	1.3	1.2	2.0	2.3	2.6	5.2	5.5	5.5	225	(30.2)	3.2
Telecom		Cautious	2,095,620	46,908					(15.9)	(33.1)	9.5	14.8	22.1	20.2	8.5	9.5	7.8	1.9	1.8	1.6	0.2	0.1	0.1	12.8	7.9	8.0			
Utilities																													
Adani Power	137	ADD	299,423	6,702	2,180	0.8	4.8	19.1	NM	510.9	298.8	175.3	28.7	7.2	142.7	23.8	6.6	5.2	4.4	2.7	—	—	—	4.2	16.6	46.7	143	4.1	5.0
CESC	397	ADD	49,587	1,110	125	35.2	37.3	44.3	9.3	5.7	18.9	11.3	10.6	9.0	7.1	6.0	6.4	1.2	1.1	1.0	1.1	1.2	1.4	11.1	10.4	11.3	466	17.4	2.7
Lanco Infratech	70	BUY	168,230	3,766	2,405	2.1	4.1	5.4	46.6	92.8	30.4	32.8	17.0	13.0	17.2	9.3	7.9	5.0	3.9	3.0	—	—	—	17.4	23.9	24.2	83	18.7	6.1
NHPC	33	SELL	409,615	9,169	12,301	1.9	1.4	1.7	74.9	(25.2)	19.7	18.0	24.0	20.1	11.4	12.0	9.3	1.6	1.6	1.5	1.7	1.1	1.3	9.7	6.6	7.6	28	(15.9)	7.2
NTPC	216	REDUCE	1,781,845	39,885	8,245	10.8	12.5	14.7	9.6	16.2	17.4	20.1	17.3	14.7	15.3	13.3	11.0	2.8	2.6	2.3	1.9	2.2	2.5	14.5	15.4	16.6	210	(2.8)	12.1
Reliance Infrastructure	1,114	ADD	274,112	6,136	246	61.8	65.0	84.5	(1.5)	5.3	30.0	18.0	17.1	13.2	19.3	17.0	11.9	1.4	1.3	1.2	0.7	0.8	0.9	6.3	7.3	10.1	1,160	4.1	29.9
Reliance Power	169	SELL	404,212	9,048	2,397	2.9	3.1	5.3	179.7	9.8	70.0	59.1	53.8	31.7	(541.3)	236.1	36.7	2.8	2.7	2.5	—	—	—	4.8	5.1	8.1	135	(20.0)	11.6
Tata Power	1,399	ADD	345,210	7,727	247	60.2	69.2	88.5	20.1	15.0	27.8	23.2	20.2	15.8	14.3	12.9	11.1	2.6	2.4	2.1	0.9	1.0	1.1	12.9	12.5	14.3	1,420	1.5	11.2
Utilities		Attractive	3,732,234	83,542					23.8	16.9	38.3	23.6	20.2	14.6	18.3	15.4	11.0	2.5	2.3	2.1	1.2	1.3	1.5	10.6	11.4	14.1			
Others																													
Havells India	873	SELL	52,551	1,176	60	5.3	31.6	45.0	3.7	497.9	42.6	165.3	27.7	19.4	21.5	13.3	11.0	14.5	9.5	6.5	0.3	0.3	0.3	6.6	41.6	39.7	497	(43.1)	9.5
Jaiprakash Associates	129	BUY	275,044	6,157	2,129	1.5	5.5	7.4	(27.2)	279.8	34.1	88.7	23.4	17.4	22.1	16.2	11.5	3.2	2.8	2.4	—	—	—	4.1	12.8	14.9	170	31.6	24.7
Jindal Saw	216	ADD	63,476	1,421	294	25.0	18.6	17.9	110.8	(25.4)	(4.0)	8.6	11.6	12.1	5.6	6.4	6.2	1.7	1.4	1.3	0.4	0.4	0.4	20.5	12.9	11.1	256	18.6	3.3
PSL	117	BUY	6,234	140	53	22.9	25.4	28.2	3.3	10.6	11.0	5.1	4.6	4.1	3.0	2.5	2.7	0.7	0.6	0.5	5.6	5.6	6.0	12.6	11.7	12.0	182	56.1	1.0
Sintex	431	BUY	58,768	1,315	136	24.1	28.3	33.3	0.5	17.4	17.5	17.9	15.2	12.9	14.1	9.7	8.4	2.8	2.3	2.0	0.3	0.3	0.3	15.5	15.3	15.2	380	(11.7)	7.0
Tata Chemicals	398	REDUCE	96,694	2,164	243	26.4	35.1	39.2	(27.1)	32.9	11.7	15.0	11.3	10.1	7.5	5.9	5.0	2.1	1.8	1.5	2.3	2.4	2.4						

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