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New Release

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Tata Power: Improving prices of imported coal could boost consolidated earnings

- ▶ Valuation of coal mines highly sensitive to coal price assumptions
- ▶ Release of capacity from Reliance Infrastructure may improve earnings from extant power capacity
- ▶ Maintain ADD rating with target price of Rs1.400/share

EQUITY MARKETS

India	Change %			
	4-Jan	1-day	1-mo	3-mo
Sensex	17,559	0.5	2.1	2.5
Nifty	5,232	0.6	2.2	2.9
Global/Regional indices				
Dow Jones	10,584	1.5	1.1	11.3
Nasdaq Composite	2,308	1.7	6.1	12.2
FTSE	5,500	1.6	3.5	9.0
Nikkie	10,751	0.9	7.3	11.1
Hang Seng	22,092	1.2	(1.8)	8.1
KOSPI	1,698	0.1	4.5	5.7
Value traded - India				
Cash (NSE+BSE)	212.7		184.2	212.4
Derivatives (NSE)	425.6		715.3	543
Deri. open interest	835.9		1,023	898

Forex/money market

	Change, basis points			
	4-Jan	1-day	1-mo	3-mo
Rs/US\$	46.3	(30)	2	(121)
10yr govt bond, %	7.7	7	5	42
Net investment (US\$m)				
	31-Dec		MTD	CYTD
FIs	179		(869)	17,675
MFs	-		(187)	(1,135)

Top movers -3mo basis

Best performers	Change, %			
	4-Jan	1-day	1-mo	3-mo
SESA IN Equity	413.9	0.7	7.4	54.7
SAIL IN Equity	247.6	2.4	16.8	52.7
IH IN Equity	106.6	3.9	20.7	47.0
TTMT IN Equity	826.5	4.4	16.5	46.7
UNSP IN Equity	1317.8	4.6	(2.3)	44.4
Worst performers				
RCOM IN Equity	175.2	1.7	(2.2)	(41.6)
IBULL IN Equity	128.0	1.4	(5.6)	(31.1)
TCOM IN Equity	339.1	0.9	(10.8)	(28.1)
EDSL IN Equity	757.2	6.1	1.0	(23.8)
PUNJ IN Equity	208.9	2.2	1.8	(19.8)

JANUARY 05, 2010

NEW RELEASE

BSE-30: 17,559

December 2009 quarter earnings preview. We expect the earnings of KIE universe to grow by 1.2% yoy led by Automobiles, Consumers, Metals and Pharma stocks. However, we expect the earnings of KIE universe on an ex-Energy basis to increase by 15.4% yoy and 4.9% qoq—the positive variance on account of a large decline in the earnings of downstream oil companies (Rs57 bn of net loss in 3QFY10E versus Rs33 bn of net income in 3QFY09) due to the subsidy burden on cooking fuels. We expect 3QFY10E/4QCY09E earnings of the BSE-30 Index to increase by 20.3% yoy and earnings of the BSE-30 Index (ex-Energy) to increase by 13.3% yoy.

Earnings of KIE Universe likely to grow by 1.2% yoy

Sector-wise earnings of Kotak coverage companies

	Sales growth (%)		EBITDAM (%)			PAT growth (%)	
	yoy	qoq	Dec-08	Sep-09	Dec-09 (E)	yoy	qoq
Automobiles	66.0	5.1	6.3	15.1	14.9	308.2	3.0
Banking	9.9	6.7	—	—	—	3.5	4.5
Cement	5.1	(3.1)	23.2	32.9	27.4	28.0	(25.6)
Construction	18.3	24.3	2.3	8.5	9.4	312.2	75.5
Consumers	13.1	1.7	21.9	23.0	24.4	23.8	10.4
Energy	23.0	21.4	9.0	10.4	6.2	(54.0)	(59.0)
Industrials	11.9	17.1	12.2	11.8	13.3	0.9	50.8
Infrastructure	62.6	3.7	33.2	34.5	34.2	34.5	(16.5)
Media	14.8	3.9	22.9	31.6	33.4	161.7	13.7
Metals	41.1	16.7	23.0	25.8	25.9	82.3	21.1
Others	1.2	10.6	15.7	20.3	19.9	26.4	11.3
Pharmaceuticals	13.8	5.5	21.7	21.2	23.1	19.8	7.0
Property	30.6	5.2	46.4	48.2	48.6	(9.3)	7.1
Retail	20.3	7.4	7.0	9.4	7.4	53.5	(25.6)
Sugar	96.1	33.9	18.3	16.5	23.1	1,026.5	75.7
Technology	2.1	(0.7)	25.8	26.7	26.3	10.1	(0.6)
Telecom	(4.1)	(3.7)	36.2	35.6	32.6	(36.8)	(23.6)
Utilities	5.8	9.5	22.1	22.6	23.1	(5.5)	9.8
Kotak coverage	19.4	13.6	13.9	15.9	13.4	1.2	(8.4)
Kotak coverage ex-Energy	16.4	7.3	18.2	20.3	19.9	15.4	4.9
BSE 30 Index	30.6	9.6	21.6	23.6	22.2	20.3	0.8
BSE 30 Index ex-Energy	18.5	6.6	20.9	22.6	21.7	13.4	3.4

Source: Company, Kotak Institutional Equities estimates

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AUTO, CONSUMERS, METALS & PHARMA TO LEAD MODEST EARNINGS GROWTH

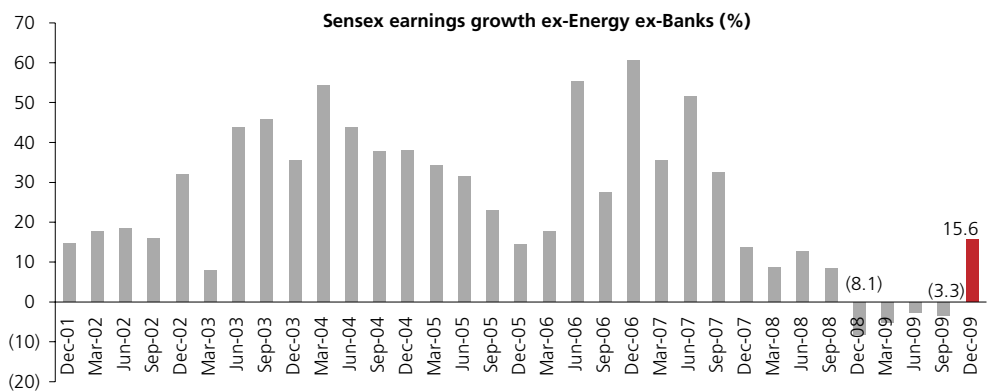
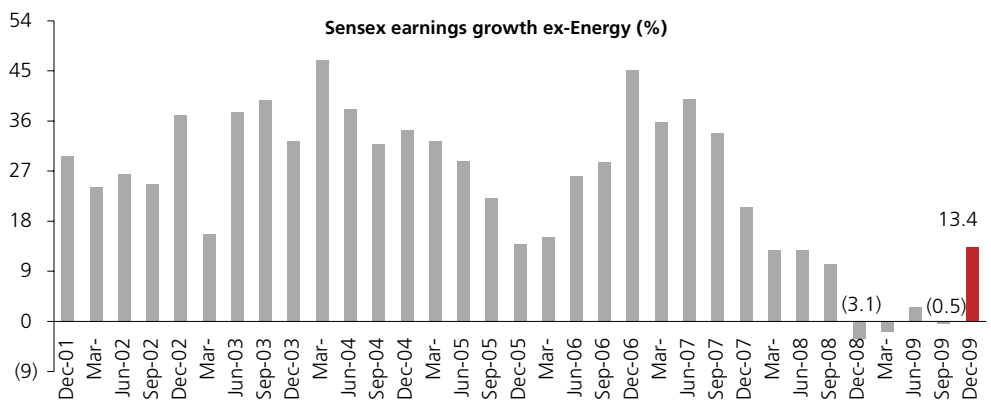
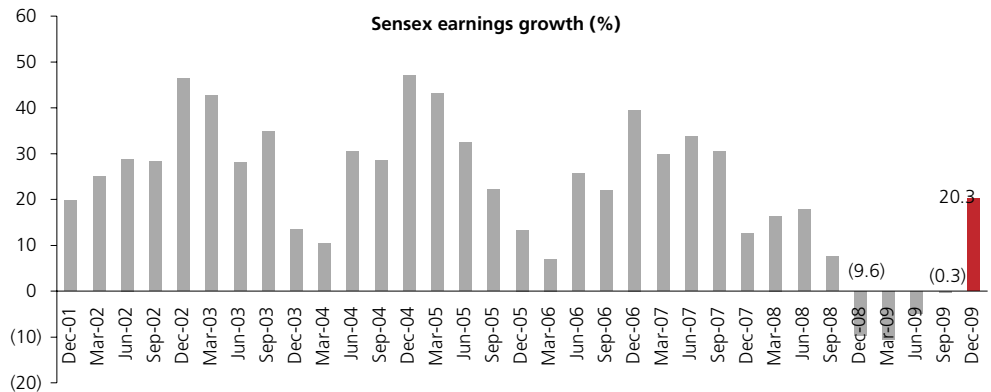
We expect you decline in profits for energy, property and telecom companies

Sector-wise expectations for December 2009 quarter results

	Key points	Key points
Automobiles	EBITDA margins for the quarter are likely to show strong yoy improvement on the back of volume growth and lower raw material costs. Sequentially, revenues and margins are expected to trend flattish as some of the benefits of festival season were reflected in 2QFY10. Amongst the companies in our coverage, we expect Bajaj Auto to show the best sequential improvement in profitability on strong volume pick-up on the back of new product launches and a recovery in export markets.	We expect Maruti's EBITDA margins to show further improvement from 2QFY10 at 13.5% for the quarter as the company operated at close to 100% capacity utilization. Tata Motors is likely to also show sequential margin improvement as the company took pricing action on its CVs and utilizations improved. M&M's margins, while up yoy, are likely to also show a sequential decline given that benefits such as octroi refunds had boosted margins in the quarter prior. Hero Honda is expected to show sequential margin declines on lower volumes and higher raw material costs.
Banking	Asset quality trends are likely to remain stable. We expect retail NPLs to improve, which should benefit private banks. Restructured assets may continue to rise albeit at a slower pace. Amongst private banks, we expect Axis Bank and HDFC Bank to report strong Nil as well as earnings growth, while amongst public banks, PNB will likely deliver superior performance. However, yoy comparisons are likely to appear weak on the back of the very strong base of last year.	Loans have grown by just 8% YTD and about 11% yoy. ICICI Bank is likely to witness a decline in loans yoy, but we expect most other banks to report loan growth at 10-20% yoy. Margins for public banks shall rise as deposits will reprice downwards, while for private banks, we expect stable margins for most of the banks under coverage.
Cement	Cement prices have been weak across regions, with the South seeing retail prices fall below Rs200/bag. We expect earnings of India Cement to see a sharp decline in qoq earnings on account of weak realizations.	Revival of demand towards the middle of the quarter may partly help compensate for the sharp decline in realizations. Shree Cement and Jaiprakash benefit from strong volume growth due to (1) expanded capacities, and (2) robust demand in North.
Chemicals	Decline in global chemical margins qoq will impact the profitability of the chemical segment of Reliance Industries.	
Consumers	Continuing good demand conditions in Tier II and Tier III towns and likely return of demand growth in metros is expected to drive sales growth this quarter. We expect HUL to report sales growth of ~7% yoy with ~5% volume growth, Asian Paints has likely gained market shares (likely 15% volume growth for the quarter) and Colgate's toothpaste business likely had 15% volume growth and toothpowder business flat volumes.	We expect ~14% yoy sales growth in ITC's cigarette segment (likely volume growth of ~7%). ITC FMCG losses may be about Rs1 bn for the quarter and we expect the company to be on track for meeting its targeted Rs4 bn losses for FY2010E. Judicious price adjustments, increase in below-the-line activities and benefits of operating leverage are key triggers to watch. We believe 3QFY10 is the last quarter offering benefits of lower palm oil costs (yoy) to players like Godrej Consumer (value-for-money player) thus enabling them to channelize gross margin expansion to gain market shares and improve market positions.
Energy	Upstream oil: ONGC will likely report a moderate increase in qoq revenues as higher crude price qoq (+US\$7/bbl) will be offset by stronger rupee and higher subsidy loss in 3QFY10E versus 2QFY10. We assume that upstream companies will bear the entire subsidy burden on auto fuels. GAIL will likely report qoq decline in EBITDA due to higher subsidy burden which will be partly mitigated by (1) higher volumes due to start of gas production from RIL's KG D-6 block and (2) higher petchem/LPG prices.	Downstream oil: Performance of R&M companies will be weak led by (1) low underlying refining margins and (2) non-receipt of oil bonds for 9MFY10. We assume under-recoveries of Rs139 bn for the industry for 3QFY10.
Industrials	Industrials: Revenue growth of BHEL and BGR to be boosted by strong order backlogs. We believe margins expansion reported over the last couple of quarters may be sustainable. L&T may yet again report weak execution growth on back of relatively sedate orders in other segments and long execution lead times in power segment. Companies with exposure to industrial capex such as ABB, Siemens to report moderate revenue growth. Expect a pick-up in MW execution to 475 MW in Suzlon to result in positive operating margin but the company may report net loss at the wind business level due to high interest costs.	Construction: Strong order backlog to drive revenue growth after a sedate 1H. However, the Telengana crisis may affect execution for companies having a sizeable exposure to Andhra Pradesh. Over the medium term, the roads sector could be likely driver for growth with several new initiatives taken by the government to boost activity in the sector. Infrastructure: Pick-up in airport traffic would boost revenue growth for GMR and toll collections in IRB Surat-Bharuch project to help report strong revenue growth.
Media	Television: We expect a robust recovery in financial performance of broadcasters led by (1) relative stability in advertising revenue market, (2) contribution of a good festival season (return of normal consumption patterns) and (3) robust growth in subscription revenues driven by DTH even as (4) cost structure remains more or less stable. Dish TV will likely continue in investment mode with (1) robust volume growth but (2) high subsidy burden.	Print: We expect robust revenue growth driven by (1) relative stability in regional advertising revenue market, (2) contribution of a good festival season to incremental advertising and (3) contribution from new media initiatives by key newspaper publishers (JAGP, HTML) in their core markets. Subdued newsprint prices as well as sustainable positive effects of cost rationalization are likely to continue to positively impact EBITDA margins and growth.
Metals	Ferrous: We expect steel companies to report flat to marginal improvement (100-200 bps) in EBITDA margins on a qoq basis, led largely by marginal improvement in steel realizations. However, on a yoy basis, steel prices are sharply down from year-ago levels when they were at near-peak levels. We expect Tata Steel and JSW to report sharp yoy increase in volumes on account of capacity expansion.	Non ferrous: Prices of non-ferrous metals have rallied back to year-ago levels. However, on a sequential basis, they have increased 20-30%. We believe improved realizations will result in increase in EBITDA margin for non-ferrous companies on a qoq basis.
Pharmaceuticals	We expect lower yoy domestic sales growth in 3QFY10E post the strong growth seen in FY2009 for companies such as Lupin, Piramal. For Dr Reddy's, Ranbaxy we estimate sales growth from domestic business to pick-up qoq, post the poor performance in 1HFY10. We include Valtrex exclusivity sales of US\$90 mn for RBXY this quarter. We do not include exclusivity sales of generic Protonix and Caraco sales (only distributed product sales included) for SUN. We include licensing income for Biocon, Glenmark, Lupin this quarter, on account of the deals signed by these companies with Mylan, Medicis, Salix, respectively, in CY2009.	We expect CMOs/CROs such as Jubilant, Dishman, Biocon to report sequential growth in profit in 3QFY10E on the back of (1) increasing EBITDA margin due to operating leverage effect (2) increasing sales on the back of (a) new deals (Jubilant) (b) resumption of supplies to Solvay (Dishman) and (c) ramp-up of BMS research services contract (Biocon)
Property	Most real estate companies will show better yoy results on account of (1) low base effect in 3QFY09 and (2) improvement in execution and success of new project launches. We expect flattish qoq performance as new projects will start contributing to revenues most likely from 4QFY10 or 1QFY11. We are building in an EBITDA decline of 800 bps qoq on account of lower assets sales in Unitech.	We model similar interest cost in 3QFY10 versus 2QFY10 as we factor in high interest capitalization. We expect PVKP to capitalize ~80% of the interest cost. We highlight commercial sales continue to be very weak, which will particularly impact revenues of DLF and UT. DLF will have very limited sales to DAL in 3QFY10, which contributed ~50% of sales in 3QFY09.
Technology	We expect the sequential volume momentum attained over the past two quarters to continue and expect the Tier-I companies to report US\$ revenue growth of 3.5% to 4.8% qoq for the Dec 2009 quarter. We expect Infosys to report sequential revenue growth of 4.1% versus guidance of 0-1% and Wipro to report revenue growth of 4.8% versus guidance of 2.5%-4.5%. We expect growth to be volume-led with stable pricing; our estimates build in a cross-currency movement benefit of 25-50 bps. Tier-II companies with lower fixed price revenue contribution will likely underperform larger peers on account of lower number of billing days.	Consistent estimate upgrades over the past few months have been driven by an underlying assumption of sustained demand momentum. We believe that Dec quarter revenue performance is unlikely to underperform estimates; however, high expectations face the first test in the form of March quarter revenue guidance from Infosys/Wipro and commentary on demand scenario from various players. We expect (1) Infosys and Wipro to guide for 2-4% sequential revenue growth in the March 2010 quarter-this guidance should not be a dampener to expectations, in our view, and (2) Infosys to raise its FY2010E EPS guidance to Rs104-105.
Telecom	We expect pressure on wireless revenues, margins and operational metrics on account of the sharp increase in competitive activity and pricing decline in the market over the past three months.	Key areas of focus (1) RPM impact of the new tariff plans, (2) minutes elasticity, and (3) impact of increasing dual-SIM usage on reported per-sub metrics.
Utilities	Upward revision in prices of domestic coal to partly compensate for lower generation during the quarter. Lanco likely to benefit from part-commissioning of Kodapalli Expn.	Construction revenues to drive revenue growth for Reliance Infrastructure and Lanco as execution of power projects gain momentum.

Source: Kotak Institutional Equities estimates

We expect earnings of BSE-30 Index to grow by 20.3 yoy in 3QFY10E
Earnings growth of BSE-30 Index (%)



Source: Company, Kotak Institutional Equities estimates

JANUARY 05, 2010
UPDATE

Coverage view: **Cautious**

Price (Rs): **1,130**

Target price (Rs): **1,265**

BSE-30: **17,559**

Raising EPS estimates on volume upside. We are raising our EPS estimates for FY2010E to Rs69 from Rs60 prior to reflect better-than-expected tractor and LCV volumes. We expect volume growth to remain strong in FY2011E, driven by new launches in the domestic and export markets. We raised our EPS estimate for FY2011E to Rs77 from Rs64. We are raising our target price to Rs1,265 from Rs1,075 to reflect higher EPS estimates and updated subsidiary valuations. We maintain our ADD rating.

Company data and valuation summary

Mahindra & Mahindra

Stock data		Forecasts/Valuations			
		2010	2011E	2012E	
52-week range (Rs) (high,low)	1,138-259	EPS (Rs)	69.1	77.0	81.4
Market Cap. (Rs bn)	333.0	EPS growth (%)	130.2	11.4	5.7
Shareholding pattern (%)		P/E (X)	16.3	14.7	13.9
Promoters	27.4	Sales (Rs bn)	178.6	204.6	221.8
FIs	27.8	Net profits (Rs bn)	20.4	22.7	24.0
MFs	5.4	EBITDA (Rs bn)	29.2	32.7	34.6
Price performance (%)		EV/EBITDA (X)	12.0	10.8	10.0
Absolute	1M 3M 12M	ROE (%)	31.7	24.8	20.8
Rel. to BSE-30	7.9 25.6 281.4	Div. Yield (%)	0.8	0.8	0.8
	5.7 22.5 115.1				

Volumes continue to surprise on the upside; growth could sustain in FY2011E on new products

We are raising our EPS estimates for FY2010E and FY2011E to Rs69 and Rs77 from Rs60 and Rs64, respectively, primarily reflecting higher volume assumptions. We are now modeling 35% growth in total volumes for FY2010E compared to 27% prior. The increase in volume assumptions is primarily driven by stronger-than-expected growth in tractors and light commercial vehicles, driven by the good reception for the new 4-wheeler GIO. Based on 46% and 41% fiscal year-to-date growth for UVs and tractors, the company would have to register residual growth of 7% for UVs and 35% for tractors to reach our FY2010E volume estimates.

We have also raised our FY2011E volume growth estimate to 17% from 11% prior to reflect continued strong growth in LCVs from the launch of the Maxximo light commercial vehicles. We have assumed fewer than 2,500 units per month of incremental volumes from the new truck in FY2011E.

On the EBITDA margin front, we have modeled 16.4% for FY2010E, declining to 16% in FY2011E.

We expect a strong 3QFY10E with EPS of Rs17 and slight sequential decline in margins

We expect revenues to grow 80% yoy, driven by a 58% improvement in volumes and 15% increase in realizations. We have modeled a slight decrease in EBITDA margins to 16.5% from 2QFY10 levels of 17% (excluding the octroi refund) to reflect higher commodity costs. This could be conservative given the 8% sequential increase in higher margin tractor volumes.

Raising target price to Rs1,265 from Rs1,075 on higher earnings estimates, maintain ADD

The Rs190 increase in our target price is largely reflected by higher earnings estimates, which drove Rs155 of the increase. The rest was driven by higher subsidiary valuation of Rs40. We assign Rs940 in valuation for the standalone business, which we value at 13X EPS excluding dividend income from subsidiaries. We value subsidiaries at a 20% discount to KIE target prices where available or to the current market price.

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M&M, SOTP-based valuation, FY2011E basis

	EPS (Rs/share)	Multiple (X)	Value per share (Rs)	Comment
M&M standalone business	72	13.0	942	Based on 13X FY2011E EPS less dividend income/share from subs
Subsidiaries			324	
Tech Mahindra			149	Based on current price of Rs1020/share
Mahindra Lifespace Developers Ltd			18	Based on KIE target price of Rs410/share
M&M Financial Services Ltd			55	Based on KIE target price of Rs350/share
Other investments			102	Based on current price of Mahindra Holidays, Forgings
SOTP-based value			1,266	
Target price			1,265	

Note

(1) The subsidiaries have been valued at a holding company discount of 20%.

Source: Kotak Institutional Equities estimates

Mahindra & Mahindra volume details, March fiscal-year ends, 2007-2012E

	2007	2008	2009	2010E	2011E	2012E
Utility Vehicles	127,857	148,759	153,655	205,898	230,605	253,666
Tractors	102,536	98,710	118,565	167,061	180,426	196,664
LCVs	-	-	-	8,000	40,000	52,000
3-wheelers	33,718	33,926	44,806	46,374	48,693	51,128
Total vehicles	264,111	281,395	317,026	427,333	499,724	553,458
Growth (yoy %)	2007	2008	2009	2010E	2011E	2012E
Utility Vehicles	11.5	16.3	3.3	34.0	12.0	10.0
Tractors	20.6	(3.7)	20.1	23.0	8.0	9.0
LCVs	-	-	-	-	-	30.0
3-wheelers	50.4	0.6	32.1	3.5	5.0	5.0
Total vehicles	18.9	6.5	12.7	34.8	16.9	10.8

Source: Company, Kotak Institutional Equities estimates

M&M, Profit model, balance sheet and cash flow model, March fiscal year-ends, 2007-2012E (Rs mn)

	2007	2008	2009E	2010E	2011E	2012E
Profit model (Rs mn)						
Net sales	100,682	115,413	130,937	178,579	204,613	221,798
EBITDA	13,048	13,666	10,926	29,240	32,721	32,161
Other income	1,530	1,304	2,703	2,629	2,809	3,209
Interest	675	(242)	(453)	(459)	(1)	353
Depreciation	(2,096)	(2,387)	(2,915)	(3,849)	(4,871)	(5,809)
Profit before tax	13,157	12,340	10,262	27,561	30,657	29,914
Current tax	(3,657)	(2,788)	(585)	(4,270)	(4,599)	(4,487)
Deferred tax	157	(247)	(1,412)	(3,132)	(3,372)	(3,291)
Net profit	10,684	11,034	8,368	21,067	22,686	22,136
Adjusted earnings per share (Rs)	38.8	37.4	29.7	69.1	77.0	72.7
Balance sheet (Rs mn)						
Equity	35,727	44,068	52,621	80,337	103,096	125,224
Total Borrowings	16,360	25,871	40,528	32,578	32,578	32,578
Current liabilities	26,656	32,400	47,978	49,884	53,053	57,254
Total liabilities	78,743	102,339	141,126	162,799	188,726	215,055
Net fixed assets	18,712	23,609	32,143	44,295	55,423	63,114
Investments	22,375	42,151	57,864	56,853	66,853	76,853
Cash	13,261	8,612	15,744	15,563	12,797	16,594
Other current assets	24,221	27,831	35,249	45,962	53,527	58,368
Miscellaneous expenditure	176	135	126	126	126	126
Total assets	78,743	102,339	141,126	162,799	188,726	215,055
Free cash flow (Rs mn)						
Operating cash flow excl. working capital	9,712	10,730	10,395	25,877	28,123	27,674
Working capital changes	1,978	(2,472)	5,918	(8,989)	(4,397)	(640)
Capital expenditure	(4,819)	(7,171)	(9,152)	(16,000)	(16,000)	(13,500)
Free cash flow	6,870	1,087	7,161	888	7,725	13,534
Ratios						
Operating margin (%)	13.0	11.8	8.3	16.4	16.0	14.5
PAT margin (%)	10.6	9.6	6.4	11.8	11.1	10.0
Debt/equity (X)	0.5	0.6	0.8	0.4	0.3	0.3
Net debt/equity (X)	0.0	0.0	(0.1)	(0.2)	(0.2)	(0.3)
Book Value (Rs/share)	142.9	176.6	178.1	272.1	349.4	424.4
RoAE (%)	32.4	27.8	17.4	31.7	24.8	19.4
RoACE (%)	22.4	18.4	10.7	20.8	18.3	14.9

Source: Company, Kotak Institutional Equities estimates

JANUARY 05, 2010
UPDATE

Coverage view: **Attractive**

Price (Rs): **1,389**

Target price (Rs): **1,400**

BSE-30: **17,559**

Improving prices of imported coal could boost consolidated earnings. Prices of imported coal have increased by ~US\$14/ton to US\$81/ton over the past month, and if sustained could benefit near-term earnings and valuations for Tata Power's (TPWR) ownership in the coal mines in Indonesia. Improved realizations on 500 MW power capacity currently sold to Reliance Infrastructure may further enhance earnings from power business. We maintain our ADD rating and target price of Rs1,400/share.

Company data and valuation summary

Tata Power

Stock data		Forecasts/Valuations			
		2010	2011E	2012E	
52-week range (Rs) (high,low)	1,490-602	EPS (Rs)	63.3	70.3	82.8
Market Cap. (Rs bn)	343.0	EPS growth (%)	26.1	11.1	17.7
Shareholding pattern (%)		P/E (X)	22.0	19.8	16.8
Promoters	31.1	Sales (Rs bn)	181.8	195.4	219.6
FIs	23.9	Net profits (Rs bn)	15.6	17.4	20.4
MFs	7.3	EBITDA (Rs bn)	38.4	42.7	51.3
Price performance (%)		EV/EBITDA (X)	13.9	13.5	11.8
Absolute	1M 3M 12M	ROE (%)	13.7	12.8	13.6
Rel. to BSE-30	2.1 8.7 66.8	Div. Yield (%)	0.9	1.0	1.1
	0.0 6.1 (5.9)				

Valuation of coal mines highly sensitive to coal price assumptions

Our valuation for TPWR's ownership in the coal mines in Indonesia increases by Rs114/share for every US\$10/ton increase in our assumption for sustainable coal prices. We note that prices of imported coal have increased by ~US\$14/ton over the past month and are currently at US\$81/ton. We currently factor sustainable realizations of US\$60/ton (from FY2012E), yielding a value of Rs217/share for TPWR's economic interest in the coal mines.

We assume realizations of US\$64/ton in FY2010E and US\$62/ton in FY2011E on volumes of 57.8 mn tons and 64.7 mn tons, respectively. The coal mines contribute EPS of Rs25/share in FY2010E and Rs30/share in FY2011E in comparison to consolidated EPS of Rs63.3/share for FY2010E and Rs70/share for FY2011E. We note that a US\$10/ton increase in FY2011E realization could improve EPS by Rs17/share.

Release of capacity from Reliance Infrastructure may improve earnings from extant power capacity

TPWR currently supplies 500 MW of power to Reliance Infrastructure under the cost-plus tariff regime. However, TPWR has indicated that it would discontinue supplies to RELI from April 2010. Our model currently assumes sale of this 500 MW to continue on a cost-plus regime, and a Re1/kwh incremental tariff can add Rs68/share to our valuation for TPWR. TPWR will likely announce their plans for sale of these capacities in the current quarter.

We note that TPWR already benefits from the merchant sale of 190 MW of capacities, comprising 100 MW at Trombay and 90 MW at Haldia, and improvement in merchant realizations could boost near-term earnings for the company. We expect increase in units available for merchant sale with the stabilization of these units.

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Targeting portfolio of 10 GW, 5.8 GW by FY2012

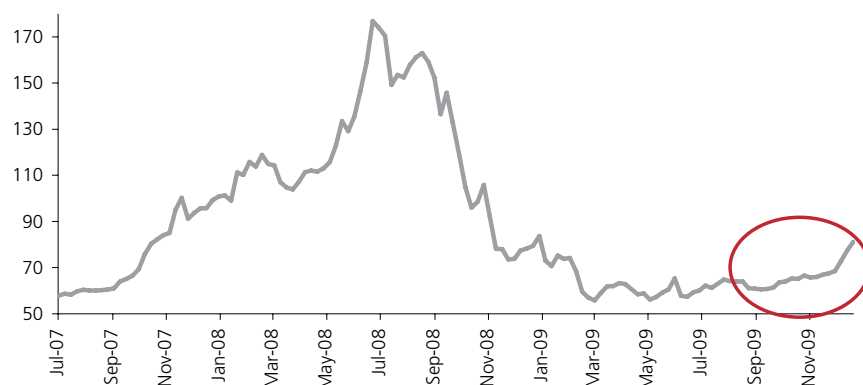
TPWR has so far added 190 MW in 1HFY10, taking the aggregate capacity of the company to 2,975 MW. Power capacities commissioned so far include 30 MW at Haldia, 120 MW under IEL (74% ownership by TPWR) and 40 MW of wind capacity. Management has reported satisfactory progress in project implementation at Mundra (4,000 MW) and Maithon (1,050 MW) and expressed confidence in being able to commission these projects ahead of schedule.

TPWR has signed an MoU with Tata Steel and Corus Staal BV for constructing a 525 MW power plant for the latter at its facilities in The Netherlands. TPWR has also recently signed an exclusive partnership agreement with SN Power of Norway, for setting up hydro projects aggregating 2,000 MW by FY2015E and 4,000 MW by FY2020E, through joint ventures in India and Nepal.

Maintain ADD rating with target price of Rs1,400/share

We maintain our ADD rating and SOTP-based target price of Rs1,400/share. Our SOTP valuation comprises four components—(1) value of operating power assets and projects nearing completion (Rs601/share), (2) valuation of investments and cash in books equivalent to Rs357/share, (3) projects under-implementation (Rs220/share) and (4) valuation of stake in coal mines in Indonesia valued at Rs217/share. Upside risks to our estimates emanate from (1) firmness in prices of imported coal, and (2) higher contribution from merchant sales due to improved realizations.

Exhibit 1: International prices of coal have increased by US\$14/ton over the last one month
Coal prices at Richard Bay (US\$/ton)



Source: Bloomberg, Kotak Institutional Equities

Exhibit 2: Valuations TPWR's stake in the coal mines is highly sensitive to assumptions of long-term coal realizations

Sensitivity of TPWR's stake in coal mines (Rs/share)

	Long-term coal price (US\$/ton)		
	50	60	70
8	138	282	426
10	103	217	330
12	81	175	269

Source: Kotak Institutional Equities estimates

Exhibit 3: Income statement for SPV's valuing holding economic interest in coal mines
Income statement, March fiscal year-ends, 2008-12E (US\$ mn)

	2008	2009	2010E	2011E	2012E
Dividend income	80	268	206	228	229
Net interest income	—	10	7	10	16
Interest	(40)	(54)	(48)	(42)	(36)
Pretax profits	40	223	164	196	210
Tax	(6)	(33)	—	—	—
Net profits	34	190	164	196	210

Key assumptions for Bumi Resources					
Realization per ton (US\$)	44.0	72.6	63.9	61.7	60.0
Volumes (mn tons)	53.4	55.0	57.8	64.7	74.4

Source: Company, Kotak Institutional Equities estimates

Exhibit 4: TPWR has a strong project pipeline with key project clearances already in place
Details of future projects likely to be undertaken by TPWR

Project	Capacity (MW)	TPWR's stake (%)	Attributable capacity (MW)	Comments
Dagacchu hydropower in Bhutan	114	26	30	Under construction
CPP for Corus in Netherlands	525	74	389	Using flue gases
CPP for Tata Steel in Jharkhand	500	74	370	High visibility of Tata Steels's expansion project
IPP in Orissa using coal from Mandakini coal mines	1,000	100	1,000	Coal mine plan approved, land acquisition in progress
IPP using coal from Tubed coal mines	500	100	500	Coal mining plan submitted
Coastal Maharashtra project	2,400	100	2,400	Pending land acquisition
CPP for Tata Steel in Orissa	270	74	200	Contingent on Tata Steel's expansion project
CPP for Indian Oil Corp. in Orissa	1,000	74	740	Contingent on IOC's expansion project
Total	6,309		5,628	

Source: Company, Kotak Institutional Equities

Exhibit 5: Tata Power, Sum-of-the-parts valuation

	Methodology	Key assumptions/comments	FY2010E Book value per share (Rs)	Per share value (Rs)
Mumbai (Generation, transmission & distribution business)	DCFe CoE: 12% Term. Yr. Grth: 4%	The business enjoys very high predictability of cash flows	101	248
Other generation assets	Price/Book (X)	P/B of 2X for operational generation capacity at Jojobera (548 MW), Belgaum (81 MW), Haldia (30 MW) and wind assets (181 MW); 5X for Haldia (merchant 90 MW) . P/B of 1.5X for projects under construction - 120 MW at Jojobera; CPPs and IPP under development in Orissa.	60	274
Powerlinks Transmission Ltd	Price/Book (X)	We value the equity investment at 1.5X book: The project earns a regulated RoE of 15.5% as per the CERC tariff guideline for inter-state transmission project	10	15
Delhi Distcom (NDPL)	DCFs CoE: 12% Term. Yr. Grth: 2%	NDPL earns 16% RoE provided it meets certain A,T&C loss reduction benchmarks. It is also incentivized by way of higher returns in the event of bettering the benchmarks	16	52
Tata BP Solar	P/E (X)	12X P/E on FY09	1	15
Investments	Various	20% discount to CMP/ KIE target price	82	161
Investible surplus on books	Market value	Marketable securities & cash on books	-	197
Bumi Resources	DCF	Net economic interest - based on dividend discount model	41	217
Mundra UMPP	DCF-equity	Levelized tariff of Rs2.26/unit for 25 years	112	174
Maithon	DCF-equity	74% stake in 1,050 MW project; 300 MW to be sold to DVC, 300 MW to NDPL, 300 MW to Punjab and 150 MW to West Bengal (regulated returns); Coal linkage allocated	23	46
TOTAL			498	1,398

Source: Kotak Institutional Equities estimates

Exhibit 6: Tata Power: Profit model, balance sheet, cash model (Consolidated) 2007-2012E, March fiscal year-ends (Rs mn)

	2007	2008	2009	2010E	2011E	2012E
Profit model (Rs mn)						
Net sales	64,756	108,909	175,875	181,764	195,357	219,645
EBITDA	10,786	21,221	36,496	37,862	42,113	50,634
Other income	2,671	1,641	2,266	4,846	4,846	4,994
Interest	(2,833)	(4,881)	(8,129)	(8,561)	(9,533)	(12,656)
Depreciation	(4,148)	(5,593)	(6,565)	(8,134)	(9,242)	(11,500)
Pretax profits	6,476	12,389	24,069	26,013	28,184	31,471
Tax	(816)	(4,083)	(11,651)	(9,141)	(9,647)	(9,950)
Minority interest	6	(1,219)	(800)	(1,254)	(1,184)	(1,089)
Net profits	5,667	7,088	11,618	15,617	17,353	20,432
Extraordinary items	1,877	3,179	1,023	2,146	—	—
Earnings per share (Rs)	26.6	31.8	52.2	63.3	70.3	82.8
Balance sheet (Rs mn)						
Total equity	59,479	82,408	92,576	123,042	136,352	152,452
Deferred taxation liability	458	2,820	5,154	3,359	3,359	3,359
Total borrowings	51,784	91,136	141,434	228,537	265,356	299,499
Current liabilities	22,238	38,539	67,812	42,291	46,147	51,149
Capital contribution from Consumers	758	1,506	2,030	2,030	2,030	2,030
Minority interest	2,496	8,062	9,444	11,827	14,503	15,592
Total liabilities and equity	137,214	224,471	318,450	411,086	467,747	524,080
Cash	14,024	5,623	11,780	38,627	37,346	44,586
Current assets	29,293	44,426	62,686	50,457	52,404	53,913
Total fixed assets	63,001	140,901	205,780	281,410	337,406	384,990
Investments	30,833	31,253	32,512	34,899	34,899	34,899
Deferred expenditure	62	2,268	5,692	5,692	5,692	5,692
Total assets	137,214	224,471	318,450	411,086	467,747	524,080
Free cash flow (Rs mn)						
Operating cash flow, excl. working capital	10,255	19,587	22,396	20,390	29,115	33,661
Working capital	(2,849)	(1,265)	10,724	(8,620)	98	2,615
Capital expenditure	(11,054)	(77,900)	(71,444)	(83,764)	(65,238)	(59,084)
Investments	(1,767)	(2,625)	(4,684)	(2,387)	—	—
Free cash flow	(5,416)	(62,203)	(43,009)	(74,380)	(36,024)	(22,808)

Source: Company, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	4-Jan-10		Mkt cap.		O/S	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo		
	Price (Rs)	Rating	(Rs mn)	(US\$ mn)	(mn)	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	(Rs)	(%)	(US\$ mn)		
Automobiles																															
Ashok Leyland	52	ADD	69,577	1,502	1,330	1.5	2.9	3.2	(57.8)	87.8	12.6	34.2	18.2	16.2	18.5	10.3	9.3	1.9	1.7	1.6	1.9	1.9	1.9	6.2	11.2	10.5	47	(10.1)	6.2		
Bajaj Auto	1,732	BUY	250,599	5,411	145	45.2	110.2	133.8	(13.4)	143.5	21.5	38.3	15.7	12.9	20.2	9.8	8.6	13.4	8.1	5.4	1.2	1.2	1.2	37.7	63.8	49.4	1,875	8.3	9.8		
Hero Honda	1,713	REDUCE	342,076	7,386	200	64.2	103.0	112.9	32.4	60.5	9.6	26.7	16.6	15.2	15.9	10.3	8.9	8.7	6.2	4.7	1.2	1.3	1.3	36.4	43.7	35.5	1,580	(7.8)	17.2		
Mahindra & Mahindra	1,130	ADD	333,015	7,190	295	30.0	60.4	64.4	(19.8)	101.3	6.5	37.6	18.7	17.5	26.3	12.5	11.4	6.3	4.3	3.5	0.8	0.8	0.8	17.4	28.5	21.9	1,265	12.0	26.7		
Maruti Suzuki	1,551	SELL	448,369	9,681	289	42.2	79.4	83.3	(29.6)	88.2	5.0	36.8	19.5	18.6	22.3	11.4	10.3	4.7	3.8	3.2	0.2	0.3	0.3	13.5	21.7	18.8	1,250	(19.4)	30.7		
Tata Motors	826	ADD	472,116	10,194	571	10.0	26.2	30.1	(78.2)	161.0	15.0	82.5	31.6	27.5	29.0	15.7	13.8	3.6	2.8	2.5	0.7	0.7	0.7	9.1	14.4	11.6	810	(2.0)	73.7		
Automobiles		Cautious	1,915,752	41,364					(30.7)	105.7	11.3	41.0	20.0	17.9	22.5	12.2	10.8	5.1	3.9	3.3	0.8	0.8	0.8	0.7	0.7	9.1	14.4	11.6	810	(2.0)	73.7
Banks/Financial Institutions																															
Andhra Bank	106	BUY	51,240	1,106	485	13.5	15.4	13.7	13.5	14.1	(10.7)	7.8	6.9	7.7	—	—	—	1.4	1.2	1.1	4.3	2.9	2.6	18.9	19.0	14.9	125	18.3	3.5		
Axis Bank	992	ADD	377,005	8,140	380	50.6	61.6	71.1	56.9	21.8	15.5	19.6	16.1	13.9	—	—	—	3.7	2.4	2.1	1.0	1.2	1.5	19.1	17.9	16.8	980	(1.2)	47.0		
Bank of Baroda	516	ADD	188,503	4,070	366	60.9	68.5	71.1	55.1	12.4	3.9	8.5	7.5	7.3	—	—	—	1.7	1.4	1.2	1.7	2.0	2.0	21.4	20.3	18.0	560	8.6	10.2		
Bank of India	393	REDUCE	206,658	4,462	526	57.2	45.1	49.0	40.7	(21.1)	8.7	6.9	8.7	8.0	—	—	—	1.8	1.5	1.3	2.0	1.6	1.7	29.2	18.6	17.4	360	(8.4)	10.8		
Canara Bank	399	ADD	163,529	3,531	410	50.5	56.5	59.4	32.4	11.8	5.2	7.9	7.1	6.7	—	—	—	1.6	1.4	1.2	2.0	2.0	2.5	18.3	17.6	16.2	410	2.8	8.2		
Corporation Bank	430	BUY	61,736	1,333	143	62.3	61.1	60.8	21.5	(2.0)	(0.5)	6.9	7.0	7.1	—	—	—	1.3	1.1	1.0	2.9	2.9	2.8	19.6	16.7	14.8	515	19.7	0.7		
Federal Bank	236	BUY	40,347	871	171	29.3	31.4	38.8	(14.8)	7.5	23.2	8.1	7.5	6.1	—	—	—	0.9	0.8	0.8	2.1	2.3	2.8	12.1	11.8	13.2	340	44.1	3.7		
HDFC	2,674	ADD	760,719	16,425	284	80.2	99.6	117.1	(6.4)	24.1	17.6	33.3	26.9	22.8	—	—	—	5.8	5.3	4.6	1.1	1.3	1.5	18.2	20.0	20.8	2,650	(0.9)	41.2		
HDFC Bank	1,706	REDUCE	771,077	16,649	452	52.8	64.7	85.0	17.6	22.5	31.5	32.3	26.4	20.1	—	—	—	5.1	3.6	3.2	0.6	0.7	0.9	16.9	16.1	16.8	1,600	(6.2)	28.3		
ICICI Bank	880	ADD	979,361	21,146	1,113	33.8	37.3	45.6	(15.4)	10.6	22.1	26.1	23.6	19.3	—	—	—	2.0	1.9	1.8	1.3	1.4	1.7	7.8	8.2	9.5	880	0.0	115.5		
IDFC	156	REDUCE	201,415	4,349	1,295	5.8	8.4	9.1	1.9	45.7	8.4	26.9	18.4	17.0	—	—	—	3.3	2.8	2.5	0.8	0.9	1.0	12.9	16.5	15.6	145	(6.8)	31.3		
India Infoline	133	BUY	41,407	894	312	5.1	8.4	9.4	(8.7)	63.7	12.9	26.0	15.9	14.1	—	—	—	3.4	2.7	2.2	1.9	2.7	1.7	11.9	19.0	19.1	175	31.8	8.1		
Indian Bank	175	BUY	75,317	1,626	430	28.0	32.4	34.1	24.1	15.9	5.4	6.3	5.4	5.1	—	—	—	1.4	1.1	1.0	2.9	3.2	3.4	22.9	22.2	19.9	225	28.4	4.5		
Indian Overseas Bank	113	BUY	61,617	1,330	545	24.3	22.7	14.7	10.3	(6.9)	(34.9)	4.6	5.0	7.7	—	—	—	1.0	0.9	0.8	4.7	3.3	3.6	22.1	16.1	9.5	150	32.6	4.3		
J&K Bank	578	BUY	28,033	605	48	84.5	93.4	101.8	13.8	10.5	9.0	6.8	6.2	5.7	—	—	—	1.3	1.1	1.0	2.9	3.2	3.5	16.7	16.2	15.6	700	21.1	0.7		
LIC Housing Finance	821	ADD	73,887	1,595	90	62.5	86.1	86.0	37.3	37.7	(0.1)	13.1	9.5	9.5	—	—	—	2.2	1.9	1.6	1.6	2.3	2.4	27.2	21.7	22.7	950	15.7	26.5		
Mahindra & Mahindra Financial	346	BUY	33,117	715	96	22.4	30.7	35.6	7.5	36.9	16.0	15.4	11.3	9.7	—	—	—	2.4	2.0	1.8	1.6	2.2	2.6	15.4	18.7	19.0	350	1.1	1.9		
Oriental Bank of Commerce	260	REDUCE	65,178	1,407	251	36.1	39.4	39.4	51.4	8.9	0.0	7.2	6.6	6.6	—	—	—	1.1	1.0	0.9	2.8	3.1	3.1	13.7	12.7	11.7	280	7.6	5.2		
PFC	256	SELL	293,255	6,332	1,148	13.3	18.7	20.9	17.4	40.2	11.9	19.2	13.7	12.2	—	—	—	2.7	2.4	2.1	1.6	1.8	2.0	18.9	17.5	17.3	200	(21.7)	4.9		
Punjab National Bank	926	BUY	291,812	6,301	315	98.0	110.4	118.6	50.9	12.6	7.5	9.4	8.4	7.8	—	—	—	2.2	1.8	1.6	2.1	2.4	2.6	25.8	24.0	21.7	930	0.5	11.5		
Reliance Capital	889	ADD	218,762	4,723	246	39.3	17.7	17.5	(5.6)	(55.1)	(1.1)	22.6	50.3	50.9	—	—	—	3.3	3.1	2.9	0.7	0.3	0.3	15.3	6.3	5.9	875	(1.5)	76.5		
Shriram Transport	477	ADD	100,841	2,177	212	30.1	35.6	40.9	56.7	18.4	14.8	15.8	13.4	11.7	—	—	—	4.5	3.8	3.2	1.0	2.2	2.6	29.6	29.4	28.0	440	(7.7)	2.6		
SREI	78	BUY	9,111	197	116	7.0	8.7	8.4	(24.7)	23.4	(3.6)	11.1	9.0	9.4	—	—	—	0.9	0.8	0.7	1.3	1.5	1.5	12.8	11.9	11.4	115	46.8	2.1		
State Bank of India	2,291	BUY	1,454,638	31,407	635	143.7	154.8	174.4	34.8	7.7	12.7	15.9	14.8	13.1	—	—	—	2.5	2.2	2.0	1.3	1.3	1.4	17.1	15.9	15.8	2,400	4.7	150.9		
Union Bank	266	BUY	134,462	2,903	505	34.2	34.8	37.7	24.5	1.8	8.2	7.8	7.6	7.1	—	—	—	1.9	1.6	1.3	1.9	1.9	2.1	27.2	22.6	20.5	310	16.5	5.5		
Banks/Financial Institutions		Attractive	6,894,715	148,866					27.0	11.3	11.2	15.8	14.2	12.8	—	—	—	2.5	2.2	1.9	1.3	1.5	1.7	16.0	15.3	15.1					
Cement																															
ACC	914	REDUCE	171,647	3,706	188	56.3	84.1	53.3	(12.2)	49.4	(36.7)	16.2	10.9	17.2	8.2	5.7	7.5	3.3	2.6	2.4	2.6	2.6	2.6	24.7	30.1	16.8	800	(12.4)	9.5		
Ambuja Cements	106	REDUCE	161,524	3,488	1,522	7.2	8.1	6.2	(5.0)	12.2	(23.7)	14.8	13.2	17.2	8.0	7.4	8.7	2.7	2.3	2.1	2.8	1.8	2.0	19.7	19.4	13.2	85	(19.9)	7.2		
Grasim Industries	2,544	REDUCE	233,269	5,037	92	238.6	284.8	270.7	(16.2)	19.4	(4.9)	10.7	8.9	9.4	6.2	4.7	4.7	2.0	1.7	1.5	1.3	1.3	1.3	21.1	20.6	16.7	2,325	(8.6)	12.7		
India Cements	126	REDUCE	35,530	767	282	17.8	15.7	13.0	n/a	(11.4)	(17.6)	7.1	8.0	9.7	5.1	4.7	5.1	0.9	0.9	0.8	1.4	1.7	2.5	14.8	12.1	9.2	110	(12.6)	5.5		
Shree Cement	1,962	BUY	68,366	1,476	35	174.7	209.9	195.6	93.7	20.1	(6.8)	11.2	9.4	10.0	7.5	5.3	5.1	5.7	3.5	2.6	0.5	0.5	0.5	65.7	46.0	29.4	2,200	12.1			

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	4-Jan-10 Price (Rs)	Rating	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)		
			(Rs mn)	(US\$ mn)		2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E			
Energy																													
Bharat Petroleum	651	ADD	213,329	4,606	328	20.6	75.0	64.3	(50.1)	264.1	(14.3)	31.6	8.7	10.1	6.2	4.5	4.7	1.6	1.4	1.3	1.2	5.1	4.4	5.3	17.7	13.7	675	3.7	8.1
Cairn India	286	REDUCE	541,499	11,692	1,897	6.4	21.8	29.0	50	240	32.8	44	13	9.8	27.4	8.6	6.9	1.6	1.6	1.6	—	7.0	8.8	3.6	12.0	15.9	225	(21.2)	15.5
Castrol India (a)	597	ADD	73,751	1,592	124	21.3	33.2	36.5	20.8	55.7	10.1	28.0	18.0	16.3	16.1	10.8	9.8	16.4	14.5	12.8	2.5	4.0	4.4	61.2	85.8	83.3	550	(7.8)	1.5
GAIL (India)	415	ADD	526,483	11,367	1,268	22.2	21.0	22.3	8.7	(5.0)	6.1	18.7	19.7	18.6	10.1	11.4	11.6	3.3	3.0	2.7	1.7	1.9	1.9	17.5	14.8	14.4	365	(12.1)	15.4
GSPL	99	REDUCE	55,547	1,199	563	2.2	6.9	12.0	21.9	213.6	74.5	44.9	14.3	8.2	14.7	7.3	4.6	4.2	3.5	2.9	0.8	2.4	6.1	9.6	26.5	38.5	90	(8.9)	9.1
Hindustan Petroleum	400	BUY	135,519	2,926	339	17.0	64.0	61.1	(49.3)	277.1	(4.5)	23.6	6.3	6.5	3.6	2.4	2.4	1.1	1.0	0.9	1.3	6.5	6.2	4.4	15.6	13.5	525	31.3	8.5
Indian Oil Corporation	315	BUY	746,252	16,113	2,372	9.8	47.6	38.2	(67.9)	383.2	(19.6)	31.9	6.6	8.2	8.6	4.4	4.0	1.6	1.4	1.3	1.2	6.3	5.1	4.8	21.2	15.3	400	27.1	6.9
Oil India	1,240	ADD	281,833	6,085	227	101.1	108.5	123.3	—	7.3	13.6	12.3	11.4	10.1	5.7	4.0	3.1	2.8	2.0	1.8	2.3	3.5	4.2	20.1	16.0	17.3	1,275	2.8	-
Oil & Natural Gas Corporation	1,187	BUY	2,539,821	54,838	2,139	89.6	103.0	127.8	(3.4)	15.0	24.2	13.3	11.5	9.3	4.8	4.1	3.2	2.2	2.0	1.8	2.7	3.0	3.7	16.6	16.9	18.8	1,325	11.6	25.1
Petronet LNG	73	REDUCE	54,713	1,181	750	6.9	6.7	8.0	—	(3.6)	20.7	10.6	10.9	9.1	7.5	7.2	6.1	2.4	2.0	1.7	2.4	2.7	3.1	23.9	19.2	19.6	64	(12.3)	3.4
Reliance Industries	1,076	SELL	3,137,234	67,737	2,917	50.6	48.3	68.8	(3.7)	(4.5)	4.2	21.3	22.3	15.6	14.0	10.7	8.0	2.3	2.0	1.8	0.6	0.6	0.8	13.6	10.9	13.8	900	(16.3)	175.3
Energy		Cautious	8,305,980	179,337					(9.8)	44.6	18.1	18.5	12.8	10.8	8.3	6.2	5.1	2.1	1.9	1.7	1.4	2.7	3.1	11.5	14.8	15.8			
Industrials																													
ABB	765	REDUCE	162,195	3,502	212	25.8	21.6	30.4	11.3	(16.6)	41.3	29.6	35.5	25.1	17.6	19.9	14.3	7.7	6.5	5.3	0.3	0.4	0.4	29.2	19.8	23.3	660	(13.8)	5.8
BGR Energy Systems	490	ADD	35,244	761	72	16.0	24.3	32.9	32.2	51.4	35.5	30.5	20.2	14.9	17.3	11.8	9.3	6.3	5.0	3.9	0.6	0.8	1.1	22.3	27.6	29.7	530	8.3	1.7
Bharat Electronics	1,948	ADD	155,832	3,365	80	103.8	117.7	126.2	1.8	13.4	7.2	18.8	16.5	15.4	9.9	8.1	7.3	4.0	3.4	2.9	1.0	1.3	1.3	20.7	22.0	20.1	1,625	(16.6)	2.6
Bharat Heavy Electricals	2,426	ADD	1,187,624	25,642	490	63.9	92.5	113.1	9.4	44.8	22.2	38.0	26.2	21.5	20.9	14.7	11.9	9.2	7.3	5.8	0.7	0.8	1.0	26.4	30.9	30.1	2,425	(0.0)	45.2
Crompton Greaves	435	BUY	159,398	3,442	367	15.3	20.7	23.7	37.3	35.2	14.1	28.3	21.0	18.4	15.1	11.5	9.9	8.7	6.4	5.0	0.5	0.6	0.7	35.9	35.3	30.5	400	(8.0)	7.3
Larsen & Toubro	1,691	ADD	1,016,509	21,948	601	50.1	57.0	69.9	32.1	13.8	22.5	33.7	29.7	24.2	21.5	16.5	13.9	6.7	4.6	3.9	0.6	0.7	0.7	21.7	18.4	17.4	1,725	2.0	64.6
Maharashtra Seamless	368	BUY	25,934	560	71	35.9	36.9	39.6	22.2	2.8	7.4	10.2	10.0	9.3	5.9	5.2	4.6	1.9	1.6	1.4	1.5	1.5	1.9	20.3	17.8	16.5	335	(8.9)	1.1
Siemens	585	REDUCE	197,205	4,258	337	14.2	16.1	22.8	(22.2)	13.5	41.9	41.3	36.4	25.6	20.0	17.2	15.2	8.7	7.3	5.9	0.5	1.1	0.7	23.7	21.8	25.5	515	(12.0)	6.6
Suzlon Energy	90	REDUCE	150,900	3,258	1,679	7.2	(2.4)	2.6	9.9	(133.1)	(210.5)	12.4	(37.6)	34.0	8.3	14.1	9.2	1.4	1.3	1.3	—	—	0.2	11.5	(3.6)	3.8	80	(11.0)	85.5
Volta	175	BUY	58,011	1,253	331	6.9	9.5	10.8	29.8	37.3	14.0	25.4	18.5	16.2	14.0	10.0	8.5	7.3	5.8	4.7	0.9	1.5	1.7	33.4	35.0	31.8	200	14.0	65.5
Industrials		Attractive	3,148,851	67,988					13.5	8.6	30.5	31.1	28.6	21.9	17.2	14.6	11.9	6.1	4.8	4.1	0.6	0.7	0.8	19.7	16.8	18.5			
Infrastructure																													
GMR Infrastructure	67	ADD	122,765	2,651	1,834	0.8	0.5	0.4	(33.5)	(38.3)	(6.8)	87.2	141.3	151.6	19.2	13.9	10.3	1.5	1.2	1.1	—	—	—	4.4	2.6	2.4	68	1.6	8.3
GVK Power & Infrastructure	47	ADD	74,776	1,615	1,579	0.8	0.8	1.0	(20.6)	2.5	34.2	62.1	60.6	45.2	55.1	19.4	17.6	3.2	2.4	2.3	—	—	0.6	4.8	4.5	5.1	50	5.6	15.7
IRB Infrastructure	238	ADD	79,153	1,709	332	5.3	10.6	13.5	54.3	101.2	27.0	45.0	22.4	17.6	22.6	11.6	10.4	4.3	3.5	2.9	0.5	—	—	10.1	17.3	18.0	200	(16.0)	8.9
Infrastructure		Attractive	276,693	5,974					22.5	15.7	19.4	49.2	42.5	35.6	24.2	14.2	11.7	2.2	1.8	1.6	0.1	—	0.2	4.5	4.2	4.6			
Media																													
DishTV	44	ADD	46,683	1,008	1,063	(6.6)	(1.8)	(0.6)	(31.9)	(72.5)	(64.4)	(6.7)	(24.3)	(68.2)	(41.8)	39.0	17.8	(7.5)	9.6	11.2	—	—	—	83.9	275.0	NA	40	(8.9)	6.7
HT Media	143	ADD	33,535	724	235	0.8	5.4	7.1	(80.5)	540.7	31.9	169.0	26.4	20.0	38.1	12.9	10.5	3.9	3.5	3.2	0.2	0.7	1.4	2.3	14.0	16.7	135	(5.4)	0.6
Jagran Prakashan	135	ADD	40,658	878	301	3.0	5.9	6.8	(6.6)	93.7	15.9	44.4	22.9	18.8	25.3	13.6	11.5	7.3	6.6	5.9	1.5	2.6	2.8	16.7	30.3	31.7	130	(3.7)	0.8
Sun TV Network	349	REDUCE	137,672	2,973	394	9.1	12.1	14.6	9.5	32.7	20.8	38.5	29.0	24.0	20.4	16.7	13.4	7.8	6.7	5.9	0.7	1.1	1.7	22.5	25.3	26.3	295	(15.6)	1.5
Zee Entertainment Enterprises	253	NR	109,585	2,366	434	8.4	10.2	12.5	(4.8)	20.8	22.5	29.9	24.7	20.2	20.7	18.1	14.4	3.1	2.9	2.6	0.8	1.0	1.2	11.8	12.5	14.0	-	-	7.6
Zee News	59	NR	14,028	303	240	1.9	2.4	3.3	20.4	30.0	35.1	31.4	24.2	17.9	15.4	11.9	9.3	5.7	4.8	3.9	0.7	0.7	1.2	20.1	22.1	24.7	-	-	2.7
Media		Neutral	382,161	8,251					(21.0)	157.0	37.7	90.2	35.1	25.5	27.7	17.2	13.3	6.1	4.7	4.2	0.7	1.1	1.4	6.7	13.3	16.7			
Metals																													
Hindalco Industries	164	BUY	312,505	6,747	1,911	2.8	4.3	12.6	(77.9)	54.6	194.1	59.0	38.2	13.0	16.0	10.4	7.7	1.7	1.0	0.9	—	—	—	9.6	5.7	7.6	135	(17.4)	35.5
National Aluminium Co.	439	SELL	282,691	6,104	644	19.7	8.3	27.1	(22.0)	(57.9)	226.9	22.2	52.8	16.2	11.1	22.4	7.9	2.7	2.6	2.3	1.1	0.5	0.5	12.8	5.1	15.1	310	(29.3)	2.0
Jindal Steel and Power	712	SELL	660,955	14,271	928	196.9	41.1	49.0	138.0	(79.1)	19.2	3.6	17.3	14.5	14.1	11.4	9.2	8.5	5.7	4.1	0.2	0.1	0.1	50.9	39.7	33.0	530	(25.6)	69.2
JSW Steel	1,023	SELL	191,341	4,131	187	13.1	80.2	88.1	(84.7)	510.1	9.8	77.8	12.8	11.6	11.9	7.1	7.3	2.1	1.6	1.3	0.1	0.3	0.5	11.7	14.7	12.5	670	(34.5)	62.9
Hindustan Zinc	1,209	BUY	510,672	11,026	423	64.6	79.7	93.9	(38.0)	23.4	17.8	18.7	15.2	12.9	15.2	10.9	8.1	3.4	2.8	2.3	0.3	0.4	0.4	20.2	20.4				

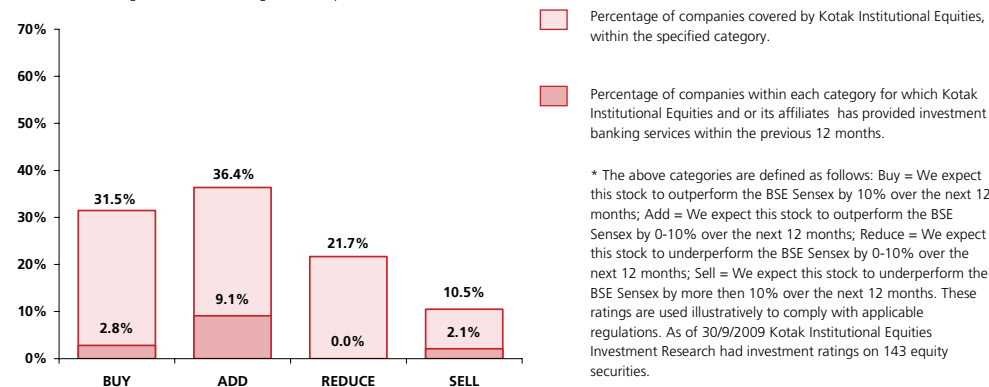
Kotak Institutional Equities: Valuation summary of key Indian companies

Company	4-Jan-10 Price (Rs)	Rating	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)	
			(Rs mn)	(US\$ mn)		2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E	2009	2010E	2011E				
Retail																														
Titan Industries	1,422	REDUCE	63,099	1,362	44	44.3	53.1	61.9	26.4	19.8	16.7	32.1	26.8	23.0	19.3	17.0	14.2	10.9	8.2	6.4	0.7	0.7	0.8	37.5	35.1	31.4	1,200	(15.6)	2.0	
Retail		Neutral	63,099	1,362					26.4	19.8	16.7	32.1	26.8	23.0	19.3	17.0	14.2	10.9	8.2	6.4	0.7	0.7	0.8	34.1	30.8	27.9				
Sugar																														
Bajaj Hindustan	230	SELL	44,060	951	191	(12.6)	(1.0)	23.7	(8,831.1)	(92.1)	(2,471.7)	(18.3)	(230.8)	9.7	44.5	14.0	6.8	3.7	2.1	1.7	0.2	0.2	0.3	(13.1)	(1.2)	19.3	150	(34.9)	30.5	
Balrampur Chini Mills	140	ADD	35,732	772	256	3.1	7.6	14.0	(220.6)	147.4	83.5	45.2	18.3	10.0	14.9	9.4	6.2	3.1	2.8	2.3	0.2	—	0.3	7.4	16.2	25.3	140	0.4	20.0	
Shree Renuka Sugars	230	BUY	77,178	1,666	335	4.3	6.9	27.2	23.9	60.4	294.1	53.5	33.4	8.5	32.1	18.2	5.3	8.8	4.7	2.7	0.1	0.4	0.2	17.2	18.4	40.2	250	8.5	19.8	
Sugar		Attractive	156,970	3,389					(25.3)	2,436.2	322.7	976.2	38.5	9.1	28.0	13.9	5.9	4.9	3.2	2.2	0.1	0.3	0.2	0.5	8.2	24.3				
Technology																														
HCL Technologies	371	REDUCE	257,915	5,569	695	17.5	16.6	22.9	14.5	(5.0)	37.9	21.2	22.3	16.2	11.8	10.7	9.6	4.5	4.1	3.4	3.2	3.2	3.2	20.9	19.5	23.0	300	(19.2)	10.1	
Hexaware Technologies	95	REDUCE	13,711	296	144	4.1	9.1	9.8	(46.4)	122.1	7.9	23.2	10.5	9.7	8.6	4.7	4.4	2.1	1.8	1.5	0.5	1.0	1.0	8.6	18.2	16.9	80	(16.2)	2.4	
Infosys Technologies	2,613	BUY	1,499,632	32,379	574	102.4	105.9	119.6	29.6	3.3	13.0	25.5	24.7	21.8	19.3	17.8	14.7	8.2	6.6	5.5	0.9	1.0	1.3	36.7	29.7	27.5	2,800	7.2	65.5	
Mphasis BFL	741	REDUCE	154,574	3,337	208	14.2	43.6	47.6	15.7	207.5	9.2	52.3	17.0	15.6	39.8	13.6	12.0	10.8	6.6	4.8	0.5	0.5	0.5	22.8	48.1	35.5	570	(23.1)	16.1	
Mindtree	689	BUY	28,368	613	41	13.2	46.8	53.6	(50.5)	253.5	14.5	52.1	14.7	12.9	8.8	11.1	8.0	5.1	3.8	3.0	0.3	0.3	0.8	5.5	29.7	26.0	700	1.6	2.0	
Patni Computer Systems	482	REDUCE	62,005	1,339	129	26.8	36.5	41.0	(19.3)	36.1	12.4	18.0	13.2	11.8	9.4	7.0	7.0	2.5	2.0	1.8	0.4	1.5	1.7	16.2	16.0	16.7	410	(15.0)	8.7	
Polaris Software Lab	186	SELL	18,387	397	99	13.2	14.5	13.9	76.6	10.5	(4.6)	14.2	12.8	13.4	6.4	7.1	7.6	2.4	2.1	1.8	1.5	1.1	1.1	18.2	17.2	14.4	125	(32.9)	9.3	
TCS	752	ADD	1,471,129	31,764	1,957	26.4	32.8	37.4	3.1	24.1	14.0	28.4	22.9	20.1	20.0	17.1	15.0	9.4	7.4	6.2	0.9	1.3	2.0	36.9	36.2	33.6	725	(3.5)	35.6	
Wipro	694	ADD	1,014,336	21,901	1,462	25.7	30.5	35.4	15.8	18.6	15.8	27.0	22.7	19.6	19.9	16.8	14.2	6.8	5.4	4.5	0.6	1.2	1.5	26.9	26.4	25.0	675	(2.7)	19.6	
Technology		Neutral	4,520,059	97,594					15.3	18.0	14.6	26.6	22.5	19.6	18.7	16.0	13.8	7.5	6.0	5.0	0.9	1.3	1.6	28.1	26.6	25.4				
Telecom																														
Bharti Airtel	325	REDUCE	1,234,784	26,661	3,797	22.3	23.8	21.7	26.4	6.4	(8.8)	14.6	13.7	15.0	8.6	8.1	7.9	3.9	3.1	2.6	0.6	0.9	1.2	31.4	25.1	18.6	300	(7.7)	112.5	
IDEA	58	REDUCE	180,644	3,900	3,104	2.9	2.0	1.2	(26.5)	(32.2)	(8.0)	20.1	29.6	47.7	7.7	7.9	8.2	1.3	1.3	1.2	—	—	—	10.4	4.4	2.9	45	(22.7)	13.1	
MTNL	78	SELL	48,888	1,056	630	2.4	(2.4)	(3.2)	(66.3)	(199.6)	32.8	32.3	(32.4)	(24.4)	0.5	(1.1)	(0.8)	0.4	0.4	0.4	1.3	—	—	—	1.2	(1.3)	(1.7)	50	(35.6)	1.7
Reliance Communications	175	SELL	361,616	7,808	2,064	31.6	14.9	13.0	19.4	(52.8)	(12.9)	5.5	11.8	13.5	6.9	8.6	8.1	0.9	0.8	0.7	0.5	—	—	18.9	7.3	5.9	150	(14.4)	48.9	
Tata Communications	339	REDUCE	96,629	2,086	285	13.6	14.0	15.2	24.0	3.2	8.2	25.0	24.2	22.4	10.8	9.8	9.0	1.4	1.4	1.3	1.5	1.9	2.2	5.4	5.2	5.5	400	18.0	2.8	
Telecom		Cautious	1,922,562	41,511					16.6	(20.9)	(10.4)	11.4	14.4	16.1	8.0	8.3	8.1	1.8	1.6	1.5	0.6	0.7	0.9	15.8	11.2	9.1				
Transportation																														
Container Corporation	1,284	ADD	166,927	3,604	130	60.9	65.7	82.4	5.5	7.8	25.5	21.1	19.6	15.6	15.4	13.9	10.7	4.4	3.8	3.2	1.1	1.2	1.5	22.8	21.0	22.4	1,250	(2.7)	1.5	
Transportation		Cautious	166,927	3,604					5.5	7.8	25.5	21.1	19.6	15.6	15.4	13.9	10.7	4.4	3.8	3.2	1.1	1.2	1.5	21.0	19.5	20.7				
Utilities																														
CESC	398	ADD	49,737	1,074	125	32.3	37.9	42.0	16.2	17.4	11.0	12.3	10.5	9.5	6.7	6.1	6.4	1.3	1.2	1.0	1.0	1.2	1.3	11.7	11.9	11.6	375	(5.8)	2.1	
Lanco Infratech	58	ADD	13,973	302	241	14.5	21.2	36.4	(1.9)	46.1	71.3	4.0	2.7	1.6	7.6	10.5	5.2	0.7	0.4	0.3	—	—	—	16.4	16.9	20.7	575	889.7	24.5	
Reliance Infrastructure	1,171	BUY	265,252	5,727	226	62.7	63.7	68.6	66.7	1.6	7.8	18.7	18.4	17.1	23.4	21.4	17.0	1.6	1.5	1.4	0.6	0.7	0.8	4.9	6.1	7.8	1,250	6.7	57.3	
Reliance Power	156	REDUCE	374,013	8,075	2,397	1.0	2.5	3.1	—	141.5	24.4	153.0	63.3	50.9	—	—	—	2.7	2.6	2.5	—	—	—	1.8	4.2	5.0	160	2.5	10.5	
Tata Power	1,389	ADD	342,952	7,405	247	50.2	63.3	70.3	57.5	26.1	11.1	27.7	22.0	19.8	12.7	13.9	13.5	3.4	2.7	2.4	0.7	0.9	1.0	12.0	13.7	12.8	1,400	0.8	15.4	
Utilities		Attractive	2,957,638	63,859					15.7	18.1	13.6	25.5	21.6	19.0	19.0	17.5	15.2	2.8	2.5	2.3	1.2	1.3	1.5	11.0	11.7	12.2				
Others																														
Aban Offshore	1,332	BUY	57,869	1,249	43	96.9	181.6	300.2	34	87.3	65.3	13.7	7.3	4.4	12.4	8.5	6.0	3.2	1.5	1.1	0.2	0.3	0.3	26.9	21.5	27.9	1,500	12.6	58.4	
Havells India	534	REDUCE	32,118	693	60	5.1	12.2	19.5	(81)	NA	60.1	NA	43.8	27.4	14.5	12.8	10.8	5.3	6.2	5.1	0.5	0.5	0.5	4.6	13.0	20.5	210	(60.7)	8.3	
Jaiprakash Associates	154	ADD	323,932	6,994	2,107	2.0	4.0	7.4	(40)	101.5	84.2	76.9	38.2	20.7	28.1	17.5	14.8	4.9	3.9	3.4	—	—	—	7.3	11.4	17.5	165	7.3	63.7	
Jindal Saw	190	ADD	52,138	1,126	274	17.2	14.3	15.8	39	(16.6)	10.2	11.1	13.3	12.0	6.9	7.4	6.4	1.5	1.3	1.2	0.5	0.4	0.4	13.4	10.0	10.4	140	(26.4)	18.4	
PSL	176	BUY	9,417	203	53	22.2	29.3	24.7	5	32.0	(15.9)	7.9	6.0	7.1	5.2	4.0	3.4	1.4	1.0	0.9	2.3	3.7	3.7	11.9	12.3	11.1	175	(0.7)	1.4	
Sintex	278	BUY	37,925	819	136</																									

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As of September 30, 2009

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Definitions of ratings

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ADD. We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months.

REDUCE. We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months.

SELL. We expect this stock to underperform the BSE Sensex by more than 10% over the next 12 months.

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