kotak® Institutional Equities

INDIA DAILY

July 2, 2010

EQUITY MARKETS

India	1-Jul	Change % 1-day	1-mo	3-mo
Sensex	17,509	(1.1)	4.6	(1.0)
Nifty	5,251	(1.2)	4.6	(0.7)
Global/Regional indices				
Dow Jones	9,733	(0.4)	(5.0)	(10.9)
Nasdaq Composite	2,101	(0.4)	(7.9)	(12.5)
FTSE	4,806	(2.3)	(6.7)	(16.3)
Nikkie	9,216	0.3	(4.0)	(18.3)
Hang Seng	20,060	(0.3)	2.9	(6.9)
KOSPI	1,686	(0.0)	3.4	(2.2)
Value traded – India				
Cash (NSE+BSE)	162		169	175
Derivatives (NSE)	760		820	529
Deri. open interest	1,241		1,088	1,008

Contents

New releases

Changes in Recommendation

Updates

News Round-up

- The government has approved USD 5.25 per million British thermal unit (mBtu) as the price of gas produced from ONGC's C-Series fields in Mumbai offshore. ONGC (ONGC IN) had initially sought USD 5.5 per mBtu, but the oil ministry last month approved a price of USD 5.25 per mBtu. *(BSTD)*
- Reliance Industries (RIL IN) filed the revised gas supply master agreement (GSMA) that it entered with Anil Ambani Group firm RNRL last week, in the Bombay High Court. *(BSTD)*
- Tata Chemicals Ltd (TTCH IN) said it is planning to invest USD 869 mn to double urea production capacity at its Babrala facility in Uttar Pradesh. *(THBL)*
- Tata Motors (TTMT IN) said it raised the prices of its commercial vehicles, excluding Ace and Magic, by 1.5% with effect from this month. *(BSTD)*
- Reliance Capital (RCFT IN) exited from Pune real estate company Kumar Urban Development, co had a 2.5% stake in the co for over three years, which as valued at USD 21.7 mn. *(FNLE)*
- Nestle (NEST IN) is mulling acquisitions in India with a view to expanding its product-line and plans to launch more products in the coming days. *(BSTD)*
- East India Hotels (EIH IN) said it completed acquisition of 49% stake in its joint venture partner EIH Holdings, Amex Investment, for USD 45 mn. *(BSTD)*
- BK Birla is planning to merge Mangalam Cement (MGC IN) and Mangalam Timber (MGTP IN). *(BSTD)*
- The US Exim Bank has agreed to extend a USD 600 mn loan guarantee to Reliance Power's (RPWR IN) ultra mega project at Sasan in Madhya Pradesh. *(BSTD)*
- The Blackstone Group secured 12.5% stake for USD 60 mn in Monnet Power Company Ltd. *(BSTD)*
- The country's export of goods surged to USD 16.1 bn in May, which is up 35.1% from USD 11.9 bn in the same month. However, the growth declined a tad from April when merchandise exports reached USD 17 bn, registering an increase of 36.2% year-on-year. *(BSTD)*

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

Forex/money market

	1-Jul	Change, basis points 1-day	1-mo	3-mo
Rs/US$	46.6	13	(58)	163
10yr govt bond, %	7.5	(2)	1	(29)

Net investment (US$mn)

	29-Jun		MTD	CYTD
FIIs	(38)		-	6,700
MFs	(61)		-	(282)

Top movers -3mo basis

Best performers	1-Jul	Change, % 1-day	1-mo	3-mo
HPCL IN Equity	469.9	0.1	28.6	48.7
IOCL IN Equity	400.0	(0.8)	13.0	34.0
IBULL IN Equity	140.2	(1.5)	(2.0)	32.5
BPCL IN Equity	660.3	(0.4)	14.7	29.0
BJFIN IN Equity	432.7	(1.0)	(6.4)	25.5
Worst performers				
EDSL IN Equity	528.7	(0.7)	(4.5)	(32.0)
ABAN IN Equity	849.3	0.8	22.2	(29.2)
TATA IN Equity	475.0	(2.2)	(1.9)	(27.2)
SESA IN Equity	351.6	(0.3)	(5.7)	(25.3)
SAIL IN Equity	189.3	(1.8)	(6.1)	(24.9)

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Bharat Forge (BHFC)

Automobiles

ADD

JULY 01, 2010

INITIATING COVERAGE

Coverage view: Cautious

Price (Rs): 288

Target price (Rs): 335

BSE-30: 17,509

Heavy metal rock stars. Bharat Forge's plan to capitalize its forging and metallurgy expertise into non-automotive applications could help the company ride the power generation wave, diversify its revenue base and boost margins. Shorter term, cost reduction actions taken in European subsidiaries could result in strong incremental margins when a CV recovery happens. Domestic operations meanwhile continue to benefit from a strong CV cycle. We initiate with an ADD rating and Rs335 target.

Company data and valuation summary

Bharat Forge

Stock data			
52-week range (Rs) (high,low)			308-122
Market Cap. (Rs bn)			69.3
Shareholding pattern (%)			
Promoters			44.0
FIIs			12.1
MFs			6.4
Price performance (%)	**1M**	**3M**	**12M**
Absolute	10.5	12.5	103.6
Rel. to BSE-30	4.6	13.7	70.3

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	0.7	11.4	18.7
EPS growth (%)	(92.0)	1,553.7	64.6
P/E (X)	419.3	25.4	15.4
Sales (Rs bn)	33.3	41.1	50.8
Net profits (Rs bn)	0.2	2.7	4.5
EBITDA (Rs bn)	3.9	7.7	10.7
EV/EBITDA (X)	21.2	10.0	6.9
ROE (%)	0.9	13.9	18.2
Div. Yield (%)	0.0	0.0	0.0

Management strategy: To put forging expertise into power foray

The management believes the company's forging design and metallurgy expertise offers it significant capabilities to expand into non-auto applications, with power being the key vertical. Bharat Forge is doing this through (1) enhanced capabilities to supply heavier forgings to non-automotive sectors and (2) JVs that would supply equipment for power plants. For the first part, the company has built an open-die forging, hammer and ring-rolling facility. For the second foray, the company is expected to invest significant capital in three JVs, targeting the thermal and nuclear power sectors. The JV with Alstom has already broken ground and the facility involving an investment of close to Rs15 bn is expected to finish by the end of this year.

Cost-cutting actions and some CV volume rebound in Europe and US would cut losses

We have already seen the benefits of headcount cuts at overseas subsidiaries, which saw a 33% reduction (Rs1.9 bn) in staff costs for FY2010. Given the reduced breakeven levels, we could see significant improvement in earnings as volumes rebound. Overseas operations posted a net loss of Rs1.9 bn in FY2010 and we expect a turnaround in FY2011E with the businesses breaking even on an improvement in volumes.

We expect consolidated EPS increasing to Rs11 in FY2011E from Re1 for FY2010

We expect consolidated FY2011E EPS to jump, driven by a 23% increase in revenue and a 700bps margin expansion. Lower absolute labor costs in overseas operations, volume growth and higher mix of value-added non-auto revenues should drive the margin expansion.
We expect consolidated EBITDA of Rs7 bn in FY2011E compared to Rs3.4 bn in FY2010.
We expect strong free cash generation as capex is expected to stay at maintenance levels.

Valuation upside would come from rebound in Europe and visibility of non-auto prospects

We arrive at an Rs335 target for Bharat Forge. We assign an Rs315 valuation to the component businesses and Rs20 for the company's JV with Alstom. Our Rs315 valuation for the auto business reflects 8.5X 2012E standalone EBITDA and 4.5X 2012E overseas EBITDA. Our Rs20 valuation for the Alstom JV is DCF-based and translates to 1.3 P/B.

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INITIATING COVERAGE WITH AN ADD RATING

In our view, the three key drivers to shareholder value creation at Bharat Forge would comprise—(1) turnaround at the company's European subsidiaries, (2) increased utilization of fully owned non-auto facilities and (3) earnings accretion and valuation of JVs in the power sector. Management has taken steps on the first, the benefits of which we would see in FY2011E. The non-auto facilities are on track to generate revenues that would increase non-auto revenue share to 40% by FY2012E from 20% in FY2010. The JVs would require patience, but we are positive on their prospects.

Portfolio manager's summary

We are initiating coverage on Bharat Forge with an ADD rating and Rs335 target price. Our ADD rating reflects earnings improvement potential, non-automotive business opportunities and execution capabilities of management. Our Rs335 target is based on a Rs315 valuation for the component businesses and a Rs20 DCF-based valuation for the non-auto JV with Alstom. We recognize four key drivers to earnings improvement and shareholder value creation—turnaround in European subsidiaries through a combination of cost rationalization and CV volume uptick in the region; increasing utilization of the fully-owned non-auto facilities and over a longer term, earnings accretion from JVs with Alstom, NTPC and Areva and lastly strong free cash flow generation.

Cash generation, JV execution key to shareholder value creation
SOTP-based valuation, FY2011E basis (Rs mn)

	2007	2008	2009	2010E	2011E	2012E
Profit model (Rs mn)						
Net sales	41,783	46,523	47,751	33,276	41,114	50,829
EBITDA	**6,464**	**7,045**	**5,577**	**3,385**	**7,148**	**10,055**
Other income	969	993	675	511	547	597
Interest	(1,067)	(1,269)	(1,291)	(1,303)	(1,059)	(1,059)
Depreciaiton	(1,881)	(2,271)	(2,517)	(2,451)	(2,653)	(2,923)
Profit before tax	**4,363**	**4,498**	**1,107**	**(645)**	**3,983**	**6,670**
Current tax	(1,386)	(1,437)	(207)	(345)	(1,195)	(2,001)
Deferred tax	(142)	(152)	(489)	226	(119)	(200)
Adjusted net profit	**3,027**	**3,013**	**1,919**	**153**	**2,735**	**4,502**
Adjusted earnings per share (Rs)	**13.6**	**13.4**	**8.6**	**0.7**	**11.4**	**18.7**
Balance sheet (Rs mn)						
Equity	16,005	17,717	18,278	16,508	22,916	26,517
Total Borrowings	17,896	16,544	21,908	20,408	17,648	17,648
Current liabilities	15,310	17,120	13,035	10,995	13,324	16,259
Total liabilities	**49,210**	**51,381**	**53,221**	**47,911**	**53,888**	**60,425**
Net fixed assets	19,449	23,609	27,902	25,750	23,597	21,174
Investments	2,073	2,988	2	1,002	3,002	5,002
Cash	9,389	3,183	4,883	7,039	10,378	13,563
Other current assets	18,297	21,598	20,433	14,119	16,910	20,686
Miscellaneous expenditure	2	—	—	—	—	—
Total assets	**49,210**	**51,379**	**53,220**	**47,911**	**53,887**	**60,425**
Free cash flow (Rs mn)						
Operating cash flow	5,557	6,199	4,755	2,253	5,953	8,054
Working capital changes	(1,786)	(1,916)	(1,915)	4,401	(395)	(807)
Capital expenditure and strategic investments	(6,013)	(7,599)	(5,355)	(1,300)	(2,500)	(2,500)
Free cash flow	**(2,242)**	**(3,317)**	**(2,515)**	**5,353**	**3,058**	**4,747**
Ratios						
Operating margin (%)	15.5	15.1	11.7	10.2	17.4	19.8
PAT margin (%)	7.2	6.5	4.0	0.5	6.7	8.9
Debt/equity (X)	1.1	0.9	1.2	1.2	0.8	0.7
Net debt/equity (X)	0.4	0.6	0.9	0.7	0.2	(0.0)
Book Value (Rs/share)	71.9	79.0	82.1	74.1	95.3	110.3
RoAE (%)	20.4	17.9	10.7	0.9	13.9	18.2
RoACE (%)	**10.1**	**9.1**	**3.1**	**2.9**	**7.8**	**11.3**

Source: Company, Kotak Institutional Equities estimates

Key investment points

(1) Turnaround at overseas subsidiaries on economic rebound, cost rationalization

Bharat Forge has brought down its breakeven levels to 50% capacity utilization from 60-65% prior through the workforce reduction, plant closures and other fixed cost reduction measures. The incremental margin on any volume revival would be significant under the reduced cost structure and will likely result in a strong earnings improvement as and when volumes start increasing from current levels.

The company reduced its European workforce by over 30% and as a result saw a 33% yoy decline in staff costs in FY2010. We have modeled some continued benefits resulting in a further 4% decline in European staff costs in FY2011E. This reduction brings the staff costs as a percentage of sales to 22% from the 26% reported in FY2010. Staff costs have in the past been closer to 22% of sales.

To give a quick background, M&HCV volumes in Europe, to which the company is most exposed, were down 44% yoy in CY2009. This sudden reduction in volumes resulted in capacity utilizations declining to below 40% levels. The company reacted to the volume decline by taking aggressive measures to reduce its breakeven levels through rationalization of its employee base and general cost reductions. The company offered a severance package totaling Rs750 mn to employees in order to reduce labor costs and align manned capacity to demand. Staff costs at its overseas subsidiaries declined by Rs1.9 bn in FY2010.

(2) Strength in domestic operations should sustain on strong CV demand

Bharat Forge is a market leader in the domestic market with close to 90% share in the CV space for products such as axle beams, crankshafts, knuckles and connecting rods. The company primarily supplies to the M&HCV segment (medium and heavy CVs). Unlike the European and US markets, domestic CV volumes have rebounded smartly on the back of strong industrial production and easier financing trends. For FY2010, M&HCV volumes were up 35% yoy. We expect volumes to stay strong for FY2011E and grow at a 15% rate, driven by continued strong demand fundamentals. Our economist expects IIP growth to sustain at the 9% range for FY2011E and we are also seeing strength in freight rates. The cutoff date for changeover to BS3 emission norms have been moved to October 1, which should sustain pre-buying into September.

(3) Diversification into non-automotive revenue streams

Bharat Forge intends to double revenues and revenue share coming from non-automotive applications to 40% by FY2012E from 20% in FY2010. To this end, the company has constructed an open die press in Mundhwa and a Hammer and Ring Rolling facility in Baramati. The open die facility has the capability to produce 10 ton to 40 ton forgings while the close die facility in Baramati can produce forgings up to 3 tons in weight. To put things in perspective, the current auto forgings produced by Bharat Forge stretch up to 250 kg in weight. A 60% capacity utilization of these facilities from the current 10% levels should double the non-auto share of revenues to 40% from 21% currently.

Beyond FY2012E, further growth in non-auto revenues is envisaged from the three JVs that the company has entered or proposes to enter into with Alstom, Areva and NTPC. The company will start construction of a plant in Mundra, Gujarat to manufacture advanced critical power plant equipment with an annual capacity of 5,000 MW. The investment in the plant is expected to total Rs15 bn. The plant is expected to be completed by the end of 2011 and revenue generation would commence in FY2013E. The JV with NTPC is progressing with land having been acquired and the JV is in the process of hiring a CEO. The NTPC JV would be less capital intensive and have a shorter gestation period. Revenue generation could start as early as FY2012E. The JV with Areva is expected to take longer.

(4) Strong cash generation going forward as capacity is in place

Bharat Forge's capital expenditure requirements are very low as the company is comfortable on the capacity front. Currently, the company is operating at close to 50% capacity utilization in the auto business and 10% capacity utilization in the non-auto facilities. Capital expenditure would be primarily of the maintenance type and is expected to total close to Rs500 mn for the next couple of years. This should drive very strong free cash flow generation as earnings rebound. We expect free cash flows to have been close to at Rs3.5 bn in FY2010E and Rs1.9 bn in FY2011E, net of investments into non-auto JVs. We have modeled Rs4 bn in investments into non-auto JVs through FY2012E.

(5) Key risks include a slower ramp-up in non-auto order flow and shallow rebound in European CV volumes

We have modeled non-auto revenues increasing to 34% share of total revenues in FY2012E compared to 20% in FY2010. This compares to the company's stated goal of 40% by FY2012E. The company's non-auto facilities are operating at close to 10% utilization currently and the 40% revenue share goal assumes a significant ramp-up. A slower-than-expected order intake could prove to be a risk to our thesis.

On the auto front, we have modeled largely flat volumes in FY2011E for the European CV industry followed by a 15% growth in FY2012E from a very low base. We remain conservative with our FY2012E revenue estimate from European subsidiaries still 30% below FY2009 levels. However, a shallower rebound in CV volumes in Europe could undermine the cost reduction actions taken by Bharat Forge's European subsidiaries and result in continued losses.

Cash generation, JV execution key to shareholder value creation
SOTP-based valuation, FY2011E basis (Rs mn)

		EV/EBITDA		Valuation	
		(X)	EV	(Rs/share)	Comments
FY2012E standalone EBITDA	8,691	8.5	73,872	307	FY2012E estimate
FY2012E overseas EBITDA	1,364	4.5	6,140	26	FY2012E estimate
Less: net debt			4,085	17	FY2012E end
Component business valuation			**75,927**	**316**	
Alstom JV				22	20% discount to DCF-based valuation, implied P/B of 1.3X
Total valuation				**337**	
Target price				**335**	

Source: Company, Kotak Institutional Equities estimates

European region and CV end-market key areas for Bharat Forge
Consolidated revenue exposure by geography and end-market, FY2010 (%)

	Europe	NA	India	Asia-Pac	Total
CVs	22	6	18	10	**56**
Passenger cars	14	4	4	—	**22**
Pickups	—	3	—	—	**3**
Non-auto	5	3	10	2	**20**
Total	**41**	**15**	**32**	**12**	**100**

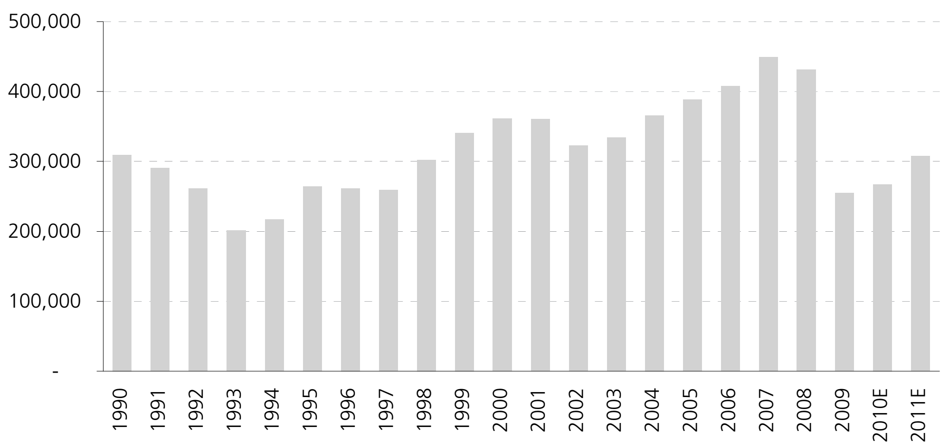
Source: Company, Kotak Institutional Equities estimates

Strength of European rebound is the thing to watch
Consolidated revenue model for Bharat Forge, March fiscal year-ends, 2008-2012E (Rs mn)

						Industry volume delta (%)			New business (%)	
	2008	**2009**	**2010**	**2011E**	**2012E**	**2010E**	**2011E**	**2012E**	**2011E**	**2012E**
Consolidated revenues	**48,249**	**48,319**	**33,724**	**41,907**	**52,135**	**(30)**	**24**	**24**		
Europe	**25,572**	**25,126**	**13,827**	**16,071**	**18,482**					
CVs	15,204	15,800	7,110	8,585	9,873	(55)	5	15	15	
Pass cars	7,258	7,366	5,893	6,497	7,472	(20)	5	15	5	
Non-auto	3,008	1,959	824	988	1,137	(58)	20	15		
North America	**6,272**	**7,731**	**5,059**	**6,549**	**7,364**					
CVs	2,391	2,474	1,361	1,701	1,871	(45)	25	10		
Pass cars	1,663	1,817	1,363	1,635	1,799	(25)	20	10		
Pickups	1,143	1,052	789	986	1,134	(25)	25	15		
Non-auto	1,075	2,388	1,546	2,226	2,560	(35)	20	15	20	
India	**13,027**	**11,129**	**11,903**	**16,128**	**22,655**					
CVs	7,397	5,119	6,666	7,666	8,432	30	15	10		
Pass cars	1,694	1,447	1,583	1,820	2,002	9	15	10		
Non-auto	4,038	4,563	3,690	6,642	12,221	(19)	20	15	50	60
Asia-Pac	**3,377**	**4,333**	**2,936**	**3,160**	**3,634**					
CVs	2,815	3,096	2,063	2,372	2,728	(33)	15	15		
Pass cars	—	—	—	—	—	—	15	15		
Non-auto	563	1,237	685	788	906	(50)	15	15		
Total by market										
CVs	28,949	27,542	17,199	20,324	22,904	(38)	18	13		
Pass cars	10,615	10,630	9,780	10,939	12,407	(8)	12	13		
Non-auto	8,685	10,147	6,745	10,645	16,824	(34)	58	58		
Mix by market										
CVs	60%	57%	51%	48%	44%					
Pass cars	22%	22%	29%	26%	24%					
Non-auto	18%	21%	20%	25%	32%					

Source: Company, Kotak Institutional Equities estimates

European M&HCV truck volume levels are 24% below trailing 5-year average
Western Europe CV (>3.5 ton) volumes, CY1990-2011E (units)



Source: ACEA, Kotak Institutional Equities estimates

Cost reduction, plant closures should drive EBITDA improvement

Bharat Forge, subsidiary profit and loss model, March fiscal year-ends, 2007-13E (Rs mn)

	2007	2008	2009	2010	2011E	2012E	2013E
Net sales	**23,139**	**24,558**	**27,165**	**14,606**	**16,720**	**18,971**	**19,377**
Change (%)	—	6	11	(46)	14	13	2
Total expenses	**(21,351)**	**(22,735)**	**(26,049)**	**(15,697)**	**(15,926)**	**(17,607)**	**(18,024)**
Increase/(decrease) in stock	430	337	498	—	—	—	—
Raw materials	(11,927)	(12,463)	(14,761)	(7,088)	(8,469)	(9,788)	(9,984)
Staff cost	(5,088)	(5,332)	(5,700)	(3,803)	(3,659)	(4,013)	(4,236)
Mnfg. & other expenditure	(4,774)	(5,407)	(6,086)	(3,792)	(3,798)	(3,806)	(3,804)
Expenses capitalised	8	130	—	—	—	—	—
EBITDA	**1,788**	**1,823**	**1,116**	**(985)**	**793**	**1,364**	**1,353**
Change (%)	—	*2.0*	*(38.8)*	—	—	*72.0*	*(0.9)*
As % of sales	**7.7**	**7.4**	**4.1**	**(6.7)**	**4.7**	**7.2**	**7.0**
Raw material to sales (%)	49.7	49.4	52.5	55.5	50.7	51.6	51.5
Employee costs to sales (%)	22.0	21.7	21.0	26.0	21.9	21.2	21.9
Other expenditure to sales (%)	20.6	22.0	22.4	26.0	22.7	20.1	19.6

Source: Company, Kotak Institutional Equities estimates

Strong volume growth and Increasing mix of higher margin non-auto revenues should drive standalone profitability

Bharat Forge, standalone profit and loss model, March fiscal year-ends, 2007-13E (Rs mn)

	2007	2008	2009	2010	2011E	2012E	2013E
Domestic sales	**12,692**	**13,322**	**11,129**	**11,903**	**16,128**	**22,655**	**25,711**
Change (%)	21.7	5.0	(16.5)	7.0	35.5	40.5	13.5
Exports	**7,513**	**9,610**	**10,025**	**7,109**	**9,242**	**10,628**	**11,691**
Change (%)	14.6	27.9	4.3	(29.1)	30.0	15.0	10.0
Gross sales	**19,661**	**22,932**	**21,154**	**19,012**	**25,369**	**33,283**	**37,401**
Excise	1,560	1,726	1,202	872	1,532	2,152	2,443
Excise (%)	12.3	13.0	10.8	7.3	9.5	9.5	9.5
Other operating income	543	759	634	424	557	727	817
Net sales	**18,644**	**21,965**	**20,586**	**18,564**	**24,394**	**31,858**	**35,776**
Change (%)	18.2	17.8	(6.3)	(9.8)	31.4	30.6	12.3
Total expenses	**(13,968)**	**(16,743)**	**(16,125)**	**(14,194)**	**(18,040)**	**(23,168)**	**(25,845)**
Increase/(decrease) in stock	225	206	331	272	—	—	—
Raw materials	(8,634)	(10,120)	(10,136)	(8,496)	(10,606)	(13,705)	(15,170)
Staff cost	(1,077)	(1,449)	(1,392)	(1,436)	(1,579)	(1,816)	(2,089)
Other expenditure	(4,482)	(5,383)	(4,929)	(4,534)	(5,855)	(7,646)	(8,586)
Expenses capitalised	—	1	—	—	—	—	—
Operating profit	**4,676**	**5,222**	**4,461**	**4,370**	**6,355**	**8,691**	**9,931**
Change (%)	20.0	11.7	(14.6)	(2.0)	45.4	36.8	14.3
As % of sales	25.1	23.8	21.7	23.5	26.0	27.3	27.8

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Technology

India

ATTRACTIVE

JULY 01, 2010

UPDATE

BSE-30: 17,509

1QFY11E preview. We expect the June 2010 quarter results to provide what the March 2010 earnings reports failed to provide – a more decisive verdict on the strength of the demand environment, especially for the Tier-I companies. We expect a strong quarter of revenue growth and margin performance (Re depreciation in May and June aiding the same), with Tier-I companies again outperforming the mid-sized pack. Remain positive on the sector with a preference for large caps.

We expect validation of our bullish stance on demand environment

Economic woes in certain Eurozone nations notwithstanding, we continue to see FY2011E marking the return of secular growth trend for IT offshoring, after a sedate FY2009 and a poor FY2010. Key drivers of the demand surge, in our view, are (1) increased adoption of offshoring in under-penetrated verticals and geographies, (2) modest growth in IT budgets across the client base with a sharp increase in spend/budget ratio, and (3) increased focus on costs, M&A integration opportunities, and increased spending on regulatory compliance in key sectors – all by-products of the recent economic downturn. Even as cross-currency movements impact reported US$ revenue growth, we believe strong constant-currency growth and positive demand commentary from the Tier-I pack will provide the bulls enough reasons to cheer.

1QFY11E expectations – robust revenue growth, sequential margin pressure, increase in ETR

We expect a strong 5.2-6.7% constant currency revenue growth for the Tier-I companies (4.1-5.7% in US$) for the June 2010 quarter, with Infosys leading the pack with 5.7% US$ and 6.7% constant currency qoq growth. EBITDA margins will likely be down sequentially on account of wage hikes and supply pressure in the laterals market. We also expect net income growth for all Tier-I companies (except Wipro) to lag revenue growth on account of margin decline, higher forex losses (or lower forex gains) and increase in tax rates.

Key metrics to watch out for – commentary on discretionary spends, supply side

In addition to the always-in-focus Infosys guidance (we expect Infosys to raise FY2011E US$ revenue growth guidance to 18-20% from 16-18%, and Re EPS growth guidance to 5-9% from (2)-2%), we will keenly monitor – (1) trends in and commentary on discretionary spends; timing of positive discretionary spend indicators (from Accenture/Oracle outlook, among others) translating into revenue opportunities for the Indian offshore players will likely prove the difference between a good and an outstanding year for Indian IT, and (2) supply-side metrics (hiring numbers, attrition rates, utilization rates) and commentary on the same from various managements.

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Results preview for the quarter ending Jun 2010 (Rs mn)

Key financials	Jun-09	Mar-10	Jun-10	%qoq	%yoy	Comments/What to look for
TCS: Results (July 15)						
Revenues (US$ mn)	1,480	1,686	1,762	4.5	19.0	• Expect 4.5% sequential growth in US$ revenues,5.7% constant currency and 120 bps cross-currency movement negative impact.
Revenues	72,070	77,365	80,571	4.1	11.8	• We build in a qoq EBITDA margin decline of 120 bps on account of (1) wage revisions, and (2) moderate decline in utilization as the company absorbs freshers.
Operating profit	19,619	23,121	23,126	0.0	17.9	• We build in forex loss of Rs500 mn versus a gain of Rs420 mn in the previous quarter.
Adjusted net profit	15,203	19,312	17,758	(8.0)	16.8	• Expect investor focus on (1) demand outlook in various verticals, (2) supply-side pressure and status of campus hiring for FY2011E intake, (3) levers to sustain margins, and (4) change in forex hedges outstanding.
Operating profit margin (%)	27.2	29.9	28.7			
Wipro: Results (July 22)						
Total revenues	62,462	69,829	71,090	1.8	13.8	• We expect 4.1% sequential growth in revenues to US$1,214 mn, within the company's guidance of US$1,190-1,215 mn. Expect better-than-expected volume growth to mitigate negative impact (115 bps) of adverse cross-currency movements.
Global IT revenues (US$ mn)	1,033	1,166	1,214	4.1	17.5	• Expect a modest 50 bps qoq decline in Global IT OPM on account of full quarter impact of wage hikes effected from Feb 1, 2010.
Global IT revenues	48,266	52,596	54,636	3.9	13.2	• Expect Wipro to guide for a 3-5% sequential revenue growth (constant currency) for the Sep 2010 quarter.
Operating profit	11,424	13,364	14,118	5.6	23.6	• Expect investor focus on (1) hiring (campus/ lateral) status, (2) demand outlook in key verticals, (3) discretionary spend trends, and (4) change in forex hedges outstanding.
Adj. net profit	10,104	12,091	12,536	3.7	24.1	
Total Operating profit margin (%)	18.3	19.1	19.9			
Global IT - OPM (%) (b)	22.2	24.2	23.7			
Infosys Technologies: Results (July 13)						
Revenues (US$ mn)	1,121	1,295	1,368	5.7	22.0	• We expect revenues of US$1,368 mn (+5.7% qoq) for the June 2010 quarter versus company's guidance of US$1,330 - 1,340 mn. Our estimates imply a constant currency revenue growth of 6.7%, primarily volume-led.
Revenues	54,720	59,440	62,568	5.3	14.3	• Expect a 150 bps sequential decline in EBITDA margins on account of wage revisions and some impact of negative cross-currency movements.
Operating profit	18,680	20,220	20,350	0.6	8.9	• Infosys has Rs350 mn of forex loss in the previous quarter; we build in Rs200 mn forex loss for the Jun 2010 quarter.
Adjusted net profit	15,270	15,690	15,330	(2.3)	0.4	• Expect Infosys to revise its FY2011E US$ revenue growth guidance to 18-20% from 16-18% currently. Also expect FY2011E EPS growth guidance to be raised to 5-9% from the current (2)-2%.
Operating profit margin (%)	34.1	34.0	32.5			• Expect investor focus on (1) overall demand environment and status of discretionary spending trends, (2) supply side pressure, and (3) forex hedges.
HCL Technologies: Results (August)						
Revenues (US$ mn)	607	685	708	3.3	16.6	• Expect 3.3% sequential growth in consolidated US$ revenues; we build in 4.8% constant currency revenue growth and cross-currency negative impact of150 bps.
Revenues	29,085	30,757	32,773	6.6	12.7	• Growth to be led by infrastructure services; expect a modest quarter for IT services and another flat one for BPO.
Operating profit	6,280	5,835	6,222	6.6	(0.9)	• We build in flat OPM for the quarter.
Adjusted net profit	3,147	3,200	3,201	0.0	1.7	• Previous quarter net income includes forex loss of US$14 mn. We build in forex losses of US$20 mn for the Jun 2010 quarter.
EBITDA margin (%)	21.6	19.0	19.0			

Source: Kotak Institutional Equities estimates

Results preview for the quarter ending Jun 2010 (Rs mn)

Key financials	Jun-09	Mar-10	Jun-10	%qoq	%yoy	Comments/What to look for
Patni Computer Systems: Results (July 4th week)						
Revenues (US$ mn)	161.9	172.3	173.3	0.6	7.0	• We build in revenues of US$173.3 mn for the Jun 2010 quarter, in line with the company's guidance range of US$170-174 mn. We estimate negative cross-currency impact of 120 bps on Patni's sequential US$ revenue growth.
Revenues	7,755	7,745	8,022	3.6	3.4	• Build in a 90 bps decline in ex-forex operating margin qoq on account of wage pressure in the laterals market.
Operating profit	1,162	1,627	1,460	(10.3)	25.6	• We factor in forex gains of US$1.5 mn for the quarter versus a gain of US$4.8 mn in the previous quarter.
Adjusted net profit	1,373	1,497	1,367	(8.7)	(0.4)	• We expect net income (ex-forex loss) of US$28 mn, at the lower end of company's guidance range of US$28-29 mn.
Operating profit margin (%)	15.0	21.0	18.2			• Expect investor focus on (1) status of large deals pipeline, and (2) cash utilization plans. Patni had US$439 mn of cash on books as of end-Mar 2010.
Polaris Software Lab: Results (July 15)						
Revenues (US$ mn)	66.6	76.4	78.9	3.3	18.5	• Expect a 3.3% qoq growth in US$ revenues, primarily volume-led.
Revenues	3,255	3,510	3,608	2.8	10.8	• Expect qoq margin decline of 50 bps, on account of partial wage hikes effected Jun 1, 2010.
Operating profit	552	581	580	(0.2)	5.0	• Client acquisition pace and account mining remain the key; the company needs to make its Intellect wins count by mining these accounts.
Adjusted net profit	318	457	475	3.9	49.2	• Expect investor focus on (1) impact of ongoing vendor consolidation in some of the company's major clients, (2) implementation status of some of the recently won Intellect deals and (3) pricing trends in the BFSI vertical.
Operating profit margin (%)	17.0	16.6	16.1			
Hexaware Technologies: Results (July 29)						
Revenues (US$ mn)	53.6	48.6	52.5	8.0	(2.0)	• Build in revenues of US$52.5 mn, within the company's guidance range of US$52-53 mn. US$ revenue growth of 8% qoq, despite ~150 bps negative impact of adverse cross currency movements.
Revenues	2,591	2,220	2,394	7.8	(7.6)	• Expect a modest 20 bps qoq decline in EBITDA margins. Revenue growth to mitigate the impact of offshore wage hikes effected from April 1, 2010.
Operating profit	558	182	192	5.6	(65.5)	• We build in forex losses of Rs90 mn at the other income level, versus Rs75 mn in the previous quarter.
Adjusted net profit	396	116	109	(5.7)	(72.4)	• Expect investor focus on (1) revenue outlook for 2HCY10, (2) status of top-10 clients' IT spends, (3) signs of pick-up in discretionary spends, and (4) supply-side pressure.
Operating profit margin (%)	21.5	8.2	8.0			
MindTree Consulting: Results (July 19)						
Revenues (US$ mn)	62.1	74.5	77.9	4.7	25.5	• We expect a robust 4.7% qoq growth in US$ revenues, primarily led by strong volume growth.
Revenues	3,048	3,444	3,572	3.7	17.2	• Expect a sharp 510 bps decline in operating margins on account of the investments in the handsets business. OPM would have expanded by ~50bps but for this investment.
Operating profit	507	632	476	(24.7)	(6.0)	• We model forex loss of Rs30 mn versus gain of Rs165 mn in the previous quarter.
Adjusted net profit	567	545	268	(51)	(53)	• Expect investor focus on (1) demand outlook for the core IT services business, (2) status of billing in some of the recently won marquee accounts (Amex, P&G among others), and (3) status check on products business investments.
Operating profit margin (%)	16.6	18.4	13.3			

Note:
(a) Result date yet to be announced for some companies; tentative date indicated based on past pattern for each company.

Source: Kotak Institutional Equities estimates

kotak Institutional Equities

Tata Power (BUY)

Utilities

ADD

JULY 01, 2010

CHANGE IN RECO.

Coverage view: Attractive

Price (Rs): 1,310

Target price (Rs): 1,420

BSE-30: 17,509

Sale of stake in Indonesian mines. Tata Power is to divest 15% ownership in the holding companies which own the stake in the coal mines in Indonesia for a consideration of US$300 mn, implying a value of US$2 bn for the coal mining SPVs. IN our view, the transaction while not value accretive for TPWR will likely be used to repay some of the debt in the coal mining SPVs. We revise our earnings to factor the dilution of ownership and revise our target price to Rs1,420/share with an ADD rating.

Company data and valuation summary

Tata Power

Stock data			
52-week range (Rs) (high,low)			1,519-995
Market Cap. (Rs bn)			323.3
Shareholding pattern (%)			
Promoters			31.2
FIIs			21.8
MFs			7.4
Price performance (%)	1M	3M	12M
Absolute	4.3	(3.3)	14.1
Rel. to BSE-30	(1.2)	(2.3)	(4.5)

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	60.2	69.2	88.5
EPS growth (%)	20.1	15.0	27.8
P/E (X)	21.8	18.9	14.8
Sales (Rs bn)	185.8	190.5	216.6
Net profits (Rs bn)	14.9	17.1	21.8
EBITDA (Rs bn)	37.3	45.0	54.9
EV/EBITDA (X)	13.7	12.4	10.7
ROE (%)	12.9	12.5	14.3
Div. Yield (%)	0.9	1.1	1.1

Sale of 15% ownership in coal mining SPVs

TPWR is to divest 15% ownership in the coal mining SPVs to Olympus Capital for a consideration of US$300 mn (Rs14 bn), implying a value of US$2 bn for the ownership in the SPVs which together own 30% economic interest in KPC and Arutmin coal mines (units of Bumi Resources). We ascribe a value of Rs204/share (US$1 bn) after netting off ~Rs254/share (US$1.3 bn) as the hedge for Mundra UMPP, implying a gross value of US$2.4 bn (Rs458/share) for the economic interest in the coal mines in Indonesia.

We note that at an EV of US$2.6 bn, the transaction implies an EV/ton of US$0.9/ton on TPWR's share (2,847 mn tons) of Bumi reserves (including resources) of 9,489 mn tons, which is lower than ~US$1.3/ton for other global coal companies (see Exhibit 2). We note that the transaction value if not comparable to the market price due to presence of various covenants that allow for capital protection and restrict access to dividend to the financial investor, and have been discussed in detail.

Coal hedge for Mundra UMPP not compromised

Divestment of 15% stake in Indonesian coal mines will not compromise the hedge requirement for Mundra UMPP which is planned to operate on Indonesian coal. We estimate an annual coal requirement of 12mn tpa for Mundra starting FY2014E whereas TPWR's economic interest in Bumi's FY2014E production would be 22.2 mn tpa implying a comfortable cushion for Mundra's coal requirements. We note that ~50% of Mundra's energy cost is indexed to prices of imported coal and does not require a hedge. The infusion of US$300 mn in the holding companies of the coal mines could be used to repay part of the US$675 mn debt or for likely acquisitions of further coal mines in Indonesia.

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Downgrade to ADD with a revised target price of Rs1,420/share

We downgrade TPWR to ADD with a revised target price of Rs1,420/share (previously Rs1,500/share) as we adjust for the current transaction by reducing TPWR's stake to 85%. Our SOTP valuation comprises four components—(1) value of operating power assets and projects nearing completion (Rs571/share), (2) valuation of investments and cash in books equivalent to Rs399/share, (3) projects under-implementation (Rs248/share) and (4) valuation of stake in coal mines in Indonesia valued at Rs203/share. We revise our FY2011E earnings estimates to Rs69.5/share (Rs76.4 previously) and FY2012E estimate to Rs88.8/share (Rs95.6 previously) to factor dilution of ownership in the coal mines in Indonesia.

Exhibit 1: Our SOTP-based valuation of Tata Power implies a target price of Rs1,420/share
SOTP-based value of Tata Power

	Methodology	Key assumptions/comments	FY2011E 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	107	256
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 in Orissa.	60	227
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	60
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		198
Bumi Resources	DCF	Net economic interest - based on dividend discount model	41	203
Mundra UMPP	DCF-equity	Levelized tariff of Rs2.26/unit for 25 years	138	187
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	40	61
TOTAL			**559**	**1,421**

Source: Company, Kotak Institutional Equities estimates

Covenants of the deal

We highlight below some key covenants of the deal:

- The instrument will be in form of differential rights shares with no dividend rights for first five years along with capital protection arrangement for that period.
- These shares are fully convertible into ordinary shares through the end of fifth year from the date of closure of the transaction.
- The instrument thus gives investor an option to convert into ordinary shares at any point of time during the five year period thus foregoing the capital protection and availing the dividends from the coal SPVs.
- The instrument would not entail any interest payment made to Olympus Capital during the five year period.
- Capital protection arrangement could be serviced either from TPWR or coal SPVs.

Analyzing the transaction – reading between the covenants

The transaction does not give the private equity investor rights to dividend for the first five years although the instrument provides for capital protection and has an embedded option to convert into ordinary equity shares at any time during five years from closure of transaction. We highlight below some key scenarios that can pan out:

- **Option exercised immediately (Scenario I)** – In this case, Olympus Capital will forfeit the capital protection of US$300 mn and will be entitled to dividend from the SPV. The total dividend payout for the five years will be ~US$119 mn (at present value).

- **Option not exercised (Scenario II)** – In this case, there will be no dividend flow to the investor for the first five years and it will have a capital protection. Olympus Capital will stand to forego a total dividend payout ~US$119 mn (at present value) if it opts for this scenario. We believe that this is an unlikely scenario and could only pan out if the coal prices crash sharply resulting in significant reduction in Bumi's valuations. We note that US$300 mn for 15% stake implies a sustainable coal price of US$57/ton as against our assumption of US$65/ton.

In our view, Scenario II wherein the financial investor is not entitled to dividends would have been more favorable for TPWR, but seems to be a less likely scenario. We assume the more conservative stance that Olympus Capital exercises its option to convert shares into ordinary shares with participating rights making the transaction less favorable for TPWR.

Exhibit 2: Transaction implies an EV per ton of total reserves of US$0.9/ton vis-à-vis global benchmark of US$1.3/ton

Comparative valuation of global coal companies on EV per ton of total reserves

Global company valuations				
		Coal reserve	EV	EV/ton
Company	Country	(mn tons)	(US$ mn)	(US$/ton)
China Shenuha Energy	China	11,306	14,250	1.3
Peabody Energy Corp.	USA	9,000	11,971	1.3
Arch Coal Inc.	USA	3,900	4,955	1.3
TPWR stake sale				
Total reserves (mn tons)	9,489			
TPWR's economic interest (mn tons)	2,847			
EV implied by transaction (US$ mn)	2,600			
EV/ton (US$/ton)	**0.9**			

Source: Bloomberg, Kotak Institutional Equities estimates

Exhibit 3: Olympus Capital will forego a dividend of US$122 mn if the option in not exercised

Analysis of possible dividend payout for different scenarios (US$ mn)

	Option exercise date				
	Immediately	2012	2013	2014	Not exercised
Present value of dividend payout (US$ mn)	119	94	60	29	—
Present value of dividend forgone (US$ mn)	—	25	59	90	119

Source: Company, Kotak Institutional Equities estimates

Exhibit 4: 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	185,818	190,523	216,643
EBITDA	**10,786**	**21,221**	**36,496**	**37,330**	**44,393**	**54,241**
Other income	2,671	1,641	2,266	2,645	3,396	3,544
Interest	(2,833)	(4,881)	(8,129)	(7,539)	(9,013)	(11,708)
Depreciation	(4,148)	(5,593)	(6,565)	(8,779)	(9,809)	(12,067)
Pretax profits	6,476	12,389	24,069	23,657	28,968	34,009
Tax	(816)	(4,083)	(11,651)	(7,076)	(10,145)	(11,047)
Minority interest	6	(1,219)	(800)	(1,718)	(1,731)	(1,121)
Net profits	**5,667**	**7,088**	**11,618**	**14,864**	**17,092**	**21,841**
Extraordinary items	1,877	3,179	1,023	4,903	—	—
Earnings per share (Rs)	**26.6**	**31.8**	**52**	**60**	**69**	**88**
Balance sheet (Rs mn)						
Total equity	59,479	82,408	92,576	125,046	138,094	155,603
Deferred taxation liability	458	2,820	5,154	3,359	3,359	3,359
Total borrowings	51,784	91,136	141,434	228,537	261,952	290,943
Currrent liabilities	22,238	38,539	67,812	45,369	44,525	49,124
Capital contribution from Consumers	758	1,506	2,030	2,030	2,030	2,030
Minority interest	2,496	8,062	9,444	12,290	15,513	16,634
Total liabilities and equity	**137,214**	**224,471**	**318,450**	**416,631**	**465,474**	**517,693**
Cash	14,024	5,623	11,780	42,769	34,141	37,280
Current assets	29,293	44,426	62,686	50,891	52,396	53,922
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**	**416,631**	**465,474**	**517,693**
Free cash flow (Rs mn)						
Operating cash flow, excl. working capital	10,255	19,587	22,396	24,016	28,994	35,122
Working capital	(2,849)	(1,265)	10,724	(6,489)	(3,186)	2,743
Capital expenditure	(11,054)	(77,900)	(71,444)	(85,379)	(65,775)	(59,621)
Investments	(1,767)	(2,625)	(4,684)	(2,387)	—	—
Free cash flow	**(5,416)**	**(62,203)**	**(43,009)**	**(70,239)**	**(39,967)**	**(21,756)**

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: Change in estimates for Tata Power (consolidated), March fiscal year-ends, 2010-12E (Rs mn)

	Revenues			EBITDA			Net profit		
	Old	New	% Chg.	Old	New	% Chg.	Old	New	% Chg.
2011E	199,211	190,523	(4.4)	50,540	47,789	(5.4)	18,789	17,092	(9.0)
2012E	226,756	216,643	(4.5)	60,949	57,785	(5.2)	23,528	21,841	(7.2)

Source: Kotak Institutional Equities estimates

kotak Institutional Equities

Energy

India

CAUTIOUS

JULY 01, 2010

UPDATE

BSE-30: 17,509

What now? Stay invested. We suggest investors stay invested in the government-owned energy companies despite the stocks trading near our 12-month target prices. We see potential large upside to our fair valuation based on FY2012E estimates; we expect companies' FY2012E EPS to jump sharply versus FY2011E levels based on full deregulation of diesel prices. The breakdown of under-recoveries between the government and companies is still unclear but it is a manageable risk, in our view.

Soft crude prices, government's resolve may allow for full deregulation of diesel prices

We believe (1) soft crude prices over the next few months and (2) government's commitment to deregulate diesel prices as underlined by a recent statement of the Prime Minister may result in full deregulation of diesel prices over the next few months. Full deregulation of diesel prices will reduce the risks to companies' earnings from large swings in global crude prices.

FY2012E EPS to likely jump sharply versus FY2011E levels

We compute gross under-recoveries on auto and cooking fuels to decline to Rs400 bn in FY2012E from Rs540 bn in FY2011E. We assume US$75/bbl Dated Brent price through the rest of FY2011E and in FY2012E and no increase in retail kerosene and LPG prices. The lower gross under-recoveries will result in likely lower under-recoveries for the R&M companies and lower subsidies for the E&P companies. We also expect moderate improvement in refining margins, which will further boost earnings of R&M companies.

Upside potential to fair valuation exists based on FY2012E earnings and full deregulation

We currently base our 12-month fair valuation on 8-10X average EPS of FY2011E and FY2012E EPS. As discussed above, FY2012E EPS will likely be significantly higher versus our FY2011E EPS and we expect to roll forward to FY2012E at the time of 1QFY11 results. Finally, our blue-sky scenario of full deregulation (government takes entire burden of under-recoveries on cooking fuels) shows 18-52% upside to fair valuation from current levels. ONGC and HPCL are our top picks.

Breakdown of under-recoveries is yet unclear but is a manageable risk, in our view

We note that there is no clarity as yet on the subsidy-sharing mechanism for FY2011E and beyond and companies' earnings will also depend on the government's share of under-recoveries. We do not see any reason for any change in the system compared to previous years; we believe the government will likely continue to fund 50-70% of the under-recoveries through the budget.

	EPS (a) (Rs)	P/E (X)	Value of investments (Rs)	Target price (Rs)	Stock price (Rs)	Upside (%)	Rating
BPCL	61	8	173	660	660	(0)	ADD
GAIL India	32	NA	73	495	466	6	ADD
HPCL	53	8	74	500	470	6	ADD
IOCL	36	8	124	410	400	2	ADD
Oil India	141	10	27	1,440	1,443	(0)	BUY
ONGC (b)	133	10	55	1,450	1,302	11	BUY

Note:
(a) Average EPS for FY2011-12E.
(b) Fair value of ONGC includes value of new discoveries.

Source: Kotak Institutional Equities estimates

QUICK NUMBERS

- 9-48% yoy increase in FY2012E EPS for the six government-owned energy stocks
- Rs400 bn of under-recoveries in FY2012E versus Rs540 bn in FY2011E
- 6-21% upside to fair valuation based on FY2012E estimates

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Diesel price deregulation should be the next trigger, in our view

We expect diesel price deregulation as the next event for the sector and positive trigger for the stocks. We note that deregulation of diesel prices will result in (1) significantly lower under-recoveries and (2) reduce the volatility in gross under-recoveries with crude oil prices. We note that diesel price is near breakeven levels and it is the largest product in terms of volumes (62% of total consumption of diesel, gasoline, kerosene and LPG). Exhibit 1 shows the large contribution from diesel to incremental gross under-recoveries at higher crude oil prices.

Under-recovery will be manageable at US$70-75/bbl
Subsidy loss breakdown at various levels of crude oil price, March fiscal year-ends, 2011E (Rs bn)

Dated Brent crude oil price (US$/bbl)	70	75	80	85
LPG	178	213	248	284
Kerosene	159	176	192	209
Gasoline	15	48	75	102
Diesel	(104)	100	$\boxed{204}$	$\boxed{306}$
Auto fuels	(89)	148	278	408
Cooking fuels	337	389	441	492
Total subsidy loss	**249**	**537**	**719**	**900**

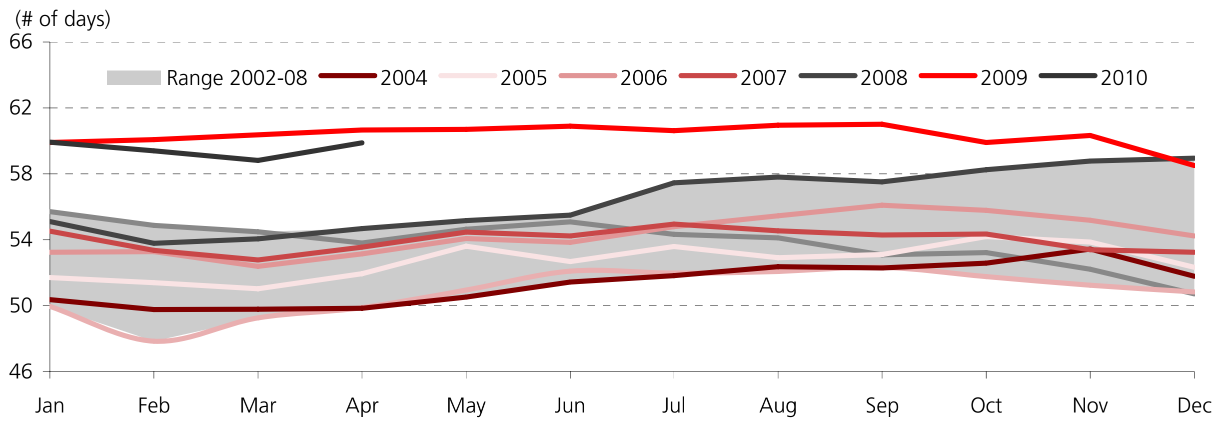
Source: Kotak Institutional Equities estimates

Diesel's large volumes and position as the main transportation fuel in India makes it a more difficult product to deregulate, especially in the context of current high inflation in India. However, we are confident that diesel price will likely be deregulated over the next few months based on the following points.

- **India's Prime Minister expressed his support for deregulation of diesel recently.** The Prime Minister in an interview stressed the need for deregulation of diesel as "much-needed reforms". He stated that diesel prices will be deregulated in line with the government announcement on June 25, 2010.

- **Crude prices to likely remain soft in the near term; may allow room for deregulation.** We see no reason for a sharp increase in crude oil prices given (1) likely weak economic situation in the Eurozone, (2) comfortable OECD inventories (see Exhibit 2) and (3) large spare OPEC capacity (see Exhibit 3, which gives data for OPEC production and capacity).

Inventory levels continue to remain high in the current year
OECD demand-supply balance for crude (# of days)



Note:
(a) Days of forward cover based on average demand over the next four quarters.

Source: IEA, Kotak Institutional Equities estimates

OPEC spare capacity remains high
OPEC crude production and sustainable capacity (mn b/d)

	Production (mn b/d)					Sustainable production	Spare capacity	Compliance
	Jan-10	Feb-10	Mar-10	Apr-10	May-10	capacity (mn b/d)	(mn b/d)	(%)
Algeria	1.25	1.25	1.24	1.24	1.24	1.40	0.16	80
Angola	1.89	1.95	1.91	1.86	1.79	2.00	0.21	—
Ecuador	0.46	0.47	0.47	0.47	0.46	0.50	0.04	57
Iran	3.70	3.74	3.68	3.75	3.72	4.00	0.28	32
Kuwait	2.29	2.29	2.28	2.30	2.30	2.60	0.30	79
Libya	1.52	1.53	1.53	1.54	1.55	1.70	0.15	68
Nigeria	2.00	1.98	2.01	2.00	1.90	2.25	0.35	28
Qatar	0.80	0.82	0.82	0.82	0.84	0.98	0.14	8
Saudi Arabia	8.20	8.16	8.25	8.25	8.25	12.00	3.75	85
United Arab Emirates	2.29	2.28	2.28	2.29	2.31	2.70	0.39	76
Venezuela	2.22	2.23	2.25	2.25	2.25	2.45	0.20	28
OPEC-11 production	**26.62**	**26.70**	**26.72**	**26.77**	**26.61**	**32.58**	**5.97**	**58**
Indonesia								
Iraq	2.43	2.47	2.27	2.28	2.41	2.50	0.09	
Total OPEC	**29.04**	**29.17**	**28.99**	**29.05**	**29.02**	**35.08**	**6.06**	

Note:
(a) Cut in production in May 2010 versus September 2008.

Source: OPEC, Kotak Institutional Equities

- **Diesel is near breakeven anyway; deregulation unlikely to result in meaningfully higher prices.** We compute marketing margins on diesel at Rs0.1/liter based on average June prices (crude price at US$74.8/bbl, Dated Brent basis) and exchange rate (Rs46.6/US$). Exhibit 4 shows the marketing margins on diesel and other products based on average June prices and exchange rate.

Marketing margins for the regulated products have improved post the price hike
Marketing margins on regulated petroleum products, June 2010

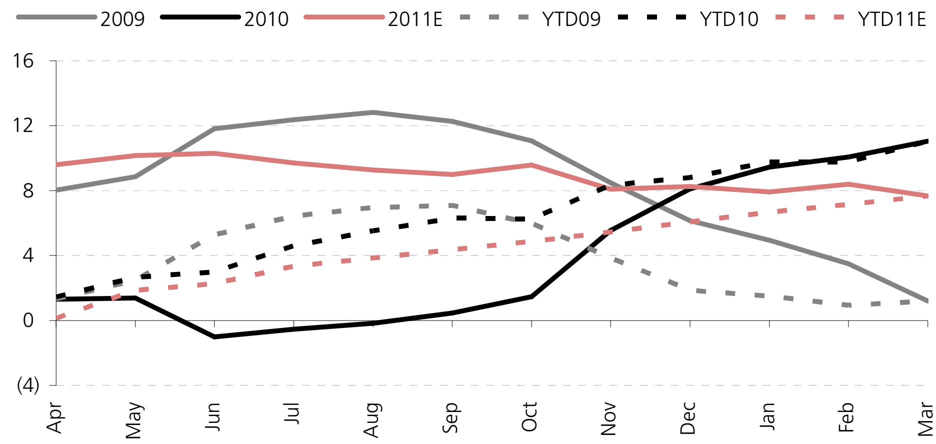
Crude price (US$/bbl)	74.8
Exchange rate (Rs/US$)	46.6
LPG (Rs/cylinder)	(224.8)
Gasoline (Rs/liter)	(1.1)
Kerosene (Rs/liter)	(16.2)
Diesel (Rs/liter)	0.1

Note:
(a) We have assumed actual global prices for June 2010.

Source: Bloomberg, Kotak Institutional Equities estimates

- **Inflation will likely subside over the next few months.** We expect inflation to decline over the next few months due to base effects and increase in supply of primary articles (food grains primarily). Exhibit 5 shows our projected inflation in India through FY2011E.

Inflation may average 9% in FY2011E and fall to 7.7% by end-year
Headline WPI inflation rate (yoy), YTD price level change, March fiscal year-ends, 2009-11E (%)



Notes:
Inflation is actual data till May 2010 and Kotak Institutional Equities estimates thereafter.

Source: Kotak Institutional Equities estimates

FY2012E EPS likely significantly higher versus FY2011E levels

We expect FY2012E EPS of the six government-owned companies to increase significantly on the back of (1) lower gross under-recoveries in FY2012E versus FY2011E (see Exhibit 6 which gives our estimates of gross under-recoveries and the sharing between various entities), (2) lower net under-recoveries for the companies, and (3) likely higher refining margins (applicable for refining companies). We had discussed the assumptions behind our earnings models in detail in our June 26 report titled *It's been worth the wait*. Exhibit 7 shows the FY2010-14E EPS of the six government-owned companies.

Downstream oil companies may bear low subsidy burden in FY2011E
Share of various participants of under-recoveries, March fiscal year-ends, 2007-2011E (Rs bn)

	2007	2008	2009	2010	2011E
Dated Brent crude oil price (US$/bbl)	65	79	89	67	75
Gross under-recoveries	**521**	**798**	**1,061**	**490**	**539**
Direct budgetary support	**27**	**27**	**29**	**30**	**32**
Payment by government (oil bonds/cash)	**241**	**353**	**713**	**260**	**278**
Share of BPCL	53	86	162	53	56
Share of HPCL	49	77	147	56	59
Share of IOCL	138	190	404	152	162
Net under-recovery of oil companies	**253**	**418**	**319**	**200**	**229**
Share of refining companies	—	—	—	—	—
Share of upstream companies	**205**	**257**	**329**	**144**	**180**
Share of ONGC	170	220	282	116	144
Share of GAIL	15	14	18	13	16
Share of Oil India	20	23	29	15	20
Net under-recovery of R&M companies (BPCL, HPCL, IOCL)	**48**	**161**	**(10)**	**56**	**50**

Source: Company, Kotak Institutional Equities estimates

Strong earnings of downstream and upstream companies
EPS estimates, March fiscal year-ends, 2010-14E (Rs)

	EPS					yoy change (%)			
	2010	2011E	2012E	2013E	2014E	2011E	2012E	2013E	2014E
Downstream companies									
BPCL	62	54	68	75	78	(12.4)	24.5	11.1	3.8
HPCL	55	45	62	66	65	(17.9)	38.0	6.5	(1.3)
IOCL	49	33	37	37	38	(32.2)	9.4	1.6	2.6
Upstream companies									
GAIL India	25	26	39	44	48	5.8	48.0	13.2	8.6
Oil India	115	131	152	163	164	13.6	16.3	7.5	0.2
ONGC	91	125	141	166	172	36.6	12.9	17.7	3.3

Source: Company, Kotak Institutional Equities estimates

We assume diesel and gasoline prices in India to be fully deregulated in FY2012E, which will reduce the amount of gross under-recoveries. We do not assume any further increase in kerosene and LPG prices through our forecast period. However, any increase in retail prices of these products without a corresponding increase in input prices (global crude prices) will further reduce the amount of gross under-recoveries on cooking fuels.

Fair valuations can change dramatically based on assumptions

Exhibit 8 shows our current 12-month fair valuation of the six government-owned energy companies based on average EPS of FY2011E and FY2012E plus fair value of investments. As can be seen, only HPCL and ONGC stocks now offer a moderate upside to our 12-month target prices post the significant run-up in stocks over the past one week (post price increases on regulated products and deregulation of gasoline prices).

Fair valuation of government-owned oil companies based on average of FY2011-12E EPS
EPS estimates and fair valuation, March fiscal year-ends, 2011-12E (Rs)

	EPS (a) (Rs)	P/E (X)	Value of investments (Rs)	Fair value (Rs)	Current stock price (Rs)	Upside (%)
Downstream companies						
BPCL	61	8	173	660	660	(0)
HPCL	53	8	74	500	470	6
IOCL	36	8	124	410	400	2
Upstream companies						
GAIL India	32	NA	NA	495	466	6
Oil India	141	10	27	1,440	1,443	(0)
ONGC (b)	133	10	55	1,450	1,302	11

Note:
(a) Average EPS for FY2011-12E.
(b) Fair value of ONGC includes value of new discoveries.

Source: Kotak Institutional Equities estimates

However, we see meaningful upside still in most cases to our FY2012E-based valuation (see Exhibit 9). We expect to move to FY2012E estimates as the basis of valuation over the next one month (at the time of 1QFY11 results due by August 15, 2010). As discussed above, our FY2012E EPS estimates for the R&M companies are also boosted by our assumptions of higher refining margins. Finally, we would highlight that we use 8X EPS for the R&M companies, which implies no growth in earnings of the companies in perpetuity based on a cost of equity of 12.5%.

Fair valuation of government-owned oil companies on FY2012E basis
EPS estimates and fair valuation, March fiscal year-end, 2012E (Rs)

	EPS (Rs)	P/E (X)	Value of investments (Rs)	Fair value (Rs)	Current stock price (Rs)	Upside (%)
Downstream companies						
BPCL	68	8	173	714	660	8
HPCL	62	8	74	570	470	21
IOCL	37	8	124	423	400	6
Upstream companies						
GAIL India	39	NA	NA	525	466	13
Oil India	152	10	27	1,547	1,443	7
ONGC (a)	141	10	55	1,533	1,302	18

Note:
(a) Fair value of ONGC includes value of new discoveries.

Source: Kotak Institutional Equities estimates

Finally, our blue-sky scenario shown in Exhibit 10 shows 18-52% upside to our blue-sky fair valuations for the stocks. Our blue-sky scenario assumes full deregulation of diesel and gasoline prices (not so unrealistic) and full compensation of under-recoveries on cooking fuels to the companies from the government. The latter is unlikely over the next two years but we do not rule out gradual price increases on cooking fuels, which may reduce under-recoveries moderately over a period of time. We note that overall volumes of cooking fuels have grown slowly over the past five years (CAGR of 2.3% in FY2005-10) with moderate growth in LPG consumption (4.5% CAGR) being offset by a very small decline in kerosene consumption (minor decline in FY2005-10). We note that kerosene is gradually being replaced by LPG in cooking application and by electricity for lighting in rural areas.

Earnings and valuations of downstream and upstream companies would jump significantly in a blue-sky scenario
EPS estimates and fair valuation, March fiscal year-end, 2012E (Rs)

	EPS (Rs)	P/E (X)	Value of investments (Rs)	Fair value (Rs)	Current stock price (Rs)	Upside (%)
Downstream companies						
BPCL	84	8	173	847	660	28
HPCL	80	8	74	716	470	52
IOCL	43	8	124	472	400	18
Upstream companies						
GAIL India	45	NA	NA	594	466	27
Oil India	186	10	27	1,887	1,443	31
ONGC (b)	171	10	55	1,836	1,302	41

Note:
(a) Assuming deregulation of auto fuel prices and full compensation of subsidy loss on cooking fuels by the government.
(b) Fair value of ONGC includes value of new discoveries.

Source: Kotak Institutional Equities estimates

Indian energy companies valuation analysis, March fiscal year-ends, 2009-2013E

	Price (Rs) 1-Jul-10	Target price (Rs)	P/E (X) 2009	P/E (X) 2010	P/E (X) 2011E	P/E (X) 2012E	P/E (X) 2013E	P/CEPS (X) 2009	P/CEPS (X) 2010	P/CEPS (X) 2011E	P/CEPS (X) 2012E	P/CEPS (X) 2013E
BPCL	660	660	32.4	10.6	12.2	9.8	8.8	12.1	44.8	11.1	8.8	7.3
GAIL (India)	466	495	21.1	18.8	17.8	12.0	10.6	19.4	17.8	17.6	10.7	9.0
HPCL	470	500	27.7	8.6	10.5	7.6	7.1	(13.1)	10.2	8.9	6.8	5.2
IOCL	400	410	34.8	8.2	11.8	10.7	10.4	(2.8)	10.3	10.3	8.9	8.4
Oil India	1,443	1,440	14.3	12.5	11.0	9.5	8.8	12.7	14.1	12.4	10.2	9.4
ONGC	1,302	1,450	14.2	14.2	10.4	9.2	7.8	10.3	10.8	8.6	7.3	6.7

	KS rating	Market cap. (US$ mn)	EV/EBITDA (X) 2009	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	EV/EBITDA (X) 2012E	EV/EBITDA (X) 2013E	EV/DACF (X) 2009	EV/DACF (X) 2010E	EV/DACF (X) 2011E	EV/DACF (X) 2012E	EV/DACF (X) 2013E
BPCL	ADD	5,129	9.6	8.6	7.6	5.8	5.1	12.7	11.8	9.9	8.1	7.0
GAIL (India)	ADD	12,708	13.6	11.4	12.0	9.1	7.6	17.8	16.2	17.3	11.5	9.6
HPCL	ADD	3,423	17.3	6.9	8.5	7.1	6.6	12.4	8.0	9.4	8.1	6.9
IOCL	ADD	20,868	18.4	6.9	8.3	6.9	6.4	24.0	9.5	10.5	9.1	8.5
Oil India	BUY	7,458	10.0	6.5	5.2	4.1	3.6	17.2	9.3	7.8	6.1	5.3
ONGC	BUY	59,851	6.3	5.6	4.6	3.8	3.1	8.6	6.9	5.9	4.9	4.0

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Consolidated profit model, balance sheet, cash model of BPCL, March fiscal year-ends, 2006-2014E (Rs mn)

	2007	2008	2009	2010E	2011E	2012E	2013E	2014E
Profit model (Rs mn)								
Net sales	965,569	1,102,081	1,340,734	1,223,599	1,331,561	1,414,562	1,572,277	1,649,107
EBITDA	**35,362**	**28,472**	**27,507**	**35,495**	**37,887**	**47,684**	**51,515**	**52,631**
Other income	7,332	13,954	15,087	21,563	14,997	12,548	10,789	9,032
Interest	(4,774)	(6,725)	(21,664)	(10,109)	(9,466)	(9,097)	(6,584)	(3,954)
Depreciation	(9,041)	(10,982)	(10,755)	(12,423)	(13,999)	(14,521)	(15,047)	(15,503)
Pretax profits	28,879	24,719	10,176	34,526	29,419	36,614	40,673	42,206
Extraordinary items	(68)	—	—	(10,865)	—	—	—	—
Tax	(9,286)	(9,059)	(5,103)	(8,284)	(6,982)	(11,317)	(12,299)	(13,124)
Deferred taxation	(268)	(1,108)	2,421	—	(2,790)	(845)	(1,212)	(895)
Adjusted net profits	**18,101**	**15,806**	**7,359**	**22,437**	**19,647**	**24,452**	**27,162**	**28,186**
Earnings per share (Rs)	**50.1**	**43.7**	**20.4**	**62.1**	**54.3**	**67.6**	**75.1**	**78.0**
Balance sheet (Rs mn)								
Total equity	102,735	116,768	121,281	130,736	142,841	157,907	174,643	192,010
Deferred taxation liability	13,826	14,814	12,392	12,392	15,183	16,028	17,240	18,135
Total borrowings	108,292	150,224	211,714	214,686	153,186	116,686	77,686	37,994
Currrent liabilities	112,767	145,803	128,313	122,514	144,598	147,699	155,835	158,882
Total liabilities and equity	**337,620**	**427,608**	**473,701**	**480,327**	**455,807**	**438,320**	**425,403**	**407,020**
Cash	8,640	9,616	4,416	2,459	2,459	2,487	2,205	2,272
Current assets	127,698	187,457	148,469	164,813	178,886	183,726	195,130	199,811
Goodwill	—	—	—	—	—	—	—	—
Total fixed assets	118,334	127,354	140,033	166,935	173,341	175,986	176,948	178,816
Investments	82,949	103,182	180,784	146,121	101,121	76,121	51,121	26,121
Total assets	**337,621**	**427,608**	**473,701**	**480,328**	**455,807**	**438,320**	**425,403**	**407,020**
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	29,920	22,988	19,717	5,325	21,439	27,270	32,631	35,553
Working capital	11,451	(25,161)	20,585	(17,221)	7,946	(1,739)	(3,268)	(1,635)
Capital expenditure	(17,908)	(20,665)	(23,323)	(38,414)	(20,405)	(17,166)	(16,008)	(17,371)
Investments	(45,481)	(21,684)	(82,456)	34,663	45,000	25,000	25,000	25,000
Other income	4,337	6,434	6,655	16,640	15,063	12,548	10,789	9,032
Free cash flow	**(17,682)**	**(38,088)**	**(58,822)**	**993**	**69,042**	**45,914**	**49,144**	**50,579**
Ratios (%)								
Debt/equity	105.4	128.7	174.6	164.2	107.2	73.9	44.5	19.8
Net debt/equity	97.0	120.4	170.9	162.3	105.5	72.3	43.2	18.6
RoAE	16.3	12.7	5.5	11.1	13.0	14.7	14.9	14.0
RoACE	**11.0**	**7.9**	**5.1**	**8.2**	**8.9**	**10.5**	**11.8**	**12.3**
Key assumptions (standalone until FY2005)								
Crude throughput (mn tons)	19.8	20.9	20.0	20.4	22.3	22.3	22.3	22.3
Effective tariff protection (%)	1.6	1.4	2.4	2.3	1.1	1.1	1.1	1.1
Net refining margin (US$/bbl)	3.2	5.6	5.2	3.0	3.8	4.7	5.2	5.2
Sales volume (mn tons)	24.5	26.7	28.1	29.3	31.1	32.9	34.9	37.0
Marketing margin (Rs/ton)	(1,140)	(3,010)	(5,944)	571	229	1,536	1,514	1,511
Subsidy under-recoveries (Rs mn)	(10,400)	(33,354)	2,728	(12,375)	(11,474)	(8,951)	(9,187)	(8,977)

Source: Company, Kotak Institutional Equities estimates

Profit model, balance sheet, cash model of HPCL, March fiscal year-ends, 2006-2014E (Rs mn)

	2006	2007	2008	2009	2010E	2011E	2012E	2013E	2014E
Profit model (Rs mn)									
Net sales	708,609	889,959	1,043,130	1,249,348	1,084,977	1,201,760	1,282,260	1,428,604	1,496,265
EBITDA	**8,056**	**24,036**	**15,757**	**28,707**	**41,603**	**35,227**	**46,867**	**52,505**	**54,373**
Other income	3,285	6,845	11,980	9,057	7,859	7,347	8,343	8,348	7,473
Interest	(1,587)	(4,230)	(7,925)	(20,828)	(9,038)	(9,112)	(12,607)	(13,183)	(13,412)
Depreciation	(6,902)	(7,040)	(8,508)	(9,813)	(11,644)	(10,593)	(11,117)	(13,448)	(15,321)
Pretax profits	2,851	19,611	11,303	7,122	28,781	22,869	31,486	34,223	33,112
Extraordinary items	2,201	3,030	—	—	(7,530)	—	—	—	—
Tax	(898)	(6,625)	(1,799)	(2,416)	(5,615)	(4,558)	(8,930)	(6,821)	(8,500)
Deferred taxation	(97)	(365)	(2,025)	(343)	(2,046)	(3,069)	(1,528)	(5,000)	(2,499)
Prior period adjustment	—	61	3,870	1,387	(575)	—	—	—	—
Adjusted net profits	**2,247**	**13,568**	**11,349**	**5,750**	**18,555**	**15,242**	**21,027**	**22,402**	**22,113**
Earnings per share (Rs)	**6.6**	**40.0**	**33.5**	**17.0**	**54.7**	**45.0**	**62.0**	**66.1**	**65.2**
Balance sheet (Rs mn)									
Total equity	87,357	95,987	105,633	107,306	115,561	125,247	138,610	152,846	166,899
Deferred tax liability	13,844	14,209	15,960	16,034	18,080	21,149	22,677	27,677	30,175
Total borrowings	66,638	105,175	167,867	227,552	202,052	204,173	209,673	228,173	188,173
Currrent liabilities	79,549	101,195	124,337	117,558	96,165	111,171	117,809	126,132	128,300
Total liabilities and equity	**247,389**	**316,566**	**413,797**	**468,450**	**431,857**	**461,740**	**488,768**	**534,827**	**513,548**
Cash	426	868	2,940	6,083	1,601	1,620	1,477	1,796	1,476
Current assets	109,674	113,779	190,034	153,844	160,958	180,585	190,411	207,145	212,818
Total fixed assets	97,013	130,644	152,452	166,558	179,317	189,554	206,900	235,906	234,272
Investments	40,276	71,275	68,371	141,965	89,981	89,981	89,981	89,981	64,981
Total assets	**247,389**	**316,566**	**413,796**	**468,450**	**431,857**	**461,740**	**488,769**	**534,828**	**513,548**
Free cash flow (Rs mn)									
Operating cash flow, excl. working capital	10,126	23,966	(18,679)	(12,139)	15,579	17,885	23,482	30,416	31,317
Working capital changes	(5,351)	8,936	(6,504)	48,461	(25,373)	(4,663)	(3,467)	(8,411)	(3,505)
Capital expenditure	(25,298)	(38,510)	(31,638)	(19,275)	(21,137)	(17,157)	(26,615)	(40,369)	(12,544)
Investments	(22,884)	(31,704)	(1,851)	(70,386)	51,984	—	—	—	25,000
Other income	941	2,067	4,692	3,187	4,724	7,388	8,623	8,348	7,473
Free cash flow	**(42,466)**	**(35,246)**	**(53,980)**	**(50,151)**	**25,777**	**3,453**	**2,022**	**(10,016)**	**47,741**
Ratios (%)									
Debt/equity	65.8	95.4	138.1	184.5	151.2	139.5	130.0	126.4	95.5
Net debt/equity	65.4	94.7	135.6	179.6	150.0	138.4	129.1	125.4	94.7
RoAE	4.1	14.9	9.8	4.7	10.1	10.9	13.7	13.1	11.7
RoACE	**2.5**	**8.8**	**6.4**	**5.8**	**8.1**	**7.5**	**8.8**	**9.7**	**8.7**
Key assumptions									
Crude throughput (mn tons)	14.0	16.7	16.8	15.8	15.8	17.0	18.5	19.3	19.3
Effective tariff protection (%)	3.1	1.4	1.3	2.4	2.3	0.9	0.9	0.9	0.9
Net refining margin (US$/bbl)	3.9	4.3	6.6	4.0	2.7	3.5	4.4	5.0	5.0
Sales volume (mn tons)	20.1	23.4	26.2	27.0	27.5	28.8	30.3	32.1	33.9
Marketing margin (Rs/ton)	(463)	(710)	(2,345)	(5,021)	620	306	1,525	1,492	1,487
Subsidy under-recoveries (Rs mn)	(23,372)	(7,685)	(31,191)	5,587	(12,297)	(11,342)	(9,234)	(9,450)	(9,219)

Source: Company, Kotak Institutional Equities estimates

Consolidated profit model, balance sheet, cash model of IOCL, March fiscal year-ends, 2006-2014E (Rs mn)

	2006	2007	2008	2009	2010E	2011E	2012E	2013E	2014E
Profit model (Rs mn)									
Net sales	1,729,474	2,149,428	2,444,378	3,041,265	2,691,360	3,273,638	3,513,919	3,950,311	4,177,345
EBITDA	**82,044**	**110,451**	**120,872**	**61,445**	**178,821**	**151,844**	**175,479**	**182,789**	**185,216**
Other income	21,310	27,451	43,748	45,155	37,890	31,809	31,679	33,046	32,093
Interest	(12,101)	(17,058)	(17,556)	(41,758)	(16,638)	(9,976)	(18,620)	(19,570)	(16,095)
Depreciation	(24,711)	(28,686)	(29,918)	(31,389)	(34,943)	(47,929)	(49,470)	(52,786)	(53,696)
Pretax profits	66,542	92,157	117,145	33,453	165,130	125,749	139,068	143,479	147,518
Extraordinary items	5,590	24,757	5,374	—	(17,232)	—	—	—	—
Tax	(19,975)	(25,834)	(38,293)	(13,316)	(46,713)	(31,493)	(39,774)	(44,455)	(48,016)
Deferred taxation	(1,282)	(8,040)	(473)	1,435	5,556	(10,278)	(6,421)	(3,205)	(985)
Net profits	51,125	82,729	83,430	25,523	108,238	83,978	92,873	95,819	98,516
Net profits after minority interests	**45,362**	**62,469**	**74,573**	**27,437**	**117,688**	**82,567**	**90,855**	**93,061**	**95,586**
Earnings per share (Rs)	**19.4**	**26.2**	**31.3**	**11.5**	**48.5**	**34.0**	**37.4**	**38.3**	**39.4**
Balance sheet (Rs mn)									
Total equity	317,977	378,117	450,449	470,654	547,803	588,835	648,323	709,719	772,846
Deferred tax liability	50,602	59,859	60,331	58,876	54,072	63,598	70,019	73,224	74,210
Total borrowings	292,395	290,215	382,818	465,250	497,523	502,859	427,813	368,168	288,273
Currrent liabilities	286,716	330,791	386,724	376,107	472,991	503,799	518,662	546,294	556,187
Total liabilities and equity	**947,691**	**1,058,981**	**1,280,322**	**1,370,888**	**1,572,389**	**1,659,091**	**1,664,817**	**1,697,405**	**1,691,517**
Cash	8,080	9,385	8,413	8,076	13,501	10,176	10,212	10,288	9,454
Current assets	413,904	437,178	599,256	473,965	648,895	739,624	764,794	825,787	849,029
Total fixed assets	383,717	415,014	460,307	565,545	690,165	705,381	710,901	682,420	654,125
Investments	141,990	197,403	212,345	323,301	219,828	203,910	178,910	178,910	178,910
Total assets	**947,691**	**1,058,981**	**1,280,322**	**1,370,888**	**1,572,389**	**1,659,091**	**1,664,817**	**1,697,405**	**1,691,517**
Free cash flow (Rs mn)									
Operating cash flow, excl. working capital	(10,334)	(44,660)	(107,263)	(345,677)	95,357	97,307	112,864	122,426	104,055
Working capital changes	(8,136)	2,237	(1,414)	76,881	(36,589)	(68,428)	(6,210)	(46,854)	7,919
Capital expenditure	(49,042)	(50,969)	(79,586)	(135,923)	(126,405)	(55,429)	(51,507)	(24,262)	(26,853)
Investments	(17,778)	99,768	92,665	299,410	98,991	14,188	25,015	14	849
Other Income	10,317	13,582	18,253	16,413	7,950	31,166	30,649	31,871	30,875
Free cash flow	**(74,973)**	**19,958**	**(77,346)**	**(88,896)**	**39,303**	**18,805**	**110,811**	**83,195**	**116,845**
Ratios (%)									
Debt/equity	79.3	66.3	74.9	87.9	82.7	77.1	59.6	47.0	34.0
Net debt/equity	77.1	64.1	73.3	86.3	80.4	75.5	58.1	45.7	32.9
RoAE	13.7	16.1	16.3	5.5	21.5	13.6	13.6	12.7	12.0
RoACE	**9.3**	**11.3**	**11.2**	**4.8**	**12.4**	**9.0**	**9.8**	**9.8**	**9.7**
Key assumptions (IOC standalone)									
Crude throughput (mn tons)	38.5	44.0	47.4	51.3	50.7	51.8	51.8	51.8	51.8
Effective tariff protection (%)	3.1	1.6	1.3	2.8	2.2	0.8	0.8	0.8	0.8
Net refining margin (US$/bbl)	4.8	4.2	8.2	3.6	4.5	4.9	5.9	6.4	6.4
Sales volume (mn tons)	50.4	53.4	57.4	61.0	63.6	67.2	71.0	75.1	79.5
Marketing margin (Rs/ton)	26	(633)	(2,203)	(5,253)	850	357	1,509	1,471	1,463
Subsidy under-recoveries (Rs mn)	(47,740)	(21,900)	(97,738)	—	(31,588)	(27,056)	(21,917)	(21,997)	(21,221)

Source: Company, Kotak Institutional Equities estimates

Profit model, balance sheet, cash model of GAIL, March fiscal year-ends, 2006-2014E (Rs mn)

	2006	2007	2008	2009	2010E	2011E	2012E	2013E	2014E
Profit model (Rs mn)									
Net sales	163,513	160,472	180,082	237,760	250,404	421,536	606,813	745,270	788,122
EBITDA	**35,981**	**30,649**	**39,275**	**40,647**	**47,761**	**49,660**	**75,121**	**89,655**	**95,066**
Other income	4,555	5,450	5,564	7,966	4,343	5,369	4,975	5,327	5,573
Interest	(1,174)	(1,071)	(796)	(870)	(700)	(1,150)	(5,049)	(7,213)	(5,866)
Depreciation	(5,595)	(5,754)	(5,710)	(5,599)	(5,618)	(6,607)	(9,628)	(12,866)	(14,864)
Pretax profits	**33,767**	**29,274**	**38,333**	**42,144**	**45,785**	**47,272**	**65,419**	**74,904**	**79,908**
Tax	(9,221)	(7,941)	(12,525)	(13,941)	(13,750)	(13,148)	(11,799)	(11,920)	(13,065)
Deferred taxation	(445)	(190)	(10)	(62)	(636)	(900)	(4,445)	(7,294)	(6,340)
Net profits	**23,350**	**24,619**	**26,015**	**28,037**	**31,399**	**33,225**	**49,175**	**55,690**	**60,504**
Earnings per share (Rs)	**18.4**	**19.4**	**20.5**	**22.1**	**24.8**	**26.2**	**38.8**	**43.9**	**47.7**
Balance sheet (Rs mn)									
Total equity	99,733	113,929	130,049	147,696	167,991	188,643	219,329	253,571	291,148
Deferred taxation liability	12,997	13,187	13,197	13,259	13,896	14,795	19,240	26,534	32,874
Total borrowings	19,166	13,379	12,659	12,001	14,804	53,253	131,053	133,853	81,653
Current liabilities	37,522	45,512	60,604	81,548	103,784	116,199	100,427	115,928	120,553
Total liabilities and equity	**169,418**	**186,007**	**216,509**	**254,505**	**300,475**	**372,891**	**470,049**	**529,885**	**526,228**
Cash	44,959	26,604	44,730	34,562	41,720	26,100	20,298	21,212	24,776
Other current assets	28,309	50,851	59,370	87,804	95,408	122,577	148,828	165,979	168,043
Total fixed assets	81,716	93,913	97,500	114,767	142,617	203,484	280,193	321,965	312,679
Investments	14,434	14,638	14,909	17,373	20,730	20,730	20,730	20,730	20,730
Total assets	**169,418**	**186,007**	**216,509**	**254,505**	**300,475**	**372,891**	**470,050**	**529,886**	**526,228**
Free cash flow (Rs mn)									
Operating cash flow, excl. working capital	25,165	23,920	33,692	30,456	33,152	33,699	55,226	65,945	72,368
Working capital changes	5,950	(10,151)	(388)	(5,573)	14,632	(14,754)	(42,023)	(1,651)	2,561
Capital expenditure	(5,811)	(20,449)	(12,419)	(25,535)	(33,310)	(65,810)	(83,290)	(50,060)	(1,810)
Investments	(6,462)	(205)	(270)	(2,464)	(3,358)	—	—	—	—
Other income	3,995	3,884	4,042	5,243	4,343	5,369	4,975	5,327	5,573
Free cash flow	**22,837**	**(3,002)**	**24,658**	**2,127**	**15,459**	**(41,496)**	**(65,112)**	**19,561**	**78,691**
Ratios (%)									
Debt/equity	17.0	10.5	8.8	7.5	8.1	26.2	54.9	47.8	25.2
Net debt/equity	(22.9)	(10.4)	(22.4)	(14.0)	(14.8)	13.3	46.4	40.2	17.6
ROAE (%)	22.1	20.5	19.2	18.4	18.3	17.2	22.3	21.5	20.0
ROACE (%)	**19.9**	**16.1**	**17.8**	**17.5**	**17.2**	**15.0**	**16.9**	**15.6**	**15.8**

Source: Company, Kotak Institutional Equities estimates

Profit model, balance sheet, cash model of OIL, March fiscal year-ends, 2006-2014E (Rs mn)

	2006	2007	2008	2009	2010E	2011E	2012E	2013E	2014E
Profit model (Rs mn)									
Net sales	55,502	53,892	60,819	72,414	80,728	89,526	102,379	108,778	110,424
EBITDA	**26,554**	**22,292**	**23,852**	**28,339**	**38,756**	**46,967**	**56,295**	**60,558**	**60,779**
Other income	3,639	5,335	6,770	9,372	7,869	9,223	9,906	10,931	12,135
Interest	(152)	(151)	(383)	(26)	(37)	(24)	(9)	—	—
Depreciation and depletion	(3,314)	(2,595)	(3,093)	(3,768)	(7,638)	(9,110)	(11,455)	(12,641)	(13,975)
Pretax profits	26,728	24,881	27,145	33,916	38,951	47,056	54,737	58,848	58,939
Tax	(9,347)	(7,406)	(8,538)	(11,910)	(11,598)	(15,505)	(18,204)	(19,565)	(19,591)
Deferred tax	(498)	(1,020)	(707)	(343)	(1,211)	(125)	22	17	13
Net profits	**16,883**	**16,454**	**17,901**	**21,663**	**26,142**	**31,425**	**36,555**	**39,300**	**39,361**
Earnings per share (Rs)	**78.9**	**76.9**	**83.6**	**101.2**	**115.0**	**130.7**	**152.0**	**163.4**	**163.7**
Balance sheet (Rs mn)									
Total equity	58,483	68,491	79,330	93,310	137,697	156,785	179,320	203,198	227,138
Deferred tax liability	7,013	8,033	8,655	8,998	10,209	10,334	10,312	10,296	10,283
Liability for abandonment cost	10	11	11	15	19	19	19	19	19
Total borrowings	3,341	8,140	1,749	565	375	213	—	—	—
Currrent liabilities	11,668	10,320	17,541	30,914	32,693	32,496	33,437	34,106	34,165
Total liabilities and equity	**80,515**	**94,995**	**107,286**	**133,801**	**180,992**	**199,846**	**223,088**	**247,619**	**271,605**
Cash	31,015	32,757	42,808	60,700	85,487	92,205	105,047	121,547	139,206
Current assets	14,540	22,350	18,957	22,853	37,266	40,015	42,370	43,542	43,843
Total fixed assets	30,658	35,813	40,633	45,361	49,460	58,848	66,893	73,752	79,777
Investments	4,302	4,075	4,887	4,887	8,594	8,594	8,594	8,594	8,594
Deferred expenditure	—	—	—	—	184	184	184	184	184
Total assets	**80,515**	**94,995**	**107,286**	**133,801**	**180,992**	**199,846**	**223,088**	**247,619**	**271,605**
Free cash flow (Rs mn)									
Operating cash flow, excl. working capital	19,843	18,357	20,104	27,246	24,645	27,938	34,082	36,994	37,188
Working capital changes	5,884	(8,696)	7,435	2,368	(12,813)	(2,946)	(1,413)	(503)	(242)
Capital expenditure	(6,108)	(9,370)	(9,492)	(8,496)	(9,224)	(14,998)	(15,500)	(15,500)	(16,000)
Investments	(2,482)	226	(811)	—	(3,708)	—	—	—	—
Other income	1,670	2,892	4,214	5,470	7,869	9,223	9,906	10,931	12,135
Free cash flow	**18,807**	**3,409**	**21,450**	**26,587**	**6,769**	**19,217**	**27,074**	**31,921**	**33,081**
Ratios (%)									
Debt/equity	5.7	11.9	2.2	0.6	0.3	0.1	—	—	—
Net debt/equity	(33.1)	(32.8)	(31.9)	(31.9)	(38.3)	(38.1)	(39.9)	(43.0)	(46.2)
RoAE	28.1	23.2	21.8	22.8	20.9	20.0	20.5	19.5	17.5
RoACE	**28.0**	**23.0**	**21.5**	**22.7**	**20.9**	**19.9**	**20.5**	**19.5**	**17.5**
Key assumptions									
Rs/dollar rate	44.3	45.3	40.3	45.8	47.4	45.0	45.3	45.3	45.3
Crude fob price (US$/bbl)	57.2	64.8	78.9	83.0	67.1	75.0	75.0	80.0	80.0
Ceiling/actual natural gas price (Rs/'000 cm)	3,515	3,200	3,200	3,200	3,200	6,783	7,500	7,500	7,500
Subsidy loss (Rs bn)	9.8	19.9	23.1	30.2	15.5	19.8	14.7	17.0	17.6

Source: Company, Kotak Institutional Equities estimates

Consolidated profit model, balance sheet, cash model of ONGC, March fiscal year-ends, 2006-2014E (Rs mn)

	2006	2007	2008	2009	2010E	2011E	2012E	2013E	2014E
Profit model (Rs mn)									
Net sales	807,603	966,542	1,091,644	1,200,176	1,090,473	1,216,504	1,342,039	1,502,009	1,500,352
EBITDA	**310,054**	**357,707**	**407,481**	**418,299**	**468,954**	**529,826**	**595,843**	**650,822**	**643,377**
Other income	27,350	45,378	53,565	56,197	29,934	33,332	48,601	65,255	80,598
Interest	(537)	394	(12,027)	(11,442)	(6,212)	(1,454)	(1,382)	(6,860)	(6,140)
Depreciation and depletion	(97,726)	(119,550)	(138,624)	(153,985)	(186,996)	(167,845)	(200,524)	(195,662)	(188,121)
Pretax profits	239,141	283,928	310,395	309,069	305,680	393,858	442,538	513,555	529,713
Tax	(71,196)	(88,986)	(102,908)	(111,333)	(94,961)	(122,189)	(137,424)	(153,040)	(155,432)
Deferred tax	(13,612)	(9,264)	(6,471)	(3,495)	(12,077)	(2,149)	(953)	(4,094)	(5,548)
Net profits	154,596	178,119	202,767	200,063	198,832	269,520	304,160	356,421	368,733
Net profits after minority interests	**153,542**	**176,627**	**199,156**	**196,679**	**195,675**	**267,240**	**301,814**	**355,219**	**366,937**
Earnings per share (Rs)	**71.8**	**82.6**	**93.1**	**92.0**	**91.5**	**124.9**	**141.1**	**166.1**	**171.6**
Balance sheet (Rs mn)									
Total equity	578,830	670,137	786,657	929,353	1,045,186	1,207,091	1,388,672	1,598,389	1,814,000
Deferred tax liability	71,557	80,976	87,227	92,076	104,153	106,302	107,255	111,349	116,897
Liability for abandonment cost	128,675	151,857	129,325	171,451	175,368	175,368	175,368	175,368	175,368
Total borrowings	28,767	21,826	22,039	73,633	57,256	39,724	119,124	111,274	96,674
Currrent liabilities	142,435	187,051	251,797	293,480	237,041	243,772	258,662	284,445	293,919
Total liabilities and equity	**950,264**	**1,111,847**	**1,277,045**	**1,559,994**	**1,619,004**	**1,772,257**	**2,049,081**	**2,280,826**	**2,496,858**
Cash	90,743	206,262	249,807	224,671	212,010	339,207	572,045	834,646	1,094,768
Current assets	240,210	192,652	257,384	309,494	295,048	329,942	346,390	371,749	376,334
Total fixed assets	565,722	643,219	695,227	871,287	950,589	936,809	964,348	908,133	859,458
Goodwill	14,172	27,686	22,847	111,108	111,108	111,108	111,108	111,108	111,108
Investments	35,753	36,888	45,041	36,926	43,744	48,684	48,684	48,684	48,684
Deferred expenditure	3,663	5,141	6,739	6,506	6,506	6,506	6,506	6,506	6,506
Total assets	**950,264**	**1,111,848**	**1,277,045**	**1,559,994**	**1,619,005**	**1,772,257**	**2,049,081**	**2,280,826**	**2,496,859**
Free cash flow (Rs mn)									
Operating cash flow, excl. working capital	216,736	252,772	284,517	274,321	262,045	327,885	382,382	417,414	408,297
Working capital changes	46,461	(4,990)	(24,929)	(109,306)	(41,073)	21,836	58,443	33,489	4,888
Capital expenditure	(113,738)	(135,049)	(166,427)	(208,137)	(154,415)	(75,767)	(153,409)	(65,938)	(65,938)
Investments	(28,912)	53,822	(7,348)	(92,159)	(6,817)	—	—	—	—
Other income	14,537	20,422	22,822	31,612	29,934	33,332	48,601	65,255	80,598
Free cash flow	**135,083**	**186,976**	**108,636**	**(103,668)**	**89,674**	**307,285**	**336,017**	**450,219**	**427,844**
Ratios (%)									
Debt/equity	5.0	3.3	2.8	7.9	5.5	3.3	8.6	7.0	5.3
Net debt/equity	(10.7)	(27.5)	(29.0)	(16.3)	(14.8)	(24.8)	(32.6)	(45.3)	(55.0)
RoAE	25.9	25.5	24.8	21.0	18.3	22.0	21.8	22.4	20.4
RoACE	**22.0**	**22.0**	**21.9**	**18.3**	**16.1**	**19.2**	**19.3**	**20.3**	**18.7**
Key assumptions									
Rs/dollar rate	44.3	45.3	40.3	45.8	47.4	45.0	45.3	45.3	45.3
Crude fob price (US$/bbl)	57.2	64.8	78.9	83.0	67.1	75.0	75.0	80.0	80.0
Ceiling/actual natural gas price (Rs/'000 cm)	3,515	3,200	3,200	3,200	3,200	6,783	7,500	7,500	7,500
Subsidy loss (Rs bn)	119.6	170.2	220.0	282.3	115.5	143.7	106.7	124.0	128.0

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Automobiles

India

CAUTIOUS

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UPDATE

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Disappointing at the margin; Tata Motors came in strong. June auto sales were below expectations for Maruti and M&M, primarily driven by annual shutdowns and component shortages. Retail demand seems to be holding up well for both companies and we would expect to see sales bounce-back in July. Tata Motors' June sales were 15% stronger than expected with CVs increasing 10% from May. HH's volumes were in line and would need 17% residual growth to hit our 15% FY2011E growth estimate.

Maruti's total sales in line; domestic sales were 5% weaker than expected at 72,812 units

Maruti reported total sales of 88,091 units for June, which were up 17% yoy. Total sales were down 14% from May and reflects the 6-day maintenance shutdown Maruti typically takes in June. Domestic sales came in below expectations at 72,812 units and were up 18% yoy and down 19% from May. Retail sales for the months remained buoyant and handily exceeded wholesale volumes. As a result we expect volumes to bounce back strongly in July. Exports volumes totaled 15,279 units, up 15% yoy and up 26% from May. Within segments, the A2 hatchback segment was up 11% yoy and was down 18% sequentially. The A3 sedan segment sales were up 33% yoy and down 26% from May. The van segment sales were up 44% yoy and down 24% sequentially. Fiscal year-to-date sales are up 25% yoy compared to the 17% we have modeled for FY2011E.

M&M sales disappoint on component shortage and maintenance shutdown at UVs

M&M reported UV sales of 18,211 units, which was 9% below estimates. Management attributed the lower volumes to a week-long maintenance shutdown at the UV plant and shortages in components such as fuel injection pumps and castings. UV sales were flat yoy and down 9% from May. Tractor sales for June came in at of 16,590 units and were 20% below our estimates. Tractor volumes were down 9% yoy and 4% from May. Tractor sales in June typically are up 25% from May. The company again attributed the lower than normal volumes to shortages of components such as castings and tires. 3 & 4-wheeler LCV sales totaled 7,559 units for June, up 125% yoy and 14% sequentially as the company ramped up sales of its newly introduced Maximmo truck.

Tata Motors sales were 15% better than expectations with across-the-board outperformance

Tata Motors reported total sales of 67,730 units, up 49% yoy and up 19% from May. The slightly disappointing performance for May was more than made up in June. Domestic M&HCV sales for June totaled 15,139 units, up 9% from May. LCV domestic sales totaled 19,652 units and were up 12% from May. Domestic passenger car sales totaled 24,209 units, up 30% from May. The sequential increase was largely driven by higher Nano sales of 7,704 units. Tata Motors raised prices of some of its truck models by 1.5% on average. LCVs such as the Ace and Winger were excluded from the price increase.

Hero Honda's volumes were largely in line with estimates

Hero Honda reported sales of 426,454 units, up 17% yoy and down 2% from May. Volumes were 2% below estimates. On a fiscal year-to-date basis, sales are up 10% through June compared to the 15% we are modeling for FY2011E, implying a residual growth rate of 17% for the rest of the year.

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Monthly sales for June'10

	Jun'10	Jun'10E	Jun-09	yoy %	May'10	mom %	YTD %	Growth FY2011E %
Two-wheelers								
Hero Honda	426,454	435,933	365,734	17	435,933	(2)	10	15
Four-wheelers								
	Jun'10	**Jun'10E**	**Jun-09**	**yoy %**	**May'10**	**mom %**	**YTD %**	**FY2011E %**
Tata Motors								
M&HCV	16,389	15,071	10,927	50	14,922	10	56	15
LCV	22,152	19,943	17,037	30	19,943	11	30	14
UV	3,702	3,068	3,342	11	2,789	33	21	15
Passenger Cars	25,487	20,513	14,093	81	19,125	33	68	68
Total	**67,730**	**58,595**	**45,399**	**49**	**56,779**	**19**	**47**	**32**
Mahindra & Mahindra								
UVs	18,211	20,008	18,126	0	20,008	(9)	14	18
Tractors	16,590	20,707	18,244	(9)	17,256	(4)	16	12
3 Wheelers, LCVs	7,559	7,309	3,357	125	6,641	14	89	100
Total	**42,360**	**48,024**	**39,727**	**7**	**43,905**	**(4)**	**36**	**26**
Maruti Udyog								
Domestic	72,812	76,535	61,773	18	90,041	(19)	23	19
Exports	15,279	12,500	13,336	15	12,134	26	38	2
Total	**88,091**	**89,035**	**75,109**	**17**	**102,175**	**(14)**	**25**	**17**

Source: Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	1-Jul-10 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS (Rs) 2012E	EPS growth (%) 2010E	EPS growth (%) 2011E	EPS growth (%) 2012E	PER (X) 2010E	PER (X) 2011E	PER (X) 2012E	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	EV/EBITDA (X) 2012E	Price/BV (X) 2010E	Price/BV (X) 2011E	Price/BV (X) 2012E	Dividend yield (%) 2010E	Dividend yield (%) 2011E	Dividend yield (%) 2012E	RoE (%) 2010E	RoE (%) 2011E	RoE (%) 2012E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Automobiles																													
Ashok Leyland	63	ADD	83,276	1,788	1,330	2.8	3.9	5.0	84.5	37.5	29.7	22.2	16.1	12.4	13.2	10.1	8.6	2.1	2.0	1.8	2.4	1.6	1.6	11.1	12.7	15.0	60	(4.2)	9.9
Bajaj Auto	2,495	ADD	360,920	7,748	145	117.5	159.9	173.2	159.8	36.1	8.3	21.2	15.6	14.4	13.4	10.7	9.8	11.4	7.2	5.1	0.8	0.8	0.8	66.6	54.8	39.8	2,330	(6.6)	11.2
Hero Honda	2,020	SELL	403,424	8,661	200	111.8	121.5	135.7	74.1	8.7	11.7	18.1	16.6	14.9	11.7	11.0	9.4	11.2	7.7	5.7	1.5	1.6	1.8	59.1	56.6	43.8	1,800	(10.9)	21.5
Mahindra & Mahindra	615	BUY	355,803	7,639	578	34.9	40.7	48.7	132.5	16.6	19.7	17.6	15.1	12.6	11.6	9.9	8.2	4.4	3.5	2.8	1.5	1.5	1.6	30.0	25.9	24.7	680	10.5	27.4
Maruti Suzuki	1,401	ADD	404,860	8,692	289	86.4	94.1	104.2	104.9	8.9	10.8	16.2	14.9	13.4	8.8	8.2	7.1	3.4	2.8	2.3	0.4	0.5	0.5	23.3	20.6	18.9	1,400	(0.1)	19.8
Tata Motors	763	ADD	454,736	9,762	596	23.9	27.2	35.5	138.9	13.5	30.6	31.9	28.1	21.5	12.7	12.7	11.1	2.2	2.0	1.7	0.7	0.8	0.8	8.1	7.5	8.6	900	18.0	96.0
Automobiles		**Cautious**	**2,132,356**	**45,778**					**109.8**	**19.9**	**16.8**	**20.9**	**17.4**	**14.9**	**11.8**	**10.5**	**9.0**	**3.9**	**3.2**	**2.7**	**1.0**	**1.0**	**1.1**	**18.6**	**18.5**	**18.0**			
Banks/Financial Institutions																													
Andhra Bank	129	BUY	62,711	1,346	485	21.0	21.1	25.4	56.1	0.6	20.0	6.2	6.1	5.1	—	—	—	1.3	1.1	1.0	3.3	3.3	3.9	24.4	20.2	20.7	160	23.7	5.7
Axis Bank	1,234	ADD	499,843	10,731	405	62.1	77.4	98.5	22.7	24.7	27.3	19.9	15.9	12.5	—	—	—	3.1	2.7	2.3	1.0	1.2	1.5	18.9	18.1	19.9	1,360	10.2	52.1
Bank of Baroda	720	BUY	263,034	5,647	366	83.7	89.8	111.0	37.3	7.3	23.6	8.6	8.0	6.5	—	—	—	1.9	1.6	1.3	2.1	2.2	2.8	24.4	21.8	22.6	825	14.6	11.0
Bank of India	357	REDUCE	187,752	4,031	526	33.1	42.7	56.7	(42.1)	28.9	32.8	10.8	8.4	6.3	—	—	—	1.5	1.3	1.1	2.0	2.5	3.4	14.2	16.4	19.1	360	0.8	5.9
Canara Bank	452	ADD	185,341	3,979	410	73.7	77.0	93.6	45.8	4.5	21.4	6.1	5.9	4.8	—	—	—	1.5	1.2	1.0	1.8	2.2	2.7	23.0	19.6	20.1	500	10.6	6.8
Corporation Bank	523	BUY	75,004	1,610	143	81.6	86.7	100.3	31.1	6.3	15.7	6.4	6.0	5.2	—	—	—	1.3	1.1	1.0	3.2	3.4	3.9	21.9	19.9	19.8	650	24.3	1.1
Federal Bank	316	BUY	54,072	1,161	171	27.2	38.7	48.0	(7.2)	42.3	24.2	11.6	8.2	6.6	—	—	—	1.2	1.0	0.9	1.6	2.3	2.8	10.3	13.4	14.8	360	13.9	5.4
HDFC	2,915	ADD	837,040	17,970	287	98.4	118.2	143.7	22.7	20.1	21.5	29.6	24.7	20.3	—	—	—	5.5	4.9	4.3	1.2	1.4	1.7	20.0	21.0	22.4	3,200	9.8	39.1
HDFC Bank	1,907	BUY	873,100	18,744	458	64.4	84.1	110.4	22.1	30.6	31.2	29.6	22.7	17.3	—	—	—	4.1	3.6	3.1	0.6	0.8	1.1	16.1	16.7	19.1	2,200	15.3	30.1
ICICI Bank	841	REDUCE	938,124	20,140	1,115	36.1	46.5	58.0	6.9	28.9	24.7	23.3	18.1	14.5	—	—	—	1.8	1.7	1.6	1.4	1.8	2.3	8.1	9.8	11.5	980	16.5	93.0
IDFC	182	ADD	237,172	5,092	1,301	8.2	9.2	11.2	41.1	12.9	21.9	22.3	19.8	16.2	—	—	—	3.4	3.0	2.6	0.9	0.9	1.1	16.1	16.0	17.1	195	7.0	21.6
India Infoline	95	BUY	29,605	636	312	8.1	8.9	10.0	59.2	9.8	12.5	11.7	10.6	9.5	—	—	—	1.9	1.5	1.3	3.3	2.0	2.5	16.4	15.9	16.1	140	47.4	3.7
Indian Bank	226	BUY	96,999	2,082	430	35.1	35.5	43.8	25.5	1.1	23.6	6.4	6.4	5.2	—	—	—	1.5	1.2	1.0	2.7	2.7	3.4	24.0	20.3	21.2	280	24.1	4.2
Indian Overseas Bank	104	BUY	56,632	1,216	545	13.0	15.4	26.4	(46.7)	18.9	71.3	8.0	6.7	3.9	—	—	—	0.9	0.8	0.7	3.9	4.3	4.8	9.6	10.6	16.3	120	15.4	3.9
J&K Bank	830	BUY	40,225	864	48	105.7	112.3	140.6	25.1	6.3	25.2	7.8	7.4	5.9	—	—	—	1.4	1.2	1.1	2.7	2.8	3.5	17.3	16.9	18.5	850	2.5	0.5
LIC Housing Finance	976	ADD	92,701	1,990	95	69.7	93.2	104.2	11.4	33.8	11.7	14.0	10.5	9.4	—	—	—	2.9	2.4	2.0	1.5	2.1	2.3	23.6	23.8	22.4	1,050	7.6	19.8
Mahindra & Mahindra Financial	443	BUY	42,509	913	96	35.7	42.6	49.8	59.3	19.3	16.8	12.4	10.4	8.9	—	—	—	2.5	2.1	1.8	1.7	2.0	2.4	21.4	21.7	21.6	500	12.9	1.1
Oriental Bank of Commerce	319	ADD	79,897	1,715	251	45.3	52.8	58.6	25.3	16.5	11.0	7.0	6.0	5.4	—	—	—	1.2	1.0	0.9	2.9	3.3	3.7	14.1	15.4	15.3	400	25.4	4.4
PFC	298	REDUCE	342,322	7,349	1,148	20.5	22.5	25.9	53.5	9.9	15.1	14.6	13.3	11.5	—	—	—	2.7	2.3	2.1	1.7	1.9	2.2	18.8	18.0	18.2	240	(19.5)	2.9
Punjab National Bank	1,020	BUY	321,719	6,907	315	123.8	128.0	156.5	26.3	3.4	22.2	8.2	8.0	6.5	—	—	—	2.0	1.7	1.4	2.2	2.5	3.1	26.4	22.7	23.3	1,150	12.7	7.6
Reliance Capital	752	ADD	185,002	3,972	246	13.8	16.1	14.1	(64.9)	17.0	(12.4)	54.5	46.5	53.1	—	—	—	2.7	2.6	2.5	0.9	0.9	0.8	5.0	5.7	4.8	875	16.4	36.7
Rural Electrification Corp.	303	ADD	299,130	6,422	987	20.3	24.6	30.7	23.2	21.2	24.9	14.9	12.3	9.9	—	—	—	2.7	2.4	2.0	2.1	2.4	3.0	22.0	20.5	22.2	300	(1.0)	14.9
Shriram Transport	593	ADD	132,289	2,840	223	39.2	49.1	62.4	30.1	25.4	27.2	15.1	12.1	9.5	—	—	—	3.6	3.0	2.5	2.0	2.5	3.2	28.4	26.1	27.8	600	1.2	4.4
SREI	81	NR	9,361	201	116	8.3	7.9	9.9	17.8	(4.8)	25.8	9.7	10.2	8.1	—	—	—	0.8	0.7	0.7	1.5	1.5	1.5	11.1	10.5	12.3	—	—	4.0
State Bank of India	2,262	BUY	1,436,258	30,834	635	144.4	178.1	223.0	0.5	23.4	25.2	15.7	12.7	10.1	—	—	—	2.2	1.9	1.7	1.8	1.9	1.9	14.8	16.1	17.8	2,700	19.4	98.9
Union Bank	314	BUY	158,354	3,400	505	41.1	45.8	57.3	20.2	11.5	25.0	7.6	6.8	5.5	—	—	—	1.8	1.5	1.2	1.8	2.1	2.7	26.2	23.7	24.3	380	21.2	4.6
Banks/Financial Institutions		**Attractive**	**7,627,769**	**163,756**					**14.7**	**17.5**	**24.2**	**15.2**	**12.9**	**10.4**	**—**	**—**	**—**	**2.3**	**2.1**	**1.8**	**1.5**	**1.8**	**2.1**	**15.5**	**16.1**	**17.4**			
Cement																													
ACC	867	SELL	162,817	3,495	188	83.2	61.8	63.4	47.9	(25.7)	2.6	10.4	14.0	13.7	5.6	6.6	5.7	2.5	2.2	2.0	2.7	2.7	2.7	29.3	19.4	17.7	830	(4.2)	8.6
Ambuja Cements	113	SELL	172,105	3,695	1,522	8.0	7.9	8.1	11.4	(1.8)	2.6	14.1	14.4	14.0	7.9	8.2	7.4	2.5	2.2	2.0	1.7	1.9	1.9	19.3	16.7	15.3	98	(13.3)	5.8
Grasim Industries	1,845	ADD	169,205	3,633	92	301.0	240.1	282.0	26.1	(20.2)	17.5	6.1	7.7	6.5	3.9	3.9	3.0	1.4	1.2	1.0	1.8	1.9	1.9	22.9	16.4	16.7	2,150	16.5	9.1
India Cements	107	SELL	32,698	702	307	10.0	10.4	11.3	(43.5)	3.1	9.1	10.6	10.3	9.4	5.4	5.4	5.2	0.8	0.7	0.7	2.0	3.0	3.0	8.2	7.7	8.0	110	3.3	3.1
Shree Cement	1,986	BUY	69,187	1,485	35	208.0	221.1	242.5	19.0	6.3	9.7	9.5	9.0	8.2	4.7	4.5	3.6	3.8	2.7	2.0	0.5	0.5	0.5	48.0	35.0	28.1	2,550	28.4	0.7
UltraTech Cement	867	SELL	107,883	2,316	124	88.2	67.1	77.2	12.0	(23.9)	15.0	9.8	12.9	11.2	5.1	5.7	4.7	2.0	1.7	1.5	0.9	0.9	0.9	26.6	16.8	16.7	940	8.5	2.5
Cement		**Neutral**	**713,893**	**15,326**					**19.3**	**(15.5)**	**10.4**	**9.3**	**11.0**	**10.0**	**5.1**	**5.4**	**4.5**	**1.9**	**1.7**	**1.5**	**1.7**	**1.8**	**1.8**	**20.5**	**15.1**	**14.6**			
Consumer products																													
Asian Paints	2,330	BUY	223,469	4,798	96	71.6	82.1	98.1	85.4	14.7	19.5	32.6	28.4	23.7	20.3	17.5	14.3	13.8	11.0	8.9	1.2	1.5	1.7	51.6	44.5	42.5	2,300	(1.3)	2.5
Colgate-Palmolive (India)	841	REDUCE	114,316	2,454	136	29.7	33.0	37.6	37.6	11.1	13.9	28.3	25.5	22.4	21.0	18.5	15.8	35.8	28.0	22.4	2.4	2.7	3.0	150.2	122.2	109.9	760	(9.6)	2.4
Dabur India	206	BUY	178,629	3,835	866	5.8	6.8	8.2	28.1	17.6	20.8	35.6	30.3	25.0	26.4	21.2	17.6	17.0	13.9	11.5	1.5	1.7	2.1	54.3	51.1	50.7	200	(3.0)	2.4
GlaxoSmithkline Consumer (a)	1,820	ADD	76,556	1,644	42	55.4	70.0	82.9	23.6	26.5	18.4	32.9	26.0	22.0	18.2	15.4	12.6	8.6	7.1	5.9	1.0	1.3	1.5	27.9	29.6	29.2	1,800	(1.1)	0.9
Godrej Consumer Products	344	NR	106,048	2,277	308	8.7	9.8	11.6	29.7	13.2	18.2	39.7	35.0	29.6	28.1	25.1	21.1	9.0	7.9	7.9	1.2	1.2	1.2	30.7	24.1	27.8	—	—	3.5
Hindustan Unilever	273	REDUCE	593,904	12,750	2,179	9.7	10.4	11.8	1.7	7.3	14.0	28.2	26.3	23.0	19.0	17.9	15.1	23.3	20.1	17.3	2.8	3.1	3.6	91.6	82.2	80.8	230	(15.6)	13.7
ITC	303	BUY	1,141,889	24,515	3,769	10.8	12.4	14.5	24.4	15.4	16.9	28.1	24.4	20.8	17.3	15.3	12.8	8.0	6.9	5.9	3.3	1.8	2.0	29.9	32.2	32.1	315	4.0	22.4
Jubilant Foodworks	303	REDUCE	19,624	421	65	5.5	7.7	9.7	340.6	39.3	25.3	54.6	39.2	31.3	29.5	20.7	14.6	16.7	11.7	8.5	—	—	—	46.6	35.1	31.5	290	(4.2)	12.7
Jyothy Laboratories	257	ADD	18,654	400	73	11.0	12.9	15.3	99.6	17.0	18.3	23.3	19.9	16.8	17.9	13.6	11.1	4.6	3.9	3.3	1.8	1.4	1.8	18.6	20.2	20.5	230	(10.5)	1.3
Nestle India (a)	2,943	REDUCE	283,742	6,091	96	74.4	87.0	105.5	27.0	17.0	21.3	39.6	33.8	27.9	26.1	23.2	19.9	48.8	38.7	30.6	1.6	2.1	2.5	136.0	127.8	122.7	3,000	1.9	2.3
Tata Tea	121	BUY	74,888	1,608	618	6.6	7.4	8.4	23.4	11.1	13.8	18.3	16.5	14.5	11.7	9.5	8.5	1.5	1.4	1.3	1.8	2.0	2.3	10.9	11.4	12.0	125	3.2	3.8
Consumer products		**Attractive**	**2,831,718**	**60,793**					**23.4**	**13.8**	**16.9**	**29.8**	**26.2**	**22.4**	**19.2**	**16.9**	**14.2**	**10.1**	**8.8**	**7.6**	**2.5**	**2.1**	**2.3**	**34.0**	**33.4**	**33.8**			
Constructions																													
IVRCL	188	BUY	50,211	1,078	267	7.8	10.3	12.4	(7.7)	32.4	19.7	24.1	18.2	15.2	12.6	10.3	8.7	2.5	2.2	1.9	0.2	0.2	0.2	10.9	12.8	13.5	215	14.3	7.6
Nagarjuna Construction Co.	187	BUY	47,904	1,028	257	7.1	11.5	14.3	6.1	61.1	24.1	26.2	16.2	13.1	12.6	9.5	7.8	2.1	1.9	1.7	0.9	1.1	1.1	9.3	12.5	13.9	210	12.5	3.9
Punj Lloyd	133	REDUCE	45,224	971	339	(12.9)	9.8	12.0	79.2	(175.4)	22.4	(10.3)	13.7	11.2	37.0	7.3	6.6	1.5	1.3	1.2	(0.1)	0.3	0.8	(15.8)	10.3	11.4	140	4.9	13.0
Sadbhav Engineering	1,270	BUY	19,047	409	15	43.1	62.0	84.0	(15.8)	43.9	35.5	29.5	20.5	15.1	16.5	10.7	8.8	4.6	3.1	2.6	0.3	0.5	0.5	13.3	14.1	17.4	1,450	14.2	0.3
Construction		**Attractive**	**162,386**	**3,486**					**(96.9)**	**14,481**	**24.4**	**2,398.4**	**16.4**	**13.2**	**17.0**	**8.9**	**7.7**	**2.1**	**1.9**	**1.6**	**0.3**	**0.5**	**0.7**	**0.1**	**11.3**	**12.5**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	1-Jul-10 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS (Rs) 2012E	EPS growth (%) 2010E	EPS growth (%) 2011E	EPS growth (%) 2012E	PER (X) 2010E	PER (X) 2011E	PER (X) 2012E	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	EV/EBITDA (X) 2012E	Price/BV (X) 2010E	Price/BV (X) 2011E	Price/BV (X) 2012E	Dividend yield (%) 2010E	Dividend yield (%) 2011E	Dividend yield (%) 2012E	RoE (%) 2010E	RoE (%) 2011E	RoE (%) 2012E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Energy																													
Aban Offshore	849	ADD	36,942	793	43	94.5	172.3	103.6	(2.5)	82.3	(39.8)	9.0	4.9	8.2	8.4	6.2	6.8	1.7	0.9	0.9	0.4	0.4	0.5	21.7	20.8	11.1	900	6.0	49.3
Bharat Petroleum	660	ADD	238,725	5,125	362	63.5	54.3	67.6	208	(14)	24.5	10	12	9.8	5.8	5.9	5.0	1.7	1.5	1.4	2.1	2.7	3.4	16.0	12.3	13.9	660	(0.0)	18.8
Cairn india	297	SELL	563,115	12,089	1,897	5.3	28.5	40.0	24.3	433.4	40.5	55.6	10.4	7.4	43.5	7.1	5.0	1.6	1.4	1.3	—	—	5.1	3.0	14.6	18.1	250	(15.8)	17.5
Castrol India (a)	433	REDUCE	107,060	2,298	247	15.4	19.6	20.6	45	27	5.3	28	22	21.0	16.6	13.5	12.7	23.3	21.7	20.0	2.9	3.6	3.7	83.8	101.6	99.2	365	(15.7)	1.3
GAIL (India)	466	ADD	591,429	12,697	1,268	24.8	26.2	38.8	11.7	5.8	48.0	18.8	17.8	12.0	10.6	11.0	8.6	3.3	2.9	2.5	1.6	1.8	2.7	17.4	16.3	21.1	495	6.2	18.6
GSPL	102	REDUCE	57,482	1,234	562	7.4	8.9	9.1	235	22	1.3	14	11	11.3	7.1	6.0	5.4	3.4	2.7	2.4	1.0	2.2	3.5	27.3	26.3	22.5	80	(21.7)	4.3
Hindustan Petroleum	470	ADD	159,301	3,420	339	54.7	45.0	62.0	222.7	(17.9)	38.0	8.6	10.5	7.6	3.2	3.7	2.9	1.2	1.1	1.0	2.6	3.0	4.1	13.9	10.3	13.0	500	6.4	22.5
Indian Oil Corporation	400	ADD	971,180	20,850	2,428	49.9	34.0	37.4	407	(32)	10.0	8	12	10.7	5.4	6.4	5.3	1.8	1.6	1.5	3.3	2.6	2.8	22.7	13.8	14.0	410	2.5	14.7
Oil India	1,443	BUY	347,084	7,451	240	115.1	130.7	152.0	13.8	13.5	16.3	12.5	11.0	9.5	5.4	4.4	3.5	2.3	2.1	1.8	2.4	3.0	3.5	16.7	17.8	18.2	1,440	(0.2)	6.9
Oil & Natural Gas Corporation	1,302	BUY	2,785,473	59,800	2,139	91.4	124.9	141.1	1	37	12.9	14	10	9.2	5.2	4.3	3.5	2.1	1.9	1.7	2.5	3.2	3.7	14.6	17.9	18.0	1,450	11.3	35.4
Petronet LNG	77	REDUCE	57,788	1,241	750	5.4	5.5	8.2	(22.0)	2.6	47.8	14.3	13.9	9.4	8.7	8.2	6.6	2.3	2.0	1.7	2.3	2.6	3.6	15.9	14.3	18.6	82	6.4	4.3
Reliance Industries	1,076	SELL	3,202,920	68,762	2,976	49.6	62.9	80.2	(2)	27	27.5	22	17	13.4	10.9	8.2	6.9	2.2	2.0	1.8	1.4	1.7	2.1	11.4	13.2	15.3	985	(8.5)	123.5
Energy		**Cautious**	**9,118,497**	**195,760**					**33.2**	**20.8**	**20.8**	**15.1**	**12.5**	**10.3**	**7.4**	**6.2**	**5.1**	**2.1**	**1.9**	**1.7**	**1.9**	**2.3**	**3.0**	**13.8**	**15.0**	**16.3**			
Industrials																													
ABB	861	REDUCE	182,368	3,915	212	16.7	23.3	37.2	(35.2)	39.2	59.8	51.4	36.9	23.1	29.5	21.7	13.4	7.5	6.4	5.1	0.2	0.4	0.4	15.6	18.8	24.7	840	(2.4)	7.1
BGR Energy Systems	726	BUY	52,279	1,122	72	16.0	28.0	39.7	32.2	74.6	41.9	45.3	25.9	18.3	25.5	14.7	10.7	9.3	7.4	5.7	0.4	1.0	1.1	22.3	31.8	35.1	800	10.2	3.1
Bharat Electronics	1,719	REDUCE	137,496	2,952	80	93.9	111.8	127.4	(9.6)	19.1	13.9	18.3	15.4	13.5	8.7	7.0	5.9	3.1	2.7	2.3	1.5	1.5	1.5	17.9	18.7	18.5	1,790	4.1	3.0
Bharat Heavy Electricals	2,428	REDUCE	1,188,408	25,513	490	88.1	113.1	137.5	37.9	28.4	21.6	27.6	21.5	17.7	15.4	11.6	9.5	7.5	5.9	4.7	0.8	1.0	1.2	29.9	30.8	29.8	2,500	3.0	30.0
Crompton Greaves	257	BUY	165,071	3,544	642	12.8	13.3	15.8	46.5	3.2	19.0	20.0	19.4	16.3	11.6	10.6	8.7	6.3	4.9	3.9	0.7	0.7	0.8	36.8	28.5	26.8	290	12.7	7.9
Larsen & Toubro	1,794	BUY	1,078,260	23,149	601	58.1	71.2	90.4	16.0	22.4	27.0	30.9	25.2	19.9	16.5	13.9	11.4	4.8	4.0	3.4	0.6	0.7	0.8	18.6	17.5	18.7	1,900	5.9	55.5
Maharashtra Seamless	389	BUY	27,457	589	71	40.2	43.6	49.8	12.1	8.5	14.2	9.7	8.9	7.8	5.1	4.5	3.5	1.7	1.5	1.3	1.5	2.0	2.6	19.3	17.9	17.7	450	15.6	0.4
Siemens	716	REDUCE	241,289	5,180	337	25.0	29.6	34.3	55.2	18.6	16.0	28.7	24.2	20.8	16.9	13.8	11.7	7.1	5.8	4.8	0.7	0.8	0.9	27.3	26.3	25.1	635	(11.3)	7.1
Suzlon Energy	57	REDUCE	91,409	1,962	1,594	(5.9)	0.3	5.3	(182.3)	(104.4)	1,931.8	(9.6)	221.1	10.9	16.9	8.7	5.6	0.8	0.8	0.8	—	—	0.3	(8.8)	0.4	7.5	70	22.1	27.7
Thermax	746	BUY	88,844	1,907	119	21.7	29.4	37.6	(10.4)	35.4	27.7	34.3	25.3	19.8	18.4	14.2	11.2	8.2	6.7	5.5	0.5	1.1	1.4	24.9	29.1	30.5	750	0.6	1.0
Voltas	199	REDUCE	65,717	1,411	331	10.9	11.3	12.6	57.4	3.8	12.1	18.3	17.6	15.7	10.8	9.5	8.1	6.1	5.0	4.1	1.6	1.7	1.9	38.3	31.3	28.8	200	0.7	4.6
Industrials		**Attractive**	**3,318,598**	**71,245**					**1.8**	**34.8**	**29.0**	**31.2**	**23.1**	**17.9**	**15.6**	**12.2**	**9.7**	**5.0**	**4.2**	**3.6**	**0.7**	**0.9**	**1.0**	**16.0**	**18.3**	**19.9**			
Infrastructure																													
Container Corporation	1,335	REDUCE	173,471	3,724	130	61.1	74.3	85.9	0.3	21.7	15.6	21.9	18.0	15.5	15.4	12.5	10.5	4.0	3.4	3.0	1.1	1.3	1.5	19.6	20.6	20.5	1,250	(6.3)	1.7
GMR Infrastructure	60	ADD	219,287	4,708	3,667	0.4	0.2	0.1	(43.8)	(48.9)	(40.0)	138.8	271.6	452.4	24.1	15.6	14.6	2.1	1.8	1.8	—	—	—	2.4	1.2	0.7	65	8.7	6.1
GVK Power & Infrastructure	44	BUY	69,090	1,483	1,579	0.8	1.1	1.4	6.7	33.5	32.4	53.8	40.3	30.4	18.4	16.8	17.3	2.2	2.1	2.0	—	0.7	0.7	4.7	5.3	6.7	54	23.4	5.8
IRB Infrastructure	263	RS	87,445	1,877	332	9.7	12.6	12.1	83.8	29.2	(3.7)	27.0	20.9	21.7	12.9	11.5	10.7	3.8	2.9	2.3	—	—	—	15.6	15.7	11.9	—	—	4.8
Mundra Port and SEZ	730	REDUCE	294,406	6,320	403	15.1	24.1	35.7	40.8	59.5	48.4	48.3	30.3	20.4	31.1	20.0	14.2	8.1	6.2	4.7	—	—	—	18.5	23.2	26.1	725	(0.6)	11.7
Infrastructure		**Attractive**	**843,700**	**18,113**					**12.7**	**29.5**	**24.1**	**41.9**	**32.4**	**26.1**	**21.1**	**15.5**	**13.4**	**3.5**	**3.0**	**2.7**	—	—	**0.4**	**8.4**	**9.2**	**10.2**			
Media																													
DB Corp	239	ADD	43,431	932	181	10.6	12.9	15.7	276.4	21.0	22.3	22.5	18.6	15.2	12.5	10.3	8.1	6.2	4.9	4.2	0.8	1.7	2.5	38.2	29.6	29.9	280	17.0	0.3
DishTV	46	ADD	48,704	1,046	1,063	(2.5)	(1.2)	0.5	(62.6)	(49.9)	(141.4)	(18.6)	(37.2)	89.9	60.7	22.1	12.1	11.7	17.1	14.4	—	—	—	250.2	(37.4)	17.4	47	2.6	3.6
HT Media	151	NR	35,567	764	235	6.1	7.8	9.4	623.3	27.0	20.9	24.8	19.5	16.1	12.4	10.3	8.4	3.7	3.3	3.0	0.7	1.3	2.6	15.6	17.6	19.2	—	—	0.3
Jagran Prakashan	125	ADD	37,601	807	301	5.8	6.4	7.5	91.9	9.5	16.7	21.4	19.5	16.7	12.9	11.4	9.7	6.1	5.5	4.9	2.8	2.8	3.2	30.0	29.8	31.0	130	4.1	0.7
Sun TV Network	431	REDUCE	169,868	3,647	394	13.1	17.9	22.8	44.8	36.0	27.5	32.8	24.1	18.9	18.6	13.9	11.0	8.8	7.4	6.1	1.7	1.7	2.1	28.4	33.5	35.5	420	(2.6)	1.7
Zee Entertainment Enterprises	299	REDUCE	129,701	2,784	434	10.5	12.0	14.7	24.4	14.4	22.2	28.4	24.9	20.3	21.2	16.7	13.3	3.5	3.4	3.2	0.8	1.0	1.2	13.0	14.1	16.4	265	(11.3)	9.5
Media		**Neutral**	**464,872**	**9,980**					**185.0**	**40.2**	**36.2**	**38.2**	**27.3**	**20.0**	**18.4**	**14.1**	**10.9**	**5.6**	**5.1**	**4.6**	**1.2**	**1.4**	**1.8**	**14.6**	**18.7**	**22.8**			
Metals																													
Hindalco Industries	143	ADD	273,599	5,874	1,914	5.7	12.6	15.1	(64.5)	122.5	19.4	25.2	11.3	9.5	7.7	8.1	8.3	1.2	1.1	1.0	0.9	0.9	0.9	10.3	10.4	11.2	185	29.4	41.8
Hindustan Zinc	952	BUY	402,356	8,638	423	95.6	117.5	133.2	48.2	22.8	13.4	10.0	8.1	7.1	6.0	4.1	2.7	2.1	1.7	1.4	0.6	0.6	0.6	24.2	23.5	21.4	1,400	47.0	4.3
Jindal Steel and Power	614	SELL	569,277	12,221	928	38.5	48.7	50.8	17.2	26.5	4.3	15.9	12.6	12.1	10.0	8.1	7.5	5.0	3.6	2.7	0.2	0.2	0.2	37.3	33.0	25.7	575	(6.3)	31.8
JSW Steel	1,037	REDUCE	206,037	4,423	199	80.4	106.4	136.9	447.0	32.3	28.7	12.9	9.7	7.6	8.2	6.9	5.6	1.8	1.5	1.2	0.9	0.5	0.5	15.4	16.4	17.3	1,150	10.9	54.3
National Aluminium Co.	430	SELL	277,118	5,949	644	10.1	28.0	27.7	(49.0)	178.6	(1.2)	42.7	15.3	15.5	19.0	7.5	6.9	2.5	2.2	1.9	0.5	0.5	0.5	6.1	15.4	13.3	320	(25.6)	1.4
Sesa Goa	352	REDUCE	312,819	6,716	890	29.6	61.4	62.4	32.2	107.6	1.8	11.9	5.7	5.6	9.6	3.5	2.8	4.0	2.4	1.7	0.9	0.9	0.9	36.7	48.0	34.1	420	19.5	81.2
Sterlite Industries	164	ADD	551,648	11,843	3,362	12.0	16.9	20.8	21.9	40.6	23.2	13.7	9.7	7.9	10.4	7.6	5.7	1.5	1.4	1.2	2.1	2.1	2.1	13.2	15.0	16.4	220	34.1	49.8
Tata Steel	475	BUY	421,515	9,049	887	3.2	78.7	93.5	(97.1)	2,331.6	18.7	146.7	6.0	5.1	17.0	5.7	4.8	1.7	1.3	1.1	1.7	1.7	1.7	1.1	24.7	23.8	700	47.4	111.4
Metals		**Cautious**	**3,014,368**	**64,714**					**(28.9)**	**89.6**	**13.7**	**16.8**	**8.9**	**7.8**	**10.2**	**6.3**	**5.4**	**2.1**	**1.7**	**1.4**	**1.0**	**1.0**	**1.0**	**12.4**	**19.4**	**18.3**			
Pharmaceutical																													
Biocon	322	BUY	64,450	1,384	200	14.7	18.7	23.0	212.6	27.7	23.0	22.0	17.2	14.0	12.6	10.5	8.6	3.6	3.1	2.6	—	—	0.1	17.9	19.7	20.7	345	7.1	4.0
Cipla	335	REDUCE	269,179	5,779	803	13.5	12.8	15.6	35.9	(4.9)	21.9	24.9	26.1	21.5	18.4	17.3	14.5	4.6	4.0	3.5	0.7	0.7	0.7	19.9	16.3	17.4	280	(16.5)	10.8
Cadila Healthcare	670	REDUCE	137,202	2,946	205	24.7	29.6	34.9	66.9	20.0	17.6	27.1	22.6	19.2	17.4	14.6	12.8	8.5	6.6	5.2	0.7	0.9	1.0	36.1	32.8	30.3	535	(20.2)	1.6
Dishman Pharma & chemicals	214	BUY	17,393	373	81	14.4	17.2	28.8	(19.7)	19.4	67.0	14.8	12.4	7.4	10.7	8.9	6.3	2.2	1.9	1.5	—	—	—	15.5	16.3	22.7	300	40.3	0.8
Divi's Laboratories	781	ADD	103,230	2,216	132	25.8	34.3	43.9	(18.3)	33.3	27.9	30.3	22.8	17.8	22.7	16.7	12.8	6.9	5.6	4.6	—	—	—	24.8	27.2	28.4	800	2.4	3.3
Dr Reddy's Laboratories	1,440	REDUCE	244,006	5,238	169	48.1	66.7	70.8	48.3	38.8	6.1	30.0	21.6	20.3	16.6	12.5	11.6	6.5	5.1	4.2	0.5	0.6	0.6	22.2	26.3	22.6	1,150	(20.2)	15.1
GlaxoSmithkline Pharmaceuticals (a)	2,189	REDUCE	185,381	3,980	85	59.1	69.1	79.2	8.1	17.0	14.5	37.0	31.7	27.6	21.4	18.4	15.7	10.4	8.8	7.6	—	—	—	29.8	30.2	29.5	1,800	(17.8)	1.5
Glenmark Pharmaceuticals	270	NR	74,095	1,591	274	12.7	19.2	20.3	14.7	50.6	5.6	21.2	14.1	13.3	13.7	8.9	8.5	3.1	2.6	2.2	—	—	—	16.7	19.9	17.6	—	—	5.2
Jubilant Organosys	350	BUY	55,643	1,195	159	26.5	33.7	39.3	49.0	27.1	16.7	13.2	10.4	8.9	9.6	8.5	7.0	2.5	2.0	1.7	0.6	0.7	0.9	26.3	22.0	21.1	400	14.2	2.6
Lupin	1,930	ADD	170,965	3,670	89	76.9	104.1	122.5	27.8	35.3	17.6	25.1	18.5	15.8	21.4	15.5	12.2	7.4	5.5	4.2	0.7	0.8	0.8	36.6	34.4	30.7	1,920	(0.5)	7.0
Piramal Healthcare	482	REDUCE	100,769	2,163	209	23.4	13.4	11.0	35.5	(42.9)	(17.6)	20.6	36.1	43.8	15.2	5.5	3.6	6.0	1.1	0.9	1.1	1.2	0.7	32.1	141.2	16.6	490	1.6	32.1
Ranbaxy Laboratories	461	SELL	197,321	4,236	428	7.1	28.0	11.7	(128.4)	297.1	(58.3)	65.3	16.4	39.4	16.0	9.6	19.1	5.0	4.0	3.7	—	0.9	0.9	6.9	24.6	9.1	220	(52.2)	10.9
Sun Pharmaceuticals	1,753	REDUCE	363,009	7,793	207	65.2	67.7	77.6	(25.7)	3.8	14.6	26.9	25.9	22.6	20.3	18.3	15.4	4.4	3.9	3.4	0.8	0.8	0.8	17.8	16.2	16.2	1,560	(11.0)	8.7
Pharmaceuticals		**Attractive**	**1,982,644**	**42,564**					**44.7**	**27.3**	**5.9**	**27.6**	**21.6**	**20.4**	**17.2**	**13.3**	**12.4**	**5.2**	**3.8**	**3.2**	**0.5**	**0.6**	**0.6**	**18.9**	**17.3**	**15.6**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

	1-Jul-10		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	Price (Rs)	Rating	(Rs mn)	(US$ mn)	(mn)	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	(Rs)	(%)	(US$ mn)
Property																													
DLF	284	ADD	484,868	10,409	1,708	9.6	16.3	25.1	(64.0)	69.4	53.8	29.5	17.4	11.3	19.1	12.1	9.1	1.8	1.7	1.5	1.0	1.0	1.7	6.4	9.9	13.8	340	19.8	52.5
Indiabulls Real Estate	156	RS	62,732	1,347	401	1.6	4.0	8.0	109.7	151.7	101.7	98.6	39.2	19.4	(62)	31.3	8.1	0.7	0.7	0.7	—	—	—	0.8	1.8	3.5	285	82.3	21.3
Mahindra Life Space Developer	457	ADD	19,227	413	42	18.9	20.3	27.5	82.4	7.3	35.8	24.2	22.6	16.6	20.3	16.8	9.2	2.0	1.9	1.8	0.8	0.8	0.8	8.4	8.5	10.7	540	18.1	1.5
Phoenix Mills	216	BUY	31,214	670	145	5.1	7.7	8.7	2.5	51.0	13.5	42.3	28.0	24.7	32.6	20.9	17.5	2.0	1.9	1.8	0.5	0.7	0.9	4.8	7.0	7.5	260	20.6	1.0
Puravankara Projects	106	REDUCE	22,602	485	213	6.4	8.2	8.1	(5.2)	28.4	(2.0)	16.5	12.8	13.1	20.8	14.0	13.8	1.6	1.5	1.4	1.9	1.9	1.9	10.0	11.9	10.7	110	3.9	0.6
Sobha	288	ADD	28,223	606	98	14.4	17.5	24.7	(4.8)	21.1	41.6	20.0	16.5	11.6	15.1	12.1	7.4	1.6	1.5	1.4	0.7	1.4	1.4	9.8	9.4	12.2	325	12.9	2.3
Unitech	73	SELL	190,196	4,083	2,616	3.4	4.3	5.6	(54.2)	26.3	30.2	21.5	17.1	13.1	19.5	13.3	8.4	1.8	1.5	1.4	—	—	2.1	9.7	9.4	11.1	72	(1.0)	58.1
Property		**Cautious**	**839,062**	**18,013**					**(52.9)**	**57.8**	**46.6**	**29.1**	**18.4**	**12.6**	**19.8**	**12.8**	**9.1**	**1.6**	**1.5**	**1.4**	**0.7**	**0.7**	**1.6**	**5.5**	**8.0**	**10.8**			
Retail																													
Titan Industries	2,350	ADD	104,302	2,239	44	62.7	76.1	96.2	41.5	21.3	26.5	37.5	30.9	24.4	26.6	20.8	16.3	13.2	9.9	7.4	0.4	0.5	0.6	40.7	36.6	34.8	2,400	2.1	4.0
Retail		**Neutral**	**104,302**	**2,239**					**41.5**	**21.3**	**26.5**	**37.5**	**30.9**	**24.4**	**26.6**	**20.8**	**16.3**	**13.2**	**9.9**	**7.4**	**0.4**	**0.5**	**0.6**	**35.2**	**32.0**	**30.5**			
Sugar																													
Bajaj Hindustan	117	SELL	22,379	480	191	9.7	9.9	8.9	201.1	2.2	(10.4)	12.0	11.8	13.1	7.0	5.8	5.5	0.9	0.9	0.8	0.6	0.6	0.6	8.1	7.5	6.3	99	(15.3)	7.1
Balrampur Chini Mills	85	ADD	21,760	467	257	3.7	10.4	7.0	(51.9)	183.7	(32.7)	23.1	8.1	12.1	9.7	5.5	6.0	1.6	1.4	1.3	0.5	0.5	0.5	7.0	18.1	11.0	92	8.6	7.1
Shree Renuka Sugars	69	BUY	45,881	985	670	9.9	7.6	7.8	196.4	(23.2)	3.1	6.9	9.0	8.7	4.7	5.4	4.6	1.8	1.5	1.3	0.6	0.5	0.5	32.0	18.1	15.7	76	10.9	16.5
Sugar		**Cautious**	**90,021**	**1,933**					**96.1**	**2.5**	**(9.4)**	**9.5**	**9.3**	**10.3**	**6.2**	**5.6**	**5.2**	**1.4**	**1.2**	**1.1**	**0.6**	**0.5**	**0.5**	**14.9**	**13.3**	**10.8**			
Technology																													
HCL Technologies	363	REDUCE	250,746	5,383	690	17.8	25.1	28.5	2.0	40.6	13.6	20.4	14.5	12.8	10.4	8.9	7.3	3.9	3.3	2.7	1.1	1.1	1.7	20.8	24.9	23.3	370	1.8	13.5
Hexaware Technologies	75	REDUCE	10,824	232	144	9.3	5.1	9.4	127.7	(45.4)	84.0	8.1	14.8	8.0	4.0	8.1	4.3	1.3	1.2	1.1	1.3	1.3	1.3	17.8	8.4	14.0	72	(4.4)	2.8
Infosys Technologies	2,767	BUY	1,588,287	34,098	574	108.3	125.2	150.5	5.7	15.6	20.2	25.5	22.1	18.4	18.6	15.2	12.4	6.9	5.7	4.7	0.9	1.3	1.5	30.1	28.2	28.0	3,100	12.0	66.3
Mphasis BFL	579	REDUCE	120,674	2,591	208	43.6	49.0	45.6	207.5	12.5	(7.0)	13.3	11.8	12.7	10.5	9.4	8.5	5.1	3.7	2.9	0.6	0.7	0.8	48.1	36.4	25.8	550	(5.0)	9.4
Mindtree	544	REDUCE	22,397	481	41	52.2	38.9	51.6	294.3	(25.5)	32.6	10.4	14.0	10.5	8.9	8.6	6.1	3.3	2.7	2.2	0.4	0.7	0.9	35.2	21.4	23.1	550	1.1	2.4
Patni Computer Systems	514	REDUCE	68,472	1,470	133	36.6	42.3	38.6	36.4	15.6	(8.7)	14.1	12.2	13.3	7.3	6.4	5.6	1.9	1.8	1.6	1.4	1.6	1.5	18.2	15.8	12.8	450	(12.5)	6.3
Polaris Software Lab	178	SELL	17,737	381	100	15.4	19.1	18.6	16.9	24.3	(2.7)	11.6	9.3	9.6	5.7	7.4	6.3	2.0	1.7	1.5	2.0	2.1	2.2	18.6	20.1	17.0	180	1.2	3.1
TCS	732	BUY	1,432,670	30,757	1,957	35.1	41.1	46.3	32.8	16.9	12.8	20.8	17.8	15.8	16.0	12.9	10.7	6.8	5.7	4.8	2.7	2.2	2.5	37.6	34.8	32.8	900	23.0	31.6
Wipro	375	ADD	917,867	19,705	2,447	18.9	21.9	25.0	22.1	16.2	14.4	19.9	17.1	15.0	15.0	12.3	10.1	4.7	3.8	3.2	1.0	1.2	1.4	26.5	24.6	23.2	465	24.0	15.6
Technology		**Attractive**	**4,429,674**	**95,098**					**22.9**	**16.7**	**14.2**	**21.2**	**18.2**	**15.9**	**15.4**	**12.8**	**10.5**	**5.7**	**4.7**	**3.9**	**1.5**	**1.5**	**1.8**	**26.7**	**25.8**	**24.6**			
Telecom																													
Bharti Airtel	265	REDUCE	1,006,554	21,609	3,798	24.0	21.4	24.2	7.5	(10.8)	13.2	11.0	12.4	10.9	6.2	5.9	5.0	2.3	1.9	1.7	1.1	1.5	1.9	24.1	17.0	16.5	290	9.4	45.4
IDEA	60	REDUCE	197,163	4,233	3,300	2.7	1.3	2.3	(5.8)	(51.7)	71.9	21.9	45.2	26.3	7.7	7.7	6.3	1.7	1.7	1.6	—	—	—	7.2	3.8	6.3	50	(16.3)	9.4
MTNL	66	SELL	41,423	889	630	(15.6)	(10.4)	(9.1)	(750.8)	(33.7)	(11.9)	(4.2)	(6.3)	(7.2)	(0.5)	(0.7)	(0.9)	0.4	0.4	0.4	—	—	—	(8.5)	(6.1)	(5.7)	50	(24.0)	2.6
Reliance Communications	192	SELL	409,977	8,802	2,133	22.1	14.1	18.2	(30.2)	(36.2)	29.1	8.7	13.7	10.6	7.7	8.6	6.5	1.1	1.0	0.9	0.4	—	—	11.7	7.4	8.9	175	(9.0)	38.5
Tata Communications	260	REDUCE	74,228	1,594	285	14.0	15.2	15.7	3.2	8.2	3.5	18.6	17.2	16.6	7.6	7.0	6.7	1.0	1.0	1.0	2.5	2.9	3.3	5.2	5.5	5.5	225	(13.6)	1.3
Telecom		**Cautious**	**1,729,345**	**37,126**					**(15.1)**	**(19.8)**	**20.7**	**12.1**	**15.1**	**12.5**	**7.1**	**7.0**	**5.7**	**1.5**	**1.4**	**1.3**	**0.9**	**1.0**	**1.2**	**12.7**	**9.3**	**10.2**			
Utilities																													
Adani Power	126	ADD	275,007	5,904	2,180	0.8	4.9	16.4	-	524.1	235.3	161.0	25.8	7.7	125.1	17.1	6.2	5.0	4.2	2.7	—	—	—	4.4	17.8	43.0	130	3.1	3.4
CESC	376	ADD	46,920	1,007	125	35.2	42.2	45.7	9.3	19.6	8.4	10.7	8.9	8.2	6.8	6.2	7.0	1.1	1.0	0.9	1.2	1.4	1.5	11.1	11.7	11.4	439	16.9	1.9
Lanco Infratech	67	BUY	160,053	3,436	2,405	2.0	3.6	4.5	35.1	82.2	26.4	33.9	18.6	14.7	20.2	8.6	8.4	4.7	3.7	3.0	—	—	—	15.8	20.6	21.0	70	5.2	9.7
NTPC	200	REDUCE	1,648,681	35,395	8,245	10.6	12.4	14.7	7.8	16.8	18.9	18.9	16.2	13.6	14.7	12.4	10.4	2.6	2.4	2.2	2.0	2.3	2.8	14.2	15.3	16.6	200	0.0	11.2
Reliance Infrastructure	1,211	ADD	297,893	6,395	246	61.8	62.7	80.3	(1.5)	1.6	28.0	19.6	19.3	15.1	20.8	20.0	13.7	1.5	1.4	1.3	0.7	0.8	0.9	6.3	7.3	10.1	1,100	(9.1)	48.4
Reliance Power	170	SELL	406,370	8,724	2,397	2.5	3.1	5.1	141.5	24.4	66.1	68.8	55.3	33.3		97.4	35.6	2.8	2.7	2.5	—	—	—	4.2	5.0	7.8	128	(24.5)	19.1
Tata Power	1,310	BUY	323,328	6,941	247	60.2	76.1	95.3	20.1	26.4	25.2	21.8	17.2	13.7	13.7	11.6	10.0	2.5	2.2	2.0	0.9	1.1	1.1	12.9	13.6	15.2	1,500	14.5	10.8
Utilities		**Attractive**	**3,158,251**	**67,803**					**15.3**	**25.2**	**36.3**	**23.6**	**18.9**	**13.8**	**19.4**	**14.7**	**11.0**	**2.6**	**2.3**	**2.1**	**1.2**	**1.4**	**1.7**	**10.8**	**12.4**	**15.0**			
Others																													
Havells India	621	SELL	37,341	802	60	5.3	31.6	45.0	3.7	497.9	42.6	117.5	19.6	13.8	16.4	10.1	8.2	10.3	6.8	4.6	—	—	—	6.6	41.6	39.7	480	(22.7)	8.5
Jaiprakash Associates	128	BUY	272,490	5,850	2,129	1.5	5.9	7.9	(27.2)	305.4	34.4	87.9	21.7	16.1	22.0	14.0	10.2	3.2	2.8	2.5	—	—	—	4.1	13.9	16.3	183	43.0	34.9
Jindal Saw	199	ADD	58,549	1,257	294	27.5	19.3	17.9	121.9	(29.8)	(7.2)	7.2	10.3	11.1	5.2	5.9	5.7	1.5	1.3	1.2	—	—	—	20.5	12.9	11.1	243	22.1	5.9
PSL	127	BUY	6,787	146	53	22.9	25.4	28.2	3.3	10.6	11.0	5.5	5.0	4.5	3.2	2.6	2.8	0.7	0.7	0.6	5.1	5.1	5.5	12.6	11.7	12.0	175	37.8	0.6
Sintex	316	BUY	43,092	925	136	24.1	29.8	34.3	0.5	23.5	15.1	13.1	10.6	9.2	9.5	7.3	6.0	2.0	1.7	1.4	—	—	—	15.1	15.6	15.2	380	20.4	3.7
Tata Chemicals	330	ADD	80,296	1,724	243	26.4	32.4	37.3	(27.1)	22.6	15.1	12.5	10.2	8.8	6.7	5.6	4.8	1.7	1.5	1.3	2.7	2.7	2.7	16.0	18.4	18.3	360	9.1	3.1
Welspun Gujarat Stahl Rohren	229	REDUCE	47,114	1,011	205	25.1	23.0	24.4	44.9	(8.1)	5.8	9.1	10.0	9.4	5.1	5.2	4.6	1.6	1.4	1.2	0.9	0.9	1.0	20.6	14.8	13.5	245	6.8	8.6
United Phosphorus	181	BUY	83,932	1,802	463	11.9	15.6	19.0	18.8	30.2	22.1	15.2	11.7	9.6	8.8	7.3	5.9	2.4	2.1	1.7	0.8	1.1	1.1	17.7	19.0	19.5	250	37.8	9.1
Others			**629,600**	**13,517**					**11.6**	**40.3**	**19.3**	**19.5**	**13.9**	**11.7**	**11.1**	**9.0**	**7.5**	**2.3**	**2.0**	**1.7**	**0.7**	**0.7**	**0.7**	**12.0**	**14.5**	**14.9**			
KS universe (b)			**43,191,054**	**927,245**					**12.9**	**23.3**	**20.8**	**18.5**	**15.0**	**12.4**	**11.4**	**9.3**	**7.7**	**2.7**	**2.4**	**2.1**	**1.4**	**1.5**	**1.9**	**14.8**	**16.0**	**16.9**			
KS universe (b) ex-Energy			**34,072,556**	**731,485**					**7.2**	**24.2**	**20.8**	**19.7**	**15.9**	**13.2**	**13.7**	**10.9**	**9.0**	**3.0**	**2.6**	**2.2**	**1.2**	**1.3**	**1.5**	**15.2**	**16.3**	**17.1**			
KS universe (d) ex-Energy & ex-Commodities			**30,344,295**	**651,445**					**13.6**	**18.3**	**22.6**	**20.6**	**17.5**	**14.2**	**15.3**	**12.7**	**10.4**	**3.2**	**2.8**	**2.4**	**1.3**	**1.3**	**1.6**	**15.4**	**15.9**	**17.0**			

Note:
(1) For banks we have used adjusted book values.
(2) 2010 means calendar year 2009, similarly for 2011 and 2012 for these particular companies.
(3) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.
(4) Rupee-US Dollar exchange rate (Rs/US$)= 46.58

Source: Company, Bloomberg, Kotak Institutional Equities estimates

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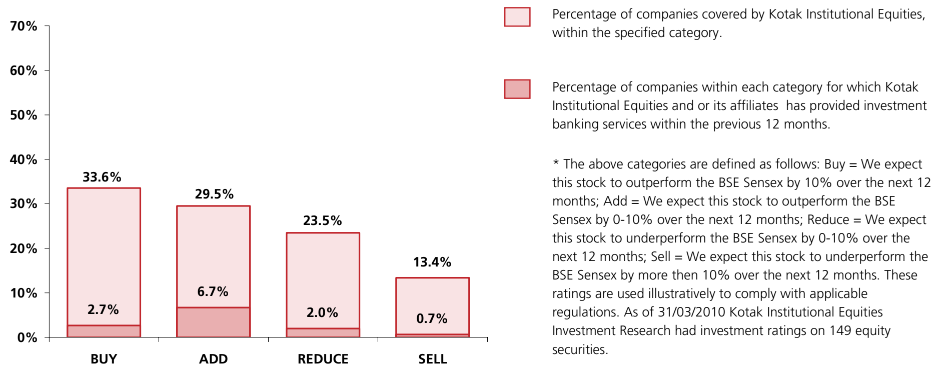

* The above categories are defined as follows: Buy = We expect this stock to outperform the BSE Sensex by 10% over the next 12 months; Add = We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months; Reduce = We expect this stock to underperform the BSE Sensex by 0-10% over the 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 31/03/2010 Kotak Institutional Equities Investment Research had investment ratings on 149 equity securities.

Source: Kotak Institutional Equities   As of March 31, 2010

Ratings and other definitions/identifiers

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 Sensex by more than 10% over the next 12 months.

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