kotak® Institutional Equities

INDIA DAILY

October 29, 2009

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EQUITY MARKETS

		Change %		
India	**28-Oct**	**1-day**	**1-mo**	**3-mo**
Sensex	16,283	(0.4)	(3.4)	7.3
Nifty	4,826	(0.4)	(3.6)	6.9
Global/Regional indices				
Dow Jones	9,763	(1.2)	0.2	7.6
Nasdaq Composite	2,060	(2.7)	(3.0)	4.7
FTSE	5,080	(2.3)	(1.5)	11.7
Nikkie	9,879	(1.9)	(2.2)	(2.3)
Hang Seng	21,280	(2.2)	1.3	5.7
KOSPI	1,579	(1.9)	(6.6)	3.6
Value traded - India				
Cash (NSE+BSE)	236.8		235.9	239.7
Derivatives (NSE)	1,064.3		597.9	769
Deri. open interest	1,152.6		809	990

Forex/money market

	Change, basis points			
	28-Oct	**1-day**	**1-mo**	**3-mo**
Rs/US$	47.2	28	(86)	(102)
10yr govt bond, %	7.3	(4)	15	18

Net investment (US$mn)

	27-Oct		**MTD**	**CYTD**
FIIs	286		1,690	14,220
MFs	(135)		(1,150)	(643)

Top movers -3mo basis

	Change, %			
Best performers	**28-Oct**	**1-day**	**1-mo**	**3-mo**
TTMT IN Equity	562.1	2.5	(5.1)	42.9
RBXY IN Equity	381.8	3.4	(4.5)	40.4
BHFC IN Equity	260.0	1.4	(5.3)	38.2
ABAN IN Equity	1387.5	2.7	(10.7)	36.6
Z IN Equity	235.8	(0.4)	0.8	34.8
Worst performers				
MTNL IN Equity	73.4	(1.5)	(19.2)	(29.3)
RCOM IN Equity	202.6	(2.5)	(32.4)	(28.5)
IDEA IN Equity	54.6	0.8	(28.3)	(28.3)
SUEL IN Equity	73.8	(3.5)	(20.3)	(27.2)
BHARTI IN Equity	317.1	3.3	(24.3)	(25.3)

kotak Institutional Equities

GAIL (India) (GAIL)

Energy

ADD

OCTOBER 29, 2009

RESULT

Coverage view: Cautious

Price (Rs): 339

Target price (Rs): 365

BSE-30: 16,283

Stronger-than-expected 2QFY10 results. GAIL reported 2QFY10 net income at Rs7.1 bn, significantly ahead of our Rs5.4 bn estimate. The positive variance was primarily due to a lower subsidy burden at Rs4.6 bn versus Rs5.1 bn assumed by us. We retain our ADD rating and revise our 12-month SOTP-based target price to Rs365. We see potential upside to our estimates and fair valuation from (1) higher-than-expected tariff of extant pipelines and (2) marketing margins on APM gas.

Company data and valuation summary

GAIL (India)

Stock data			
52-week range (Rs) (high,low)			394-175
Market Cap. (Rs bn)			429.4
Shareholding pattern (%)			
Promoters			57.3
FIIs			14.9
MFs			3.9
Price performance (%)	1M	3M	12M
Absolute	(4.4)	1.7	58.7
Rel. to BSE-30	(1.9)	(4.2)	(12.2)

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	22.2	21.0	22.3
EPS growth (%)	8.7	(5.0)	6.1
P/E (X)	15.3	16.1	15.2
Sales (Rs bn)	237.8	346.3	397.1
Net profits (Rs bn)	28.1	26.7	28.3
EBITDA (Rs bn)	48.6	45.0	48.7
EV/EBITDA (X)	8.1	9.3	9.6
ROE (%)	17.5	14.8	14.4
Div. Yield (%)	2.1	2.4	2.4

Volumes surprised positively in 2QFY10 results

GAIL's 2QFY10 net income at Rs7.1 bn was ahead of our Rs5.4 bn estimate with (1) lower subsidy payment at Rs4.6 bn versus our estimated Rs5.1 bn and (2) higher-than-expected volumes. The modest 4.2% qoq decline in EBITDA reflects a subsidy amount at 6X 1QFY10's Rs747 mn offset by sharp increase in volumes in all the segments. The large 29.5% yoy decline in EBITDA reflects (1) a higher subsidy amount versus Rs4 bn in 2QFY09, (2) sharply lower petrochemical realization (-17%) and (3) sharply lower LPG realization (-38%); the latter two reflect the steep fall in crude oil and derivate prices on a yoy basis.

Fine-tuned estimates; subsidy amount and tariff unknown variables

We have fine-tuned our FY2010E estimates to factor (1) higher subsidy loss at Rs12 bn versus Rs5.3 bn assumed by us previously; we now assume that upstream oil companies will bear 75% of under-recoveries on auto fuels versus the 50% assumed by us previously and 100% borne in 1HFY10 and (2) higher transportation tariff on HVJ and DV pipelines; due to protracted delays in finalization of tariffs by the regulator, we assume new tariffs will now be applicable from FY2011E. We have fine-tuned FY2011E and FY2012E estimates to Rs22.3 (from Rs22.9) and Rs30 (Rs30.1) to reflect a stronger rupee. We now assume a Re/US$ exchange rate at Rs46 and Rs46 for FY2011E and FY2012E versus Rs47.75 and Rs47.5 previously.

Retain ADD rating with 12-month SOTP-based fair valuation of Rs365; upside risks exist

We retain our ADD rating and revise our 12-month SOTP-based fair valuation to Rs365 (Rs355 previously). We do not rule out downside risks to our earnings estimate and fair valuation from higher-than-expected subsidy payments to downstream oil companies. However, we also see upside risks to our earnings estimates and fair valuation from (1) higher-than-expected gas transmission tariff on extant pipelines; our fair valuation would increase by Rs38 in case there is no change to the tariffs under the new regulatory mechanism, (2) marketing margins of USC11/mn BTU on APM gas transported by GAIL; our FY2011E EPS would increase by Rs1.8 and fair valuation by Rs25-30 and (3) higher valuation of investment in ONGC in case of a favorable subsidy-sharing system.

QUICK NUMBERS

- 2QFY10 net income at Rs7.1, 25% more than our estimate
- Upside of Rs38 to our fair value if the tariffs continue at the current levels
- Fair valuation would increase by Rs25-30 if GAIL is allowed to charge marketing margin on APM gas

2QFY10 results highlights—higher subsidy amount and lower product realizations affected yoy performance

Exhibit 1 gives details of GAIL's 2QFY10 results and compares the same with 2QFY09 and 1QFY10 results. We discuss key highlights below.

GAIL interim results, March fiscal year-ends (Rs mn)

					(% chg.)				yoy		
	2QFY10	2QFY10E	2QFY09	1QFY10	2QFY10E	2QFY09	1QFY10	1HFY10	1HFY09	(% chg.)	FY2010E
Sales	62,243	83,510	61,726	60,413	*(25.5)*	*0.8*	*3.0*	122,657	119,033	*3.0*	346,278
Total expenditure	51,849	75,165	46,979	49,559	*(31.0)*	*10.4*	*4.6*	101,408	90,291	*12.3*	306,354
(Inc)/dec in stock	135		(735)	384				519	(449)		—
Purchase	40,120	62,918	36,224	37,843	*(36.2)*	*10.8*	*6.0*	77,963	69,505	*12.2*	259,368
Raw material	5,877	6,769	5,511	5,164	*(13.2)*	*6.6*	*13.8*	11,041	10,473	*5.4*	25,925
Staff cost	1,269	1,084	1,180	1,320	*17.0*	*7.5*	*(3.9)*	2,589	2,047	*26.5*	4,338
Other expenditure	4,448	4,394	4,798	4,848	*1.2*	*(7.3)*	*(8.2)*	9,296	8,716	*6.6*	16,723
EBITDA	**10,395**	**8,345**	**14,748**	**10,854**	***24.6***	***(29.5)***	***(4.2)***	**21,249**	**28,742**	***(26.1)***	**39,924**
Other income	1,468	1,493	1,856	599	*(1.7)*	*(20.9)*	*144.9*	2,067	3,004	*(31.2)*	5,049
Interest	179	195	189	179	*(8.4)*	*(5.6)*	*(0.4)*	358	379	*(5.7)*	780
Depreciation	1,416	1,488	1,386	1,404	*(4.8)*	*2.2*	*0.9*	2,820	2,815	*0.2*	5,953
Pretax profits	**10,268**	**8,155**	**15,029**	**9,870**	*25.9*	*(31.7)*	*4.0*	**20,138**	**28,551**	*(29.5)*	**38,241**
Tax	3,094	2,724	4,910	3,398	*13.6*	*(37.0)*	*(9.0)*	6,492	9,363	*(30.7)*	11,203
Deferred	41	—	(116)	(87)				(45)	(16)		344
Prior period adjust.	—		—	—				—	—		—
Net income	**7,132**	**5,431**	**10,235**	**6,558**	***31.3***	***(30.3)***	***8.8***	**13,691**	**19,203**	***(28.7)***	**26,694**
Tax rate (%)	30.5	33.4	31.9	33.6				32.0	32.7		30.2
Volume data											
Gas sales (mcm/d)	81		79	80		*2.5*	*1.4*	80	79	*1.3*	
Gas transmission (mcm/d)	107		82	97		*30.4*	*10.2*	102	83	*22.3*	
LPG transported ('000 tons)	728		650	741		*12.0*	*(1.8)*	1,469	1,266	*16.0*	
LPG production ('000 tons)	288		278	260		*3.6*	*10.8*	548	549	*(0.2)*	
LPG sales ('000 tons)	289		280	258		*3.2*	*12.0*	547	552	*(0.9)*	
Other liquids prodn ('000 tons)	89		82	74		*8.5*	*20.3*	163	153	*6.5*	
Other liquids sales ('000 tons)	90		81	76		*11.1*	*18.4*	166	155	*7.1*	
Polymers ('000 tons)-prodn	102		105	94		*(2.9)*	*8.5*	196	209	*(6.2)*	
Polymers ('000 tons)-sales	88		75	92		*17.3*	*(4.3)*	180	179	*0.6*	
Subsidy payment	(4,585)		(4,008)	(747)		*14.4*	*513.8*	(5,332)	(8,762)	*(39.1)*	
Segment revenue (Sales/Income)											
Transmission services											
(1) Natural gas	8,430		6,215	7,332		*35.6*	*15.0*	15,761	12,429	*26.8*	
(2) LPG	1,029		906	1,057		*13.6*	*(2.6)*	2,087	1,761	*18.5*	
Natural gas trading	49,691		44,954	46,417		*10.5*	*7.1*	96,108	86,147	*11.6*	
Petrochemicals	6,157		6,287	6,226		*(2.1)*	*(1.1)*	12,382	14,295	*(13.4)*	
LPG and liquid hydrocarbons	5,151		10,902	6,839		*(52.8)*	*(24.7)*	11,990	18,899	*(36.6)*	
Telecom	34		65	38		*(47.7)*	*(9.5)*	72	131	*(44.9)*	
Unallocated	142		1,929	100		*(92.6)*	*41.5*	243	3,160	*(92.3)*	
Total	70,634		71,259	68,009		*(0.9)*	*3.9*	138,643	136,822	*1.3*	
Less: Inter-segment revenue	8,612		7,677	7,795		*12.2*	*10.5*	16,407	14,785	*11.0*	
Sales/Income from operations	**62,022**		**63,582**	**60,214**		***(2.5)***	***3.0***	**122,236**	**122,037**	***0.2***	
Segment results (Profit before tax and interest)											
Transmission services											
(1) Natural gas	6,157		3,953	5,222		*55.8*	*17.9*	11,379	8,290	*37.3*	
(2) LPG	589		539	682		*9.2*	*(13.7)*	1,272	1,007	*26.3*	
Natural gas trading	1,105		1,113	1,063		*(0.8)*	*4.0*	2,167	2,061	*5.2*	
Petrochemicals	2,753		3,288	2,643		*(16.3)*	*4.2*	5,396	7,683	*(29.8)*	
LPG and liquid hydrocarbons	(731)		5,751	1,500		*(112.7)*	*(148.7)*	769	8,929	*(91.4)*	
Telecom	(21)		(46)	(11)		*(53.5)*	*98.1*	(32)	(33)	*(3.3)*	
Total	9,852		14,598	11,099		*(32.5)*	*(11.2)*	20,951	27,936	*(25.0)*	
Less: Interest	179		189	179		*(5.6)*	*(0.4)*	358	379	*(5.7)*	
Less: Other unallocable exp (net)	(595)		(619)	1,050		*(4.0)*	*(156.6)*	455	(994)	*(145.8)*	
Total PBT	**10,268**		**15,029**	**9,870**		***(31.7)***	***4.0***	**20,138**	**28,551**	***(29.5)***	
Capital employed											
Transmission services											
(1) Natural gas	66,151		57,308	61,583				66,151	57,308		
(2) LPG	8,935		9,510	8,934				8,935	9,510		
Petrochemicals	18,359		19,512	18,738				18,359	19,512		
LPG and liquid hydrocarbons	7,303		11,594	10,886				7,303	11,594		
Telecom	238		279	259				238	279		
Total	**100,986**		**98,203**	**100,400**				**100,986**	**98,203**		

Source: Company, Kotak Institutional Equities estimates

- **Financial highlights.** GAIL's 2QFY10 net income declined 30% yoy due to (1) meaningfully lower realization for LPG reflecting steep decline in global crude oil prices and (2) significantly lower PE realization (-17%) reflecting a sharp decline in global PE prices in turn led by lower naphtha and crude oil prices; GAIL's RM costs are largely fixed and (3) higher subsidy burden of Rs4.6 bn versus Rs4 bn in 2QFY09. The 9% qoq increase reflects higher volumes in all the segments and higher LPG and PE realizations that offset a significant increase in the subsidy burden to Rs4.6 bn from Rs747 mn in 1QFY10.

- **Operating highlights.** GAIL's gas transportation volumes increased 30% yoy to 106.5 mcm/d reflecting availability of new gas from RIL's KG D-6 block and 10% qoq reflecting a ramp-up in production from the same block. The moderate increase on a qoq basis reflects limited capacity in GAIL's extant pipelines. LPG sales volume stood at 289,000 tons versus 280,000 tons in 2QFY09 and 258,000 tons in 1QFY10. GAIL sold 88,000 tons of polymers in 2QFY10, higher by 17.3% yoy but lower by 4.3% qoq.

- **Gas transportation segment details.** GAIL's transportation EBIT increased 18% qoq and 56% yoy to Rs6.2 bn reflecting higher gas transportation volumes. We note that GAIL's tariffs remained unchanged in 2QFY10 compared to 2QFY09/1QFY10. The regulator is in the process of reviewing GAIL's gas transportation tariffs for its extant long-distance pipelines (HVJ and DV) as per the new regulation for gas transportation pipelines.

- **LPG production segment details.** The LPG segment made operating loss of Rs731 mn versus EBIT of Rs5.8 bn in 1QFY10 and Rs1.5 bn in 2QFY09 due to (1) sharp movement in global LPG prices; LPG realization dropped 38% yoy but increased 13% qoq and (2) higher subsidy burden at Rs4.6 bn versus Rs4 bn in 2QFY09 and Rs0.75 bn in 1QFY10.

- **Chemical segment details.** The chemical segment's EBIT declined 16% yoy to Rs2.8 bn due to a 17% decline in PE prices, which resulted in lower profitability for polymers produced from GAIL's natural gas-based units.

SOTP-based 12-month TP revised to Rs365 (Rs355 previously)

Exhibit 2 shows our SOTP valuation model for GAIL based on FY2011E estimates. We give key highlights of our SOTP valuation model below.

We value GAIL stock at Rs365 per share
Sum-of-the-parts valuation of GAIL, FY2011E basis (Rs bn)

	Valuation base (Rs bn)		Multiples (X)		EV (Rs bn)		EV
	Other	EBITDA	Other	EV/EBITDA	Other	EBITDA basis	(Rs/share)
Natural gas transportation							
HVJ pipeline	20				20		16
DV pipeline	29				29		23
DUPD pipeline	32				32		25
DBN pipeline	19				19		15
CGJH pipeline	7				7		6
DV GREP pipeline	64				64		51
Short distance pipelines		5.5		7.0		38	30
Total natural gas transportation							**165**
Other businesses							
LPG transportation		2.7		7.0		19	15
LPG production		10.9		7.0		76	60
Petrochemicals		7.5		7.0		53	41
Oil and gas upstream	20		1.0		20		16
Total other business segments							**132**
Investments							
ONGC shares	72		0.9		65		51
Others	24		0.9		21		17
Investments	**96**		**0.9**		**86**		**68**
Total						**186**	**365**
Net debt/(cash)					1	1	1
Implied value of share (Rs/share)							**364**

Source: Kotak Institutional Equities estimates

- **Gas transportation segment.** We value GAIL's gas transportation segment at Rs165/share broken down between Rs94/share for extant pipelines and Rs71/share for new gas pipelines (Dadri-Bawana, Chainsa-Gurgaon-Jajjhar-Hissar and DV GREP). We have assumed income tax exemption on new pipelines for the first few years (about seven years) as per Section 35 AD of the Indian Income Tax Act, 1961, which allows for deduction of capital expenditure against the income of a new gas transportation pipeline.

- **LPG production segment.** We value the segment at Rs60/share based on 7X FY2011E EBITDA. We concede that it is difficult to value the LPG segment since the segment's profits and profitability can vary significantly depending on (1) crude oil prices; input (natural gas) prices are largely fixed and (2) the amount of subsidy burden. However, we can make an argument for valuing the segment on the basis of 'net' EBITDA—EBITDA of LPG production segment less subsidy amount. We have observed that this amount has been stable historically since the profitability/profits of the segment and subsidy burden both depend largely on global LPG prices.

- **Chemical segment.** We value the chemical segment at Rs41/share based on 7X FY2011E EBITDA. Our FY2011E EBITDA estimate of Rs7.5 bn is lower versus Rs9.5 bn in FY2009 and reflects lower PE prices on the back of lower crude oil prices. We note that profits and profitability of GAIL's chemical segment depends on crude prices rather than on chemical margins since input (natural gas) prices are largely fixed. We model crude oil prices (Dated Brent basis) at US$65/bbl, US$65/bbl and US$70/bbl for FY2010E, FY2011E and FY2012E.

We note a few upsides to our fair valuation.

(1) We note that higher-than-expected gas transportation tariff for GAIL's extant pipelines versus our assumed Rs0.66/cu m will result in higher valuation for the pipeline segment. In case there is no change to GAIL's tariffs, our fair valuation for GAIL stock will increase by Rs38/share.

(2) We compute that marketing margin of USC11/mn BTU on APM gas against nil currently will add Rs1.8 to GAIL's FY2011E EPS and increase its fair valuation by Rs25-30/share. We note that the petroleum ministry has recommended that GAIL be allowed to charge a marketing margin on APM gas. However, the cabinet is yet to take a decision on this and will probably review this along with another proposal to increase price of APM gas produced by the government-owned companies (OIL and ONGC) from nominated oil and gas blocks. GAIL currently charges marketing margin of USC12/mn BTU on gas from PMT and Ravva fields and USC18/mn BTU on imported LNG. RIL charges USC13.5/mn BTU on KG D-6 gas sold by it.

(3) We believe a favorable deregulation of the Indian oil and gas sector will result in significantly higher value for GAIL's 2.4% investment in ONGC stock; we value GAIL's 51.4 mn shares of ONGC at our 12-month fair valuation of Rs1,400. However, we see significant upside (20-30%) to ONGC's fair valuation in case of full deregulation of the Indian oil and gas sector.

Earnings revisions; fine-tuned estimates

We have fine-tuned FY2010E, FY2011E and FY2012E EPS to Rs21, Rs22.3 and Rs30 from Rs20.9, Rs22.9 and Rs30.1. Exhibit 3 gives our key assumptions for GAIL stock and Exhibit 4 gives the breakdown of EBITDA by segments. We discuss the key assumptions below.

We model strong increase in gas volumes between FY2009 and FY2012E
Key assumptions behind GAIL model, March fiscal year-ends, 2006-2012E

	2006	2007	2008	2009	2010E	2011E	2012E
Volumes							
Natural gas transportation, gross (mcm/day)							
HBJ pipeline	32	32	32	32	32	32	32
Dahej-Vijaypur-GREP upgradation							30
Dadri-Bawana-Nangal					1	3	16
Chainsa-Jhajjar-Hissar						3	8
Other pipelines	36	39	40	39	48	55	60
Regassified LNG							
Dahej-Vijaipur pipeline (transmitted and sold)	7	6	9	9	15	20	25
Dahej-Vijaipur pipeline (transmitted)	4	4	6	6	10	10	10
Dahej-Uran pipeline			6	9	12	12	12
Panvel-Dabhol pipeline			4	6	8	10	12
Elimination of double-counted volumes (a)	(1)	(3)	(15)	(18)	(21)	(28)	(48)
Total gas transmission	**79**	**77**	**82**	**83**	**105**	**117**	**157**
LPG (000 tons)							
Sold	1,039	1,037	1,039	1,092	1,100	1,100	1,100
Transported	2,228	2,490	2,754	2,744	2,800	2,800	2,800
Petrochemicals (000 tons)							
Polyethylene							
Domestic sales	271	337	381	423	400	450	450
Exports	40	10	10	—	—	—	—
Total petrochemicals	**311**	**347**	**391**	**423**	**400**	**450**	**450**
Prices							
Natural gas (Rs/cubic meter)							
Natural gas ceiling price	3.52	4.21	4.21	4.59	6.50	6.50	6.50
Regassified LNG including transportation	6.47	6.93	6.44	7.05	9.11	8.68	8.68
Transmission plus marketing charges							
HBJ pipeline, Dahej-Vijaipur pipeline (from FY2007)	1.15	0.99	0.96	1.05	1.05	0.66	0.66
Dahej-Vijaypur-GREP upgradation					1.04	1.04	1.04
Dadri-Bawana-Nangal					0.69	0.69	0.69
Chainsa-Jhajjar-Hissar					0.50	0.50	0.50
Dahej-Vijaipur, Dahej-Uran, Panvel-Dabhol pipeline	0.69	0.99	1.03	1.04	1.04	0.81	0.81
Other pipelines	0.42	0.40	0.42	0.44	0.43	0.42	0.41
LPG							
LPG (US$/ton)	510	531	702	685	490	490	525
Transmission charges (Rs/ton)							
Jamnagar-Loni	1,522	1,522	1,522	1,522	1,522	1,522	1,522
Vizag-Secunderabad	1,450	1,450	1,450	1,450	1,450	1,450	1,450
Other assumptions							
Polyethylene, HDPE (US$/ton)	1,055	1,315	1,500	1,360	1,225	1,200	1,250
Import tariff, Polyethylene	10%	5%	5%	5%	5%	5%	5%
Import tariff, LPG	0%	0%	0%	0%	0%	0%	0%
Exchange rate (Rs/US$)	44.3	45.3	40.3	45.8	47.3	46.0	46.0
Subsidy losses	10,640	14,880	13,137	17,812	12,000	4,000	6,000

Note:
(a) Gas transported through the HVJ or DV pipeline and then to smaller pipelines.

Source: Company, Kotak Institutional Equities estimates

Gas transportation segment to drive growth
Segment breakdown of GAIL India's revenues and profits, March fiscal year-ends, 2006-2012E

	2006	2007	2008	2009	2010E	2011E	2012E
Revenues							
Gas transportation-extant pipelines	102,951	112,773	128,141	160,708	313,360	343,476	378,204
Gas transportation-new pipelines					2,675	15,846	147,741
RLNG shipping charges	1,110	1,340	2,229	3,140	3,753	2,898	2,898
LPG transportation	3,332	3,440	3,893	3,803	4,219	4,219	4,219
LPG production	32,447	35,024	26,033	28,360	21,048	28,252	28,572
Petrochemicals	16,736	22,918	26,583	29,486	25,853	27,627	28,716
Others	183	252	350	597	1,201	1,219	1,321
Subsidy-sharing scheme	(10,640)	(14,880)	(13,137)	(17,812)	(12,000)	(4,000)	(6,000)
Trading revenues/profits							
Total	**146,118**	**160,867**	**174,092**	**208,282**	**360,110**	**419,536**	**585,670**
EBITDA							
Gas transportation-extant pipelines	17,826	17,701	18,044	18,347	23,333	19,300	23,279
Gas transportation-new pipelines					181	917	14,218
RLNG shipping charges					3,753	2,898	2,898
LPG transportation	2,054	2,590	2,987	2,896	2,588	2,676	2,581
LPG production	15,895	16,764	23,028	27,250	15,359	14,882	16,852
Petrochemicals	7,674	10,934	14,003	13,641	7,108	7,518	7,920
Others	1,402	(4,547)	(6,610)	(5,303)	(398)	(381)	(280)
Subsidy-sharing scheme	(10,640)	(14,880)	(13,137)	(17,812)	(12,000)	(4,000)	(6,000)
Trading revenues/profits	610	1,903	2,044	3,481			
Total	**34,820**	**30,464**	**40,359**	**42,501**	**39,924**	**43,810**	**61,467**

Source: Company, Kotak Institutional Equities estimates

- **Gas transportation volumes segment.** We model GAIL's gas transportation volumes to jump to 105 mcm/d, 117 mcm/d and 157 mcm/d in FY2010E, FY2011E and FY2012E from 83 mcm/d in FY2009. The steep increase in gas transportation volumes primarily reflects increase in gas production at RIL's KG D-6 gas fields and imported LNG at PLNG's Dahej LNG import terminal. We model FY2010E, FY2011E and FY2012E gas production from RIL's KG D-6 block at 45 mcm/d, 80 mcm/d and 88 mcm/d.

- **LPG production segment.** We assume GAIL will bear some portion of the overall subsidy burden in FY2011E (Rs4 bn) and FY2012E (Rs6 bn) although it may not bear any subsidy burden in case the government bears the entire subsidy burden on cooking fuels in FY2010-12E as stated by the petroleum ministry and there are no under-recoveries on auto fuels due to moderate crude oil prices. We note that the profit of this segment largely depends on the (1) level of crude oil prices, which impacts the price of LPG and thus, the profit of the segment and (2) the amount of subsidy on auto fuels, which depends on the level of global crude prices and domestic selling prices of auto fuels. We model crude oil prices (Dated Brent basis) at US$65/bbl, US$65/bbl and US$70/bbl for FY2010E, FY2011E and FY2012E.

- **Chemical volumes and prices.** We model the chemical segment's EBITDA to increase modestly over the next three years (FY2010-12E) due to higher product prices, in turn, driven by higher crude oil prices as discussed above. We note that the absolute level of product prices is more material to GAIL's profits rather than chemical margins; we see the latter under pressure due large supply-demand imbalance in CY2009-11E. We assume PE sales volumes at around 400-450,000 tons for each of the three years.

- **Taxation.** We model GAIL's effective tax rate to decline to 30.2% in FY2010E and 30.5% in FY2011E from 33.3% in FY2009. The lower tax rate versus the corporate income tax rate of 33.99% reflects income tax exemption under Section 35 AD of the Indian Income Tax, 1961 in the first few years of GAIL's new pipelines to be commissioned in FY2010-12E.

- **Forex rate.** We now assume a stronger rupee-US$ exchange rate for FY2010E, FY2011E and FY2012E at Rs47.25/US$, Rs46/US$ and Rs46/US$ against Rs48/US$, Rs47.75/US$ and Rs47.5/US$.

GAIL (India) Ltd: Profit model, balance sheet, cash model of GAIL, March fiscal year-ends, 2006-2012E (Rs mn)

	2006	2007	2008	2009	2010E	2011E	2012E
Profit model (Rs mn)							
Net sales	163,513	160,472	180,082	237,760	346,278	397,129	565,263
EBITDA	**35,981**	**30,649**	**39,275**	**40,647**	**39,924**	**43,810**	**61,467**
Other income	4,555	5,450	5,564	7,966	5,049	4,892	4,995
Interest	(1,174)	(1,071)	(796)	(870)	(780)	(1,326)	(5,203)
Depreciation	(5,595)	(5,754)	(5,710)	(5,599)	(5,953)	(6,626)	(9,383)
Pretax profits	**33,767**	**29,274**	**38,333**	**42,144**	**38,241**	**40,749**	**51,877**
Tax	(9,221)	(7,941)	(12,525)	(13,941)	(11,203)	(11,489)	(9,812)
Deferred taxation	(445)	(190)	(10)	(62)	(344)	(930)	(4,074)
Net profits	**23,350**	**24,619**	**26,015**	**28,037**	**26,694**	**28,330**	**37,991**
Earnings per share (Rs)	**18.4**	**19.4**	**20.5**	**22.1**	**21.0**	**22.3**	**30.0**
Balance sheet (Rs mn)							
Total equity	99,733	113,929	130,049	147,696	162,518	178,976	200,642
Deferred taxation liability	12,997	13,187	13,197	13,259	13,603	14,534	18,608
Total borrowings	19,166	13,379	12,659	12,001	17,651	66,100	123,900
Current liabilities	37,522	45,512	60,604	81,548	96,126	101,996	97,032
Total liabilities and equity	**169,418**	**186,007**	**216,509**	**254,505**	**289,899**	**361,605**	**440,181**
Cash	44,959	26,604	44,730	34,562	20,028	16,904	20,988
Other current assets	28,309	50,851	59,370	87,804	105,321	117,774	137,920
Total fixed assets	81,716	93,913	97,500	114,767	147,178	209,555	263,902
Investments	14,434	14,638	14,909	17,373	17,373	17,373	17,373
Total assets	**169,418**	**186,007**	**216,509**	**254,505**	**289,899**	**361,605**	**440,182**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	25,165	23,920	33,692	30,456	27,689	28,801	43,303
Working capital changes	5,950	(10,151)	(388)	(5,573)	(2,938)	(6,584)	(25,110)
Capital expenditure	(5,811)	(20,449)	(12,419)	(25,535)	(38,110)	(66,810)	(60,580)
Investments	(6,462)	(205)	(270)	(2,464)	—	—	—
Other income	3,995	3,884	4,042	5,243	5,049	4,892	4,995
Free cash flow	**22,837**	**(3,002)**	**24,658**	**2,127**	**(8,311)**	**(39,701)**	**(37,391)**
Ratios (%)							
Debt/equity	17.0	10.5	8.8	7.5	10.0	34.2	56.5
Net debt/equity	(22.9)	(10.4)	(22.4)	(14.0)	(1.3)	25.4	46.9
ROAE (%)	22.1	20.5	19.2	18.4	15.8	15.3	18.4
ROACE (%)	**19.9**	**16.1**	**17.8**	**17.5**	**14.9**	**12.9**	**13.9**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Cipla (CIPLA)

Pharmaceuticals

ADD

OCTOBER 29, 2009

RESULT

Coverage view: Attractive

Price (Rs): 301

Target price (Rs): 285

BSE-30: 16,283

10-12% sales growth guidance retained. Sales were lower than estimated due to lower rains and non availability of key raw material. Staff costs and other overheads were higher as a percentage of sales than estimated, constraining EBITDA margin at 22%, 200 bps lower than our estimates. Cipla expects its sales growth to resume in 2H. We expect slow progress on Cipla's inhaler opportunity in Europe. No material changes to estimates as we retain our ADD rating and TP of Rs285.

Company data and valuation summary

Cipla

Stock data			
52-week range (Rs) (high,low)			307-162
Market Cap. (Rs bn)			241.5
Shareholding pattern (%)			
Promoters			39.4
FIIs			15.7
MFs			4.2
Price performance (%)	**1M**	**3M**	**12M**
Absolute	12.6	6.3	71.1
Rel. to BSE-30	14.6	0.0	(5.3)

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	9.9	12.6	15.1
EPS growth (%)	10.0	26.5	20.7
P/E (X)	30.3	24.0	19.9
Sales (Rs bn)	49.6	54.9	62.8
Net profits (Rs bn)	7.7	10.1	12.2
EBITDA (Rs bn)	10.7	14.7	17.0
EV/EBITDA (X)	23.4	16.3	13.8
ROE (%)	19.0	19.9	19.3
Div. Yield (%)	0.6	0.8	0.8

QUICK NUMBERS

- EBITDA margins at 22% versus estimate of 24%
- PAT at Rs2.7 bn versus estimate of Rs3.2 bn
- No material changes to estimates

2QFY10 revenues were Rs14 bn versus estimate of Rs16 bn

Sales were 15%lower than estimates due to lower sales in key segments—international finished dosage and India finished dosage. API sales at US$35 mn were higher than our estimate of US$30 mn. India finished dosages at Rs6.3 bn were 6% below our estimate due to (1) late onset of the monsoon which lowered sales of anti-infectives and (2) loss of anti-retrovirals business. International finished dosage sales declined 13% yoy in dollar terms to US$120 mn versus our estimate of US$165 mn. This was due to shortage of a key raw material for CFC-based inhalers.

EBITDA margins at 22% versus estimate of 24% due to higher other expenses

EBITDA margins at 22% were lower than the previous quarter's and our estimate of 24%. Materials cost was as estimated at 47% of sales and lower yoy despite lower international finished dosage sales yoy. This shows that the loss of international finished dosage sales which dipped yoy this quarter was high-margin business.

PAT at Rs2.7 bn versus estimate of Rs3.2 bn due to lower sales and operating performance

Although EBITDA was 23% below estimate, PAT was 15% below our estimate. This was due to (1) lower interest cost of Rs84 mn versus Rs125 mn. Interest costs declined qoq from Rs100 mn to Rs84 mn this quarter. (2) higher other income ofRs203 mn including forex gain versus our estimate of Rs160 mn of other income and Rs20 mn of forex gain. (3) higher technology licensing fees of Rs500 mn versus estimate of Rs300 mn.

No material changes to estimates, retain ADD rating

Cipla has guided for FY2010E sales growth of 10-12%. We forecast sales growth of 11-14% in FY2010-11E and EBITDA margin of 22%. The international finished dosage business is expected to pick up momentum in the remaining two quarters of FY2010E.This is due to winter asthma sales and the launch of Salbutamol inhalers in UK in 2HFY10 followed by a ramp-up across Europe.

2QFY10 revenues were Rs14 bn versus estimate of Rs16 bn

Sales were 15% lower than estimates due to lower sales in key segments—international finished dosage and India finished dosage. API sales at US$35 mn were higher than our estimate of US$30 mn.

- International finished dosage sales declined 13% yoy in dollar terms to US$120 mn versus our estimate of US$165 mn. This was due to (1) shortage of a key raw material mainly gas for CFC based inhalers. The geographies which were affected were America and Africa (2) high base effect of same quarter last year.

- India finished dosages at Rs6.3 bn, 6% below our estimate. Sales grew at 7% yoy versus estimate of 14%. Cipla reported yoy growth rate of 16% in Indian finished dosages for all quarters in FY2009 except the December quarter and growth of 11% in 1QFY10. This was due to (1) late onset of monsoon which led to lower sales of anti-infectives and (2) loss of anti-retrovirals business due to pricing issues which was down 5-6% yoy. Winter is normally the season of high asthma sales and we expect 14% sales growth in 2HFY10.

EBITDA margins at 22% versus estimate of 24% due to higher other expenses

EBITDA margins at 22% were lower than previous quarter and our estimate of 24%. Materials cost was as estimated at 47% of sales and lower yoy despite lower international finished dosage sales yoy. This shows that the international finished dosage segment, which showed lower yoy sales this quarter was high-margin business.

Other expenses adjusted for forex impact at 25% was higher than our estimate of 23% staff cost 6.3% was also higher than our estimate of 5.4% Staff costs declined in absolute terms qoq in keeping with the trend seen in previous years. Staff costs tend to spike in 1Q due to annual increments and bonuses.

PAT at Rs2.7 bn versus our estimate of Rs3.2 bn due to lower sales and operating performance

Although EBITDA was 23% below estimate, PAT was 15% below our estimate. This was due to (1) lower interest outgo of Rs84 mn versus Rs125 mn. Interest costs declined qoq from Rs100 mn to Rs84 mn this quarter; (2) higher other income of Rs203 mn including forex gain versus our estimate of Rs160 mn of other income and Rs20 mn of forex gain; (3) higher technology licensing fees of Rs500 mn versus estimate of Rs300 mn and (4) tax rate at 185 was 100 bps lower than our estimated higher tax rate of 19%.

Cipla continues to provide for MAT tax under the revised MAT tax rate of 15% with surcharge and discontinuation of FBT. Cipla indicated that this rate will likely stay for the remaining two quarters before declining in FY2011E when benefits from new SEZ in Indore kick in.

Interim results- Cipla , March fiscal year-ends (Rs mn)

	2QFY10	2QFY10E	2QFY09	1QFY10	% change 2QFY10E	2QFY09	1QFY10
Sales	**13,839**	**16,189**	**13,176**	**13,395**	**(15)**	**5**	**3**
Excise duty	127	155	152	142	(18)	(16)	(10)
Net sales	**13,712**	**16,034**	**13,025**	**13,253**	**(14)**	**5**	**3**
Stock changes	12	—	96	(592)	NM	(88)	NM
Raw Materials	6,384	7,536	6,180	6,659	(15)	3	(4)
Staff costs	864	865	786	950	(0)	10	(9)
Others	3,436	3,729	3,330	3,059	(8)	3	12
Op. costs	**10,695**	**12,131**	**10,392**	**10,075**	**(12)**	**3**	**6**
EBITDA	**3,016**	**3,904**	**2,633**	**3,177**	**(23)**	**15**	**(5)**
Interest	84	125	56	105	(33)	50	(20)
Depreciation	478	500	406	458	(4)	18	4
Other income	203	169	(876)	(150)	20	NM	NM
Other operating income	717	550	522	508	30	37	41
Technology fees	508	300	429	257	69	18	98
Others	209	250	93	251	(16)	125	(17)
PBT	**3,375**	**3,998**	**1,817**	**2,972**	**(16)**	**86**	**14**
Tax - current	578	648	205	505	(11)	182	14
Tax - deferred	40	100	78	50	(60)	(48)	(20)
Fringe benefit tax	0	0	20	0	NM	NM	NM
PAT	**2,757**	**3,250**	**1,514**	**2,417**	**(15)**	**82**	**14**
International	**7,525**	**9,449**	**7,264**	**6,876**	**(20)**	**4**	**9**
API	1,706	1,452	1,240	1,404	17	38	21
Finished dosage	5,819	7,996	6,024	5,472	(27)	(3)	6
India	**6,314**	**6,740**	**5,913**	**6,519**	**(6)**	**7**	**(3)**
Total	**13,839**	**16,189**	**13,176**	**13,395**	**(15)**	**5**	**3**

Source: Kotak Institutional Equities estimates

Position related to hedging and forex losses

At the beginning of FY2009, Cipla had taken forward cover of about US$440 mn at Rs42/US$. As of April 2009, the forward cover position has fallen to US$120 mn. This has fallen to US$100 mn at the end of September 2009.

Cipla has gross debt of Rs9 bn and most of it is dollar denominated. Cipla mentioned that all its forex debt is fully hedged. In the current quarter, Cipla incurred net forex gain of Rs75 mn reported under other expenses.

Cipla guides for FY2010E sales growth of 10-12%

We have revised our FY2010E following the results announcement. We are now using our new currency forecasts with Rs/US$ assumption of Rs47 for FY2010E and Rs47.75 for FY2011E.

- Indian finished dosage revenues are forecast to grow 14% yoy for the next three quarters and for FY2011E.
- International API revenues are forecast to reach US$30 mn per quarter for the next two quarters. For FY2011E, we forecast 5% growth in dollar terms.

- International finished dosage business is expected to pick up momentum in the remaining two quarters of FY2010E.This is due to winter season asthma sales and launch of Salbutamol inhalers in UK in 3QFY10 followed by ramp-up through Europe. Cipla has already tied up with generic players for the launch of this product which has a market size of Euro1.8 bn, according to the company. We forecast international finished dosage sales of US$135-145 mn in remaining two quarters and then estimate growth of 20% yoy in dollar terms in FY2011-12E.

- We forecast EBITDA margin of 22% in FY2010-11E.

- We build in technology licensing income of Rs1.2 bn in 2HFY10, same as that seen in 1HFY10.

We forecast a tax rate of 18% in FY2010E going down to 16% in FY2011E on the back of the commissioning of Indore SEZ. Cipla benefits from tax exemptions provided to EOUs from payment of corporate income taxes until the earlier of FY2011E or 10 consecutive years from the commencement of production at these units. In addition, Cipla is entitled to income tax benefits for the finished dosage units at Goa, Baddi and Sikkim.

Sikkim unit has a tax holiday till FY2018 for up to 100% of the profits earned. In the case of Goa and Baddi, Cipla enjoys tax holidays till FY2011E for up to 100% of the profits earned and 30% of the profits earned in the next five years are tax-exempt. Cipla will get income tax benefits at Indore SEZ unit for 15 years from the year of commissioning of the unit.

Key takeaways from conference call

- **After capex of Rs9 bn in FY2009, Cipla plans to spend Rs 5 bn every year in FY2010E-11E**. It has spent Rs3 bn in 1HFY10. Cipla is on track for commissioning of its Indore facility in 1QFY11E. Initially, the facility will be used for finished dosage exports of semi –regulated markets and later for advanced markets once various regulatory authorities have approved the facility. Cipla does not foresee any additional capacity expansion in finished dosages and plans to incur capex on building API capacities and R&D facilities. Cipla expects capacity utilization to improve with increasing sales and no additional capacity building in finished dosages in future.

- Cipla has entered into a JV with a Chinese company for biosimilars. Clinical trials have begun for products in India. The products being developed are currently being marketed by the Chinese JV partner in China. Currently, Cipla has not incurred any capex in this JV and work is being conducted out its unit in Goa. However, once formal agreements are drawn up and product has to be prepared for launch/large scale trials, it will formalize its capex plan on this initiative.

- **Stem cell-based products** Cipla plans to expand presence in stem-cell based products for diseases and conditions. It has entered into a product development agreement to develop and distribute stem cell based products in and outside India. However, it has not shared the name of the partner or nature of arrangement with this partner.

Price target and valuation

We retain ADD rating with SOTP-based target price of Rs285. Cipla has avoided the riskier markets of Russia and Latin America. Its business model is seen to be more predictable and less risky compared to other Indian companies. We think in the short term market may excited about the inhaler opportunity that Cipla talked at the conference call but it remains a difficult market to penetrate and we think progress will be slow.

Profit and loss statement, March fiscal year-ends, 2007-2011E

	2007	2008E	2009E	2010E	2011E
Net sales	**34,382**	**40,104**	**49,606**	**54,944**	**62,850**
Operating expenses					
Materials	(16,949)	(21,130)	(23,474)	(25,586)	(28,992)
Selling and administration	(5,085)	(6,135)	(8,835)	(7,774)	(8,959)
Employee cost	(1,846)	(2,555)	(2,714)	(3,594)	(4,062)
R&D	(1,473)	(2,029)	(2,355)	(3,022)	(3,457)
Others	(2,152)	(1,845)	(2,747)	(3,022)	(3,457)
Total expenditure	**(27,505)**	**(33,693)**	**(40,125)**	**(42,999)**	**(48,926)**
EBITDA	**6,877**	**6,410**	**9,481**	**11,946**	**13,924**
Depreciation and amortisation	(1,034)	(1,307)	(1,518)	(1,961)	(2,550)
EBIT	**5,844**	**5,104**	**7,963**	**9,985**	**11,374**
Net finance cost	(70)	(117)	(329)	(348)	0
Other income	2,306	3,393	1,335	2,728	3,100
Pretax profits before extra-ordinaries	**8,080**	**8,379**	**8,968**	**12,364**	**14,474**
Current tax	(1,218)	(940)	(1,010)	(1,997)	(1,916)
Deferred tax	(147)	(365)	(150)	(290)	(400)
Fringe benefit tax	(35)	(64)	(98)	0	0
Reported net profit	**6,680**	**7,010**	**7,710**	**10,077**	**12,158**

Source: Kotak Institutional Equities estimates

SOTP based price target, FY2011-FY2012E

	PAT (Rs mn)		P/E	Valuation (Rs mn)	
	2011E	2012E	(X)	2011E	2012E
Finished dosage India	4,644	5,265	20.0	92,872	105,306
API global	1,229	1,182	11.5	14,138	13,593
Finished dosage USA	1,823	2,186	15.0	27,341	32,794
Finished dosage Europe	1,068	1,282	15.0	16,027	19,224
Finished dosage RoW	3,394	4,071	15.0	50,911	61,064
Total	**12,158**	**13,986**		**201,290**	**231,981**
Value per share (Rs)				**251**	**289**
Cash per share (Rs)				7	13
Share price target (Rs)					
Price target					**280**

Source: Kotak Institutional Equities estimates

kotak Institutional Equities

HCL Technologies (HCLT)

Technology

REDUCE

OCTOBER 28, 2009

RESULT

Coverage view: Attractive

Price (Rs): 313

Target price (Rs): 300

BSE-30: 16,283

In-line quarter; increasing DSO a concern. HCLT reported in-line performance for 1QFY10. Revenue performance was marginally better, EBIT was in line and net income marginally below expectations. Growth at HCLT continues to from a single service, i.e. infrastructure services. FCF has failed to keep pace with growth; a secular increase in DSO is not a healthy sign in our view. We maintain our REDUCE rating and raise our target price to Rs300 (Rs275 earlier) to account for better-than-expected margin performance.

Company data and valuation summary

HCL Technologies

Stock data			
52-week range (Rs) (high,low)			352-87
Market Cap. (Rs bn)			217.8
Shareholding pattern (%)			
Promoters			68.2
FIIs			17.9
MFs			2.2
Price performance (%)	1M	3M	12M
Absolute	(6.6)	29.7	114.5
Rel. to BSE-30	(4.0)	22.1	18.6

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	17.5	16.6	22.9
EPS growth (%)	14.5	(5.0)	37.9
P/E (X)	17.9	18.9	13.7
Sales (Rs bn)	106.3	120.5	133.4
Net profits (Rs bn)	13.0	12.7	16.5
EBITDA (Rs bn)	22.8	25.6	27.4
EV/EBITDA (X)	10.0	9.2	8.2
ROE (%)	20.9	19.5	23.0
Div. Yield (%)	3.8	3.8	3.8

1QFY10 results were in line with our expectations

Revenues of US$630 mn (up 3.8% qoq, 24.8% yoy) came in 0.5% ahead of our estimate of US$627 mn. Net income of Rs3 bn was marginally lower than our estimate of Rs3.05 bn. EBITDA margin at 22.1% came in 50 bps higher than our expectations, but driven by sharp SG&A cutback (SG&A as a percentage of revenues down 140 bps qoq, SG&A expenses down 5.5% qoq in absolute terms). Better-than-expected EBITDA performance was offset by a sharp jump in depreciation expense for the quarter. Note that net income includes US$31.3 mn of forex losses.

Infrastructure services segment drives revenue growth

Infrastructure services segment grew 14% qoq and 55% yoy to US$122.5 mn and accounted for 70% of incremental revenues in 1QFY10. We attribute this performance to large deal ramp up and, at a fundamental level, HCLT's strong value proposition in this practice. However, performance in other segments—IT Services and BPO—remains sub-par. The company reported 1.5% qoq growth in IT services as opposed to 3-4% reported by peers. BPO segment continues to remain muted with flat revenues qoq in US$ terms and decline on a constant-currency basis. The company attributes weak performance in IT services to weak business flow from Axon.

Retain REDUCE rating on full valuations; free cash generation could have been better

HCLT has performed credibly during the downturn with large deal wins and strong margin defense. We increase our US$ net income estimate on account of better-than-expected margin defense; Re EPS, however, remains largely unchanged (Rs16.6 for FY2010E and Rs22.9 for FY2011E) due to a change in our Re/US$ assumption. We maintain our REDUCE rating on full valuations despite raising our target price to Rs300/share (Rs275 earlier). Our target multiple of 13X (revised upwards from 12X earlier) FY2011E EPS is 25-30% lower than larger peers, given (1) long-term ROE is likely to be lower than peers necessitated by M&A to plug gaps in the business portfolio and (2) weaker-than-peers free cash generation profile given HCLT's higher flexibility on engagement structures and contract terms. Note that HCLT's free cash to net income ratio is significantly lower than peers. Its receivables collection cycle has increased again in 1QFY10 (though management commentary allayed some of the concerns on this front) after a significant increase in FY2009.

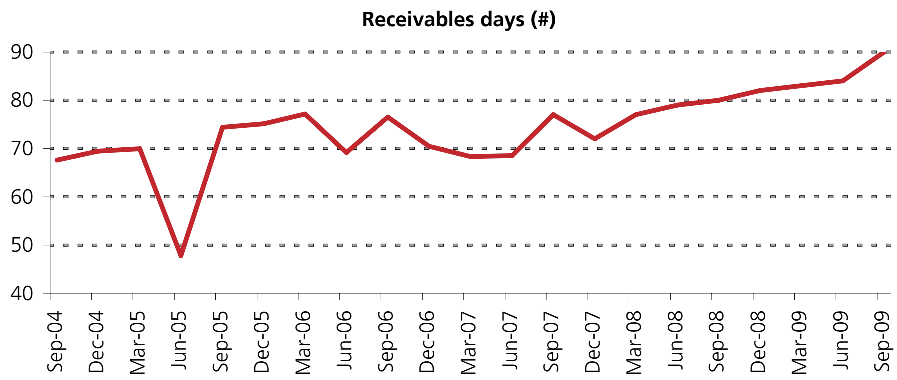
Consistent increase in DSO; free cash generation could have been better

HCLT's DSO increased to 90 from 80 in the previous quarter. Management attributed a part of the increase US$35 mn of billing to a client which could be recognized as revenues under US GAAP—HCLT added this amount to receivables and balanced it out with the unearned revenues (which gets recorded in liabilities) entry in the balance sheet.

Even after adjusting for the US$35 mn increase, DSO increased to 84 days. We find it surprising that DSO has increased right through the downturn and is not just a one-quarter phenomenon—DSO has increased to 90 days in 1QFY10 from 72 in 2QFY08. This is in sharp contrast to decline in DSO reported by other players.

The company's strong performance is undoubtedly creditable, however, we do believe that conversion of net income to operating (and free) cash flow could have been better.

DSO continues to rise, in contrast to the declining trend reported by peers



Source: Company

Consistent revenue and margin performance impressive

We have been negative on HCLT for multiple reasons—(1) lack of scalability—weak positioning in verticals that matter for scale; (2) weak positioning in core applications portfolio; (3) focus on mid-market clients may impact HCLT more than peers and (4) greater sacrifices in pricing during the downturn which may impact HCLT's margins more than peers.

HCLT has performed well in the wake of these obvious challenges. Specifically, we are impressed with the entire large deal strategy and subsequent mining of accounts which lent some stability to the overall business model. The jury is still out, however, on the sustainability of operating margins.

Operating margin—cut back in SG&A worrying

HCLT's SG&A expenses have hardly changed in the past six quarters. During this period, the company has absorbed three acquisitions—AXON, Liberata and Control Point. We presume that AXON, being consulting-led, would have high expenses in SG&A. We believe that investments in SG&A expenses are critical for sustainable new deal wins; we would seek clarifications from the management on the areas where HCLT has been able to derive sales and marketing efficiencies. We highlight that HCLT's margin defense has been purely on account of a decline in SG&A. Gross margins actually declined 230 bps yoy to 36.8% despite benefits of (1) increase in utilization rates; and (2) rupee depreciation of approx ~ 9%. HCLT has announced a wage increase, which may impact margins by 200 bps in the next two quarters.

Hedges reduced to US$725 mn; indicates short-term hedging policy

HCLT reduced its hedges further to US$725 mn from US$813 mn in the previous quarter. The company has US$132 mn of losses in OCI at end-quarter Re/US$ rate of 48.11. Hedging losses for Dec 2009 quarter will likely be US$34 mn, followed by US$30-35 mn loss over the next three quarters. HCLT has finalized its hedging policy that restricts hedges to a maximum of two quarters net cash inflow. The company indicates that the hedges may reduce to US$500 mn as part of this revised policy.

HCL Technologies (year-ending June) - 1QFY10 financial performance

Rs mn	1QFY09	4QFY09	1QFY10	QoQ % chg.	YoY % chg.	Kotak Estimates	% Deviation
CONSOLIDATED							
Revenues	**23,693**	**29,085**	**30,314**	**4.2**	**27.9**	**30,099**	**0.7**
Cost of Revenues	(14,543)	(18,293)	(19,348)	5.8	33.0	(18,949)	**2.1**
Gross profit	**9,150**	**10,792**	**10,966**	**1.6**	**19.9**	**11,150**	**(1.6)**
SG&A expenses	(4,018)	(4,512)	(4,279)	(5.2)	6.5	(4,655)	**(8.1)**
EBITDA (including RSU expenses)	**5,131**	**6,280**	**6,687**	**6.5**	**30.3**	**6,494**	**3.0**
EBIDTA adjusted for non cash RSU charges	**5,314**	**6,438**	**6,888**	**7.0**	**29.6**	**6,653**	**3.5**
Depreciation	(906)	(1,193)	(1,418)	18.9	56.5	(1,083)	**30.9**
EBIT	4,225	5,087	5,269	3.6	24.7	5,411	**(2.6)**
Interest expense		(465)	0	(100.0)		(473)	
Other Income (net of interest expense)	(418)	(536)	(1,567)	192.1	275.1	(1,217)	**28.8**
Earnigs before tax	**3,807**	**4,086**	**3,702**	**(9.4)**	**(2.8)**	**3,722**	**(0.5)**
Provision for Tax	(441)	(934)	(702)	(24.8)	59.1	(670)	**4.8**
Earnings after & before share of earnings in affili	**3,366**	**3,152**	**3,000**	**(4.8)**	**(10.9)**	**3,052**	**(1.7)**
Share of income (loss) of equity investees	0	2	1			3	
Minority Interest	14	(5)	0			-	
Net Income (before extraordinaries)	**3,380**	**3,149**	**3,001**	**(4.7)**	**(11.2)**	**3,055**	**(1.8)**
EPS	**4.9**	**4.6**	**4.3**	**(4.7)**	(11.2)	**4.4**	**(1.8)**
No of shares outstanding	690.0	690.0	690.0			690.0	
Margins (%)							
Gross Profit margin	38.6	37.1	36.2			37.0	
EBITDA Margin	21.7	21.6	22.1			21.6	
EBIT Margin	17.8	17.5	17.4			18.0	
NPM	14.3	10.8	9.9			10.1	

Source: Company, Kotak Institutional Equities estimates

Key Changes to our FY2010-11E estimates

	Revised		Old		Change (%)	
US$ mn	**FY2010E**	**FY2011E**	**FY2010E**	**FY2011E**	**FY2010E**	**FY2011E**
Revenues	**2,592**	**2,901**	**2,494**	**2,778**	**3.9**	**4.4**
- Software Services	*1,832*	*2,042*	*1,809*	*2,009*	*1.3*	*1.7*
- BPO	*237*	*255*	*237*	*255*	*(0.1)*	*(0.1)*
- Infrastructure Services	*523*	*604*	*448*	*515*	*16.8*	*17.4*
Revenue growth yoy (%)	**18.5**	**11.9**	**14.0**	**11.4**		
EBITDA	550	595	528	553	4.3	7.7
EBIT	438	489	436	462	0.5	5.8
Net Income	**248**	**346**	**242**	**333**	**2.7**	**4.0**
EBITDA margin (%)	21.2	20.5	21.2	19.9		
EBIT	16.9	16.8	17.5	16.6		
Re/ US$ rate	46.5	46.0	48.0	47.6	**(3.1)**	**(3.3)**
EPS Rs/ share	**16.6**	**22.9**	**16.7**	**22.8**	**(0.5)**	**0.6**

Source: Kotak Institutional Equities estimates

HCLT 1QFY10 performance

	Reported	KIE est.	4QFY09	1QFY09
Headline financials				
Revenues (US$ mn)	**630**	**627**	**607**	**505**
Growth qoq (%)	3.8	3.2		
Growth yoy (%)	24.8	24.2		
versus KIE (%)	0.5			
Reveneus (Rs mn)	**30,314**	**30,099**	**29,085**	**23,693**
Growth qoq (%)	4.2	3.5		
Growth yoy (%)	27.9	27.0		
versus KIE (%)	0.7			
EBITDA (Rs mn)	**6,687**	**6,494**	**6,280**	**5,131**
Growth qoq (%)	6.5	3.4		
Growth yoy (%)	30.3	26.6		
versus KIE (%)	3.0			
EBITDA margin (%)	22.1	21.6	21.6	21.7
PAT (Rs mn)	**3,001**	**3,052**	**3,147**	**3,380**
Growth qoq (%)	(4.6)	(3.0)		
Growth yoy (%)	(11.2)	(9.7)		
versus KIE (%)	(1.7)			
EPS (Rs/share)	**4.35**	**4.42**	**4.56**	**4.90**
Growth qoq (%)	(4.6)	(3.0)		
Growth yoy (%)	(11.2)	(9.7)		
versus KIE (%)	(1.7)			
Revenue break-up				
IT services (US$ mn)	**449**	**456**	**442**	**369**
Growth qoq (%)	1.7	3.4		
Growth yoy (%)	21.8	23.8		
versus KIE (%)	(1.7)			
Infrastructure services (US$ mn)	**123**	**110**	**107**	**79**
Growth qoq (%)	14.4	3.0		
Growth yoy (%)	55.1	39.6		
versus KIE (%)	11.0			
BPO (US$ mn)	**59**	**60**	**59**	**57**
Growth qoq (%)	0.3	2.6		
Growth yoy (%)	2.8	5.1		
versus KIE (%)	(2.2)			

Source: Company, Kotak Institutional Equities estimates

HCLT - quarterly balance sheet, June fiscal-year ends, US$ mn

	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09
Assets						
Cash and cash equivalents	108	65	146	104	88	74
Accounts receivables, net	440	448	545	521	565	633
Investments (treasury)	461	491	270	308	309	491
Other current assets	106	223	268	279	223	199
Total current assets	**1,115**	**1,226**	**1,229**	**1,212**	**1,185**	**1,397**
Current liabilities	412	549	728	741	682	655
Net current assets	**704**	**677**	**501**	**471**	**503**	**742**
Net block	310	301	313	324	331	339
Goodwill and intangible assets	223	232	900	858	946	945
Other assets	123	123	147	154	187	196
Total assets	**1,359**	**1,333**	**1,861**	**1,808**	**1,968**	**2,222**
Liabilities and stockholder's equity						
Borrowings	6	—	636	680	622	786
Other long-term liabilities	139	180	184	149	159	182
Total liabilities	**145**	**180**	**820**	**829**	**781**	**968**
Minority interest	1	1	1	1	0	0
Total stockholder's equity	1,212	1,152	1,041	978	1,187	1,253
Total liabilities and stockholder's equity	**1,359**	**1,333**	**1,861**	**1,808**	**1,968**	**2,222**

Source: Company

Key assumptions driving HCLT earnings model, 2008-2011E, June fiscal year-ends

	2008	2009	2010E	2011E
Key assumptions				
Revenue growth (US$ terms) (%)	**35.2**	**16.4**	**18.5**	**11.9**
IT services	35.9	16.3	14.7	11.5
Infrastructure management	44.9	25.6	47.0	15.4
BPO	21.3	5.6	0.5	7.5
Volume growth yoy (%) (IT)	**29.4**	**12.4**	**6.1**	**11.9**
Pricing change yoy (%)				
Onsite	7.1	6.1	12.9	—
Offshore	7.1	(2.6)	(1.3)	—
Blended	5.0	3.5	8.2	(0.3)
Total employees (#)	**50,741**	**54,216**	**58,626**	**67,302**
Employee additions	**8,724**	**3,475**	**4,410**	**8,676**
Utilization rate (%)	**76.0**	**79.6**	**81.4**	**81.6**
SG&A expense as % of revenues	**16.5**	**16.3**	**14.2**	**14.3**
Re/US$ rate	**40.7**	**48.6**	**46.5**	**46.0**

Source: Company, Kotak Institutional Equities estimates

Condensed consolidated financials for HCL Technologies, 2007-2011E, June fiscal year-ends (Rs mn)

	2007	2008	2009	2010E	2011E
Profit model					
Revenues	60,337	76,394	106,301	120,549	133,400
EBITDA	**12,752**	**16,159**	**22,778**	**25,598**	**27,372**
Depreciation (incl amortization of intangibles)	(2,534)	(3,033)	(4,465)	(5,226)	(4,907)
Other income	4,262	(1,195)	(3,629)	(6,245)	(2,332)
Pretax profits	**14,480**	**11,931**	**14,684**	**14,127**	**20,133**
Tax	(1,489)	(1,281)	(2,551)	(2,578)	(4,209)
Profit after tax	**12,990**	**10,650**	**12,133**	**11,549**	**15,924**
Diluted earnings per share (Rs)	**18.9**	**15.3**	**17.5**	**16.6**	**22.9**
Balance sheet					
Total equity	53,450	49,296	57,657	63,492	75,440
Deferred taxation liability	98	184	220	211	208
Total borrowings	377	258	30,264	26,647	21,745
Minority interest	155	53	15	14	14
Other non-current liabilities	1,375	5,496	7,518	6,885	7,967
Current liabilities	11,950	20,613	33,079	26,384	28,241
Total liabilities and equity	**67,405**	**75,901**	**128,753**	**123,633**	**133,614**
Cash	7,006	9,500	19,031	9,578	15,738
Other current assets	21,290	26,127	38,325	47,644	52,629
Goodwill and intangible assets	8,592	9,055	45,972	42,824	41,807
Tangible fixed assets	11,185	12,582	16,087	16,580	16,119
Investments	17,451	13,853	607	386	382
Other non-current assets	1,880	4,784	8,731	6,620	6,940
Total assets	**67,405**	**75,901**	**128,753**	**123,633**	**133,614**
Free cash flow					
Operating cash flow, excl. working capital	9,747	15,453	9,700	22,417	23,163
Working capital changes	(4,940)	(1,957)	(721)	(14,812)	(2,605)
Capital expenditure	(3,859)	(5,566)	(5,310)	(4,618)	(4,106)
Investment changes/acquisition	(2,466)	2,477	(16,704)	195	-
Other income	4,425	(1,195)	(3,629)	(6,245)	(2,332)
Free cash flow	**2,906**	**9,212**	**(16,664)**	**(3,063)**	**14,120**
Ratios (%)					
EBITDA margin	21.1	21.2	21.4	21.2	20.5
EBIT margin	16.9	17.2	17.2	16.9	16.8
Debt/equity	0.0	0.0	0.5	0.4	0.3
Net debt/equity	(0.5)	(0.5)	0.2	0.3	0.1

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Bank of Baroda (BOB)

Banks/Financial Institutions

ADD

OCTOBER 28, 2009

RESULT

Coverage view: Attractive

Price (Rs): 493

Target price (Rs): 560

BSE-30: 16,283

Strong all-round performance. Bank of Baroda beat estimates on the core front with margins improving 26 bps sequentially to 2.63%, driven by lower deposit costs and better ALM management. Incremental loan growth was slow as the bank focused on improving its NIM, however, deposit growth at 28% remained strong. Gross NPL ratio at 1.3%, provision coverage of 79% and overall restructured assets at 3% of loans likely indicate healthy asset quality. We retain our ADD rating with a target price of Rs560.

Company data and valuation summary

Bank of Baroda

Stock data			
52-week range (Rs) (high,low)			550-170
Market Cap. (Rs bn)			180.3
Shareholding pattern (%)			
Promoters			53.8
FIIs			17.7
MFs			10.1
Price performance (%)	1M	3M	12M
Absolute	3.4	18.2	111.6
Rel. to BSE-30	5.8	11.3	17.1

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	60.9	68.6	71.3
EPS growth (%)	12.5	12.6	3.8
P/E (X)	8.1	7.2	6.9
NII (Rs bn)	51.2	58.7	71.6
Net profits (Rs bn)	22.3	25.1	26.0
BVPS	309.6	366.4	425.3
P/B (X)	1.6	1.3	1.2
ROE (%)	21.4	20.3	18.0
Div. Yield (%)	1.8	2.1	2.1

QUICK NUMBERS

- NII growth increases by an impressive 22% yoy
- Asset quality remains stable at 1.3% gross NPL ratio with provision coverage of 79%
- Retain ADD rating at Rs560

Positive traction on margins and stable asset quality; Retain ADD

We retain our ADD rating on Bank of Baroda (BOB) with a target price of Rs560 (Rs525 earlier). The revision in target price is on account of a better outlook for margins—NIM to improve in the next few quarters as funding costs decline further and loan growth picks up. Further, BOB has fairly high provision coverage (79%) and incremental addition to NPLs (1% annualized delinquency rate in 1HFY10) along with a lower proportion of restructured assets (3% of loans, facility wise). We are currently modeling incremental delinquencies of 1.8% in FY2010E and 2% in FY2011E, as against 0.9% reported in FY2009. The stock trades at 1.2XFY2011E PBR for a likely RoE of about 18%, which is attractive.

Margins increase sharply in 2QFY10; likely to improve further going forward

Post a sharp margin decline in 1QFY10 of 53 bps sequentially, margins increased by 26 bps during 2QFY10 aided by lower funding costs and better asset liability management. We expect further margin improvement over the next couple of quarters of this fiscal. The cost of deposits declined by 26 bps qoq, while yields remained stable qoq (as the lending rate reduction has already been passed in earlier quarters).

The company has been reducing its exposure to low-yielding bulk advances on its asset side and high-yielding bulk deposits on its liabilities side. Consequently, BoB's domestic loan book was Rs1.1 tn as of September 2009 (3% qoq growth and at the same level as of March 2009). The management indicated that it has reduced its low-yielding bulk advances to Rs70 bn (7% of loan book) from Rs140 bn as of September 2008. Domestic deposits were Rs1.6 tn (up 23% yoy) but given the management's thrust on improving its liability profile, growth in low-cost deposits (CASA) was even stronger—CASA ratio increased 36.2% from 34.9% as of March 2009.

Non-interest income up 25%; core fee income remains somewhat muted

Non-interest income (excluding treasury and recoveries) increased by 20% yoy to Rs4 bn in 2QFY09. A large part was driven by core fees of Rs3.3 bn (up 14% yoy). The growth appears low as new sanctions and disbursements have been very subdued during the quarter as compared to 2QFY09. Treasury gains were strong at Rs1.2 bn (up 30% yoy) and company also made handsome recoveries from written-off accounts of Rs666 mn (54% yoy). The outstanding stock of written-off accounts currently stands at Rs16 bn which could provide upside to earnings in case the economic growth improves.

Asset quality trend is comfortable

One of the key positives has been the bank's ability to manage asset quality in the current environment. Reported gross NPL ratio and net NPL ratio as of September 2009 were at 1.3% and 0.3% with a provision coverage ratio of 79%. Gross NPLs declined by 5% sequentially, even as net NPLs increased by 8%, although on a low base. More importantly, BoB's incremental delinquencies during 1HFY10 were Rs7.6 bn, which is 1% (annualized) of the loan book. We assume 1.8% of incremental delinquency in FY2010E and 2% in FY2011E. The management appears confident of maintaining its delinquency between 1-1.25%.

Restructured assets increased marginally, but remain low

Restructured assets were at Rs45 bn as of September 2009, up by Rs3 bn during the quarter. Overall restructured assets are 3% (facility wise) of the loan book. Out of the total restructured book, about Rs1.5 bn of loans slipped into the NPL category during the quarter.

Write-back in the international book reduced provision burden

BoB reported total provisions of Rs1.2 bn during 2QFY10. While NPL provisions were Rs1.7 bn, lower than Rs3.2 bn provided during 1QFY10, the bank benefited from a write-back of Rs611 mn on its CLN portfolio on account of improved conditions in the international financial markets.

Bank of Baroda, Quarterly results
March fiscal year-ends, 2QFY09-2QFY10 (Rs mn)

	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	% chg	2QFY10KS	Actval Vs KS
Interest income	35,510	41,080	41,388	40,321	41,354	16.5	40,152	3.0
Interest on advances	26,892	30,422	30,762	30,366	31,014	15.3	30,062	3.2
Income from invts	7,265	9,085	8,845	8,902	9,275	27.7	8,990	3.2
Bal with RBI	1,353	1,573	1,781	1,053	1,065	(21.3)	1,100	(3.1)
Interest expenses	24,172	26,462	26,680	28,274	27,468	13.6	27,143	1.2
Net interest income	**11,338**	**14,618**	**14,708**	**12,047**	**13,886**	**22.5**	**13,009**	**6.7**
Non-interest income	4,759	9,156	8,536	7,030	5,953	25.1	6,600	(9.8)
Other income (excld treasury)	3,837	4,285	5,528	4,476	4,748	23.8	4,600	3.2
Other income (excld treasury and recove	3,404	3,461	4,699	3,977	4,082	19.9	4,100	-
Fee income	2,849	1,729	4,926	3,013	3,240	13.7	2,040	58.8
Forex income	551	1,367	860	963	842	52.9	826	1.9
Treasury income	923	4,180	3,009	2,554	1,205	30.7	2,000	(39.7)
Total income	**16,097**	**23,774**	**23,244**	**19,077**	**19,839**	**23.2**	**19,609**	**1.2**
Operating expenses	8,250	9,627	10,199	8,978	9,523	15.4	9,497	0.3
Employee expenses	5,244	6,673	6,347	5,942	5,958	13.6	6,100	(2.3)
Other operating expenses	3,006	2,954	3,853	3,036	3,566	18.6	3,397	5.0
Operating profit	7,847	14,147	13,045	10,099	10,316	31.5	10,112	2.0
Provisions	1,810	3,501	2,097	(390)	1,163	(35.7)	2,400	(51.5)
Loan loss	620	1,040	2,030	3,171	1,737	179.9	2,400	(27.6)
Invt. depreciation	1,189	2,329	(340)	(3,598)	(611)	(151.3)		
PBT	6,037	10,646	10,947	10,489	9,153	51.6	7,712	18.7
Taxation	2,084	3,562	3,421	3,635	2,810	34.8	2,314	21.5
Net profit	**3,953**	**7,084**	**7,527**	**6,854**	**6,342**	**60.4**	**5,398**	**17.5**
PBT-invt gains/losses	6,304	8,104	7,599	4,337	7,337	16.4	5,712	28.4
PBT-invt gains + provisions	6,924	9,144	9,629	7,508	9,073	31.0	8,112	11.8
Tax rate	34.5	33.5	31.2	34.7	30.7		30.0	
Key balance sheet items (Rs bn)								
Deposits	1,611	1,686	1,924	1,986	2,074	28.7		
Domestic	1,310	1,365	1,514	1,544	1,606	22.6		
CASA ratio (%)	35.9	36.1	34.9	35.1	36.2			
Foreign	301	321	410	442	467	55.6		
Advances	1,188	1,272	1,440	1,427	1,489	25.4		
Domestic	906	981	1,093	1,066	1,096	21.0		
Retail loans	177	188	197	202	214	20.6		
Home loans	76	79	83	87	94	23.3		
SME	127	137	147	151	167	31.4		
Farm credit	149	156	170	180	186	24.3		
Foreign	282	291	347	361	393	39.5		
Investments	404.6	460.6	530.8	565.4	579.5	43.2		
AFS	-	-	149	123	99			
Duration (years)	1.8	1.8	2.7	3.0	2.1			
Yield management measures (%)								
Average cost of deposits	5.65	5.73	5.71	5.41	5.15			
Avg. cost of deposits (domestic)	6.20	6.25	6.30	6.16	5.87			
Avg. cost of deposits (international)	3.34	3.52	3.29	2.65	2.49			
Yield on advances (total)	9.67	9.58	9.50	8.72	8.71			
Yield on advances (domestic)	11.13	11.25	10.86	10.10	10.23			
Yield on advances (international)	5.08	5.58	5.19	4.69	4.48			
Yield on investments (total)	6.33	7.18	7.05	6.83	6.69			
Yield on investments (domestic)	6.39	7.30	7.18	7.07	6.87			
Yield on investments (international)	5.65	5.88	6.48	3.87	4.33			
NIM	2.80	3.30	2.91	2.37	2.63			
Asset quality details								
Gross NPLs (Rs bn)	19.5	19.2	18.4	20.7	19.6	0.1		
Gross NPLs (%)	1.6	1.5	1.3	1.6	1.3			
Net NPLs (Rs bn)	5.0	4.7	4.5	3.8	4.1	(19.3)		
Net NPLs (%)	0.4	0.4	0.3	0.3	0.3			
Capital adequacy details (%)								
CAR	12.9	13.2	14.1	14.6	14.7			
Tier I	7.8	8.5	8.5	8.8	8.9			
Tier II	5.1	4.7	5.6	5.8	5.8			

Source: Company, Kotak Institutional Equities estimates

We marginally increase our estimates by 6-7% in the near term
Old and new estimates, March fiscal year-ends, 2010-2011E (Rs mn)

	Old Estimates		New Estimates		% change	
	2010E	**2011E**	**2010E**	**2011E**	**2010E**	**2011E**
NII	56,583	69,724	58,693	71,554	3.7	2.6
Loan growth	19.4	15.9	19.4	16.9		
NIM	2.39	2.54	2.48	2.60		
Non-treasury other inc	19,891	21,712	19,891	21,712	0.0	0.0
Operating expenses	40,422	44,441	39,952	43,934	-1.2	-1.1
Employee expenses	26,299	28,403	25,829	27,896	-1.8	-1.8
Provisions and contingencies						
Loan loss prov	8,689	13,924	8,689	13,057	0.0	-6.2
Investment dep./amort	-3,000	0	-3,000	0	NA	
PBT	**34,862**	**36,870**	**37,442**	**40,075**	**7.4**	**8.7**
PAT	**23,358**	**23,965**	**25,086**	**26,049**	**7.4**	**8.7**
PBT- invt gains + provisions	**36,052**	**46,994**	**38,631**	**49,332**	**7.2**	**5.0**

Source: Company, Kotak Institutional Equities estimates

Bank of Baroda, Key ratios and growth rates, March fiscal year-ends, 2007-2011E (%)

	2007	2008	2009	2010E	2011E
Growth rates (%)					
Net loan	40.6	22.6	31.6	16.5	15.0
Customer assets	36.7	26.6	34.5	19.0	16.6
Investments excld. CPs and debentures growth	1.1	28.0	19.8	11.4	18.0
Net fixed assets	18.3	122.9	(3.3)	6.5	(7.6)
Cash and bank balance	35.9	22.0	8.0	7.7	7.5
Total Asset	26.2	25.5	26.6	15.7	15.5
Deposits	33.4	21.7	26.5	18.9	16.9
Current	17.9	18.4	23.6	18.9	16.9
Savings	16.3	13.3	18.8	13.1	16.9
Fixed	43.6	25.3	29.5	20.8	16.9
Net interest income	17.4	3.3	31.0	14.6	21.9
Loan loss provisions	10.8	57.4	(34.9)	110.4	50.3
Total other income	14.9	49.8	29.8	(8.4)	4.6
Net fee income	31.0	14.2	35.0	12.0	12.0
Net capital gains	(46.0)	290.9	69.1	(50.0)	(15.6)
Net exchange gains	34.3	16.5	30.0	10.0	10.0
Operating expenses	6.7	17.1	20.0	11.7	10.0
Employee expenses	7.9	12.5	27.0	10.0	8.0
Key ratios (%)					
Yield on average earning assets	7.6	7.7	7.7	7.3	7.4
Yield on average earning assets	8.3	8.8	8.9	8.2	8.3
Yield on average loans	8.2	7.2	7.1	7.3	7.3
Yield on average investments	4.7	5.4	5.4	5.1	5.1
Average cost of funds	4.6	5.3	5.3	5.1	5.1
Interest on deposits	**2.9**	**2.3**	**2.3**	**2.1**	**2.3**
Net interest income/earning assets	2.9	2.6	2.6	2.5	2.6
Spreads on lending business	3.6	3.5	3.5	3.0	3.2
Spreads on lending business (incl. Fees)	4.3	4.0	4.1	3.6	3.7
New provisions/average net loans	0.6	0.7	0.3	0.6	0.7
Total provisions/gross loans	1.9	1.4	1.3	1.5	1.9
Interest income/total income	75.9	72.2	73.7	75.0	77.1
Other income / total income	26.6	34.4	34.2	29.4	26.3
Fee income to total income	9.2	9.1	9.6	10.0	9.6
Fee income to advances	0.7	0.6	0.6	0.5	0.5
Fees income to PBT	28.8	24.5	23.0	22.3	23.3
Net trading income to PBT	(24.9)	22.2	11.2	20.0	9.5
Exchange inc./PBT	14.6	12.6	11.5	10.9	11.2
Operating expenses/total income	51.0	55.0	51.5	51.1	47.3
Operating expenses/assets	2.0	1.8	1.8	1.6	1.6
Operating profit /AWF	1.2	1.1	1.2	1.4	1.3
Tax rate	38.2	35.0	34.4	33.0	35.0
Dividend payout ratio	24.6	20.4	14.8	14.8	14.8
Share of deposits					
Current	7.9	7.7	7.5	7.5	7.5
Fixed	66.8	68.8	70.4	71.5	71.5
Savings	25.3	23.5	22.1	21.0	21.0
Loans-to-deposit ratio	66.9	70.2	74.8	75.2	75.2
Equity/assets (EoY)	6.0	6.1	5.6	5.6	5.5
Dupont analysis (%)					
Net interest income	3.0	2.4	2.5	2.4	2.5
Loan loss provisions	0.3	0.4	0.2	0.4	0.5
Net other income	1.1	1.3	1.3	1.0	0.9
Operating expenses	2.0	1.9	1.8	1.6	1.6
Invt. depreciation	0.3	0.0	0.3	(0.1)	-
(1- tax rate)	62.1	65.0	66.6	67.0	65.0
ROA	0.8	0.9	1.1	1.0	0.9
Average assets/average equity	15.9	18.0	19.6	19.9	19.6
ROE	12.7	16.0	21.4	20.3	18.0

Source: Company, Kotak Institutional Equities estimates

Bank of Baroda, P&L and balance sheet, March fiscal year-ends, 2007-2011E (Rs mn)

	2007	2008	2009	2010E	2011E
Income statement					
Total interest income	92,126	118,135	150,916	173,300	204,790
Total interest expense	54,266	79,017	99,682	114,607	133,235
Net interest income	37,861	39,118	51,234	58,693	71,554
Loan loss provisions	4,032	6,347	4,131	8,689	13,057
Net interest income (after prov.)	33,829	32,771	47,104	50,003	58,497
Other income	13,689	20,507	26,626	24,391	25,512
Net fee income	4,729	5,402	7,455	8,350	9,352
Net capital gains	1,362	5,322	9,001	4,500	3,800
Net exchange gains	2,393	2,788	3,724	4,096	4,506
Operating expenses	25,443	29,793	35,761	39,952	43,934
Employee expenses	16,441	18,488	23,481	25,829	27,896
Depreciation on investments	5,442	418	5,368	(3,000)	-
Other Provisions	219	1,000	123	-	-
Pretax income	16,414	22,068	32,479	37,442	40,075
Tax provisions	6,278	7,716	11,157	12,356	14,026
Net Profit	10,265	14,355	22,272	25,086	26,049
% growth	24.1	39.8	55.1	12.6	3.8
Balance sheet					
Cash and bank balance	182,804	222,993	240,871	259,310	278,665
Net value of investments	349,436	438,701	524,459	580,707	679,592
Govt. and other securities	253,888	335,480	401,347	467,261	566,146
Shares	5,495	7,758	6,061	6,061	6,061
Debentures and bonds	26,963	26,033	30,140	30,140	30,140
Net loans and advances	836,209	1,067,013	1,439,859	1,719,859	2,010,802
Fixed assets	10,888	24,270	23,468	25,000	23,093
Other assets	52,125	43,018	45,781	45,781	45,781
Total assets	**1,431,462**	**1,795,995**	**2,274,067**	**2,630,657**	**3,037,932**
Deposits	1,249,160	1,520,341	1,923,970	2,288,248	2,675,343
Borrowings and bills payable	55,182	110,635	139,713	112,791	112,791
Other liabilities	40,620	54,580	82,029	82,029	82,029
Total liabilities	**1,344,962**	**1,685,556**	**2,145,712**	**2,483,069**	**2,870,164**
Paid-up capital	3,655	3,655	3,655	3,655	3,655
Reserves & surplus	82,844	106,784	124,700	143,933	164,113
Total shareholders' equity	**86,499**	**110,439**	**128,355**	**147,588**	**167,768**

Source: Company, Kotak Institutional Equities estimates

Kotak Institutional Equities

ACC (ACC)

Cement

REDUCE

OCTOBER 29, 2009

RESULT

Coverage view: Neutral

Price (Rs): 745

Target price (Rs): 800

BSE-30: 16,283

Results signal higher input cost, margin contraction going forward. ACC reported results in line with estimates, though higher input costs and a reversal of the pricing trend signals a contraction of margins in the ensuing quarter. ACC's volume growth of 3% yoy during the quarter continues to lag industry, though we expect the commissioning of new capacities over the next 18 months to help ACC improve volume growth. We maintain our REDUCE rating with a revised target price of Rs800/share.

Company data and valuation summary

ACC

Stock data			
52-week range (Rs) (high,low)			929-381
Market Cap. (Rs bn)			140.1
Shareholding pattern (%)			
Promoters			46.2
FIIs			10.6
MFs			2.5
Price performance (%)	1M	3M	12M
Absolute	(8.5)	(13.2)	57.6
Rel. to BSE-30	(5.0)	(19.1)	(12.5)

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	56.3	84.1	53.3
EPS growth (%)	(12.2)	49.4	(36.7)
P/E (X)	13.2	8.9	14.0
Sales (Rs bn)	72.4	81.8	83.1
Net profits (Rs bn)	10.6	15.8	10.0
EBITDA (Rs bn)	19.7	28.1	21.7
EV/EBITDA (X)	6.6	4.6	6.1
ROE (%)	24.7	30.1	16.8
Div. Yield (%)	3.1	3.1	3.1

Results meet estimates, input costs trending upwards

ACC reported revenues of Rs19.6 bn, operating profit of Rs6.7 bn and net income of Rs4.3 bn in line with our estimates of Rs19.9 bn, Rs6.7 bn and Rs4.4 bn, respectively. Margins contracted by 140 bps sequentially, despite 2% qoq improvement in realizations, primarily on account of higher freight and fuel costs. ACC reported sales volume of 5 mn tons (+3% yoy) for the quarter, substantially below the industry growth rate of 11% yoy. We now factor in volumes of 22 mn tons for CY2009E and 23.8 mn tons for CY2010E on an expanded capacity base of 23 mn tpa in CY2009E and 27.5 mn tpa in CY2010E.

Reversal of pricing trend and higher input cost to pressure margins going forward

Cement prices in ACC's key market of Central and North have retraced to levels of May 2009 (All-India price of Rs244/bag in September 2009), having peaked in the month of July 2009 with All-India prices at Rs254/bag (See Exhibit 3). We expect margins of cement companies to be at risk, with higher input costs further supplementing pricing pressures. We note that cement companies such as ACC will have to bear higher freight and fuel costs with upward revisions in prices of domestic fuel in the month of July and revision in domestic coal by 10-15% by Coal India Ltd.

Maintain REDUCE rating with revised target price of Rs800/share

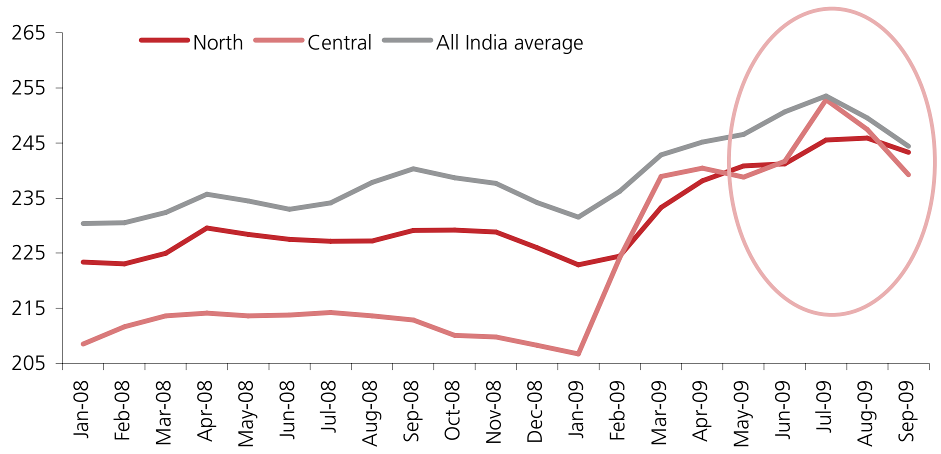
We maintain our REDUCE rating on the stock with a target price of Rs800/share. Our target price implies an EV/ton of US$126/ton and EV/EBITDA of 6.5X on FY2011E earnings. Our cautious stance emanates from ACC inferior despatch growth and further compounded by weak demand environment. The upward revision in CY2009E earnings emanates from lower overhead costs incurred by the company than previously factored. We have revised our earnings estimates for CY2010E to reflect the reversal of pricing trend in ACC's key markets of North and Central India. We now factor in earnings of Rs84 (Rs74 previously) for CY2009E and Rs54 (Rs57 previously) for CY2010E.

Exhibit 1: Increase in freight and fuel cost led to 140 bps sequential decline in margins
Quarterly results for ACC Limited (Standalone), December year-ends (Rs mn)

	3QCY09	3QCY09E	3QCY08	2QCY09	(% chg.) 3QCY09E	(% chg.) 3QCY08	(% chg.) 2QCY09	CY2009E	CY2008	*(% chg)*
Sales	**19,694**	**19,976**	**17,492**	**20,813**	**(1)**	**13**	**(5)**	**82,659**	**73,086**	**13.1**
Operating costs										
Raw material costs	(1,871)	(2,044)	(1,408)	(2,234)				(8,939)	(7,994)	
Employee costs	(998)	(1,030)	(901)	(968)				(4,341)	(4,130)	
Freight costs	(2,548)	(2,452)	(2,366)	(2,547)				(10,742)	(10,016)	
Power costs	(3,595)	(3,627)	(4,189)	(3,738)				(16,308)	(15,990)	
Purchased cement	(212)	(204)	(199)	(247)				(923)	(874)	
Other expenditure	(3,791)	(3,883)	(4,601)	(3,741)				(15,326)	(16,757)	
Total operating costs	(13,015)	(13,241)	(13,664)	(13,476)				(56,579)	(55,761)	
EBITDA	**6,679**	**6,736**	**3,828**	**7,337**	**(1)**	**74**	**(9)**	**26,080**	**17,325**	**50.5**
EBITDA margin (%)	33.9	33.7	21.9	35.3				31.6	23.7	
Other income	509	580	661	570				2,063	2,387	
Interest	(135)	(162)	(116)	(159)				(850)	(400)	
Depreciation	(796)	(799)	(736)	(784)				(3,333)	(2,942)	
PBT	**6,257**	**6,355**	**3,636**	**6,963**	**(2)**	**72**	**(10)**	**23,960**	**16,371**	**46.4**
Current tax (expense)/income	(1,900)	(1,906)	(1,356)	(2,107)				(6,950)	(5,195)	
Net income	**4,356**	**4,448**	**2,280**	**4,856**	**(2)**	**91**	**(10)**	**16,649**	**11,202**	**48.6**
Extraordinaries	—	—	554	—				—	500	
Reported net income	**4,356**	**4,448**	**2,834**	**4,856**	**(2)**	**54**	**(10)**	**16,649**	**11,702**	
Sales, mn tons	**5.0**	**5.1**	**4.9**	**5.4**	**(2)**	**3**	**(8)**	**22.0**	**21.3**	**2.9**
Realization (Rs/ton)	**3,931**	**3,910**	**3,599**	**3,840**	**1**	**9**	**2**	**3,764**	**3,426**	**9.9**
Operating costs (Rs/ton)										
Raw materials	373	400	290	412				407	375	
Employee costs	199	202	185	179				198	194	
Freight costs	509	480	487	470				489	470	
Power & fuel costs	718	710	862	690				743	750	
Purchased cement	42	40	41	46				42	41	
Other expenditure	757	760	947	690				698	786	
Profitability (Rs/ton)	**1,333**	**1,318**	**788**	**1,354**	**1**	**69**	**(2)**	**1,188**	**812**	**46.2**

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Cement prices have retraced to May 2009 levels
Average cement prices in North, Central and All-India (Rs/bag)



Source: CMA, Kotak Institutional Equities

New capacities to come onstream taking aggregate capacity to 30.5 mn tpa

ACC is pursuing capacity addition of 7 mn tpa, that will likely come onstream over the next 18 months, taking the aggregate capacity to 30.5 mn tpa. Out of the capacities likely to be added Bargarh (1.1 mn tpa) has been commissioned during the quarter and is currently under trial runs. The capacity additions at Wadi (3 mn tpa) will see the clinker facility come on stream by 1QCY10E, along with the associated grinding capacities. The capacity addition at Chanda (3 mn tpa) along with a 25 MW captive power plant is scheduled for commissioning in 4QCY10E.

Exhibit 4: Profit model, balance sheet, cash model of ACC (Consolidated), December fiscal year-ends, 2006-10E (Rs mn)

	2006	2007	2008	2009E	2010E
Profit model (Rs mn)					
Net sales	57,468	69,319	72,370	81,823	83,053
EBITDA	**15,666**	**18,421**	**16,608**	**25,244**	**18,634**
Other income	1,973	2,416	3,104	2,898	3,027
Interest	(752)	(739)	(400)	(850)	(1,046)
Depreciation	(2,543)	(3,051)	(2,942)	(3,333)	(4,451)
Pretax profits	14,345	17,048	16,371	23,960	16,165
Tax	(3,877)	(4,917)	(5,169)	(7,311)	(5,256)
Share in associates	231	(45)	(632)	(852)	(904)
Net profits	**10,699**	**12,086**	**10,571**	**15,797**	**10,005**
Extraordinary items	1,850	2,255	500	—	—
Earnings per share (Rs)	**56.7**	**64.1**	**56.3**	**84.1**	**53.3**
Balance sheet (Rs mn)					
Total equity	34,636	44,844	52,627	65,241	72,759
Total borrowings	7,712	3,064	4,820	10,791	15,761
Currrent liabilities	16,718	22,212	27,413	26,960	27,268
Total liabilities and equity	**59,066**	**70,120**	**84,860**	**102,992**	**115,788**
Cash	6,202	7,435	9,842	17,433	20,161
Current assets	13,861	14,596	17,510	17,768	18,908
Total fixed assets	33,959	39,641	50,718	61,000	69,928
Investments	5,035	8,448	6,791	6,791	6,791
Deferred expenditure	9	—	—	—	—
Total assets	**59,066**	**70,120**	**84,860**	**102,992**	**115,788**
Free cash flow (Rs mn)					
Operating cash flow, excl. working capital	13,614	15,819	14,391	20,946	17,137
Working capital	319	1,202	758	(711)	(833)
Capital expenditure	(5,366)	(8,283)	(14,940)	(13,616)	(13,379)
Investments	(1,939)	(2,921)	894	—	—
Free cash flow	**6,627**	**5,818**	**1,103**	**6,620**	**2,925**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Ambuja Cements (ACEM)

Cement

REDUCE

OCTOBER 29, 2009

RESULT

Coverage view: Neutral

Price (Rs): 88

Target price (Rs): 85

BSE-30: 16,283

Realizations hold, margins expand marginally. Ambuja Cement (ACEM) reported 9% yoy growth in operating profits aided by 2.7% sequential improvement in realizations and sequentially lower raw material costs. We expect the commissioning of clinker units in the ensuing quarter to further help ACEM rationalize raw material costs. We maintain our REDUCE rating on ACEM, which continues to be the most expensive stock amongst in cement coverage and offers no upside to CMP.

Company data and valuation summary

Ambuja Cements

Stock data			
52-week range (Rs) (high,low)			112-50
Market Cap. (Rs bn)			133.6
Shareholding pattern (%)			
Promoters			46.5
FIIs			24.4
MFs			1.0
Price performance (%)	1M	3M	12M
Absolute	(11.5)	(11.4)	51.3
Rel. to BSE-30	(7.9)	(17.4)	(16.0)

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	7.2	8.1	6.2
EPS growth (%)	(5.0)	12.2	(23.7)
P/E (X)	12.2	10.9	14.3
Sales (Rs bn)	60.6	69.3	72.7
Net profits (Rs bn)	10.9	12.3	9.4
EBITDA (Rs bn)	19.5	21.0	18.5
EV/EBITDA (X)	6.6	6.1	7.2
ROE (%)	19.7	19.4	13.2
Div. Yield (%)	3.4	2.1	2.4

Operating profit grows 9%yoy, higher other income boosts net profit

ACEM reported revenues of Rs16.1 bn, operating profit of Rs4.3 bn and net income of Rs3.1 bn against our estimates of Rs16.5 bn, Rs4.4 bn and Rs2.9 bn, respectively. Realizations for Ambuja improved 2.7% sequentially, aiding a 70 bps expansion in operating margins despite the rising cost of freight and power. Other income for the quarter includes sale of excess power (Rs174 mn) and discount of Rs461 mn on pre-payment of deferred sales tax loan. We now factor in volumes of 18.7 mn tons in CY2009E and 20.4 mn tons in CY2010E.

Raw material costs recede, further improvement expected on commissioning of clinker capacities

Raw materials costs for ACEM receded from Rs667/ton in 2QCY09 to Rs501/ton in 3QCY09E, though the substantially higher raw material cost in the second quarter was due to the unscheduled shut down of one clinker unit. We estimate raw material cost to further decline in CY2010E as the clinker capacities at Bhatapara (2.2 mn tpa) and Rauri (2.2 mn tpa) commission towards the end of 4QCY09E. ACEM also expects to commission grinding units at Dadri (1.5 mn tpa) and Nalagarh (1.5 mn tpa) in 4QCY09E and 1QCY10E, respectively. During the quarter, ACEM commissioned 15 MW CPP at its cement plant in Maharashtra, this will partially help compensate the increased cost of domestic coal.

Retain REDUCE rating with target price of Rs85

We retain our REDUCE rating and target price of Rs85/share. We have revised our earnings estimates to reflect further weakness in cement prices in CY2010E. We estimate EPS of Rs8.1 (Rs7.9 previously) for CY2009E and Rs6.2 (Rs6.6 previously) for CY2010E. At EV/ton of US$139 on CY2010E production, ACEM remains the most expensive cement stock in India. We note that ACEM has been accruing lower profitability on account of increased dependence on purchased clinker, a trend that will likely reverse upon the commissioning of new clinker capacities. Our target price of Rs85/share implies EV/EBITDA of 7X and EV/ton of production of US$135/ton on CY2010E earnings and production, respectively.

Exhibit 1: Other income during the quarter was higher on account of sale of excess power and rebate on pre-payment of deferred sales tax loan

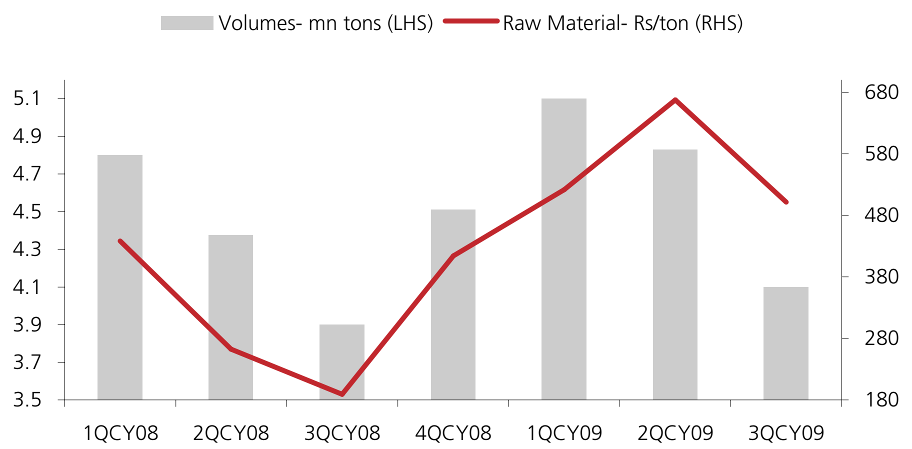
Quarterly results for Ambuja Cements, December year-ends (Rs mn)

					(% chg.)					
	3QCY09	3QCY09E	3QCY08	2QCY09	3QCY09E	3QCY08	2QCY09	CY2009E	CY2008	(% chg.)
Sales	**16,110**	**16,571**	**13,873**	**18,474**	**(2.8)**	**16.1**	**(12.8)**	**70,613**	**62,347**	*13.3*
Operating costs										
Raw material costs	(2,056)	(2,428)	(738)	(3,224)				(10,358)	(5,859)	
Employee costs	(679)	(705)	(648)	(688)				(2,741)	(2,661)	
Freight costs	(2,978)	(2,939)	(2,936)	(3,294)				(13,022)	(12,205)	
Power & fuel costs	(3,217)	(3,280)	(3,140)	(3,752)				(14,807)	(13,257)	
Other costs	(2,879)	(2,771)	(2,466)	(2,719)				(11,129)	(10,586)	
Total operating costs	(11,809)	(12,124)	(9,928)	(13,677)				(52,057)	(44,567)	
EBITDA	**4,300**	**4,447**	**3,945**	**4,797**	**(3.3)**	**9.0**	**(10.4)**	**18,556**	**17,779**	*4.4*
EBITDA margin (%)	26.7	26.8	28.4	26.0				26.3	28.5	
Other income	894	680	559	692				2,450	1,754	
Interest	(52)	(55)	(59)	(52)				(220)	(321)	
Depreciation	(719)	(750)	(654)	(704)				(3,118)	(2,598)	
PBT	**4,423**	**4,322**	**3,791**	**4,732**	**2.3**	**16.7**	**(6.5)**	**17,668**	**16,615**	*6.3*
Current tax (expense)/income	(1,238)	(1,383)	(1,210)	(1,486)				(5,394)	(5,676)	
Net income	**3,185**	**2,939**	**2,581**	**3,247**	**8.4**	**23.4**	**(1.9)**	**12,274**	**10,939**	*12.2*
Extraordinaries	—	—	(80)	—				—	3,083	
Reported net income	**3,185**	**2,939**	**2,501**	**3,247**				**12,274**	**14,023**	
Per ton analysis										
Despatches, '000 tons	**4,100**	**4,260**	**3,900**	**4,830**	**(3.8)**	**5.1**	**(15.1)**	**18,741**	**17,586**	*6.6*
Realization (Rs/ton)	**3,929**	**3,890**	**3,557**	**3,825**	**1.0**	**10.5**	**2.7**	**3,768**	**3,545**	*6.3*
Operating cost (Rs/ton)	2,880	2,846	2,546	2,832				2,778	2,534	
Raw materials	501	570	189	667				553	333	
Employee costs	166	166	166	142				146	151	
Freight costs	726	690	753	682				695	694	
Power & fuel costs	785	770	805	777				790	754	
Other costs	702	580	632	563				594	602	
Profitability (Rs/ton)	**1,049**	**1,044**	**1,011**	**993**	**0.5**	**3.7**	**5.6**	**990**	**1,011**	*(2.1)*

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Dependence on purchased clinker had peaked in 2QCY09 due to unscheduled shut down of one clinker facility

Volume (mn tons) and raw material cost (Rs/ton)



Source: Company, Kotak Institutional Equities

Exhibit 4: Profit model, balance sheet, cash model of Ambuja Cement, December fiscal year-ends, 2006-10E (Rs mn)

	2006	2007	2008	2009E	2010E
Profit model (Rs mn)					
Net sales	48,479	55,303	60,597	69,290	72,707
EBITDA	**17,608**	**18,706**	**16,030**	**17,233**	**17,334**
Other income	766	3,345	3,503	3,773	1,213
Interest	(377)	(759)	(321)	(220)	(285)
Depreciation	(2,269)	(2,363)	(2,598)	(3,118)	(4,236)
Pretax profits	15,727	18,929	16,615	17,668	14,026
Tax	(2,760)	(7,413)	(5,676)	(5,394)	(4,662)
Net profits	**12,968**	**11,517**	**10,939**	**12,274**	**9,364**
Earnings per share (Rs)	**8.5**	**7.6**	**7.2**	**8.1**	**6.2**
Balance sheet (Rs mn)					
Total equity	38,756	50,396	60,536	69,483	75,859
Total borrowings	8,654	3,304	2,887	2,887	2,887
Currrent liabilities	7,016	11,691	14,738	19,106	16,407
Total liabilities and equity	**54,426**	**65,391**	**78,161**	**91,475**	**95,152**
Cash	3,781	6,508	8,518	8,924	3,223
Current assets	7,995	9,365	14,876	16,412	17,026
Total fixed assets	31,241	36,567	51,400	62,773	73,537
Investments	11,331	12,889	3,324	3,324	1,324
Deferred expenditure	77	62	43	43	43
Total assets	**54,426**	**65,391**	**78,161**	**91,475**	**95,152**
Free cash flow (Rs mn)					
Operating cash flow, excl. working capital	15,504	14,332	13,772	16,684	15,285
Working capital change	76	3,305	(2,464)	2,832	(3,313)
Capital expenditure	(7,954)	(7,504)	(17,263)	(14,492)	(15,000)
Investments		(1,558)	9,566	0	2,000
Free cash flow	**7,626**	**8,574**	**3,611**	**5,025**	**(1,028)**

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Sun TV Network (SUNTV)

Media

REDUCE

OCTOBER 29, 2009

RESULT

Coverage view: Neutral

Price (Rs): 333

Target price (Rs): 295

BSE-30: 16,283

Blockbuster 2QFY10 but competition, valuations key concerns. Sun TV reported strong 2QFY10 operating profits (EBIT) at Rs1.9bn (+43% yoy, +11% qoq), much above our Rs1.7 bn expectation. The positive variance reflects higher-than-expected advertising and slot sale revenues of Rs2.25 bn (+30% yoy, +25% qoq) versus our Rs1.9 bn estimate. Sun TV management revised its advertising revenue guidance to 15-16% yoy growth in FY2010E from 12-13% previously.

Company data and valuation summary

Sun TV Network

Stock data			
52-week range (Rs) (high,low)			373-122
Market Cap. (Rs bn)			131.2
Shareholding pattern (%)			
Promoters			77.0
FIIs			8.4
MFs			2.1
Price performance (%)	1M	3M	12M
Absolute	0.9	27.1	146.5
Rel. to BSE-30	4.2	18.4	36.9

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	9.1	12.1	14.6
EPS growth (%)	9.5	32.7	20.8
P/E (X)	36.7	27.6	22.9
Sales (Rs bn)	10.4	12.9	15.6
Net profits (Rs bn)	3.5	4.7	5.7
EBITDA (Rs bn)	6.6	8.1	9.9
EV/EBITDA (X)	19.4	15.9	12.8
ROE (%)	22.5	25.3	26.3
Div. Yield (%)	0.8	1.2	1.8

Strong 2QFY10 results led by sharp advertising revenue growth

- Sun TV reported strong 2QFY10 advertising and slot sale revenue of Rs2.25 bn (+30% yoy, +25% qoq), much above our Rs1.9 bn estimate. Pricing and realizations remain stable as Sun TV had not taken its usual price increase for FY2010E and the growth in advertising revenues was driven by improved inventory utilization and strong growth in volumes, as per the management. Also, the volume growth was driven largely by flagship GEC channels even as emerging channels started contributing to revenues and volumes.

- Sun TV management continues to proffer surprisingly modest guidance of 15-16% advertising revenue growth in FY2010E (though higher from 12-13% yoy growth previously) despite 17% yoy growth in advertising and slot sale revenues in 1HFY10 and robust recovery in advertising revenue market. The festival season, the prime marketing period in India, is split between 2QFY10 and 3QFY10 versus complete accrual in 3QFY09, which is another driving force behind strong advertising growth in 2QFY10 and conservative expectations ahead.

- Sun TV reported strong 2QFY10 subscription revenues at Rs760 mn (+55% yoy, +6% qoq), led by over 150% yoy growth in DTH revenues at Rs400 mn and modest 10% yoy growth in cable subscription revenues at Rs360 mn in 2QFY10. Sun TV benefitted in 1HFY10 from a low base of subscription revenues in 1HFY09 (Rs 870 mn versus Rs1.0 bn in 1HFY08, largely due to a sharp decline in subscription revenue realizations from cable operators).

- Sun TV reported 2QFY10 operating expenses (including depreciation and amortization as Sun TV books cost of film rights as amortization) at Rs1.35 bn, marginally ahead of our Rs1.25 bn expectation due to (1) higher provision expenses of Rs50 mn and (2) higher overhead expenses, which were reflected in higher-than-expected SG&A expenses.

- Sun TV reported strong 2QFY10 operating income (EBIT) at Rs1.9 bn (+43% yoy, +11% qoq), much above our Rs1.65 bn expectation, as stronger-than-expected advertising revenues largely negated the marginally increase in operating expenses.

Interim results of Sun TV Network (SUNTV), March fiscal year-ends (Rs mn)

	2QFY10	2QFY10E	2QFY09	1QFY10	(% chg) 2QFY10E	(% chg) 2QFY09	(% chg) 1QFY10	1HFY10	1HFY09	(% chg)
Total revenues	**3,204**	**2,925**	**2,381**	**2,877**	***10***	***35***	***11***	**6,080**	**4,615**	***32***
Ad revenues (incl. slot sales)	2,250	1,875	1,730	1,798	*20*	*30*	*25*	4,048	3,451	*17*
Subscription revenues	760	775	490	719	*(2)*	*55*	*6*	1,479	870	*70*
International revenues	130	150	132	144	*(13)*	*(2)*	*(10)*	274	264	*4*
Others (incl. movies)	64	125	29	216	*(49)*	*122*	*(70)*	280	29	
Total expenditure	**(1,339)**	**(1,250)**	**(1,079)**	**(1,190)**	***7***	***24***	***13***	**(2,529)**	**(1,910)**	***32***
Cost of revenues	(208)	(200)	(219)	(208)	*4*	*(5)*	*(0)*	(417)	(416)	*0*
Employee costs	(319)	(300)	(256)	(311)	*6*	*25*	*3*	(630)	(501)	*26*
SG&A expenses	(241)	(150)	(141)	(122)	*61*	*71*	*98*	(363)	(251)	*44*
D&A expenses	(571)	(600)	(464)	(550)	*(5)*	*23*	*4*	(1,121)	(742)	*51*
EBIT	**1,865**	**1,675**	**1,302**	**1,686**	***11***	***43***	***11***	**3,551**	**2,704**	***31***
OPM (%)	**58.2**	**57.3**	**54.7**	**58.6**				**58.4**	**58.6**	
Other income	115	125	209	142	*(8)*	*(45)*	*(19)*	257	373	*(31)*
Interest expense	(2)	—	(21)	(6)				(8)	(21)	*(61)*
Pretax profits	**1,978**	**1,800**	**1,490**	**1,822**	***10***	***33***	***9***	**3,800**	**3,056**	***24***
Extraordinaries	—	—	163	—				—	163	
Tax provision	(672)	(600)	(567)	(624)	*12*	*18*	*8*	(1,296)	(1,110)	*17*
Minority interest	—	—	—	—				—	—	
Net income	**1,306**	**1,200**	**1,085**	**1,198**	***9***	***20***	***9***	**2,504**	**2,109**	***19***
Adj. net income	**1,306**	**1,200**	**923**	**1,198**	***9***	***42***	***9***	**2,504**	**1,946**	***29***
Tax rate (%)	**34.0**	**33.3**	**38.1**	**34.3**				**34.1**	**36.3**	

Notes:
(a) Sun's quarterly financial data is standalone and yearly (FY2009, FY2008) financial data is consolidated for FM radio subsidiaries.

Source: Company data, Kotak Institutional Equities estimates

Earnings revisions.

We have revised our FY2010E and FY2011E estimates for Sun TV to Rs12.1 (Rs11.3 previously) and Rs14.6 (Rs13.3 previously) led by (1) stronger-than-expected recovery in the advertising revenue market and (2) limited impact (so far) of high competitive intensity in Tamil and Telugu markets (though seemingly surprising), which we discuss in detail below. Our 12-month DCF-based target price for Sun TV stock is revised to Rs295 (Rs245 previously) on account of the above factors and DCF roll forward; our target price results in implicit valuation of 25X FY2010E and 20X FY2011E for Sun TV stock, at considerable premium to media sector valuations.

- Advertising revenues. We now model Sun TV's FY2010E advertising revenue growth at 17% (10% previously) and 18% CAGR (15% CAGR previously) between FY2011E-2012E led by robust recovery in advertising revenue market and limited revenue impact of high competitive intensive on Sun TV.

- Subscription revenues. We continue to model Sun TV's FY2010E subscription revenue growth at 40% and 22% CAGR between FY2011E-2012E led by DTH revenues. We model Sun's TV revenues to grow to Rs1.5 bn in FY2010E from Rs0.8 bn in FY2009 with modest growth in cable revenue.

- Operating expenses. We model 22% yoy growth in Sun TV's FY2010E operating expenses led by increased investment in content (notably, the acquisition of film rights for telecast, including scaling up Sun Pictures) and 15% CAGR between FY2011E-2012E, which is weaker than growth in revenues. Thus, we are now modeling positive operating leverage in Sun TV despite (1) already high operating margins of 58-60% and (2) high and rising competitive intensity in key markets.

Investment rationale

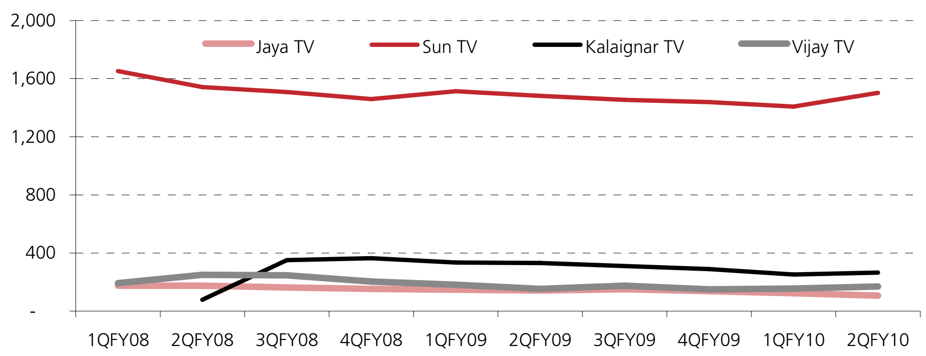
We retain our REDUCE rating on Sun TV stock for now. We highlight two key concerns regarding Sun TV—(1) rich valuations at a considerable premium to media sector valuations, which must be seen in light of (2) market share losses in Telugu, Kannada and Malayalam markets though Tamil, the largest regional language market in India has been an area of strength for Sun TV. We do not discount that Sun TV may continue to trade at relatively rich valuations given robust 2QFY10 results in the near term, but any negative surprise (on operations on earnings) may result in negative earnings impact as well as multiple contraction in the Sun TV stock.

We highlight that Sun TV is trading at 28X FY2010E and 23X FY2011E earnings after our 8-10% upgrade and 29% yoy growth in Sun TV earnings in FY2010E (core business growth as well as reduced losses in radio); we model 20% sustainable earnings CAGR in Sun TV between FY2010E-2013E. We highlight that other media sector (print, broadcasting) companies are trading at 22X FY2010E and 17X FY2011E median earnings with similar or better growth profiles (except ZEEL). We do not believe Sun TV to be less risky given (1) additional political risk in Sun TV in the Tamil market and (2) high and rising competitive intensity in other markets, which we discuss below.

Rising competitive intensity in key markets. Exhibits 2-5 compare the GRP ratings performance of Sun TV channels in its key markets. We highlight that Sun TV has maintained its strong leadership position in Tamil market while consistently losing market share in Telugu, Kannada and Malayalam markets. We have long argued that any increase in competitive intensity will have an impact on incumbents' market shares and adverting revenues since the new players will fragment the market; this is independent of the near-term financial performance of some players or long-term viability of all players (some weak challengers may exit the market). However, recent events in the regional M&A space have resulted in serious competition for Sun TV.

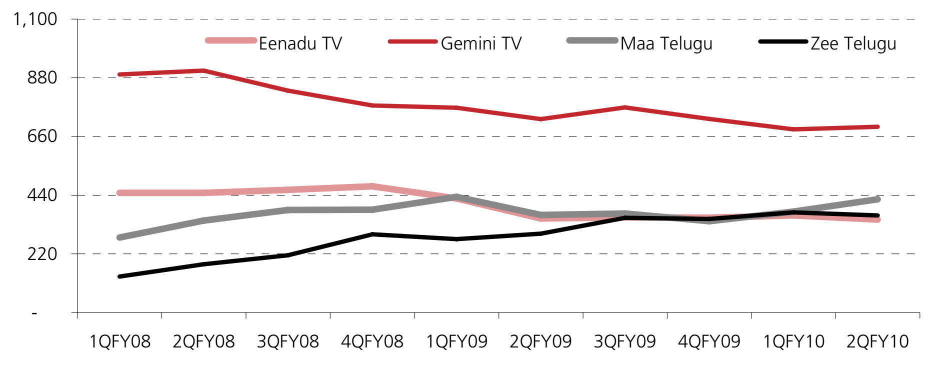
ZEEL, the flagship broadcasting entity of the Zee group, has decided to merge the regional channels of ZEEN, its sister concern, and drive the expansion into regional markets using its robust cash flow generation (ZEEN had a small, leveraged balanced sheet). ZEEN had stated its plans to expand its presence in South India markets (Cinemalu, the Telugu movie channel and expansion in Malayalam market). Also, the other leading national broadcaster in India, Star, has acquired the Asianet bouquet of regional entertainment channels. Asianet is the leader in the Malayalam market (ahead of Sun TV) and entered into Telugu and Kannada markets recently; it likely did not have the balance sheet to challenge Sun TV but the partnership with Star has changed that. We believe the fight in South India broadcasting market has just begun.

Trends in Tamil GRPs for key Tamil language channels (%)



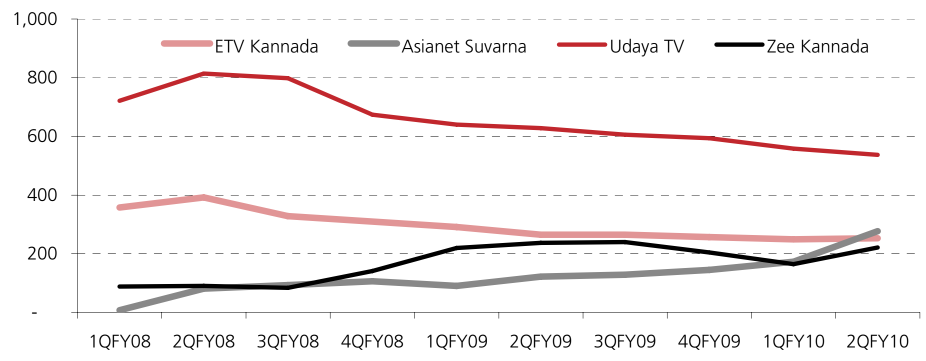
Source: TAM Media Research, compiled by Kotak Institutional Equities

Trends in Telugu GRPs for key Telugu language channels (%)



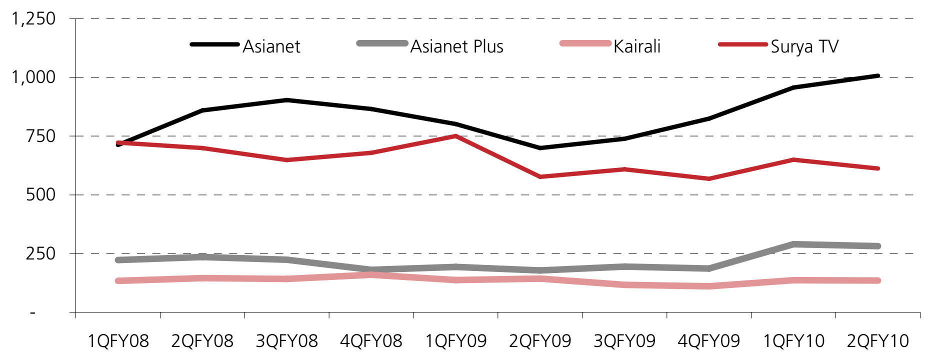
Source: TAM Media Research, compiled by Kotak Institutional Equities

Trends in Kannada GRPs for key Kannada language channels (%)



Source: TAM Media Research, compiled by Kotak Institutional Equities

Trends in Malayalam GRPs for key Malayalam language channels (%)



Source: TAM Media Research, compiled by Kotak Institutional Equities

Consolidated financial summary of Sun TV Network, March fiscal year-ends, 2006-2012E (Rs mn)

	2007	2008	2009	2010E	2011E	2012E
Profit model (Rs mn)						
Net sales	6,780	8,699	10,394	12,944	15,572	18,308
EBITDA	**3,874**	**5,261**	**6,102**	**7,665**	**9,440**	**11,186**
Other income	411	556	505	406	427	602
Interest (expense)/income	(64)	(159)	(138)	(104)	(50)	(25)
Depreciation	(294)	(377)	(672)	(842)	(1,058)	(1,037)
Amortization	(56)	(148)	(264)	(234)	(234)	(194)
Pretax profits	**3,871**	**5,133**	**5,534**	**6,893**	**8,525**	**10,532**
Tax-cash	(1,509)	(1,947)	(2,045)	(2,202)	(2,848)	(3,553)
Tax-deferred	108	(67)	(250)	(151)	(60)	(37)
Minority interest	(9)	148	281	210	120	23
Net profits after minority interests	**2,461**	**3,267**	**3,578**	**4,750**	**5,737**	**6,965**
Earnings per share (Rs)	**6.3**	**8.3**	**9.1**	**12.1**	**14.6**	**17.7**
Balance sheet (Rs mn)						
Total equity	11,932	14,485	17,016	19,921	22,892	26,169
Deferred Tax	(56)	11	261	412	472	509
Total borrowings	867	695	716	—	—	—
Currrent liabilities	1,693	2,516	2,343	2,249	2,361	2,485
Total capital	**14,478**	**18,311**	**20,720**	**22,757**	**25,780**	**29,196**
Cash	6,494	4,297	3,654	3,157	5,030	7,523
Current assets	3,221	4,542	5,543	7,313	8,916	10,219
Total fixed assets	3,543	5,048	6,697	8,357	8,099	7,912
Intangible assets	1,220	2,620	3,021	2,125	1,931	1,737
Total assets	**14,478**	**18,311**	**20,720**	**22,757**	**25,780**	**29,196**
Free cash flow (Rs mn)						
Operating cash flow, excl. working capital	3,239	4,091	5,309	6,652	8,058	9,382
Working capital	(1,992)	(1,235)	413	(1,864)	(1,490)	(1,179)
Capital expenditure	(433)	(1,811)	(4,291)	(1,800)	(800)	(850)
Investments	(849)	(3,837)	(627)	(1,292)	(1,517)	(1,773)
Other income	402	523	484	406	427	602
Free cash flow	**814**	**1,046**	**1,431**	**2,988**	**5,768**	**7,353**
Ratios (%)						
Debt/equity	7.3	4.8	4.2	—	—	—
Net debt/equity	(47.2)	(24.9)	(17.3)	(15.8)	(22.0)	(28.7)
RoAE	32.9	24.8	22.5	25.3	26.3	27.8
RoACE	**26.8**	**24.2**	**22.9**	**25.7**	**26.8**	**28.5**

Source: Company data, Kotak Institutional Equities estimates

kotak Institutional Equities

Hindustan Petroleum (HPCL)

Energy

BUY

OCTOBER 29, 2009

RESULT

Coverage view: Cautious

Price (Rs): 340

Target price (Rs): 525

BSE-30: 16,283

Bonded by and to the government. HPCL reported 2QFY10 net income at –Rs1.4 bn versus our estimate of Rs11.1 bn; the negative variance was largely due to nil oil bonds versus Rs30.3 bn assumed by us. However, we believe that the oil bonds will be eventually given by the government and HPCL is likely to report solid earnings for FY2010E. We find the analysis of quarterly results of downstream companies an academic exercise as they swing wildly depending on the timing of receipts and quantum of oil bonds.

Company data and valuation summary

Hindustan Petroleum

Stock data			
52-week range (Rs) (high,low)			426-177
Market Cap. (Rs bn)			115.3
Shareholding pattern (%)			
Promoters			51.1
FIIs			8.9
MFs			10.8
Price performance (%)	1M	3M	12M
Absolute	(15.7)	3.3	82.6
Rel. to BSE-30	(12.9)	(2.7)	1.0

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	17.0	64.0	61.1
EPS growth (%)	(49.3)	277.1	(4.5)
P/E (X)	20.1	5.3	5.6
Sales (Rs bn)	1,249.3	812.4	826.2
Net profits (Rs bn)	4.8	21.7	20.7
EBITDA (Rs bn)	28.7	46.9	47.0
EV/EBITDA (X)	7.3	4.6	4.3
ROE (%)	4.4	15.6	13.5
Div. Yield (%)	1.5	7.6	7.3

Strong 2QFY10 results despite no oil bonds

HPCL reported 2QFY10 EBITDA at Rs1.7 bn versus Rs13.3 bn in 1QFY10 and –Rs25.4 bn in 2QFY09; our estimate was at Rs23.1 bn. The weaker-than-expected performance was primarily due to the non-receipt of oil bonds versus Rs30.3 bn assumed by us, higher other expenditure and lower refining margins. We highlight that downstream companies have borne the entire subsidy burden for cooking fuels in 1HFY10 and have received compensation for 100% of the under-recovery on auto fuels through discounts on crude oil and LPG from the upstream companies. However, we expect compensation for cooking fuels from the government in the future, which should bolster 2HFY10 performance. HPCL's 2QFY10 refining margin was US$1.8/bbl versus US$5.7/bbl in 1QFY10 and –US$4.7/bbl in 2QFY09.

Clarity pending on subsidy sharing scheme but FY2010E earnings of HPCL will be solid

We believe the key to earnings and stock performance will be the subsidy-sharing mechanism for FY2010E. We assume that the gross under-recoveries on cooking fuels will be reimbursed by the government through oil bonds as stated by the petroleum ministry. On auto fuels, we assume that the downstream companies will bear 25% of the subsidy burden (based on average crude price of US$65/bbl for FY2010E) versus nil in 1HFY10. HPCL's 1HFY10 gross under-recovery was Rs33.7 bn, of which it received Rs9.3 bn from the government-owned upstream companies.

Retain BUY with 12-month target price of Rs525; revised earnings for likely higher subsidy burden

We retain our BUY rating on the stock and 12-month target price of Rs525, based on 8X FY2011E EPS. Key downside risks to our fair valuation stem from (1) higher-than-expected crude oil prices and (2) irrational government action on subsidy; inadequate compensation on under-recoveries on cooking fuels versus 100% assumed by us is a key concern. We have reduced FY2010E EPS to Rs64 from Rs73 to reflect (1) sharing of 25% of auto fuel subsidy versus nil previously (-ve impact) and (2) stronger rupee (-ve impact due to lower refining margins in rupee terms). The increase in FY2011E and FY2012E EPS to Rs61 and Rs76 from Rs59 and Rs70 reflects higher other income from oil bonds on cooking fuels.

QUICK NUMBERS

- 2QFY10 EBITDA at Rs1.7 bn despite no oil bonds
- 1HFY10 refining margins at US$3.8/bbl
- Robust EPS of Rs64, Rs61 and Rs76 for FY2010-12E

Key financial and operating details of 2QFY10 results

Exhibit 1 gives key highlights of HPCL's 2QFY10 results and compares the same on yoy and qoq basis. We do not see merit in comparison of quarterly results given high volatility in the timing and quantum of oil bonds and contribution from upstream companies.

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

					(% chg.)				yoy		
	2QFY10	2QFY10E	2QFY09	1QFY10	*2QFY10E*	*2QFY09*	*1QFY10*	1HFY10	1HFY09	*(% chg.)*	2010E
Net sales	246,290	434,070	355,221	244,362	*(43.3)*	*(30.7)*	*0.8*	490,651	702,714	*(30.2)*	812,378
Increase/(decrease) in stock	19,035		9,620	10,694				29,729	22,999		—
Raw materials	(98,487)	(106,389)	(154,031)	(86,540)	*(7.4)*	*(36.1)*	*13.8*	(185,027)	(255,048)	*(27.5)*	(300,790)
Staff cost	(1,631)	(3,000)	(3,442)	(6,057)	*(45.6)*	*(52.6)*	*(73.1)*	(7,688)	(7,261)	*5.9*	(11,276)
Product purchase	(148,279)	(298,781)	(216,979)	(139,252)	*(50.4)*	*(31.7)*	*6.5*	(287,531)	(464,181)	*(38.1)*	(434,038)
Others	(15,208)	(4,570)	(15,826)	(9,946)	*232.8*	*(3.9)*	*52.9*	(25,153)	(28,771)	*(12.6)*	(19,419)
Total expenditure	(244,571)	(412,740)	(380,658)	(231,100)	*(40.7)*	*(35.8)*	*5.8*	(475,671)	(732,262)	*(35.0)*	(765,523)
EBITDA	**1,719**	**21,330**	**(25,438)**	**13,262**	***(91.9)***	***(106.8)***	***(87.0)***	**14,981**	**(29,548)**	***(150.7)***	**46,855**
Other income	1,512	1,750	978	2,018	*(13.6)*	*54.6*	*(25.1)*	3,530	2,657	*32.8*	10,689
Interest	(2,493)	(3,500)	(5,269)	(2,702)	*(28.8)*	*(52.7)*	*(7.8)*	(5,195)	(9,333)	*(44.3)*	(13,896)
Depreciation	(2,833)	(2,700)	(2,420)	(2,629)	*4.9*	*17.1*	*7.8*	(5,462)	(4,787)	*14.1*	(10,804)
Pretax profits	**(2,095)**	**16,880**	**(32,149)**	**9,948**	***(112.4)***	***(93.5)***	***(121.1)***	**7,853**	**(41,011)**	***(119.1)***	**32,844**
Extraordinaries	2		—	—				2	—		—
Tax	348	(5,097)	(40)	(1,925)				(1,577)	(60)		(9,942)
Deferred tax	379	(641)	—	(1,532)				(1,153)	—		(1,222)
Net income	**(1,367)**	**11,143**	**(32,189)**	**6,491**	***(112.3)***	***(95.8)***	***(121.1)***	**5,124**	**(41,071)**	***(112.5)***	**21,681**
Adjusted net income	**(1,368)**	**11,143**	**(32,189)**	**6,491**	***(112.3)***	***(95.7)***	***(121.1)***	**5,123**	**(41,071)**	***(112.5)***	**21,681**
Tax rate (%)	34.7	34.0	(0.1)	34.8				34.8	(0.1)		34.0
Volume data											
Crude throughput (mn tons)	4.0		4.2	4.1		*(4.1)*	*(2.0)*	8.1	7.6	*7.5*	
Domestic sales volume (mn tons)	5.7		5.4	6.3		*5.0*	*(10.0)*	12.0	11.3	*6.4*	
Pipeline throughput (mn tons)	3.2		2.6	2.9		*21.6*	*8.6*	6.1	5.1	*19.1*	
Refining margin (US$/bbl)	1.8		(4.7)	5.7		*(139.4)*	*(67.9)*	3.8	4.8	*(20.3)*	
Receipt from upstream companies	7,604		30,192	1,737				9,341	53,766		
Reciept of oil bonds from government	—		42,210	—				—	93,360		
Subsidy gain/(loss)	(22,101)		(90,580)	(11,640)				(33,741)	(192,870)		

Source: Company, Kotak Institutional Equities estimates

- **Refining margins remain dismal in 2QFY10.** HPCL's 2QFY10 refining margin was US$1.8/bbl versus US$5.7/bbl in 1QFY10 and –US$4.7/bbl in 2QFY09. The qoq decline in margins reflects a steep decline in global refining margins.

- **Compensation (oil bonds) from the government**. HPCL did not receive any oil bonds in 2QFY10 from the government. We had assumed that HPCL would receive Rs30.3 bn of oil bonds of to compensate for cooking fuel subsidy of 1HFY10. However, we would not be unduly perturbed by the non-receipt of oil bonds and expect the government to issue the same in 3QFY10.

- **Refining throughput and sales volumes.** HPCL's two refineries processed 4 mn tons of crude in 2QFY10 compared to 4.1 mn tons in 1QFY10 and 4.2 mn tons in 2QFY09. HPCL's sales volume was 5.7 mn tons (+5% yoy, -10% qoq).

Earnings revision and key assumptions behind earnings model

We have revised FY2010E, FY2011E and FY2012E EPS estimates to Rs64, Rs61.1 and Rs76.2 from Rs73.1, Rs58.5 and Rs69.9. The revision in earnings reflects (1) sharing of 25% of auto fuel subsidy versus nil previously and (2) stronger rupee. We discuss key assumptions behind our earnings model below.

- **Refining margins.** We model refining margin for HPCL at US$3.1/bbl in FY2010E, US$3.3/bbl in FY2011E and US$4.4/bbl in FY2012E compared to US$3.8/bbl in 1HFY10. We expect refining margins to remain weak in FY2010-11E due to (1) global demand weakness and (2) significant refining capacity additions in CY2009-10 (3.5 mn b/d plus 1.4 mn b/d of additional OPEC NGL supply). We note the downward risk to our refining margin assumption for FY2010E posed by the continued weakness in refining margins.

- **Crude throughput.** We model crude throughput at 16.4 mn tons in FY2010E and 18.5 mn tons in FY2011E versus 15.8 mn tons in FY2009 and 8.1 mn tons in 1HFY10.

- **Marketing margins.** We model marketing margin on diesel and gasoline at Rs1,513/ton and –Rs2,160/ton in FY2010E and Rs1,500/ton and Rs1,900/ton in FY2011E compared to –Rs9,450/ton and –Rs5,900/ton in FY2009. We assume losses on LPG and kerosene throughout our forecast period.

- **Amount of oil bonds and discount from upstream companies.** We currently assume that downstream companies will bear 25% of auto fuel subsidy and nil on cooking fuels. We model HPCL to receive Rs76 bn, Rs78 bn and Rs90 bn of oil bonds in FY2010E, FY2011E and FY2012E based on full recovery of under-recoveries on cooking fuels. We note that the quarterly results can vary widely depending on the timing and quantum of oil bonds issued by the government. We assume discount of Rs11 bn for FY2010E and nil for FY2011E-12E on crude oil and LPG sold by the upstream companies to HPCL as we assume positive marketing margins on diesel and gasoline in FY2011E and FY2012E.

- **Exchange rate.** We now assume a stronger Re/US$ exchange rate for FY2010E, FY2011E and FY2012E at Rs47.25/US$, Rs46/US$ and Rs46/US$ against Rs48/US$, Rs47.75/US$ and Rs47.5/US$.

HPCL earnings model assumptions, March fiscal yearends, 2005-2012E

	2005	2006	2007	2008	2009	2010E	2011E	2012E
Rs/US$	45.0	44.3	45.3	40.3	45.8	47.3	46.0	46.0
Weighted average duty on products (%)	15.3	8.2	6.6	6.5	3.3	2.4	2.4	2.4
Import duty on crude	9.7	5.1	5.1	5.2	0.9	—	—	—
Import 'tariff' on domestic crude (%)	4.9	2.6	2.6	2.6	0.5	—	—	—
Effective duty protection (%)	**5.6**	**3.1**	**1.4**	**1.3**	**2.4**	**2.4**	**2.4**	**2.4**
Refinery yield (US$/bbl)	47.3	63.3	73.1	89.8	96.3	55.3	55.5	56.5
Cost of crude (US$/bbl)								
-Imported	39.4	56.7	64.8	78.1	89.9	50.8	50.9	50.9
-Domestic	39.9	57.5	69.3	84.5	95.2	56.1	56.1	56.1
Landed cost of crude	42.9	59.4	68.8	83.2	92.0	52.3	52.2	52.1
Net refining margin (US$/bbl)	**4.5**	**3.9**	**4.3**	**6.6**	**4.3**	**3.1**	**3.3**	**4.4**
Crude throughput (mn tons)	**13.9**	**14.0**	**16.7**	**16.8**	**15.8**	**16.4**	**18.5**	**19.3**
-Imported	10.2	10.6	12.9	12.6	11.7	12.0	13.9	14.7
-Domestic	3.8	3.4	3.8	4.2	4.2	4.5	4.7	4.7
Production of main products	12.8	12.7	15.2	15.2	14.4	15.0	16.9	17.7
Production of other products	0.3	0.4	0.4	0.6	0.4	0.4	0.4	0.4
Fuel and loss	0.9	0.9	1.0	1.0	1.0	1.0	1.1	1.2
Fuel and loss (%)	6.4	6.3	6.0	6.0	6.1	6.1	6.1	6.1
Sales volume (mn tons)	**20.6**	**20.1**	**23.4**	**26.2**	**27.0**	**27.3**	**27.9**	**29.2**
Marketing margin (Rs/ton)	**1,688**	**(463)**	**(710)**	**(2,345)**	**(5,021)**	**946**	**1,426**	**1,435**

Source: Company, Kotak Institutional Equities estimates

Earnings sensitivity of HPCL to refining margins and marketing margins (Rs mn)

	Fiscal 2010E			Fiscal 2011E			Fiscal 2012E		
	Downside	Base Case	Upside	Downside	Base Case	Upside	Downside	Base Case	Upside
Refining margins									
Refining margins (US$/bbl)	2.1	3.1	4.1	2.3	3.3	4.3	3.4	4.4	5.4
Net profits (Rs mn)	17,960	21,681	25,401	16,630	20,706	24,783	21,563	25,816	30,070
EPS (Rs)	53.0	64.0	74.9	49.1	61.1	73.1	63.6	76.2	88.7
% upside/(downside)	**(17.2)**		**17.2**	**(19.7)**		**19.7**	**(16.5)**		**16.5**
Marketing margins									
Transportation fuels margins (Rs/ton)	570	720	870	1,438	1,588	1,738	1,438	1,588	1,738
Net profits (Rs mn)	20,445	21,681	22,916	19,138	20,706	22,275	24,135	25,816	27,498
EPS (Rs)	60.3	64.0	67.6	56.5	61.1	65.7	71.2	76.2	81.1
% upside/(downside)	**(5.7)**		**5.7**	**(7.6)**		**7.6**	**(6.5)**		**6.5**

Source: Kotak Institutional Equities estimates

Profit model, balance sheet, cash model of HPCL, March fiscal year-ends, 2005-2012E (Rs mn)

	2005	2006	2007	2008	2009	2010E	2011E	2012E
Profit model (Rs mn)								
Net sales	597,020	708,609	889,959	1,043,130	1,249,348	812,378	826,166	872,389
EBITDA	**20,511**	**8,056**	**24,036**	**15,757**	**28,707**	**46,855**	**46,994**	**56,963**
Other income	3,295	3,285	6,845	11,980	9,057	10,689	9,073	6,974
Interest	(816)	(1,587)	(4,230)	(7,925)	(20,828)	(13,896)	(13,432)	(13,037)
Depreciation	(6,584)	(6,902)	(7,040)	(8,508)	(9,813)	(10,804)	(11,267)	(11,791)
Pretax profits	16,406	2,851	19,611	11,303	7,122	32,844	31,368	39,110
Extraordinary items	1,471	2,201	3,030	—	—	—	—	—
Tax	(5,897)	(898)	(6,625)	(1,799)	(2,416)	(9,942)	(8,322)	(11,168)
Deferred taxation	793	(97)	(365)	(2,025)	(343)	(1,222)	(2,340)	(2,125)
Prior period adjustment	—	—	61	3,870	1,387	—	—	—
Net profits	**12,773**	**4,056**	**15,712**	**11,349**	**5,750**	**21,681**	**20,706**	**25,816**
Earnings per share (Rs)	**34.8**	**6.6**	**40.0**	**33.5**	**17.0**	**64.0**	**61.1**	**76.2**
Balance sheet (Rs mn)								
Total equity	84,409	87,357	95,987	105,633	107,306	118,675	129,532	143,069
Deferred tax liability	13,748	13,844	14,209	15,960	16,034	17,256	19,596	21,721
Total borrowings	21,854	66,638	105,175	167,867	227,552	217,552	172,173	126,673
Currrent liabilities	69,887	79,549	101,195	124,337	117,558	91,282	96,320	99,791
Total liabilities and equity	**189,896**	**247,389**	**316,566**	**413,797**	**468,450**	**444,764**	**417,621**	**391,254**
Cash	2,016	426	868	2,940	6,083	1,230	1,208	1,266
Current assets	93,007	109,674	113,779	190,034	153,844	134,618	138,367	142,806
Total fixed assets	77,305	97,013	130,644	152,452	166,558	178,935	178,066	177,201
Investments	17,568	40,276	71,275	68,371	141,965	129,981	99,981	69,981
Total assets	**189,896**	**247,389**	**316,566**	**413,796**	**468,450**	**444,764**	**417,621**	**391,255**
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	15,977	10,126	23,966	(18,679)	(12,139)	20,551	24,336	32,758
Working capital changes	(3,614)	(5,351)	8,936	(6,504)	48,461	(6,003)	2,119	(968)
Capital expenditure	(12,849)	(25,298)	(38,510)	(31,638)	(19,275)	(20,714)	(9,493)	(10,926)
Investments	2,995	(22,884)	(31,704)	(1,851)	(70,386)	11,984	30,000	30,000
Other income	800	941	2,067	4,692	3,187	9,642	8,243	6,974
Free cash flow	**3,310**	**(42,466)**	**(35,246)**	**(53,980)**	**(50,151)**	**15,459**	**55,205**	**57,838**
Ratios (%)								
Debt/equity	22.3	65.8	95.4	138.1	184.5	160.0	115.5	76.9
Net debt/equity	20.2	65.4	94.7	135.6	179.6	159.1	114.6	76.1
RoAE	13.4	4.1	14.9	9.8	4.7	16.7	14.5	16.4
RoACE	**10.1**	**2.5**	**8.8**	**6.4**	**5.8**	**9.3**	**9.8**	**12.2**
Key assumptions								
Crude throughput (mn tons)	13.9	14.0	16.7	16.8	15.8	16.4	18.5	19.3
Effective tariff protection (%)	5.6	3.1	1.4	1.3	2.4	2.4	2.4	2.4
Net refining margin (US$/bbl)	4.5	3.9	4.3	6.6	4.3	3.1	3.3	4.4
Sales volume (mn tons)	20.6	20.1	23.4	26.2	27.0	27.3	27.9	29.2
Marketing margin (Rs/ton)	1,688	(463)	(710)	(2,345)	(5,021)	946	1,426	1,435
Subsidy under-recoveries (Rs mn)	(26,708)	(29,671)	(18,899)	(28,549)	(28,432)	(3,691)	—	—

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Shriram Transport (SHTF)

Banks/Financial Institutions

ADD

OCTOBER 28, 2009

RESULT

Coverage view: Attractive

Price (Rs): 397

Target price (Rs): 430

BSE-30: 16,283

Moderate growth: Higher margins and lower costs support earnings. Shriram Transport Finance's PAT was up 25% yoy on the back of moderate loan growth (15%) supported by yoy margin expansion. A decline in operation expenses also boosted earnings. NPLs were under control. We remain bullish on STFC's growth prospects in the current environment. We retain our ADD rating and will revisit estimates after the conference all.

Company data and valuation summary

Shriram Transport

Stock data			
52-week range (Rs) (high,low)			416-150
Market Cap. (Rs bn)			84.0
Shareholding pattern (%)			
Promoters			44.1
FIIs			16.3
MFs			5.1
Price performance (%)	1M	3M	12M
Absolute	1.3	32.3	92.7
Rel. to BSE-30	3.7	24.6	6.6

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	30.1	32.5	36.9
EPS growth (%)	80.9	7.9	13.7
P/E (X)	13.2	12.2	10.8
NII (Rs bn)	17.4	20.0	24.2
Net profits (Rs bn)	6.1	6.9	7.8
BVPS	103.6	120.8	146.4
P/B (X)	3.8	3.3	2.7
ROE (%)	29.6	27.0	25.8
Div. Yield (%)	2.2	2.5	2.8

QUICK NUMBERS

- PAT up 25% to Rs2.07 bn
- Loan growth moderate at 15%

Lower borrowings cost supports margins

Shriram Transport Finance (STFC's) NIMs (as per our estimates) expanded to 8.6% from 8.1% in 2QFY09 and 8.16% in 1QFY10. A decline in overall borrowings costs by 1.5% yoy and 0.5% qoq supported spreads. A moderate increase in the share of used vehicles in its portfolio to 79% in 2QFY10 from 70% in 2QFY10 provided a positive boost to yields though higher cash/liquid investments on the balance sheet pulled down the overall asset yields. Going forward, a decline in cash/liquid investments will support margins though a likely higher proportion of new vehicles in the overall portfolio and rising interest rates may be dampeners.

Loan growth moderate, will pick up hereon

STFC reported loan growth of 15% yoy (1% above estimates) largely on the back of growth in the used vehicles finance business. We expect growth traction to improve in 2HFY10 on account of the low base of 2HFY09 and improving prospects for CV operators. Disbursements have been increasing qoq for the past three quarters (since the business environment started improving) and the trend will likely continue.

Operating costs surprise on the upside; NPL provisions somewhat higher

- STFC's operating costs declined by 18% qoq and 6% yoy following its cost reduction efforts. During the quarter, STFC sold its wind-farm assets (neither gains nor losses booked on this account) which pulled down the operating expenses incidental to these operations. Going forward, we expect operating costs to rise as the company focus on expansion.

- Provision cost (Rs1.12 bn- up 65% yoy and 7% above estimates) pushed overall expenses. According to our estimates, about 40-50% the credit cost was accounted to write offs and the balance for provisions – net NPLs declined marginally to 0.66% from 0.81% in 1QFY10 despite rise in NPLs to 2.3% from 2.22% in 1QFY10.

STFC to raise capital of Rs10 bn

STFC has proposed to raise capital of Rs10 bn. The capital will likely be utilized to fund medium-term growth in the company. During the current quarter, STFC's debt equity ratio declined marginally as loan growth (15%) trailed its RoE (about 27% for over last four quarters). The company has also announced an interim dividend of Rs2/share (about 11% payout) on 1HFY10 earnings.

Shriram Transport Finance - Quarterly results
Rs mn

	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	YoY(%)	2Q10KS	Actual vs KS (%)
Total operational income	8,353	9,053	9,780	10,042	10,233	10,631	17		
Income on securitised loans	825	710	850	1,005	1,037	1,044	47		
Total interest expense	4,287	4,683	5,542	5,265	5,384	5,248	12		
Interest expenditure	4,287	4,683	5,542	5,265	5,384	5,248	12		
Net operational income (before provisions)	**4,067**	**4,369**	**4,238**	**4,776**	**4,848**	**5,382**	**23**	**5,071**	**6**
Net operational income	4,067	4,369	4,238	4,776	4,848	5,382	23		
Net interest income	3,242	3,659	3,388	3,771	3,811	4,338	19		
Provision and credit costs	632	680	752	994	949	1,122	65	1,050	7
Net operational income (after provisions)	**3,435**	**3,689**	**3,486**	**3,783**	**3,899**	**4,261**	**16**	**4,021**	**6**
Other income	2	6	76	1	64	32	437	80	(60)
Total income	**4,068**	**4,375**	**4,313**	**4,777**	**4,912**	**5,414**	**24**	**5,151**	**5**
Operating expenses	**1,220**	**1,314**	**1,292**	**1,434**	**1,494**	**1,230**	**(6)**	**1,455**	**(15)**
Employee expenses	480	522	516	503	558	535	3	575	(7)
Other expenses	641	723	681	790	856	650	(10)	800	(19)
Depreciation	99	70	95	141	79	44	(36)	80	(45)
Pretax income	**2,217**	**2,380**	**2,269**	**2,350**	**2,469**	**3,063**	**29**	**2,646**	**16**
Tax provisions	781	723	776	812	825	988	37	873	13
Net Profit	**1,436**	**1,657**	**1,493**	**1,538**	**1,644**	**2,075**	**25**	**1,773**	**17**
PBT (excl provisions)	**2,849**	**3,061**	**3,021**	**3,343**	**3,418**	**4,185**	**37**	**3,696**	**13**
Tax rate (%)	35	30	34	35	33	32		33	
Other details									
Disbursements (Rs mn)	28,250	36,539	23,043	27,820	32,596	35,762			
Securitisation during the period (Rs mn)	3,906	6,135	1,999	17,204	1,946	12,084			
O/s Truck assets (Rs mn)	164,280	180,379	186,666	173,829	193,359	203,575			
Off balance sheet truck assets (Rs mn)	42,500	45,121	41,294	58,958	49,391	54,663			
Total truck assets under management (Rs mn)	206,780	225,500	227,960	232,787	242,750	258,237	15	255,000	1
Used vehicle / total assets under management (%	72	70	72	75	77	79			
New vehicle / total assets under management (%)	28	30	28	25	23	21			
Yield on assets (%)	17.2	17.6	17.7	16.5	15.6	15.8			
Cost of funds (%)	11.1	11.2	12.4	10.8	10.2	9.7			
Difference (%)	6.1	6.4	5.4	5.7	5.4	6.1			
NIMs (KS calc - %)	8.09	8.09	7.48	8.29	8.16	8.59	6	8.15	5
RoA (%)	3.13	3.36	2.8	2.7	2.7	3.2			
RoE (%)	30.4	32.4	27.2	26.9	26.2	29.6			
Gross NPLs(%)	1.7	1.7	1.9	2.1	2.2	2.3			
Net NPLs(%)	0.9	0.9	0.9	0.9	0.8	0.7			
Debt equity ratio (X)	8	8	8	8.7	7.5	7.4			
Balance Sheet									
Fixed assets	1,336	1,270	1,402	1,343	1,279	784			
Loans and advances	810	821	749	691	774	928			
Cash and bank	14,650	16,751	19,891	53,650	37,610	44,796			
Investments	3,564	7,273	382	6,554	13,243	10,410			
Truck receivables	163,050	180,379	186,666	179,216	193,346	203,568			
Current assets	1,646	2,249	3,196	4,249	4,430	4,521			
Total	185,057	208,742	212,286	245,702	250,682	265,007			
Shareholders funds	19,619	21,298	22,602	23,166	26,985	29,041			
Equity capital	2,033	2,035	2,035	2,035	2,116	2,117			
Reserves	17,586	19,263	20,567	21,131	24,869	26,924			
Loans	148,845	171,058	172,686	201,194	201,659	213,459			
Current liabilities	16,409	16,202	16,814	21,605	22,039	22,771			
Deferred tax liabilities	184	184	184	(264)	-				
Total	185,057	208,742	212,286	245,702	250,683	265,271			

Source: Company, Kotak Institutional Equities estimates

kotak Institutional Equities

Tata Tea (TT)

Consumer Products

BUY

OCTOBER 29, 2009

RESULT

Coverage view: Attractive

Price (Rs): 841

Target price (Rs): 1,000

BSE-30: 16,283

Pleasing performance in tough operating conditions. Tata Tea's (TT) results validate the company's focus on value sales and profitability. We expect TT to maintain margins in FY2010-11E through prices increases. Eight O' Clock Coffee (EOC) continues to gain in the US market due to (1) channel expansion gains and (2) price-value competitiveness. The management maintains that the outlook for tea commodity prices for FY2011E is inflationary. Reiterate BUY and TP of Rs1,000.

Company data and valuation summary

Tata Tea

Stock data			
52-week range (Rs) (high,low)			1,018-430
Market Cap. (Rs bn)			52.0
Shareholding pattern (%)			
Promoters			35.3
FIIs			14.2
MFs			6.1
Price performance (%)	1M	3M	12M
Absolute	(7.7)	4.8	51.9
Rel. to BSE-30	(5.1)	(1.4)	(16.0)

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	53.7	64.8	70.9
EPS growth (%)	14.7	20.7	9.4
P/E (X)	15.7	13.0	11.9
Sales (Rs bn)	48.5	56.8	63.1
Net profits (Rs bn)	3.3	4.0	4.4
EBITDA (Rs bn)	6.7	7.3	8.3
EV/EBITDA (X)	9.6	8.6	7.3
ROE (%)	9.4	10.7	10.9
Div. Yield (%)	2.1	2.5	2.7

Sales in line, demonstrates brand strength by holding margins in a difficult input price environment

On a standalone basis, Tata Tea (TT) reported in line net sales of Rs 4.2 bn (+32%, KIE estimate Rs 4.2 bn), EBITDA of Rs312 mn (+53%, KIE estimate of Rs304 mn) and PAT of Rs362 mn (-11%, KIE estimate Rs351 mn). Lower other income in standalone books resulted in PAT decline.

Sales growth of 32% was primarily led by price hikes (<5% volume growth, in our view). Material cost during the quarter was up +33% and other expenditure increased steeply by 36% (in our view on account of higher brand spends and higher overheads). However, EBITDA margin improved by 98 bps to 7.3% due to savings in staff cost and price hikes ahead of inflation.

We believe that improvement in margins during a period of rising tea prices is a significant positive and reflective of the company's strong leadership position in the market. Presently, TT is the volume market leader in the Indian tea market, outperforming value market leader HUL. We expect TT to maintain margins in FY2010E through consumer prices increases as tea commodity prices are likely to remain high in FY2010-11E.

Good performance in UK, US markets as well

In 2QFY10, TT reported consolidated net sales of Rs14 bn (+18%), EBITDA of Rs1.7 bn (+17%) and PAT of Rs 1.1 bn (+11%).

- Tetley sales improved by 17% in Rupee terms and 22% in GBP terms. The management indicated that black tea volumes have dropped in UK market—about 5%, in our view.

- Eight O' Clock coffee (EOC) sales increased in US$ terms by 16% to US$48 mn for 2QFY10 and by 23% to US$98 mn for 1HFY10. PAT for the quarter increased by 133% to US$5 mn and PAT for the period 1HFY10 increased 198% to US$10 mn. The company has positioned EOC in the value gourmet segment which has worked well during this recessionary phase in US (benefits of consumer trading down).

QUICK NUMBERS

- Net cash of Rs100/share
- Sales growth of 32% in India, 18% globally
- Tetley volumes declined 5%, in our view
- Big plans for 'Tion', we are cautious about requirement of new distribution channel
- Plans to expand in Middle East market

- Mount Everest Mineral Water (MEMW) sales declined 14% during the quarter and 19% during 1HFY10. The company's brand Himalayan has met with limited success so far. Company is likely to utilize the new distribution channel—which is under development—of 'Tion' for 'Himalayan' as well.

- Extraordinary items in the consolidated accounts includes Rs1,860 mn towards profit on the sale of stake in Rallis.

Interim standalone results of Tata Tea Ltd, March fiscal year-end (Rs mn)

					(% chg)		
	2QFY10	2QFY10E	2QFY09	1QFY10	2QFY10E	2QFY09	1QFY10
Net sales	**4,243**	**4,218**	**3,206**	**4,178**	**1**	**32**	**2**
Total expenditure	3,932	3,914	3,001	3,527	0	31	11
Material cost	2,530	2,563	1,901	2,371	(1)	33	7
Staff cost	224	243	231	237	(8)	(3)	(6)
Other expenditure	1,178	1,108	869	919	6	36	28
EBITDA	**312**	**304**	**204**	**651**	**2**	**53**	**(52)**
OPM (%)	**7.3**	**7.2**	**6.4**	**15.6**			
Other income	380	345	502	141	10	(24)	169
Interest	122	120	103	111	2	18	9
Depreciation	30	26	26	30	16	14	-
Pretax profits	**541**	**504**	**577**	**652**	**7**	**(6)**	**(17)**
Tax	178	152	169	200	17	6	(11)
Net income (adj.)	**362**	**351**	**408**	**452**	**3**	**(11)**	**(20)**
Extraordinary items	2,218	2,478	30	(22)			
Reported PAT	**2,580**	**2,829**	**438**	**430**	**(9)**	**489**	**501**
Income tax rate (%)	33.0	30.2	29.2	30.7			
Cost as a % of sales							
Material cost	59.6	60.8	59.3	56.7			
Staff cost	5.3	5.8	7.2	5.7			
Other expenditure	27.7	26.3	27.1	22.0			

Source: Company, Kotak Institutional Equities

Interim consolidated results of Tata Tea Ltd, March fiscal year-end (Rs mn)

	2QFY10	2QFY09	1QFY10	(%)chg 2QFY09	(%)chg 1QFY10
Net sales	**13,973**	**11,809**	**12,751**	**18**	**10**
Total expenditure	12,289	10,374	11,202	18	10
Material cost	5,455	4,314	4,981	26	10
Staff cost	1,534	1,343	1,453	14	6
Advertising and promotion	2,381	2,107	2,110	13	13
Other expenditure	2,920	2,610	2,659	12	10
EBITDA	**1,684**	**1,435**	**1,549**	**17**	**9**
OPM (%)	**12.1**	**12.2**	**12.1**		
Other income	283	281	251	1	13
Interest	98	154	53	(36)	86
Depreciation	252	221	245	14	3
Pretax profits	**1,617**	**1,341**	**1,503**	**21**	**8**
Tax	521	355	604	47	(14)
Net income	**1,096**	**986**	**898**	**11**	**22**
Extraordinary items	1,778	1,191	(1,094)	49	(263)
Reported PAT	**2,874**	**2,178**	**(196)**	**32**	**(1,569)**
Income tax rate (%)	32.2	26.5	40.2		
Cost as a % of sales					
Material cost	39.0	36.5	39.1		
Staff cost	11.0	11.4	11.4		
Advertising and promotion	17.0	17.8	16.5		
Other expenditure	20.9	22.1	20.9		
Segment results of Tata Tea Ltd					
Revenue					
Tea	10,633	9,166	9,792	16	9
Coffee & Other Produce	3,286	2,787	3,052	18	8
Others	101	113	110	(10)	(8)
Unallocated	8	219	1	(96)	523
EBIT					
Tea	1,013	1,180	1,017	(14)	(0)
Coffee & Other Produce	513	392	514	31	(0)
Others	(28)	(87)	(59)	(67)	(52)
EBIT Margin (%)					
Tea	9.5	12.9	10.4		
Coffee & Other Produce	15.6	14.1	16.9		
Others	(28.1)	(77.5)	(53.2)		
Capital Employed					
Tea	35,588	28,391	34,675	25	3
Coffee & Other Produce	10,183	14,303	9,413	(29)	8
Others	668	247	674	171	(1)
Unallocated	6,091	6,335	3,832	(4)	59

Source: Company, Kotak Institutional Equities

Key takeaways from analyst meet

- TT has acquired a Russian company, Grand, which predominantly operates at the low-end of the beverages value chain. TT holds 51% in the entity. Grand reported US$ 90 mn sales in FY2009 with minimal profits. The company has indicated that Grand operations are cash break-even.

- Eight O' Clock Coffee (EOC) continues to gain in US market due to, (1) channel expansion gains and (2) price-value competitiveness. TT highlighted that EOC recorded good growth in newer channels in the quarter—35% in Wal-Mart, 42% in Target and currently covers 8,500 dollar general stores. The company invested gross margin expansion benefits (Arabica prices were lower for the quarter) into investments in distribution including slotting fees paid to major retailers like Wal-Mart.

- TT is expanding into Middle East and has recently tied up with a distributor in Saudi Arabia. The management believes a strong presence in Middle East is imperative to compete effectively with Unilever at a global level (Unilever is the market leader in tea globally as well as in Middle East).

- TT considers non-carbonated soft drink (NCSD) as one of the major growth areas in India. We recall that the company had launched a new tea-based drink brand 'Tion' in Chennai market in FY2009. Tion has achieved about 3% market share of NCSD market in Chennai and the brand is being rolled out in Tamil Nadu. While we are optimistic on the market opportunity for a differentiated NCSD drink, we temper the optimism considering the requirement for developing a completely new distribution channel (compared with the grocery distribution channel which TT possesses at present). Furthermore, we recall the limited success faced by Hindustan Unilever in developing an iced-tea portfolio (While TT management says that Tion is not an iced-tea, we reckon that significant investment in consumer education would be required to differentiate a product in cold format which contains iced-tea).

- The company indicated that tea commodity inventory levels were higher as at September 30, 2009 as the outlook for tea commodity prices for FY2011E is inflationary.

Significant rise in tea prices in 2009
Price trend in domestic tea auction prices (Rs/kg)

Month / year	1995	2000	2005	2008	2009	% incr. yoy
January	47	67	56	68	85	***24***
February	42	62	55	60	80	***34***
March	36	52	52	59	78	***31***
April	39	48	56	71	99	***39***
May	47	60	57	78	120	***54***
June	47	61	58	87	115	***32***
July	51	68	60	88	108	***23***
August	48	66	58	93	111	***19***
September	50	64	55	100	110	***10***
October	53	63	53	99		
November	54	58	59	94		
December	51	60	61	90		
Yearly average	**47**	**61**	**57**	**82**	**101**	***28***

Source: CMIE, Kotak Institutional Equities

Retain BUY, TP Rs1,000/share

We retain our BUY rating and increase our target price to Rs1, 000 (Rs900 previously). At our TP, the stock would trade at 14X FY2011E. Our TP includes Rs60 (at a 50% discount to current market price) for investments in group companies. Building in higher sales, we revise our EPS estimates by 6% (Rs64.8) and 5% (Rs70.9) for FY2010E and FY2011E, respectively. Positive triggers are (1) likely utilization of net cash of about Rs 100/share (as at September 30, 2009) and (2) successful inorganic forays. Key risks to our rating are higher-than-expected tea commodity prices and any inability to pass on cost increases.

Tata Tea, change in estimates, March fiscal year-ends (Rs mn)

	FY10E			FY11E		
	New	Old	Change (%)	New	Old	Change (%)
Sales	56,780	52,547	8.1	63,116	57,461	9.8
Operating profit	6,842	6,759	1.2	7,827	7,735	1.2
PBT	7,088	6,388	11.0	8,183	7,462	9.7
Net profit	4,787	4,518	6.0	5,326	5,061	5.2
Growth, %						
Sales	17.1	8.4		11.2	9.4	
Operating profit	9.6	8.3		14.4	14.4	
Net profit	20.7	10.1		9.4	10.2	
EPS	20.7	10.1		9.4	10.2	

Source: Kotak Institutional Equities estimates

Tata Tea: Consolidated profit model, balance sheet, cash model 2006-2010E, March fiscal year-ends (Rs mn)

	2007	2008	2009	2010E	2011E
Profit model (Rs mn)					
Net sales	**40,249**	**43,096**	**48,479**	**56,780**	**63,116**
EBITDA	**6,846**	**6,820**	**6,243**	**6,842**	**7,827**
Other income	669	539	500	434	475
Interest	(2,614)	(2,074)	(448)	866	949
Depreciation	(967)	(916)	(987)	(1,054)	(1,068)
Extraordinary items	1,724	16,224	7,255	0	0
Pretax profits	5,657	20,593	12,563	7,088	8,183
Tax	(1,076)	(1,343)	(1,477)	(2,301)	(2,857)
Net profits	**4,581**	**19,250**	**11,086**	**4,787**	**5,326**
Earnings per share (Rs)	**47.4**	**46.8**	**53.7**	**64.8**	**70.9**
Dividend per share (Rs)	**15.0**	**35.0**	**17.5**	**21.1**	**23.1**
Balance sheet (Rs mn)					
Total equity	21,722	34,142	36,310	38,788	41,497
Total borrowings	45,778	26,093	24,311	22,741	20,864
Currrent liabilities	17,326	24,229	27,088	32,185	35,893
Total liabilities and equity	**84,825**	**84,465**	**87,708**	**93,714**	**98,255**
Cash	1,188	13,232	10,892	11,545	11,685
Current assets	12,627	20,054	34,974	41,333	45,970
Total fixed assets	64,889	37,268	38,330	38,122	37,887
Investments	6,122	13,910	3,513	2,713	2,713
Total assets	**84,825**	**84,465**	**87,708**	**93,714**	**98,255**
Key assumptions					
Revenue growth (%)	29.6	7.1	12.5	17.1	11.2
EBITDA margin(%)	17.0	15.8	12.9	12.0	12.4
EBITDA growth (%)	25.5	(0.4)	(8.5)	9.6	14.4
EPS growth (%)	(9.0)	(1.2)	14.7	20.7	9.4

Source: Kotak Institutional Equities estimates

kotak Institutional Equities

India Cements (ICEM)

Cement

REDUCE

OCTOBER 29, 2009

RESULT

Coverage view: Neutral

Price (Rs): 114

Target price (Rs): 110

BSE-30: 16,283

Pricing environment in South deteriorates. Cement prices in Southern India have weakened considerably, reflecting in the 5% qoq decline in realizations for India Cements (ICEM). ICEM sustained revenue growth of 4.6% yoy, despite the weak realizations on account of the sale of clinker from recently commissioned capacities. The sharp deterioration in cement prices in South has prompted us to revise our rating on ICEM to REDUCE with a revised target price of Rs110/share (Rs155 previously).

Company data and valuation summary

India Cements

Stock data			
52-week range (Rs) (high,low)			180-71
Market Cap. (Rs bn)			32.2
Shareholding pattern (%)			
Promoters			28.0
FIIs			25.0
MFs			13.4
Price performance (%)	1M	3M	12M
Absolute	(15.6)	(15.6)	51.0
Rel. to BSE-30	(11.9)	(21.4)	(16.1)

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	17.8	15.7	13.0
EPS growth (%)	(27.4)	(11.4)	(17.6)
P/E (X)	6.4	7.2	8.8
Sales (Rs bn)	34.0	36.8	38.8
Net profits (Rs bn)	5.0	4.4	3.7
EBITDA (Rs bn)	10.4	10.9	10.1
EV/EBITDA (X)	4.8	4.3	4.8
ROE (%)	14.8	12.1	9.2
Div. Yield (%)	1.6	1.9	2.8

Sharp decline in realizations compensated by sale of additional clinker for the quarter

ICEM reported revenues of Rs9.8 bn on volumes of 2.7 mn tons, 8% higher than our volumes estimate of 2.4 mn tons, which helped compensate for the 8% qoq decline in blended realizations. Higher-than-estimated sales volumes were on account of 0.3 mn tons of clinker sale not factored in our estimates. Operating profit at Rs2.9 bn and net income of Rs1.4 bn was in line with our estimates.Net revenues for the quarter also include (1) revenues from shipping freight of Rs142 mn, (3) income from IPL franchisee of Rs79 mn, and (3) sale of energy from windmills of Rs75 mn. Adjusted for these cement realizations declined 4.7% qoq to Rs3,025/ton in 2QFY10 from Rs3,173/ton in 1QFY10.

Prices decline sharply in Andhra Pradesh, weakness rubbing-off on neighboring states

Prices in Andhra Pradesh (20% of ICEM's sales) have fallen from Rs225/bag in June 2009 to Rs 195/bag in September 2009. The sharp fall in prices is ascribed to bunching up of large capacity additions coupled with sharp deterioration in cement demand. Part of the weakness can be ascribed to the flood-situation in Andhra Pradesh and Karnataka. The weakness in prices in Andhra Pradesh has also rubbed off on neighboring states, although to a lesser extent, with average cement prices in South declining from Rs278/bag in 1QFY10 to Rs268/bag in 2QFY10. Management indicated that retail prices in Hyderabad have reached as low as Rs155/bag, at which price the Visaka plant is able to sustain an operating profit of Rs700/ton.

Downgrade to REDUCE with revised target price of Rs110/share

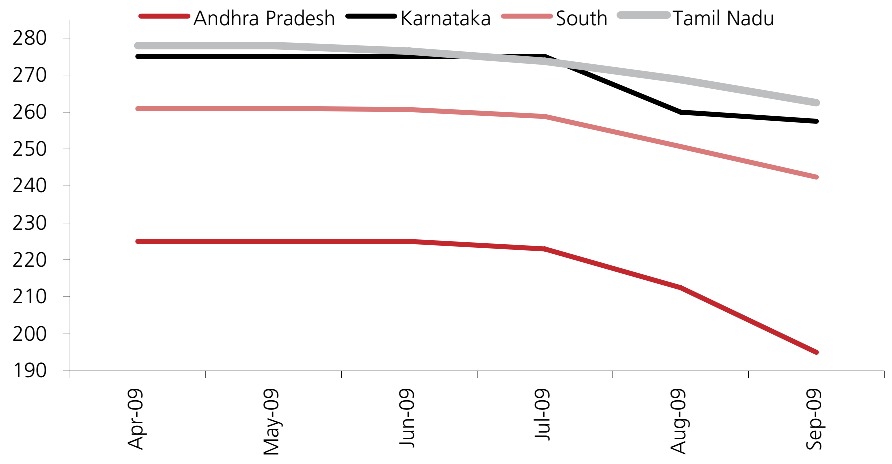
We downgrade our rating on ICEM to REDUCE (from ADD previously) taking cognizance of the weak pricing environment in its home markets of South, and revise our target price to Rs110/share (Rs155 previously). Our target price implies an EV/ton of US$92 and EV/EBITDA of 4.8X on FY2011E earnings. We have revised our estimates to Rs15.8 (Rs19.4 previously) for FY2010E and Rs13 (Rs15.2 previously) for FY2011E to factor in the sharp decline in realizations and higher input costs. We factor volume of 10.3 mn tons in FY2010E lower than management guidance of 11 mn tons on expanded cement capacities.

Exhibit 1: Blended realizations declined by 8% during the quarter
Interim results for India Cements (standalone), March fiscal year-ends (Rs mn)

					(% Chg.)					
	2QFY10	**2QFY10E**	**2QFY09**	**1QFY10**	**2QFY10E**	**2QFY09**	**1QFY10**	**FY2010E**	**FY2009**	***(% Chg.)***
Net sales	**9,894**	**9,874**	**9,455**	**9,535**	**0**	**4.6**	**4**	**37,003**	**33,595**	***10***
Raw materials	(1,168)	(932)	(1,074)	(844)				(4,041)	(3,577)	
Employee costs	(598)	(528)	(415)	(516)				(2,256)	(1,983)	
Power & fuel costs	(2,442)	(2,511)	(2,263)	(2,438)				(9,328)	(8,916)	
Freight costs	(1,459)	(1,385)	(1,276)	(1,308)				(5,522)	(4,459)	
Other costs	(1,250)	(1,605)	(1,526)	(1,566)				(5,545)	(5,383)	
Expenditure	(6,917)	(6,960)	(6,554)	(6,671)				(26,692)	(24,318)	
EBITDA	**2,977**	**2,914**	**2,901**	**2,863**	**2**	**2.6**	**4**	**10,311**	**9,277**	***11***
EBITDA (%)	**30**	**30**	**31**	**30**				**28**	**28**	
Other income	55	130	91	68				522	1,154	
Interest	(374)	(375)	(248)	(385)				(1,479)	(1,121)	
Depreciation	(572)	(603)	(498)	(571)				(2,463)	(2,033)	
Pre-tax profits	**2,086**	**2,066**	**2,246**	**1,976**				**6,891**	**7,276**	
Tax	(704)	(661)	(608)	(743)				(2,474)	(2,161)	
Net income	**1,382**	**1,405**	**1,638**	**1,233**	**(2)**	**(16)**	**12**	**4,417**	**5,115**	***(14)***
Extraordinaries	-	—	(296)	210				210	(794)	
Reported net income	**1,382**	**1,405**	**1,343**	**1,443**				**4,627**	**4,321**	
Tax rate (%)	*34*	*32*	*31*	*34*				*35*	*33*	
Despatch ('000 tons)	**2,791**	**2,589**	**2,426**	**2,461**	**8**	**15**	**13**	**10,330**	**9,118**	***13***
Realization (Rs/ton)	**3,545**	**3,814**	**3,897**	**3,874**	**(7)**	**(9)**	**(8)**	**3,582**	**3,685**	***(3)***
Cost (Rs/ton)	2,478	2,689	2,701	2,711				2,584	2,667	
Raw materials	419	360	443	343				391	392	
Employee costs	214	204	171	210				218	218	
Power & fuel costs	875	970	933	991				903	978	
Freight costs	523	535	526	532				535	489	
Other costs	448	620	629	636				537	590	
Profitability (Rs/ton)	**1,067**	**1,126**	**1,196**	**1,164**	**(5)**	**(11)**	**(8)**	**998**	**1,017**	***(2)***

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Prices in Andhra Pradesh have fallen sharply during the quarter
Cement prices in states of South (Rs/bag)



Source: CMA, Kotak Institutional Equities

Investing in new captive capacities, reducing dependence on state infrastructure

ICEM is setting up two captive power plants of 50 MW each at its facilities in Tamil Nadu and Andhra Pradesh, to reduce dependence on grid-based power which has been constrained in the recent past. Besides setting up captive power plants, ICEM is also looking to acquire a coal concession in Indonesia, which will give it access to 30 mn tons of coal reserves and reduce dependence on market purchases of imported coal. ICEM will incur a capex of Rs10 bn over the next two years in addition to the Rs5 bn already incurred in 1HFY10, towards the various projects being undertaken by the company including the setting up of a new plant facility in Rajasthan.

Exhibit 3: Change in estimates for India Cements (consolidated), March fiscal year-ends (Rs mn)

	Revenues			EBITDA			Net profit		
	New	Old	% Chg.	New	Old	% Chg.	New	Old	% Chg.
2010E	36,822	38,743	(5.0)	10,121	11,578	(12.6)	4,448	5,476	(18.8)
2011E	38,765	40,240	(3.7)	9,252	10,203	(9.3)	3,665	4,283	(14.4)

Source: Kotak Institutional Equities estimates

Exhibit 4: Profit model, balance sheet, cash model of India Cements, March fiscal year-ends, 2007-11E (Rs mn)

	2007	2008	2009	2010E	2011E
Profit model (Rs mn)					
Net sales	22,366	30,212	34,011	36,822	38,765
EBITDA	**7,147**	**10,450**	**8,934**	**10,121**	**9,252**
Other income	328	887	1,507	743	853
Interest	(1,498)	(1,099)	(1,123)	(1,479)	(1,472)
Depreciation	(1,028)	(1,281)	(2,045)	(2,463)	(2,945)
Pretax profits	4,949	8,957	7,273	6,922	5,688
Tax	(132)	(2,073)	(2,174)	(2,474)	(2,023)
Minority interest	964	13	(81)	—	—
Net profits	**5,782**	**6,897**	**5,018**	**4,448**	**3,665**
Extraordinary items	—	(481)	(794)	210	—
Earnings per share (Rs)	**26.1**	**24.5**	**17.8**	**15.7**	**13.0**
Balance sheet (Rs mn)					
Total equity	21,598	34,591	37,902	41,314	44,211
Total borrowings	20,588	18,115	19,919	19,796	19,796
Currrent liabilities	4,345	9,851	11,716	12,676	13,849
Total liabilities and equity	**46,531**	**62,557**	**69,537**	**73,785**	**77,855**
Cash	2,310	4,262	880	3,199	2,410
Current assets	11,820	14,178	17,664	20,646	21,450
Total fixed assets	29,499	40,526	47,280	48,031	52,086
Investments	2,549	3,330	3,556	1,857	1,857
Deferred Expenditure	353	260	158	52	52
Total assets	**46,531**	**62,557**	**69,537**	**73,785**	**77,855**
Free cash flow (Rs mn)					
Operating cash flow, excl. working capital	7,452	11,061	8,277	8,263	7,879
Working capital	430	3,147	(1,621)	(2,022)	369
Capital expenditure	(8,879)	(12,869)	(9,414)	(3,165)	(7,000)
Investments	(1,735)	(39)	71	1,698	—
Free cash flow	**(2,733)**	**1,300**	**(2,688)**	**4,775**	**1,248**

Source: Company, Kotak Institutional Equities estimates

Kotak Institutional Equities

Havells India (HAVL)

Others

REDUCE

OCTOBER 29, 2009

RESULT

Coverage view:

Price (Rs): 320

Target price (Rs): 210

BSE-30: 16,283

2QFY10—in line; Sylvania remains under pressure. Havells reported 2QFY10 results in line with our estimates with adjusted PAT of Rs182 mn versus our estimated Rs171 mn. Revenues at Rs12.9 bn were marginally below expectations. Sylvania continued its dismal performance with revenues of €98 mn and EBITDA margin of only 0.4%, which pulled down the consolidated profitability. We find current valuations expensive at 16.4X FY2011E EPS and maintain our negative view with a target price of Rs210.

Company data and valuation summary

Havells India

Stock data			
52-week range (Rs) (high,low)			353-100
Market Cap. (Rs bn)			19.3
Shareholding pattern (%)			
Promoters			60.1
FIIs			17.8
MFs			2.2
Price performance (%)	1M	3M	12M
Absolute	3.5	4.7	92.1
Rel. to BSE-30	5.8	(1.4)	6.3

Forecasts/Valuations	2009	2010E	2011E
EPS (Rs)	5.1	12.2	19.5
EPS growth (%)	(80.9)	139.3	60.1
P/E (X)	62.9	26.3	16.4
Sales (Rs bn)	54.8	53.7	58.1
Net profits (Rs bn)	0.3	0.7	1.2
EBITDA (Rs bn)	2.9	3.4	4.0
EV/EBITDA (X)	10.1	8.9	7.5
ROE (%)	4.6	13.0	20.5
Div. Yield (%)	0.8	0.8	0.8

2QFY10 adjusted PAT in line with estimates

Havells reported 2QFY10 adjusted PAT of Rs182 mn in line with our estimated Rs171 mn, mainly led by strong domestic performance. Revenues at Rs12.9 bn (down 10% yoy) were marginally below our estimated Rs13.7 bn. EBITDA margins at 4.8% were slightly ahead of our estimate of 4.5% due to higher margins in the domestic business.

- **Strong domestic performance**. Havells' domestic business (standalone) PAT of Rs543 mn was ahead of our estimated Rs499 mn driven by improved margins. EBITDA margin at 13.3% (up 100 bps qoq and 300 bps yoy) was better than our estimated 11.5%. Revenues at Rs6 bn were below our estimated Rs6.4 bn mainly due to lower revenues in the switchgear and cable and wires segments.
- **Sylvia continues dismal performance**. Sylvania continued with its dismal performance with revenues of €98 mn (down 19% yoy) and below our estimated €105 mn. We do not see the impact of the ongoing restructuring programs on Sylvania's profitability with EBITDA margin at 0.4% versus our estimated 1.4%. Restructuring and other extraordinary expenses of Rs432 mn were higher than our estimated Rs350 mn.

Havells invests €11 mn in Sylvania in 1HFY10

Havells has invested €11 mn in Sylvania in 1HFY10 (€5 mn recourse debt repayment and €6 mn equity investment). A further €6 mn of equity will be invested in 2HFY10 to meet the restructuring expenses. Total exposure of Havells into Sylvania currently is €100 mn which includes outstanding recourse debt of €20 mn, bank guarantee of €8.5 mn and proposed equity infusion of €6 mn.

Valuations remain expensive, maintain REDUCE

We raise our target price to Rs210 (from Rs175) to factor in higher domestic revenues and margins. However, we maintain our negative stance on the stock as valuations remain very expensive at 16.4X FY2011E EPS. We believe margins for Sylvania will remain very low, which will pull down the overall profitability. We are yet to see any benefits of the restructuring program accruing to Sylvania's margins which have remained at 0.4% for the past two quarters.

2QFY10 results in line with estimates
Havells, interim results (consolidated), March fiscal year-ends (Rs mn)

					(% change)			Half year		
	2QFY10	2QFY10E	2QFY09	1QFY10	KIE est.	yoy	qoq	1HFY10	1HFY09	Chng. (%)
Net revenues	**12,930**	**13,682**	**14,376**	**12,990**	**(5.5)**	**(10.1)**	**(0.5)**	**25,919**	**28,418**	**(8.8)**
Total expenditure	**(12,108)**	**(12,846)**	**(13,825)**	**(12,235)**	**(5.7)**	**(12.4)**	**(1.0)**	**(24,342)**	**(26,851)**	**(9.3)**
EBITDA	**822**	**837**	**551**	**755**	**(1.8)**	**49.1**	**8.9**	**1,577**	**1,567**	**0.6**
Margins (%)	6.4	6.1	3.8	5.8				6.1	5.5	
Other income	4	—	18	4	NM	(76.5)	4.9	8	82	(89.7)
Depreciation	(210)	(225)	(222)	(215)	(6.6)	(5.2)	(2.2)	(425)	(438)	(2.9)
EBIT	**616**	**612**	**348**	**544**	**0.7**	**77.1**	**NM**	**1,160**	**1,211**	**(4.2)**
Margins (%)	4.8	4.5	2.4	4.2				4.5	4.3	
Net Interest	(235)	(225)	(306)	(205)	4.4	(23.2)	14.5	(440)	(546)	(19.4)
PBT	**381**	**387**	**42**	**339**	**(1.4)**	**NM**	**12.4**	**720**	**664**	**8.4**
Extraordinaries	(432)	(350)	(172)	(391)				(823)	(172)	
Reported PBT	**(51)**	**37**	**(130)**	**(52)**	**NM**	**NM**	**(2.1)**	**(103)**	**493**	
Tax	(236)	(198)	(121)	(185)	19.4	95.5	27.8	(421)	(247)	70.6
Reported PAT	**(287)**	**(161)**	**(250)**	**(237)**	**78.2**	**14.7**	**21.2**	**(524)**	**246**	**(312.8)**
Adjusted PAT	**182**	**171**	**(98)**	**144**	**6.0**	**NM**	**26.4**	**325**	**398**	**(18.2)**
Segmental										
Revenues										
Switchgear	1,749	1,928	1,634	1,719	(9.3)	7.0	1.8	3,467	3,106	11.6
Cable and Wires	2,427	2,699	2,699	2,428	(10.1)	(10.1)	(0.1)	4,855	5,229	(7.1)
Lighting and fixtures - India	904	860	717	755	5.1	26.2	19.8	1,659	1,343	23.5
Lighting and fixtures - Sylvania	6,966	7,268	8,500	7,091	(4.2)	(18.0)	(1.8)	14,057	17,059	(17.6)
Electrical consumer durables	797	795	680	904	0.3	17.4	(11.8)	1,702	1,454	17.1
Others	87	131	146	93	(33.9)	(40.5)	(6.3)	180	228	(21.3)
Total	**12,930**	**13,682**	**14,376**	**12,990**	**(5.5)**	**(10.1)**	**(0.5)**	**25,919**	**28,418**	**(8.8)**
EBIT										
Switchgear	654	634	584	609	3.1	11.9	7.3	1,263	1,161	8.7
Cable and Wires	190	286	224	294	(33.5)	(15.2)	NM	484	518	(6.5)
Lighting and fixtures - India	192	124	191	119	54.9	0.3	61.2	311	306	1.7
Lighting and fixtures - Sylvania	(130)	(68)	(230)	(130)	90.5	(43.5)	—	(260)	63	(512.7)
Electrical consumer durables	242	179	149	217	35.5	62.8	11.7	459	322	42.7
Others	22	7	42	7	208.6	(48.3)	NM	28	67	(57.9)
Unallocable	(560)	(560)	(613)	(571)	—	(8.6)	(1.9)	(1,131)	(1,226)	(7.7)
Total	**610**	**602**	**348**	**544**	**1.4**	**75.3**	**NM**	**1,154**	**1,211**	**(4.7)**
EBIT (%)										
Switchgear	37.4	32.9	35.7	35.4				36.4	37.4	
Cable and Wires	7.8	10.6	8.3	12.1				10.0	9.9	
Lighting and fixtures - India	21.2	14.4	26.7	15.8				18.8	22.8	
Lighting and fixtures - Sylvania	(1.9)	(0.9)	(2.7)	(1.8)				(1.8)	0.4	
Electrical consumer durables	30.4	22.5	21.9	24.0				27.0	22.1	
Others	24.9	5.3	28.6	7.1				15.7	29.3	
Total	**4.7**	**4.4**	**2.4**	**4.2**				**4.5**	**4.3**	

Source: Company, Kotak Institutional Equities estimates

Sylvania sees revenue decline across geographies

Sylvania's revenues declined 19% yoy to €98 mn from €121 mn in 2QFY09 with declines in all the three geographies. Sylvania's profitability continued to remain under pressure with EBITDA margin at a meager 0.4%. The company has completed its first restructuring program (Project Phoenix) in Sep'09 with a total cost of €12.2 mn incurred over previous three quarters. It has started its second restructuring program (Project Prakram) to be executed during the period Sep'09-Jun'10 at a total cost of €23 mn. However, we are yet to see the benefits of restructuring flowing in the operating margins. We currently model Sylvania's EBITDA margins to improve to 2% in 2HFY10 from 0.4% in 1HFY10.

Revenue declines across geographies
Sylvania, geographical revenue break up, March fiscal year-ends (EUR mn)

	2QFY10	2QFY09	Change (%)
Europe	67.7	82.9	(18.3)
Americas	27.9	34.1	(18.2)
Asia	2.9	6.7	(56.3)
Adjustments	(0.5)	(3.1)	
Total	**98.0**	**120.6**	**(18.7)**

Source: Company

Two year moratorium from term-loan repayment

Sylvania has negotiated the deferment of the principal repayment on its term loans falling due in 2009-10 aggregating to €24 mn. The cash so saved along with the €12 mn fresh equity investment by Havells will be used for funding its second restructuring program.

Sylvania's net debt remains flat qoq
Sylvania net debt position, March fiscal year-ends (EUR mn)

	Mar-09	Jun-09	Sep-09
With recourse to Havells India	23	20	20
Without recourse to Havells India	148	146	138
Total debt	**172**	**166**	**158**
less: cash	13	17	11
Net debt	**158**	**149**	**147**

Source: Company

Havells currently has EUR100 mn exposure to Sylvania
Havells' exposure to Sylvania (EUR mn)

	Mar-09	Jun-09	Sep-09
Equity investment by Havells	50	50	56
Recourse debt paid	7	10	10
Recourse debt to be paid over 2009-12	23	20	20
Additional working capital debt gauranteed	14	14	9
Total current exposure	**94**	**94**	**95**
Proposed equity investment in FY2010	12	12	6

Source: Company

Segmental assumptions
Havells, revenue and margin assumptions, March fiscal year-ends, 2008-11E (Rs mn)

	2008	2009	2010E	2011E
Revenues				
Switchgear	5,426	6,090	6,924	7,634
Cables and wires	9,241	9,873	10,666	11,602
Electrical consumer durables	2,399	2,753	3,166	3,546
Lighting and fixture	2,866	2,784	3,062	3,368
Others	618	484	452	498
Sylvannia	29,472	32,791	29,473	31,495
Unallocable	—	—	—	—
Total revenues	**50,022**	**54,775**	**53,744**	**58,143**
EBITDA				
Switchgear	1,819	2,127	2,438	2,644
Cables and wires	998	731	960	1,160
Electrical consumer durables	529	618	712	798
Lighting and fixture	392	585	551	640
Others	101	174	90	100
Sylvannia	1,563	860	368	661
Unallocable	(1,936)	(2,210)	(1,759)	(2,038)
Total EBITDA	**3,466**	**2,885**	**3,361**	**3,964**
EBITDA margin (%)				
Switchgear	33.5	34.9	35.2	34.6
Cables and wires	10.8	7.4	9.0	10.0
Electrical consumer durables	22.0	22.5	22.5	22.5
Lighting and fixture	13.7	21.0	18.0	19.0
Others	16.4	35.9	20.0	20.0
Sylvannia	5.3	2.6	1.3	2.1
Unallocable	—	—	—	—
Total	**6.9**	**5.3**	**6.3**	**6.8**

Source: Company, Kotak Institutional Equities estimates

Summary financials

Profit model, balance sheet, cash model (consolidated) for Havells, March fiscal year-ends, 2006-11E (Rs mn)

	2006	2007	2008	2009	2010E	2011E
Profit model						
Total income	10,035	15,472	50,022	54,775	53,744	58,143
EBITDA	**1,041**	**1,458**	**3,466**	**2,885**	**3,361**	**3,964**
Interest (expense)/income	(226)	(209)	(1,036)	(1,253)	(966)	(1,055)
Depreciation	(65)	(97)	(694)	(905)	(922)	(946)
Other income	36	54	250	86	30	30
Pretax profits	**786**	**1,205**	**1,986**	**814**	**1,503**	**1,993**
Extra-ordinary items	—	—	—	(1,986)	(1,500)	—
Reported PBT	**786**	**1,205**	**1,986**	**(1,172)**	**3**	**1,993**
Tax	(137)	(161)	(321)	(435)	(676)	(781)
Deferred taxation	(16)	(23)	(56)	6	(93)	(38)
Profit after tax	633	1,021	1,610	(1,602)	(766)	1,174
Adjusted PAT	**633**	**1,021**	**1,610**	**297**	**733**	**1,174**
Diluted earnings per share (Rs)	12.1	19.0	26.6	5.1	12.2	19.5
Balance sheet						
Total equity	1,760	2,603	6,901	6,147	5,205	6,203
Deferred taxation liability	95	118	(76)	(97)	(4)	34
Total borrowings	1,098	561	12,962	12,278	12,423	12,368
Current liabilities	2,326	2,818	15,142	14,501	12,042	12,604
Total liabilities and equity	**5,280**	**6,100**	**34,929**	**32,829**	**29,665**	**31,210**
Cash	83	365	2,429	2,473	1,617	1,797
Other current assets	3,633	3,281	20,800	17,935	15,124	16,435
Goodwill	—	—	3,346	3,579	3,579	3,579
Tangible fixed assets	1,532	2,423	8,323	8,842	9,345	9,399
Investments	32	32	32	—	—	—
Total assets	**5,280**	**6,100**	**34,929**	**32,829**	**29,665**	**31,209**
Free cash flow						
Operating cash flow, excl. working capital	736	1,156	2,320	(1,054)	219	2,128
Working capital changes	511	753	(3,498)	2,168	352	(748)
Capital expenditure	(633)	(1,001)	(7,725)	(1,676)	(1,425)	(1,000)
Investment changes	—	—	578	33	—	—
Other income	5	13	32	18	30	30
Free cash flow	**619**	**920**	**(8,294)**	**(512)**	**(824)**	**410**
Ratios (%)						
EBITDA margin	10.4	9.4	6.9	5.3	6.3	6.8
Debt/equity	59.2	20.6	189.9	203.0	238.9	198.3
Net debt/equity	54.7	7.2	154.3	162.1	207.8	169.5
RoAE	45.3	44.6	33.7	4.6	13.0	20.5
RoACE	**29.0**	**38.4**	**21.3**	**10.4**	**6.7**	**9.9**

Source: Kotak Institutional Equities

We value Havells at Rs210/share

Havells, DCF-based valuation, March fiscal year-ends (Rs mn)

	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	Terminal value
EBITDA	3,361	3,964	4,249	4,768	4,771	5,325	5,684	6,072	6,440	6,832	
Tax expense	(681)	(1,215)	(1,188)	(1,231)	(1,086)	(1,281)	(1,456)	(1,717)	(1,866)	(1,980)	
Changes in working capital	352	(748)	187	(100)	(621)	(665)	(101)	(688)	(660)	(704)	
Cash flow from operations	**3,032**	**2,001**	**3,248**	**3,437**	**3,063**	**3,379**	**4,127**	**3,667**	**3,914**	**4,148**	
Capital expenditure	(1,425)	(1,000)	(1,000)	(1,000)	(900)	(900)	(900)	(900)	(900)	(900)	
Free cash flow to the firm	**1,607**	**1,001**	**2,248**	**2,437**	**2,163**	**2,479**	**3,227**	**2,767**	**3,014**	**3,248**	**35,556**
Dicounted cash flow-now	1,524	836	1,654	1,580	1,236	1,248	1,431	1,081	1,037	985	
Discounted cash flow-1 year forward		949	1,878	1,793	1,403	1,416	1,624	1,227	1,177	1,118	
Discounted cash flow-2 year forward			2,131	2,035	1,592	1,607	1,843	1,392	1,336	1,269	
Discount rate	13.5%										
Growth from 2019 to perpetuity	4.0%										
Discount factor at WACC	**0.95**	**0.84**	**0.74**	**0.65**	**0.57**	**0.50**	**0.44**	**0.39**	**0.34**	**0.30**	

	+ 1-year		+ 2-years	
Total PV of free cash flow (a)	**12,585**	**54%**	**13,207**	**52%**
PV of terminal value (b)	10,783	46%	12,239	48%
EV (a) + (b)	**23,368**		**25,446**	
Net debt	10,806		10,572	
Equity value	**12,563**		**14,874**	
No. of shares	60.2		60.2	
Implied share price (Rs)	**209**		**247**	
Exit EV/EBITDA multiple (X)	5.5			
Exit FCF multiple (X)	10.9			

Sensitivity of share price to WACC and growth rate (Rs)

Growth Rate	WACC 12.5%	13.0%	13.5%	14.0%	14.5%
2.5%	220	200	182	166	151
3.0%	231	209	190	173	157
3.5%	242	219	199	181	164
4.0%	255	231	**209**	189	171
4.5%	270	243	220	198	179
5.0%	287	258	232	209	189
5.5%	306	274	245	221	199

Source: Kotak Institutional Equities estimates

kotak Institutional Equities

Hexaware Technologies (HEXW)

Technology

REDUCE

OCTOBER 28, 2009

RESULT

Coverage view: Attractive

Price (Rs): 80

Target price (Rs): 80

BSE-30: 16,283

Revenue growth anemic; margins unsustainable. Hexaware's 2QCY09 revenue performance was in line with our expectations. Net income of Rs413 mn beat our expectations with the help of a milestone reached in a client situation and reversal of provisions. Revenue guidance for the Dec' 09 quarter is weak, underscoring under-investment in business and weak business model positioning. We would await positive signals on revenues for a more positive view on the stock. REDUCE.

Company data and valuation summary

Hexaware Technologies

Stock data			
52-week range (Rs) (high,low)			95-18
Market Cap. (Rs bn)			11.4
Shareholding pattern (%)			
Promoters			28.6
FIIs			41.2
MFs			1.3
Price performance (%)	1M	3M	12M
Absolute	6.9	32.0	289.0
Rel. to BSE-30	9.2	24.3	115.2

Forecasts/Valuations	2008	2009E	2010E
EPS (Rs)	4.1	9.1	9.8
EPS growth (%)	(46.4)	122.1	7.9
P/E (X)	19.4	8.7	8.1
Sales (Rs bn)	11.5	10.4	10.6
Net profits (Rs bn)	0.6	1.3	1.4
EBITDA (Rs bn)	1.3	2.1	2.0
EV/EBITDA (X)	6.8	3.6	3.2
ROE (%)	8.6	18.2	16.9
Div. Yield (%)	0.6	1.3	1.3

Revenue growth in line with expectations; net income helped by reversal of provisions

Hexaware reported 3QCY09 revenues of US$54.5 mn, in line with our expectations. Net income of Rs413 mn was 17% ahead of our expectations and helped by (1) completion of a project milestone providing a boost to realization and profitability and (2) reversal of provisions. Adjusted for these, net income was lower than our expectation of Rs355 mn. The company reduced headcount for the seventh quarter in a row; direct costs were up a marginal 0.6% qoq and down 20% yoy while SG&A expenses were down 5% qoq and 24% yoy.

Weak December 2009 quarter revenue guidance indicates continuing business challenges

The company has guided for revenues of US$52.5 – 54.5 mn for 4QCY09, a decline of 3.7% qoq at the lower end to a flat number at the upper end. We believe a revenue turnaround is some time away; the company lacks differentiation in the market place, has a weak client facing organization (though improving) and weak client profile. The company may still be impacted by vendor rationalization and consolidation decisions by clients. Opportunistic measures on cut-backs in sales and marketing expenses could jeopardize the company's chances of participating in the incremental growth opportunities for the offshore players.

Margin structure unsustainable; may decline in CY2010

Hexaware reported an-all time high EBITDA margin of 23.7% in the midst of a still challenging economic environment. In addition to the one-off gains, the company has achieved this through salary cuts across the board, headcount reduction and reduction in headcount-linked overheads. We believe Hexaware's margins will contract sharply in CY2010E due to (1) a reversal in wage cuts, (2) likely decline in utilization rates and (3) step-up in up S&M expenses.

Maintain REDUCE rating; we await a revenue turnaround before turning positive on the stock

We have fine-tuned our model and built in benefits from cross-currency changes. As a result, we increase our revenue, EBITDA and net income estimates for CY2010E. We also increase our TP to Rs80 (Rs60 earlier). While valuations are inexpensive, stock performance would be contingent on revenue recovery which we do not expect for at least 2-3 quarters.

Key changes in CY2009-10 estimates

	New		Old		Change (%)	
	CY2009	CY2010	CY2009	CY2010	CY2009	CY2010
Revenues (US$ mn)	**215**	**232**	**214**	**227**	**0.5**	**2.2**
EBITDA Margin (%)	20.1	18.8	18.3	15.8		
EPS (Rs/ share)	**9.1**	**9.8**	**8.1**	**8.7**	**12.7**	**13.3**
Re/ US$ rate	**48.2**	**45.9**	**48.5**	**47.7**	**(0.4)**	**(3.8)**

Source: Kotak Institutional Equities estimates

Comments: Hexaware Interim Results (consolidated), 3QCY09

Rs mn	3QCY08	2QCY09	3QCY09	% chg. qoq	yoy	Kotak estimates	% dev	Comments
Revenues	**2,946**	**2,591**	**2,632**	**1.6**	**(10.7)**	**2,632**	**0.0**	Revenues of US$54.5 mn (+1.7% qoq) was at the upper-end of the company's guidance and marginally lower than our expectation of US$55 mn
Software Development Costs	(1,712)	(1,357)	(1,365)	0.6	(20.3)	(1,391)	(1.9)	
Gross profit	**1,234**	**1,234**	**1,267**	**2.7**	**2.7**	**1,240**	**2.2**	
Total SG&A Expenses	(841)	(676)	(644)	(4.7)	(23.5)	(703)	(8.4)	
EBITDA	**393**	**558**	**623**	**11.6**	**58.6**	**537**	**16.0**	EBITDA margins at 23.7% (+220 bps qoq) driven by improvement in realizations and 160 bps reduction in SG&A expenses as % of revenues
Depreciation	(67)	(71)	(68)	(4.2)	1.2	(73)	(7.1)	
EBIT	**326**	**487**	**555**	**14.0**	**70**	**464**	**19.7**	
Other Income	(200)	(45)	(121)	168.9	(39.4)	(59)	106.4	
Profit Before Tax	**126**	**442**	**434**	**(1.8)**	**244.7**	**405**	**7.1**	
Provision for Tax	(11)	(46)	(21)	(54.3)	95.3	(51)	(58.4)	
Net Profit	**115**	**396**	**413**	**4.3**	**258.7**	**355**	**16.5**	Net income outperformance driven by substantial margin outperformance, despite higher-than-expected forex losses
Extraordinary items	-	-	-			-		
Net Profit- Reported	115	396	413	4.3	258.7	355	16.5	
EPS (Rs/ share)	0.8	2.8	2.9	4.3	258.7	2.47	16.5	
No of shares outstanding (mn)	143.7	143.7	143.7	-	-	143.7		
As % of revenues								
Gross Profit Margin (%)	41.9	47.6	48.1			47.1		
Operating Margin	13.3	21.5	23.7			20.4		
SG&A Expenses (%)	28.6	26.1	24.5			26.7		
Billing Rates (US$/manhour)								
Onsite	68.7	68.3	70.1	2.7	2.0	68.3	2.7	Pricing expansion led by (1) cross-currency benefits and (2) potential revenue shift to FPP from T&M
Offshore	23.4	23.0	23.7	3.1	1.6	23.0	3.1	
Revenue Mix (%)								
Onsite	62.6	58.9	60.6			58.6		
Offshore	37.4	41.1	39.4			41.4		

Hexaware has guided for US$52.5-54.5 mn revenues for 4QCY09, down 3.7% to flat qoq

Source: Company, Kotak Institutional Equities estimates

Condensed consolidated financials for Hexaware, 2007-2011E, December fiscal year-ends (Rs mn)

	2007	2008	2009E	2010E	2011E
Profit model					
Total income	10,398	11,520	10,378	10,639	11,766
EBITDA	**1,201**	**1,289**	**2,086**	**1,997**	**2,100**
Depreciation (incl amortization of intangibles)	(232)	(270)	(275)	(293)	(322)
Other income	265	(274)	(360)	(55)	455
Pretax profits	**1,233**	**744**	**1,451**	**1,649**	**2,234**
Tax	(133)	(155)	(141)	(236)	(505)
Profit after tax	**1,101**	**590**	**1,310**	**1,414**	**1,729**
Diluted earnings per share (Rs)	**7.7**	**4.1**	**9.1**	**9.8**	**12.0**
Balance sheet					
Total equity	7,059	6,625	7,768	9,013	10,573
Deferred taxation liability	(45)	(84)	(84)	(84)	(84)
Total borrowings	—	195	195	—	—
Current liabilities	2,793	3,711	3,343	3,427	3,790
Total liabilities and equity	**9,807**	**10,447**	**11,222**	**12,357**	**14,280**
Cash	3,212	2,849	4,137	4,958	6,362
Other current assets	3,319	3,101	2,559	2,652	2,982
Tangible fixed assets	3,277	4,498	4,526	4,746	4,936
Total assets	**9,807**	**10,447**	**11,222**	**12,357**	**14,280**
Free cash flow					
Operating cash flow, excl. working capital	719	1,173	1,945	1,761	1,595
Working capital changes	1,062	(133)	174	(9)	34
Capital expenditure	(979)	(1,275)	(303)	(513)	(511)
Other income	265	(274)	(360)	(55)	455
Free cash flow	**1,067**	**(509)**	**1,456**	**1,184**	**1,572**
Ratios (%)					
EBITDA margin	11.5	11.2	20.1	18.8	17.8

Source: estimates, Company, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

	28-Oct-09		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
Company	Price (Rs)	Rating	(Rs mn)	(US$ mn)	(mn)	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	44	ADD	58,003	1,229	1,330	1.5	2.3	2.4	(57.8)	50.3	5.8	28.5	19.0	17.9	16.0	10.4	8.5	1.6	1.5	1.4	2.3	2.3	2.3	6.2	8.1	8.2	37	(15.1)	4.3
Bajaj Auto	1,431	ADD	207,042	4,387	145	45.2	97.4	112.3	(13.4)	115.2	15.3	31.6	14.7	12.7	16.8	9.0	8.0	11.0	7.1	5.0	1.4	1.4	1.4	37.7	58.5	45.4	1,575	10.1	8.2
Hero Honda	1,574	REDUCE	314,238	6,658	200	64.2	100.4	109.6	32.4	56.4	9.2	24.5	15.7	14.4	14.5	9.5	8.2	8.0	5.8	4.4	1.3	1.4	1.4	36.4	42.8	35.0	1,535	(2.4)	19.5
Mahindra & Mahindra	892	ADD	262,778	5,568	295	30.0	56.0	59.4	(19.8)	86.4	6.1	29.7	15.9	15.0	21.1	10.9	9.7	5.0	3.5	2.9	1.1	1.1	1.1	17.4	25.9	21.1	1,000	12.2	29.3
Maruti Suzuki	1,415	SELL	409,051	8,667	289	42.2	79.4	83.1	(29.6)	88.3	4.7	33.6	17.8	17.0	20.1	10.3	9.3	4.3	3.5	2.9	0.2	0.4	0.4	13.5	21.7	18.8	1,250	(11.7)	34.5
Tata Motors	562	SELL	321,076	6,803	571	6.0	25.6	29.4	(87.9)	323.0	14.8	92.9	22.0	19.1	23.8	12.2	10.7	2.5	1.9	1.7	1.0	1.0	1.0	9.1	14.2	11.4	465	(17.3)	83.9
Automobiles		**Cautious**	**1,572,187**	**33,311**					**(35.1)**	**103.9**	**9.7**	**35.1**	**17.2**	**15.7**	**19.1**	**10.6**	**9.3**	**4.2**	**3.3**	**2.7**	**1.0**	**1.0**	**1.0**	**12.0**	**18.9**	**17.5**			
Banks/Financial Institutions																													
Andhra Bank	115	BUY	55,799	1,182	485	13.5	13.8	15.2	13.5	2.1	10.5	8.5	8.4	7.6	—	—	—	1.5	1.4	1.2	3.9	3.0	3.3	18.9	17.2	16.8	120	4.3	2.3
Axis Bank	928	ADD	352,684	7,473	380	50.6	61.8	71.6	56.9	22.2	15.9	18.4	15.0	13.0	—	—	—	3.5	2.2	1.9	1.0	1.3	1.6	19.1	18.0	16.9	980	5.6	59.0
Bank of Baroda	493	ADD	180,333	3,821	366	60.9	68.6	71.3	55.1	12.6	3.8	8.1	7.2	6.9	—	—	—	1.6	1.3	1.2	1.8	2.1	2.1	21.4	20.3	18.0	560	13.5	7.0
Bank of India	408	REDUCE	214,547	4,546	526	57.2	55.0	64.0	40.7	(3.8)	16.4	7.1	7.4	6.4	—	—	—	1.8	1.5	1.3	2.0	1.9	2.2	29.2	22.3	21.6	420	3.0	17.0
Canara Bank	332	ADD	135,977	2,881	410	50.5	57.2	60.3	32.4	13.2	5.4	6.6	5.8	5.5	—	—	—	1.4	1.1	1.0	2.4	2.4	3.0	18.3	17.8	16.4	410	23.6	5.9
Corporation Bank	427	BUY	61,212	1,297	143	62.3	58.0	61.8	21.5	(6.8)	6.5	6.9	7.4	6.9	—	—	—	1.3	1.1	1.0	2.9	2.7	2.9	19.6	16.0	15.1	500	17.2	0.8
Federal Bank	243	BUY	41,578	881	171	27.8	34.3	39.9	(19.2)	23.6	16.1	8.7	7.1	6.1	—	—	—	1.0	0.9	0.8	2.1	2.6	3.0	11.5	12.9	13.5	340	39.9	4.4
HDFC	2,659	ADD	756,367	16,026	284	80.2	99.6	117.1	(6.4)	24.1	17.6	33.1	26.7	22.7	—	—	—	5.8	5.2	4.6	1.1	1.3	1.5	18.2	20.0	20.8	2,575	(3.2)	49.7
HDFC Bank	1,620	REDUCE	732,132	15,512	452	52.8	65.2	85.0	17.6	23.5	30.5	30.7	24.9	19.0	—	—	—	4.9	3.4	3.0	0.6	0.8	1.0	16.9	16.2	16.8	1,600	(1.2)	31.0
ICICI Bank	809	REDUCE	901,152	19,093	1,113	33.8	37.9	49.2	(15.4)	12.3	29.8	24.0	21.4	16.4	—	—	—	1.8	1.7	1.6	1.4	1.5	2.0	7.8	8.3	10.2	850	5.0	124.5
IDFC	149	ADD	192,478	4,078	1,295	5.8	8.4	9.1	1.9	45.7	8.4	25.7	17.6	16.3	—	—	—	3.1	2.7	2.4	0.8	0.9	1.0	12.9	16.5	15.6	145	(2.4)	34.5
India Infoline	136	BUY	42,420	899	312	5.1	8.4	9.4	(8.7)	63.7	12.9	26.6	16.3	14.4	—	—	—	3.4	2.8	2.3	1.9	2.6	1.6	11.9	19.0	19.1	175	28.6	17.9
Indian Bank	162	BUY	69,730	1,477	430	28.0	32.5	34.1	24.1	16.4	4.9	5.8	5.0	4.8	—	—	—	1.3	1.1	0.9	3.1	3.5	3.6	22.9	22.3	19.8	225	38.7	3.6
Indian Overseas Bank	116	BUY	63,306	1,341	545	24.3	21.4	29.2	10.3	(12.1)	36.4	4.8	5.4	4.0	—	—	—	1.1	0.9	0.8	4.5	3.2	3.5	22.1	15.3	18.1	165	42.0	5.0
J&K Bank	592	ADD	28,702	608	48	84.5	94.6	105.9	13.8	11.9	12.0	7.0	6.3	5.6	—	—	—	1.2	1.1	1.0	2.9	3.2	3.6	16.7	16.4	16.2	650	9.8	1.2
LIC Housing Finance	790	NR	67,185	1,423	85	62.5	68.8	80.3	37.3	10.0	16.8	12.6	11.5	9.8	—	—	—	2.8	2.3	1.9	1.7	1.9	2.2	26.2	23.9	23.4	—	—	23.4
Mahindra & Mahindra Financial	263	BUY	25,203	534	96	22.4	30.7	35.6	7.5	36.9	16.0	11.7	8.6	7.4	—	—	—	1.8	1.5	1.3	2.1	2.9	3.4	15.4	18.7	19.0	330	25.3	0.8
Oriental Bank of Commerce	252	REDUCE	63,161	1,338	251	36.1	39.9	39.8	51.4	10.5	(0.4)	7.0	6.3	6.3	—	—	—	1.0	0.9	0.8	2.9	3.2	3.2	13.7	12.9	11.8	280	11.1	5.6
PFC	223	SELL	255,608	5,416	1,148	13.3	18.7	20.9	17.4	40.2	11.9	16.7	11.9	10.6	—	—	—	2.3	2.0	1.8	1.8	2.1	2.3	18.9	17.5	17.3	200	(10.2)	4.0
Punjab National Bank	852	BUY	268,575	5,690	315	98.0	104.3	119.6	50.9	6.4	14.7	8.7	8.2	7.1	—	—	—	2.0	1.7	1.4	2.3	2.5	2.8	25.8	22.8	22.0	890	4.5	13.4
Reliance Capital	769	ADD	189,346	4,012	246	39.3	29.0	28.9	(5.6)	(26.2)	(0.5)	19.6	26.5	26.6	—	—	—	2.8	2.6	2.4	0.8	0.6	0.6	15.3	10.2	9.3	875	13.8	97.6
Rural Electrification Corp.	196	ADD	168,414	3,568	859	16.5	19.6	21.3	50.7	19.1	8.8	11.9	10.0	9.2	—	—	—	2.4	2.0	1.7	1.0	1.8	2.0	21.2	21.5	19.9	190	(3.1)	7.2
Shriram Transport	397	ADD	83,960	1,779	212	30.1	32.5	36.9	56.8	7.9	13.7	13.2	12.2	10.8	—	—	—	3.8	3.3	2.7	2.2	2.5	2.8	29.6	27.0	25.8	430	8.3	3.9
SREI	72	BUY	8,390	178	116	7.0	8.7	8.4	(24.7)	23.4	(3.6)	10.3	8.3	8.6	—	—	—	0.8	0.7	0.7	1.4	1.7	1.7	12.8	11.9	11.4	115	59.4	2.6
State Bank of India	2,213	BUY	1,404,958	29,768	635	143.7	148.7	172.2	34.8	3.5	15.8	15.4	14.9	12.9	—	—	—	2.4	2.2	1.9	1.3	1.4	1.4	17.1	15.3	15.7	2,200	(0.6)	119.2
Union Bank	265	BUY	133,806	2,835	505	34.2	35.0	37.8	24.5	2.5	7.8	7.7	7.6	7.0	—	—	—	1.9	1.6	1.3	1.9	1.9	2.1	27.2	22.7	20.5	310	17.0	5.3
Banks/Financial Institutions		**Attractive**	**6,497,025**	**137,656**					**26.9**	**11.0**	**15.6**	**14.9**	**13.5**	**11.6**	**—**	**—**	**—**	**2.4**	**2.1**	**1.8**	**1.4**	**1.6**	**1.8**	**16.0**	**15.3**	**15.6**			
Cement																													
ACC	745	REDUCE	140,055	2,967	188	56.3	84.1	53.3	(12.2)	49.4	(36.7)	13.2	8.9	14.0	6.6	4.6	6.1	2.7	2.1	1.9	3.1	3.1	3.1	24.7	30.1	16.8	800	7.3	12.2
Ambuja Cements	88	REDUCE	133,588	2,830	1,522	7.2	8.1	6.2	(5.0)	12.2	(23.7)	12.2	10.9	14.3	6.6	6.1	7.2	2.2	1.9	1.8	3.4	2.1	2.4	19.7	19.4	13.2	85	(3.1)	10.0
Grasim Industries	2,153	REDUCE	197,445	4,183	92	238.6	252.3	266.5	(16.2)	5.8	5.6	9.0	8.5	8.1	5.4	4.4	4.1	1.7	1.5	1.3	1.5	1.5	1.6	21.1	18.4	16.8	2,560	18.9	13.7
India Cements	114	REDUCE	32,225	683	282	17.8	15.7	13.0	n/a	(11.4)	(17.6)	6.4	7.2	8.8	4.8	4.3	4.8	0.9	0.8	0.7	1.6	1.9	2.8	14.8	12.1	9.2	110	(3.6)	7.8
Shree Cement	1,454	BUY	50,653	1,073	35	174.7	209.9	195.6	93.7	20.1	(6.8)	8.3	6.9	7.4	5.7	4.0	3.6	4.2	2.6	1.9	0.7	0.7	0.7	65.7	46.0	29.4	2,000	37.6	1.2
UltraTech Cement	767	BUY	95,446	2,022	124	78.8	94.0	73.9	(3.1)	19.2	(21.3)	9.7	8.2	10.4	5.8	4.5	5.2	2.2	1.8	1.5	0.8	1.1	1.1	31.1	28.3	18.1	925	20.6	4.9
Cement		**Neutral**	**649,414**	**13,759**					**(8.0)**	**16.1**	**(15.0)**	**10.1**	**8.7**	**10.2**	**5.8**	**4.6**	**5.0**	**2.0**	**1.7**	**1.5**	**2.1**	**1.9**	**2.0**	**20.0**	**19.4**	**14.5**			
Consumer products																													
Asian Paints	1,630	ADD	156,325	3,312	96	38.6	66.8	75.6	(1.7)	73.0	13.3	42.2	24.4	21.5	25.2	15.1	13.0	13.7	11.3	9.5	1.1	2.2	2.5	36.6	52.9	49.6	1,840	12.9	1.6
Colgate-Palmolive (India)	704	REDUCE	95,766	2,029	136	21.6	28.0	31.0	26.3	29.7	10.7	32.6	25.2	22.7	27.0	21.2	17.8	44.3	40.1	44.5	2.1	3.2	4.0	155.1	167.1	185.2	620	(12.0)	2.2
GlaxoSmithkline Consumer (a)	1,243	ADD	52,260	1,107	42	44.8	61.6	72.3	15.8	37.6	17.3	27.7	20.2	17.2	16.0	11.9	10.2	6.8	5.7	4.9	1.2	1.8	2.6	26.8	31.0	31.0	1,300	4.6	0.7
Godrej Consumer Products	270	ADD	69,766	1,478	258	6.7	9.6	11.0	(5.3)	43.0	14.9	40.4	28.3	24.6	27.9	18.3	15.7	12.2	7.4	6.2	1.5	1.5	1.5	46.9	32.7	27.6	235	(13.1)	0.9
Hindustan Unilever	280	BUY	609,814	12,920	2,179	9.5	10.6	12.2	19.0	11.1	15.0	29.4	26.5	23.0	22.5	19.8	17.1	29.6	26.5	23.7	3.1	3.4	3.9	112.4	105.9	108.9	320	14.4	23.3
ITC	259	BUY	976,447	20,689	3,769	8.7	10.8	12.8	2.8	24.4	18.6	29.9	24.1	20.3	18.4	14.9	12.7	6.7	5.8	4.9	1.4	1.5	1.7	25.3	27.3	27.6	290	11.9	27.4
Jyothy Laboratories	145	ADD	10,522	223	73	5.5	10.0	12.1	(12.9)	80.6	21.7	26.2	14.5	11.9	17.4	9.3	7.2	2.9	2.5	2.2	1.6	2.0	2.4	10.7	16.8	19.0	145	-	
Nestle India (a)	2,518	ADD	242,765	5,144	96	58.6	73.0	85.6	31.0	24.6	17.3	43.0	34.5	29.4	27.4	23.0	19.5	51.3	41.9	34.5	1.7	2.1	2.5	126.7	133.6	128.5	2,400	(4.7)	1.6
Tata Tea	841	BUY	52,023	1,102	62	53.7	64.8	70.9	14.7	20.7	9.4	15.7	13.0	11.9	9.6	8.6	7.3	1.1	1.0	1.0	2.1	2.5	2.7	9.4	10.7	10.9	1,000	18.9	4.9
Consumer products		**Attractive**	**2,265,689**	**48,004**					**10.4**	**24.2**	**16.3**	**31.0**	**25.0**	**21.5**	**20.4**	**16.5**	**14.1**	**9.1**	**7.9**	**6.9**	**1.9**	**2.2**	**2.6**	**29.3**	**31.6**	**32.0**			
Constructions																													
IVRCL	355	BUY	48,058	1,018	135	16.7	18.8	22.5	7.4	12.7	19.7	21.3	18.9	15.8	14.7	11.4	9.4	2.7	2.3	2.0	0.2	0.2	0.2	13.2	13.2	13.9	360	1.4	23.1
Nagarjuna Construction Co.	156	NR	35,655	755	229	6.7	7.5	9.1	(6.3)	12.0	21.2	23.2	20.7	17.1	12.5	10.5	9.2	2.1	2.0	1.8	0.7	1.0	1.3	9.4	9.8	11.0	—	—	7.8
Punj Lloyd	204	REDUCE	69,285	1,468	339	(7.2)	14.7	17.4	(172.4)	(303.6)	18.1	(28.3)	13.9	11.8	22.0	8.3	6.8	2.8	1.9	1.7	0.1	0.3	0.4	(8.6)	16.3	15.1	240	17.4	40.2
Sadbhav Engineering	858	BUY	10,723	227	13	50.6	55.6	77.9	25.0	9.8	40.2	16.9	15.4	11.0	11.6	8.8	7.2	3.1	2.6	2.1	0.6	0.7	0.8	18.0	16.8	19.4	830.0	3—	0.2
Construction		**Attractive**	**163,720**	**3,469**					**(70.7)**	**355.5**	**20.6**	**74.9**	**16.5**	**13.6**	**16.2**	**9.5**	**7.9**	**2.6**	**2.1**	**1.8**	**0.3**	**0.5**	**0.6**	**3.5**	**12.6**	**13.3**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

Company	28-Oct-09 Price (Rs)	Rating	Mkt cap. (Rs mn)	Mkt cap. (US$ mn)	O/S shares (mn)	EPS (Rs) 2009	EPS (Rs) 2010E	EPS (Rs) 2011E	EPS growth (%) 2009	EPS growth (%) 2010E	EPS growth (%) 2011E	PER (X) 2009	PER (X) 2010E	PER (X) 2011E	EV/EBITDA (X) 2009	EV/EBITDA (X) 2010E	EV/EBITDA (X) 2011E	Price/BV (X) 2009	Price/BV (X) 2010E	Price/BV (X) 2011E	Dividend yield (%) 2009	Dividend yield (%) 2010E	Dividend yield (%) 2011E	RoE (%) 2009	RoE (%) 2010E	RoE (%) 2011E	Target price (Rs)	Upside (%)	ADVT-3mo (US$ mn)
Energy																													
Bharat Petroleum	496	BUY	162,533	3,444	328	20.6	79.8	65.0	(50.1)	287.1	(18.5)	24.1	6.2	7.6	7.0	4.6	5.0	1.2	1.1	1.0	1.6	7.1	5.8	5.3	18.9	13.8	675	36.1	9.9
Cairn india	272	REDUCE	515,419	10,920	1,897	8.3	25.4	30.2	93	207	18.9	33	11	9.0	16.0	7.3	6.4	1.5	1.4	1.4	—	7.4	9.2	4.6	13.6	16.1	225	(17.2)	19.5
Castrol India (a)	544	ADD	67,198	1,424	124	21.3	33.2	36.5	20.8	55.7	10.1	25.5	16.4	14.9	14.6	9.9	8.9	15.0	13.3	11.7	2.8	4.4	4.8	61.2	85.8	83.3	550	1.2	1.8
GAIL (India)	339	ADD	429,380	9,098	1,268	22.2	21.0	22.3	8.7	(5.0)	6.1	15.3	16.1	15.2	8.1	9.3	9.6	2.7	2.4	2.2	2.1	2.4	2.4	17.5	14.8	14.4	365	7.8	16.5
GSPL	81	REDUCE	45,755	969	563	2.2	6.4	11.8	21.7	190.8	84.6	37.1	12.7	6.9	12.7	6.3	4.0	3.4	2.9	2.9	0.9	2.7	13.0	9.6	24.7	42.0	95	16.9	9.1
Hindustan Petroleum	340	BUY	115,297	2,443	339	17.0	64.0	61.1	(49.3)	277.1	(4.5)	20.1	5.3	5.6	3.1	2.0	2.1	0.9	0.8	0.8	1.5	7.6	7.3	4.4	15.6	13.5	525	54.4	12.0
Indian Oil Corporation	643	BUY	757,831	16,057	1,179	19.7	101.8	79.3	(67.9)	416.7	(22.1)	32.6	6.3	8.1	8.7	4.4	4.3	1.6	1.4	1.3	1.2	6.2	4.9	4.8	22.6	15.6	800	24.5	9.8
Oil India	1,130	BUY	256,815	5,441	227	101.1	123.1	133.5	—	21.7	8.5	11.2	9.2	8.5	5.1	3.1	2.5	2.5	1.8	1.6	2.5	4.3	4.9	20.1	18.0	18.4	1,350	19.4	—
Oil & Natural Gas Corporation	1,134	BUY	2,425,177	51,384	2,139	89.6	115.8	136.4	(3.4)	29.2	17.8	12.7	9.8	8.3	4.6	3.6	2.9	2.1	1.9	1.6	2.8	3.7	4.2	16.6	18.9	19.8	1,400	23.5	42.7
Petronet LNG	69	REDUCE	51,900	1,100	750	6.9	6.7	8.0	—	(3.6)	20.7	10.0	10.4	8.6	7.2	6.9	5.9	2.3	1.9	1.6	2.5	2.9	3.3	23.9	19.2	19.6	64	(7.5)	5.4
Reliance Industries	2,034	SELL	2,963,757	62,795	1,457	101.2	104.2	150.7	(3.6)	3.0	44.5	20.1	19.5	13.5	12.3	8.8	6.6	2.5	2.2	1.9	0.6	0.8	1.0	15.1	13.5	17.2	1,750	(14.0)	207.1
Energy		**Cautious**	**7,791,063**	**165,074**					**(6.9)**	**53.7**	**15.0**	**16.9**	**11.0**	**9.6**	**7.6**	**5.3**	**4.6**	**2.1**	**1.8**	**1.7**	**1.5**	**3.2**	**3.4**	**12.4**	**16.8**	**17.4**			
Industrials																													
ABB	766	REDUCE	162,407	3,441	212	25.8	23.3	30.0	11.3	(9.8)	28.6	29.7	32.9	25.6	17.6	18.5	14.2	7.7	6.4	5.3	0.3	0.4	0.4	29.2	21.3	22.7	660	(13.9)	6.8
BGR Energy Systems	453	ADD	32,587	690	72	16.0	26.0	35.3	32.2	62.3	35.8	28.2	17.4	12.8	16.0	10.3	8.2	5.8	4.6	3.6	0.7	1.0	1.3	22.3	29.4	31.2	530	17.1	3.3
Bharat Electronics	1,448	ADD	115,832	2,454	80	103.8	115.1	125.7	1.8	10.9	9.1	13.9	12.6	11.5	6.8	5.6	4.8	3.0	2.5	2.1	1.3	1.7	1.7	20.7	21.6	20.1	1,500	3.6	2.4
Bharat Heavy Electricals	2,322	ADD	1,136,568	24,081	490	63.9	92.5	113.1	9.4	44.8	22.2	36.4	25.1	20.5	19.9	14.1	11.3	8.8	7.0	5.5	0.7	0.9	1.0	26.4	30.9	30.1	2,425	4.4	44.1
Crompton Greaves	361	BUY	132,398	2,805	367	15.3	20.0	22.7	37.3	30.2	13.5	23.5	18.1	15.9	12.5	9.9	8.5	7.2	5.4	4.2	0.6	0.7	0.8	35.9	34.2	29.6	385	6.6	5.8
Larsen & Toubro	1,591	ADD	956,260	20,261	601	50.1	57.1	74.0	32.1	13.9	29.6	31.7	27.9	21.5	20.4	15.5	12.5	6.3	4.3	3.6	0.6	0.7	0.8	21.7	18.4	18.4	1,725	8.4	71.1
Maharashtra Seamless	326	BUY	22,961	486	71	35.9	36.9	39.6	22.2	2.8	7.4	9.1	8.8	8.2	5.1	4.4	3.9	1.7	1.5	1.3	1.7	1.7	2.2	20.3	17.8	16.5	335	2.9	1.2
Siemens	545	ADD	183,820	3,895	337	14.2	22.8	22.7	(22.2)	61.0	(0.5)	38.5	23.9	24.0	18.5	13.8	14.0	8.1	6.7	5.5	0.6	1.3	0.8	23.3	30.8	25.2	515	(5.5)	6.7
Suzlon Energy	74	ADD	123,860	2,624	1,679	7.2	1.5	5.5	9.9	(78.6)	252.9	10.2	47.7	13.5	7.5	9.5	7.0	1.2	1.0	1.0	—	—	0.3	11.5	2.3	7.3	110	49.2	97.5
Industrials		**Attractive**	**2,866,692**	**60,738**					**13.1**	**17.0**	**26.8**	**28.9**	**24.7**	**19.5**	**16.0**	**13.1**	**10.7**	**5.7**	**4.4**	**3.7**	**0.7**	**0.8**	**0.9**	**19.5**	**17.7**	**18.9**			
Infrastructure																													
GMR Infrastructure	66	ADD	120,198	2,547	1,834	0.8	0.5	0.4	(33.5)	(38.3)	(6.8)	85.4	138.4	148.4	19.0	13.8	10.2	1.4	1.2	1.1	—	—	—	4.4	2.6	2.4	68	3.7	12.5
GVK Power & Infrastructure	47	BUY	73,670	1,561	1,579	0.8	0.8	1.0	(20.6)	3.7	31.1	61.2	59.0	45.0	54.5	18.0	16.6	3.2	2.3	2.2	—	—	0.6	4.8	4.6	5.1	50	7.2	17.0
IRB Infrastructure	244	ADD	81,147	1,719	332	5.3	10.6	13.5	54.3	101.2	27.0	46.1	22.9	18.1	23.0	11.8	10.6	4.4	3.6	3.0	0.5	—	—	10.1	17.3	18.0	200	(18.1)	10.0
Infrastructure		**Attractive**	**275,014**	**5,827**					**22.5**	**16.0**	**18.8**	**48.9**	**42.1**	**35.5**	**24.1**	**14.0**	**11.5**	**2.2**	**1.8**	**1.6**	**0.1**	**—**	**0.2**	**4.5**	**4.2**	**4.6**			
Media																													
DishTV	38	REDUCE	35,584	754	946	(6.6)	(1.8)	0.0	n/a	(72.2)	(101.9)	(5.7)	(20.6)	#####	(33.6)	26.1	11.2	(5.7)	94.6	86.9	—	—	—	83.9	59.0	NA	37	(1.6)	10.0
HT Media	129	ADD	30,327	643	235	0.8	5.4	7.1	(80.5)	540.7	31.9	152.9	23.9	18.1	34.5	11.7	9.4	3.5	3.2	2.9	0.2	0.8	1.5	2.3	14.0	16.7	135	4.6	0.5
Jagran Prakashan	113	ADD	34,062	722	301	3.0	5.9	6.8	(6.6)	93.7	15.9	37.2	19.2	16.6	21.1	11.4	9.6	6.1	5.6	5.0	1.8	3.1	3.3	16.7	30.3	31.7	130	14.9	1.2
Sun TV Network	333	REDUCE	131,229	2,780	394	9.1	12.1	14.6	9.5	32.7	20.8	36.7	27.6	22.9	19.4	15.9	12.8	7.4	6.4	5.6	0.8	1.2	1.8	22.5	25.3	26.3	295	(11.4)	1.9
Zee Entertainment Enterprises	236	NR	102,316	2,168	434	8.4	10.2	12.5	(4.8)	21.0	22.3	27.9	23.1	18.9	19.4	16.9	13.4	2.9	2.7	2.5	0.8	1.1	1.3	11.8	12.5	14.0	NA	#VALUE!	9.1
Zee News	50	NR	12,014	255	240	1.9	2.4	3.2	20.4	28.9	34.0	26.9	20.9	15.6	13.4	10.4	8.3	4.9	4.1	3.4	0.8	0.8	1.4	20.1	21.9	24.4	NA	#VALUE!	1.5
Media		**Neutral**	**345,531**	**7,321**					**(21.0)**	**161.6**	**41.7**	**81.6**	**31.2**	**22.0**	**25.1**	**15.5**	**11.8**	**5.5**	**4.5**	**4.0**	**0.8**	**1.2**	**1.6**	**6.7**	**14.3**	**18.2**			
Metals																													
Hindalco Industries	123	BUY	216,273	4,582	1,753	2.8	3.5	11.1	(77.9)	25.5	218.4	44.6	35.5	11.2	12.5	9.2	7.1	0.8	0.7	0.7	—	—	—	10.3	5.2	6.5	135	9.4	37.5
National Aluminium Co.	364	SELL	234,368	4,966	644	19.7	13.7	20.4	(22.0)	(30.6)	48.8	18.4	26.5	17.8	9.5	10.2	7.0	2.2	2.1	1.9	1.0	0.5	0.5	12.7	8.1	11.1	290	(20.3)	2.5
Jindal Steel and Power	698	SELL	644,882	13,663	924	33.0	41.2	39.4	139.2	24.8	(4.3)	21.2	17.0	17.7	13.5	10.9	10.6	8.6	5.7	4.3	0.2	0.2	0.2	51.9	40.4	27.6	358	(48.7)	78.6
JSW Steel	744	SELL	139,248	2,950	187	13.1	80.2	88.1	(84.7)	510.1	9.8	56.6	9.3	8.5	10.1	5.9	6.3	1.5	1.2	0.9	0.1	0.4	0.7	11.7	14.7	12.5	670	(10.0)	41.8
Hindustan Zinc	885	BUY	374,067	7,926	423	64.6	79.7	93.9	(38.0)	23.4	17.8	13.7	11.1	9.4	10.2	7.2	5.1	2.5	2.1	1.7	0.5	0.6	0.6	20.2	20.4	19.8	1,000	13.0	7.4
Sesa Goa	296	REDUCE	242,544	5,139	821	24.7	22.2	29.1	30.2	(10.0)	30.9	12.0	13.3	10.2	8.6	8.6	6.0	5.3	3.7	2.8	0.9	1.2	1.2	52.4	32.4	30.9	265	(10.4)	69.1
Sterlite Industries	760	REDUCE	639,028	13,539	840	49.2	29.8	38.0	(23.6)	(39.3)	27.2	15.5	25.5	20.0	11.3	11.5	8.7	2.5	1.8	1.6	—	—	—	14.3	8.1	8.4	550	(27.7)	62.1
Tata Steel	481	BUY	427,106	9,049	887	110.1	43.0	76.6	45.3	(60.9)	78.2	4.4	11.2	6.3	5.3	7.3	5.6	1.5	1.3	1.1	3.0	1.7	1.7	24.0	12.2	19.1	525	9.1	133.6
Metals		**Cautious**	**2,917,516**	**61,815**					**(1.0)**	**(20.5)**	**35.8**	**12.6**	**15.9**	**11.7**	**8.7**	**8.6**	**6.9**	**2.2**	**1.9**	**1.6**	**0.7**	**0.5**	**0.5**	**17.7**	**11.7**	**13.7**			
Pharmaceutical																													
Biocon	255	BUY	50,920	1,079	200	4.7	14.1	17.3	(79.9)	200.5	23.1	54.3	18.1	14.7	21.8	10.3	8.6	3.3	2.9	2.5	—	—	0.1	6.2	17.5	18.8	285	11.9	6.1
Cipla	301	ADD	241,479	5,116	803	9.9	12.6	15.1	10.0	26.5	20.7	30.3	24.0	19.9	23.1	16.3	13.8	5.6	4.2	3.6	0.6	0.8	0.8	19.0	19.9	19.3	285—	(5.2)	12.2
Dishman Pharma & chemicals	250	BUY	20,354	431	81	18.0	23.5	27.2	22.1	30.6	15.9	13.9	10.7	9.2	10.2	7.9	6.5	2.8	2.3	1.9	—	—	—	22.7	23.8	22.3	280	11.9	2.7
Divi's Laboratories	542	BUY	34,957	741	65	31.9	36.8	43.3	19.9	15.2	17.7	17.0	14.7	12.5	6.7	5.2	3.9	5.9	4.4	3.5	—	0.1	0.1	40.4	34.4	31.1	565	4.3	5.7
Dr Reddy's Laboratories	1,000	BUY	169,328	3,588	169	32.4	54.4	60.8	24.3	67.8	11.8	30.8	18.4	16.4	13.1	10.5	8.9	4.8	3.9	3.2	0.6	0.7	0.8	13.6	23.3	21.5	990	(1.0)	10.7
GlaxoSmithkline Pharmaceuticals (a)	1,608	ADD	136,194	2,886	85	54.6	59.7	66.1	13.8	9.3	10.6	29.4	26.9	24.3	16.6	15.1	13.3	8.6	7.3	6.3	—	—	—	31.3	29.5	27.9	1,450	(9.8)	1.1
Glenmark Pharmaceuticals	220	NR	58,554	1,241	266	11.1	11.6	15.7	(57.0)	4.2	35.1	19.8	19.0	14.1	12.0	11.3	9.0	2.8	2.5	2.1	—	—	—	15.9	13.8	16.2	315—	43.0	11.8
Jubilant Organosys	236	BUY	40,311	854	171	16.6	28.2	31.2	(26.1)	70.2	10.6	14.2	8.4	7.6	14.1	7.9	6.7	3.1	2.3	1.8	0.5	0.5	0.7	16.2	33.8	30.0	300	27.3	1.2
Lupin	1,169	BUY	103,545	2,194	89	60.2	75.7	83.9	21.0	25.8	10.8	19.4	15.4	13.9	17.7	14.0	11.5	7.2	4.5	3.5	1.0	1.1	1.2	37.1	36.1	28.7	1,400	19.8	5.8
Piramal Healthcare	394	BUY	82,409	1,746	209	17.3	21.5	28.3	(1.9)	24.4	31.7	22.8	18.4	13.9	16.1	12.0	9.5	6.2	4.9	3.8	1.1	1.1	1.1	26.2	30.2	31.1	425	7.8	2.2
Ranbaxy Laboratories	382	REDUCE	163,530	3,465	428	(12.3)	5.3	5.6	(152.8)	(142.7)	6.8	(31.0)	NA	67.9	(73.3)	27.3	27.5	5.5	5.6	5.5	—	1.0	1.0	(13.6)	5.5	5.9	190	(50.2)	17.3
Sun Pharmaceuticals	1,376	ADD	285,044	6,039	207	87.8	47.6	64.2	17.6	(45.8)	34.9	15.7	28.9	21.4	12.1	20.6	14.7	4.0	3.6	3.2	1.0	1.0	1.0	30.2	13.3	16.1	1,330	(3.4)	19.6
Pharmaceuticals		**Attractive**	**1,386,624**	**29,379**					**(19.8)**	**27.1**	**20.2**	**27.0**	**21.2**	**17.7**	**17.2**	**13.7**	**11.4**	**4.8**	**3.9**	**3.4**	**0.6**	**0.7**	**0.8**	**17.6**	**18.6**	**19.0**			
Property																													
DLF	402	SELL	683,681	14,486	1,699	29.3	14.7	17.4	(36.6)	(49.9)	18.4	13.8	27.4	23.2	13.6	19.6	17.1	2.8	2.6	2.4	0.7	0.7	1.0	22.5	9.8	10.7	320	(20.5)	132.9
Housing Development & Infrastructure	347	ADD	119,834	2,539	345	26.0	12.0	23.3	(49.2)	(53.9)	94.8	13.4	29.0	14.9	15.2	24.0	9.1	2.6	1.8	1.5	—	0.9	1.6	22.4	9.3	14.9	295	NA	105.6
Indiabulls Real Estate	264	ADD	105,904	2,244	401	3.0	3.1	7.5	(81.8)	3.8	141.1	88.0	84.8	35.2	(288)	79.9	19.3	1.6	1.1	1.1	—	—	—	1.3	1.6	3.2	235	(11.0)	54.2
Mahindra Life Space Developer	329	BUY	13,849	293	42	10.4	12.5	15.8	(38.5)	20.5	26.3	31.8	26.4	20.9	48.8	23.3	14.7	1.6	1.5	1.4	1.2	1.2	1.2	4.8	5.7	6.9	435	32.1	1.0
Phoenix Mills	151	BUY	21,828	462	145	5.0	5.8	8.3	57.7	15.6	42.8	30.2	26.1	18.3	35.3	21.1	14.4	1.5	1.4	1.3	0.7	0.7	1.0	4.9	5.5	7.4	230	52.6	1.1
Puravankara Projects	93	REDUCE	19,806	420	213	6.8	7.0	7.4	(39.8)	3.6	6.0	13.7	13.2	12.5	20.3	15.7	12.8	1.5	1.4	1.3	—	2.2	2.2	11.5	10.8	10.7	85	(8.4)	2.8
Sobha	226	ADD	22,182	470	98	15.1	14.3	16.1	(52.3)	(5.6)	12.5	14.9	15.8	14.1	14.8	11.8	10.9	2.0	1.3	1.2	1.3	1.8	1.8	10.4	9.8	8.8	215	(5.0)	3.1
Unitech	87	SELL	207,576	4,398	2,389	7.7	4.4	4.6	(25.7)	(42.8)	3.7	11.3	19.8	19.1	15.5	15.2	13.8	4.3	2.0	1.8	—	—	—	29.5	13.2	10.1	60	(31.0)	152.2
Property		**Neutral**	**1,194,660**	**25,312**					**(36.3)**	**(39.9)**	**30.4**	**15.7**	**26.2**	**20.1**	**15.5**	**19.2**	**14.8**	**2.6**	**2.0**	**1.9**	**0.5**	**0.6**	**0.8**	**16.7**	**7.8**	**9.4**			

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities: Valuation summary of key Indian companies

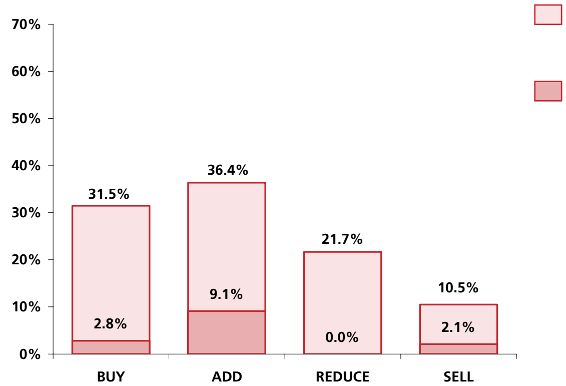
	28-Oct-09		Mkt cap.		O/S shares	EPS (Rs)			EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			Dividend yield (%)			RoE (%)			Target price	Upside	ADVT-3mo
Company	**Price (Rs)**	**Rating**	**(Rs mn)**	**(US$ mn)**	**(mn)**	**2009**	**2010E**	**2011E**	**2009**	**2010E**	**2011E**	**2009**	**2010E**	**2011E**	**2009**	**2010E**	**2011E**	**2009**	**2010E**	**2011E**	**2009**	**2010E**	**2011E**	**2009**	**2010E**	**2011E**	**(Rs)**	**(%)**	**(US$ mn)**
Retail																													
Titan Industries	1,250	REDUCE	55,473	1,175	44	44.3	53.1	61.9	26.4	19.8	16.7	28.2	23.5	20.2	17.0	15.0	12.5	9.6	7.3	5.6	0.8	0.8	1.0	37.5	35.1	31.4	1,200	(4.0)	2.4
Retail		**Neutral**	**55,473**	**1,175**					**26.4**	**19.8**	**16.7**	**28.2**	**23.5**	**20.2**	**17.0**	**15.0**	**12.5**	**9.6**	**7.3**	**5.6**	**0.8**	**0.8**	**1.0**	**34.1**	**30.8**	**27.9**			
Sugar																													
Bajaj Hindustan	217	SELL	41,467	879	191	(1.0)	23.9	17.7	(92.1)	(2,491.2)	(25.8)	(217.2)	9.1	12.2	13.6	6.5	6.3	2.0	1.6	1.4	0.3	0.3	0.3	(1.2)	19.4	12.0	150	(30.8)	28.7
Balrampur Chini Mills	155	ADD	39,544	838	256	10.0	13.4	13.0	223.2	34.5	(2.9)	15.5	11.5	11.9	8.8	6.8	6.5	2.9	2.3	1.9	0.3	—	0.3	20.2	22.1	17.8	140	(9.5)	19.6
Shree Renuka Sugars	209	BUY	70,011	1,483	335	8.1	24.2	20.4	88.3	198.6	(15.9)	25.8	8.6	10.3	13.4	5.0	5.5	4.0	2.4	1.9	0.1	0.2	0.2	20.7	34.9	20.8	235	12.4	23.7
Sugar		**Attractive**	**151,022**	**3,200**					**3,055.5**	**217.4**	**(15.9)**	**29.8**	**9.4**	**11.2**	**12.0**	**5.9**	**6.0**	**2.9**	**2.1**	**1.7**	**0.2**	**0.2**	**0.2**	**9.8**	**22.2**	**15.6**			
Technology																													
HCL Technologies	313	REDUCE	217,778	4,614	695	17.5	16.6	22.9	14.5	(5.0)	37.9	17.9	18.9	13.7	10.0	9.2	8.2	3.8	3.4	2.9	3.8	3.8	3.8	20.9	19.5	23.0	300	(4.3)	11.8
Infosys Technologies	2,257	BUY	1,295,346	27,445	574	102.4	104.5	118.0	29.6	2.0	12.9	22.0	21.6	19.1	16.4	15.3	13.0	7.1	5.7	4.8	1.0	1.1	1.5	36.7	29.4	27.3	2,500	10.8	72.2
Mphasis BFL	685	REDUCE	142,816	3,026	208	14.2	41.5	42.2	15.7	192.6	1.8	48.3	16.5	16.2	36.8	12.1	10.8	9.9	6.5	4.8	0.6	0.7	0.7	22.8	47.7	34.2	450	(34.3)	17.3
Mindtree	604	BUY	24,866	527	41	13.2	46.8	53.6	(50.5)	253.5	14.5	45.6	12.9	11.3	7.8	9.7	6.9	4.5	3.3	2.6	0.3	—	0.9	5.5	29.7	26.0	700	15.9	4.2
Patni Computer Systems	468	REDUCE	60,199	1,275	129	26.8	33.8	36.7	(19.3)	26.1	8.6	17.5	13.8	12.7	9.0	6.9	6.7	2.4	1.9	1.8	0.4	1.4	1.6	16.2	14.8	14.6	320	(31.7)	12.5
Polaris Software Lab	164	SELL	16,206	343	99	13.2	14.5	13.9	76.6	10.5	(4.6)	12.5	11.3	11.8	5.5	6.0	6.5	2.1	1.8	1.6	1.7	1.2	1.2	18.2	17.2	14.4	125	(23.9)	7.6
TCS	643	ADD	1,258,186	26,658	1,957	26.4	32.2	36.0	3.1	21.9	11.8	24.3	19.9	17.8	17.1	14.8	13.2	8.0	6.4	5.4	1.1	1.5	2.2	36.9	35.6	32.6	650	1.1	45.8
Wipro	626	ADD	914,773	19,382	1,462	25.7	30.5	35.4	15.8	18.6	15.8	24.3	20.5	17.7	17.9	15.1	12.7	6.1	4.9	4.1	0.6	1.4	1.6	26.9	26.4	25.0	675	7.9	17.5
Technology		**Neutral**	**3,941,598**	**83,513**					**15.3**	**16.4**	**13.5**	**23.2**	**19.9**	**17.5**	**16.2**	**13.9**	**12.1**	**6.5**	**5.2**	**4.4**	**1.1**	**1.4**	**1.9**	**28.1**	**26.4**	**25.0**			
Telecom																													
Bharti Airtel	317	REDUCE	1,204,029	25,510	3,797	22.3	25.5	23.2	26.4	14.3	(9.2)	14.2	12.4	13.7	8.4	7.5	7.4	3.8	2.9	2.4	0.6	0.9	1.3	31.4	26.7	19.4	325	2.5	111.7
IDEA	55	REDUCE	169,470	3,591	3,104	2.9	2.0	1.2	(26.5)	(32.2)	(38.0)	18.8	27.7	44.7	7.3	7.5	7.8	1.2	1.2	1.1	—	—	—	10.4	4.4	2.9	45	(17.6)	14.9
MTNL	73	SELL	46,242	980	630	3.1	(4.8)	(3.9)	(57.1)	(256.5)	(18.1)	23.9	(15.3)	(18.7)	7.0	(8.8)	(30.2)	0.4	0.4	0.4	8.2	—	—	1.1	(2.6)	(2.2)	50	(31.9)	2.1
Reliance Communications	203	SELL	418,170	8,860	2,064	27.7	20.1	17.0	4.7	(27.4)	(15.4)	7.3	10.1	11.9	6.9	7.4	6.7	1.0	0.9	0.9	0.4	—	—	17.0	10.1	7.8	220	8.6	61.8
Tata Communications	437	REDUCE	124,616	2,640	285	13.6	14.0	15.2	24.0	3.2	8.2	32.2	31.2	28.8	13.8	12.5	11.6	1.8	1.7	1.7	1.1	1.5	1.7	5.4	5.2	5.5	400	(8.5)	3.8
Telecom		**Cautious**	**1,962,528**	**41,581**					**11.1**	**(6.4)**	**(10.8)**	**12.2**	**13.1**	**14.7**	**8.0**	**7.7**	**7.4**	**1.9**	**1.7**	**1.5**	**0.7**	**0.7**	**0.9**	**15.4**	**12.7**	**10.2**			
Transportation																													
Container Corporation	1,110	ADD	144,271	3,057	130	60.9	65.7	82.4	5.5	7.8	25.5	18.2	16.9	13.5	13.0	11.8	9.0	3.8	3.3	2.8	1.3	1.4	1.7	22.8	21.0	22.4	1,250	12.6	1.9
Transportation		**Cautious**	**144,271**	**3,057**					**5.5**	**7.8**	**25.5**	**18.2**	**16.9**	**13.5**	**13.0**	**11.8**	**9.0**	**3.8**	**3.3**	**2.8**	**1.3**	**1.4**	**1.7**	**21.0**	**19.5**	**20.7**			
Utilities																													
CESC	373	ADD	46,607	987	125	32.3	37.9	42.0	16.2	17.4	11.0	11.6	9.8	8.9	(0.5)	(0.9)	(0.9)	0.8	0.6	0.5	7.7	13.0	15.0	11.7	11.9	11.6	365	(2.2)	3.1
Lanco Infratech	500	ADD	120,142	2,546	241	14.5	21.1	35.4	(1.9)	44.8	68.1	34.4	23.7	14.1	19.5	17.7	8.7	5.7	3.5	2.8	—	—	—	16.4	16.8	20.2	475	(4.9)	26.7
NTPC	214	REDUCE	1,760,819	37,307	8,245	9.8	11.1	12.4	5.3	13.2	11.4	21.7	19.2	17.3	18.0	14.5	13.1	3.0	2.7	2.5	1.7	2.0	2.2	14.3	14.9	15.2	190	(11.0)	19.4
Reliance Infrastructure	1,139	BUY	257,847	5,463	226	62.7	63.7	68.6	66.7	1.6	7.8	18.2	17.9	16.6	22.8	20.8	16.6	1.5	1.4	1.3	0.6	0.7	0.8	4.9	6.1	7.8	1,250	9.8	65.4
Reliance Power	150	REDUCE	358,554	7,597	2,397	1.0	2.5	3.1	—	141.5	24.4	146.6	60.7	48.8	—	—	—	2.6	2.5	2.4	—	—	—	1.8	4.2	5.0	160	7.0	15.2
Tata Power	1,399	ADD	332,230	7,039	237	50.2	74.4	84.1	57.5	48.3	13.0	27.9	18.8	16.6	12.4	12.3	11.8	3.3	2.5	2.3	0.8	0.9	1.0	12.0	15.3	14.4	1,400	0.1	17.1
Utilities		**Attractive**	**2,876,200**	**60,940**					**16.3**	**21.4**	**13.9**	**21.5**	**17.7**	**15.6**	**15.4**	**13.6**	**11.9**	**2.6**	**2.3**	**2.1**	**1.4**	**1.7**	**2.0**	**11.9**	**12.7**	**13.2**			
Others																													
Havells India	320	REDUCE	19,260	408	60	5.1	12.2	19.5	(81)	NA	60.1	NA	26.3	16.4	10.1	8.9	7.5	3.2	3.7	3.1	0.8	0.8	0.8	4.6	13.0	20.5	210	(34.4)	1.7
Jaiprakash Associates	220	REDUCE	309,736	6,563	1,406	3.0	6.0	10.9	(39)	100.0	82.4	73.5	36.8	20.2	27.3	17.1	14.5	4.7	3.7	3.2	—	—	—	7.3	11.3	17.0	220	(0.1)	90.1
Jindal Saw	708	ADD	38,825	823	55	85.9	71.7	79.1	39	(16.6)	10.3	8.2	9.9	8.9	5.5	5.8	5.0	1.1	1.0	0.9	0.7	0.6	0.6	13.4	9.9	10.3	690	(2.5)	13.4
PSL	153	BUY	6,685	142	44	22.2	37.6	30.1	5	69.2	(19.8)	6.9	4.1	5.1	4.5	3.6	3.1	1.0	0.8	0.7	3.2	4.2	4.2	11.9	13.4	11.3	160	4.3	2.5
Sintex	221	BUY	30,220	640	136	24.0	25.0	27.9	23	4.0	11.7	9.2	8.9	7.9	8.1	7.0	5.6	1.6	1.4	1.2	0.5	0.5	0.5	17.6	15.5	14.7	280	26.5	3.4
Tata Chemicals	269	ADD	65,494	1,388	243	26.6	17.8	26.8	(33)	(33.0)	50.4	10.1	15.1	10.0	6.5	6.7	5.4	1.4	1.3	1.2	3.2	3.2	3.2	17.9	11.0	14.7	260	(3.3)	4.4
Welspun Gujarat Stahl Rohren	267	REDUCE	50,318	1,066	189	17.3	24.2	20.2	(16)	39.7	(16.4)	15.4	11.0	13.2	8.3	6.2	6.8	2.8	2.2	1.8	0.8	0.6	0.7	17.7	21.7	14.8	210	(21.2)	21.7
United Phosphorus	144	BUY	66,558	1,410	463	10.1	11.0	14.4	20	9.5	31.1	14.3	13.1	10.0	9.0	7.7	6.2	2.5	2.0	1.7	1.0	1.0	1.4	19.3	16.2	17.6	180	25.1	6.4
Others			**639,655**	**13,553**					**(6.4)**	**19.9**	**33.9**	**20.1**	**16.8**	**12.5**	**12.0**	**10.1**	**9.0**	**2.6**	**2.2**	**1.9**	**0.6**	**0.6**	**0.7**	**13.1**	**13.3**	**15.3**			
KS universe (b)			**37,350,992**	**791,376**					**2.2**	**19.7**	**15.2**	**18**	**15.2**	**13.2**	**11.3**	**9.1**	**8.0**	**2.8**	**2.4**	**2.1**	**1.2**	**1.6**	**1.9**	**15.6**	**15.9**	**16.1**			
KS universe (b) ex-Energy			**29,559,929**	**626,303**					**5.2**	**9.9**	**15.3**	**18.5**	**16.8**	**14.6**	**13.3**	**11.5**	**10.1**	**3.1**	**2.6**	**2.3**	**1.1**	**1.2**	**1.4**	**16.8**	**15.5**	**15.7**			
KS universe (d) ex-Energy & ex-Commodities			**25,992,999**	**550,728**					**7.1**	**15.0**	**14.3**	**20.0**	**17.4**	**15.2**	**15.3**	**12.8**	**11.2**	**3.3**	**2.8**	**2.4**	**1.1**	**1.3**	**1.5**	**16.5**	**16.0**	**16.1**			

Note:
(1) For banks we have used adjusted book values.
(2) 2009 means calendar year 2008, similarly for 2010 and 2011 for these particular companies.
(3) EV/Sales & EV/EBITDA for KS universe excludes Banking Sector.
(4) Rupee-US Dollar exchange rate (Rs/US$)= 47.20

Source: Company, Bloomberg, Kotak Institutional Equities estimates

Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Percentage of companies covered by Kotak Institutional Equities, within the specified category.

Percentage of companies within each category for which Kotak Institutional Equities and or its affiliates has provided investment banking services within the previous 12 months.

* The above categories are defined as follows: Buy = We expect this stock to outperform the BSE Sensex by 10% over the next 12 months; Add = We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months; Reduce = We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months; Sell = We expect this stock to underperform the BSE Sensex by more then 10% over the next 12 months. These ratings are used illustratively to comply with applicable regulations. As of 30/9/2009 Kotak Institutional Equities Investment Research had investment ratings on 143 equity securities.

Source: Kotak Institutional Equities

As of September 30, 2009

Ratings and other definitions/identifiers

Rating system

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 Sensexby more than 10% over the next 12 months.

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Other definitions

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Other ratings/identifiers

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

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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	Overseas Offices	
Kotak Securities Ltd.	Kotak Mahindra (UK) Ltd	Kotak Mahindra Inc
Bakhtawar, 1st Floor	6th Floor, Portsoken House	50 Main Street, Suite No.310
229, Nariman Point	155-157 The Minories	Westchester Financial Centre
Mumbai 400 021, India	London EC 3N 1 LS	White Plains, New York 10606
Tel: +91-22-6634-1100	Tel: +44-20-7977-6900 / 6940	Tel:+1-914-997-6120

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