

Contents

Updates

- Infosys Technologies: Upbeat bottom-up, cautious top-down
- Tata Steel: Plenty of steam left
- United Phosphorus: Weather impacts 3QFY11E sales
- Jubilant Lifesciences: Adjustment post demerger
- Economy: Favorable base effect pulls down November WPI inflation
- Energy: Phase of extreme pessimism may be a good time to invest

News Round-up

- ▶ RCom (RCOM IN) has struck a deal with China Development Bank for a USD 1.93 bn syndicated loan, most of which will be used to refinance short-term debt incurred to pay for 3G spectrum. At an interest rate of 5%, RCom will save over USD 111 mn annually. (BSTD)
- ▶ BPCL (BPCL IN) has raised petrol prices by INR 2.95 a litre effective Tuesday midnight, while IOC (IOCL IN) and HPCL (HPCL IN) may follow suit in a few days. (BSTD)
- ▶ LIC Housing Finance (LICHF IN) said its shareholders has approved a stock split in the ratio of 1:5 as part of its plan to improve the liquidity of its scrip. (BSTD)
- ▶ Bajaj Auto (BJAUT IN) will raise prices across its range of motorcycles by up to INR 1,000 starting January. (BSTD)
- ▶ NTPC (NATP IN) is likely to form a JV with the Jharkhand government to revive, expand and run two of the latter's thermal power units, Patratu and Tenughat. Talks were on and NTPC might take a 76% stake in the proposed JV. If it went through, the investment contemplated was about USD 3.33 bn. (BSTD)
- ▶ NTPC (NATP IN) gets govt. nod to sell 15% power from 2 units in spot market. (THBL)
- ▶ TCS (TCS IN) has won a multi-million dollar deal, worth over USD100mn, from Deutsche Bank for its core-banking software. (ECNT)
- ▶ OBC (OBC IN) has raised its base rate by 50 basis points to 9% and BPLR by 75 bps to 13.25%. (BSTD)
- ▶ BOI (BOI IN) said it will raise its base rate to 9% per annum from 8.5%. (BSTD)
- ▶ JSW Group plans to spend USD 60-100 mn to develop a port project in Chile. (FNLE)
- ▶ JSW Infrastructure an unlisted entity of Sajjan Jindal led JSW group will sell 10% stake to Eton Park for USD 125mn. (ECNT)
- ▶ Kalpataru Power Transmission (KPP IN) won 3 orders worth USD 133.33mn in India & Democratic Republic of Congo. (ECNT)
- ▶ Bajaj Hindusthan (BJHS IN) has committed USD 5bn investment in power projects in Uttar Pradesh over the next 4-5 years. (ECNT)

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

EQUITY MARKETS

India	Change %			
	14-Dec	1-day	1-mo	3-mo
Sensex	19,799	0.5	(1.8)	2.3
Nifty	5,944	0.6	(2.1)	2.6
Global/Regional indices				
Dow Jones	11,477	0.4	2.5	9.0
Nasdaq Composite	2,628	0.1	4.3	14.8
FTSE	5,891	0.5	1.6	5.8
Nikkei	10,313	(0.0)	4.9	8.4
Hang Seng	23,272	(0.7)	(3.1)	7.1
KOSPI	2,013	0.2	5.2	10.3
Value traded – India				
Cash (NSE+BSE)	161		212	216
Derivatives (NSE)	899		1,926	1,564
Deri. open interest	1,486		1,714	1,973

Forex/money market

	Change, basis points			
	14-Dec	1-day	1-mo	3-mo
Rs/US\$	45.0	(17)	(28)	(150)
10yr govt bond, %	8.1	(3)	-	15
Net investment (US\$mn)				
	13-Dec		MTD	CYTD
FIs	(53)		(523)	28,469
MFs	73		22	(282)

Top movers -3mo basis

Best performers	Change, %			
	14-Dec	1-day	1-mo	3-mo
GNP IN Equity	369.7	3.4	5.6	28.6
TTMT IN Equity	1306.0	2.3	4.3	27.5
SUNP IN Equity	452.5	0.2	(1.9)	25.3
DRRD IN Equity	1828.7	0.4	3.8	24.4
NEST IN Equity	3779.9	(2.7)	(3.1)	19.7
Worst performers				
FTECH IN Equity	907.2	7.3	(16.8)	(36.1)
SCS IN Equity	62.4	2.7	(26.0)	(32.1)
HDIL IN Equity	196.1	3.0	(19.2)	(27.6)
UT IN Equity	63.4	0.4	(20.3)	(26.4)
HPCL IN Equity	400.9	1.2	(13.6)	(26.3)

DECEMBER 14, 2010

UPDATE

Coverage view: **Attractive**

Price (Rs): **3,159**

Target price (Rs): **3,400**

BSE-30: **19,799**

Upbeat bottom-up, cautious top-down. Caution on macro uncertainty aside, our discussions with Infosys management suggest a fairly upbeat mood on revenue growth over the coming quarters. Staying true to its growth strategy, Infosys continues to drive the push for a wider F-500/G-1000 footprint and few blockbuster accounts to drive the next leg of growth. We remain bullish on revenue growth prospects for the Tier-I players and believe 30% rev growth is possible for Infosys in FY2012E. BUY.

Company data and valuation summary

Infosys Technologies

Stock data

52-week range (Rs) (high,low)	3,217-2,306
Market Cap. (Rs bn)	1,813.1

Shareholding pattern (%)

Promoters	16.0
FIs	54.9
MFs	3.8

Price performance (%)

	1M	3M	12M
Absolute	5.4	7.2	27.7
Rel. to BSE-30	7.3	4.8	10.3

Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	108.3	122.4	153.4
EPS growth (%)	5.7	13.0	25.3
P/E (X)	29.2	25.8	20.6
Sales (Rs bn)	227.4	278.1	339.3
Net profits (Rs bn)	62.2	70.3	88.0
EBITDA (Rs bn)	78.6	93.4	113.3
EV/EBITDA (X)	21.5	17.8	14.3
ROE (%)	30.1	28.7	30.5
Div. Yield (%)	0.8	1.9	1.5

Management upbeat on near-term demand prospects; supply-side pressure easing

Key takeaways on demand/pricing/supply side

- ▶ Infosys management indicated strong visibility on near-term volumes. Early feedback from clients suggests a modest uptick in overall IT budgets with greater outsourcing/off-shoring push likely.
- ▶ Micro/macro divergence remains – micro, bottom-up indicators from the client base suggest sustenance of demand momentum even as macro remains uncertain, at best.
- ▶ Infosys' pricing commentary continues to differ from that of peers – the company continues to indicate a stable pricing environment whereas peers have talked about an uptick in pricing.
- ▶ Supply-side situation continues to improve with attrition trending down month on month for the past 4 months. Campus recruitment cycle has started – Infosys indicated plans to make 23,000-24,000 campus offers. The company does not see any medium-term worries on attrition or talent demand/supply situation.

Medium-term growth strategy continues to revolve around F-500/G-1000 accounts

Infosys management continues to see significant opportunity in expanding its F-500/G-1000 footprint. The company currently has ~130 F-500 and ~180 G-1000 clients and is focused on driving this number up. In addition, staying true to its strategy, Infosys remains focused on winning a few new 'blockbuster potential' accounts to drive the next leg of growth. The company is making investments in key geographies (notable continental Europe) and ramping up its sales/consulting capabilities to this end.

30% revenue growth in FY2012E possible, in our view

We believe FY2012E has the potential to be a 30%+ constant currency revenue growth year for Infosys (please see our sector note dated Dec 1, 2010 for details). Greater confidence on such a scenario should mean further revenue/EPS upgrades, driving stock performance. We reiterate BUY.

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Other key highlights from management meetings

- ▶ Infosys sees protectionism as the biggest medium-term challenge for the industry and is taking measures to mitigate the risk. These include preparing recruitment/training infrastructure at onsite locations and ramping up local hiring.
- ▶ Push for non-linearity continues with substantial investments on IP creating, solutions, and platforms. The company did not rule out inorganic means to accelerate this push.
- ▶ The company indicated increased investments on shoring up consulting and package implementation capabilities.
- ▶ China delivery footprint expansion is another key area of investment – Infosys indicated a target of 10,000 strong China delivery organization (3,000 currently).
- ▶ Infosys sees cloud adoption as a big opportunity in the medium term. It did indicate that it does not expect rapid cloud adoption for core applications by large enterprises.

Exhibit 1: Key assumptions driving Infosys earnings model, 2009-2013E, March fiscal year-ends

	2009	2010	2011E	2012E	2013E
Key assumptions					
Revenue growth (US\$ terms) (%)	11.7	2.9	27.4	24.6	21.3
Volume growth yoy (%) (IT only)	14.8	7.4	28.6	24.3	21.7
Pricing change yoy (%)					
Onsite	(1.8)	0.0	4.6	1.9	-
Offshore	(1.8)	(5.1)	(5.2)	1.3	-
Blended	(3.1)	(4.2)	(0.7)	(0.2)	0.0
Total employees (#)	104,850	113,796	132,568	157,151	182,964
Employee additions	13,663	8,946	18,772	24,583	25,813
Utilization rate (%)	68.7	67.1	75.3	75.6	77.8
SG&A expense as % of revenues	12.6	12.4	12.6	13.0	13.1
Re/US\$ rate	46.5	47.4	45.5	44.5	44.1

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Condensed Profit model, balance sheet, cash model of Infosys Technologies, 2009-2013E, March fiscal year-ends (Rs mn)

	2009	2010	2011E	2012E	2013E
Profit model					
Revenues	216,930	227,420	278,146	339,306	407,408
Cost of sales	(117,650)	(120,710)	(149,700)	(181,751)	(219,935)
SG&A expenses	(27,330)	(28,100)	(35,054)	(44,205)	(53,535)
EBITDA	71,950	78,610	93,392	113,350	133,938
Depreciation	(7,610)	(9,050)	(9,069)	(10,651)	(12,463)
EBIT	64,340	69,560	84,323	102,698	121,475
Other income	4,730	9,430	10,352	12,946	15,532
Pre-tax profits	69,070	78,990	94,675	115,645	137,007
Provision for tax	(10,270)	(16,810)	(24,405)	(27,605)	(32,677)
Recurring net income	58,800	62,180	70,270	88,039	104,330
Extraordinaries	1,080	480	—	—	—
Reported net income	59,880	62,660	70,270	88,039	104,330
EPS (Rs)	102.4	108.3	122.4	153.4	181.8
Balance Sheet					
Shareholders funds	182,540	230,490	259,637	316,864	384,640
Deferred tax liability/(assets)	(1,260)	(2,000)	(2,000)	(2,000)	(2,000)
Borrowings	—	—	—	—	—
Minority interest	—	—	—	—	—
Total liabilities	181,280	228,490	257,637	314,864	382,640
Gross block	70,930	78,390	91,574	107,737	125,000
Accumulated depreciation	(24,160)	(28,930)	(37,999)	(48,650)	(61,113)
Net block	46,770	49,460	53,575	59,086	63,887
CWIP	6,770	4,090	4,090	4,090	4,090
Net fixed assets	53,540	53,550	57,665	63,176	67,977
Cash and bank balances	112,460	124,480	147,138	194,734	252,760
Net current assets excluding cash	15,280	50,460	52,834	56,953	61,903
Total assets	181,280	228,490	257,637	314,864	382,640
Cashflow statement					
Operating profit before WC changes	71,950	78,610	93,392	113,350	133,938
Change in WC/other adjustments	(3,390)	(250)	(2,374)	(4,119)	(4,950)
Capital expenditure	(13,270)	(6,750)	(13,184)	(16,163)	(17,263)
Taxes paid	(9,020)	(17,530)	(24,405)	(27,605)	(32,677)
Free cash flow	46,270	54,080	53,429	65,463	79,047

Source: Company, Kotak Institutional Equities estimates

DECEMBER 15, 2010
UPDATE

Coverage view: **Attractive**

Price (Rs): **647**

Target price (Rs): **725**

BSE-30: **19,799**

Plenty of steam left. We expect strong performance of Tata Steel stock to continue despite a 6.5% rise in the past month and 8.5% outperformance relative to the BSE Sensex. Catalysts for stock performance include a cost-push-based increase in steel prices, increasing visibility on timely commissioning of India capacity expansion and event-based catalyst on overseas raw material projects. Tata Steel trades at an inexpensive 5.2X FY2012E adjusted EBITDA. BUY with an end-FY2012E TP of Rs725.

Company data and valuation summary

Tata Steel

Stock data

52-week range (Rs) (high,low) 739-449

Market Cap. (Rs bn) 591.3

Shareholding pattern (%)

Promoters 32.5

FII 17.0

MFs 3.7

Price performance (%)

Absolute 1M 3M 12M 6.5 8.3 18.8

Rel. to BSE-30 8.5 5.9 2.5

Forecasts/Valuations

2010 2011E 2012E

EPS (Rs) (3.5) 66.3 74.5

EPS growth (%) (103.6) (1,993.1) 12.4

P/E (X) (184.6) 9.8 8.7

Sales (Rs bn) 1,023.9 1,149.8 1,181.8

Net profits (Rs bn) (3.3) 63.4 71.3

EBITDA (Rs bn) 80.4 156.2 175.8

EV/EBITDA (X) 13.2 6.8 5.9

ROE (%) (1.5) 23.2 20.5

Div. Yield (%) 1.1 1.2 0.0

Cost-push-based steel price increase likely, will benefit Tata Steel India

We expect steel prices to move up led by (1) a cost-push increase—iron ore prices have increased by 16% in the past two months to US\$170/ ton China CFR on modest revival in demand combined with persistent supply issues and (2) seasonal increase in demand in 1H CY11. This should benefit integrated players such as Tata Steel, in our view. A US\$10/ ton increase in iron ore prices benefits earnings by 5%.

Commissioning of value-accretive India capacity expansion

Tata Steel India is on track to commission 2.9 mtpa steel making capacity expansion in Jamshedpur by end-2011. This will reflect in strong 27% volume growth in FY2013E. Note that the expanded capacity will be self-sufficient on iron ore and generate profitability in excess of US\$300/ ton. More important, EBITDA contribution from Indian operations may increase to 70% of the overall EBITDA by FY2013E from less than 50% in FY2008-09. In our view, this will significantly de-risk earnings.

Benefits from overseas raw material projects may surprise on the upside

Tepid recovery in UK, significant overcapacity in the developed markets and impending concerns on European markets will weigh on Corus performance. On the positive side, investments in raw material security, i.e. Riversdale Mining and New Millennium (iron ore project in Canada) can potentially add US\$300 mn to annual EBITDA. In any case, Tata Steel's holding is worth Rs40/share, in case Rio Tinto formally bids for Riversdale. This value is not captured in our TP and can be a positive catalyst as long as Tata decides not to counterbid.

BUY into profitable and strong volume growth

Our revised iron ore price forecast underpins our confidence in sustenance of steel prices and a 1-3% increase in benchmark HRC price assumption. We increase our FY2012E and FY2013E consolidated EBITDA by 6.3% and 9.2% to US\$3.9 and US\$4.6 bn, respectively. Tata Steel trades at an inexpensive 5.9X FY2012E and 4.8X FY2013E EBITDA. BUY with a TP of Rs725 based on end FY2012E financials. We assign 6.5X to Tata Steel India FY2012E EBITDA and 5.5X to Corus and Tata South East Asia business. We value investments in other group companies at Rs41/ share.

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Factors driving revision in our estimates and target price

We recently increased our iron ore price forecast (China import Indian iron ore fines 63% FE) to US\$130 and US\$110/ ton for FY2012E and FY2013E, respectively. On the back of this change, along with assumption of moderate pricing power, we revise our India HRC price assumption (excluding excise and VAT) to US\$743 and US\$738/ ton for FY2012E and FY2013E respectively from US\$718 and US\$717/ ton earlier. On the back of change in steel price assumption, we increase FY2012E and FY2013E EPS estimates by 11.5% and 16.8% to Rs74.5 and Rs91.1, respectively. Exhibit 1 details key changes to our estimates.

Tata Steel, Change in estimates, March fiscal year ends, 2011-13E (Rs mn)

	Revised estimates			Old estimates			% change		
	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E
Earnings (consolidated)									
Net sales	1,149,759	1,181,781	1,224,905	1,149,759	1,155,111	1,198,700	—	2.3	2.2
EBITDA	156,206	175,766	201,721	156,206	165,336	184,753	—	6.3	9.2
Adj. PAT	63,411	71,290	87,106	63,411	63,914	74,608	—	11.5	16.8
EPS (Rs)	66.3	74.5	91.1	66.3	66.8	78.0	—	11.5	16.8
Volumes									
India (mn tons)	6.5	7.1	9.0	6.5	7.1	8.7	—	—	3.3
International operations (mn tons)	14.8	14.9	15.1	14.8	14.9	15.1	—	—	—
Pricing									
HRC price India (US\$/ton)	728	743	738	728	718	717	—	3.4	3.0
HRC price Corus (US\$/ton)	1,085	1,100	1,067	1,085	1,075	1,060	—	2.3	0.7

Source: Kotak Institutional Equities estimates

We value standalone India operations at 6.5X FY2012E EBITDA. This is higher than historical levels, but we believe it is fair as it partly captures volume growth potential for the India business. Put slightly differently, FY2012E EBITDA does not capture brownfield expansion while the debt taken for this expansion is fully captured in the EV; assigning higher multiple corrects this anomaly. We assign 5.5X to Corus and far-east operations, fair noting lower profitability and lack of raw material security. We value listed investments at a 20% discount to the market price.

Our target price captures value from MOU signed by Corus for sale of Teeside Cast Products (TCP) plant to SSI, Malaysia for US\$500 mn; this adds Rs24 to fair value. However, our fair value does not capture any upside from New Millennium Corp (Canadian Iron ore Project) or Riversdale Mining investment. Note that Riversdale recently announced that it is in discussion with Rio Tinto for a possible transaction at an indicative price of AUD15/ share, valuing the company at US\$3.5 bn. At the indicative bid price, Tata Steel's stake in Riversdale is worth Rs40/share.

Tata Steel, valuation, March fiscal year-ends, 2012E basis (Rs mn)

	EBITDA (Rs mn)	Multiple (X)	Enterprise value (Rs mn)	EV (Rs/share)
Tata Steel standalone	120,958	6.5	791,065	827
Tata Steel Europe	44,895	5.5	248,716	260
Tata Steel Thailand and Natsteel	6,678	5.5	36,997	39
Total Enterprise Value			1,076,778	1,126
Consolidated group net debt			422,993	
Total borrowings			422,993	442
Arrived market capitalization			653,785	684
Add: Value of investments			39,530	41
Arrived market capitalization			693,315	725
Target price (Rs)				725

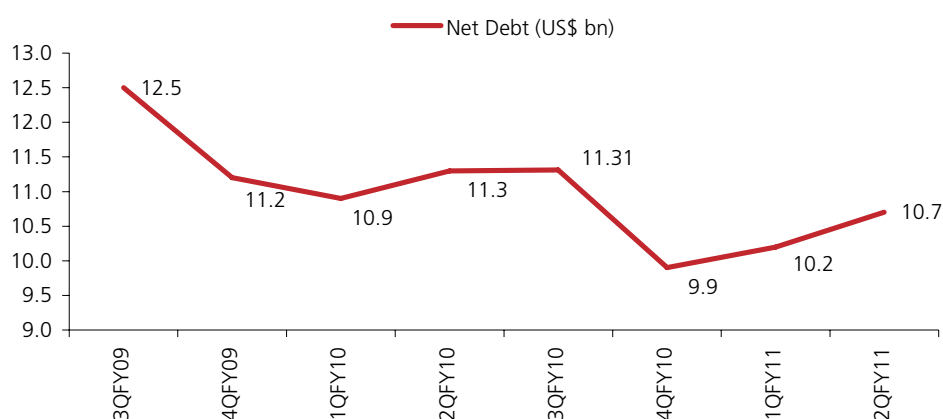
Source: Kotak Institutional Equities estimates

Leverage high but still within manageable proportion

Tata Steel has a leveraged balance sheet. With US\$3.5-4 bn of capex over the next two years, we believe the absolute debt is unlikely to change meaningfully. However, the leverage, though high at debt/EBITDA at 2.4X and debt/equity at 1.1X FY2012E, is within manageable limits. Some of the recent steps taken by Tata Steel to reduce leverage are in the right direction. The MOU for the sale of Teeside Cast Products (TCP) will bring in US\$500 mn. In addition, the company raised US\$288 mn through sale holdings in group companies.

Tata Steel recently refinanced of £3.53 bn of Corus debt. This may lead to an additional interest burden of US\$60 mn per annum, but the revised structure brings in financial flexibility including (1) termed out maturity of loans; (2) relaxation on EBITDA linked covenants for 4-5 years; (3) flexibility to borrow for working capital purposes and to incur capex. The proposed equity raising plan may also address leverage concerns.

Tata steel group net debt trend (US\$ bn)



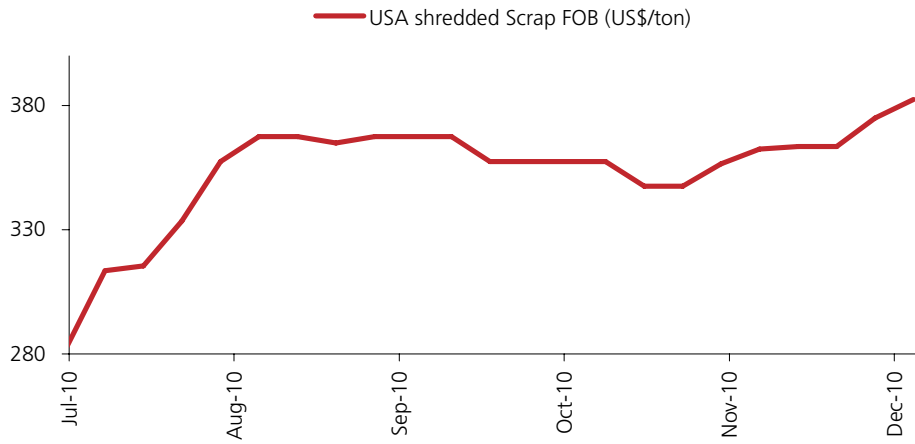
Source: Company, Kotak Institutional Equities

Iron ore prices have risen 10% in the last one month
 China import iron-ore fines from India (China CFR) prices (US\$/ton)



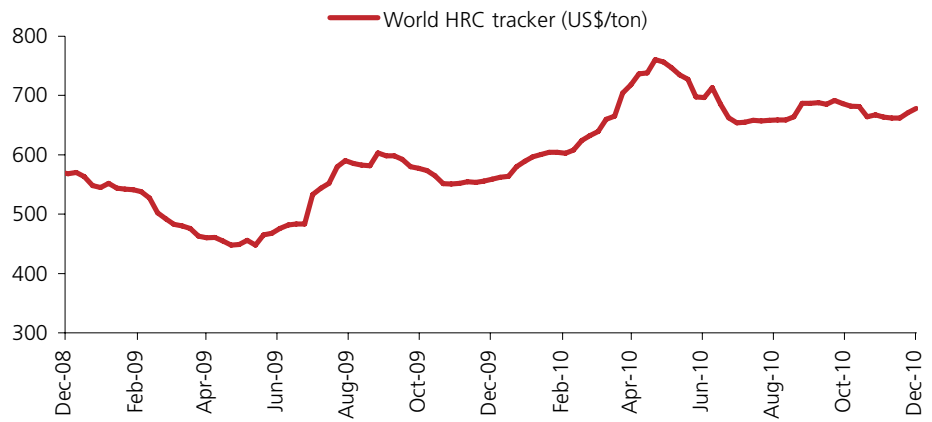
Source: Bloomberg, Kotak Institutional Equities

Scrap prices have increased by 10% in the last 5 weeks
 Six-monthly trend of USA FOB shredded scrap prices (US\$/ton)



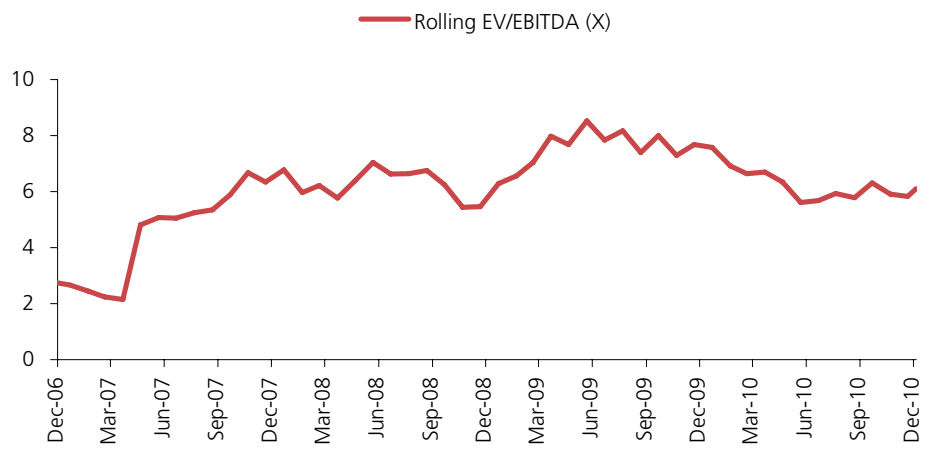
Source: Bloomberg, Kotak Institutional Equities

Trend in HRC prices (US\$/ton)



Source: Bloomberg, Kotak Institutional Equities

Tata Steel rolling 12-month forward EV/EBITDA chart (X)



Source: Kotak Institutional Equities estimates

Sensitivity of 2012E target price to varying Tata Steel India HRC price levels and varying EBITDA multiples

2012E - TP		Tata Steel India HRC Benchmark (US\$/ton)				
		643	693	743	793	843
EBITDA Multiple	5.5	412	505	597	690	783
	6.0	458	559	660	761	862
	6.5	505	614	724	833	942
	7.0	552	669	787	905	1,022
	7.5	598	724	850	976	1,102

Source: Kotak Institutional Equities estimates

Sensitivity of 2012E target price to varying Tata Steel India and Tata Steel Europe HRC price levels

2012E -TP		Tata Steel India HRC Benchmark (US\$/ton)				
		643	693	743	793	843
TSE HRC Benchmark (US\$/ton)	610	120	229	338	448	557
	660	312	422	531	640	750
	710	505	614	724	833	942
	760	698	807	916	1,026	1,135
	810	890	1,000	1,109	1,218	1,328

Source: Kotak Institutional Equities estimates

Sensitivity of 2012E EPS to varying Tata Steel Europe HRC price levels and varying capacity utilization levels

2012E - EPS		TSE Capacity utilisation (%)				
		75	80	85	90	95
TSE HRC Benchmark (US\$/ton)	690	41.5	53.2	64.9	76.6	88.3
	700	45.7	57.7	69.7	81.7	93.7
	710	50.0	62.3	74.5	86.8	99.1
	720	54.3	66.8	79.4	91.9	104.5
	730	58.5	71.4	84.2	97.1	109.9

Source: Kotak Institutional Equities estimates

Sensitivity of 2012E EPS to varying Tata Steel Europe HRC price levels and varying Re/US\$ rates

2012E - EPS		Re / US\$ Rate				
		42.5	43.5	44.5	45.5	46.5
TSE HRC Benchmark (US\$/ton)	690	57.4	61.1	64.9	68.6	72.4
	700	62.0	65.9	69.7	73.6	77.4
	710	66.6	70.6	74.5	78.5	82.5
	720	71.2	75.3	79.4	83.5	87.5
	730	75.8	80.0	84.2	88.4	92.6

Source: Kotak Institutional Equities estimates

Tata Steel sensitivity analysis to changes in iron-ore prices

Benchmark Iron ore assumption (US\$/ton)	2012E						
	85	100	115	130	145	160	175
Average HRC price (US\$/ton)	671	695	719	743	767	791	815
Consolidated EBITDA (Rs mn)	152,745	160,419	168,092	175,766	183,440	191,114	198,788
Consolidated EPS (Rs/share)	58.1	63.6	69.1	74.5	80.0	85.5	91.0
Change in EPS (%)	(22.1)	(14.8)	(7.4)		7.4	14.8	22.1
Average ROE (%)	16.4	17.8	19.2	20.5	21.9	23.2	24.5
Change in ROE (%)	(20.3)	(13.4)	(6.7)		6.6	13.0	19.4

Source: Kotak Institutional Equities estimates

Valuation parameters, consolidated, March fiscal year ends, FY2008-13E

	2008	2009	2010	2011E	2012E	2013E
Valuation ratios						
P/E (X)	5.4	9.7	(184.3)	9.7	8.7	7.1
EV/EBITDA (X)	6.4	6.4	13.0	6.8	5.9	4.8
P/B (X)	2.1	2.8	2.6	2.0	1.6	1.4
EV/ Revenues (X)	0.9	0.8	1.0	0.9	0.9	0.8
P/FCF (X)	38.5	17.3	232.8	(29.5)	31.9	8.5
FCF Yield (%)	2.6	5.8	0.4	(3.4)	3.1	11.8
P/CEPS	3.6	6.5	24.2	5.0	5.2	4.5
EV/Invested Capital	1.0	1.2	1.2	1.1	1.0	0.9
Dividend Yield (%)	2.5	2.5	1.2	1.2	1.2	1.2
Return ratios						
ROE (year-end) (%)	38.5	28.4	(1.4)	20.1	18.8	19.1
ROE (average) (%)	51.0	24.5	(1.5)	23.2	20.5	20.9
ROIC (year-end) (%)	10.1	11.1	(43.0)	12.4	13.0	14.7
ROIC (average) (%)	16.4	10.4	(37.7)	13.3	13.3	14.8
ROCE (year-end) (%)	9.8	10.3	(39.4)	11.5	12.9	14.4
ROCE (average) (%)	14.6	9.9	(34.8)	12.3	12.6	13.9
Leverage ratios						
Debt/ Equity (X)	2.1	3.0	2.3	1.7	1.3	1.0
Net debt/ Equity (X)	1.9	2.6	1.9	1.4	1.1	0.8
Net debt/ EBITDA (X)	3.0	3.1	5.5	2.8	2.4	1.7
Other ratios						
Revenues/Average gross block (X)	2.3	1.5	1.1	1.2	1.1	1.1
Working capital cycle (days of sales)	74	47	29	37	37	37
Book value per share	309	234	248	330	396	478
FCF per share (Rs)	16.8	37.4	2.8	(21.9)	20.2	76.2
Cash EPS (Rs)	177.4	99.2	26.7	129.0	123.7	144.4

Source: Company, Kotak Institutional Equities estimates

Tata Steel, Key assumptions, March fiscal-year ends, FY2008-2013E (Rs mn)

	2008	2009	2010	2011E	2012E	2013E
Tata Steel (India)						
Benchmark HRC Price (US\$/ton)	705	749	635	728	743	738
Volume (mn tons)	4.8	5.2	6.2	6.5	7.1	9.0
EBITDA/ton (US\$/ton)	394	380	307	373	383	352
Corus						
Average realization (US\$/ ton)	1,034	1,254	981	1,070	1,060	1,055
Volume (mn tons)	22.8	19.0	14.2	14.8	14.9	15.1
EBITDA/ton (US\$/ton)	88	103	(20)	56	68	77
Re/US\$ rate	42.5	46.0	47.3	45.5	44.5	44.1

Source: Company, Kotak Institutional Equities estimates

Tata Steel (standalone), Profit model, balance sheet and cash flow model, March fiscal year-ends, 2008-2013E (Rs mn)

	2008	2009	2010	2011E	2012E	2013E
Profit model (Rs mn)						
Net sales	196,910	243,157	250,220	289,348	315,051	376,163
EBITDA	80,138	91,334	89,521	110,598	120,958	140,276
Other income	2,428	3,083	8,538	13,081	6,345	6,997
Interest	(7,865)	(11,527)	(15,084)	(15,554)	(14,842)	(11,880)
Depreciation	(8,346)	(9,734)	(10,832)	(11,934)	(14,045)	(18,153)
Profit before tax	66,355	73,156	72,143	96,191	98,416	117,240
Extraordinaries	4,309	—	—	20,700	—	—
Taxes	(23,793)	(21,139)	(21,675)	(34,833)	(29,525)	(35,172)
Profit after tax	46,870	52,017	50,468	82,057	68,891	82,068
Fully diluted EPS (Rs)	50.4	56.0	54.3	70.6	72.0	85.8
Balance sheet (Rs mn)						
Equity	218,282	242,319	371,688	461,224	521,556	595,065
Deferred tax liability	6,818	5,857	8,677	9,612	10,596	11,768
Total Borrowings	234,942	324,188	252,392	237,392	207,392	177,392
Current liabilities	78,401	100,077	99,568	87,904	91,881	103,223
Total liabilities	538,443	672,441	732,324	796,132	831,425	887,449
Net fixed assets	82,561	109,945	121,624	124,690	166,645	247,503
Capital work in progress	43,675	34,877	38,436	93,436	93,436	23,436
Investments	41,032	423,718	449,797	449,097	449,097	449,097
Cash	4,650	15,906	32,341	28,096	16,489	51,810
Other current assets	364,974	86,945	90,126	100,813	105,758	115,604
Miscellaneous expenditure	1,551	1,051	—	—	—	—
Total assets	538,443	672,442	732,324	796,132	831,425	887,449
Free cash flow (Rs mn)						
Operating cash flow excl.working capital	60,778	66,599	71,874	94,926	83,920	101,393
Working capital changes	1,764	7,373	11,818	(3,112)	(968)	1,496
Capital expenditure	(23,951)	(27,711)	(20,237)	(70,000)	(56,000)	(29,010)
Free cash flow	38,591	46,261	63,455	21,814	26,952	73,879
Ratios						
EBITDA margin (%)	40.7	37.6	35.8	38.2	38.4	37.3
EBT margin (%)	35.9	30.1	28.8	40.4	31.2	31.2
Debt/equity (X)	1.1	1.3	0.7	0.5	0.4	0.3
Net debt/equity (X)	1.0	1.1	0.5	0.4	0.3	0.2
Net debt/EBITDA (X)	2.7	3.0	2.1	1.6	1.3	0.7
RoAE (%)	26.4	22.7	16.5	19.7	14.0	14.7
RoACE (%)	16.7	13.9	12.3	13.8	13.1	14.2

Source: Company, Kotak Institutional Equities estimates

Tata Steel (consolidated), Profit model, balance sheet and cash flow model, March fiscal year-ends, 2008-2013E (Rs mn)

	2008	2009	2010	2011E	2012E	2013E
Profit model (Rs mn)						
Net sales	1,315,336	1,473,293	1,023,931	1,149,759	1,181,781	1,224,905
EBITDA	177,824	181,277	80,427	156,206	175,766	201,721
Other income	4,759	2,657	11,859	14,169	7,829	8,637
Interest	(40,854)	(32,902)	(30,221)	(33,989)	(35,045)	(34,969)
Depreciation	(41,370)	(42,654)	(44,917)	(45,437)	(47,015)	(51,009)
Profit before tax	100,359	108,378	17,147	90,950	101,536	124,380
Extraordinaries	63,351	(40,945)	(16,837)	20,700	—	—
Taxes	(40,493)	(18,940)	(21,518)	(34,388)	(30,969)	(37,936)
Profit after tax	123,218	48,492	(21,208)	77,262	70,568	86,444
Minority interest	(1,399)	409	(152)	(525)	(604)	(664)
Share in profit/(loss) of associates	1,682	607	1,269	1,205	1,326	1,326
Reported net income	123,500	49,509	(20,092)	77,942	71,290	87,106
Adjusted net income	110,441	61,750	(3,255)	63,411	71,290	87,106
Fully diluted EPS (Rs)	118.8	66.4	(3.5)	66.3	74.5	91.1
Balance sheet (Rs mn)						
Equity	287,015	217,700	230,208	315,649	378,380	456,927
Deferred tax liability	24,545	17,094	16,541	17,658	18,165	18,787
Total Borrowings	590,973	653,732	531,004	526,004	496,004	466,004
Current liabilities	339,163	313,109	309,639	322,606	330,115	340,197
Minority interest	8,327	8,949	8,841	9,366	9,969	10,634
Total liabilities	1,250,022	1,210,583	1,096,232	1,191,282	1,232,633	1,292,548
Net fixed assets	331,187	364,175	365,252	374,815	416,911	489,321
Capital work in progress	88,476	88,880	92,706	129,706	129,206	59,206
Goodwill	180,500	153,649	145,418	145,418	145,418	145,418
Investments	33,675	64,111	54,178	55,383	56,709	58,034
Cash	42,319	61,484	67,878	65,104	53,698	96,630
Other current assets	572,309	477,229	370,800	420,855	430,691	443,937
Miscellaneous expenditure	1,556	1,055	—	—	—	—
Total assets	1,250,022	1,210,583	1,096,232	1,191,282	1,232,633	1,292,548
Free cash flow (Rs mn)						
Operating cash flow excl. working capital	117,771	116,077	25,583	108,185	110,261	129,438
Working capital changes	(22,227)	2,254	46,465	(37,088)	(2,327)	(3,164)
Capital expenditure	(79,967)	(83,608)	(69,472)	(92,000)	(88,610)	(53,420)
Free cash flow	15,578	34,723	2,577	(20,903)	19,324	72,854
Ratios						
EBITDA margin (%)	13.5	12.3	7.9	13.6	14.9	16.5
EBIT margin (%)	10.4	9.4	3.5	9.6	10.9	12.3
Debt/equity (X)	2.1	3.0	2.3	1.7	1.3	1.0
Net debt/equity (X)	1.9	2.6	1.9	1.4	1.1	0.8
Net debt/EBITDA (X)	3.0	3.1	5.5	2.8	2.4	1.7
RoAE (%)	51.0	24.5	(1.5)	23.2	20.5	20.9
RoACE (%)	14.6	9.9	(34.8)	12.2	13.1	14.7

Source: Company, Kotak Institutional Equities estimates

DECEMBER 14, 2010

UPDATE

Coverage view:

Price (Rs): 166

Target price (Rs): 220

BSE-30: 19,799

Weather impacts 3QFY11E sales. We believe 3QFY11E will be muted due to poor sales/volume growth on account of (1) unseasonal rains in India, and (2) abnormal weather conditions in L. America. While we retain our 4QFY11E est., we believe FY2011E sales growth guidance of 10-15% will not be met. We leave our growth assumptions for FY2012E intact and reduce FY2011-12E PAT est. by 12% and 5%. Extension of winter in NAVEU remains a key risk to our 4QFY11E estimates. At 9X FY2012E, we maintain BUY with PT being revised down to Rs220 (13X FY2012E).

Company data and valuation summary

United Phosphorus

Stock data

52-week range (Rs) (high,low) 220-143

Market Cap. (Rs bn) 76.6

Shareholding pattern (%)

Promoters 27.8

FIs 34.9

MFs 12.1

Price performance (%)

Absolute (15.9) (13.0) 2.9

Rel. to BSE-30 (14.4) (15.0) (11.2)

Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	11.9	12.9	17.6
EPS growth (%)	18.1	8.4	36.6
P/E (X)	13.9	12.9	9.4
Sales (Rs bn)	52.9	56.7	63.9
Net profits (Rs bn)	5.5	6.0	8.1
EBITDA (Rs bn)	9.9	11.0	13.2
EV/EBITDA (X)	7.8	7.1	5.5
ROE (%)	19.1	18.3	20.8
Div. Yield (%)	1.1	1.1	1.1

QUICK NUMBERS

- We believe 3QFY11E will be muted due to poor sales growth
- We believe FY2011E sales growth guidance will not be met
- At 9X FY2012E, we maintain BUY with PT being revised down to Rs220 (13X FY2012E)

We believe 3QFY11E will be muted due to poor sales growth

We believe 3QFY11E will be muted due to poor sales growth on account of poor volume growth. This is likely due to (1) unseasonal rains in India, and (2) abnormal weather conditions in Latin America. We revise our 3QFY11E sales growth estimate downwards to 2% from 15% earlier with (1) volume growth at 6% versus 20% earlier, and (2) adverse exchange rate impact at 4% yoy, same as earlier. Since this is seasonally a weak quarter for US/EU, we expect these geographies to report 0-5% sales growth in local currency with 5-10% sales growth in Latin America and India.

However, EBITDA margin likely to remain in 3QFY11E, at levels reported in 1HFY11

Despite nil sales growth in 1HFY11, UPL reported 200 bps expansion in EBITDA margin (including other income) to 20% reflecting the impact of cost rationalization and plant restructuring undertaken in Europe in FY2010. We expect this trend to continue in 3QFY11E and retain our EBITDA margin assumption at 19%, up 100 bps yoy.

4QFY11E estimates retained; FY2011E guidance will not be met

While we retain our 4QFY11E est. at 18%/16% volume/sales growth, we believe FY2011E sales growth guidance of 10-15% will not be met. With our (1) revision in 3QFY11E sales growth to 2% from 15% earlier and (2) leaving our 4QFY11E estimates intact, we expect FY2012E sales growth at 7% versus our estimate of 11% earlier. Extension of winter in EU/NA remains a key risk to our 4QFY11E estimates.

We see no reason to change our FY2012E growth assumptions

UPL has reported above-industry growth in FY2009-10 with volume growth at 14%. In 9MFY11, UPL has been hit by factors such as (1) late winter in EU/NA which impacted 1QFY11, (2) abnormal weather conditions impacting sales in India/LA in 3QFY11E, and (3) adverse exchange rate impact of 5% in 1HFY11. However, we believe long-term fundamentals are intact and leave our FY2012E growth assumptions unchanged. We reduce FY2011-12E PAT est. by 12% and 5%. At 9X FY2012E, we maintain BUY with PT being revised down to Rs220 (13X FY2012E).

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UPL—Interim sales growth, March fiscal year-ends (%)

	FY2009	1QFY10	2QFY10	3QFY10	4QFY10	FY2010	1QFY11	2QFY11	3QFY11E
India	29	29	4	25	5	16	10	45	10
International	33	24	(2)	0	10	9	(15)	(2)	(1)
North America	18	24	(12)	(4)	8	5	(12)	(7)	1
Europe	36	16	(2)	(11)	(7)	(1)	(25)	(25)	(11)
Rest of the World	48	37	12	12	44	26	(6)	23	6
Total (incl other income)	32	25	(0)	6	9	10	(10)	10	2
Price	15	4	(5)	(13)	(7)	(5)	(7)	—	—
Volume	14	15	3	18	20	14	2	13	6
Exchange rate	8	7	2	0	(5)	1	(7)	(3)	(4)

Source: Kotak Institutional Equities estimates, Company

Change in estimates (Rs mn)

	New estimates		Old estimates		% change	
	2011E	2012E	2011E	2012E	2011E	2012E
Net sales	56,718	63,927	58,671	66,000	(3)	(3)
EBITDA	11,231	13,202	12,226	13,673	(8)	(3)
Depreciation	(2,237)	(2,500)	(2,237)	(2,500)	(0)	0
EBIT	8,995	10,702	9,989	11,173	(10)	(4)
Net finance cost	(1,936)	(1,600)	(1,936)	(1,600)	(0)	0
Other income	(46)	400	(46)	400	(1)	0
Pretax profits before extra-ordinaries	7,014	9,502	8,007	9,973	(12)	(5)
Tax	(1,089)	(1,520)	(1,258)	(1,596)	(13)	(5)
Reported net profit	5,925	7,981	6,749	8,377	(12)	(5)
Share of profit/(loss) in associate	26	150	26	150	2	0
Reported net profit after minority interests	5,951	8,131	6,775	8,527	(12)	(5)

Source: Kotak Institutional Equities estimates, Company

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

	2007	2008	2009	2010	2011E	2012E
Net sales	23,112	35,155	48,021	52,900	56,718	63,927
Operating expenses						
Materials	(11,822)	(18,146)	(24,512)	(29,542)	(28,633)	(30,889)
Selling and administration	(3,212)	(4,927)	(6,161)	(6,387)	(7,373)	(8,310)
Employee cost	(1,896)	(4,017)	(4,794)	(5,018)	(5,020)	(5,773)
R&D	(71)	(90)	(306)	(310)	(284)	(320)
Others	(1,826)	(3,071)	(3,806)	(3,356)	(4,178)	(5,434)
Total expenditure	(18,827)	(30,250)	(39,578)	(44,612)	(45,487)	(50,725)
EBITDA	4,285	4,905	8,444	8,288	11,231	13,202
Depreciation and amortisation	(1,656)	(1,522)	(1,927)	(2,147)	(2,237)	(2,500)
EBIT	2,629	3,383	6,517	6,141	8,995	10,702
Net finance cost	(1,046)	(1,688)	(1,761)	(1,825)	(1,936)	(1,600)
Other income	1,598	2,462	265	1,932	(46)	400
Pretax profits before extra-ordinaries	3,181	4,156	5,021	6,249	7,014	9,502
Current tax	(131)	(141)	(263)	(408)	(1,089)	(1,520)
Deferred tax	(372)	(263)	19	(442)	—	—
Fringe benefit tax	(22)	(20)	(31)	—	—	—
Reported net profit	2,656	3,733	4,747	5,399	5,925	7,981
(Profit)/loss in minority interest	—	(10)	(25)	(59)	—	—
Share of profit/(loss) in associate	242	222	200	188	26	150
Prior adjustments (net)	(212)	(226)	(268)	(35)	—	—
Reported net profit after minority interes	2,685	3,719	4,654	5,492	5,951	8,131
Exceptional items	(76)	(1,144)	(95)	(231)	—	—
Reported net profit after minority interes	2,609	2,575	4,559	5,262	5,951	8,131

Source: Kotak Institutional Equities, Kotak Institutional Equities estimates, Company

UPL—balance sheet statement, March fiscal year-ends, 2007-2012E (Rs mn)

	2007	2008	2009	2010	2011E	2012E
Balance sheet						
Net worth	14,954	22,380	26,730	29,918	34,858	41,979
Debt	19,593	15,683	20,665	23,818	21,171	16,751
Current liabilities	12,504	13,473	16,260	14,616	14,836	17,823
Minority Interests	49	60	95	140	140	140
Deferred payment liabilities	695	862	677	375	375	375
Deferred tax liabilities	50	254	338	780	780	780
Total equity and liabilities	47,843	52,711	64,765	69,648	72,161	77,848
Cash and cash equivalents	4,604	8,446	5,539	15,778	13,000	13,000
Current assets	20,565	23,635	35,635	27,465	32,993	39,180
Net assets incl intangibles	18,736	15,993	18,494	18,128	17,892	17,392
Investments	3,910	4,070	4,332	7,612	7,612	7,612
Deferred tax asset	22	563	765	665	665	665
Misc. expenditure	7	5	—	—	—	—
Total assets	47,843	52,711	64,765	69,648	72,161	77,848
Free cash flow						
Operating cash flow, excl. w. capital	5,038	6,553	8,018	8,863	9,607	11,489
Working capital	297	(2,615)	(9,471)	6,273	(5,294)	(3,200)
Capital expenditure	(14,701)	2,827	(3,620)	427	(2,000)	(2,000)
Investments	256	(159)	(268)	286	—	—
Free cash flow	(9,110)	6,607	(5,340)	15,849	2,313	6,290

Source: Kotak Institutional Equities estimates, Company

DECEMBER 14, 2010

UPDATE

Coverage view: **Attractive**

Price (Rs): **280**

Target price (Rs): **350**

BSE-30: **19,799**

Adjustment post demerger. We adjust our estimates/valuation to account for the demerger of agri, polymers business (16% of sales, 10% of EBITDA) into a separate company (to be listed). Jubilant Life Sciences will now contain PLSPS, a higher margin business. With 13% volume growth in 1HFY11 in life science ingredients (65% of sales), we believe growth is intact. We therefore maintain FY2012E sales growth rate at 16%. However, we revise FY2011-12E PAT downwards due to (1) lower margin assumption (down 300 bps) on account of slower recovery, (2) muted 2HFY11E due to absence of high-margin CMO contracts. At 11X FY2012E, we maintain BUY with PT at Rs350 (14X FY2012E).

Company data and valuation summary

Jubilant Life Sciences

Stock data

52-week range (Rs) (high,low)	413-265
Market Cap. (Rs bn)	44.2

Shareholding pattern (%)

Promoters	47.3
FIs	25.5
MFs	5.9

Price performance (%)

	1M	3M	12M
Absolute	(8.2)	(21.9)	(17.6)
Rel. to BSE-30	(6.0)	(23.8)	(28.4)

Forecasts/Valuations	2010	2011E	2012E
EPS (Rs)	26.5	17.5	25.2
EPS growth (%)	49.0	(34.2)	44.1
P/E (X)	10.5	16.0	11.1
Sales (Rs bn)	37.8	34.1	39.7
Net profits (Rs bn)	4.5	3.0	4.0
EBITDA (Rs bn)	8.3	6.4	8.4
EV/EBITDA (X)	8.2	11.1	8.3
ROE (%)	26.3	13.7	17.1
Div. Yield (%)	0.7	0.7	0.9

Agri and polymers business (APP) demerged into a separate company

With the demerger, Jubilant Life Sciences will now contain the PLSPS, a higher margin business with 5-year average EBITDA margin at 22% vs 19% for erstwhile business and 7% for APP business. The APP business accounted for 16% of sales and 10% of EBITDA in 1HFY11.

2HFY11E likely to be muted due to absence of high-margin CMO contracts

Due to absence of high-margin CMO contracts last year (US\$35 mn), we believe 2HFY11E will be muted yoy; however, will show sequential improvement. Life science/nutritional business has seen utilization of high-cost inventory paving way for sequential improvement in margin.

We believe growth is intact in life science ingredients biz; maintain FY2012E sales growth at 16%

In 1HFY11, life science ingredients business reported sales growth of 4% with volume growth at 13%. We believe growth drivers in (1) life science ingredients business (up 4% in 1HFY11) and generics (up 12% yoy) accounting for 75% of total sales is intact, (2) however, growth in CMO, drug discovery (25% of sales) still remains under pressure. We maintain our overall FY2012E sales growth at 16% with (1) 18% in life science ingredients aided by additional capacity for Niacinamide and API's coming on stream in 4QFY11E and (2) 5-10% sales growth in CMO, drug discovery.

At 11X FY2012E, we maintain BUY with PT at Rs350 (was Rs400)

We maintain our overall FY2012E sales growth at 16%; however, revise PAT downwards due to (1) lower margin assumption (down 300 bps) on account of slower recovery, (2) muted 2HFY11E due to absence of high-margin CMO contracts. At 11X FY2012E, we believe valuations are attractive and maintain BUY with PT at Rs350. We value Jubilant at 14X, in line with its 5-year average multiple.

QUICK NUMBERS

- 2HFY11E likely to be muted due to absence of high-margin CMO contracts
- We maintain FY2012E sales growth at 16%
- At 11X FY2011E, we maintain BUY with PT at Rs350 (was Rs400)

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Jubilant Life Sciences, a higher margin business now

With the demerger, Jubilant Life Sciences will now contain PLSPS, a higher-margin business with 5-year average EBITDA margin at 22% vs 19% for erstwhile business and 7% for APP business. The APP business accounted for 16% of sales and 10% of EBITDA in 1HFY11.

EBITDA across PLSPS, APP businesses, (%)

	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
PLSPS	24	25	28	26	19	19	19	20
APP	3	(3)	9	11	12	12		

	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
PLSPS								
Sales	9,080	11,860	14,940	21,450	29,720	33,620	34,099	39,668
EBITDA	2,230	2,270	3,190	5,180	6,490	8,740	6,381	8,366
APP								
Sales	2,580	3,130	3,160	3,440	5,460	4,190	5,716	6,002
EBITDA	110	250	250	170	440	190		
EBITDA, %								
PLSPS	25	19	21	24	22	26	19	21
APP	4	8	8	5	8	5		

Source: Kotak Institutional Equities estimates, Company

Split of business, 1HFY11 (Rs mn)

	1HFY11			Industries (% of total)
	Total	Lifesciences	Industries	
Net sales	19,691	16,627	3,064	16%
EBITDA	3,116	2,800	316	10%
EBITDA, %	15.8	16.8	10.3	
Other income	148	141	8	
Interest	446	442	4	
Depreciation	1,000	976	24	
PBT	1,817	1,522	295	
Tax	171	84	87	
PAT	1,647	1,438	208	13%
Minority interest	(16)	(16)	—	
PAT before exceptional	1,662	1,454	208	13%
Exceptional item	(215)	(215)	—	
PAT	1,448	1,240	208	14%

Source: Kotak Institutional Equities estimates, Company

We believe growth is intact in life science ingredients biz; however, pressure remains in CMO/drug discovery; maintain FY2012E sales growth at 16%

We believe growth drivers in (1) life science ingredients business (up 4% in 1HFY11) and generics (up 12% yoy) accounting for 75% of total sales is intact, (2) however, growth in CMO, drug discovery (25% of sales) still remains under pressure.

We maintain our overall FY2012E sales growth at 16% with

- ▶ 18% in life science ingredients aided by additional capacity for Niacinamide and API's coming on stream in 4QFY11E. Jubilant plans to debottleneck pyridines capacity by 20% in FY2011E. Jubilant is also putting up a 10,000 tons per annum plant for Niacinamide at a cost of Rs1.5 bn in FY2011E. This is a high value-added product with realizations of around US\$9,000/ton. Jubilant is also setting up capacity for manufacturing APIs for sartans and the latest DMF list confirms that Jubilant has filed DMFs for most of the sartans going off patent in the near future.
- ▶ 5-10% sales growth in CMO, drug discovery.

Sartans to drive growth in API segment

API	Patent expiry	Brand name	Innovator	DMF filed	Genericised
Esprosartan	2014	Teveten	Abbott	Y	N
Candesartan	2012	Atancand	Astrazeneca	Y	N
Losartan	2010	Hyzaar	Merck	Y	Y
Valsartan	2012	Diovan	Novartis	Y	N
Olmesartan	2016	Benicar	Daiichi	N	N
Telmisartan	2014	Micardis	Boehringer	N	N
Irbesartan	2011	Avalide	Sanofi	N	N

Source: Kotak Institutional Equities estimates, Company

Sales split by business (Rs mn)

	1HFY10	1HFY11	% yoy growth	2HFY10	2HFY11E	% yoy growth	FY2011E	FY2012E	% yoy growth
LS Ingredients	10,260	10,650	4	10,343	11,367	10	22,017	25,896	18
Generics	1,860	2,080	12	1,960	2,246	15	4,326	5,253	21
CMO	2,660	2,790	5	3,950	2,785	(29)	5,575	6,204	11
Drugs discovery	1,240	1,060	(15)	1,250	988	(21)	2,048	2,175	6
Hospitals	40	60	50	40	60	50	120	140	17
Total	16,060	16,640	4	17,543	17,447	(1)	34,087	39,668	16

Source: Kotak Institutional Equities estimates, Company

We revise PAT est. downwards

We maintain our overall FY2012E sales growth at 16%; however, revise PAT downwards due to (1) lower margin assumption (down 300 bps) on account of slower recovery, and (2) muted 2HFY11E due to absence of high-margin CMO contracts.

Changes to estimates (Rs mn)

	FY2011E		FY2012E		% change	
	Old	New	Old	New	FY2011E	FY2012E
Sales						
PLSPS	36,252	34,099	42,020	39,668	(6)	(6)
APP	5,716	—	6,002	—		
Total	41,968	34,099	48,022	39,668	(19)	(17)
EBITDA						
PLSPS	7,504	6,381	10,134	8,366	(15)	(17)
APP	697	—	732	—		
Total	8,201	6,381	10,866	8,366	(22)	(23)
PAT						
PLSPS	4,001	2,773	5,881	3,995	(31)	(32)
APP	288	—	303	—		
Total	4,289	2,773	6,184	3,995	(35)	(35)
EBITDA (%)						
PLSPS	21	19	24	21	(2)	(3)
APP	12	—	12	—		
Total	20	19	23	21	(1)	(2)

Source: Kotak Institutional Equities estimates, Company

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

	2007	2008	2009	2010	2011E	2011E
Net sales	18,097	24,889	35,175	37,812	34,099	39,668
Operating expenses						
Materials	(11,274)	(13,834)	(18,461)	(20,024)	(15,084)	(16,298)
Selling and administration	(1,191)	(1,458)	(1,805)	(3,520)	(5,650)	(6,977)
Employee cost	(2,149)	(3,670)	(6,575)	(7,453)	(7,328)	(8,427)
R&D	(131)	(228)	(285)	—	—	—
Others	(916)	(1,420)	(3,629)	1,070	—	—
Total expenditure	(15,530)	(20,382)	(30,469)	(29,926)	(28,063)	(31,702)
EBITDA	2,567	4,507	4,706	7,886	6,036	7,966
Depreciation and amortisation	(623)	(1,039)	(1,632)	(1,247)	(1,977)	(2,100)
EBIT	1,944	3,468	3,074	6,639	4,059	5,866
Net finance cost	(195)	(337)	(1,070)	(1,505)	(1,092)	(1,400)
Other income	1,203	1,430	425	373	345	400
Pretax profits before extra-ordinaries	2,953	4,561	2,428	5,507	3,312	4,866
Current tax	(370)	(557)	(623)	(957)	(351)	(876)
Deferred tax	(319)	12	127	—	—	—
Fringe benefit tax	(24)	(28)	(28)	—	—	—
Reported net profit	2,240	3,988	1,904	4,550	2,961	3,990
Minority interests	39	16	133	(5)	26	5
Reported net profit after minority interests	2,280	4,005	2,037	4,545	2,987	3,995
Exceptional items	—	—	790	(331)	(215)	—
PAT after minority interests and excep. Items	2,280	4,005	2,827	4,214	2,773	3,995

Source: Kotak Institutional Equities estimates, Company

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

	2007	2008	2009	2010	2011E	2012E
Balance sheet						
Net worth	9,061	12,563	12,675	21,893	21,623	25,154
Debt	16,526	21,085	38,781	31,200	29,533	25,728
Current liabilities	5,248	6,679	11,943	12,728	10,927	10,495
Deferred tax liabilities	1,534	1,516	1,470	2,303	2,278	2,273
Total equity and liabilities	32,370	41,842	64,870	68,124	64,361	63,650
Cash and cash equivalents	8,749	5,238	3,817	5,037	2,000	500
Current assets	8,905	12,160	15,855	17,278	17,499	17,578
Net assets incl CWIP	14,677	23,988	42,484	43,245	44,172	45,572
Investments	39	456	2,714	2,564	690	—
Total uses of funds	32,370	41,842	64,870	68,124	64,361	63,650
Free cash flow						
Operating cash flow, excl. working capital	2,948	5,247	4,218	7,041	5,915	7,238
Working capital	60	(1,895)	1,553	(752)	(2,023)	(603)
Capital expenditure	(3,554)	(7,241)	(7,383)	(2,011)	(2,904)	(3,500)
Investments	(37)	(418)	(2,257)	149	1,874	690
Free cash flow	(583)	(4,306)	(3,868)	4,427	2,861	3,825

Source: Kotak Institutional Equities estimates, Company

DECEMBER 14, 2010

UPDATE

BSE-30: 19,799

Favorable base effect pulls down November WPI inflation. Headline WPI inflation edged down in November to 7.48% from 8.58% in October in line with consensus expectations of 7.5% (Kotak estimates of 7.44%). September inflation rate was revised up to 8.93% from 8.62% earlier. Policymakers would draw comfort from the fact that the annual inflation rate has fallen to an 11-month low. However, the moderation is entirely on account of a base effect, as the index jumped by 0.4% m/m.

Protein food-related inflation limiting correction in primary food prices

Food inflation (weighted average of primary food articles and manufactured food products) was at 6.11% from 9.97% in October, the lowest since February 2008. This was due to a positive base effect, as the food index rose by 0.4% m/m in November 2010 as against a strong 4.1% m/m a year ago. On the primary food articles side, the annual inflation rate came into the single digit zone for the first time in 18 months to 9.4%. However, price pressures in protein-rich items such as eggs (13% m/m), marine fish (3% m/m), and meat (2% m/m) sustained while some dips were seen in cereals. Manufactured food products inflation decelerated to 0.6% from 3.0% in October but this was also due to a base effect as the index rose by 1.1% over the month.

Policymakers had hoped that a good *kharif* output would help bring down food-related inflation. However, there is a risk that food prices won't correct significantly even after the *kharif* output arrives in the market. (1) Inflation in protein-rich food items remain stubbornly high. (2) Unseasonal November rains may have damaged parts of *kharif* crops, such as potatoes and onions which are showing high rates of inflation. (3) Data suggests that Rabi crop sowing has not picked up significantly, possibly due to the late *kharif* harvest and this might have some implications for *rabi* output. (4) MSP prices have also risen and would act as a natural floor. (5) Global food prices remain firm and could spill over to domestic prices.

Non-food inflation continuing to firm up

WPI ex-food ex-fuel moderated only marginally to 9.87% from 10.41% in October, indicating the presence of more generalized inflationary pressures in the economy. Non-food manufacturing inflation, which has been closely tracked by RBI to gauge demand-side price pressures, edged up to 5.4% from 5.1% in October. Higher prices of fibers, logs & timber, raw rubber etc. resulted in non-food primary articles index rising by 2.5% m/m, taking the annual rate of inflation to 22.6%.

Risks to inflation on the upside; RBI to resume rate hike in 4QFY11E after a December pause

Despite headline inflation falling below 8%, the extent of dip has fallen short of what was being envisaged by policymakers. In our view, there are upside risks to inflation from (1) domestic food prices may not correct significantly owing to factors highlighted above, (2) global crude oil prices have risen sharply to around US\$88/bbl, increasing the chances of a fuel price hike (in June when fuel prices were hiked, oil was trading close to US\$75/bbl), (3) prices of other commodities such as metals have firmed up with excessive liquidity in the global arena and risk a spillover to manufacturing inflation, and (4) strong demand pull from the domestic economy is evident in the large current account deficit and there are expectations that domestic demand, especially rural demand, picks up further. Overall, we expect headline inflation to moderate only gradually to around 6.0-6.5% by March 2011-end, higher than RBI's target of 5.5%. On the December 16 mid-quarter policy review, we expect RBI to pause—mainly as it indicated in the November policy and also as the normalization process of monetary policy is already over, reducing the need to raise rates at short intervals. RBI could thus afford to pause temporarily but we continue to look at one last 25 bps increase on January 25, both on the Repo and Reverse Repo rates. With inflation dynamics staying strong, we do not expect RBI to reduce CRR on December 16.

QUICK NUMBERS

- **WPI inflation falls to an 11-month low of 7.48% in November**
- **Food inflation decelerates sharply on base effect; non-food inflation remains sticky**
- **Upside risks to inflation remain; expect a 25 bps hike in 4QFY11E**

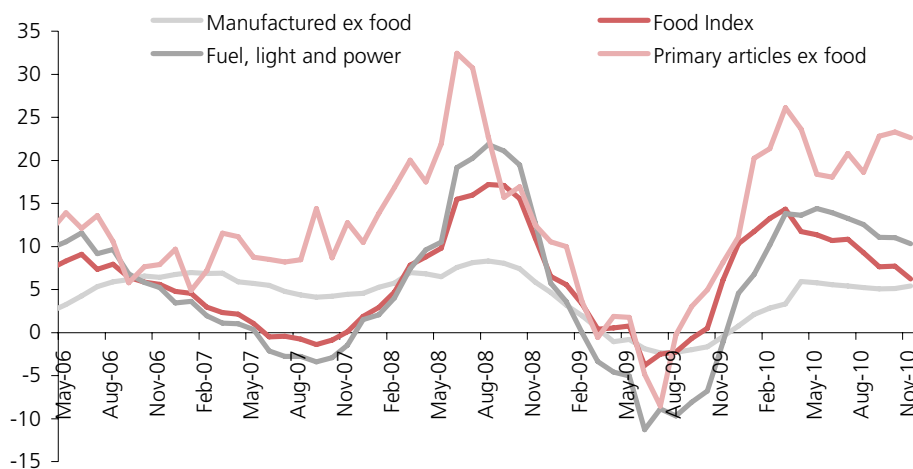
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Exhibit 1: Food inflation moderating on base effect, non-food items experiencing higher inflationary pressures

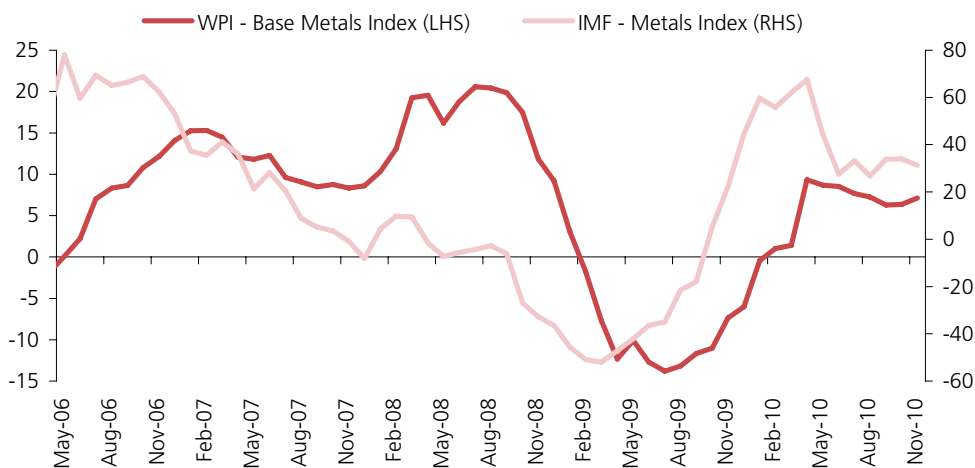
Inflation rate (y/y change in WPI) for major commodity groups, 2006-2010 (%)



Source: CEIC, Kotak Economic Research

Exhibit 2: Global commodity prices have been firming up and risk a spillover to domestic prices

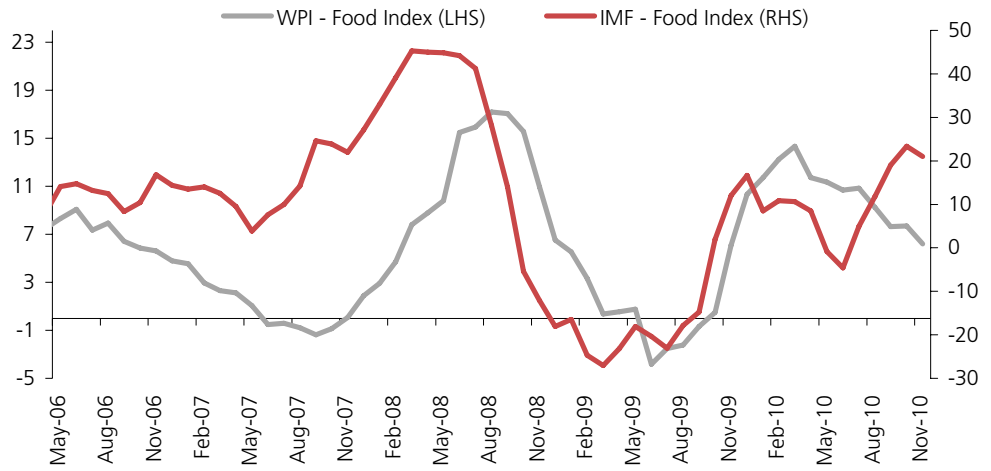
WPI base metals index and IMF metals index inflation rate (y/y change), 2006-2010, (%)



Source: CEIC, IMF, Kotak Economic Research

Exhibit 3: The softening trend in domestic food prices may be limited by the hardening of global food prices

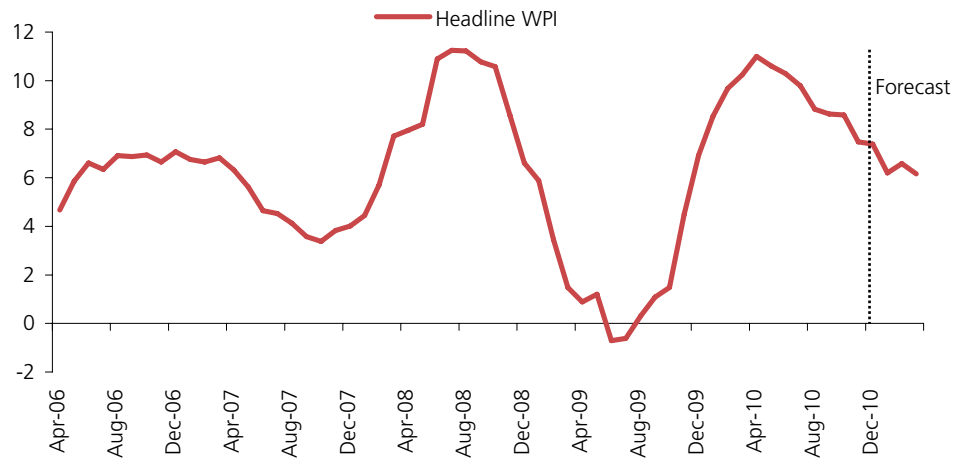
WPI food index and IMF food index inflation rate (y/y change), 2006-2010, (%)



Source: CEIC, IMF, Kotak Economic Research

Exhibit 4: Inflation to moderate only gradually towards 6.2% by March 2011, higher than RBI projection of 5.5%

WPI Inflation (y/y change), 2006-2011E, (%)



Source: CEIC, Kotak Economic Research

DECEMBER 14, 2010

UPDATE

BSE-30: 19,799

Phase of extreme pessimism may be a good time to invest. We would advise investors to invest in downstream stocks as the current valuations suggest an overly pessimistic assumption of (1) crude prices remaining high in perpetuity, (2) no deregulation of diesel prices and (3) the possibility of higher-than-expected subsidy burden on downstream companies. We see the hike of ₹3/liter on gasoline as allaying investor concerns on credibility of deregulation process. We expect diesel deregulation over the next few months given a likely sharp dip in inflation. We maintain our BUY rating on BPCL and HPCL and upgrade IOCL to BUY (ADD previously).

Excess pessimism around downstream companies provides good opportunity to invest

Corrections in the prices of downstream stocks over the past two months reflect (1) a sharp surge in crude oil prices, (2) delay in implementation of diesel deregulation and (3) a lack of clarity on subsidy-sharing mechanism. However, we believe the concerns are overdone and current stock prices seem to be reflecting a scenario of (1) no government action on diesel deregulation, (2) no softening of crude oil prices and (3) a higher-than-expected burden on downstream oil companies. We would advise investors to take advantage of the current pessimism to invest in these stocks. We upgrade IOCL to BUY and see significant potential upside to our 12-month fair valuation for the three stocks—₹860 for BPCL, ₹600 for HPCL and ₹500 for IOCL.

Some relief in sight—EGoM meeting on December 22 to review diesel prices

An Empowered Group of Ministers (EGoM) is scheduled to meet on December 22, 2010 to decide on potential hike in diesel prices. A likely hike in diesel prices will help bridging the gap between free-market and current domestic prices to a large extent. We note that if retail diesel prices are increased by ₹2/liter, the breakeven crude price for diesel would increase to ~US\$84/bbl. This would make diesel deregulation manageable. We assume a deregulation of prices from April 1, 2011 and would not be too perturbed by recent government inaction on pricing.

We do not assume benefit of diesel deregulation to accrue to downstream companies in any case

We highlight that net under-recoveries are the more critical variable for downstream companies as compared to gross under-recoveries. We model net under-recovery of ₹63 bn in FY2012E for downstream companies, which is similar to FY2011E. Thus, we do not see risk to our earnings estimates from a delay in or non implementation of diesel deregulation. However, diesel deregulation will improve sentiment and valuations for downstream oil companies.

Gasoline prices hiked by ₹3/liter

We expect the ₹3/liter gasoline price hike by BPCL (effective midnight December 14, 2010) to allay investor concerns about the credibility of the deregulation process at high crude prices. The retail gasoline prices have been increased by ₹7.8/liter since the announcement of deregulation on June 25, 2010. We note that the under-recovery on gasoline post the price hike will be ₹2.3/liter at the current level of crude prices (US\$90.6/bbl Dated Brent for the week ended December 10, 2010).

Subsidy-sharing mechanism will likely be finalized by end-FY2011E

We expect the subsidy-sharing mechanism to be finalized by end-FY2011E as it is too early for the government to finalize the subsidy-sharing for FY2011E given the sharp volatility in several key variables—(1) crude oil prices, (2) global product prices and (3) exchange rates. We do not see any merit in speculating on the subsidy-sharing mechanism at the current juncture. We do not see risks to earnings of downstream companies from significantly higher-than-expected subsidy burden. We assume that government will provide ₹330 bn as compensation in FY2011E on gross under-recoveries of ₹621 bn. This is significantly lower than the compensation provided by the government in the past (see Exhibit 1).

QUICK NUMBERS

- 27-49% upside from current levels of downstream stocks
- Modeled net under-recovery of ₹63 bn in FY2012E
- ₹7.8/liter price hike in gasoline since deregulation

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Crude prices to soften as fundamentals override speculative activities

We expect crude prices to correct from recent high levels led by (1) likely regulatory tap on current high speculative activities in the US (see Exhibit 2) and (2) Chinese government's monetary tightening attempts to control inflation. We believe crude fundamentals in CY2011E do not suggest crude prices sustaining above US\$90/bbl for an extended period of time. We note that the increase in non-OPEC supply at 0.6 mn b/d and NGLs at another 0.6 mn b/d will offset likely global incremental demand of 1.3 mn b/d in CY2011E (see Exhibit 3).

Downstream oil companies to bear low subsidy burden in FY2011-12E

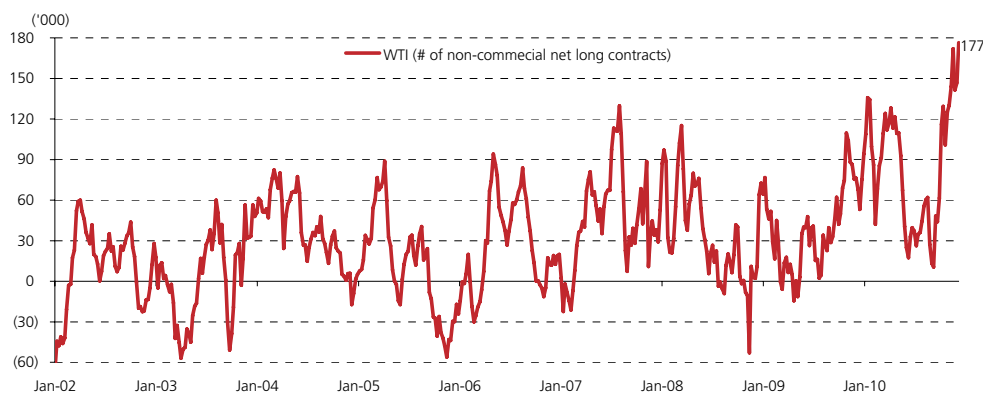
Share of various participants of under-recoveries, March fiscal year-ends, 2007-12E (Rs bn)

	2007	2008	2009	2010	2011E	2012E
Dated Brent crude oil price (US\$/bbl)	65	79	89	67	79	81
Gross under-recoveries	521	798	1,061	490	621	436
Payment by government (direct budgetary support)	27	27	29	30	32	32
Payment by government (oil bonds/cash)	241	353	713	260	330	206
Share of BPCL	53	86	162	53	75	47
Share of HPCL	49	77	147	56	72	45
Share of IOCL	138	190	404	152	183	114
Receipt from upstream companies	205	257	329	144	196	135
Share of ONGC	170	220	282	116	160	110
Share of GAIL	15	14	18	13	15	10
Share of Oil India	20	23	29	15	21	15
Net under-recovery of OMCs	48	161	(10)	56	63	63

Source: Company, Kotak Institutional Equities estimates

Speculative net long positions remain high

WTI non-commercial futures contracts (#)



Source: Bloomberg, Kotak Institutional Equities

We expect high OPEC spare capacity in CY2010-11E

Estimated global crude demand, supply and prices, Calendar year-ends, 2005-14E

	2005	2006	2007	2008	2009	2010E	2011E	2012E	2013E	2014E
Demand (mn b/d)										
Total demand	84.1	85.2	86.7	86.1	85.0	87.4	88.8	89.9	91.1	92.1
Yoy growth	1.6	1.1	1.5	(0.6)	(1.1)	2.5	1.3	1.2	1.1	1.0
Supply (mn b/d)										
Non-OPEC	49.8	50.4	50.9	50.8	51.7	52.8	53.4	53.3	52.9	53.3
Yoy growth	1.0	0.6	0.5	(0.1)	0.9	1.1	0.6	(0.2)	(0.3)	0.4
OPEC										
Crude	30.4	30.5	30.3	31.2	28.7	29.4	29.5	30.4	31.6	32.0
NGLs	4.3	4.4	4.3	4.4	4.8	5.3	5.8	6.3	6.5	6.7
Total OPEC	34.7	34.9	34.6	35.6	33.5	34.7	35.4	36.7	38.1	38.8
Total supply	84.5	85.3	85.5	86.4	85.2	87.4	88.8	89.9	91.1	92.1
Total stock change	0.7	0.2	(1.2)	0.3	0.2					
OPEC crude capacity			34.4	34.2	34.9	35.6	35.4	35.2	35.5	36.5
Implied OPEC spare capacity			2.9	3.2	6.3	6.2	5.8	4.8	3.9	4.5
Demand growth (yoy, %)	1.9	1.3	1.7	(0.6)	(1.3)	2.9	1.5	1.3	1.2	1.1
Supply growth (yoy, %)										
Non-OPEC	2.0	1.2	1.0	(0.2)	1.8	2.1	1.2	(0.3)	(0.6)	0.8
OPEC	3.0	0.6	(0.9)	3.0	(5.9)	3.4	2.0	3.8	4.0	1.6
Total	1.3	0.9	0.2	1.1	(1.4)	2.6	1.5	1.3	1.2	1.1
Dated Brent (US\$/bbl)	54.4	65.8	72.7	102.0	62.0	79.0	81.0	85.0	85.0	85.0

Source: Kotak Institutional Equities estimates

Fair valuation of OMCs (Rs)

BPCL	HPCL	IOCL	
Profit after tax for FY2012E (Rs mn)	21,645	16,867	95,298
Less: income from investments valued separately (Rs mn)	1,319	368	9,749
Adjusted profit after tax for FY2012E (Rs mn)	20,326	16,499	85,549
Adjusted EPS for FY2012E	56	49	35
P/E multiple (X)	11	10	11
Fair value on P/E (without value of investments) (A)	618	487	388
Add: Value of investments (Rs mn)	87,475	37,116	272,777
KRL treasury shares	28,838	MRPL (Rs50/share) (Rs mn)	14,858
Numaligarh	13,606	HPCL-Mittal Energy (Book value) (Rs mn)	12,265
Indraprastha Gas	8,316	Oil India (Rs mn)	6,955
Oil India Ltd	8,293	Other unquoted investments (Rs mn)	3,039
Petronet LNG	6,750	Value of investments (B)	109
Other equity	21,672	Total equity value (A) + (B)	596
Value of investments (Rs) (B)	242		
Total equity value (A) + (B)	860		
Add: Value of investments (Rs mn)			272,777
			Oil and Natural Gas Corp.
			197,377
			Chennai Petroleum Corp.
			19,239
			Gas Authority of India
			13,845
			Oil India Ltd.
			13,910
			IOC treasury shares (IBP Co.)
			14,841
			Petronet LNG Ltd.
			6,750
			Other equity
			6,815
			Value of investments (Rs) (B)
			112
			Total equity value (A) + (B)
			500
Current stock price	676	401	376
Potential upside (%)	27	49	33
KIE rating	BUY	BUY	BUY

Source: Company, Kotak Institutional Equities estimates

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

	2007	2008	2009	2010	2011E	2012E	2013E	2014E
Profit model (Rs mn)								
Net sales	965,569	1,102,081	1,340,734	1,202,170	1,394,798	1,461,245	1,590,143	1,655,359
EBITDA	35,362	28,472	27,507	32,635	40,426	43,074	48,134	49,515
Other income	7,332	13,954	15,087	22,402	15,648	13,914	12,184	10,424
Interest	(4,774)	(6,725)	(22,699)	(10,110)	(10,258)	(10,104)	(8,236)	(6,011)
Depreciation	(9,041)	(10,982)	(10,755)	(12,423)	(15,678)	(14,473)	(15,118)	(15,669)
Pretax profits	28,879	24,719	9,141	32,505	30,137	32,411	36,963	38,259
Extraordinary items	(68)	—	—	(8,290)	—	—	—	—
Tax	(9,286)	(9,059)	(5,103)	(11,317)	(8,281)	(10,350)	(11,757)	(12,593)
Deferred taxation	(268)	(1,108)	2,421	3,033	(1,730)	(416)	(521)	(116)
Adjusted net profits	18,100	15,806	6,324	20,830	20,126	21,645	24,685	25,550
Earnings per share (Rs)	50.1	43.7	17.5	57.6	55.7	59.9	68.3	70.7
Balance sheet (Rs mn)								
Total equity	102,735	116,768	121,281	130,867	143,268	156,604	171,814	187,557
Deferred taxation liability	13,826	14,814	12,392	8,593	10,323	10,739	11,260	11,376
Total borrowings	108,292	150,224	211,714	221,952	199,450	165,450	126,736	85,736
Current liabilities	112,767	145,803	128,313	171,312	166,364	170,338	178,447	182,919
Total liabilities and equity	337,620	427,608	473,701	532,724	519,404	503,132	488,257	467,588
Cash	8,640	9,616	4,416	3,424	2,750	3,273	3,132	3,338
Current assets	127,698	187,457	148,469	232,416	235,734	241,097	253,081	258,534
Goodwill	—	—	—	—	—	—	—	—
Total fixed assets	118,334	127,354	140,033	161,871	172,143	174,985	173,266	171,939
Investments	82,949	103,182	180,784	135,013	108,777	83,777	58,777	33,777
Total assets	337,621	427,608	473,701	532,724	519,404	503,132	488,257	467,588
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	29,920	22,988	19,717	22,972	20,747	22,307	27,972	30,789
Working capital	11,451	(25,161)	20,585	(48,542)	(7,620)	(1,388)	(3,876)	(980)
Capital expenditure	(17,908)	(20,665)	(23,323)	(33,698)	(24,811)	(17,002)	(13,232)	(14,219)
Investments	(45,481)	(21,684)	(82,456)	35,270	26,237	25,000	25,000	25,000
Other income	4,337	6,434	6,655	13,694	15,002	13,914	12,184	10,424
Free cash flow	(17,682)	(38,088)	(58,822)	(10,304)	29,555	42,831	48,048	51,013
Ratios (%)								
Debt/equity	105.4	128.7	174.6	169.6	139.2	105.6	73.8	45.7
Net debt/equity	97.0	120.4	170.9	167.0	137.3	103.6	71.9	43.9
RoAE	16.3	12.7	4.8	11.3	13.7	13.5	14.1	13.4
RoACE	10.9	7.3	7.2	7.9	7.6	8.3	9.4	9.9
Key assumptions (standalone until FY2005)								
Crude throughput (mn tons)	19.8	20.9	20.0	20.4	22.3	22.3	22.3	22.3
Effective tariff protection (%)	1.6	1.4	2.4	2.2	0.7	0.7	0.7	0.7
Net refining margin (US\$/bbl)	3.2	5.6	5.2	2.9	3.4	4.1	4.5	4.5
Sales volume (mn tons)	24.5	26.7	27.8	29.3	31.6	32.9	34.4	36.0
Marketing margin (Rs/ton)	(1,140)	(3,010)	(5,944)	511	(921)	1,665	1,647	1,646
Subsidy under-recoveries (Rs mn)	(10,400)	(33,354)	2,728	(12,375)	(14,580)	(14,083)	(14,059)	(14,005)

Source: Company, Kotak Institutional Equities estimates

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

	2006	2007	2008	2009	2010	2011E	2012E	2013E	2014E
Profit model (Rs mn)									
Net sales	708,609	889,959	1,043,130	1,249,348	1,073,004	1,272,798	1,334,029	1,465,932	1,520,340
EBITDA	8,056	24,036	15,757	28,707	32,469	42,063	42,498	50,318	51,622
Other income	3,285	6,845	11,980	9,057	16,462	7,878	7,575	5,842	4,095
Interest	(1,587)	(4,230)	(7,925)	(20,828)	(9,038)	(8,613)	(9,282)	(10,264)	(10,531)
Depreciation	(6,902)	(7,040)	(8,508)	(9,813)	(11,644)	(14,245)	(15,534)	(17,826)	(19,604)
Pretax profits	2,851	19,611	11,303	7,122	28,249	27,083	25,257	28,070	25,582
Extraordinary items	2,201	3,030	—	—	(6,999)	—	—	—	—
Tax	(898)	(6,625)	(1,799)	(2,416)	(5,616)	(5,601)	(6,237)	(5,594)	(6,105)
Deferred taxation	(97)	(365)	(2,025)	(343)	(2,046)	(3,396)	(2,153)	(3,730)	(2,393)
Prior period adjustment	—	61	3,870	1,387	(575)	—	—	—	—
Adjusted net profits	2,289	13,617	11,349	5,750	17,489	18,087	16,867	18,746	17,084
Earnings per share (Rs)	6.8	40.2	33.5	17.0	51.6	53.4	49.8	55.3	50.4
Balance sheet (Rs mn)									
Total equity	87,357	95,987	105,633	107,306	115,580	127,073	137,792	149,705	160,561
Deferred tax liability	13,844	14,209	15,960	16,034	18,080	21,475	23,628	27,358	29,751
Total borrowings	66,638	105,175	167,867	227,552	213,024	207,302	185,802	186,802	146,285
Current liabilities	79,549	101,195	124,337	117,558	165,551	138,444	150,376	162,181	165,514
Total liabilities and equity	247,389	316,566	413,797	468,450	512,234	494,296	497,599	526,046	502,110
Cash	426	868	2,940	6,083	2,432	1,816	1,580	1,687	1,662
Current assets	109,674	113,779	190,034	153,844	203,988	191,063	202,271	218,476	222,927
Total fixed assets	97,013	130,644	152,452	166,558	191,943	205,128	217,459	259,595	251,234
Investments	40,276	71,275	68,371	141,965	113,872	96,289	76,289	46,289	26,289
Total assets	247,389	316,566	413,796	468,450	512,234	494,296	497,599	526,046	502,111
Free cash flow (Rs mn)									
Operating cash flow, excl. working capital	10,126	23,966	(18,679)	(12,139)	28,120	24,522	24,648	32,892	34,861
Working capital changes	(5,351)	8,936	(6,504)	48,461	(6,530)	(13,814)	724	(4,400)	(1,119)
Capital expenditure	(25,298)	(38,510)	(31,638)	(19,275)	(36,180)	(24,103)	(25,534)	(58,394)	(11,117)
Investments	(22,884)	(31,704)	(1,851)	(70,386)	16,521	17,584	20,000	30,000	20,000
Other income	941	2,067	4,692	3,187	8,037	7,510	7,575	5,842	4,095
Free cash flow	(42,466)	(35,246)	(53,980)	(50,151)	9,968	11,698	27,413	5,940	46,720
Ratios (%)									
Debt/equity	65.8	95.4	138.1	184.5	159.4	139.6	115.1	105.5	76.9
Net debt/equity	65.4	94.7	135.6	179.6	157.6	138.3	114.1	104.5	76.0
RoAE	4.1	14.9	9.8	4.7	10.1	12.8	10.9	11.1	9.3
RoACE	2.5	8.6	5.0	5.3	6.8	6.8	6.6	7.2	6.9
Key assumptions									
Crude throughput (mn tons)	14.0	16.7	16.8	15.8	15.8	14.8	17.2	18.8	18.8
Effective tariff protection (%)	3.1	1.4	1.3	2.4	2.5	1.3	1.3	1.3	1.3
Net refining margin (US\$/bbl)	3.9	4.3	6.6	4.0	2.7	3.4	4.2	4.9	4.9
Sales volume (mn tons)	20.1	23.4	26.2	27.0	27.7	27.8	29.0	30.3	31.8
Marketing margin (Rs/ton)	(463)	(710)	(2,345)	(5,021)	627	(779)	1,643	1,617	1,615
Subsidy under-recoveries (Rs mn)	(23,372)	(7,685)	(31,191)	5,587	(12,297)	(14,285)	(14,645)	(14,587)	(14,512)

Source: Company, Kotak Institutional Equities estimates

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

	2006	2007	2008	2009	2010	2011E	2012E	2013E	2014E
Profit model (Rs mn)									
Net sales	1,729,474	2,149,428	2,444,378	3,041,265	2,660,338	3,667,029	3,856,416	4,212,542	4,400,909
EBITDA	82,044	110,451	120,872	61,445	146,723	183,169	190,780	201,441	204,749
Other income	21,310	27,451	43,748	45,155	68,588	31,718	31,049	32,384	31,482
Interest	(12,101)	(17,058)	(17,556)	(41,758)	(16,638)	(25,007)	(23,191)	(21,615)	(16,888)
Depreciation	(24,711)	(28,686)	(29,918)	(31,389)	(34,943)	(48,093)	(49,372)	(53,518)	(54,305)
Pretax profits	66,542	92,157	117,145	33,453	163,729	141,787	149,267	158,692	165,038
Extraordinary items	5,590	24,757	5,374	—	(14,995)	—	—	—	—
Tax	(19,975)	(25,834)	(38,293)	(13,316)	(47,193)	(36,521)	(42,725)	(49,177)	(53,656)
Deferred taxation	(1,282)	(8,040)	(473)	1,435	5,556	(10,594)	(6,874)	(3,537)	(1,166)
Net profits	51,125	82,729	83,430	25,523	108,238	94,672	99,667	105,979	110,217
Net profits after minority interests	45,331	62,702	74,517	27,437	116,128	93,767	97,562	104,146	108,230
Earnings per share (Rs)	19.4	26.3	31.2	11.5	47.9	38.6	40.2	42.9	44.6
Balance sheet (Rs mn)									
Total equity	317,977	378,117	450,449	470,654	547,804	595,696	659,568	727,437	798,023
Deferred tax liability	50,602	59,859	60,331	58,876	54,072	63,915	70,789	74,326	75,492
Total borrowings	292,395	290,215	382,818	465,250	497,522	534,067	460,987	394,255	314,514
Current liabilities	286,716	330,791	386,724	376,107	472,991	553,559	582,515	608,696	619,268
Total liabilities and equity	947,691	1,058,981	1,280,322	1,370,888	1,572,389	1,747,237	1,773,859	1,804,714	1,807,296
Cash	8,080	9,385	8,413	8,076	13,501	5,347	7,015	8,781	4,843
Current assets	413,904	437,178	599,256	473,965	648,895	809,129	844,894	896,527	915,871
Total fixed assets	383,717	415,014	460,307	565,545	690,165	717,577	731,765	709,223	696,397
Investments	141,990	197,403	212,345	323,301	219,828	215,184	190,184	190,184	190,184
Total assets	947,691	1,058,981	1,280,322	1,370,888	1,572,389	1,747,237	1,773,859	1,804,714	1,807,296
Free cash flow (Rs mn)									
Operating cash flow, excl. working capital	(10,334)	(44,660)	(107,263)	(345,677)	138,838	121,990	122,781	135,381	118,335
Working capital changes	(8,136)	2,237	(1,414)	76,881	(163,423)	(86,655)	(1,136)	(38,445)	12,326
Capital expenditure	(49,042)	(50,969)	(79,586)	(135,923)	(128,974)	(84,591)	(50,081)	(22,019)	(24,291)
Investments	(17,778)	99,768	92,665	299,410	147,320	2,914	25,015	14	849
Other Income	10,317	13,582	18,253	16,413	24,515	28,032	30,445	31,709	30,713
Free cash flow	(74,973)	19,958	(77,346)	(88,896)	18,276	(18,311)	127,024	106,641	137,932
Ratios (%)									
Debt/equity	79.3	66.3	74.9	87.9	82.7	81.0	63.1	49.2	36.0
Net debt/equity	77.1	64.1	73.3	86.3	80.4	80.2	62.2	48.1	35.5
RoAE	13.7	16.1	16.3	5.5	21.2	15.3	14.4	13.9	13.2
RoACE	9.4	11.2	11.4	5.1	12.4	9.7	9.7	10.1	10.2
Key assumptions (IOC standalone)									
Crude throughput (mn tons)	38.5	44.0	47.4	51.3	50.7	51.7	54.6	54.6	54.6
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	5.3	5.9	6.3	6.3
Sales volume (mn tons)	50.4	53.4	57.4	61.0	64.0	67.4	70.3	73.4	76.7
Marketing margin (Rs/ton)	26	(633)	(2,203)	(5,253)	874	(437)	1,792	1,776	1,775
Subsidy under-recoveries (Rs mn)	(47,740)	(21,900)	(97,738)	—	(31,588)	(34,378)	(34,612)	(33,781)	(33,172)

Source: Company, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	14-Dec-10		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(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)
Automobiles																													
Ashok Leyland	68	ADD	91,058	2,026	1,330	2.8	4.9	6.5	84.5	75.1	31.9	24.3	13.8	10.5	14.1	9.6	7.8	2.3	2.0	1.8	2.2	1.5	1.5	10.9	15.4	17.9	85	24.2	8.1
Bajaj Auto	1,493	REDUCE	432,155	9,613	289	58.8	91.0	103.6	160.2	54.6	13.9	25.4	16.4	14.4	16.4	11.7	10.1	14.7	8.9	6.0	0.7	1.3	1.3	70.9	67.4	49.6	1,450	(2.9)	17.5
Bharat Forge	383	ADD	91,549	2,036	239	0.7	12.4	20.3	(92.0)	1,707.0	63.3	557.0	30.8	18.9	28.0	12.7	8.9	2.4	2.3	2.1	—	—	—	0.9	16.2	20.6	400	4.5	4.3
Hero Honda	1,713	REDUCE	342,036	7,608	200	111.8	109.0	126.8	74.1	(2.5)	16.3	15.3	15.7	13.5	9.5	9.8	8.1	9.5	6.7	5.0	1.8	1.7	2.0	59.0	49.9	42.5	1,775	3.6	20.4
Mahindra & Mahindra	758	BUY	451,277	10,038	595	33.9	47.2	54.7	125.8	39.2	15.9	22.4	16.1	13.9	14.7	11.5	9.7	5.6	4.4	3.5	1.2	1.2	1.3	30.0	30.7	28.2	805	6.2	34.8
Maruti Suzuki	1,414	BUY	408,475	9,086	289	86.4	80.5	95.0	105.0	(6.9)	18.0	16.4	17.6	14.9	8.8	9.1	7.5	3.4	2.9	2.4	0.4	0.4	0.5	23.3	17.8	17.7	1,701	20.3	16.3
Tata Motors	1,306	ADD	840,818	18,704	644	27.4	125.8	148.1	(182.5)	359.4	17.7	47.7	10.4	8.8	16.1	7.3	6.0	5.4	3.1	2.3	1.0	0.4	0.4	8.7	9.3	10.4	1,420	8.7	105.4
Automobiles		Cautious	2,657,369	59,112					276.0	81.9	19.6	25.4	14.0	11.7	13.7	9.0	7.5	5.3	3.8	2.9	1.0	0.9	1.0	20.9	27.2	25.1			
Banks/Financial Institutions																													
Andhra Bank	152	BUY	73,817	1,642	485	21.6	24.0	26.7	60.1	11.5	11.1	7.1	6.3	5.7	—	—	—	1.7	1.4	1.2	3.3	3.7	4.1	26.0	24.1	22.6	210	38.0	6.9
Axis Bank	1,303	ADD	528,084	11,747	405	62.1	78.6	99.9	22.7	26.6	27.2	21.0	16.6	13.0	—	—	—	3.3	2.9	2.4	0.9	1.2	1.5	19.2	18.4	20.2	1,700	30.4	54.6
Bank of Baroda	904	BUY	330,547	7,353	366	83.7	103.0	121.2	37.3	23.1	17.7	10.8	8.8	7.5	—	—	—	2.4	2.0	1.6	1.7	2.0	2.4	24.4	24.7	24.0	1,250	38.2	10.1
Bank of India	449	ADD	236,083	5,252	526	33.1	56.3	63.2	(42.1)	70.2	12.2	13.6	8.0	7.1	—	—	—	1.8	1.6	1.3	1.6	2.7	3.0	14.2	21.3	20.4	580	29.2	19.6
Canara Bank	673	ADD	275,746	6,134	410	73.7	90.7	102.8	45.8	23.1	13.4	9.1	7.4	6.5	—	—	—	2.2	1.7	1.4	1.5	1.5	1.8	22.5	22.8	21.4	740	10.0	23.2
Corporation Bank	651	ADD	93,421	2,078	143	82.0	86.7	100.7	31.8	5.7	16.2	7.9	7.5	6.5	—	—	—	1.6	1.4	1.2	2.5	2.7	3.1	22.0	19.9	19.9	800	22.8	1.9
Federal Bank	416	ADD	71,218	1,584	171	27.2	34.7	47.2	(7.1)	27.7	35.9	15.3	12.0	8.8	—	—	—	1.5	1.4	1.2	1.2	1.5	2.1	10.3	12.0	14.7	530	27.3	8.5
HDFC	693	REDUCE	994,477	22,122	1,436	19.7	24.0	28.1	22.7	21.8	17.2	35.2	28.9	24.6	—	—	—	6.5	5.8	5.1	1.0	1.2	1.4	20.0	21.2	19.0	720	3.9	57.4
HDFC Bank	2,238	REDUCE	1,024,544	22,790	458	64.4	84.9	111.2	22.1	31.8	31.0	34.7	26.4	20.1	—	—	—	4.8	4.2	3.6	0.5	0.7	0.9	16.1	16.9	19.2	2,500	11.7	48.0
ICICI Bank	1,120	ADD	1,288,420	28,660	1,151	36.1	45.0	58.0	6.9	24.6	29.0	31.0	24.9	19.3	—	—	—	2.5	2.3	2.2	1.0	1.2	1.6	8.0	9.7	11.6	1,230	9.9	113.9
IDFC	177	ADD	257,399	5,726	1,458	8.4	9.6	11.5	44.9	14.1	20.4	21.0	18.5	15.3	—	—	—	3.7	2.4	2.0	0.8	1.0	1.3	16.6	15.7	14.6	220	24.6	30.9
India Infoline	85	BUY	26,363	586	312	8.1	7.5	8.8	59.2	(8.0)	17.1	10.4	11.3	9.7	—	—	—	1.6	1.4	1.2	3.8	1.9	2.4	14.7	13.3	14.3	130	53.8	6.1
Indian Bank	260	ADD	111,654	2,484	430	35.1	35.7	44.9	25.5	1.6	25.9	7.4	7.3	5.8	—	—	—	1.7	1.4	1.2	2.5	2.5	3.1	24.1	20.5	21.8	350	34.7	4.8
Indian Overseas Bank	147	BUY	80,249	1,785	545	13.0	16.8	24.1	(46.7)	29.8	43.2	11.4	8.7	6.1	—	—	—	1.3	1.1	1.0	2.4	2.6	2.9	9.6	11.6	15.0	200	35.8	5.2
J&K Bank	780	ADD	37,817	841	48	105.7	123.0	143.9	25.0	16.4	17.0	7.4	6.3	5.4	—	—	—	1.3	1.1	1.0	2.8	3.3	3.8	18.2	18.4	18.7	1,000	28.2	2.5
LIC Housing Finance	952	ADD	90,468	2,012	95	69.7	107.2	105.7	11.5	53.7	(1.4)	13.7	8.9	9.0	—	—	—	2.8	2.3	1.9	1.6	2.4	2.4	23.6	27.0	22.2	1,030	8.1	70.5
Mahindra & Mahindra Financial	723	BUY	69,451	1,545	96	35.9	51.3	60.3	60.0	43.0	17.5	20.2	14.1	12.0	—	—	—	4.1	3.4	2.9	1.1	1.5	1.8	21.5	25.7	25.0	750	3.7	6.2
Oriental Bank of Commerce	410	ADD	102,809	2,287	251	45.3	59.0	65.8	25.3	30.2	11.6	9.1	7.0	6.2	—	—	—	1.4	1.2	1.1	2.2	2.9	3.2	14.5	16.8	16.6	580	41.3	10.3
PFC	329	SELL	377,846	8,405	1,148	20.5	24.1	28.7	54.0	17.5	19.1	16.0	13.6	11.5	—	—	—	3.0	2.6	2.2	1.4	1.5	1.7	19.0	19.3	19.8	325	(1.3)	3.9
Punjab National Bank	1,236	BUY	389,619	8,667	315	123.9	139.8	165.5	26.4	12.9	18.4	10.0	8.8	7.5	—	—	—	2.4	2.0	1.6	1.8	2.3	2.7	26.2	24.2	23.9	1,500	21.4	11.4
Reliance Capital	658	REDUCE	161,912	3,602	246	13.7	13.0	14.5	(65.2)	(4.7)	11.5	48.1	50.5	45.3	—	—	—	2.4	2.3	2.2	1.0	0.8	0.9	5.2	4.6	5.0	800	21.6	30.0
Rural Electrification Corp.	329	REDUCE	324,506	7,218	987	20.3	26.5	31.8	23.2	30.8	19.8	16.2	12.4	10.3	—	—	—	2.9	2.5	2.2	2.0	2.4	2.9	22.0	22.0	22.8	350	6.5	15.9
Shriram Transport	776	ADD	173,056	3,850	223	39.2	55.4	68.1	30.1	41.4	23.0	19.8	14.0	11.4	—	—	—	4.7	3.9	3.2	1.5	2.1	2.6	28.4	29.1	29.6	850	9.6	9.8
SKS Microfinance	747	BUY	55,074	1,225	74	26.9	35.5	55.9	61.1	31.9	57.4	27.7	21.0	13.4	—	—	—	5.8	2.8	2.3	—	—	—	21.7	18.0	19.3	950	27.1	23.0
SREI	103	NR	11,984	267	116	8.3	7.9	9.9	17.8	(4.8)	25.8	12.4	13.1	10.4	—	—	—	1.0	0.9	0.9	1.2	1.2	1.2	11.1	10.5	12.3	—	—	6.4
State Bank of India	2,793	BUY	1,773,037	39,440	635	144.4	176.6	224.1	0.5	22.3	26.9	19.3	15.8	12.5	—	—	—	2.7	2.4	2.0	1.1	1.1	1.2	14.8	15.9	17.6	3,500	25.3	179.0
Union Bank	335	BUY	169,189	3,764	505	41.1	42.4	56.1	20.2	3.1	32.6	8.2	7.9	6.0	—	—	—	1.9	1.6	1.3	1.6	1.7	2.2	26.2	22.1	24.1	450	34.3	8.2
Yes Bank	306	BUY	104,074	2,315	340	15.0	21.0	26.6	46.7	40.2	26.6	20.4	14.6	11.5	—	—	—	3.4	2.8	2.3	0.5	0.7	0.9	20.3	21.0	22.0	400	30.5	17.9
Banks/Financial Institutions		Attractive	9,232,864	205,380					15.0	23.9	22.4	13.4	14.7	12.0	—	—	—	2.8	2.4	2.1	1.2	1.4	1.7	15.5	16.6	17.6			
Cement																													
ACC	1,064	REDUCE	199,810	4,445	188	83.2	56.4	63.6	47.9	(32.3)	12.9	12.8	18.9	16.7	6.9	8.9	7.2	3.1	2.8	2.5	2.5	2.2	2.2	29.3	17.5	17.6	940	(11.6)	12.2
Ambuja Cements	140	SELL	213,056	4,739	1,522	8.0	8.1	9.0	11.4	1.4	10.6	17.5	17.2	15.6	9.7	9.5	7.9	3.1	2.7	2.4	1.3	1.5	1.5	19.3	17.1	16.8	108	(22.8)	7.5
Grasim Industries	2,362	ADD	216,595	4,818	92	301.0	194.9	238.6	26.1	(35.2)	22.4	7.8	12.1	9.9	4.7	5.8	4.3	1.7	1.6	1.4	1.4	1.5	1.5	22					

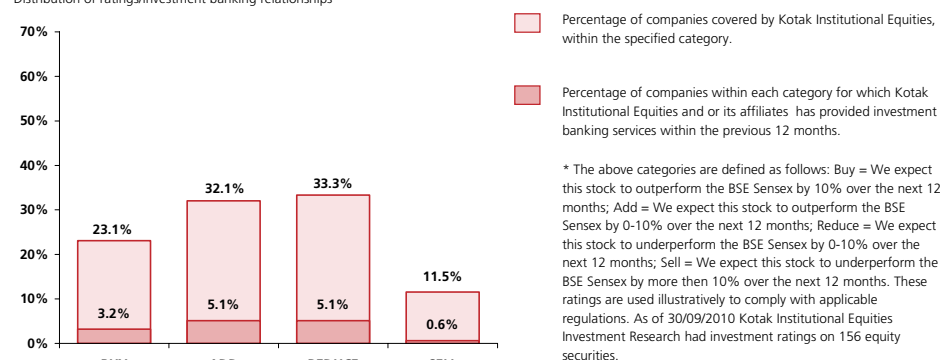
Kotak Institutional Equities: Valuation summary of key Indian companies

Company	14-Dec-10		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price (Rs)	Upside (%)	ADVT-3mo (US\$ mn)
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)		2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E	2010E	2011E	2012E			
Consumer products																													
Asian Paints	2,741	ADD	262,911	5,848	96	71.5	86.0	102.5	85.3	20.3	19.1	38.3	31.9	26.8	23.7	19.9	16.5	16.4	12.9	10.4	1.0	1.3	1.6	51.8	46.6	44.0	3,000	9.5	6.3
Colgate-Palmolive (India)	855	SELL	116,287	2,587	136	31.1	33.6	38.4	44.2	8.0	14.2	27.5	25.4	23.3	22.5	18.9	16.3	35.7	30.5	26.2	2.3	3.0	3.4	156.1	129.2	126.3	830	(2.9)	4.0
Dabur India	100	ADD	172,687	3,841	1,731	2.9	3.3	4.1	28.1	13.2	25.2	34.4	30.4	24.3	26.0	21.6	17.0	18.2	12.6	9.6	1.0	1.1	1.4	57.4	49.6	45.3	115	15.3	4.4
GlaxoSmithkline Consumer (a)	2,141	ADD	90,045	2,003	42	55.4	70.5	83.9	23.6	27.3	19.1	38.7	30.4	25.5	21.8	18.6	15.0	10.1	8.3	6.9	0.8	1.1	1.3	27.9	29.7	29.5	2,400	12.1	1.3
Godrej Consumer Products	382	BUY	123,547	2,748	324	11.3	14.3	18.9	69.5	25.8	32.6	33.7	26.8	20.2	26.7	19.4	14.5	12.9	6.8	6.1	1.0	0.8	0.8	44.6	33.5	32.1	490	28.3	2.5
Hindustan Unilever	298	SELL	650,688	14,474	2,182	9.4	10.2	12.0	(0.9)	8.4	17.5	31.6	29.2	24.8	21.8	20.9	17.1	25.2	21.8	18.8	2.5	2.8	3.3	71.1	80.2	81.3	250	(16.2)	18.1
ITC	168	ADD	1,288,351	28,659	7,651	5.3	6.5	7.6	22.6	22.0	17.8	31.7	26.0	22.1	19.3	16.4	13.6	8.7	7.3	6.2	3.0	1.6	1.8	29.2	32.0	31.5	180	6.9	31.3
Jubilant Foodworks	589	SELL	37,611	837	64	5.6	10.0	13.1	347.1	78.3	30.4	104.9	58.8	45.1	56.2	33.9	22.7	32.0	20.7	14.2	—	—	—	47.3	42.8	37.4	400	(32.1)	16.9
Jyothy Laboratories	270	ADD	20,678	460	77	11.0	13.6	16.4	99.6	23.3	20.9	24.5	19.9	16.4	19.7	13.3	10.3	5.0	3.4	2.9	1.6	1.4	1.8	16.1	17.6	19.3	300	11.1	0.7
Marico	124	ADD	75,711	1,684	612	4.4	5.2	6.1	32.9	16.9	17.0	27.8	23.8	20.4	19.1	16.6	13.5	11.4	8.2	6.2	0.5	0.7	0.9	48.9	40.6	35.2	140	13.1	1.1
Nestle India (a)	3,780	REDUCE	364,442	8,107	96	74.4	88.4	108.0	27.0	18.8	22.1	50.8	42.7	35.0	33.6	28.8	23.7	62.7	48.9	37.8	1.3	1.6	1.9	136.0	128.5	121.8	3,100	(18.0)	3.4
Tata Global Beverages	114	ADD	70,559	1,570	618	6.1	7.3	8.7	14.5	20.7	19.0	18.9	15.6	13.1	9.0	6.8	5.7	15.4	14.1	1.3	1.8	2.1	2.5	10.2	11.7	12.9	130	13.9	4.2
United Spirits	1,415	ADD	177,766	3,954	126	27.3	33.1	47.0	49.9	21.5	41.9	51.9	42.7	30.1	19.0	17.7	14.6	4.7	4.3	3.8	0.2	0.2	0.2	9.8	10.5	13.3	1,550	9.5	9.0
Consumer products																													
Constructions																													
IVRCL	126	BUY	33,617	748	267	7.9	7.7	10.3	(6.6)	(2.3)	33.7	15.9	16.3	12.2	9.1	9.8	8.0	1.8	1.6	1.5	0.7	0.3	0.3	11.5	10.6	12.7	190	50.9	7.5
Nagarjuna Construction Co.	139	BUY	35,678	794	257	7.1	8.9	11.6	6.1	24.3	31.1	19.5	15.7	12.0	10.1	8.9	7.4	1.6	1.5	1.3	1.0	1.4	1.4	9.3	9.8	11.8	205	47.4	5.1
Punj Lloyd	110	REDUCE	37,304	830	340	(3.4)	9.8	12.0	(52.6)	(385.6)	22.6	(32.1)	11.2	9.2	20.8	6.6	6.0	1.2	1.1	1.0	0.1	0.4	1.0	(4.2)	10.4	11.6	140	27.4	15.9
Construction																													
Energy																													
Aban Offshore	711	ADD	30,955	689	44	94.5	129.5	130.5	(2.5)	37.0	0.8	7.5	5.5	5.5	8.1	6.7	6.4	1.4	1.4	1.1	0.5	0.5	0.6	21.7	30.1	22.3	930	30.7	19.7
Bharat Petroleum	676	BUY	244,329	5,435	362	58.6	55.7	59.9	230	(5)	7.5	12	12	11.3	6.6	6.5	6.3	1.8	1.6	1.5	2.1	2.7	2.9	14.9	13.0	12.8	860	27.3	18.0
Cairn india	337	RS	639,470	14,225	1,897	5.5	22.7	40.8	29.0	309.7	79.6	60.8	14.8	8.3	47.8	9.5	5.5	1.9	1.6	1.5	—	—	4.4	3.1	11.8	18.8	—	—	19.0
Castrol India (a)	477	SELL	118,051	2,626	247	15.4	21.0	21.7	45	36	3.5	31	23	22.0	18.4	14.1	13.5	25.6	24.4	23.1	2.6	3.6	3.7	83.8	109.9	107.9	390	(18.3)	1.6
GAIL (India)	505	BUY	640,075	14,238	1,268	24.8	28.4	39.7	11.7	14.9	39.7	20.4	17.7	12.7	11.5	10.7	8.6	3.5	3.1	2.6	1.5	1.7	2.5	17.4	17.6	21.1	565	12.0	17.0
GSPL	120	SELL	67,241	1,496	562	7.3	7.3	8.1	233	(0)	11.4	16	16	14.7	8.2	8.0	6.7	3.9	3.9	2.9	0.8	1.5	2.7	27.1	21.8	20.9	87	(27.2)	6.9
Hindustan Petroleum	401	BUY	135,892	3,023	339	51.6	53.4	49.8	204.2	3.4	(6.7)	7.8	7.5	8.1	2.8	2.7	2.7	1.0	0.9	0.8	3.0	4.2	3.9	13.1	12.2	10.3	600	49.7	16.9
Indian Oil Corporation	376	BUY	911,695	20,280	2,428	49.1	38.6	40.2	399	(21)	4.0	8	10	9.3	5.7	5.9	5.4	1.7	1.5	1.4	3.5	3.1	3.2	22.4	15.6	14.8	500	33.2	12.0
Oil India	1,386	ADD	333,246	7,413	240	115.2	143.7	160.0	13.9	24.8	11.3	12.0	9.6	8.7	5.5	3.8	3.3	2.0	2.0	1.7	2.5	3.2	3.7	16.8	19.3	18.8	1,640	18.3	3.3
Oil & Natural Gas Corporation	1,332	BUY	2,848,784	63,370	2,139	90.3	113.9	137.7	(1)	26	20.9	15	12	9.7	5.2	4.4	3.7	2.2	1.9	1.7	2.5	3.0	3.6	14.4	16.4	17.8	1,500	12.6	33.1
Petronet LNG	129	SELL	97,088	2,160	750	5.4	6.9	8.3	(22.0)	28.1	20.2	24.0	18.7	15.6	13.4	10.9	9.6	3.8	3.2	2.8	1.4	1.5	2.1	15.9	17.7	18.2	90	(30.5)	7.6
Reliance Industries	1,055	REDUCE	3,140,424	69,857	2,976	49.6	59.2	72.5	(2)	19	22.4	21	18	14.6	10.7	8.2	6.7	2.1	1.9	1.7	0.7	0.8	0.9	11.4	12.4	13.6	1,050	(0.5)	138.0
Energy																													
Industrials																													
ABB	788	REDUCE	166,920	3,713	212	16.7	10.8	31.4	(35.2)	(35.4)	190.2	47.1	72.9	25.1	26.9	38.2	14.4	6.9	6.5	5.3	0.3	0.4	0.4	15.6	9.2	23.2	725	(8.0)	3.2
BGR Energy Systems	715	BUY	51,462	1,145	72	16.0	28.0	41.7	32.2	74.6	49.1	44.6	25.5	17.1	25.1	14.5	10.5	9.1	7.3	5.5	0.4	1.0	1.2	22.3	31.8	36.6	860	20.3	8.6
Bharat Electronics	1,735	REDUCE	138,804	3,088	80	96.1	105.9	120.3	(7.4)	10.2	13.6	18.0	16.4	14.4	8.4	7.3	6.2	3.1	2.7	2.4	1.1	1.4	1.4	17.5	17.7	17.6	1,800	3.7	3.6
Bharat Heavy Electricals	2,334	ADD	1,142,466	25,414	490	87.9	115.5	138.6	37.7	31.4	20.0	26.5	20.2	16.8	14.8	11.6	9.5	7.2	5.7	4.5	0.8	1.1	1.3	29.8	31.3	29.9	2,500	7.1	39.3
Crompton Greaves	324	ADD	207,589	4,618	642	12.8	14.5	17.3	46.5	12.9	19.6	25.2	22.3	18.7	14.6	12.6	10.4	8.3	6.3	4.9	0.4	0.6	0.7	37.9	32.0	29.5	340	5.1	8.9
Larsen & Toubro	2,000	ADD	1,210,309	26,923	605	57.9	76.7	90.5	15.6	32.3	18.1	34.5	26.1	22.1	19.2	13.9	11.7	5.4	4.5	3.8	0.6	0.6	0.7	18.6	18.8	18.5	2,200	10.0	58.5
Maharashtra Seamless	382	BUY	26,907	599	71	38.6	44.2	50.9	7.7	14.4	15.1	9.9	8.6	7.5	5.2	4.1	3.2	1.2	1.1	1.0	1.5	2.1	2.7	14.8	12.8	13.4	518	35.8	0.7
Siemens	788	REDUCE	265,648	5,909	337	22.4	27.9	33.7	39.5	24.1	21.2	35.1	28.3	23.3	18.3	16.2	13.1	8.0	6.6	5.4	0.6	0.7	0.9	24.9	25.6	25.5	725	(8.0)	8.8
Suzlon Energy	50	REDUCE	80,005	1,780	1,594	(6.2)	(0.8)	3.3	(185.4)	(86.8)	(504.1)	(8.1)	(61.8)	15.3	13.9	11.6	7.7	1.2	1.1	1.0	—	—	0.4	(11.4)	(1.8)	6.9	55	9.6	23.3
Thermax	875	BUY	104,286	2,320	119	21.7	31.5	42.3	(10.4)	45.0	34.3	40.3	27.8	20.7	21.1	15.5	11.5	9.7	7.9	6.3	0.6	1.0	1.4	25.0	31.2	33.8	965	10.3	1.9
Volta	235	REDUCE	77,607	1,726	331	10.9	11.8	13.4	57.4	8.2	14.3	21.6	20.0	17.5	13.0	11.3	9.5	7.3	5.9	4.8	1.3	1.5	1.7	38.3	32.5	30.2	225	(4.1)	6.3
Industrials																													
Infrastructure																													
Container Corporation	1,279	REDUCE	166,244	3,698	130	61.1	74.3	85.9																					

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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

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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.

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