kotak® Institutional Equities

INDIA DAILY

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Updates

Bharti Airtel: Proposed MTN deal - likely EPS accretive but little synergy value

Ranbaxy Laboratories: No change in near-term strategy under new CEO

News Roundup

- **Tata Housing Development Company** has tied up with Micro Housing Finance Corporation (MHFC) to provide easy housing finance for its lower income group project, 'Shubh Griha', coming up at Boisar near Mumbai.(BL)
- **Tata Motors** is expected to roll over close to $1.05 billion of debt remaining out of the $3-billion bridge loan it had taken in 2008 to fund the acquisition of British automobile company Jaguar and Land Rover. (ET)
- State-run **Oil and Natural Gas Corporation** today said it would lose about Rs 14,000 crore if it was forced to continue in Cairn India's prolific Rajasthan oilfields as it would have to pay all government levies. (BS)
- **The United Stock Exchange of India** (USE), which has received regulatory nod for currency futures, has picked up 10 per cent in the new entrant in commodity futures, the International Multi Commodities Exchange (IMCE), promoted by Indiabulls and Minerals and Metals Trading Corporation (MMTC), a leading public sector trading company. (BS)
- The **Sunil Mittal-**controlled **Bharti Airtel Ltd** and South Africa's **MTN group** have revived merger talks that could clear the way for the creation of one of the largest mobile phone companies in the world, with close to 200 million customers and combined revenues of at least $20 billion (Rs94,400 crore). (Live Mint, see our analysis inside)
- The Tanti family, promoters of **Suzlon Energy Ltd**, on Monday reported the sale of about 60 million shares or about 4 per cent of the paid-up share capital of the company. Funds raised from the sale would be used for completing its long-pending acquisition of REpower of Germany. (BL)
- **Aqua Montana**, one of the largest soft beverage producers in Germany, is in advanced stages of discussions to ink two separate joint ventures with Indian business groups for bottling operations in north and west India, its country head said.(ET)
- **Big Cinemas**, a part of the Anil Ambani-led Reliance Anil Dhirubhai Ambani Group (R-ADAG), will launch its first multiplex in Chicago on Friday. (BS)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line.

EQUITY MARKETS

		Change, %		
India	**25-May**	**1-day**	**1-mo**	**3-mo**
Sensex	13,913	0.2	22.8	55.4
Nifty	4,238	(0.0)	21.7	52.1
Global/Regional indices				
Dow Jones	8,277	(0.2)	2.5	13.8
FTSE	4,365	0.5	5.0	13.4
Nikkie	9,265	(0.9)	6.4	24.2
Hang Seng	17,122	0.3	12.2	32.8
KOSPI	1,384	(1.2)	2.2	31.2

Value traded - India

			Moving avg, Rs bn	
	25-May		**1-mo**	**3-mo**
Cash (NSE+BSE)	259.6		222.3	173.9
Derivatives (NSE)	651.4		683.7	401
Deri. open interest	989.3		931	638

Forex/money market

		Change, basis points		
	25-May	**1-day**	**1-mo**	**3-mo**
Rs/US$	47.3	17	(297)	(266)
10yr govt bond, %	6.5	7	74	33

Commodity market

		Change, %		
	25-May	**1-day**	**1-mo**	**3-mo**
Gold (US$/OZ)	955.5	(0.3)	4.6	1.0
Silver (US$/OZ)	14.6	(0.9)	13.5	11.3
Crude (US$/BBL)	59.4	(0.8)	16.6	32.1

Net investment (US$mn)

	22-May		**MTD**	**CYTD**
FIIs	(147)		3,028	3,050
MFs	95		(78)	(201)

Top movers -3mo basis

		Change, %		
Best performers	**25-May**	**1-day**	**1-mo**	**3-mo**
Jsw Steel Limited	513	2.1	50.3	177.6
Jaiprakash Associate	186	7.2	47.6	175.1
Kotak Mahindra Ba	685	6.3	71.8	172.7
Essar Oil Ltd	179	4.2	6.5	169.2
Unitech Limited	77	8.4	69.2	167.0
Worst performers				
Housing Developme	294	(4.2)	90.9	288.7
Hindustan Unilever L	233	0.5	(2.2)	(8.1)
Itc Ltd	190	3.4	(0.4)	3.1
Ntpc Limited	212	(1.9)	11.1	15.0
Cipla Ltd	224	0.4	(6.9)	16.2

Banking

RURL.BO, Rs149	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	125
52W High -Low (Rs)	154 - 53
Market Cap (Rs bn)	128.0

Financials

June y/e	2009	2010E	2011E
Sales (Rs bn)	19.4	23.2	26.3
Net Profit (Rs bn)	13.0	15.2	17.2
EPS (Rs)	15.2	17.7	20.0
EPS gth	*38.8*	*16.8*	*13.0*
P/E (x)	9.8	8.4	7.5
P/B (x)	1.8	1.6	1.4
Div yield (%)	3.3	3.8	4.3

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
37.2	86.8	172.2	33.9

Shareholding, March 2009

	Pattern	% of Portfolio	Over/(under) weight
Promoters	81.8	-	-
FIIs	3.4	0.1	(0.2)
MFs	7.2	0.7	0.4
UTI	-	-	(0.3)
LIC	-	-	(0.3)

Rural Electrification Corporation: Strong earnings growth from core and non-core items

- **REC reported 4QFY09 PAT of Rs3.88 bn, up 76% yoy and 26% above estimates**
- **Core performance healthy and in line with expectations**
- **Higher other operational income and lower expenses boosted reported profits**
- **We will revisit our estimates after discussing the results with the management**

Rural Electrification Corporation (REC) reported PAT of Rs3.88 bn, up 76% yoy and 26% above estimates. Healthy loan growth (up 30% yoy, 3% above estimates) supported strong growth in NII (in line with expectations). However, reported profits were considerably higher than expected due to a sharp rise in other operational income and lower operational expenses. Asset quality performance appears on track as indicated by low gross NPLs (0.14%). We will revisit our estimates after discussing the results with the management. The stock is currently trading at 7.5X PER (EPS includes DTL) and 1.4X PBR (Book value includes DTL) FY2010E.

Business growth remains healthy; disbursements supported by short term loans. REC reported 19% yoy growth in disbursements during 4QFY09. Disbursements to generation projects declined by 37% qoq, consequently the share of generation projects in overall disbursements declined to 38% from 63% in 3QFY09. Conversely, the share of short-term loans increased to 28% from 6% in 3QFY09. We believe that disbursements to infrastructure projects tend to flow in patches and hence we would track this ratio over a longer-term horizon.

Incremental spreads moved up sharply. REC reported spreads of 3.21% in 4QFY09, marginally higher than 3.16% reported in 3QFY09. Its incremental spreads moved up sharply to 6.5% in 4QFY09 from 3.79% in 3QFY09 implying higher margins over the next 1-2 quarters. We would like to highlight that REC has reported incremental spreads in the range of 2.5% to 3.8% over the past seven quarters, thus the incremental spreads observed in 4QFY09 are significantly high. We will need to examine REC's ALM position and loan rests for a definitive conclusion on the trend.

Asset quality performance remains strong. REC reported gross NPLs of 0.14% - in line with 0.13% reported in 3QFY09. Its recovery rate remained high at 99.7%. Consequently, its provisions expenses were low at Rs10 mn.

Rural Electrification Corporation - Quarterly data

	4Q08	1Q09	2Q09	3Q09	4Q09	YoY(%)	4Q09E	Actual vs KS (%)
Income statement								
Interest income	11,085	9,900	11,040	12,338	13,370	21	12,985	3
Other income	(1,148)	270	350	290	480	(142)	(910)	(153)
Interest costs	5,663	5,840	6,690	7,878	8,550	51	6,852	25
Interest expenses							-	
Resource mobilisation expenses							-	
Net interest income	4,275	4,330	4,700	4,750	5,300	24	5,222	1
Other operational income	60	50	130	130	610	917	133	360
Net total income	4,335	4,380	4,830	4,880	5,910	36	5,355	10
Provisioning expenses	10	10	(200)	(146)	10	1	36	(72)
Net income (post provisions)	4,325	4,370	5,030	5,026	5,900	36	5,319	11
Operating expneses	679	240	393	280	210	(69)	499	(58)
Staff expenses	571	123	279	221	177	(69)	411	(57)
Other operating expenses	102	115	108	54	30	(70)	87	(66)
Depreciation expenses	7	3	6	5	3	(54)	1	400
PBT before extraordinaties	3,645	4,130	4,637	4,746	5,690	56	4,820	18
Extraordinary expenses	-			-			-	
PBT post extraordinaries	3,645	4,130	4,637	4,746	5,690	56	4,820	18
Tax	1,146	1,160	1,180	1,259	1,470	28	1,718	(14)
Provision for DTL	293	240	540	297	340	16	23	1,374
PAT	2,207	2,730	2,917	3,190	3,880	76	3,080	26
EPS (Rs)	2.0	3.2	3.6	3.7	4.5			
Tax rate (%)		34	37	33	32		36	
Balance sheet								
Assets								
Loans	393,170	408,830	436,980	492,490	513,810	31	500,899	3
Loan book		401,550	437,070	482,960				
Accrued interest on loans		7,280	(90)	9,530				
Investments	11,470	11,000	11,000	10,530	10,060			
Fixed assets	780	780	780	780	810			
Current assets	23,730	18,170	38,950	29,500	34,890			
Total assets	429,150	438,780	487,710	533,300	559,570			
Liabilities								
Borrowings	342,830	353,000	389,400	427,730	449,360		440,636	2
Deferred tax liability	8,170	8,420	8,820	9,240	9,570			
Current liabilities and provisions	24,470	20,960	30,000	33,810	38,740			
Total liabilities	375,470	382,380	428,220	470,780	497,670			
Shareholders funds	53,680	56,400	59,490	62,520	61,900			
Key operating parameters (%)								
Approvals (Rs bn)	69	120	152	63	70			
YoY(%)		144	-13	-61	1			
Disbursements (Rs mn)	44	27	48	53	53			
YoY(%)		52	18	93	19			
Interest yield (KS - calc)	10.38	10.14	1.00	10.87	11.01		11.15	
Interest cost (KS- calc)	6.84	6.71	7.21	7.71	7.80		7.88	
Spreads	3.54	3.43	(6.21)	3.16	3.21		3.28	
NIMs (KS- calc)	4.47	4.32	4.45	4.09	4.21		4.27	
Operating costs/ net income (post provisions)	15.70	5.50	7.81	5.57	3.56			
Incremental yields	11.40	11.70	12.63	14.12	13.77			
Incremental borrowings	7.71	8.76	10.16	10.33	7.27			
Incremental spreads	3.69	2.94	2.47	3.79	6.50			
Gross NPLs (Rs bn)	3,220	3,220	2,480	640	690			
Net NPLs (Rs bn)	2,400	2,390	186	170	210			
Gross NPLs (%)	0.83	0.80	0.57	0.13	0.14			
Net NPLs (%)	0.62	0.60	0.43	0.04	0.04			
Recovery ratio (%)	98.00	98.43	98.93	98.90	99.70			
Debt/ equity (X)	6.39	6.26	6.55	6.84	7.26			
RoE (reported)	19.28	19.84	21.27	20.85	26.86			

Source: Company, Kotak Institutional Equities estimates

Pharmaceuticals

DISH.BO, Rs144	
Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	280
52W High -Low (Rs)	337 - 87
Market Cap (Rs bn)	11.7

Financials

March y/e	2009	2010E	2011E
Sales (Rs bn)	10.6	12.7	15.5
Net Profit (Rs bn)	1.5	1.7	2.2
EPS (Rs)	18.0	21.2	27.3
EPS gth	*22.1*	*17.9*	*28.7*
P/E (x)	8.0	6.8	5.3
EV/EBITDA (x)	7.3	5.8	4.5
Div yield (%)	0.0	0.0	0.0

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
32.4	31.7	5.1	(52.7)

Shareholding, March 2009

	Pattern	% of Portfolio	Over/(under) weight
Promoters	60.8	-	-
FIIs	10.4	0.0	0.0
MFs	17.4	0.2	0.2
UTI	-	-	-
LIC	-	-	-

Dishman Pharmaceuticals: 15-20% growth guidance in FY2010E appears credible

- **4QFY09 revenues and EBITDA margin in line with our estimates**
- **Marginal changes to FY2010-11E KIE PAT**
- **Maintain BUY rating with a target price of Rs280**

Dishman reported revenues at Rs2.9 bn, in line with our estimates. Sales growth was driven by (1) Carbogen Amcis at Rs1.4 bn, up 20% qoq (2) CRAMS segment in India at Rs718 mn vs our estimate of Rs500 mn. EBITDA margin before forex at 25%, was in line with KIE driven by higher margins at MM segment and higher proportion of sales from Carbogen Amis. Dishman has adopted AS-11 this quarter, therefore comparisons with our estimates below EBITDA line are not meaningful. Dishman guides towards 15-20% growth on the topline and bottomline in FY2010E. We have marginally changed our FY2010-11E incorporating new currency forecasts. We estimate PAT growth of 18% in FY2010E and 29% in FY2011E (22% reported in FY2009). The stock is currently trading at 7X FY2010E and 5X FY2011E estimated earnings. At our target price, the stock will trade at 10X FY2011E estimated earnings. We maintain our BUY rating with an SOTP-based target price of Rs280.

4QFY09 at Rs2.9 bn, in line with estimates. Revenues grew 20% qoq in Rupee terms to touch Rs2.9 bn this quarter, despite the expected loss of business from Solvay. Revenues were driven by

1. Carbogen Amcis, which reported revenues of Rs1.4 bn, up 27% qoq.
2. CRAMS business from India reported revenues at Rs718 mn versus our estimate of Rs500 mn driven by increase in non–solvay and quats business. Dishman supplied pre-launch quantities of two products which made up for the lost business from Solvay. Dishman expects to supply these products in 1QFY10E, thus making up for the loss of business from Solvay in the next quarter too.
3. Marketable molecule segment revenues at Rs632 mn were lower than our estimate of Rs827 mn due to lower sales from India at US$7 mn versus our estimate of US$11 mn. We think this is due to inventory reduction at the customers end.

EBITDA margins before forex at 25%, in line with our estimates. Margins were boosted by (1) higher proportion of sales from Carbogen Amcis (49% of sales this quarter) (2) improved profitability in MM segment due to royalty income from a particular customer.

Material costs were at 30% of sales versus our estimate of 33%. Staff costs at 245 were in line with our estimate while other expenses at 21% of sales was 300 bps higher than our estimate.

PAT at Rs762 mn this quarter was higher than our estimate due to writeback of forex loss. Dishman adopted AS-11 and as per the company, the effect of the forex reversal this quarter was around Rs300 mn. Depreciation at Rs175 mn was in line with our estimate while interest cost at Rs178 mn was higher than KIE due to forex loss of Rs45 mn charged to P&L.

Dishman guides towards 15-20% growth on the topline and bottomline in FY2010E

For FY2009, Dishman had guided for PAT of Rs1.5 bn (before forex) and sales of Rs10.5 bn despite the loss in sales from Solvay in 4QFY09. Dishman maintained that the loss would be countered by higher sales in the quats business and Carbogen Amcis. The company met its guidance and reported sales of Rs10.6 bn, PAT of Rs1.46 bn for FY2009 and operating margins of 24.6%.

For FY2010E, the company has guided for EBITDA margins of at least 25% and growth of 15-20% on the topline and bottomline. Capex will be around Rs1 bn in FY2010E which will be incurred on (1) high potency unit (2) formulations plant (3) China unit. The company mentioned that its receivables position remains healthy and it has not seen any increase in receivables days as of March 2009.

Marginal changes in FY2010-11E KIE PAT

We move to new Rs/US$ forecast of Rs48.03 (from Rs53.3) for FY2010E and Rs47.75 (Rs52.25) for FY2011E.

1. We estimate sales growth of 20-22% in FY2010-11E in Rupee terms. We think sales growth will be driven by (1) CRAMS business from India despite the loss of sales from Solvay in 1QFY10E. Management has guided for flat revenues from Solvay (at Rs1.7 bn) in FY2010E. We estimate non Solvay business to grow at 20% in dollar terms in FY2010E. (2) 13-15% sales growth in local currency in Carbogen Amcis (3) 20% sales growth in euro terms in Vitamin D business. (as seen in FY2009) However, we expect MM revenues from India to remain flat at US$38 mn in FY2010E due to inventory reduction seen at customer's end. This segment has reported revenues between US$36 and US$38 mn for the past three years and the company mentioned that it is not investing in new capacities in India.
2. We estimate EBITDA margins at 25.2% for FY2010E increasing to 25.4 % in FY2011E. The increase in margins is due to (1) improved profitability at UK subsidiary which turned EBITDA positive at the end of FY2009 (2) margins of 20% in Carbogen Amcis versus 18% in FY2009 as guided by management.

Update on new businesses

1. **China**. The China plant is almost complete and has been visited by Astrazeneca and J&J. Astrazeneca has shown keen interest in outsourcing one product to Dishman China. Our estimates include sales of US$8 mn from China in FY2010E and we expect the company margins close to those in India CRAMS business. We will review this once the contracts are signed and details are shared by Dishman.
2. **Japan.** We include sales of US$8 mn in FY2010E. We will review this once the contracts are signed and details are shared by Dishman.
3. **Facility for high-potency products** (Unit 9 at Bavla) is expected to be commissioned by August 2009. This facility is being developed at an investment of Rs450 mn as a high potency unit for catering to Carbogen Amcis orders and for manufacturing generic anti cancer products for other clients. We do not factor in any revenues from this facility in our estimates and wait for commissioning of this site.
4. **Disinfectants business**. The company mentioned revenue potential of Rs2 bn over the next three years from this business although revenues in FY2010E will be small. Dishman will initially get the products contract manufactured and then once it gets the approval for the US market, Dishman will manufacture the product in its own plant. We do not include revenues from this business in our estimates and will wait for this business to start.
5. **Formulations plant**. Dishman is waiting for a letter of intent from Solvay which has indicated capacity utilization of 33%. However, this facility will take 18 months to be completed.

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

	4QFY09	4QFY09E	4QFY08	3QFY09	% change 4QFY09E	% change 4QFY08	% change 3QFY09
Net sales	**2,925**	**2,911**	**2,419**	**2,820**	—	**21**	**4**
Change in stock	44	—	(44)	23	NM	NM	89
Consumption of raw materials	818	964	954	911	(15)	(14)	(10)
Personnel cost	714	725	648	699	(2)	10	2
Other expenses	614	500	410	469	23	50	31
Total Expenditure	**2,189**	**2,189**	**1,968**	**2,102**	—	**11**	**4**
EBITDA	**735**	**723**	**451**	**718**	**2**	**63**	**2**
Other income	373	(125)	154	51	NM	142	633
Interest	178	110	96	101	62	86	76
Depreciation	175	180	167	170	(3)	5	3
PBT	**755**	**308**	**342**	**498**	**145**	**121**	52
Tax	(8)	46	(57)	100	NM	NM	NM
PAT	**762**	**262**	**399**	**398**	**191**	**91**	**92**
CRAMS	2,270	2,084	1,799	1,904	**9**	**26**	**19**
Marketable molecules	654	827	518	917	(21)	26	(29)
Others	—	—	102	—	NM	NM	NM
Total	**2,925**	**2,911**	**2,419**	**2,820**	—	**21**	**4**

Source: Company data, Kotak Institutional Equities.

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

	Net Revenue		EBITDA		Net Profit		EPS	ROCE	ROE	P/E
	(Rs mn)	Growth (%)	(Rs mn)	Growth (%)	(Rs mn)	Growth (%)	(Rs)	(%)	(%)	(X)
2007	5,786	108.5	1,151	77.6	917	80.4	11.3	12.7	36.2	12.8
2008	8,031	38.8	1,529	32.8	1,197	30.5	14.7	10.0	26.8	9.8
2009E	10,624	32.3	2,615	71.0	1,462	22.1	18.0	14.5	22.8	8.0
2010E	12,650	19.1	3,189	22.0	1,724	17.9	21.2	15.5	21.9	6.8
2011E	15,481	22.4	3,940	23.5	2,219	28.7	27.3	18.6	22.9	5.3

Source: Company data, Kotak Institutional Equities.

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

	2006	2007	2008E	2009E	2010E	2011E
Gross operating revenues	**2,807**	**5,819**	**8,114**	**10,730**	**12,777**	**15,636**
Excise duty	(32)	(34)	(83)	(106)	(127)	(155)
Net operating revenues	**2,774**	**5,786**	**8,031**	**10,624**	**12,650**	**15,481**
Operating expenses						
Materials	(1,520)	(2,536)	(2,932)	(3,242)	(4,011)	(4,971)
Selling and administration	(263)	(690)	(1,416)	(2,037)	(2,300)	(2,700)
Employee cost	(343)	(1,409)	(2,154)	(2,730)	(3,150)	(3,870)
Total expenditure	**(2,126)**	**(4,634)**	**(6,502)**	**(8,009)**	**(9,461)**	**(11,541)**
EBITDA	**648**	**1,151**	**1,529**	**2,615**	**3,189**	**3,940**
Depreciation and amortisation	(120)	(263)	(472)	(629)	(795)	(900)
EBIT	**528**	**888**	**1,057**	**1,985**	**2,394**	**3,040**
Net finance cost	(59)	(162)	(305)	(459)	(520)	(500)
Other income	38	232	477	48	40	40
Pretax profits before extra-ordinaries	**506**	**959**	**1,228**	**1,575**	**1,914**	**2,580**
Current tax	(32)	(11)	(67)	(37)	(166)	(336)
Deferred tax	2	(19)	57	(66)	(20)	(20)
Fringe benefit tax	(1)	(2)	(2)	(3)	(5)	(5)
Reported net profit	**475**	**927**	**1,215**	**1,467**	**1,724**	**2,219**
Prior period adjustments	39	(10)	(18)	(5)	—	—
Minority interests	(6)	—	—	—	—	—
Reported net profit after minority interests	**508**	**917**	**1,197**	**1,462**	**1,724**	**2,219**

Source: Company data, Kotak Institutional Equities

Energy

ONGC.BO, Rs1041	
Rating	BUY
Sector coverage view	Neutral
Target Price (Rs)	1,100
52W High -Low (Rs)	1140 - 538
Market Cap (Rs bn)	2,226

Financials

March y/e	2009	2010E	2011E
Sales (Rs bn)	1,240	1,085	1,174
Net Profit (Rs bn)	214.4	203.8	254.9
EPS (Rs)	100.3	95.3	119.2
EPS gth	*8.1*	*(5.0)*	*25.1*
P/E (x)	10.4	10.9	8.7
EV/EBITDA (x)	3.9	3.8	3.1
Div yield (%)	3.3	3.8	4.0

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
21.5	44.6	48.6	16.3

Shareholding, March 2009

	Pattern	% of Portfolio	Over/(under) weight
Promoters	74.1	-	-
FIIs	5.4	2.2	(4.0)
MFs	1.7	3.2	(3.0)
UTI	-	-	(6.3)
LIC	2.6	3.5	(2.7)

Oil & Natural Gas Corporation: Reforms—Not sure about the implementation but reasonably certain of the beneficiary

- **Biggest beneficiary will be ONGC if any of the reforms are implemented**
- **Frenzy in stock prices of R&M companies difficult to explain**
- **Maintain positive view on ONGC and cautious view on BPCL, HPCL and IOCL**

We analyze the likely impact of various reforms being speculated in the press—(1) likely cap on crude price realization at US$75/bbl for upstream producers, (2) deregulation of auto fuel prices and (3) gas price increase. We are not confident about the implementation of these reforms given social and political issues and the inability of various governments to implement reforms. Nonetheless, we see ONGC as the biggest beneficiary of reforms and cannot explain the euphoria about R&M companies since the current stock prices are close to our estimated fair valuations in a free-market scenario. We maintain our positive view on upstream companies (ONGC, Cairn) and cautious view on downstream companies (BPCL, HPCL and IOCL). We upgrade ONGC to BUY from ADD previously with a revised target price of Rs1,100 (Rs1,000 previously) due to the roll forward to FY2011E estimates. We use 9X normalized FCF plus value of investments. Key downside risk stems from lower-than-expected crude prices.

Historical experience of reforms in sector not too encouraging; government resolve will be tested at higher crude prices. We would like to see the establishment of a market system before creating expectations about the same. We note that the pricing of petroleum products has been already deregulated from April 1, 2002 as per a government notification in 2001. However, governments have generally maintained control over pricing of petroleum products due to social and political compulsions.

ONGC to benefit if any of the proposed reforms are implemented. We see ONGC as a key beneficiary if any of the proposed reforms are implemented.

- **Cap on crude price realization.** As per news reports, the government is considering implementing the recommendations of the BK Chaturvedi Committee. This committee had recommended (1) a ceiling price of US$75/bbl for government-owned E&P companies and (2) payment of all revenues above US$75/bbl to the government as 'special oil tax' towards payment of subsidy. We view these recommendations (if implemented) as significantly positive for ONGC's earnings given that ONGC's net realization has been in a US$45-55/bbl band in recent years (see Exhibit 1).

  ONGC's consolidated FY2010E EPS would jump to Rs175 (from Rs95 currently) and our 12-month fair valuation would rise to Rs1,850 in a scenario of US$75/bbl Dated Brent crude price and no subsidy burden in case the government implements the recommendations of the Chaturvedi Committee. Exhibit 2 gives the range of valuation of ONGC at various levels of normalized crude price. At US$55/bbl Dated Brent crude price and no subsidy burden, ONGC's consolidated FY2010E EPS would come to Rs112.

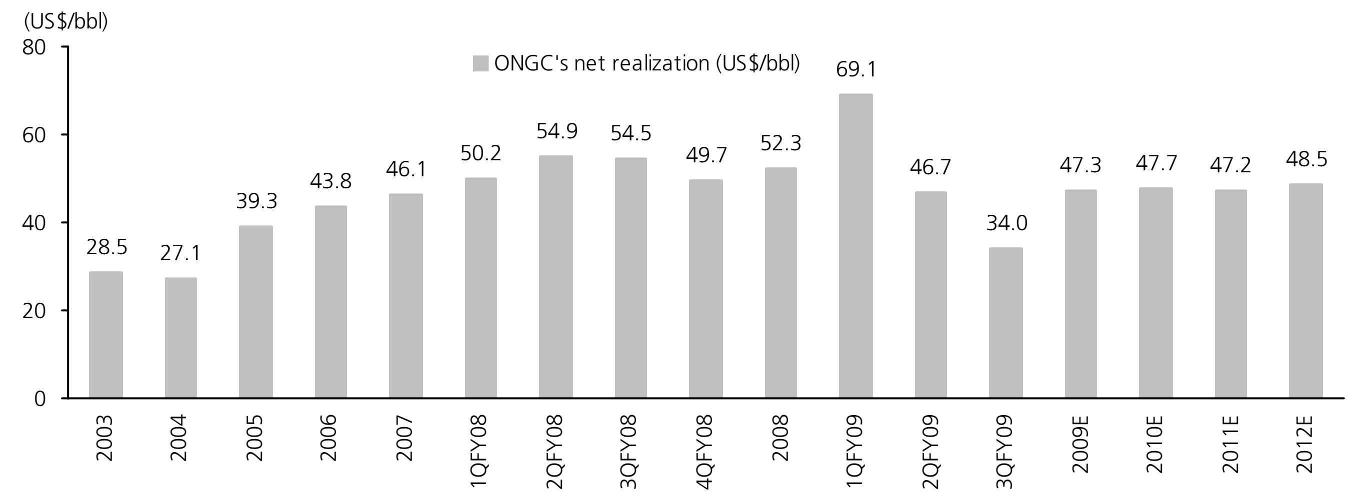
- **Deregulation of auto fuel prices.** We expect ONGC to bear subsidy burden for losses on LPG and kerosene only if the government deregulates prices of auto fuels, the easiest part of reforms of the oil sector, in our view. We do not expect the government to deregulate prices of LPG and kerosene in the near term given social and political compulsions. At current levels of crude prices, the government can easily compensate the downstream oil companies through oil bonds and exempt ONGC and other upstream companies from bearing any subsidy. We compute gross under-recoveries at US$55/bbl at Rs250 bn, which is meaningfully lower than Rs1.03 tn in FY2009 and payment of oil bonds of Rs713 bn (see Exhibit 3). We model Rs60 bn and Rs150 bn of subsidy for ONGC and crude price of US$55/bbl and US$65/bbl in FY2010E and FY2011E.
- **Gas price increase.** We compute an impact of Rs15/share on ONGC's EPS (see Exhibit 4) from an increase in gas prices for ONGC. We assume a long-term well-head price of gas price of US$4/mn BTU versus average realization of US$2.4/mn BTU for FY2008.

Surge in stock prices of downstream companies is difficult to fathom. We are perplexed by the continued euphoria about the likely positive impact of deregulation on earnings of downstream companies. We believe that the establishment of a stable and pragmatic subsidy-sharing scheme will help in allaying uncertainty regarding earnings of downstream companies. However, we do not see commensurate upside to earnings of downstream companies even in case of full deregulation of auto fuel prices to justify the steep increase in the stock prices of BPCL (+25.7%), HPCL (+30.4%) and IOCL (+32.1%) since the formation of the new government.

Exhibit 5 is our hypothetical earnings exercise for BPCL, HPCL and IOCL in case of full deregulation and it compares earnings in our hypothetical scenario of full deregulation with FY2010E earnings. We assume marketing margin of Rs1,500/ton (Rs1.25/liter) and Rs1,900/ton (Rs1.4/liter) for diesel and gasoline; we see these prices as achievable in a fully deregulated market.

ONGC's net realization has been between US$40-55/bbl over the past few years

ONGC's net crude price realization, March fiscal year-ends, 2003-2012E (US$/bbl)



Source: Company

We value ONGC stock at Rs1,100 on US$50/bbl normalized crude price

Estimation of fair value of ONGC stock based on normalized free cash flow (Rs mn)

	2010E	2011E	2012E
Normalized crude price assumption (US$/bbl)	50.0	50.0	50.0
Recurring operating cash flow			
Operating cash flow = EBIT X (1-t) + D	266,059	226,040	218,036
Add: OCF after normalizing natural gas price	36,319	30,284	66,909
Add: OCF after removing subsidies	39,596	101,304	123,558
Recurring OCF	341,973	357,628	408,503
Recurring capex			
Production per annum (mn bbls)	377	392	389
Replacement or F&D costs (US$/bbl)	10.0	10.0	10.0
Recurring capex	181,099	187,133	184,655
Free cash flow	**160,874**	**170,495**	**223,847**
Free cash flow multiple (X)	9	9	9
Enterprise value	1,447,868	1,534,454	2,014,627
(Net debt)/cash	409,214	519,490	665,892
Investments	104,667	109,607	109,607
Equity value	1,961,750	2,163,551	2,790,127
Total equity value per share (Rs/share)	**917**	**1,012**	**1,304**
B. New discoveries valuation			
KG-DWN-98/2 block (Rs/share)	31	35	39
MN-DWN-98/3 block (Rs/share)	15	17	19
Equity value of new discoveries (Rs/share)	**47**	**52**	**59**
Total equity value per share (Rs/share)	**964**	**1,064**	**1,363**

	Equity value (Rs/share)	Change from base case (%)
Normalized crude prices		
US$75/bbl	1,837	73
US$70/bbl	1,682	58
US$65/bbl	1,528	44
US$60/bbl	1,373	29
US$55/bbl	1,219	15
US$50/bbl	**1,064**	
US$45/bbl	909	(15)
US$40/bbl	755	(29)
US$35/bbl	600	(44)

Source: Kotak Institutional Equities estimates

Gross under-recoveries will likely be lower in FY2010E

Share of various participants of under-recoveries, March fiscal year-ends, 2006-2010E (Rs bn)

	2006	2007	2008	2009	2010E
Dated Brent crude oil price (US$/bbl)	57	65	79	85	55
Subsidy loss	**400**	**494**	**771**	**1,032**	**250**
Payment by government (oil bonds)	**115**	**241**	**353**	**713**	**117**
Share of BPCL	22	53	86	162	27
Share of HPCL	23	49	77	147	24
Share of IOCL	70	138	190	404	66
Net under-recovery of oil companies	**285**	**253**	**418**	**319**	**133**
Share of refining companies	27	—	—	—	—
Share of upstream companies	**140**	**205**	**257**	**329**	**83**
Share of ONGC	120	170	220	282	71
Share of GAIL	11	15	14	18	5
Share of Oil India	10	20	23	29	7
Net under-recovery of R&M companies (BPCL, HPCL, IOCL)	**118**	**48**	**161**	**(10)**	**49**
Pre-tax profits of R&M companies	**74**	**96**	**153**		

Source: Kotak Institutional Equities estimates

ONGC should be a big beneficiary of gas price increase in India

Impact of gas price increaese on ONGC's earnings (%)

Gas sales in FY2008 (bcm)	20.4
Average gas price in FY2008 (Rs/cu meter)	3.6
Average gas price in FY2008 (US$/mn BTU)	2.4
Long-term delivered price of gas (US$/mn BTU)	4.8
Pipeline tariff and royalty (US$/mn BTU)	0.8
Average long-term wellhead price (US$/mn BTU)	4.0
Increase in gas price (US$/mn BTU)	**1.6**
Increase in pretax profits (Rs bn)	48
Pretax profits in FY2008 (Rs bn)	311
% increase in pretax profits (%)	**16**
Increase in post-tax profits (Rs bn)	32
Increase in EPS (Rs)	**15**

Source: ONGC, Kotak Institutional Equities estimates

Normalized marketing margins also show very little upside or downside from current levels
Comparison of normalized marketing margins with FY2010 estimates (Rs/ton)

	BPCL		HPCL		IOCL	
	2010E	Normalized	2010E	Normalized	2010E	Normalized
LPG	(9,282)	1,500	(9,282)	1,500	(9,282)	1,500
Naphtha	1,000	400	1,000	400	1,200	400
Gasoline	1,688	1,900	1,688	1,900	1,900	1,900
Jet fuel	1,400	1,400	1,400	1,400	1,700	1,400
Kerosene	(16,784)	600	(16,784)	600	(16,784)	600
Diesel	1,500	1,500	1,500	1,500	1,700	1,500
Light diesel oil	1,200	500	1,200	500	1,450	500
Low sulphur heavy stock	700	500	700	500	1,000	500
Fuel oil	700	500	700	500	1,000	500
Bitumen	2,000	1,000	2,000	1,000	2,000	1,000
EPS (Rs)	**30.3**	**44.7**	**17.9**	**42.9**	**43.0**	**53.4**
EBITDA (Rs bn)	**30.8**	**38.6**	**30.4**	**43.2**	**108.8**	**127.6**
EV (5X normalised EBITDA) (Rs bn)		193		216		638
Value of investments (Rs bn)		49		31		197
Net debt (Rs bn)		95		120		216
Equity value (Rs/share)		**407**		**377**		**519**
Current target price		**450**		**325**		**500**

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

Source: Kotak Institutional Equities estimates

Consolidated profit model, balance sheet, cash model of ONGC, March fiscal year-ends, 2004-2012E (Rs mn)

	2004	2005	2006	2007	2008	2009E	2010E	2011E	2012E
Profit model (Rs mn)									
Net sales	467,124	707,083	807,603	966,542	1,091,644	1,240,227	1,084,956	1,173,908	1,247,173
EBITDA	**196,494**	**281,195**	**310,054**	**358,001**	**407,790**	**424,018**	**404,265**	**459,034**	**501,971**
Other income	23,752	17,595	27,350	45,378	53,565	50,829	57,534	67,250	80,570
Interest	(5,028)	(2,512)	(537)	394	(12,027)	(7,754)	(4,315)	(2,372)	(4,236)
Depreciation and depletion	(65,525)	(73,465)	(97,726)	(119,550)	(138,624)	(136,578)	(145,517)	(143,696)	(140,094)
Pretax profits	149,693	222,813	239,141	284,222	310,705	330,515	311,966	380,217	438,212
Tax	(46,101)	(74,690)	(71,196)	(88,986)	(102,908)	(109,091)	(102,953)	(123,289)	(132,851)
Deferred tax	(7,779)	(4,744)	(13,612)	(9,264)	(6,471)	(5,795)	(3,137)	(144)	(4,558)
Net profits	95,523	143,175	154,596	178,414	203,076	218,911	205,876	256,784	300,803
Net profits after minority interests	**94,219**	**140,670**	**153,542**	**176,922**	**199,466**	**216,583**	**203,797**	**254,851**	**298,376**
Earnings per share (Rs)	**44.1**	**65.8**	**71.8**	**82.7**	**93.3**	**101.3**	**95.3**	**119.2**	**139.5**
Balance sheet (Rs mn)									
Total equity	415,582	488,912	578,830	670,137	786,657	916,658	1,019,484	1,168,531	1,346,942
Deferred tax liability	54,250	57,911	71,557	80,976	87,227	93,022	96,159	96,303	100,861
Liability for abandonment cost	80,292	80,941	128,675	151,857	129,325	129,325	129,325	129,325	129,325
Total borrowings	60,961	39,028	28,767	21,826	22,039	33,712	42,339	72,739	124,639
Currrent liabilities	85,376	128,346	142,435	187,051	251,797	158,795	149,977	150,616	152,596
Total liabilities and equity	**696,461**	**795,138**	**950,264**	**1,111,847**	**1,277,045**	**1,331,511**	**1,437,285**	**1,617,515**	**1,854,363**
Cash	95,721	101,843	90,743	206,262	249,807	345,301	451,553	592,229	790,532
Current assets	133,039	178,421	240,210	192,652	257,384	218,691	202,461	235,341	244,451
Total fixed assets	419,213	471,543	565,722	643,219	695,227	692,893	703,704	705,439	734,875
Goodwill	11,661	10,753	14,172	27,686	22,847	22,847	22,847	22,847	22,847
Investments	30,811	26,961	35,753	36,888	45,041	45,041	49,981	54,921	54,921
Deferred expenditure	6,017	5,617	3,663	5,141	6,739	6,739	6,739	6,739	6,739
Total assets	**696,461**	**795,138**	**950,264**	**1,111,848**	**1,277,045**	**1,331,512**	**1,437,285**	**1,617,516**	**1,854,364**
Free cash flow (Rs mn)									
Operating cash flow, excl. working capital	133,261	187,001	216,736	252,772	284,517	252,284	240,009	284,095	314,299
Working capital changes	25,630	18,787	46,461	(4,990)	(24,929)	(119,185)	38,333	(9,592)	(7,130)
Capital expenditure	(56,301)	(103,418)	(113,738)	(135,049)	(166,427)	(77,200)	(100,757)	(98,275)	(121,222)
Investments	(10,608)	(9,887)	(28,912)	53,822	(7,348)	—	(4,940)	—	—
Other income	9,767	13,049	14,537	20,422	22,822	51,203	57,534	67,250	80,570
Free cash flow	**101,749**	**105,532**	**135,083**	**186,976**	**108,636**	**107,102**	**230,178**	**243,477**	**266,517**
Ratios (%)									
Debt/equity	14.7	8.0	5.0	3.3	2.8	3.7	4.2	6.2	9.3
Net debt/equity	(8.4)	(12.8)	(10.7)	(27.5)	(29.0)	(34.0)	(40.1)	(44.5)	(49.4)
RoAE	21.6	28.0	25.9	25.5	24.8	23.3	19.4	21.7	22.3
RoACE	**20.6**	**24.6**	**22.0**	**22.1**	**21.9**	**20.6**	**17.5**	**19.6**	**20.4**
Key assumptions									
Rs/dollar rate	46.0	45.0	44.3	45.3	40.3	45.8	48.0	47.8	47.5
Crude fob price (US$/bbl)	28.7	40.6	57.2	64.8	78.9	83.0	55.0	65.0	70.0
Ceiling/actual natural gas price (Rs/'000 cm)	2,850	2,850	3,515	3,200	3,200	3,200	3,200	3,750	4,500
Subsidy loss (Rs bn)	26.9	41.0	119.6	170.2	220.0	282.3	60.0	150.0	180.0

Source: Kotak Institutional Equities estimates

Telecom

BRTI.BO, Rs810	
Rating	ADD
Sector coverage view	Cautious
Target Price (Rs)	775
52W High -Low (Rs)	1036 - 483
Market Cap (Rs bn)	1,538

Financials

March y/e	2009	2010E	2011E
Sales (Rs bn)	370	432.6	501.3
Net Profit (Rs bn)	84.7	99.1	113.6
EPS (Rs)	44.6	52.2	59.8
EPS gth	*26.4*	*17.0*	*14.6*
P/E (x)	18.2	15.5	13.5
EV/EBITDA (x)	10.6	9.1	7.8
Div yield (%)	0.5	0.7	1.0

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
8.1	24.2	24.1	(6.1)

Shareholding, March 2009

	Pattern	% of Portfolio	Over/(under) weight
Promoters	67.2	-	-
FIIs	20.7	6.1	1.6
MFs	3.1	4.1	(0.3)
UTI	-	-	(4.5)
LIC	4.2	4.1	(0.4)

Bharti Airtel: Proposed MTN deal—EPS accretive but little synergy

- **Deal appears EPS accretive to Bharti in the proposed structure and form**
- **.. however, the deal has little synergy value**
- **Relaxation in interpretation of FDI cap norms aids the deal structure**

Bharti Airtel has renewed its interest in the MTN Group of South Africa (MTN) and stated its intent of forming a significant partnership with MTN by entering into a complex transaction which we detail below. We see the complex structure design driven by open-offer and cash-flow leverage considerations. The implied valuation for MTN suggests a ~28% premium to the closing share price before the 'deal-talk' announcement. Deal would likely be EPS accretive (3-5%) for Bharti, if it goes through in the proposed structure and form. However, value from EPS accretion may be offset by lower growth profile of MTN and higher risk attached to operations in multiple countries. The deal implies an EV/EBITDA multiple of 6X CY2009E consensus estimates, at a premium to large emerging market peers. In addition, we see little synergy or strategic (given Bharti's own robust growth rate) benefits from the acquisition for Bharti. We find the stock fairly valued at the current price and maintain our target price; we shall review these as we watch developments on this front.

Deal appears EPS accretive to Bharti in the proposed structure and form. Exhibit 1 illustrates our estimation of EPS impact of the deal on Bharti. We compute an EPS accretion of 3-5% for FY2010-12E based on the following assumptions.

1. Net cash outflow of US$4 bn from Bharti to be debt-funded at a pre-tax cost of debt of 8% (assuming foreign debt, and including hedging cost).
2. Tax shield of 20% on interest payment on debt.
3. Net equity dilution of 717 mn shares taking Bharti's total share count for post-deal EPS computation to 2.62 bn. We emphasize that we have excluded Bharti's indirect interest in itself through its 49% stake in MTN (which would hold 25% in Bharti post transaction) from the increased share count.
4. Standalone MTN PAT of US$2.3 bn for FY2010E, US$2.7 bn for FY2011E, and US$3 bn for FY2010E (based on Bloomberg consensus forecasts). We again highlight that we do not include MTN's share of Bharti's earnings, consistent with exclusion of MTN's Bharti holding from the expanded share count used.
5. Re/US$ rate of 48 for FY2010E, 47.5 for FY2011E, and 46.5 for FY2012E.

We highlight that our computation of EPS impact of the deal is purely economic in nature and the accounting treatment of the cross-holdings could lead to a marginally different impact on EPS. However, we would be comfortable treating the cross-holding as treasury stock for simplicity of understanding and assessment of economic impact. While the transaction is EPS accretive, the same needs to be viewed in the context of higher risk attached to MTN's cash flows and restrictions on repatriations.

.. however, the deal has little synergy value. We see few synergy benefits in a potential MTN acquisition. We presume that both companies would be equally efficient in operations and negotiation for equipment purchases given the impressive return ratios and profitability. We also do not see meaningful strategic benefits other than achieving global aspirations of the company. Unlike some sections of the Street, we also find it difficult to justify how the combination of a low MOU, high RPM business (MTN) with a high MOU, low RPM (Bharti) one makes it a potent one. We also note that MTN faces severe restrictions in the African markets on repatriation of cash flows back to the parent. These restrictions reflect in high cash balances of MTN—cash balance of US$3.8 bn and debt of US$5.3 bn at end-December 2008.

We also believe that the deal would change the way the Street views the Bharti stock—from a domestic-consumption-and-distribution-of-free-cash theme to a multinational wireless company with operations in 20+ countries), which may not be looked at favorably by the investors.

Relaxation in interpretation of FDI cap norms aids the deal structure. The Government of India permits shareholding foreign ownership of up to 74% in the Indian telecom sector (Bharti's foreign ownership was already at 74%). The government, however, relaxed the method of calculating ownership through FDI in February 2009. The revised methodology states that as long as Indian promoters hold a majority stake (that is, 51 per cent or more) in an operating-cum-investment company it would be considered Indian-owned and it does not matter if FDI in the company exceeds the ceiling through cross holdings. Bharti Telecom, the holding company, owns 45% in Bharti Airtel and has investors including Singtel and Vodafone. The indirect ownership of Singtel and Vodafone was included in the foreign ownership in Bharti, while computing the FDI/ FII limits. The revised norms would ensure that shares held by Bharti Telecom in Bharti are treated as domestic shareholding. After this transaction, Bharti's effective foreign ownership would by greater than 74% though the ownership as per revised guidelines would be less than 74%.

Proposed deal structure. Exhibit 2 depicts the proposed deal structure as per Bharti's press release. We discuss the various legs of the transaction below

1. MTN would acquire 25% post-deal economic interest in Bharti for a cash payout of US$2.9 bn and a fresh equity issuance equal to 25% of current equity base of MTN (467 mn fresh MTN shares), taking the post-deal share count of MTN to 2.34 bn shares.
2. Bharti would acquire 36% of current equity outstanding of MTN (36% of 1.87 bn shares or 673.2 mn shares) from MTN's shareholders for ZAr 86 per share plus 0.5 shares of Bharti for every share of MTN. This implies a cash payout of ~US$6.9 bn plus a fresh equity issuance of 336.6 mn shares of Bharti. These fresh equity shares of Bharti would be issued in the form of Global Depository Receipts (GDRs), which would be listed on the securities exchange operated by the JSE Limited, South Africa.
3. Bharti will also issue 745 mn fresh shares to MTN to take MTN's economic interest in Bharti post-transaction to ~25% (on an expanded equity count of 2.98 bn shares). We assume that these fresh shares would also be issued in the form of GDRs (as discussed above) to prevent the trigger of an open offer for Bharti local shares.

Effectively, Bharti is paying net cash of US$4 bn and issuing fresh equity of 1.08 bn shares to acquire a 49% stake in MTN. However, with MTN itself holding a 25% stake in Bharti after the transaction, Bharti would end up with a 12.25% stake in itself through MTN (akin to treasury stock). On balance, Bharti would pay US$4 bn in cash and 717 mn new shares of Bharti for a 49% stake in MTN. At Rs860/share of Bharti (price before Bharti's press release), this would imply an equity valuation of US$34 bn for MTN, a 28% premium to MTN's market cap before the announcement. Implied EV/EBITDA works out to 6X CY2009E and 5.3X CY2010E, at moderate premium to other large global telecom companies.

MTN—a US$14 bn sales (CY2009E) organization. MTN has 98 mn+ subs spread over 21 countries in the African continent and Middle East region—most of these countries have a mobile penetration of 20-50% and offer ample headroom for growth. The company derives 63% of revenues and 44% of subs from South Africa and Nigeria markets (see Exhibits 3 and 4 for details). Consensus forecasts for CY2009E peg revenues at US$14.2 bn, EBITDA at US$5.9 bn and PAT at US$2.2 bn. The company had net debt of US$1.5 bn as at end-December 2008.

MTN is a widely held stock. Exhibit 5 gives the top 10 shareholders of MTN. MTN is widely held company with Alpine trust and Public Investment Corporation being the principal shareholders. Newspaper reports indicate that there are two major holders within the Alpine Trust (1) Newshelf 664 (Pty) Ltd largely owned by MTN's management and employees, and (2) M1 Ltd.

MTN acquisition appears to be marginally EPS accretive at Bharti's indicated offer

	FY2010E	FY2011E	FY2012E
Current Bharti net profit estimate (Rs mn)	99,063	113,562	125,410
Current share count (mn)	1,898	1,898	1,898
Current EPS estimate (Rs/share)	52.2	59.8	66.1
Add:			
49% of MTN's estimates profits (US$ mn)	1,127	1,323	1,470
49% of MTN's estimates profits (Rs mn)	54,096	62,843	68,355
Less:			
Interest expense on US$4 bn of net cash paid	(12,288)	(12,160)	(11,904)
Net impact (Rs mn)	**41,808**	**50,683**	**56,451**
Revised net income (Rs mn)	**140,871**	**164,245**	**181,861**
New shares issued	**1,082**	**1,082**	**1,082**
Less: Bharti's indirect ownership in itself (# of shares, mn)	**365**	**365**	**365**
Net new shares issued	**717**	**717**	**717**
New share count used for revised EPS computation	**2,615**	**2,615**	**2,615**
Revised EPS (Rs/share)	**53.9**	**62.8**	**69.5**
EPS accretion/(dilution)	**3.2**	**5.0**	**5.3**

Note:

(a) Re/US$ rate of 48 used for FY2010E, 47.5 for FY2011E, and 46.5 for FY2012E.

(b) Assuming post-tax cost of debt of 5.6%.

(c) Assuming MTN net profits of US$2.3 bn for FY2010E, US$2.7 bn for FY2011E, and US$3 bn for FY2012E.

(d) Excluding MTN's share of Bharti profits from its financials and Bharti's indirect ownership in itself from revised share count.

Source: Kotak Institutional Equities estimates

Deal structure

Pre-deal (based on last closing price before Bharti's announcement)	
Bharti # of shares (mn)	1,898
Bharti share price (Rs/share)	860
Bharti market cap (US$ bn)	**34,006**
MTN # of shares	1,870
MTN share price (ZAr/share)	119
MTN market cap (US$ bn)	**26,811**
Post-deal (as indicated by Bharti's press release)	
Bharti # of shares	2,980
New Bharti shares issued	1,082
Bharti owndership structure	
MTN (%)	25.0
Existing MTN shareholders	11.0
Existing Bharti shareholders	64.0
MTN ownership structure	
Bharti	49.0
Existing MTN shareholders	51.0
Valuations	
Bharti pays for MTN	
Net cash paid by Bharti (US$ mn)	**4,000**
Net new shares (excluding Bharti's ownership in itself through MTN)	717
Bharti share price (Rs/share)	860
Consideration paid in stock (US$ mn)	**12,845**
Total consideration paid for 49% stake in MTN (US$ mn)	**16,845**
Implied market cap of MTN (US$ mn)	34,378
Premium over last closing price for MTN (%)	**28.2**

Source: Bharti press release, Kotak Institutional Equities estimates

MTN is among the top 2 players in most countries it operates in

Country/region	Subscribers ('000)	% of MTN's total subs	Ownership (%)
South and East Africa (SEA)			
South Africa	17,428	17.7	100.0
Uganda	3,987	4.1	95.0
Mascom - Botswana	1,019	1.0	53.0
Rwanda	1,330	1.4	55.0
Swaziland	547	0.6	30.0
Zambia	778	0.8	100.0
SEA total	**25,089**	**25.5**	
West and Central Africa (WCA)			
Nigeria	25,908	26.4	78.0
Ghana	6,777	6.9	98.0
Cameroon	3,824	3.9	70.0
Ivory Coast	3,810	3.9	65.0
Benin	1,111	1.1	75.0
Congo - Brazzavile	942	1.0	100.0
Coankry	1,003	1.0	75.0
Liberia	534	0.5	60.0
Bissau	366	0.4	100.0
WECA total	**44,275**	**45.1**	
Middle East and North Africa (MENA)			
Syria	3,428	3.5	75.0
Iran	18,252	18.6	49.0
Yemen	1,972	2.0	83.0
Sudan	2,658	2.7	85.0
Afghanistan	2,358	2.4	100.0
Cyprus	170	0.2	50.0
MENA total	**28,838**	**29.4**	
Group total	**98,202**	**100.0**	

Note:
(a) Subscriber base as on March 31, 2009

Source: MTN, Telegeography, Kotak Institutional Equities

MTN derived 62.5% revenues and 67% EBITDA in CY2007 from its SA and Nigerian operations (ZAr mn)

Country/region	Revenues	Revenue contribution (%)	EBITDA	EBITDA contribution (%)	EBITDA margin (%)
South and East Africa (SEA)					
South Africa	32,456	31.7	10,659	24.7	32.8
Other operations	5,027	4.9	2,224	5.2	44.2
SEA total	**37,483**	**36.6**	**12,882**	**29.8**	**34.4**
West and Central Africa (WCA)					
Nigeria	31,558	30.8	18,241	42.3	57.8
Ghana	6,047	5.9	2,788	6.5	46.1
Other operations	10,077	9.8	4,283	9.9	42.5
WECA total	**47,682**	**46.5**	**25,311**	**58.6**	**53.1**
Middle East and North Africa (MENA)					
Syria	6,508	6.3	1,829	4.2	28.1
Iran	4,935	4.8	1,490	3.5	30.2
Sudan	1,629	1.6	249	0.6	15.3
Other operations	4,143	4.0	1,081	2.5	26.1
MENA total	**17,215**	**16.8**	**4,650**	**10.8**	**27.0**
Head office companies	**146**		**323**		
Group total	**102,526**	**100.0**	**43,166**	**100.0**	**42.1**

Source: MTN, Telegeography, Kotak Institutional Equities

Top 10 shareholders in MTN--MTN is a widely held stock

Shareholder	Shares held (mn)	% shareholding	Filing date
Newshelf 664 (Pty) Ltd (a)	243.5	13.0	31-Dec-07
M1, Ltd. (a)	183.1	9.8	31-Dec-07
Public Investment Corporation	178.5	9.6	28-Sep-07
Capital Research Global Investors	54.2	2.9	31-Mar-09
Allan Gray Ltd.	29.6	1.6	31-Dec-07
Lombard Odier Darier Hentsch & Cie	27.3	1.5	28-Sep-07
Sanlam Inv Mgmt (Pty) Ltd	24.0	1.3	28-Sep-07
BNY Mellon Wealth Management	22.1	1.2	28-Sep-07
Capital World Investors	21.6	1.2	31-Mar-09
Barclays Global Investors, N.A.	21.4	1.1	30-Apr-09

Note:
(a) Shares of Newshelf 664 and M1 Ltd are held in Alpine Trust.

Source: Bloomberg.

Pharmaceuticals

RANB.BO, Rs267	
Rating	REDUCE
Sector coverage view	Attractive
Target Price (Rs)	150
52W High -Low (Rs)	660 - 133
Market Cap (Rs bn)	114.0

Financials

December y/e	2008	2009E	2010E
Sales (Rs bn)	72.2	71.0	78.5
Net Profit (Rs bn)	(3.3)	(2.4)	2.2
EPS (Rs)	(8.1)	(5.7)	5.1
EPS gth	*(134.7)*	-	-
P/E (x)	(33.0)	(46.8)	52.2
EV/EBITDA (x)	(156.8)	811.8	20.8
Div yield (%)	3.8	4.3	4.7

Pricing performance

Perf-1m	Perf-3m	Perf-6m	Perf-1y
51.8	57.2	25.1	(45.5)

Shareholding, March 2009

	Pattern	% of Portfolio	Over/(under) weight
Promoters	63.9	-	-
FIIs	4.8	0.1	(0.2)
MFs	2.2	0.2	(0.1)
UTI	-	-	(0.3)
LIC	7.3	0.4	0.1

Ranbaxy Laboratories: No change in near-term strategy under new CEO

- **New CEO is maintaining status quo for the time being**
- **Meeting with US FDA in June to give more clarity on resolution of issues**
- **Currency appreciation will help reduce forex loss but lower EBITDA margin**
- **We maintain our REDUCE rating and price target of Rs150**

Ranbaxy CEO Atul Sobti assured investors that there was no strategic change immediately. Guidance for 2009 remained unchanged, implying little/no profits for operations in the next three quarters. A meeting with US FDA is scheduled in June 2009—which may provide more clarity on the way forward. We factor an improvement in 2009 and 2010 but Ranbaxy may not return to its historical margin level of 16%. AstraZeneca audits could delay revenues from generic Nexium API supplies. Including 50% value of patent challenge pipeline, we arrive at a price target of Rs150. We retain our REDUCE rating and advise investors to use the rally to exit the stock. Low floating stock can exaggerate the impact of good/bad newsflow in future. New regulatory developments remain a key risk to the stock price.

Retain REDUCE rating and price target at Rs150. We have used very optimistic assumptions relating to revenue growth for 2010. Our forecast is based on QoQ margin improvement for the next three quarters and 2010 margin near the exit quarter of 2009. In arriving at the price target, we have continued to use the same multiples that we have used in the past.

For the patent challenge pipeline, we are adding only 50% of potential value as there is a possibility that the product may not be launched on time. This is due to continuing issues with the US FDA and the potential risk that site changes planned may take longer than expected and product launch could be delayed. We have continued to add full value of Nexium settlement as the management has reiterated that API supplies will begin in 2009. However, Ranbaxy is now saying that Astrazeneca's audits could delay the time table.

Ranbaxy's share price increased around 20% after the announcement of new CEO. We think investors may be expecting more aggressive steps from Daiichi from now on. This could include a potential open offer to increase its stake from current 64% level. Ranbaxy said in its conference call that there is no plan to go private at this time. Any appreciation of Indian Rupee will help Ranbaxy reduce forex related losses but conversely, could lower EBITDA margin as well. We think investors should use the rally to exit. We believe that Ranbaxy stock will move disproportionately to positive or negative developments in future due to low floating stock.

Update after new CEO—more of the same, for now

Ranbaxy's new CEO Atul Sobti addressed investors on May 25, 2009. As expected, there is little change in the strategic direction of the company and on operational issues. We expect to hear more about these issues over the next several months as Daiichi becomes more assertive in the management.

- **Guidance for 2009 is unchanged.** This implies little/no profits from operations in the remaining three quarters. Guidance includes the forex loss of 1Q2009. Rs/US$ rate used to MTM forex liabilities at end of 1Q2009 was 50.5. Ranbaxy mentioned that depending on ending rate as of June 2009, the entire 1Q2009 forex loss could be reversed in 2Q2009. However, Ranbaxy mentioned that European operations could show an improvement in performance from 2Q2009.

- **FDA issues, no resolution is in sight.** Ranbaxy has met the US FDA thrice since January 2009. A corrective action plan has been put together and after the meeting scheduled with the FDA in June, this plan could be implemented. This plan is application specific. No timeframe was provided for when this corrective action will be complete. A third party will be doing validity assessment which is normal with companies facing compliance issues with US FDA. Ranbaxy was not sure if the leadership change would have any impact on the resolution of US FDA issues. The management believes that while the FDA does look at leadership commitment, it is difficult to anticipate its precise response. Ranbaxy mentioned that API supplies for generic Nexium to Astrazeneca have got pushed out due to certain audits done by Astrazeneca. The management believes revenues are unlikely to start till end 2009.
- **Synergy benefits between Ranbaxy and Daiichi.** Both companies are planning to work together on the following areas—Japanese generics market, manufacturing for Daiichi, innovative R&D for Daiichi, in-license products from Daiichi for the Indian market. Ranbaxy is talking to Daiichi to in-license Prasugrel for the Indian market.

Outlook for 2009 muted—we have factored in a better 2010. Ranbaxy expects to report net loss of Rs8 bn after reporting Rs7.6 bn in 1Q. Assuming that there are no more losses relating to AS30, Ranbaxy is expecting to barely break even in the next three quarters. We are modeling in EBITDA margin to improve from 5.7% this quarter to 9.3% in the next quarter reaching 12.6% in 4Q2009. For 2010E, we forecast 12.3% margin as Ranbaxy may be hurt by even a marginal appreciation of the Rupee.

Forecasts and valuation, December fiscal year-ends, 2006-2010E

	Net sales		Adjusted EBITDA		Net Profit		EPS	ROCE	ROE	P/E
	(Rs mn)	Growth (%)	(Rs mn)	Growth (%)	(Rs mn)	Growth (%)	(Rs)	(%)	(%)	(X)
2006	60,183	18.1	11,529	84.0	5,103	95.0	13.7	10.4	20.3	19.5
2007	67,440	12.1	11,045	(4.2)	8,705	70.6	23.3	6.8	32.3	11.4
2008E	72,218	7.1	11,624	5.2	(9,146)	NM	(8.1)	5.7	(8.8)	NM
2009E	70,954	(1.8)	7,056	(39.3)	(8,382)	NM	(5.7)	(0.6)	(4.7)	NM
2010E	78,544	10.7	9,673	37.1	2,186	(126.1)	5.1	1.7	4.1	52.2

Source: Company, Kotak Institutional Equities estimates.

Profit and loss statement, December fiscal year-ends, 2006-2010E

	2,006	2,007	2008E	2009E	2010E
Net sales	**60,183**	**67,440**	**72,218**	**70,954**	**78,544**
Operating expenses					
Materials	(23,733)	(27,217)	(24,915)	(26,656)	(31,819)
Selling and administration	(17,822)	(21,187)	(27,040)	(27,533)	(25,765)
Employee cost	(7,955)	(8,918)	(9,426)	(10,840)	(12,466)
Others	(3,099)	(3,353)	(3,625)	(3,548)	(3,927)
Total expenditure	**(52,608)**	**(60,675)**	**(65,006)**	**(68,577)**	**(73,976)**
EBITDA	**7,574**	**6,765**	**7,212**	**2,377**	**4,567**
Depreciation and amortisation	(1,843)	(2,183)	(2,656)	(2,889)	(3,200)
EBIT	**5,731**	**4,581**	**4,556**	**(512)**	**1,367**
Net finance cost	(1,036)	(1,412)	(1,886)	(984)	—
Other income	1,815	7,776	(8,032)	(2,230)	1,400
Pretax profits before extra-ordi	**6,510**	**10,946**	**(5,362)**	**(3,726)**	**2,767**
Current tax	(535)	(1,056)	2,038	2,239	369
Deferred tax	(822)	(1,063)	—	(925)	(950)
Reported net profit	**5,153**	**8,827**	**(3,325)**	**(2,412)**	**2,186**
Minority Interests	50	122	—	—	—
Reported net profit after mino	**5,103**	**8,705**	**(3,325)**	**(2,412)**	**2,186**
Exceptional items	—	—	(5,822)	(5,971)	—
Reported net profit after mino	**5,103**	**8,705**	**(9,146)**	**(8,382)**	**2,186**

Source: Company data, Kotak Institutional Equities.

SOTP-based price target, 2009-2010E

	PAT (Rs mn)	P/E	Valuation (Rs mn)
	2010E	(X)	2010E
Finished dosage - India	388	14.4	5,580
Finished dosage - USA Generic/OTC	200	12.0	2,403
Finished dosage - Rest of World	1,298	13.0	16,875
Romania	116	13.0	1,510
API Global	55	10.0	549
Global consumer business	101	14.4	1,456
USA - branded business	28	13.2	372
Total	**2,186**		**28,746**
Value per share (Rs)			67
Value of patent challenge pipeline (Rs)			35
Value of Nexium deal (Rs)			49
Cash per share			
Share price target (Rs)			**152**

Source: Company data, Kotak Institutional Equities.

Profit estimates adjusted for forex (Rs mn)

	2007	2008	2009E	2010E
Sales	67,440	72,218	70,954	78,544
YoY growth %		7%	-2%	11%
EBITDA	6,765	7,212	2,377	4,567
% to sales	10%	10%	3%	6%
PBT adjusted	5,862	5,702	334	3,567
PAT Adjusted	4,727	3,535	216	2,818
EPS Rs wgt average	12.7	8.6	0.5	6.7
EPS Rs Diluted	12.7	8.4	0.5	6.6
YoY growth %		-33%	-94%	1178%
Rs/$ rate	41.3	43.5	50.3	50.0
Forex gain (loss)	5084	(11064)	(4060)	(800)
Reported PBT	10,946	(5,362)	(3,726)	2,767
Reported PAT	8,705	(3,325)	(2,412)	2,186

Source: Company data, Kotak Institutional Equities.

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

Company	25-May-09 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2009E	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS growth (%) 2009E	EPS growth (%) 2010E	EPS growth (%) 2011E	PER (X) 2009E	PER (X) 2010E	PER (X) 2011E	EV/EBITDA (X) 2009E	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	Price/BV (X) 2009E	Price/BV (X) 2010E	Price/BV (X) 2011E	Dividend yield (%) 2009E	Dividend yield (%) 2010E	Dividend yield (%) 2011E	RoE (%) 2009E	RoE (%) 2010E	RoE (%) 2011E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Automobiles																													
Bajaj Auto	949	SELL	137,232	2,902	145	48.7	65.3	73.1	(6.7)	34.0	12.0	19.5	14.5	13.0	10.9	8.3	8.1	7.2	5.6	4.4	2.1	2.1	2.1	40.2	42.8	36.8	780	(17.8)	3.2
Hero Honda	1,324	REDUCE	264,423	5,592	200	64.2	83.8	91.2	32.4	30.5	8.8	20.6	15.8	14.5	11.9	9.2	7.9	6.8	5.2	4.2	1.5	1.7	1.7	36.6	37.4	31.9	1,000	(24.5)	17.2
Mahindra & Mahindra	634	ADD	168,157	3,556	265	21.6	34.7	39.1	(43.2)	60.6	12.8	29.4	18.3	16.2	19.4	11.4	9.9	3.5	2.7	2.4	1.4	1.5	1.5	12.2	16.9	15.8	450	(29.0)	15.0
Maruti Suzuki	973	SELL	281,298	5,949	289	42.2	58.3	63.4	(29.5)	38.1	8.6	23.0	16.7	15.4	13.0	8.4	7.1	2.9	2.5	2.2	0.4	0.5	0.5	13.3	16.1	15.1	780	(19.9)	28.2
Tata Motors	346	SELL	192,360	4,068	556	18.5	19.0	24.0	(62.8)	2.6	26.3	18.7	18.2	14.4	13.2	9.4	8.1	1.4	1.3	1.2	—	—	—	9.1	7.3	—	195	(43.6)	34.9
Automobiles		**Cautious**	**1,043,470**	**22,068**					**(25.6)**	**31.2**	**12.8**	**21.8**	**16.6**	**14.7**	13.2	9.2	8.1	**3.1**	**2.6**	**2.3**	**1.0**	**1.1**	**1.1**	**14.0**	**15.7**	**15.4**			
Banks/Financial Institutions																													
Andhra Bank	89	ADD	43,117	912	485	13.5	11.1	12.6	14.0	(17.9)	13.6	6.6	8.0	7.0	—	—	—	1.3	1.3	1.3	5.1	3.1	3.5	19.0	14.0	14.4	75	(15.6)	1.1
Axis Bank	774	BUY	277,874	5,877	359	50.6	55.8	64.5	56.9	10.3	15.6	15.3	13.9	12.0	—	—	—	3.0	2.6	2.3	1.2	1.4	1.6	19.2	18.2	18.3	700	(9.6)	66.3
Bank of Baroda	442	ADD	161,636	3,418	366	60.9	54.9	58.5	55.1	(9.8)	6.5	7.3	8.0	7.6	—	—	—	1.6	1.5	1.4	2.0	1.8	2.0	18.7	14.9	14.2	370	(16.3)	10.8
Bank of India	326	ADD	171,369	3,624	526	57.2	45.6	55.1	40.7	(20.2)	20.7	5.7	7.1	5.9	—	—	—	1.6	1.7	1.5	1.8	1.5	1.8	29.6	19.2	19.5	310	(4.9)	15.8
Canara Bank	272	REDUCE	111,459	2,357	410	50.5	38.6	41.4	32.4	(23.6)	7.1	5.4	7.0	6.6	—	—	—	1.4	1.3	1.2	2.9	2.9	3.7	18.3	12.4	12.2	220	(19.1)	5.2
Corporation Bank	317	BUY	45,498	962	143	62.2	51.5	55.3	21.4	(17.3)	7.4	5.1	6.2	5.7	—	—	—	0.9	0.8	0.8	4.0	3.3	3.6	19.6	14.3	13.8	310	(2.3)	0.8
Federal Bank	238	BUY	40,655	860	171	32.0	34.0	39.3	(6.9)	6.4	15.6	7.4	7.0	6.0	—	—	—	1.0	0.9	0.8	2.5	2.7	3.1	13.2	12.7	13.2	280	17.8	2.8
Future Capital Holdings	246	BUY	15,528	328	63	4.5	28.8	NA	(198.6)	546.1	(100.0)	55.2	8.5	NA	—	—	—	2.1	1.7	NA	—	—	—	3.8	21.4	NA	440	79.2	1.2
HDFC	2,086	SELL	593,405	12,550	284	80.2	93.4	109.1	(6.5)	16.5	16.7	26.0	22.3	19.1	—	—	—	4.5	4.0	3.6	1.4	1.6	1.8	18.2	18.7	19.2	1,730	(17.1)	79.8
HDFC Bank	1,364	ADD	573,740	12,134	421	55.4	64.1	75.0	20.4	15.7	17.1	24.6	21.3	18.2	—	—	—	3.8	3.3	2.9	0.7	0.9	1.1	16.9	16.7	17.3	1,150	(15.7)	55.1
ICICI Bank	705	ADD	784,275	16,586	1,113	33.8	32.3	38.5	(15.4)	(4.4)	19.2	20.9	21.8	18.3	—	—	—	1.6	1.5	1.4	1.6	1.3	1.4	7.8	7.1	8.0	475	(32.6)	211.9
IDFC	121	ADD	156,545	3,311	1,294	5.8	7.0	8.0	2.3	21.0	13.3	20.8	17.2	15.2	—	—	—	2.5	2.3	2.0	0.8	1.0	1.1	12.9	14.1	14.2	85	(29.7)	27.8
India Infoline	136	ADD	42,337	895	311	5.0	5.8	6.5	(10.0)	15.5	12.3	27.0	23.4	20.8	—	—	—	3.4	3.0	2.7	2.0	2.5	3.0	11.7	13.5	14.6	90	(33.8)	7.7
Indian Bank	129	BUY	55,612	1,176	430	28.1	26.1	30.0	24.7	(7.2)	15.1	4.6	5.0	4.3	—	—	—	1.0	1.0	0.9	3.3	3.0	3.5	22.7	17.9	17.8	165	27.5	2.8
Indian Overseas Bank	88	BUY	47,915	1,013	545	24.3	16.6	22.2	10.3	(31.9)	33.8	3.6	5.3	4.0	—	—	—	0.8	0.7	0.6	6.0	4.3	4.7	24.7	14.5	17.0	110	25.1	3.7
J&K Bank	475	ADD	23,051	487	48	82.8	72.2	92.8	11.5	(12.7)	28.4	5.7	6.6	5.1	—	—	—	1.0	1.0	0.9	3.6	3.2	4.1	16.5	12.9	14.9	480	1.0	0.3
LIC Housing Finance	429	BUY	36,459	771	85	62.5	68.8	80.3	37.3	10.0	16.8	6.9	6.2	5.3	—	—	—	1.5	1.3	1.0	3.2	3.5	4.1	26.2	23.9	23.4	390	(9.1)	7.2
Mahindra & Mahindra Financial	226	ADD	21,619	457	96	22.4	27.5	30.0	7.5	22.9	8.7	10.1	8.2	7.5	—	—	—	1.5	1.3	1.2	2.4	3.0	3.3	15.4	16.9	16.3	240	6.2	0.1
Oriental Bank of Commerce	181	ADD	45,285	958	251	36.1	27.3	34.6	51.4	(24.5)	26.7	5.0	6.6	5.2	—	—	—	0.8	0.9	1.0	4.0	3.0	3.8	14.8	10.2	11.8	150	(17.0)	3.3
PFC	205	SELL	235,177	4,974	1,148	13.0	16.5	19.3	14.3	26.7	17.6	15.8	12.5	10.6	—	—	—	2.1	1.9	1.7	1.3	2.4	2.1	13.8	15.8	16.7	160	(21.9)	5.1
Punjab National Bank	643	BUY	202,692	4,287	315	98.0	98.5	115.1	50.9	0.5	16.8	6.6	6.5	5.6	—	—	—	1.7	1.4	1.2	3.1	3.1	3.6	23.0	19.9	20.1	760	18.2	24.7
Rural Electrification Corp.	149	BUY	127,974	2,706	859	15.2	17.7	20.0	38.8	16.8	13.0	9.8	8.4	7.5	—	—	—	1.8	1.6	1.4	3.3	3.8	4.3	19.6	19.9	19.6	125	(16.1)	2.6
Shriram Transport	286	ADD	60,543	1,280	212	30.1	32.5	36.9	56.8	7.9	13.7	9.5	8.8	7.8	—	—	—	2.8	2.4	2.0	3.0	3.4	3.9	29.6	27.0	25.8	300	4.8	2.4
SREI	71	ADD	8,297	175	116	7.7	6.9	8.2	(32.8)	(10.1)	18.6	9.3	10.3	8.7	—	—	—	0.8	0.7	0.7	3.2	3.9	4.5	14.0	11.5	13.0	50	(29.9)	2.3
State Bank of India	1,722	BUY	1,093,692	23,130	635	143.6	121.1	139.2	34.8	(15.7)	14.9	12.0	14.2	12.4	—	—	—	2.2	2.3	2.0	1.7	1.7	1.9	17.1	12.7	13.3	1,600	(7.1)	116.7
Union Bank	200	BUY	100,923	2,134	505	34.2	29.6	35.5	24.5	(13.5)	19.9	5.8	6.8	5.6	—	—	—	1.2	1.0	0.9	2.6	2.2	2.7	27.2	19.5	19.9	220	10.1	5.9
Banks/Financial Institutions		**Attractive**	**5,076,679**	**107,363**					**27.8**	**(4.7)**	**15.7**	**11.9**	**12.5**	**10.8**	**—**	**—**	**—**	**2.0**	**1.9**	**1.7**	**1.8**	**1.8**	**2.0**	**16.9**	**15.1**	**15.8**			
Cement																													
ACC	724	REDUCE	136,035	2,877	188	56.3	55.2	42.2	(12.2)	(1.9)	(23.6)	12.9	13.1	17.2	6.4	6.5	7.5	2.6	2.3	2.1	3.2	3.2	3.2	24.7	21.3	15.1	625	(13.7)	11.7
Ambuja Cements	91	REDUCE	138,536	2,930	1,522	7.2	6.8	5.4	(5.0)	(4.7)	(20.5)	12.7	13.3	16.7	6.8	7.0	8.4	2.3	2.0	1.9	3.3	2.1	2.3	19.7	16.6	12.0	70	(23.1)	4.7
Grasim Industries	2,119	REDUCE	194,328	4,110	92	238.5	235.7	239.1	(16.2)	(1.2)	1.4	8.9	9.0	8.9	5.2	4.6	4.4	1.8	1.5	1.3	1.6	1.6	1.6	21.7	18.2	16.0	1,900	(10.4)	9.9
India Cements	147	ADD	41,477	877	282	22.7	19.8	17.5	n/a	(12.8)	(11.2)	6.5	7.4	8.4	4.5	4.7	4.9	1.1	1.0	0.9	1.4	1.4	2.2	15.7	14.7	11.7	130	(11.7)	5.5
Shree Cement	1,008	BUY	35,118	743	35	174.7	91.6	86.2	93.7	(47.6)	(5.9)	5.8	11.0	11.7	4.0	4.4	4.6	2.9	2.4	2.1	1.0	1.0	1.0	65.7	24.0	18.9	950	(5.8)	0.5
UltraTech Cement	675	ADD	84,544	1,788	125	78.0	70.5	49.3	(4.1)	(9.7)	(30.0)	8.7	9.6	13.7	5.6	5.3	6.6	2.0	1.7	1.5	1.2	1.2	1.2	31.2	22.3	13.4	625	(7.4)	1.2
Cement		**Cautious**	**630,037**	**13,324**					**(5.1)**	**(9.5)**	**(12.9)**	**9.5**	**10.5**	**12.1**	**5.5**	**5.4**	**5.8**	**2.0**	**1.7**	**1.6**	**2.2**	**2.0**	**2.1**	**21.0**	**16.4**	**12.9**			
Consumer products																													
Asian Paints	1,046	ADD	100,342	2,122	96	38.4	49.1	57.5	(2.2)	27.9	17.1	27.3	21.3	18.2	15.8	12.4	10.4	8.8	7.2	6.0	1.7	1.9	2.2	36.3	38.5	36.8	1,000	(4.4)	0.8
Colgate-Palmolive (India)	460	ADD	62,502	1,322	136	20.4	23.3	25.7	19.4	14.4	10.1	22.6	19.7	17.9	19.6	16.4	14.2	37.1	41.0	46.6	4.0	4.6	5.0	157.8	198.4	245.6	490	6.6	2.0
GlaxoSmithkline Consumer (a)	848	ADD	35,663	754	42	44.8	56.1	63.6	15.8	25.2	13.5	18.9	15.1	13.3	10.4	8.4	7.4	4.6	4.0	3.5	1.8	2.5	3.5	26.8	28.5	28.0	900	6.1	0.4
Godrej Consumer Products	166	ADD	42,962	909	258	6.8	8.7	9.8	(3.9)	27.8	12.8	24.6	19.2	17.0	21.4	15.7	13.0	6.5	5.6	4.8	2.4	2.4	2.4	42.7	42.7	33.1	160	(3.9)	0.7
Hindustan Unilever	233	REDUCE	507,924	10,742	2,179	9.2	10.2	11.6	12.9	11.5	13.6	25.4	22.8	20.1	20.3	17.4	15.3	32.8	30.5	28.1	3.7	4.1	4.7	134.3	139.0	146.1	235	0.8	26.5
ITC	190	ADD	715,282	15,127	3,769	8.7	9.9	11.3	4.8	14.2	14.4	21.9	19.2	16.8	13.3	11.8	10.4	5.0	4.4	3.9	1.9	2.1	2.4	25.4	25.4	25—	225	18.5	23.4
Jyothy Laboratories	78	ADD	5,639	119	73	7.2	10.6	13.0	10.2	47.3	22.1	10.8	7.3	6.0	6.6	4.6	3.4	1.4	1.2	1.1	3.0	3.8	4.5	13.0	16.5	18.8	127	63.4	
Nestle India (a)	1,729	ADD	166,688	3,525	96	58.6	70.5	82.4	31.0	20.4	16.8	29.5	24.5	21.0	18.8	16.0	13.9	35.2	28.9	23.9	2.5	3.0	3.5	126.7	129.6	124.8	1,800	4.1	1.8
Tata Tea	700	BUY	43,269	915	62	60.1	67.7	75.8	10.9	12.7	11.9	11.6	10.3	9.2	6.3	5.0	4.4	0.9	0.8	0.8	2.5	2.8	3.1	10.3	10.8	11.3	940	34.3	1.8
Consumer products		**Cautious**	**1,680,271**	**35,535**					**9.5**	**15.4**	**14.2**	**23.1**	**20.0**	**17.5**	**15.2**	**13.1**	**11.5**	**6.9**	**6.2**	**5.5**	**2.6**	**2.9**	**3.3**	**30.0**	**30.7**	**31.1**			
Constructions																													
Consolidated Construction Co.	211	ADD	7,779	165	37	19.7	27.2	31.9	(18.1)	38.0	17.5	10.7	7.7	6.6	7.2	5.1	4.3	1.5	1.3	1.1	1.3	1.9	2.2	15.0	18.1	18.3	190	(9.7)	0.1
IVRCL	285	BUY	38,576	816	135	14.4	16.9	19.4	(7.3)	17.1	14.8	19.8	16.9	14.7	11.4	9.1	7.5	2.2	1.9	1.7	0.3	0.3	0.3	11.5	12.0	12.3	215	(24.6)	13.4
Nagarjuna Construction Co.	130	BUY	29,873	632	229	7.3	8.8	9.7	2.5	19.7	10.0	17.8	14.8	13.5	9.7	8.2	7.4	1.8	1.6	1.5	1.0	1.2	1.5	10.3	11.3	11.4	120	(8.0)	4.1
Punj Lloyd	180	BUY	55,939	1,183	311	(7.4)	15.9	17.2	(174.4)	(314.8)	7.7	(24.2)	11.3	10.5	26.2	6.7	6.4	2.2	1.9	1.6	(0.2)	0.4	0.4	(9.2)	18.9	17.1	200	11.2	28.1
Sadbhav Engineering	579	ADD	7,236	153	13	43.8	54.3	88.0	8.2	23.8	62.2	13.2	10.7	6.6	7.7	6.5	4.9	2.1	1.8	1.4	0.9	1.0	1.2	15.9	16.8	21.7	550	(5.0)	0.1
Construction		**Attractive**	**139,403**	**2,948**					**(70.0)**	**344.1**	**13.8**	**55.6**	**12.5**	**11.0**	**13.4**	**7.4**	**6.6**	**2.0**	**1.8**	**1.6**	**0.3**	**0.7**	**0.8**	**3.7**	**14.2**	**14.1**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

	25-May-09		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
Company	130.4	BUY	(Rs mn)	(US$ mn)	(mn)	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	(Rs)	(%)	(US$ mn)
Energy																													
Bharat Petroleum	465	SELL	152,519	3,226	328	16—	30.3	39.5	(62.2)	94	NA	30	NA	11.8	6.8	5.8	5.3	1.1	1.1	1.0	—	3.8	4.9	4.2	7.0	8.8	450	(3.3)	6.9
Cairn india	213	BUY	404,844	8,562	1,897	4.2	4.4	28.5	(3,628)	5	543.2	51	48	7.5	30.2	21.9	6.1	1.2	1.2	1.2	—	—	14.1	2.5	2.5	15.9	225	5.4	27.6
Castrol India (a)	343	BUY	42,421	897	124	21.3	25.5	26.6	20.8	19.5	4.3	16.1	13.5	12.9	9.0	7.8	7.4	9.5	8.5	8.0	4.4	5.2	5.8	61.2	66.5	63.7	390	13.7	0.5
GAIL (India)	283	REDUCE	358,661	7,585	1,268	23.4	20.6	21.8	14.7	(11.8)	5.7	12.1	13.7	13.0	6.6	7.8	8.1	2.2	2.0	1.8	2.6	2.4	2.4	18.4	14.5	14.0	270	(4.5)	12.4
GSPL	58	REDUCE	32,698	692	563	1.9	2.5	3.7	4.4	30.5	52.6	30.9	23.7	15.5	10.2	6.5	5.5	2.5	2.2	2.2	0.9	1.2	6.4	8.2	9.8	14.4	45	(22.5)	3.3
Hindustan Petroleum	339	SELL	114,907	2,430	339	(7.4)	17.9	34.0	(122.0)	(343.0)	90.1	(46.1)	19.0	10.0	7.2	6.2	NA	0.9	0.9	NA	—	3.5	6.7	(2.0)	4.3	8.0	325	(4.1)	7.6
Indian Oil Corporation	566	REDUCE	667,554	14,118	1,179	19.1	41.5	40.3	(68.8)	116.8	(3.0)	29.6	13.6	14.1	10.4	6.1	5.9	1.4	1.3	1.2	—	3.2	3.2	4.9	9.3	8.5	500	(11.7)	3.4
Oil & Natural Gas Corporation	1,041	BUY	2,225,833	47,073	2,139	100.3	95.3	119.2	8.1	(5.0)	25.1	10.4	10.9	8.7	3.9	3.8	3.1	2.0	1.8	1.6	3.3	3.8	4.0	18.9	15.9	18.2	1,100	5.7	45.0
Petronet LNG	70	ADD	52,538	1,111	750	6.9	7.7	9.0	—	10.8	17.6	10.1	9.1	7.8	8.1	6.3	5.5	2.3	1.9	1.5	2.1	2.1	2.9	24.0	21.8	20.9	57	(18.6)	3.8
Reliance Industries	2,195	REDUCE	3,013,392	63,728	1,373	103.4	126.5	169.4	(1.5)	22.4	33.9	21.2	17.3	13.0	12.5	7.9	6.1	2.5	2.3	2.0	0.6	0.7	0.9	15.1	15.8	18.6	1,750	(20.3)	227.6
Reliance Petroleum	136	NR	613,350	12,971	4,500	—	8.3	13.8	n/a	n/a	n/a	n/a	n/a	9.9	n/a	n/a	8.1	4.5	3.8	2.9	—	1.5	1.5	0.6	25.1	33.0	—	—	24.7
Energy		**Neutral**	**7,678,717**	**162,392**					**(7.2)**	**24.7**	**36.1**	**17.3**	**13.9**	**10.2**	**8.4**	**6.4**	**5.1**	**2.1**	**1.9**	**1.7**	**1.4**	**2.1**	**3.1**	**11.9**	**13.5**	**16.6**			
Industrials																													
ABB	628	REDUCE	132,983	2,812	212	25.8	24.9	29.6	11.3	(3.6)	18.7	24.3	25.2	21.2	14.3	14.2	11.5	6.3	5.2	4.3	0.4	0.5	0.5	29.2	22.6	22.1	500	(20.3)	6.9
BGR Energy Systems	334	REDUCE	24,066	509	72	15.3	20.7	24.3	26.1	35.4	17.5	21.8	16.1	13.7	12.0	9.6	8.2	4.3	3.5	2.9	0.7	1.0	1.2	21.3	23.9	23.2	165	(50.6)	1.4
Bharat Electronics	1,340	REDUCE	107,232	2,268	80	101.9	111.1	119.0	(0.0)	9.0	7.1	13.2	12.1	11.3	5.6	5.0	4.5	2.7	2.3	2.0	1.9	1.9	1.9	22.4	20.9	19.2	1,025	(23.5)	1.5
Bharat Heavy Electricals	2,004	REDUCE	981,145	20,750	490	59.8	89.0	105.5	2.3	48.9	18.5	33.5	22.5	19.0	18.0	12.4	10.4	7.6	6.1	4.9	0.8	0.9	1.1	24.7	30.0	28.5	1,475	(26.4)	62.0
Crompton Greaves	261	ADD	95,514	2,020	367	15.3	17.0	20.0	37.3	11.0	17.5	17.0	15.3	13.0	9.6	8.6	7.4	5.4	4.1	3.2	0.7	0.8	0.9	36.5	30.5	27.9	300	15.1	6.4
Larsen & Toubro	1,305	ADD	778,664	16,467	597	49.0	54.7	63.5	29.2	11.5	16.1	26.6	23.9	20.6	15.6	13.6	12.1	4.9	4.0	3.4	0.8	0.8	0.9	20.9	18.5	18.0	1,000	(23.4)	82.4
Maharashtra Seamless	249	BUY	17,558	371	71	35.9	33.0	39.6	22.2	(8.1)	20.3	6.9	7.6	6.3	4.7	4.8	3.7	1.3	1.1	1.0	2.2	2.0	2.9	20.3	16.0	16.8	225	(9.6)	1.0
Siemens	446	REDUCE	150,491	3,183	337	14.2	19.8	21.1	(22.2)	39.7	6.4	31.5	22.5	21.2	14.8	12.8	12.1	6.7	5.6	4.7	0.7	1.5	0.9	23.3	27.1	24.2	360	(19.3)	7.2
Suzlon Energy	89	ADD	140,499	2,971	1,571	7.0	7.1	11.4	6.0	2.1	59.7	12.8	12.6	7.9	9.3	8.3	6.6	1.4	1.2	1.0	0.6	0.6	1.1	11.3	10.1	13.9	90	0.6	69.2
Industrials		**Cautious**	**2,428,152**	**51,351**					**10.7**	**22.1**	**20.3**	**25.1**	**20.5**	**17.1**	**13.9**	**11.5**	**9.9**	**4.8**	**3.9**	**3.3**	**0.8**	**0.9**	**1.0**	**19.0**	**19.1**	**19.3**			
Infrastructure																													
IRB Infrastructure	142	ADD	47,162	997	332	5.6	10.4	10.8	63.5	85.5	3.9	25.3	13.7	13.1	13.8	7.6	6.9	2.5	2.1	1.8	—	—	—	10.6	16.8	14.5	135	(4.9)	6.4
Media																													
DishTV	47	REDUCE	44,574	943	946	(7.3)	(4.1)	(3.2)	n/a	(44.4)	(22.6)	(6.4)	(11.5)	(14.9)	(27.4)	(169.7)	53.4	(6.9)	(21.9)	(8.9)	—	—	—	86.1	91.1	NA	22	(53.3)	5.9
HT Media	120	BUY	28,075	594	234	0.8	3.5	6.0	(80.4)	311.0	70.9	141.1	34.3	20.1	28.9	13.5	9.9	3.3	3.1	2.9	0.3	0.7	1.7	2.3	9.4	14.9	100	(16.6)	0.5
Jagran Prakashan	77	BUY	23,055	488	301	2.9	4.1	5.9	(11.6)	42.4	44.7	26.6	18.7	12.9	14.8	10.3	7.3	4.0	3.7	3.3	1.9	2.7	3.9	15.6	20.6	26.9	80	4.5	0.1
Sun TV Network	264	REDUCE	103,840	2,196	394	9.3	11.1	12.8	11.8	19.2	15.8	28.4	23.8	20.6	15.3	13.3	11.5	6.1	5.6	5.2	1.5	2.3	3.0	23.5	25.1	26.7	200	(24.1)	1.0
Zee Entertainment Enterprises	179	ADD	77,478	1,639	434	8.1	9.3	11.2	(9.0)	15.5	20.0	22.1	19.2	16.0	15.4	13.3	11.0	2.3	2.2	2.0	1.3	1.5	1.8	11.6	12.2	13.7	145	(18.9)	8.1
Zee News	47	ADD	11,365	240	240	1.9	2.1	2.5	20.4	11.1	18.8	25.5	22.9	19.3	13.0	10.9	9.5	4.6	4.0	3.4	0.8	0.8	1.3	20.0	19.0	19.5	40	(15.6)	0.6
Media		**Neutral**	**288,386**	**6,099**					**(27.6)**	**83.0**	**50.5**	**74.4**	**40.6**	**27.0**	**22.2**	**15.6**	**12.2**	**4.8**	**4.1**	**4.0**	**1.1**	**1.5**	**2.1**	**6.4**	**10.1**	**14.6**			
Metals																													
Hindalco Industries	77	ADD	135,565	2,867	1,753	7.7	2.4	8.2	(44.4)	(69.2)	248.7	10.1	32.7	9.4	5.9	8.2	6.9	0.4	0.4	0.4	—	—	—	10.3	5.2	6.7	55	(28.9)	15.0
National Aluminium Co.	347	SELL	223,833	4,734	644	19.7	10.3	16.3	(22.2)	(47.8)	58.3	17.6	33.8	21.3	9.1	11.8	8.0	2.1	2.0	1.9	1.0	0.6	0.6	12.7	6.2	9.2	135	(61.1)	2.8
Jindal Steel and Power	2,076	BUY	319,578	6,759	154	179.7	171.6	195.4	117.2	(4.5)	13.9	11.6	12.1	10.6	7.6	7.5	6.2	4.4	3.2	2.5	—	0.4	0.4	48.4	31.0	26.5	1,400	(32.6)	28.1
JSW Steel	513	SELL	95,862	2,027	187	13.1	24.1	53.5	(84.7)	83.3	121.8	39.0	21.3	9.6	8.8	8.8	6.8	0.9	0.8	0.7	0.2	1.0	1.0	11.0	4.3	8.3	340	(33.7)	30.9
Hindustan Zinc	563	BUY	238,076	5,035	423	64.6	62.9	80.9	(38.0)	(2.6)	28.7	8.7	9.0	7.0	4.9	4.4	2.6	1.6	1.4	1.1	0.7	0.9	0.9	20.1	16.5	17.9	610	8.3	3.5
Sesa Goa	162	BUY	127,336	2,693	787	24.8	20.8	24.6	30.8	(16.1)	18.6	6.5	7.8	6.6	3.9	4.2	2.9	2.8	2.2	1.7	2.2	2.2	2.2	52.8	31.3	28.8	150	(7.3)	21.7
Sterlite Industries	538	ADD	381,099	8,060	708	49.2	41.0	50.5	(23.6)	(16.7)	23.4	10.9	13.1	10.6	6.4	7.0	5.2	1.5	1.3	1.2	—	—	—	14.3	10.7	11.8	490	(8.9)	41.4
Tata Steel	369	BUY	303,109	6,410	822	123.9	55.5	87.0	63.6	(55.2)	56.7	3.0	6.6	4.2	3.7	4.9	3.8	0.7	0.6	0.6	3.5	3.5	3.5	36.8	15.7	21.3	280	(24.1)	93.6
Metals		**Attractive**	**1,824,457**	**38,584**					**5.4**	**(35.6)**	**41.7**	**7.4**	**11.4**	**8.1**	**5.3**	**6.5**	**5.0**	**1.2**	**1.1**	**1.0**	**1.0**	**1.0**	**1.1**	**16.1**	**9.6**	**12.1**			
Pharmaceutical																													
Biocon	191	BUY	38,180	807	200	4.7	13.6	19.4	(80.0)	192.2	42.8	41.0	14.0	9.8	16.9	7.9	5.7	2.5	2.2	1.9	0.0	0.1	0.1	6.2	16.9	20.9	235	23.1	1.6
Cipla	224	ADD	173,919	3,678	777	9.9	13.9	15.5	9.5	40.6	11.9	22.7	16.1	14.4	16.3	11.7	10.3	4.0	3.4	2.9	1.1	1.3	1.6	19.1	23.0	21.8	260	16.2	8.3
Dishman Pharma & chemicals	144	BUY	11,720	248	81	18.0	21.2	27.3	22.1	17.9	28.7	8.0	6.8	5.3	7.3	5.8	4.5	1.7	1.4	1.1	0.0	0.0	0.0	22.8	21.9	22.9	280	94.3	0.4
Divi's Laboratories	1,144	BUY	73,845	1,562	65	64.9	75.1	89.1	21.8	15.8	18.7	17.6	15.2	12.8	13.8	11.2	8.9	6.0	4.4	3.4	0.1	0.1	0.1	40.2	33.4	29.7	1,450	26.7	4.4
Dr Reddy's Laboratories	651	BUY	110,083	2,328	169	32.4	45.5	47.0	24.5	40.2	3.3	20.1	14.3	13.8	9.6	7.9	7.1	3.1	2.6	2.2	0.6	0.6	0.6	13.6	19.8	17.3	740	13.7	4.8
Glenmark Pharmaceuticals	252	BUY	67,035	1,418	266	15.8	18.2	22.5	(38.7)	14.7	23.6	15.9	13.9	11.2	10.4	8.8	7.4	3.0	2.5	2.1	0.0	0.0	0.0	21.9	19.8	20.2	390	54.7	6.7
Jubilant Organosys	185	BUY	31,595	668	171	16.5	18.6	21.8	(26.2)	12.6	17	11.2	9.9	8.5	12.5	7.8	5.8	2.5	2.0	1.7	0.7	0.7	0.9	18.6	22.6	21.7	250	35.5	0.5
Lupin	865	BUY	76,624	1,620	89	60.7	66.0	71.3	21.9	8.7	8.0	14.3	13.1	12.1	14.0	11.7	9.9	4.5	3.5	2.9	1.3	1.3	1.6	33.7	30.3	26.1	1,075	24.3	3.3
Piramal Healthcare	267	BUY	55,845	1,181	209	17.3	22.4	28.2	(2.7)	29.8	26.0	15.5	11.9	9.5	11.5	8.1	6.6	4.2	3.3	2.6	1.6	1.7	1.7	26.3	31.4	30.8	340	27.2	2.2
Ranbaxy Laboratories	267	REDUCE	114,028	2,411	427	(8.1)	(5.7)	5.1	(134.7)	NA	NA	(33.0)	NA	52.2	(156.8)	811.8	20.8	2.3	2.0	2.1	3.8	4.3	4.7	(8.8)	(4.7)	4.1	150	(43.8)	16.7
Sun Pharmaceuticals	1,317	BUY	272,679	5,767	207	86.8	85.7	94.0	16.3	(1.3)	9.7	15.2	15.4	14.0	11.8	11.1	9.5	4.0	3.2	2.7	0.8	1.0	1.0	31.1	24.3	21.9	1,800	36.7	18.3
Pharmaceuticals		**Attractive**	**1,025,554**	**21,689**					**(17.6)**	**24.7**	**22.4**	**20.7**	**16.6**	**13.6**	**14.0**	**10.9**	**8.7**	**3.5**	**2.9**	**2.4**	**1.1**	**1.3**	**1.4**	**16.7**	**17.2**	**18.0**			
Property																													
DLF	353	REDUCE	601,623	12,723	1,705	29.3	16.0	17.4	(36.6)	(45.2)	8.4	12.1	22.0	20.3	12.3	17.5	15.0	2.4	2.2	2.1	0.9	0.9	1.1	22.5	10.6	10.6	190	(46.2)	126.4
Housing Development & Infrastruc	294	NR	80,898	1,711	275	30.6	19.8	24.8	(40.1)	(35.3)	25.1	9.6	14.8	11.8	12.3	14.1	11.5	1.9	1.7	1.6	1.7	2.0	2.7	21.2	12.1	13.9	-	(100.0)	78.4
Indiabulls Real Estate	206	ADD	82,633	1,748	401	3.0	3.1	7.5	(81.8)	3.8	141.1	68.7	66.1	27.4	(207)	48.3	11.5	1.2	0.9	0.9	0.0	0.0	0.0	1.3	1.6	3.2	210	2.0	44.7
Mahindra Life Space Developer	270	BUY	11,359	240	42	10.2	10.8	15.4	(39.2)	5.3	42.5	26.4	25.1	17.6	40.8	23.6	12.0	1.3	1.2	1.2	1.4	1.4	1.4	4.8	4.9	6.7	410	51.8	0.6
Phoenix Mills	125	BUY	18,142	384	145	5.4	7.3	8.9	70.0	34.7	23.4	23.3	17.3	14.0	25.8	13.0	10.4	1.2	1.1	1.1	0.8	0.8	1.2	5.3	6.8	7.9	210	67.7	0.3
Puravankara Projects	94	REDUCE	20,019	423	213	6.8	7.0	7.4	(39.8)	2.8	6.9	13.9	13.5	12.6	20.4	16.7	13.5	1.5	1.4	1.3	—	2.1	2.1	11.5	10.8	10.7	55	(41.4)	0.3
Sobha	194	REDUCE	14,150	299	73	15.9	11.9	14.7	(50.0)	(24.8)	23.5	12.2	16.3	13.2	10.4	13.9	12.4	1.3	1.2	1.2	2.1	2.1	2.1	11.0	7.8	9.1	90	(53.6)	0.9
Unitech	77	SELL	157,724	3,336	2,044	6.4	3.9	3.4	(38.4)	(39.0)	(12.9)	12.1	19.9	22.8	13.0	14.8	15.2	3.4	2.2	2.0	—	—	—	25.1	13.4	9.4	32	(58.5)	88.7
Property		**Neutral**	**986,548**	**20,864**					**(38.6)**	**(37.6)**	**11.5**	**13.5**	**21.6**	**19.4**	**13.3**	**16.7**	**14.2**	**2.2**	**1.9**	**1.7**	**0.7**	**0.8**	**1.0**	**16.3**	**8.7**	**9.0**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

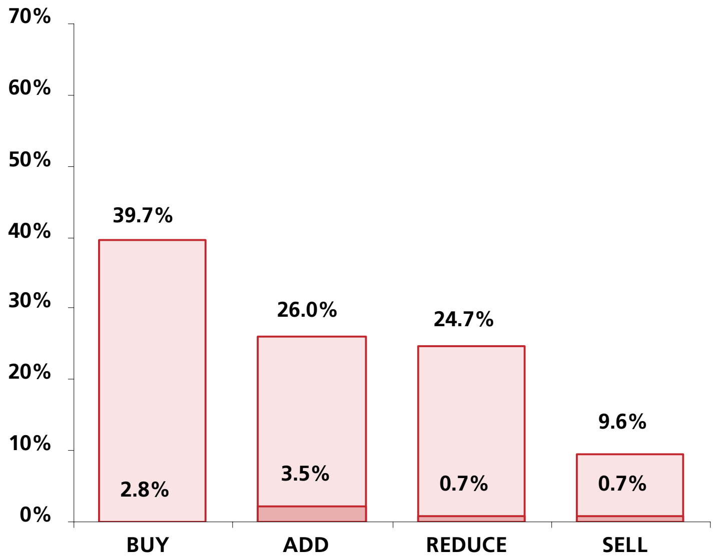
	25-May-09		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
Company	47.1	REDUCE	(Rs mn)	(US$ mn)	(mn)	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E	(Rs)	(%)	(US$ mn)
Retail																													
Titan Industries	1,053	REDUCE	46,731	988	44	45.9	50.1	56.9	30.8	9.2	13.7	23.0	21.0	18.5	14.8	12.8	11.0	8.1	6.2	5.0	0.9	1.0	1.1	38.9	33.6	29.9	850	(19.3)	3.8
Retail		**Neutral**	**46,731**	**988**					**30.8**	**9.2**	**13.7**	**23.0**	**21.0**	**18.5**	**14.8**	**12.8**	**11.0**	**8.1**	**6.2**	**5.0**	**0.9**	**1.0**	**1.1**	**35.3**	**29.7**	**26.8**			
Technology																													
HCL Technologies	164	REDUCE	113,911	2,409	695	16.2	12.5	16.7	5.8	(22.6)	33.4	10.1	13.1	9.8	5.7	5.5	5.3	1.8	1.7	1.6	7.3	7.3	7.3	18.3	13.0	16.8	110	(32.9)	5.3
Infosys Technologies	1,511	BUY	867,343	18,343	574	102.4	104.1	116.1	29.6	1.6	11.5	14.8	14.5	13.0	10.5	10.1	8.3	4.8	3.9	3.2	1.6	1.7	1.9	36.7	29.3	26.8	1,500	(0.7)	60.6
Mphasis BFL	322	REDUCE	67,113	1,419	208	14.2	38.8	30.3	15.7	173.5	(21.9)	22.7	8.3	10.6	17.2	5.9	5.7	4.7	3.1	2.5	1.2	1.4	1.6	22.8	45.3	26.4	240	(25.4)	3.1
Mindtree	380	BUY	15,654	331	41	13.2	44.0	50.7	(50.5)	232.5	15.1	28.7	8.6	7.5	5.0	5.0	4.2	2.8	2.1	1.7	0.5	—	1.3	5.5	20.4	18.4	400	5.2	4.4
Patni Computer Systems	216	REDUCE	27,812	588	129	26.8	23.5	26.1	(19.3)	(12.4)	11.1	8.1	9.2	8.3	2.8	2.2	2.0	1.1	0.9	0.8	0.8	2.2	2.4	16.2	10.0	10.3	150	(30.7)	1.9
Polaris Software Lab	94	SELL	9,243	195	99	13.1	13.3	12.1	76.0	1.7	(8.9)	7.1	7.0	7.7	2.5	3.0	3.0	1.2	1.0	0.9	2.9	2.1	2.1	18.1	15.9	12.9	50	(46.6)	2.9
TCS	631	REDUCE	617,845	13,066	979	52.9	51.3	55.9	3.1	(2.9)	8.8	11.9	12.3	11.3	8.3	8.3	7.2	3.9	3.3	2.8	2.2	2.4	3.5	36.9	29.1	26.8	510	(19.2)	28.0
Tech Mahindra	482	ADD	62,275	1,317	129	70.4	38.0	37.2	19.3	(46.0)	(2.1)	6.8	12.7	13.0	4.6	8.2	7.7	2.8	2.3	2.0	0.8	1.2	1.5	52.8	20.3	17.0	360	(25.3)	18.0
Wipro	367	ADD	536,481	11,346	1,462	25.7	27.0	29.4	15.8	4.7	9.1	14.3	13.6	12.5	10.4	9.4	7.8	3.6	2.9	2.5	1.1	2.1	2.3	26.9	23.7	21.7	325	(11.4)	13.4
Technology		**Cautious**	**2,324,543**	**49,160**					**15.0**	**0.3**	**8.6**	**13.0**	**13.0**	**12.0**	**8.9**	**8.4**	**7.3**	**3.7**	**3.0**	**2.6**	**1.9**	**2.2**	**2.7**	**28.1**	**23.3**	**21.9**			
Telecom																													
Bharti Airtel	810	ADD	1,538,449	32,536	1,899	44.6	52.2	59.8	26.4	17.0	14.6	18.2	15.5	13.5	10.6	9.1	7.8	4.9	3.7	2.9	0.5	0.7	1.0	31.4	27.0	23.8	775	(4.4)	84.8
IDEA	73	REDUCE	226,581	4,792	3,104	2.9	2.9	3.2	(26.5)	(0.1)	10.9	25.2	25.2	22.7	9.4	8.5	7.1	1.6	1.6	1.4	—	—	—	10.4	6.4	6.8	55	(24.7)	10.1
MTNL	99	SELL	62,559	1,323	630	4.0	4.1	4.6	(44.3)	2.6	11.8	25.0	24.3	21.8	13.5	10.0	6.8	0.5	0.5	0.5	6.0	6.0	6.0	1.6	1.6	1.9	50	(49.6)	2.2
Reliance Communications	322	SELL	665,130	14,066	2,064	27.7	20.3	21.1	4.7	(26.6)	3.9	11.6	15.8	15.3	9.8	9.2	7.2	1.9	1.7	1.5	0.2	—	—	18.6	11.7	10.9	180	(44.1)	61.6
Tata Communications	585	REDUCE	166,768	3,527	285	13.6	14.0	15.2	24.0	3.2	8.2	43.1	41.8	38.6	18.2	16.6	15.4	2.4	2.3	2.3	0.9	1.1	1.3	5.4	5.2	5.5	400	(31.6)	3.5
Telecom		**Cautious**	**2,659,488**	**56,244**					**11.5**	**(0.5)**	**11.3**	**16.5**	**16.6**	**14.9**	**10.5**	**9.3**	**7.7**	**2.7**	**2.3**	**2.0**	**0.5**	**0.6**	**0.8**	**16.3**	**14.0**	**13.6**			
Transportation																													
Container Corporation	908	ADD	118,028	2,496	130	64.4	71.4	83.3	11.6	10.8	16.6	14.1	12.7	10.9	10.0	8.4	7.0	3.1	2.6	2.2	1.6	1.8	2.1	24.0	22.5	22.2	850	(6.4)	0.8
Transportation		**Cautious**	**118,028**	**2,496**					**11.6**	**10.8**	**16.6**	**14.1**	**12.7**	**10.9**	**10.0**	**8.4**	**7.0**	**3.1**	**2.6**	**2.2**	**1.6**	**1.8**	**2.1**	**22.1**	**20.8**	**20.5**			
Utilities																													
CESC	355	BUY	44,359	938	125	31.2	38.0	42.1	12.3	21.8	10.8	11.4	9.3	8.4	6.1	6.8	7.1	1.2	1.1	0.9	1.3	1.5	1.7	11.4	12.2	11.9	385	8.4	1.2
Lanco Infratech	352	BUY	78,205	1,654	222	14.6	17.1	24.9	(1.3)	16.6	45.7	24.0	20.6	14.1	26.2	19.4	10.7	3.6	3.0	2.4	—	—	—	16.2	15.8	19.0	270	(23.3)	13.5
NTPC	212	SELL	1,751,337	37,038	8,245	9.4	10.8	12.2	1.1	14.7	12.6	22.5	19.6	17.4	17.1	14.5	13.7	3.0	2.7	2.5	1.6	1.9	2.2	13.7	14.5	15.0	180	(15.3)	32.0
Reliance Infrastructure	1,134	BUY	256,806	5,431	226	64.1	58.8	62.9	70.5	(8.2)	6.9	17.7	19.3	18.0	19.0	19.4	15.1	1.5	1.4	1.3	0.6	0.7	0.8	6.3	7.0	9.0	970	(14.5)	113.4
Reliance Power	169	REDUCE	405,171	8,569	2,397	1.0	2.5	3.1	—	140.3	25.3	165.7	69.0	55.0	—	—	—	2.9	2.8	2.7	—	—	—	1.8	4.2	5.0	120	(29.0)	21.1
Tata Power	1,076	BUY	239,447	5,064	223	65.2	90.2	101.5	104.6	38.4	12.5	16.5	11.9	10.6	10.9	10.2	9.5	2.3	1.9	1.7	1.0	1.1	1.3	15.0	17.5	17.0	1,000	(7.0)	12.8
Utilities		**Attractive**	**2,775,324**	**58,694**					**16.0**	**17.7**	**13.4**	**23.9**	**20.3**	**17.9**	**17.6**	**16.4**	**14.9**	**2.6**	**2.4**	**2.2**	**1.2**	**1.4**	**1.5**	**11.0**	**11.9**	**12.3**			
Others																													
Aban Offshore	902	SELL	34,183	723	38	87.8	148.2	277.7	21	68.8	87.4	10.3	6.1	3.2	9.0	7.1	5.6	2.5	1.8	1.2	0.4	0.6	0.6	33.7	36.9	41.2	300	(66.8)	49.1
Havells India	281	REDUCE	16,997	359	61	(1.0)	10.3	14.7	(104)	NA	43.0	NA	27.3	19.1	10.8	9.3	8.4	2.4	2.3	2.1	1.2	1.5	1.8	(0.9)	8.5	11.4	120	(57.3)	2.4
Jaiprakash Associates	186	ADD	260,763	5,515	1,403	6.6	7.9	11.8	34	20.0	49.6	28.3	23.6	15.8	16.4	13.4	12.2	4.3	3.8	3.1	0.0	0.0	0.0	16.8	17.1	21.8	140	(24.7)	73.3
Jindal Saw	377	BUY	20,706	438	55	64.3	47.8	41.7	(1)	(25.6)	(12.8)	5.9	7.9	9.1	3.9	4.0	3.8	0.6	0.6	0.6	1.3	1.1	1.1	10.8	7.4	6.2	300	(20.5)	2.8
PSL	134	BUY	5,829	123	44	24.3	43.7	37.8	15	79.6	(13.4)	5.5	3.1	3.5	5.5	4.7	4.1	0.7	0.6	0.6	6.0	6.0	6.0	10.6	14.2	12.4	145	8.4	0.4
Sintex	219	BUY	29,838	631	136	23.8	24.8	27.3	22	4.1	10.2	9.2	8.8	8.0	6.6	6.0	5.0	1.5	1.3	1.1	0.5	0.5	0.5	16.6	14.8	14.1	175	(19.9)	4.0
Tata Chemicals	226	ADD	53,231	1,126	235	25.5	23.4	27.5	(36)	(8.3)	17.6	8.9	9.7	8.2	5.5	4.7	4.1	1.1	1.0	0.9	3.5	3.5	3.5	17.2	13.3	14.0	190	(16.1)	2.9
Welspun Gujarat Stahl Rohren	167	REDUCE	31,450	665	189	20.8	21.6	16.6	1	4.1	(23.5)	8.0	7.7	10.1	5.8	5.1	5.5	1.5	1.2	1.1	1.1	0.8	0.9	19.9	17.8	11.7	100	(40.0)	13.7
United Phosphorus	171	BUY	78,794	1,666	462	10.7	13.5	18.0	28	25.7	33.9	15.9	12.7	9.5	10.5	7.7	5.9	2.6	2.2	1.8	0.7	0.9	1.2	18.1	18.2	20.5	140	(17.9)	2.7
Others			**531,790**	**11,246**					**14.9**	**10.9**	**30.2**	**14.3**	**12.9**	**9.9**	**9.3**	**8.0**	**7.4**	**2.2**	**1.9**	**1.7**	**0.7**	**0.7**	**0.8**	**15.6**	**15.1**	**16.8**			
KS universe (b)			**31,304,740**	**662,044**					**3.4**	**3.4**	**21.8**	**15**	**14.8**	**12.2**	**9.9**	**8.8**	**7.5**	**2.4**	**2.1**	**1.9**	**1.3**	**1.6**	**2.0**	**15.5**	**14.4**	**15.7**			
KS universe (b) ex-Energy			**23,626,023**	**499,652**					**6.8**	**(2.5)**	**16.7**	**14.8**	**15.2**	**13.0**	**10.6**	**10.2**	**8.8**	**2.5**	**2.2**	**2.0**	**1.3**	**1.5**	**1.7**	**17.0**	**14.8**	**15.3**			
KS universe (d) ex-Energy & ex-Commodities			**21,171,529**	**447,743**					**7.8**	**4.2**	**15.0**	**16.5**	**15.8**	**13.8**	**12.9**	**11.4**	**9.9**	**2.8**	**2.5**	**2.2**	**1.3**	**1.5**	**1.7**	**17.0**	**15.7**	**16.0**			

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

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



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

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

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

Source: Kotak Institutional Equities

As of March 31, 2009

Ratings and other definitions/identifiers

Rating system

Definitions of ratings

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

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

Other definitions

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

Other ratings/identifiers

NR = Not Rated. The investment rating and target price, if any, have been suspended temporarily. Such suspension is in compliance with applicable regulation(s) and/or Kotak Securities policies in circumstances when Kotak Securities or its affiliates is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.
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