

DECEMBER 23, 2010
UPDATE

Coverage view: **Attractive**

Price PFC/REC (Rs): **323 / 300**

Target price PFC/REC (Rs):
325 / 300

Margin pressure on power finance companies. We believe that rising bulk borrowings rates will put pressure on margins of PFC and REC in the medium term. Capacity addition in the generation segment will likely drive better traction for PFC while loan growth will likely be somewhat lower for REC. Power finance companies (PFC and REC) have underperformed on the back of likely margin pressure and slower loan growth, we retain negative stance on both the stocks.

Company data and valuation summary

PFC

Stock data

| | |
|-------------------------------|---------|
| 52-week range (Rs) (high,low) | 385-228 |
| Market Cap. (Rs bn) | 370.6 |

Shareholding pattern (%)

| | |
|-----------|------|
| Promoters | 89.8 |
| FII | 3.8 |
| MFs | 2.1 |

Price performance (%)

| | 1M | 3M | 12M |
|----------------|-------|-------|------|
| Absolute | (5.9) | (5.2) | 27.1 |
| Rel. to BSE-30 | (7.3) | (5.8) | 9.6 |

Forecasts/Valuations

| | 2010 | 2011E | 2012E |
|---------------------|-------|-------|-------|
| EPS (Rs) | 20.5 | 24.1 | 28.7 |
| EPS growth (%) | 54.0 | 17.5 | 19.1 |
| P/E (X) | 15.7 | 13.4 | 11.2 |
| NII (Rs bn) | 29.9 | 37.8 | 46.0 |
| Net profits (Rs bn) | 23.6 | 27.7 | 33.0 |
| BVPS | 110.5 | 127.9 | 148.9 |
| P/B (X) | 2.9 | 2.5 | 2.2 |
| ROE (%) | 19.0 | 19.3 | 19.8 |
| Div. Yield (%) | 1.4 | 1.5 | 1.8 |

Company data and valuation summary

Rural Electrification Corp.

Stock data

| | |
|-------------------------------|---------|
| 52-week range (Rs) (high,low) | 414-205 |
| Market Cap. (Rs bn) | 295.9 |

Shareholding pattern (%)

| | |
|-----------|------|
| Promoters | 66.8 |
| FII | 20.4 |
| MFs | 3.1 |

Price performance (%)

| | 1M | 3M | 12M |
|----------------|--------|--------|------|
| Absolute | (13.3) | (11.4) | 24.1 |
| Rel. to BSE-30 | (14.6) | (12.0) | 7.0 |

Forecasts/Valuations

| | 2010 | 2011E | 2012E |
|---------------------|-------|-------|-------|
| EPS (Rs) | 20.3 | 25.7 | 30.0 |
| EPS growth (%) | 23.2 | 26.7 | 16.9 |
| P/E (X) | 14.8 | 11.7 | 10.0 |
| NII (Rs bn) | 25.2 | 32.8 | 38.5 |
| Net profits (Rs bn) | 20.0 | 25.4 | 29.7 |
| BVPS | 112.1 | 128.8 | 148.3 |
| P/B (X) | 2.7 | 2.3 | 2.0 |
| ROE (%) | 22.0 | 21.3 | 21.7 |
| Div. Yield (%) | 2.2 | 2.6 | 3.0 |

Rising bulk borrowing rates put pressure on margins

The current liquidity squeeze in the system has put significant pressure on bulk borrowing rates, primarily in the shorter end on the yield curve - interest rates below one year are up by about 4% from April 2010 levels. NIMs for PFC and REC have been in sweet spot over the past few quarters supported by excess liquidity and lower borrowings cost - the decline in lending rates by these companies was lower than the reduction in borrowings cost. We are reducing REC's margins by about 10-20 bps to factor lower margins over the next few quarters.

- ▶ In FY2011E, about Rs100 bn of REC's loan assets are due for re-pricing as compared to Rs50-60 bn of borrowings - favorable re-pricing of assets as compared to liabilities supported REC's spreads, the benefit is unlikely to extend in FY2012E.
- ▶ Higher share of private sector business (in the XII 5- year Plan) will likely increase competition for these companies and put pressure on margins. In case of PFC, about 23% of approvals are driven by private players as compared to 7% share in the current loan book.

Generation companies growing at a faster clip

We believe that PFC will likely deliver about 27% loan growth over the next two years, significantly higher than 22% loan book CAGR between 2007 and 2010, on the back of strong growth in the generation segment. REC has reported loan growth of about 25% YTD and loan growth will likely remain moderate as compared to 27% loan growth CAGR between 2007 and 2010. We are now modeling about 23% loan growth for REC in FY2011E and FY2012E as compared to 26% CAGR factored earlier.

Nischint Chawathe
nischint.chawathe@kotak.com
Mumbai: +91-22-6634-1545

Manish Karwa
manish.karwa@kotak.com
Mumbai: +91-22-6634-1350

Kotak Institutional Equities Research
kotak.research@kotak.com
Mumbai: +91-22-6634-1100

NPLs remain a risk

PFC and REC currently have negligible NPLs. Strong collections from state utilities despite the latter's poor financials remain a residual risk for these companies. Financial losses reported by state utilities have increased over the years though the asset quality performance of power finance companies remains strong likely due to their nodal agency role and central Government ownership. Government's impetus on power sector provides comfort in this regard. Nevertheless, we would like to highlight that unlike other NBFCs (like IDFC) and banks, PFC and REC have not made any provisioning buffers for any likely slippages.

Losses have increased across states

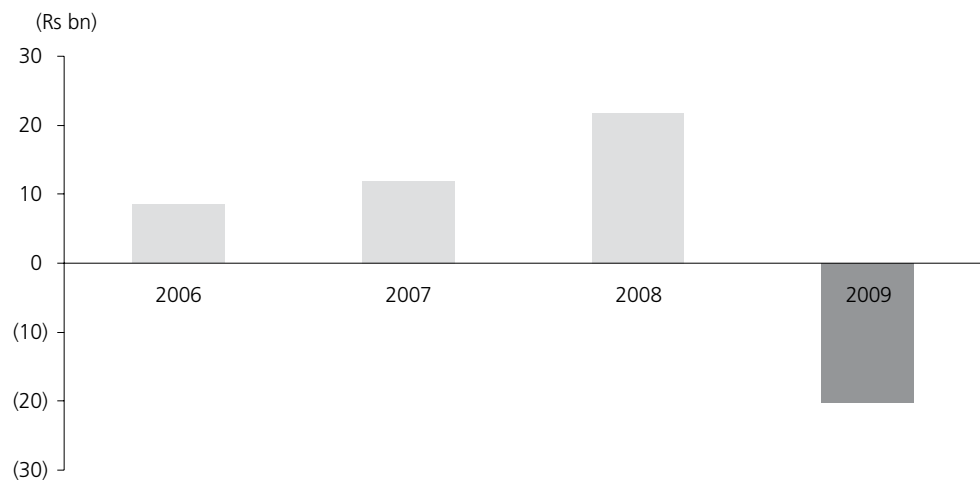
Accounting and cash loss of all state utilities (including distribution companies- Rs bn)

| | 2007 | | 2008 | | 2009 | |
|-----------------------------------|--------------|-------------|--------------|-------------|--------------|--------------|
| | Loss | Cash loss | Loss | Cash loss | Loss | Cash loss |
| TN, UP, MP, Haryana and Karnataka | (65) | (56) | (102) | (75) | (195) | (199) |
| All other states | (66) | (9) | (24) | (1) | (34) | (85) |
| Total | (131) | (65) | (125) | (76) | (229) | (284) |

Source: PFC

Generation and transmission companies also reported losses

Aggregate profits (losses) of generation, transmission and trading companies (Rs bn)

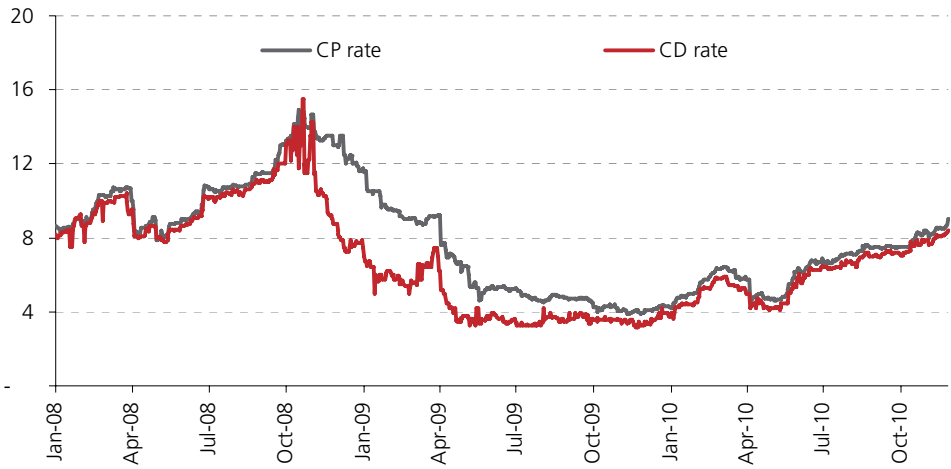


Source: PFC

Retain negative stance on PFC and REC

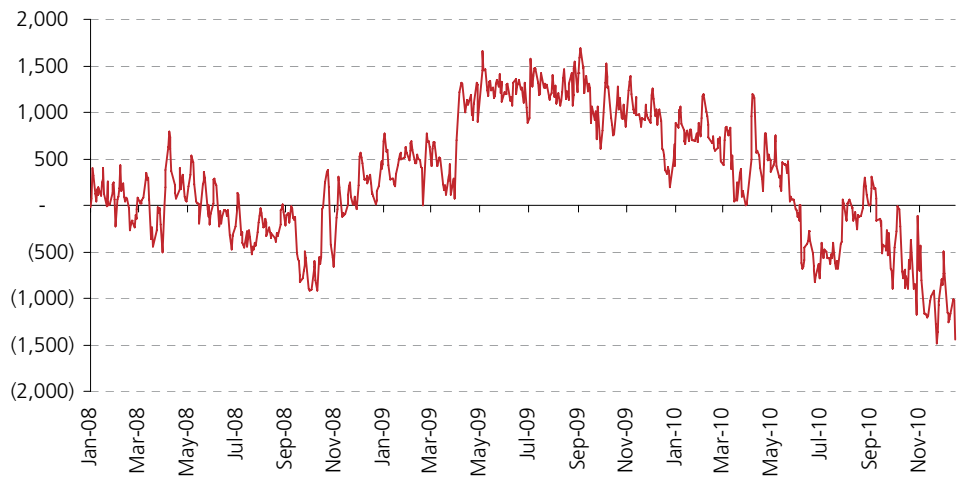
PFC and REC have underperformed the markets significantly over the last one month. We believe that stock performance will likely remain under pressure as NIM compression is more visible. We are revising down our estimates on REC to factor somewhat lower loan growth and margins. Retain REDUCE rating with price target of Rs300 (Rs350 earlier). PFC is relatively better placed due to higher growth traction though margins remain at a risk. The stock is trading closer to our target price, we revise rating to REDUCE from SELL, retain target price of Rs325.

Short-term rates have seen a rise in past few months
 CP and CD rates, 2008-2011 (%)



Source: Bloomberg

Liquidity has tightened significantly
 Net Reverse Repo amount (net of Repo) outstanding, 2008-2011 (Rs bn)



Source: Bloomberg

Loan growth trends for PFC and REC

| | Sep-08 | Dec-08 | Mar-09 | Jun-09 | Sep-09 | Dec-09 | Mar-10 | Jun-10 | Sep-10 |
|----------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| MOM loan growth (%) | | | | | | | | | |
| PFC | | 4 | 7 | 3 | 4 | 6 | 10 | 7 | 3 |
| REC | | 13 | 4 | 7 | 7 | 8 | 4 | 5 | 5 |
| YOY loan growth (%) | | | | | | | | | |
| PFC | | | | | 19 | 20 | 24 | 29 | 28 |
| REC | | | | | 34 | 29 | 29 | 27 | 25 |
| Loan book (Rs bn) | | | | | | | | | |
| PFC | 579 | 604 | 644 | 662 | 687 | 724 | 798 | 856 | 879 |
| REC | 437 | 492 | 514 | 548 | 587 | 636 | 665 | 698 | 735 |

Source: Company

PFC and REC: Margins in sweet spot for past few quarters

NIM (KS estimates), September 2008-September 2010 (%)

| | Sep-08 | Dec-08 | Mar-09 | Jun-09 | Sep-09 | Dec-09 | Mar-10 | Jun-10 | Sep-10 |
|-----|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| PFC | 3.9 | 3.8 | 4.1 | 4.3 | 4.3 | 4.2 | 4.0 | 4.2 | 4.1 |
| REC | 4.4 | 4.1 | 4.2 | 4.4 | 4.5 | 4.3 | 4.7 | 4.7 | 4.7 |

Source: Company, Kotak Institutional Equities estimates

Loans for generation growing rapidly

Disbursements for REC and PFC, 1Q10-2Q11 (Rs mn)

| | 1Q10 | 2Q10 | 3Q10 | 4Q10 | 1Q11 | 2Q11 |
|---------------------------|---------------|---------------|---------------|----------------|---------------|---------------|
| REC | | | | | | |
| Total | 36,180 | 55,040 | 60,240 | 59,860 | 46,440 | 55,470 |
| Generation | 19,930 | 20,290 | 18,170 | 25,100 | 32,390 | 27,590 |
| T&D | 12,250 | 22,950 | 22,970 | 31,760 | 12,050 | 19,880 |
| Short term loan | 4,000 | 11,800 | 19,100 | 3,000 | 2,000 | 8,000 |
| Share in total (%) | | | | | | |
| Generation | 55 | 37 | 30 | 42 | 70 | 50 |
| T&D | 34 | 42 | 38 | 53 | 26 | 36 |
| Short term loan | 11 | 21 | 32 | 5 | 4 | 14 |
| PFC | | | | | | |
| Total | 43,460 | 45,170 | 64,930 | 104,530 | 81,270 | 57,901 |
| Generation | 34,370 | 34,820 | 48,110 | 79,520 | 46,980 | 41,480 |
| Transmission | 3,340 | 1,420 | 2,020 | 3,780 | 4,300 | 611 |
| Distribution | 2,230 | 740 | 720 | 2,620 | 3,090 | 3,500 |
| R APDRP (A) | | 3,740 | 3,700 | 3,810 | 170 | |
| R APDRP (B) | | | | 1,960 | 1,950 | 6,250 |
| Others | 3,520 | 4,450 | 10,380 | 12,840 | 24,780 | 6,060 |
| Share in total (%) | | | | | | |
| Generation | 79 | 77 | 74 | 76 | 58 | 65 |
| Transmission | 8 | 3 | 3 | 4 | 5 | 1 |
| Distribution | 5 | 2 | 1 | 3 | 4 | 6 |
| R APDRP (A) | — | 8 | 6 | 4 | 0 | — |
| R APDRP (B) | — | — | — | 2 | 2 | 10 |
| Others | 8 | 10 | 16 | 12 | 30 | 10 |

Source: Company

REC, old and new estimates

March fiscal years 2011-2013E (Rs mn)

| | Old estimates | | | New estimates | | | % change | | |
|--------------------------|---------------|--------|--------|---------------|--------|--------|----------|-------|-------|
| | 2011E | 2012E | 2013E | 2011E | 2012E | 2013E | 2011E | 2012E | 2013E |
| Net interest income | 33,910 | 40,846 | 48,574 | 32,805 | 38,531 | 44,811 | (3) | (6) | (8) |
| Loan growth (%) | 26 | 26 | 25 | 25 | 23 | 23 | | | |
| NIM (%) | 4.5 | 4.3 | 4.1 | 4.4 | 4.1 | 3.9 | (2.8) | (3.8) | (4.0) |
| NPL provisions | 3 | 3 | 4 | 3 | 3 | 4 | — | — | — |
| Other operational income | 2,927 | 3,362 | 3,870 | 2,927 | 3,362 | 3,870 | — | — | — |
| Other income (forex etc) | | | | | | | | | |
| Operating expenses | 1,678 | 1,943 | 2,252 | 1,678 | 1,943 | 2,252 | | — | — |
| Employee | 1,323 | 1,522 | 1,750 | 1,323 | 1,522 | 1,750 | (0) | — | — |
| Others | 355 | 422 | 502 | 355 | 422 | 502 | (0) | — | — |
| PBT | 35,156 | 42,261 | 50,189 | 34,051 | 39,946 | 46,425 | (3) | (5) | (7) |
| Tax | 8,965 | 10,882 | 13,049 | 8,683 | 10,286 | 12,071 | (3) | (5) | (7) |
| PAT | 26,191 | 31,379 | 37,140 | 25,368 | 29,660 | 34,355 | (3) | (5) | (7) |

Source: Kotak Institutional Equities

REC : Key ratios, March fiscal year-ends, 2008-2013E (%)

| | 2008 | 2009 | 2010E | 2011E | 2012E | 2013E |
|-------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Growth in key parameters (%) | | | | | | |
| Interest income | 28.5 | 32.6 | 37.9 | 29.8 | 27.5 | 18.9 |
| Interest costs | 17.5 | 39.8 | 35.0 | 29.5 | 34.0 | 20.4 |
| Net interest income | 48.5 | 22.4 | 42.5 | 30.2 | 17.5 | 16.3 |
| PAT | 30.3 | 47.9 | 57.3 | 26.7 | 16.9 | 15.8 |
| Disbursements | 19.3 | 34.0 | 24.9 | 19.2 | 17.0 | 21.5 |
| Loans | 22.5 | 30.7 | 29.3 | 25.4 | 23.0 | 22.8 |
| Borrowings | 13.2 | 31.1 | 24.5 | 26.6 | 23.7 | 23.5 |
| Shareholders funds | 33.8 | 15.3 | 79.0 | 14.9 | 15.1 | 15.2 |
| Key ratios (%) | | | | | | |
| Interest yield | 9.85 | 10.29 | 10.92 | 11.14 | 11.45 | 11.08 |
| Interest cost | 6.42 | 7.31 | 7.75 | 7.99 | 8.56 | 8.35 |
| Spreads | 3.43 | 2.97 | 3.16 | 3.15 | 2.88 | 2.73 |
| NIMs | 4.05 | 3.90 | 4.28 | 4.38 | 4.15 | 3.92 |
| Tax rate | 29 | 26 | 24 | 26 | 26 | 26 |
| Debt/ equity+DTL (X) | 5.5 | 6.3 | 5.1 | 5.6 | 6.0 | 6.4 |
| Du Pont analysis | | | | | | |
| (% of average assets) | | | | | | |
| Net interest income | 3.7 | 3.6 | 4.0 | 4.1 | 3.9 | 3.7 |
| Other income | 0.1 | 0.5 | 0.4 | 0.4 | 0.3 | 0.3 |
| Credit costs | 0.1 | 0.0 | — | — | — | — |
| Operating expenses | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| PBT post extraordinary | 3.3 | 3.9 | 4.2 | 4.3 | 4.1 | 3.9 |
| 1-tax rate | 0.7 | 0.7 | 0.8 | 0.7 | 0.7 | 0.7 |
| RoA | 2.2 | 2.6 | 3.1 | 3.2 | 3.0 | 2.9 |
| Average assets / average equity (X) | 8.4 | 8.6 | 7.4 | 6.7 | 7.2 | 7.6 |
| RoE | 18.3 | 22.0 | 23.2 | 21.3 | 21.7 | 21.8 |

Source: Company, Kotak Institutional Equities estimates

REC : Income statement and balance sheet, March fiscal year-ends, 2008-2013E (Rs mn)

| | 2008 | 2009 | 2010E | 2011E | 2012E | 2013E |
|-------------------------------------|----------------|----------------|----------------|----------------|------------------|------------------|
| Income statement (Rs mn) | | | | | | |
| Interest income | 35,174 | 46,650 | 64,309 | 83,460 | 106,388 | 126,538 |
| Interest costs | (20,728) | (28,970) | (39,112) | (50,655) | 67,857 | 81,727 |
| Net interest income | 14,447 | 17,680 | 25,197 | 32,805 | 38,531 | 44,811 |
| Other income | 202 | 2,660 | 2,768 | 2,927 | 3,362 | 3,870 |
| Fees | 177 | 1,740 | 1,189 | 1,427 | 1,712 | 2,055 |
| Net total income | 14,649 | 20,340 | 27,965 | 35,731 | 41,893 | 48,680 |
| Provisioning expenses | (400) | (20) | (2) | (3) | 3 | 4 |
| Net income (post provisions) | 14,249 | 20,320 | 27,962 | 35,729 | 41,890 | 48,677 |
| Operating expenses | (1,119) | (1,120) | (1,470) | (1,678) | 1,943 | 2,252 |
| PBT before extraordinaries | 13,130 | 19,200 | 26,492 | 34,051 | 39,946 | 46,425 |
| Extraordinary income | (6) | — | — | — | — | — |
| PBT post extraordinaries | 13,124 | 19,200 | 26,492 | 34,051 | 39,946 | 46,425 |
| Tax | (3,749) | (5,070) | (6,473) | (8,683) | 10,286 | 12,071 |
| Provision for DTL | (774) | (1,410) | (5) | - | - | 1 |
| PAT | 8,602 | 12,720 | 20,014 | 25,368 | 29,660 | 34,354 |
| PAT (add. back DTL) | 9,376 | 14,130 | 20,019 | 25,368 | 29,660 | 34,355 |
| EPS (adding back DTL) (Rs) | 11 | 16 | 20 | 26 | 30 | 35 |
| BVPS (adding back DTL) (Rs) | 72 | 83 | 112 | 129 | 148 | 171 |
| ABVPS (adding back DTL) (Rs) | 69 | 83 | 112 | 129 | 148 | 171 |
| Balance sheet (Rs mn) | | | | | | |
| Assets | | | | | | |
| Loans | 393,165 | 513,810 | 664,520 | 833,540 | 1,025,565 | 1,259,018 |
| Investments | 11,474 | 10,060 | 9,100 | 9,100 | 9,100 | 9,100 |
| Fixed assets | 779 | 810 | 900 | 1,035 | 1,190 | 1,369 |
| Current assets | 23,725 | 34,890 | 37,876 | 42,419 | 47,791 | 54,151 |
| Total assets | 429,143 | 559,570 | 712,396 | 886,094 | 1,083,647 | 1,323,637 |
| Liabilities | | | | | | |
| Borrowings | 342,828 | 449,360 | 559,480 | 708,270 | 876,440 | 1,081,974 |
| Deferred tax liability | 8,170 | 9,570 | (70) | (70) | (70) | (69) |
| Current liabilities and provisions | 24,468 | 38,740 | 42,186 | 50,623 | 60,747 | 72,897 |
| Total liabilities | 375,466 | 497,670 | 601,596 | 758,823 | 937,117 | 1,154,802 |
| Share capital | 8,586 | 8,586 | 9,874 | 9,874 | 9,874 | 9,874 |
| Reserves and surplus | 45,090 | 53,314 | 100,926 | 117,397 | 136,656 | 158,961 |
| Shareholders funds | 53,676 | 61,900 | 110,800 | 127,271 | 146,530 | 168,835 |

Source: Company, Kotak Institutional Equities estimates

PFC : Key ratios, March fiscal year-ends, 2008-2013E (%)

| | 2008 | 2009 | 2010 | 2011E | 2012E | 2013E |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| Growth rates (%) | | | | | | |
| Net interest income | 25.6 | 32.5 | 26.2 | 26.4 | 21.8 | 20.8 |
| Loan loss provisions | 113.3 | (135.0) | (115.6) | (3,289.6) | 536.9 | 27.1 |
| Other income | 128.3 | (71.2) | (21.5) | 635.3 | 20.0 | 16.7 |
| Operating expense | 64.6 | 66.0 | (21.3) | 8.7 | 26.4 | 26.7 |
| PBT | 18.3 | 11.3 | 51.4 | 24.2 | 19.1 | 20.4 |
| PAT | 22.3 | 63.3 | 19.7 | 17.5 | 19.1 | 20.4 |
| PBT- forex gains | 27 | 26 | 29 | 29 | 19 | 20 |
| Net loans | 17 | 25 | 24 | 28 | 27 | 27 |
| Disbursements | 15 | 30 | 24 | 38 | 37 | 30 |
| Unsecured loans (liabilities) | 21 | 28 | 29 | 29 | 29 | 29 |
| Net worth | 9 | 23 | 15 | 16 | 16 | 17 |
| Yield measures (%) | | | | | | |
| Yield on earnings assets | 9.6 | 10.4 | 10.3 | 10.8 | 10.9 | 11.0 |
| Yield on loans | 10.1 | 11.0 | 10.9 | 11.3 | 11.4 | 11.5 |
| Cost of funds | 8.3 | 8.8 | 8.3 | 8.6 | 8.8 | 8.9 |
| Spread | 1.8 | 2.2 | 2.6 | 2.7 | 2.6 | 2.5 |
| Net interest margin | 3.7 | 4.0 | 4.1 | 4.1 | 3.9 | 3.7 |
| Total provisions/net loans (EoY) | (0.02) | 0.01 | — | 0.02 | 0.09 | 0.09 |
| Tax rate | 32 | 1 | 22 | 26 | 26 | 26 |
| Dividend payout ratio | 33 | 23 | 22 | 20 | 20 | 20 |
| Profitability measures (%) | | | | | | |
| Interest income/total income | 96.2 | 111.0 | 95.8 | 97.4 | 97.5 | 97.5 |
| Other operating income/total income | 3.2 | 0.8 | 0.4 | 2.6 | 2.5 | 2.5 |
| Other income / total income | 0.6 | (11.8) | 3.8 | — | — | — |
| Operating expenses/total income | 4.4 | 6.3 | 3.4 | 3.0 | 3.1 | 3.2 |
| Payout ratio | 33.3 | 23.3 | 21.9 | 20.0 | 20.0 | 20.0 |
| LT Debt- Equity Ratio (X) | 4.4 | 4.5 | 5.1 | 5.6 | 6.2 | 6.9 |
| CAR (%) | 23.6 | 17.9 | 16.6 | 15.1 | 13.8 | 12.7 |
| Loan loss provisions/ ave loan assets | (0.02) | 0.01 | — | 0.02 | 0.10 | 0.10 |
| ROA decomposition - % of avg. assets | | | | | | |
| Net interest income | 3.5 | 3.9 | 3.9 | 3.9 | 3.8 | 3.6 |
| Interest restructuring premium | — | — | — | — | — | — |
| Loan loss provisions | (0.0) | — | — | — | 0.1 | 0.1 |
| Adj. Net interest income | 3.5 | 3.8 | 3.9 | 3.9 | 3.7 | 3.5 |
| Net other operating income | 0.1 | — | 0.0 | 0.1 | 0.1 | 0.1 |
| Other income | — | (0.4) | 0.2 | — | — | — |
| Operating expenses | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 |
| Other expenses & extraordinaries | (0.0) | — | — | — | — | — |
| (1- tax rate) | 67.5 | 99.0 | 78.2 | 74.0 | 74.0 | 74.0 |
| ROA | 2.4 | 3.2 | 3.1 | 2.9 | 2.7 | 2.6 |
| Average assets/average equity | 5.7 | 5.9 | 6.2 | 6.7 | 7.3 | 7.9 |
| ROE | 13.5 | 18.9 | 19.0 | 19.3 | 19.8 | 20.4 |

Source: Company, Kotak Institutional Equities estimates

PFC : Income statement and balance sheet, March fiscal year-ends, 2008-2013E (Rs mn)

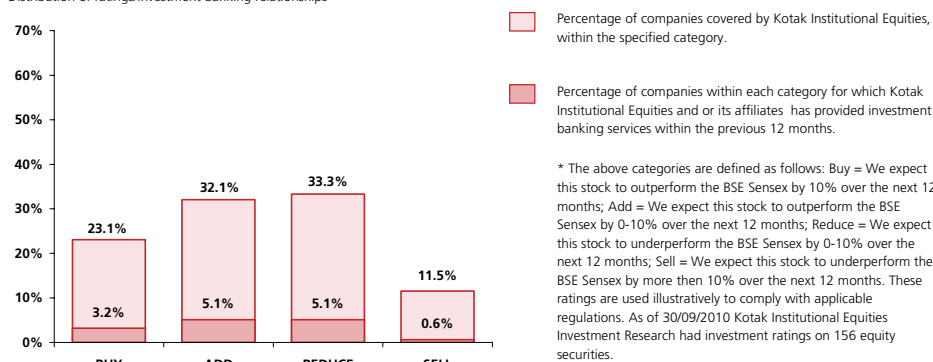
| | 2008 | 2009 | 2010 | 2011E | 2012E | 2013E |
|---|----------------|----------------|----------------|------------------|------------------|------------------|
| Income statement (Rsmn) | | | | | | |
| Total interest income | 48,833 | 64,534 | 79,214 | 104,007 | 133,191 | 170,246 |
| Adj. interest (after rebate for timely payment) | 48,452 | 63,965 | 78,634 | 103,007 | 131,941 | 168,746 |
| Other interest income | 381 | 569 | 580— | 1,000 | 1,250 | 1,500 |
| Total interest expense | 30,968 | 40,859 | 49,324 | 66,221 | 87,165 | 114,639 |
| Net interest income | 17,865 | 23,675 | 29,890 | 37,785 | 46,026 | 55,607 |
| Loan loss provisions | (105) | 37 | (6) | 182 | 1,158 | 1,471 |
| Other operating income | 602 | 173 | 136 | 1,000 | 1,200 | 1,400 |
| Other income | 108 | (2,525) | 1,184 | — | — | — |
| Net total income | 18,574 | 21,323 | 31,209 | 38,785 | 47,226 | 57,007 |
| Operating expenses | 810 | 1344 | 1058 | 1149 | 1452 | 1840 |
| Depreciation | 45 | 38 | 34 | 34 | 34 | 34 |
| PBT | 17,876 | 19,905 | 30,134 | 37,421 | 44,583 | 53,662 |
| Tax | 5,809 | 205 | 6,562 | 9,729 | 11,591 | 13,952 |
| PAT | 12,067 | 19,699 | 23,573 | 27,691 | 32,991 | 39,710 |
| PAT (incl def tax/normalised) | 13,043 | 15,310 | 23,573 | 27,691 | 32,991 | 39,710 |
| PBT + provisions-interest on restruction premium | 17,771 | 19,941 | 29,983 | 37,602 | 45,740 | 55,133 |
| EPS (Rs) | 10.5 | 17.2 | 20.5 | 24.1 | 28.7 | 34.6 |
| % growth | 22.3 | 63.3 | 19.7 | 17.5 | 19.1 | 20.4 |
| DPS(Rs) | 3.5 | 4.0 | 4.5 | 4.8 | 5.7 | 6.9 |
| BPS (Rs) | 81.3 | 100.3 | 115.5 | 134.0 | 156.0 | 182.5 |
| EPS (incl def tax Rs) | 11 | 13 | 21 | 24 | 29 | 35 |
| BPS (incl def tax Rs) | 92 | 101 | 116 | 134 | 156 | 183 |
| ABVPS (Rs) | 77 | 96 | 110 | 127 | 149 | 0 |
| ABVPS (incl def tax Rs) | 88 | 96 | 110 | 128 | 149 | 0 |
| Balance sheet (Rs mn) | | | | | | |
| Assets | | | | | | |
| Fixed Assets (Net) | 770 | 752 | 745 | 699 | 676 | 654 |
| Total Loan Assets | 515,683 | 644,290 | 798,558 | 1,019,527 | 1,296,199 | 1,646,571 |
| Total Current Assets, Loans & Advances | 29,896 | 36,686 | 48,155 | 47,224 | 55,997 | 66,509 |
| Total Assets | 547,005 | 682,086 | 847,711 | 1,067,450 | 1,352,872 | 1,713,734 |
| Unsecured Loans | 406,478 | 521,602 | 671,084 | 864,741 | 1,119,281 | 1,442,921 |
| Total current liabilities | 12,125 | 18,606 | 21,245 | 22,103 | 23,005 | 23,951 |
| Deferred tax liability | 12,403 | 555 | 469 | 469 | 469 | 469 |
| Interest Subsidy Fund from GOI | 10,668 | 9,089 | 6,635 | 6,635 | 6,635 | 6,635 |
| Total liabilities | 453,706 | 567,007 | 715,164 | 913,628 | 1,173,775 | 1,504,216 |
| Paid up capital | 11,478 | 11,478 | 11,478 | 11,478 | 11,478 | 11,478 |
| Reserves & surplus | 81,821 | 103,601 | 121,130 | 142,345 | 167,619 | 198,041 |
| Total equity | 93,298 | 115,078 | 132,608 | 153,822 | 179,097 | 209,518 |

Source: Company, Kotak Institutional Equities estimates

"I, Nischint Chawathe, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report."

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of September 30, 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.

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

Other definitions

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

Other ratings/identifiers

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

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RS = Rating Suspended. Kotak Securities Research has suspended the investment rating and price target, if any, for this stock, because there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.

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Corporate Office

Kotak Securities Ltd.
Bakhtawar, 1st Floor
229, Nariman Point
Mumbai 400 021, India
Tel: +91-22-6634-1100

Overseas Offices

Kotak Mahindra (UK) Ltd
6th Floor, Portsoken House
155-157 The Minories
London EC 3N 1 LS
Tel: +44-20-7977-6900 / 6940

Kotak Mahindra Inc
50 Main Street, Suite No.310
Westchester Financial Centre
White Plains, New York 10606
Tel:+1-914-997-6120

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