

Contents

Results

Hindustan Zinc: Higher realizations and volumes lift earnings growth

HCL Technologies: Same old story - growth at the expense of profitability; REDUCE

Canara Bank: Strong quarter; NIM expansion is a key positive

YES Bank: Aggressive growth; fee disappoints

Indiabulls Real Estate: Good quarter; power business likely to be de-merged

Ashok Leyland: Strong margin performance

Mahindra Lifespace Developers: Better-than-expected 2QFY11

Updates

Container Corporation: Remain skeptical on volume growth despite management confidence

GSPL: Building pipelines versus creating value

News Round-up

- ▶ Larsen & Toubro (LT IN) plans to achieve financial closure for USD 2.70 bn Hyderabad Metro Rail project by march next. (THBL)
- ▶ Cipla (CIPLA IN) has launched the generic version of Pirfenidone, used to treat Idiopathic Pulmonary Fibrosis, a progressive lung disease. (THBL)
- ▶ Indiabulls Real Estate (IBREL IN) would restructure its power & infrastructure business to help increase net worth to meet funding requirement. (BSTD)
- ▶ Tata Chemicals (TTCH IN) have signed a share purchase agreement for acquiring a 100% stake in South African firm Grown Energy for USD 1.1mn. (BSTD)
- ▶ The high court has asked its Provisional Liquidator to take charge of the assets of Chennai based Pyramid Saimira (PSTL IN). This was in response to a petition signed by Patni Financial Services, to which PSTL owes USD 1.11mn. (BSTD)
- ▶ Essar Oil (ESOIL IN) is close to acquiring oil & gas exploration blocks in Africa to secure crude oil supplies for its refineries in India & Kenya. (ECNT)
- ▶ PowerGrid's (PWGR IN) USD 1.87bn follow on public offer will hit the capital market on Nov. 9 & close on Nov. 12. (TTOI)
- ▶ Havells India Ltd (HAVL IN), has entered into the 'home comfort products' segment with a range of electric water heaters. (THBL)
- ▶ Crisil (CRISIL IN) buyback offer to open on Nov. 3. Crisil board approved investing up to USD 17.78mn to buyback shares at a maximum price of INR 6500 a share. (FNLE)
- ▶ Wockhardt (WPL IN) has received approval from USFDA for its generic version of Allegra D 12 hour tablets. (FNLE)
- ▶ BHEL (BHEL IN) gets USD 7.78mn order to set up solar plants in Lakshadweep. (FNLE)
- ▶ P&G (PG IN), Marico (MRCO IN) join race to acquire Paras Pharma. (FNLE)

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

EQUITY MARKETS

India	Change %			
	20-Oct	1-day	1-mo	3-mo
Sensex	19,872	(0.6)	(0.6)	10.5
Nifty	5,982	(0.7)	(0.4)	10.8
Global/Regional indices				
Dow Jones	11,108	1.2	3.2	9.8
Nasdaq Composite	2,457	0.8	4.6	12.3
FTSE	5,729	0.4	2.7	9.9
Nikkie	9,401	0.2	(2.1)	1.3
Hang Seng	23,615	0.2	7.3	15.3
KOSPI	1,871	0.0	2.1	7.0
Value traded – India				
Cash (NSE+BSE)	186		222	202
Derivatives (NSE)	1,359		1,446	758
Deri. open interest	1,883		2,111	1,607

Forex/money market

	Change, basis points			
	20-Oct	1-day	1-mo	3-mo
Rs/US\$	44.4	(2)	(131)	(281)
10yr govt bond, %	8.1	4	16	51
Net investment (US\$m)				
	19-Oct		MTD	CYTD
FIs	77		4,262	23,516
MFs	31		(1,287)	(282)

Top movers -3mo basis

Best performers	Change, %			
	20-Oct	1-day	1-mo	3-mo
TTMT IN Equity	1157.7	(1.4)	7.1	41.1
IDBI IN Equity	166.1	4.1	17.5	35.8
BOB IN Equity	977.8	0.9	12.4	34.6
RBXY IN Equity	587.1	1.8	4.5	30.3
HNDL IN Equity	203.2	(1.6)	6.0	29.8
Worst performers				
IVRC IN Equity	151.5	(2.6)	(8.3)	(19.1)
FTECH IN Equity	1143.1	(1.1)	(17.6)	(13.5)
RNR IN Equity	39.1	(0.8)	(3.1)	(12.0)
GMRI IN Equity	53.9	(1.2)	(7.3)	(11.4)
MMTC IN Equity	1307.3	(0.6)	(4.9)	(10.7)

OCTOBER 20, 2010

RESULT

Coverage view: **Cautious**

Price (Rs): **1,227**

Target price (Rs): **1,430**

BSE-30: **19,872**

Higher realizations and volumes lift earnings growth. HZ's reported 2QFY11 net profit of Rs9.5 bn (+1.5% yoy, +6.5% qoq) was ahead of our estimate of Rs8.6 bn. Earnings growth was led by a mix of higher realization and volumes, partly offset by increase in cost of production. We raise our FY2012-13E zinc price assumption by 7.5% and 7.1% and EPS by 0.4% and 3.8% to Rs116.4 and Rs 134.2. We raise our TP to Rs1,430 (Rs1,240 earlier) on marginal revision of estimates and roll over to FY2012E

Company data and valuation summary

Hindustan Zinc

Stock data

52-week range (Rs) (high,low) 1,384-845

Market Cap. (Rs bn) 518.4

Shareholding pattern (%)

Promoters 64.9

FIs 1.9

MFs 1.1

Price performance (%)

	1M	3M	12M
Absolute	12.6	25.2	38.6
Rel. to BSE-30	12.8	12.7	20.1

Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	95.6	95.4	116.4
EPS growth (%)	48.2	(0.2)	22.0
P/E (X)	12.8	12.9	10.5
Sales (Rs bn)	80.2	89.4	112.3
Net profits (Rs bn)	40.4	40.3	49.2
EBITDA (Rs bn)	46.7	48.2	63.1
EV/EBITDA (X)	8.6	7.6	5.1
ROE (%)	25.1	20.2	20.4
Div. Yield (%)	0.5	0.5	0.5

2QFY11 EBITDA and net income ahead of expectations on better volumes

HZ's reported 2QFY11 net profit of Rs9.5 bn (+1.5% yoy, +6.5% qoq) was ahead of our expectation of Rs8.6 bn. EBITDA of Rs11.3 bn (+10.1%qoq, 4.6% yoy) was also ahead of our estimate of Rs10.4 bn. Growth in EBITDA/net income was led by (1) higher volumes—refined zinc production grew 7.1% qoq and 25.3% yoy to 176K tons. Lead production grew marginally. The company also recorded lead metal-in-concentrate sales of 7.5K tons; and (2) higher realizations—zinc realization for quarter was US\$2,154/ ton (+0.5% qoq, 11.6% yoy) and lead realization was US\$2,262/ ton (+0.4% qoq, 6.3% yoy).

Net zinc metal cost of production increases significantly

HZ's 2QFY11 net zinc metal cost of production increased by 21% yoy to US\$977/ ton. HZ attributes this to increase in power and fuel costs and higher stripping costs at its mines. We note that strip ratio of HZ's Rampura Agucha will likely increase to 14.2 tons in FY2011E from 10.7 tons in FY2010. The company attributes increase in strip ratio to dimensional change in the pit.

Raising our zinc and lead price assumptions

We raise our zinc and lead price assumptions by 5.3%, 7.5% and 7.1% to US\$2,000/ton, US\$2,150/ton and US\$2,250/ton for FY2011E, FY2012E and FY2013E, respectively. While near-term zinc prices may be under pressure from mounting inventory and production restarts, our medium-term positive outlook is supported by the fact that mine supply may fail to keep pace with demand. Supply may get constrained in 2011 on likely exhaustion of a few large mines (Brunswick) and significant drop in production from a few existing ones.

Increase estimates and maintain BUY rating with a revised TP of Rs1,430

We increase our EPS estimate by 0.4% and 3.8% to Rs116.4 and Rs134.2 for FY2012E and FY2013E. We raise our target price by 15.3% to Rs1,430, on marginal revision in our earnings estimates and roll-over of target price to 2012E financials. HZ is trading at attractive valuations of 5.1X FY2012E EBITDA. Maintain BUY rating. Note that our estimates do not include the recently announced acquisition of zinc assets of Anglo American.

Kawaljeet Saluja
kawaljeet.saluja@kotak.com
Mumbai: +91-22-6634-1243

Karan Durante
karan.durante@kotak.com
Mumbai: +91-22-6634-1527

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

Updates on expansion projects

100 ktpa lead smelter at Dariba smelting complex will likely be commissioned by end-3QFY11E, a delay of a quarter. Post completion of the expansion, HZ will become the world's largest integrated lead-zinc producer with a total capacity of 1,064 ktpa. Primary mine development activity at Sindesar Khrud Mine (SKM) is on schedule. The company expects the new 1.5 mtpa mill at SKM to commence production by end-2010.

HZ is also on track to achieve 500 tons of silver capacity by end-FY2013E. Expansion of silver refinery will be supported by expansion of SKM mine capacity. HZ indicates that silver refining costs are negligible; implying that significant portion of realizations from silver will flow through to the earnings. We forecast silver production of 151, 318 and 360 tons in FY2011E, FY2012E and FY2013E, respectively.

Interim results of Hindustan Zinc , March fiscal year-ends (Rs mn)

	2QFY11	2QFY11E	2QFY10	1QFY11	(% chg.)		
					2QFY11E	2QFY10	1QFY11
Net sales	22,010	20,572	18,183	19,734	7.0	21.0	11.5
Total expenditure	(10,758)	(10,219)	(7,428)	(9,516)	5.3	44.8	13.1
Inc/(Dec) in stock	390	—	163	700	—	139.4	(44.4)
Raw materials	(7,528)	(6,340)	(4,554)	(6,402)	18.7	65.3	17.6
Staff cost	(1,155)	(1,512)	(1,037)	(1,482)	(23.6)	11.4	(22.1)
Other expenditure	(2,464)	(2,368)	(2,000)	(2,332)	4.1	23.2	5.7
EBITDA	11,253	10,352	10,755	10,218	8.7	4.6	10.1
OPM (%)	51.1	50.3	59.1	51.8			
Other income	1,840	1,664	1,537	1,584	10.6	19.7	16.2
Interest	5	(66)	(54)	(66)	(107.8)	(109.5)	(107.8)
Depreciation	(1,158)	(1,347)	(771)	(1,123)	(14.0)	50.2	3.2
Pretax profits	11,940	10,603	11,467	10,614	12.6	4.1	12.5
Extraordinaries	(212)	—	—	—	—	—	—
Tax	(2,241)	(1,962)	(2,118)	(1,705)	14.2	5.8	31.4
Deferred taxation	—	—	(1,880)	—	—	—	—
Net income	9,487	8,642	9,350	8,909	9.8	1.5	6.5
Adjusted profits	9,487	8,642	9,350	8,909	9.8	1.5	6.5
Ratios							
EBITDA margin (%)	51.1	50.3	59.1	51.8			
ETR (%)	19.1	18.5	18.5	16.1			
EPS (Rs)	22.5	20.5	22.1	21.1			
Other details							
Sales volumes							
Zinc (tons)	176,239	166,032	140,879	164,445	6.1	25.1	7.2
Lead (tons)	14,458	14,539	11,381	14,075	(0.6)	27.0	2.7
Silver (kgs)	36,879	37,622	29,326	35,830	(2.0)	25.8	2.9
Average realizations (Rs/ton)							
Zinc	100,114	100,617	93,326	97,850	(0.5)	7.3	2.3
Lead	105,132	108,703	102,919	102,764	(3.3)	2.2	2.3
Silver	29,366	28,155	23,330	28,155	4.3	25.9	4.3

Source: Company, Kotak Institutional Equities estimates

Hindustan Zinc, changes in estimates, March fiscal year ends, FY2011E-13E

	Revised estimate			Previous estimate			Change (%)		
	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E
Price (US\$/ton)									
Zinc	2,000	2,150	2,250	1,900	2,000	2,100	5.3	7.5	7.1
Lead	2,000	2,150	2,250	1,900	2,000	2,100	5.3	7.5	7.1
Volumes (tons)									
Zinc ingots	703,200	782,310	835,050	703,200	791,100	835,050	—	(1.1)	—
Lead ingots	83,250	148,000	155,400	101,750	148,000	155,400	(18.2)	—	—
Earnings estimates (Rs mn)									
Revenues	89,425	112,278	125,326	91,118	109,305	118,955	(1.9)	2.7	5.4
EBITDA	48,214	63,116	71,729	51,759	62,822	68,246	(6.8)	0.5	5.1
PAT	40,325	49,188	56,709	43,322	49,008	54,628	(6.9)	0.4	3.8

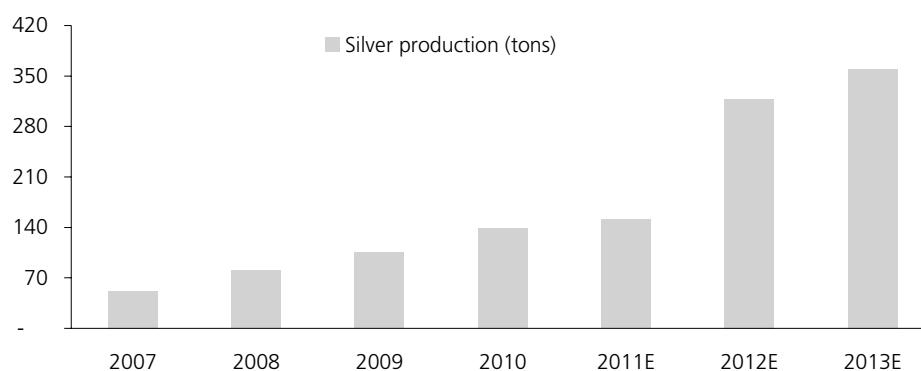
Source: Kotak Institutional Equities estimates

Hindustan Zinc, valuation details, FY2012E basis

	EBITDA	Multiple	Enterprise Value	
	(Rs bn)	(X)	(Rs bn)	(Rs/ share)
FY2012E EBITDA	63	6.5	410	971
Less: Net debt			(195)	(461)
Arrived market capitalization			216	1,432
Target price (Rs/share)				1,430

Source: Kotak Institutional Equities estimates

Silver production details, March fiscal year ends, FY2007-13E



Source: Company, Kotak Institutional Equities estimates

Hindustan Zinc, Key assumptions, March fiscal-year ends, 2008-2013E (Rs mn)

	2008	2009	2010E	2011E	2012E	2013E
Volumes (tons)						
Zinc	425,532	552,330	577,685	703,200	782,310	835,050
Lead	58,298	60,564	64,391	83,250	148,000	155,400
Silver	82	103	139	151	318	360
Average realizations (Rs/ton)						
Zinc	125,946	70,353	99,421	98,939	103,757	107,424
Lead	122,771	86,385	105,922	99,026	102,718	106,426
Silver (Rs mn/ton)	19	20	25	29	31	31
LME-assumptions (US\$/ton)						
Zinc	2,992	1,563	1,936	2,000	2,150	2,250
Lead	2,875	1,655	1,990	2,000	2,150	2,250
Cost per ton (US\$/ton)	1,181	1,039	1,090	1,152	1,188	1,228

Source: Company, Kotak Institutional Equities estimates

Hindustan Zinc, 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	78,778	56,803	80,170	89,425	112,278	125,326
EBITDA	53,784	27,342	46,701	48,214	63,116	71,729
Other income	8,516	9,312	7,222	9,580	12,010	15,024
Interest	(242)	(219)	(439)	(88)	(44)	(22)
Depreciation	(2,205)	(2,853)	(3,343)	(4,646)	(5,312)	(5,718)
Profit before tax	59,853	33,582	50,141	53,059	69,770	81,013
Current tax	(14,673)	(5,209)	(8,309)	(11,033)	(18,541)	(21,854)
Deferred tax	(1,220)	(1,097)	(1,418)	(1,701)	(2,041)	(2,450)
Net profit	43,961	27,276	40,414	40,325	49,188	56,709
Earnings per share (Rs)	104.0	64.6	95.6	95.4	116.4	134.2
Balance sheet (Rs mn)						
Equity	118,482	143,576	181,240	218,599	264,820	318,563
Deferred tax liability	4,597	5,589	7,112	8,814	10,855	13,305
Total Borrowings	4	87	605	4	4	4
Current liabilities	8,984	10,010	13,258	13,381	11,250	11,572
Total liabilities	132,067	159,261	202,215	240,798	286,929	343,443
Net fixed assets	41,626	52,133	72,771	78,124	79,812	79,094
Investments	63,325	69,289	109,492	134,492	164,492	194,492
Cash	13,628	27,192	9,275	16,873	30,119	56,837
Other current assets	13,489	10,648	10,677	11,308	12,507	13,021
Miscellaneous expenditure	—	—	—	—	—	—
Total assets	132,067	159,261	202,215	240,798	286,929	343,443
Free cash flow (Rs mn)						
Operating cash flow excl. working capital	39,120	23,460	45,555	46,673	56,541	64,876
Working capital changes	1,496	3,667	767	(508)	(3,330)	(192)
Capital expenditure	(13,667)	(13,743)	(22,492)	(10,000)	(7,000)	(5,000)
Free cash flow	26,949	13,383	23,831	36,165	46,211	59,684
Ratios						
Debt/equity (X)	0.0	0.0	0.0	0.0	0.0	0.0
Net debt/equity (X)	(0.6)	(0.6)	(0.6)	(0.7)	(0.7)	(0.8)
RoAE (%)	45.1	20.8	24.9	20.2	20.3	19.4
RoACE (%)	45.4	21.0	25.1	20.2	20.4	19.4

Source: Company, Kotak Institutional Equities estimates

OCTOBER 20, 2010

RESULT

Coverage view: **Attractive**

Price (Rs): **426**

Target price (Rs): **390**

BSE-30: **19,872**

Same old story – growth at the expense of profitability; REDUCE. 1QFY11 marked another quarter of strong revenue growth (+9% qoq) failing to translate into either EBITDA growth (down 8% qoq) or FCF generation. The overarching drive for scale with scant concern for profitability, FCF, and return ratios remain our key worries and underline our negative stance on the stock. We cut our EPS estimates, building in lower margins despite higher revenue growth assumption. Reiterate REDUCE.

Company data and valuation summary

HCL Technologies

Stock data

52-week range (Rs) (high,low)	456-275
Market Cap. (Rs bn)	294.0

Shareholding pattern (%)

Promoters	65.3
FIs	21.3
MFs	2.9

Price performance (%)

	1M	3M	12M
Absolute	0.9	14.9	36.8
Rel. to BSE-30	1.1	3.3	18.6

Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	17.5	22.8	28.3
EPS growth (%)	0.2	29.9	24.3
P/E (X)	24.3	18.7	15.1
Sales (Rs bn)	125.7	158.5	194.2
Net profits (Rs bn)	13.2	16.4	20.2
EBITDA (Rs bn)	24.8	26.1	31.9
EV/EBITDA (X)	11.8	11.1	8.9
ROE (%)	19.3	21.4	23.0
Div. Yield (%)	0.9	1.4	1.4

Sep 2010 quarter – revenue beat, EBITDA/PAT miss

Revenues of US\$804 mn (+9% qoq, +28% yoy) beat our estimate by 1%. However, EBITDA of Rs5.64 bn (down 8% qoq, 16% yoy) came in 4% below expectation. EBITDA margin fell 230 bps qoq versus our expectation of 150 bps decline. EBITDA margin decline was on account of (1) wage hikes effected during the quarter; (2) increased transition costs on large deals; this partly reflects in sharp qoq jump in other current assets to US\$460 mn from US\$398 mn at end-June 2010 and (3) decline in utilization rates (excluding trainees) to 74% from 77%. Higher-than-expected forex loss (US\$14 mn versus estimated US\$10 mn) led to a 12% miss on net income estimate (Rs3 bn versus estimate of 3.4 bn).

Revenue/EBITDA growth gap widens further

1QFY11 earnings report of HCLT once again demonstrates its overarching drive for scale, even if it is at significant cost to profitability, free cash flow and return ratios. Results are consistent with the trend seen in the past few quarters – strong revenue growth (+9% qoq in US\$ terms); decline in operating margin (-230 bps qoq, -650 bps yoy) and poor free cash generation (negative US\$27 mn for the quarter). Even with yoy revenue growth of 28%, EBITDA declined 16%. We also note that HCLT's EBIT margin has now converged with Tier-1 US players. Exhibit 1 depicts the widening gap in yoy revenue and EBITDA growth for HCLT.

Margin issue is more fundamental than temporary

A part of the blame for weak margins does fall on the ongoing restructuring in the BPO business – this explains roughly 132 bps of the 515 bps yoy decline in OPM for HCLT. Even if one views this impact as temporary, we believe HCLT's margin underperformance has a fundamental reason, the same being the company's aggressive pursuit of large deals. To make up for its weak positioning in the applications area and scale verticals (BFSI/TSP), the company has been aggressive on pricing and commercial terms to win large deals in the past 24-36 months, in our view. In addition, we are uncomfortable with dissecting margins on a segmental basis for companies as we believe some business segments for every company are in investment phase at every point in time. We note that the larger peers have managed a fine balance between investments and margins.

Kawaljeet Saluja
kawaljeet.saluja@kotak.com
Mumbai: +91-22-6634-1243

Rohit Chordia
rohit.chordia@kotak.com
Mumbai: +91-22-6634-1397

Vineet Thodge
vineet.thodge@kotak.com
Mumbai: +91-22-6634-1225

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

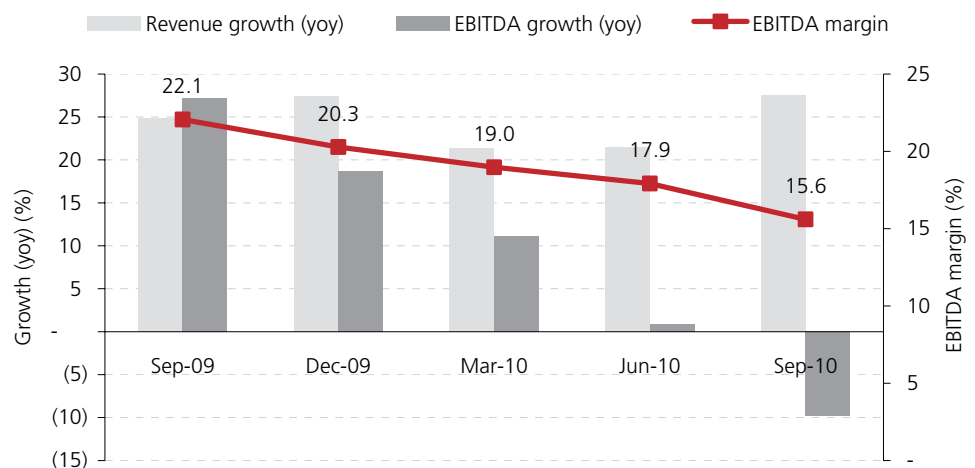
1QFY11 results – details

- ▶ 9% qoq and 27.6% yoy revenue growth to US\$804 mn, 1% ahead of our estimate.
- ▶ EBITDA margin decline of 230 bps qoq and 640 bps yoy, leading to an 8% qoq, and 15.6% yoy EBITDA decline to Rs5.6 bn (4% below expectation).
- ▶ Revenue growth was broad-based across business segments with applications up 9.3% qoq, infra services 8.9%, and even BPO returning to sequential growth delivering 5.7% qoq.
- ▶ Among verticals, Retail, Healthcare and BFSI delivered double-digit sequential growth; among geographies, weakness in the Americas (+2.8% qoq) was compensated by strong growth in Europe (+18%) and Asia Pacific (+20%).
- ▶ Client metrics were strong – HCLT added 48 clients during the quarter, top-5 clients grew 9.7% and top-10 clients grew 10.4% qoq. The company announced a total of 14 new major deal signings.
- ▶ Net hiring was strong at 5,661. The company has hired net 12,089 employees in the past two quarters.
- ▶ Attrition (LTM) jumped another 100 bps qoq to 16.7% in the IT services segment.
- ▶ Outstanding hedge book now stands at US\$300 mn, with the company booking new hedges of US\$150 mn during the quarter.

Raise revenue estimates but reduce margin assumptions; reiterate REDUCE

We have raised our FY2011E and FY2012E revenue estimates for HCLT by 6% and 10.5% to US\$3.5 bn and US\$4.4 bn, respectively. However, we cut our margin estimates for FY2011E and FY2012E by 150 bps and 80 bps to 16.5% and 16.4%, respectively. This drives a 7% and 6% cut in our EPS estimate for FY2011E and FY2012E to Rs22.8 and Rs28.3, respectively. We retain our REDUCE rating on the stock with a target price of Rs390/share – this implies a PE multiple of 13.8X on FY2012E earnings.

Exhibit 1: Widening gap in yoy revenue and EBITDA growth for HCLT



Source: Company, Kotak Institutional Equities

Exhibit 2: HCL Technologies (year-ending June) - 1QFY11 financial performance

Rs mn	Sep-09	Jun-10	Sep-10	qoq (%)	yoy (%)	Estimates	
Revenues (US\$ mn)	630.1	737.6	803.8	9.0	27.6	796.4	0.9
Revenues	30,314	34,254	36,116	5.4	19.1	35,917	0.6
Cost of Revenues	(19,350)	(23,166)	(24,922)	7.6	28.8	(24,888)	0.1
Gross profit	10,964	11,088	11,194	1.0	2.1	11,029	1.5
SG&A expenses	(4,277)	(4,948)	(5,553)	12.2	29.8	(5,145)	7.9
EBITDA (including RSU expenses)	6,687	6,139	5,641	(8.1)	(15.6)	5,884	(4.1)
EBITDA adjusted for non cash RSU charges	6,889	6,381	5,876	(7.9)	(14.7)	6,146	(4.4)
Depreciation	(1,419)	(1,133)	(1,218)	7.5	(14.2)	(1,217)	0.1
EBIT	5,268	5,006	4,423	(11.6)	(16.0)	4,668	(5.2)
Interest expense	(467)	(580)	-			(364)	
Other Income (net of interest expense)	(1,102)	(998)	(634)	(36.5)	(42.5)	(60)	958.8
Earnings before tax	3,700	3,427	3,789	10.6	2.4	4,244	(10.7)
Provision for Tax	(702)	(251)	(802)	219.8	14.2	(849)	(5.5)
Earnings before share of earnings in affiliates	2,997	3,176	2,987	(6.0)	(0.3)	3,395	(12.0)
Share of income (loss) of equity investees	1	0	0			0	
Minority Interest	0	0	0			0	
Net Income (before extraordinary)	2,998	3,176	2,987	(6.0)	(0.4)	3,395	(12.0)
EPS	4.3	4.6	4.3	(6.0)	(0.4)	4.9	(12.0)
No of shares outstanding	690.0	690.0	690.0			690.0	
Margins (%)							
Gross Profit margin	36.2	32.4	31.0			30.7	
EBITDA Margin	22.1	17.9	15.6			16.4	
EBIT Margin	17.4	14.6	12.2			13.0	
NPM	9.9	9.3	8.3			9.5	

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Key changes to our FY2011-12E estimates, fiscal year ends June

US\$ mn	Revised		Old		Change (%)	
	FY2011E	FY2012E	FY2011E	FY2012E	FY2011E	FY2012E
Revenues	3,527	4,364	3,332	3,950	5.9	10.5
- Software Services	2,519	3,088	2,379	2,806	5.9	10.0
- BPO	196	211	174	181	12.6	16.7
- Infrastructure Services	813	1,065	779	963	4.3	10.6
Revenue growth yoy (%)	30.4	23.7	23.2	18.6		
EBITDA margin (%)	16.5	16.4	18.0	17.2		
EBIT	13.2	13.4	14.5	13.9		
Re/ US\$ rate	44.9	44.5	46.1	45.3	(2.5)	(1.7)
EPS Rs/ share	22.8	28.3	24.5	30.1	(7.0)	(6.0)

Source: Kotak Institutional Equities estimates

Exhibit 4: Segmental performance of HCLT for 1QFY11

	Reported	KIE est.	4QFY10	1QFY10
Headline financials				
Revenues (US\$ mn)	804	796	738	630
Growth qoq (%)	9.0	8.0		
Growth yoy (%)	27.6	26.4		
versus KIE (%)	0.9			
Revenues (Rs mn)				
Revenues (Rs mn)	36,116	35,917	34,254	30,314
Growth qoq (%)	5.4	4.9		
Growth yoy (%)	19.1	18.5		
versus KIE (%)	0.6			
EBITDA (Rs mn)				
EBITDA (Rs mn)	5,641	5,884	6,139	6,687
Growth qoq (%)	(8.1)	(4.2)		
Growth yoy (%)	(15.6)	(12.0)		
versus KIE (%)	(4.1)			
EBITDA margin (%)	15.6	16.4	17.9	22.1
PAT (Rs mn)				
PAT (Rs mn)	2,987	3,395	3,176	2,998
Growth qoq (%)	(6.0)	6.9		
Growth yoy (%)	(0.4)	13.2		
versus KIE (%)	(12.0)			
EPS (Rs/share)				
EPS (Rs/share)	4.33	4.92	4.60	4.34
Growth qoq (%)	(6.0)	6.9		
Growth yoy (%)	(0.4)	13.2		
versus KIE (%)	(12.0)			
Revenue break-up				
IT services (US\$ mn)				
IT services (US\$ mn)	576	573	527	449
Growth qoq (%)	9.3	8.7		
Growth yoy (%)	28.3	27.6		
versus KIE (%)	0.5			
Infrastructure services (US\$ mn)				
Infrastructure services (US\$ mn)	180	180	165	123
Growth qoq (%)	8.9	9.0		
Growth yoy (%)	46.9	47.1		
versus KIE (%)	(0.1)			
BPO (US\$ mn)				
BPO (US\$ mn)	48	44	46	59
Growth qoq (%)	5.7	(4.2)		
Growth yoy (%)	(18.2)	(25.8)		
versus KIE (%)	10.3			

Source: Company, Kotak Institutional Equities estimates

Exhibit 5: HCLT - quarterly balance sheet, June fiscal-year ends, US\$ mn

	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
Assets									
Cash and cash equivalents	65	146	104	88	74	73	74	101	95
Accounts receivables, net	448	545	521	565	633	592	638	657	714
Investments (treasury)	491	270	308	309	491	321	432	425	385
Other current assets	223	268	279	223	199	178	185	191	221
Total current assets	1,226	1,229	1,212	1,185	1,397	1,164	1,329	1,373	1,415
Current liabilities	549	728	741	682	655	648	649	675	691
Net current assets	677	501	471	503	742	516	680	698	724
Net block	301	313	324	331	339	362	391	398	424
Goodwill and intangible assets	232	900	858	946	945	973	944	929	946
Other assets	123	147	154	187	196	217	218	223	300
Total assets	1,333	1,861	1,808	1,968	2,222	2,068	2,234	2,248	2,394
Liabilities and stockholder's equity									
Borrowings	—	636	680	622	786	534	621	574	577
Other long-term liabilities	180	184	149	159	182	169	149	159	159
Total liabilities	180	820	829	781	968	703	770	733	737
Minority interest	1	1	1	0	0	—	—	—	—
Total stockholder's equity	1,152	1,041	978	1,187	1,253	1,364	1,463	1,515	1,658
Total liabilities and stockholder's equity	1,333	1,861	1,808	1,968	2,222	2,068	2,234	2,248	2,394

Source: Company, Kotak Institutional Equities

Exhibit 6: Key assumptions driving HCLT earnings model, 2010-2012E, June fiscal year-ends

	2010E	2011E	2012E
Key assumptions			
Revenue growth (US\$ terms) (%)	23.6	30.4	23.7
IT services	20.2	31.2	22.6
Infrastructure management	60.6	42.2	31.0
BPO	(9.3)	(8.6)	7.9
Volume growth yoy (%) (IT)	11.4	32.3	21.7
Pricing change yoy (%)			
Onsite	12.8	0.4	1.7
Offshore	(2.3)	1.2	1.7
Blended	8.0	(0.8)	0.7
Total employees (#)	64,557	81,362	98,976
Employee additions	10,341	16,805	17,615
Utilization rate (%)	80.1	77.4	79.2
SG&A expense as % of revenues	14.3	15.5	15.0
Re/US\$ rate	46.5	44.9	44.5

Source: Company, Kotak Institutional Equities estimates

Exhibit 7: Condensed consolidated financials for HCL Technologies, 2008-2012E, June fiscal year-ends (Rs mn)

	2008	2009	2010	2011E	2012E
Profit model					
Revenues	76,394	106,301	125,650	158,479	194,196
EBITDA	16,159	22,778	24,779	26,111	31,914
Depreciation (incl amortization of intangibles)	(3,033)	(4,465)	(5,006)	(5,234)	(5,922)
Other income	(1,195)	(3,629)	(5,278)	(788)	240
Pretax profits	11,931	14,684	14,496	20,090	26,231
Tax	(1,281)	(2,551)	(2,402)	(4,379)	(6,558)
Profit after tax	10,650	12,133	12,094	15,711	19,673
Diluted earnings per share (Rs)	15.3	17.5	17.5	22.8	28.3
Balance sheet					
Total equity	49,296	57,657	70,382	78,932	92,974
Deferred taxation liability	184	2,194	2,098	2,029	2,010
Total borrowings	258	30,197	24,229	18,938	14,308
Minority interest	53	17	16	15	15
Other non-current liabilities	5,496	6,066	5,277	9,471	11,552
Current liabilities	20,613	32,625	33,766	36,705	43,736
Total liabilities and equity	75,901	128,757	135,769	146,091	164,595
Cash	9,500	19,031	16,604	14,322	17,649
Other current assets	26,127	38,323	39,359	52,652	63,492
Goodwill and intangible assets	9,055	45,974	43,141	41,078	40,152
Tangible fixed assets	12,582	16,089	18,495	22,287	26,666
Investments	13,853	609	8,525	7,759	7,685
Other non-current assets	4,784	8,732	9,645	7,993	8,951
Total assets	75,901	128,757	135,769	146,091	164,595
Free cash flow					
Operating cash flow, excl. working capital	15,453	19,956	27,437	21,733	25,356
Working capital changes	(1,957)	(697)	(1,964)	(4,837)	(2,825)
Capital expenditure	(5,566)	(5,473)	(6,119)	(8,992)	(9,979)
Investment changes/acquisition	2,477	(18,203)	(7,943)	485	-
Other income	(1,195)	(3,629)	(5,278)	(788)	240
Free cash flow	9,212	(8,045)	6,134	7,602	12,792
Ratios (%)					
EBITDA margin	21.2	21.4	19.7	16.5	16.4
EBIT margin	17.2	17.2	15.7	13.2	13.4
Debt/equity	0.0	0.5	0.3	0.2	0.2
Net debt/equity	(0.5)	0.2	(0.0)	(0.0)	(0.1)

Source: Company, Kotak Institutional Equities estimates

Exhibit 8: HCL Tech: Quarterly metrics

	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
Revenues (US\$ mn)	504.7	511.5	564.5	607.2	630.1	651.7	685.2	737.6	803.8
Reveues (Rs mn)	23,693	24,908	28,615	29,085	30,314	30,325	30,757	34,254	36,116
Exchange rate	46.9	48.7	50.7	47.9	48.1	46.5	44.9	46.4	44.9
Geographical mix									
US	57.3	59.8	61.0	58.9	58.7	57.0	59.5	61.5	58.0
Europe	28.7	27.1	27.6	28.5	29.0	29.5	26.7	24.6	26.7
Asia Pacific	14.0	13.1	11.4	12.6	12.3	13.5	13.8	13.9	15.3
Revenues by service offering									
Enterprise application services	35.8	32.9	37.3	23.6	21.9	22.4	21.4	22.2	21.7
Engineering and R&D services	26.3	25.7	25.4	19.4	18.7	18.0	19.0	19.6	18.7
Custom application (Industry solutions)	10.9	12.5	10.6	29.7	30.7	30.5	29.9	29.6	31.3
Infrastructure services	15.7	16.5	15.0	17.6	19.4	20.3	22.2	22.4	22.3
BPO services	11.3	12.4	11.7	9.7	9.3	8.8	7.6	6.2	6.0
Revenue by contract type									
Time and Material	64.0	63.8	62.4	61.5	60.0	60.4	59.5	59.1	58.9
Fixed price	36.0	36.2	37.6	38.5	40.0	39.6	40.5	40.9	41.1
Revenue by vertical									
Financial services	27.5	27.7	23.6	24.8	26.3	26.1	25.5	24.9	25.2
Manufacturing	30.8	30.0	30.3	30.9	27.4	25.6	26.7	27.3	27.2
Telecom	16.4	15.8	12.1	12.5	13.0	12.5	11.6	10.9	11.0
Retail & CPG	8.2	7.7	6.9	6.6	7.0	8.0	7.5	8.2	8.5
Media Publishing and entertainment	5.6	5.5	5.0	5.6	6.8	7.2	7.9	7.4	6.9
Life sciences	5.9	5.9	6.3	6.4	6.4	7.2	7.5	8.2	8.4
Energy-utilities-public sector	1.4	3.2	8.9	7.6	6.8	7.3	7.0	6.9	6.8
Others	4.2	4.2	6.9	5.6	6.3	6.1	6.3	6.2	6.0
Client metrics (LTM)									
Active client relationships	295	315	353	367	373	399	404	408	426
New client relationships	29	26	68	37	28	36	39	51	48
Number of million dollar clients (LTM)									
50 Million dollar +	3	4	4	4	4	4	5	5	6
10 Million dollar +	36	39	40	43	45	51	55	58	64
5 Million dollar +	68	68	81	85	94	104	106	107	112
1 Million dollar +	205	218	256	253	264	281	281	283	292
Client contribution to revenue									
Top 5 clients	26.1	25.3	22.7	20.6	19.0	18.0	17.8	17.7	17.7
Top 10 clients	36.6	35.1	31.9	28.9	27.2	26.2	25.8	25.9	25.9
Top 20 clients	48.8	47.9	43.6	40.2	38.1	36.9	36.6	36.6	36.6
Repeat business	92.9	90.9	90.0	88.4	93.7	94.4	93.4	91.9	93.7
Operational metrics - Software services									
Effort mix									
Onsiite	74.9	75.3	71.6	71.7	71.9	71.5	72.2	72.1	72.2
Offshore	25.1	24.7	28.4	28.3	28.1	28.5	27.8	27.9	27.8
Revenue mix									
Onsiite	52.0	53.5	41.1	41.2	41.5	40.9	41.3	41.4	41.7
Offshore	48.0	46.5	58.9	58.8	58.5	59.1	58.7	58.6	58.3
Utilization									
Offshore - Including trainees	74.4	74.5	74.1	76.2	76.0	76.4	76.2	72.9	70.1
Onsite	96.5	97.4	96.4	97.0	97.2	96.7	95.6	95.2	95.7
Efforts Billed - Offshore	49,603	50,419	50,539	50,640	51,167	51,530	55,769	61,518	66,396
Efforts Billed – Onsite	16,644	16,565	20,049	20,022	19,950	20,504	21,447	23,777	25,609
Total Billed Efforts	66,247	66,984	70,588	70,662	71,117	72,034	77,216	85,295	92,005
Manpower details									
Consolidated manpower									
Total gross addition	5,597	3,947	2,298	3,391	4,322	5,529	7,136	11,588	11,785
Total net addition	1,973	2,304	(992)	190	227	1,245	2,441	6,428	5,661
Attrition - IT services	14.2	13.4	13.2	13	12.8	12.8	13.9	15.7	16.7

Source: Company, Kotak Institutional Equities

OCTOBER 20, 2010

RESULT

Coverage view: **Attractive**

Price (Rs): **655**

Target price (Rs): **740**

BSE-30: **19,872**

Strong quarter; NIM expansion is a key positive. Canara Bank reported yet another strong quarter driven by strong expansion of NIM and lower loan loss provisions. NIMs improved 17 bps qoq at 3.2% due to stable funding costs and better lending yields. Asset quality was stable resulting in lower-than-expected provisions. We are impressed by the margin trend of the bank and have revised earnings by 10% upwards in FY2011E and 5% in FY2012E. The stock is currently trading at 1.4X FY2012 PBR. Retain ADD with a TP of ₹740.

Company data and valuation summary

Canara Bank

Stock data

52-week range (Rs) (high,low) 669-315

Market Cap. (Rs bn) 268.7

Shareholding pattern (%)

Promoters 73.2

FII's 11.0

MFs 2.8

Price performance (%)

	1M	3M	12M
Absolute	13.9	34.7	72.7
Rel. to BSE-30	14.1	21.2	49.7

Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	73.7	90.7	102.8
EPS growth (%)	45.8	23.1	13.4
P/E (X)	8.9	7.2	6.4
NII (Rs bn)	56.8	79.3	93.5
Net profits (Rs bn)	30.2	37.2	42.2
BVPS	305.8	384.8	473.6
P/B (X)	2.1	1.7	1.4
ROE (%)	22.5	22.8	21.4
Div. Yield (%)	1.5	1.5	1.8

QUICK NUMBERS

- NIMs improve 17 bps qoq to 3.2%; NII growth at 53% yoy
- Net profit grew 11% to ₹10 bn
- Revising earnings by 10% in FY2011E. Maintain ADD with TP of ₹740 (₹580 earlier)

NIM at 3.2% led by stable funding costs and higher lending yields; loans up 20%

Canara Bank's net interest income (NII) for 2QFY11 was ₹20 bn (up 53% yoy), 18% higher than estimates driven by stable funding costs and better lending yields. NIMs improved further by 17 bps yoy to 3.18% in 2QFY11 (3.01% reported in 1QFY11). The bank reported loans at Rs1.76 tn (up 20% yoy) and deposits were Rs2.49 tn (up 22% yoy) as of September 2010. Infrastructure loans grew 63% yoy while retail loans grew 26% yoy driven by housing which grew 42% yoy. CASA deposits grew by 23% yoy and are 29% of deposits (unchanged qoq). We are factoring loan book growth at 19% CAGR for FY2010-12E and NIMs to decline by 10 bps by FY2012E.

Asset quality stable with provision coverage (including write-offs) at 77%

Gross NPLs were stable qoq at ₹26.4 bn (1.5% of loans) while net NPLs increased 10% qoq to ₹18.6 bn (1.1%). Provision coverage (ex write-off) declined to 30% compared to 32% in June 2010. Adjusting for technical write-off, the overall provision coverage ratio for the bank was healthy at 77% for the quarter. The company continues to maintain a policy of writing off stressed loans, allowing it a lower effective tax rate (2QFY11 was at 20% similar to 1QFY11). The lower slippages in loans resulted in lower loan loss provisions. Loan loss provisions were at 0.5% for the quarter compared to 1% provision made in FY2010. While we see the lower-than-expected provisions as positive, we would continue to remain cautious and build higher provisions till FY2012E as slippages from corporate NPLs could be lumpy in nature.

Muted performance on non-interest income

Canara Bank's non-interest income was at ₹5 bn (down 44% yoy) in 2QFY11 mainly due to lower treasury gains. Treasury gains were ₹20 mn against ₹4.4 bn in 1QFY11. Core fee income growth continues to remain under pressure growing only by 12% yoy. Income from recoveries was lower during the quarter at ₹650 mn compared to ₹719 mn in September 2010. We are modeling a 13% CAGR in core fee income in FY2010-13E.

M B Mahesh
mb.mahesh@kotak.com
Mumbai: +91-22-6634-1231

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

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

Valuations are attractive at 1.4X FY2012E PBR; Retain ADD

We maintain our ADD rating on Canara Bank but have revised our target price to ₹740 (from ₹580 earlier) valuing the bank at 1.6 X FY2012 PBR. We are building in earnings growth of about 18% in FY2010-12E factoring higher operating expenses and decline in margins over next few quarters.

Over the past few quarters earnings profile of the bank has improved resulting in consistency of earnings driven by a combination of margin expansion and lower loan loss provisions. Valuations are attractive for the bank at current levels of 1.4X FY2012E PBR delivering RoEs in the range of 20%. However, we remain cautious on our margin outlook, especially given the rising interest rate cycle and provisions as NPL formations can be lumpy in nature as the loan profile is largely led by companies, mainly in infrastructure.

We assume a 10% increase in FY2011E earnings

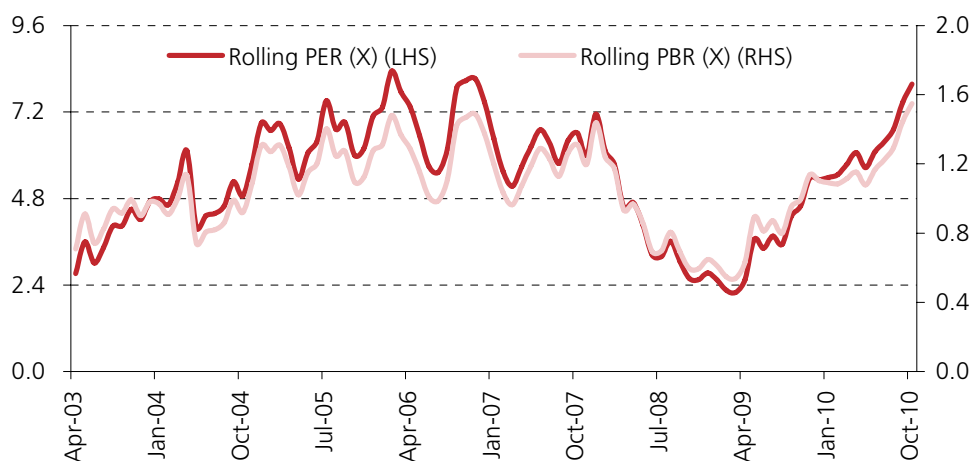
Old and new estimates, March fiscal year-ends, 2011-2013E (Rs mn)

	Old estimates			New estimates			% change		
	2011E	2012E	2013E	2011E	2012E	2013E	2011E	2012E	2013E
Net interest income	72,876	87,187	98,931	79,297	93,477	105,861	8.8	7.2	7.0
Loan growth (%)	22.8	21.0	20.9	18.9	19.7	20.6			
NIM (%)	2.6	2.6	2.4	2.8	2.7	2.6			
Loan loss provisions	13,205	16,084	16,670	10,191	15,477	15,948	(22.8)	(3.8)	(4.3)
Other income	24,826	26,326	29,709	24,554	27,186	30,259	(1.1)	3.3	1.9
Fee income	8,551	9,919	11,506	7,963	9,237	10,715	(6.9)	(6.9)	(6.9)
Treasury income	3,500	2,500	3,000	3,000	3,000	3,000			
Operating expenses	35,937	40,304	45,230	42,388	47,077	52,352	17.9	16.8	15.7
Employee expenses	21,490	23,892	26,563	28,360	31,531	35,056	32.0	32.0	32.0
Depreciation on investments	1,200	1,000	1,000	1,500	1,500	1,500			
Amortization of investments	-	-	-	-	-	-			
PBT	44,946	53,711	63,327	49,572	56,209	65,720	10.3	4.6	3.8
Net profit	33,709	40,283	47,496	37,179	42,156	49,290	10.3	4.7	3.8
PBT-treasury	41,446	51,211	60,327	46,572	53,209	62,720	12.4	3.9	4.0
PBT-treasury + loan loss provisions	54,651	67,295	76,997	56,764	68,686	78,669	3.9	2.1	2.2

Source: Company, Kotak Institutional Equities estimates

Canara Bank- Rolling PER and PBR

January 2002-October 2010 (X)



Source: Kotak Institutional Equities

Canara Bank quarterly results
March fiscal year-ends, 2QFY10-2QFY11 (Rs mn)

	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	% change	2QFY11E	Actual Vs KS
Interest income	47,092	46,878	47,966	51,609	55,774	18.4	54,550	2.2
Interest on advances	35,053	34,710	35,454	37,936	41,096	17.2	40,891	0.5
Income from investments	11,367	11,755	11,801	13,194	14,165	24.6	12,701	11.5
Others	672	413	712	479	514	(23.5)	958	(46.4)
Interest expense	33,955	32,100	31,990	34,331	35,741	5.3	37,494	(4.7)
Net interest income	13,137	14,777	15,976	17,278	20,033	52.5	17,056	17.5
Non-int.income	8,929	7,813	7,101	7,340	4,996	(44.0)	5,850	(14.6)
Sale of invts.	4,358	2,950	1,140	2,240	20	(99.5)	747	(97.3)
fee income	1,555	1,840	2,130	1,638	1,742	12.0	1,789	-
Recoveries	719	1,060	1,490	880	650	(9.6)	748	-
Other income excl treasury	4,571	4,863	5,961	5,100	4,976	8.9	5,103	(2.5)
Total income	22,066	22,590	23,077	24,618	25,029	13.4	22,906	9.3
Op. expenses	7,875	7,891	8,772	9,785	10,872	38.1	9,723	11.8
Employee cost	4,621	4,754	4,981	6,612	7,274	57.4	6,470	12.4
Other cost	3,254	3,137	3,792	3,173	3,597	10.6	3,254	10.6
Profit pre provisions	14,191	14,699	14,305	14,834	14,158	(0.2)	13,183	7.4
Provisions and cont.	3,086	1,674	7,274	2,200	1,579	(48.8)	3,440	(54.1)
Investment depreciation	(324)	(3,026)	1,500	530	(429)	-	133	(423.8)
NPL provisions	2,430	3,710	5,780	1,310	2,060	(15.2)	2,948	(30.1)
PBT	11,105	13,025	7,031	12,634	12,579	13.3	9,743	29.1
Tax	2,000	2,500	2,000	2,500	2,500	25.0	2,436	2.6
Net profit	9,105	10,525	5,031	10,134	10,079	10.7	7,307	37.9
Tax rate (%)	18.0	19.2	28.4	19.8	19.9	-	25.0	-
PBT-invt gains+/-extra. item								
PBT-invt gains+ provisions - extra ordinary	7,454	9,687	11,590	10,752	12,726			
Key balance sheet items (Rs bn)								
Deposits	2,043	2,089	2,347	2,389	2,492	22.0		
CASA ratio (%)	28.7	30.0	29.1	29.0	28.9			
Advances	1,465	1,474	1,693	1,738	1,761	20.2		
Total retail loans	206	215	239	237	260	26.3		
Priority sector	530	549	593	576	607	14.4		
Agriculture advances	226	229	251	231	239	5.8		
SME	270	284	311	316	328	21.4		
Investments	644	697	691	714	767			
AFS (%)	21	23	21	19	20			
Yield management measures (%)								
Yield on advances	10.0	10.0	9.8	9.4	9.6			
Cost of deposits	6.5	6.3	6.1	5.7	5.7			
Cost of funds	6.0	5.8	5.7	5.3	-			
Net interest margin	2.7	2.7	2.8	3.0	3.2			
Asset quality details								
Gross NPLs (Rs bn)	23.5	26.2	25.9	25.5	26.4	12.3		
Gross NPL ratio (%)	1.6	1.8	1.5	1.5	1.5			
Net NPLs (Rs bn)	16.9	19.8	18.0	17.3	18.6	9.8		
Net NPL ratio (%)	1.2	1.3	1.1	1.0	1.1			
Provision Coverage (%)	27.8	24.5	30.5	32.2	29.5			
Restructured assets -Rs bn	53.5	56.3	75.8	70.0	-			
% of loans	3.8	3.8	5.1	4.1	-			
Capital adequacy details (%)								
CAR	14.5	14.4	13.4	12.4	13.9			
Tier I	9.0	9.2	8.5	8.1	8.8			

Source: Company, Kotak Institutional Equities

Canara Bank growth rates and key ratios
March fiscal year-ends, 2008-2013E (%)

	2008	2009	2010	2011E	2012E	2013E
Growth rates (%)						
Net loan	8.9	28.9	22.5	18.9	19.7	20.6
Customer assets	6.9	27.7	22.1	18.6	19.5	20.5
Investments excld. CPs and debentures	15.2	18.0	21.6	25.2	25.5	23.0
Net fixed assets	1.9	0.4	(2.4)	3.6	4.7	4.5
Cash and bank balance	9.2	(6.8)	18.0	16.2	17.6	18.1
Total Asset	8.8	21.7	20.5	19.7	20.6	20.7
Deposits	8.2	21.3	25.6	20.9	21.8	21.7
Current	6.5	8.3	28.1	20.9	21.8	21.7
Savings	8.7	18.6	19.3	30.8	22.6	22.5
Fixed	8.3	23.8	27.3	17.9	21.5	21.4
Net interest income	(12.1)	33.4	20.4	39.6	17.9	13.2
Loan loss provisions	34.5	1.7	68.7	(32.9)	51.9	3.0
Total other income	52.7	0.1	23.7	(14.1)	10.7	11.3
Net fee income	57.0	(14.3)	18.0	10.0	16.0	16.0
Net capital gains	224.4	28.4	30.6	(58.9)	-	-
Net exchange gains	(11.2)	13.1	15.0	25.0	25.0	25.0
Operating expenses	8.8	9.8	13.5	21.9	11.1	11.2
Employee expenses	3.2	13.0	16.9	29.3	11.2	11.2
Key ratios (%)						
Yield on average earning assets	8.5	8.9	8.0	8.1	8.3	8.3
Yield on average loans	9.6	10.4	9.1	9.2	9.3	9.3
Yield on average investments	8.2	7.8	7.3	7.4	7.6	7.8
Average cost of funds	6.7	6.8	5.9	5.6	5.8	6.1
Interest on deposits	6.7	6.7	5.8	5.6	5.8	6.1
Difference	1.8	2.1	2.1	2.5	2.4	2.2
Net interest income/earning assets	2.1	2.5	2.4	2.8	2.7	2.6
Spreads on lending business	2.9	3.7	3.2	3.6	3.5	3.2
Spreads on lending business (incl. Fees)	3.6	4.2	3.7	4.0	3.9	3.6
New provisions/average net loans	0.9	0.7	1.0	0.6	0.7	0.6
Interest income/total income	60.5	67.1	66.5	76.4	77.5	77.8
Other income / total income	39.5	32.9	33.5	23.6	22.5	22.2
Fee income to total income	12.8	9.1	8.5	7.7	7.7	7.9
Fee income to advances	0.7	0.5	0.5	0.4	0.4	0.4
Fees income to PBT	39.1	24.8	18.9	16.1	16.4	16.3
Net trading income to PBT	10.6	5.9	27.7	3.0	2.7	2.3
Exchange inc./PBT	8.1	6.8	5.6	5.4	6.0	6.4
Operating expenses/total income	47.8	43.6	40.7	40.8	39.0	38.5
Operating expenses/assets	1.6	1.5	1.4	1.5	1.3	1.2
Operating profit /AWF	0.9	1.0	1.3	1.6	1.6	1.5
Tax rate	17.8	19.4	20.9	25.0	25.0	25.0
Dividend payout ratio	21.0	15.8	13.6	11.0	11.7	10.0
Share of deposits						
Current	8.6	7.7	7.8	7.8	7.8	7.8
Fixed	68.5	69.9	70.9	69.2	69.0	68.9
Savings	22.9	22.4	21.3	23.0	23.2	23.3
Loans-to-deposit ratio	69.6	74.0	72.2	70.9	69.7	69.1
Equity/assets (EoY)	5.8	5.6	5.5	5.6	5.6	5.6
Dupont analysis (%)						
Net interest income	2.0	2.4	2.3	2.7	2.7	2.5
Loan loss provisions	0.5	0.4	0.6	0.4	0.4	0.4
Net other income	1.3	1.2	1.2	0.8	0.8	0.7
Operating expenses	1.6	1.6	1.5	1.5	1.4	1.3
(1- tax rate)	82.2	80.6	79.1	75.0	75.0	75.0
ROA	0.9	1.0	1.2	1.3	1.2	1.2
Average assets/average equity	16.6	17.6	18.0	17.9	17.8	17.9
ROE	15.0	18.3	22.5	22.8	21.4	20.9

Source: Company, Kotak Institutional Equities estimates

Canara Bank P&L and balance sheet
March fiscal year-ends, 2008-2013E (Rs mn)

	2008	2009	2010	2011E	2012E	2013E
Income statement						
Total interest income	142,007	171,191	187,520	229,600	282,420	344,886
Total interest expense	106,629	124,012	130,714	150,303	188,944	239,024
Net interest income	35,378	47,178	56,805	79,297	93,477	105,861
Loan loss provisions	8,850	9,000	15,180	10,191	15,477	15,948
Net interest income (after prov.)	26,528	38,178	41,625	69,106	77,999	89,913
Other income	23,072	23,104	28,579	24,554	27,186	30,259
Net fee income	7,453	6,388	7,239	7,963	9,237	10,715
Net capital gains	4,351	5,588	7,295	3,000	3,000	3,000
Net exchange gains	1,536	1,737	2,152	2,690	3,363	4,203
Operating expenses	27,913	30,652	34,776	42,388	47,077	52,352
Employee expenses	16,613	18,772	21,937	28,360	31,531	35,056
Depreciation on investments	2,334	4,074	(3,287)	1,500	1,500	1,500
Other Provisions	314	840	501	200	400	600
Pretax income	19,050	25,724	38,214	49,572	56,209	65,720
Tax provisions	3,400	5,000	8,000	12,393	14,052	16,430
Net Profit	15,650	20,724	30,214	37,179	42,156	49,290
% growth	10.1	32.4	45.8	23.1	13.4	16.9
Operating profit	25,232	29,137	46,099	56,764	68,686	78,669
% growth	(9.2)	15.5	58.2	23.1	21.0	14.5
Balance sheet						
Cash and bank balance	178,780	166,598	196,532	228,412	268,506	317,017
Cash	4,315	4,932	6,176	6,485	6,809	7,149
Balance with RBI	129,333	95,436	151,019	182,590	222,359	270,530
Net value of investments	498,116	577,770	696,770	867,129	1,082,800	1,327,437
Govt. and other securities	428,304	508,318	627,804	801,661	1,017,332	1,261,969
Shares	11,185	8,209	11,848	11,848	11,848	11,848
Debentures and bonds	27,122	21,971	20,695	20,695	20,695	20,695
Net loans and advances	1,072,380	1,382,194	1,693,346	2,012,647	2,409,476	2,906,609
Fixed assets	29,169	29,295	28,594	29,629	31,022	32,404
Other assets	26,842	40,603	32,169	32,169	32,169	32,169
Total assets	1,805,287	2,196,459	2,647,411	3,169,987	3,823,973	4,615,636
Deposits	1,540,724	1,868,925	2,346,514	2,837,064	3,455,000	4,203,473
Borrowings and bills payable	105,394	152,782	96,124	96,124	96,124	96,124
Other liabilities	54,164	52,673	58,055	58,055	58,055	58,055
Total liabilities	1,700,282	2,074,380	2,500,693	2,991,242	3,609,179	4,357,651
Paid-up capital	4,100	4,100	4,100	4,100	4,100	4,100
Reserves & surplus	100,905	117,978	142,618	174,644	210,694	253,884
Total shareholders' equity	105,005	122,078	146,718	178,744	214,794	257,984

Source: Company, Kotak Institutional Equities estimates

OCTOBER 20, 2010

RESULT

Coverage view: **Attractive**

Price (Rs): **352**

Target price (Rs): **400**

BSE-30: **19,872**

Aggressive growth; fee disappoints. Yes Bank reported strong earnings (58% yoy) for 2QFY11 driven by strong loan growth (up 86% yoy) with stable asset quality (net NPL at 0.1%) and margins (3%). Fee income disappointed driven by sharply lower transaction banking fees. Deposits growth was at 107%, while CASA deposits grew by 118%. We continue to like Yes Bank given its focus on growth in the current environment. Stock trades at 2.8XFY2012E PBR. We raise TP to ₹400, maintain BUY.

Company data and valuation summary

Yes Bank

Stock data		Forecasts/Valuations			
		2010	2011E	2012E	
52-week range (Rs) (high,low)	365-214	EPS (Rs)	15.0	21.0	26.6
Market Cap. (Rs bn)	119.7	EPS growth (%)	46.7	40.2	26.6
Shareholding pattern (%)		P/E (X)	23.5	16.7	13.2
Promoters	27.0	NII (Rs bn)	7.9	12.4	16.9
FIs	43.3	Net profits (Rs bn)	4.8	7.1	9.0
MFs	5.6	BVPS	91.0	109.5	133.1
Price performance (%)		P/B (X)	3.9	3.2	2.6
Absolute	1M 3M 12M	ROE (%)	20.3	21.0	22.0
Rel. to BSE-30	6.1 18.5 38.9	Div. Yield (%)	0.4	0.6	0.8
	6.3 6.6 20.3				

Loans up 86% yoy, 37% YTD; on path for a strong growth in FY2011E

Expectations of loan book growth slowing did not materialize in the current quarter with Yes Bank reporting 86% yoy and 16% qoq growth to ₹303 bn (37% YTD). Sequentially, loan book saw higher proportion of loans into food and agri (16% of loans), infrastructure and logistics (22% of loans). Telecom exposure has reduced to 19% of loans from 23% in June 2010. In terms of segmental contribution, retail has increased to 10% as the bank has included PSL lending in this portfolio. We have revised our loan growth to 44% CAGR for FY2010-12E.

Margins decline 10 bps to 3.0%; CASA ratio declines 40 bps to 10.1%

Yes Bank saw margins decline by 10 bps at 3% for the quarter as cost of deposits increased by 40 bps while lending yields have remained flat qoq. Net interest income grew by 78% yoy and 19% qoq to ₹3.1 bn. CD ratio declined 110 bps to 76% qoq.

Deposits growth (107% yoy) was led by CASA (118% yoy but proportion declined by 40 bps qoq to 10.1% but improved 50 bps from 2QFY10). The bank has added 18 branches during the quarter and expects to reach 250 branches in 2HFY11E and this should help build CASA ratio for the bank. We are building in an improvement of 300 bps over next two years.

Slow growth in transaction banking disappoints; losses reported in treasury income

Non-interest income declined 3% for the quarter with muted growth from transaction banking as well as losses in the investment book. Transaction banking grew by 9% yoy while the bank reported ₹150-200 mn treasury losses (G-Sec, corporate bonds and equity). Financial advisory grew by 13% while retail fee growth was impressive at 40% yoy. We would watch the growth over the next few quarters, especially on transaction banking, but keeping our current fee income growth assumptions at 28% CAGR for FY2010-12E, which we believe is conservative and lags balance sheet growth assumption.

QUICK NUMBERS

- NII growth at 78% yoy; net profit growth at 58%
- NIM at 3%; muted non-interest income performance
- Revising earnings by 13% for FY2011E. Maintain BUY with TP of ₹400 (₹375 earlier)

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

M B Mahesh
mb.mahesh@kotak.com
Mumbai: +91-22-6634-1231

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

Other highlights for the quarter

- ▶ Cost-income ratio for the quarter declined to 37% from 39% in June 2010. The impact of hiring (176 in 2QFY11 and 30% over last 12 months) resulted in staff costs to grow 41% yoy. The bank opened 18 branches during the quarter taking the total branches to 171. Non-staff costs were flat qoq. We are building FY2011E cost-income ratio at 44% compared to 37% in FY2010 as the full impact of infrastructure costs (branches and human resources) starts reflecting in earnings.
- ▶ Asset quality was stable for the quarter with gross NPLs at 0.2% of loans and net NPLs 0.04% of loans. Restructured assets declined to ₹690 mn compared to ₹804 mn in June 2010. We are building gross NPLs to rise to 0.8% by FY2012E.
- ▶ The rapid growth in balance sheet has resulted in tier-1 ratio declining to 11% from 13% in March 2010. The bank has raised few tier-1 and tier-2 instruments during the quarter boosting overall CAR to 19%. The pace of capital consumption (about 100 bps of tier-1 each quarter) indicates that the bank would need to raise capital in FY2012E to maintain the current growth trajectory.

Yes Bank quarterly results
March fiscal year-end, 2QFY10-2QFY11

	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	Growth yoy (%)	2QFY11E	Vs KIE estimates (%)
Interest income	5,430	6,264	6,646	7,392	9,538	76	8,436	13
Advances	4,165	4,706	4,900	5,579	7,252	74	6,418	13
Investments	1,237	1,508	1,718	1,766	2,245	81	1,954	15
Balance with RBI	18	36	19	29	28	58	47	(40)
Interest expenses	3,670	4,154	4,204	4,771	6,406	75	5,601	14
Net interest income	1,760	2,110	2,442	2,621	3,132	78	2,836	10
Non-interest income	1,355	1,278	1,601	1,438	1,310	(3)	1,740	(25)
Retail fee income	104	57	117	109	148	42	104	42
Treasury trading income	-	-	-	(80)	(200)	-	200	(200)
Total income	3,115	3,388	4,043	4,059	4,442	43	4,576	(3)
Operating expenses	1,197	1,226	1,467	1,570	1,628	36	1,796	(9)
Employee cost	622	599	708	812	878	41	933	(6)
Other operating cost	575	627	759	758	750	30	863	(13)
Pre-prov profit	1,918	2,162	2,576	2,490	2,814	47	2,780	1
Provisions	234	254	426	126	174	(25)	287	(39)
Loan loss	234	102	115	13	174	(25)	164	7
Others	-	152	311	113	-	-	124	(100)
Profit before tax	1,684	1,908	2,150	2,364	2,640	57	2,492	6
Tax	567	649	750	800	877	55	822	7
Profit after tax	1,117	1,260	1,400	1,564	1,763	58	1,670	6
Tax rate (%)	33.7	34.0	34.9	33.9	33.2	(1.3)	33.0	0.7
PBT- treasury gains	1,580	1,851	2,033	2,255	2,492	58	2,388	4
PBT- treasury gains+provisions	1,814	2,105	2,459	2,381	2,666	47	2,676	(0)

Source: Kotak Institutional Equities

Yes Bank quarterly results

Key financial items, March fiscal year-ends, 2QFY10-2QFY11 (%)

	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	Growth yoy (%)
Key balance sheet items (Rs bn)						
Deposits	193,651	220,386	267,986	302,387	400,137	107
Demand deposits	175,131	198,097	239,847	270,636	359,723	
Term deposits	18,520	22,289	28,139	31,751	40,414	
CASA ratio (%)	9.6	10.1	10.5	10.5	10.1	
Branches	126	132	150	153	171	
Customer assets	157,000	179,667	216,500	277,250	286,000	
Loans	162,943	187,104	221,931	262,568	303,481	86
Large coporate	117,808	135,838	153,354	192,725	211,830	
ELC/SME	37,803	43,221	56,814	57,765	59,482	
Retail	7,332	8,045	11,762	11,816	32,169	
Investments	69,814	82,820	102,099	110,175	144,546	107
Total assets	263,700	295,875	363,825	409,286	517,963	96
Yield management measures (%)						
Cost of funds	7.2	6.6	6.3	6.3	6.7	
Yield on advances	11.1	10.3	9.7	9.6	9.5	
NIM	3.1	3.1	3.0	3.1	3.0	
Spread	3.7	3.6	3.4	3.1	3.3	
Asset quality details						
Gross NPLs (Rs mn)	500	542	602	597	677	35
Gross NPL (%)	0.3	0.3	0.3	0.2	0.2	
Net NPLs (Rs mn)	126	162	130	111	172	37
Net NPAs (%)	0.1	0.1	0.1	0.0	0.1	
Provisions (Rs mn)	375	380	472	486	506	
Provision Coverage (%)	74.9	70.1	78.4	81.4	74.7	
Restructured Loans (Rs mn)	1,559	1,340	800	804	690	(56)
Restructured Loans (% of cust. assets)	1.0	0.7	0.4	0.3	0.2	
Capital adequacy details (%)						
CAR	17.3	16.2	20.6	16.6	19.4	
Tier I	9.4	9.0	12.9	10.3	11.0	
Tier II	7.9	7.2	7.8	6.3	8.4	
Fee income composition (Rs mn)						
Financial markets	496	280	474	226	341	(31)
Financial advisory	563	570	578	761	637	13
Third party distribution	104	57	117	109	148	42
Treasury trading income	-	-	-	(80)	(200)	
Transaction banking	353	371	432	343	383	8
Others	(161)	-	-	79	1	
Total	1355	1278	1601	1438	1310	(3)

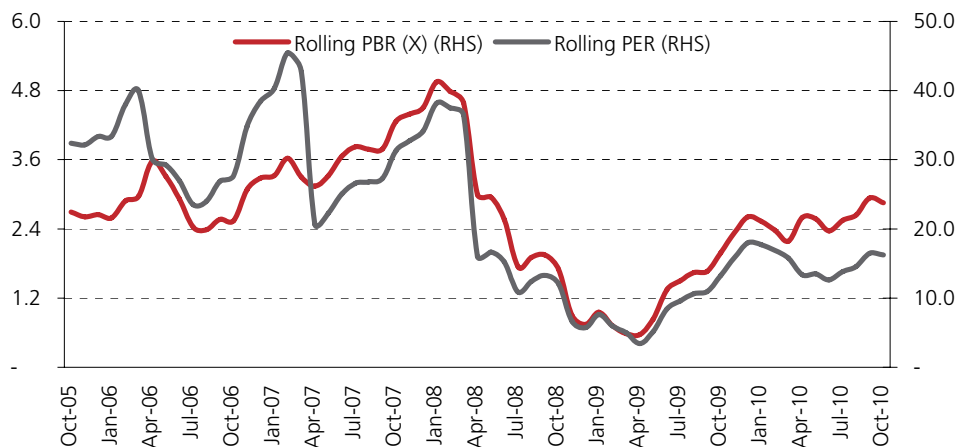
Source: Kotak Institutional Equities

Yes Bank-- estimate changes

March fiscal year-ends, 2011-2013E, Rs mn

	Old estimates			New estimates			% change		
	FY2011E	FY2012E	FY2013E	FY2011E	FY2012E	FY2013E	FY2011E	FY2012E	FY2013E
Net interest income	11,722	17,218	22,519	12,385	16,924	21,818	5.7	(1.7)	(3.1)
NIM (%)	2.8	3.0	3.0	2.8	2.6	2.5			
Customer assets	321,394	431,614	563,707	350,689	471,242	615,719	9.1	9.2	9.2
Loan loss provisions	534	1,470	2,444	564	1,608	2,673	5.5	9.4	9.4
Other income	6,986	8,843	11,299	6,670	8,781	11,164	(4.5)	(0.7)	(1.2)
Fee income	5,109	6,521	8,347	4,793	6,260	8,012	(6.2)	(4.0)	(4.0)
Treasury income	500	600	800	500	800	1,000	-	33.3	25.0
Operating expenses	8,198	10,887	13,641	7,326	10,094	12,526	(10.6)	(7.3)	(8.2)
Employee expenses	4,570	5,684	6,714	3,690	4,831	5,270	(19.3)	(15.0)	(21.5)
PBT	9,476	13,103	16,984	10,665	13,502	17,284	12.6	3.0	1.8
Tax	3,127	4,324	5,605	3,520	4,456	5,704	12.6	3.0	1.8
Net profit	6,349	8,779	11,379	7,146	9,046	11,580	12.6	3.0	1.8

Source: Kotak Institutional Equities estimates

Rolling PER and PBR (X) for Yes Bank
October 2005-October 2010

Source: Kotak Institutional Equities

Yes Bank, growth rates, key ratios and Du Pont analysis
March fiscal year-ends, 2008-2013E (%)

	2008	2009	2010	2011E	2012E	2013E
Growth rates (%)						
Net loan	49.9	31.5	78.9	54.0	35.3	31.3
Net loan including CPs and debentures	49.5	32.8	71.9	51.9	34.4	30.7
Investments excld. CPs and debentures	69.8	38.0	52.9	65.7	31.7	31.3
Net fixed assets	42.8	29.6	(11.9)	16.2	57.2	28.3
Cash and bank balance	25.9	18.1	39.0	38.2	76.3	31.4
Total Asset	52.9	34.8	58.9	52.3	35.6	30.4
Deposits	61.5	21.8	65.7	61.3	38.2	31.3
Current	136.2	24.2	99.0	97.0	63.2	51.4
Savings	152.7	31.1	103.6	93.5	136.9	31.3
Fixed	56.8	21.5	62.5	57.2	33.0	28.1
Net interest income	96.5	51.3	54.7	57.2	30.1	31.1
Loan loss provisions	-	309.9	51.3	(55.4)	149.6	127.9
Total other income	79.8	21.1	31.7	18.8	26.2	27.8
Net fee income	84.0	10.0	67.9	30.8	27.1	28.0
Net capital gains	455.4	151.3	(34.0)	(49.0)	20.0	33.3
Net exchange gains	(33.5)	27.9	56.9	40.0	25.0	25.0
Operating expenses	54.2	20.5	19.5	45.8	49.5	25.3
Employee expenses	72.3	7.7	17.8	42.3	55.5	18.1
Key ratios (%)						
Yield on average earning assets	9.8	10.7	8.4	8.9	8.7	8.7
Yield on average loans	11.8	13.6	10.2	10.5	10.4	10.5
Yield on average investments	9.0	8.2	6.8	7.3	7.3	7.3
Average cost of funds	7.9	8.4	6.1	6.7	6.8	6.8
Interest on deposits	7.9	8.3	5.8	6.4	6.6	6.6
Difference	1.9	2.2	2.3	2.2	2.0	1.9
Net interest income/earning assets	2.5	2.7	2.8	2.8	2.5	2.5
Spreads on lending business	3.9	5.2	4.1	3.8	3.6	3.7
New provisions/average net loans	0.3	0.8	0.7	0.2	0.4	0.6
Total provisions/gross loans	0.0	0.4	0.2	0.3	0.5	0.9
Interest income/total income	48.3	53.8	57.8	64.4	65.1	65.7
Other income / total income	51.7	46.2	42.2	35.6	34.9	34.3
Fee income to total income	29.4	23.9	27.8	25.8	25.5	25.1
Fees income to PBT	67.0	48.5	52.2	45.6	53.3	55.5
Net trading income to PBT	14.9	36.1	11.4	4.6	5.1	5.5
Exchange inc./PBT	7.2	6.0	6.1	5.7	6.5	6.6
Operating expenses/total income	49.8	44.2	36.7	37.9	44.1	42.5
Operating expenses/assets	2.5	2.1	1.7	1.6	1.7	1.6
Operating profit /AWF	1.8	1.7	2.2	2.3	1.8	1.6
Tax rate	34.7	34.8	34.2	33.0	33.0	33.0
Dividend payout ratio	-	-	10.0	10.0	10.0	10.0
Share of deposits						
Current	7.4	7.5	9.1	11.1	13.1	15.1
Fixed	91.5	91.3	89.5	87.2	83.9	81.9
Savings	1.1	1.2	1.5	1.8	3.0	3.0
Loans-to-deposit ratio	71.0	76.7	82.8	79.1	77.4	77.4
Equity/assets (EoY)	7.8	7.1	8.5	6.7	5.9	5.4
Dupont analysis (%)						
Net interest income	2.4	2.6	2.7	2.7	2.5	2.4
Loan loss provisions	0.1	0.4	0.4	0.1	0.2	0.4
Net other income	2.6	2.2	1.9	1.5	1.3	1.3
Operating expenses	2.5	2.1	1.7	1.7	1.8	1.7
Invnt. depreciation	0.1	(0.1)	0.1	-	-	-
(1- tax rate)	65.3	65.2	65.8	67.0	67.0	67.0
ROA	1.4	1.5	1.6	1.6	1.2	1.1
Average assets/average equity	13.3	13.6	12.6	13.5	16.0	17.8
ROE	19.0	20.6	20.3	21.3	19.4	20.0

Source: Company, Kotak Institutional Equities

Yes Bank, 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	13,108	20,014	23,697	39,468	55,825	74,408
Loans	9,304	14,878	17,715	29,595	41,813	56,129
Investments	3,668	4,996	5,859	9,635	13,629	17,714
Cash and deposits	136	140	123	239	383	565
Total interest expense	9,741	14,921	15,818	27,083	39,709	53,273
Deposits from customers	8,540	12,271	12,534	22,559	33,828	45,629
Net interest income	3,367	5,093	7,880	12,385	16,117	21,135
Loan loss provisions	204	836	1,265	564	1,407	3,207
Net interest income (after prov.)	3,163	4,257	6,615	11,821	14,709	17,927
Other income	3,609	4,369	5,755	6,838	8,628	11,025
Net fee income	2,053	2,258	3,791	4,961	6,307	8,073
Net capital gains	591	1,485	980	500	600	800
Net exchange gains	220	281	441	617	772	965
Operating expenses	3,473	4,185	5,002	7,292	10,901	13,659
Employee expenses	2,024	2,180	2,569	3,656	5,684	6,714
Depreciation on investments	133	(199)	154	-	-	-
Other Provisions	101	(19)	(50)	500	600	750
Pretax income	3,065	4,659	7,265	10,867	11,837	14,543
Tax provisions	1,063	1,621	2,488	3,586	3,906	4,799
Net Profit	2,002	3,038	4,777	7,281	7,931	9,744
% growth	114.2	51.7	57.2	52.4	8.9	22.9
Operating profit	2,912	3,792	7,653	11,431	13,244	17,701
% growth	86	28	98	65	8	22
Balance sheet (Rsmn)						
Cash and bank balance	16,276	19,227	26,732	36,941	65,119	85,546
Cash	84	315	357	4,827	23,801	33,657
Balance with RBI	9,508	12,463	19,596	24,669	33,873	44,444
Balance with banks	41	145	123	123	123	123
Net value of investments	50,937	71,170	102,099	163,359	212,367	276,077
Govt. and other securities	35,964	46,801	67,865	129,124	178,132	241,842
Shares	55	55	827	827	827	827
Debentures and bonds	6,779	10,242	8,915	8,915	8,915	8,915
Net loans and advances	94,303	124,031	221,931	341,774	462,327	606,804
Fixed assets	1,012	1,311	1,155	1,342	2,111	2,708
Net leased assets						
Net Owned assets	1,012	1,311	1,155	1,342	2,111	2,708
Other assets	7,305	13,269	11,907	10,686	9,589	8,606
Total assets	169,832	229,008	363,825	554,102	751,513	979,741
Deposits	132,732	161,694	267,986	432,350	597,429	784,126
Borrowings and bills payable	18,166	40,951	48,731	63,351	82,356	107,063
Other liabilities	5,746	10,120	16,213	21,077	27,399	35,619
Total liabilities	156,643	212,766	332,930	516,777	707,185	926,808
Paid-up capital	2,958	2,970	3,397	3,397	3,397	3,397
Reserves & surplus	10,231	13,272	27,499	33,928	40,932	49,536
Total shareholders' equity	13,189	16,242	30,896	37,325	44,329	52,933

Source: Company, Kotak Institutional Equities

OCTOBER 20, 2010

RESULT

Coverage view: **Cautious**

Price (Rs): **209**

BSE-30: **19,872**

Good quarter; power business likely to be de-merged. IBREL reported revenues of Rs3 bn versus Rs1.7 bn in 1QFY11 on increasing revenue recognition in current residential projects. Residential sales of Rs31 bn and likely de-merger of the power business are the other key highlights. We retain our RS rating and target price is under review. However, we highlight that our NAV remains Rs288/share.

Company data and valuation summary

Indiabulls Real Estate

Stock data

52-week range (Rs) (high,low)	295-142
Market Cap. (Rs bn)	84.0

Shareholding pattern (%)

Promoters	22.1
FIs	62.1
MFs	3.3

Price performance (%)

	1M	3M	12M
Absolute	14.6	25.4	(26.7)
Rel. to BSE-30	14.8	12.8	(36.5)

Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	0.3	2.5	7.4
EPS growth (%)	(62.7)	777.3	195.3
P/E (X)	735.2	83.8	28.4
Sales (Rs bn)	2.3	9.5	15.5
Net profits (Rs bn)	0.1	1.0	3.0
EBITDA (Rs bn)	(1.0)	(0.1)	2.2
EV/EBITDA (X)	(39.7)	(418.3)	18.0
ROE (%)	0.1	1.1	3.2
Div. Yield (%)	0.0	0.0	0.0

2QFY11 results reflect increasing revenue recognition

IBREL's 2QFY11 revenues at Rs3 bn are up 75% qoq versus Rs1.7 bn in 1QFY11 as revenue recognition picks up for residential projects launched in FY2010. Quarterly results for IBREL are now starting to become more meaningful as (1) 1HFY11 revenues are at 46% of FY2011 company target of Rs10.3 bn indicating qoq revenue recognition is expected to remain steady and (2) 44% (5.4 mn sq. ft) of total residential area under construction has been pre-sold (versus 30% as of end-1QFY11) again indicating that revenue recognition will likely remain strong but follow a relatively steadier trend. EBITDA margins expanded to 27.1% versus 12.6% in 1QFY11. Net profit was up 147% qoq to Rs509 mn.

Sales of Rs31 bn is the highlight of the quarter

IBREL has sold Rs31 bn (1.84 mn sq. ft) of residential real estate in 2QFY11 which is higher than its cumulative sales of Rs17.2 bn to date led by its low upfront payment scheme (10%) for its Mumbai projects. We believe these sales include sales in its Mumbai projects for around 1 mn sq. ft at around Rs27,000 per sq. ft. Occupancy for IBREL's commercial space has inched up to 61% (additional 110,000 sq. ft leased in 2Q).

Power business likely to be de-merged

Indiabulls Power has sent a notice to the exchanges highlighting an intimation from IBREL to explore and evaluate a potential restructuring and reorganization. Their investor presentation mentions that "the company is exploring various options including merger/demerger in order to augment the net-worth of the business. The restructuring of Indiabulls Power would not involve any fund raising. Restructuring will help streamline businesses such that Indiabulls Real Estate focused on Real Estate business and Indiabulls Power Limited focuses on power business". Operationally, Indiabulls Power has 2,700 MW of capacity under construction and is working towards achieving financial closure of Phase II (2,700 MW) in FY2011E.

QUICK NUMBERS

- Revenue of **Rs3 bn** in 2QFY11
- **Rs31 bn** of residential real estate sales in 2QFY11
- EBITDA margin of **27%**

Ajay Mathrani
ajay.mathrani@kotak.com
Mumbai: +91-22-6634-1376

Dhruva Acharya
dhruva.acharya@kotak.com
Mumbai: +91-22-6634-1417

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

Exhibit 1: 2QFY11 – revenues up 75% qoq
Interim results, IBREL, March fiscal year-ends (₹ mn)

	Consolidated			% change	
	2QFY11	1QFY11	2QFY10	qoq	yoy
Net sales	3,000	1,717	132	75	2,165
Expenditure	(2,188)	(1,500)	(462)	46	374
Real estate construction and development expenses	(1,874)	(1,323)	(124)	42	1,411
Employees cost	(136)	(122)	(112)	11	21
Other expenditure	(178)	(56)	(226)	220	(21)
EBITDA	812	217	(330)	275	(346)
Other income	244	206	612	19	(60)
Interest costs	(116)	(10)	(21)	1,024	464
Depreciation	(42)	(33)	(31)	27	38
PBT	897	378	231	137	289
Taxes (including deferred tax, FBT and wealth tax)	(393)	(127)	(132)	210	198
PAT	505	252	99	100	410
Minority Interest	(4)	46	52	(109)	(108)
PAT after minority interest	509	206	47	147	984
Key ratios					
EBITDA margin (%)	27.1	12.6	(248.8)		
PAT margin (%)	16.8	14.7	74.7		
Effective tax rate (%)	43.8	33.5	57.1		

Source: Company, Kotak Institutional Equities

- ▶ IBREL has booked residential sales of 1.84 mn sq. ft (versus 0.65 mn sq. ft in 1QFY11). Total area sold is around 44% (5.41 mn sq. ft) of total area under construction.

Exhibit 2: More sales in one quarter than cumulative historical sales
Sales, IBREL, March fiscal year-ends

	2QFY11		1QFY11		2QFY10	
	Value (Rs mn)	Area (mn sq ft)	Value (Rs mn)	Area (mn sq ft)	Value (Rs mn)	Area (mn sq ft)
Sales status						
Opening Balance	17,150	3.65	14,050	3.00	1210	0.54
Add: Sales booked in quarter	30,990	1.84	3,100	0.65	3002	0.36
Less: Handed over	(143)	(0.08)				
Closing balance	47,997	5.41	17,150	3.65	4,212	0.90
Under construction						
Opening Balance		13.08		12.68		1.30
Add: New launches		0.32		0.40		2.34
Less: Handed over		(0.08)				
Closing balance		13.32		13.08		3.64

Source: Company, Kotak Institutional Equities

- ▶ Area under construction has increased marginally to 14.7 mn sq. ft versus 14.4 mn sq. ft with residential area under construction increasing to 12.4 mn sq. ft while commercial area under construction remaining constant at 2.34 mn sq. ft.

Overall land owned by IBREL for which construction has not started has increased to 3,084 acres versus 2,990 acres as of end-1QFY11 with 124 acres acquired in 2QFY11. This comprises (1) residential area which has gone up to 487 acres versus 434 acres as of end-1QFY11, (2) commercial area of 46 acres and (3) SEZ area of 2,551 acres. This is excluding the two recent NTC Mill land auction wins at Worli in Mumbai – (1) 2.39 acre at Poddar Mills for Rs4.7 bn and (2) 8.38 acres at Bharat Mills for Rs15.1 bn.

Exhibit 3: Area under construction remains steady

Breakup of area under construction, March fiscal year-ends (mn sq. ft)

Residential area under construction (including IPIT)			
	2QFY11	1QFY11	2QFY10
	(mn sq ft)	(mn sq ft)	(mn sq ft)
Super Metro	11.00	10.70	2.84
Rest of India	1.35	1.44	0.80
Total residential	12.35	12.14	3.64
Commercial area under construction (including IPIT)			
Super Metro	2.20	2.20	3.20
Rest of India	0.14	0.12	
Total commercial	2.34	2.32	3.20

Note

Super Metro includes MMR, NCR and Chennai

Source: Company, Kotak Institutional Equities

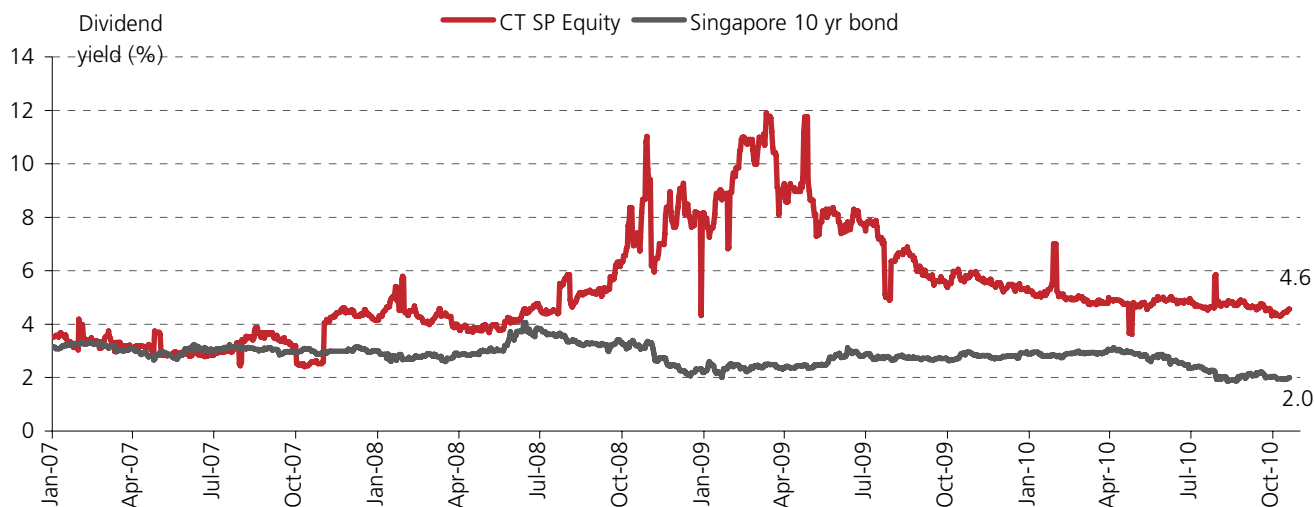
- **Balance sheet:** Key change on the liability side is 28.7 mn warrants issued to promoters in August 2010 of which 25% consideration is reflected in 2QFY11 balance sheet. On conversion, this would take up promoter shareholding to 27% from current 22%. On the assets side, cash is up to Rs6.7bn from Rs4.5bn as of end-1QFY11 while sundry debtors are up to Rs2.6 bn versus Rs1.4 bn as of end-1QFY11.

Exhibit 4: Quarterly balance sheet of IBREL
March fiscal year-ends, (₹ mn)

	2QFY11	1QFY11	2QFY10
Shareholders funds			
Share capital	804	803	803
Reserves and surplus	93,633	93,728	87,740
Share application money pending allotment	3		
Share warrants	1,184		
Minority interest	20,357	20,269	10,497
Preference share capital of subsidiary companies	3,125	3,125	3,125
Loan funds			
Optionally convertible debentures	1,410	1,410	1,410
Compulsorily convertible debentures	7,986	7,986	7,986
Loans from others	4,967	3,284	798
Interest accrued and due	2,105	2,085	1,955
Deferred tax liability (Net)			12
Total	135,574	132,690	114,325
Fixed assets (including CWIP/capital advances)	14,325	11,040	3,515
Investments (Including mutual funds investments)	70,534	73,501	55,086
Deferred tax asset (Net)	8	4	
Current assets, loans and advances			
Inventories	26,671	24,585	22,791
Sundry debtors	2,639	1,424	585
Cash and bank balances	6,679	4,533	16,029
Other current assets	727	214	391
Loans and advances	26,107	25,699	18,324
Less: current liabilities and provisions			
Current liabilities	11,567	8,518	2,917
Provisions	606	360	287
Net current assets	50,650	47,578	54,915
Debit balance of P&L Account	57	566	809

Source: Company, Kotak Institutional Equities

Exhibit 5: Capital Mall is trading at a yield of 4.6% vs. Singapore 10-yr bond yield of 2%
 Dividend yield (%) movement of CT REIT vs. Singapore 10 yr bond, Jan 2007 – 20 Oct 2010



Source: Kotak Institutional Equities

Retain NAV calculation at ₹288/share

Our NAV comprises Rs90 for real estate development, Rs 60 for cash and equivalents (excluding cash in the power business, including land payment for NTC mill land as we are valuing them at book value), Rs87 from power business and Rs50 on account of Indiabulls Properties Trust (Singapore REIT).

Exhibit 6: We maintain our estimate of IBREL's NAV at ₹ 288/share
 NAV-based valuation, IBREL, March fiscal year-ends (₹ bn)

Valuation explanation		5% escalation	
		(Rs bn)	(Rs/share)
Valuation of current projects land bank (Rs bn)		36.3	90.4
Cash (Rs bn)			
Add: Net cash excluding cash in power business	Cash	24.2	60.2
Add: Valuation of power business	20% holding company discount and post money valuation of 2X P/B or Rs35/share	34.9	87.1
From IPIT (Rs bn)			
45% stake in IPIT	Lease rentals capitalized- current rentals of Rs150/sq. ft	12.6	31.4
PV of management fees		2.0	5.0
PV of trustee fees		5.7	14.2
Total		116	288
Total no. of outstanding shares (mn)			401
NAV/share			288

Source: Company, Kotak Institutional Equities estimates

OCTOBER 21, 2010
RESULT

Coverage view: **Cautious**

Price (Rs): **76**

Target price (Rs): **85**

BSE-30: **19,872**

Strong margin performance. Ashok Leyland's 2QY11 margins improved 130 bps sequentially and drove the earnings upside for the quarter. We are raising our FY2011E and FY2012E EPS estimates by 10-15% to Rs4.9 and Rs6.5 to reflect stronger volume and margin assumptions. Our target goes to Rs85 from Rs78. We are maintaining our ADD rating as we expect the company to benefit from the strong CV demand environment in FY2011E and higher production from its plant in an excise-free zone in FY20102E.

Company data and valuation summary

Ashok Leyland

Stock data

52-week range (Rs) (high,low) 79-41

Market Cap. (Rs bn) 100.4

Shareholding pattern (%)

Promoters 51.0

FIIs 14.7

MFs 6.1

Price performance (%)

Absolute 1M 3M 12M (0.9) 6.4 72.4

Rel. to BSE-30 (0.7) (4.3) 49.4

Forecasts/Valuations

2010 2011E 2012E

EPS (Rs) 2.8 4.9 6.5

EPS growth (%) 84.5 75.1 31.9

P/E (X) 26.8 15.3 11.6

Sales (Rs bn) 72.4 106.3 122.8

Net profits (Rs bn) 3.8 6.6 8.7

EBITDA (Rs bn) 7.4 11.7 14.7

EV/EBITDA (X) 15.7 10.5 8.5

ROE (%) 10.9 15.4 17.9

Div. Yield (%) 2.0 1.3 1.3

Ashok Leyland reported a strong margin quarter

Ashok Leyland reported PAT of Rs1.67 bn, compared to our estimate of Rs1.57 bn. The upside was driven by stronger-than-expected EBITDA margin of 11.3% versus our 10.5% expectation. The EBITDA margin upside was driven by lower than expected raw material and labor costs. Raw material as a percentage of sales declined by 30 bps qoq as the company managed to better manage the tire price increase. Labor costs as a percentage of sales declined by 80 bps qoq. EBITDA for the quarter totaled Rs3.1 bn. The higher-than-expected EBITDA for the quarter was partly offset by higher interest expense of Rs395 mn, which saw a 25% increase from the June quarter, largely driven by a seasonal increase in working capital debt.

Raising EPS estimates by 15% for FY2011E and 10% for FY2012E on higher volume and margin assumptions

We are raising our FY2011E EPS estimate to Rs4.9 from Rs4.3 alongside our increased volume growth assumption of 50%, up from 41% prior. Volumes were about 46,000 units in 1HFY11 and we are assuming a 9% improvement in 2HFY11E. We typically see 20% improvement in 2H volumes from the 1H. We expect the increase to be muted this year because of the emission-regulation-related surge in sales seen in 2QFY11. However, if conditions remain conducive for CV demand, there could be upside to our estimates. We also raise our margin assumption to 11.2% from 10.7% prior to reflect year-to-date margin performance and operating leverage benefits.

We are raising our FY2012E EPS estimate to Rs6.5 from Rs5.9 prior. Our Rs6.5 EPS estimate is based on a 13.5% volume growth estimate and a 100 bps improvement in margins. The 100 bps margin improvement is driven by increasing production in the excise-free zone.

Raising target to Rs85, maintain ADD

Our target goes to Rs85 from Rs78 prior to reflect the 10% improvement in FY2012E earnings estimates. Our target is based on our 8.5X FY2012E EBITDA estimate of Rs14.9 bn. We maintain our ADD rating as we expect Ashok Leyland to benefit from a strong CV demand, higher market share and benefits of production in an excise-free zone.

Jairam Nathan CFA
jairam.nathan@kotak.com
Mumbai: +91-22-6634-1327

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

Interim results of Ashok Leyland, March fiscal year-ends (Rs mn)

	2QFY11	2QFY11E	2QFY10	1QFY11	(% chg.)			2011E	2010	(%chg)
					2QFY11E	2QFY10	1QFY11			
Net sales	27,140	27,247	15,777	23,480	(0.4)	72.0	15.6	106,305	72,447	46.7
Total expenditure	(24,077)	(24,399)	(14,116)	(21,126)	(1.3)	70.6	14.0	(94,399)	(64,819)	45.6
Inc/(Dec) in stock	925	(350)	(421)	1,136	(364.3)	(319.7)	(18.6)	1,595	(65)	—
Raw materials	(20,894)	(19,799)	(10,658)	(18,482)	5.5	96.0	13.1	(80,186)	(52,110)	53.9
Staff cost	(2,115)	(2,250)	(1,675)	(2,025)	(6.0)	26.3	4.4	(8,367)	(6,659)	25.6
Other expenditure	(1,993)	(2,000)	(1,362)	(1,755)	(0.4)	46.3	13.6	(7,440)	(5,984)	24.3
EBITDA	3,063	2,848	1,660	2,354	7.5	84.4	30.1	11,906	7,628	56.1
OPM (%)	11.3	10.5	10.5	10.0				11.2	10.5	6.4
Other income	48	50	56	47	(3.7)	(13.4)	1.8	164	189	(13.7)
Interest	(395)	(320)	(170)	(316)	23.4	132.2	24.9	(1,430)	(811)	76.3
Depreciation	(641)	(675)	(506)	(615)	(5.1)	26.6	4.2	(2,621)	(2,041)	28.4
Pretax profits	2,075	1,903	1,040	1,470	9.1	99.5	41.1	8,018	4,965	61.5
Extraordinaries	—	—	(9)	—	—	—	—	—	482	—
Tax	(405)	(353)	(146)	(244)	14.6	178.1	65.9	(1,443)	(1,211)	19.2
Net income	1,671	1,550	886	1,226	7.8	88.5	36.2	6,575	4,237	55.2
Adjusted profits	1,671	1,550	895	1,226	7.8	86.7	36.2	6,575	3,754	75.1
Income tax rate (%)	19.5	18.6	—	16.6				18.0	22.2	(19.0)
Ratios										
RM to sales (%)	73.6	73.9	70.2	73.9				73.9	72.0	
EBITDA margin (%)	11.3	10.5	10.5	10.0				11.2	10.5	
Net profit margin (%)	6.2	5.7	5.6	5.2				6.2	5.8	
ETR (%)	19.5	18.6	—	16.6				18.0	22.2	
EPS (Rs)	1.3	1.2	0.7	0.9				4.9	3.2	
Other details										
Sales volumes (# vehicles)	24,590	24,590	14,297	21,402	-	72.0	14.9	95,903	63,926	50.0

Source: Company, Kotak Institutional Equities

Ashok Leyland, Volume details, March fiscal year-ends, 2008-13E (units)

Volumes	2008	2009	2010	2011E	2012E	2013E
Buses	17,572	16,038	16,405	18,046	19,850	21,835
Trucks	57,835	31,067	40,728	67,608	77,750	89,412
LCV	615	514	814	895	963	1,035
Domestic volumes	76,022	47,619	57,947	86,549	98,562	112,282
Buses	4,688	3,696	2,076	3,737	4,110	4,522
Trucks	2,389	2,280	3,617	5,426	5,968	6,565
LCV	208	836	286	192	192	192
Export volumes	7,285	6,812	5,979	9,354	10,270	11,278
Buses	22,260	19,734	18,481	21,782	23,961	26,357
Trucks	60,224	33,347	44,345	73,034	83,718	95,977
LCV	823	1,350	1,100	1,087	1,154	1,226
Total volumes	83,307	54,431	63,926	95,903	108,833	123,560
Growth (% yoy)						
Buses	50.0	(8.7)	2.3	10.0	10.0	10.0
Trucks	(11.1)	(46.3)	31.1	66.0	15.0	15.0
LCV	113.5	(16.4)	58.4	10.0	7.5	7.5
Domestic volumes	(1.4)	(37.4)	21.7	49.4	13.9	13.9
Buses	24.1	(21.2)	(43.8)	80.0	10.0	10.0
Trucks	7.0	(4.6)	58.6	50.0	10.0	10.0
LCV	1,385.7	301.9	(65.8)	(33.0)	-	-
Export volumes	20.9	(6.5)	(12.2)	56.4	9.8	9.8
Buses	43.6	(11.3)	(6.3)	17.9	10.0	10.0
Trucks	(10.5)	(44.6)	33.0	64.7	14.6	14.6
LCV	172.5	64.0	(18.5)	(1.2)	6.2	6.3
Total volumes	0.3	(34.7)	17.4	50.0	13.5	13.5

Source: Company, Kotak Institutional Equities estimates

Ashok Leyland, Profit model, balance sheet and cash flow model, March fiscal year-ends, 2006-2011E (Rs mn)

	2008	2009	2010	2011E	2012E	2013E
Profit model						
Net sales	77,291	59,811	72,447	106,305	122,818	140,504
EBITDA	8,040	4,694	7,628	11,906	14,900	17,209
Other income	740	496	189	164	179	179
Interest	(497)	(1,187)	(811)	(1,430)	(1,660)	(1,692)
Depreciation	(1,774)	(1,784)	(2,041)	(2,621)	(2,972)	(3,068)
Profit before tax	6,382	2,087	5,448	8,018	10,446	12,627
Current tax	(1,084)	(60)	(1,299)	(1,610)	(2,281)	(2,668)
Deferred tax	(604)	(125)	88	166	505	522
Net profit	4,693	1,903	4,237	6,575	8,670	10,481
Earnings per share (Rs)	3.6	1.5	2.8	4.9	6.5	7.9
Balance sheet						
Equity	21,490	34,777	36,563	41,581	48,695	57,620
Deferred tax liability	2,538	2,634	3,845	3,679	3,174	2,652
Total Borrowings	8,875	19,581	22,039	25,807	26,807	26,807
Current liabilities	22,719	21,369	30,373	38,506	43,242	48,734
Total liabilities	55,622	78,363	92,820	109,574	121,918	135,813
Net fixed assets	20,548	43,974	48,110	52,989	54,517	55,949
Investments	6,099	2,636	3,262	8,261	11,261	14,261
Cash	4,514	881	5,189	2,126	1,755	3,344
Other current assets	24,239	30,775	36,208	46,145	54,333	62,207
Miscellaneous expenditure	223	97	52	52	52	52
Total assets	55,622	78,363	92,820	109,574	121,918	135,813
Free cash flow						
Operating cash flow excl. working capital	6,908	3,875	6,563	10,296	12,619	14,541
Working capital changes	10,657	(5,256)	10,902	8,526	9,167	12,159
Capital expenditure	(6,095)	(7,579)	(6,844)	(7,500)	(4,500)	(4,500)
Free cash flow	4,561	(12,835)	4,058	1,026	4,667	7,659
Ratios						
Operating margin (%)	10.4	7.8	10.5	11.2	12.1	12.2
PAT margin (%)	6.1	3.2	5.8	6.2	7.1	7.5
Debt/equity (X)	0.4	0.5	0.5	0.6	0.5	0.4
Net debt/equity (X)	(0.0)	0.5	0.4	0.3	0.3	0.2
Book Value (Rs/share)	17.9	28.0	30.3	34.0	39.0	45.3
RoAE (%)	21.1	6.2	10.9	15.4	17.9	18.7
RoACE (%)	16.9	6.7	8.1	11.6	13.4	14.3

Source: Company, Kotak Institutional Equities estimates

OCTOBER 20, 2010

RESULT

Coverage view: **Cautious**

Price (Rs): **475**

Target price (Rs): **546**

BSE-30: **19,872**

Better-than-expected 2QFY11. MLIFE reported strong growth in standalone revenues of Rs890 mn (+40% yoy) along with a 300 bps expansion in EBITDA margins yoy. Key positives were project sales of Rs2.6 bn and further signs of progress in land bank addition (MLIFE has purchased land in Mumbai for a total developable area of 375,000 sq. ft). However, progress in Mahindra World Cities in Jaipur and Chennai remained muted. We retain our ADD recommendation with a target price of Rs546 share.

Company data and valuation summary

Mahindra Life Space Developer

Stock data		Forecasts/Valuations			
		2010	2011E	2012E	
52-week range (Rs) (high,low)	550-312	EPS (Rs)	19.2	20.1	32.1
Market Cap. (Rs bn)	20.1	EPS growth (%)	69.7	4.9	59.7
Shareholding pattern (%)		P/E (X)	24.8	23.6	14.8
Promoters	51.1	Sales (Rs bn)	3.2	3.8	6.1
FIs	22.2	Net profits (Rs bn)	0.8	0.8	1.3
MFs	10.8	EBITDA (Rs bn)	0.8	0.9	1.8
Price performance (%)		EV/EBITDA (X)	23.5	18.4	8.8
Absolute	1M 3M 12M	ROE (%)	8.6	8.4	12.3
Rel. to BSE-30	2.8 (3.2) 29.6	Div. Yield (%)	0.7	0.8	0.8
	3.0 (12.9) 12.3				

2QFY11 results – marginally better than expected

MLIFE reported revenues of Rs890 mn (+40% yoy, +31% qoq, 11% above estimate) and EBITDA of Rs234 mn (+59% yoy, +44% qoq, 11% above estimate) with EBITDA margin of 26.2%, in line with our estimate and up 300 bps yoy. Higher-than-expected EBITDA margins and other income (Rs114 mn versus expected Rs63 mn) led to PAT being 24% above estimate at Rs247 mn (+42% yoy, and +70% qoq).

Sales and launches remain robust

In 2QFY11, MLIFE has launched (1) the final phase of its residential project Eminente at Goregaon in Mumbai and (2) the 2nd phase of its residential project, Aura, at Gurgaon. We note that MLIFE (along with subsidiaries) has achieved project sales (not revenue booking) of Rs2.6 bn in 2QFY11 versus Rs1.2 bn in 2QFY10 taking the total sales for 1HFY11 to Rs3.5 bn, which is up 129% yoy. We highlight that sale pick-up in projects under construction directly get booked to the extent of completion based on the percentage of completion accounting.

Modest accretion to development pipeline

After acquiring land in Pune and signing a JDA in Hyderabad in 1QFY11, MLIFE has purchased two relatively small land parcels in Mumbai in 2QFY11 – (1) Kandivali, Mumbai with a development potential of 150,000 sq. ft and (2) Ghatkopar with a development potential of 225,000 sq. ft. We have not factored these in our projections as we would await more clarity regarding launch timelines, location, price and agreement terms.

QUICK NUMBERS

- Revenues up 31% qoq and 40% yoy
- EBITDA up 44% qoq and 59% yoy
- Project sales of Rs2.6 bn in 2QFY11 for MLIFE consolidated (not revenue booking)

Ajay Mathrani
ajay.mathrani@kotak.com
Mumbai: +91-22-6634-1376

Dhruva Acharya
dhruva.acharya@kotak.com
Mumbai: +91-22-6634-1417

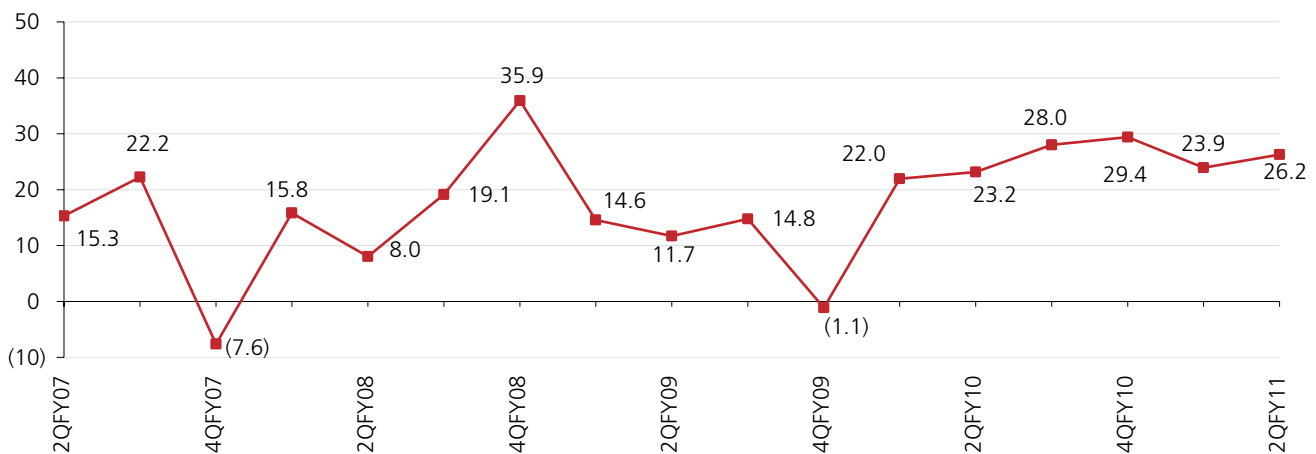
Kotak Institutional Equities Research
kotak.research@kotak.com
Mumbai: +91-22-6634-1100

Exhibit 1: 40% growth in revenues y-o-y and 59% growth in EBITDA y-o-y
Interim results (standalone), MLIFE, March fiscal year-ends (Rs mn)

	2QFY11	2QFY11E	2QFY10	1QFY11	(% chg.)		
					1QFY11E	2QFY10	1QFY11
Net sales	890	805	635	679	10.5	40.1	31.0
Total expenditure	(656)	(594)	(488)	(517)	10.4	34.5	27.0
Cost of construction	(552)		(388)	(410)		42.5	34.6
Operating expenses	(26)		(31)	(23)		(16.6)	10.8
Staff cost	(34)		(33)	(41)		1.2	(18.4)
Other expenditure	(45)		(36)	(42)		23.2	6.4
EBITDA	234	211	147	163	10.6	58.6	43.7
OPM (%)	26.2	26.2	23.2	23.9			
Other income	114	63	131	49	80.8	(12.8)	134.0
Interest	-		-	-			
Depreciation	(6)	(6)	(5)	(6)	(4.2)	14.0	1.8
Pretax profits	342	268	273	206	27.5	25.2	66.3
Extraordinaries/sales tax benefit			(44)				
Tax	(97)	(69)	(56)	(62)	40.4	74.8	55.9
Deferred taxation	2			1			
Net income	247	199	173	145	23.8	42.2	70.3
Adjusted profits	247	199	173	145	23.8	42.2	70.3
Income tax rate (%)	28.4	25.7	20.3	30.2			

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: EBITDA margin came in at 26.2% in 2QFY11
EBITDA margin, MLIFE, March fiscal year-ends (%)



Source: Company, Kotak Institutional Equities

Exhibit 3: Key revenue generating projects in 2QFY11
List of key projects of MGDL which are generating revenues

Name of the project	City	Saleable area (‘000 sq. ft)	Prices (₹/sq. ft)		Area sold (%)	Completion date
			Assumed	Current		
Ongoing						
Splendour Phase 2	Mumbai	385	6,500	7,300	43%	Jun-12
Eminent Phase 2	Mumbai	148	8,000	9,000	89%	Mar-12
Mahindra Chloris	NCR	391	3,800	4,200	54%	Dec-10
Royale Phase 3	Pune	111	3,000	2,900	92%	Nov-10
Royale Phase 4	Pune	220	3,000	3,000	99%	Mar-11

Source: Company, Kotak Institutional Equities estimates

Key balance sheet highlights

- ▶ Inventories have remained constant indicating revenue booking progressing in line with construction.
- ▶ Loans and advances have increased to Rs2.7 bn (up 71% over end- FY2010 and 87% yoy) which could be led by land advances and likely a sign of further land bank accretion.

Exhibit 4: Balance sheet for 2QFY10, 4QFY10 and 2QFY11
Balance sheet, MLIFE, 2008-13E, March fiscal year-ends (Rs mn)

	30-Sep-09	31-Mar-10	30-Sep-10
Shareholder's funds			
Capital	508	508	508
ESOPs outstanding	3	4	5
Reserves and Surplus	8,739	9,076	9,478
Deferred tax liability (net)	30	18	15
TOTAL	9,280	9,606	10,007
Use of funds			
Fixed assets & CWIP (net)	350	324	324
Investments	3,961	4,096	3,776
Current assets, loans and advances			
Inventories	2,959	2,880	2,809
Sundry debtors	422	989	1,118
Cash and bank balances	652	1,051	900
Other current assets	285	323	312
Loans and advances	1,462	1,601	2,741
Less: current liabilities and provisions			
Liabilities	698	1,366	1,857
Provisions	112	291	116
Net current assets	4,970	5,187	5,907
TOTAL	9,280	9,606	10,007

Source: Company, Kotak Institutional Equities

Update on Chennai and Jaipur

Mahindra World City (MWC) Chennai. Total additions for FY2011E remain at the same level as of end-1QFY11 at four customers (Tridon, NTN Corporation, Alpha Packaging and JSP foams. MWC, Chennai has a total of 53 customers out of which 34 are operational. MLIFE, with its subsidiary Mahindra Residential Developers Ltd. in a JV with Ayala group, has started construction of Phase 1 of 'Aqualily', a premium residential project spread over 55 acres in MWC, Chennai.

Mahindra World City (MWC) Jaipur. All three special economic zones areas of IT, Light Engineering and Handicrafts as well as the Domestic Tariff Area (DTA) were activated with customers initiating construction activity and/or operations. MWC, Jaipur has three operational customers (Infosys, eXL and Deutsche Bank) while another six have initiated construction activities.

We maintain our ADD rating and roll forward target price to FY2012E

We retain our ADD rating and raise our target price to Rs546/share factoring in (1) change in cash estimates, (2) roll-forward standalone valuation to March 2012E NAV and (3) new valuation estimates for the Chennai and Jaipur SEZ. Our revised target price provides an upside of 15% from current market price.

We see possible upsides from Jaipur SEZ as we value Jaipur SEZ at 2X P/B and would assign full DCF-based value as and when we see at least a couple of residential launches in the SEZ. We also assign a 20% discount to Chennai SEZ on account of execution uncertainty. Our target price of Rs546 comprises Rs246/share for SEZ business. We note that the following upsides exist to our target price:

- ▶ We value Jaipur SEZ at 2X P/B and would assign DCF-based value as and when we see residential launches in the SEZ. Our NAV-based valuation for Jaipur SEZ is Rs11.4 bn or Rs281/share.
- ▶ We also assign a 20% discount to Chennai SEZ business on account of pricing/execution uncertainty. This would add another Rs1.9 bn or Rs45/share to our NAV.

Exhibit 5: Our target price is Rs546/share

Valuation model, MLIFE, March fiscal year-ends (Rs)

	Valuation Methodology	Valuation of business (Rs bn)	Multiple (%)	Value contribution (Rs bn) (Rs/share)	
SEZs					
Chennai SEZ	DCF	9.2	80	7.4	181
Jaipur SEZ	Book value	1.3	200	2.6	64
Total				10.0	246
Mahindra Lifespace standalone					
Residential property	NAV	8.1	100	8.1	199
Commercial property	NAV	2.0	100	2.0	48
Total				10.1	247
Net Cash		1.1	100	1.1	26
Investments		1.1	100	1.1	28
NAV valuation (Rs bn)				22.3	
Equity valuation (Rs/share)					546
Fully diluted no of shares (mn)					40.8

Source: Company, Kotak Institutional Equities estimates

Exhibit 6: Expect revenue contribution from Chennai SEZ to increase to 29% by FY2013E
Consolidated revenue model, MLIFE, 2008-13E, March fiscal year-ends (Rs mn)

	2008	2009	2010E	2011E	2012E	2013E
Mahindra Lifespaces standalone						
Income from Projects	1,258	1,461	2,905	3,666	5,882	6,046
Income from Operation of commercial complex	143	116	167	169	178	187
Chennai SEZ revenues						
Land sales (in acres)	64	163	100	0	0	0
Land revenues (Rs mn)	257	980	600	0	0	0
Residential sale volumes (mn sq. ft)	-	-	0.2	0.8	1.4	1.7
Residential sales (Rs mn)	0	0	195	829	2,034	3,422
Total sales (Rs mn)	257	980	795	829	2,034	3,422
Contribution to MLIFE (Rs mn)	214	814	685	796	1,953	3,285
Jaipur SEZ revenues						
Land sales (in acres)	10	250	250	400	500	-
Land revenues (Rs mn)	30	866	1,250	2,400	3,500	-
Residential sale volumes (mn sq. ft)	-	-	-	-	0.9	2.1
Residential sales (Rs mn)	-	-	-	-	630	2,173
IT park (mn sq. ft)	-	-	0.3	0.3	0.3	0.3
Rentals from IT park (Rs mn)	-	21.0	75.0	75.0	75.0	75.0
Total sales (Rs mn)	30	887	1,325	2,475	4,205	2,248
Contribution to MLIFE (Rs mn)	22	656	981	1,832	3,112	1,664
Revenues						
Mahindra Lifespaces standalone	1,402	1,577	3,071	3,835	6,060	6,232
Chennai SEZ	214	814	685	796	1,953	3,285
Jaipur SEZ	22	656	981	1,832	3,112	1,664
Total consolidated revenues	1,638	3,047	4,737	6,463	11,124	11,181
Revenue Mix (%)						
Mahindra Gesco standalone	85.6	51.8	64.8	59.3	54.5	55.7
Chennai SEZ	13.0	26.7	14.5	12.3	17.6	29.4
Jaipur SEZ	1.4	21.5	20.7	28.3	28.0	14.9

Source: Company, Kotak Institutional Equities estimates

Exhibit 7: Standalone profit and loss for MLIFE
Profit and Loss model, MLIFE, 2008-13E, March fiscal year-ends (Rs mn)

	2008	2009	2010	2011E	2012E	2013E
Profit and Loss model						
Total revenues	1,721	1,654	3,207	3,835	6,060	6,232
Land and construction costs	(1,118)	(1,243)	(2,127)	(2,543)	(3,855)	(3,787)
Employee costs	(81)	(76)	(120)	(116)	(140)	(169)
SG&A costs	(142)	(151)	(152)	(230)	(303)	(249)
EBITDA	380	184	808	947	1,762	2,027
Other income	478	325	290	206	206	206
Interest	(1)	(0)	-	(1)	-	(11)
Depreciation	(20)	69	(23)	(24)	(26)	(28)
Pretax profits	838	578	1,075	1,128	1,942	2,194
Extraordinary items	-	-	-	-	-	-
Current tax	(136)	(95)	(299)	(294)	(629)	(659)
Deferred tax	(15)	(19)	18	(1)	9	(63)
Net income	687	464	794	832	1,322	1,472
Adjusted net income	687	464	794	832	1,322	1,472
Consolidated profit	789	772	1,004	1,229	2,746	2,980

Source: Company, Kotak Institutional Equities estimates

OCTOBER 20, 2010

UPDATE

Coverage view: **Attractive**

Price (Rs): **1,287**

Target price (Rs): **1,250**

BSE-30: **19,983**

Skeptical about volume growth despite management confidence. Key takeaways from the 2Q conference call were (1) volume disappointment attributed solely to closure of JNPT operations in August; shift to Mundra/Pipavav should have mitigated volume loss, (2) higher port volume growth implies market share loss for Concor, and (3) management confidence of 12% exim volume growth in FY11E; we are skeptical given the trend in 1Q, base effect and high asking rate. Retain REDUCE.

Company data and valuation summary

Container Corporation

Stock data

52-week range (Rs) (high,low) 1,500-1,045

Market Cap. (Rs bn) 167.3

Shareholding pattern (%)

Promoters 63.1

FIs 24.3

MFs 3.3

Price performance (%)

Absolute 1M 3M 12M (2.9) (8.4) 12.5

Rel. to BSE-30 (3.3) (18.0) (3.0)

Forecasts/Valuations

	2010	2011E	2012E
EPS (Rs)	60.5	68.1	78.2
EPS growth (%)	(0.6)	12.5	14.9
P/E (X)	21.3	18.9	16.5
Sales (Rs bn)	37.1	41.1	46.6
Net profits (Rs bn)	7.9	8.8	10.2
EBITDA (Rs bn)	9.9	11.4	13.1
EV/EBITDA (X)	14.8	12.7	10.7
ROE (%)	19.4	19.0	19.0
Div. Yield (%)	1.1	1.2	1.4

Volume disappointment attributed solely to collision at Mumbai port; potential market share loss

The management attributed disappointment in its results entirely to the closure of JNPT port for a month following a ship collision—the company pointed out that this led to a month of volume losses. We believe volumes could have shifted to other ports such as Mundra and Pipavav and Concor had a reasonable chance of capturing volumes at those ports. Hence, absolute loss could have been mitigated to some extent. We also note that overall port volumes recorded a growth of 11.5% in 1H versus Concor growth of 4.68%, implying a market share loss.

Guides for FY11 exim growth of 12%; we are skeptical on high base effect, asking rate, sedate 1Q

The management seemed confident of achieving its 12% exim volumes growth guidance for the full year. However, we are skeptical on three counts: (1) asking rate for 2H is very high at 19% to achieve 12% full-year growth (we build in 8% full year volume growth), (2) base effect is negative as recovery had taken share from 3QFY10 last year and (3) 1QFY10, which was unaffected by events such as Mumbai port collision, had reported a yoy growth of only 8% despite favorable base effect (traffic dipped by 5% yoy in 1QFY10, recovery had not taken hold by June,09).

Other highlights: decline in realization, profitability on lower lead distances, better empties control

Other key takeaways were (1) decline in average lead distance for exim (by 80 km) and domestic (by 20 km) led to lower average per TEU realization and profitability in 1HFY11, and (2) a more balanced export-import mix helped control the empties volume in 1HFY11 likely contributing to the margin expansion.

Revise estimates; reiterate REDUCE with a target price of Rs1,250/share

We reduce our earnings estimates to Rs68.1 and Rs78.2 from Rs74.3 and Rs85.9 for FY2011E and FY2012E based on (1) lower exim volume growth, (2) lower lead distance and (3) slightly higher effective tax rate. Retain REDUCE with a revised TP of Rs1,250 (from Rs1,300) based on (1) lower-than-expected traction in volume pick-up, (2) potential further loss of market share to competitors as they scale up operations affecting volume growth, (3) higher current valuation relative to historical despite weaker earnings momentum and (4) lack of traction in other initiatives.

Lokesh Garg

lokesh.garg@kotak.com
Mumbai: +91-22-6634-1496

Supriya Subramanian

supriya.subramanian@kotak.com
Mumbai: +91-22-6634-1383

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

Slow volumes in 2Q attributed primarily to closure of JNPT port

Concor reported exim volumes of 493,688 TEUs in 2QFY11, up 2% yoy and about 6.5% below our estimate. We had expected 9% yoy growth in exim volumes for the quarter. Domestic volume at 131,548 TEUs (up 6.6% yoy) was broadly in line with our estimates. The lower exim volume in the quarter was attributed primarily to issues at JMPT port. The management cited that the company lost out on almost a full month's volumes due to the closure of JNPT port in the month of August (on account of a ship collision). However, we believe that Concor had a reasonable chance to capture the volumes that were diverted to other ports such as Mundra and Pipavav. Hence, the actual volume loss should have been mitigated to a large extent.

Sector growth higher versus Concor implies potential market share loss

According to Indian Ports Association (IPA) data, port container volumes have recorded 11.5% yoy growth in 1HFY11 versus Concor's volume growth of 4.7% in the same period. This implies a market share loss for Concor. Furthermore, the IPA data does not capture Mundra and Pipavav volumes and thus actual volume growth for the entire country may have been even higher. According to the management, the current market share of Concor (international + domestic) is about 75%.

Container Corporation - 2QFY11 results - segmental key numbers (Rs mn)

Segmental	2QFY11	2QFY11E	2QFY10	1QFY11	% change			1HFY11	1HFY10	%change
					vs est.	yoy	qoq			
Volumes (TEUs)										
Exim	493,688	528,262	484,644	489,312	(6.5)	1.9	0.9	983,000	938,973	4.7
%	79.0	79.9	79.7	79.3				79.2	79.4	
Domestic	131,548	132,678	123,421	127,384	(0.9)	6.6	3.3	258,932	243,634	6.3
%	21.0	20.1	20.3	20.7				20.8	20.6	
Sales (Rs mn)										
Exim	7,333	7,775	7,735	7,202	(5.7)	(5.2)	1.8	14,535	14,979	(3.0)
(% of total)	77.7	79.2	80.6	78.6				78.1	80.2	
Domestic	2,109	2,038	1,864	1,957	3.5	13.1	7.8	4,065	3,694	10.0
(% of total)	22.3	20.8	19.4	21.4				21.9	19.8	
EBIT (Rs mn)										
Exim	2,089		2,086	1,986		0.2	5.2	4,075	4,046	0.7
Margin (%)	28.5		27.0	27.6				28.0	27.0	
Domestic	210		239	266		(12.4)	(21.1)	475	546	(13.0)
Margin (%)	9.9		12.8	13.6				11.7	14.8	
per TEU realization (Rs)										
Exim	14,854	14,719	15,961	14,719		(6.9)	0.9	14,787	15,952	(7.3)
Domestic	16,030	15,361	15,101	15,361		6.1	4.4	15,701	15,163	3.5
Total	15,101	14,848	15,786	14,852		(4.3)	1.7	14,977	15,790	(5.1)

Source: Company, Kotak Institutional Equities estimates

Confident of full-year exim growth of 12%; but may be difficult to achieve

The management is confident of achieving its full-year exim volume growth guidance of 12% in FY2011 despite the relatively sedate 1HFY11 performance. We believe this would be difficult to achieve on three counts:

- **Implied high growth requirement in 2H.** A 12% yoy exim volume growth for the full year implies a very high growth requirement of about 19% in 2HFY11E.

Guidance implies strong volume growth requirement in 2HFY11E

Implied volume requirement in 2HFY11E in order to meet full-year guidance (TEUs)

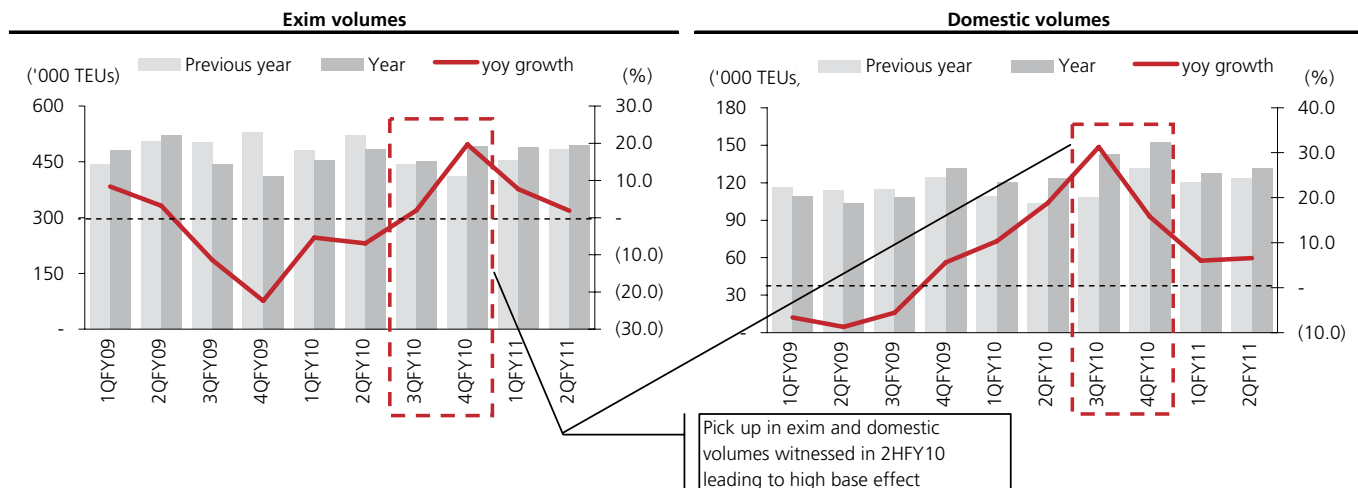
	1HFY11	1HFY10	%change	2HFY11E			FY2011	FY2010	%change
				implied	2HFY10	%change	guidance		
Exim	983,000	938,973	4.7	1,125,150	943,304	19.3	2,108,150	1,882,277	12.0
(% of total)	79.2	79.4		77.4	76.2		77.1	77.7	
Domestic	258,932	243,634	6.3	328,545	295,336	11.2	587,477	538,970	9.0
(% of total)	20.8	20.6		22.6	23.8		22.9	22.3	
Total	1,241,932	1,182,607	5.0	1,453,696	1,238,640	17.4	2,695,628	2,421,247	11.3

Source: Company, Kotak Institutional Equities

- ▶ **High base effect.** The second half of the year would also be impacted by negative (high) base effect as volume recovery was witnessed in 2HFY10. Exim volumes had recorded a 10% yoy volume growth in 2HFY10 versus a 6% decline in 1HFY10. Domestic volumes had recorded a very strong growth of 22.8% yoy in 2HFY10.

High base effect makes it further difficult to achieve volume growth guidance

Quarterly volume numbers handled by Concor, March fiscal year-ends, 2008-1HFY11 ('000 TEUs)



Source: Company, Kotak Institutional Equities

- ▶ **1QFY10 trend also does not provide confidence.** 1QFY10, which was unaffected by specific events such as Mumbai port collision, had reported a yoy growth of only 8% despite favorable base effect (1QFY010 traffic had dipped by 5% on a yoy basis as by June 2009 recovery had not taken hold).

We have built in volume growth of 8% in the exim segment and 12% in the domestic segment for FY2011E. Our estimates imply an exim volume growth requirement of 11% in 2HFY11E. Revenues would have to grow by about 22% yoy in order to meet our full-year revenues of Rs41 bn (up 11% yoy). We expect EBITDA margins in 2HFY11E to remain at 1H levels (at about 27%). We expect the company to report a PAT of Rs8.8 bn in FY2011E versus Rs4 bn reported in 1HFY11 implying a PAT of Rs4.8 bn in 2HFY11E (a growth of 29% yoy).

Container Corporation - 2HFY11 implied estimates - key numbers (Rs mn)

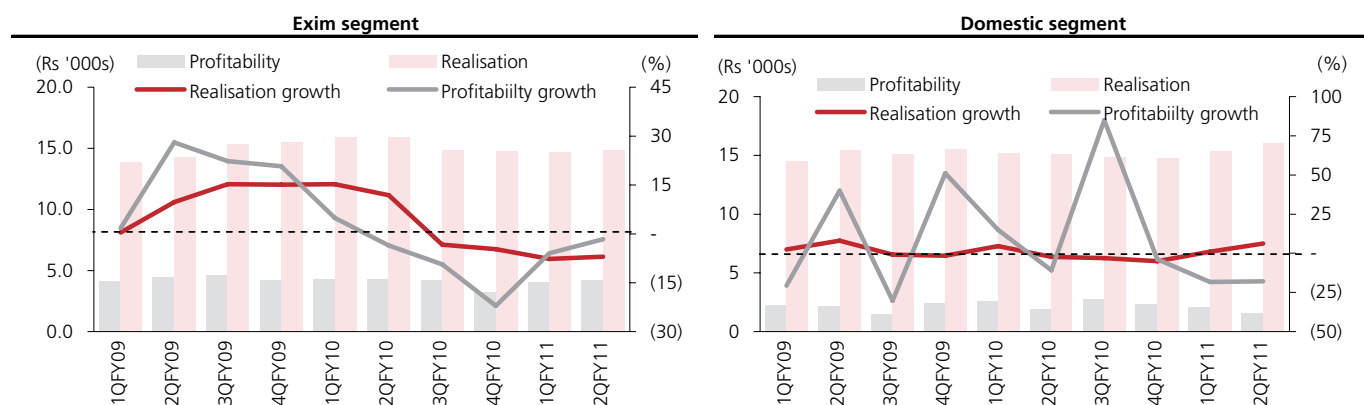
	1HFY11	1HFY10	%change	2HFY11E-imp	2HFY10	%change	FY2011E	FY2010	%change
Net Sales	18,601	18,673	(0.4)	22,483	18,350	22.5	41,084	37,023	11.0
Total exp	(13,512)	(13,661)	(1.2)	(16,417)	(13,599)	22.8	(29,929)	(27,260)	10.8
EBITDA margin	5,089	5,012	1.5	6,066	4,750	27.7	11,155	9,763	14.3
Other Income	739	852	(13.2)	991	764	29.7	1,731	1,616	7.1
Depreciation	(717)	(643)	11.4	(914)	(699)	30.7	(1,631)	(1,343)	21.5
PBT	5,111	5,221	(2.1)	6,143	4,815	27.6	11,254	10,036	12.1
Tax	(1,109)	(1,168)	(5.1)	(1,297)	(1,077)	20.4	(2,406)	(2,245)	7.1
PAT	4,003	4,052	(1.2)	4,846	3,733	29.8	8,849	7,786	13.7
Key ratios (%)									
EBITDA margin	27.4	26.8		27.0	25.9		27.2	26.4	
PBT margin	27.5	28.0		27.3	26.2		27.4	27.1	
Effective tax rate	21.7	22.4		21.1	22.4		21.4	22.4	
PAT margin	21.5	21.7		21.6	20.3		21.5	21.0	
Segmental									
Volumes (TEUs)									
Exim	983,000	938,973	4.7	1,049,859	943,304	11.3	2,032,859	1,882,277	8.0
Domestic	258,932	243,634	6.3	344,714	295,336	16.7	603,646	538,970	12.0
Total	1,241,932	1,182,607	5.0	1,394,574	1,238,640	12.6	2,636,506	2,421,247	8.9
Sales (Rs mn)									
Exim	14,535	14,979	(3.0)	17,392	13,975	24.4	31,927	28,953	10.3
Domestic	4,065	3,694	10.0	5,091	4,375	16.4	9,157	8,069	13.5
EBIT (Rs mn)									
Exim	4,075	4,046	0.7	3,550	3,514	1.0	7,624	7,561	0.8
Margin (%)	28.0	27.0		20.4	25.1		23.9	26.1	
Domestic	475	546	(13.0)	1,424	754	88.8	1,899	1,300	46.0
Margin (%)	11.7	14.8		28.0	17.2		20.7	16.1	

Source: Company, Kotak Institutional Equities estimates

Decline in average realization and profitability ascribed to lower lead distances

Despite the 5% growth in overall volumes, the revenues for the first half recorded almost no growth (rather a 0.4% de-growth). This was primarily attributed to decline in average lead distances. Average per TEU realization for exim segment declined by 6.9% yoy in 1HFY11 to Rs14,854 per TEU versus Rs15,961 per TEU in 1HFY10. The profitability per TEU also suffered, declining by about 2% for the exim segment and 18% for the domestic segment.

Quarterly realization and profitability of exim segment, March fiscal year-ends, 2008-1HFY11 (Rs '000s)



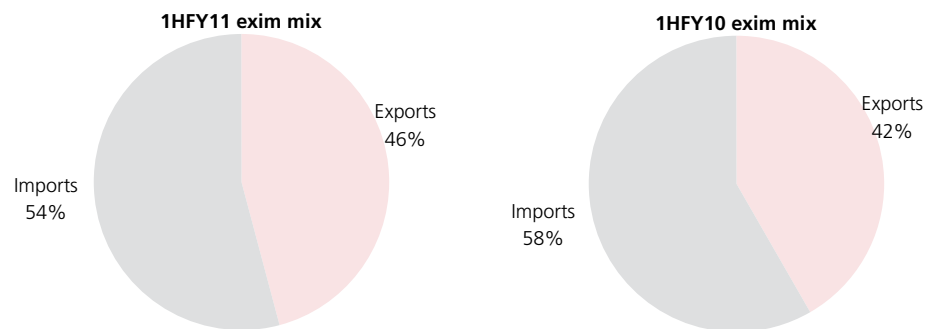
Source: Company, Kotak Institutional Equities

The management cited that the average lead distances declined by about 80 km in the exim segment and about 20 km in the domestic segment. The decline in lead distance was primarily due to higher share of volumes from Pipavav and Mundra versus JNPT and drop in volumes of certain commodities. The decline in lead distance due to drop in volumes of certain commodities may be temporary, however, we do believe that the shift of incremental volume share from Mundra and Pipavav is structural in nature. We expect this trend to continue going forward, and hence do not expect the exim lead distance to significantly pick up. Highlight that the average lead distance of Concor is much higher than that of the Indian Railways (about 630-640 km).

Better empties control likely to have contributed to the margin expansion

Concor managed better control of empties in 1HFY11 versus last year, likely leading to the lower rail freight expenses and better margins. Expenses on emptied declined to Rs0.9 bn in 1HFY11 versus Rs1.08 bn in 1HFY10. Favourable exim mix (lower imbalance) helped in the better control of empties. Import:export mix was at 54:46 in 1HFY11 versus 58:42 last year.

Export-Import mix in 1HFY11 and 1HFY10



Source: Company

Revise earnings estimates; reiterate REDUCE with a target price of Rs2,150

We have reduced our earnings estimates to Rs68.1 and Rs78.2 from Rs74.3 and Rs85.9 for FY2011E and FY2012E respectively. Change in estimates are based on (1) lower exim volume growth of 8% versus 10% earlier, (2) lower lead distance as Concor has repeatedly commented that lead distances have come down partly based on structural reasons, (3) slightly higher effective tax rate versus earlier. Our estimates build in PAT of Rs8.85 bn for the full year versus Rs4 bn delivered in 1HFY11. We have correspondingly revised our target price to Rs1,250/share from Rs1,300 earlier.

Revised estimates for Container Corporation, March fiscal year-ends, 2011E-12E (Rs mn)

	New estimates		Old estimates		% revision	
	2011E	2012E	2011E	2012E	2011E	2012E
Key numbers (Rs mn)						
Revenues	41,084	46,628	42,489	48,810	(3.3)	(4.5)
EBITDA	11,155	12,802	11,805	13,592	(5.5)	(5.8)
EBITDA margin (%)	27.2	27.5	27.8	27.8		
PAT	8,849	10,164	9,660	11,168	(8.4)	(9.0)
EPS (Rs)	68.1	78.2	74.3	85.9	(8.4)	(9.0)
Volumes ('000 TEUs)						
Exim	2,033	2,236	2,061	2,267	(1.4)	(1.4)
Domestic	604	664	584	642	3.4	3.4
Growth (%)						
Revenues	10.9	13.5	15.3	14.9		
EBITDA	16.0	14.8	21.2	15.1		
EPS	12.5	14.9	21.7	15.6		
Exim volumes	8.0	10.0	10.0	10.0		
Domestic volumes	12.0	10.0	12.0	10.0		

Source: Kotak Institutional Equities estimates

We retain our REDUCE rating on the stock based on (1) lower-than-expected traction in volume pick-up, (2) potential further loss of market share to competitors as they scale up operations affecting volume growth, (3) higher current valuation relative to historical trend (trades at P/E of 17.4X on rolling one year forward versus Sensex at 16.4X while in the past Concor has traded at slight discount to Sensex multiple) despite weaker earnings momentum and (4) lack of traction in other initiatives like cold chain (made losses in FY2010).

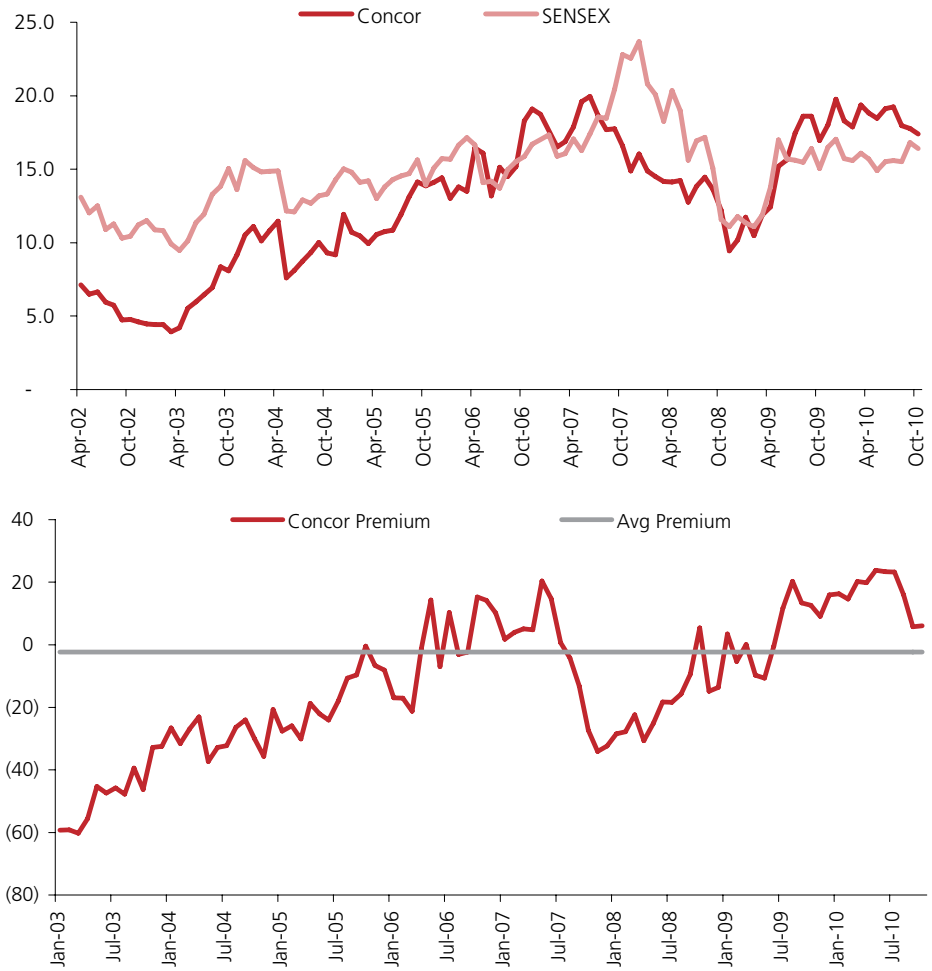
Concor has traded at an average one-year rolling forward P/E of 15.9X

Comparison on Concor's P/E versus Sensex over the past five years

	Concor	SENSEX
P/E comparison		
Peak P/E (X)	19.9	23.7
Bottom P/E (X)	3.9	9.5
P/E correction from peak (%)	12.8	30.7
Average 5-year P/E (X)	15.9	16.3
Current P/E (X)	17.4	16.4
P/E premium over Sensex comparison		
P/E premium at peak (%)	14.7	NA
Average 5-year premium over sensex P/E (%)	(2.3)	NA
Current P/E premium (%)	6.1	NA
Downside if P/E premium shrinks to historical average (%)	7.9	NA

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Concor seems to trade at par with Sensex however lags Sensex in times of bull run
 P/E and P/E premium chart of Concor premium over Sensex based on 12-month rolling forward EPS, FY2002-Oct 2010



Source: Company, Bloomberg, Kotak Institutional Equities estimates

Container Corporation - 2QFY11 results summary - key numbers (Rs mn)

	2QFY11	2QFY11E	2QFY10	1QFY11	% change			1HFY11	1HFY10	%change
					vs est.	yoy	qoq			
Net Sales	9,442	9,813	9,599	9,159	(3.8)	(1.6)	3.1	18,601	18,673	(0.4)
Staff cost	(194)	(216)	(209)	(202)	(10.3)	(7.5)	(4.3)	(396)	(407)	(2.6)
Rail freight exp	(5,353)	(5,594)	(5,588)	(5,274)	(4.3)	(4.2)	1.5	(10,627)	(10,857)	(2.1)
Others	(1,276)	(1,295)	(1,267)	(1,213)	(1.5)	0.7	5.2	(2,489)	(2,397)	(1.1)
Total exp	(6,823)	(7,105)	(7,065)	(6,689)	(4.0)	(3.4)	2.0	(13,512)	(13,661)	(1.2)
EBITDA margin	2,619	2,709	2,534	2,470	(3.3)	3.3	6.0	5,089	5,012	1.5
Other Income	381	377	439	359	0.9	(13.4)	6.1	739	852	(13.2)
PBDIT	2,999	3,086	2,973	2,829	(2.8)	0.9	6.0	5,828	5,864	(0.6)
Depreciation	(365)	(380)	(328)	(352)	(4.0)	11.3	3.5	(717)	(643)	11.4
PBT	2,635	2,706	2,646	2,476	(2.6)	(0.4)	6.4	5,111	5,221	(2.1)
Tax	(567)	(595)	(602)	(541)	(4.7)	(5.8)	4.8	(1,109)	(1,168)	(5.1)
PAT	2,068	2,111	2,043	1,935	(2.0)	1.2	6.8	4,003	4,052	(1.2)
Key ratios (%)										
Rail freight exps/Sales	56.7	57.0	58.2	57.6				57.1	58.1	
Other exp/Sales	13.5	13.2	13.2	13.2				13.4	12.8	
Employee exp/Sales	2.1	2.2	2.2	2.2				2.1	2.2	
EBITDA margin	27.7	27.6	26.4	27.0				27.4	26.8	
PBT margin	27.9	27.6	27.6	27.0				27.5	28.0	
Effective tax rate	21.5	22.0	22.8	21.9				21.7	22.4	
PAT margin	21.9	21.5	21.3	21.1				21.5	21.7	

Source: Company, Kotak Institutional Equities estimates

Key financials of Container Corporation, March fiscal year-ends, 2007-12E (Rs mn)

	2007	2008	2009	2010	2011E	2012E
Income statement						
Net revenues	30,573	33,473	34,172	37,057	41,084	46,628
Total operating cost	(21,661)	(24,569)	(24,861)	(27,440)	(29,929)	(33,826)
EBIDTA	8,912	8,904	9,311	9,616	11,155	12,802
Other income	846	1,645	2,111	1,801	1,731	1,973
PBDIT	9,758	10,548	11,422	11,417	12,885	14,776
Depreciation	(936)	(1,063)	(1,159)	(1,351)	(1,631)	(1,808)
Pre tax profits	8,823	9,485	10,262	10,066	11,254	12,968
Tax	(1,862)	(1,980)	(2,347)	(2,199)	(2,406)	(2,804)
PAT	6,961	7,505	7,915	7,867	8,849	10,164
EPS (Rs)	54	58	61	61	68	78
Volume handled ('000 TEUs)						
Exim	1,716	1,977	1,855	1,882	2,033	2,236
Domestic	390	470	453	539	604	664
Balance sheet						
Networth	26,298	31,839	37,622	43,364	49,822	57,241
Share capital	650	650	1,300	1,300	1,300	1,300
Reserves & surplus	25,648	31,189	36,322	42,064	48,523	55,941
Total sources of funds	26,298	31,839	37,622	43,364	49,822	57,241
Net block	15,515	16,652	19,490	21,639	27,174	28,852
CWIP	2,028	1,721	2,457	1,991	818	818
Investments	1,317	1,554	2,031	2,405	3,405	4,405
Net current assets	9,051	13,650	15,582	19,438	20,534	25,274
Net deferred tax asset	(1,613)	(1,737)	(1,938)	(2,109)	(2,109)	(2,109)
Total application of funds	26,298	31,839	37,622	43,364	49,822	57,241

Source: Company, Kotak Institutional Equities estimates

OCTOBER 20, 2010
UPDATE

Coverage view: **Cautious**

Price (Rs): **125**

Target price (Rs): **83**

BSE-30: **19,872**

Building pipelines versus creating value. We believe it is too early to accord value to the two new pipelines awarded by the regulator to GSPL—(1) Mallavaram-Vijapur-Bhilwara pipeline and (2) Mehsana-Bhatinda pipeline. We note (1) limited visibility on incremental gas supply to feed the new pipelines and (2) likely low capacity utilization in other gas pipelines competing with the proposed new pipelines. We retain our SELL rating on GSPL with a 12-month target price of ₹83.

Company data and valuation summary

GSPL

Stock data		Forecasts/Valuations			
		2010	2011E	2012E	
52-week range (Rs) (high,low)	128-76	EPS (Rs)	7.3	7.1	8.0
Market Cap. (Rs bn)	70.3	EPS growth (%)	232.7	(3.4)	12.6
Shareholding pattern (%)		P/E (X)	17.1	17.7	15.7
Promoters	37.7	Sales (Rs bn)	9.9	10.7	12.2
FIs	12.5	Net profits (Rs bn)	4.1	4.0	4.5
MFs	10.1	EBITDA (Rs bn)	9.5	10.1	11.4
Price performance (%)		EV/EBITDA (X)	8.5	8.4	7.0
Absolute	1M 3M 12M	ROE (%)	27.1	21.2	20.6
Rel. to BSE-30	14.1 19.5 45.2	Div. Yield (%)	0.8	1.4	2.5
	14.2 7.5 25.8				

Award of two new pipelines to GSPL

We are not overly enthused by the award of two cross-country pipelines by the Petroleum and Natural Gas Regulatory Board (PNGRB) to a consortium of GSPL (52%), IOCL (26%), BPCL (11%) and HPCL (11%)—(1) Mallavaram-Vijapur-Bhilwara (MVB) pipeline and (2) Mehsana-Bhatinda (MB) pipeline. We do not expect meaningful value creation in the aforementioned new pipelines given (1) uncertainty regarding sources of gas for these pipelines and (2) presence of existing gas pipeline network and proposed large capacity addition by other players.

Tardy development of sector with slippages in gas supply and surfeit of transmission infrastructure

We are perplexed by the euphoria in the gas sector despite tardy progress in several key upstream projects, which are key to development of the sector. We have long highlighted that demand, supply and corresponding infrastructure need to move in tandem for a proper development of the sector. However, the sector has seen (1) significant delays in several key upstream projects and (2) slower-than-expected ramp-up in RIL's KG D-6 block.

Existing pipeline infrastructure capable of meeting incremental supply over the next 5-6 years

We expect incremental gas supply of ~65-75 mcm/d over the next 5-6 years led by (1) higher gas production from KG D-6 block, (2) higher LNG imports, (3) start of production from GSPC's Deen Dayal block and (4) likely start of production from RIL's NEC-25 block. We highlight that the existing pipeline infrastructure (including pipelines under construction) is sufficient for the incremental supply. Exhibit 1 gives the existing and proposed gas pipeline network in India.

Regulations provide for completion of pipelines in three years

We highlight that the regulations provide for completion of the pipeline within three years from the award. This would entail completion of both these pipelines by FY2014E. Given the gas supply situation, we suspect these pipelines may not have sizable gas transmission volumes for several years. GSPL's proposed pipelines will largely duplicate extant pipelines in the country and may suffer from low capacity utilization in the first years of operation.

QUICK NUMBERS

- **34% downside to our fair value of GSPL from current levels**
- **12% downside to our best-case fair value of GSPL from current levels**

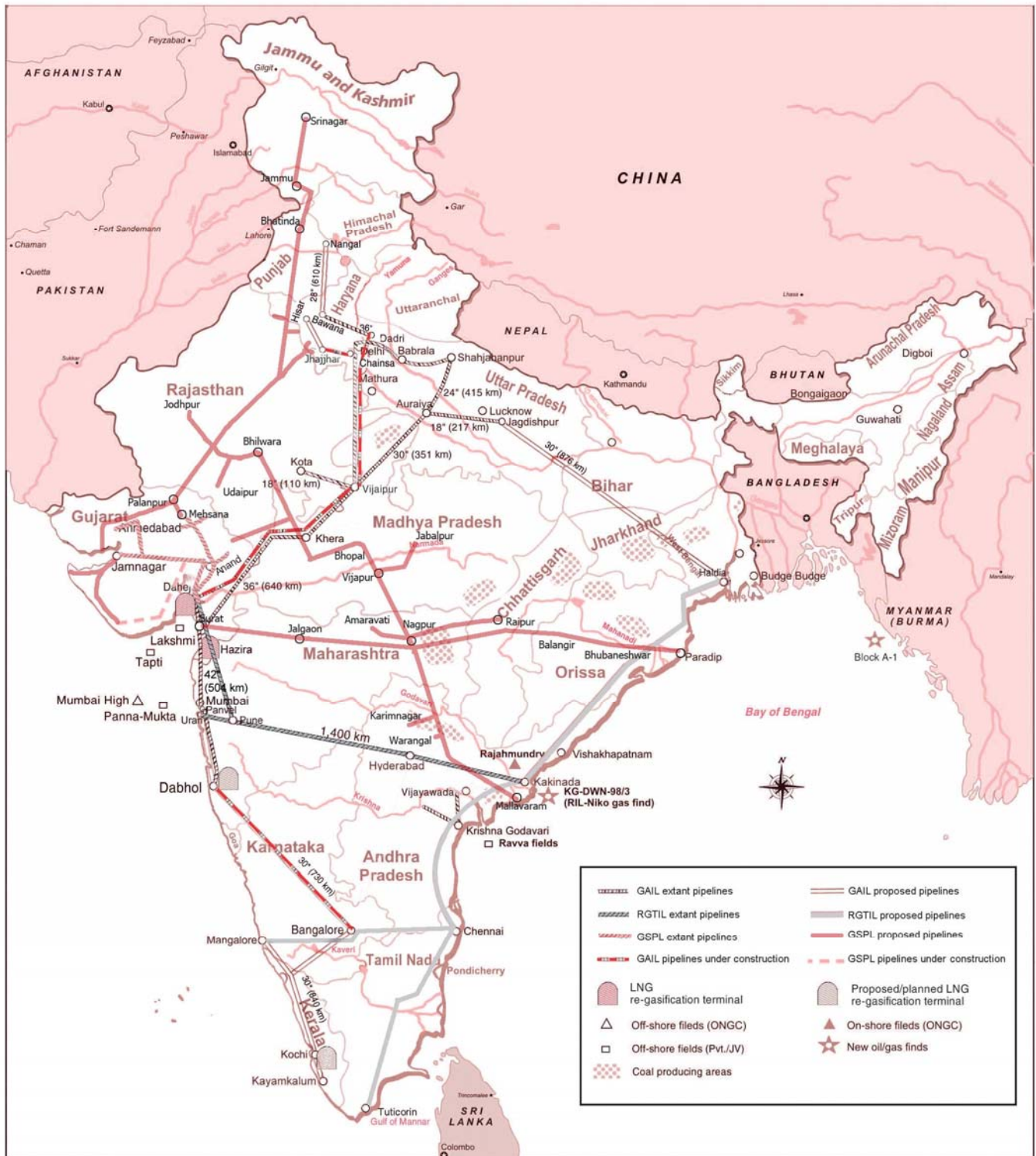
Gundeep Singh
gundeep.singh@kotak.com
Mumbai: +91-22-6634-1286

Sanjeev Prasad
sanjeev.prasad@kotak.com
Mumbai: +91-22-6634-1229

Tarun Lakhotia
tarun.lakhotia@kotak.com
Mumbai: +91-22-6634-1188

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

Proposed gas pipeline network in India



Source: Company, Kotak Institutional Equities estimates

All potential 'positive' triggers have played out

We see significant downside risk emanating from (1) a potential sharp cut in tariffs of existing pipeline network, (2) lower-than-expected volume growth and (3) lower-than-expected tariffs on the new pipelines. The management is yet to disclose details of the terms of the newly-awarded pipelines.

As highlighted previously, we expect GSPL's tariff to decline significantly from current levels (₹0.77/cu m in 1QFY11) if the PNGRB applies its regulations objectively for the computation of GSPL's tariffs. Even assuming GSPL's tariffs at ₹0.77/cu m and 80% growth in pipeline volumes or 26 mcm/d (in extant network only) in FY2010-14E, we compute GSPL's fair valuation at ₹110, 12% below current market price.

Details of incremental gas supply in India

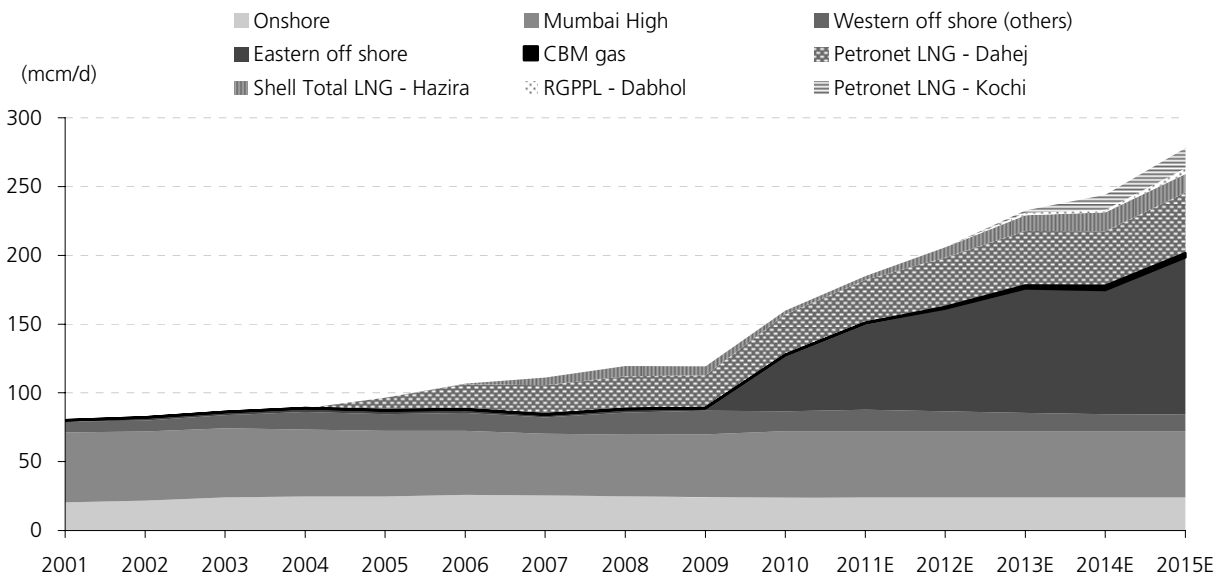
We give a breakdown of the potential incremental gas supply in India over the next 6-8 years and analyze the potential transit routes for the same. We note the uncertain economics of the recently-awarded pipelines in the context of (1) low visibility on the sources of incremental gas supply and (2) availability of surplus capacity in existing infrastructure.

- ▶ **Ramp-up of KG D-6 gas production.** We expect RIL to ramp up gas production from its KG D-6 block to 80 mcm/d from 60 mcm/d currently. However, we highlight that this gas is unlikely to flow through GSPL's MVB pipeline given that RGTIL's existing pipeline has a capacity of 80 mcm/d and can theoretically ramp up to 120 mcm/d. The pipeline is currently operating at 75% capacity utilization. We note the incremental gas from KG D-6 will flow into RGTIL's East-West pipeline up to Gujarat and will utilize GAIL's expanded HBJ-GREP capacity thereon (due April 2011). GSPL's new pipeline is unlikely to start before FY2014E.
- ▶ **Higher LNG imports.** We expect LNG imports to rise from current levels led by (1) capacity expansion at PLNG's Dahej terminal, (2) PLNG's new Kochi terminal and (3) RGPPL's Dabhol terminal. These would likely add ~40 mcm/d to the gas supply. However, additional imported LNG from Dahej will flow through GAIL's pipelines given that it is a promoter company of PLNG and has marketing rights for 60% of the volumes. Thus, we do not see GSPL's Mehsana-Bhatinda pipeline getting any of the incremental LNG volumes. In any case, GAIL's DVP-GREP project with a capacity of 54 mcm/d will start by April 2011, well before GSPL's MB pipeline (unlikely before FY2014E). We highlight that additional LNG imports at PLNG's Kochi terminal and RGPPL's Dabhol terminal are not relevant for GSPL's new pipelines given the location of these terminals.
- ▶ **GSPC gas from Deen Dayal block.** We note that GSPL's Mallavaram-Vijapur-Bhilwara pipeline could potentially use the gas from GSPC's Deen Dayal block. We note that GCA has currently certified peak production volumes of ~5.7 mcm/d from Deen Dayal West. Deen Dayal block has estimated 2P reserves of 1.6 tcf (GCA estimates) in Deen Dayal West field and contingent resource base of 5.4 tcf in other zones of the block. In our view, gas production from Deen Dayal block would have to be closer to 30 mcm/d for the MVB pipeline to be viable.
- ▶ **RIL gas from NEC-25 block.** We highlight that there have been several slippages in the exploration schedule of this block. RIL has not commenced appraisal work on the block. Although the peak production has been guided at 35 mcm/d, we do not rule out delays in commencement of production versus our expectation of FY2015E (it will take at least three years to develop the upstream infrastructure). In any case, we note that gas from the NEC-25 block will likely flow through either of the following routes—RGTIL's proposed Haldia-Kakinada pipeline connecting to (1) RGTIL's East-West pipeline or (2) GAIL's proposed Jagdishpur-Haldia pipeline. We do not expect GSPL's MVB pipeline to be able to tap this gas.

- ▶ **RIL gas from D3, D4 and D9 blocks.** All these blocks are currently in the exploration phase and we do not expect any of these blocks to start production in the next 5-6 years. We do not rule out significant delays versus our expectations given the performance achieved till date. We note that RIL took 6.5 years to start commercial production in its KG D-6 block from the date of first discovery (October 2002).
- ▶ **ONGC gas from KG-DWN-98/2 block.** We note this block was initially scheduled to start production in FY2012E. The company has revised its guidance to start of production from by FY2016E. We do not rule out further delays in the project. The current estimates of reserves in this block stand at ~3tcf.

We project a steep ramp-up in domestic supply from FY2010

Supply of natural gas in India, March fiscal year-ends, 2001-15E (mcm/d)



Source: Kotak Institutional Equities estimates

DCF valuation of GSPL (₹ mn)

	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
EBITDA	9,780	11,173	11,560	11,455	11,289	11,866	11,836	11,804	11,771	11,735	11,697	11,697	11,697
Adjusted tax expense	(1,600)	(2,641)	(2,955)	(3,054)	(3,113)	(3,430)	(3,551)	(3,657)	(3,751)	(3,833)	(4,444)		
Change in working capital	(5,785)	(1,843)	(42)	4	11	(57)	—	—	—	—	—		
Operating cash flow	2,395	6,688	8,563	8,405	8,187	8,379	8,285	8,147	8,020	7,901	7,253		
Capital expenditure	(3,652)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(1,746)		
Free cash flow	(1,257)	6,438	8,313	8,155	7,937	8,129	8,035	7,897	7,770	7,651	5,506	5,506	5,506
Discounted cash flow	(1,182)	5,406	6,232	5,459	4,744	4,336	3,827	3,358	2,950	2,593	1,666		
Discounted cash flow-1 year forward		6,056	6,980	6,114	5,313	4,858	4,286	3,761	3,304	2,905	1,866	1,666	
Discounted cash flow-2 year forward			7,820	6,847	5,950	5,441	4,802	4,212	3,701	3,254	2,091	1,866	1,666
	Now	+ 1-year	+ 2-years										
Discount rate (%)	12.0	12.0	12.0										
Total PV of free cash flow	39,388	47,109	47,650										
Terminal value assumption													
Growth to perpetuity (%)	—	—	—										
FCF in 2021E	5,506	5,506	5,506										
Exit FCF multiple (X)	8.3	8.3	8.3										
Exit EV/EBITDA multiple (X)	3.9	3.9	3.9										
Terminal value	45,886	45,886	45,886										
PV of terminal value	13,884	13,884	13,884										
Total company value	53,272	60,994	61,534										
Net debt	10,854	14,041	10,266										
Equity value	42,419	46,953	51,268										
Shares outstanding (mn)	562	562	562										
Estimated share price using DCF	75	83	91										
Fiscal Year end (March 31, XXXX)	March-11	March-12	March-13	March-14	March-15	March-16	March-17	March-18	March-19	March-20	March-21	March-22	March-23
Today	15-Sep-10	15-Sep-10	15-Sep-10	15-Sep-10	15-Sep-10	15-Sep-10	15-Sep-10	15-Sep-10	15-Sep-10	15-Sep-10	15-Sep-10	15-Sep-10	15-Sep-10
Days left	197	563	928	1,293	1,658	2,024	2,389	2,754	3,119	3,485	3,850	4,215	4,580
Years left	0.54	1.54	2.54	3.54	4.54	5.55	6.55	7.55	8.55	9.55	10.55	11.55	12.55
Discount factor at WACC	0.94	0.84	0.75	0.67	0.60	0.53	0.48	0.43	0.38	0.34	0.30	0.27	0.24

Source: Kotak Institutional Equities estimates

GSPL: Profit model, balance sheet, cash model, March fiscal year-ends, 2007-14E (₹ mn)

	2007	2008	2009	2010	2011E	2012E	2013E	2014E
Profit model (Rs mn)								
Net sales	3,176	4,179	4,875	9,920	10,666	12,155	12,623	12,578
EBITDA	2,677	3,645	4,249	9,297	9,780	11,173	11,560	11,455
Other income	175	294	243	247	283	270	275	270
Interest	(457)	(815)	(870)	(938)	(1,173)	(1,265)	(852)	(387)
Depreciation	(1,026)	(1,632)	(1,705)	(2,365)	(2,938)	(3,477)	(3,469)	(3,465)
Pretax profits	1,369	1,491	1,918	6,242	5,952	6,701	7,514	7,873
Contribution towards GSEDS	—	—	—	—	—	—	—	—
Tax	(70)	(389)	(536)	(1,878)	(1,337)	(2,222)	(2,654)	(2,911)
Deferred taxation	(409)	(82)	(145)	(261)	(640)	(4)	158	296
Net profits	894	999	1,234	4,138	3,975	4,475	5,018	5,258
Earnings per share (Rs)	1.6	1.8	2.2	7.3	7.1	8.0	8.9	9.3
Balance sheet (Rs mn)								
Total equity	9,659	11,410	12,152	15,638	18,451	20,838	22,931	24,510
Deferred tax liability	917	999	1,144	1,405	2,046	2,050	1,891	1,596
Total borrowings	8,638	9,660	11,509	12,595	15,065	11,565	6,365	1,765
Current liabilities	1,845	5,106	5,331	8,334	2,755	1,045	1,045	1,045
Total liabilities and equity	21,059	27,175	30,137	37,973	38,317	35,498	32,233	28,916
Cash	1,811	2,569	975	1,742	1,024	1,299	1,211	1,113
Current assets	2,126	2,928	4,641	5,808	6,013	6,146	6,188	6,184
Total fixed assets	17,029	21,259	24,132	29,755	30,610	27,384	24,165	20,950
Investments	—	356	356	666	666	666	666	666
Deferred expenditure	93	63	33	3	3	3	3	3
Total assets	21,059	27,175	30,137	37,973	38,317	35,498	32,233	28,916
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	2,212	2,743	2,918	6,367	7,129	7,686	8,054	8,157
Working capital changes	(1,058)	2,460	(1,752)	1,420	(5,785)	(1,843)	(42)	4
Capital expenditure	(4,404)	(5,863)	(4,579)	(7,777)	(3,652)	(250)	(250)	(250)
Investments	—	(356)	—	0	—	—	—	—
Other income	146	—	297	157	283	270	275	270
Free cash flow	(3,103)	(659)	(3,116)	167	(2,025)	5,862	8,037	8,181
Ratios (%)								
Debt/equity	81.7	77.9	86.6	73.9	73.5	50.5	25.6	6.8
Net debt/equity	45.0	43.8	46.4	42.5	42.4	33.6	20.4	6.3
RoAE	8.8	8.8	9.6	27.1	21.2	20.6	21.0	20.6
RoACE	10.0	8.2	8.6	18.5	16.9	15.2	16.5	17.6
CROCI	13.5	16.9	14.8	23.2	17.9	17.9	17.9	17.4
Key assumptions								
Volumes-old pipelines (mcm/d)	12.6	12.7	11.1	13.8	14.0	15.0	17.0	20.0
Volumes-new pipelines (mcm/d)	1.7	4.1	3.8	18.2	24.8	32.1	36.6	37.6
Volumes (mcm/d)	14.3	16.8	14.9	32.0	38.8	47.1	53.6	57.6
Average tariff (Rs/cu m)	0.61	0.67	0.83	0.86	0.75	0.71	0.65	0.60

Source: Company, Kotak Institutional Equities estimates

September 2010: Results calendar

Mon	Tue	Wed	Thu	Fri	Sat
18-Oct	19-Oct	20-Oct	21-Oct	22-Oct	23-Oct
		Ashok Leyland	ACC	Bank of India	Bharat Forge
		Canara Bank	Allahabad Bank	Biocon	Dr Reddys Laboratories
		Gujarat State Fertilisers	Alstom Projects	D B Corp	Edelweiss Capital
		HCL Technologies	Ambuja Cements	Indian Bank	Torrent Pharma
		Hindustan Zinc	Corporation Bank	Kirloskar Oil	
		Indiabulls Power	Indiabulls Financial Services	Mahindra & Mahindra Financials	
		Indiabulls Real Estate	Novartis India	Piramal Healthcare	
		Kotak Mahindra Bank	SKF India	Redington India	
		Mahindra Life Space Developers	South Indian Bank	SKS Microfinance	
		Power Grid Corp	Sterlite Technologies	Sobha Developers	
		Tanla Solutions	TCS	Vijaya Bank	
		Yes Bank	TVS Motor	Wipro	
25-Oct	26-Oct	27-Oct	28-Oct	29-Oct	30-Oct
Adani Power	Bosch	Asian Paints	Adani Enterprises	ABB	Aditya Birla Nuvo
Crompton Greaves	Central Bank of India	Cummins India	Andhra Bank	Bharat Electronics	Areva T&D
Hindustan Oil Exploration	DishTV India	Dabur India	Bank of Baroda	BHEL	GVK Power
Hindustan Uniliver	JB Chemicals	Glenmark Pharma	BGR Energy	BPCL	Maruti Suzuki
Idea Cellular	Jindal Steel & Power	Godrej Industries	Cairn India	Federal Bank	National Aluminium Co.
Mundra Port & SEZ	JSW Steel	Gujarat State Petronet	Colgate Palmolive	GE Shipping	Sun Pharma
Petronet LNG	Manglore Refinery & Petrochemicals	Hindustan Copper	EIH	Hindustan Construction Co	Suzlon Energy
Procter & Gamble	Marico	HPCL	Glaxosmithkline Pharma	ICICI Bank	
Rural Electrification Corp	NTPC	IFCI	Grasim Industries	Indian Oil Corp	
Titan Industries	Sterlite Industries	Indian Hotels	IDBI Bank	Indian Overseas Bank	
	Tech Mahindra	Patni Computer	IRB Infrastructure	ITC	
	Ultratech Cement	Shriram Transport	Monsanto India	Jet Airways	
	United Phosphorus	Thermax	NHPC	Mahindra & Mahindra	
	Voltas	Torrent Power	NMDC	Motherson Sumi	
		Union Bank	ONGC	National Fertilizers	
		United Spirits	Phoenix Mills	Nestle India	
			SAIL	Shipping Corp	
			Tata Communications	Syndicate Bank	
			Tata Global Beverages	Tata Chemicals	
			Zee Entertainment Enterprises	UCO Bank	
1-Nov	2-Nov	3-Nov	4-Nov	5-Nov	6-Nov
Century Textiles	Jai Corp	Oriental Bank			
JSW Energy	Neyveli Lignite				
8-Nov	9-Nov	10-Nov	11-Nov	12-Nov	13-Nov
IDFC	Hindalco Industries		Apollo Tyres	Tata Power	
			Ranbaxy Laboratories		
			Shree Cement		

Source: BSE, Kotak Institutional Equities

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	20-Oct-10		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target	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)	
			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)	(%)
Consumer products																														
Asian Paints	2,604	ADD	249,813	5,632	96	71.5	89.0	104.3	85.3	24.4	17.3	36.4	29.3	25.0	22.5	18.2	15.3	15.6	12.1	9.7	1.0	1.4	1.7	51.8	47.9	44.4	3,000	15.2	8.9	
Colgate-Palmolive (India)	846	SELL	115,077	2,594	136	31.1	34.5	39.6	44.2	10.9	14.6	27.2	24.5	21.4	22.3	18.2	15.5	35.3	30.1	25.7	2.4	3.1	3.5	156.1	132.3	129.4	830	(1.9)	3.1	
Dabur India	102	ADD	177,015	3,990	1,731	2.9	3.4	4.2	28.2	16.8	23.3	35.3	30.2	24.5	26.2	21.0	17.1	16.8	13.0	10.8	1.5	1.7	2.1	54.3	49.0	48.4	115	12.5	5.4	
GlaxoSmithkline Consumer (a)	2,057	ADD	86,502	1,950	42	55.4	68.8	83.9	23.6	24.3	22.0	37.2	29.9	24.5	20.8	18.0	14.3	9.7	8.0	6.7	0.9	1.1	1.3	27.9	29.1	29.6	2,200	7.0	1.0	
Godrej Consumer Products	390	ADD	126,184	2,845	324	11.3	13.5	18.0	69.5	18.9	33.4	34.4	28.9	21.7	27.3	20.7	15.5	13.1	7.1	6.4	1.0	0.8	0.8	44.6	31.9	31.1	450	15.4	2.5	
Hindustan Unilever	293	SELL	640,107	14,430	2,182	9.4	10.2	12.0	(0.9)	8.4	17.5	31.1	28.7	24.4	21.4	20.6	16.8	24.8	21.4	18.5	2.6	2.9	3.4	71.1	80.2	81.3	250	(14.8)	15.0	
ITC	168	ADD	1,285,291	28,974	7,651	5.3	6.4	7.5	22.6	20.5	17.8	31.6	26.3	22.3	19.2	16.5	13.8	8.7	7.3	6.2	3.0	1.6	1.8	29.2	31.6	31.3	175	4.2	27.7	
Jubilant Foodworks	501	SELL	32,017	722	64	5.5	10.0	13.1	340.6	79.9	31.4	90.5	50.3	38.3	48.1	28.7	19.2	27.2	17.7	12.1	—	—	—	46.6	42.6	37.5	400	(20.2)	25.9	
Jyothy Laboratories	312	ADD	23,899	539	77	11.0	14.3	17.0	99.6	30.1	18.2	28.3	21.7	18.4	23.0	14.7	11.8	5.8	3.9	3.3	1.4	1.2	1.6	16.0	18.4	19.6	320	2.6	0.8	
Marico	128	ADD	78,004	1,758	612	4.4	5.3	6.4	32.9	20.2	20.4	28.7	23.9	19.8	19.6	16.0	13.3	11.7	8.4	6.3	0.5	0.7	0.9	48.9	41.6	36.7	140	9.8	1.9	
Nestle India (a)	3,312	REDUCE	319,338	7,199	96	74.4	90.7	109.8	27.0	22.0	21.0	44.5	36.5	30.2	29.4	24.4	20.6	54.9	41.6	31.8	1.5	1.8	2.2	136.0	129.7	119.5	3,100	(6.4)	4.0	
Tata Global Beverages	129	ADD	79,990	1,803	618	6.1	7.3	8.7	14.5	20.7	19.0	21.4	17.7	14.9	10.3	7.8	6.6	1.6	1.5	1.4	1.5	1.9	2.2	10.2	11.7	12.9	130	0.5	4.7	
Consumer products		Cautious	3,213,239	72,436					23.8	18.4	19.0	32.9	27.7	23.3	21.1	18.0	14.9	11.1	9.2	7.8	2.2	1.9	2.1	33.8	33.1	33.7				
Constructions																														
IVRCL	151	BUY	40,439	912	267	7.9	9.1	11.6	(6.7)	15.0	27.9	19.2	16.7	13.0	9.9	9.4	7.4	2.0	1.8	1.6	0.3	0.3	0.3	11.0	11.3	12.9	205	35.4	7.9	
Nagarjuna Construction Co.	153	BUY	39,270	885	257	7.1	8.9	11.6	6.1	24.3	31.1	21.5	17.3	13.2	10.9	9.5	7.9	1.7	1.6	1.5	0.9	1.3	1.3	9.3	9.8	11.8	205	33.9	4.5	
Punjab Lloyed	126	REDUCE	42,530	959	339	(12.9)	9.8	12.0	79.2	(175.4)	22.4	(9.7)	12.9	10.5	35.8	7.0	6.4	1.4	1.3	1.1	(0.1)	0.3	0.8	(15.8)	10.3	11.4	140	11.6	13.8	
Sadbhav Engineering	1,496	BUY	22,445	506	15	42.8	61.8	87.2	(16.3)	44.3	41.0	34.9	24.2	17.2	19.1	12.8	9.8	5.5	3.7	3.0	0.2	0.4	0.4	15.8	15.1	17.8	1,750	17.0	0.4	
Construction		Attractive	144,683	3,262					(91.1)	4,479	28.0	741.3	16.2	12.6	15.3	8.7	7.4	1.9	1.7	1.5	0.3	0.6	0.7	0.3	10.3	11.8				
Energy																														
Aban Offshore	810	ADD	35,260	795	44	94.5	151.1	129.7	(2.5)	59.9	(14.2)	8.6	5.4	6.2	8.3	6.9	6.6	1.6	1.5	1.3	0.4	0.4	0.5	21.7	32.9	21.9	915	12.9	36.3	
Bharat Petroleum	714	BUY	258,230	5,821	362	58.6	57.0	65.4	230	(3)	14.8	12	13	10.9	6.8	6.6	6.1	1.9	1.7	1.5	2.0	2.6	3.0	14.9	13.3	13.8	855	19.7	28.0	
Cairn India	338	RS	640,324	14,435	1,897	5.5	20.5	36.6	29.0	270.1	78.3	60.9	16.5	9.2	47.9	9.9	6.0	1.9	1.7	1.5	—	—	4.4	3.1	10.7	17.2	—	—	31.8	
Castrol India (a)	484	SELL	119,795	2,701	247	15.4	21.0	21.7	45	36	3.5	31	23	22.3	18.7	14.3	13.7	26.0	24.7	23.5	2.6	3.5	3.6	83.8	109.9	107.9	390	(19.5)	2.4	
GAIL (India)	496	BUY	629,230	14,185	1,268	24.8	26.8	40.3	11.7	8.2	50.4	20.0	18.5	12.3	11.3	11.1	8.7	3.5	3.1	2.6	1.5	1.7	2.5	17.4	16.6	21.7	550	10.9	18.1	
GSPL	125	SELL	70,306	1,585	562	7.3	7.1	8.0	233	(3)	12.6	17	18	15.7	8.5	8.4	7.0	4.1	3.4	3.1	0.8	1.4	2.5	27.1	21.2	20.6	83	(33.6)	6.8	
Hindustan Petroleum	491	BUY	166,454	3,752	339	51.6	52.1	58.5	204.2	1.0	12.4	9.5	9.4	8.4	3.4	3.1	2.9	1.2	1.1	1.0	2.4	3.3	3.7	13.1	11.9	12.1	625	27.3	29.1	
Indian Oil Corporation	409	ADD	993,517	22,397	2,428	49.1	37.9	41.9	399	(23)	10.7	8	11	9.8	6.0	6.2	5.4	1.8	1.7	1.5	3.2	2.8	3.1	22.4	15.3	15.4	480	17.3	13.5	
Oil India	1,452	REDUCE	349,176	7,871	240	115.2	131.9	149.0	13.9	14.6	12.9	12.6	11.0	9.7	5.8	4.4	3.8	2.4	2.1	1.8	2.3	3.0	3.5	16.8	17.9	17.9	1,550	6.7	3.6	
Oil & Natural Gas Corporation	1,350	BUY	2,888,460	65,114	2,139	90.3	116.4	136.7	(1)	29	17.5	15	12	9.9	5.2	4.6	4.0	2.2	2.0	1.7	2.4	3.1	3.6	14.4	16.8	17.7	1,500	11.1	32.9	
Petronet LNG	123	SELL	92,100	2,076	750	5.4	6.5	7.9	(22.0)	20.5	21.8	22.8	18.9	15.5	12.8	10.9	9.4	3.6	3.1	2.7	1.4	1.6	2.2	15.9	16.7	17.6	88	(28.3)	9.9	
Reliance Industries	1,049	REDUCE	3,123,163	70,405	2,976	49.6	57.7	74.4	(2)	16	28.9	21	18	14.1	10.7	8.5	7.0	2.1	1.9	1.7	0.7	0.8	1.0	11.4	12.1	13.9	1,015	(3.3)	132.5	
Energy		Cautious	9,366,014	211,136					36.6	15.9	23.9	15.7	13.5	10.9	7.6	6.5	5.5	2.1	1.9	1.7	1.7	1.9	2.6	13.7	14.3	15.8				
Industrials																														
ABB	896	REDUCE	189,828	4,279	212	16.7	18.3	33.1	(35.2)	9.3	80.7	53.5	49.0	27.1	30.7	28.2	15.8	7.8	6.9	5.7	0.2	0.3	0.4	15.6	15.0	23.0	725	(19.1)	5.4	
BGR Energy Systems	732	BUY	52,672	1,187	72	16.0	28.0	41.1	32.2	74.4	46.9	45.6	26.2	17.8	25.7	15.0	10.7	9.4	7.5	5.7	0.4	1.0	1.1	22.3	31.7	36.1	950	29.9	4.3	
Bharat Electronics	1,764	REDUCE	141,116	3,181	80	96.1	105.9	120.3	(7.4)	10.2	13.6	18.3	16.7	14.7	8.6	7.5	6.3	3.2	2.8	2.4	1.1	1.4	1.4	17.5	17.7	17.6	1,800	2.0	3.6	
Bharat Heavy Electricals	2,499	REDUCE	1,223,310	27,577	490	87.9	114.3	135.5	37.7	30.0	18.5	28.4	21.9	18.4	15.9	12.3	10.2	7.7	6.1	4.9	0.8	1.0	1.2	29.8	31.1	29.3	2,600	4.0	31.8	
Crompton Greaves	311	REDUCE	199,410	4,495	642	12.8	14.0	16.3	46.5	9.0	16.6	24.2	22.2	19.0	14.0	12.5	10.5	7.9	6.1	4.8	0.4	0.6	0.7	37.9	31.1	28.2	320	2.9	9.2	
Larsen & Toubro	2,005	ADD	1,207,411	27,218	602	57.9	76.7	90.5	15.6	32.3	18.1	34.6	26.1	22.1	19.1	13.8	11.7	5.4	4.4	3.8	0.6	0.6	0.7	18.6	18.8	18.5	2,200	9.7	54.5	
Maharashtra Seamless	435	BUY	30,845	691	71	40.2	43.6	49.8	12.1	8.5	14.2	10.8	10.0	8.7	5.9	5.1	4.1	1.9	1.7	1.4	1.4	1.8	2.3	19.3	17.9	17.7	450</			

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	20-Oct-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				2010E
Infrastructure																														
Container Corporation	1,275	REDUCE	165,666	3,735	130	61.1	74.3	85.9	0.3	21.7	15.6	20.9	17.2	14.8	14.6	11.9	9.9	3.8	3.3	2.8	1.1	1.3	1.6	19.6	20.6	20.5	1,250	(1.9)	2.8	
GMR Infrastructure	54	ADD	197,468	4,451	3,667	0.4	0.2	0.1	(43.8)	(48.9)	(40.0)	125.0	244.6	407.3	22.5	14.5	13.6	1.9	1.6	1.6	—	—	—	2.4	1.2	0.7	65	20.7	6.7	
GVK Power & Infrastructure	42	BUY	66,801	1,506	1,579	0.8	1.1	1.4	6.7	33.5	32.4	52.0	38.9	29.4	18.0	16.5	16.9	2.1	2.0	1.9	—	0.7	0.7	4.7	5.3	6.7	54	27.7	6.9	
IRB Infrastructure	244	RS	81,080	1,828	332	9.7	12.6	12.1	83.8	29.2	(3.7)	25.1	19.4	20.2	12.2	10.9	10.2	3.5	2.7	2.2	—	—	—	15.6	15.7	11.9	—	—	13.9	
Mundra Port and SEZ	165	REDUCE	332,375	7,493	2,017	3.3	4.3	7.0	55.7	28.9	63.7	49.3	38.3	23.4	36.7	24.1	16.9	9.4	7.8	6.1	—	—	—	20.8	22.3	29.3	150	(9.0)	6.6	
Infrastructure		Attractive	843,390	19,012					16.3	20.5	28.4	40.6	33.7	26.2	21.3	15.8	13.6	3.5	3.0	2.7	—	0.3	0.4	8.7	9.0	10.4				
Media																														
DB Corp	278	BUY	50,492	1,138	182	10.6	13.0	15.7	286.5	22.4	21.0	26.1	21.3	17.6	14.6	12.0	9.9	7.8	6.3	5.5	0.7	1.1	1.4	40.3	32.6	33.2	290	4.4	0.6	
DishTV	54	REDUCE	57,211	1,290	1,063	(2.5)	(2.0)	0.2	(61.9)	(20.7)	(111.0)	(21.5)	(27.1)	245.9	71.3	28.7	13.1	13.9	28.8	25.7	—	—	—	249.0	(69.3)	11.0	55	2.2	3.7	
HT Media	159	NR	37,412	843	235	6.1	7.7	9.2	623.3	25.9	19.8	26.1	20.7	17.3	13.1	10.9	9.1	3.8	3.4	3.1	0.6	1.3	2.5	15.6	17.5	18.9	—	—	0.4	
Jagran Prakashan	134	BUY	40,399	911	301	5.8	6.6	7.7	92.0	13.4	17.0	23.0	20.3	17.3	13.8	11.7	10.0	6.6	6.0	5.5	2.6	3.0	3.7	30.0	31.1	33.3	145	8.1	1.8	
Sun TV Network	504	REDUCE	198,754	4,480	394	13.1	18.0	22.5	44.8	36.9	25.2	38.4	28.0	22.4	21.8	16.2	13.1	10.3	8.6	7.2	1.5	1.5	1.8	28.4	33.7	35.1	420	(16.7)	3.5	
Zee Entertainment Enterprises	279	REDUCE	121,302	2,735	435	10.6	11.8	14.8	25.7	11.0	25.2	26.3	23.7	18.9	19.2	15.4	11.9	3.1	3.0	2.9	0.9	1.1	1.4	12.8	13.2	16.0	300	7.5	14.9	
Media		Neutral	505,571	11,397					185.8	33.9	40.7	41.6	31.1	22.1	20.0	15.4	11.8	6.0	5.6	5.0	1.1	1.3	1.7	14.4	17.9	22.9				
Metals																														
Hindalco Industries	203	ADD	388,829	8,765	1,914	20.0	14.5	16.3	25.0	(27.4)	12.7	10.2	14.0	12.4	5.9	8.0	8.2	1.8	1.6	1.4	0.7	0.7	0.7	20.4	12.2	12.3	225	10.8	31.9	
Hindustan Zinc	1,227	BUY	518,447	11,687	423	95.6	95.4	116.4	48.2	(0.2)	22.0	12.8	12.9	10.5	8.6	7.6	5.1	2.8	2.3	1.9	0.5	0.5	0.5	25.1	20.2	20.4	1,430	16.5	5.0	
Jindal Steel and Power	700	REDUCE	652,283	14,704	931	38.4	50.9	56.0	17.3	32.7	9.9	18.3	13.8	12.5	12.6	9.1	7.6	5.8	4.0	3.1	0.2	0.3	0.3	37.8	34.9	28.0	625	(10.8)	23.3	
JSW Steel	1,260	REDUCE	317,776	7,164	252	80.4	71.9	112.2	481.1	(10.6)	56.1	15.7	17.5	11.2	11.4	9.4	6.4	2.9	1.8	1.4	0.6	0.7	0.8	16.0	12.5	13.6	1,150	(8.7)	39.8	
National Aluminium Co.	399	SELL	256,822	5,789	644	12.6	14.3	17.3	(34.9)	13.3	20.5	31.5	27.8	23.1	15.0	12.4	10.2	2.5	2.3	2.2	0.6	1.3	1.3	8.1	8.6	9.8	260	(34.8)	1.8	
Sesa Goa	348	REDUCE	309,794	6,984	890	29.6	52.5	54.0	23.5	77.6	2.8	11.8	6.6	6.5	9.7	4.4	6.1	3.9	2.5	1.8	1.0	1.0	1.0	35.8	34.9	31.5	320	(8.1)	44.7	
Sterlite Industries	170	ADD	571,986	12,894	3,362	12.0	13.7	18.7	2.8	13.6	36.7	14.2	12.5	9.1	9.1	7.8	4.8	1.5	1.4	1.2	0.6	0.6	0.6	12.9	11.7	14.2	200	17.5	36.4	
Tata Steel	616	REDUCE	563,002	12,692	914	(3.6)	66.5	70.0	(103.6)	(1,968.8)	5.2	(173.0)	9.3	8.8	11.2	6.0	5.7	2.4	1.8	1.5	1.3	1.3	—	(1.5)	22.4	18.8	650	5.6	108.4	
Metals		Cautious	3,578,939	80,679					(19.7)	46.7	17.0	17.7	12.1	10.3	9.7	7.0	6.3	2.5	2.0	1.7	0.7	0.7	0.5	14.3	16.8	16.4				
Pharmaceutical																														
Apollo Hospitals	518	BUY	66,670	1,503	129	10.9	14.1	17.8	28.8	28.4	26.5	47.3	36.8	29.1	22.8	16.6	14.0	4.0	3.8	3.3	—	—	—	8.3	9.8	11.4	520	0.4	1.9	
Biocon	443	BUY	88,620	1,998	200	14.8	17.5	21.7	216.4	17.8	24.3	29.9	25.4	20.4	17.3	14.7	12.3	4.9	4.3	3.7	—	—	—	17.9	18.5	19.9	430	(3.0)	10.9	
Cipla	333	REDUCE	267,373	6,027	803	13.7	14.0	16.6	38.1	1.9	19.2	24.3	23.9	20.0	17.4	16.0	13.6	4.5	3.9	3.4	0.6	0.8	0.8	21.1	17.6	18.2	295	(11.4)	11.7	
Cadila Healthcare	690	REDUCE	141,225	3,184	205	24.7	33.9	39.3	66.9	37.2	16.1	27.9	20.4	17.5	18.1	13.9	11.9	8.7	6.5	5.0	0.7	1.0	1.1	36.0	36.4	32.3	600	(13.0)	1.9	
Dishman Pharma & chemicals	184	ADD	14,994	338	81	14.4	17.8	22.8	(19.7)	23.7	28.0	12.8	10.3	8.1	9.7	7.9	6.1	1.9	1.6	1.4	—	—	—	15.5	16.8	18.3	230	24.8	0.8	
Dii's Laboratories	702	REDUCE	91,703	2,067	131	26.1	34.0	44.9	(18.2)	30.4	32.1	26.9	20.7	15.6	19.9	15.2	10.9	6.0	5.0	4.0	—	—	—	24.7	26.4	28.5	800	13.9	3.0	
Dr Reddy's Laboratories	1,585	REDUCE	269,142	6,067	170	48.0	68.4	72.2	48.1	42.6	5.5	33.0	23.2	22.0	18.2	13.2	12.3	7.1	5.6	4.6	0.7	0.5	0.6	22.2	27.0	22.9	1,150	(27.4)	16.2	
GlaxoSmithkline Pharmaceuticals (a)	2,361	REDUCE	199,992	4,508	85	59.1	69.7	79.2	8.1	18.0	13.5	40.0	33.9	29.8	23.3	19.8	17.1	11.2	9.5	8.1	—	—	—	29.8	30.4	29.4	1,880	(20.4)	2.0	
Glenmark Pharmaceuticals	307	NR	84,224	1,899	274	12.7	19.2	20.3	14.7	50.6	5.6	24.1	16.0	15.2	15.2	9.9	9.5	3.6	3.0	2.5	—	—	—	16.7	19.9	17.6	—	—	6.1	
Jubilant Organosys	319	BUY	50,680	1,142	159	26.5	31.8	38.9	49.0	19.8	22.4	12.0	10.0	8.2	9.0	8.1	6.5	2.3	1.9	1.6	0.6	0.8	0.9	26.3	21.7	21.1	400	25.3	1.9	
Lupin	437	ADD	193,149	4,354	442	15.4	19.8	25.5	27.9	28.7	28.7	28.3	22.0	17.1	24.0	17.4	13.8	8.3	7.9	6.9	3.0	3.3	3.5	36.6	37.2	43.6	400	(8.4)	9.3	
Piramal Healthcare	544	REDUCE	113,797	2,565	209	22.4	13.3	9.5	29.7	(40.4)	(28.9)	24.3	40.8	57.4	17.5	8.6	7.5	6.8	1.2	1.1	1.0	1.1	0.6	30.7	140.7	16.5	490	(10.0)	28.0	
Ranbaxy Laboratories	587	SELL	251,514	5,670	428	7.1	27.5	14.8	(128.4)	289.4	(46.0)	83.1	21.3	39.5	20.0	12.2	20.3	6.4	4.6	4.2	—	0.7	0.7	6.9	22.9	10.5	340	(42.1)	15.5	
Sun Pharmaceuticals	2,038	REDUCE	422,048	9,514	207	65.2	90.4	87.4	(25.7)	38.6	(3.3)	31.2	22.5	23.3	24.1	16.8	16.4	5.1	4.3	3.7	0.7	0.7	0.7	17.8	21.0	17.3	1,835	(9.9)	9.0	
Pharmaceuticals		Attractive	2,255,132	50,837					45.2	34.5	4.9	30.6	22.7	21.7	18.9	14.1	13.2	5.7	4.1	3.5	0.6	0.8	0.8	18.6						

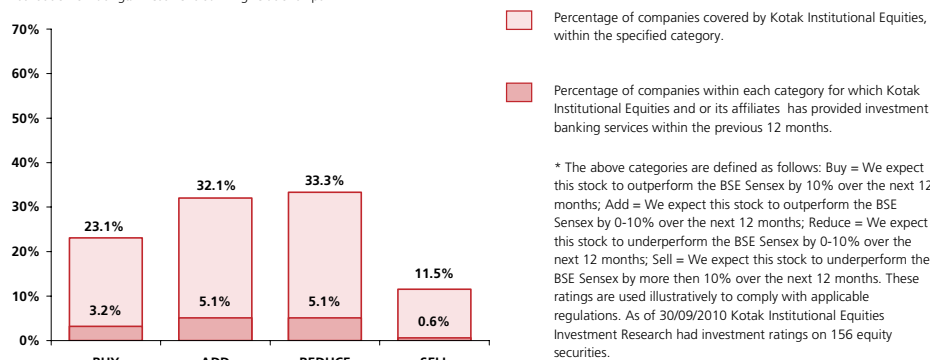
Kotak Institutional Equities: Valuation summary of key Indian companies

Company	20-Oct-10		Mkt cap.		O/S shares (mn)	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price		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	(Rs)	(%)		
Retail																														
Titan Industries	3,172	ADD	140,792	3,174	44	57.3	83.9	110.9	29.3	46.5	32.2	55.4	37.8	28.6	35.2	25.5	19.4	19.1	13.4	9.5	0.5	0.4	0.4	38.7	41.7	38.8	3,600	13.5	12.9	
Retail		Neutral	140,792	3,174					29.3	46.5	32.2	55.4	37.8	28.6	35.2	25.5	19.4	19.1	13.4	9.5	0.5	0.4	0.4	34.5	35.4	33.2				
Sugar																														
Bajaj Hindustan	128	SELL	24,580	554	191	5.3	2.1	12.0	64.6	(60.3)	467.3	24.2	60.9	10.7	9.1	8.4	5.7	1.1	1.0	0.9	0.5	0.5	0.5	4.5	1.7	9.3	91	(29.2)	4.6	
Balrampur Chini Mills	88	ADD	22,620	510	257	4.6	9.6	9.3	(39.8)	109.7	(3.1)	19.2	9.1	9.4	9.1	5.7	4.7	1.6	1.4	1.3	0.5	0.5	0.5	8.6	16.6	14.3	101	14.6	4.6	
Shree Renuka Sugars	84	REDUCE	56,029	1,263	670	9.1	4.9	5.5	173.4	(46.3)	11.5	9.2	17.1	15.3	5.6	7.5	6.3	2.2	1.8	1.5	0.5	0.4	0.4	29.9	12.4	12.2	79	(5.6)	14.1	
Sugar		Cautious	103,229	2,327					72.7	(25.8)	35.5	12.4	16.8	12.4	7.3	7.3	5.7	1.6	1.5	1.3	0.5	0.5	0.5	13.3	8.8	10.5				
Technology																														
HCL Technologies	426	REDUCE	294,009	6,628	690	17.5	22.8	28.3	0.2	29.9	24.3	24.3	18.7	15.1	11.8	11.1	8.9	4.2	3.7	3.2	0.9	1.4	1.4	19.3	21.4	23.0	390	(8.5)	9.3	
Hexaware Technologies	85	REDUCE	12,174	274	144	9.3	5.0	9.4	127.7	(46.3)	87.7	9.1	16.9	9.0	4.6	10.8	5.5	1.4	1.3	1.2	1.2	1.2	1.2	17.8	8.2	14.0	72	(15.0)	1.7	
Infosys Technologies	3,019	BUY	1,732,676	39,059	574	108.3	122.4	153.4	5.7	13.0	25.3	27.9	24.7	19.7	20.5	17.0	13.6	7.5	6.7	5.5	0.8	2.0	1.5	30.1	28.7	30.5	3,400	12.6	65.6	
Mphasis BFL	620	SELL	130,722	2,947	211	43.6	50.3	45.6	207.5	15.5	(9.3)	14.2	12.3	13.6	11.4	9.8	9.3	5.6	4.0	3.1	0.6	0.6	0.7	48.1	37.5	25.8	550	(11.3)	6.8	
Mindtree	519	REDUCE	21,378	482	41	52.2	27.4	39.3	294.3	(47.5)	43.3	10.0	19.0	13.2	8.6	10.4	7.1	3.2	2.9	2.4	0.4	0.3	0.8	35.2	16.1	20.2	450	(13.4)	1.1	
Patni Computer Systems	458	REDUCE	60,939	1,374	133	36.6	41.3	37.5	36.4	12.8	(9.1)	12.5	11.1	12.2	6.2	5.3	4.4	1.7	1.6	1.4	1.5	1.8	1.6	18.2	15.1	12.4	450	(1.6)	13.8	
Polaris Software Lab	170	SELL	16,969	383	100	15.4	19.4	19.8	16.9	26.2	2.2	11.1	8.8	8.6	5.4	6.8	5.8	1.9	1.7	1.4	2.1	2.2	2.3	18.6	20.4	18.0	180	5.8	3.0	
Satyam Computer Services	81	REDUCE	95,256	2,147	1,176	2.5	5.0	5.4	(190.7)	102.3	7.0	32.6	16.1	15.1	16.2	10.4	7.6	5.1	5.3	3.9	—	—	—	58.5	32.2	30.0	80	(1.2)	37.9	
TCS	963	BUY	1,885,273	42,499	1,957	35.1	42.1	48.2	32.8	19.8	14.5	27.4	22.9	20.0	20.8	16.8	14.0	9.0	7.4	6.2	2.1	1.7	2.0	37.6	35.6	33.9	965	0.2	35.1	
Tech Mahindra	754	REDUCE	93,359	2,105	124	65.1	68.9	67.8	(9.6)	5.7	(1.5)	11.6	10.9	11.1	9.3	11.4	10.1	3.2	2.7	2.2	0.5	0.3	0.3	29.5	20.3	16.2	735	(2.5)	8.7	
Wipro	464	ADD	1,135,253	25,592	2,447	18.9	22.3	25.7	22.1	18.1	15.6	24.6	20.8	18.0	18.7	15.1	12.5	5.8	4.7	3.9	0.8	1.0	1.2	26.5	25.0	23.7	465	0.2	14.3	
Technology		Attractive	5,478,009	123,490					24.0	17.3	16.3	24.9	21.2	18.2	18.0	15.2	12.4	6.5	5.6	4.6	1.2	1.6	1.5	26.3	26.3	25.3				
Telecom																														
Bharti Airtel	321	REDUCE	1,219,979	27,502	3,798	23.6	20.0	20.7	5.8	(15.6)	3.9	13.6	16.1	15.5	7.7	8.5	7.0	2.9	2.5	2.1	—	—	—	24.4	16.5	14.7	305	(5.1)	43.3	
IDEA	70	REDUCE	231,151	5,211	3,300	2.7	2.2	1.5	(5.8)	(19.7)	(30.8)	25.6	31.9	46.2	8.7	9.6	8.1	2.0	1.9	1.8	—	—	—	7.2	6.2	4.2	55	(21.5)	9.6	
MTNL	67	SELL	41,958	946	630	(15.6)	(10.4)	(9.1)	(750.8)	(33.7)	(11.9)	(4.3)	(6.4)	(7.3)	(0.6)	(0.7)	(1.0)	0.4	0.4	0.4	—	—	—	(8.5)	(6.1)	(5.7)	50	(24.9)	2.4	
Reliance Communications	174	SELL	371,165	8,367	2,133	22.1	6.0	9.4	(30.2)	(72.8)	56.1	7.9	29.0	18.6	7.2	9.8	8.1	1.0	0.9	0.9	0.4	—	—	11.7	3.2	4.9	125	(28.2)	20.1	
Tata Communications	313	REDUCE	89,291	2,013	285	14.0	15.2	15.7	3.2	8.2	3.5	22.4	20.7	20.0	9.1	8.4	8.0	1.3	1.2	1.2	2.1	2.4	2.7	5.2	5.5	5.5	225	(28.2)	3.0	
Telecom		Cautious	1,953,544	44,038					(15.9)	(33.1)	9.5	13.8	20.6	18.8	8.0	9.1	7.5	1.8	1.6	1.5	0.2	0.1	0.1	12.8	7.9	8.0				
Utilities																														
Adani Power	134	ADD	291,902	6,580	2,180	0.8	4.8	19.1	NM	510.9	298.8	170.9	28.0	7.0	139.9	23.4	6.5	5.1	4.3	2.7	—	—	—	4.2	16.6	46.7	143	6.8	5.3	
CESC	376	ADD	47,001	1,060	125	35.2	37.3	44.3	9.3	5.7	18.9	10.7	10.1	8.5	6.8	5.7	6.2	1.1	1.0	0.9	1.2	1.2	1.5	11.1	10.4	11.3	466	23.9	2.6	
Lanco Infratech	67	BUY	160,774	3,624	2,405	2.1	4.1	5.4	46.6	92.8	30.4	31.4	16.3	12.5	16.7	9.1	7.7	4.8	3.7	2.9	—	—	—	17.4	23.9	24.2	83	24.2	6.3	
NHPC	31	SELL	386,858	8,721	12,301	1.9	1.4	1.7	74.9	(25.2)	19.7	17.0	22.7	19.0	10.9	11.5	8.9	1.5	1.5	1.4	1.7	1.2	1.4	9.7	6.6	7.6	28	(11.0)	7.9	
NTPC	205	REDUCE	1,693,618	38,179	8,245	10.8	12.5	14.7	9.6	16.2	17.4	19.1	16.4	14.0	14.5	12.7	10.6	2.7	2.4	2.2	2.0	2.3	2.7	14.5	15.4	16.6	210	2.2	13.4	
Reliance Infrastructure	1,053	ADD	259,091	5,841	246	61.8	65.0	84.5	(1.5)	5.3	30.0	17.1	16.2	12.5	18.3	16.2	11.3	1.3	1.3	1.2	0.8	0.9	1.0	6.3	7.3	10.1	1,160	10.2	26.0	
Reliance Power	158	SELL	377,608	8,512	2,397	2.9	3.1	5.3	179.7	9.8	70.0	55.2	50.3	29.6	(516.6)	228.0	35.6	2.6	2.5	2.3	—	—	—	4.8	5.1	8.1	135	(14.3)	7.7	
Tata Power	1,392	ADD	343,482	7,743	247	60.2	69.2	88.5	20.1	15.0	27.8	23.1	20.1	15.7	14.3	12.8	11.0	2.6	2.4	2.1	0.9	1.0	1.1	12.9	12.5	14.3	1,420	2.0	12.3	
Utilities		Attractive	3,560,335	80,260					23.8	16.9	38.3	22.5	19.2	13.9	17.6	14.9	10.7	2.4	2.2	2.0	1.3	1.4	1.6	10.6	11.4	14.1				
Others																														
Havells India	415	SELL	24,985	563	60	5.3	31.6	45.0	3.7	497.9	42.6	78.6	13.1	9.2	12.2	7.5	6.0	6.9	4.5	3.1	0.6	0.6	0.7	6.6	41.6	39.7	497	19.7	9.0	
Jaiprakash Associates	127	BUY	271,212	6,114	2,129	1.5	5.5	7.4	(27.2)	279.8	34.1	87.5	23.0	17.2	21.9	16.1	11.4	3.2	2.7	2.4	—	—	—	4.1	12.8	14.9	170	33.4	26.6	
Sintex	433	REDUCE	59,082	1,332	136	24.1	29.3	33.7	0.5	21.6	14.9	18.0	14.8	12.9	14.6	9.6	8.4	2.8	2.3	2.0	0.3	0.3	0.3	15.5	15.8	15.3	420			

" Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Sanjeev Prasad, Kawaljeet Saluja, Manish Karwa, Jairam Nathan, Lokesh Garg, Manoj Menon, Akilesh Tilotia, Ajay Mathrani, M.B. Mahesh, Nischint Chawathe, Gundeep Singh, Rohit Chordia, Murtuza Arsiwalla, Gundeep Singh, Amit Kumar, Jasdeep Walia, Anmol Ganjoo, Priti Arora, Suvodeep Rakshit. "

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.

CS = Coverage Suspended. Kotak Securities has suspended coverage of this company.

NC = Not Covered. Kotak Securities does not cover this company.

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.

NA = Not Available or Not Applicable. The information is not available for display or is not applicable.

NM = Not Meaningful. The information is not meaningful and is therefore excluded.

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

Copyright 2010 Kotak Institutional Equities (Kotak Securities Limited). All rights reserved.

1. Note that the research analysts contributing to this report may not be registered/qualified as research analysts with FINRA; and
2. Such research analysts may not be associated persons of Kotak Mahindra Inc and therefore, may not be subject to NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

Kotak Securities Limited and its affiliates are a full-service, integrated investment banking, investment management, brokerage and financing group. We along with our affiliates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationships with a significant percentage of the companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. Investors should assume that Kotak Securities Limited and/or its affiliates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material and that the research professionals who were involved in preparing this material may participate in the solicitation of such business. Our research professionals are paid in part based on the profitability of Kotak Securities Limited, which include earnings from investment banking and other business. Kotak Securities Limited generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, Kotak Securities Limited generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of Kotak Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. Kotak Securities Limited does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment.

Certain transactions -including those involving futures, options, and other derivatives as well as non-investment-grade securities - give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavor to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so. We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. For the purpose of calculating whether Kotak Securities Limited and its affiliates holds beneficially owns or controls, including the right to vote for directors, 1% of more of the equity shares of the subject issuer of a research report, the holdings does not include accounts managed by Kotak Mahindra Mutual Fund. Kotak Securities Limited and its non US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies affectively assume currency risk. In addition options involve risks and are not suitable for all investors. Please ensure that you have read and understood the current derivatives risk disclosure document before entering into any derivative transactions.

This report has not been prepared by Kotak Mahindra Inc. (KMInc). However KMInc has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed. Any reference to Kotak Securities Limited shall also be deemed to mean and include Kotak Mahindra Inc.