kotak® Institutional Equities

INDIA DAILY

March 25, 2010

Contents

Updates

News Round-up

- Zain Telecom's board cleared Bharti Airtel's (BHARTI IN)proposal to buy its African assets for USD 10.7 bn, marking the Indian company's first successful attempt to acquire operations in Africa after two failures. (BSTD)
- Bayer has filed a patent infringement case against Cipla (CIPLA IN), to stop selling the generic version of controversial cancer medicine Nexavar. (ECNT)
- State Bank of India (SBIN IN) has decided to raise up to USD 3.26bn through a rights issue in the third quarter of next fiscal & will seek govt. nod for the proposal as early as next month. (ECNT)
- Coal India, GAIL (GAIL IN) and RCF (RCF IN) will come together to establish a project for producing urea and ammonium nitrate at Talcher, Orissa. The JV with GAIL and RCF has been mandated to produce a sizable amount of urea, as well as 20-30% of our annual ammonium nitrate requirement. (BSTD)
- Tata Motors (TTMT IN) offers early conversion of USD 431 mn bonds to reduce debt. (BSTD-Wed)
- Maruti Suzuki India (MSIL IN) said it would be investing USD 271 mn to double capacity at its K-series petrol engine unit in Gurgaon to 500,000 by 2012. (BSTD-Wed)
- Cipla (CIPLA IN) sold its emergency contraceptive brand, i-pill, to Piramal Healthcare (PIHC IN) in a deal worth USD 20 mn. (BSTD-Wed)
- L&T (LT IN) bags orders worth USD 326 mn. (BSTD-Wed)
- Cairn India (CAIR IN) today announced an increase in the estimate of potential crude oil peak output from its Rajasthan oilfields by 37%, to 240,000 barrels per day. (BSTD-Wed)
- IOC (IOCL IN) and Oil India (OINL IN) confirmed on Tuesday making an "approach" to take over the West Asian focused oil firm Gulfsands Petroleum Plc for an undisclosed amount. (BSTD-Wed)
- BHEL steps up focus on non-power segment. Hopes to reduce risks by entering new growth areas. (THBL-Wed)
- Spic exits Jordan JV, sells stake for USD 49.56mn. (ECNT-Wed)

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

EQUITY MARKETS

		Change %		
India	**23-Mar**	**1-day**	**1-mo**	**3-mo**
Sensex	17,451	0.2	7.4	0.5
Nifty	5,225	0.4	7.5	0.9
Global/Regional indices				
Dow Jones	10,836	(0.5)	5.0	3.0
Nasdaq Composite	2,399	(0.7)	7.4	4.9
FTSE	5,678	0.1	7.6	5.1
Nikkie	10,841	0.2	7.3	3.3
Hang Seng	20,799	(1.0)	2.0	(3.3)
KOSPI	1,686	0.3	6.2	0.2
Value traded - India				
Cash (NSE+BSE)	163.7		176.1	166.4
Derivatives (NSE)	822.6		822.6	1,176
Deri. open interest	1,256.3		1,256	1,218

Forex/money market				
		Change, basis points		
	23-Mar	1-day	1-mo	3-mo
Rs/US$	45.4	(9)	(104)	(130)
10yr govt bond, %	7.9	(1)	7	28
Net investment (US$mn)				
	22-Mar		MTD	CYTD
FIIs	59		2,989	(230)
MFs	(79)		(499)	(282)

Top movers -3mo basis				
		Change, %		
Best performers	23-Mar	1-day	1-mo	3-mo
MSEZ IN Equity	726.4	(0.1)	8.8	30.4
SIEM IN Equity	737.6	0.9	10.9	27.3
JSTL IN Equity	1267.3	2.8	16.8	23.6
BOB IN Equity	624.7	(0.0)	9.4	21.5
ACEM IN Equity	117.6	(0.3)	11.2	18.1
Worst performers				
IBREL IN Equity	145.5	(2.7)	(11.8)	(33.5)
HDIL IN Equity	284.2	1.0	(3.1)	(22.3)
NMDC IN Equity	326.7	(5.5)	(23.6)	(21.5)
DLFU IN Equity	294.5	(2.3)	1.7	(20.5)
HPCL IN Equity	313.5	(1.3)	(11.5)	(19.9)

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kotak Institutional Equities

Reliance Industries (RIL)

Energy

SELL

MARCH 23, 2010

UPDATE

Coverage view: Cautious

Price (Rs): 1,091

Target price (Rs): 950

BSE-30: 17,451

FY2009 capex revisited; increase EPS estimates, no change in view. We revisit RIL's FY2009 annual report and capex in light of new information on capex spending on RIL's Jamnagar SEZ unit by the Gujarat government. We believe an explanation of the Rs914 bn of reported increase in gross block and C-WIP in FY2009 with Rs732 bn of identifiable capex and other items would be useful in more accurately forecasting estimates, particularly DDA expenses. We have fine-tuned estimates but see focus on balance sheet as equally relevant for investors.

Company data and valuation summary

Reliance Industries

Stock data			
52-week range (Rs) (high,low)			1,268-675
Market Cap. (Rs bn)			3,183.6
Shareholding pattern (%)			
Promoters			41.1
FIIs			20.5
MFs			2.4
Price performance (%)	**1M**	**3M**	**12M**
Absolute	11.9	2.4	51.7
Rel. to BSE-30	4.4	1.1	(18.1)

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	49.3	66.5	81.4
EPS growth (%)	(2.5)	34.9	22.4
P/E (X)	22.1	16.4	13.4
Sales (Rs bn)	2,148.8	2,469.3	2,592.7
Net profits (Rs bn)	162.0	218.5	267.5
EBITDA (Rs bn)	305.3	385.7	436.7
EV/EBITDA (X)	11.5	8.5	6.9
ROE (%)	10.9	12.8	14.0
Div. Yield (%)	0.5	0.7	0.9

Gujarat government puts investment in Jamnagar SEZ at Rs320 bn

The Gujarat government has recently disclosed the total investment by Reliance Industries Group in the Jamnagar SEZ at Rs320 bn. This would suggest that Rs103 bn of reported capex in the R&M segment as disclosed in the MDA of FY2009 annual report of RIL is probably the actual capex spending in FY2009 (total capex of Rs320 bn less Rs213 bn of capex up to March 31, 2008). RIL acquired Rs213 bn of assets of RPET on amalgamation of RPET with RIL on March 31, 2008.

Explanation of Rs183 bn difference may help assess DD&A expenses better

We attempt to reconcile the increase in RIL's gross block and C-WIP of Rs914 bn in FY2009 with identifiable capex (Rs247 bn including Rs103 bn in the R&M segment) and other items totaling Rs732 bn in light of the aforementioned disclosure by the Gujarat government. Investors had previously argued that the gap may represent additional capex of Rs183 bn incurred by RIL but not shown as capex since that RIL may not have made payments to suppliers. In our view, a breakdown of capex of Rs430 bn incurred in FY2009 by segments and projects would be helpful in more accurately forecasting DD&A expenses for the future years, especially in light of RIL's Full Cost Accounting methodology for the E&P segment. The 'additional' Rs183 bn may have a material impact on earnings.

Raised EPS estimates but no change to view

We have raised FY2010E, FY2011E and FY2012E EPS estimates to Rs49, Rs67 and Rs81 versus Rs48, Rs63 and Rs76 to reflect higher refining margins. We now model FY2010E, FY2011E and FY2012E refining margins at US$6.9/bbl, US$8.8/bbl and US$9.6/bbl against US$6.6/bbl, US$8.1/bbl and US$8.7/bbl previously. Our other assumptions are unchanged. We see upside risks from higher-than-expected chemical and refining margins and downside risks from (1) higher taxation on gas production and (2) lower-than-expected chemical and refining margins. We retain our SELL rating with revised SOTP-based 12-month fair valuation of Rs950 (Rs940 previously) based on FY2011 estimates.

QUICK NUMBERS

- Rs320 bn of capex in Jamnagar SEZ unit as disclosed by the Gujarat government
- Rs183 bn of unexplained gap between top-down and bottom-up gross block analysis
- Raised FY2010E and FY2011E EPS by 3.3% and 6.2%

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Movement in top-down figures with bottom-up capex and other items

We have previously discussed (in our October 23, 2009 note on RIL's FY2009 annual report) our attempt at explaining (1) the Rs914 bn increase in RIL's gross block and C-WIP with (2) disclosures on capex and other items such as revaluation of assets, amalgamation of RPET with RIL and capitalization of interest and capitalization of foreign exchange currency translation loss.

Exhibit 1 shows the change in gross block and C-WIP between FY2009 and FY2008 and attempts to explain the same with identifiable capex (see Exhibit 2 for breakdown of capex across key segments as shown in the MDA in the FY2009 annual report of RIL; page 18) and other items. The capex figure of Rs247 bn shown in the exhibit below represents capex as shown in (1) the MDA with breakdown across segments and (2) under investing activities in the cash flow statement.

Clarity on increase in gross block and C-WIP required
Movement in fixed assets of RIL, March fiscal year-end, 2009 (Rs bn)

Gross block as on March 31, 2008	1,042
Capital work-in-progress as on March 31, 2008	230
Total fixed assets as on March 31, 2008 (A)	**1,272**
Gross block as on March 31, 2009	1,496
Capital work-in-progress as on March 31, 2009	690
Total fixed assets as on March 31, 2009 (B)	**2,187**
Net additions to fixed assets (C) = (B) - (A)	**914**
Expenditure on E&P, R&M and others as per FY2009 cash flow statement	247
Gross block and C-WIP of RPET as on March 31, 2008	213
Revaluation of assets at Gandhar and Nagothane	129
Exchange difference due to weaker rupee	109
Interest capitalized	34
Explained additions to fixed assets (D)	**732**
Remaining net additions (C)- (B)	**183**

Source: Company, Kotak Institutional Equities

Segment-wise capital expenditure as given in the RIL annual report
Capital expenditure breakdown, March fiscal year-ends, 2008-09 (Rs bn)

	2008	2009
Oil and gas (E&P)	134.4	102.7
Refining and marketing	26.6	102.9
Petrochemicals	5.1	25.1
Common	28.9	16.4
Total	**195.0**	**247.1**

Source: Company, Kotak Institutional Equities

Several investors had previously argued with us that the capex of Rs247 bn shown in the cash flow statement may represent only 'cash' capex and RIL's actual capex in FY2009 may have been Rs430 bn (including the Rs183 bn gap discussed above). We do not deny that possibility but our understanding of segment capex and cost of various ongoing projects suggest that the Rs430 bn figure may be aggressive. More important, a breakdown of Rs430 bn of capex across segments and projects would help us more accurately forecast DD&A expenses, particularly in light of RIL's Full Cost Accounting methodology for the E&P segment. We make the following observations on RIL's FY2009 capex.

- **Capex of Rs103 bn on R&M seems to match with the investment figure disclosed by the Gujarat government.** We note that the Gujarat government recently disclosed that RIL had spent Rs320 bn on its Jamnagar SEZ unit. This roughly matches with (1) Rs213 bn of gross block and C-WIP of RPET acquired on March 31, 2008 as part of the amalgamation of RPET with RIL and (2) Rs103 bn of capex disclosed in the MDA.
- **Capex of Rs103 bn on E&P disclosed in MDA appears low compared to disclosures made by Niko and may partly explain the gap.** We note that RIL's partner, Niko Resources, disclosed a capex of US$400 mn in FY2009 in India with the bulk of it on its KG D-6 block and other common blocks with RIL. That would put RIL's capex at US$3.6 bn (maximum) or around Rs183 bn (against Rs103 bn disclosed in the MDA) since the bulk of Niko's capex pertained to the KG D-6 block and other common blocks. RIL owns 90% of KG D-6 block (and other common blocks) and Niko 10%. RIL would have spent additional capex on other blocks for exploration.
- **Capex on petrochemicals and other areas too small to make a significant contribution.** RIL's annual report shows capex on petrochemicals at Rs25 bn and on common items at Rs16.4 bn. We rule out capex on these items being significantly higher than that reported in the MDA even assuming the different definitions of capex (actual capex and 'cash' capex).

Raised EPS estimates to factor in higher refining margins

We have raised FY2010E, FY2011E and FY2012E EPS estimates to Rs49 (+3.3%), Rs67 (+6.2%) and Rs81 (+7.3%) to factor in higher refining margins. We now model FY2010E, FY2011E and FY2012E refining margin at US$6.9/bbl, US$8.8/bbl and US$9.6/bbl versus US$6.6/bbl, US$8.1/bbl and US$8.7/bbl previously; see Exhibit 3 for our key assumptions of RIL's refining segment. There are no other changes in our model. We discuss key other assumptions below.

Major assumptions of refinery division, March fiscal year-ends, 2006-2012E (US$/bbl)

	2006	2007	2008	2009	2010E	2011E	2012E
RIL refinery							
Rupee-dollar exchange rate	44.3	45.3	40.3	45.8	47.4	46.0	46.0
Import tariff on crude (%)	5.1	5.1	1.4	1.1	1.1	5.8	5.8
Refinery yield (per bbl of crude throughput)	61.9	75.3	97.4	104.6	83.7	95.6	99.2
Cost of inputs (per bbl of crude throughput)	49.5	63.5	82.4	92.4	76.5	86.8	89.5
Landed cost of inputs	52.1	66.7	83.5	93.4	77.3	91.8	94.7
Net refining margin	**9.8**	**11.8**	**15.0**	**12.2**	**7.2**	**8.8**	**9.7**
Crude throughput (mn tons)	30.5	31.8	31.8	32.0	32.0	32.0	32.0
Fuel and loss-own fuel used (%)	7.6	8.0	8.0	8.0	6.0	2.6	2.6
Fuel & loss equivalent-gas used (%)					2.0	5.4	5.4
Cost of natural gas used (US$/mn BTU)					5.5	5.5	5.5
Domestic sales of gasoline and diesel (mn tons)	**3.7**	**2.4**	**1.3**	**—**	**1.0**	**3.5**	**3.5**
Exports of gasoline and diesel (mn tons)	10.0	12.3	14.1	16.6	15.6	13.7	13.7
Marketing volumes of auto fuels (mn tons)	**3.3**	**1.9**	**0.8**	**—**	**1.0**	**3.5**	**3.5**
Marketing margin of auto fuels (Rs/ton)	700	(1,190)	(1,633)		1,550	1,529	1,529
SEZ refinery							
Import tariff on crude (%)					—	1.5	1.5
Refinery yield (per bbl of crude throughput)					70.8	92.1	95.7
Cost of inputs (per bbl of crude throughput)					64.3	82.1	84.8
Landed cost of crude					64.3	83.4	86.1
Net refining margin					**6.5**	**8.7**	**9.5**
Crude throughput (mn tons)					28.8	29.0	29.0
Fuel and loss-own fuel used (%)					6.5	3.1	3.1
Fuel & loss equivalent-gas used (%)					2.0	5.4	5.4
Cost of natural gas used (US$/mn BTU)					5.5	5.5	5.5
Blended refining margin (US$/bbl)					**6.9**	**8.8**	**9.6**

Note:
(a) Refining margins do not include sales tax incentives.

Source: Company, Kotak Institutional Equities estimates

- **Chemical margins.** Exhibit 4 gives our key assumptions on margins and prices for the chemical segment.

Key chemical prices and margins assumptions, March fiscal year-ends, 2006-12E

	2006	2007	2008	2009	2010E	2011E	2012E
Chemical prices							
LDPE	1,130	1,360	1,600	1,400	1,500	1,400	1,450
LLDPE	1,125	1,350	1,575	1,330	1,430	1,300	1,350
HDPE	1,100	1,340	1,500	1,275	1,430	1,275	1,325
Polypropylene	1,170	1,350	1,470	1,300	1,360	1,250	1,300
PVC	825	890	1,100	925	1,000	1,000	1,050
PFY	1,350	1,400	1,550	1,485	1,380	1,450	1,475
PSF	1,265	1,360	1,475	1,320	1,310	1,350	1,375
Paraxylene	900	1,225	1,200	1,085	1,050	1,075	1,100
Chemical margins							
LLDPE—naphtha	**655**	**820**	**850**	**655**	**800**	**650**	**675**
HDPE—naphtha	630	810	775	600	800	625	650
PP—naphtha	**700**	**820**	**745**	**625**	**730**	**600**	**625**
PVC—1.025 x (0.235 x ethylene + 0.864 x	264	247	396	401	456	471	515
POY—naphtha	**880**	**870**	**825**	**810**	**750**	**800**	**800**
PSF—naphtha	795	830	750	645	680	700	700
PX—naphtha	**430**	**695**	**475**	**410**	**420**	**425**	**425**
POY—0.85 x PTA—0.34 x MEG	353	329	364	496	341	422	447
PSF—0.85 x PTA—0.34 x MEG	**268**	**289**	**289**	**331**	**271**	**322**	**347**
PTA—0.67 x PX	222	89	121	133	217	180	163

Source: Company, Kotak Institutional Equities estimates

- **Volume and price of gas produced from KG D-6 block.** We model gas production from KG D-6 block at 40 mcm/d, 70 mcm/d and 80 mcm/d. We assume gas price at US$4.34/mn BTU broken down between US$4.2/mn BTU of wellhead price and US$0.135/mn BTU of marketing margin for FY2010-12E.

- **Income tax.** We model FY2010E, FY2011E and FY2012E effective tax rate at 21.8%, 20.9% and 20.7% versus 21.7% in 9MFY10. We assume that RIL will get 100% income tax exemption for gas production for the first seven years of production. However, in case the government or judiciary decide that the tax exemption is available on crude oil only, then our FY2010E, FY2011E and FY2012E EPS estimate would decline by 6.9%, 9.8% and 10.1% to Rs46, Rs60 and Rs73.

Reliance's earnings have high leverage to refining margins
Sensitivity of RIL's earnings to key variables

	Fiscal 2010E			Fiscal 2011E			Fiscal 2012E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
Rupee-dollar exchange rate									
Rupee-dollar exchange rate	46.4	47.4	48.4	45.0	46.0	47.0	45.0	46.0	47.0
Net profits (Rs mn)	155,912	162,022	168,131	210,267	218,549	226,830	258,369	267,489	276,620
EPS (Rs)	47.5	49.3	51.2	64.0	66.5	69.0	78.6	81.4	84.2
% upside/(downside)	**(3.8)**		**3.8**	**(3.8)**		**3.8**	**(3.4)**		**3.4**
Chemical prices									
Change in prices (%)	(5.0)		5.0	(5.0)		5.0	(5.0)		5.0
Net profits (Rs mn)	156,407	162,022	167,636	213,811	218,549	223,287	262,551	267,489	272,426
EPS (Rs)	47.6	49.3	51.0	65.1	66.5	68.0	79.9	81.4	82.9
% upside/(downside)	**(3.5)**		**3.5**	**(2.2)**		**2.2**	**(1.8)**		**1.8**
Blended refining margins (US$/bbl)									
Margins (US$/bbl)	5.9	6.9	7.9	7.8	8.8	9.8	8.6	9.6	10.6
Net profits (Rs mn)	145,549	162,022	178,516	201,243	218,549	235,736	250,252	267,489	284,616
EPS (Rs)	44.3	49.3	54.3	61.3	66.5	71.7	76.2	81.4	86.6
% upside/(downside)	**(10.2)**		**10.2**	**(7.9)**		**7.9**	**(6.4)**		**6.4**

Source: Kotak Institutional Equities estimates

SOTP valuation of Reliance is Rs950 per share on FY2011E estimates
Sum-of-the-parts valuation of Reliance Industries, FY2011E basis (Rs)

	Valuation base (Rs bn)		Multiple (X)		EV	Valuation
	Other	EBITDA	Multiple	EV/EBITDA	(Rs bn)	(Rs/share)
Chemicals		100		7.0	700	235
Refining & Marketing		138		7.5	1,032	347
Oil and gas—producing (PMT and Yemen)		18		5.0	92	31
Gas—producing and developing (DCF-based) (a)	809				809	272
KG D-6	381				381	128
NEC-25	141				141	47
CBM	75				75	25
KG D-3	59				59	20
KG D-9	86				86	29
MN D-4	67				67	22
Oil—KG-DWN-98/3 (b)	83				83	28
Investments other than valued separately	49				49	17
Loans & advances to affiliates	4				4	1
Retailing	40		80%		32	11
SEZ development	75		80%		60	20
Total enterprise value					**2,860**	**961**
Net debt adjusted for 50% of C-WIP of E&P assets					26	9
Implied equity value					**2,834**	**952**

Note:
(a) We value KG D-6, NEC-25, CBM, KG D-3, KG D-9 and MN D-4 blocks on DCF.
(b) 180 mn bbls of recoverable reserves based on gross OOIP of 0.5 bn bbls.
(c) We use 2.976 bn shares (excluding treasury shares) for per share computations.

Source: Kotak Institutional Equities estimates

SOTP valuation of Reliance is Rs1,100 per share on FY2012E estimates
Sum-of-the-parts valuation of Reliance Industries, FY2012E basis (Rs)

	Valuation base (Rs bn)		Multiple (X)		EV	Valuation
	Other	EBITDA	Multiple	EV/EBITDA	(Rs bn)	(Rs/share)
Chemicals		105		7.0	738	248
Refining & Marketing		154		7.5	1,155	388
Oil and gas—producing (PMT and Yemen)		18		5.0	92	31
Gas—producing and developing (DCF-based) (a)	799				799	268
KG D-6	316				316	106
NEC-25	154				154	52
CBM	75				75	25
KG D-3	72				72	24
KG D-9	102				102	34
MN D-4	80				80	27
Oil—KG-DWN-98/3 (b)	83				83	28
Investments other than valued separately	49				49	17
Loans & advances to affiliates	4				4	1
Retailing	46		80%		37	12
SEZ development	75		80%		60	20
Total enterprise value					**3,016**	**1,013**
Net debt adjusted for 50% of C-WIP of E&P assets					(243)	(82)
Implied equity value					**3,259**	**1,095**

Note:
(a) We value KG D-6, NEC-25, CBM, KG D-3, KG D-9 and MN D-4 blocks on DCF.
(b) 180 mn bbls of recoverable reserves based on gross OOIP of 0.5 bn bbls.
(c) We use 2.977 bn shares (excluding treasury shares) for per share computations.

Source: Kotak Institutional Equities estimates

RIL: Profit model, balance sheet, cash model, March fiscal year-ends, 2005-2012E (Rs mn)

	2005	2006	2007	2008	2009	2010E	2011E	2012E
Profit model (Rs mn)								
Net sales	656,223	809,113	1,114,927	1,334,430	1,418,475	2,148,806	2,469,314	2,592,677
EBITDA	**123,820**	**139,991**	**198,462**	**233,056**	**233,139**	**301,692**	**382,071**	**433,116**
Other income	14,498	6,829	4,783	8,953	20,599	24,658	25,193	24,993
Interest	(14,687)	(8,770)	(11,889)	(10,774)	(17,452)	(20,625)	(21,656)	(7,254)
Depreciation & depletion	(37,235)	(34,009)	(48,152)	(48,471)	(51,953)	(98,551)	(109,476)	(113,749)
Pretax profits	86,397	104,041	143,205	182,764	184,332	207,175	276,132	337,106
Extraordinary items	4,290	3,000	2,000	47,335	—	—	—	—
Tax	(7,050)	(9,307)	(16,574)	(26,520)	(12,634)	(30,661)	(52,766)	(70,922)
Deferred taxation	(7,920)	(7,040)	(9,196)	(8,999)	(18,605)	(14,492)	(4,817)	1,305
Net profits	75,717	90,693	119,434	194,580	153,093	162,022	218,549	267,489
Adjusted net profits	**72,135**	**88,152**	**117,789**	**152,605**	**153,093**	**162,022**	**218,549**	**267,489**
Earnings per share (Rs)	**26**	**32**	**41**	**52**	**51**	**49**	**67**	**81**
Balance sheet (Rs mn)								
Total equity	404,033	430,543	673,037	847,853	1,263,730	1,496,844	1,684,774	1,914,839
Deferred taxation liability	42,668	49,708	69,820	78,725	97,263	111,755	116,572	115,267
Minority interest	—	—	33,622	33,622	—	—	—	—
Total borrowings	187,846	218,656	332,927	493,072	739,045	611,876	370,910	117,736
Currrent liabilities	171,315	164,545	192,305	251,427	357,019	336,850	381,275	396,890
Total liabilities and equity	**805,863**	**863,452**	**1,301,712**	**1,704,700**	**2,457,057**	**2,557,324**	**2,553,530**	**2,544,731**
Cash	36,087	21,461	18,449	42,822	221,765	202,877	182,070	197,881
Current assets	248,438	224,283	286,566	402,721	325,358	455,367	496,662	509,344
Total fixed assets	350,823	626,745	899,403	1,081,638	1,693,869	1,683,015	1,658,733	1,621,441
Investments	170,515	(9,038)	97,294	177,519	216,065	216,065	216,065	216,065
Deferred expenditure	—	—	—	—	—	—	—	—
Total assets	**805,863**	**863,452**	**1,301,712**	**1,704,700**	**2,457,057**	**2,557,324**	**2,553,530**	**2,544,730**
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	107,002	119,520	164,285	180,718	174,508	240,636	301,176	346,647
Working capital	46,875	(32,188)	(13,075)	(31,071)	(37,983)	(150,179)	3,130	2,933
Capital expenditure	(52,440)	(94,273)	(247,274)	(239,691)	(247,128)	(140,702)	(73,025)	(71,990)
Investments	(48,192)	(32,364)	(105,760)	(78,953)	(10,392)	—	—	—
Other income	3,032	5,159	4,143	6,132	16,195	24,658	25,193	24,993
Free cash flow	**56,276**	**(34,146)**	**(197,681)**	**(162,865)**	**(104,800)**	**(25,587)**	**256,474**	**302,583**
Ratios (%)								
Debt/equity	42.1	45.5	44.8	53.2	54.3	38.0	20.6	5.8
Net debt/equity	34.0	41.1	42.3	48.6	38.0	25.4	10.5	(3.9)
RoAE	17.6	19.9	20.3	18.9	13.6	11.3	13.2	14.4
RoACE	**13.0**	**13.8**	**13.9**	**12.7**	**11.2**	**9.2**	**11.2**	**12.9**

Source: Company, Kotak Institutional Equities estimates

Kotak Institutional Equities

Cairn India (CAIR)

Energy

SELL

MARCH 23, 2010

UPDATE

Coverage view: Cautious

Price (Rs): 294

Target price (Rs): 250

BSE-30: 17,451

Good news on reserves but price assumptions more relevant. We have revised our earnings and fair valuation upward to factor in higher resources disclosed by Cairn. We now model eventual crude oil recovery over the life of the field at 1.43 bn bbls versus 1.12 bn bbls previously and ~1.15 bn bbls now disclosed by the company (versus ~1 bn bbls disclosed earlier). We keep a 25% buffer to factor in likely upgrades to eventual recovery given RJ-ON-90/1 (Rajasthan) block's large resource base.

Company data and valuation summary

Cairn India

Stock data			
52-week range (Rs) (high,low)			310-174
Market Cap. (Rs bn)			555.2
Shareholding pattern (%)			
Promoters			62.4
FIIs			11.0
MFs			2.2
Price performance (%)	1M	3M	12M
Absolute	11.9	4.9	56.4
Rel. to BSE-30	4.4	3.6	(15.5)

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	5.3	21.0	38.7
EPS growth (%)	22.7	297.8	84.9
P/E (X)	55.6	14.0	7.6
Sales (Rs bn)	24.1	87.6	148.3
Net profits (Rs bn)	7.3	39.7	73.5
EBITDA (Rs bn)	14.5	67.9	114.7
EV/EBITDA (X)	38.8	8.7	5.2
ROE (%)	2.9	11.4	20.3
Div. Yield (%)	0.0	5.1	8.5

More reserves a positive for cash flows and valuation

Cairn management disclosed higher recoverable resources at 1.15 bn bbls including (1) 685 mn bbls of MBA fields (no change), (2) 300 mn bbls from MBA EOR (no change) and (3) 140 mn bbls from Barmer Hill formation (new resource included in recoverable portion) versus ~1 bn bbls previously. We have accordingly revised our recoverable reserves estimates to about 1.4 bn bbls over the life of the field to factor in likely upgrades to reserves in the future. We have also increased yearly production volumes to align with the new peak production capacity of 240,000 b/d versus 205,000 b/d previously.

Higher 12-month DCF of Rs250 versus Rs230 previously

Our revised 12-month DCF-based fair valuation of Cairn stock is Rs250 versus Rs230 previously. We keep our crude price assumptions unchanged with the more critical long-term crude price assumption at US$80/bbl (Dated Brent). We have, however, increased the discount to US$6/bbl from US$5/bbl to factor in likely exports of crude oil; in our view, Cairn may find it tough to place all the crude oil in the domestic market or may have to compromise on discount on domestic sales. Finally, we highlight that Cairn's fair valuation is much more sensitive to crude price assumptions given (1) sharing of profit petroleum with the government of India (once IM crosses 2.5X, 50% of profit petroleum accrues to the government) and (2) time value of money; new volume will likely be in the latter years.

Revised earnings estimates to factor in higher production volume but higher discount

We have revised our earnings for FY2011-13E to Rs21, Rs38.7 and Rs46.1 from Rs17.8, Rs35.3 and Rs41.2 to reflect (1) higher production volumes (+ve impact), (2) higher discount of US$6/bbl versus US$5/bbl previously (-ve impact) and (3) higher DD&A expenses relating to higher capex.

QUICK NUMBERS

- Recoverable resource base at ~1.15 bn bbls; we model 1.43 bn bbls of eventual recovery
- Additional 250 mn bbls of gross risked prospective recoverable resource
- Stock discounting US$89/bbl crude price in perpetuity

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Company disclosures on resources and reserves

Exhibit 1 gives revised resource base of Cairn's Rajasthan block and compares the same with the previous disclosure. The company has revised gross discovered resource base to 4 bn bbls (from 3.7 bn bbls previously) for the MBA and other fields broken down between (1) Fategarh formation (2.1 bn bbls) in the MBA fields and (2) 22 other fields including Barmer Hill formation (1.9 bn bbls). The company classifies proved and probable recoverable resource base in the Fategarh formation at over 1 bn bbls and another 140 mn bbls in 22 other fields including Barmer Hill formation. The company has placed the exploration upside at 2.5 bn bbls for resources that have not yet been discovered but may be present. Cairn estimates the gross risked prospective recoverable resources at 250 mn bbls, up from 35 mn bbls previously.

Revised gross oil in place is about 4 bn barrels and 2P reserves is 1.1 bn barrels
Oil in place and reserves of RJ-ON-90/1 block (bn bbls)

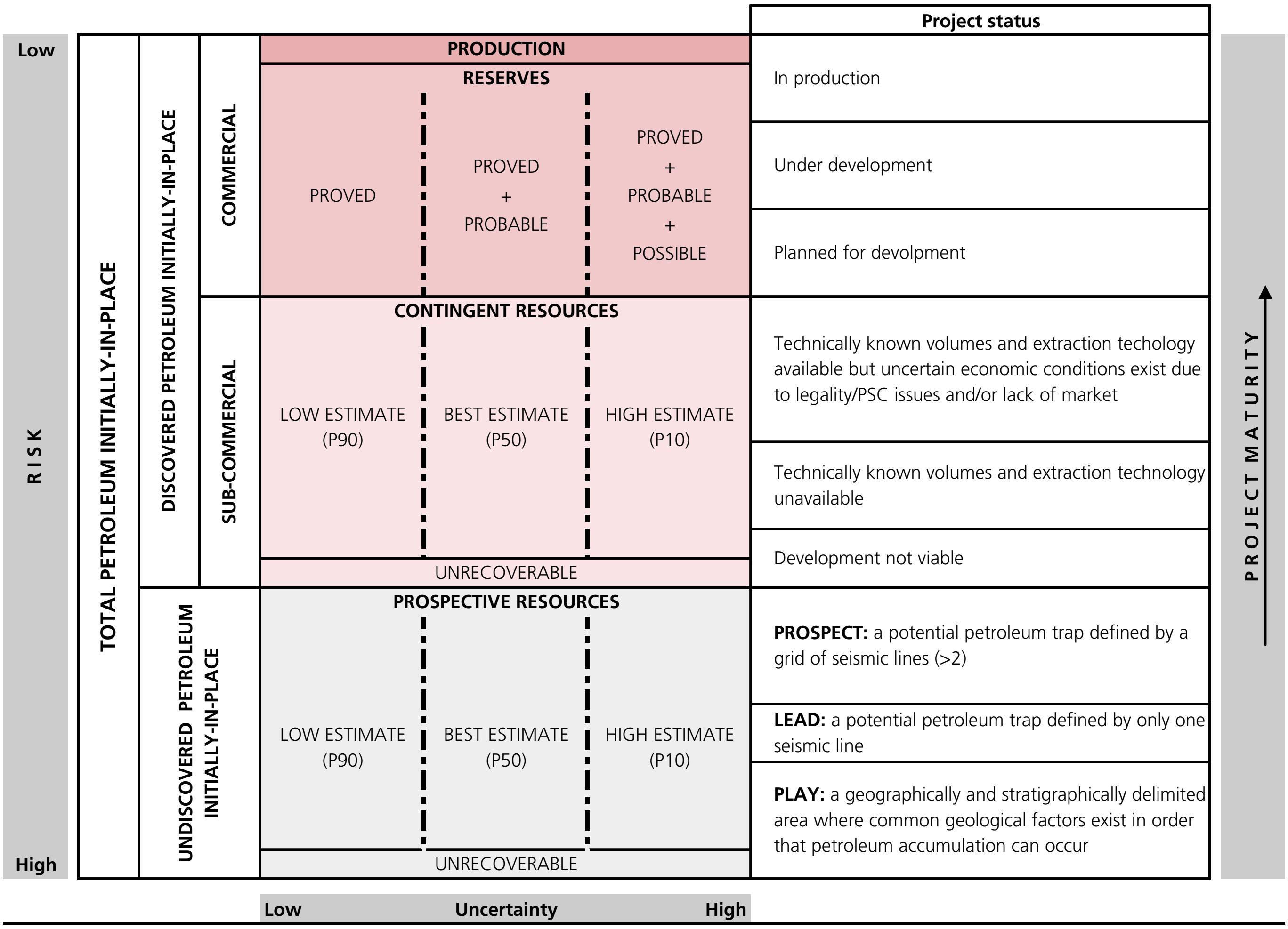
New oil in place and reserves			
	Orginal oil in place	**2P reserves**	**Working Interest**
MBA	2.05	0.69	0.48
MBA EOR		0.31	0.22
Rajasthan other fields	1.90	0.14	0.10
Total RJ-ON-90/1	**3.95**	**1.13**	**0.79**

Previous oil in place and reserves			
	Orginal oil in place	**2P reserves**	**Working Interest**
MBA	2.05	0.69	0.48
MBA EOR		0.31	0.22
Rajasthan other fields	1.70	0.08	0.06
Total RJ-ON-90/1	**3.75**	**1.08**	**0.75**

Source: Company, Kotak Institutional Equities

Exhibit 2 shows the classification of hydrocarbons into prospective resources, contingent resources and reserves for a better understanding of the terms and appreciation of the distinction of recoverable reserves (loosely interpreted as proved and probable reserves) from the total resource base (discovered and undiscovered).

Petroleum resources classification system (not to scale)



Source: SPE, Kotak Institutional Equities

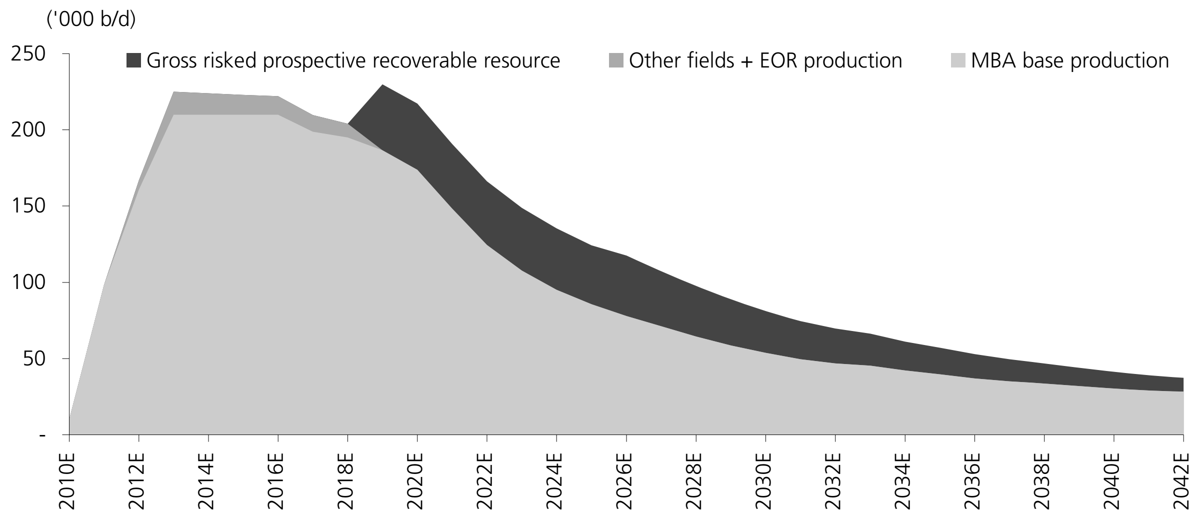
Earnings revisions

We have revised FY2011E, FY2012E and FY2013E EPS estimates to Rs21, Rs38.7 and Rs46.1 from Rs17.8, Rs35.3 and Rs41.2 previously to factor in (1) higher production volumes, and (2) higher discount at US$6/bbl versus US$5/bbl previously. We discuss key assumptions below.

- **Crude price assumptions.** We model FY2011E, FY2012E and FY2013E crude price (Dated Brent basis) at US$70/bbl, US$75/bbl and US$80/bbl. We assume long-term crude price at US$80/bbl. Please refer to our March 3, 2010 report titled *Crude price: Expect short-term weakness* and March 22 report titled *Oil is not about oil alone*. We also build a discount of US$6.5/bbl to factor in likely exports or weaker negotiation ability with domestic refiners given higher volumes. We note that our assumption of discount of US$6/bbl translates into a 7.5% discount.

- **Production volumes.** Exhibit 3 shows our production volume assumptions for Cairn's Rajasthan block. We model oil production at 98,000 b/d, 167,000 b/d and 225,000 b/d in FY2011E, FY2012E and FY2013E.

Cairn can sustain peak production for a longer period through EOR technique
Gross production volume of Rajasthan block, March fiscal year-ends ('000 b/d)



Source: Company, Kotak Institutional Equities estimates

DCF-based valuation of Rs250 versus Rs230 previously

Exhibit 4 gives our DCF-based valuation for Cairn broken down between its key blocks. The Rajasthan block accounts for the bulk of the value. We would highlight that Cairn's valuation is quite sensitive to crude price assumptions, particularly long-term assumptions. Exhibit 5 shows fair valuation of Cairn at various levels of long-term crude price (starting FY2013E). Exhibit 6 shows our reverse valuation exercise for Cairn stock; the stock is now discounting US$89/bbl crude price in perpetuity even after factoring in the higher reserve estimates.

We value Cairn India stock at Rs250
EV and equity value of Cairn (US$ mn)

	Now	+ 1-year	+ 2-years
RJ-ON-90/1	9,428	10,362	11,270
CB-OS-2	121	83	55
Ravva	296	248	208
Upside potential (KG-DWN-98/2)	100	112	125
Total	**9,945**	**10,804**	**11,659**
Net debt	595	153	730
Equity value	**9,350**	**10,651**	**10,929**
Equity shares (mn)	1,897	1,897	1,897
Equity value per share (Rs/share)	**204**	**250**	**273**

Source: Kotak Institutional Equities estimates

Cairn's fair valuation has moderate leverage to crude prices
Enterprise value sensitivity of Cairn to key variables (US$ bn)

	Sensitivity of current valuation			Sensitivity of +1-year valuation		
	Enterprise value (US$ bn)	Equity value (Rs/share)	Change from base case (%)	Enterprise value (US$ bn)	Equity value (Rs/share)	Change from base case (%)
Average crude prices (2013 and beyond)						
Dated Brent price (US$110/bbl)	13.5	294	44	14.6	351	40
Dated Brent price (US$100/bbl)	12.1	262	29	13.1	316	26
Dated Brent price (US$90/bbl)	10.9	236	16	11.9	286	14
Dated Brent price (US$80/bbl)	**9.4**	**204**		**10.4**	**250**	
Dated Brent price (US$70/bbl)	8.3	179	(12)	9.2	222	(11)
Dated Brent price (US$60/bbl)	6.9	148	(27)	7.7	188	(25)
Dated Brent price (US$50/bbl)	5.4	116	(43)	6.2	152	(39)
Cess						
Cess (Rs2,575/ton)	**9.4**	**204**		**10.4**	**250**	
Cess (Rs927/ton)	10.4	224	10	11.3	273	9
Cess (Rs0/ton)	10.7	231	13	11.6	281	12

Source: Kotak Institutional Equities estimates

Crude price discounted at various levels of stock price of Cairn

Stock price (Rs/share)	Crude price discounted (US$/bbl)
310	92
295	89
280	86
265	82
250	78
235	74
220	70
205	67
190	63

Note:
(1) Crude price discounted from FY2011E in perpetuity.
(2) Long-term exchange rate assumption (FY2013E onwards) is Rs46/US$.
(3) Exchange-rate assumptions for FY2010-12E are Rs47.3/US$, Rs46/US$ and Rs46/US$.

Source: Kotak Institutional Equities estimates

Cairn's earnings are highly leveraged to crude prices
Earnings sensitivity of Cairn to key variables

	2010E			2011E			2012E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
Average crude prices									
Crude price (US$/bbl)	65.5	67.5	69.5	68.0	70.0	72.0	73.0	75.0	77.0
Net profits (Rs mn)	9,679	9,991	10,303	37,761	39,740	41,719	70,310	73,485	76,617
Earnings per share (Rs)	5.1	5.3	5.4	19.9	21.0	22.0	37.1	38.7	40.4
% upside/(downside)	**(3.1)**		**3.1**	**(5.0)**		**5.0**	**(4.3)**		**4.3**
Exchange rate									
Rs/US$	46.3	47.3	48.3	45.0	46.0	47.0	45.0	46.0	47.0
Net profits (Rs mn)	9,758	9,991	10,224	38,436	39,740	41,044	71,293	73,485	75,676
Earnings per share (Rs)	5.1	5.3	5.4	20.3	21.0	21.6	37.6	38.7	39.9
% upside/(downside)	**(2.3)**		**2.3**	**(3.3)**		**3.3**	**(3.0)**		**3.0**

Source: Kotak Institutional Equities estimates

Profit model, balance sheet, cash model of Cairn, calendar year-ends, 2006-07, March fiscal year-ends, 2009-14E (Rs mn)

	2006	2007	2009 (a)	2010E	2011E	2012E	2013E	2014E
Profit model (Rs mn)								
Net sales	18,417	16,561	25,156	24,058	87,602	148,343	208,115	205,793
EBITDA	**7,435**	**6,705**	**8,663**	**10,222**	**63,483**	**109,997**	**130,729**	**112,082**
Other income	1,100	1,324	5,945	4,271	4,420	4,694	4,722	5,413
Interest	(201)	(27)	(64)	(591)	(3,760)	(5,960)	(6,660)	(5,960)
Depreciation	(497)	(4,589)	(4,382)	(2,764)	(9,475)	(12,510)	(15,528)	(15,755)
Pretax profits	7,837	3,413	10,162	11,139	54,667	96,221	113,263	95,779
Extraordinary items	—	(2,120)	(283)	2,648	—	—	—	—
Tax	(2,273)	(740)	(1,221)	(2,775)	(13,330)	(21,892)	(25,554)	(21,799)
Deferred taxation	(22)	(764)	(623)	(1,020)	(1,597)	(845)	(230)	(223)
Net profits	**5,543**	**(212)**	**8,035**	**9,991**	**39,740**	**73,485**	**87,478**	**73,756**
Earnings per share (Rs)	**3.1**	**(0.1)**	**4.3**	**5.3**	**21.0**	**38.7**	**46.1**	**38.9**
Balance sheet (Rs mn)								
Total equity	292,804	294,358	328,023	338,014	344,469	362,479	383,918	401,994
Deferred tax liability	4,258	4,916	5,540	6,560	8,157	9,002	9,232	9,456
Total borrowings	5,122	3,124	43,564	32,000	62,000	87,000	79,500	69,500
Currrent liabilities	39,716	8,372	16,132	1,626	1,963	3,173	8,262	10,731
Total liabilities and equity	**341,900**	**310,771**	**393,259**	**378,200**	**416,589**	**461,654**	**480,912**	**491,681**
Cash	61,348	1,504	18,968	25,202	27,483	40,922	57,726	80,502
Current assets	6,470	19,029	53,712	2,307	8,400	14,225	19,956	19,734
Total fixed assets	17,609	25,157	62,660	63,598	30,437	29,622	29,564	25,832
Net producing properties	2,354	4,390	3,014	32,188	95,363	121,979	118,760	110,708
Investments	4	7,129	1,713	1,713	1,713	1,713	1,713	1,713
Goodwill	254,115	253,193	253,193	253,193	253,193	253,193	253,193	253,193
Deferred expenditure	—	370	—	—	—	—	—	—
Total assets	**341,900**	**310,771**	**393,259**	**378,200**	**416,589**	**461,654**	**480,912**	**491,681**
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	4,598	6,387	8,213	6,481	44,243	80,695	97,065	82,873
Working capital changes	34,256	(908)	1,213	36,899	(5,756)	(4,614)	(643)	2,692
Capital expenditure	(5,619)	(11,739)	(31,613)	(29,853)	(37,340)	(36,860)	(10,801)	(2,521)
Investments/Goodwill	(252,717)	(53,863)	(25,062)	—	—	—	—	—
Other income	1,100	1,298	1,518	4,271	4,420	4,694	4,722	5,413
Free cash flow	**(218,382)**	**(58,824)**	**(45,730)**	**17,798**	**5,566**	**43,915**	**90,343**	**88,456**
Key assumptions								
Gross production ('000 boe/d)	91.0	75.4	68.1	68.3	149.5	212.5	265.9	260.0
Net production ('000 boe/d)	25.1	19.4	17.8	22.6	82.2	128.6	167.9	165.9
Dated Brent (US$/bbl)	65.3	70.3	87.4	67.5	70.0	75.0	80.0	80.0
Discount of Rajasthan crude to Dated Brent (US$/bbl)	—	—	—	5.0	6.0	6.0	6.0	6.0

Note:
(a) 15 months period starting from January 1, 2008 to March 31, 2009.

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Tata Power (TPWR)

Utilities

BUY

MARCH 25, 2010

UPDATE

Coverage view: Attractive

Price (Rs): 1,356

Target price (Rs): 1,485

BSE-30: 17,451

Annual analyst meet—paving the strategic path. Strong capex plans for its extant distribution business, steady growth in the portfolio of power projects and firm price outlook for imported coal were the key highlights from Tata Power's (TPWR) annual analysts meet. Part-merchant sale from ~500 MW of generation capacity being released from Reliance Infrastructure will likely bolster near-term earnings. We remain positive on the company's business prospects, and reiterate our BUY rating.

Company data and valuation summary

Tata Power

Stock data			
52-week range (Rs) (high,low)			1,519-684
Market Cap. (Rs bn)			334.7
Shareholding pattern (%)			
Promoters			31.1
FIIs			23.4
MFs			7.2
Price performance (%)	**1M**	**3M**	**12M**
Absolute	6.8	0.2	83.3
Rel. to BSE-30	(0.5)	(0.4)	(0.5)

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	57.7	67.0	86.2
EPS growth (%)	15.0	16.2	28.6
P/E (X)	23.5	20.2	15.7
Sales (Rs bn)	179.8	195.8	223.4
Net profits (Rs bn)	14.2	16.5	21.3
EBITDA (Rs bn)	37.7	44.3	54.6
EV/EBITDA (X)	14.1	12.9	11.0
ROE (%)	12.6	12.4	14.4
Div. Yield (%)	0.9	1.0	1.1

Making further inroads in Mumbai's distribution circle

TPWR has projected a capex of Rs37 bn, subject to regulatory approval, to be incurred over the next three years in the Mumbai distribution circle—a large portion of which would be incurred to augment transmission and distribution infrastructure. We note that post the MERC order in October 2009 that enabled TPWR to supply power to consumers using Reliance Infrastructure network in Mumbai suburbs, TPWR has added approx. 6,200 new customers and over 16,800 changeover applications have been received. TPWR expects the load to grow from existing 480 MW to ~650 MW in FY2011 and ~800 MW in FY2012. TPWR will also look for distribution opportunities in states such as Maharashtra, Gujarat and Karnataka in the forthcoming bids for distribution franchisee.

Outlook on coal prices remains firm, likely to drive near-term stock performance

Prices of imported coal have increased to US$83/ton currently from average realization of US$63/ton in CY2009, and will likely aid improved realizations for TPWR's coal mining business in Indonesia. We note that ~50% FY2011E sales will come from re-pricing over the next few months, though caution that the benchmark prices (for 6200 kcal/kg) are not strictly comparable to realizations for TPWR's coal mines (5,600 kcal/kg). Our confidence on the sustainability of higher coal prices is re-assured by management's recent revision in estimates of mineable reserves on higher long-term prices. We currently factor realizations of US$65/ton and production of 87 mn tpa on a long-term basis, but do not rule out upsides to our estimates based on management guidance of achieving over 100 mn tpa of coal production by FY2012E.

Maintain BUY with a target price of Rs1,485/share

We maintain our BUY rating with a target price of Rs1,485/share. Our SOTP valuation comprises four components—(1) value of operating power assets and projects nearing completion (Rs623/share), (2) valuation of investments and cash in books equivalent to Rs398/share, (3) projects under implementation (Rs222/share) and (4) stake in coal mines in Indonesia valued at Rs239/share. We currently factor in earnings of Rs58 for FY2010E and Rs66 for FY2011E, implying a P/E of 22X in FY2011E and 17.2X in FY2012E on our target price.

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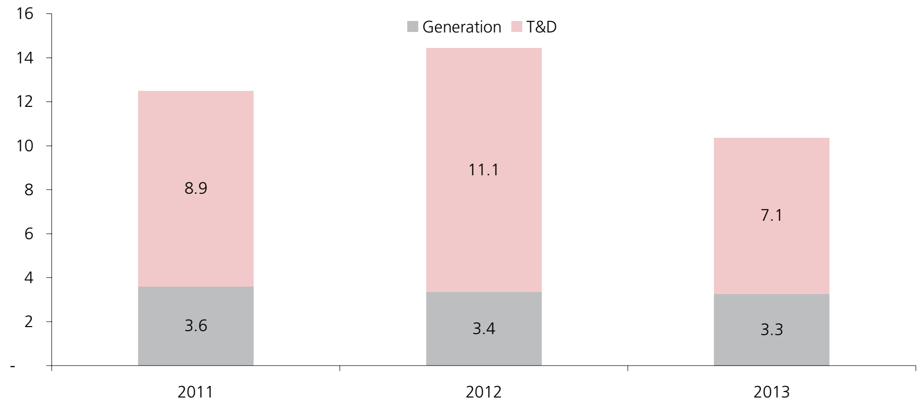
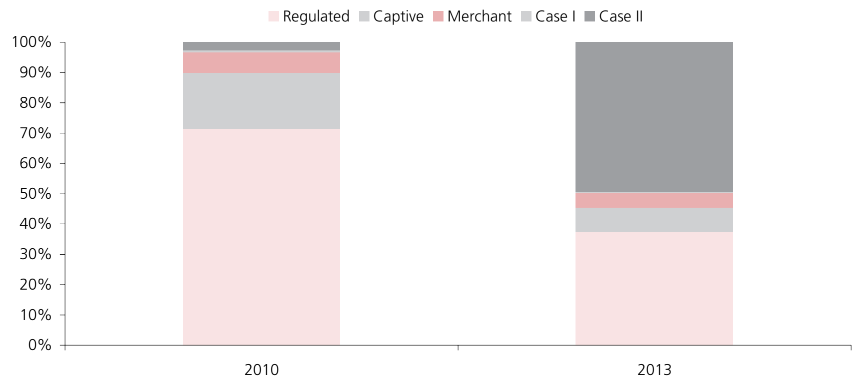
Exhibit 1: TPWR plans to incur a capex of Rs37 bn to augment distribution network in Mumbai
Capex to be incurred in Mumbai distribution business, March fiscal year-ends, 2011-13E (Rs bn)



Source: Company, Kotak Institutional Equities

Exhibit 2: TPWR sales-mix will have a dominant mix of competitively-bid sale reflecting the evolving structure of the sector
Details of TPWR's current and future sales-mix (%)



Source: Company, Kotak Institutional Equities

8.2 GW by FY2013E, vision to have a portfolio of 25 GW by FY2017

TPWR remains confident of achieving capacity additions of 5.2 GW by FY2013E comprising 4 GW at Mundra and 1 GW at Maithon. Management has indicated satisfactory progress on projects currently under implementation. Mundra project (4,000 MW) is 49% complete and the first unit is expected to be commissioned by September 2011. Maithon project (1,050 MW) is 76% complete and first unit is expected to be commissioned by 3QFY11 and second unit by 1QFY12. IEL unit 5 (120 MW) is 90% complete and currently boiler light up is in progress. We note that timely commissioning of these projects would take the total generation portfolio of TPWR to 5.8 GW in FY2012 and 8.2 GW in FY2013.

TPWR has another 5.6 GW of capacity in pipeline. Of these capacities, there is visible progress on Dagachu hydropower plant in Bhutan (114 MW) and IPPs in Madakini and Tubed coal mines (1,500 MW). TPWR has also signed an MoU with Tata Steel and Corus Staal BV for constructing a 525 MW power plant for the latter at its facilities in Netherlands. Exhibit 3 highlights the details of the TPWR projects in pipeline.

Exhibit 3: TPWR targeting another 5.6 GW of capacity in next 5-6 years

Details of pipeline projects of TPWR

Project	Capacity (MW)	TPWR's stake (%)	Attributable capacity (MW)	Comments	Expected COD
Dagacchu hydropower in Bhutan	114	26	30	Under construction	2013
CPP for Corus in Netherlands	525	74	389	Using flue gases	2013
CPP for Tata Steel in Jharkhand	500	74	370	High visibility of Tata Steels's expansion project	
IPP in Orissa using coal from Mandakini coal mines	1,000	100	1,000	Coal mine plan approved, land acquisition in progress. Likely to be complete by December 2010	2014
IPP using coal from Tubed coal mines	500	100	500	Coal mining plan submitted. Land acquisition likely to be complete by December 2010	2014
Coastal Mahrasthra project	2,400	100	2,400	Pending land acquisition	
CPP for Tata Steel in Orissa	270	74	200	Contingent on Tata Steel's expansion project	
CPP for Indian Oil Corp. in Orissa	1,000	74	740	Contingent on IOC's expansion project	
Total	**6,309**		**5,628**		

Source: Kotak Institutional Equities, Company

Freed up capacity from RELI to provide opportunity to tap short-term market

TPWR will discontinue supply of 500 MW to Reliance Infrastructure from April 1, 2010. 100 MW has been tied in with BEST, ~160-200 MW is estimated requirement for TPWR distribution business while the remaining 200 MW will be available for short-term sale. Our option value of Rs26/share assumes a Re1/kwh higher tariff over the regulated tariff for a period of ten years. Exhibit 4 highlights the scenario post April 1, 2010 along with allocation of 150 MW from unit 4 which is currently on standby.

Exhibit 4: 500 MW of capacity to be freed up post April 1, 2010

Licensee	Before April 1, 2010 (MW)	Post April 1 2010 (MW)	Unit 4 allocation (MW)
BEST	900	1,000	68
TPC-D	527	527	40
RELI	500	—	—
Trading	—	400	42
Total	**1,927**	**1,927**	**150**

Note:
160 MW (out of 400 MW) to be supplied to TPC-D; ~200 MW available to trade

Source: Kotak Institutional Equities, Company

Exhibit 5: Tata Power, sum-of-the-parts valuation

	Methodology	Key assumptions/comments	FY2010E Book value per share (Rs)	Per share value (Rs)
Mumbai (Generation, transmission & distribution business)	DCFe CoE: 12% Term. Yr. Grth: 4%	Includes valuation of extant Mumbai business and option value of Rs26/share for merchant sale of 200 MW.	101	277
Other generation assets	Price/Book (X)	P/B of 2X for operational generation capacity at Jojobera (548 MW), Belgaum (81 MW), Haldia (30 MW) and wind assets (181 MW); 5X for Haldia (merchant 90 MW) . P/B of 1.5X for projects under construction - 120 MW at Jojobera; CPPs and IPP under development	60	274
Powerlinks Transmission Ltd	Price/Book (X)	We value the equity investment at 1.5X book: The project earns a regulated RoE of 15.5% as per the CERC tariff guideline for inter-state transmission project	10	15
Delhi Distcom (NDPL)	DCFs CoE: 12% Term. Yr. Grth: 2%	NDPL earns 16% RoE provided it meets cetain A,T&C loss reduction benchmarks. It is also incentivized by way of higher returns in the event of bettering the benchmarks	16	57
Tata BP Solar	P/E (X)	12X P/E on FY09	1	15
Investments	Various	20% discount to CMP/ KIE target price	82	201
Investible surplus on books	Market value	Marketable securities & cash on books	-	183
Bumi Resources	DCF	Net economic interest - based on dividend discount model	41	239
Mundra UMPP	DCF-equity	Levelized tariff of Rs2.26/unit for 25 years	112	174
Maithon	DCF-equity	74% stake in 1,050 MW project; 300 MW to be sold to DVC, 300 MW to NDPL, 300 MW to Punjab and 150 MW to West Bengal (regulated returns); Coal linkage allocated	23	48
TOTAL			**493**	**1,482**

Source: Company, Kotak Institutional Equities

Exhibit 6: Tata Power: Profit model, balance sheet, cash model (Consolidated) 2007-2012E, March fiscal year-ends (Rs mn)

	2007	2008	2009	2010E	2011E	2012E
Profit model (Rs mn)						
Net sales	64,756	108,909	175,875	179,787	195,813	223,357
EBITDA	**10,786**	**21,221**	**36,496**	**37,082**	**43,745**	**54,006**
Other income	2,671	1,641	2,266	3,396	3,396	3,544
Interest	(2,833)	(4,881)	(8,129)	(8,011)	(9,183)	(12,306)
Depreciation	(4,148)	(5,593)	(6,565)	(8,701)	(9,809)	(12,067)
Pretax profits	6,476	12,389	24,069	23,766	28,149	33,177
Tax	(816)	(4,083)	(11,651)	(8,217)	(9,871)	(10,769)
Minority interest	6	(1,219)	(800)	(1,310)	(1,731)	(1,121)
Net profits	**5,667**	**7,088**	**11,618**	**14,238**	**16,548**	**21,287**
Extraordinary items	1,877	3,179	1,023	2,146	—	—
Earnings per share (Rs)	**26.6**	**31.8**	**52.2**	**57.7**	**67.0**	**86.2**
Balance sheet (Rs mn)						
Total equity	59,479	82,408	92,576	121,664	134,168	151,124
Deferred taxation liability	458	2,820	5,154	3,359	3,359	3,359
Total borrowings	51,784	91,136	141,434	228,537	265,356	299,499
Currrent liabilities	22,238	38,539	67,812	43,294	46,479	51,372
Capital contribution from Consumers	758	1,506	2,030	2,030	2,030	2,030
Minority interest	2,496	8,062	9,444	11,883	15,105	16,227
Total liabilities and equity	**137,214**	**224,471**	**318,450**	**410,767**	**466,498**	**523,610**
Cash	14,024	5,623	11,780	37,146	34,837	42,793
Current assets	29,293	44,426	62,686	50,649	52,724	54,326
Total fixed assets	63,001	140,901	205,780	282,380	338,346	385,900
Investments	30,833	31,253	32,512	34,899	34,899	34,899
Deferred expenditure	62	2,268	5,692	5,692	5,692	5,692
Total assets	**137,214**	**224,471**	**318,450**	**410,767**	**466,498**	**523,610**
Free cash flow (Rs mn)						
Operating cash flow, excl. working capital	10,255	19,587	22,396	20,114	28,739	34,572
Working capital	(2,849)	(1,265)	10,724	(8,288)	(17)	2,957
Capital expenditure	(11,054)	(77,900)	(71,444)	(85,301)	(65,775)	(59,621)
Investments	(1,767)	(2,625)	(4,684)	(2,387)	—	—
Free cash flow	**(5,416)**	**(62,203)**	**(43,009)**	**(75,861)**	**(37,052)**	**(22,091)**

Source: Kotak Institutional Equities estimates

Hindalco Industries (HNDL)

Metals

ADD

MARCH 25, 2010

UPDATE

Coverage view: Cautious

Price (Rs): 170

Target price (Rs): 190

BSE-30: 17,451

Novelis to drive valuations. We increase our 12-month target price on Hindalco to Rs190 from Rs160 earlier and retain our ADD rating. We believe that solid and steady performance of Novelis will drive Hindalco stock valuations in the near term, while benefits of huge capacity expansion will be the key in the medium term.

Company data and valuation summary

Hindalco Industries

Stock data			
52-week range (Rs) (high,low)			180-48
Market Cap. (Rs bn)			325.8
Shareholding pattern (%)			
Promoters			32.1
FIIs			33.0
MFs			5.4
Price performance (%)	**1M**	**3M**	**12M**
Absolute	10.0	7.8	240.6
Rel. to BSE-30	2.4	7.2	84.8

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	4.2	12.4	14.9
EPS growth (%)	(74.0)	197.9	20.7
P/E (X)	41.0	13.8	11.4
Sales (Rs bn)	607.4	661.6	717.7
Net profits (Rs bn)	8.0	23.7	28.6
EBITDA (Rs bn)	62.1	70.8	75.8
EV/EBITDA (X)	9.8	9.4	9.4
ROE (%)	9.1	10.3	11.3
Div. Yield (%)	0.8	0.8	0.8

Raising target price to Rs190; reiterate ADD rating

We increase our 12-month forward target price on Hindalco to Rs190 from Rs160 earlier. We include the value of listed investments and include CWIP resulting from Greenfield alumina refinery and aluminum smelting capacity expansion in our valuation model. We have taken a more cautious view on aluminium prices, while taking a constructive view on Novelis' earnings. At a consolidated level, we marginally reduce our FY2011E consolidated EPS by 6.8% to Rs12.4 and for FY2012E by 0.2% to Rs14.9. We believe that the valuations in the near term will be supported by strong performance of Novelis. We value Novelis at 7X, contributing 60% to the overall EV. We value Hindalco's standalone operations at 6X FY2011E EBITDA (37% to EV).

Novelis will likely be the driver for valuations in the near term

We increase our Novelis EBITDA estimates by 14.7% for FY2011 to US$840 mn and 43.8% for FY2012E to US$892 mn. This translates into EBITDA/ton of US$297/ton and US$303/ton for FY2011E and FY2012E, respectively. The management at our India conference recently indicated that Novelis may achieve an EBITDA of US$1 bn. Novelis has achieved a remarkable turnaround in performance through a combination of aggressive cost cutting and maturing of metal can ceiling contracts. We believe that performance of Novelis will sustain, led by (1) renegotiation of contracts, where important costs such as alloys are treated as a pass-through; (2) elimination of metal can pricing contracts; and (3) continued cost savings—the company is on track to achieve US$140 mn of savings before the target 2QFY11.

Aluminium prices likely to be range bound

We moderate our aluminium price assumptions to US$2,050 and US$2,150 for FY2011E and FY2012E, respectively. Supply cuts have lagged demand destruction resulting in significant inventory build-up to 6.4 mn tons (66 days of consumption). A commonly held view is that close to 75% of the LME stock is tied up in financing deals up to 1HCY10 resulting in perceived tightness in the market and increase in aluminum prices and premium. While speculation may provide support to prices in the short term, we believe that potential reduction in contango and supply indiscipline will eventually lead to moderation in prices.

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Hindalco Industries, Valuation, FY2011E basis (Rs mn)

		Multiple	Value	
		(X)	(Rs mn)	(Rs/share)
Hindalco FY2011E EBITDA	27,818	6.0	166,908	87
Novelis FY2011E EBITDA	38,628	7.0	270,396	141
ABML FY2011E EBITDA (proportionate stake)	2,274	5.0	11,368	6
Total Enterprise Value			**448,672**	**234**
Add: Value of listed investments (20% holding co discount)			26,955	14
Less: net debt (adjusted for CWIP)	111,679		111,679	58
Arrived market capitalization			**336,993**	**190**
Target price (Rs)				**190**

Source: Kotak Institutional Equities estimates

Novelis provides strong support to earnings

After elimination of metal can ceiling contracts and renegotiation of contracts on key cost items, we believe that Novelis' reported financial performance will display the underlying characteristics of true converter business in the form of steady EBITDA and cash flows. Performance of Novelis will also reduce the impact of sudden swing in aluminium prices on Hindalco's valuations and earnings. In fact, a US$100 decline in aluminium price will impact Hindalco's FY2011E earnings by Rs1.3 (10%) and valuations by Rs11/share.

Hindalco, Sensitivity analysis, March fiscal year ends, 2011E-12E (Rs mn)

	2011E			2012E		
	Downside	Base case	Upside	Downside	Base case	Upside
Aluminium price	1,950	2,050	2,150	2,050	2,150	2,250
Net profits (Rs mn)	21,256	23,696	25,605	26,321	28,602	31,286
EPS (Rs)	11.1	12.4	13.4	13.8	14.9	16.3
% upside/(downside)	**(10.3)**		**8.1**	**(8.0)**		**9.4**
Fair value	**179**	**190**	**198**			
% upside/(downside)	**(5.6)**		**4.2**			

Source: Kotak Institutional Equities estimates

We have a modeled EBITDA of US$839 mn for FY2011E and US$891 mn for FY2012E. This translates into EBITDA/ton of US$296 and US$303 for FY2011E and FY2012E. This is somewhat lower than the management guidance of US$1 bn EBITDA in FY2011E, which in our view is ambitious and builds in EBITDA/ton of US$353. The management target implies significant improvement from 3QFY10 normalized EBITDA of US$173 mn (versus reported EBITDA of US$199 mn).

Hindalco Industries, Key assumptions, March fiscal year-ends, 2010-13E (Rs mn)

	2007	2008	2009	2010E	2011E	2012E
Aluminium						
Hindalco						
Price (US$/ton)	2,663	2,623	2,234	1,900	2,050	2,150
Metal sales volume (tons)	441,355	473,118	521,069	555,000	571,780	602,640
Blended realization (Rs/ton)	144,571	131,937	127,384	111,497	115,579	120,161
Cost/ton (US$/ton)	1,856	2,102	1,939	1,705	1,876	1,941
EBITDA/ton (US$/ton)	1,338	1,176	834	642	637	671
Alumina price (US$/ton)	357	370	278	305	329	345
Alumina sales volume (tons)	299,762	259,627	238,350	260,863	333,841	319,949
Novelis						
Average realization (US$/ton)	3,264	3,570	3,458	3,071	3,301	3,462
Conversion premium (US$/ton)	601	947	1,224	1,171	1,251	1,312
Shipments ('000 tons)	3,113	3,150	2,943	2,722	2,831	2,944
EBITDA/ton (US$/ton)	24	169	192	241	297	303
Copper						
Price (US$/ton)	6,985	7,521	5,885	5,990	6,700	7,100
Copper cathode volumes (tons)	181,093	180,668	153,236	201,060	206,592	206,990
Copper rods volumes (tons)	109,700	138,543	146,323	147,450	151,874	156,430
TCRC margin (cents/lb)	34	24	15	22	18	18
EBITDA (Rs mn)	7,516	6,693	5,476	8,499	6,935	6,851

Source: Company, Kotak Institutional Equities estimates

Expect steady performance for Hindalco standalone operations

We expect aluminum prices to soften from the spot of US$2258/ton to an average of US$2,050/ton in FY2011E and US$2,100/ton for FY2012E. We forecast a marginal decline in standalone EBITDA for FY2011E to Rs27.8 bn and growth of 6% in FY2012E to Rs29.5 bn. We note that Hindalco's FY2010E performance will likely be boosted by MTM gains on derivative contracts to the extent of Rs2.6 bn. We reduce standalone FY2011E and FY2012E EPS by 32% and 27% to Rs8.4 and Rs9.

Hindalco, change in estimates, March fiscal year ends, 2010-12E (Rs mn)

	Revised estimates			Old estimates			Change (%)		
	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E
Hindalco									
Aluminium metal sales (tons)	555,000	571,780	602,640	524,000	557,600	573,740	5.9	2.5	5.0
Aluminium price (US$/ton)	1,900	2,050	2,150	1,900	2,050	2,100	-	-	2.4
Net revenues	196,668	216,382	232,480	196,693	269,324	272,247	(0.0)	(19.7)	(14.6)
EBITDA	28,978	27,818	29,500	29,078	33,848	33,675	(0.3)	(17.8)	(12.4)
PAT	17,040	16,133	17,276	17,114	23,599	23,458	(0.4)	(31.6)	(26.4)
Novelis									
Shipments (tons)	2,722	2,831	2,944	2,832	3,095	3,181	(3.9)	(8.5)	(7.5)
Net revenues	397,097	429,836	468,836	401,365	448,415	475,633	(1.1)	(4.1)	(1.4)
EBITDA	31,114	38,628	41,035	34,116	33,631	36,148	(8.8)	14.9	13.5
PAT	20,107	9,895	13,379	23,660	6,865	9,289	(15.0)	44.1	44.0
Consolidated									
Net revenues	607,353	661,628	717,750	606,648	731,697	761,837	0.1	(9.6)	(5.8)
EBITDA	62,051	70,812	75,774	64,882	70,212	72,557	(4.4)	0.9	4.4
PAT	37,166	23,696	28,602	35,612	25,360	28,597	4.4	(6.6)	0.0
EPS (Rs)	9.0	12.4	14.9	9.2	13.3	15.0	(1.8)	(6.7)	(0.1)

Source: Kotak Institutional Equities estimates

We believe that Hindalco's expansion projects (Mahan, Utkal and Aditya) will likely commence production only in FY2013E. Accordingly, we have not modeled any revenues and production from new projects till FY2013E.

Capacity expansions—hugely accretive but some time away

Hindalco is in the midst of massive capacity expansion which will nearly triple its aluminium smelting and alumina refinery capacity. These projects are fully integrated with captive supply bauxite and coal. These projects will be consistent with the company's ambition of being the lowest cost producer globally.

While these expansions will be accretive, we believe that Hindalco's expansions are some time away and the expansion projects (Mahan, Utkal and Aditya) will likely commence production only in FY2013E. We believe that the Hirakud project is well on course for completion. We elaborate on Hindalco's Greenfield projects.

- Utkal Alumina: Hindalco is setting up a 1.5 mtpa alumina refinery in Orissa. Hindalco indicates that 75% of the project cost has been committed and the company is well on track to begin alumina production by mid-FY2012. The company has received all statutory clearances for this project.

- Mahan Aluminium: This integrated project involves setting up a 359 ktpa smelter along with a captive power plant of 900 MW. The company expects commissioning of this plant from July 2011. The company has been allotted coal block to be jointly developed with Essar Power.

- Aditya Aluminium: Hindalco expects first metal from this 359 ktpa smelter in October 2011. Work at the site started recently. The company has been allotted coal block to be jointly developed with Neyveli Lignite.

- Aditya Alumina. Hindalco expects commissioning of a 1.5 mtpa alumina refinery by June 2013. Bauxite supply will be through the mine located three km away from the refinery. Coal supplies will be through the jointly allotted coal block.

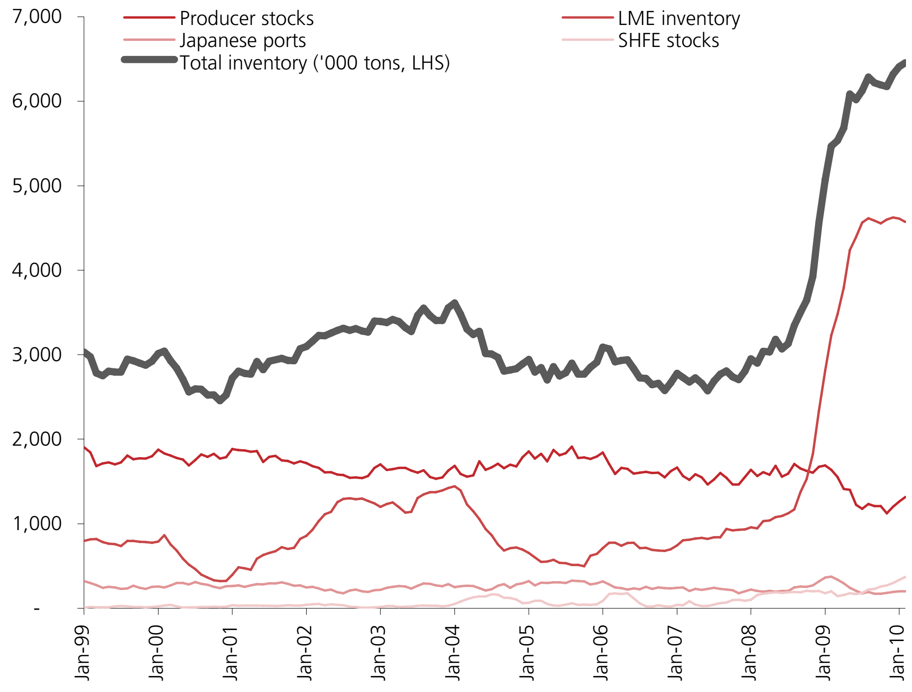
- Jharkhand Aluminium project: The project includes setting up a 359,000 tpa smelter along with captive power plant of 900 MW. The project is in early stages and is yet to receive clearance from the ministry of forest.

ALUMINIUM PRICES

High inventory levels coupled with surplus capacity—a matter of concern

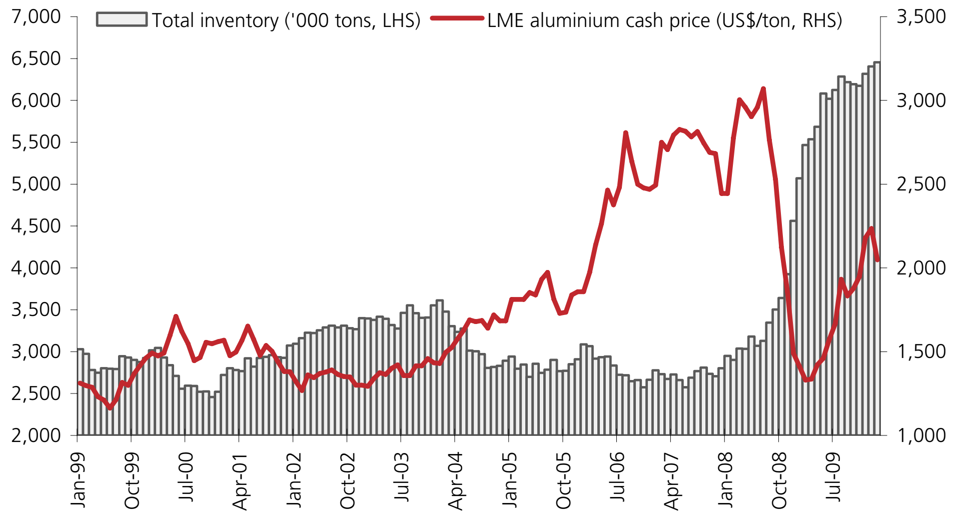
Lack of supply discipline and collapse in demand has led to significant increase in inventory since the beginning of 2009. Current total inventory of 6.5 mn tons and LME inventory of 4.6 mn tons are at an all-time high. Total and LME inventory is at 66 days and 46 days of consumption.

Aluminium inventory continues to be significantly high at 6.5 mn tons
Monthly aluminium inventory, December year-ends, 1999-2010 ('000 tons)



Source: CRU, Kotak Institutional Equities

Aluminium prices have a strong correlation to inventory levels
Monthly total aluminium inventory ('000 tons), LME aluminium price (US$/ton), December year-ends, 1999-2010 ('000 tons)

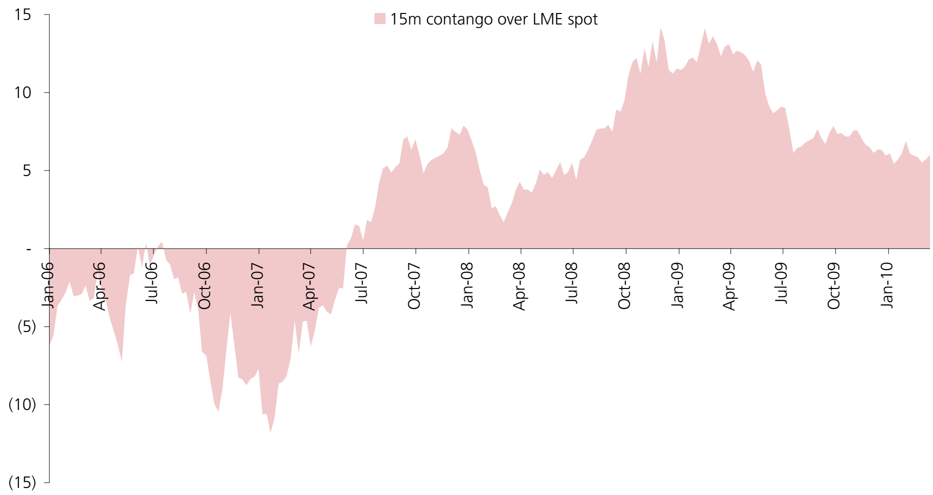


Source: CRU, Kotak Institutional Equities

Increase in inventory levels has also been accompanied by a surprising increase in aluminium prices. This increase has been led by a perceived tightness in supply, backed by a commonly held view that the close to 75% of inventory in LME warehouses are tied up in financing deals. The view of inventory financing got further reinforced by UC Rusal's sale of 1.3 mn tons of aluminium to Glencore in two tranches in 2009.

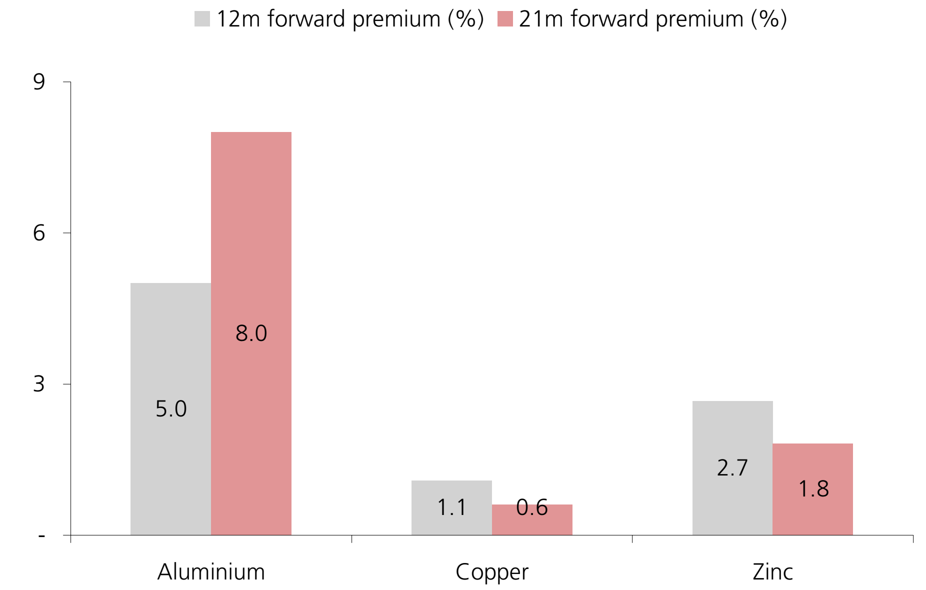
While it is difficult to estimate when these financing deals will unwind and inventory makes its way to the physical market, we make the following observations—(1) most of the financing deals were undertaken where a combination of high contango, low interest rates and easy money made these deals attractive; (2) many of these deals may unwind by 3Q of 2010; (3) LME contango has been contracting making it less attractive for financing deals; and (4) aggressive buying by SRB in mid-2009 partially absorbed excess production. Since restart of idled capacity in China and completion of inventory pile-up by Chinese SRB has led to reduction in imports.

We expect contango in the aluminium market to come off resulting in inventory liquidation
Return on 15-months LME contango over spot price (%)



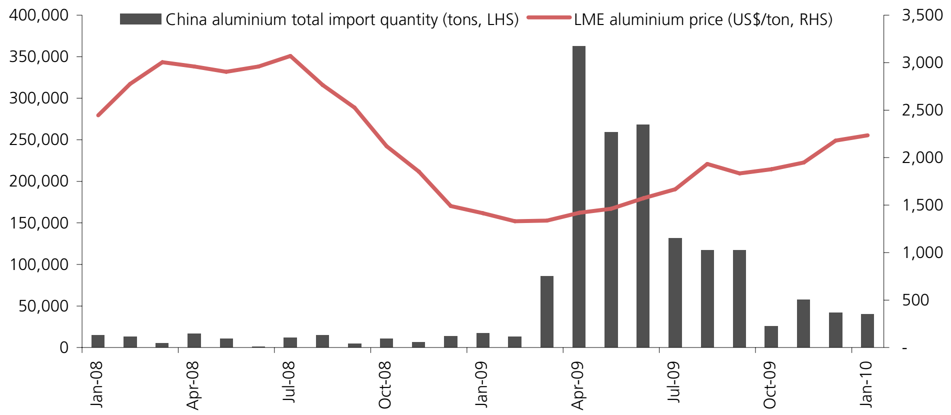
Source: Bloomberg, Kotak Institutional Equities

The contango in the aluminium market is the highest versus other base metals
Return on 15-months LME contango over spot price (%)



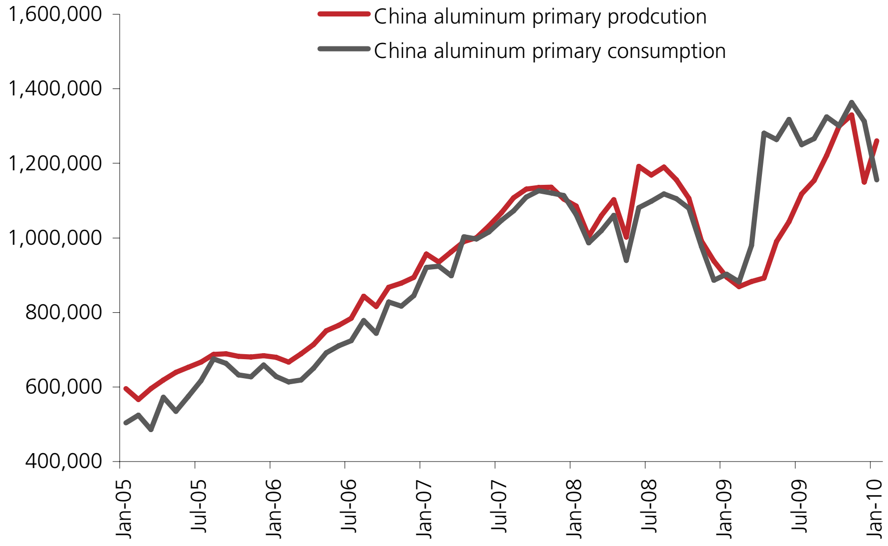
Source: Bloomberg, Kotak Institutional Equities

Capacity restarts and increase in smelter capacity has led to fall in Chinese imports
Chinese imports (tons) and LME aluminium price (US$/ton), 2008-10



Source: Bloomberg, Kotak Institutional Equities

Chinese consumption has increased at a CAGR of 18% over the last four years
China monthly aluminium production and consumption (tons), 2000-2010



Source: Bloomberg, Kotak Institutional Equities

We believe that the industry runs a significant risk of huge capacity overhang. We expect 11 mn tons of smelter capacity additions by 2013E. Of this, China will account for close to 6 mn tons of incremental capacity. This is on top of substantial underutilized capacity; in fact the operating rates are as low as 78%. In addition, current aluminium prices of US$2,200/ ton may lead to restart of idled capacity. In fact, based on the recent production data, China appears to have restarted 1.6 mn tons of idled capacity.

We believe that the support for aluminium prices will likely accrue from increase in energy costs for the marginal producers. As per CRU, 80% of the industry were recovering cash cost at a price of US$1,750/ ton. Since then, increase in energy costs and likely increase in other raw material prices may push the cost curve for the marginal producer to over US$2,000/ ton.

Hindalco (consolidated), Profit model, balance sheet and cash flow model, March fiscal year-ends, 2007-2012E (Rs mn)

	2007	2008	2009	2010E	2011E	2012E
Profit model (Rs mn)						
Net sales	193,161	600,128	656,252	607,353	661,628	717,750
EBITDA	**44,306**	**66,351**	**53,584**	**62,051**	**70,812**	**75,774**
Other income	4,090	6,560	6,878	6,553	4,130	3,851
Interest	(3,134)	(18,491)	(12,323)	(17,401)	(15,304)	(13,761)
Depreciation	(8,646)	(24,883)	(30,378)	(26,136)	(24,966)	(23,547)
Profit before tax	**36,616**	**29,537**	**17,761**	**25,066**	**34,673**	**42,317**
Extraordinaries	-	5,481	(22,319)	29,213	-	-
Taxes	(9,585)	(11,889)	8,046	(16,004)	(9,761)	(12,232)
Profit after tax	**27,031**	**23,130**	**3,488**	**38,274**	**24,912**	**30,085**
Minority interest	(161)	(2,194)	1,718	(755)	(863)	(1,131)
Share in profit/(loss) of associates	(5)	998	(353)	(353)	(353)	(353)
Reported net income	**26,865**	**21,933**	**4,853**	**37,166**	**23,696**	**28,602**
Adjusted net income	**26,865**	**16,452**	**19,791**	**17,302**	**23,696**	**28,602**
Fully diluted EPS (Rs)	**15.8**	**12.9**	**11.6**	**9.0**	**12.4**	**14.9**
Balance sheet (Rs mn)						
Equity	129,118	172,866	158,536	220,376	241,050	266,628
Deferred tax liability	11,715	41,723	27,571	28,172	28,571	28,747
Total Borrowings	84,523	323,524	283,098	266,472	318,472	380,072
Current liabilities	44,013	172,201	162,602	145,682	155,821	166,305
Minority interest	8,671	16,154	12,866	13,621	14,483	15,614
Total liabilities	**278,040**	**726,467**	**644,672**	**674,323**	**758,396**	**857,366**
Net fixed assets	90,769	267,820	275,249	269,926	250,678	225,635
Capital work in progress	19,166	24,571	29,495	52,028	139,670	238,128
Goodwill	2,629	79,247	42,908	42,908	42,908	42,908
Investments	78,748	140,077	104,308	103,955	103,602	103,249
Cash	10,345	17,169	21,918	27,115	24,688	35,918
Other current assets	76,340	197,574	170,791	178,390	196,851	211,529
Miscellaneous expenditure	42	10	4	-	-	-
Total assets	**278,040**	**726,467**	**644,672**	**674,323**	**758,396**	**857,366**
Free cash flow (Rs mn)						
Operating cash flow excl. working capital	33,083	27,709	(7,156)	50,948	46,147	49,957
Working capital changes	(5,347)	7,576	29,309	(17,338)	(8,322)	(4,193)
Capital expenditure	(21,905)	(27,507)	(25,988)	(43,347)	(93,359)	(96,962)
Free cash flow	**5,830**	**7,778**	**(3,834)**	**(9,736)**	**(55,534)**	**(51,198)**
Ratios						
EBITDA margin (%)	22.9	11.1	8.2	10.2	10.7	10.6
EBIT margin (%)	18.5	6.9	3.5	5.9	6.9	7.3
Debt/equity (X)	0.7	1.9	1.8	1.2	1.3	1.4
Net debt/equity (X)	(0.0)	1.2	1.4	0.9	1.0	1.1
Net debt/EBITDA (X)	(0.0)	3.2	4.1	3.2	3.5	4.0
RoAE (%)	24.1	10.9	11.9	9.1	10.3	11.3
RoACE (%)	**12.1**	**7.9**	**5.4**	**4.7**	**6.4**	**6.1**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

LIC Housing Finance (LICHF)

Banks/Financial Institutions

ADD

MARCH 25, 2010

UPDATE

Coverage view: Attractive

Price (Rs): 806

Target price (Rs): 925

BSE-30: 17,451

Management meeting update—business performance on track. In our recent meeting, LICHF's management was confident to deliver a steady business performance despite fears of rising interest rates in the system. Growth trajectory will likely remain robust on the back of strong underlying demand; receding fears of unhealthy competition and well-managed liability profile will imply stable spreads over the medium term. We retain ADD rating with a price target of Rs925.

Company data and valuation summary

LIC Housing Finance

Stock data			
52-week range (Rs) (high,low)			915-204
Market Cap. (Rs bn)			72.3
Shareholding pattern (%)			
Promoters			36.5
FIIs			32.7
MFs			12.6
Price performance (%)	**1M**	**3M**	**12M**
Absolute	9.8	3.9	292.4
Rel. to BSE-30	2.4	(0.4)	102.1

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	82.6	77.4	95.8
EPS growth (%)	39.8	(6.2)	23.7
P/E (X)	9.7	10.4	8.4
NII (Rs bn)	9.1	11.3	14.4
Net profits (Rs bn)	7.4	7.4	9.1
BVPS	345.6	395.9	463.9
P/B (X)	2.3	2.0	1.7
ROE (%)	26.2	19.8	21.1
Div. Yield (%)	2.1	2.1	2.6

Interest rate risk in the horizon, LICHF better placed

We believe that LIC Housing Finance (LICHF) is well placed to manage its spreads in the current environment. LICHF's management has guided for stable margins ~2.7% in FY2011E, thus providing upside rise to our estimates—we are modeling about 20 bps yoy decline in FY2011E.

- According to the management, about 50% of its liabilities carry a fixed rate—bonds account for about 50% of overall borrowings in which 95% have a fixed rate with an average duration of about 4 years; additionally, long-term fixed rate loans from LIC contribute to about 4% of its borrowings. On the asset side, about 85% of the home loans carry a floating rate. With reducing risk of unhealthy competition, the company may not find it challenging to pass on rate hikes to its customers.

- LICHF's floating rate product (contributing to about 40-45% of its retail disbursements) offers a discount of 1% for 1-2 quarter. The company has reported high disbursements growth over the last few quarters and now proposed to moderate down—these loans are now getting re-priced at a higher rate thereby supporting its margins as the disbursements growth moderates.

- HDFC, ICICI Bank and Axis Bank have recently announced to exit their discounted home loan scheme. As such, competitive pressures—the key risk housing finance, are now peaking out. Incrementally, banks are likely to be much more rational in loan pricing as they shift to the base rate system (from PLR) which makes loan pricing much more transparent.

Retail demand remains strong

LICHF's management has guided for about 30% disbursements growth and 30% loan growth in FY2011E. LICHF has reported very strong business traction—retail disbursements up 78% and loan book up 33% in 9MFY10. We believe that LICHF can manage to deliver loan growth of 34% in FY2010E and 30% in FY2011E in the backdrop of strong near-term traction even as the management proposes to moderate down its disbursements.

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We believe that a strong latent demand and improving economic outlook will likely support growth in mortgages over the medium term. The underlying momentum in the real estate sector remains strong. Prices have moved up from their bottom (in select pockets as prices are close to its peak) but the retail demand remains strong, thereby driving strong disbursements growth for the housing finance sector.

According to our real estate analysts, real estate companies under coverage have together sold 26+ mn sq. ft of residential projects in 9MFY10 compared to our estimates of 38.9 mn sq. ft in FY2010E and 14.9 mn sq. ft in FY2009. Our analysts forecast 50% yoy growth in the revenue of real estate companies—an indication of the strong buoyancy.

Pricing movement to determine affordability—stable pricing for robust volumes

We believe that affordability will increasingly depend on price movements since the impact of a likely increase in interest rates will be offset by an increase in salaries. Affordability will likely decrease wherever prices are increased, which we believe would result in a decline in volumes. During Jan-May 2009, affordability improved by 40%, leading to a sharp pick-up in demand.

Increase in affordability in FY2010E because of decline in interest rates and selling prices
Measurement of affordability of housing in India, March fiscal year-ends, 1999-2010E

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	May-09	Current
Housing loan interest rates (%)	**14.5**	**13.9**	**12.8**	**12.1**	**10.4**	**8.9**	**8.0**	**8.5**	**9.5**	**10.5**	**10.5**	**8.50**
EMI per Rs100,000 on 20 yr loan (Rs)	1,366	1,240	1,160	1,110	995	895	836	868	932	998	998	850
Avg annual household income (for households with annual income > Rs200,000)		577,201	606,061	636,364	668,182	701,591	736,671	788,238	843,414	902,453	947,576	947,576
Income growth (%)			5.0%	5.0%	5.0%	5.0%	5.0%	7.0%	7.0%	7.0%	5.0%	0.0%
Taxes		115,440	121,212	127,273	133,636	140,318	147,334	157,648	168,683	180,491	142,136	142,136
Post tax income		461,761	484,849	509,091	534,546	561,273	589,337	630,590	674,731	721,963	805,439	805,439
Selling prices decline by 10% each in FY2009E and FY2010E												
Capital price in Koramangala,Bangalore		**1,900**	**1,800**	**1,750**	**1,900**	**2,350**	**2,800**	**4,500**	**4,750**	**4,750**	**3,600**	**3,600**
Price of 1,500 sq. ft house (Rs mn)		2.9	2.7	2.6	2.9	3.5	4.2	6.8	7.1	7.1	5.4	5.4
EMI payable assuming 70% LTV		24,738	21,924	20,396	19,850	22,084	24,578	41,013	46,484	49,775	37,724	32,130
Price/income ratio (X)		4.9	4.5	4.1	4.3	5.0	5.7	8.6	8.4	7.9	5.7	5.7
Affordability Index (assuming FY2000 as 100)		**100**	**84**	**75**	**69**	**73**	**78**	**121**	**129**	**129**	**87**	**74**
Capital price in Bandra, Mumbai		**7,992**	**8,791**	**8,000**	**8,500**	**8,500**	**10,000**	**13,000**	**16,000**	**20,000**	**14,000**	**17,000**
Affordability Index (assuming FY2000 as 100)		**100**	**98**	**81**	**74**	**63**	**66**	**83**	**103**	**129**	**81**	**84**

Source: RBI, Industry, Kotak Institutional Equities estimates

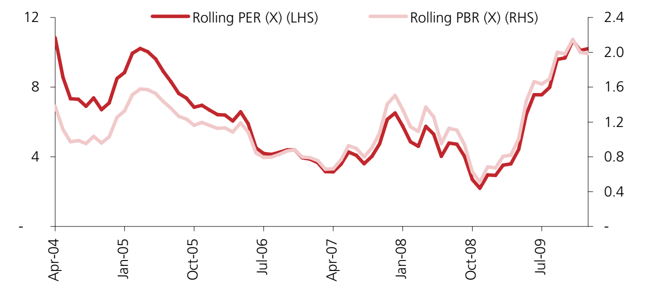
Other takeaways from the meeting

Asset quality performance is on track. The company has reported a 20% qoq slippage in 3QFY10. According to the management, the collections are on track and hence the NPL trends are unlikely to deteriorate and may in fact improve. We are assuming a moderate rise in provisioning expenses over the next few quarters—modeling provisioning expenses at 0.15% of average assets in FY2011E and 0.2% in FY2012E, up from 0.02% in FY2009 and 0.1% in FY2010E.

Capital gains will likely get delayed. LICHF has agreed to sell 17% stake in LIC MF for Rs1.4 bn. The deal is currently awaiting regulatory approvals. In light of the delay in getting the regulatory approvals, we believe that LICHF is unlikely to book the capital gains in the current financial year. As such, we are postponing the same to FY2011E. While this changes the reported profits by about 14%, the core earnings are largely unaffected; we continue to expect LICHF to report 23% CAGR in core PBT between FY2009 and FY2012E with about 23% RoEs in the medium term.

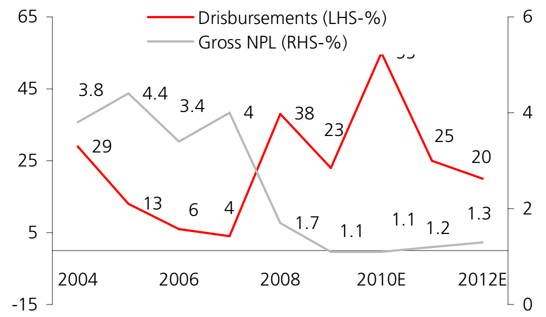
LICHF distribution company—ramping up rapidly. LICHF has recently set up an independent company for selling financial services products. The company will sell housing loans of LICHF and insurance policies of LIC in addition to other third party products. Currently, the company operates from 33 branches and a fleet on street of about 1,000. Over the medium term, LICHF proposes to scale up the branch network to about 150 with about 15,000 people.

Valuations are close to peak
LICHF: Rolling PER and PBR, April 2004-March 2010 (X)



Source: Bloomberg, Company, Kotak Institutional Equities estimates

...so too operating performance
LICHF: Growth in disbursements (LHS) and gross NPL ratio (RHS), March fiscal year-ends, 2004-2011E (%)



Source: Company, Kotak Institutional Equities estimates

LICHF's loan growth remains high, SBI is also going strong
O/s mortgage loan book of key players, quarterly data (Rs bn)

	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10
SBI (Rs bn)	506	521	541	575	624	673
QoQ growth (Rs bn)		15	20	35	49	49
YoY (%)	23	22	21	25	23	29
HDFC (Rs bn)	812	829	894	926	956	981
QoQ growth (Rs bn)		17	66	32	30	25
YoY (%)	31	24	23	20	18	18
ICICI Bank (Rs bn)	617	607	573	535	490	484
QoQ growth (Rs bn)		(10)	(33)	(39)	(45)	(6)
YoY (%)	(8)	(9)	(14)	(18)	(21)	(20)
LIC Housing Fin (Rs bn)	241	253	277	292	319	342
QoQ growth (Rs bn)		12	23	15	27	23
YoY (%)	26	26	26	28	32	35

Source: Company

LICHF: Key ratios, March fiscal year-ends 2008-2012E

	2008	2009	2010E	2011E	2012E
Growth (%)					
Total assets	24	24	32	29	26
Housing loans	25	26	34	30	27
Total borrowings	24	26	32	32	28
Net Income before provision	49	27	14	24	28
Fee income	9	55	50	12	12
Total expenses	19	16	14	20	20
PBT	50	37	18	31	10
PAT	39	37	19	32	9
Spread calculation (%)					0
Average cost of funds	8.0	8.8	8.7	8.9	8.8
Average yield on assets	10.0	10.7	10.8	10.8	10.8
Spreads	1.9	2.0	2.1	2.0	2.0
Difference on housing loan	2.3	2.7	1.9	1.8	1.9
NIM	3.0	3.0	2.7	2.6	2.6
Other ratios (%)					
Tax rate	27	27	26	25	26
Debt/equity (X)	11	12	10	11	12
Total expenses/assets	0.6	0.5	0.5	0.4	0.4
Total expenses/total income	20	18	17	17	16
Divd payout ratio	22	22	22	22	22
Du Pont analysis (% of average assets)					
Net interest income	3.0	3.0	2.7	2.6	2.6
Loan loss provisions and Inv pro	0.1	—	(0.0)	0.1	0.2
Net other income	0.3	0.3	0.4	0.6	0.3
Gains on securitization	—	—	—	—	—
Operating expenses	0.6	0.6	0.5	0.5	0.5
(1- tax rate)	72.8	73.2	74.2	74.6	73.9
ROA	**1.8**	**2.0**	**1.9**	**1.9**	**1.6**
Average assets/average equity (X)	12.5	12.9	12.1	12.0	13.0
ROE (%)	**22.9**	**26.2**	**22.7**	**22.8**	**21.1**

Source: Company, Kotak Institutional Equities estimates

LICHF: Income statement and balance sheet, March fiscal year-ends 2008- 2012E

	2008	2009	2010E	2011E	2012E
Income statement					
Total income excluding fee income	20,365	27,476	34,452	45,617	58,569
Other operating income	127	634	612	357	357
Interest payable	14,744	20,155	25,998	34,741	44,512
Provision	243	53	-50	639	1,095
Fee income	526	814	1,221	1,368	1,532
Net total income	**6,554**	**8,716**	**10,336**	**11,961**	**14,850**
Total expenses	**1,338**	**1,552**	**1,771**	**2,119**	**2,536**
Staff expenses	345	447	514	617	740
Establishment expenses	182	166	183	219	263
Other expenses	774	890	1,023	1,228	1,474
Depreciation	37	49	51	55	59
Other income	105	100	0	1,350	0
Profit before tax	**5,321**	**7,264**	**8,566**	**11,192**	**12,314**
Tax	1,450	1,948	2,214	2,840	3,218
Net profit	**3,871**	**5,316**	**6,352**	**8,353**	**9,096**
EPS (Rs)	46	63	71	88	96
BVPS (Rs)	215	262	354	419	490
ABVPS (Rs)	184	233	356	395	463
Balance sheet					
Disbursements	**70,710**	**86,800**	**134,540**	**168,175**	**201,810**
YoY growth (%)	38	23	55	25	72,400
Net loans	**219,360**	**277,000**	**369,990**	**482,667**	**612,077**
Total Investments	**7,746**	**7,746**	**7,746**	**7,746**	**7,746**
Cash & deposits	3,617	2,893	2,893	2,893	2,893
Loans and advances and other assets	1,597	1,597	1,597	1,597	1,597
Deferred tax assets	929	929	929	929	929
Fixed assets owned	300	324	350	378	408
Total assets	**233,549**	**290,490**	**383,506**	**496,210**	**625,650**
Total liabilities	**215,232**	**268,224**	**349,923**	**456,425**	**579,110**
Share capital	850	850	950	950	950
Reserves	17467	21415	32632	38835	45590
Shareholders fund	**18,317**	**22,265**	**33,582**	**39,785**	**46,540**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Biocon (BIOS)

Pharmaceuticals

BUY

MARCH 23, 2010

UPDATE

Coverage view: Attractive

Price (Rs): 285

Target price (Rs): 315

BSE-30: 17,411

Syngene in drug-discovery collaboration with Endo Pharma. The contract is for around two years under which Syngene will develop novel biological molecules to fight cancer. Syngene will receive research fees and milestone payments. This deal marks Syngene's first major client win in biologics drug discovery. We leave estimates unchanged as the deal has no immediate financial implications. We maintain the BUY rating with SOTP-based target price rolled forward to Rs315 (was Rs300).

Company data and valuation summary

Biocon

Stock data			
52-week range (Rs) (high,low)			305-114
Market Cap. (Rs bn)			57.0
Shareholding pattern (%)			
Promoters			60.9
FIIs			4.3
MFs			9.0
Price performance (%)	1M	3M	12M
Absolute	6.9	2.2	139.2
Rel. to BSE-30	(0.3)	(2.1)	45.0

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	14.6	18.1	20.8
EPS growth (%)	210.6	24.1	15.0
P/E (X)	19.6	15.8	13.7
Sales (Rs bn)	23.2	27.1	31.5
Net profits (Rs bn)	2.9	3.6	4.2
EBITDA (Rs bn)	4.7	5.5	6.2
EV/EBITDA (X)	12.3	10.1	8.5
ROE (%)	18.0	19.4	19.3
Div. Yield (%)	0.0	0.0	0.1

QUICK NUMBERS

- Syngene enters into drug-discovery collaboration with Endo Pharma
- This deal marks Syngene's first major client win in biologics drug discovery
- Maintain BUY rating with SOTP-based target price rolled forward to Rs315

Syngene in drug-discovery collaboration with Endo Pharma

Biocon's CRO subsidiary Syngene has signed a drug-discovery collaboration pact with Endo Pharma to develop novel biological molecules to fight cancer. The collaboration is a non-FTE contract for around two years under which Syngene will work on a biological candidate in the discovery stage. As per the agreement, Endo will retain all rights to the molecule and Syngene will receive payments in the form of (1) research fees, (2) milestone payments and (3) success fees.

This deal marks Syngene's first major client win in biologics drug discovery

Although there are no immediate financial implications, the deal is significant as it marks Syngene's entry into biologics space. Syngene has been mostly doing chemistry-driven work till date and this is its first major client win in the biologics discovery space. According to the company, the scope of the deal may expand later to (1) working on more molecules and (2) working further along the discovery/development pipeline on the same molecule. We do not expect any additional capex due to this deal as Biocon had already invested in a biological pilot plant facility in FY2009.

No immediate financial implications from this deal—we leave estimates unchanged

We leave estimates unchanged as there are no immediate financial implications from this deal. We forecast revenues from contract research (including Clinigene) to increase 25% in FY2010E to US$61 mn (9MFY10 revenues were US$44 mn) and US$77 mn in FY2011E. We expect EBITDA margin in contract research (including Clinigene) at around 32% in FY2010-11E.

We maintain BUY rating with SOTP-based target price rolled forward to Rs315 (from Rs300)

We arrive at a price target based on 14X forward earnings multiple for contract research and 10X for the statin segment while we use 14X for its biopharmaceutical business. Biocon is trading at 16X FY2011E and 14X FY2011E earnings. At the target price, it will trade at 17.5X FY2011E and 15X FY2012E earnings.

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

	2007	2008	2009	2010E	2011E	2012E
Net sales	**9,857**	**10,538**	**16,086**	**23,235**	**27,102**	**31,543**
Total expenditure	(7,022)	(7,552)	(12,853)	(18,558)	(21,632)	(25,308)
EBITDA	**2,834**	**2,986**	**3,233**	**4,677**	**5,470**	**6,235**
Depreciation and amortisation	(665)	(939)	(1,103)	(1,410)	(1,580)	(1,700)
EBIT	**2,169**	**2,047**	**2,131**	**3,267**	**3,890**	**4,535**
Net finance cost	(98)	(102)	(177)	(165)	(120)	(120)
Other income	38	364	646	358	500	500
Loss/(gain) on forward covers	—	—	(1,472)	—	—	—
Pretax profits before extra-ordinaries	**2,109**	**2,309**	**1,128**	**3,460**	**4,270**	**4,915**
Current tax	(18)	(97)	(98)	(432)	(555)	(639)
Deferred tax	(151)	(17)	(1)	(35)	—	—
Fringe benefit tax	—	(15)	(19)	—	—	—
Reported net profit	**1,940**	**2,180**	**1,009**	**2,993**	**3,715**	**4,276**
Profit /(loss)in minority interest	(62)	(65)	79	80	100	120
Reported net profit after minority interests	**2,002**	**2,245**	**930**	**2,913**	**3,615**	**4,156**
Exceptional items	—	2,394	—	—	—	—
Reported net profit after minority interests a	**2,002**	**4,639**	**930**	**2,913**	**3,615**	**4,156**

Source: Kotak Institutional Equities estimates, Company

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

	2007	2008	2009	2010E	2011E	2012E
Balance sheet						
Total equity	10,686	14,841	15,107	17,231	19,944	23,198
Total debt	1,868	2,551	5,239	5,239	3,957	0
Current liabilities	2,749	3,005	4,375	5,764	6,832	7,948
Minority interests	(8)	(73)	248	328	428	548
Deferred tax liabilities	448	465	466	501	501	501
Total equity and liabilities	**15,744**	**20,789**	**25,436**	**29,064**	**31,662**	**32,196**
Cash and cash equivalents	87	96	118	150	150	150
Current assets	5,209	5,250	7,806	11,232	13,317	15,705
Net assets incl intangibles	9,657	10,695	13,836	13,206	12,876	12,426
Investments	790	4,748	3,676	4,476	5,319	3,915
Total uses of funds	**15,744**	**20,789**	**25,436**	**29,064**	**31,662**	**32,196**
Free cash flow						
Operating cash flow, excl. working ca	2,660	2,872	3,009	4,236	4,964	5,646
Working capital	(1,557)	(20)	(1,302)	(2,125)	(1,131)	(1,271)
Capital expenditure	(2,040)	(1,836)	(4,243)	(780)	(1,250)	(1,250)
Investments	(212)	3,957	(1,071)	800	843	(1,404)
Free cash flow	**(1,148)**	**4,974**	**(3,607)**	**2,132**	**3,427**	**1,720**

Source: Kotak Institutional Equities estimates, Company

SOTP based price target, FY2011-FY2012E

	PAT (Rs mn)		P/E	Valuation (Rs mn)	
	FY2011E	**FY2012E**	**(X)**	**FY2011E**	**FY2012E**
Pharmaceuticals					
Statins	482	525	10.0	4,820	5,248
Others	2,287	2,753	14.0	32,017	38,542
Contract research	741	937	14.0	10,377	13,112
Total (ex interest income)	**3,510**	**4,214**		**47,214**	**56,902**
Value per share (Rs)				**245**	**295**
Cash per share				6	19
Share price target					**314**

Source: Kotak Institutional Equities estimates, Company

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	23-Mar-10 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2009	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS growth (%) 2009	EPS growth (%) 2010E	EPS growth (%) 2011E	PER (X) 2009	PER (X) 2010E	PER (X) 2011E	EV/EBITDA (X) 2009	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	Price/BV (X) 2009	Price/BV (X) 2010E	Price/BV (X) 2011E	Dividend yield (%) 2009	Dividend yield (%) 2010E	Dividend yield (%) 2011E	RoE (%) 2009	RoE (%) 2010E	RoE (%) 2011E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Automobiles																													
Ashok Leyland	54	ADD	71,373	1,574	1,330	1.5	3.1	3.9	(57.8)	105.8	24.5	35.1	17.0	13.7	18.9	11.4	8.9	1.9	1.8	1.6	1.9	1.9	1.9	6.2	12.1	12.4	55	2.5	5.2
Bajaj Auto	1,848	ADD	267,375	5,896	145	45.2	110.7	137.9	(13.4)	144.8	24.5	40.9	16.7	13.4	21.4	10.3	8.9	14.3	8.6	5.7	1.1	1.1	1.1	37.7	64.0	50.4	1,930	4.4	12.0
Hero Honda	1,938	SELL	387,039	8,534	200	64.2	108.3	121.5	32.4	68.8	12.1	30.2	17.9	16.0	18.2	11.4	9.8	9.8	6.9	5.2	1.0	1.1	1.1	36.4	45.4	37.1	1,700	(12.3)	18.3
Mahindra & Mahindra	1,049	ADD	309,170	6,817	295	30.0	64.4	72.7	(19.8)	114.5	12.8	34.9	16.3	14.4	24.5	10.6	9.5	5.9	3.9	3.1	0.9	0.9	0.9	17.1	28.6	23.9	1,230	17.3	26.4
Maruti Suzuki	1,393	REDUCE	402,693	8,880	289	42.2	85.1	90.9	(29.6)	101.7	6.9	33.0	16.4	15.3	19.8	9.2	8.2	4.2	3.4	2.8	0.3	0.4	0.4	13.5	23.0	20.0	1,350	(3.1)	25.1
Tata Motors	739	ADD	422,331	9,313	571	10.0	26.3	30.1	(78.2)	162.7	14.4	73.8	28.1	24.5	26.5	14.6	12.8	3.2	2.5	2.2	0.7	0.8	0.8	4.4	9.9	9.7	810	9.6	86.0
Automobiles		**Cautious**	**1,859,980**	**41,014**					**(30.7)**	**115.2**	**14.3**	**39.8**	**18.5**	**16.2**	**21.9**	**11.4**	**10.0**	**4.9**	**3.7**	**3.1**	**0.8**	**0.9**	**0.9**	**12.4**	**20.2**	**19.0**			
Banks/Financial Institutions																													
Andhra Bank	99	BUY	48,088	1,060	485	13.5	19.4	14.7	13.5	44.1	(24.4)	7.4	5.1	6.8	—	—	—	1.3	1.1	1.0	4.5	3.9	3.0	18.9	23.5	15.3	135	36.2	2.7
Axis Bank	1,162	ADD	441,549	9,736	380	50.6	63.3	74.5	56.9	25.1	17.7	23.0	18.4	15.6	—	—	—	4.3	2.8	2.4	0.8	1.1	1.3	19.1	18.4	17.5	1,160	(0.2)	48.6
Bank of Baroda	625	BUY	228,345	5,035	366	60.9	75.0	77.2	55.1	23.1	2.9	10.3	8.3	8.1	—	—	—	2.0	1.7	1.4	1.4	1.8	1.8	21.4	22.0	19.1	660	5.7	11.2
Bank of India	310	REDUCE	163,060	3,596	526	57.2	38.9	47.8	40.7	(32.0)	22.9	5.4	8.0	6.5	—	—	—	1.4	1.2	1.0	2.6	1.8	2.2	29.2	16.2	17.3	360	16.1	5.7
Canara Bank	400	ADD	164,185	3,620	410	50.5	75.2	69.7	32.4	48.8	(7.3)	7.9	5.3	5.7	—	—	—	1.6	1.3	1.1	2.0	2.0	2.5	18.3	22.8	17.8	410	2.4	4.4
Corporation Bank	444	BUY	63,672	1,404	143	62.3	71.1	65.0	21.5	14.1	(8.5)	7.1	6.2	6.8	—	—	—	1.3	1.1	1.0	2.8	3.2	2.9	19.6	19.3	15.5	515	16.0	0.5
Federal Bank	256	BUY	43,810	966	171	29.3	30.6	38.0	(14.8)	4.5	24.1	8.8	8.4	6.7	—	—	—	1.0	0.9	0.8	2.0	2.0	2.5	12.1	11.5	13.0	340	32.7	3.2
HDFC	2,622	ADD	745,700	16,443	284	80.2	98.5	115.4	(6.4)	22.7	17.2	32.7	26.6	22.7	—	—	—	5.7	5.2	4.6	1.1	1.3	1.5	18.2	19.7	20.3	2,700	3.0	41.8
HDFC Bank	1,884	BUY	851,679	18,780	452	52.8	64.8	84.4	17.6	22.8	30.2	35.7	29.1	22.3	—	—	—	5.7	4.0	3.5	0.5	0.7	0.8	16.9	16.1	16.7	1,800	(4.5)	38.4
ICICI Bank	926	REDUCE	1,030,350	22,720	1,113	33.8	37.3	47.0	(15.4)	10.5	26.0	27.4	24.8	19.7	—	—	—	2.1	2.0	1.9	1.2	1.3	1.7	7.8	8.2	9.8	880	(4.9)	92.9
IDFC	158	REDUCE	205,172	4,524	1,295	5.8	8.4	9.1	1.9	45.4	8.0	27.4	18.8	17.4	—	—	—	3.3	2.9	2.6	0.8	0.9	1.0	12.9	16.4	15.6	145	(8.5)	17.6
India Infoline	116	BUY	36,153	797	312	5.1	7.7	9.2	(8.7)	50.4	19.2	22.7	15.1	12.7	—	—	—	2.9	2.4	2.0	2.2	2.8	1.8	11.9	17.6	18.7	170	46.6	5.2
Indian Bank	164	BUY	70,289	1,550	430	28.0	34.2	34.7	24.1	22.4	1.4	5.9	4.8	4.7	—	—	—	1.3	1.1	0.9	3.1	3.6	3.7	22.9	23.3	20.0	225	37.6	2.0
Indian Overseas Bank	88	BUY	47,970	1,058	545	24.3	22.7	13.3	10.3	(6.9)	(41.1)	3.6	3.9	6.6	—	—	—	0.8	0.7	0.6	6.0	4.3	4.7	22.1	16.1	8.6	150	70.4	2.4
J&K Bank	665	BUY	32,257	711	48	84.5	105.5	112.3	13.8	24.8	6.4	7.9	6.3	5.9	—	—	—	1.4	1.2	1.1	2.5	3.2	3.4	16.7	18.1	16.9	700	5.2	0.7
LIC Housing Finance	806	ADD	72,524	1,599	90	62.5	82.6	77.4	37.3	32.0	(6.2)	12.9	9.8	10.4	—	—	—	3.7	2.2	1.9	1.6	2.3	2.2	26.2	26.2	19.8	925	14.8	12.4
Mahindra & Mahindra Financial	389	BUY	37,246	821	96	22.4	31.9	37.2	7.5	42.2	16.5	17.4	12.2	10.5	—	—	—	2.6	2.3	2.0	1.4	2.0	2.4	15.4	19.3	19.6	415	6.6	0.9
Oriental Bank of Commerce	297	REDUCE	74,298	1,638	251	36.1	41.3	47.7	51.4	14.3	15.5	8.2	7.2	6.2	—	—	—	1.2	1.1	1.0	2.5	2.8	3.3	13.7	13.3	14.0	280	(5.6)	4.2
PFC	257	SELL	294,920	6,503	1,148	13.3	19.7	21.4	17.4	47.7	8.6	19.3	13.0	12.0	—	—	—	2.7	2.4	2.1	1.6	1.9	2.1	18.9	18.4	17.6	200	(22.2)	3.2
Punjab National Bank	971	BUY	306,048	6,749	315	98.0	116.4	124.7	50.9	18.7	7.2	9.9	8.3	7.8	—	—	—	2.3	1.9	1.6	2.0	2.4	2.6	25.8	25.2	22.5	1,020	5.1	6.9
Reliance Capital	780	ADD	191,906	4,232	246	39.3	17.7	17.5	(5.6)	(55.1)	(1.1)	19.8	44.1	44.6	—	—	—	2.9	2.7	2.6	0.8	0.3	0.3	15.3	6.3	5.9	875	12.2	47.6
Shriram Transport	495	ADD	114,601	2,527	232	30.1	36.6	48.3	56.7	21.6	32.0	16.5	13.5	10.3	—	—	—	5.1	3.0	2.6	0.9	2.2	2.9	29.6	26.5	25.1	500	1.0	4.1
SREI	75	NR	8,728	192	116	7.0	8.3	7.9	(24.7)	17.8	(4.8)	10.7	9.1	9.5	—	—	—	0.8	0.7	0.7	1.3	1.6	1.6	12.8	11.1	10.5	-	(100.0)	5.0
State Bank of India	2,049	BUY	1,300,584	28,679	635	143.7	154.8	174.4	34.8	7.7	12.7	14.3	13.2	11.7	—	—	—	2.2	2.0	1.8	1.4	1.5	1.6	17.1	15.9	15.8	2,400	17.2	100.0
Union Bank	282	BUY	142,469	3,142	505	34.2	37.9	38.7	24.5	11.0	2.0	8.3	7.4	7.3	—	—	—	2.0	1.6	1.4	1.8	2.0	2.0	27.2	24.4	20.7	350	24.1	4.0
Banks/Financial Institutions		**Attractive**	**6,930,850**	**152,830**					**27.0**	**15.3**	**10.4**	**15.9**	**13.8**	**12.5**	**—**	**—**	**—**	**2.6**	**2.2**	**1.9**	**1.3**	**1.5**	**1.7**	**16.1**	**15.8**	**15.4**			
Cement																													
ACC	958	SELL	179,895	3,967	188	56.3	83.2	53.2	(12.2)	47.9	(36.1)	17.0	11.5	18.0	8.6	6.2	8.0	3.4	2.8	2.5	2.4	2.4	2.4	24.7	29.3	17.1	800	(16.4)	11.5
Ambuja Cements	118	SELL	178,955	3,946	1,522	7.2	8.0	6.9	(5.0)	11.4	(13.5)	16.4	14.7	17.0	8.9	8.2	8.6	3.0	2.6	2.3	2.5	1.6	1.8	19.7	19.3	14.7	92	(21.7)	6.4
Grasim Industries	2,853	REDUCE	261,582	5,768	92	238.6	297.3	289.2	(16.2)	24.6	(2.7)	12.0	9.6	9.9	6.7	5.1	5.0	2.3	1.9	1.6	1.2	1.2	1.2	21.1	21.4	17.6	2,500	(12.4)	12.6
India Cements	133	SELL	37,549	828	282	17.8	13.7	12.4	n/a	(23.1)	(9.1)	7.5	9.7	10.7	5.3	5.6	5.8	1.0	0.9	0.9	1.4	1.6	2.4	14.8	10.5	9.0	100	(24.8)	5.1
Shree Cement	2,245	BUY	78,220	1,725	35	174.8	267.3	228.9	93.8	52.9	(14.4)	12.8	8.4	9.8	8.4	5.1	4.8	6.5	3.7	2.7	0.4	0.5	0.5	65.7	56.1	31.8	2,400	6.9	0.8
UltraTech Cement	1,111	SELL	138,308	3,050	124	78.8	90.1	64.5	(3.1)	14.3	(28.4)	14.1	12.3	17.2	8.2	6.7	8.3	3.2	2.6	2.3	0.5	0.7	0.7	31.1	27.3	16.2	900	(19.0)	5.9
Cement		**Neutral**	**874,510**	**19,284**					**(8.0)**	**23.6**	**(16.2)**	**13.6**	**11.0**	**13.1**	**7.6**	**6.0**	**6.4**	**2.7**	**2.3**	**2.0**	**1.6**	**1.4**	**1.5**	**20.0**	**20.5**	**15.0**			
Consumer products																													
Asian Paints	1,968	BUY	188,780	4,163	96	38.6	72.9	83.4	(1.7)	88.8	14.4	51.0	27.0	23.6	30.5	17.0	14.6	16.5	13.4	11.1	0.9	2.0	2.3	36.6	57.2	53.4	2,100	6.7	2.5
Colgate-Palmolive (India)	715	REDUCE	97,167	2,143	136	21.6	29.4	33.4	26.3	36.2	13.8	33.1	24.3	21.4	27.4	19.9	16.6	44.9	40.2	35.8	2.1	3.3	3.7	155.1	174.5	177.3	700	(2.0)	1.7
Dabur India	160	BUY	138,520	3,054	866	4.5	5.8	7.0	17.0	27.6	21.2	35.4	27.7	22.9	27.2	20.0	16.1	16.9	13.1	10.7	1.1	1.9	2.3	55.3	53.9	52.2	200	25.1	2.7
GlaxoSmithkline Consumer (a)	1,505	ADD	63,302	1,396	42	44.8	55.3	70.3	15.8	23.6	27.0	33.6	27.2	21.4	19.7	15.5	12.8	8.2	7.2	6.3	1.0	1.5	2.3	26.8	28.4	31.4	1,500	(0.3)	1.0
Godrej Consumer Products	264	ADD	68,127	1,502	258	6.7	10.8	12.4	(5.3)	62.0	14.3	39.5	24.4	21.3	27.3	17.5	14.7	11.9	6.9	5.7	1.5	1.5	1.5	46.9	36.2	29.6	270	2.3	1.0
Hindustan Unilever	229	REDUCE	498,007	10,981	2,179	9.5	10.3	10.6	19.0	7.8	3.2	24.0	22.3	21.6	18.2	15.4	15.0	24.2	24.0	23.9	3.8	4.5	4.6	112.4	108.4	111.2	220	(3.7)	18.1
ITC	261	BUY	983,419	21,685	3,769	8.7	10.5	12.3	2.8	21.7	16.8	30.1	24.8	21.2	18.5	15.0	13.0	6.7	5.9	5.2	1.4	1.7	2.1	25.3	27.0	27.6	280	7.3	26.1
Jubilant Foodworks	331	SELL	21,001	463	64	1.3	5.5	7.5	(9.1)	337.7	37.1	263.4	60.2	43.9	62.4	32.9	22.9	87.7	18.1	12.8	-	-	-	36.0	46.7	34.2	-	(100.0)	-
Jyothy Laboratories	169	ADD	12,231	270	73	5.5	9.7	12.1	(12.9)	75.4	24.4	30.5	17.4	14.0	20.6	12.5	8.9	3.4	3.0	2.5	1.4	1.7	2.1	10.7	16.4	19.0	200	18.7	0.5
Nestle India (a)	2,654	ADD	255,873	5,642	96	58.6	76.7	92.2	31.0	30.8	20.3	45.3	34.6	28.8	28.9	23.3	20.0	54.1	43.7	35.6	1.6	2.1	2.5	126.7	139.6	136.3	3,000	13.0	2.4
Tata Tea	939	BUY	58,068	1,280	62	53.7	56.9	69.7	14.7	6.1	22.3	17.5	16.5	13.5	10.5	8.9	7.4	1.2	1.2	1.1	1.9	2.0	2.4	9.4	9.4	10.8	1,200	27.8	2.7
Consumer products		**Attractive**	**2,384,496**	**52,580**					**10.7**	**23.6**	**14.4**	**31.0**	**25.1**	**21.9**	**20.4**	**16.1**	**14.1**	**9.3**	**8.1**	**7.2**	**1.9**	**2.4**	**2.7**	**29.9**	**32.4**	**32.9**			
Constructions																													
IVRCL	164	BUY	43,776	965	267	8.5	7.9	9.7	7.4	(6.4)	22.1	19.4	20.7	16.9	13.7	11.4	9.4	2.4	2.2	1.9	0.2	0.2	0.2	13.2	11.0	12.0	185	12.8	15.5
Nagarjuna Construction Co.	161	BUY	41,425	913	257	6.7	8.6	10.5	(6.3)	28.5	21.7	24.0	18.7	15.4	14.1	10.4	9.2	2.5	1.9	1.7	0.6	1.0	1.2	9.4	11.3	11.6	180	11.5	3.5
Punj Lloyd	177	REDUCE	60,135	1,326	339	(7.2)	9.8	14.0	(172.4)	(236.1)	42.8	(24.6)	18.0	12.6	19.9	8.8	7.1	2.4	1.7	1.5	0.1	0.2	0.3	(8.6)	11.2	12.9	205	15.5	18.9
Sadbhav Engineering	1,310	BUY	16,373	361	13	51.1	53.4	73.0	26.2	4.4	36.8	25.6	24.5	17.9	16.8	12.9	10.2	4.6	4.0	3.3	0.3	0.4	0.5	18.0	16.1	18.3	1,400	6.9	0.4
Construction		**Attractive**	**161,710**	**3,566**					**(70.6)**	**280.3**	**31.4**	**73.8**	**19.4**	**14.8**	**16.1**	**10.0**	**8.3**	**2.6**	**2.0**	**1.8**	**0.3**	**0.4**	**0.6**	**3.5**	**10.2**	**12.0**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	23-Mar-10 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2009	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS growth (%) 2009	EPS growth (%) 2010E	EPS growth (%) 2011E	PER (X) 2009	PER (X) 2010E	PER (X) 2011E	EV/EBITDA (X) 2009	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	Price/BV (X) 2009	Price/BV (X) 2010E	Price/BV (X) 2011E	Dividend yield (%) 2009	Dividend yield (%) 2010E	Dividend yield (%) 2011E	RoE (%) 2009	RoE (%) 2010E	RoE (%) 2011E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Energy																													
Bharat Petroleum	512	RS	167,713	3,698	328	20.6	58.1	61.7	(50.1)	181.9	6.2	24.8	8.8	8.3	5.2	4.4	3.9	1.3	1.2	1.1	1.5	5.0	5.3	5.3	14.1	13.7	—	—	10.3
Cairn india	293	SELL	555,249	12,244	1,897	4.3	5.3	21.0	—	23	297.8	68	56	14.0	47.5	38.8	8.7	1.7	1.6	1.6	—	—	5.1	2.5	2.9	11.4	250	(14.6)	18.7
Castrol India (a)	680	REDUCE	84,013	1,853	124	21.3	30.8	39.7	20.8	44.7	28.8	31.9	22.0	17.1	18.5	13.5	10.7	18.7	18.2	16.4	2.2	3.7	4.4	61.2	83.8	101.0	640	(5.8)	3.0
GAIL (India)	408	REDUCE	517,350	11,408	1,268	22.2	22.7	23.5	8.7	2.3	3.7	18.4	18.0	17.3	10.0	10.5	10.9	3.2	2.9	2.6	1.7	2.0	2.0	17.5	15.9	15.0	370	(9.3)	14.8
GSPL	88	REDUCE	49,304	1,087	563	2.2	7.5	12.4	21.9	241.9	64.6	39.9	11.7	7.1	13.3	6.3	4.0	3.7	3.0	2.5	0.9	2.9	7.1	9.6	28.7	38.9	95	8.4	5.8
Hindustan Petroleum	313	RS	106,263	2,343	339	17.0	46.3	49.7	(49.3)	173.1	7.2	18.5	6.8	6.3	2.8	2.3	2.1	0.9	0.8	0.8	1.7	8.3	8.9	4.4	11.2	11.4	—	—	9.3
Indian Oil Corporation	299	RS	709,491	15,645	2,372	9.8	33.0	32.1	(67.9)	235.4	(2.7)	30.4	9.1	9.3	8.2	5.7	4.8	1.5	1.3	1.2	1.3	2.2	2.2	4.8	15.3	13.1	—	—	5.6
Oil India	1,108	REDUCE	251,850	5,553	227	101.1	112.2	110.6	—	10.9	(1.5)	11.0	9.9	10.0	5.0	3.5	2.9	2.5	1.7	1.6	2.6	3.3	3.5	20.1	16.5	15.5	1,150	3.8	—
Oil & Natural Gas Corporation	1,069	REDUCE	2,287,005	50,430	2,139	90.8	89.9	107.1	(2.1)	(1.0)	19.1	11.8	11.9	10.0	4.4	4.2	3.5	1.9	1.8	1.6	3.0	3.4	4.1	16.6	14.4	15.7	1,200	12.2	23.8
Petronet LNG	79	ADD	59,475	1,311	750	6.9	5.3	8.1	—	(22.7)	51.2	11.5	14.8	9.8	8.1	8.8	6.2	2.6	2.3	1.9	2.2	1.9	2.5	23.9	15.8	20.5	90	13.5	4.4
Reliance Industries	1,091	SELL	3,183,614	70,201	2,917	50.6	49.3	66.5	(3.7)	(2.5)	34.9	21.6	22.1	16.4	14.2	10.7	8.1	2.3	2.0	1.8	0.6	0.6	0.8	13.6	10.9	12.8	950	(13.0)	146.5
Energy		**Cautious**	**7,971,326**	**175,773**					**(9.7)**	**21.8**	**24.6**	**17.8**	**14.6**	**11.7**	**8.1**	**6.9**	**5.5**	**2.0**	**1.8**	**1.6**	**1.5**	**1.9**	**2.6**	**11.4**	**12.3**	**13.9**			
Industrials																													
ABB	832	REDUCE	176,393	3,890	212	25.8	16.7	27.6	11.3	(35.2)	65.0	32.2	49.7	30.1	19.1	28.4	17.1	8.3	7.4	6.1	0.3	0.3	0.4	29.2	15.7	22.2	690	(17.1)	6.0
BGR Energy Systems	506	ADD	36,421	803	72	16.0	23.6	30.2	32.2	47.4	27.8	31.6	21.4	16.7	17.9	12.1	9.3	6.5	5.2	4.2	0.6	0.8	1.0	22.3	26.9	27.6	500	(1.2)	3.0
Bharat Electronics	2,201	REDUCE	176,108	3,883	80	103.8	117.7	126.2	1.8	13.4	7.2	21.2	18.7	17.4	11.4	9.5	8.5	4.5	3.8	3.2	0.8	1.1	1.1	20.7	22.0	20.1	1,870	(15.1)	4.5
Bharat Heavy Electricals	2,357	ADD	1,153,774	25,442	490	63.9	92.0	115.8	9.4	44.1	25.8	36.9	25.6	20.4	20.2	14.2	11.1	8.9	7.1	5.6	0.7	0.8	1.0	26.4	30.8	30.7	2,500	6.1	33.0
Crompton Greaves	252	BUY	161,703	3,566	642	8.8	11.9	13.5	37.2	35.2	14.1	28.7	21.3	18.6	15.3	11.7	10.0	8.8	6.4	4.9	0.5	0.6	0.7	35.6	34.6	29.8	260	3.2	7.9
Larsen & Toubro	1,615	BUY	970,684	21,404	601	50.1	53.7	64.5	32.1	7.2	20.2	32.2	30.1	25.0	20.6	16.5	14.0	6.4	4.4	3.7	0.6	0.7	0.7	21.7	17.4	16.3	1,700	5.3	60.1
Maharashtra Seamless	353	BUY	24,897	549	71	35.9	40.2	41.1	22.2	12.0	2.3	9.8	8.8	8.6	5.6	4.5	4.2	1.8	1.6	1.4	1.5	1.7	2.1	20.3	19.2	16.9	400	13.3	1.3
Siemens	738	REDUCE	248,689	5,484	337	16.1	24.6	28.9	13.5	52.7	17.6	45.9	30.0	25.5	22.2	17.7	14.7	9.0	7.3	6.0	0.7	0.7	0.8	21.6	27.0	25.8	635	(13.9)	8.6
Suzlon Energy	73	REDUCE	123,356	2,720	1,679	7.2	(2.2)	2.9	9.9	(130.8)	(231.4)	10.2	(33.0)	25.2	7.4	12.4	7.8	1.2	1.1	1.0	—	—	0.3	11.5	(3.4)	4.2	80	8.9	51.7
Thermax	664	ADD	79,122	1,745	119	24.3	21.4	29.8	(0.6)	(11.7)	39.2	27.4	31.0	22.3	16.0	16.6	12.3	8.0	7.3	6.0	0.8	0.5	1.3	33.0	24.5	29.4	725	9.2	2.4
Voltas	177	BUY	58,606	1,292	331	6.9	9.4	10.3	29.8	36.2	9.0	25.7	18.8	17.3	14.2	10.4	9.2	7.3	5.8	4.7	1—	1—	1.5	33.0	34.1	29.8	185	4.4	4.7
Industrials		**Attractive**	**3,209,753**	**70,777**					**15.4**	**7.4**	**30.4**	**30.6**	**28.5**	**21.8**	**16.9**	**14.6**	**11.7**	**6.1**	**4.8**	**4.0**	**0.6**	**0.7**	**0.9**	**19.8**	**16.8**	**18.5**			
Infrastructure																													
GMR Infrastructure	58	ADD	211,056	4,654	3,667	0.8	0.6	0.6	(33.5)	(24.5)	(3.1)	75.0	99.4	102.6	27.5	19.7	14.5	2.5	2.1	1.9	—	—	—	4.4	3.2	3.0	68	18.2	6.7
GVK Power & Infrastructure	42	ADD	66,959	1,476	1,579	0.8	0.8	1.1	(20.6)	6.7	33.5	55.6	52.1	39.0	51.1	18.0	16.5	2.9	2.1	2.0	—	—	0.7	4.8	4.7	5.3	50	17.9	8.9
IRB Infrastructure	267	RS	88,642	1,955	332	5.3	9.7	12.6	54.3	83.8	29.2	50.4	27.4	21.2	24.7	13.0	11.6	4.9	3.8	2.9	0.4	—	—	10.1	15.6	15.7	—	—	5.7
Mundra Port and SEZ	726	ADD	293,095	6,463	403	10.7	15.1	24.1	105.6	40.8	59.5	67.8	48.1	30.2	39.5	31.0	19.9	10.0	8.0	6.2	(0.4)	—	—	15.5	18.5	23.2	725	(0.2)	10.9
Infrastructure		**Attractive**	**659,751**	**14,548**					**48.6**	**28.0**	**38.7**	**66.3**	**51.8**	**37.4**	**32.7**	**20.9**	**15.7**	**4.3**	**3.4**	**3.0**	**(0.1)**	**—**	**0.1**	**6.5**	**6.6**	**8.0**			
Media																													
DishTV	37	ADD	39,399	869	1,063	(6.6)	(2.5)	(1.2)	(31.9)	(61.6)	(52.4)	(5.6)	(14.7)	(30.8)	(36.5)	57.8	18.9	(6.3)	9.7	14.1	—	—	—	83.9	248.6	(37.1)	45	21.5	5.6
HT Media	139	NR	32,689	721	235	0.8	5.7	7.3	(80.5)	572.1	29.5	164.8	24.5	18.9	37.2	11.8	9.9	3.8	3.4	3.1	0.2	0.7	1.4	2.3	14.6	17.0	—	—	0.6
Jagran Prakashan	120	ADD	36,216	799	301	3.0	5.8	6.6	(6.6)	90.9	14.3	39.5	20.7	18.1	22.5	12.5	10.6	6.5	5.9	5.4	1.7	2.9	3.3	16.7	29.8	31.2	130	8.1	1.8
Sun TV Network	415	REDUCE	163,661	3,609	394	9.1	12.1	14.6	9.5	33.3	21.0	45.7	34.3	28.4	24.3	19.7	16.0	9.3	8.0	7.0	0.6	1.0	1.4	22.5	25.4	26.4	295	(29.0)	4.8
Zee Entertainment Enterprises	263	REDUCE	114,207	2,518	434	8.4	10.6	12.8	(4.8)	25.9	20.3	31.1	24.7	20.6	21.5	19.1	15.0	3.3	3.0	2.7	0.8	1.0	1.2	11.8	13.0	14.2	245	(6.9)	6.0
Zee News	62	NR	14,940	329	240	1.9	2.6	3.1	20.4	38.4	20.1	33.5	24.2	20.1	16.3	12.0	10.2	6.1	5.0	4.2	0.6	0.6	1.1	20.1	23.3	23.2	—	—	1.1
Media		**Neutral**	**401,111**	**8,845**					**(21.0)**	**145.8**	**39.4**	**94.7**	**38.5**	**27.6**	**29.0**	**18.4**	**14.3**	**6.4**	**4.9**	**4.5**	**0.7**	**1.0**	**1.4**	**6.7**	**12.8**	**16.3**			
Metals																													
Hindalco Industries	170	ADD	326,232	7,194	1,914	16.0	4.2	12.4	65.2	(74.0)	197.9	10.7	41.0	13.8	10.4	8.9	8.8	2.1	1.5	1.4	1—	1—	1—	11.9	9.1	10.3	190	11.5	51.5
National Aluminium Co.	393	SELL	253,053	5,580	644	19.7	10.1	28.0	(22.0)	(49.0)	178.6	19.9	39.0	14.0	9.8	17.0	6.6	2.4	2.3	2.0	1.3	0.5	0.5	12.8	6.1	15.4	320	(18.5)	8.3
Jindal Steel and Power	704	SELL	652,835	14,395	928	32.8	40.6	47.0	139.1	23.7	15.9	21.4	17.3	15.0	14.0	11.1	9.0	8.4	5.7	4.1	0.2	0.1	0.1	50.9	39.2	31.8	530	(24.7)	43.2
JSW Steel	1,267	SELL	237,037	5,227	187	14.7	68.1	93.7	(83.2)	363.6	37.5	86.2	18.6	13.5	13.4	9.2	8.0	2.6	2.1	1.6	0.1	0.2	0.4	11.7	12.4	13.3	850	(32.9)	50.2
Hindustan Zinc	1,213	BUY	512,637	11,304	423	64.6	93.5	105.4	(38.0)	44.8	12.8	18.8	13.0	11.5	15.2	8.9	6.6	3.4	2.7	2.2	0.3	0.4	0.4	20.2	23.5	21.3	1,400	15.4	12.5
Sesa Goa	449	REDUCE	398,040	8,777	887	25.3	25.9	38.9	29.0	2.5	50.5	17.8	17.3	11.5	15.7	14.3	8.5	8.3	5.4	3.8	0.5	0.7	0.7	46.6	32.8	33.8	350	(22.0)	50.4
Sterlite Industries	818	ADD	687,667	15,164	840	46.8	44.9	54.2	(25.8)	(4.0)	20.7	17.5	18.2	15.1	12.9	10.0	7.7	2.5	1.9	1.7	—	—	—	14.0	11.0	11.9	850	3.9	39.7
Tata Steel	638	BUY	566,117	12,483	887	110.1	3.2	78.7	45.3	(97.1)	2,331.6	5.8	197.0	8.1	6.0	19.5	6.6	1.9	2.2	1.8	2.3	1.3	1.3	27.5	1.1	24.7	700	9.7	113.9
Metals		**Cautious**	**3,633,619**	**80,124**					**10.9**	**(33.3)**	**77.2**	**14.4**	**21.6**	**12.2**	**10.1**	**11.8**	**7.6**	**3.0**	**2.5**	**2.1**	**0.6**	**0.5**	**0.5**	**21.1**	**11.7**	**17.2**			
Pharmaceutical																													
Biocon	294	BUY	58,820	1,297	200	4.7	14.6	18.1	(79.9)	210.6	24.1	62.7	20.2	16.3	25.0	11.8	9.6	3.8	3.3	2.9	—	—	0.0	6.2	18.0	19.4	315	7.1	5.8
Cipla	342	REDUCE	274,599	6,055	803	9.9	13.4	15.1	10.0	34.9	13.0	34.5	25.6	22.6	26.1	17.7	15.8	6.3	4.7	4.0	0.6	0.7	0.7	19.0	21.0	19.1	295	(13.7)	10.3
Cadila Healthcare	842	BUY	114,884	2,533	136	22.2	36.8	44.3	8.3	65.8	20.3	37.9	22.9	19.0	20.2	14.8	12.3	9.3	7.1	5.5	1	1	1.1	26.9	35.7	32.7	765	(9.1)	1.4
Dishman Pharma & chemicals	216	BUY	17,580	388	81	18.0	17.2	20.5	22.1	(4.3)	19.2	12.0	12.6	10.5	9.1	9.6	7.9	2.5	2.1	1.8	—	—	—	22.7	18.0	18.2	265	22.6	1.2
Divi's Laboratories	660	ADD	86,268	1,902	131	31.9	19.1	33.6	19.7	(40.1)	76.3	20.7	34.6	19.6	16.9	20.5	14.1	6.9	6.1	5.0	—	—	0.0	39.6	18.6	27.1	700	6.1	3.9
Dr Reddy's Laboratories	1,304	REDUCE	220,816	4,869	169	32.4	55.9	67.4	24.3	72.6	20.6	40.2	23.3	19.3	16.8	13.6	11.5	6.3	5.7	4.5	0.5	0.5	0.6	13.6	25.4	25.9	1,170	(10.2)	11.9
GlaxoSmithkline Pharmaceuticals (a)	1,746	REDUCE	147,883	3,261	85	54.6	59.1	67.7	13.8	8.1	14.6	31.9	29.5	25.8	18.3	16.8	14.6	9.4	8.3	7.1	—	—	—	31.3	29.7	29.5	1,700	(2.6)	1.5
Glenmark Pharmaceuticals	242	NR	66,192	1,460	274	11.1	12.9	16.5	(57.0)	16.6	27.6	21.8	18.7	14.6	13.7	11.2	9.2	4.1	2.8	2.4	—	—	—	17.7	17.2	17.5	—	—	5.0
Lupin	1,662	ADD	147,238	3,247	89	60.2	73.6	92.0	21.0	22.3	24.9	27.6	22.6	18.1	24.5	18.7	14.6	10.2	6.4	4.9	0.7	0.8	0.9	37.1	35.2	31.2	1,600	(3.7)	7.5
Ranbaxy Laboratories	471	SELL	201,827	4,450	428	(12.3)	6.0	12.3	(152.8)	(148.7)	105.0	(38.3)	78.6	38.3	(89.1)	19.0	21.2	6.4	6.2	5.6	—	0.8	0.8	(13.3)	5.9	11.5	220	(53.3)	21.5
Sun Pharmaceuticals	1,690	ADD	350,099	7,720	207	87.8	65.4	90.7	17.6	(25.5)	38.7	19.3	25.8	18.6	15.3	19.0	13.3	4.8	4.2	3.5	0.8	0.8	0.8	30.2	17.9	21.1	1,800	6.5	12.8
Pharmaceuticals		**Attractive**	**1,686,206**	**37,182**					**(17.1)**	**28.9**	**29.5**	**34.5**	**26.8**	**20.7**	**21.7**	**16.3**	**13.6**	**6.1**	**5.1**	**4.2**	**0.4**	**0.6**	**0.6**	**17.7**	**18.9**	**20.5**			
Property																													
DLF	295	REDUCE	498,054	10,982	1,691	26.7	12.1	16.0	(42.0)	(54.5)	32.1	11.0	24.2	18.4	11.6	16.1	13.9	2.1	1.9	1.8	1.0	1.0	1.4	20.7	8.3	10.2	315	7.0	76.5
Indiabulls Real Estate	145	ADD	58,359	1,287	401	0.8	1.6	4.0	(95.4)	109.7	151.7	192.3	91.7	36.4	(30)	(48.0)	25.1	0.9	0.6	0.6	—	—	—	0.3	0.8	1.8	285	95.9	27.4
Mahindra Life Space Developer	393	BUY	16,525	364	42	10.4	18.9	20.3	(38.5)	82.4	7.3	38.0	20.8	19.4	55.9	17.0	13.9	1.9	1.8	1.6	1.0	1.0	1.0	4.8	8.4	8.5	510	29.8	1.1
Phoenix Mills	189	BUY	27,332	603	145	5.0	5.1	7.7	56.8	2.5	51.0	38.0	37.1	24.5	44.1	28.5	18.3	1.8	1.8	1.7	0.5	0.5	0.8	4.9	4.8	7.0	260	37.8	1.0
Puravankara Projects	98	REDUCE	20,905	461	213	6.8	8.3	7.9	(39.8)	22.4	(4.8)	14.5	11.8	12.4	21.1	13.2	12.5	1.6	1.4	1.3	-	2.0	2.0	11.5	12.7	11.1	100	2.1	1.1
Sobha	275	ADD	26,923	594	98	15.1	14.2	15.7	(52.3)	(5.9)	10.4	18.1	19.3	17.5	16.5	14.9	12.6	2.4	1.5	1.4	0.3	0.7	1.5	10.4	9.7	8.5	295	7.4	2.7
Unitech	72	SELL	184,014	4,058	2,559	7.4	3.8	4.1	(28.7)	(48.7)	9.7	9.8	19.0	17.3	16.9	17.2	13.4	3.6	1.7	1.5	0.1	-	-	27.3	10.8	9.1	65	(9.6)	76.3
Property		**Neutral**	**930,283**	**20,513**					**(42.4)**	**(42.0)**	**40.4**	**13.5**	**23.3**	**16.6**	**13.6**	**16.9**	**12.7**	**2.1**	**1.6**	**1.5**	**0.6**	**0.8**	**1.1**	**15.2**	**6.9**	**8.8**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	23-Mar-10 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2009	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS growth (%) 2009	EPS growth (%) 2010E	EPS growth (%) 2011E	PER (X) 2009	PER (X) 2010E	PER (X) 2011E	EV/EBITDA (X) 2009	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	Price/BV (X) 2009	Price/BV (X) 2010E	Price/BV (X) 2011E	Dividend yield (%) 2009	Dividend yield (%) 2010E	Dividend yield (%) 2011E	RoE (%) 2009	RoE (%) 2010E	RoE (%) 2011E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Retail																													
Titan Industries	1,781	REDUCE	79,051	1,743	44	44.3	60.4	68.1	26.4	36.3	12.7	40.2	29.5	26.2	24.1	20.3	17.2	13.7	9.9	7.6	0.6	0.6	0.7	37.5	39.1	32.9	1,300	(27.0)	4.3
Retail		**Neutral**	**79,051**	**1,743**					**26.4**	**36.3**	**12.7**	**40.2**	**29.5**	**26.2**	**24.1**	**20.3**	**17.2**	**13.7**	**9.9**	**7.6**	**0.6**	**0.6**	**0.7**	**34.1**	**33.7**	**29.1**			
Sugar																													
Bajaj Hindustan	142	SELL	27,173	599	191	(1.0)	23.7	17.6	—	(2,471.7)	(25.6)	(142.3)	6.0	8.1	10.9	5.1	4.8	1.3	1.0	0.9	0.4	0.4	0.4	(1.2)	19.3	11.9	150	5.6	21.3
Balrampur Chini Mills	91	ADD	23,429	517	257	7.6	14.0	13.9	—	83.5	(0.6)	11.9	6.5	6.5	6.7	4.2	3.9	1.8	1.5	1.3	0.5	—	0.5	16.2	25.3	20.8	140	53.4	10.3
Shree Renuka Sugars	72	BUY	48,427	1,068	670	3.5	14.8	11.5	60.4	329.4	(22.2)	20.9	4.9	6.3	12.1	3.3	3.4	3.0	1.7	1.3	1.3	0.6	0.5	18.7	43.9	23.1	130	79.8	27.8
Sugar		**Attractive**	**99,028**	**2,184**					**2,436.2**	**342.8**	**(18.8)**	**24.3**	**5.5**	**6.8**	**10.0**	**4.0**	**4.0**	**2.0**	**1.4**	**1.1**	**0.9**	**0.5**	**0.5**	**8.3**	**25.3**	**17.0**			
Technology																													
HCL Technologies	367	REDUCE	255,135	5,626	695	17.5	17.8	25.1	14.5	1.7	41.2	21.0	20.6	14.6	11.7	10.4	9.1	4.4	4.0	3.3	1.9	1.1	1.1	20.9	20.6	24.7	350	(4.7)	8.8
Hexaware Technologies	73	REDUCE	10,494	231	144	4.1	9.4	7.5	(46.4)	127.7	(19.5)	17.8	7.8	9.7	6.1	3.1	3.7	1.6	1.3	1.2	0.7	1.4	1.4	8.6	18.6	13.1	80	9.5	1.2
Infosys Technologies	2,776	BUY	1,593,137	35,130	574	102.4	108.5	124.2	29.6	5.9	14.4	27.1	25.6	22.4	20.6	18.2	14.7	8.7	7.0	5.8	0.8	0.9	1.2	36.7	30.4	28.4	3,000	8.1	64.4
Mphasis BFL	654	REDUCE	136,321	3,006	208	14.2	43.6	48.7	15.7	207.5	11.7	46.1	15.0	13.4	35.1	11.9	10.6	9.5	5.8	4.2	0.6	0.5	0.6	22.8	48.1	36.2	570	(12.8)	12.4
Mindtree	572	BUY	23,520	519	41	13.2	49.4	55.1	(50.5)	273.2	11.6	43.2	11.6	10.4	7.4	9.3	6.6	4.3	3.1	2.4	0.3	0.4	1.0	5.5	31.1	26.3	825	44.4	1.8
Patni Computer Systems	531	REDUCE	68,296	1,506	129	26.8	36.6	44.2	(19.3)	36.4	20.9	19.8	14.5	12.0	10.6	7.5	7.0	2.7	2.2	2.0	0.3	1.4	1.7	16.2	19.7	17.9	450	(15.3)	3.6
Polaris Software Lab	167	SELL	16,453	363	99	13.2	15.6	16.1	77.3	18.3	3.7	12.7	10.7	10.3	5.6	5.3	5.2	2.1	1.8	1.6	1.6	1.8	1.9	18.2	18.5	16.7	160	(4.0)	4.5
TCS	829	BUY	1,621,834	35,763	1,957	26.4	34.5	41.0	3.1	30.6	18.8	31.3	24.0	20.2	22.1	17.9	14.9	10.4	7.9	6.6	0.8	1.0	2.0	36.9	37.5	35.6	900	8.6	37.8
Wipro	720	ADD	1,053,006	23,220	1,462	25.7	31.5	37.6	15.8	22.4	19.5	28.0	22.9	19.1	20.6	17.0	13.8	7.0	5.6	4.6	0.6	1.2	1.5	26.9	27.1	26.3	830	15.2	20.4
Technology		**Attractive**	**4,778,195**	**105,363**					**15.3**	**22.3**	**18.0**	**28.1**	**23.0**	**19.5**	**19.8**	**16.3**	**13.6**	**7.9**	**6.3**	**5.2**	**0.8**	**1.0**	**1.5**	**28.1**	**27.2**	**26.6**			
Telecom																													
Bharti Airtel	308	REDUCE	1,168,147	25,758	3,797	22.3	23.8	20.6	26.4	6.6	(13.5)	13.8	12.9	14.9	8.2	7.5	7.8	3.7	2.9	2.5	0.6	1.0	1.3	31.4	25.3	18.0	300	(2.5)	46.7
IDEA	65	REDUCE	201,906	4,452	3,104	2.9	2.5	1.2	(26.5)	(13.9)	(51.2)	22.4	26.0	53.3	8.5	8.1	8.5	1.5	1.4	1.3	—	—	—	10.4	5.5	2.8	50	(23.1)	6.1
MTNL	73	SELL	45,864	1,011	630	2.4	(15.6)	(10.4)	(66.3)	(750.8)	(33.7)	30.3	(4.7)	(7.0)	(1.3)	0.2	0.3	0.4	0.4	0.4	1.4	—	—	1.2	(8.5)	(6.1)	50	(31.3)	3.9
Reliance Communications	171	SELL	352,019	7,762	2,064	31.6	18.5	13.4	19.4	(41.4)	(27.8)	5.4	9.2	12.7	6.8	8.0	8.3	0.8	0.8	0.7	0.5	—	—	18.9	8.9	6.0	150	(12.0)	17.6
Tata Communications	285	REDUCE	81,083	1,788	285	13.6	14.0	15.2	24.0	3.2	8.2	20.9	20.3	18.8	9.1	8.3	7.6	1.2	1.1	1.1	1.8	2.3	2.6	5.4	5.2	5.5	400	40.6	2.6
Telecom		**Cautious**	**1,849,018**	**40,772**					**16.6**	**(20.2)**	**(17.0)**	**11.0**	**13.7**	**16.6**	**7.7**	**8.0**	**8.2**	**1.7**	**1.6**	**1.4**	**0.6**	**0.7**	**0.9**	**15.8**	**11.3**	**8.7**			
Transportation																													
Container Corporation	1,274	ADD	165,582	3,651	130	60.9	63.9	76.6	5.5	5.0	19.9	20.9	19.9	16.6	15.2	13.8	11.4	4.4	3.8	3.2	1.1	1.2	1.4	22.8	20.4	21.0	1,250	(1.9)	2.6
Transportation		**Cautious**	**165,582**	**3,651**					**5.5**	**5.0**	**19.9**	**20.9**	**19.9**	**16.6**	**15.2**	**13.8**	**11.4**	**4.4**	**3.8**	**3.2**	**1.1**	**1.2**	**1.4**	**21.0**	**19.0**	**19.5**			
Utilities																													
CESC	388	ADD	48,456	1,068	125	32.3	33.1	42.8	16.2	2.6	29.5	12.0	11.7	9.1	6.5	6.5	6.2	1.3	1.2	1.0	1.0	1.1	1.4	11.7	10.4	12.0	410	5.7	2.1
Lanco Infratech	55	BUY	131,433	2,898	2,405	1.5	1.8	3.7	(1.9)	25.4	105.7	37.6	30.0	14.6	20.8	21.9	9.1	6.3	3.8	3.0	—	—	—	16.4	14.7	21.5	58	6.1	12.3
Reliance Infrastructure	1,024	BUY	231,783	5,111	226	62.7	63.7	68.6	66.7	1.6	7.8	16.3	16.1	14.9	20.5	18.9	15.1	1.4	1.3	1.2	0.7	0.8	0.9	4.9	6.1	7.8	1,250	22.1	35.5
Reliance Power	143	REDUCE	342,017	7,542	2,397	1.0	2.5	3.1	—	141.5	24.4	139.9	57.9	46.6	—	—	—	2.5	2.4	2.3	—	—	—	1.8	4.2	5.0	160	12.1	7.5
Tata Power	1,356	BUY	334,695	7,380	247	50.2	57.7	67.0	57.5	15.0	16.2	27.0	23.5	20.2	12.5	14.1	12.9	3.4	2.6	2.4	0.8	0.9	1.0	12.0	12.6	12.4	1,485	9.5	15.6
Utilities		**Attractive**	**2,766,749**	**61,009**					**15.7**	**15.8**	**15.5**	**23.8**	**20.6**	**17.8**	**17.9**	**16.9**	**14.4**	**2.6**	**2.4**	**2.2**	**1.2**	**1.4**	**1.6**	**11.0**	**11.5**	**12.2**			
Others																													
Aban Offshore	1,191	BUY	51,817	1,143	43	96.9	114.8	265.5	34	18.4	131.3	12.3	10.4	4.5	12.0	8.9	6.0	2.9	1.4	1.1	0.3	0.3	0.3	26.9	15.0	27.1	1,500	25.9	59.5
Havells India	587	SELL	35,310	779	60	5.1	22.6	30.2	(81)	343.8	33.8	115.2	26.0	19.4	15.6	12.6	9.9	5.8	9.3	6.4	0.4	0.4	0.4	4.6	27.7	39.0	350	(40.4)	15.0
Jaiprakash Associates	148	BUY	311,291	6,864	2,107	2.0	4.3	7.1	(40)	115.0	65.5	73.9	34.4	20.8	27.4	17.1	14.9	4.7	3.8	3.3	—	—	—	7.3	12.3	17.1	170	15.1	40.5
Jindal Saw	220	ADD	64,726	1,427	294	12.4	26.5	19.3	(47)	113.8	(27.2)	17.8	8.3	11.4	10.8	5.9	6.5	2.2	1.7	1.4	0.4	0.4	0.4	11.3	19.8	13.0	235	6.8	13.0
PSL	138	BUY	7,402	163	53	22.2	29.8	25.4	5	34.1	(14.8)	6.2	4.6	5.5	4.7	2.9	2.8	1.1	0.8	0.7	2.9	4.7	4.7	11.9	13.6	11.7	175	26.4	1.4
Sintex	271	BUY	36,929	814	136	24.0	22.2	28.1	23	(7.6)	26.7	11.3	12.2	9.6	9.4	8.8	6.7	2.0	1.7	1.4	0.4	0.4	0.4	17.6	14.1	15.0	310	14.6	5.4
Tata Chemicals	312	ADD	75,854	1,673	243	26.6	27.3	31.0	(33)	2.5	13.4	11.7	11.4	10.1	7.1	6.2	5.4	1.6	1.5	1.3	2.8	2.8	2.8	17.9	15.6	15.7	340	9.1	4.5
Welspun Gujarat Stahl Rohren	277	REDUCE	56,905	1,255	205	17.3	25.1	23.0	(16)	44.9	(8.1)	16.0	11.1	12.0	9.1	6.0	6.2	3.1	1.9	1.7	0.9	0.7	0.7	17.7	20.6	14.8	245	(11.5)	8.9
United Phosphorus	156	BUY	71,948	1,587	463	10.1	11.8	14.7	20	17.2	24.6	15.5	13.2	10.6	9.6	8.3	6.5	2.7	2.1	1.8	0.9	1.0	1.3	19.3	17.4	18.0	195	25.4	3.5
Others			**712,181**	**15,704**					**(16.3)**	**44.5**	**32.6**	**23.4**	**16.2**	**12.2**	**13.1**	**9.8**	**8.6**	**3.0**	**2.3**	**2.0**	**0.6**	**0.6**	**0.6**	**12.9**	**14.4**	**16.2**			
KS universe (b)			**41,153,399**	**907,462**					**3.1**	**11.0**	**20.1**	**20**	**18.0**	**15.0**	**12.6**	**11.0**	**9.1**	**3.1**	**2.6**	**2.3**	**1.1**	**1.3**	**1.5**	**15.4**	**14.5**	**15.4**			
KS universe (b) ex-Energy			**33,182,073**	**731,688**					**7.3**	**8.0**	**18.7**	**20.6**	**19.0**	**16.0**	**14.9**	**13.2**	**11.0**	**3.5**	**2.9**	**2.6**	**1.0**	**1.1**	**1.3**	**17.1**	**15.4**	**16.0**			
KS universe (d) ex-Energy & ex-Commodities			**28,673,944**	**632,281**					**7.5**	**15.2**	**14.0**	**22.1**	**19.2**	**16.8**	**17.0**	**14.2**	**12.3**	**3.6**	**3.0**	**2.7**	**1.0**	**1.2**	**1.4**	**16.3**	**15.8**	**15.8**			

Note:
(1) For banks we have used adjusted book values.
(2) 2009 means calendar year 2008, similarly for 2010 and 2011 for these particular companies.
(3) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.
(4) Rupee-US Dollar exchange rate (Rs/US$)= 45.35

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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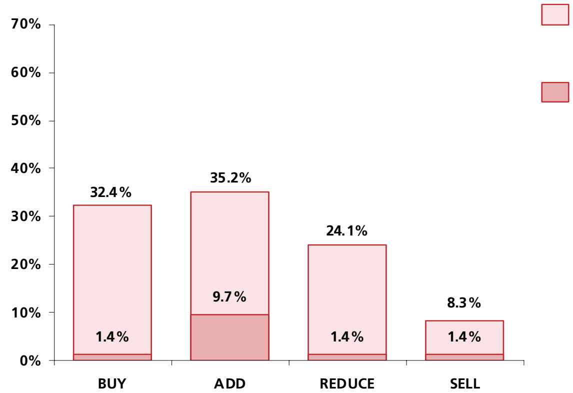

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Source: Kotak Institutional Equities — As of December 31, 2009

Ratings and other definitions/identifiers

Rating system

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